

## New Global Capitalist System, New Industrial Development Model and Developing Countries

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### Abstract

*Neo-liberal policies of 1980's and 1990's have resulted in serious financial crises and balance of payments problems in all over the world. These policies have remained insufficient and defective in the face of modern capitalist system. Under these circumstances, the notion of nation-state has begun to be eroded and this fact leads some social scientists to neo-logical efforts of neo-liberalism. As a result, the functions of the state in modern capitalist world and new liberal development policies have been reconsidered. In this study, we shall question the implications of 'industrial district models' that can be regarded as a new industrial development model of new liberal paradigm.*

**Keywords:** globalization, nation-state, governance, new industrial model, developing countries, neo-liberalism

**JEL Classification:** O1, O18, R58

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### Introduction

From the late of 1970's, the collapse of traditional development paradigm, the failure of Keynesian policies and the financial crises of developed and developing countries have caused to revive neo-classical theory under a new approach. According to this approach, the state has a clear role in economic system: State has to be minimized so as to realize free market mechanism. And policy-makers have to ensure the integration into global economy with the important development policy orientations such as financial liberalization, trade liberalization, capital account liberalization, deregulation, and privatization.

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These neo-liberal policies have been applied by many developed and especially developing countries under structural adjustment and stabilization programs of the World Bank and IMF since 1980s. However, these policies have also resulted in serious financial crises and balance of payments problems during 1980s and 1990s in both developed and developing countries. What is more important is these neo-liberal policies dictated by IMF and World Bank have left many problems of modern capitalist world unanswered. These policies have remained insufficient and defective in the face of modern capitalist system. Under these circumstances, the notion of nation-state has begun to be eroded in this period. The definition of “government” and the functions of the state have been questioned and debated by many economists and other social scientists (Hirst & Thompson, 1996; Mann, 1996; Jessop, 1998, 2002, 2004; Kazancıgil, 1998; Stoker, 1998; Rodrik, 2000; Griffin, 2003; Fine, 2004; Frank, 2004). The hollowing of the nation-state leads some social scientist and international institutions to neo-logical efforts of neo-liberal policies. The concept of governance borne as a result of this effort was firstly used by World Bank (1992) and has been fashioned among many social scientists. As a result, the functions of the state in modern capitalist world and new liberal development policies for developing countries have been reconsidered under this new concept.

This article aims to explore the role of markets and states in development process in the new stage of capitalist system and to consider the failure of governance and hence the new proposed development policies for developing countries. The first section analyses the role of the state in Atlantic Fordist system and the collapse of this system. The second section examines the growing concern for governance discourse and the role of state in this discourse. The third section considers the economical dimension of new (capitalist) system. The fourth section addresses the local development and new industrial districts model and questions the role of the state in these models. The final section asks whether the policy implications of the new development policies might be valid for local/regional and national development processes of developing countries.

## **1. Atlantic Fordist System and the Collapse of the System**

During the post-war period, developed countries have achieved remarkable positive growth rates based on mass production and mass consumption, which can be termed Fordist production system (or Atlantic Fordist system). Along with this period Keynesian welfare national-state policies that determined by the economy policies of North American and Western European Countries were dominant. Parallel with these policies, both *market* and *state* have been considered as

fascinating factors for rapid growth and development process and “mixed economy” has become a dominant paradigm. Within Keynesian welfare state paradigm, mass production system based on big enterprises, big labor and big state’s triangle were constructed, planned and applied at national or regional level by many developed countries.

While Keynesian welfare-state policies were being applied by North American and Western European countries under Atlantic Fordist system, at the same time, developing countries which gained political independence newly have begun to seek new development policies to get their own economic independence. Within the framework of Keynesian policies, basically, *sustained positive growth* has been aimed at reaching economical independence. It has been claimed that more industrialization, more commodity production and hence more increase in national revenue are necessary for economic development to become a reality. And to get this result various policies have been proposed. In this policy approach the role of state in economical development process was exaggerated and “protectionist-interventionist” policies were practiced in most developing countries. To eliminate their income inequalities in terms of national and regional level, many developing countries have outlined some national/regional planning. Since planned industrial development has been considered the best way to get sustained positive growth, active and interventionist state has been accepted one of the most important policy means (and also political institution). However by the coming of the 1970s, it has been noted that through the policy proposals of this development paradigm, the income gap between less developed countries and developed countries was not decreasing, but widening. And traditional policy recommendations offered development economists of 1950 – 1970s has been questioned during the last 1970s and the 1980s.

It was claimed that this period (from the beginning of 1970s to 1980s) witnessed the fall of the golden age of capitalism (1945 – 1973) spreading its crises all over the world. Along with the recessions across nations in the late 1970s, Fordist production system with large scale and mass production structure has began to lose its significance. Both political and economical regulators of golden age have lost their unity. And now the state had become too big for small problems, and too small for big ones. There were some convincing arguments claiming that the traditional government, with its vertical character, heavy bureaucracy and interventionism, was not adapted to a fast-changing economic, social and cultural environment (Kazancigil, 1998, p. 70).

The collapse of Atlantic Fordist system and Keynesian welfare-state policies forced capitalist system to reconstruct its own political and economical institutions. The governability crisis, which was brought about by the *political dimension*,

was essentially emerged from the increased plurality of agents of government and civil society participating in the policy-making process (Kazancıgil, 1998). The logic of government has changed and the term of governance has referred to a new process of governing.

There has also been a substantial shift into a new development and growth policies. In terms of economical dimension, local and new regional development models and industrial districts model have begun to be a subject of the new debates among many social scientists. Actually, the term of governance was initially applied in the urban context to cope more efficiently with local (socio-economic) problem-solving (Kazancıgil, 1998, p. 69).

In the second and third sections of this article, the new political and economical dimensions of new system, globalization and governance discourses have been subsequently examined. And in the last section, the appropriateness of the local development policies of governance discourse for the third world countries has been put forward.

## **2. From Government to Governance and the New Role of the State in New System**

The concept of governance was not clear and definite. Many social scientists explain this popular concept in different meanings. However, there has been a consensus that governance, at least, refers to a governing style in which boundaries between and within public and private sectors has become blurred. In a highly restricted meaning, governance refers self-organizing “heterarchy”. Indeed, Kooiman and Van Vliet (1993) explicitly explained the essence of governance: The governance concept points to the creation of a structure or an order which cannot be externally imposed but is the result of the interaction of a multiplicity of governing and each other influencing actors (Kooiman and Van Vliet, 1993, p. 64).

As noted above, the term of governance is used in different meanings. But, all of them are in complementary structure rather than contradictory and each definition has explained and stressed different dimension of this concept. Stoker (1998) presents five proposition of government concept. The five propositions are:

1. Governance refers to a set of institutions and actors that are drawn from but also beyond government.
2. Governance identifies the blurring of boundaries and responsibilities for tackling social and economic issues.
3. Governance identifies the power dependence involved in the relationships between institutions involved in collective action.

4. Governance is about autonomous self-governing networks of actors.

5. Governance recognizes the capacity to get things done which does not rest on the power of government to command or use its authority (Stoker, 1998, p. 18).

According to advocates of governance discourse; thanks to governance, 1970s and 1980s' paradigmatic crisis in the social sciences resulted from the dissatisfaction with their capacity to describe the real world has been surpassed and governance as the best political framework for 1990s' global capitalist world has been successfully substituted for government. Indeed, governance has been accepted a "reinvented" form of government which is better managed (Stoker, 1998, p. 18). Within the governance discourse, the necessity of the existence of state as a quasi-market institution has also been claimed.

It has been also suggested that new economic, social and political problems of modern capitalist world cannot be managed or resolved through state planning or market-mediated anarchy (Jessop, 1998). Hence, there is a need new institutions and practices intermediate between market and state. So the role of the state has been clearly drawn: within its new "light-touch" form, the state has to be "catalytic agent", "regulator" or "mediator" to capture its missions in governance. Kooiman and Van Vliet (1993, p. 66) expressed 'restricted role of government in governance' as follows:

1. (de)composition and co-ordination,
2. calibration and steering,
3. integration and regulation.

Therefore, up to the supporters of the governance, government in the context of governance has to learn an appropriate operating code which challenges past hierarchical modes of thinking and adapt self-organizing "heterarchic" system (Stoker, 1998, p. 24).

### **3. The Economical Dimension of New System: Post-Fordist Production System**

The main reason of the rise of governance discourse is due to the failure and inappropriateness of political and economical institutions of Atlantic Fordist system in explaining and managing the new economical, social and political problems of new global capitalist system. By the rise of governance discourse, there has been a secular shift in political economy; the definition of nation-state and its logic of government have become collapsed and the nation-states have lost their power to control economic activities within their borders. The notion of nation-states has hollowed out through the expansion of supra-national and sub-national institutions. As Scharpf (1994) notes the advantages of hierarchical

co-ordination are lost in a world that is characterized by increasingly dense, extended, and rapidly changing patterns of reciprocal interdependence, and by increasingly frequent, but ephemeral interactions across all types of pre-established boundaries, intra- and inter organizational, intra- and intersectoral, intra- and international (Scharpf, 1994, p. 37).

With the expansion of heterarchic structure through the whole system, the interdependencies in and across the economy and polity has also noteworthy increased. And capital accumulation or profit maximization has become much more depended on non-economical factors than before. As Jessop notes, in contrast to the Ricardian approach of maximizing the efficiency with which material factors of production are allocated to different activities, competitiveness is now understood in more Schumpeterian terms as having a “structural” or “systemic” quality (Jessop, 1998, p. 33).

During 1970s, Atlantic Fordist system; its mass production technology and its regulatory institutions have come across into a serious crisis. The collapse of Fordist production system and Keynesian welfare national state, capitalist system has began to search reproduction of its own political and economical structure and the world political economy reshaped by the dialectic of globalization-localization. Within this dialectical framework, the economical regulator of global capitalist system has been changed. While in Fordist production system, where standardized, certain and stable production was the rule, the viable technology was mass production; in the new production system, which can be termed post-fordist system and which has basically unstable, uncertain and non-standardized characteristics, the viable technology has become flexible technology. Flexible technology, which can permit more differentiated products, shorter product cycles, just-in-time (JIT) inventory management techniques, more skilled workers able to use general purpose machinery, is thought to be necessary for success in the new global capitalist markets (Pinarcioglu, 2000, p. 22). Capello (1996) has expressed these changes in the following terms:

The traditional models of the large, vertically integrated firm of the 1960s, and of the small autonomous, single-phase firm of the 1970s and part of the 1980s, are replaced by a new type of large networked firm, with strongly centralized strategic functions extending in several directions, and by a new type of small enterprise, integrated into a multi-company local network. Across the network, a system of constantly evolving power relationships governs both the dynamics of innovation and the appropriateness of returns to the partners involved (Capello, 1996, p. 490).

In Jessop’s words, in the emerging Schumpeterian workfare regime, the market, the national state and the mixed economy have lost significance to inter-firm

networks, public-private partnerships, and a multilateral and heterarchic “negotiated economy” (Jessop, 1998, p. 34). By both the complex dialectical shape of “globalization-localization” relationship and the increased heterarchic structure through the whole system, not just national economic spaces, but also local, regional and international economic spaces have possessed critical role in integration into global markets. And as a response to new dialectical shape, local development policies have refashioned development policies of the late 1980s and 1990s.

There are also other important factors in explaining the growing re-concern for local and new regional development policies other than the complex dialectical shape of ‘globalization-localization’ and increased heterarchic structure. The rising concern for these new industrial development policies has basically emerged from:

- “the hollowing out” of national-state boundaries; the rise of governance concern and the growing concern for locality at both political and economical level emerged from increased heterarchic structure through the whole system;
- the rise of the new consumer’s preferences in the contemporary “post-modern world” (Bauman, 1995; Lash & Urry, 1994);
- the awareness of the dynamism of space;
- the aim of capturing the comparative advantage of common cultural and social backgrounds and identities for integration into global markets;
- and the collapsing of Fordist system and the rising of post-Fordist production system.

Under these changing conditions, the notion of locality and local and new regional development policies have become more popular than national development policies for 1990s.

#### **4. Local Development Approach, Its Industrial Development Model and the Role of the State in this Model**

Local development is defined as the process of activating transformation processes pertaining to a region. Here, instead of regional plans where large scale public/private sector investments, a smaller scale development plan is being formed. This new development plan is based on the principles of sustainability, participatory action. And each sub-region may have unique potentials and these regions may compete in the contemporary global society. As discussed above, starting with the conceptual arguments on the new production system and starting with increased dialectical shape of “globalization-localization” and so on, attention has recently been given to the issues of “local development, spatial

search for manufacturing, and new industrial districts” within the literature of local development approach that examined the dynamics of location and its impact on the socio-economic development process.

The growth of local development approach has brought about two important industrial development models which display noteworthy different structures: Lean production model and industrial districts model. The most distinctive characteristics of lean production model that does not take the difference, unique structure of the place into consideration, are to be based on large scale high technology business enterprises, to be universal and to be applicable by everyone. The organization of this model is essentially based on the mechanisms of total quality management (TQM) and JIT (Humphrey, 1995, p. 151). On the other hand, typical characteristic of the industrial districts model is the one which is essentially based on having the clusters of sectorally specialized and spatially concentrated small and medium sized firms (Pınarcıoğlu, 2000, p. 25).

The distinctive characteristics of the industrial districts and what kind of advantages these characteristics will create for developing countries are very important. Pyke and Senberger (1991) have underlined the importance of small firms as the distinctive characteristic of industrial districts so as to show the conflict between the Fordist mass production and the small firm scale. On the other hand, Schmitz (1990) emphasized the importance of competitive advantage created by local external economies, network type organization and the collective activity at this type of industrial districts. While Piore and Sabel (1984) have indicated the flexibility and innovation – invention as the most evident characteristics of the industrial districts, Humphrey (1995) has mentioned the “industrial atmosphere effect” which improves the performances of small entrepreneurs, and ensures collective activity and results in the ideas to be widespread, creates joint action and co-operation. Eraydın (2002), on the other hand, has underlined the common social and cultural structure, common values, sharing of behaviors and language, spreading solidarity network and knowledge by face to face relations and creative common thought. From these and other observations, the general characteristics of industrial districts could be drawn as follows: geographical proximity, sectoral specialization, predominance of small- and medium sized firms, close inter-firm collaboration, inter-firm competition based on innovation, a socio-culturally identity that facilitates trust, active self-help organizations and a supportive regional and municipal environment.

When the distinctive characteristics of two important industrial development models are considered, it seems that the industrial districts model is much more suitable than the lean manufacturing model for the industrial and local development of developing countries. The most important reason of this suggestion is



that while lean manufacturing model does not take the difference, unique structure of the place into consideration, and is based on large scale high technology business enterprises, industrial districts model is essentially grounded on small-scale production units and takes various type of differentiated goods into account which could be crucial advantageous of developing countries in integration into global world markets. On the other hand, there are two important drawbacks in order to question the appropriateness of this model for these countries: (1) The state's role of the industrial districts model and its appropriateness for developing countries, and (2) the structure of small firms' competition in these countries.

As indicated above, there has also been remarkable change in the logic of the state. Within the industrial district model, which was considered along with the debate of post-Fordist production system, the role of government has been changed under the discourse of governance and global capitalist world. In the globalization process, which carries the reorganization of national state formation, the state has been able to provide more satisfying solutions to the requirements of flexible production system, and local development and industrial districts models which have important extensions of this flexible production system. The local development approach defining the world as a whole as a mosaic formed of pieces has suggested that different local/regional units have unique dynamics and the most important units of the new industrial districts model are various institutions and organizations such as local/central government, various organizations established by local entrepreneurs, local private financing institutions, local banks, labor unions. These units, seen as the driving force of industrial and local development, have been effective in the development of industrial districts of developed countries, even if it is at different levels. For example the effect of local labor-employee organizations, educational services provided by local governments, local banks and financing institutions, local institutions established by the co-operation of local (or central) governments have been determinative in the development of Emilia-Romagne industrial district, which was studied under third Italian literature.

The most important factors of local development and industrial districts are local institutions and organizations which gradually gain importance under the governance discourses. They have been considerably effective factors in the development of these industrial districts. In the practices of industrial districts model in developed countries, the duties of the state is essentially limited with "light touch" by focusing mainly on organizations formed by local companies and on local institutions formed by the co-operation of local (or central) governments. But their appropriateness for developing countries is questionable, since the light-touch role of the state could render the model abortive to be applied in developing countries. We will discuss this problem in the following section.

The other problem relating to the appropriateness of this model for developing countries is the structure of small sized firms' competition in these countries. What is important to re-emphasize in the name of this problem is that the success of small and medium sized firms has come, not through advantageous access to cheap labor, not through deregulated labor market environment or not through vast infusions of capital, termed by Pyke and Senberger (1991) *the low road to structuring*, but through a particular effective organization. They follow *a high road to restructuring* where the upgrading of the market and technology is at the centre of the strategy through product improvement, innovation, and fashion awareness (Pınarcıoğlu, 2000, p. 26).

They hold continuous product improvement and innovation through the acquisition of a collective ability to new and changing production and market requirements which based on constructive competition, joint resolution of sectoral problems, and interfirm collaboration. On the other hand, many of small sized firms in developing countries seek their competitiveness through low labor costs and a deregulated labor market environment. Even they success, it tended to be short lived since they don't held the high road restructuring. Hence, it has to be discussed whether this new industrial districts model presented as the new development policy to both developed countries and developing countries by the globalization and the governance discourse are suitable development policies for developing countries.

## **5. The Appropriateness of Industrial District Models for Developing Countries**

As stated above, in the practices of industrial districts model in developed countries, the duties of the state is essentially limited with 'light touch' by focusing mainly on organizations formed by local companies and on local institutions formed by the co-operation of local (or central) governments. While the state limits itself within light touch role, it is certain that the central government has played a crucial role in fostering the development of small-scale production units especially at the beginning of rapid industrialization based on small firms in these countries. For example, in the Third Italian success, 80 per cent of state loans have been directed to small firms (Öniş, 1995, p. 110). And local governments have almost provided all basic public infrastructures for small firms' development. In other words, a semi-active policy by the Italian central and local governments has designed to encourage the development of industrial districts via key policy measures of "light touch" form; i.e. subsidized loans to small firms and provision of basic infrastructure.

While the industrial districts model is working out properly in many industrialized countries and the state in these countries recently limits itself with its new role in governance and local development; in the experiences of the developing countries, it is observed that the state plays a much more direct role in the development of industrial districts. Especially in the development of different regions of South Asian countries, the role of governments has been more determinative. For example, at the industrial districts at South Korea, more direct and intense functions of the central government by public supporting policies like the investment and export subsidies, financial facilities, providing the infrastructure necessary to local firms, have been observed. Similarly, it has been seen that the active policies of central government are effective in the development of Sinos Valley in Brazil or Tripipur industrial district in India as well (Cawthorne, 1995). Another example can be given from metal working industry in the Ludhiana district in the Indian state of Punjab. As Tewari (1996) explicitly states, one of the main factors in successful pattern of industrial growth in Ludhiana district is the historical and present day role of the state government in shaping the region's industrial trajectory.

In spite of active government policies, the structure of industrial districts in many developing countries is essentially based on low road to structuring. For garment industry in Tripipur district, Cawthorne (1995) states that the district has kept closely to the "low road" with low wages and relatively low technical improvement. Similarly, for footwear manufacturing in Leon & Guadalajara district in Mexico, while investigating the basis for the achievement of the district within qualitative and quantitative analysis, Rabelotti (1995) draws that there are considerable differences between the real situations studied and the ideal-type district. Or, according to recent studies on industrial clusters in Sub-Saharan Africa countries such as the shoe industry in Ethiopia, the garment industry in Kenya or car-repair cum metal processing industrial complex in Ghana, the industrial districts often produce low quality products (Osaka & Sonobe, 2006). Humphrey & Schmitz (2006) note that, the enterprises in developing countries cannot learn much about how to achieve qualitative upgrading from global value chains.

Actually we should state that the above statement is not valid for all developing countries. Contrary to these evidences, experiences of East Asia present highly different structure. As Osaka & Sonobe (2006) state, 'in East Asia, the entrepreneurship of highly educated managers leads to introduction of improved production methods, initiation of the use of brand names for the sake of strengthening their images, development of new marketing channel, and establishment of long-term subcontract systems'. But, it must be also re-emphasied that, at these industrial districts, active policies of central government such as the

investment and export subsidies, financial facilities, providing the infrastructure necessary to local firms, have been observed.

As a briefly, since the experiences studied above in many developing countries strongly indicates that the market fairly well works in industrial districts, effective policies to promote the development of the district have been seriously sought in many developing countries. It is clear that in order to improve the competitiveness of their small sized firms some of developing countries' governments do not adopt the new light touch role of the state. Because of various difficulties which are inherent in developing countries, the new role of the state could be abortive to challenge the low competitiveness of their small firms.

### **5.1. The Role of Government for the Development of Industrial Cluster in Developing Countries**

As indicated, there are two possible paths that small firms might take; the low and the high road to restructuring. Successful country-cases and/or local and regional-cases show us that high road to restructuring conditions is required for the application of the industrial districts models both for developed and developing countries.

In order to follow up the high road to structuring of new industrial district models, the local firms should assure the acquisition of a collective ability to new and changing production and market requirements which needs:

- R&D activities and funds for R&D and design costs,
- the training of skilled labor,
- retooling workers with new skills and machine,
- to adopt the technological developments and new organizational techniques,
- expertise in importing technology,
- continuous communication between employers and employees,
- continuous communication with the other firms.

To follow up the high road to structuring of new industrial district models, besides these firm-specific requirements, countries/regions should also provide some specific conditions:

- countries/regions should exceed a certain technological level;
- they should have human, social and physical capital at a certain level;
- the socio-economic inequality in the country should not go beyond at certain level.

Inter-agents (local and central governments, citizens, firms and NGO) cooperation in country and region should be provided. The concept of cooperation is used in two distinct senses: we have already used the first sense in explaining firm-specific requirement named *continuous communication with the other firms*.

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This means to generate a mixture of support and discipline for constructing high level competitiveness. Within this condition, we consider the concept of cooperation in the second manner which means to describe the build up of social stability and consensus (Öniş, 1005, p. 112).

To achieve cooperation in the second sense, local institutionalization and the organizational capacity of the civil society should be above a certain level. At the same time, for both continuing the effectiveness of civilian initiatives and for the operability of the governance mechanism, a democratic environment above a certain level is required for realizing new industrial development model.

On the other hand, many developing countries are having difficulties in each of above conditions required. Firstly, there are important differences between the local industrial clusters of developing countries and the industrial districts of developed countries in the structure of their labor markets. While within the industrial districts model of the developed countries most of the workforce are qualified at a high level working conditions under social security and their wages are differing in accordance with the skill levels, in the local industrial clusters of the developing countries unskilled workforce usage level and the rate of workforce (especially women workforce) employed without social security happens at a highly serious degree and the wages proceeding at low levels do not differ in accordance with the skill levels. Secondly, in many developing countries, the competitiveness of industrial clusters is based on low road to restructuring. Instead of the organizational system based on cheap labor, the firms in clusters in developing countries should be choose organizational system based on technical improvements which will increase labor and total factor productivity.

The other problem of many developing countries is regional equality. It is one of the most important problems of many developing countries which are in need of an urgent solution both socially and economically. Besides these, whereas many developing countries suffer from serious difficulties to get a certain threshold of physical, human, social capital, they also need the crowding-out effect of the public investments. It should be also indicated that cooperation (both in two manners) has involved a high degree of initial investment in these capitals.

Therefore, to overcome these dilemmas that many developing countries are faced, it is required to adopt stable and consistent policies and to own a realistic understanding: First of all, an understanding accepting the necessities of local and regional development as much as the national development has to be considered for both to be able to integrate with a global world market and also to be able to cope with the socio-economic problems of the country. The other important understanding which we have to consider is that there is no unique path for succesful industrialization in terms of any specific policy. While considering

new industrial districts model we should know that districts and their components change continuously and this process inhibits direct replication of an experience in another context (Humphrey, 1995). The focus on defining the trajectories of change and the factors responsible for change implies taking cognisance of the social context of the cluster and its history (Humphrey & Schmitz, 1996). What is common to successful industrial district cases is a good mix of competition and cooperation, which has been achieved through quite different sets of policy interventions and institutions supporting these interventions (Öniş, 1995)

Also to be noted is that the appropriateness of new liberal industrial development policies within “light-touch” form of government for developing countries has to be questioned by a realistic perspective. In other words; the appropriateness of governance discourse and the role of government in governance for developing countries have to be also discussed in a realistic manner. We simply know that governance offers a self-regulating global economy, and for the future of well-worked capitalist system, the state, as an ordinary quasi-market institution, must perform the new role drawn in “light-touch” form. On the other hand, in developing countries, the state must play an important role in the development of new industrial districts by means of many different functions from subsidies to organized industrial zones; from technological infrastructure to education, besides its new functions in governance (Eraydin, 2002). In other words; in order to apply such an industrial model to a developing country, which has insufficient level in general economic development with low physical, human and social capital level, which has serious regional socio-economic inequalities and which can not proceed at certain levels of local institutionalization and organizational capacity of civil society, it is factual that there is a need for economically active state.

With respect to non state actors or institutions the state has more crucial direct role in securing cooperation and achieving rapid industrialization and competitiveness. Regarding the main difficulties that many developing countries are faced it could be stated that within this alternative industrial development model there have to be two main duties of the state: economical and non economical duty: (1) *To apply all kinds of public supporting policies* (like investment and export subsidies, credit, infrastructure services, research and development subsidies) that will increase the competitiveness of local industry. In other words, to help its small-sized firms in holding the high load to restructuring and in achieving sustainable high competitiveness, the state should use its efficient industrial and trade policies. (2) *To make legal arrangements that will enable the formation of local institutionalization and governance.* The state, as a political actor, can assure to promote local institutionalization and the organizational capacity of the civil society. By providing the effectiveness of civilian initiatives and the

operability of the governance mechanism, the state could improve its democratic environment above a certain level which is required for realizing new industrial development model. Regarding to the purpose of the study, to analyse the economical duty of the state more detailed would be vital.

## 5.2. Economical Duty of the State in Development of Industrial District

Under the new conditions of globalization, the only path to a sustainable development for new industrial districts is to follow the high road structuring. And, the main path to high road structuring for developing countries comes through innovation and learning. It means to improve products and processes and to enter into technologically more complex activities and industries (Richard, 2003). At this point, scienceparks, technoparks, universities or similar institutions which developed by the public sector play a key role in supporting the process of innovation and learning of clusters to improve their performance and capabilities.

These institutions should promote local firms to develop partnerships with foreign companies and organizations. They should also help to support research and technological efforts, to develop technical and managerial skills, and to promote local networks of local industries and firms. Therefore the government policies should focus on promoting global business linkages, on the development of skills, on enhancing technological efforts, on supporting entrepreneurship, SMSEs and local networks, on building modern infrastructure (Richard, 2003).

Since many developing countries are having difficulties in holding high road to structuring without active state policies, effective policies to promote the development of industrial districts should be seriously sought by setting up model plants for training potential managers and workers, establishing marketplaces for facilitating transactions of parts, intermediate products, and final products among manufacturer and merchants. And many programs should be designed to either attract firms in new industries or create the conditions such as, organized industrial zones, scienceparks and venture-capital funds, for the emergence of new industrial specialties.

The other important government policies in the development of industrial district are *public supporting policies* such as investment and export subsidies, credit, infrastructure services. There are many empirical studies which examine and find positive role of government policies on regional/cluster productivity with the emphasis on the effects of major policy instruments (Bergstrom, 2000; Bonaglia & Ferrera, 2000; Tzelepis & Skuras, 2004; Salinas, 2004; Mastromarco & Woitek, 2004; Skuras et al., 2006).

Besides meso and micro policies, it is also very important to sustain appropriate macroeconomic policies in order to promote SMSEs in developing countries.

As Parilli (2001) states, in the case of Nicaragua, big infrastructure constraints, too strict financial and too open trade policies prevent the different clusters of small firms from coming out of a very poor productive condition. Actually, they cannot invest in newer technology and compete with foreign producers in both the national and the international market (Parilli, 2001, p. 8)

In summary, the state may only be able to provide support for regions and local areas which may turn into active units within the scope of globalization-localization dialectic with their historical/cultural richness, their identities having unique characteristics; by carrying out these two important roles. Therefore, these areas and regions will fight for their existence by keeping their competitive capacities continuously high in international markets in a global world, together with these supports that the state will provide. It would be also beneficial to re-emphasize that appropriate policies to promote labor-intensive industries are strongly needed to support the formation of industrial districts and their transition from low road phase to high road phase.

### **Concluding Remarks**

Along with the recessions across nations in the late 1970s, the political and economical institutions of golden age (1945 – 1973) have been eroded. Besides, the rising globalization, the argument of the hollowing of the nation-state has been raised by many social scientist and national and international institutions. The role of the state has been questioned and changed both in economical and political manner. By the neo-logical effort of neo-liberal policies, the functions of the state in global capitalist world have been reconsidered under governance discourse. And the state has been accepted as an ordinary quasi-market institution performed the new role in “light-touch” form.

On the other hand, with the complex dialectical shape of “globalization-localization” relationship and with the increased heterarchic structure through the whole system, not just national economic spaces, but also local, regional and international economic spaces have possessed critical role in integration into global markets. And as a response to new dialectical shape, local and new regional development policies have refashioned the new liberal development policies of the late 1980s and 1990s. One of the most important development policies which *also* can be considered under new industrial districts model puts forward the dynamics of location and its impact on the socio-economic development process. In this industrial development model, the importance of competitive advantage created by local external economies, network type organization and the collective activity has been emphasized. Moreover, various institutions and organizations



such as local (or central) government, organizations established by local entrepreneurs, local private financing institutions, local banks, labor unions has been accepted as the driving force of industrial and local development.

On the other hand, the main distinctive characteristics of this model is not to based on low cost labor and deregulated labor market environment, termed by Pyke and Senberger (1991) *the low road to structuring*. Instead, it is necessary to follow a high road to restructuring where the upgrading of the market and technology is at the centre of the model through product improvement, innovation and fashion awareness.

Actually, many developing countries are highly likely to take a “low road to restructuring” which is totally against the logic of industrial district. Despite of this fact, it has been reported that some local clusters in some developing countries have shown a remarkable development (Cawthorne, 1995; Fleury, 1994; Schmitz, 1995; Pinarcioglu, 2000). Therefore, in order to keep their development and improve their existence in international markets, industrial clusters in developing countries have to follow “high road to restructuring”. For this road to realize, the state must do more than to be “catalytic agent”, “regulator” or “mediator”. The state may only be able to provide support for local areas which may turn into active units within the scope of globalization-localization dialectic with their historical-cultural richness, their identities having unique characteristics; by carrying out its important roles.

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