

4 THE STATE AS THE PROVIDER OF VISION AND INSTITUTION BUILDER

4.1 Introduction

A major transformation in the economic structure requires simultaneous changes in many components of the economy. However, the factors of production in a non-socialist economy like Johor are interdependent in use but dispersed in ownership. Hence, there is lack of 'systemic' vision and it is difficult to expect each individual to initiate the transformation as there is always uncertainty as to the behavior of other relevant agents. Realizing these facts, the state government of Johor, together with the federal government has assumed an active role in co-ordinating economics activities, especially investments in industries with demand complementarities.

In the implementation of various development programs, a wide range of executing agencies involving both state and federal level departments and agencies work hand in hand. Thus, horizontal inter-agency coordination is crucial.

4.2 Hierarchy of Institutional Set-Up in Planning

4.2.1 Federal Government

The federal Government, besides retaining almost all fiscal powers, is also responsible for external affairs, defense and security. The federal Government provides the legal framework and policy guidelines at the macro-level. It also contributes the public sector infrastructure and supports programs for the state development by providing funds and financial assistance to state projects. In

addition, it provides technical assistance and extension services, trading, education and human resource development. In many cases, development projects in the state are joint programs undertaken by both the state and federal government.

Table 19 illustrates on the allocation by Federal Government to Johor from 1975-2000. The percentage of allocation is higher during the early stage of development, amounting to 8.2% for the period of 1975-1980. Since 1990, the percentage of allocation has become smaller as the state has grown very fast and the state government has generated sufficient revenue to support its economic and development activities.

Table 19 Johor: Allocation by Federal Government

	Allocation (RM million)	% of total allocation
1975-1980	2,620	8.2
1981-1985	3,357.3	6.85
1986-1990	3,794	6.9
1991-1995	3,344	5.7
1996-2000	3613	5.3

Source: Malaysia Five Year Economic Planning Reports

4.2.2 State Government

The powers of the state government are defined in the Constitution under Article 74 and the Ninth Schedule. Among others, its functions include responsibilities for Muslim religious law, land ownership and use, agriculture and forestry, local government, state works and water supply, other than those covered by the Federal Government. It is important to note that state control of land is of particular significance in the planning and implementation of development

programs. Under the state constitution, the legislative power is vested in the State Legislative Assembly whose 36 members are elected by the people through state elections. The assembly appointed among its members of the state legislative to the State Executive Council (EXCO). The State EXCO is the highest decision making body for government policies in Johor and is headed by a Menteri Besar.

Meanwhile, the nucleus of the State Government administration is the state secretariat, which provides the administrative support to the implementation of decisions and policies of the EXCO and Legislative Assembly. The State Economic Planning Unit (SEPU) of the state Secretariat is the leading planning agency at state level and is responsible for the overall policy formulation and development planning of the state. It plays an important role in ensuring the development policies and objectives of the EXCO are carried out.

4.2.3 Local Government

The local authorities are the regulators of investment activities in particular housing, shops, workshops, building and industry. The local authorities, as the providers of basic infrastructure and urban services within their jurisdictions, are faced with the problems of inadequate organizational and financial resources in carrying out their development programs. However, the Pasir Gudang Local Authority (PGLA), established in July 1977, initially with 252 hectares under its jurisdiction, is the first local authority in Malaysia that did not receive any financial allocation or support from either the state government or

the Federal Government in its 20 years of operations. Its ability in managing Pasir Gudang has convinced the state government to give an additional area around Pasir Gudang to be placed under the administration of PGLA. Until April 1999, the area managed by PGLA comprises an area of 8,791.62 hectares, including the new Tanjung Langsat Industrial Area.

Today, Pasir Gudang, which was once a fishing village, is the largest and most successful industrial township developed by Johor Corporation (Formerly known as JSEDC). It is the most outstanding symbol of Johor's success in industrialization and in transforming Johor from agriculture to an industrialized economy.

The fine example of privatized township management is showcased as to how it was run by the JSEDC with little disruption. From the very beginning, the focus was on careful financial management, incorporating several systems of checks and balances. Bureaucratic red tape in/ and development procedures were slashed and fast infrastructure set ups followed development approvals quickly. In other words, PGLA's success is due to its ability to provide quality service and saving in cost and time.

Although the industry takes up much of the township, the authority makes a conscious effort to create a pleasant residential abode. Besides being equipped with sound infrastructure facilities, port facilities, industrial training institute, financial services and government and private agencies which provide supporting services to manufacturer, investors and community here, the PGLA has also

developed a 'city park' which provides facilities such as exercise trail, jogging track, pedestrian walk, boating facility and kite flying zone.

4.3 Implementation Framework

The successful implementation of planned programs, however, depends on the suitability of supporting institutions entrusted with implementation. In a situation where two or more institutions are responsible, the question of dominating and leading roles will have to be elucidated.

Generally, the macro economic policy framework is laid down and maintained by the federal government. The state participation is at political and administrative levels. The state supplements the Federal Government policy by adapting local development strategies and programs as well as by instituting laws and by-laws to support these strategies.

Allocations for various projects are disbursed through the Federal and State Government. Federally funded programs are usually implemented by the respective ministries of the Federal Government through departments and agencies at the branch level. Meanwhile, state funded projects are approved and implemented at the local level.

4.4 Assessment on Implementation Framework

Currently, there is little coordination between physical and economic planning at working level. Normally a gap exists in the planning and implementation activities due to problems of integration between economic plans and policies and physical planning¹. This is because economic planning is coordinated through the state economic planning committee while physical planning and urban development is under the supervision of the state planning committee.

In terms of coordination and inter-agency cooperation, the high-level meetings i.e. through various committees established by the executive council, often cause frequent delays. On the other hand, there is no single agency taking responsibility in monitoring all the development projects in the state. Each development agency is left on its own to implement approved projects. However, projects' monitoring at regional and state level is very important for coordination of economic activities. At present, SEPU and SDO² only do this on ad hoc basis when the need arises, due to manpower shortage. In addition, the coordination between the two is relatively weak.

The state's role as mere institution builder in economic change does not end here. Neither does it mean that the state role is simply coordinating the shift from one equilibrium position to a higher equilibrium. A major economic transformation requires more than simple coordination. It is not just choosing from a pre-existing choice set. In fact, it is formulating the choice set itself and

setting an agenda for economic change and for the evolution of private tastes and perceptions. Here, the state is actually providing a coherent, though not necessarily the best, vision of the future. By doing so at the early stage of the transformation, the state increase efficiency by driving private sector agents into a concerted action without making them spend excessive resources in information gathering and processing, political bargaining, rent seeking etc. However, my intention is not to say that the state has a superior ability to identify a better future course for the state's economy, but, because of its strategic position that the state, by definition, is the only agent that could provide a 'focal point' in which economic activities may be organized for economic change.

The vision provided by the state as an entrepreneur can be 'wrong' at the very first place, or become so due to failure to adjust to the changing environment. Thus, the provision of a vision may be a necessary condition for an effective achievement of a major economic transformation but it is not a sufficient one. However, the possibility that the state can hold a wrong decision does not, in itself, mean that state intervention is inferior to free market mechanism. All entrepreneurial visions, private or public, run at the risk of being wrong. In fact, the state, as an institution builder, is in a better position to minimize the risk.

When a process of major economic transformation is underway, new interdependencies will appear and old one disappeared³. Under such circumstances, there is a need to quickly establish a new coordination structure

that corresponds to the new pattern of interdependence. Failing to do so can incur substantial information cost for all agents, especially the private sector, which is operating under age of uncertainty. In the case of Johor, access to information related to economic development, projects and programs is limited. The main development agencies in the state do not have a data bank on all development projects within the state. Information flow is slow and does not keep up with the pace of development. Lack of data as well as minimal inter and intra agency communication affects not only planning at the state level, but also the private sector. Realizing the importance of the coordination of the growth of knowledge, the state is working to streamline the state information system and establish a data bank to enable systematic, comprehensive and easier retrieval for use by planning authorities, including private sector.

Besides that, the state is to provide an institutional reality to the new coordination structure as the state has the sole ability to legalize, to give implicit but effective backing to the new economic circumstances (i.e. new property rights) when economic transformation takes place. This will help agents with bounded rationality to establish new organizations to deal with the new economic environment. In this process, the state is not merely responding to changes, but also shaping the course of changes⁴.

However, establishing a new coordination structure is easier said than done. Firstly, it is not simple to identify the optimal timing of such institutionalization. For instance, sometimes early institutionalization of new

practice boosts changes, while at other times preventing better, more desirable new practices.

Also, internationalization of economic activities poses problems for establishment of a coordination structure. For example, it is difficult to regulate trade flows due to the constant emergence of new products and new sources for supply from abroad. The question of feasibility arises too due to the resistance of certain groups that may lose out under the new co-ordination structure. In order to minimize the reduction in the economic benefits enjoyed under the old structure, these people will try to mobilize against the new institutional arrangements and sometimes succeed in doing so.