Developing Difference: Social Organization and the Rise of the Auto Industries of South Korea, Taiwan, Spain, and Argentina

Nicole Woolsey Biggart; Mauro F. Guillen


Stable URL: http://links.jstor.org/sici?sici=0003-1224%28199910%2964%3A5%3C722%3ADDSOAT%3E2.0.CO;2-J


Your use of the JSTOR archive indicates your acceptance of JSTOR’s Terms and Conditions of Use, available at http://www.jstor.org/about/terms.html. JSTOR’s Terms and Conditions of Use provides, in part, that unless you have obtained prior permission, you may not download an entire issue of a journal or multiple copies of articles, and you may use content in the JSTOR archive only for your personal, non-commercial use.

Please contact the publisher regarding any further use of this work. Publisher contact information may be obtained at http://www.jstor.org/journals/asa.html.

Each copy of any part of a JSTOR transmission must contain the same copyright notice that appears on the screen or printed page of such transmission.

JSTOR is an independent not-for-profit organization dedicated to creating and preserving a digital archive of scholarly journals. For more information regarding JSTOR, please contact support@jstor.org.
DEVELOPING DIFFERENCE:
SOCIAL ORGANIZATION AND THE RISE OF THE AUTO
INDUSTRIES OF SOUTH KOREA, TAIWAN, SPAIN, AND ARGENTINA*

Nicole Woolsey Biggart
University of California, Davis

Mauro F. Guillén
Institute for Advance Study, Princeton, NJ
and the University of Pennsylvania

Theories of economic development as diverse as modernization, dependency, world-system, and market reform take a "critical factor" view. Proponents of each theory argue that countries fail to develop because of an obstacle to economic growth. We argue instead that neither a critical factor nor a single path leads to economic development; viable paths vary. Economic growth depends on linking a country's historically developed patterns of social organization to the opportunities of global markets. We formulate a sociological theory of cross-national comparative advantage including not only economic factor endowments but also institutionalized patterns of authority and organization. Such patterns legitimize certain actors and certain relationships among those actors, which facilitate development success in some activities but not in others. We illustrate this approach to understanding development outcomes with a comparative analysis of the difficult rise of the automobile assembly and components industries in South Korea, Taiwan, Spain, and Argentina.

Great inequalities in economic development have been an enduring issue of interest in the social sciences. Theorists have been concerned with diagnosing the causes of underdevelopment, and practitioners with formulating prescriptions for elevating countries economically. Although many theories point helpfully to causal factors in underdevelopment, no single theory has proved adequate to the considerable task of explaining,

* Direct all correspondence to Nicole Woolsey Biggart, Graduate School of Management, University of California, Davis, CA 95616, (nwbiggart@ucdavis.edu). The authors' names are listed alphabetically; this was a fully collaborative effort. An embryonic version of the argument was first presented at the Thematic Session on World Patterns of Economic Organization, 92nd annual meeting of the American Sociological Association, Toronto, Canada, August 1997, where John Campbell and Eleanor Westney provided excellent commentary. Biggart presented the paper at the First Portuguese Economic Sociology Congress in Lisbon, the Wharton School of the University of Pennsylvania, and Cambridge and Essex Universities. We are grateful to Howard Aldrich, Gary Hamilton, Harry Makler, and John retrospectively and prospectively, the routes to successful development. Yet many developing countries in Latin America, East Asia, and Southern Europe managed to increase their real per capita incomes three-, four-, and even fivefold between the 1950s and the 1990s (Maddison 1995:228).

We accomplish three tasks in this paper. First, we briefly review the most influential theories of economic development, suggesting how each of them posits a different critical factor as necessary to development success. Second, we propose an institutional perspective on development, one rooted in organization and management scholarship.

Walton and to the ASR Editor, a Deputy Editor, and five anonymous reviewers for their helpful advice and suggestions, especially Glenn Firebaugh’s advice on how to relate our argument to classical theories of comparative advantage. Biggart expresses thanks for the support of the Graduate School of Management and Institute for Governmental Affairs at U.C. Davis, and St. John’s College and the Judge Institute of Management Studies at the University of Cambridge. Guillén gratefully acknowledges funding from the Jones Center at the Wharton School.

We argue that development depends on successfully linking a country's historical patterns of social organization with opportunities made available by global markets. A country's economic actors are most able to succeed when they pursue courses of action that take advantage not only of material and human capital resources, but also of social resources inherent in indigenous patterns of authority relations and social organization. We also describe how our approach represents a sociological reformulation of the theory of cross-national comparative advantage first developed by the classic political economists (Ricardo [1817] 1951; Smith [1776] 1976). Third, we illustrate the merits of our approach with a comparative analysis of four emerging countries during the post-World War II period; each of these countries attempted to create automobile assembly and component manufacturing industries with no regard for their social organization. Although the four countries held a common aim and employed similar economic policies, their development outcomes differed dramatically because policies were filtered through social orders that were institutionally very different.

Our institutional approach focuses on the importance of social organization in economic development. We ask two key questions: (1) Which actors—the state, families, large firms, small firms, business networks, or foreign multinationals—are legitimate players in the economy? (2) What is the pattern of social organization that binds actors to one another? Thus we focus our analysis on which social units are able to act economically in a society, and how these actors relate to each other and to the global economy. The answers to these questions are not the same for all societies and emerge from unique historical experience. Patterns of social organization constrain and facilitate the range of roles that firms and other actors may play domestically and in the global economy, enabling or discouraging the development of different economic resources.

Our empirical design is both longitudinal and cross-sectional. Methodologically, we pursue an historical analysis of four countries' experiences. Countries were chosen according to the variation-finding comparative approach (Skocpol 1984:368–74; Tilly 1984:116–24). We examine how South Korea, Taiwan, Spain, and Argentina attempted to develop automobile assembly and component manufacturing industries during the post-World War II period. We then compare those experiences and observe that each country gravitated over time toward a configuration of component manufacturing and automobile assembly made possible by indigenous institutional arrangements. Taiwan has succeeded in auto component exports, while Korea is a large exporter of assembled vehicles. Spain, in contrast, makes large exports of both assembled vehicles and components, but Argentina has failed to export either. We develop an institutional explanation for these observations, drawing on social-organizational logics to account for such divergent outcomes. Although we aim at explaining development outcomes in these four cases, our primary intent is theoretical: We hope to suggest an alternative and more complete way of understanding development outcomes generally.

DEVELOPMENT THEORIES

Modern development scholarship arose in response to major political and economic changes at the end of World War II, including the need to reconstruct economies and to provide financial and political infrastructure for increasing international trade (McMichael 1996). Initially, scholars adopted a "developmentalist" approach toward former European colonies in Africa and Asia. At the conclusion of independence efforts, former colonies (many of which were impoverished) attempted to gain both political and economic stability through national growth strategies. The models for these "third-world" countries were the developed American and European "first-world" countries; Soviet-bloc "second-world" countries provided an alternative, socialist model. Fundamental to both models was the nation-state, a political institution based in territorial sovereignty that developed from European historical experience and materialized as either the liberal capitalist state or the socialist state. Development policies, as proposed and interpreted by elites, were the instruments aimed at improving nation-states' economic performance.
Table 1. A Comparison of Theories of Development

<table>
<thead>
<tr>
<th>Features</th>
<th>Modernization</th>
<th>Dependency</th>
<th>World-System</th>
<th>Market Reform</th>
<th>Institutional</th>
</tr>
</thead>
<tbody>
<tr>
<td>Obstacle to</td>
<td>Traditionalism</td>
<td>Neocolonial</td>
<td>Peripheral</td>
<td>Wrong prices</td>
<td>Institutional</td>
</tr>
<tr>
<td>development</td>
<td></td>
<td>ism</td>
<td>status</td>
<td></td>
<td>disregard</td>
</tr>
<tr>
<td>Solution</td>
<td>Gradual change of values</td>
<td>Import substitution</td>
<td>Radical social and political change</td>
<td>Free markets, property rights</td>
<td>Contingent match of organizing logics with world markets</td>
</tr>
<tr>
<td>Agents or actors</td>
<td>Modernizing elites foster gradual change in stages</td>
<td>Autonomous state imposes its logic on actors</td>
<td>Internal contra-contradictions trigger change</td>
<td>Autonomous technocracy imposes its logic</td>
<td>Different actors and relationships allowed and enabled</td>
</tr>
<tr>
<td>scholars</td>
<td></td>
<td></td>
<td>Evans (1979),</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Two developmentalist theories dominated until the 1970s. In modernization theory, famously expressed by Rostow (1960), it was argued that countries, provided the right conditions, progress from “undeveloped” to “developed” in five predictable stages. At each stage a country forms political, economic, and social institutions that make possible more economically advanced activities. Political scientists (e.g., Apter 1965) further argued that the primary engine of change tended to be a gradual shift from traditional to modern values, or a transformation of authority structures by a modernizing elite. As reflected in Table 1, modernization theorists identified traditionalism as the main obstacle to economic growth and equated development with a transformation, however piece-meal, of prevailing ideologies.

Writing at about the same time as modernization scholars, dependency theorists protested that it is illusory to see national economies as independent entities. Rather, they claimed that developing countries depend on more advanced countries, often former colonizers, for economic opportunities, finance, technology, and access to markets. In some instances, multinational enterprises were described as the agents for structuring dependent economic relations between first- and third-world countries. In these theorists’ view, only an autonomous state capable of imposing a logic of import-substitution industrialization could offer a feasible solution to dependency (Cardoso and Faletto 1979; Cumings 1987; Frank 1967; also see Table 1). Other state-centered development theories did not emphasize dependent status so strongly, but still argued in favor of economic policies that encouraged indigenous production and discouraged consumption of imported goods (Hirschman 1968).

By the 1970s it was clear that capitalism was not an exchange structure between nation-states, but a global economic system with its own independent logic. Globalism is expressed in world-system theory, most closely associated with Wallerstein (1974). Wallerstein and his affiliates have attempted to understand underdevelopment in terms of the systemic and political character of global capitalist forces. With clear intellectual connections to dependency theory, world-system analysis is based on the argument that countries are not autonomous players, but rather are embedded in a structure of exchange relations that make up the world capitalist system. The political economy of relations shapes countries’ possibilities differentially: Advanced “core” nation-states are able to determine the alternatives available to nation-states at the “periphery” of global capitalism.

A politically very different globalism is at the foundation of recent economic ap-
PROACHES TO DEVELOPMENT

Market-based theorists presume that a global marketplace exists and that it should be organized according to an ideal of free competition (e.g., Sachs 1993). Formerly socialist economies, for example, are encouraged to develop legal, political, and economic institutions that emulate a laissez-faire model in order to increase investment and establish trade relations in the global economy. As in the case of dependency theory, market-based reform demands an autonomous technocracy in the state willing and able to impose its logic on the society (Table 1).

It is not our intent here to assess the empirical strengths and weaknesses of the considerable body of research that we have outlined (for detailed reviews, see Gilpin 1987; Haggard 1990; McMichael 1996). This scholarship has been the basis for many important analyses of individual countries. We wish to point out, however, what we view as a limitation to much of the development scholarship of recent decades: the search for a unified theory of development applicable to all countries. Theorists have posited a proper sequence of institution building, correct economic policies, nonexploitative trading relations, and, most recently, adherence to what Evans has characterized as the “market as magic bullet” view of economic development (Evans 1997:2). Development theories as well as empirical studies typically have been attempts to identify the one critical factor that explains economic success or failure. Yet consistent evidence demonstrating that such obstacles actually preclude or retard development has not been forthcoming (Portes and Kincaid 1989). In contrast, research on organizations and management demonstrates that variety and diversity of economic action and form provide multiple solutions to the complex problem of economic performance.

DEVELOPMENT AND THEORIES OF ORGANIZATION AND MANAGEMENT

Although their intellectual and political origins are very different, development theory and organization and management scholarship now often explore much the same intellectual and geographic terrain—the global economy and economic units within it—with the common intent of understanding and improving economic performance. Development theories, however, have not been informed by an important and productive trend in organization and management research: the understanding that firms are phenomenological accomplishments embedded in institutional “logics” that shape possible strategies of action.

Institutional theorists, although they differ in some respects (Powell and DiMaggio 1991), tend to agree that organizations are “sites of situated social action” in the process of being socially constructed rather than realist structures with fixed properties (Clegg and Hardy 1996:4). The subjectivist approach to organization has abandoned rational-actor conceptions of workers and managers (Nord and Fox 1996) in favor of a view of organization as a routinized or “institutionalized” orientation toward action by knowledgeable actors. These institutional logics are sense-making constructs expressed as conventionalized understandings of what is appropriate, normal, and reasonable (Barley and Tolbert 1997; Scott 1995). Institutional logics are more than beliefs and normative pressures, however: They find social and material expression in concrete practices and taken-for-granted organizational arrangements that both prompt and constrain economic actors at multiple levels, from individual actors to the state as actor, and help to determine which social roles and strategies are conceivable, efficacious, and legitimate in a given setting. Persons or organizations acting outside institutionalized frames or in disregard of acceptable roles signals that they are not legitimate or not knowledgeable.

Organizing logics vary substantially in different social milieus. For example, in some settings it is “normal” to raise business capital through family ties; in others, this is an “inappropriate” imposition and fostering ties to banks or to foreign investors might be a more successful or legitimate strategy. Logics are the product of historical development, are deeply rooted in collective understandings and cultural practices, and are resilient in the face of changing circumstances. Culture and social organization provide not only ideas and values, but also strategies of action (Swidler 1986).
A variety of organization and management theorists have used a phenomenological framework to understand the development of organizational forms and management practices over time and across countries (Fligstein 1990; Guillén 1994; Kenney and Florida 1993; Oliver, Delbridge, and Lowe 1996; Orrù, Biggart, and Hamilton 1997; Westney 1987). This literature documents that even countries wishing to adopt the practices presumed to be most efficient or effective can incorporate only those that “make sense” to the actors being organized—that is only practices that are consistent with the prevailing institutional logic. This theoretical and empirical tradition has its roots in the classic comparative analyses of industrialization by Bendix ([1956]1974) and Dore (1973)—the fifth approach listed in Table 1. This perspective highlights that practices are to be understood in their historical, social, and political contexts. Although an institutional approach has been used to understand advanced countries’ responses to economic restructuring (see Hollingsworth, Schmitter, and Streeck 1994; Katzenstein 1985; Lindberg, Campbell, and Hollingsworth 1991; Streeck 1991), and more recently to analyze the transition from plan to market (Stark and Bruszt 1998), it has rarely been applied to developing countries.

The institutional research tradition suggests three important points for development theory and for our empirical analysis. First, institutional arenas—whether the firm, the industry, or the society—are internally coherent and are based on organizing logics that inform action and meaning. Firms and interfirm constellations, such as business groups or networks, no less than the family or the state, are expressions of social order and imply an array of possible legitimate actions. Economic organizations are imbued with the patterns of meaning of the larger society in which they find themselves. This is not to suggest, however, that institutional arenas do not change, are not contested, or do not coexist with alternative institutionalized worlds (Collins 1997; Fligstein 1990; Guillén 1994).

Second, economic and managerial practices and actions not consistent with the institutional logic of society, even if they are abstractly “better” or “more efficient,” are not readily recognized and incorporated. The comparative and historical literature on organization and management shows clearly that industrial “best practices” can be emulated only if they are consistent with the institutional logic of the firm or country and do not impose illegitimate roles or practices on actors. Gain-seeking entrepreneurs and managers have no alternative but to work within institutionalized structures of meaning if they hope to succeed (Collins 1997; Guillén 1994; Orrù et al. 1997; Westney 1987).

Third, organizing logics are not merely constraints on the unfolding of otherwise unimpeded social action, but rather are repositories of distinctive capabilities that allow firms and other economic actors to pursue some activities in the global economy more successfully than others. Organization and management theorists studying firms’ performance from a resource-based perspective have long advanced this idea (Nelson 1995; Nelson and Winter 1982; Peteraf 1993; Wernerfelt 1984). Development scholars, however, have not been sensitive to the importance of difference and variation in accounting for countries’ economic performance; they prefer to highlight “critical factors” that supposedly apply to all societies and economies. In fact, in the earlier theories outlined in Table 1, it is assumed that the social organization pattern typical of developing countries stands in the way of economic growth. For development to occur, a modernizing elite, an autonomous state bureaucracy, a revolutionary movement, or a cadre of economic experts—depending on the theory—must change indigenous patterns of social organization and impose a certain logic of behavior on economic actors (“society”). In an institutional approach, by contrast, social organization is taken as a foundation for economic growth under the assumption that paths to development vary. Thus development actually may be blocked or retarded when policymakers neglect social organization and do not design policies that match the country’s underlying strengths with the opportunities available in global markets. The institutional approach to development departs from previous theories in its contingent nature, emphasizing that there is
no single best path, process, or pattern of development or of social organization. Rather, institutional patterns of social organization enable countries to take different approaches to development.

Our institutional perspective on development represents a sociological reformulation of classical economic thinking on the comparative advantage of nations. Smith ([1776]1976) believed that economic actors would prosper by specializing in certain production activities. Specialization allows individuals or firms to gain “absolute advantages” of skill and scale over similar others and leads to interdependence because actors are required to trade for products that they do not produce, or produce less efficiently than others. Smith envisioned specialization as leading to increases in overall output and hence to the general well-being of all parties to the exchange. Ricardo ([1817] 1951), however, argued that trade across national boundaries differs fundamentally from exchange between individuals and firms. An efficient international division of labor is hindered by political and social institutions that limit the movement of capital, labor, and other resources to their most efficient utilization in specialized production. Hence the goods that a nation produces for trade are not those that it can produce most efficiently in the global economy in an “absolute” sense, but rather those that it can produce at the least cost in comparison with other domestic goods it produces. Nations will prosper most when they produce goods in which they can develop a “comparative advantage”—that is, in comparison with other goods they can produce for exchange. According to the theory of comparative advantage, nations or regions do best when they produce goods with the lowest relative costs of production, namely, goods associated with relatively generous endowments of factors such as labor, capital, natural resources, and stocks of knowledge.

Comparative advantage is an important concept that helps to explain the existence of an international and interregional division of production and trade, but institutional economists and sociologists have criticized it as static and ignoring sociological factors. Tied to equilibrium models, comparative advantage typically is conceptualized in a way that does not allow for historical processes or change (but see Amsden’s [1989:244] discussion and critique of Balassa’s [1981] stage theory of comparative advantage). Moreover, the factor endowments believed to contribute to comparative advantage are usually limited by economic theorists to material factors of production; Ricardian theory (Ricardo [1817]1951) excludes even technology and capital endowments. In the agrarian and early manufacturing era in which Ricardo and other classical theorists wrote, material factors of production were the critical inputs, and geographic distance to markets was an important determinant of the final cost of goods. In today’s global economy, however, factors of production not only are locally endowed but also are shaped by networks of international firms that diffuse product, process, and distribution technologies. Today “almost any developed country can become as efficient as the next country in a technologically stable manufacturing sector” (Storper and Salais 1997:6).

In global manufacturing, where international commodity chains link producers to consumers and where knowledge-based services and information technology have increased as a percentage of production, location near material factor endowments has become a smaller part of the cost and significance of inputs. Increasingly important is the ability of countries and regions to organize rapidly and effectively in response to changes in demand and changes in technology, and to use production, distribution, and financial networks as leverage.

These latter “factors” are social endowments, and not all societies are equally capable, or capable in the same ways, of organizing for economic growth under technologically advanced global capitalism. Social theorists are just beginning to understand the growing importance of social organization for economic development, what Sorge (1991) called the “societal effect” and Biggart and Orrù (1997) called “societal strategic advantage.” Here we trace the institutional sources and the social constitution of comparative advantage (and disadvantage) for four developing nations to show the critical role of patterns of authority and social organization for economic development.
PATTERNS OF INSTITUTIONAL VARIATION

For the sake of analysis, an institutional theory of development must include the understanding that logics of social organization favor different categories of actors and render certain types of relationships among them appropriate or legitimate: large versus small firms, foreign versus domestic ownership, and vertical versus horizontal or competitive versus cooperative relationships. Variation in actors and relationship types shapes what a country is best equipped to do in the global economy. The actors and relationships enabled by social organization are as important for development as are material endowments.

Consider three ideal-typical configurations of actors and the relationships among those actors. First, an organizing logic that favors large firms and vertical relationships, organized either by the state or by powerful private interests, will be more likely to excel at large-scale undertakings emphasizing heavy capital investment and economies of scale and scope. This logic leads to “producer-driven” or “push links” to the global economy, wherein actors make a product and then offer it for sale in the global marketplace (Gereffi 1993). Some scholars have identified this pattern of development for the United States and Great Britain (Chandler 1990), as well as for South Korea (Orrù et al. 1997).

Second, small-firm economies with horizontal networks may be more adept at developing nimble, responsive, “buyer-driven” or “pull links” to the global economy (Gereffi 1993; Greenhalgh 1988; Redding 1989). Buyer-driven economies respond to orders from customers—for example, retailers such as Sears, Auto Mart, and Wal-Mart, or large manufacturing companies. When changes occur in consumers’ tastes in clothing and other low-capital-intensive goods, these economies can respond quickly to orders for new styles. Some scholars have found this pattern in Italy and Taiwan as well as in certain industrial districts of Japan and Germany (Gerlach 1992; Hollingsworth et al. 1994; Orrù 1996; Piore and Sabel 1984; Streeck 1991).

Third, countries may be linked to the global economy via foreign ownership of production assets. A country whose social organization fosters (or at least is not opposed to) extensive foreign ownership may be linked to foreign owners’ established technology resources and market channels, and may be shaped, where socially possible, by alien organizational arrangements. This pattern is observed, for example, in Singapore, Ireland and Spain, and more recently in Mexico (Guillén 1997, forthcoming; Haggard 1990). Our point is not that one type of link or another will lead to better performance, but rather that different kinds of activities, and even different industries, will develop more easily depending on the links facilitated by social organization.

Given that historical patterns of social organization affect the types, availability, and legitimacy of actors for industrial development, our approach presents an important corrective to recent sociological theorizing on development, which is based primarily on the nature of state-society relations. For example, Evans (1995) argues that successful industrial transformation occurs only when an autonomous and capable state can establish a collaborative relationship with business actors. This approach is an important step toward an institutional and contingent analysis of development insofar as it allows one to analyze feasible state capacities and roles under various patterns of state-business relations. It does so, however, at the expense of holding constant the nature of business actors and the relationships among them (Campbell 1998; Stark and Bruszt 1998:124–29). Thus, in Evans’s model of “embedded autonomy,” it is assumed that business actors are a given and that they do not vary across societies. By contrast, in our approach we do not take for granted that business actors exist or that, if they do, they are equally capable, legitimate, or embedded in networks of relationships among themselves. Rather, we take account of differences in the characteristics, legitimacy, and (perhaps most important) social organization of business and other actors, including the state.

DIFFERENCE ILLUSTRATED

Categories of actors and of relationships among them form the conceptual core of an institutional perspective on development.
This approach highlights the diversity of links between countries and the global economy, as opposed to a single path to continued economic growth. To examine the empirical usefulness of our approach, and to avoid falling into the trap of universal explanations, we focus on automobile production, an industry that has the potential to generate both producer-driven and buyer-driven links to the global economy.

Automobile production is a complex endeavor that requires not only the ability to establish and conduct capital-intensive assembly operations, but also the development of an extensive sector of smaller firms devoted to component manufacturing. Assembly operations organized as a large-scale undertaking usually create producer-driven links to the global economy, whereas component manufacturing for high-volume auto assembly tends to be a buyer-driven activity because of the responsiveness requirements imposed by large-scale assembly. There is no guarantee, however, that a single pattern of social organization can support successful development in both auto assembly and component manufacturing. Thus the auto industry provides a superb empirical setting for assessing the value of an institutional theory of development. It allows one (1) to explore whether a single pattern of social organization characteristic of a particular country leads to differences in economic performance between auto assembly and component manufacturing; and (2) to analyze how different countries’ patterns of social organization compare with each other in their effects on the performance of auto assembly and component manufacturing.

Policymakers in South Korea, Taiwan, Spain, and Argentina all have recognized the importance of automobile manufacturing as a strategy for development, for several reasons. First, autos are expensive goods that send crucial capital offshore if purchased from abroad. Second, autos and other forms of transportation are important infrastructural elements needed for moving goods and people around a developing economy; they are also crucial to any military buildup. Third, and perhaps most important, developing countries wish to establish auto production because the industry can create backward links to numerous small firms that manufacture components such as machined goods (e.g., brakes and jacks, textiles for seat coverings, plastic for knobs and dashboards, electrical and electronic gauges, and safety glass for windshields). A vibrant auto assembly sector creates employment and encourages technological skills. Finally, more than any other product, the automobile signals entry into the industrialized world, and its manufacture is prized as a symbol of development success.

We chose these four countries after taking a variation-finding approach (Tilly 1984: 116–24). All four possible combinations of success and failure in auto assembly and component manufacturing were represented in our sample (see Table 2). Two of our cases—South Korea and Spain—rank among the top six auto-assembling countries in the world. The other two—Taiwan and Argentina—are low-volume assemblers mostly devoted to catering to the needs of the domestic market. Figure 1 shows the evolution, between 1970 and 1995, of each country’s exports of assembled passenger cars and of auto components, expressed as a percentage of the GDP. Since the early 1980s, Spain has rapidly grown its exports of both cars and components, while Korea has achieved growth only in exports of cars. In Taiwan exports of components increased swiftly between 1975 and 1985, but declined relative to GDP (and total exports) between 1985 and 1990, when currency curbs were lifted and some component manufacturing moved to the People’s Republic of China. Finally, Argentina has never attained high levels of exports of automotive products. Exports of components increased in the early 1990s, however, mostly as a result of the implementation of bilateral balanced-trade arrangements with Brazil.

In the 2 × 4 matched-case empirical design—auto assembly and components manufacturing in four countries with different combinations of success and failure—we seek to assess the impact of state policies and of patterns of social organization on development. We propose a meaningful historical understanding of development success and failure, and present the evidence in narrative form for each case (Skocpol 1984: 368–74). In focusing our analysis on state and business actors’ motives and struggles to become
Table 2. Social-Organizational Structures, State Policies, and Outcomes in the Auto Assembly and Auto Components Industries of Four Emerging Countries

<table>
<thead>
<tr>
<th>Auto Assembly</th>
<th>Auto Components</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Export-Oriented</strong></td>
<td><strong>Inward-Looking</strong></td>
</tr>
<tr>
<td><strong>South Korea: Patrimonialism</strong></td>
<td>• 1960s–1970s: Import-substitution benefits large chaebol in assembly</td>
</tr>
<tr>
<td></td>
<td>• 1980s: Export push forces chaebol to integrate or control the supply chain.</td>
</tr>
<tr>
<td></td>
<td>• Domestic control dominates</td>
</tr>
<tr>
<td></td>
<td>• Focus on lower-end auto parts</td>
</tr>
<tr>
<td></td>
<td>• World quality standards not met</td>
</tr>
<tr>
<td><strong>Argentina: Populism</strong></td>
<td>• 1960s: Too-high local content requirements force to integrate</td>
</tr>
<tr>
<td></td>
<td>• 1970s: Liberalization and currency overvaluation produce bankruptcies</td>
</tr>
<tr>
<td></td>
<td>• Mixed pattern of control</td>
</tr>
<tr>
<td></td>
<td>• Lack of focus or specialization</td>
</tr>
<tr>
<td></td>
<td>• World quality and cost standards not met</td>
</tr>
<tr>
<td><strong>Taiwan: Flexible Networks</strong></td>
<td>• 1970s–1980s: Failure to promote export-oriented assembly</td>
</tr>
<tr>
<td></td>
<td>• 1980s–1990s: Firm networks respond to global demand for cheap auto parts</td>
</tr>
<tr>
<td></td>
<td>• Domestic control dominates</td>
</tr>
<tr>
<td></td>
<td>• Focus on lower and medium-end parts</td>
</tr>
<tr>
<td></td>
<td>• World quality and cost standards met</td>
</tr>
</tbody>
</table>

legitimate, we advance an interpretive sociology addressing how economic development occurs (Collins 1997; Weber [1922] 1978). Our comparative study achieves two goals. First, it exposes the limitations of previous approaches to development, which centered on applying general theory to explain historical instances (Portes and Kincaid 1989). Second, it provides comparative historical evidence supporting the argument that patterns of social organization enable and facilitate some economic activities and development efforts but not others.

**South Korea: Strong on Assembly, Weak on Components**

Despite a concerted effort by the state to promote an automobile industry, South Korea has an economically and technologically limited auto components sector, which supplies the needs of domestic car manufacturers but is not significant in the global market. Most Korean-made components are low-end mechanical parts, such as brakes and exhausts, and electrical parts, such as batteries and wiring systems. And Korea has been forced to rely on foreign partners for technology and components crucial to the assembly of its cars.

How could a country that assembles more than 2 million automobiles and that ranks fifth in the world fail to develop a thriving and innovative components sector that matches the assemblers’ export prowess? One might even expect that components manufacturers in Korea would have reached the global marketplace before the assemblers, as small auto repair shops, engine rebuilders, and components manufacturers actually predate the establishment of the country’s assemblers. In the early 1950s, during the Korean War, dozens of small enterprises were established to meet the vehicle maintenance and repair needs of the U.S. and Korean militaries. Only later, in 1962, did Korea begin assembling vehicles from complete knocked-down kits purchased from Ford and from Japanese manufacturers. Despite this head start, at least three interrelated factors have contributed to a weak auto components industry in South Korea: counterproductive state policies, dominance by big business, and failure to improve quality standards.
First, the backwardness of Korean auto component firms is a consequence of state policies. The Korean state targeted auto production as a key industry for development. Programs such as the Automobile Industry Protection Law (1962) and the Automobile Industry Basic Promotion Plan (1969) prohibited imports of assembled cars but allowed for tariff-free imports of components. Assembly operations oriented to a small, though growing, domestic market blossomed, but local parts producers suffered. The Long-Term Automobile Promotion Plan of 1974 provided some incentives for export, but it focused on increasing local content requirements. These were raised from 20 to 90 percent by the late 1970s, too late for the small component suppliers to catch up (Green 1992).

Second, development policies in South Korea have always targeted the large chaebol, or business groups—Hyundai, Daewoo, and KIA, or their predecessors—which responded by creating huge assembly

---

**Figure 1. Exports of Assembled Passenger Cars and of Automobile Components: Argentina, Korea, Spain, and Taiwan, 1970 to 1995**

*Sources: Feenstra, Lipsey, and Bowen (1997); Executive Yuan (1996).*
operations and their own, tightly controlled suppliers (Dyer, Cho, and Chu 1998). After 1980, when the government shifted its policy toward export promotion, only the chaebol were in a position to play a role. Big business received cheap loans, export facilities, and assistance in opening markets (Amsden 1989:181). Focus on the development of these large, increasingly wealthy, family-owned businesses to the exclusion of the small firms that could contribute to them resulted in both economic and political distortions, including chronic labor unrest.

Although the Korean state belatedly recognized that much of the innovation by Japan’s large exporters comes from the many subcontracting networks with whom they interact, Korean manufacturing industries have failed to develop network links with small- and medium-sized independent but affiliated firms: “The first key difference is that South Korean [assemblers] have not yet put in place the ‘tiered’ arrangement prevalent in Japan, in which a smaller number of first-tier (direct) suppliers manage the larger number of second- and third-tier suppliers on behalf of the [assembler]” (McKinsey and Co. 1996:112). Japanese assemblers produced more than 10,000 cars per purchasing staff, five times more than Korea’s 2,000.

Unlike their Japanese counterparts, Korean component manufacturers generally have not developed economically or technologically significant long-term, mutually beneficial relations with assemblers. When components form a crucial part of the production process, Korean assemblers have attempted to buy up firms or otherwise to control them authoritatively. Because key suppliers are controlled by assemblers, suppliers have few opportunities to seek export markets independently or to learn from connections with high-quality manufacturers (Amsden 1989:184; McKinsey and Co. 1996:109). In 1997, when the KIA chaebol faced bankruptcy, more than a dozen of its large suppliers went out of business, having failed to establish any independent market ties (Korea Times, August 30, 1997, p. 18).

The third factor in Korea’s difficulties in auto components is that small- and medium-sized auto parts suppliers have been incapable of producing high-quality, latest-technology components, unlike the Japanese sub-contractors with whom they are often compared. Purchasers of low-cost, low-quality cars for domestic consumption might tolerate shoddy components, but exporters to the developed world must meet international standards. Component quality may be poor because Korean assemblers have not been high-quality producers themselves, at least in part because of oppressive labor relations; they have been forced to focus strategically on high volume and low price. In a 1995 survey of new car owners, J.D. Power & Associates found that the quality of all four Korean export models ranked at the bottom, with an average of 193 problems per 100 cars, in contrast to the industry average of 110. Only Alfa Romeo ranked lower (Clifford 1991:42; Kraar 1995:152). More recently, Korean manufacturers, recognizing their inability to compete head-to-head with high-quality Japanese, European, and U.S. producers, have targeted new emerging markets such as India, China, and Russia; together with Latin America, Africa, and the Middle East, these markets now account for half of Korean auto exports (Kraar 1995:152–60). Parts manufacturers thus have not seen leadership by domestic assemblers in a drive for quality. In an attempt to upgrade quality, Korean manufacturers have been forced to form alliances with foreign firms or to purchase components from abroad (Clifford 1991:40).

One can point to government policy, dominance by large firms, and failure to raise quality as contributors to Korea’s successful automotive assembly sector and weak components industry. Why, however, did these factors come into play at all? It was not necessary to focus on large-scale production at low prices and low quality, on subordination of small business interests to those of a few elite-owned businesses, or on oppressive labor relations. Indeed, the organizing pattern of the Japanese, Korea’s former colonizer and close neighbor, is different from the Korean pattern in important ways: most notably, in the dense networks that connect firms of all sizes, both horizontally and vertically (Gerlach 1992). Organizationally the Korean economy is dominated by vertically integrated chaebol with few ties outside each group, and with no significant ties between them.
The institutional context of the Korean auto industry is best understood as an expression of Korean patrimonialism, a pattern of political and economic organization that has deep roots in Korean society. Patrimonialism is a form of social organization in which the country, firm, or other social unit is regarded as a “household” under the unilateral domination of a patrimonial figurehead or leader (Weber [1922]1978). All members of the household must submit to the whims of the patriarch, to whom they owe obedience and personal loyalty. This form of organization tends to develop unequal, vertically integrated units under the command of centralized authority (Biggart 1990; Orrù et al. 1997). Korean patrimonialism can be traced to a preindustrial era in which rule was implemented by an autocratic emperor; he oversaw competing elite families that had their roots in regional spheres of authority (Henderson 1968; Jacobs 1985). Although the actors certainly have changed, modern Korean economic order reproduces in important ways the organizational logic of patrimonial authority. It is an indigenous form of organization possessing widespread understanding and legitimacy (Biggart 1990).

The powerful chaebol are the private economic empires of elite families with strong regional roots, acting much like preindustrial elite clans. Chaebol operate at the whims of their founders and descendants; unlike Japanese business groups, they do not cooperate or hold shares in each other’s firms. Indeed, the state has been unable to induce Korean assemblers to cooperate even on the purchase of parts unrelated to product distinctiveness, such as oil filters and ashtrays: “Progress on this front is very slow, as assemblers find it hard to give up control over any part of design, however trivial” (McKinsey and Co. 1996:116). It is in the logic of patrimonial economic organization to incorporate crucial elements of production into the household, where they can be controlled by the chairman’s personal staff. Chaebol also compete fiercely with each other for state favors such as the right to enter industries or privileged financing. The state has encouraged competition between the business groups, rewarding or punishing them according to their willingness to meet state objectives. Indeed, Samsung, one of the largest chaebol, gained permission to found an auto company at a time when there was a world oversupply of assembly capacity.

The Korean institutional logic legitimates centralized control by competing elites, and patrimonialism confers on the state the legitimate right to target industries for development. This institutional logic supports the development of shipbuilding, steelmaking, and automobile production, industries that are capital- and technology-intensive and in which single-minded concern with output is a priority. It supports a Fordist economic strategy of large-scale, vertically integrated mass production and standardization. This organizing logic, however, does not promote connections between groups for synergy or innovation. Nor does it promote responsiveness to world markets or quality production. Patrimonialism has favored the assembly of reasonably priced, second-quality cars but small producers in the auto components industry have been forced to fend (unsuccessfully) for themselves. The organizing logic of patrimonialism has proved conducive to one kind of industrial activity but not to another; this point suggests that there is no single route to development, even within a single economy.

**Taiwan: State Failures and Responsive Networks**

In 1972 Taiwan manufactured 22,102 motor vehicles, more than twice as many as South Korea’s 9,525. By 1993 that relationship was reversed: South Korea produced 2,050,058 vehicles, more than four times as many as Taiwan’s 408,409. Moreover, in 1994 Korea exported 635,000 vehicles and became the world’s fifth largest manufacturer. Korea’s three primary producers each had a large share of the market; the smallest, Daewoo, produced more than 300,000 vehicles for an 18.7 percent share. Industry experts believe that a minimum of 200,000 cars is required to achieve economies of scale sufficient for a viable export business. Also in 1993, Taiwan’s vehicle manufacturing was divided among 16 assemblers, mostly in joint ventures with foreign manufacturers. The largest by far, Ford Lio Ho, assembled only 96,067 vehicles (a 23.9-percent market share), well below the minimum for an effi-
cient scale. An industry guide described 1993 as a “difficult year, with most [assemblers] reporting falling sales and operating losses” (Ward’s 1994:57). Taiwan, however, is known for its prowess as an exporter in the global economy, producing not only electronics and machine tools but also a variety of auto components.

Why, despite a substantial head start over Korea, did Taiwan fail as a producer and exporter of assembled automobiles? Conversely, how did Taiwan develop a world-class export market for components in the absence of a substantial assembly sector? As in South Korea, three important contextual factors played a part in the outcome of these sectors: the role of the state, the dominance of small- and medium-sized businesses in the economy, and the ability of Taiwanese businesses to meet global quality standards.

Development scholars often categorize Taiwan as a “strong state” able to impose its will on major groups in society (Amsden 1985; Gold 1986; Haggard and Cheng 1987; Wade 1990). Certainly Taiwan’s leaders after World War II, the nationalist forces that had fled mainland China, had a strong, even repressive, grasp on the polity for years. Using Taiwan as a base for continued political struggle, the government initially was more preoccupied with military matters than with economic affairs. Indeed, until recently, native Taiwanese led Taiwan’s economic development, and mainland refugees dominated the government. Although the Taiwanese state has been “strong” politically, it is less obviously the case that the bureaucracy has directed the economy authoritatively.

From 1953 to 1977 the state protected the tiny automotive assembly industry from foreign imports by imposing high tariffs, but allowed foreign manufacturers to serve as partners to local companies. In fact, Generalissimo Chiang Kai-shek invited Henry Ford Jr. to establish a factory in Taiwan. The tax incentives and a steep tariff were very attractive, and Ford built a factory with local partner Lio-Ho. Only later did Ford realize that Chiang hardly understood the economics of car manufacturing: He offered the same deal to virtually everyone, thus flooding the tiny market (Moore 1990:76). The foreign partners—including Nissan, Willys, General Motors, Fuji, and Toyota—did little more than assemble kit cars in Taiwan; they failed to transfer the technology. High tariffs protected the domestic industry, making it un- economical and inefficient. Despite the policy failure, the industry received little attention from the state, which was concerned with developing infrastructure and basic industries such as chemicals, steel, and plastics: “Taiwan policy toward autos wobbled and drifted” (Wade 1990:101).

State revival of interest in automotive products began in the late 1970s with a strategic shift away from import substitution and toward exports. Government officials proposed a “Big Auto Plant” project that would produce 200,000 low-cost cars for export, and sought a major foreign partner to participate in a joint venture (Arnold 1989). A few Japanese and American companies were interested, but the protracted process was bumbling and politicized, very different from the targeted economic implementation conducted by the Korean state. Toyota finally was selected as a partner for China Steel, a state-owned company. In 1984, after several years of bureaucratic machinations and flip-flops in policy, Toyota withdrew. As Arnold (1989) summarized the situation, “[I]t was clear that the state’s capacity to define and implement an industrial policy for Taiwan’s automobile industry had been afflicted by serious problems” (p. 202).

In the 1980s the state tried a third time to promote an auto assembly industry, dramatically lowering tariffs on imports and reducing local content requirements. Local manufacturers were pushed either to grow large enough to become mass producers or to transform themselves into offshore producers of low-end Japanese models. The rapid appreciation of the Taiwanese dollar, however, turned the Japanese toward the less costly Southeast Asia. Also, imports of foreign cars increased quickly in Taiwan, further damaging the local assemblers. In comparison with South Korea, the Taiwanese state was inept at creating and implementing a workable strategy for developing an automotive assembly sector (Gold 1986:105). Taiwan’s focus on political factors and its inability to administer economic policies in partnership with the private sector doomed its attempts to lead the country into the ranks of automobile exporters. Indeed, the number
of cars that Taiwan assembled for export declined from 6,002 in 1986 to only nine in 1997 (Taiwan Transportation Vehicle Manufacturers Association, personal correspondence).

The organization of the economy is a second important factor in Taiwan’s failure to establish a viable auto assembly industry, and in its success in producing components. Neighboring South Korea is dominated by large private business groups; Taiwan is a country of relatively small family firms (Orru 1996:348). A small-firm economy is difficult to control from above: There are simply too many firms, few of which are individually significant. Automotive manufacturers require large amounts of capital concentrated in a single substantial organization, even one that uses many suppliers. Very few such plants exist in Taiwan, and most of these are state-owned producers of intermediate goods, not of finished consumer products. Taiwanese networked firms historically have grown, not by enlarging, but by spinning off additional small firms. Large-scale manufacturing organizations, while not unknown in Taiwan, are an unusual form of enterprise. Export prosperity has been impelled by small firms linked to each other in horizontal networks based on personal relationships between owners and their families.

This economy of densely networked family firms is ill suited to a capital-intensive enterprise such as auto assembly. It is ideal, however, for producing capital-light but knowledge-intensive products. Taiwan’s nimble networks have incurred few sunk costs, and their many connections to Chinese entrepreneurs both domestically and globally allow them to respond quickly to changes in taste and technology. Taiwan has succeeded in producing easily assembled consumer goods such as lawn furniture and bicycles, and knowledge-intensive products such as custom software.

While South Korea has established “producer-driven” links to the global economy, Taiwan has developed mostly demand-responsive connections (Hamilton 1997:241). Firms do not determine the goods they will produce; they take orders from foreign retailers and manufacturers, responding to shifts in market demands. As one observer remarked, “Taiwan is simply a collection of international subcontractors serving the American market” (Sease 1987:1). As such, it does not design or establish quality standards for the products it makes. Taiwanese manufacturers often collaborate on an order: Networked firms each produce part of the product and rely on personal relations, which are powerful in family networks, to assure quality control. This form of “cooperative” economic organization is ideally suited to the production of high-quality aftermarket components such as brakes, mufflers, and other auto supplies retailed by Grand Auto, Wal-Mart, and Sears. In fact, Taiwan is a leading exporter of such goods.

The proximate causes for the failure of auto assembly and the success of component manufacturing in Taiwan are misguided state policies, a small-firm economy, and the ability of demand-responsive firms to meet the quality standards of the global marketplace. Although these are important contemporary business conditions, they have roots in the institutional structure of Chinese society. Hamilton (1997:245) argues that the Taiwanese state has assumed a principle of imperial Chinese statecraft: “allowing the people to prosper” without directing the economy in authoritarian ways. In contemporary industrial Taiwan, state enterprises provide infrastructure and intermediate goods such as the steel, transportation, energy, and raw materials necessary to the small businesses that make up the rest of the Taiwanese economy. The state, however, has directed the course of the economy half-heartedly and ineffectively. It engages in economic planning, but its implementation function is weak, certainly in comparison with the Korean bureaucracy. The legitimate role of the Taiwanese state is to help families but to remain aloof, in what Western observers mistakenly perceive as a laissez-faire policy (Wu 1978:9).

Taiwan is unlikely to ever develop large, capital-intensive private businesses. The local pattern of small family firms is rooted in the patrilineal institutional logic of Chinese families. To build large family businesses, as is possible in Korea and Japan, the enterprise must be passed on intact from generation to generation. In Chinese societies, however, partible inheritance rules demand division of the family fortunes at the patriarch’s death so
that each son will receive an equal share. Hence Chinese families favor horizontal growth through investment in new businesses rather than vertical integration (Wong 1985).

Spain: Competitiveness via Internationalization

Spain is the world’s sixth largest auto assembler, after the United States, Japan, Germany, France, and South Korea. Because three-fourths of Spain’s automotive products are exports, the country ranks as the fourth largest exporter of motor vehicles, surpassed only by Japan, Germany, and France. The auto assembly and components industry is Spain’s largest, accounting for 6 percent of GDP and 24 percent of total exports. The components sector comprises over 1,100 firms with 200,000 employees, and exports about half of its production as nonassembled components for the original and replacement markets. All auto assembly and more than three-fourths of component manufacturing are presently conducted by foreign-owned companies, which have specialized their Spanish operations in the European marketplace.

The institutional history of the Spanish auto industry has been shaped by the direct involvement of two key actors: the state and foreign multinationals. This path, however, was not the only possibility. Private domestic entrepreneurs in both auto assembly and auto components were willing to develop a domestic industry. As in Taiwan, the origin of modern auto assembly in Spain was marked by a lack of indigenous technology and by the confusion of military aims with purely economic goals. The first high-volume assembly line became operational in the mid-1950s as a joint venture (SEAT) involving the state’s enterprise holding (INI), the Italian auto manufacturer, FIAT, and six domestic banks. As in Korea, however, policymakers ignored the rudimentary assembly operations of small workshops and disregarded several private initiatives. Students of economic development later identified the Spanish state during the late 1940s and 1950s as “relatively autonomous”. Between 1945 and 1951 an officer in the navy and a personal friend of the dictator was both Minister of Industry and President of the INI enterprise holding. Privileged freedom of action allowed the minister to directly influence how the emerging auto industry would be organized (San Román López 1995).

Between 1939 and 1946 the INI opposed and defeated one attempt by General Motors, in association with the March banking family, and two attempts by the Urquijo banking group and Italy’s FIAT to establish auto companies with mass-production capabilities. Hispano-Suiza, a small-scale but prestigious domestic auto manufacturer, also participated in the Urquijo-FIAT joint ventures. Another small firm, Eucof, attempted in 1945 to obtain credit and permission from the state to transform itself into a large-scale assembler, based on its relatively modest operations: Eucof employed 900 workers who assembled an average of two automobiles per day (San Román López 1995:104–24). The INI, however, had other plans for the industry, which included its own truck and auto companies (ENASA and SEAT) as well as entries by Renault and Citroën in the early 1950s. SEAT was guaranteed the lion’s share of the domestic market.

The stiff protection of the domestic market through tariffs, quotas, and a stringent local content requirement of 90 percent, in combination with the favorable financing terms awarded to the state company and the multinationals during the 1950s and 1960s, choked the development of private domestic initiatives in auto assembly. The small assembly workshops that had developed from the 1920s to the 1940s went under. The myriad repair workshops and auto components manufacturers that had flourished in the shadow of the domestic assembly operations and the formerly burgeoning import business languished during the 1950s and 1960s as the three large-scale assemblers pursued vertically integrated strategies or persuaded some of their foreign suppliers to co-locate in Spain. In addition, two of the three assemblers were forced to set up their lines in relatively backward and sparsely populated areas, far from the traditional enclaves of automobile-related activity. Both the assemblers and the auto components producers focused on the domestic market; exports did not rise above 10 percent of total production until the mid-1970s.
Given the presence of three auto makers in a protected though relatively narrow market, plants did not meet minimum standards for efficient scale, and model production runs were relatively short. Inflated prices were the result. Protectionism bred complacency, and profitability in auto assembly was the highest among all Spanish industries (Banco Urquijo 1970). The status quo created during the 1950s was not upset by the entries of Authi, Talbot, and Chrysler during the late 1960s; all of these operations failed in the 1970s. The heavy involvement by an autonomous state had resulted in the destruction of the flourishing, though small-scale, auto assembly and components workshops, and in the creation of a backward industry protected by steep barriers (Auto-Revista 1987; Bolsa de Madrid 1981; Hawkesworth 1981).

Although output continued to rise through the first oil crisis of 1973–1976 thanks to subsidized export growth, the shock of 1979 hit the industry hard after years of lagging investment, sluggish growth in productivity, and technological backwardness. At this time the new democratic governments broadened the liberalization measures first introduced in the early 1970s. Old and new assemblers now were allowed to expand capacity or to set up new plants, to wholly own their operations, to source components from abroad almost freely, and to specialize in the European marketplace. In compensation, foreign assemblers were required to invest heavily, to create jobs, and to increase exports to at least two-thirds of output. Attracted by the new conditions, Ford, General Motors, Volkswagen, and Nissan established new production facilities or acquired existing plants, specializing in low-end vehicles for export, while the older plants of Renault and Citroën were expanded and retooled (Bolsa de Madrid 1981).

The shift from import-substitution policies in keeping with dependency theory to liberal local content requirements took the auto components sector by storm. More than 20 percent of the jobs in auto components were lost during the years of crisis and restructuring. Although the policies were diametrically opposed, the liberal policies of the 1980s achieved a result similar to that of the protectionist policies initiated in the late 1940s: a debacle among existing components manufacturers. In the 1940s and 1950s a relatively autonomous state had strangled private initiatives in auto assembly; as a side effect of the liberalization reforms of the 1970s and 1980s, hundreds of auto components firms were driven out of business, and the industry was placed under heavy foreign control. In 1979 the government approved the first major foreign acquisition: Robert Bosch's takeover of Femsa, the largest domestic components manufacturer at that time. Between 1979 and 1994—when Exide Corporation of the United States acquired the battery maker Tudor, one of the world's largest—dozens of Spanish components firms were bought by foreigners. Overall the proportion of foreign-controlled auto parts companies, weighted by sales, grew from 37 percent in 1973 to 56 percent in 1983, and to a staggering 71 percent in 1990. By the late 1980s, after Volkswagen took over the state-owned SEAT factories, all assembly operations were under foreign control (Auto-Revista 1986:83, 130, 166–72, 179, 219; Bolsa de Madrid 1986; MICT 1991; EIU 1996).

As a member of the European Union since 1986, Spain has become a world center for subcompact automobile and auto parts manufacturing (Bolsa de Madrid 1986). The components industry has attained world standards of competitiveness, unlike Korea's. According to the OECD, auto parts and other transportation equipment are one of Spain's areas of comparative technological strength, as measured by the number and specialization of patents (Archibugi and Pianta 1992: 76–77). In a study by Andersen Consulting (1994), Spain's labor productivity in auto components manufacturing was ranked the highest in the world, topping even Japan's (Economist 1994; EIU 1996; Sernauto 1996: 37, 45). Clearly, however, these favorable aspects of the auto components industry in Spain are not the result of local entrepreneurial initiatives, but rather the outcome of heavy involvement by foreign capital and technology.

The evolution of the auto components industry in Spain illustrates a more general trend. The country has transformed itself from one of the most isolated economies in Europe to one of the most integrated, becoming a favorite destination for multinationals. The subsidiaries of foreign multinationals
account for roughly 55 percent of manufacturing value-added and 75 percent of merchandise exports.

Traditionally, analyses of Spanish society and economy have emphasized the lack of local entrepreneurial activities, often with an undertone of national inferiority. This anxiety prompted the government to experiment with state-owned firms during the 1940s and 1950s. Because local enterprises, whether private or state-owned, were regarded as not contributing sufficiently to development, the state invited foreign multinational involvement, especially during the 1980s and 1990s. In searching for alternatives to the presumed lack of private entrepreneurship, the state contributed to a self-fulfilling prophecy by stifling initiatives emerging from the private sector. Both the inward-looking statism of the 1940s and the liberal policies of the 1980s stymied local entrepreneurial initiatives, although the latter succeeded in attracting foreign investors.

Spain’s social organization is distinguished most easily from Korea’s and Taiwan’s by its strong corporatist character: quasi-stable arrangements for resolving conflicts between hierarchically organized and functionally differentiated interest groups such as labor, business, banks, and the professions, with the state acting as arbiter (Linz 1981). Whereas Asian authoritarian regimes remarkably avoided making concessions to interest groups, Southern European—and later Latin American—regimes found in corporatism a formula for promoting their own continuity without engaging in wholesale repression. Though not always successful, corporatist institution building and policymaking became the rule rather than the exception between the turn of the century and the 1970s. Spanish industrialization proceeded slowly and unevenly by region and by industry, with many ups and downs. Financial capital—either state- or bank-controlled—played a key role in the establishment of new industries. The acute political problems generated by unbalanced industrial growth were usually contained by negotiated agreements between labor, banks, and big business; the state assumed a coordinating role, often repressive though sometimes conciliatory. Frequently such arrangements implied a tit-for-tat among groups under the state’s protective umbrella. As a result, interest groups gradually became entrenched in their positions within the polity, a situation that undermined entrepreneurial initiatives.

Internationalization as an ideology and a policy prescription has provided a solution to the inflexibility of corporatist arrangements. Only foreign multinationals, as outsiders, were acceptable to all parties as key actors in development, and only multinationals, thanks to their credible threat to exit, could impose their own logic on the system of entrenched interest groups. To make the multinationals acceptable to all interest groups, however, required consensus about internationalization. Such a consensus was forged in the context of European integration, a goal shared by political parties, labor unions, and other social forces of the left, center, and moderate right (Álvarez-Miranda 1996; Guillén 1997, forthcoming). Spain can boast high exports of both cars and components because its social organization has been conducive to the arrival of foreign multinationals, which would compete among themselves for skilled workers, component supplies, and the domestic and international market share.

As we discuss below, Argentina is also characterized by deeply entrenched interest groups. Internationalization, however, has not yet proved to be a viable solution there because the pervasive influence of populist attitudes legitimized a different set of actors and relationships among those actors.

**Argentina: Populism and Backwardness**

The auto industry in Argentina is only beginning to change as a result of economic liberalization and integration with Brazil since the late 1980s. Currently, the assembly sector includes Volkswagen, CIAM (Renault), Sevel (Peugeot), Ford, General Motors, Fiat, and Toyota. Total output reached a record high of just over 300,000 autos in 1994, declined to 225,000 in 1995 as a result of the recession, and recovered to reach 270,000 in 1996, only to fall again in 1998. Exports are small but growing (Auto-Revista 1997; Nofal 1989).

As in the other three countries studied here, the first high-volume assembly operations were established some 40 years ago when the state erected high protectionist
walls and introduced import-substitution incentives for both assembled autos and parts. As in Taiwan, the state allowed as many as 21 different assemblers to operate, frequently in joint ventures between large local business groups and a foreign automotive company. Their production costs were four times as high as in the United States or Europe; output per worker averaged three vehicles a year. The 13 principal assemblers made as many as 68 models during the 1960s, and shared a total market never exceeding 200,000 units (Nofal 1989).

The developmentalist state of the 1960s made a critical mistake that proved devastating to the auto components sector. Over a mere five years, local content requirements were raised from 55 percent to 90 to 95 percent. This import-substitution policy was established without the recognition that Argentina—unlike Taiwan or Spain—had no local firms able to serve as auto parts suppliers. Thus the government’s impatience forced assemblers to integrate vertically, even into areas such as forging, castings, axles, transmissions, and suspensions; sometimes they acquired local firms. By 1972, over half of auto parts production was controlled by foreign capital (Bisang, Burachik, and Katz 1995: 248; Dorfman 1983:200–201; Montero 1996: 34; Nofal 1989; Sourrouille 1980:158–67). Later the government provided incentives to encourage auto components production and exports, but they tended to benefit the vertically integrated assemblers rather than the small and medium-sized firms (Nofal 1989: 167–97). Thus the Argentine auto components sector has never been internationally competitive.

After peaking in 1973 at 293,000 units, auto assembly declined until the early 1990s to annual volumes as low as 100,000. This trend was exacerbated between 1979 and 1982, when the military dictatorship experimented with a set of mutually inconsistent neoliberal policies at industry and macroeconomic levels. The juntas reduced both local content requirements and tariffs on assembled cars (the outright prohibition of imports had been lifted in 1976). The combination of an overvalued currency and freer trade, however, made it impossible for domestic producers to compete. Moreover, the attempt to stabilize the economy by cutting domestic demand was especially damaging to the inward-looking auto industry (Nofal 1989:216–17). Disillusioned by stagnant demand and political turmoil, GM left Argentina in 1978; Citroën and Chrysler exited in 1979. The state-owned firm (IME) abandoned auto production a year later. Neoliberalism had cut automotive-related employment and output by 25 percent, while the trade deficit skyrocketed. The incipient exports of components or finished autos dwindled (Montero 1996; Nofal 1989). Thus the import-substitution policy of the 1960s and the neoliberal program of the late 1970s contained the same error: ignoring the strengths and weaknesses in the underlying industrial structure. In both cases, the government encouraged the development of an inefficient and inward-looking auto industry.

The 1990s have witnessed a rapid transformation. Trade liberalization in the context of the Mercosur customs union with Brazil has produced more international specialization and integration, a trend that was initiated in 1988 with the Argentina-Brazil Automotive Free Trade Agreement. Currently, the auto components sector is highly fragmented for the size of the industry: It includes 400 firms and 35,700 employees, and contributes a mere .45 percent to GDP. Exports account for 16 percent of the industry’s output, but they represent only 4.4 percent of total Argentine exports. Trade with Brazil in autos and components has increased quickly since the creation of Mercosur. The seven existing assemblers dominate this trade, however, because they are required to balance their imports of components with exports if they want to avoid tariffs. Small and medium-sized components companies are not active exporters (Auto-Revista 1997). Therefore it appears that the mistake made in the 1960s and the 1970s is being repeated.

In spite of liberalization, the Argentine economy is still suffering from a lack of export-capable firms (Toulan and Guillén 1997). The populist policies of many of Argentina’s 45 economy ministers over the last 50 years were anchored deeply in widely held social and political myths. Many Argentineans believed that their country was inherently rich, and that labor and business did not need to exert themselves in the global economy in order to prosper. Populism led to
numerous regulations aimed at promoting a false sense of security and at keeping interest groups satisfied. Such policies undermined efforts geared toward making Argentina into an export platform linked to the global economy. The distrust of foreign multinationals runs so deep that a Spanish-type solution to the rigidities of corporatism has not been found easily in Argentina. In fact, until recently the attempts to bring in foreign investment have proved counterproductive because significant segments of the business community and the labor movement regarded foreign multinationals as “illegitimate” actors (Guillén forthcoming). As a result, foreign multinationals came in halfheartedly, teamed up with local partners to reduce risks, and hardly competed against each other. Although this populist social organization of the economy is changing, the auto assembly and components industries in Argentina have not yet recovered from its influence.

Lessons for Development

These four case studies suggest the importance of historically developed institutional factors in shaping—though not necessarily limiting—economic growth, as summarized in Table 3. At various points, the four states experimented with import-substitution and export-oriented policies, drawing on different mixes of modernization, dependency, world-system, or free-market models and prescriptions. The policies interacted with existing categories of actors and relationships in unexpected ways, rendering state action partially ineffective. Ultimately each country gravitated toward a link to the global economy consistent with the strengths and weaknesses embedded in its social organization, although only after partially destroying or disabling some of the resources rooted in that organization.

In Korea and Spain the emphasis had shifted from import substitution to exports by the late 1970s, but without allowing for full development of an indigenous auto components sector. By creating new patterns of industrialization without considering preexisting ones, those states thwarted possibilities for innovation and growth by existing local firms. Thus state policies benefited large business groups at the expense of small and medium-sized suppliers in Korea, and favored state-owned or foreign firms to the detriment of local entrepreneurs in Spain. The three major passenger car assemblers in Korea integrated vertically on the basis of state protection, subsidized credit, and duty-free imports of certain components, a move that impeded the development of an innovative components sector. When incentives shifted toward exports, the only viable component-supply strategy for the chaebol was to continue building vertical, exclusive relationships with tightly controlled firms.

In Spain, an autonomous state twice assumed that domestic entrepreneurs were unprepared, unsuitable, or hopeless prospects, first in the 1950s and then in the 1980s. State technocrats thought that the traditionalism of local private entrepreneurs rendered them incapable of succeeding in the automobile industry. This assumption—combined with an entrenched corporatist system—left only one feasible alternative in the long run: recourse to massive foreign investment. Liberalization of trade and freedom of establishment during the industrial crises of the 1970s forced many local auto suppliers into bankruptcy, paving the way for foreign multinationals in both assembly and components to make the country into an export platform for subcompact cars. In contrast to the situation in Argentina, however, the arrival of foreign multinationals was tied to export incentives and competitive relationships between parts suppliers and assemblers in a European market undergoing integration.

In Taiwan and Argentina the state allowed the proliferation of small-scale auto assemblers, protected them with steep tariffs, and did not encourage export-oriented growth. In Argentina the scarcity of entrepreneurial activities created an inefficient pattern of backward vertical integration into auto parts. In Taiwan the extreme vitality of a family-firm sector barely linked to the state transformed the country into an important exporter of a variety of auto components, regardless of the fortunes of the assembly sector. Clearly, similar sets of import-substitution policies in Argentina and in Taiwan produced thoroughly dissimilar results in component manufacturing because of the differing characteristics of their small-firm sectors. Ultimately, however, auto assemblers in both
Table 3. The Development of the Auto Assembly and Components Industries in Four Emerging Countries

<table>
<thead>
<tr>
<th>Variable</th>
<th>South Korea</th>
<th>Taiwan</th>
<th>Spain</th>
<th>Argentina</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Auto Assembly</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Volume</td>
<td>High</td>
<td>Low</td>
<td>High</td>
<td>Low</td>
</tr>
<tr>
<td>Exports</td>
<td>High</td>
<td>Low</td>
<td>High</td>
<td>Low</td>
</tr>
<tr>
<td>Foreign markets</td>
<td>USA, LDCs</td>
<td>None</td>
<td>Europe</td>
<td>Mercosur</td>
</tr>
<tr>
<td>Ownership</td>
<td>Domestic</td>
<td>Mixed</td>
<td>Foreign</td>
<td>Mixed</td>
</tr>
<tr>
<td><strong>Auto Parts</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Volume</td>
<td>High</td>
<td>High</td>
<td>High</td>
<td>Low</td>
</tr>
<tr>
<td>Exports</td>
<td>Low</td>
<td>High</td>
<td>High</td>
<td>Low</td>
</tr>
<tr>
<td>Foreign markets</td>
<td>None</td>
<td>USA, Japan, Europe</td>
<td>Europe, USA, Latin America</td>
<td>Brazil (Mercosur balanced trade)</td>
</tr>
<tr>
<td>Ownership</td>
<td>Domestic, some foreign</td>
<td>Domestic</td>
<td>Foreign, some domestic</td>
<td>Domestic, increasingly foreign</td>
</tr>
<tr>
<td><strong>Institutional Context</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>State policies</td>
<td>Focus on final assembly for domestic market (pre-1980), and for export (post-1980); belated encouragement of domestic component manufacturing</td>
<td>Support of upstream supply of materials; failed attempts to develop auto assembly for domestic market</td>
<td>Distrust of private local initiatives; attraction of export-oriented MNEs since 1970s; promotion of supply links</td>
<td>Focus on final assembly for domestic market; import substitution; non-competitive, balanced-trade arrangements with Brazil</td>
</tr>
<tr>
<td>Legitimate categories of actors</td>
<td>Large chaebol</td>
<td>Small family businesses</td>
<td>Foreign MNEs, local families, worker coops</td>
<td>Business groups and local families, foreign MNEs</td>
</tr>
<tr>
<td>Legitimate relationships</td>
<td>Vertical, competitive, exclusive</td>
<td>Horizontal, cooperative, flexible</td>
<td>Competitive, cross-border</td>
<td>Noncompetitive, domestic</td>
</tr>
<tr>
<td>Underlying social organization logic</td>
<td>Institutionalized patrimonialism</td>
<td>Flexible networks</td>
<td>Corporatism cum international</td>
<td>Corporatism cum populism</td>
</tr>
</tbody>
</table>

countries were inefficient because neither Taiwan’s nor Argentina’s social organization could make good the policies promoted by the government.

Both Korea’s social pattern of patrimonialism (Biggart 1990) and Argentina’s populism (Guillén 1997, forthcoming) have made it very difficult for small and medium-sized firms to succeed in auto components. By contrast, Taiwan’s flexible networks (Hamilton and Biggart 1988) and Spain’s internationalism (Guillén 1997, forthcoming) enabled the rise of competitive components manufacturers, although with different characteristics. Thus, although no single pattern of social organization is absolutely necessary for achieving development in a particular industry, not all patterns make success possible. As shown in Table 3, different categories of social actors and different relationships between actors have produced different links of each country’s assembly and components industries to the global economy. No single critical factor accounts for the successes, and the absence of no single factor explains the failures.

**CONCLUSION: TOWARD AN INSTITUTIONAL THEORY OF DEVELOPMENT**

Our discussion of the comparative organization and management literature suggests that development scholarship, in looking at the “autonomy and capacity” of key actors such
as states or elites, or at economic arrangements such as “perfect” markets, may be seeking illusory causal factors in development success. Recent research on organization and management, we believe, suggests that this is both an impossible and a wrong-headed approach to understanding economic development and performance. Rather, institutional theory proposes that social and economic organization is informed by historically developed logics, which are changed only with difficulty. Institutional blueprints guide which actors are constituted as legitimate economic participants, and how they relate to each other as well as to the state. States also are a product of history and may have different legitimate roles in economic decision making across societies. Institutionalized differences may become the very source of economic advantage, as various resources allow countries and firms to follow various pursuits in the global economy. Identifying such differences is the key to understanding how countries find their place in the global economy by using their unique capabilities as leverage.

In our institutional perspective on development, we argue three main points. First, economies are organized institutional arenas. Their organizing logics create a framework for meaningful economic action at the level of individual actors, firms, interfirm networks, and business-state relations. These logics are historically developed, causally complex, and difficult to change in fundamental ways. Thus, big private firms with close ties to the state became the rule in Korea, as did networks of small firms in Taiwan, foreign multinationals linked to international technology and marketing channels in Spain, and inward-looking coalitions of foreign multinationals and domestic business groups in Argentina.

Second, the internal coherence of such organizing logics limits countries’ abilities to copy each other’s development strategies, at least at the level of organization. Try as it might, Korea could not emulate Taiwan’s success in demand-responsive auto components manufacturing; that achievement was built on the flexibility of networks of family firms. Conversely, Taiwan was unable to replicate Korea’s large assembly operations. Argentina, unlike Spain, so far has found it difficult to thrive on the basis of foreign investment, given the populist ideology prevailing there.

Third, the social organization of the economy affects patterns of success in the global marketplace because it acts as a repository of useful resources or capabilities. Social organization influences a country’s ability to produce efficiently and effectively certain types of goods—for example, mass-produced versus customized, or capital-intensive versus knowledge-intensive. Production systems are fundamentally social technologies: Social patterns may promote or constrain the ability to innovate and to be a leader in new products and processes. Social structures that enable actors to forge interpersonal, interfirm, and other types of alliances domestically (as in Taiwan) or to establish alliances with partners outside their own institutional arena (as in Spain) are more likely to succeed in demand-driven activities such as auto component manufacturing, which depend on the ability to respond and adapt flexibly to changing market circumstances. Other types of social structures may make such flexible links difficult to establish or sustain, but instead may promote producer-driven relationships to the global economy. The large Korean business groups, for example, are highly adept at mobilizing huge amounts of capital and labor, which are required for success in large-scale auto assembly.

Economic success, once achieved, is not to be taken for granted. Markets and opportunities change, and past sources of success may become liabilities in the future. For example, the global consolidation of automobile assembly in the late 1990s poses a challenge to Taiwan’s small and medium-sized components manufacturers. Large assemblers prefer components manufacturers to provide parts and subassemblies wherever in the world they produce cars; this preference has prompted a wave of mergers between components companies. Taiwan’s small firms will find it difficult to participate in original equipment manufacture, and will remain confined to the aftermarket, if they cannot organize for global manufacture and distribution.

Our primary intent has been to critique previous theories of development and to gen-
erate renewed interest in them. An institutional perspective on development includes, with modernization theory, the assumption that values or ideologies are of central importance as explanatory variables. Such a perspective differs from modernization theory, however, in rejecting the proposition that countries must make a transition from traditionalism to modernity as a precondition for development. Dependency theory and world-system analysis call attention to the inequality of structural relationships between advanced and underdeveloped countries. In an institutional perspective, however, it is not assumed that global power structures necessarily stand in the way of development. Nor is it assumed that an autonomous and capable state can resolve underdevelopment with an abstractly ideal solution such as import substitution. Finally, free market approaches to development contribute a set of ideas about economic fundamentals in the global economy to which countries must attend, but proposes nothing except a “one-size-fits-all” set of universal prescriptions specifying how to organize the economy.

Our institutional perspective differs most importantly from other development theories in one respect: Whereas previous approaches viewed differences in social organization as obstacles or constraints, we regard them as the very engine of development. Countries are socially organized to do some things better than others, which may become a source of comparative advantage. Development theories and practices that act against such institutional logics frustrate genuine entrepreneurial initiatives. If development policies imposed from above by elites, by the state, or by international agencies disregard the society’s organizational arrangements and capabilities, outcomes may not build on existing strengths. Indeed, development policies insensitive to institutional resources may even eradicate the social bases of a country’s comparative advantage in the world economy. Our four case studies of automobile assembly and component manufacturing illustrate that successful development occurs in keeping with underlying patterns of social organization, not in spite of them or at their expense. Development is about finding a place in the global economy, not about convergence or the suppression of difference.

Nicole Woolsey Biggart is Professor of Management and Sociology at the University of California, Davis. She is interested in nonrational forms of organizing and in the social bases of economic organization. Currently she is conducting research on ethical commitments and consumption. She is the author of Charismatic Capitalism: Direct Selling Organizations in America (University of Chicago Press, 1989), and, with Marco Orrù and Gary Hamilton, The Economic Organization of East Asian Capitalism (Sage, 1997).

Mauro F. Guillén is Assistant Professor of Management and Sociology at the Wharton School of the University of Pennsylvania, and a visiting member at the Institute for Advanced Study in Princeton, New Jersey. His research interests include the comparative study of managerial ideologies and the impact of globalization on organizations, especially in Southern Europe, East Asia and Latin America. He is the author of Models of Management: Work, Authority, and Organization in a Comparative Perspective (University of Chicago Press, 1994), and is a Guggenheim Fellow for 1998–1999.

REFERENCES
—. 1987. “Asociación Española de Fabricantes de Equipos y Componentes para Automoción 1967–1987” (Spanish Association of


Management, Massachusetts Institute of Technology, Cambridge, MA.


