

## **INSTITUTIONAL STRUCTURES CRITICAL TO DEVELOPMENT**

It seemed at a point that Malaysia's economic development would be characterised by a shift in emphasis from the development of its 'hard' infrastructure to its 'soft' infrastructure. The years during Mahathir's regime could be described as a period where buildings, roads, and airports featured as sources of growth and levers of development.

In recent times, economic thinking recognises that institutions matter. Variables such as economic freedom, good governance, judicial credibility and effectiveness and transparency are viewed as important elements of development. There is some controversy how these concepts can be defined and measured; but there is a great deal of agreement that something like trust makes a difference to economic life.

In the initial months when Prime Minister Abdullah Badawi came to office it appeared that the institutional aspects of economic activity in Malaysia would be revisited and revitalised. His interest in eradicating corruption spurred speculation that, perhaps, the tilt was in favour of restructuring the institutional efficiency of the economy.

Take for instance the question of government-linked companies and the debate that ensued on how their performance could be benchmarked. This, again, had a fragrance that signalled a keenness in using institutions to induce a more efficient economy.

The discourse seems to have shifted ground. In the last few months the emphasis has been on the huge projects that the Ninth Malaysia Plan would launch. The entire gallery consisting of analysts from stockbroking firms, a multitude of economists and other curious onlookers rose in to applaud the Prime Minister for the billion-dollar projects that would be see life.

One hopes that the cacophony of voices and their applause has not dimmed the Prime Minister's vision.

There is something immediate and quickly tangible about building roads and other concrete structures. After all, audience that we just referred to represent companies that are interested in the short-term payoffs that such projects spurn-off.

But this is to miss the point, the longer horizon that is yet to be realised, and may not be ever seen if we do not repair the foundations of the economy. For, precisely, that is what institutions are all about – they are the foundations, the structure that gives rise to the effective and efficient functioning of the economy.

Without a solid ‘soft’ infrastructure we cannot expect the economy to function smoothly and efficiently. We take the functioning of the market for granted when we overlook the rules that decide the state of play in a market. A market is as good as the tacit and explicit rules that guide its functioning.

Time and again we are reminded that our institutions are in need of attention. Time and again we attend to the to the rashes that erupt, explode in invective and completely ignore the source of the disease. We distract ourselves from realising that it is our institutions that are in need of attention.

A swift replay of episodes, all not too distant in our memories, will serve as a reminder. One such event was the problem relating to the manner in which approved permits (APs) were issued, and to whom they were issued. Then, there was the case of whether an Italian company producing motorcycles should have been bought or not; and whether it should have been sold for the low price at which it was sold. Then again, there flew the accusation that Malaysia committed itself to a lopsided agreement with Japan in the signing of the Japan Malaysia Economic Partnership Agreement.

Standing before this exciting sample of accusations being hurled around, what should the focus of one’s attention be? Inefficient or corrupt ministers – so we would be led to believe – or the agonies of a neglected, elderly, former prime minister?

The former deputy prime minister, Anwar Ibrahim, had an extremely sage piece of advice to offer in the face of these accusations and counter-accusations: that we should keep our eye on the economic issues that need reform rather than on the personalities involved.

If we were not to lose sight of the issues that lie at the heart of the matter, we should consider how we could build our institutional structures. If the government were to put in place appropriate institutional structures, we would not have errant ministers of whatever portfolio.

Various strategies are possible. For instance, the government could look at reforming its government procurement process. Equally, the government could consider how decision-making in government-linked companies is guided by good sense and prudence rather than by some reason that will create a scandal with the passage of prime ministerial regimes.

Another valuable candidate for consideration is a Productivity Commission, a regulatory body that is answerable only to the parliament, that could oversee and monitor all issues relating to privatisation, competition and the like.

The recent spate of criticisms can serve as a reminder that there are some things that need to be done; that we have not done enough about the credibility and independence of our judicial system; and that transparency and good governance have to be securely institutionalised into the system.

Aside from the intrinsic value that good institutional structures have, institutional reforms have tremendous advertisement value. They tell potential investors that we are serious about making Malaysia a place which has credible institutions; that we want to root out

corruption and promote accountability so that markets can function without unwanted intervention.

We need to look beneath markets to determine what makes them function efficiently. The first step in that direction is to improve our institutional structures. Multi-million ringgit projects are not faults in themselves; but a longer view must prevail and it must lie in introducing institutions that promote efficiency and productivity.

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