A R T I C L E

Relationships between Institutional Economics of Cooperation and the Political Economy of Trust

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The aim of this paper is to analyse the relationship between institutional economics of cooperation and the political economy of trust. Transactions costs, principal-agent theory, market power, increasing-returns theory and value creation, strategic management: competitive forces, resource-based theory, organisational knowledge and learning, strategic choice theory and collective efficiency theory are reviewed. Lastly, the political economy of trust is sustained.

Keywords: Cooperation; Institutional economics; Political economy; Trust.

Introduction

The objective of this paper is to analyse the relationship between institutional economics of cooperation and the political economy of trust. In recent years, a great amount of scholarly attention has been devoted to the political, social, and economic consequences of cooperation. A central question in interdisciplinary literature is the relationship between cooperation and trust. Some researchers (Cook 2000; Kramer and Tyler 1996; Ostrom 1998) have already considered the role of trust in facilitating cooperation. If trust facilitates cooperative behaviour, it is possible that there is a link between the attitude of trust and behavioural outcomes. Previous research (Scholz and Lubell 1998a, 1998b) has already provided some evidence of a link between trust and cooperation. Research on collective action assumes trust increases the likelihood of cooperation.

A new instrument for value production in the global economy is the cooperative mode of organisation characterised as interdependent, long-term relations among autonomous organisations. Productive and creative cooperation is considered a potential incentive-related coordination in many spheres and activities among governments and their agencies,

firms of the industrial and commercial sectors, cooperation and conflict between firms, between workers and management, and between firms and functions that must contribute to a major economic project.

Institutional Economics of Cooperation

Institutions have an important influence on individuals' expectations of the future, locking in the system to a stable long-run structure. Cooperative structures can emerge as an 'institution' defined as an observed regularity in the behaviour and/or actions of individuals or groups when they encounter a similar set of circumstances (Witt 1987, 87). Social institutions are sets of rules that structure social interactions in particular ways. These rules provide information about how people are expected to act in particular situations, can be recognized by those who are members of the relevant group as the rules to which others conform in these situations, and structure the strategic choices of actors in such a way as to produce equilibrium outcomes (Knight [1968] 1982, 54).

The self-organisational perspective sustains that institutionalisation of competitive or cooperative behaviours results from micro-macro interactions more than coordination costs and asset specificity. New organisational economics explains theoretically the different modes of vertical relations between firms, suppliers and customers.

FIGURE 1

POSITIONING THE UNDERLYING PHILOSOPHIES AND THEORIES RELEVANT TO STRATEGIC ALLIANCE FORMATION
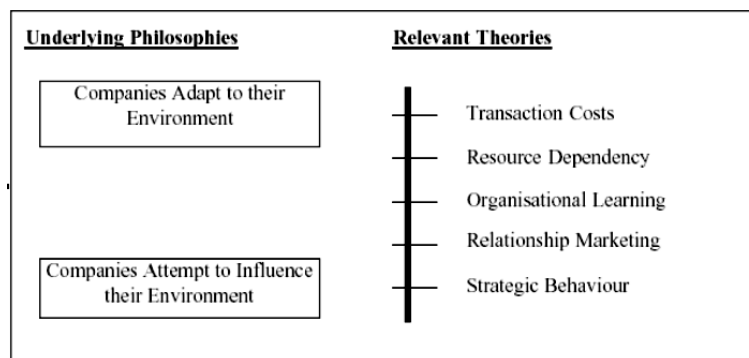
Trust may be sustained by appropriate institutions (Levi 1998, 77-101; Hardin forthcoming). Trust facilitates co–operative exchanges between actors to make commitments to behave without the monitoring and enforcement of an external agent reducing the transaction costs of cooperation (Coleman 1990; Putnam 1993; Granovetter 1985; Kreps 1990). An institutional account of trust is made by Farrell and Knight (2003). Institutions

may exert an independent effect on trustworthiness. The evolution of institutions may be expected to have an impact on trustworthiness and cooperation among individuals.

Transaction costs, principal-agent theory, market power, increasing returns theory, strategic management (competitive forces, resource-based view (RBV), organisational knowledge and learning), strategy choice theory and resource dependency theory, offer complementary explanations of cooperative arrangements. Transaction cost theory focuses on cost minimisation; relationship marketing on providing superior customer value; organisational learning on knowledge; strategic behaviour theory on profit maximisation; and resource dependency theory on obtaining resources (Figure 1).

Transaction costs

Transaction cost theory rests on the assumption that markets are most efficient for minimising transaction costs. Transactions are defined as the goods or services being transferred across some boundary (Williamson 1981). Transaction costs include the planning, monitoring and adapting of transfers under the various governance structure choices available (Mosakowski 1991).

Firms internalise transaction costs through ownership when this exceeds the benefits of non-ownership (Williamson 1991). Transaction costs deals with environmental factors: asset specificity, technological uncertainty and small numbers bargaining, which may lead to more control and to provide incentives to look for other arrangements such as quasi-hierarchies or vertical integration to internalise the transaction (Hennart 1988; Osborn and Baughn 1990; Pisano 1990; Williamson 1987). There is a positive correlation between level of integration and degree of control.

Transaction costs economics explains the economic rationale behind the choice of different modes of cooperation or transaction coordination mechanisms. The three basic mechanisms are markets, hierarchies or firms and hybrid modes, including inter-firm cooperation agreements. The minimisation of transaction costs is the basic principle in selecting institutional forms for different kinds of activities (Figure 2).

FIGURE 2
MODES OF COOPERATION OR TRANSACTION COORDINATION MECHANISMS
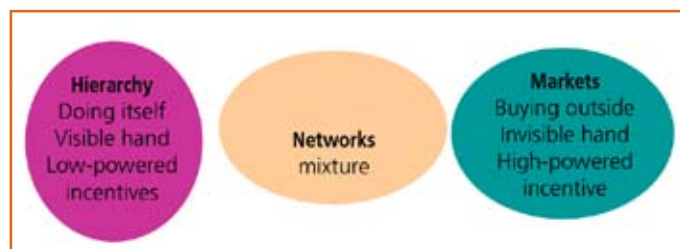
A strategic integration continuum (Sparling and Cook 2000) of organisational forms ranging from market through network to vertically integrated firms (Williamson 1985; Powell and Di Maggio 1991) is shown in Figure 3.

FIGURE 3.
STRATEGIC INTEGRATION CONTINUUM
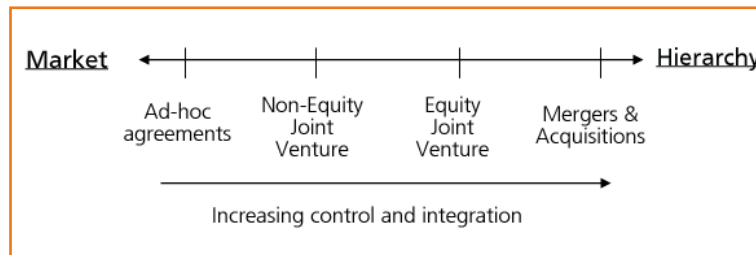
The task of transaction cost economics is to give theoretical support to decision-making on vertical integration, cooperation or collaboration, use of the market or a combination of them. Each one can be efficient, depending on the expected level of transaction costs involved. Hennart (1988) has identified a competition/cooperation tension from the transaction cost perspective. When assets are highly specific, transaction theory predicts instability of alliances, while resource-based theory predicts that an alliance can be stable if the benefits are evenly divided between members.

Mutual trust reduces the transactional costs of risky social interactions. (Coleman 1990, 306-10) According to Putnam, "Norms such as those that under gird social trust evolve because they lower transaction costs and facilitate cooperation." (Putnam 1993, 172). The social capital investments embodied in the construction of inter-firm learning through cooperation give rise to economies of scale and scope, although the effects may be non-linear over time. Social capital benefits in the form of new relationships of trust and cooperation can extend a non-profit's limited resources. Cooperation becomes less attractive with the depletion of opportunities. Transaction costs involve different forms of learning through interaction, such us technology transfers.

Transaction cost economists have examined the "temporal specificity" or the importance of timing in receipt of goods or services, which are related to coordination costs (Masten, Meehan and Snyder 1991). Cooperative agreements are combinations of internalisation and market exchanges, and the best one is when transaction costs are intermediate and not high enough to justify vertical integration.

Principal-agent theory

Cooperation arrangements, such us a strategic alliance, involve principal-agent-problems. Agency theory explains how to best organise relationships in which the principal

determines the work, which the agent undertakes (Eisenhardt 1985). Agency theory underpins the relationship between the principal and the agent.

Agency theory explains the economic rationality of voluntarily providing costly information to partners in cooperative situations (Fleisher 1991). The theory argues that under conditions of incomplete information and uncertainty, which characterise most business settings, two agency problems arise: adverse selection and moral hazard. Adverse selection is the condition under which the principal cannot ascertain if the agent accurately represents his ability to do the work for which he is being paid. Any cooperation agreement between legally independent entities often creates a moral hazard problem. Moral hazard is the condition under which the principal cannot be sure if the agent has put forth maximal effort (Eisenhardt 1989).
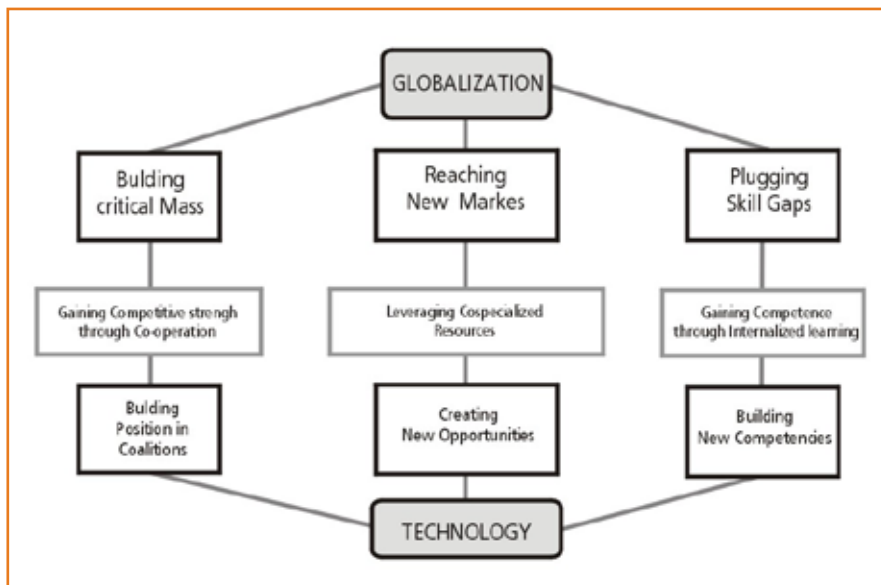
Market power

A cooperative strategy may enable collaborating firms to increase their position within a market.

Increasing-returns theory and value creation

The logic of alliance value creation is shown in Figure 4.

FIGURE 4.
THE LOGIC OF ALLIANCE VALUE CREATION

Source: Doz and Hamel (1998)

Some factors shaping a firm's claim on value created by its constellation are shown in Figure 5.

FIGURE 5
SOME FACTORS SHAPING A FIRM'S CLAIM ON VALUE CREATED BY ITS CONSTELLATION

Value-Added Perspective: What is the bargaining power of the firm within the group?

The firm controls scarce, valued and well-protected assets

Competition among the firm's suppliers of complements

Lack of competition between the firm and its partners

Structural Perspective: What is the position of the firm within the network of allies?

Centrality of the firm's position

The firm occupies structural holes

The firm participates in multiple constellations

Source: Adapted from Gomes-Casseres (2003)

To sustain successful cooperation, partners need to learn in five key areas: the environment in which the alliance will operate, the tasks to be performed, the process of collaboration, the partners' skills, and their intended and emerging goals. Thus, the strategic, operational and economic scope plays a very important role in the alliance management and value creation logics (Molevicius 2001). Figure 6 shows the relationship of scope to value creation logic.
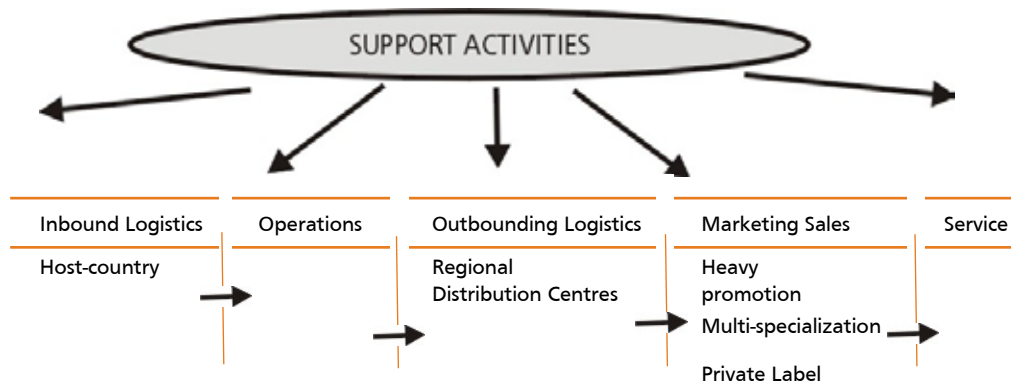
FIGURE 6.
THE RELATIONSHIP OF SCOPE TO VALUE CREATION LOGIC

Strategic Scope	Differences in strategic market scope and similarities in skill sets and required capabilities facilitate cooperation
Economic Scope	There must be carefull separation of value creation performance from value appropriation costs
Operational Scope	Must provide enough of window for learning from other partner or from a joint learning ground.

Source: Molevicius (2001)

An example of value chain analysis is outlined for Carrefour (Figure 7).

FIGURE 7
VALUE CHAIN ANALYSIS OUTLINE (CARREFOUR)

Inbound Logistics	Operations	Outbounding Logistics	Marketing Sales	Service
Host-country		Regional Distribution Centres	Heavy promotion Multi-specialization Private Label	

Collaboration is bound to be difficult if partners fail to understand each other's goals. A joint effort at learning about the competitive, technological and market environment develops mutual trust, shares understanding and reduces risks. Figure 8 shows the value creation logics and alliance management.

FIGURE 8
VALUE CREATION LOGICS AND ALLIANCE MANAGEMENT

| ELEMENTS OF VALUE CREATION LOGICS	LEARNING/INTERNALISATION
Assessing Contribution	• Recent skill leadership • Pace of skill improvement • Access to copractice of key skills
Agreeing on Alliance Scope	• Focus on operational scope as learning ground
Understanding Joint Task Demands	• Ability to copractice:"apprentice to master" relationship • Codiscovery and development of new skill
Defining and Measuring Process	• New or enhanced skills • Leveraging opportunities of using the skills
Keeping Time	• Learning cycle of the "apprentice partner(s)" with regard to the skills contributed by other partners, and renewal rate of the skills contributed to the alliance by each partner

Source: Molevicius (2001)

Strategic management: Competitive forces, resource-based theory, organisational knowledge and learning

Competitive forces intend to maximize profits by improving a firm's competitive position against rivals. The five forces analysis is shown in Figure 9.

A few authors have shown the way forward in the search for a theory of regulation of inter-firm cooperation. The emergence of resource-based approaches to strategy has provided broader bases upon which to build a theory of inter-firm cooperation. The resource-based view (RBV) seeks to bridge the gap between theories of internal organisational capabilities and external competitive strategy theories.

The RBV suggests that differences in firms' performance are related to the variance in firms' resources. Firms are bundles of resources and those inter-firm relationships allow them to obtain or retain resources, and enable exploitation of learning capabilities that will allow reduced risks to enter into new competence areas. Performance risk is attributable to the alliance's interaction with its environment. The RBV suggests that a company with strong internal capabilities can enjoy an enduring competitive advantage and achieve superior performance (Dierickx and Cool 1989).

FIGURE 9
FIVE FORCES ANALYSIS
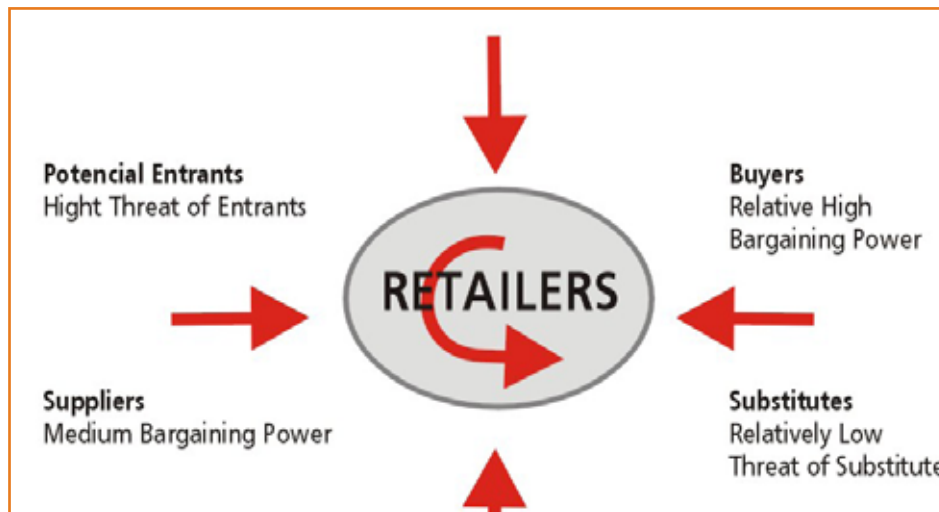
Source: Porter (1979)

Resource dependency theory (Pfeffer and Salancik 1978) suggests that in order to survive, organisations must constantly interact with their environment, either to exchange resources or their products. Organisations seek to gain control over the uncertainty of their external environment through cooperative arrangements to guarantee stable flows of resources (Pfeffer and Salancik 1978; Galaskiewicz 1985; Miner, Amburgey and Stearns 1990; Stearns, Hoffman and Heide 1987). Complexity and dynamism are closely related to environment uncertainty.

Dess and Beard (1984) identified three dimensions of task environments: munificence, complexity and dynamism. Complexity and dynamism are usually thought of as determinants of environmental uncertainty (Thompson 1967). Cooperation is seen as a mechanism to understand and cope with uncertainty (Spekman et al. 1998). Environment can be conceptualised by two categories: uncertainty and munificence (Beydoun and Yang 2003). A conceptual Framework of Resource Development and Environment is shown in Figure 10.

Organisational knowledge and learning explains that tacit knowledge can be transferred under cooperative strategies. The transfer of know-how, product of complex organisational routines, can be severely impaired unless the organisation is itself replicated (Kogut 1988, 323).

The management of a portfolio of multiple cooperative agreements raises new questions about the cooperative capabilities of firms. In managing a portfolio of alliances, there may be systematic differences in the cooperative capabilities that firms build up. Having more experience and learning with alliances may affect the relative success of those firms with alliances (Lyles 1988).

Research has "neglected concepts/measures that focus on alliance management" (Spekman et al. 1998) as an explanatory variable for alliance success. Challenges of increasing complexity and conflicting objectives from different alliance partners confront the management experience of a firm that seeks out ties with partners who could help it manage such strategic interdependencies. Firms have to focus on a series of organisational and strategic issues when they are at the centre of an alliance network. "Networks can be thought of as a higher stage of alliances, for in the strategic center there is a conscious desire to influence and shape the strategies of the partners, and to obtain from partners ideas and influences in return" (Lorenzoni and Baden-Fuller 1995, 157). The critical dimensions of a centre are to create value for its partners, to act as a leader, rule-setter and capability-builder, and to structure and set up the network strategy.
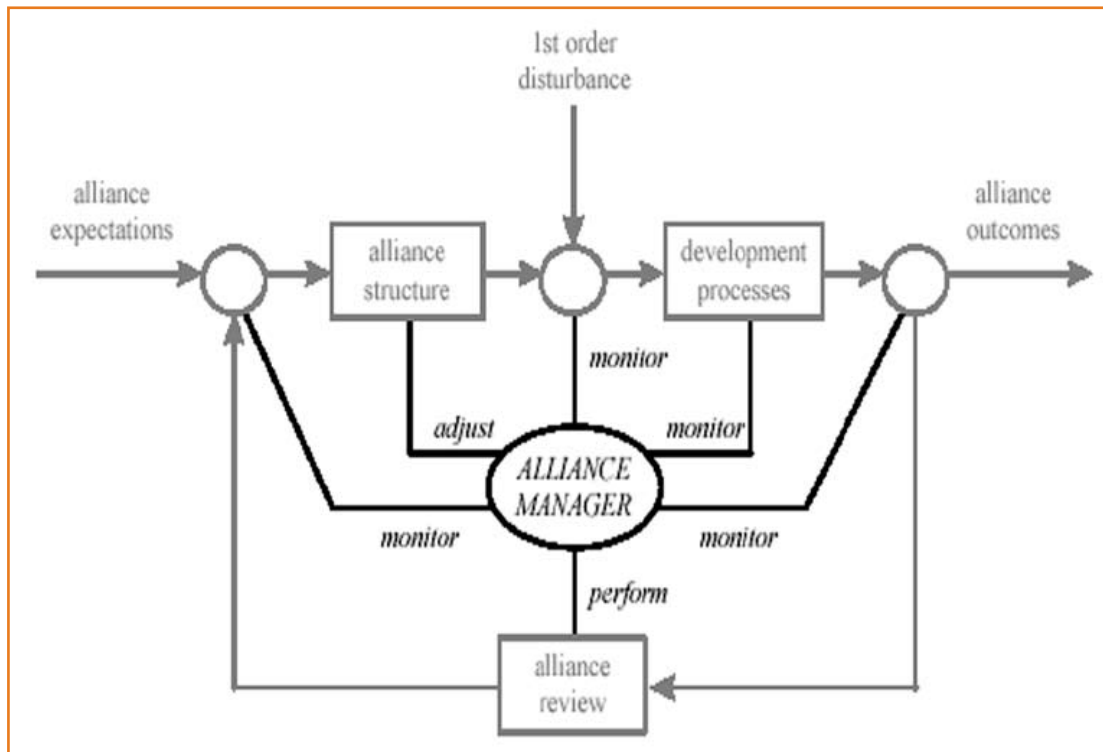
FIGURE 10
A CONCEPTUAL FRAMEWORK OF RESOURCE DEVELOPMENT AND ENVIRONMENT
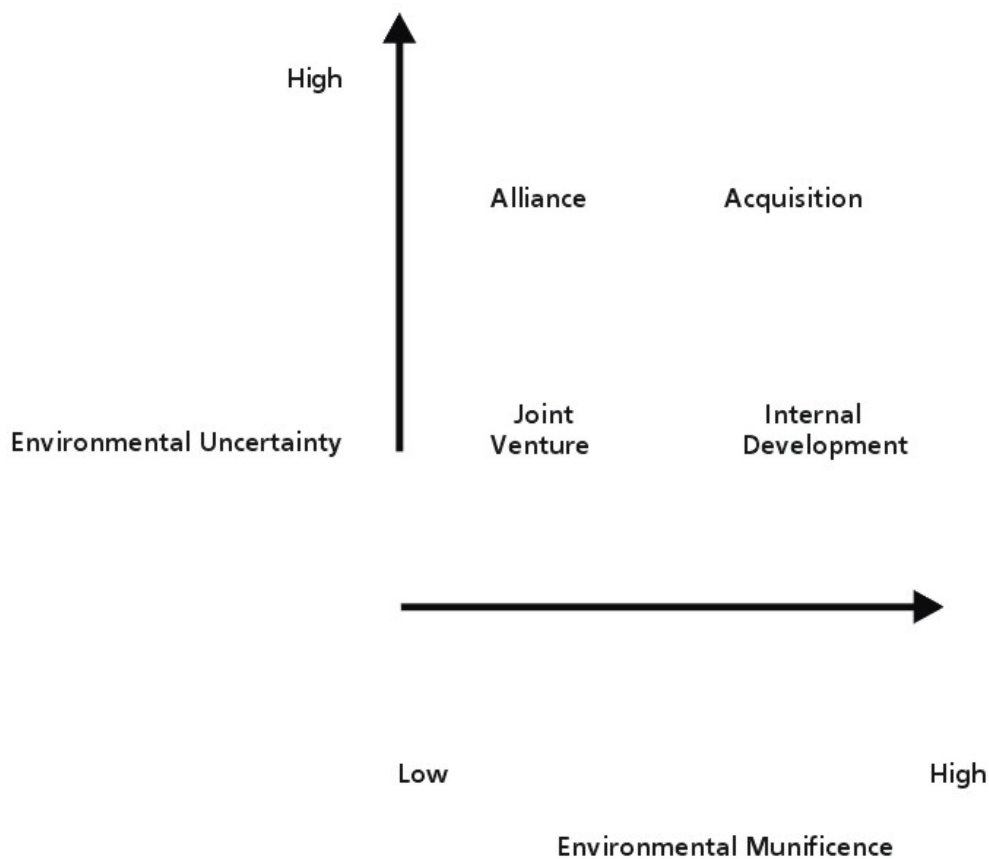
Source: Beydoun, Abdul, and Haibin Yang (2003)

Callahan (1999) outlines the components of the role of the alliance manager in the first order control model (see Figure 11).

FIGURE 11
THE ROLE OF THE ALLIANCE MANAGER

Source: Callahan (1999)

Strategy choice theory

Strategic choice theory supports alliances as complementary to the new core competence, allowing for organisations a strategy of choice for a governance structure to capitalise on functional expertise and contract other needed functions (Fagre and Wells 1982; Kogut 1988; Porter 1980). Specifying performance and control is required, as is taking into consideration flexibility of non-equity contractual arrangements in such a way that the closer the alliance is to the strategy of the new venture, the more likely it would be to choose an equity structure.

McGee, Dowling and Megginson (1995) support the strategic choice theory by finding a relationship between business strategy and use of alliances. Strategy for cooperative arrangements between firms is an important variable in the effectiveness of a strategic alliance. The use of cooperative arrangements is growing and having a positive impact on firm performance when the alliance was chosen in a functional area that the firm's management team had prior experience (McGee, Dowling and Megginson 1995; Wisnieski and Dowling 1997). Organisations have to choose the right cooperative strategy to achieve their objectives through cooperation with other organisations, rather than in competition with them (Child and Faulkner 1998); see Figure 12.

FIGURE 12
STRATEGIC TARGET AND COMPETITIVE ADVANTAGE

Source: www.quickmba.com/strategy/generic.shtml

Collective efficiency

Collective efficiency has two aspects to it: external economies (the passive dimension) that clustered agents accrue by virtue of their location, and joint action (the active dimension), benefits that arise from deliberate and active cooperation between local agents to obtain external gains. For example, under the allocate efficiency principle, some allied nations cooperate to integrate collectives of highly mobile peacekeeping forces to maintain security with diminished resources.

A cluster is a concentrated grouping together of firms and institutions, which have horizontal and vertical relationships, and linkages based on cooperation to achieve synergy. Marshall used the term "constructive cooperation" to describe the economies of scale and scope gained from cooperation.

Partnerships must be inclusive and involve the active participation of many members, which involves a balancing of the power differentials that exist within the partnership (Sampson et al. 1989, 491). Regard therefore has to be given to group dynamics, to the symbolic importance of including and excluding particular interests and individuals and to showing proper respect for the joint activity and all the partners involved in it, e.g., by avoiding an 'inner core' of the 'senior' parties (Webb 1991, 239).

In horizontal partnerships, firms endowed with specific skills, that compete typically on the market, linked with other companies of complementary core competencies, cooperate in product development, basic research, cross-transfer of new technologies and manufacturing capabilities. Horizontal partnerships enable firms to serve new markets, sharing risks and learning. Regional cluster prototypes are shown in Figure 13.

However, there are some "externalities of joint action" (Nadvi 1999), such as the reputation basis created by local standard regulation. An example of environmental externality occurs when cooperation between firms in one line of activity affects other lines of activity, such as the case when research and development (R&D) affects pricing.

FIGURE 13
REGIONAL CLUSTER PROTOTYPES
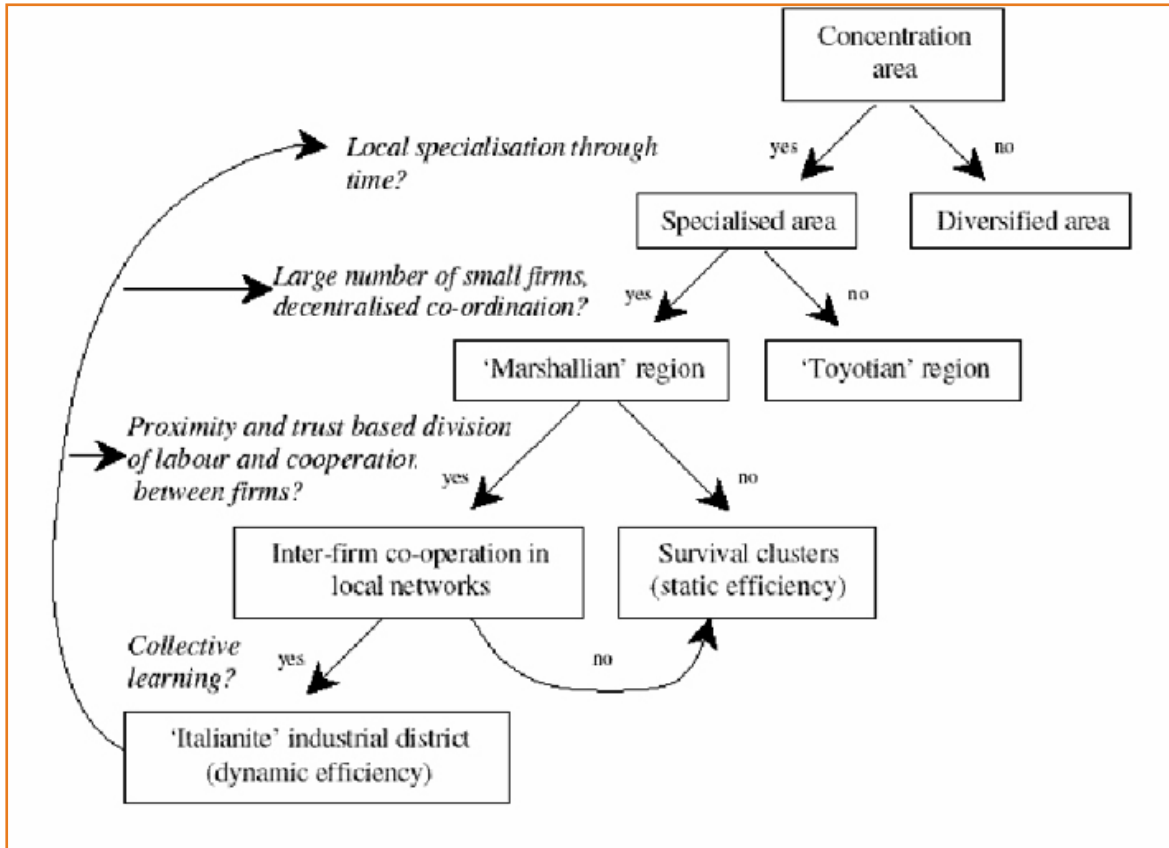
Source: Capello (1999); Visser and Boschma (2002)

Collective efficiency involves social and technological innovation. Social innovation transforms a non-cooperative behaviour into a cooperative-minded setting, which increases the propensity to cooperate in technological innovation.

Minimising transaction costs and reducing principal-agent problems can be achieved through arrangements of relational contracting and long-term networks based on mutual trust. Cooperative behaviour is further enhanced by direct communication between actors and agents, and stabilised through the mechanisms of rules and trust, which can overcome opportunistic behaviours and rivalry.

The Political Economy of Trust

Farrell and Knight (2003, 8) define trust as "a set of expectations held by one party that another party or parties will behave in an appropriate manner with regard to a specific issue".

Promoting trust and cooperation between firms, institutions and local government can achieve economic gains. "What is needed is sufficient trust to initiate cooperation and a sufficiently successful outcome to reinforce trusting attitudes and underpin more substantial, and risky, collaborative behavior. (…) Virtuous spirals of trust and effective collaboration need to be established." (Webb 1991, 237).

Harmonious relationships between firms, communities and government are built upon trust and mutuality. "Social trust in complex modern settings can arise from two related sources — norms of reciprocity and networks of civic engagement." (Putnam 2003, 171). The reciprocity characteristic of networks enhances cooperation because: (1) it increases the costs of defection, (2) it fosters robust norms of reciprocity, (3) it facilitates communication and improves information flows, and (4) it embodies past success at collaboration and provides a blueprint for future cooperation (Putnam 2003, 172). Empirical studies on the evolution of cooperative network relationships that focus on inter-organisational relationships include Human and Provan (2000).

Economic cooperation is impacted by trust. Trust is a key element and decisive factor in the cooperation relationship, which allows real commitment and confidence among the partners to develop a vision for the long-run. A seriously flawed cooperative working relationship will doom any agreement to failure, although a flawed written agreement can always be modified. Interdependent decisions to cooperate are influenced by the degree of cooperation already present in the organisations and may lead to an equilibrium in which cooperative alliances prevail.

In the more socialised version of trust, it has been observed that norms of fairness may enter into transactions between parties and firms. Often in relational contracting, norms of conflict resolution within the relation develop (Macneil 1978). Trust is an interdependent action of social cooperation for mutual benefit (Coleman 1990, 306-10).

Rational choice theory explains that trust is a factor in social interactions characterised by risk, as Coleman (1990, 91) puts it: "They are situations in which the risk one takes depends on the performance of the other actor." There is a positive relationship between trust and social capital, on the one hand, and political and economic success. Researchers attempt to document the various ways in which trust and social capital can improve the performance of political and economic systems. Putnam (1993, 2000) intends to demonstrate that the political and economic success of large social communities is linked to generalised trust and cooperation, though.

Luhmann (2000) distinguishes between person- and system-trust according to the recipient of trust. Person-trust is aimed at individuals and system-trust refers to the trust in abstract systems of relationships (Krause 1996) such as organisations. Thus, trust can exist towards the representative and at the same time towards the partner organisation.

Rational choice theory of institutions explains why individual actors come to trust each other, sets out different forms of cooperation and helps one understand the differences between them. The "encapsulated interest" account of trust combined with institutional theory provides the basis for comparative analysis of trust in explaining cooperation (Farell 2000). The "encapsulated interest" account of trust specifies the relationship between institutions and trust predicated as trustworthiness in a three-party relationship (Hardin, forthcoming), with people's own self-interest involved.

Farrell and Knight specify this relationship between trust and social institutions, in a middle ground between Hardin (forthcoming) and the broader conception of social trust (Putnam 1993). According to Farrell and Knight's account (2003, 8), "the existence of institutions in common social settings can affect the trustworthiness of the actors in those situations in such a way as to create ongoing relationships of trust among those actors." The authors suggest a model of the relationship between institutions and trust among actors. Institutions give actors an incentive to behave in a trustworthy or untrustworthy manner and/or affect social beliefs about the trustworthiness or untrustworthiness of actors through their dissemination of information about the expected behaviour of others.

FIGURE 14
MODEL OF TRUST, TRUSTWORTHINESS AND COOPERATION
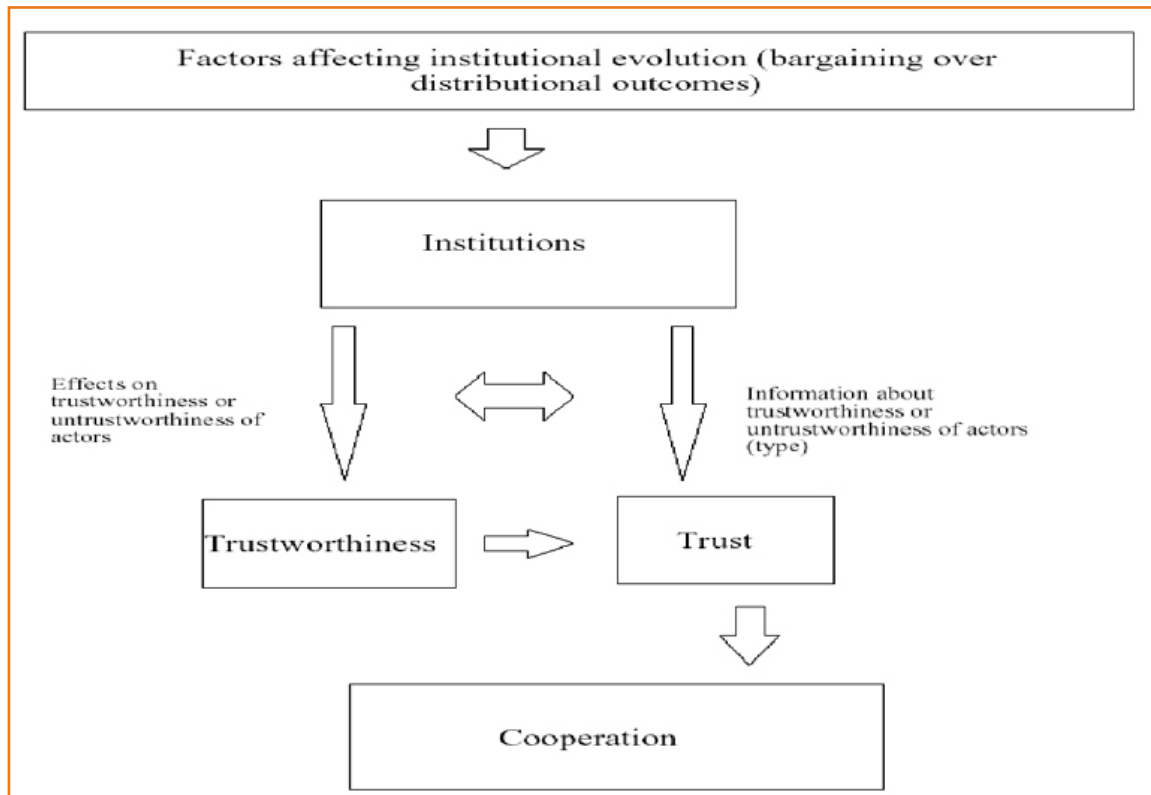
Source: Farrell and Knight (2004)

Trust and trustworthiness become relevant when the social cooperation cannot be reduced to simple institutional compliance. Cooperation inherent in institutional compliance is different from cooperation through the use of the concepts of trust and trustworthiness. Thus, in any relationship among institutions, trust and social cooperation are relevant. "Cooperation through compliance with institutional rules in particular social settings affects an actor's beliefs about the propensity of others to cooperate (their level of trustworthiness) in similar settings which affects that actor's willingness to cooperate at some subsequent point in time in that same social setting." (Farrell and Knight 2003, 10-11.) Changes in trustworthiness and in trust between actors lead to changes in the extent and form of cooperation. The model the authors set out specifies a set of causal relationships, which may plausibly affect trust and cooperation between actors (Farrell and Knight 2003, 15).

The model of trust, trustworthiness and cooperation appears "to provide a good account both of cooperation between actors, and the evolution of this cooperation over time, in relations between economic actors" (Farrell and Knight 2003, 38). A model of trust, trustworthiness and cooperation is shown in Figure 14.

Trust and confidence in the partner can rise unrealistically during the partner search and selection stages, only to drop as difficulties arise (Doz 1996). A simple contracting scheme in order to differentiate transactions and corresponding governance structures can be shown by using the classification of transaction types of Williamson's contracting scheme (Figure 15).

FIGURE 15
CLASSIFICATION OF TRANSACTION TYPES USING WILLIAMSON'S CONTRACTING SCHEME
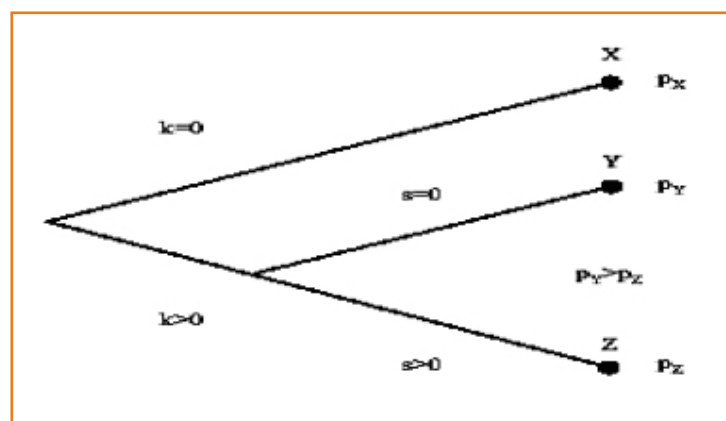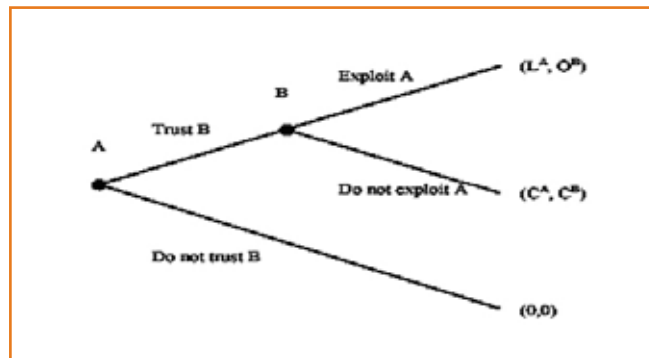

Source: Hirsch and Meyer (2005)

Hirsch and Meyer (2005) explain the scheme in the following terms: a good or service can be supplied either (1) by a general-purpose technology or (2) by a special purpose technology. The latter has the advantage that it is more efficient for servicing steady-state

demands (e.g., for a cooperation partner), but it requires greater investments in transaction-specific durable assets.

The variable k is used to measure the extent of transaction-specific assets. An investment in the general-purpose technology can be described by k=0 and, respectively, k>0 when there have been transaction-specific investments. According to Williamson (1989; 1999, 62-63), classical market contracting suffices for the first kind, while for the latter type, unassisted market governance poses hazards. The question is whether individuals should trust each other. The authors call this the trust problem in cooperation. Game theory, and more specifically, the prisoner's dilemma, models this kind of trust decisions as shown in Figure 16.

FIGURE 16
A STYLISED TRUST PROBLEM BASED ON THE ONE-SIDED PRISONER'S DILEMMA

Source: Hirsch and Meyer (2005)

The trust engendered in the partner will result in behaviour of benefit to the firm in the alliance. The political economy of trust in clusters of small firms geographically concentrated relies on cooperation to prosper.

Power has distribution aspects (Knight 1992). Power affects cooperation based on trustworthiness as a relational concept. Any agreement puts in place relationships of power and prescribes roles of action to the partners. Relationships of partnership include the distribution of power and may not be based on equality and equity. In the case of indigenous groups, real partnership must involve equitable cooperation. Power over relevant decisions can be shared but not necessarily equal power. There is not always a consensus on decisions and the degree of influence exerted by partners may not be equal. Thus, any asymmetries in power affect the trusting relationship of cooperation. There is a widespread perception of alliances as "weapons of power", instead of being "tools of management" (Schroeder 1976).

Firms frequently exercise their power over other firms to solicit compliance. Schroeder (1976) argues that alliances work, to a certain extent, as pacta de contrahendo,

constraining and controlling the actions of the allies. To achieve a genuine relationship based on trust it is necessary to establish an appropriate culture linked to reputation sanctions (Kreps 1990) or to subject behaviours to external organisational forms or institutions that provide actors with a technology limiting their ability to use power (Levi 1998). Cultural and legal backgrounds of partners give rise to communication and coordination information asymmetry.

Explaining the relationship between trust, distrust and power in subcontracting relations among firms, Farrell and Knight (2003), Farrell (2005; 2004) have suggested that asymmetries of power are incompatible with trust up to a certain level, and even when trust and its outcomes are asymmetric, trust may be possible. Disparities of power prevent trust from arising and distrust is the likely outcome. Firms may prefer to exploit their power instead of nurturing complex relationships of cooperation (Helper 1993).

The level of confidence required by a partner is not static. Increasing the level of trust does not necessarily lead to a reduction in the control exerted by partners: "the trust level and the control level jointly and independently contribute to the level of confidence in partner cooperation" (Das and Teng 1998, 496). These authors deny any relationship between trust and control, suggesting that high levels both of control and of trust are necessary in international joint ventures compared with other forms of inter-organisational cooperation. In a joint venture, a new corporate entity is formed. Thus, trust and control seem to be independent, but other contingencies should be included in the analyses of the relationship between trust and control in different forms of inter-organisational cooperation, such as the impact that cultural factors have on these variables.

As a means of both enhancing cooperative behaviour and mitigating competitive conflicts, relational capital based on mutual trust and interaction at the individual level between alliance partners creates a basis for learning and know-how transfer across the exchange interfaces (Kale, Singh and Perlmutter 2000). Canadian companies currently in Mexico concur and overwhelmingly view establishing trust as very important to doing business with Mexicans (Dennis and Beamish 1993).

Conclusion

There is a causal relationship between institutional economics of cooperation and the political economy of trust. Increasing the number of cooperative relationships and activities between agents increases the probability of cooperation, as they develop trust by working together over time. I argue that institutional cooperative arrangements should be considered in relation to economic gains for the parties and agents involved. These cooperative arrangements are the result of relationships of trust that aim to develop economies of scale,

economies of scope and to internalize externalities, but also of the economic and political interests of agents and the institutional context in which cooperation takes place.

The political economy of trust plays a major role in the development and ultimate success of cooperative relationships between political and economic agents. Lack of opportunism in cooperative relations between economic agents and political actors is the result of trustworthiness of some kind between them. Cooperative practices are affected by changes in trust and by the bargaining weight of actors affected by the existing institutions. However, it has been almost impossible to completely isolate the effects of trust from other incentives adequately calculated about the relevant benefits and transaction costs of cooperation specific to different types of actors. Asymmetrical forms of cooperation seem to be likely when the existing institutional rules do not provide the required trust for bargaining between economic agents. A political economy model of trust, trustworthiness and cooperation provides a cooperative equilibrium between economic actors over time.

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