

INSTITUTION-BUILDING FOR ECONOMIC DEVELOPMENT

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Development has for long been seen as a process that involves the application of discrete units of capital and labour. This view assumed that capital and labour were substitutable in their use. Further, governments sought to use techniques of production that were capital-intensive rather than labour-intensive.

In a manner of speaking, capital and technology held positions of supremacy. Between the two, labour was relegated to a secondary status. It followed that all the 'soft' qualities that are characteristic of people were of little import. They were recognised as worthwhile at a personal level, and of interest, perhaps, to psychologists or sociologists.

Economists, say, thirty years ago, would have balked at the idea of including amorphous concepts such as trust, honesty, and ethics within the ambit of serious research. Amartya Sen recounts how Joan Robinson, the famed Cambridge economist, showed little enthusiasm for his interest in ethics and justice when he was a student at Cambridge.

It is now realised that institutions matter. Earlier, economists such as Veblen and Commons attempted to initiate the study of institutions. They were not taken with the seriousness that they deserved.

More recently, however, economists of different hues, from North to Buchanan and Bhagwati and Krueger have written on institutions. The award of the Nobel prize to Coase and Buchanan, both institutional economists, has probably added to the respectability of the institutional perspective.

Rules, sanctions and norms constitute institutions. Institutions are based on shared expectations and assumptions that are taken for granted. We drive along the left side of the road, expecting other drivers to follow this convention. We go to a market and buy a kilogram of sugar. The kilogram is accepted as a mutually recognised standard of measure.

Institutions help bring down the costs of transactions. Institutions make exchanges easier. It then follows that institutions facilitate economic development. Put differently, the path to economic development is smoother and shorter if appropriate institutions are put in place.

Policy makers involved with development planning for Malaysia could benefit from the insights gained from the institutional perspective. While the focus of attention seems to be on capital, technological capabilities and investment in infrastructural facilities, the institutional foundations have, perhaps, been ignored. But, institutions do not necessarily have to follow investments.

The Multimedia Super Corridor (MSC), to take an instance, is a grand project that will place Malaysia on the global information and communications technology (ICT) map. The justification for the project is correct: Malaysia has lost her comparative advantage in cheap labour and does not have the technological advantage enjoyed by the developed countries. The government's willingness to invest in the MSC is unquestionable.

The institutional approach emphasises norms, conventions, cooperation, collaborative efforts and shared assumptions. The institutional pre-conditions for the MSC project would include collaborative networks linking universities, firms specialising in ICT products and services and research institutions.

Firms located within the MSC should realise that the advancement of knowledge can be constrained by self-interest and self-confined research. Instead, the advancement of knowledge comes from sharing findings, collaborating on areas of mutual interest, and working on problems that are shared by the MSC community.

Would there be a great loss if this were not done? Definitely. Otherwise the MSC would benefit a few foreign firms located in Cyberjaya. The MSC would reduce itself to a parking bay that multinational corporations find attractive because of tax exemptions and attractive infrastructural facilities. If an industry is to take root in Malaysia, the supporting industries must be indigenously developed.

Scholars have argued that part of the success of the Silicon Valley can be attributed to the high degree of interdependence between firms, suppliers and research institutions. Stanford University has a central role as a research institution and supplier of expertise within the Silicon Valley.

The professional culture in the Silicon Valley has been described as collaborative. Apparently, non-proprietary professional and technical information is shared and discussed. This is not to deny that competition is fierce among competing firms and professionals.

It is not the ICT industry only which can benefit from positive institutional foundations. The services sector can also benefit from strong institutions that are capable of encouraging economic growth. The MSC can be seen as a special case of the services sector. If the institutional perspective can be applied to explain the success of the Silicon Valley, and if it can be applied to the MSC, it can be applied with equal force to the wider case of the services sector.

First, it must be noted that the services sector is sub-divided into two categories, namely, final and intermediate services. Hotels, restaurants, wholesale and retail trade businesses are instances of final services. Industries and businesses that provide services for consumption are called final services.

Industries and businesses that provide services, not for final consumption, but which contribute to the production of final goods and services are categorised as intermediate services. Professional services, services relating to transport, finance, insurance, information technology and communications are considered as intermediate services.

The services sector can patently benefit from the establishment of positive institutions. Like the MSC, the services sector would, in fact, stand to gain tremendously if the right institutions are firmly grounded.

It is conceivable that Malaysia can come to be a net exporter of services if the firms and workforce within the services sector develop rules, norms, practices and relationships that emphasise trust, transparency, credibility and reliability. The financial services, hotel, tourism and ICT industries are in a special position to take advantage of such institutions.

The government has launched the MSC, Putrajaya and the Kuala Lumpur International Airport. This demonstrates a high degree of commitment to the development of physical

resources. An equal measure of commitment towards encouraging the development of appropriate institutions is all we need to achieve higher levels of economic development. Otherwise, there is the danger that we may have a shell of physical facilities without the core that only come from institutional change.