



Graduate School of Development Studies

Capitalism and Higher Education:
*Establishing the relationship, and understanding the
implications for low and middle-income economies*

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Contents

List of Figures and Tables	v
List of Acronyms	vi
Abstract	vii
Relevance to Development Studies	viii
Key Words	viii
Chapter 1 Introduction	10
1.1 The Concept of The University	10
1.2 Universities and Higher Education Systems in History	11
1.3 The Higher Education System post World War Two	11
1.4 Relevance	13
1.5 Theoretical Approach	14
1.6 The Argument	14
1.7 Limitations	15
Chapter 2 The Knowledge Economy: Observations and Implications	16
2.1 The Rise of the ‘Knowledge-Based Economy’	16
2.2 The Knowledge-Based Economy and Global Regulatory Agencies	17
2.2.1 The World Bank View and the Convergence Approach	17
2.2.2 OECD and UNESCO: Cross Boarder Education Guidelines	18
2.3 The Rise of the Global Market for Higher Education	19
2.3.1 Who is Purchasing Higher Education?	20
2.3.2 Who is Selling Higher Education?	20
2.4 Linking Higher Education and the Economy	20
Chapter 3 Literature Review	22
3.1 Debates in Higher Education Internationalization: Access and Equality vs. Quality and Excess	22
3.1.1 Access and Equality	22
3.1.2 Quality and Excess	23
3.2 Context Matters	24
3.3 The Social Embeddedness Approach to Capitalist Formation	24
3.3.1 Rational Choice Institutionalism	25
3.3.2 Historical Institutionalism	26

Chapter 4 Theoretical Framework and Method	28
4.1 Varieties of Capitalism	28
4.2 Critique to Historical Institutionalism	30
4.3 Critique of Varieties of Capitalism – the Role of the State	30
4.4 Other Critiques to Varieties of Capitalism	31
4.5 Methods of Analysis	32
Chapter 5 Situating Malaysia and Mexico in the Debate on Socially Embedded Capitalism	34
5.1 Skill Formation in the Political Economy	34
5.1.1 Divergence in Skill Formation across Coordinated and Liberal Market Economies	35
5.2 Political and Economic History of Malaysia	36
5.3 Political and Economic History of Mexico	38
5.4 Comparing Malaysia and Mexico	39
5.4.1 The Orthodox View Revisited	39
5.4.2 Plotting Institutional Divergence in Malaysia and Mexico	40
Chapter 6 Malaysia and Mexico and the Move Toward a Knowledge-Based Economy	46
6.1 Mapping Response to the Knowledge Based Economy	47
6.2 The Development of Higher Education in Malaysia	47
6.2.1 Private Higher Education Act 1996	48
6.2.2 The National Dual Training System (NDTS)	48
6.2.3 Malaysia’s Response to the Knowledge-Based Economy	49
6.3 The Development of Higher Education in Mexico	50
6.3.1 Two Key Mexican Responses	51
Chapter 7 Conclusions and Findings	53
7.1 Response is Relational	53
7.2 Implications For Higher Education Systems	54
7.3 Implications for Low and Middle-Income Economies	55
7.4 Implications for the University	55
7.5 Debates in Higher Education Revisited	56
References	57
Notes	64

List of Figures and Tables

Figure 2.1: Global Tertiary Enrolment by Region, 1970-2007.

Source: UNESCO Institute of Statistics Time Series Data, in UNESCO Global Education Digest (2009).

Figure 3.1: Comparative Theories of Capitalism: A conceptual illustration.

Source: Author's illustration.

Figure 4.1: Conceptual Illustration of the Five Spheres of Varieties of Capitalism.

Source: Author's illustration, adapted from Hall and Soskice 2001.

Table 5.1: Factors Affecting the Formation of Higher Education Skills in the Economy in Relation to the Firm.

Source: Author's elaboration.

Table 5.2. Summary of Coordinated Market Economy and Liberal Market Economy characteristics.

Source: Hall and Soskice 2001 and Estevez-Abe, Iversen, and Soskice 2001.

Figure 5.1: Global View: Knowledge Economy Index.

Source: World Bank 'Malaysia and the Knowledge Economy: Building a World-Class Higher Education System (2007).

Figure 5.2: Historical Inflation Rate Comparison: Malaysia and Mexico.

Source: International Monetary Fund statistical database of consumer price's by reporting quarter.

Figure 5.3: Average Inflation Rate of Malaysia and Mexico against the Public Expenditure on Tertiary Education as a share of Total Public Expenditure.

Source: International Monetary Fund statistical database of consumer price's by reporting quarter. World Bank, Constructing Knowledge Societies report, 2000.

Figure 5.4: Labour Market Vulnerability against Openness to International Trade for Malaysia and Mexico.

Source: Labour market vulnerability sourced from the International Labour Organization, 2009. Openness to trade is sourced from a composite of the labour mobility index, ease of doing business index, and trade and investment index.

Figure 6.1: Aggregate Population Growth against Aggregate Growth in Tertiary Education Enrolment – Malaysia

Source: UNESCO Institute of Statistics Time Series Data, in UNESCO Global Education Digest (2009).

Figure 6.2: Aggregate Population Growth against Aggregate Growth in Tertiary Education Enrolment – Mexico

Source: UNESCO Institute of Statistics Time Series Data, in UNESCO Global Education Digest (2009).

List of Acronyms

CME	Coordinated Market Economy
EU	European Union
FOMES	Fund for the Modernisation of Higher Education (translation from Spanish)
GATS	General Agreement on Trade and Services
ISI	Import Substitution Industrialisation
KBE	Knowledge-Based Economy
KBV	Knowledge-Based View
LME	Liberal Market Economy
NDTS	National Dual-Training System
OECD	Organisation for Economic Co-Operation and Development
PRONAE	National Education Program (translation from Spanish)
RVOE	Official Accreditation of Studies (translation from Spanish)
UNESCO	United Nations Educational Scientific and Cultural Organisation
VoC	Varieties of Capitalism
WB	World Bank

Abstract

The study of capitalist formation and its relation to higher education is the object of this paper. It analyses the connection between political and economic processes at the national and global levels with changes that occur in the associated system of higher education. The study takes a historical perspective to mapping change and a comparative approach, drawing on two case studies: Malaysia and Mexico.

This paper constitutes an effort to critique the ‘convergence’ approach to higher education reform. Comparative evidence indicates that there are a ‘variety’ of contextually dependent responses by higher education systems to the move toward the knowledge economy. To address this issue I draw from a comparative study between Malaysia and Mexico as well as a theoretical construct that concentrates on the institutional forms and the institutional dynamics of capitalism.

In contrast to much of the literature on capitalist formation that has predominantly focused on developed economies, this paper explores the implications of the move toward a knowledge-based economy for two middle-income economies. This has implications for the de-contextualised policy reforms and strategies for higher education that are recommended by global regulatory agencies.

Relevance to Development Studies

In a move toward a knowledge-based economy and a move toward the market as the primary mode of economic coordination, higher education has taken on a renewed sense of importance in the sustainable development of emerging nations. This paper asks what the implications of this transition are for the system of higher education and the broader political economy.

Key Words

Higher Education, Historical Institutionalism, Malaysia, Mexico, Social Embeddedness, University, Varieties of Capitalism.

For Nancy Brooks and Ruth Lockie.

Chapter 1

Introduction

Since the early 1990's Higher Education has taken on a renewed sense of importance in the sustainable development of emerging nations. Principally this has been inspired by the belief that 'developing and transition countries are at risk of being further marginalized in a highly competitive world economy because their tertiary education systems are not adequately prepared to capitalize on the creation and use of knowledge' (World Bank 2002: xix). 'In this link between [higher] education and progress we see one of the key assumptions that many have held, that [higher] education institutions are in some senses removed from the rest of society' (Lauder et al. 2006: 2). 'In part, such ideas reflect a tradition of thought that goes back to the Enlightenment in which reason, imparted through education, was seen as fundamental to the project of the 'perfectibility of man' (ibid). Because of this assumption little attention has been given to develop a historical and comparative understanding of the interactive relationships between the political economy and the higher education system. This paper constitutes one such effort. It analyses the connection between political and economic processes at the national and global levels with changes that occur in the associated systems of higher education. An analysis of this type is important to provide a better understanding of the implications that exist for higher education and for countries whose higher education systems and economies are developing and more vulnerable to global regulation and reform. To address this issue I draw from a comparative study between Malaysia and Mexico as well as a theoretical construct that concentrates on the institutional forms and the institutional dynamics of capitalism.

1.1 The Concept of The University

In order to assess change over time it is important to establish, at least in abstract terms, what the University¹ represents in relation to society. I take the view that the University is an academic and degree granting institution where students are taught *how* not simply *what* to think. Historically and contextually bound, this ability develops, to varying degrees, the potential for reason, culture and ethics. Although standardization has shaped the formation and development of the higher education institution through history its core premise has remained stable. The notion of individual and collective enquiry for its own sake (Humboldt 1969)– in political economy terms, a system of supply-led learning.

The introduction and institutionalization of the University transformed learning across the world as never before. For the first time in history there was a site to bring a variety of ideas together from many different countries, disciplines, and races as opposed to the church or empire before it that had

spread a single philosophy across many countries. It developed as a site for social transformation and contestation.

Given its common characteristics however, this paper argues that the University does not sit outside the political economy. Rather, that the University has a relational interaction with the economy and is shaped, through history, *with* political, social and economic development.

1.2 Universities and Higher Education Systems in History

From their beginnings, universities represented global institutions ‘in that they functioned in a common language, Latin, and served an international clientele of students’ (Altbach 2004: 3). Indeed the term ‘university’ is derived from the Latin *universitas magistrorum et scholarium*, which translated means ‘community of teachers and scholars’². Since their beginnings in the twelfth and thirteenth centuries in Italy (at the University of Bologna) and in France (at the University of Paris) control of the early western university system was intrinsically linked to either the State or the Church (Ordorika 1999). The university grew as institution all over Europe with scholars from Paris moving east to establish Oxford University and scholars from Oxford establishing Cambridge (Ordorika 1999: 3). In the Sixteenth and Seventeenth Centuries the university was transferred by colonial powers to the ‘new’ world. The University expanded throughout Latin America by means of the Spanish (Universidad Nacional Autónoma de México (UNAM) established in 1551), to America via the English (Harvard University established in 1636) and to Canada via the French (Seminaire de Quebec, established in 1663³). The University retained significant autonomy from the state during the European Reformation, however state and higher education in general terms, became more tenuously interlinked during the enlightenment and the industrial revolution as various generations of aristocracy were trained to support and build ‘the empire’ that was taking on vastly more economic forms. Eventually as Europe secularized, the university was detached from the church and became dominated by the state form (Ordorika 1999).

1.3 The Higher Education System post World War Two

New tensions and conflicts have affected higher education systems in the post World War Two period. These have been accentuated since the perceived failure of Keynesian economics and the subsequent decline of the welfare state in the mid 1970’s (Ordorika 1999). Sources of funding have shifted from the public to the private realm and in this way higher education has become much less isolated from market forces. One only has to look at the present day to see an example of this impact. The worlds richest university, Harvard, is reported to have lost almost USD\$11 Billion dollars from its endowment fund as a fall

out from the September 2008 Financial Crisis which translates into a deficit of approximately USD\$550 Million dollars in income over the next financial year (Summers 2009). The market has become a more pervasive coordinating mechanism in national and global economies and this is having clear impacts on systems of higher education.

Economic globalisation has increased demand-driven knowledge production and this has translated into the subsequent expansion of higher education 'services'. Increasingly knowledge is becoming measured against international standards and benchmarks as multinational corporations and international agencies go beyond their national borders in search of competitive advantage (Ordorika 1999). This expansion and standardisation has been argued to contribute to processes of homogenisation of the higher education sector in the face of such pressures. This ongoing process has been reflected strongly in the commodification of higher education literature (Colclough 1997, Mok and Lo 2007). 'Because of the centrality of the knowledge economy to 21st-century development, higher education has assumed unprecedented importance, both within countries and internationally, because of its roles in educating people for the new economy and in creating new knowledge' (Altbach 2004: 5).

A consequence of this increased demand for knowledge production has been the rise of a global market for higher education (Graf 2008, Yang 2003). Although universities had been international institutions linked to government and the broader economy since their inception, the global market for higher education was something truly new and unique. A transnational competition for students, research funding, and technical expertise underpinned by an unashamed commercial motive emerged in the early 1980's and which began growing rapidly in the 1990's began to put strong pressures on universities to converge toward a similar institutional model (Graf 2008).

This convergence approach to higher education internationalisation has, to varying extents, been reflected in international agency documents. Two documents that are central to the process and that I will focus on in this paper are the Higher Education Reform Strategies as published by the World Bank (WB) and the Guidelines for Quality Provision in Cross Boarder Higher Education published by the Organisation for Economic Co-operation and Development (OECD) in association with the United Nations Educational, Scientific and Cultural Organisation (UNESCO). These politically and socially legitimated agencies disseminate and develop a common framework, defining a context, imperatives, ends and means in which higher education institutions have to operate (Vaira 2004). Moreover, the World Bank [and IMF] bind financial loans to the conformity of their institutional and organizational structural reform requirements (ibid).

The increasing role of science and technology is fostering a highly conflictive transition to the *'knowledge' economy* for developed and developing countries alike. Learning differences and the privatisation of knowledge are becoming major sources of inequality. It is argued that such a transition will act to deepen the divide between development and underdevelopment across the world (Arocena and Sutz 2005: 596).

In this light it is pertinent to ask three analytically sequential questions:

- Firstly, what has the response of the higher education systems in different countries been to these globalising pressures? Has the response been uniform or have countries developed a range of different approaches to dealing with these new realities?
- Second is to ask, what implications exist and what options are available for those low and middle-income countries more vulnerable or exposed to global regulation and reform?
- And thus the central focal question of this paper is: *What does the move toward a knowledge-based economy imply for higher education and governance structures?*

1.4 Relevance

In 1921 Charles Judd of the University of Chicago wrote in *The School Review for American education* of the 'rapid growth of higher education and the expansion of the tertiary schooling system' (Judd 1921: 94). He framed this expansion in terms of increasing educational 'opportunities' for an expanding economy, which he inferred to be international in nature. A decade earlier Guido Marx of Stanford University, lamenting the success of German intellect across the Atlantic, wrote that America lacked true *'universities, and places of 'real' (not sham) investigation, for the training of leaders in thought, science and action'* (Marx 1909: 787). Today the theme seems to continue, with the term globalisation replacing expansion (Yang 2003) and the idea that society lacks thinkers replaced by the more affirmative claims, that the university is being commodified, turning thinking into merely acting. Taking a historical view of the issues in higher education there seems to be a similar if not cyclical nature to the concerns in the literature: Expansions as a consequence of concerns about the lack of intellectual or technical capacity followed by contractions following fears of declining quality and homogenisation of cultural or intellectual values. The question of immediate concern is what is new about the present age? Is the present debate merely an imbedded behavioural reaction to change that has been happening since time hitherto? Part of the answer is surely yes. What I would like to present in this paper however, is something I consider a unique impact on the higher education system and to the University framed not simply in the context of greater change to systems of higher education and competition but the potentially irreversible effects of economic globalisation in the contemporary era.

1.5 Theoretical Approach

To understand the dynamics of these changes the paper takes a social embeddedness approach to capitalist formation. In this view markets do not exist or operate apart from the rules and institutions that establish them and that structure how buying, selling and the very organization of production takes place (Polanyi 1944). ‘Consequently, inherently, there are multiple market capitalisms. There is not a single market system that is distorted in various ways by institutions and politics in the several national contexts’ (Zysman 1994: 244). In taking a social embeddedness approach to capitalist formation I argue that higher education systems have a relational interaction *with* the political economy. Higher education systems act to shape the economy of a particular country in various ways, and at the same time the political economy acts to shape and change the higher education system.

The Varieties of Capitalism (VoC) theoretical framework (Hall and Soskice 2001) develops the social embeddedness approach to comparing outcomes across national economies. Hall and Soskice distinguish between Liberal Market Economies (LMEs) and Coordinated Market Economies (CMEs) ‘which constitute ‘ideal types’⁴ at the poles of a spectrum along which many nations can be arrayed’ (Hall and Soskice 2001: 8). It is from this logic of non-convergence or ‘co-convergence’ that an argument of historically developed modes of coordination is developed. I will use this logic to compare the historical development of higher education in Malaysia and Mexico with the intent of demonstrating a relational interaction between higher education and the political economy.

1.6 The Argument

The prevailing view for higher education reform in low and middle-income economies assumes at its most fundamental level that the formation of preferences is shaped by instrumental rationality. This ‘modernisation’ view develops a notion of strategic advantage for economies that is knowledge-centred and market-led. Such a view ‘assumes that all countries can follow only a single path of evolutionary development and in doing so it disregards the world-historical development of transnational structures that constrain local and national development’ (Wallerstein 1979: 134-5). This paper sets out to show that behaviour is strategic (more than it is rational). Further that this strategic behaviour is context driven and historically formed. Chapter one has demonstrated the close relationship that has historically existed between higher education and the political economy. Chapter two goes on to explain how a dominant *idea* that has been embodied in a shift toward a knowledge-based economy has led to the changing nature of the higher education system. This shift is summarised in the transition from supply-led to demand-led higher education.

Chapter three summarises the literature that has examined this shift and finds that a crucial limitation of the literature to date has been a contextualized analysis. Chapter four uses the Varieties of Capitalism theoretical construct in order to provide the theoretical foundation for such a contextualised analysis. Chapter five has two purposes. Using a comparative study of Malaysia and Mexico it firstly seeks to analyse if a *relational interaction* exists between the formation of skills and the political and economic development of each country. Second, it demonstrates that this *mutually constituting* interaction will, over time, develop a unique set of expectations or *institutional arrangements* in the political economy. This institutional arrangement is labelled a *market logic*.

Chapter six moves distinctly from the abstract of skill formation to the particular of higher education. Using policy responses for higher education chapter six compares how the responses to the knowledge economy reflect the dominant *market logic* that exists in the two economies. Although there are some similar trends, the responses are clearly a product of the unique formation of market capitalism that is particular to each country. There *is* a relational interaction between higher education and capitalist formation. Given the relational interaction, the final chapter examines what the implications are for higher education (as distinguished from higher training), and low and middle income economies whose higher education systems and economies are developing and more vulnerable to global regulation and reform.

1.7 Limitations

The following research has been limited by a lack of empirical data on skills formation and skill transition over time in Malaysia and Mexico. In addition there was not the time or the resources to conduct the necessary primary research that a study of this nature required. Ideally such a study of higher education development would have involved the collection of primary data from a number of different-sized firms in a select cross-section of industries within each country. This would give the most thorough indication of how skill formation within the economy and across industries had changed over time and in response to the knowledge economy.

Given this limitation the paper has focused to a much greater extent on establishing the relational interaction between skill formation and the political economy. It is from this point that that the paper seeks to demonstrate that higher education is constrained and shaped by institutional context and that this has unique implications. It is my hope that this study will inspire further research in this area that will also allow for greater empirical information to be obtained and analyzed.

Chapter 2

The Knowledge Economy: Observations and Implications

Changes in the 1970's and 1980's and more rapidly since the 1990's have occurred in systems of higher education across the globe. While the rate of change and the implications of this change have been widely reviewed, few works have compared the relationship and the interaction between the political economy and the higher education system, particularly within the context of a more interconnecting world. This chapter seeks to present the origins of this change and the implications that have resulted for higher education.

2.1 The Rise of the 'Knowledge-Based Economy'

The 'production' of knowledge is not a new or transformative concept. The issue that is prominent in this paper however is that the production of knowledge has shifted toward the market vis-à-vis labour. There has been a subsequent transition from supply to demand-led knowledge creation and production. Philosophers and anthropologists are less in demand than engineers and business managers because their market utility (profit making potential) is less.

Arguably, the first to coin the concept of the 'knowledge economy' was Peter Drucker who in 1969 wrote that 'we are in the early stages of a similar and equally drastic shift to industries based not only on new and different technologies but also on a different science, different logic and different perception. They are also different in their work force, for they demand knowledge workers rather than manual workers' (Drucker 1969: 12). This was recognition of the inception of the knowledge-based view as a dominant *idea* used for the development of an advanced industrial society. The knowledge-based view develops a notion of strategic advantage for economies that is knowledge-centred and market-led. 'Knowledge (in Manuel Castells' terms, information generation, processing, and transmission) has superseded land, labour, and capital as the fundamental sources of productivity, and power' (Guile 2006: 356). Should low and middle-income economies not have strategic advantages that are based on scale or labour cost, then, from this view they should focus on high value-added services and the production of knowledge. In turn, this process needs high skills and the institutional infrastructure that supports this. Higher education in this sense came to be seen as an investment in Human Capital that in turn would benefit society at large. Traditional economic models had traditionally seen higher education in terms of consumption rather than investment (Lorey 1993). Thus knowledge production and dissemination became a central focal point of strategic importance. This *idea* affected the way that the higher education institution was

viewed on the one hand, while on the other hand the thinking itself began to manifest in development circles.

First, higher education began to be repositioned within the marketplace as a structure of quintessential economic importance. This new focus began to reorganize (reform) higher education in various ways. Second, the knowledge based thinking began to influence the World Bank and OECD/UNESCO who began to re-conceptualize the economy in terms of 'knowledge-based' assets. Development thinking and the emergent development agenda of the mid to late 1990's began to view 'social and economic progress as being achieved principally through the advancement and application of knowledge' (World Bank 2002: xix). Further, that 'developing and transition countries are at risk of being further marginalized in a highly competitive world economy because their tertiary education systems are not adequately prepared to capitalize on the creation and use of knowledge' (ibid).

2.2 The Knowledge-Based Economy and Global Regulatory Agencies

As the underpinnings of the knowledge-based economy became increasingly accepted they translated into policy documents for global regulatory agencies. This has special significance for the institutional transformation of higher education systems in low and middle-income economies. First, it became accepted that in order to compete in the world economy, states must develop unique and competitive systems for the production and dissemination of knowledge (World Bank 2002). This supported a convergence view of globalization processes and thus a convergence model of higher education reform. At the same time global regulatory agencies were beginning to acknowledge the rise of the global market for higher education services (Bashir 2007, OECD 2004, UNESCO 2009) although in different ways.

2.2.1 The World Bank View and the Convergence Approach

The World Bank views the higher education reform as a natural and beneficial extension of a more interconnected 'globalising' world. In this view an integration of markets and freer trade is the key for greater development and higher rates of growth:

Overall, employer demand for skilled labour that can be used in a variety of geographic locations or that can work with multinational teams, which arises from the increasing integration of product and factor markets, is a powerful factor behind growing student demand for internationally recognized qualifications. Such qualifications enable students to access the global market for highly skilled labour with much higher returns on their investment (Bashir 2007: 35).

The preceding quote also demonstrates the World Bank's view that the global market for higher education is a function of demand-led growth due to a more interconnecting world.

2.2.2 OECD and UNESCO: Cross Boarder Education Guidelines

The OECD supported much of the World Bank view to the internationalisation through integration of higher education processes (OECD 2004). Emphasised in the documents however was a need to support developing countries from the unequal effects of the new market for higher education services. To the OECD and UNESCO, the global market for higher education had strong supply-led factors also:

The growing demand for higher education sparked a proliferation of cross-border providers. They ranged from branch campuses of reputable institutions to information and technology companies, 'for-profit' institutions, corporate universities and leading universities with e-learning programs. At this point, these cross-border providers appeared to complement rather than threaten public tertiary institutions. But they also constitute a multi-million dollar business, which is rapidly expanding. (UNESCO 2006: 43).

To help address these concerns the OECD and UNESCO released new Guidelines on Quality Provision in Cross-Border Higher Education, in December 2005⁵. The aim was to help students get reliable information on higher education offered abroad or by foreign providers in their home country. (UNESCO 2006).

Though not binding, the guidelines can be seen as a critical element in the debates over the commercialization of higher education, triggered largely by negotiations over the World Trade Organization (WTO) General Agreement on Trade in Services (GATS). While GATS encourages governments to view education as a service and liberalize this 'market' similar to the World Bank view presented above, the guidelines clearly recognize the importance of 'national authority and the diversity of higher education systems. Indeed, higher education is considered a means for expressing a country's linguistic and cultural diversity and for nurturing its economic development and social cohesion' (UNESCO 2006: 43).

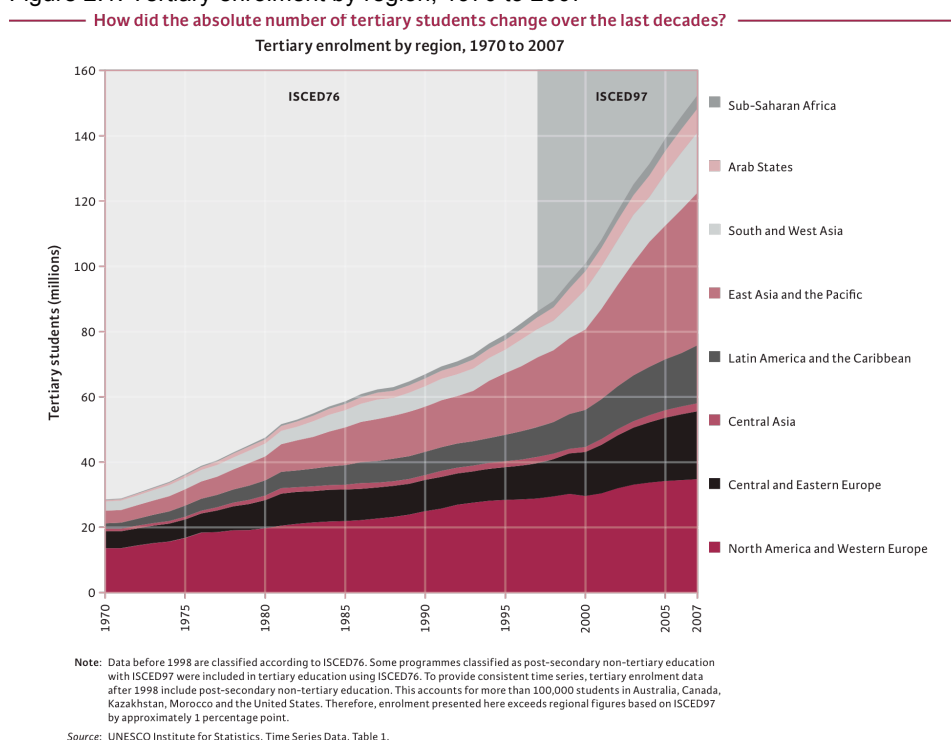
In seeking to mitigate some of the harsher elements of the GATS and trade liberalization on higher education internationalization the OECD and UNESCO acknowledge the convergence nature of the globalizing processes, although they seek to insulate public higher education institutions and developing economies from some of the more pervasive, homogenizing effects.

2.3 The Rise of the Global Market for Higher Education

The transition to a knowledge-based economy and the resultant ongoing processes of higher education transformation has led to the rise of the *global market for higher education* (Graf 2008, Yang 2003). This global market is something new and unique, however its rate of growth and impact on developed and developing states is significant. To understand this impact the next section reviews who is purchasing higher education ‘services’ and who is selling higher education.

According to UNESCO’s Global Education Digest released earlier this year (2009) the number of students pursuing higher education abroad has ‘skyrocketed over the past 37 years, growing five-fold from 28.6 million students in 1970 to 152.5 million in 2007. This translates into an average annual increase of 4.6 per cent, with the average number of tertiary students doubling every 15 years. But a closer look at the data reveals that the expansion has been particularly intense since 2000, with 51.7 million new tertiary students enrolled around the world in just seven years with the challenge of recruiting qualified academic staff for systems that are doubling in size every eight years on average’ (UNESCO 2009: 9). This is supported by similar data produced by the World Bank in 2007. Here they note that ‘the increase in the number of students studying outside their own countries has been extremely rapid in the last 15 years. Over a five-year period the number of students studying abroad rose by nearly 50 percent’ (Bashir 2007: 12).

Figure 2.1. Tertiary enrolment by region, 1970 to 2007



2.3.1 Who is Purchasing Higher Education?

With intra European Union (EU) student mobility excluded⁶, students are overwhelmingly travelling from ‘South’ to ‘North’ and from non-English speaking to English speaking countries (Bashir 2007). Figure 2.1 illustrates the rapid rise in international student mobility since 1975. The level of cross boarder flows from North America and Western Europe has remained stable over time and are consistent with population growth whilst the most significant gains can be attributed to middle income, developing and transition economies in Central and South East Asia, Latin America, and the Arab states. The least developed countries, predominantly in Sub-Saharan Africa, still only make up a fraction of the overseas tertiary student mobility. This is explained by poor pipeline infrastructure such as primary and secondary schooling opportunities.

2.3.2 Who is Selling Higher Education?

Eight OECD countries accounted for ‘75 percent of the total number of non intra-EU foreign students in 1999’ (Bashir 2007: 15). In 2005, the total value of education exports was over \$USD 28 Billion, with the United States accounting for an estimated \$USD 14.1 Billion, followed by the United Kingdom (\$USD 6.0 Billion) and Australia (\$USD 5.5 Billion). The data also confirm the rapid increase in education exports from Australia, New Zealand and Canada, more than doubling between 1999 and 2004-5 (Bashir 2007: 18-20).

It is possible to see that whilst the international agencies are promoting the internationalization of higher education as a process for low and middle-income economies to take advantage of the shift toward a knowledge-based economy, developed nations are conflating this with a booming export market in cross-boarder higher education services. This global market for higher education is having profound affects on the institutional formation of higher education systems in low and middle-income economies.

2.4 Linking Higher Education and the Economy

At its most fundamental level changes to the nature and structure of the economy will dictate changes in the profile of university graduates who seek to utilise their newly acquired professional skills and abilities. At the same time advances in knowledge within the higher education system will bring about changes to the nature and the structure of the economy with advances in science and technology, and social and corporate organisation. The orthodox position as portrayed in its most colourful form by the World Bank views the move toward a knowledge-based economy as giving new hope to developing economies. This view see’s the product of higher education as an input to the economy. Low and middle-income economies should be involved in a process of ‘catching up’ by investing in Human Capital to support the new knowledge-based industries. In contrast I will set out to show that there is actually a relational interaction between higher education and the political economy that

extends beyond its material input-output components. As such higher education is viewed as a dynamic component of the economic system that over time develops a logic of coordination about which the political economy steadily comes to normalise and institutionalise. Further and consequently, dramatic changes to the structure of the economy such as that which is embodied in the move toward a knowledge-based economy will have historically embedded and unique implications for the higher education system in each country. This view is one of non-convergence, or as will be explained in the conceptual framework, one of co-convergence.

Chapter 3

Literature Review

Chapter three will present a literature review that situates my interpretation within the broader academic debates on higher education internationalization and capitalist formation. First, current debates in higher education internationalization will be critiqued and then grouped, such that they can be re-visited and re-examined. The hypothesis developed here is that current debates in higher education internationalization have generally failed to take into account the relational interaction between higher education and the political economy. By presenting and sustaining an argument that demonstrates an interaction we will be able to re-visit some of these key debates (in the concluding section of the paper) and re-examine the implications for higher education systems. Second, the social embeddedness approach to capitalism will be explained and then critically examined to contextualise the analysis.

3.1 Debates in Higher Education Internationalization: Access and Equality vs. Quality and Excess

This next section will summarize some of the central debates in the higher education internationalization literature. Broadly I will focus on the debates that centre on changes to systems of higher education in response to the move toward the knowledge-based economy. For the purposes of this paper I have grouped these debates into two baskets. The first centres on the tensions between the provision of higher education and the equality (or lack thereof) that results. The second basket groups scholar's who focus on the tension between the massification of higher education and the resulting effects this has had for the quality of higher education provision.

3.1.1 Access and Equality

Widening participation in higher education has become a global policy objective. Most significant has been the reversal in World Bank policy on higher education in 1994 that 'concluded that higher education could no longer afford to be considered a luxury good for developing countries in an era of globalised knowledge and commerce. The World Bank's former position argued that the rates of return to education favoured investment in primary education and that more resources should be allocated to it than to higher education' (Morely et al. 2009: 57, World Bank 2002: 45). As presented in chapter two the move toward a knowledge-based economy led to a convergent view of globalization processes. Advocates of the reform stressed that the benefits of higher education accrue not only to its direct recipients but also to society at large (Colclough 1997: 197). Thus investment in higher education would lead, inevitably, to greater economic growth and social welfare for low and middle-income economies. Further that public or state coordination was

largely responsible for existing inequalities and the inefficiencies within higher education in these developing countries. These inefficiencies would also justify the move toward the liberalisation of higher education under the GATS.

On the other hand critics of the new paradigm viewed the expansion of higher education to the developing world as perpetuating existing inequalities and reinforcing existing power relations. Some called this a neo-colonization of knowledge (Altbach 2004) by the dominant universities in the dominant countries. Others, noting that higher education is, by its very nature, intellectually exclusive present arguments that those in low and middle-income economies most likely to benefit from higher education reform are those educated sufficiently to access it or wealthy enough to afford it (Morely 2007). Still again some scholars see the emerging knowledge-based society as reinforcing the polarization between North and South and increasing even further the scientific and technological 'gap' (Torres and Schugurensky 2002). The tension that develops from the move to the knowledge-based economy is that increasing access to higher education will *either dissolve or reinforce* existing inequalities within and between countries.

3.1.2 Quality and Excess

There is general agreement in the literature that the higher education sector had a distinct shift in emphasis beginning in the 1980's to allow for a 'wider participation rate in a movement from 'elite' to 'mass' systems' (Bradley 2008: xi). There is a great deal of empirical evidence to support this increase (Bashir 2007, UNESCO 2006, UNESCO 2009). This is linked in several ways to arguments made by the World Bank above that this change would create significant opportunities for self-determination particularly with reference to low and middle-income economies. In response to this 'excess' of higher education provision came a raft of criticism from inside and outside the Academy. The first criticism was that increasing private sector pressure for growth and profit was leading to the commodification or 'McDonaldisation' (Altbach 2004) of higher education. Again empirically supported, proponents demonstrated how teaching and learning outcomes had steadily declined as more students were fit into the classrooms and the pools of students became academically more and more diluted (Bradley 2008). As well as criticism at the university level, scholars also criticized changes in governance strategies. State financing of higher education has steadily decreased or became performance based (Mok 2005) leading to the corporatization of the university. Regulation has taken on a new management style with quantifiable performance indicators (Ginsburg 1991) being used as a reward and a sanction to standardize and reform the higher education sector. These changes have been argued to reshape and reorganize the sector in various ways at the cost of educational quality. The key tension that emerged from this debate is the interpretation of the effects of the *market becoming the primary allocator* in higher education and the consequences this would produce.

Critical of both views on the changes that were happening in the quality and provision of higher education was a dissecting element of the literature that aimed to attack the conceptual and measurement aspects of both these debates. What is higher education? Can higher education be measured? Is measurement in higher education, (particularly by global regulatory agencies) selective (Hauptman 2009)? And, if so can this measurement be objective (Styhre 2004⁷)?

3.2 Context Matters

The debates mentioned above present valuable contributions to analyzing exogenous change and the subsequent effects in systems of higher education. However these debates generally all regard the higher education system as either *independent from* or *functional to* the political economy. These debates, generally, assume institutional homogeneity and do not consider the ability of actors within the higher education system to affect change. Furthermore the present debate does not consider how this agency is shaped by the political and economic context that acts to set boundaries for this endogenous agency. A contextualized analysis of the changes that have been elaborated in chapter two challenges this traditional way of thinking. Instead this view assumes that the higher education system and the political economy are relational to one another. And that development in the economy will be reflected in the changes to the system of higher education. In order to justify this point the theoretical perspectives to capitalist formation must also be examined.

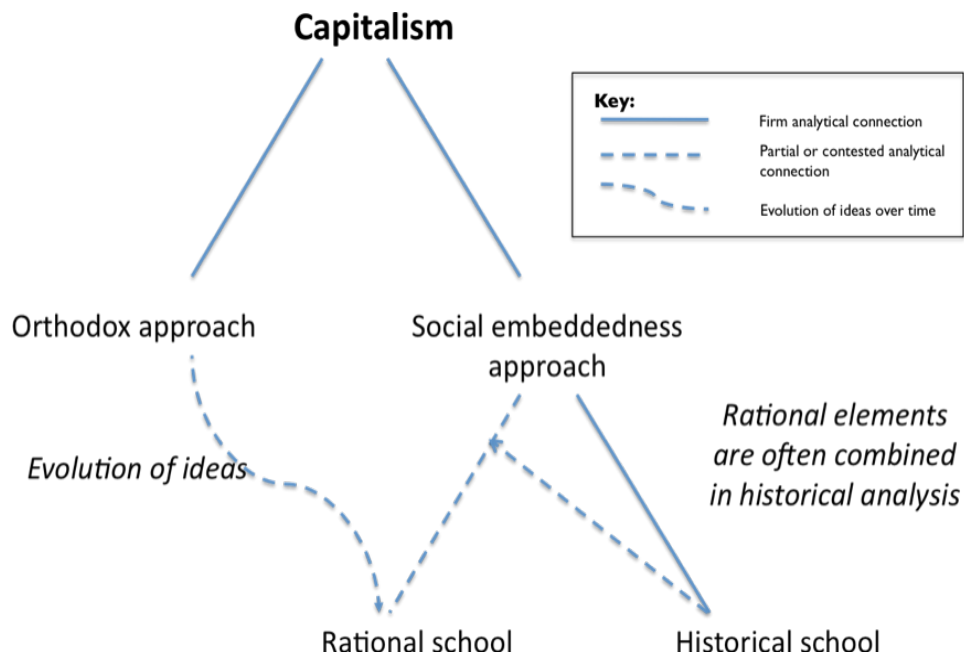
3.3 The Social Embeddedness Approach to Capitalist Formation

There are two broadly defined schools of thought in regard to the formation of modern capitalism. For the purposes of this paper I will label these approaches the Orthodox approach and the Social Embeddedness approach respectively. Although the literature is contested enough similarities exist for this binary grouping to be analytically useful. 'Both [approaches] are indisputably capitalist: the market economy, private property and free enterprise are the corner stones of both systems' (Albert 1993: 100). The point of divergence between the two approaches lies however, in the origins of the market mechanism. The orthodox approach sees the market as a single a-political system that is 'distorted in various ways by institutions and politics in the several national contexts' (Zysman 1994: 244). If we broaden this view the orthodox position widely believes 'that politics and economics are separate and largely unconnected' (Friedman 1982: 3). In the social embeddedness approach markets do not exist or operate apart from the rules and institutions that establish them and that structure how buying, selling and the very organization of production takes place (Polanyi 1944). 'Consequently, inherently, there are multiple market capitalisms' (Zysman 1994: 244) and politics and economics

are necessarily intertwined. Difference between nations can be seen from this approach as the unique combination of rules and institutions that have developed over time and that result in particular economic outcomes. Andrew Shonfield's *Modern Capitalism (1965)* is the pioneering work of this literature (Levy and Zysman 2004: 154).

As the social embeddedness approach developed, it came to be recognized that 'institutions matter'. 'Institutions are the humanly devised constraints that structure human interaction. They are made up of formal constraints (e.g., rules, laws, constitutions), informal constraints (e.g., norms of behaviour, conventions, self imposed codes of conduct), and their enforcement characteristics. Together they define the incentive structure of societies and specifically economies' (North 1994: 360). This view of institutions is a unifying characteristic of what is deemed the new institutional approach to studying the political economy. New institutionalist approaches however, are not a unified body of thought - rather there are multiple analytical approaches (Hall and Taylor 1996). This paper will focus on two major schools that I will label respectively: Rational Choice Institutionalism and Historical Institutionalism (see figure 3.1).

Figure 3.1. Conceptual Illustration of Comparative Theories of Capitalism



Source: Author's illustration.

3.3.1 Rational Choice Institutionalism

The Rational Choice Institutionalism school groups scholar's from several disciplines of political science, economics and international relations, which although being labelled heterodox in their approach (Colander 2000: 137) share much in common with orthodox economists in their method. Scholars have

variously been labelled New Institutional Economists (NIE), or Rational Choice Intuitionist's (RCI). The Rational Choice approach 'builds on, modifies, and extends neo- classical theory to permit it to come to grips and deal with an entire range of issues heretofore beyond its ken' (North 1995: 1). Recognizing one fault of neo-classical economics regarding instrumental rationality, the approach builds into the theory that there is not one determinate equilibrium that will be obtained but that multiple equilibria can occur (ibid). 'The neo- classical result of efficient markets only obtains when it is costless to transact. When it is costly to transact, institutions matter' (North 1995: 2).

From this view RCI tends to see politics as a series of collective action dilemmas (Ostrom 1990). This can be defined as instances when individuals, acting to maximize the attainment of their own preferences 'are likely to produce an outcome that is collectively sub- optimal (in the sense that another outcome could be found that would make at least one of the actors better off without making any of the others worse off)' (Hall and Taylor 1996: 12). Hence, institutions (formal and informal) act as templates for action in order to guide individuals with limited information and limited capacities to maximise their welfare. These institutions however create inefficiencies in the view of the Rational Choice Institutionalists. As such RCI proponents seek to develop theories that minimise external constraints on the primary coordinating mechanism (the market) with the aim to increase rates of allocative efficiency allowing the market to work as effectively as possible.

3.3.2 Historical Institutionalism

Scholars from the Historical Institutional school, while acknowledging elements of Rational Choice, see the state as not only implicit in economic processes but to varying extents functional to the success of the political economy. They aim to demonstrate that variations in capitalism among countries are the outcome of historically contingent experiences that go into blending the particular market economy. Various schools of thought that fit within this view are Historical Institutionalists (Hall and Soskice 2001, Zysman 1983), Neo-Marxist economists (Skocpol 1985), and French Regulation theorists (Boyer 1997). John Zysman, a recognized Historical Institutionalist summarizes this approach:

The particular historical course of each nation's development creates a political economy with a distinctive institutional structure for governing the markets for labour, land, capital and goods. The institutional structure induces particular kinds of corporate and government behaviour by constraining and laying out a logic to the market and policy-making processes that is particular to that political economy (Zysman 1994: 243).

The Historical Institutional view takes a much more systemic view of the political economy and focuses to much greater extents on system coordination and system calibration. There is no ‘one-best-way’ to political and economic coordination, rather emphasis is placed on ‘the presence of ‘correctly calibrated’ sub systems increasing the performance of the system as a whole’ (Hancke et al. 2007: 1) while at the same time giving breadth for ‘specific adjustment paths in response to pressures for change’ (ibid). The historical school is not uncriticised. Particular criticisms will be examined and defended in the methodology section (4.2) of this paper.

Chapter 4

Theoretical Framework and Method

As developed in the previous chapter this paper takes the approach that markets are a product of politics. This opens paths for the analysis of multiple market capitalisms. To operationalise this, I intend to apply the logic of Hall and Soskice's (2001) Varieties of Capitalism (VoC) as the theoretical framework to analyze the move toward a knowledge-based economy and to ask what implications this will have for higher education. At the outset it is important to highlight that the VoC framework is not 'settled wisdom' or a unified theory of everything, but a work in progress' (Hall and Soskice 2001: 2). However at the same time it has been argued that the VoC framework is a central piece of literature and that it provides an increasingly robust framework by which to push forward and answer questions in comparative political economy (Hancke et al. 2007). In 2007 Hancke, Rhodes and Thatcher published a critique of VoC approach *Beyond Varieties of Capitalism*. For the purposes of this paper I will use their work as a point of emphasis not content. I view the work more as a continuity of the VoC and as such I will use elements of the *Beyond Varieties of Capitalism* to illustrate the development of the VoC ideas. This chapter will first provide an explanation of the VoC framework and the logic that it develops for comparing national economies. This will be followed by a critique of the VoC as it has been originally been applied. The final part will explain how the comparative analysis will be undertaken.

4.1 Varieties of Capitalism

Hall and Soskice (2001) distinguish between two types of political economies, Liberal Market Economies (LMEs) and Coordinated Market Economies (CMEs), which constitute 'ideal types' at the poles of a spectrum along which many nations can be arrayed' (Hall and Soskice 2001: 8). The Varieties of Capitalism approach to *comparing this national variation* rests on two further theoretical premises. The first is the premise of Institutional Comparative Advantage and the second is the premise of Institutional Complementarity.

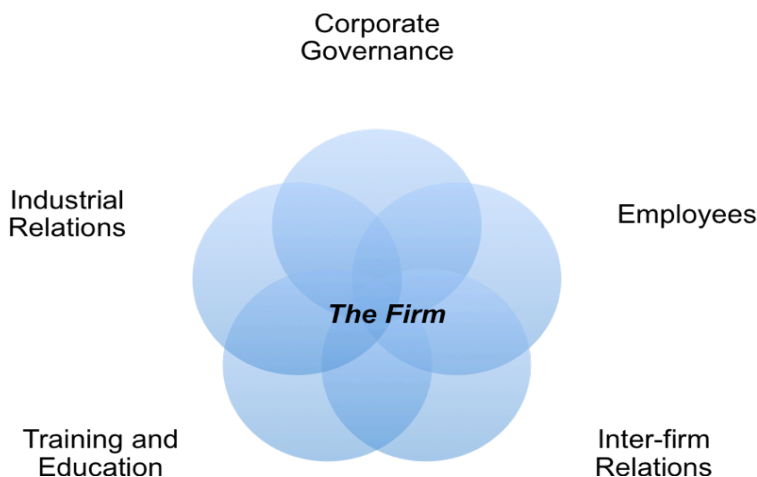
Comparative Institutional Advantage is derived from the way particular national economies resolve their 'coordination' problems. Hall and Soskice compare two ideal examples: the United States and Germany to distinguish contrasting methods of coordination. LMEs such as have developed in the United States for instance tend to develop their methods of coordination primarily through hierarchy and competitive market arrangements. CMEs as have developed in Germany on the other hand tend to rely to a much larger extent on non-market, strategic relationships and (passive) state interventions to resolve their coordination problems (Hall and Soskice 2001: 8-9). 'By placing the firm at the centre of their analysis, and adopting a 'relational view'

of its role as an exploiter of the core competencies and capabilities of its environment VoC demonstrates the links between the competitiveness of the firm and the ‘institutional comparative advantage’ of national economies (Hancke et al. 2007: 5).

It follows that firms and other actors in CMEs should be more willing to invest in *specific* or *co-specific assets* (i.e. assets that cannot readily be turned to another purpose and assets whose returns depend heavily on the active cooperation of others), while those in LMEs should invest more extensively in *switchable assets* (i.e. assets whose value can be realised if diverted to other purposes). This follows from the fact that CMEs provide more institutional support for the strategic interactions required to realize the value of co-specific assets, whether in the form of industry specific training, collaborative research and development, or the like, while the more fluid markets of LME’s provide economic actors with greater opportunities to move their resources around in search of higher returns, encouraging them to acquire switchable assets, such as general skills or multi-purpose technologies’ (Hall and Soskice 2001: 17).

Institutional Complementarities (reliance between sphere’s of coordination) has special relevance for the study of comparative capitalism (see figure 4.1). It suggests that nations with a particular type of coordination in one sector or ‘sphere’ should tend to develop complementary practices in other spheres as well (Hall and Soskice 2001). Moreover, economies can be compared by their relative levels of coordination, i.e. those economies with greater and more coherent coordination mechanisms are assumed to have more robust economic performance over time while those economies where coordination is loose or fragmented are more likely to suffer from volatile economic growth and poorer performance over time due to the lack of ‘positive feedbacks’ (Hancke et al. 2007).

Figure 4.1. Conceptual Illustration of the Five Spheres of Varieties of Capitalism



Source: Author’s illustration as adapted from Hall and Soskice (2001).

4.2 Critique to Historical Institutionalism

This paper will develop a largely historic logic of analysis building upon the work of Hall and Soskice's Varieties of Capitalism (VoC) theoretical framework. There is however contention between New Institutionalists. Thelen (1999) captures the essence of contention between the two major institutionalist schools:

Rational Choice [theorists] have produced elegant theories but generate little to explain real observed events. From the other side, rational choice theorists have often argued that historical institutionalists are engaged in something less than theory building; they are stringing details together, 'merely telling stories' (Thelen 1999: 372).

Rational choice theorists aspire to produce general (even universal) theoretical claims (Thelen 1999: 373). This builds on the neo-classical economic approach as espoused by Douglas North previously (section 3.1.1). This universal and deductive approach to the analysis of the political economy is argued to over generalize events for the sake of prescription. The formation of preferences through the assumption of instrumental rationality is case in point (Thelen 1999). This exogenous application of preferences and behaviour is incomplete and fails to take into account the role of power, and historically formed factors. Such over generalisations have been argued to reinforce inequality when translated in policy reforms (de Sousa Santos 2006: 14). This inequality is felt most acutely in low and middle-income economies.

The historical approach of which the VoC forms a part is not without its weaknesses. Moreover, historical institutionalists are beginning to adopt more rational foundations to their analysis (see figure 3.1). Historical institutionalists emphasize system coordination favouring on-path continuity over rational calculative judgement. Behaviour is assumed to be strategic and contextually derived. Change is explained by punctuated equilibrium, a dramatic event or set of circumstances that disrupts the institutional system and sets it off on a new course. However, when such instances occur and what constitutes such an instance is largely subjective and can only be proven after the fact. The inductive approach to mapping change leaves its prescriptive focus weak (Hall and Taylor 1996). That is to say the historical approach is much more useful to an explanation of what has happened or what is happening and less able to explain what will happen in the future.

4.3 Critique of Varieties of Capitalism – the Role of the State

The role of the state as a major actor in the economic performance of the country is undervalued in the VoC framework (Schmidt 2007). Hall and Soskice place a greater emphasis on *regulatory regimes* in the construction of the institutional environment (Hall and Soskice 2001: 4). These regulatory regimes

are influenced by government policy (in part government policy is in fact reflective of the existing mode of coordination), however the state is not considered a regime setter unto itself. This lack of state autonomy particularly in ‘mid-spectrum’ low and middle-income economies has been a consistently criticized element of the VoC approach (Hancke et al. 2007: 23).

There is evidence in both case studies that the state has played an important and overt role in economic coordination. When analysing the Malaysian example there is significant evidence that the government is playing an active role in social and economic engineering in the country (Teik 2006). This role has been evidenced to be against the traditional business class (Chinese capitalists) and in favour of the Bumiputera Malay interests (Teik 2006, Hancke et al. 2007). In Mexico, due to its relatively recent emergence from an autocratic state system and transition toward market capitalism there has been a dramatic expansion of the state-run activities as it sort to realign the economy with global networks (particularly to the United States due to its geographic proximity) (Skidmore and Smith 1984).

Hancke, Rhodes and Thatcher (*Beyond Varieties of Capitalism*) bring the state back into the analysis, particularly to countries whose coordination patterns are not highly developed. This is done by extending the VoC typology to Mixed-Market Economies and Emerging Market Economies (MMEs and EMEs). It must be emphasised that these extensions are viewed less as separate varieties and more as a cluster of countries in transition with only partially formed institutional ecologies (Hancke et al. 2007: 5-15). The teleology of these economies is generally expected to ‘divergently converge’ to either the LME or CME. This paper will incorporate this emphasis into its analysis for Malaysia and Mexico.

4.4 Other Critiques to Varieties of Capitalism

Several other critiques to the VoC approach have been put forward since its inception in 2001. Most of these however are either not sustained or represent an inaccurate reading of the approach. First, as has been elaborated already is the notion of ‘ideal types’. Many critics have interpreted Germany as being directly equivalent to the coordinated market economy and the United States as being directly equivalent to the liberal market economy. This critique argues that the VoC approach is overly deterministic trapped ‘in the iron cage of institutions’ (Crouch 2005: 3) seeking to make ‘paradigm cases’ (Hancke et al. 2007) of particular countries. It must be reiterated that, following Max Weber’s notion of ‘ideal types’ Germany and the United States are representative of countries that show contrasting market logics. Germany and the United States have never been truly representative of either the CME or LME and were never intended to be so.

Following this first critique, many have criticized the approach, confined as it were, to the historical institutionalist school, as not being able to account for the changes that are occurring as a consequence of economic globalization and what has liberally been referred to as ‘neo-liberalism’. Again here, a more concise reading of the approach reveals that the logic of adjustment is ‘reinforced rather than undermined by globalization’ (Hancke et al. 2007: 6), meaning that there is no “one best way”, as in arguments for neo-liberal convergence, but rather ‘two’, on which middle spectrum countries (with muddled institutional architectures) may ‘divergently convergence” (Hancke et al. 2007: 7).

4.5 Methods of Analysis

The VoC approach places the firm as the central microeconomic actor in the economy. From this standpoint it is possible to deduce that the firm’s strategic choices will be constrained by the availability of skills. Further, in a given environment firms are likely to develop strategies that make greatest use of the available skills. An aggregation of these decisions develops a dominant mode of production (Estevez-Abe et al. 2001). In turn, this creates particular ways of producing and competing in a national context - it produces a dominant mode of coordination or *market logic*. Thus certain types of *skill formation* will tend to align with certain dominant market logics. At the same time however the dominant market logic will be affecting the type and mode of Training and Education programs through a repetition of ‘positive feedbacks’ shaping and changing the institutional environment of the higher education system.

In CMEs for example the risks for workers in investing in specific or co specific skills is mediated by long term employment, minimal risk of layoffs even during down turns and high average wages. This in turn develops higher education systems that are much more industry specific offering education and training that supports the investment of specific skills. Workers who invest in these skills will be much less concerned about trying to recover the cost (both in time and expense) of their education as the investment is mediated by the expectation of well-paid and long-term employment opportunities after graduation. In LMEs on the other hand the risks for investing in specific skills are much greater. The market of supply and demand is more pervasive in determining the returns on skill investment and this market for skills is much more volatile. This volatility leads to risk-aversion strategies by workers, who by and large tend to invest more heavily in skills that are transferable (Hall and Soskice 2001). This will lead to an institutional environment that offers flexible degree programs and portable skills that can be easily transferred between firms and between industries. Programs of study are likely to be shorter so workers waste as little time as possible being educated and are able to recoup their investments as quickly as possible. Price in the same sense is more likely to be market determined.

Globalising pressures are moving in the direction of the LME. That is to say that it is relying on the global market as being the main method of economic coordination for the supply and demand of higher education services worldwide. This is clearly evident in the convergence approaches taken and reinforced by the World Bank, OECD and UNESCO as mentioned in chapter two.

Chapter 5

Situating Malaysia and Mexico in the Debate on Socially Embedded Capitalism

Using a comparative study of Malaysia and Mexico this chapter firstly seeks demonstrate that a *mutually constituting* process will, over time, develop a unique set of expectations or *institutional arrangements* in the political economy. Second, measures affecting macroeconomic stability and labour market vulnerability will be mapped to analyse if a *relational interaction* exists between the formation of skills and the political and economic development of each country. These institutional arrangements can usefully be grouped on the LME to CME spectrum.

5.1 Skill Formation in the Political Economy

The analysis begins with an understanding of skill formation in the political economy. With particular reference to the higher education system there are supply and demand side factors that go into the formation of skills. These are summarized in table 5.1 and are considered generic to most political economies. These factors are in relation to the firm.

Table 5.1: Factors Affecting the Formation of Higher Education Skills in the Economy in Relation to the Firm

	Supply side factors	Demand side factors
Workers (students)	Capacity for highly skilled positions requiring higher education. Capacity of labour force to undertake higher education.	Government 'priority areas' for higher education and capacity to provide advanced higher education. Industry skills needs (particularly large multinationals)
University	Collaborative opportunities with other universities, industry and the government. Revenue from international student fees	Increasing competition for research contracts. Industry needs, objectives and government priorities.

State	<p>Research and Development opportunities from outside the state.</p> <p>Capacity upgrading opportunities and new skills acquisition.</p>	<p>Global market for higher education poaching national talent pool.</p> <p>Move toward a globalizing knowledge economy putting pressure on national systems of advanced education to compete.</p>
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Source: Author's elaboration.

5.1.1 Divergence in Skill Formation across Coordinated and Liberal Market Economies

Skill formation has universal elements however in the application of the VoC logic we come to understand that it is also context driven. Estevez-Abe, Iversen and Soskice (2001) build upon the VoC approach analyzing the formation of skills in developed economies. Their work provides a classification of the unique characteristics of skill formation that accompany both the LME and the CME. This is briefly summarized in table 5.2. I will use this work to develop a classification system more appropriate to an analysis of low and middle-income economies. This will be elaborated in section 5.4.

Table 5.2. Summary of CME and LME characteristics

	Economic Characteristics	Skill Formation Characteristics
Coordinated Market Economy (CME)	<p>Strategic coordination with industry</p> <p>Economic stability</p> <p>Incremental innovation</p> <p>State involved in coordination*</p>	<p>More specific skill development will be rewarded</p> <p>Education is likely to be regulated by institutionalised norms that define what a 'good' education should involve</p> <p>Long term investments in education is more common</p> <p>Price more likely to be regulated</p>
Liberal Market Economy (LME)	<p>Market centred competition between industries</p> <p>Economic instability</p> <p>Radical innovation</p> <p>State involved in coordination*⁸</p>	<p>More industry independent skill development will be rewarded</p> <p>Education content and form is more likely to be regulated by its market utility</p> <p>Short term investments in education are more likely</p> <p>Price will be market determined</p>

Source: Hall and Soskice 2001 and Estevez-Abe, Iversen, and Soskice 2001.

The next section builds a historical view of Malaysia and Mexico's political and economic history. This gives a theoretical foundation by which we can develop a hypothesis, firstly of institutional divergence between the two countries and second where on the spectrum of LME to CME each of the countries 'fit'. After this I will empirically test this hypothesis by mapping factors affecting skill formation from an elaboration of Estevez-Abe, Iversen and Soskice 2001.

5.2 Political and Economic History of Malaysia

Malaysia formally gained *Merdeka* (independence) from British colonial rule in 1957. Malaysia's economic development toward the market economy took the form of careful state planning with the underlying congruent of *stability*, stability at almost any cost that was typical of East Asian countries during this period. This control influenced the way that the economy developed and set in motion expectations and strict institutional arrangements for workers, firms and capital. This in turn acted to shape the higher education system in Malaysia.

The state's Outline Perspective Plan 1971-90 set long term and *incremental* goals with a political agenda of social engineering that under laid the state's economic intervention. 'The pursuit of this agenda under economic vicissitudes and against the opposition of specific social classes, ethnic communities, and institutional centres of power and influence, continually led to political conflicts' (Tiek 2006: 172). The *state imposed strict regulatory controls* on local and foreign business activity and at the same time became a major investor itself. 'Public enterprises proliferated from 22 in 1960 to 109 in 1970, 656 in 1980, and 1014 in 1985' (Tiek 2006: 177). The establishment of universities would feature prominently in this process. This process of Import Substitution Industrialisation (ISI) would provide market stability in the Malaysian economy as well as protect national business interests and allow a variety of business-to-government networks to establish themselves.

YAB Dato' Seri Dr Mohamad *Mahathir* became president in July 1981. 'Mahathir's approach to development may be summarised as a composite of bureaucratic reformism, economic nationalism, and privatisation' (Tiek 2006: 182). It was modelled after the East Asian export-oriented development model and inspired particularly by the economic success of Japan and South Korea, who are also considered in much of the VoC literature as being representative of CMEs (Hall and Soskice 2001, Schneider 2008). Mahathir was patient with his government reforms and would serve for 22 years. He took a keen interest in balancing the economic interests of the dominant Chinese middle class with positive social protection for the national Bumiputera Malays.

Mahathir completed a *Privatisation Master plan* in 1991 that signalled a 'radical shift to the private sector' (Adam and Cavendish 1995b: 135 in Tiek 2006: 183). Still, privatisation would happen on the government's terms with Mahathir acting as Prime Minister and as Chairman of the Malaysian Business Council (Mahathir 1991). This *Master Plan* would open up the Malaysian economy however Mahathir's dual-role would create a level of certainty and predictability for the dominant business interests in Malaysia who had been protected for so long under the ISI and then export-oriented plans of the 1970's and 1980's. 'Malaysia experienced a GDP growth of 8.5 per cent between 1991 and 1997. During this period, per capita income increased two-fold, in terms of US dollars, and the incidence of poverty fell from 16.5 per cent to 6.1 per cent' (Wilkinson and Yussof 2005: 363).

The Asian Financial Crisis of 1997 hit Malaysia hard. 'The ringgit fell from a peak exchange rate of RM2.493 to US\$1 in April 1997 to its lowest rate of RM4.88 on January 7 1998' (Tiek 2006: 186). In response to the crisis Deputy Prime Minister and Minister of Finance Anwar Ibrahim announced a conservative 1998 budget, 'the ringgit was pegged at RM3.800 to US\$1 and on October 1 the ringgit could not be traded overseas. The currency peg gave domestic businesses and foreign direct investment a measure of *stability* by which to plan contract and manage' (Tiek 2006: 187). The state's recapitalisation, rescue and reflation scarcely accorded with the reforms the international agencies had demanded of Asian crisis-stricken regimes. Yet, by late 1999, trade surpluses had built up the country's reserves and the economy began to emerge from recession (*ibid*).

As the preceding glimpse shows, Malaysia has steadily emerged from independence to form into a productive middle-income market economy. The economy has been overshadowed by state led industrialisation that has not always aligned with international competition but that had consistently involved the national business interests in consultation with the state. Coordination is a mix of strategically oriented long-term social alleviation and market oriented competition. This accords strongly and consistently with the economic characteristics to be expected in an Emerging Market Economy that is transitioning toward a Coordinated Market Economy. Malaysia shows considerable coherence in the coordination mechanism with business, the bureaucracy and the state. Referring back to the emphasis added in the *Beyond Varieties of Capitalism* (Hancke et al. 2007) literature this coherence is synonymous with more consistent economic growth over time.

5.3 Political and Economic History of Mexico

Mexico's path toward a market economy is characterised with much greater political, economic and social volatility. A volatility that was undoubtedly accentuated by Mexico's intimate geographic proximity with the world's dominant economic superpower of the post World War Two period, the United States. This tenuous relationship coupled with a persistent social revolutionary movement, massive and volatile inflation rates, and two oil shocks (1979 and 1982) would shape the institutional environment of Mexico in a unique way. In contrast to Malaysia, Mexico's institutions were characterised by vertical patronage, *flexible* labour arrangements, and collective actions for basic rights (Schneider 2008). If Malaysia's transition to a market economy was characterised by enforced stability, Mexico's was characterised by *forceful instability*.

Similar to Malaysia, Mexico's government increased its general control over the economy during the period after the Second World War and into the 1960's. The government operated the leading institutions in order to foster the industrialisation of the economy (Carlos 2009: 156). 'As of 1970, for instance, the government controlled principal shares in nine of the country's top ten firms' (Skidmore and Smith 1984: 249). High levels of inequality in the Mexican population and the external constraints (military, social, economic and otherwise) placed on the Mexican economy, principally by the United States, began to embed a new-*dependency* (Wallerstein 1979: 66) into the Mexican economy.

In 1982 new, Harvard trained Miguel de la Madrid took over the presidency. However before he took office in December the Mexican economy was shaken by yet another devaluation' (Skidmore and Smith 1984: 254). Inflation had reached almost 100 per cent. 'A devaluation occurred of almost 100 percent and the foreign debt totalled 80 billion by the end of 1982' (ibid). This coupled with the reduction in the price of oil proved devastating for the Mexican economy. By early 1983 de la Madrid had largely adopted the austerity program in partnership with the International Monetary Fund (Skidmore and Smith 1984). These moves would reduce the role of the state in the economy and open the economy up to international competition. International firms would be drawn to Mexico by access to inexpensive labour and flexible labour regulations. There would be intense market competition between industries and continued economic instability.

Whilst Mexico would enjoy some limited economic success, it came at a severe social cost. Workers were conditioned by high inflation rates that caused investments in skills to become informal, and their value realised more immediately. Liberalising labour regulations made job security weak, and high income inequalities made workers look toward the embedded vertical patronage networks for upward social and economic mobility. Mexico would

spend the next years enduring the more point edges of neo liberal adjustment and reform and would join the OECD in 1994 and become a member to the North American Free Trade Agreement (NAFTA), which also came into affect in 1994⁹ (OECD 2008).

The political and economic upheaval characterized in the Mexican example would mean that its economic system would remain fragmented and dependent on either the state or external forces (multinational firms and global regulatory agencies). Hancke et al. (2007) develop the notion of loosely coordinated and tightly coordinated economies as an extension of the VoC approach. They find that in economies that exhibit fractures such as those evident in Mexico that there is often a move toward a 'lowest common denominator' approach to economic coordination that tends to follow the mode of international competition. In this case this is toward the United States (Hall and Soskice 2001, Hancke et al. 2007) and the LME.

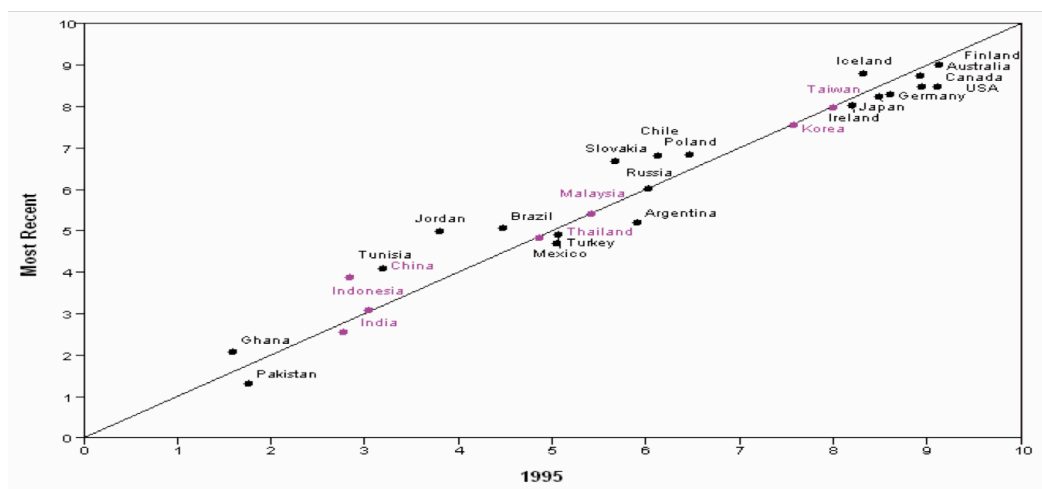
Malaysia's post-colonial independence took the form of incremental economic development and social alleviation. Long periods of political and economic stability under the United Malays National Organization (UMNO) and export-oriented industrialization allowed the political economy to develop highly organized strategic networks. Coupled with independent and strong state involvement Malaysia can be argued to have developed a much more coordinated market economy. Mexico's path toward a market economy was much more *volatile*. Although the state retained predominate control in the 1960's and 1970's perpetual political upheaval and the overt influence of the United States would create much more market-based competition and economic instability. Mexico would see brief periods of strong double-digit economic growth however this growth would be erratic and subject to international commodity prices. This, coupled with the vulnerability of its economic position in the early 1980's expedited its explicit transformation toward the liberal market economy.

5.4 Comparing Malaysia and Mexico

5.4.1 The Orthodox View Revisited

The World Bank makes no such distinction between market economies. This is consistent with the orthodox approach to capitalist formation mentioned in chapter three. In this view economic development and the acquisition of skills is much more pragmatic. Figure 5.1 is taken from a World Bank report entitled 'Malaysia and the Knowledge Economy: Building a World Class Higher Education System'. The graph plots several countries including Malaysia and Mexico according to their 'knowledge capacities' and their level of 'development'. This modernization approach shows how less developed nations might move up the 'knowledge path' towards the end point of common welfare and rewards should they invest sufficiently in higher education and innovation systems.

Figure 5.1. Global View: Knowledge Economy Index



Source: World Bank 'Malaysia and the Knowledge Economy: Building a World-Class Higher Education System (2007).

5.4.2 Plotting Institutional Divergence in Malaysia and Mexico

In this section I want to examine if the conclusions of institutional divergence are reflected in the formation of skills. The VoC framework outlines a number of measures to map the skill formation of developed economies and to determine their dominant mode of coordination. Such measures chart and compare *employment protection with unemployment protection* and *labour market legislation with redundancy benefits* (Estevez-Abe et al. 2001: 154-168). Due to the lack of labour regulations, the high incidence of informal employment, and the lack of, or fragmentation of labour legislation such measures cannot be usefully applied to the Malaysian and Mexican cases. Using the logic of VoC however, we are able to draw out what these measures are intended to insulate workers from and then use alternative measures to aid in the mapping exercise as applied to low and middle income economies.

Employment protection and labour market legislation is normally introduced in developed economies to insulate workers from unpredictability, giving workers a measure of *stability* and assurance in the working environment. Unemployment protection and redundancy benefits are normally introduced to reduce *labour market vulnerability* reducing the dependency of the worker on the firm or the organization. Thus, it is these two measures, *Stability* and *Labour Market Vulnerability* that I will use to map Malaysia and Mexico in an attempt to develop an empirical understanding of their respective market logics in relation to the formation of skills. This will complement the theoretical and historical evidence presented in sections 5.2 and 5.3.

Ideally such a study of skill formation in two different countries would have involved the collection of primary data from a number of different sized firms in a select cross-section of industries. This would give the most thorough indication of how skill formation within industries had changed over time and in response to the knowledge economy. This evidence could be compared to changes that occurred in the higher education system to see what relational interaction (if any) existed. Time and resources has prevented such primary data from being collected. However, even if such data were to be collected the following measures would still have to be outlined and presented in order to complement and sustain any argument for institutional divergence between the two economies.

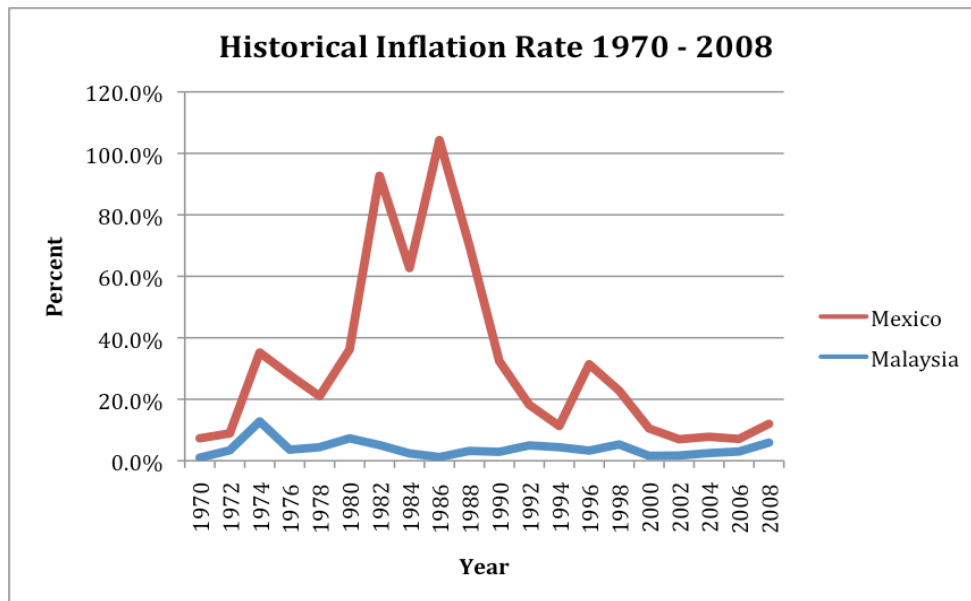
Economic *stability* could be mapped in a number of ways. Measures such as budget deficit ratios or interest rate volatility over time are the most common. For the purposes of this study average inflation rates and government spending on tertiary education captured the relative *stability* of the economy definitively. Budget deficit ratios were considered, however literature on this measure tended to regard government-spending rates as artificially creating (or attempting to create) stability (in an unstable economy). Further, government spending and taxation both affect economic stability – these two measures are not independent of one another (Blanchard and Perotti 2002: 1332). Offsets by selective tax schemes could cause the government deficit figures to be misleading. Average interest rates or interest rate volatility is a robust and sound measure of macroeconomic stability. However, more reliable data over longer periods of time was found for inflation rates and as such interest rate volatility was excluded from this study.

There are also many other measures that could have been used when choosing to map *labour market vulnerability* - labour regulations or the unionisation of the labour force being just two. Labour regulations however are partial or non-existent in both case studies as previously mentioned. Unionisation has been actively suppressed in Malaysia throughout both the protectionist and the more export-oriented development periods of the economy (Kuruvilla 1995: 47-51). In Mexico the union was widely used as a political tool, especially when the state controlled the majority of industry in the country. As such these measures do not allow useful comparison between countries, as the mapping would be either inconclusive or much too overtly moulded by political power struggles to be accurate. Further, openness to trade and informal employment gives a very clear and representative indication of how vulnerable the average Malaysian or Mexican worker is and how they might develop strategies to alleviate and overcome this vulnerability.

The first broad measure of economic stability is inflation rates over long periods of time. Inflation fluctuations must be long enough for workers to develop expectations and thus behavioural responses to alleviate the negative consequences of these rates. High inflation rates over an extended period of time are likely to cause a great deal of instability in the economy. Workers will

be less inclined to invest extensive time or money into qualifications that may not bring about a predictable short-run return on this investment. Figure 5.2 is a chart of the historical inflation rates of both Malaysia and Mexico from 1970 to 2008. As you can see Mexico has had consistently higher and more erratic inflation rate fluctuation over this period, of particular note are the two oil price shocks of 1979 and 1982. Malaysia on the other hand tends have a much lower and much more predictable rate of inflation over time.

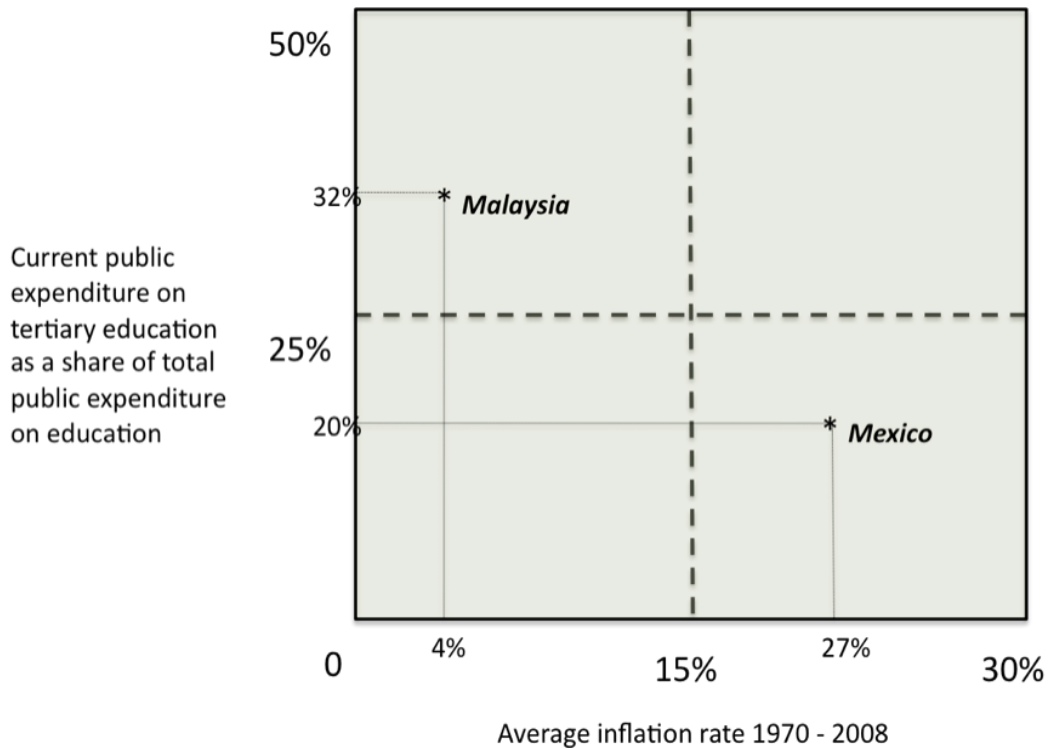
Figure 5.2. Historical Inflation Rate Comparison: Malaysia and Mexico



Source: International Monetary Fund statistical database of Consumer Price's by reporting quarter.

Inflation rates by them selves to not illustrate the entire picture with regard to the stability of the institutional environment in these countries. Figure 5.3 charts the average inflation rate of Malaysia and Mexico against the public expenditure on higher education as a share of total public expenditure. As was elaborated in section 4.3 this analysis includes the active role of the state into the formation of the institutional environment, particularly in emerging or mixed market economies of which Malaysia and Mexico are representative. From this perspective we would expect a coordinated market economy to play a more active role in the sponsoring and development of skill formation where as in the liberal market economy the state is much more likely to allow the market to determine the supply and demand for higher education and thus have less direct involvement. Mapping Malaysia and Mexico across these two measures of Stability we are able to see two very divergent trends. Malaysia's institutional environment indicates a much more coordinated approach with low inflation and high state sponsorship of higher education. While Mexico's high inflation is complemented by proportionally less public investment in higher education. This accords with a much more volatile, yet more autonomous market environment that we would expect of an LME.

Figure 5.3. Average Inflation Rate of Malaysia and Mexico against the Public Expenditure on Tertiary Education as a share of Total Public Expenditure



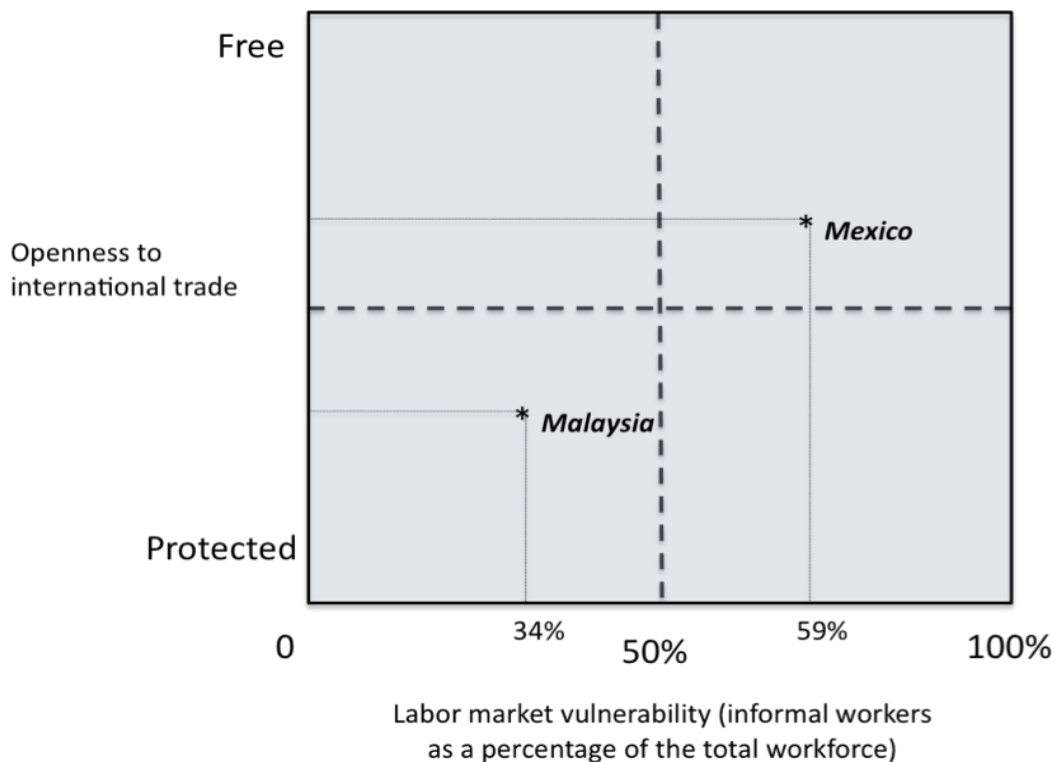
Sources: International Monetary Fund (IMF) statistical database of Consumer Price's by reporting quarter. World Bank, Constructing Knowledge Societies report (2002).

To complement the charts comparing the general institutional *stability* over time relative levels of *labour market volatility* in Malaysia and Mexico will also be mapped. Highly volatile labour markets are a key indicator in the VoC literature of liberal market coordination. Volatility in this sense is not always taken to be negative. This volatility rewards risk taking and has been linked to greater levels of innovation and stronger economic growth in shorter periods of time. A lack of volatility tends to indicate slower economic growth with more incremental innovation (Hall and Soskice 2001). *Labour market vulnerability* in low and middle-income economies can be difficult to map and any measures run the risk of being overly ambiguous. This is because these countries generally have partial or fragmented labour legislation and a large number of workers are employed in the informal sector. This is complicated even further as the definition of 'formal' workers versus 'informal' workers varies from report to report and agency to agency. The International Labour Organisation (ILO) takes the following position on informal workers:

Either way, informally employed workers are less protected, remain more vulnerable to sudden changes in market conditions, have to accept severe cuts in their wages when fortunes change and are less likely to take part in (formal) education and training programs financed by public authorities (International Labour Organisation 2009: 22).

For the purposes of this paper I will use this justification as a means to map labour market vulnerability taken simply as the percentage of informal workers in the economy as a percentage of the total workforce. This is charted against the openness to international trade (figure 5.4). Openness to international trade can present opportunities as well as threats to labour especially in low and middle-income economies. Freer trade can be an incentive for foreign firms to come and invest where there is access to cheap sources of labour creating job opportunities. However, the more openness to trade in almost all events can be linked to greater volatility in the labour market (Hanson and Harrison 1999: 271). Firms in an open market can set up and close down businesses very easily, and there is generally less employment regulations imposed on companies, creating a greater dependence for workers on the firms that employ them. Economies that take a more state-led and protective approach may not have any better labour standards but the expectations of the labour market are likely to be more transparent and predictable.

Figure 5.4. Labour Market Vulnerability against Openness to International Trade for Malaysia and Mexico.



Source: Labour market vulnerability sourced from the International Labour Organization (ILO), 2009. Openness to trade is sourced from a composite of Labour Mobility (ILO), Ease of Doing Business Index (World Bank), and World Tariff Profiles (World Trade Organisation).

In figure 5.4 Malaysia shows both a more protected trading environment and a lower percentage of informal workers in the workforce, although at 34 per cent, this still represents a high figure compared to international (OECD) standards that average approximately 18 per cent of the workforce (OECD

2009). Mexico on the other hand shows much higher labour market vulnerability with almost 60 per cent of its workforce in the informal sector and a considerably more open (free market economy). What this shows is that the typical Malaysian worker will be able to calculate with much more confidence any investments made in higher education while the typical Mexican worker maybe able to secure a job with an international firm, however not on terms of his or her own choosing and the tenure of employment would be much more subject to the swings of the international market.

The two complementary measures of *Stability* and *Labour Market Vulnerability* indicate a relational interaction between skill formation and the political economy. Malaysia in both measures seems to respond in a coordinated fashion, whilst Mexico relies too much larger extents on the market mechanism in determining response. This is consistent with the VoC logic and with the political and economic formation of the market systems that is described in sections 5.2 and 5.3 above.

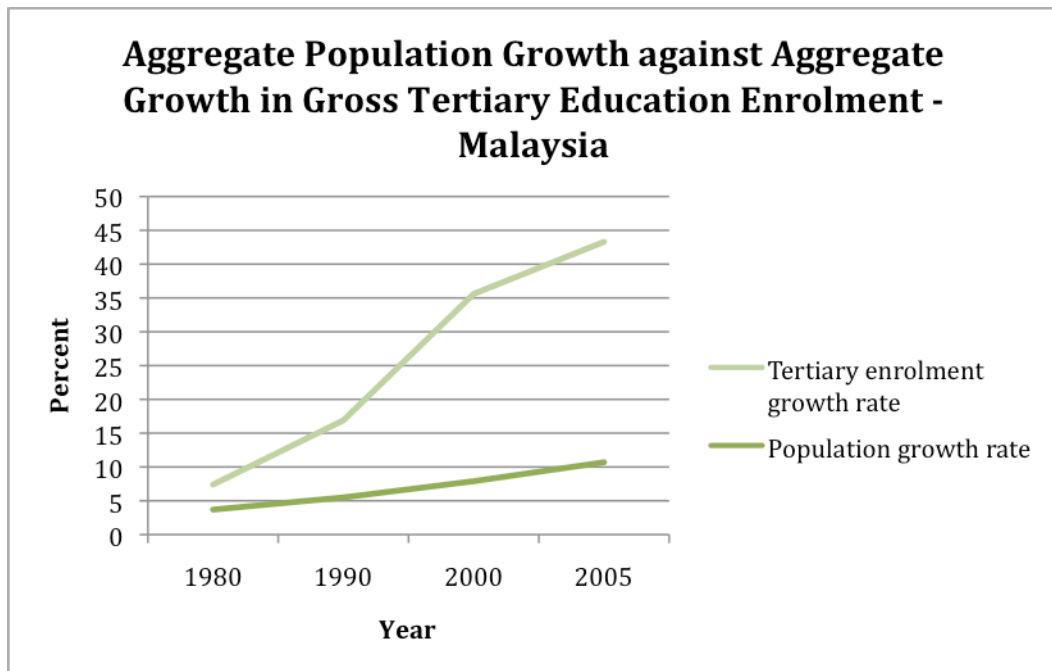
The next chapter moves distinctly from the abstract of skill formation to the particular of higher education. Using policy responses for higher education chapter six compares how the responses to the knowledge economy reflect the dominant *market logic* that exists in the two economies. The final chapter of the paper will assess these trends and seek to answer the question regarding the implications of the move toward a knowledge-based economy for higher education.

Chapter 6

Malaysia and Mexico and the Move Toward a Knowledge-Based Economy

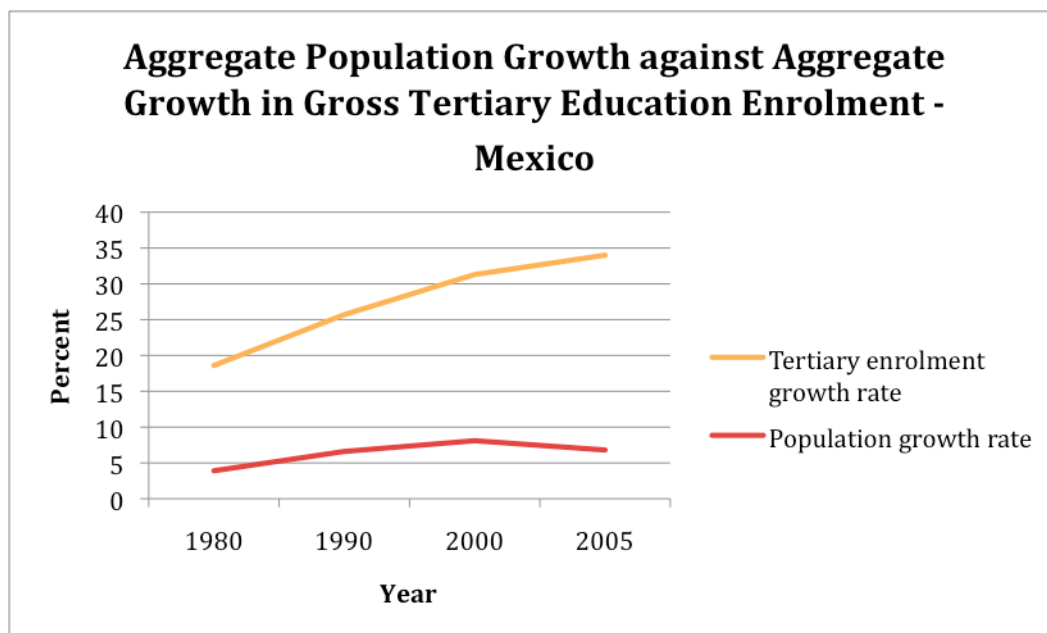
Chapter two of this paper showed the global rise in higher education participation across the world over the past forty years. The following sections of chapter two linked this rise to a global transition and shift toward the knowledge-based economy. Prior to analyzing policy documents in both Malaysia and Mexico with the intention of assessing the effect and implications of this shift it is important to show that both the case studies have not been insulated (as a consequence of their coordination patterns for instance) from this global transition. Charts 6.1 and 6.2 chart population growth against growth in gross tertiary enrolment from 1980 to 2005. Evident in both cases is a dramatic increase of tertiary education enrolment even with population growth taken into account.

Figure 6.1. Aggregate Population Growth against Aggregate Growth in Tertiary Education Enrolment – Malaysia



Source: UNESCO Institute of Statistics Time Series Data, in UNESCO Global Education Digest (2009).

Figure 6.1. Aggregate Population Growth against Aggregate Growth in Tertiary Education Enrolment – Mexico



Source: UNESCO Institute of Statistics Time Series Data, in UNESCO Global Education Digest (2009).

6.1 Mapping Response to the Knowledge Based Economy

Malaysia and Mexico have both developed unique methods for coordinating their economy. Interestingly, and against traditional thinking in higher education reform Malaysia’s economy and its skill formation exhibit divergent characteristics to that of Mexico’s. This next section investigates what strategies will be developed by Malaysia and Mexico to the common and global shift toward a knowledge-based economy.

6.2 The Development of Higher Education in Malaysia

Three distinct phases beginning with independence in the late 1950’s can be used to group the development of the higher education system in Malaysia: First, development of basic higher education infrastructure to support socio-economic growth that occurred in the late 1960’s. Second, the beginning of higher education privatisation that occurred in the early 1990’s and finally, the introduction of the NDTS National Dual Training System that was introduced in 2005.

After independence from the British in 1957, the first Malaysian policy to address higher education in a meaningful form was the *Education Act 1961*. It was not until 1969 however and the introduction of the *Universities and University Colleges Act* that the establishment of the first public universities in Malaysia commenced (Kamogawa 2003). In accordance with the National Economic Plan 1971 increasing numbers of Bumiputera (national Malay students) would gradually receive more and more higher education opportunities.

6.2.1 Private Higher Education Act 1996

The *Privatisation Master Plan 1991* of the Mahathir government would open the way for the liberalisation of the higher education sector in Malaysia, a process that would be signified by the *Private Higher Education Act 1996*. The 1996 *Act* is one of the first and certainly one of the most influential documents for the higher education system that would actively respond to the move toward the knowledge economy. Its timing is equally noteworthy, just two years after the World Bank had reversed its policy in 1994 to place greater importance on the development of higher education and in the midst of the Asian Financial Crisis that would occur in 1997, this document changed the face of the higher education sector in Malaysia. ‘Since Malaysia liberalized its education sector in the 1990’s, allowing the establishment of more private institutions, the number of providers has expanded to 20 public universities, 36 private universities and 5 foreign branch campuses’ (Gooch 2009: 2).

Malaysia would not liberalise the higher education sector without purpose. Explicit in the *Act* was the necessity for any foreign institution entering Malaysia to obtain a legal and state approved local partner (Part III, Section XII). This gave a certain amount of power to local institutions. Local public and private institutions would use this leverage to improve the technical capacity of staff through reciprocal exchange agreements supported with funding from the Ministry of Higher Education (MoHE). As well as sending students and staff abroad Malaysia would also actively encourage foreign students to come to Malaysia to study. As of 2009 Malaysia had almost 71,000 foreign (fee paying) students pursuing tertiary education in the country (Gooch 2009: 2).

6.2.2 The National Dual Training System (NDTS)

‘The National Dual Training System (NDTS) was launched in 2005 in response to recommendations made by German consultants in a 1999 report entitled: ‘Basic Study on the Design of a Dual Vocational Training Scheme in Malaysia’ (Centre for Skill Development Country Report 2007: 2). It became an amendment to the *National Skills Development Act 2006*. The National Dual Training System is based on the German method of training in both training institutions and the workplace. Training is two years in duration, with trainees spending 70-80 per cent of their time in workplaces and the remaining 20-30

per cent in selected training institutions. ‘The decision to introduce the NDTS was the most recent initiative in an effort to resolve the issue of skilled workers being produced but not meeting the needs of the industry and at the same time to increase the production of knowledge-workers [or k-workers] in the country’ (Othman 2005: 2). Modelled after the German dual tertiary education system the NDTS, once fully implemented will have the following characteristics:

- Voluntary participation of companies,
- Standards and content of training are agreed by employers and trade unions and then legally codified,
- Cooperation between employers and trade unions at various levels supports and renews the system,
- Independence of the system is preserved through corporate bodies (chambers),
- The system is financed by corporate training providers, with supplementary funding coming from government,
- The provision of further education includes both general and occupation-related theoretical study (Othman 2005: 3).

The most striking features are surely the voluntary nature of the agreements and the independence of the system. Moreover the training undertaken is occupation related leading to the eventual formation of what Hall and Soskice noted as specific or co-specific industry related skills (skills which have utility within an industry but less independent utility). A subtle if not remarkable point to note is the framing of a ‘training’ system as a response to the shift toward the knowledge-based economy that is evident in the NDTS. ‘Education’ is de-emphasized as a strategy to develop skills for the knowledge-based economy.

6.2.3 Malaysia’s Response to the Knowledge-Based Economy

What we see is two contrasting logics being displayed within the higher education system in Malaysia as a response toward the knowledge-based economy. The *Higher Education Institutions Act of 1996* seems to take on a distinctly liberal market logic to the knowledge-based economy and the consequences (the global market for higher education being the most notable) that follow. The National Dual Training System (NDTS) takes on an almost archetype coordinated logic. Moreover the NDTS seems to acknowledge the need for skilled professionals for the knowledge economy, not simply expansions in educated individuals without productive skills. However, these logics are not necessarily in conflict; in fact they are almost inevitably complementary. What we see in the Malaysian case is intra-educational strategies based on a reaction to the external pressures of the international economy and the historically conditioned mode of responses to these pressures. The NDTS is given autonomy in its administration because it is coordinated in its structure, whilst the *Higher Education Institutions Act of 1996* is

given coordination in its administration because of its market-oriented structure.

6.3 The Development of Higher Education in Mexico

The Spanish established Mexico's first university in 1551 (UNAM) and the higher education system would continue to develop through the sixteenth and seventeenth centuries under the influence of the 'empire'. Although Mexico would gain independence from the Spanish in 1821 it would be another 100 years, and after the Mexican Revolution (1910-20) that the first meaningful higher education plans would be implemented. After the Mexican revolution came to an end the higher education system was largely granted autonomy from the state. UNAM was able 'to freely determine the programs of study, methods of teaching and the application of funds and resources' (Lorey 1993: 2). This was ratified in a pact signed by the state in 1929.

The 1940's and 1950's saw a general expansion of the number of universities and students primarily as a response to population growth and an increasing Mexican middle class who demanded social mobility and professional education (Gomez 1999). Higher education at this time was still largely supply-led. The late 1950's saw a social revolutionary movement in Mexico that questioned both the state and the higher education system. The movement argued for an open-door policy not restricted by previous academic record or finance (Lorey 1993: 25-33). This revolutionary movement would culminate in a violent display of state force against protestors in 1968. This moment would revolutionize the development of the Mexican higher education system.

The post 1968 period would mark the beginnings of technical schools and pre-university programs (*Bachillerato*) in Mexico. These were considered part of the university system however focused to a much larger extent on technical skills for industrial positions. There would also be a general expansion of places in the higher education system. This 'massification' could be considered as the first response by Mexico to the Human Capital models of Peter Drucker and the early knowledge-based theorists. However at this time Mexico was still functioning within a very overt state-run and controlled economy and response to pressures of social mobility play a much larger underlying explanation for the change.

The post 1982 period was politically and economically marked by a good governance agenda, fiscal austerity and a shift toward the market. Following the bankruptcy of the country President Miguel de la Madrid largely adopted a World Bank and IMF led economic reform package. 'Reforms of the public administration involved cutting public expenditure and streamlining both institutions and bureaucracy' (Gomez 1999: 60). 'From 1980-89, the rate of public expenditure on higher education compared to Gross Domestic Product

(GDP) decreased from 0.68 per cent to 0.41 per cent' (Figuroa 1996: 47). *Efficiency, quality, relevance* with the underlying congruent of *accountability* came to mark the responses that would occur in the higher education system throughout the 1980's and 1990's (ibid). To sustain or to re-coup lost income Mexican universities began to charge fees and to look to modernise in order to attract industry led funding. The move toward the knowledge-based economy and the move toward the market would be simultaneous in the Mexican development of the higher education system from this point onward.

6.3.1 Two Key Mexican Responses

By 1989 the Mexican higher education system was in 'crisis'. A meeting of the National Coordination for Higher Education Planning (CONPES) set up the National Commission for Higher Education Assessment (CONAEVA) (Figuroa 1996). A single National Education Program (Programa Nacional de Educación - PRONAE) would be developed to over see policy at the Federal Level (OECD 2008). Within PRONAE there are a number of interlinking policies and initiatives. This paper will focus on two initiatives as well as the NAFTA that act to illustrate the response toward reform and the transition to the knowledge-based economy. They include:

- The Fund for the Modernization of Higher Education (*Fondo para la Modernización de la Educación Superior*) – **FOMES**
- The Regulation of Private Universities (*Reconocimiento de Validez Oficial de Estudios*) - **RVOE**

The RVOE would enable private universities to 'impart education of all types and modalities' (OECD 2008: 24). This would open higher education up to private universities and fee-paying university places. The government and the CONAEVA however would maintain control of the private sector by acting to recognize official degrees granted by these private institutions. As such the state maintained assurances of quality and of international student mobility.

The FOMES was created in 1990. Institutions would compete each year for funds that would improve (modernize) their respective institution academically, administratively or structurally. Funds were awarded to institutions that made proactive steps to make their university more efficient, industry relevant and of a higher educational quality (as measured by international rankings). Not only did this shape how universities and the higher education system would develop, the mechanism for development was competitive and market driven.

The incorporation of Mexico into the North American Free Trade Agreement (NAFTA) that officially commenced in 1994 would act to strengthen (not introduce) the market-led higher education reforms. The

requirements of NAFTA would push the development of the higher education sector toward standardization, international accreditation, as well as open the market for international higher education 'services'. Mexico did not benefit from the foreign student market in the same way as Malaysia sort to. Whilst many Mexican students would travel to the United States to purchase higher education the arrangement was not reciprocal. This would see talented students leave Mexico whilst intellectual property rights embedded in the NAFTA agreement would prevent the reciprocal flow of technology, information and ideas (Maskus 1997: 685). This would further imbed the dependency of the Mexican economy.

If Malaysia's response to the knowledge-based economy can be summarized as coercive then Mexico's response must be characterized as reactionary. Malaysia's strategies were based on a coordinated logic and were to a much greater extent than Mexico's supply-led. Mexico's higher education reform demonstrated much more 'catch-up' strategies responding to the demands of the market and popular movements. Both case studies show elements of the impact of global higher education regulation and reform. In Malaysia's attempts to profit from the global market for higher education the dominant logic has shifted gradually more toward the liberal market economy. Mexico's dependence on the dominant ideas from the dominant northern universities appears to be further embedded by the shift to the knowledge economy as well as the NAFTA agreement that accompanies it.

Chapter 7

Conclusions and Findings

This paper has critiqued the dominant ‘convergence’ approach to change in systems of higher education. This has been achieved by providing evidence that the structural incentives and constraints presented by the move toward a knowledge-based economy allow for a ‘variety’ of contextually dependent responses exemplified in Malaysia and Mexico. In contrast to much of the literature on capitalist formation that has predominantly focused on developed economies, this paper has explored the more pervasive implications of the move toward a knowledge-based economy for low and middle-income economies.

7.1 Response is Relational

The first and most important point in this comparative study has been that both higher education systems seem to have evolved *with* the development of the respective political economy over time. Government policy and economic development has been reflected in transformations in the higher education system. In turn, developments and reform in the higher education system has shaped the development of the political economy. There is evidence of a mutually constituting relationship between the higher education system and the political economy. Responding to the knowledge-based economy Malaysia and Mexico have developed *strategies* that reflect their *dominant logic* of coordination – a logic that is *context driven* through a historically developed mode of *resolving* political, social, and economic *conflicts*. Contrary to the dominant view in higher education reform that assumed institutional rationality, this paper provides evidence that behaviour is strategic (more than it is rational). This strategic behaviour is context driven and historically formed.

Malaysia’s higher education system grew steadily and tentatively in the late 1960’s and 1970’s and more Bumiputera Malay students entered university; many were the first in their family to do so. This reflected the government policy of upward social mobility for the national Malay class as well as heavily state controlled and state sponsored industry that would actively shape Malaysia’s economic development during this period. During the 1980’s and 1990’s Malaysia’s strong and consistent economic growth would be fed by an expanding higher education system heavily focused on technical and professional disciplines such as Information Technology and Engineering studies. The expansion of the private higher education sector in Malaysia was both a reaction to increasing demands for economic growth, social mobility, and social status as well as providing input into the transformation of the Malaysian economy. This would move the economy toward the services and

technology sectors at the turn of the twentieth century. This move however would occur in a *coordinated* fashion.

Many observers held that autonomy from the state was the reason for the critical situation of the Mexican higher education system. The above analysis provides some evidence to support that although being autonomous on paper, the Mexican higher education system actually moved in-step with changes to government funding and ideology and was reflective of economic fluctuations since the autonomy pact was signed by the state in 1929. A strengthening economy in the early 1950's saw more professional employment opportunities for university graduates and the higher education system grew in quantity and quality. Strong socially led movements in the early 1960's opened up the university system to students from all academic and social backgrounds. This would improve the social mobility of the lower class. The consequence however would be the supply of partially and technically trained graduates for the economy. This was reinforced by the lack of real opportunities for highly trained professionals in the Mexican economy during this period. Combined with strong state-led industrialisation this would fragment the economy and create loose and unpredictable employment expectations. As public spending on state services declined in the 1980's under an economic program that opened the Mexican economy up explicitly to market forces, the number of private higher education providers and the number of training programs proliferated. This in turn would shape the technical and trade nature of the Mexican economy. It would also reinforce the market-led or liberal market logic of coordination.

7.2 Implications For Higher Education Systems

It has been illustrated that the move toward a knowledge-based economy viewed higher education less as something to be consumed and more as something to be invested in. Government policy of both the case studies began to view higher education as an input to the successful functioning of the economy. This resulted in a shift from supply-led to demand-led higher education. The influence of global agencies in setting the agenda for reform, particularly since 1994, presented important implications. More important however than the reform was the market logic that accompanied it – a liberal market logic. This market-led logic complemented the Human Capital models of economic development. This would shape the structure of higher education, and in turn (now that we understand the relational interaction that occurs) act to shape the international political economy. In the shift toward a knowledge-based economy a functional and pragmatic view of higher education has been assumed. An assumption that is reinforced and carried through by education's perceived social justice and economic efficiency aspects.

7.3 Implications for Low and Middle-Income Economies

This research paper has focused its analysis specifically on two middle-income economies with contrasting market logics in order to uncover if any difference exists in the response to the knowledge-based economy. The paper also sort to discover if low and middle-income economies are more exposed to global regulation and reform. In the first instance it is important to take note that Malaysia and Mexico responded in different ways to a common liberal market transformation embodied in the move toward a knowledge-based economy. This was reflected in policy responses in the higher education system and through the relational interaction we have been able to establish with their respective economies. No definitive conclusions could be drawn from this study as to if low and middle-income economies will be more affected by this transformation. What is more analytically insightful however is that those countries with looser coordination in the economy as in the Mexican case seem to be more drastically affected than those countries with more cohesive coordination such as Malaysia.

Such a conclusion does not favour the coordinated market economy over the liberal market economy or visa-versa. Nor does it favour Malaysia over Mexico. Such a conclusion does however favour high levels of economic coordination between the Training and Education system of a country and its other economic components. It is a prescriptive conclusion of integration and coordination as opposed to favouring one or other particular market philosophy. The VoC literature argues that CME's are generally more egalitarian but slower developers while LME's have greater inequalities however have the ability to achieve more dramatic economic growth. In both instances economies are argued to be successful in consistent economic development, arguing the case against convergence around the LME and for co-convergence around the two dominant capitalist forms.

7.4 Implications for the University

To say that today's generation of graduates is somehow intellectually inferior to yesterdays is probably not fair and is at any rate, unjustified. Proportionally more students than ever before have access to a higher education across the developed and developing world alike. To say the quality of higher education has been diluted is also unfounded. The major conclusion that this study draws is in fact that the higher education system is responsive to politics, society and the economy. In this case, any tempering of academic quality is in fact merely a reflection of the broader state of the political economy. To say that this shift has resulted in less 'thinking' however is a fair and sustained criticism that this study makes. Especially prevalent in the shift toward a knowledge-based economy has been a limited conceptualisation of knowledge and a functional view of knowledge production vis-à-vis the labour market. This economic shift has

been reflected in the transformation of the University. Graduates are measured on what they know, and not how they know it. Training has increased across the world and improvements to social mobility and economic growth have ensued. But somehow education, and the ability to think critically has been somewhat underemphasised in the process.

7.5 Debates in Higher Education Revisited

In chapter three the major debates in the higher education literature centered around two major concerns. The tension that increasing access to higher education will either dissolve or reinforce existing inequalities within and between countries and the tension of the market becoming the primary allocator in the economy and the consequences this would have for the higher education system. In part these questions, from this contextualised analysis have already been addressed. The expansion of higher education to low and middle-income economies will not dissolve or reinforce inequality. It is the economic logic of the market economy that is related to the system of higher education that is much more likely to contribute to inequalities. The market-led higher education reforms have had contextually specific responses. Response is likely to be based upon the dominant logic of economic coordination and how cohesive the economic system is, more than being swept over by the power of globalisation or Americanisation as has been popularly believed. However the underlying assumptions carried with global regulation and most notably the knowledge-based economy have had the effect of transforming the outputs to higher education to those based on more functional forms of knowledge and knowledge production. A great deal of pragmatism results from this transformation at the cost of a more critical intelligence. Such intelligence ‘sensitizes us to what binds people together in co-operative human activities, as well as our interdependence and responsibilities to ourselves and others’ (Brown and Lauder 2001: 226). As Eric Fromm, a well-known critical theorist once noted: ‘the right to express our thoughts means something only if we are able to have thoughts of our own’ (Erich Fromm 1950: 207).

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Notes

¹ When referring to the University, I am referring specifically to academic and degree granting institutions. At the systemic level (i.e. the system of universities) I use the term Higher Education.

² Translation from the University of Notre Dame (<http://archives.nd.edu/latgramm.htm>)

³ Seminaire de Quebec would be later named the Universite de Laval in 1852: <http://www2.ulaval.ca/la-vie-universitaire/salle-de-presse/information-institutionnelle/origine-et-histoire-de-luniversite.html>

⁴ The notion of 'ideal types' is drawn from Max Weber's theory of concept formation: history, laws, and ideal types. Found in Thomas Burger, 1987.

⁵ Formally these guidelines have been accepted by the OECD. UNESCO is still seeking changes according to a presentation by Dirk van Damme (Head of the Centre for Educational Research and Innovation – OECD) at the International Conference on Higher Education, The Hague, 2. July 2009.

⁶ The intra-EU student flows constitute a special case of student mobility that is driven by policies aimed at regional political and economic integration and therefore are excluded from the assessment of regional changes in student mobility. In particular, the ERASMUS program managed by the European Commission has promoted and financed almost all student flows within the European Union (EU) (World Bank 2007: 17).

⁷ Styhre builds a critique of the KBV literature based on the work of Henri Bergson. Bergson does not reject, but rather he problematizes, the faculty of thinking and the capacities of the human mind. Styhre builds on Bergson's work to show that the KBV literature is based on selective quantifiable measurements of thinking and knowledge that leave the KBV and those who build on its framework critically weak.

⁸In section 4.3 Hancke et al. add a point of emphasis to the VoC approach that brings the active participation of the state back in to the development of the economic logic.

⁹ The NAFTA agreement was signed by the United States, Canada and Mexico in 1992.

