1 Market transitions, business, and the state in emerging countries

Opening of previously closed markets has never been popular, in spite of its alleged and anticipated benefits for the masses. Notwithstanding this seeming unpopularity, many emerging countries have gone through sweeping market transitions in the last three decades. These transitions have been extremely challenging for both state and society as they have affected interests through the remolding of institutional arrangements at many levels. Pressed by electoral concerns, state actors have had to invest in forming new alliances and sustaining some of the old ones. Outcomes of transitions have mostly depended on the form and content of these alliances with various societal interests. Market transitions brought about higher levels of economic development in some countries than in others, and in some time periods within the same country, too.

The first wave of studies on market reforms associated successful reforms with a central and autonomous authority insulated from societal interests and political pressures. Underlining the key role played by an insulated central authority as pivotal for overcoming collective action problems and distributive conflicts, the literature drew from the examples of early liberalizers and their insulated technocratic teams. The 'Chicago boys' in Chile, '*technoburocratas*' in Mexico, 'change teams' in Egypt and 'princes' in Turkey were pinpointed as examples of technocratic elites who implemented drastic market reforms with little input from business or society. This vein of analysis generally underlined the role of autonomous technocrats and IFIs in market reforms, along with state leadership, while largely disregarding societal actors who would potentially resist the reforms (Nelson 1990; Waterbury 1993). Haggard and Kaufman (1995: 9) argue that the successful initiation of reform depended on rulers who had personal control over economic decision making, a cohesive 'reform team', and the political authority to override bureaucratic and political opposition to policy change. Domestic business, predominantly the industrialists as the main beneficiaries of the previous development strategy, was considered to adapt to the new policies after they were implemented, while its potential influence in policy-making was neglected, or worse, seen as an obstacle to reform (Haggard and Kaufman 1992). Considering societal actors as largely pliant, state-centric models often assumed resistance on the part of business and then emphasized the need to concentrate power by forming an autonomous technocratic team to overcome that resistance to reform.

Such state-centric models of the first wave of the market reform literature have been subject to extensive criticism (Remmer 1998). Building on this critical stance, the second wave of the literature suggests that a subtle balance of government, bureaucracy, and business determine the outcomes of economic liberalization. As opposed to top-down state-centric approaches, this perspective emphasizes the crucial role of societal actors, especially business, and their necessary cooperation in the reform process (Durand and Silva 1998; Thacker 2000; Kingstone 1999; Maxfield and Schneider 1997; Silva 1996). Schneider (1998) asserts that business–state relations determine the variation in economic performance among developing countries, and successful cooperation between the two results in successfully implemented reforms. This newer wave speaks to the literature on developmental states by underscoring the important role of interactions between domestic business and state elites in the reform process.

Mainly drawing from East Asia's 'miraculous' development trajectory, the literature on developmental states emphasizes the importance of state capacity to intervene, control, and orchestrate societal interests, emphasizing the role of 'Weberesque' meritocratic bureaucracy and its close ties with business (Amsden 1989; Deyo 1987; Evans 1995; Johnson 1982; Kohli 2004; Wade 1990). It has shown in detail that the strategic and selective use of protectionism, selective provision of government subsidies, design and implementation of incentives for industrial production and exports, and generation of synergies between industry, finance and the state were all part and parcel of the *good* developmental outcomes between the 1950s and 1990s (Amsden 1989; Akyüz 2005; Chang 1993; Evans 1995; Johnson 1982; Wade 1990; Waldner 1999; Woo-Cummings 1999). In fact, most of these instruments were utilized by many states, including Mexico and Turkey along with MENA countries, a trend which to some extent continued even after the launching of sweeping market reforms in the 1980s. But in most of these countries informal networks between the state and business, which tend to be eulogized in East Asian cases, aggravated patrimonialism and expanded clientelistic networks, rather than bringing about productive synergies.

In fact, earlier approaches to the developmental state were largely contingent to a specific time and context determined by a few players and limited fluidity (Wade 1990: 320), thus they cannot easily be applied to the new dynamics marked by fluidity. The industrial policy of the old regimes can no longer suffice, however selective and strategic it may be, given the increasing weight of services over manufacturing, mobile vs. fixed assets, financial vs. the real sector. The small contingents of coordination between the state and a few business actors, a determining characteristic of the former developmental states, are not apt in the new era marked by complex transnationalized links. A central authority facilitating coordination between a few state and non-state actors is too narrow for an era where an upper hand of the state over businesses to control, orchestrate and discipline often fails to serve today's complexities (Evans 1995; Kohli 2004; Chibber 2003; Wade 1990). Instead, this highly diversified and fluid era requires branched-out synergies between the state and non-state actors, with a reach beyond the narrow elites, a characteristic trait of the developmental states. Due to the increasing diversity of key actors, including domestic and transnational businesses and at times international organizations, old forms of coordination are unlikely to operate effectively. Hence, one can witness the broader incorporation of business actors into flexible platforms operating at multiple levels in order to respond to the shuffling needs of increasingly financialized and transnationalized forms in emerging economies. The state's mediating between local and global networks in a model of flexible developmental state seems to be more apt for the current context (O'Riain 2000).

Emphasizing the necessity of the new-developmental states incorporating diverse actors, this book suggests that the broader inclusion of actors—at times in transnationalized coordination platforms installed in multiple layers—increases the likelihood of effective coordination and the sustainability of institutional structures, as such structures operate as a filter against conversion and drifting. Despite the flexibility regarding the profile of the participants, these platforms still require relatively strict designs delineating the particular tasks, targets, and monitoring instruments for all actors included. This book also underscores that multi-layered and flexible coordination with the broader inclusion of actors still necessitates capacity on the part of the state and society, the capacity to build and sustain institutions, and the capacity to negotiate.

The recent strands of the literature on market transitions point out a striking empirical puzzle that occurs when a domestic business supports market reforms: namely, it gives up the protection of the state and subjects itself to fierce international competition. Several studies assert that in a severe crisis, if big businesses can adjust to reforms and see the opportunities offered by the market, they may build an alliance with the state to implement reforms and become the new beneficiaries of export-oriented strategies (Kingstone 1999; Thacker 2000). Among this group, multi-sectoral conglomerates can adapt more easily as they have the capability to shift resources within their group from losing subsidiaries to winning ones (Silva 1996; Schneider 1998). Additionally, these giant entities can become the beneficiaries of financialization, which then fosters adjustment capabilities, a link inadequately examined in the respective literature.

Most typologies to classify business preferences—business-as-capital (the Stolper-Samuelson approach), business-as-sector (the Ricardo–Viner approach), business-as-firm, business-as-association, and business-as-personal-networks (Haggard and Kaufman 1997)—ignore multi-sector conglomerates, whose affiliated companies spread over many sectors, ranging across import-competing and export-oriented categories. Multi-sectoral conglomerates dominate in both Turkish and Mexican markets, as well as those of MENA. Their responses to market transitions challenge the common assumption that import-competing interests would oppose trade liberalization while exporting interests would support it (Frieden 1991). Such assumptions, based on the sectoral approach, are used in reference to cases including Mexico where export-oriented big business was allegedly supporting liberalization, while import-competing business opposed it (Puga and Tirado 1992). These claims often lack adequate empirical support: they appear to be based on post hoc observations, as the export orientation of Mexican big business (except for the foreign-owned *maquiladoras*) mostly emerged later in the 1980s (Heredia 1996: 185). Likewise, the Turkish big business also became exporters mostly in the 1980s and 1990s. In both cases, the same actors were both import competing and export oriented, sometimes in the same sectors. Thus, the assertion that the big business supported liberalization from the beginning is subject to question. As Heredia (1996: 95) asserts, all businesses, including big business, opposed opening in the beginning, and 'more conservative and anti-statist in outlook, large industrial firms … tended to be as protectionist as the rest.'

Market transitions offered trade-offs between different policies and institutional changes, which involved 'comprehensive policy bundles' promising a wide range of benefits such as easing state regulation, maintaining a market-based price mechanism, and facilitating stabilization, besides the costs. Therefore, it is a challenging task to delineate business's response to distinct components of the bundle. Decreasing public debt, alleviating inflationary pressures, creating new finance sources for the private sector (as state borrowing causes a crowding-out effect on private investment), and enhancing investment infrastructure were protracted demands of domestic businesses. Simultaneous implementation of these measures, including stabilization and liberalization, complicates the analysis of industrialists' responses to independent components. In some instances, implementation of anti-inflationary measures was so urgent that, when liberalization of the import regime came along with those measures, industrialists' response was supportive of the whole package—or at least they did not oppose it, perceiving liberalization as a necessary component of stabilization packages. Thus, certain benefits of transitions might compensate the cost of competition, or certain costs might be higher than others. Governments that were able to construct issue linkages to persuade businesses about the benefits proceeded with reforms more steadily than the others, and coordination-inducing institutions eased persuasion. This is what happened in Mexico: government's issue linkages helped persuade business, as liberalization was justified and instrumentally used towards a larger goal of stabilization. Seizing the window of opportunity to access global markets, and collaboration with foreign capital, while bearing the cost of adjustment, became key to such persuasion.

The strategy through which industry adjusts to trade liberalization particularly has three central aspects, all contingent on the capabilities of domestic businesses and those of the states: adjusting to import; adjusting to compete; and room to adjust. The adjustment to *import* refers to the ease of importation through abolition of protectionist barriers. This challenging shift created benefits because businesses could import lower-cost inputs for manufacturing, highly important for countries like Turkey, where import dependency is higher. The adjustment to *compete* refers to the manufacturing sector's ability to compete with imports through strategies including shifting resources from import competing to exporting sectors, as well as mergers, acquisitions, joint ventures, and sub-contracts. The conglomerates' multi-sectoral structure gives them increased scope to implement such adjustment strategies, and in particular to shift resources between affiliates that are spread across both import-competing and export-oriented categories. This advantage allowed former beneficiaries of the ISI strategy to become the new beneficiaries of opening. Therefore, sector-based explanations become obsolete regarding the responses of big business, whose activities are not restricted to a particular sector. In cases like Turkey and Morocco, some SMEs have also benefited from opening; they have increasingly integrated into the global economy as sub-contractors and exporters.

Room to adjust is generated by the time lag between the initiation of liberalization and the threat of increasing imports. It may result from the inherently weak capacity to import of markets in the throes of severe debt and foreign exchange crises, and the concomitant scarcity of foreign exchange, as in the case of Turkey. Demand-restraint policies implemented under the surveillance of the IFIs contribute to this lag, constituting a natural barrier to imports. Governments' deliberate policies and concessions may shape the room to adjust for businesses.

Some recent studies point out the essential importance of cooperation between business and state actors through consultative mechanisms or the means by which business has 'access' to policy-making (Kingstone 1999; Schneider 2004; Thacker 2000). Access is definitely important, but in addition to the sheer existence of access, 'how to access' and 'whose access' equally matter in shaping the dynamics and outcomes of coordination. Where there is narrow access by a few, the alliances adopt an exclusionary format that reproduces the arrangements of political and economic institutions, generating 'limited access social orders' (North *et al*. 2013).

Although the adjustment capacity of big business has mostly held true, in most countries business's stance towards reforms has oscillated between support and opposition, at times manifesting itself with extreme resistance. Such fluctuating behavior is also reflected in the attitude of state elites toward the reforms, even during the tenure of a single government. Thus, preference and policy shifts have been more common than the steady preferences and accompanying linear progression of reforms assumed in much of the literature.

The literature on state–business interactions in market transitions partially explains the formation of alliances. Although these studies have offered compelling accounts on state–business interactions and alliances in market reforms, they mostly treat alliances as stable formations, generally focusing on their initial establishment (Durand and Silva 1998; Thacker 2000; Kingstone 1999; Maxfield and Schneider 1997; Schneider 1998). In reality, alliances are not stable formations; they are vulnerable and subject to erosion unless the necessary institutional arrangements exist. Reform alliances in general are vulnerable to electoral pressures in a protracted crisis (Waterbury 1993; Buğra 1994; Haggard and Webb 1994). Increasing electoral pressure leads to the political insecurity of the incumbent, hence higher discount rates. Inherent political costs of reforms make distributive strategies that undermine reform a likely option for state officials seeking to retain office (Geddes 1994). Political cost and alliance erosion may aggravate such backlash, causing even greater electoral pressure on incumbents, and leading to further degradation of state–business ties: a vicious, degenerative cycle. In short, the picture is incomplete without a frame tracing the dynamics of state–business alliances in the long term, which has been often neglected in the literature. This book hopes to fill this gap through examining the institutional underpinnings of state–business interactions and scrutinizing the formation and evolution of institutions that facilitate state–business coordination. Thirty years into their market reforms, Mexico and Turkey provide good cases to explore cross-case and cross-temporal variations in respect of these questions.

This book conceptualizes reform alliances through two distinct—yet related—sets of alliances: electoral alliances in which business and the state coalesce behind a party or candidate; and governing alliances in which they coalesce through actions aimed at supporting specific policies.[1] A good indicator for alliances is business's mobilization to show its support for the reform process in general and reforming governments in particular. The existence or absence of such mobilization can be analyzed by examining business's lobbying for or against the reforms or reforming governments. *Alliance sustainability* refers to the continuity of business's support for reforming governments (the same or different). Businesses' preferences are not static and are not simply direct reflections of market positioning; they are continuously shaped by exigent political institutions and the conflict these might engender. Preferences of the actors are molded by particular institutional arrangements that often go through endogenous changes (Thelen 1997). According to Katznelson (1997), individuals are embedded agents operating within relational structural fields, where large-scale processes and institutions shape the individual's actions, along with the socially defined rules. Thus, the context in which individuals' interests, goals and preferences are determined—portrayed as the 'organizational milieu in which people act' (Migdal 2001: 253)—is essential.

Adjusting in coordination: actors and institutions

Market transitions are inherently costly processes for business actors, who are more likely to invest in adjustment once they perceive others' commitments as credible (Kingstone 1999; Rodrik 1989). Where there are credible commitments, reform alliances are more likely to be formed and sustained, but they are difficult to materialize due to prevalent uncertainties. Institutions that reduce uncertainties and provide actors with instruments to exchange information and monitor others' behavior would enhance the ability of actors to make such commitments (Ostrom 1990). Such institutions which facilitate information exchange and monitoring have been mostly studied in the context of old-school corporatist platforms, both by the literature on market reforms (Schneider 1998; Thacker 2000) and that on neo-corporatism (Streeck and Kenworthy 2005; Schmitter and Lehmbruch 1992). Taking institutions at face value, most studies gloss over the discrepancy between de jure constellation and de facto operation of institutions, thus dismissing effectiveness in neo-corporatist arrangements (Culpepper 2003). In the new era of state–business interactions, information flow and coordination may be facilitated by platforms other than the neo-corporatist arrangements.

Coordination with the state tends to be a common demand across businesses in emerging countries. But it is difficult to attain, since attempts to coordinate might easily fail in the absence of cohesive actors, and particularistic lobbying becomes common practice (Kingstone 1999: 255). In polities with a strong legacy of authoritarianism, state elites tend to consider policy networks as threats to their power and autonomy. Mexico and Turkey, as well as most MENA countries, have such legacies of authoritarianism, accompanied by heightened veto power of the executive. But in Mexico, there was a considerable level of consultation with business during the first phase of market transitions. In Turkey, in contrast, repeated attempts by business actors (in some instances also by state actors) to become involved in the policy-making process failed to produce the same results in the first phase of transitions. In the second phase of transitions, however, there has been a higher degree of coordination between the state and businesses, indicating considerable within-case variation. Why are some states capable of building such institutions, while repeated attempts elsewhere or in some other time period within the same state fail?

The trajectories of Mexico and Turkey as well as the MENA countries demonstrate that capacities of the state and business matter in building such institutions, and higher capacity is mostly brought about by cohesive actors. They indicate that institution-building attempts are prone to fail when fragmented actors exist in both the state and society. Where business and state actors are more cohesive, their respective capacities will be enhanced, increasing the likelihood of institution building. Long before the market transitions became a prevalent trend in emerging countries, Hirschman (1970: 119) suggested that ‘only a cohesive, vocal and highly influential national bourgeoisie is likely to carry industrialization beyond relatively safe import substitution to the risky export-oriented state’. Given that perfectly cohesive actors do not exist in empirical reality, there can only be *degrees* of and *approximation* to cohesiveness, rather than absolute values.

Embedded or crony?

Based on a near-consensus on the need to interact with society, the literature generally underscores the importance of the state’s formal and informal ties with domestic business (Evans 1995; Kohli 2004). Wade (1990) suggests that the norms of developmental states originate from intense dialogs with business. Evans’s famous concept of ‘embedded autonomy’ refers to:

> a concrete set of connections that link the state intimately and aggressively to particular social groups with whom the state shares a joint project of transformation.… [But] either autonomy or embeddedness may produce perverse results without the other … [and] the secret … lies in the amalgam’
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> (Evans 1995: 49, 59)

Without autonomy, according to Evans, embeddedness may become captured. And without embeddedness, autonomy might not result in an interest in development, pointing out the importance of networks among the bureaucrats, networks between the bureaucrats and the private sector, and networks between bureaucratic agencies. Referring to Johnson (1982: 57–59) and his analysis of informal networks in Japanese bureaucracy, Evans underlines the centrality of *gakubatsu* (ties among classmates at the elite universities from which officials are recruited) as epitomizing such close-knit networks.

Nonetheless, the boundaries between embeddedness and cronyism can easily become blurred in many polities as the informal networks succumb to opportunistic cycles (Barkey 1990). Indeed, similar close-knit networks existed in Mexico and Turkey, as well as various MENA countries, and did not necessarily yield virtuous cycles. For instance, in Turkey, for most of the twentieth century top bureaucratic agencies (including the foreign service) hired nearly exclusively from the *Mülkiye* school, whose graduates had been dominant in the state since the late Ottoman Empire. The importance of this school was embodied by the expression 'first Mülkiye, then Türkiye'. In Egypt, the 'Dufaa networks' associated with school ties (secondary school, universities and military schools) have historically been influential, entailing exclusionary power to affect policy-making, and constitute and access state cadres (Waterbury 1983; Devlin 2010). Yet, such shared origins and network creation has not prevented fragmentation; networks within and between bureaucracy and the private sector in Egypt and Turkey have similarly failed to generate cohesiveness. The *amakudari* ('descent from heaven,' i.e., the tendency of the private sector to hire retiring bureaucrats) phenomenon also exists in many countries, including Mexico, Turkey, Egypt, Morocco, and Tunisia, since most bureaucrats having held top positions in the economic bureaucracy are hired by private companies. Yet this practice often furthers fragmentation by bolstering particularistic ties. Thus, embedded autonomy is a powerful concept to help understand the interactions between the state and business. However, the outcomes of such embedded autonomy might not necessarily bolster good developmental outcomes, but rather reproduce 'clientelistic' relationships, benefiting a few. Which informal networks, then, lead to cronyism, while others are considered ideally embedded à la Evans? Why has institution building been so hard in many polities, despite the fact that examples of successful developmental states were known? The toolbox was there, but using the tools was not, indeed, an easy task.

State cohesiveness

State cohesiveness refers to the state elites' ability to generate collective action regarding economic development in general, and reform making in particular. State actors might share collective goals and strategies, but in practice such collective action depends on the authority constellation within the state, which often becomes an arena of rivalry with overlapping claims across actors and agencies. Coordination of authority between agencies is key to execute economic policies and long-term strategies. In the era of state-led development, such coordination tended to be maintained by a lead agency charged with overseeing the other agencies in all issue areas. However, today's liberalized and globalized setting often hosts multiple actors in a more flexible format. Shedding light on this intermediate level, this book examines how different agencies within the state interact with one another and how the authority constellation is established.

Achieving and maintaining state cohesiveness is often difficult. In democratic and semi-democratic regimes alike, the hierarchy among agencies is often unclear, causing competition for authority and resources, while impairing vital horizontal information exchanges. Lack of compliance within the state becomes a severe problem in such settings, as one agency's goals and undertakings meet challenges from others, resulting in uncoordinated acts. Market transitions broaden potential conflict areas between agencies. Given the entrenched interests of some bureaucrats in pre-transition economic strategies, as well as their ideological dispositions, which tend to be strong in countries like Turkey and Mexico, strong bureaucracies can easily stumble as they engage in market reform processes.

In fragmented states, bureaucracy becomes a politicized and partitioned instrument for competing political actors, who shuffle alliances with multiple entities, while business actors search out multiple venues to form new allegiances. In fragmented settings, transition can easily become an ad hoc process with diminishing predictability, as incumbents compete in highly volatile political settings that open up endless opportunities for the business actors to undertake particularistic lobbying with a politicized and partitioned bureaucracy, as well as with politicians themselves. Wide patronage networks ease such shuffling between actors, as those networks are also reproduced in this process. Given the fragmentation and resulting instability, such an erratic pattern also gives rise to repeated shifts between support and opposition for economic reforms, support and opposition for the incumbent, and support and opposition for multiple opposition parties.

In many countries, bureaucracies are highly subject to political maneuvering. Turkey's State Planning Organization (SPO) and Mexico's Secretary of Programming and Budget (SPB) were founded around the same time period as South Korea's Economic Planning Board (EPB); each of these bodies was similarly granted authority to oversee development strategies and economic policies. Yet the outcomes diverged over time, so that the EPB became a 'super agency' regarding the execution of development strategy (Evans 1995: 52), while the SPO suffered from rivalry from within and outside, subjecting its authority constellation to repeated changes, and the SPB was dismantled and merged into the Finance Ministry in 1992 by President Salinas de Gortari, who had run the SPB before his presidency. The all-powerful EPB was also dismantled in 1996, but the SPO has gone through a major revival. Its status has recently been entirely changed: it is now the Ministry of Development. In fact, Turkey's late President Özal, the architect of market reforms in Turkey, had attempted to dismantle the SPO, the agency that he had managed before becoming the Minister of Economy in 1980, but could only succeed in weakening it—and then bypassing it whenever necessary.

Despite the day-to-day occurrence of such political maneuvering in bureaucratic agencies, institutional designs are depicted in most studies on East Asian developmental states as insulated from politics, based on the assumption that rational Weberian bureaucracies are impermeable and cannot be affected by political struggles or informal contacts. As the examples of the SPO, EPB and SPB indicate, in the real world bureaucracies are often penetrated and tend to be 'used' based on varying political interests. Thus, politics—negotiation, give-and-take, struggle, and conflict—needs to be brought back into the discussion. Migdal (2001: 22) emphasizes the 'paradoxical quality of the state', its dual nature oscillating between the 'powerful image of a clearly bounded, unified organization' and 'practices of a heap of loosely connected parts or fragments'. Therefore, the distance between the idea and the practices of the state is generally large, as images of coherence and unity are not necessarily reflected in practices characterized by fragmentation and conflict.

Business cohesiveness

The literature on capacity to build consultative institutions is mostly state-centered and tends to reduce social actors' capacity to state-controlled labor and business organizations (Hall and Soskice 2001; Weiss 1998; Schmitter and Lehmbruch 1979). State capacity per se, though accentuated in both scholarly literature and policy-making circles as the key determinant of a number of positive outcomes, is necessary but not sufficient for establishing coordination-inducing institutions.

Business cohesiveness matters to build coordination-inducing institutions, and may be defined as businesses' generating collective action to mobilize towards a common perspective about specific policies or strategies. In practice, such collective action is best achieved by peak actors who aggregate diverse interests in the business community and become interlocutors vis-à-vis the state (Schneider 1998, 2004; Silva 1996). Nonetheless, all-encompassing business organizations exist in many countries without representative legitimacy, or they lose their legitimacy over time. Thus, what matters is the presence of organizations (be they corporatist or semi-corporatist chambers, confederations, unions of chambers or pluralist associations, confederations, councils, and the like) that have representative legitimacy in relation to their constituencies, and that maintain the capability to aggregate and mobilize diverse interests towards collective action.[2]

Fragmentation in the business community curtails coordination within business and between business and the state. It is reflected at the state level as business seeks to maximize its short-term benefits via personal access to rulers, and politicians tend to use private-sector cleavages to their own advantage. Migdal (1988) elucidates how fragmented societies give rise to a politics of survival, weakening states' abilities. Actors in such settings, like in Turkey, shuffle their alliances based on shifting political allegiances, and often such subtle balances are sustained through rent-distribution (Barkey 1990: 168). Bureaucracy becomes the central battlefield in this process, and serves as an instrument to distribute patronage. Fragmentation in both state and business diminishes the actors' capacity to generate long-term goals and implement them. The outcome is usually inconsistent economic policy-making, endangering the stability of market reform processes. In fragmented contexts, state–business relations tend to be unsteady, vacillating within a broad range between intense conflict and productive cooperation (Kingstone 1999; Kohli 2004).

Drawing from a comparative study on Latin America, Schneider (2004: 5) suggests that it is the states that 'organize and disorganize business.' However, the state's intentional or unintentional attempts to organize business may further fragment the business sector. Although so-called 'defensive organizations' emerged in many countries in response to heavy-handed state maneuvers, they were mostly too weak or too small to lead to a peak organization. The literature generally considers threats generated by the labor movement as subsumed by the state, as if labor and the state become one single entity when it comes to threatening business actors (Schneider 2004; Briz Garizurieta 2002; Alba Vega 2003). In Turkey, as well as in several other MENA countries, state actors never allied with labor, and even the most reformist governments could not 'own' the threats generated by labor, though some governments were 'closer' to labor than others. Indeed, the historical evolution of state–labor relations in Mexico and Turkey has been remarkably different and the different paths have persisted throughout the market transitions. In Mexico, a centralized and cohesive union movement has been increasingly fragmented, while in Turkey, the fragmented union movement has become increasingly centralized and cohesive during the same timeframe (Kuş and Özel 2010).

State-centric approaches are inadequate to explain business cohesiveness, because threats perceived by business actors are sometimes posed by forces independent of the state. Business actors' perceptions can be shaped by threats against property rights, and actual and/or rhetorical antagonism. Threats from labor can also take explicit and implicit forms along a wide range, from economy-wide or sectoral strikes (or anticipation of these), to attacks against private property or against businesspeople themselves. In settings where the state aligns with labor, threats can become more severe, or can be perceived as such by businesspeople. In addition, business can be threatened by the other actors within the business community, their growing power, and their links with the state actors. Such perceptions may be heightened by severe crises, economic and political alike. The severity of threat perception is inevitably a subjective matter, but a careful qualitative study can pinpoint the instances where threats become severe for businesses, so that the stakes would be too high for them not to invest in cohesiveness.

Thus, the likelihood of attaining cohesiveness increases when the stakes are high: the actual or anticipated cost resulting from exogenous shocks or endogenous changes. Severe crises (economic, political or social) increase the stakes, intensifying the perception of threat, often leading to business investing in cohesiveness. Severe economic crisis, a probable or actual regime change, and state alliances with rival social groups (labor and/or alternative groups within businesses) all increase the likelihood of cohesiveness. In the Turkish case, the stakes included the EU accession process, perceived threat of regime change, and the rivalry posed by newcomers and the state's alliance with those, along with severe crises. In the Mexican case, they involved perceived threats on property rights, labor's increasing power, the state tilting to the left and forging strong alliances with labor, and severe crises along with the NAFTA accession. Thus, this book will examine processes of mobilization to generate collective action, delineating the conditions under which such processes come into existence and are sustained through an analysis of historical trajectories, institutions and the patterns of internationalization and transnationalization.

Formation and evolution of institutions: coordination between state and business

Coordination-inducing institutions help gather and disperse information on policies, regulations, strategies, and investment plans, and distribute responsibilities between state and business actors, thus serving to diminish transaction costs. Helping internalize coordination failures, these institutions increase the likelihood of strategic collaboration between the key actors (Rodrik 2004). Commensurate with the diversified nature of globalized interactions, coordination usually takes place at different levels between multiple actors. Coordination-inducing institutions include platforms or mechanisms for consultation embedded in various forms of institutional structures, and bear different names in different settings: assemblies, boards, councils, committees, public–private networks, and pacts. They may be centralized or decentralized; and they can include different actors at different levels, regional, national, supranational and transnational alike. The design of these institutions—with respect to their authority constellations, profile and roles of participating actors, effectiveness of their participation, monitoring and sanctioning mechanisms—matter, because they might evolve into futile platforms established as window dressing under the pressure of external actors, or into outlets of rent-seeking activity between the state and business actors.

Although the mere existence of these institutions linking state to business does matter, they take different forms that shape coordination. It is possible to schematically plot out these diverse forms in a range between facilitating communication and information exchange without necessarily including consultation, and maintaining well-defined constraints for all parties including the state. Where these institutions are limited to open communication channels and information exchange, they will be considered to generate low levels of coordination. Where they seek consultation, but application of results to actual policies is dependent on state actors' discretion, they will be considered to produce medium-level coordination. If they operate through the formation of joint committees and/or project teams, and then reach joint decisions, they will be considered to yield medium-high levels of coordination. Finally, where targets are set for all actors, subject to monitoring by other participants, or even sanctioning in certain cases, then they will be considered to result in a high level of coordination—a rare occurrence in most emerging countries. Paradoxically, the higher levels of coordination are attained at the times of lower level trust between business and the state, as in the case of Mexico's Pact of Solidarity in the midst of a severe crisis in 1987, and Turkey's Economic Issues Evaluation Board which was established following a severe crisis in 2001. Willingness to attain higher levels of coordination is often brought about by the urgency of yielding credible commitments in low-trust environments, which is indeed in line with what the literature on credible commitments widely argues (North and Weingast 1989; Ostrom 1999; Rodrik 1989). This book will apply this scale to the major coordination-inducing institutions that have existed in Turkey and Mexico in the last three decades, with varying life cycles.

It would be a mistake to assume that these institutions are likely to endure through pressures, political conflicts and power struggles. Indeed, they can be extremely short-lived, despite their effectiveness during their brief lifespan. The empirical reality demonstrates that those facilitating the highest levels of coordination fade away sooner than the others, because of the constraints they pose on the actors with high veto power. This book considers three life trajectories for these institutions:

1 one-shot occurrences that tend to be established at times when the stakes are high (e.g., severe crises) and are then dismantled or disappear;
2 occurrences that are repeated in times of crisis although they are not regularized;
3 occurrences that are regularized in the sense that they become habitual.

Nonetheless, even in case of regularized institutions, their de facto operation might significantly diverge from their de jure status and they may end up drifting, layering or being converted, mostly by the interference of veto players, as the following sections will discuss. A common phenomenon in emerging countries is that establishment of institutions does not necessarily guarantee their effective operation, notwithstanding how formally and rigidly institutionalized they are. They might be undermined in day-to-day practice, adapting new formats at the discretion of the individuals who are in charge of governing them; they might just fade away, or never be implemented based on the explicit or implicit preferences of the actors, particularly those with greater veto power in given polities.

Although institutional analyses have pervaded contemporary social sciences for the last few decades, many studies in different branches of the literature sidestep institutional change, failing to explain how institutions deemed to cause a number of significant outcomes come into existence in the first place. All variants of institutional approaches—rational choice, and historical and sociological institutionalism alike—mostly tackle the self-perpetuating nature of institutions rather than their evolution, based on varying perspectives on *path-dependency*

(Levi 1997; Pierson 2004). Taking institutions as constants, implicitly or explicitly, these approaches mostly focus on explaining the persistence of institutional patterns along with their impact on varying outcomes, unintentionally trapped by a rather static account (Mahoney and Thelen 2010).

Institutions often evolve in different directions and diverge from their initial goals, as their reproduction is a political process on its own (Streeck and Thelen 2005). Recent studies tackling endogenous change underline the significance of power-distributional issues in fostering institutional change. Pointing out the role of 'soft spots' between the rules and their interpretations, along with enforcement, in triggering institutional change, Mahoney and Thelen (2010: 14) assert: 'What animates change is the power-distributional implications of institutions.' The grounds for the existence of institutions are constantly contested by many actors, including those who are placed in alliances ruling certain institutions. Thus, institutional change might occur through intended or unintended consequences of such contestations. When the balance of power shifts between the actors, contestation over the rules and their interpretation becomes more pronounced, and institutional re-arrangement will be a likely outcome. Thus, distribution of resources in particular ways may give rise to a gradual evolution of institutions that may ultimately be as substantial as the changes induced by exogenous shocks.

In a similar vein, Acemoğlu and Robinson (2012) emphasize the role of political conflict in bringing about institutional change. Delineating the differences between extractive and inclusive political institutions along with the resulting variation in developmental outcomes, they consider institutions that maintain the concentration of power in the hands of a narrow elite who do not face adequate constraints as extractive, and those which are 'sufficiently centralized and pluralistic' as inclusive, whereby they treat both traits as necessary but not sufficient (2012: 43). In a feedback loop, they state that extractive economic institutions depend on extractive political institutions, and help consolidate the political dominance of a narrow elite through reproducing their wealth and power (2012: 81). Thus, the contestation of political power which distributes the resources narrowly is essential to facilitate institutional change from extractive to inclusive institutions.

In Mexico and Turkey, as well as MENA countries, both exogenous and endogenous changes have been significant in causing changes in institutional arrangements. Exogenous institutional changes have been widespread as severe crises and impositions by international and regional agents have marked the transitions in the last 30 years. The interplay between the external sources of change, the adoption of changes by some domestic actors, and the defense of existing institutions by others, have caused substantial tension and contestation of the institutions implanted by direct and/or indirect pressures by external actors. Such contestation becomes more effective at the level of implementation, as is displayed by the discrepancy between de jure constellations of institutions and their de facto operation, i.e., institutional decoupling, a common occurrence in both countries (Özel 2012). Institutions might remain the same on paper, but in practice they are manipulated through a number of mechanisms, leading to their *conversion*, which 'occurs when rules remain formally the same but are interpreted and enacted in new ways' (Mahoney and Thelen 2010: 17).

In many emerging countries, institutions tend to be established with ambiguities that are later used by key actors—public and private alike—to tilt distributive consequences. Hence, both public and private actors can trigger institutional changes by raising manifold demands regarding the implementation and/or interpretation of the rules. More often than not, these actors opt to use the ambiguous spaces that the institutional arrangements provide, so that they can produce favorable outcomes from unfavorable arrangements. They create overlapping rules and norms without dismantling the existing ones, a process Mahoney and Thelen (2010: 16) call *layering* which 'occurs when rules are attached to existing ones, thereby changing the ways in which the original rules structure behavior.' Those interventions in the form of amendments and revisions of the existing rules might bring about major institutional changes, diverging from the initial institutional arrangements.

Political ownership of institutions by political agents is crucial, particularly in cases where there are strong veto players and institutional changes may take place in the aegis of international, regional and supranational organizations. When institutions are not owned, they are easily converted by strong veto players, so that they lack effectiveness in their de facto operations, or diverge from the logic of their de jure constellations. Therefore, they remain as window dressing to fulfill varying conditionalities, policy recommendations, and the like. An important institutional characteristic is the presence of strong veto players in particular polities; and constraints on those. As Mahoney and Thelen (2010: 17, 19) point out, where there are strong veto players then layering, conversion and drifting (which occurs 'when rules remain formally the same but their impact changes as a result of shifts in external conditions') become likely strategies. The following chapters on Mexico, Turkey and three MENA countries will delineate the ways in which such endogenous changes take place, along with exogenous changes. They will explore the ways in which varying forms of institutions bring about varying forms of alliances between the state and business actors in contexts shaped by expanding links to global markets and networks.

Notes

1 This conceptualization originated with Kingstone (1999: xxi).

2 Throughout this book, the phrase 'corporatist organizations' will refer to those having semi-public legal status—and usually based on compulsory membership—while 'pluralist organizations' will refer to those based on voluntary membership.