Introduction

Developing countries are under constant pressure to improve economic conditions and generate sources of employment. To achieve these goals, the mantra has traditionally been to engage in global production. To this end domestic political economies carry out institutional reforms in order to attract foreign capital. This paper argues that any institutional reformulation must contemplate a two-track strategy instead of a single one. This is, the economy must be restructured to attract foreign direct investment (FDI), but it must also seek to develop domestic capacities independently to engage local capital, particularly in high value stages. Thus new comprehensive industrial policy should interweave new institutions.

However, the current set of ideas about globalization and how it works is dominated by the premise that economic institutions should aim to insert national economies (or sub-regions) into certain stages of production and specialize. Developing countries are often targeted at the extractive and labor intensive stages, thus influencing the reforms to develop as functional nodes of the global capitalist network.

A key concept of current globalization and institutional change discourse is that of global value and production chains and networks (GV&PC). The GV&PC is used to describe the capitalist system as composed of geographically-separated units of production with several globally-operated coordination mechanisms. There is certain agreement that in the current globalization era and the fragmentation of production as the best way to extract the benefits of global production, it is nearly to impossible or certainly inconvenient that one firm or conglomerate try to control the whole chain of production. But, is this necessarily the case? Related literature increasingly considers GV&PC as conduits of globalization, but these core ideas have gone unchallenged as far as their consequences in economic development policies and institutions (like inequality and relegation of local capital) and in terms of governance structures.

My proposal is to challenge the idea that insertion to GV&PC is the only feasible way to engage in globalization. The task is twofold: First, to show the power of the idea that GV&PC has on institutional
redesign and, second, review the correlation between FDI via GV&PC and domestic economic growth, value added upgrading, and formation of local capital. Southeast Asia and Latina America will be the initial case studies carried out here.

**Institutions, Development and Globalization**

As it is well acknowledged in the literature, the process of globalization is multidimensional, involving economic, social and political spheres. However, institutional issues are often taken for granted and receive rather implicit attention as part of the context or landscape. In the economic sphere, the main focus is often placed on investment banks, financial firms and transnational corporations (TNCs) as driving forces of globalization and changers of international regimes (trade and investment), as well as agents that influence domestic institutional arrangements where they operate. Here I am interested in achieving a better understanding of the role that TNCs companies play in the process of institutional change and the sort of responses they produce in terms of domestic institutional reforms; I also propose a critical view of the idea that current global production is segmented in network and modular fashion, and that developing economies have no choice but to adjust to it, meaning to open specific sectors and provide all kinds of institutional and policy incentives.

My initial assumption is that when production turns global and comprehensive, whether in chain or network-based fashion, the business competition hinders cooperation in key knowledge-based nodes and activities along the regional production chains/networks, despite available potential complementarities to improve competitive advantages on a global and regional scale. In other words, as technology is strategic for competition, key research and development is not outsourced, but remains in the reign of the leading firms.

Besides, the typical institutional and policy incentives of developing countries to attract FDI *do not explicitly demand* technology transfer and are often benevolent in repatriation of revenues, thinking that otherwise would risk to fail being recipients of much desired foreign capital. However, despite such institutional framework, the role of developing economies has been to engage in resource-based complementarities (natural and human), with little room for involvement of local suppliers in higher tiers, which are often technology-intensive sectors. Institutional changes in developing countries target FDI to establish on this segment of production with the alleged hope that technology would naturally flow or local learning and appropriation would eventually occur; put differently, regardless the segment of production process that developing countries engage, it would create demand incentives to improve
recipients’ capabilities and eventually economic growth due to potential involvement of local firms. Neither of these happens in reality, at least in the scale that would signify a substantial qualitative technological upgrade, as point out the literature addressing these issues.

Some authors argue that since higher tiers of the production process require adequate human capital for host economies to be attractive, developing countries would hardly get any of that. Therefore, they must pursue extensive education and training programs to at least compete with more advanced second tier economies (Miyamoto 2008). However, it is rather difficult to achieve massive education and training in high-tech standards in a quick speed with market incentives or social encouragement alone. The role of the state is therefore essential.

East Asian countries have done the above for the last 50 years. Southeast Asia is struggling catching up following such a path, but Latin America is still lagging behind. Why is that so? What are the institutional conditions that make the difference between equality and sustainability against inequality and dependence, which are major figures contrasting both regions? Are regional development policies (within national economies) adequate responses for long term growth, equity, and sustainability? Are expectations towards TNCs and capturing nodes of global production networks realistic given the empirical evidence?

First of all, I think we must start with the last question and reset expectations towards TNCs and nodes in global production networks. I do not mean to deny their importance and potential contribution to developing economies, but transnational capital alone does not produce economic growth, nor articulate local industrial actors, nor educate people for autonomic technological upgrading. These are domestic tasks for which an institutional framework must be established with the explicit purpose to extract those benefits from global forces. If left unchecked, TNCs produce inequality because of their narrow focus on seizing benefits in efficiency, resources or market access from the host economy. TNCs do not eliminate inequality because they tend to exploit the benefits of industrial or technological clusters and agglomeration economies, which not only produces territorial but also social imbalances. So, instead that TNCs and GV&PCs contribute to reduce income gaps, it seems they do widen them by creating two tracks (speeds) economies, like in Mexico (Bolio, et al. 2014). Therefore, the challenge for the state would be to articulate clusters institutionally with regulation aimed at linking local suppliers to the production networks or chains. And if there is no local supplier in high tiers, then they should be fostered as private, public or mixed projects, like Korea did in the 1960s and 1970s. As East Asian economies have shown it is possible but it comes with a mounting effort to upgrade human and
technological capabilities and a sense of economic nationalism to keep the pace. So, East Asia shows there is a way, although it may need more than a will. Clearly a rational choice approach is at present, but a political economy methodology should be followed in considering tensions between power, state autonomy, and institutional development.

Second, perhaps we must revisit the concepts of global production and value networks and evaluate if these ways of production are not only more efficient marketwise, but if they contribute to economic integration and socioeconomic improvement (i.e., ascend economic ladder in terms of income and environmentally sustainable way). GV&PCs are often conceived as concrete manifestations of current international capitalism. Whether production chains or networks, they are forms to organize the geographic dispersion of production, distribution and inter sectoral relationships in which one or more segments of the production process are performed outside the national territory of the main coordination firm. As organizational forms, both seek to direct the productive process and control value added segments (Gibbon, et al. 2008). It is worth to notice differences between both forms, particularly those related with control, governance, and decision making mechanisms. On the one hand, the so called “chains” entail holding-like centralized and relatively linear and hierarchical governance, based on property relationships on each “link”. The chain-like organization refers to the control and coordination of exchanges in each stage of production and it only seeks in the open market those components and goods considered standard. On the other hand, although there are several types of networks (Carney 2005; Gereffi, et al. 2005), a common feature is the flexibility given by preferring subcontracting instead of ownership for organizing and controlling production.

Either chains or networks, both governance forms are composed of pieces of a complex process that have to be entwined together, and it has necessarily a territorial component. Therefore, GV&PCs act as agents that link global and territorial economies, but they do so segmenting technology and production. Following such trend, some governments in developing countries have established differentiated institutional configurations with all sorts of incentives –such as special economic zones and clusters with specialized physical infrastructure– in certain provinces or districts hoping to host some of those segments, create micro economic systems around them so local producers could take part of spillovers that nurture regional development. This makes sense to a purely managerial and economics’ standpoint, but not to a political economy perspective. This is so because the fragmentation and specialization may hamper comprehensive knowledge of the production process, thus hindering prospects of adding sources of wealth, innovation and control.
Empirical studies show that local firms can be upstream and downstream suppliers in global networks providing they show reliable capabilities and compatible technologies (Carluccio and Fally 2010). Other authors show that high-tech segments of the production process would go where human capital is well developed (Miyamoto 2009). So, there is room for taking advantage of GV&PCs, but also room for institutional incentives and support to place domestic companies in a better position in the long run. However, an industrial policy designed only to engage segments of production chains will fail to escape from the specialization trap particularly in generic segments of production, like manufacturing and assembling, or even in a single technology intensive component (e.g., semiconductors). This self-imposed limitation—reinforced by setting up special economic zones and clusters—will ultimately lead to an overall dependency and exposure to severe price fluctuations if it’s not coupled with a nationwide industrial policy that articulates regions and master several stages and technologies. Alternatively, an integral industrial policy may be established to avoid the negative impact of such segmentation by articulating a comprehensive institutional approach covering education, financial and trade policies. Such an approach should aim at least to enable potential participation of local firms (new or created with that purpose) on a larger length of the production process. Industrial policy need to foster technological and managerial learning capabilities, but also select strategically not only segments of the process but various economic sectors and industries with strong and wide positive spillover effects.

Another issue regarding the notion of GV&PCs is the myth that domestic political economies cannot set social commitments apart from the so-called corporate responsibility, mainly because of the faceless nature of such governance structures. By reviewing the organizational characteristics of global networks, one may find that these are not just an open market manifestations of loosely attached units of production and services, but are coordinated by hierarchies and can be quite closed and nationally oriented (Debaere, et al. 2009; López Aymes and Salas-Porras 2012). There is no such thing as a pure global network; the internationalized production process still has stages that operate as regular production chains, often involving ownership relationships of affiliates or subsidiaries, or some sort of relational contracting. Central or leading firms are always behind coordination (either in chain or network-style segments) and they set goals from the beginning to the end. So, dealing with globalization forces is not only interacting with impersonal networks, but with cliques that hold strategies, discourses and financial means that are mobilized accordingly. This has been the case of East Asian TNCs since quite a while ago (Borrus, et al. 2000).
Third, a political economy perspective of institutional development in globalization must analyze the dilemma of accommodating national policies and regulation to global networks’ needs and interests or rather to target national interest by trying to secure economic wealth with a degree of autonomy. In order to achieve the former, developing countries must assess their advantages, present or potential. Hence, we also need to revisit concepts of comparative advantages and conceive them as dynamic, just as East Asian countries did. In the current state of TNCs domination and monopolization of knowledge, dynamism towards technological upgrade would not be a natural consequence of allowing segments of a production process to be established in any given country or region within.

What is the role of institutions in linking global production to national interest? Is the debate on institutions that govern the market still relevant? At this point we cannot escape the question that if international relations are currently not about interactions between and among states, but between and among transnational non-state actors (i.e. capital and other major political agents), does it mean that globalization and the capital organized in global value/production chains or networks make debate on industrial policy and state autonomy in foreign economic policy meaningless?

I think the debate is not meaningless, especially in the light of mounting evidence that inequalities widen and the market alone does not provide answers to remedy the problem. But still remains the question of how an industrial policy for globalization should (institutionally) look like, what should their goals and instruments be, and how to deal with global networks as described? Industrial policy is an institutional figure not only to establish constraints and commitments to global networks and their leading firms, who will naturally fill the gap of suppliers with their own trusted partners, but also to integrate public policies to fill the gap with domestic suppliers, and eventually create leading firms. How much GV&PCs rely on local suppliers and local support industries depends on each case and the strategic industrial policy, as well as science and technology policies pursued by host countries. For example, Korea and Japan were able to direct capitalism institutionally in part by curbing foreign companies with a strong grip on foreign investment regimes (López Ayymes 2015) and also by the synergies that industrial policies created on firms’ abilities to take advantage of foreign companies operations at home (Castley 1997). In contrast, current foreign investment policies in Mexico do not place any property requirement or joint venture conditionality, except for few sectors. As a result, leader companies of global networks are not compelled to integrate domestic firms so their traditional suppliers are to remain in the first- and second- tiers, leaving local companies to perform a marginal role in generic and low-end components. This means that any possible learning and technological
upgrade from potential suppliers have to be acquired with domestic firms’ own financial and human resources, which makes any aspiration for higher status and revenues quite challenging.

As Castley points out, Korean joint ventures with Japanese firms “were mainly responsible for the initial development of several (Korean) industries. Samsung Electronics, for example, started as a joint-venture with Sanyo in 1969 and later formed other joint-ventures with Japanese companies (Sony, NEC, JVC, Toshiba Sumitomo) to manufacture electronic consumer goods and components” (Castley 1996: 37). The relationships of Japanese electronics firms with Korean suppliers evolved to the point of allowing Korean firms to reach the Original Equipment Manufacturing (OEM) status for labor intensive products, giving companies some room vis-a-vis- foreign clients.

Who has taken best advantage of the current fragmentation of production and services? Production networks in the South are concentrated in East and Southeast Asia, whereas Latin America’s participation in these networks has been quite limited so far (CEPAL 2013: 52). The influence of Japanese, Korean and Chinese networks is apparent. These formations are constructed in order to build competitive advantage at the level of the firm, the country and the region. This means that networks tend to be highly stratified and are designed to contain competitive pressures from other firms in global competition. For instance, Dieter Ernst (1994) considers Japanese firms as “carriers of regionalization”, shaping the Asia’s patterns of specialization (particularly in electronics) and structural changes as the region becomes an extension of Japan’s export base.

Taking into account Grossman and Helpman’s (1992) approach who view innovation as a deliberate outgrowth of investments in industrial research by forward-looking, profit-seeking agents, it makes sense that as networks involve greater knowledge content, cooperation becomes more difficult; firms with a technological, knowledge-based edge prefer to form alliances with firms and countries not representing a threat in terms of the markets and positions they are competing for. In this process, although supply procurement gradually opened up for non-Japanese or non-Korean affiliates, control over core technologies and components has been a constant strategic advantage within these Asian business networks, which are rather intra-firm or intra-group networks (Ernst 1994: 10-12; López Aymes and Salas-Porras 2012; McNamara 2009). This means a network buttressed by some sort of nationalistic behavior, what I call global-national networks. This characterization can also be found in Korean TNCs as they integrate supply, production, knowledge, and customer service units into networks of global and regional scope but at the same time they remain profoundly linked with national origins in terms of ownership, supplies, and suppliers.
Variation in firm’s strategic choices, production networks and ownership

Literature on business networks and their relevance for production and innovation is already vast. The shapes and characteristics of GV&PCs by industry and nationality have been revised by scholars from several fields, including organizational and management to political economy and geography (Carney, et al. 2009; Ernst 2009; Gereffi, et al. 2005). The cases studied indicate that networks are established to tap local advantages in human resources and infrastructure, but also that technological know-how “remains to a substantial degree national and local” (Borrus, et al. 2000: 11).

Technology development has profound implications for the survival of firms, so acquisition and dissemination of knowledge is as important. Therefore, although knowledge networks have proliferated geographically in hubs and players have diversified, core knowledge and technologies are still very much dominated by United States, Europe and Japan (Ernst 2009). Thus, the challenge many developing countries are facing is how to develop absorptive capacities through learning, increasing R&D, and pursuing technology diversification to try to climb up the technology ladder. China and Korea, and to some extent Singapore and Malaysia have been somewhat successful in catching up, but it has been a policy-oriented rather than a market-driven process (Ernst 2009, 2011; Sun, et al. 2007; Zhou and Xin 2003).

Whether or not technology leadership is tantamount to success in global competition at the country and firm levels, it is certainly a major concern because lagging substantially behind may have lasting dependency implications, both for firms and countries. Hence the commitment to national development priorities will make the difference between being able to join global networks in higher or lower stages of the production process. However, stopping at aspiring to join global networks in high-technology and high-value stages may only bring limited advantages to overall national development and economic growth. This is due to a quick review of how GV&PCs work. Dennis McNamara (2009) raises a relevant question about how much the national interests thwart cooperation in innovation, although many components that may not be found within national borders or within the organizational boundaries of firms and R&D centers. This points to an old concern of trust and the negative potential of opportunism (Nooteboom 1996), which is always justified in terms of national progress and, consequently a concern for intellectual property.

So, we must have reserves of how much to depend on GV&PCs as the only way to engage with global production, accede to technology and foster economic growth. Technology transfer within networks
only occurs in certain stages and levels of the organization. Southeast Asia seems to be thriving in catching up and the region also shows a multiplicity of cases of industrial and regional developmentalism, which implies the involvement of governments in productive processes following typical economic nationalism goals: to develop their own industrial base.

**Industrial and trade policies in South East Asia**

Southeast Asia is clearly a strategic zone in several ways, but mainly as a source of natural resources and as mega intersection between Asia, America and Europe. However, peoples in the region have not always being able to establish their insertion in the different worlds’ orders on their own terms. More recently, along the postwar independence movements several internal pressures towards indigenization of property of natural resources gradually reduced foreign intervention; nevertheless, soon after foreign agents were driven out, they refocused their interest on the control of manufacturing, transport and financial services, which were even more profitable (Dixon 1991). As power centralization of the new developmentalist elites was consolidating, economic nationalism turned its aim towards industrialization, which meant to develop and control economic sectors on their own.

With recent examples in Northeast Asia, such as Korea and Taiwan, a new confidence was built and a pathway was shown to Southeast Asian governments. It meant a realistic possibility of creating new comparative advantages to revert old colonial linkages without abandoning capitalism.

The industrialization strategy in Southeast Asia was initially promoted as import substitution (ISI). Therefore, early economic policies were rather protectionist. Although ISI was common in early stages of industrialization in the 1960s and 1970s, export promotion strategies were also implemented, but with some variation in timing throughout the region. For instance, Singapore stands out by dropping out ISI and focus on exports and international financial services, while Thailand prolonged ISI far longer until late 1980s.

At the beginning, protectionism and inadequate physical infrastructure, as well as scarcity of qualified human capital and weak legal systems (including property rights protection) were factors against attracting foreign firms to the region when Southeast Asian governments wanted to bring foreign capital in. Industrialization thus advanced slowly, along piecemeal reforms on investment and property regimes trying to balance nationalistic concerns with technology acquisition and economic growth. Almost since the commencement of independence in 1965, Singapore started to shift towards an open market economy, followed nearly two decades later by Malaysia, Thailand, and The Philippines;
Indonesia, Vietnam, and Burma were next (Dent 2003; Dick 2005; Ofreneo 2008). After several reforms, intraregional trade grew significantly, especially intra-firm and intra-industry trade of semi-processed goods, which had the lowest tariffs (WTO 2011).

A key factor in the Southeast Asia integration process and its linkages to the wider regional economy is the growing importance of China, especially since it started its industrialization in late 1970s and early 1980s. China quickly joined the regional production chains, which somewhat put smaller Southeast Asian countries in competitive disadvantage if they kept economically and politically fragmented (Wong and Chan 2002). In such a context, the members of ASEAN decided to strengthen their economic institutional framework through a regional trade and services agreement in 1992. Later on, especially after the 1997 economic crisis, ASEAN developed separate linkages with China, Japan and South Korea (ASEAN+3), which has contributed to financial stability, but also to standardize criteria on economic exchanges and counterbalance regional economic powers (Mahbubani 2014; Wong and Chan 2002; Yue 2005).

**Organization and regional institutional framework**

The growing regional importance of Southeast Asia has been recognized by the neighbor countries and the grouping has taken advantage of the rules and external rivalries by collectively extract commitments (Kim 2009; Umbach 2000). Of course, there is competition for attracting foreign capital, which may at times weaken collective action (Pangestu 1990), but in general intraregional cooperation has hung on to a fairly unified position (Tay 2014). This stability has helped the region to become a neuralgic center in the regional production system mainly due to the variety of resources and levels of development, which allows the setting of several stages of production in the area. This characteristics have also been boosted by the strategy to multiply interregional trade and investment agreements to facilitate participation on production chains and networks (Kawai and Wignaraja 2013).

The inclusion of Southeast Asia to international capitalism has gone through several stages; from extractive activities to productive FDI, where Japan has always been a protagonist (Beeson 2001; Ernst 1994; Lim 2008; Ravenhill and Bernard 1995). After the 1985 Plaza Accord, Japanese firms were unquestionably the main source of capital, while trying to accommodate their own networks (Kimura 2006; Tachiki 2004) after the shock. By that time, Southeast Asia industrial base was already ripe to receive productive capital, at least as assembling centers and export platforms. Previous industrial policies and human capital formation enabled such role.
Industrial policies also resulted in the establishment of financial and business centers that were gradually articulated by an ample land, sea and aerial interconnection system, build and upgraded during the developmental catch-up era decades before (Suehiro 2007). In Southeast Asia the majority of the industrial development was mainly in urban areas, thus creating the so-called “regional urban corridors” or “city networks” (Dick 2005), led by Singapore. Although Singapore and Hong Kong have been historically nodes of international and regional business networks, each Southeast Asia government has tried to develop their own connections to attract productive activities (Ariff 2008; Techakanont 2011). This has been done by the very notion of dynamic comparative and competitive advantages to make the best of geographic characteristics and institutional qualities. Most nodes are situated chiefly in capital cities such as Kuala Lumpur, Bangkok, or Jakarta and their metropolitan zones, being exports their main role.

The concentration of economic activities and localization of national and foreign companies in large cities respond to the logic of agglomeration to exploit competitive advantages such as closeness and accessibility to resources and factor endowments. This contributes to the formation of scale economies. In theory, these conditions should become incentives to attract financial and human capital (both foreign and national), thus reproducing and strengthening local advantages. However, such advantages and accumulation of wealth have not reproduced in the same pace in distant areas from capital-cities. This shows that spread of technology and wealth is not automatic, notwithstanding information and communication technologies available. This is so because the well-established infrastructure that connects the economic system in Southeast Asia is rather built for export activities, so a local economy that is not engaged to global trade could be “farther away” from its very capital-city than two physically distant capital cities in the region (Dick 2005). This explains the wide differences in income of domestic economies, reinforces rural poverty and limits integration of national firms to global production and value chains. Despite advancement on other areas, Southeast Asia has not escaped from that reality of international capitalism.

It is clear that technical formation and infrastructure are key elements of integration to production networks and chains, but also should be expanded and developed in other minor cities, territories or provinces within states. In this domestic economic integration process, local environmental concerns should not be unattended. Thailand presents an extreme case of the segmentation and polarization problem (Mudambi and Navarra 2002; Sajarattanochote and Poon 2009; Techakanont 2011). Therefore, the challenge of governments regarding public policies and institutional building is to
improve the quality of education and infrastructure, but keeping a developmentalist view to reduce the gaps between marginalized locations produced by global networks.

**Chains and agglomerations**

It is paradoxical that in the current global economy the geographic factor in localization remains relevant despite the advance in transport and communication technologies (Baldwin 2012). This is, if new technologies allow such interconnectivity that transcend geographic barriers, then why TNCs choose specific locations for their several operations and not others (Barry, et al. 2003; Kagami and Tsuji 2003; Rasiah 2008)? Likewise, business concentrations in certain territories are growing and governments still promote especial spaces for their establishment (Porter 1998, 2000). What is more, this phenomena is not exclusive to manufacturing, but also in ITC and knowledge industries (Kagami and Tsuji 2003; Mudambi 2008; Sun, et al. 2007; Zhou and Xin 2003).

Production agglomerations have existed in Southeast Asia for quite a long time (Nguyen 2009), although they were focused on local consumption, with few linkages to the rest of the national economy, and certainly non to international flows. Currently, the challenge has been to connect those centers to a national scale and scope and join larger trade circuits. Besides, it is not only a matter of joining a specific fragment of the process, but incorporate gradually and specialize in higher value added activities with positive spillover effects. There are several origins and forms of agglomeration, but the geographic component is a common base of the definition. In terms of origin, they can be spontaneous (market driven) (Enright 2003; Yeung 2009) or deliberately created to foster local and national development (Balderrama and Chávez 2011; Kagami and Tsuji 2003). In some cases such as Thailand, there is an explicit cluster policy; in Malaysia, the government established five “development corridors”, and in Vietnam, the government designed nine “economic zones” also labeled as “key economic zones” in the context of the “renovation” (doi mới) program that consists on directed modernization and controlled opening. In all cases, the creation of clusters is conceived as an alternative solution to engage the global economy by providing several incentives and facilities to attract FDI.

The characteristics of agglomerations and their links to global networks can vary according to the development trajectories and set of incentives, localization and geographic spread, the foreign linkages and governmental cooperation, coordination mechanisms, as well as domestic competition (UNCTAD 2013). For example, the specialization in electronic equipment in Penang island, Malaysia (Ernst 2004;
Iguchi 2008; Wad 2008); or the Great Bangkok-Chachoengsao-Chonburi-Rayong automotive and electronics corridor (Busser 2008; Cooper 2013; Karibe, et al. 2008; Techakanont 2011), or the light-industry assembly clusters in Vietnam (auto parts, equipment and components, electronics, textiles and shoes). The case of Singapore is special, because of its early focus on trade-related services but also the flourish of high-tech and high-value local firms in electronics, chemicals, and biomedical industries, which were able to become suppliers of leading global firms and later become leaders themselves and develop their own regional networks (Dent 2003; Yeoh, et al. 2007; Yeung 2008).

As mentioned above, Southeast Asian governments implemented policies that deliberately seek to generate industrial development centers. However, implementing such policies did not guarantee their success (Dixon 1991; Ofreneo 2008). Therefore, the relation between local or trans-border industrial clusters and the expansion of global production networks is not clear in all cases.

As Yeung suggests (2008: 83), “global production networks in different industries serve as the critical link that increasingly influences the economic fate and trajectories of development in specific regions and countries.” It is a symbiotic relationship in which national or regional economies could become a node of a larger international economic system, which at the same time can shape the local conditions for its reproduction. This implies that each node would acquire some degree specialization. In the case of East Asia, for the WTO (2011: 4) says that,

> The increasing fragmentation of value chains has led to an increase of trade flows in intermediate goods, especially in the manufacturing sector. In 2009, trade in intermediate goods was the most dynamic sector of international trade, representing more than 50 per cent of non-fuel world merchandise trade. This trade in parts, components and accessories encourages the specialization of different economies, leading to a “trade in tasks” that adds value along the production chain. Specialization is no longer based on the overall balance of comparative advantage of countries in producing a final good, but on the comparative advantage of “tasks” that these countries complete at a specific step along the global value chain.

The challenge is that local producers be in appropriate position to supply the goods and services according to the requirements of leading firms, for which institutional support, as well as financial, technical and human capacities are fundamental. Otherwise, if the leader TNC is simply to take advantage of the locational characteristics, physical infrastructure, or cheap labor, this will restrain itself and the network it coordinates to bring about its own trusted supply network, which often come from the same national origin, so the contribution to economic development would be minimal. This has been well documented for the case of Japanese and Korean TNCs (Belderbos and Carree 2002;
Conclusions

Baldwin (2012) argues that the world economy is currently ruled by the dispersion of stages and not sectors (as it formerly was), so the new path to national industrialization would be by integrating to a “fraction” of the global supply chains, rather than the sponsoring of whole production chains. The main implication of such a trend is specialization and, through that, to focus on national innovation and technological upgrade.

Many governments in developing countries are confident on this assumption, but not all of them have an absolute trust on markets to rule industrialization and technological upgrade. Industrial policy is still necessary to fulfill the expectations of attracting GV&PCs, but it is also clear that the institutional framework elaborated by the industrial policy would entail more than just subsidies, protectionism and public spending. To make the best of GV&PCs, governments must coordinate with economic actors integrated industrial policies that purposely seek control as many links of the production chain or nodes of the network as possible. From a political economy perspective it would be a mistake to specialize in few or a single stage of the process. None of the advanced industrial economies whose companies dominate international trade and investment, the countries of origin of GV&PCs, ever rested on one single role, even those who had transited from periphery to central status of the system.

Industrial policies that cultivate technological and industrial clusters are effective in attracting international capital and become poles or engines of economic growth not only for jobs creation, but also as a gate for potential technology inflows. Furthermore, several studies have identified an increase of participation of local firms in global networks, as well as the increase of learning possibilities and industrial upgrade in Southeast Asia (Chaminade and Vang 2008; Humphreya and Schmitza 2002; Kimura 2006; Mudambi and Navarra 2002)

Nevertheless, we must reconsider if the idea of clusters that entails fragmentation of productive processes and modularization of national economies (Frigant and Lung 2002; Gereffi 2010; Sturgeon 2006) is a desirable solution to engage in the global economy. It could be that hyper specialization as an effect of fragmentation has not so positive consequences in the long run as the reduction of involvement within the productive process to only low valued economic “tasks”.

The argument here is different to the dominant idea that globalization spreads production and that pursuing comprehensive sectoral development is economically unreasonable. According to such perspective, national governments should limit to follow engagement strategies in niches where their countries present comparative advantages. But if governments breed clusters only as magnets to bring about some “tasks” or segments of the productive process, there is a risk of inhibiting the development of capacities that allow knowledge accumulation and dominate other areas and stages of such process, especially those with high technological content and value added. This could be translated to a very limited contribution to the economic and territorial development prospects. Thailand’s automotive industry and Mexico’s electronics and aerospace sectors are good examples of this risk (Busser 2008; Sajarattanochote and Poon 2009).

Certainly, local firms in Southeast Asia have inserted in global chains and networks, but it is necessary to review the quality of such integration and the effects in human capital and technological formation. Especially if the cluster is created only to host foreign firms, it is unlikely that knowledge and technology would be shared to local firms. It is thus necessary that government agency to take place because the market as a source of information and knowledge is not enough. Southeast Asia and Latin America should learn from each other’s paths and mistakes.

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