

The Role of Institutions and Development: The Political Economy of Malaysia's Industrial Policy-Making

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Abstract

This paper explores the politics and political economy of Malaysia's industrial policy-making processes. Neo-institutionalism and developmental state approach are used to construct the industrial policy-making framework in Malaysia setting. Given the limitation of rational choice approach, historical and sociological institutionalism was used as paradigm to understand the role of institutions. Central to developmental state approach which are political elite, bureaucracy and close reciprocal relationship with 'selected' enterprises play crucial role to devise industrial policy. However, the role of institutions that has its roots in history, political events, power relations and norms can influence the interactions and organization of the economic actors. Institutional arrangement in policy-making can be different in every country, as variations of institutional designs have always been the principle reason for different countries adopts different industrial policy. This paper highlights on how principle policy actors which act as 'triangular arrangement' can mobilize, coordinate, and priorities economic preferences in Malaysia policy-making institutions.

Keywords: *Neo-Institutionalism, industrial policy, developmental state, political economy*

INTRODUCTION

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Explaining the course of economic development and determining factors that might affect it has continuously been an important topic of political economy. A focus on institutions has been central to the explanation of economic growth and the policies associated with it in all forms of capitalism. Central to an institutional framework are including institutions shape, facilitate, constrain and guide interaction between economic actors to determine developmental outcome or its decline (North, 1991). Institutional set ups are not homogenous, every country's institutions differ significantly and all are nationally bounded because they are constructed by nationally specific formal rules (i.e., law and policy) and informal rules (i.e., norms, values and embedded conventions). The dominant cultures and regulative institutions (Scott, 2008) affect how economic actors interact, resolve problems, and form collective interests.

The variation of institutional design across countries means that industrial development and configuration of the policy could not merely be based on the neo-classical perspectives (Chang, 1999, 2003; Chang & Evan, 2005). Instead, there is a need to take into account the institutional context of a developing country, where interaction of actors is subject to wider influences such as history, political process, power relations, norms and values (Steinmo, 2008; Campbell, 1998). These factors affect the organization of economic actors, ideas and agenda development, and economic preferences in the policy-making institutions (Whitely, 2003). Variations of institutional design influence choices and strategy of industrial policy, and therefore industrial development differs significantly in each country.

Most analysis on the political economy of industrial policy formation uses either rational choice models, institutional economics or collective actions approaches (Williamson, 2000; Ostrum, 1990). The above-mentioned approaches leverage on an economics paradigm (Jenniver, 2009), in which the main concern of the analysis is centered on allocation of scarce resources and is efficiency oriented (Krippner, 2001). This includes a focus on 'maximizing utility' and is premised on the agency theory, whereby actors have a fixed set of preferences and behave entirely to attain their preferences that presume extensive calculation (Keohane & Martin, 1994; Shepsel & Weingast, 1987). Rational choice institutionalism has its own merits and has contributed insights to the political economy of economic policy analysis. However, such an approach does not capture the whole spectrum of political economy and the politics of industrial policy (Campbell, 1997a), particularly in a developing country. This rational choice approach falls short in taking history, political process, power relations, and normative aspects as main concerns in policy decisions.

Economic policy is subject to the domestic institutional context in which actors are embedded (Haggard, 2004), and politics cannot be separated from the policy-making process (Doner, 1992). For this reason, this paper used new institutional theory by leveraging historical and sociological paradigms to understand the role of institutions that structure policy makers' interactions in policy making processes. A developmental state approach was also incorporated to help in framing the theoretical lenses. This approach, associated with developing countries, is used to pursue long-term industrial development. From this approach the state is able to impose its will to direct economic development projects. Developmental state paradigm posits that the state consists of a set of institutions that structures interactions between society and political institutions. Furthermore, the state has the capacity to formulate and impose policy with less intervention from societal groups due to a weak link between state-society relations (Woo, 1999). The institutions (which has its roots in historical events, domestic political factors, and embedded conventions) broadly influence such uneven power relations. The developmental state approach is usually associated with Northeast and Southeast

Asia industrialization. The central question in the developmental state approach is that if Southeast Asia adopted such an approach, why are they unable to produce stellar industrial development like their counterpart? Most scholars, such as Haggard (1990; 2004), Doner (1992; 1991b), Low (2004), Abbott (2004), Jomo (2004), and Chang (1999) argue that the direction of industrial policy formations is subject to the nationally-bounded institutions.

Industrial policy lies in the institutions, which structures the organization of economic actors and their interactions. Analysis of the developmental state approach could not ignore the role of institutions, which constitute the ‘rules of the game’ in industrial policy formation (Haggard, 2004; Weiss, 1995; Chang, 2003). As Chang (2003) argues, institutions are a necessary condition for effective industrial policy in a developmental states approach. That is, success or lack of success depends on the country’s institutions. In such approach the role of institutions structured by executive dominance and bureaucratic unity have the capacity to devise policy instruments and strategic use of resources. The state actors (i.e., political, executive, and bureaucracy) and ‘selected’ business groups play strategic roles to direct economic outcome in the policy-making institutions. Nevertheless, variations of the domestic institutional context can affect actors’ interactions, which in turn influences industrial policy strategy and preferences, as well as the way the state is ‘developmental.’

This paper discusses institutional arrangements as part of framing the policy-making institutions in Malaysia. Institutional arrangements are used to explain the relationships between actors to coordinate, bargain, resolve conflicts and determine economic preferences (Hollingworth, 2000), in which can influence policy-making institutions. Institutional arrangements are seen as a form of deliberation by principle actors taking place to influence the allocation of resources, strategy and feasibility of industrial policy. It also creates ‘order’ to attain mutual gains and reduce conflict. The mode of coordinating and the deliberation process are affected by the dominant regulative and normative dimensions of the institutional context. This can influence the mode of institutional arrangements either through formal and informal rules. Power relations in the institutional arrangements can also influence whose ideas and preferences to be incorporated in the industrial policy; hence, this can help explain the politics by principle of economic actors, i.e. politician, bureaucrat and selected business groups to coordinate economic development in a developmental state approach.

The next section of this paper integrates the theoretical lenses based on new institutionalism and a developmental state approach to study the politics of Malaysian industrial policy-making institutions. As a developmentalist state, the existing institutional structures underpin the role of the political elite, bureaucracy and ‘selected’ business groups in determining policy preferences (Ritchie, 2009; Nelson, 2012). Thus,

policy-making institutions are non-pluralistic. There are uneven power relations between state and society; hence the political elite can transfer resources for industrial development with less opposition from organized groups' peak organization (Khoo, 2012; Tan, 2009). Formation of industrial groups at the outset is linked to political process, so mobilization of resources is linked to close connection between business groups and elites (Haggard, 2004; Ritchie, 2005). Industrial policy is somehow obscured; it is likely to have political objectives that may subordinate overall economic goals (Tan, 2008). In short, a 'triangular relationship' between the state elites (e.g., politicians and bureaucrats) and industrial groups (i.e., who are linked to state elites) may construct the rules of the game that eventually influence policy formation.

The politics in Malaysia's industrial policy-making institutions explain what the potential institutional arrangements have taken place in policy-making institutions, and how political and economic actors mobilize, coordinate and priorities economic resources. Considering the strategic role of the state elite (e.g., politicians and bureaucrats) and selected business groups in policy-making institutions, the elite can mobilize scarce resources swiftly and adjust industrial policy (Meerman, 2008). However, the elite can be inflexible in policy changes, given that its political objectives intertwine with the domestic enterprise interests who are linked to political elites (Khanna & Palepu, 2010).

LITERATURE REVIEW

The Role of Institutions

Institutions are commonly referred as the 'rules of the game' in the society; it is human to devise constraints that shape human interactions (North, 1991). Institutions are seen as rules that structure interaction between actors, affecting social, political and economic outcomes. The role of institutions focuses its interest on the interaction of politics (the political institutions) and political process (the political process) to explain policies (outcome) (Jenniver, 2009, p.32). Pertinent to this is that different countries have different institutional set-ups, because formation of institutions broadly depends on the society' culture, habit and history. Historical institutionalism suggests that institutions are linked to the path dependence, a collective decision in the past by a society on how things are done (Hall, 2001). Sewell (1996) points out that 'what has happened at an earlier point in time will affect the possible outcomes of a sequence of events occurring at a later time' (p.262), which creates a historical legacy of rules, capacities and norms. Such legacy is an 'intergenerational transfer from past to present' (Beissinger & Young, 2002), and institutions transmit the norms, values, capacities and routines acquired in previous times (Jenniver, 2009, p.38).

Institutions are linked to certain legacies, as Pierson (1994) argues, ‘past line of policy condition subsequent policy by encouraging societal forces to organised along the same line than the others’ (cited in Hall & Taylor, 1996, p.941). The established legacy has a powerful effect on institutions for a long period of time, which structures individual behaviours, because once rules, norms and values are institutionalised, actors adapt their strategies in a way that reflects the institutions and reinforces the logic of systems across actors embedded in the institutions (Thelen, 1999). This can potentially constrain possibilities for change in policy, as Thelen (1999) claims that institutions are ‘isomorphic’ (compatible with resembling or renewing with similar logic), because political elites interpret based on the institutions they are embedded in, so even when the actors attempt to redesign institutions they are constrained in what they can conceive due to these embedded and cultural constraints (p. 386). North (1991) terms the situation as the ‘locked in’ effect of the institutions, and changes to institutions are often limited, especially as powerful actors that benefit from the institutional setting can constrain institutional change. This effect enables institutions to persist over time.

However, this does not mean institutional change does not take place. Institutional analysis often posits that institutional change is possible through ‘critical junctures’, moments when substantial institutional change can take place, thereby creating a new path from the historical development (Gourevitch, 1986; Thelen & Steinmo, 1992). This happens depends on collective actions attained by various actor groups in a society to create incentive for change (Hodgson, 2006). Though institutions are often seen as having long periods of stability, changes can come from a ‘shock’ such as conflict or crisis, exogenous pressure (liberalisation) or the political process in policy field (Boettke et al., 2008). A ‘shock’ can lead to revolutionary change especially when there is a breakdown of institutions (Krasner, 1988). However, Thelen (2002) argues that not all environmental shifts are destabilising and not all shocks cause institutional breakdown. In fact, institutional change can be evolutionary because the need to change is always a question between beneficiaries and non-beneficiaries. The interplay of society and political power groups has decisive effects on institutional change to be evolutionary (Thelen, 1999). Therefore, new rules or governance can be formally introduced, but may not necessarily undermine informal institutions and powerful actors’ interests in old institutions, so such change can be incremental.

Path dependence bears on institutional constraint for actors’ interactions. Thelen (1999) argues that path dependence can lead to a ‘distributional effect,’ referring to the role of power and asymmetrical relations of power plays between groups. Since political balance of power in an institutional context structures interaction between political actors and other groups, Thelen (1999) points out that ‘institutions are not

neutral coordinating mechanisms but in fact reflect, and also reproduce and magnify, particular patterns of power distribution in politics' (p.394). The distribution of power in political institutions makes a difference in policy outcome (March and Olsen, 1984), because institutions structure some groups (e.g., elites or interest groups) to have access to the decision-making process. Even though policy decision is open for competition between numerous groups, institutional constraints can circumscribe political participations, this can lead to unequal access to the decision-making process. Therefore, political institutions structure the kinds of interest most likely to be represented in the policy process (Steinmo, 1993).

An important assumption about the role of institutions (based on the historical and sociological paradigm) is that political actors are not utility maximisers (abiding by rules to increase individual gain or maximise interest), they are utility 'satisficers' (Braathen, 1996). This suggests that actors are norm-abiding rule followers, while at the same time they attempt to maximise their interests within the institutional context, so how one behaves depends on the individual, the context, time and rules. In other words, an actor will respond to what is appropriate behaviour within the broader cultural environment (Hall & Taylors 1996, p.949). Dimaggio and Powell (1991) refer to 'what is appropriate,' meaning institutions govern the everyday social norms and interactions because institutions are seen as socially and culturally constituted. In this sense, actors in the institutions seek to define and express a certain identity in socially appropriate ways (Hall & Taylor, 1996 p.949). March and Oslen (1989) suggest that what is appropriate is also how political institutions define and interpret the world view, and respond to a particular situation based on the institutionalised norms, values and capacity. As such, actors behave strategically within the institutional context. As Steinmo (2008) argues, 'humans are not simple rule followers', while the role of institutions structures norms and rules, political actors operating in an institution will act strategically based on existing norms, values and rules (what is appropriate) to attain their interests. This has implications on spreading policy ideas and configuring preferences and interests, and hence influences policy outcome (Campbell, 1998).

The role of institutions shapes interpretations for possible courses of action by political elites. As Scott (2001) aptly frames it, the interpretation of interest or definition of problems is largely based on actors' subjective interpretation of their objective situations. This includes norms, routines and values that can constitute an actor's interpretation of policy solutions. Most rational choice theorists have downplayed this dimension, as they assume actors devise policy solutions to a problem to adopt practices that can increase organizational efficiency or otherwise reduce costs relative to benefits (Campbell, 2004, p.18). Such an assumption is less sensitive to actors' norms and values when they operate in a particular institutional context. Hattam (1993) argues that actors' interpretation of interest or solution to a problem does not exist in a vacuum, as

the historical constraints and normative and cognitive dimension constitute an interpretive frame and meaning that enable actors to interpret the world from certain point of views. This is the reason why different actors may interpret similar situations differently. For instance, political actors may differ in interpreting industrial development or industrial policy approaches to attain economic development.

The interpretive frame of actors is deemed central to how the elite ‘package’ formation of policy interest to convince the public that certain policy proposals constitute plausible and acceptable solutions to problems within the institutional context (Campbell, 1997b; 1998). Since institutions enable interests to be interpreted by political elites according to regulative and normative institutions, they are subject to constant manipulations by political actors to respond to specific situations and circumstances (Lewellen, 2003). Schattschneider (1957) points out that political organisation is the ‘mobilisation of bias,’ where political actors have bias in favour of exploiting some kinds of interests while suppressing others. The role of institutions enables elites to interpret policy interest to prevent change in policy outcome or block potential policy that is against their interest. In this context, even though change takes place, it is subject to what Mahoney and Thelen (2010) refer to as ‘layering’: the creation of new rules together with old ones where change occurs not through the displacement of old rules, but rather through the addition of new ones on top of old ones. It can also occur through ‘conversion’, where rules remain formally the same but become interpreted and enacted differently (p.17). This suggests that though there are well-established rules, the interpretation of them can act as a constraint on how a possible course of action is defined or framed. A leadership role is significant to define preferences based on the normative and cognitive dimension of the institutional setting.

Formal rules (i.e., codified rules) and informal institutions (i.e., norms and values) construct the role of institutions. Particularly for sociologists, the cultural dimension that constitutes normative and cognitive dimensions has a profound impact on shaping actors’ interactions, preferences and objectives. The cultural dimension can be viewed as informal institutions that institutionalised norms and embedded conventions (Hofstede, 1983). The informal institutions embody customs, tradition and code of conduct structures of behaviour, interaction and preferences. Following Scott (2008), the normative dimension (the unwritten code of conduct) institutionalised certain norms that form a binding expectation for actors’ behaviour. Similarly, March and Olsen (1989) argue that institutionalised norms like standard operating procedure reflect the routine way in which people do what they are supposed to do (p.21). Scott also refers to the normative dimension as logic of appropriateness (drawing from Campbell’s work), which usually refers to what is the appropriate behaviour one should

do in accordance to the cultural context. In this sense, the informal institutions set a powerful course of social interaction in a given institutional context.

From the above discussion it is obvious that ‘institutions matter’ as they shape, facilitate and constrain actors’ interactions. An important consideration of institutionalism is that there is no homogenous set of institutions because different societies have distinctive sets of rules, norms, values, and embedded conventions. This manifests different institutional designs across countries, so the institutional design of developed countries could not be compared to that of developing countries. Simply the role of institutions influenced by historical specificities, the political process and the social context that have implications on the policy making process.

Developmental State and the Role of Institutions

The developmental state concept is referred as the state of seeking to attain economic development through industrialisation by improving targeted sectors to make them competitive at the international level (Johnson, 1999). The overarching intention is to promote long-term entrepreneurial perspectives among the industrial elite comprising key business groups and resist growth-compromising demands from special interest groups (Johnson, 1982). Here it features the strategic role of the state elites (politicians, bureaucracy) and ‘selected’ industrial groups to devise economic development. The approach does not downplay the role of market institutions in the process of modernising the national economy. However, the state devises policy instruments embedded with national interest to guide the market. The state ‘provides directional thrust to the operation of the market mechanism, and the market is guided by long term national rationality of investment formulated by the state’s institutions’ (Onis 1991, p.110). The role of institutions in such states enable the state elites and selective producers to deliberate policy, and thus can alter market incentives while protecting vested interests and creating obscurity (Low, 2001, p.413).

While the above definition shows the state directing the economic development project, one important feature of the developmental state is linked to the ‘state capacity’. The capacity is influenced by the institutional setting (historical specificities) of that state which in turn structures the power relations between state and society. This structure the principle strength of state elites (politicians and bureaucracy) and other economic actors’ links to them. The institutional setting enables the state elites to configure policy based on the constellation of elite interests. As a consequence, the elites have control over key institutions to exercise their autonomy to construct economic rules and policy formation (Leftwich, 2000). Elites (e.g., political and bureaucracy) are able to exercise their power in the states’ institutions to mobilise

society and material resources for state action. Industrial policy can be implemented without being compromised by other social groups

The strategic role of the state intervening in the market for rapid industrial development becomes an overriding consideration in the developmental state (Onis, 1991). The state is described as plan-rational. In such economies, the state itself leads the industrialization drive, taking on developmental functions (Johnson, 1982, p.19). Given the state capacity, the state is able to set substantive social and economic goals. The government will prioritize the structure of domestic industry and promote the structure that enhances the nation's international competitiveness with its industrial policy (ibid, p.19). Though the state plays strategic roles, the economy remains largely in the hands of private corporations, which exposes it to a market discipline environment (Abbott, 2003 p. 27). Though the state ensures rules are adhered to the market economy, the institutional design of the developmental state structures an interwoven relationship between state and market. Therefore, the state would intervene where necessary in order to achieve national goals, including going beyond arm's length relationships to facilitate private enterprises (ibid).

In the developmentalist state approach, the state is also likely to be selective, meaning that the state tends to create progressively shifting competitive advantage instead of just adapting to existing comparative advantage. For example is the transformation from an agriculturally based to industrial based economy, or effective industrial upgrading (from mid-tier function to innovative activities) (Lauridsen, 1995, p.27). When it shifts to certain industrial sectors, the government initiates most major investment for the private sector, and as such the state would ensure private sectors have access to state resources in order to grow in the marketplace. Strategically shifting from one sector to another may give rise to a plausible tension regarding resources allocation. However, the state elites are able to resolve conflict (for instance between different segments of capital), then allocate resources to the most productive groups. Then, state elites are able to construct economic rules that advance long-term sectional interests, technological character and promote growth (Pempel, 1999).

The developmental process is based on deliberation and close connections between state and 'selected' industrial groups (Woo-Cumming, 1999). Deliberations of economic strategy is devised by either formal or informal ways between government and private sectors. To ensure economic development is in line with the national interest, 'numerous unusual institutional arrangements' take place to facilitate the growth of the private sector with preferential access to state resources (Johnson, 1982, p.312). Given the state capacity, state elites can mobilise state resources swiftly, instead of relying on the market mechanism (Wade, 1990). The ongoing consultation enables

the state to prioritise research and development, financial support, technological upgrading and training and development. The state elites are able mobilise resources from unproductive industrial groups to more productive ones, while imposing discipline through export performance, attaining greater economies of scale and improve the learning curve (playing industrial catch up) (Jomo, 2004, p.59).

In developmental states the state ideology is important and can provide powerful tools for ruling elites to achieve specific developmental goals and consensus. Abbott (2003) notes that historical specificities, radical change in political institutions and external threats enable the governing elites to mobilise nationalism in economic policy. The institutions have structured a weak link between state and societal groups' relations, so the governing elite can easily use or manipulate nationalism in pursuit of industrial development. Ethno-economic development can also link to nationalist economic projects, especially in developing a country where the ethnic imperative is an important political consideration (Case, 1994). Skilful political leaders can use symbols of nationalism or ethnic imperatives as an interpretative frame in industrial policy making with the intention to strategically intervene in the market (Abbott, 2004). This enables elites to mobilise resources with less chance of being challenged by specific organised groups. Mobilisation of a nationalistic economic policy can infuse in the nation's institutional setting, thereafter structuring developmental goals for political and economic actors.

The bureaucracy is one of the most important features in the developmental state approach. From neo-Weberian perspectives, Evans (1995) suggests that in a developmental state model, the bureaucracy plays an important role in constructing economic rules, implementing economic policies and exercising control to maintain the rules, ensuring the state's developmental outcome is attainable. The bureaucracy is filled with technocratic elites, staffed by the most able and highly qualified groups in the country. Wade (1990) points out that 'governing the market requires small numbers of powerful policy making agencies to maintain the priorities expressed in the routine accumulation of particular negotiations and policies in line with the notion of the national interest' (p.195).

Autonomous bureaucracy is central for the economic technocrats in a developmental state to form coherent economic policy, as Wade (1990) argues that the bureaucracy can function based on meritocratic practices because it is protected from other societal groups' interests. Here the political institutions have the capacity to insulate the state bureaucracy. Bureaucratic capacity and autonomy can provide the ability to devise long-term, coherent economic policies with less interference from private interest groups. Onis (1991) argues this, stating that political insulation of the bureaucracy enables technocratic bureaucracy autonomy to shape development

strategies and translate national goals into effective policy actions. Evans (1995) indicates that this is parallel to Weberian bureaucracy, because ideally with bureaucratic insulations, the technocrats with specific expert knowledge are able to enforce rules and provide policy mechanisms to facilitate industrial development.

The close ties between state bureaucrats and ‘selected’ industrial groups enable the elite economic bureaucracy to create coherent development policies and effective implementations. This is what Evans (1995) terms as ‘embedded autonomy’ in a developmentalist state. ‘Embedded autonomy’ can be referred as dense external ties between the elite economic bureaucrats and productive industrial groups in the society. Since the political institutions are able to insulate the state bureaucracy, the economic bureaucrats are able to independently formulate and implement policy while collaborate with the productive groups (Tan, 2009). The autonomous bureaucracy and the institutionalised close relationship between selected business elites and technocratic elites are able to form a dynamic export-oriented regime of industrial accumulations (Johnson, 1982). As industrial development requires close connections to private capital, such connections must be with ‘selected’ industrial groups, enabling state elites to incorporate these industrial groups into state economic projects. This embedded autonomy is also reflected in concrete social ties that enable state elites and industrial groups to continuously negotiate policy interests and resolve conflict, and eventually influences policy objectives.

The state bureaucracy in most developing countries may not easily emulate the embedded autonomy seen in Northeast Asia. As Evan (1995) points out, that embedded autonomy connects the state with productive social groups to form coordination in economic development, but should not be captured (p.70). Low (2004; 2001) suggests that once captured, it will lose its autonomy and become perverse and less developmental (p.5). This happens when political institutions prioritise political objectives over growth-enhancing policy, which leads to institutional constraints because elites transfer resources to accommodate certain groups that, though perhaps not productive, play an important political role in the society. Due to strong political consideration, the political elites will exert influence in the state bureaucracy to impose their interests that go beyond economic objectives. As such, the bureaucracy is no longer autonomous in economic planning and implementation of policy, because it is under the strong influence of the governing elites. Once captured by political elites and selected interest groups, state economic planning and configuration of interest reduce to private interest.

Institutional Arrangements for Policy Making

Having discussed institutionalism and the developmental state approach, it is important to note that when a country adopts a developmentalist state approach, the institutions structure political elite dominance, the role of bureaucratic unity and the conjoined effort between ‘selected’ enterprises. Given such an institutional setting, the policy-making institution can be characterised as non-pluralistic. The power relations are structured to certain principle economic actors to participate in policy-making institutions. Coordinating policy making is linked to the institutional arrangements formed by actors to devise feasible industrial policy outcomes. For analytical purposes, it is important to explain the institutional arrangements between the principle economic actors, as most institutionalist scholars, including Campbell (1997b), Wade (1990), Weiss (1998) and Hollingworth (2000), describe that institutional arrangements between political and economic actors have a profound impact on policy change and success or even failure. As Wade (1990) argues, ‘...it is not a matter of choosing the right industrial policy but rather depends on certain institutional arrangements’. Institutional arrangements are where bargaining, negotiation, resolving conflict and configuration of interest take place, which can influence policy-making institutions. Institutional arrangements reveal the politics of policy-making institutions, because whose ideas and preferences are incorporated in the industrial policy depends on the actor’s ability to resolve conflict and assert their policy preferences. The implication is that institutional arrangements affect decision-making, economic rules and interpretation (Campbell, 1997a).

Hollingworth (2000) defines institutional arrangements as the coordination of various economic actors ranging from political elites, government, firms (local and foreign), labour unions and business associations, among others. These actors engage to resolve economic problems and determine industrial policy preferences. It can be thought of as a deliberation, where economic actors devise industrial strategy on sectional interests and reach agreement. It is also seen as feedback mechanism between actors to improve decisions on whether or not to continue certain policy (Thelen, 1999). Institutional arrangements involve a decision to transfer or extract resources and allocate them to certain industries. Decisions to focus on certain strategic industry depend largely on institutional arrangements taking place between political and economic actors. External changes (e.g., pro-market reforms or crises) or internal ones (political process) that can affect allocation of resources will also prompt actors to engage in coordination to address the adverse impact from the changes. Inevitable changes from the external environment will make actors develop various institutional arrangements to address conflicting positions (Hollingworth & Boyer, 1997).

The institutional arrangements are ways for actors to assert preferences in the policy-making institutions. For actors to impose interest, it is not just about developing feasible strategy, they also must 'frame ideas of particular interest' in line with the embedded norms and values. Discourse is a way for actors to convey ideas and frame meaning within the given context (Schmidt, 2008). Discursive elements in the institutions are seen as ways to transport ideas in policy making. How actors interpret ideas and interest within the specific context can influence whether the ideas or interest are accepted in the institutional arrangement. Utilising rhetorical device scripts and culturally accepted principles in the discourse are ways to frame ideas and to assert preference in the policy-making process.

Institutional arrangements depend on the distribution of power between actors to resolve problems or determine policy preferences. The historical specificities, political events and normative dimension structuring economic actors' power relations can affect coordination of economic preference in policy-making institutions. Hollingworth (2000) argues that when one mode of coordination is dominant in the society, it will influence the role that other coordinating modes in play. In state-led economic development, then, there is usually an unequal form of interaction between actors in an institutional arrangement to coordinate economic outcomes (Whitley, 2003). In the case when social groups are fractured, the organised groups' interactions can be suppressed. Hence, the principle economic factors such as political, bureaucratic elites and selected private enterprises have a dominant role to exert interest in coordinating policy either through formal or informal institutions.

Coordinating industrial policy is a political process, so the political institution is the heart of the development agenda being configured (Leftwich, 2000; Whitfield & Buur, 2014). It is political, so it involves many activities of cooperation, conflict and negotiation in making decisions about the use of production and distribution of resources (Leftwich, 2010, p.6). Political actors, as part of policy-making institutions, respond to internal and external environments but are shaped by ideas, ideologies, interests, and formal and informal institutions. How political actors manufacture interest to advance policy agenda depends on the role of institutions in structuring ideas and interaction between political actors (Campbell, 1997a). The interpretation of policy ideas into agenda is largely based on the normative and cognitive dimension of the elite, including how they perceive public sentiment (Campbell, 1998). Considering public sentiment (e.g., rapid economic development through industrialisation) is to ensure the development agenda is acceptable and legitimate in political institutions. Though the development agenda may seem unfeasible, skilful leaders can frame an agenda that appears socially acceptable. For instance, they can frame and interpret industrial policy with nationalism with ethno-development in convenient ways. However, political elite

will tend pursue interests based on the ‘logic of appropriateness’, or what is socially acceptable.

In most developmental state configuration of policy interests is done through top-down hierarchical arrangements between the political institutions and state bureaucracies (Ritchie, 2009). The relevant state bureaucracies (e.g., ministry of finance, economic planning units, ministry of international trade, and others) play important roles to carry out industrial policy goals. Bureaucracies are governed by specific formal rules, as posited in a Weberian style bureaucracy (Larsson, 2013). The bureaucrats will function based on codified rules, which marks the autonomy of bureaucrats to enforce industrial policy (ibid, p.340). This is an essential characteristic of the developmental state to ensure well-functioning institutions.

However, given the variation of institutional designs, particularly where policy-making institutions are controlled by political elites, the bureaucracy can have less autonomy, resulting in no clear distinction between political and bureaucratic elites (Seidman & Seidman, 1994; Kim, 2002). Such a bureaucracy tends to have blurred and dense alliances between ruling elites and high-ranking officials (Seidman & Seidman, 1994). In developing countries, it is common that bureaucratic power derives from the political master (Searle, 1999). The bureaucracy is embedded with the patrimonial culture captured by elites, which makes the bureaucrats likely to function based on the interests of political elites. Once captured, the bureaucracy loses its autonomy, and eventually may sway from the Weberian ideal of bureaucracy because the technocrats no longer have the freedom to devise policy. Instead most configuration of policy is done in a way to meet the political elite’s interests. The close ties between politico-bureaucratic elites and, to a certain extent, the formal rules may be subject to layering, drifting or conversion in policy planning and implementation under the auspice of ‘national interest’ (Mohaney & Thelen, 2010).

Institutional arrangements also take place between government–private enterprises (Dogson, 2009). Coordination between government and private enterprises (linked to governing elites) can devise strategy and decisions on allocation of resources. Sharing information between the two can improve aspects of industrial upgrading, investment, human capital development and training. Institutional arrangements to devise industrial policy between government and private enterprises is part of the collaboration in pursuit of industrial development. Such arrangements can also ‘force and facilitate’ in pursuit of industrial strategies and catching up by governments (Streeck, 1992). Thus, the government can coordinate developmental goals while eliciting consensus from private enterprise to attain goals (Wade, 1990).

Most developmental states do not downplay market forces (Onis, 1991), as it is necessary to promote an outward-oriented economy; therefore, formal rules (codified rules) should be in place to ensure the market functions optimally (Aoaki et al., 1997). With the presence of government-private enterprise relationships, the governing elites can shape market entry that embodies a neoliberal policy (i.e., limited role of the government) to promote a freer business environment for other economic actors. Such economic policy usually favours private enterprise interests and either foreign or local firms. Though the economic policy may appear to favour private enterprise interests, the governing elites can alter or configure policy to accommodate the interest of domestic enterprises in certain segments of the industry that have 'national interest' (Khan & Blankenburg, 2009). Accommodating the domestic enterprise interests (i.e., linked to state elites) to a certain extent can create an uneven playing field environment in the market.

Actors will also utilise informal institutional arrangements to configure policy preferences. Informal linkages, such as close-ties, are useful ways to influence policy making (Peng & Luo, 2000; Hoskisson et al., 2000). The informal relationship with state elites enables industrial groups to obtain preferential access to government resources, subsidies, contracts, research grants and other financial supports. Having close connections can create privileged positions for firms in government policy (Oliver & Holzinger, 2008). Informal linkages enable economic actors to alter terms of economic policy that can either facilitate or hinder economic growth (Acemoglu & Johnson, 2005). State elites and industrial groups may utilise informal linkages to coordinate economic preferences or resolve their conflicting positions.

The patron-client network can potentially influence policy decisions. Such informal network can influence resource allocation and the configuration of policy interests. In institutional structures that have weak links between the state and society, the patron can transfer resources from one group to a client, and be able to resolve tension arising from this transfer. Khan (2000) argues that changes associated with market-oriented reforms through privatisation or deregulation of the patron-client network become more important in coordination of policy interest. Particularly, private enterprise is headed by politically linked individuals. As competition for resources become intense, competing economic preferences in policy institutions are unlikely to be transparent. Institutional arrangements to secure policy interests are likely to take place through the patron-client network, and distribution of rents are usually done in personalised and partisan ways by the patronage system to secure rents (Khan, 2000; 2005). It is easier to transfer or maintain rents when the pre-existing institutions enable informal institutions to be pervasively exercised.

Considering the policy elite in institutional arrangements, the role of institutions can either constrain or promote economic growth, performance and accumulation (Tipton, 2009; Hollingworth, 2000). The elites and their business alliances can negotiate, bargain and transfer resources to foster industrial development. The elite can also facilitate economic actors to behave proactively to changing circumstances and have preferential access to state resources (Ahn & York, 2011). On the other hand, mobilising resources to a particular group can be constrained by their institutions, especially when the elites have already made initial investment in certain groups in a particular sector (Tan, 2009). To replace the groups (especially the unproductive ones) with other productive groups can be very challenging because the industrial groups are fostered through rent-seeking, so they may threaten coherent policy that compromises their interests (Haggard, 1998). This may hinder the governing elites from replacing them with other productive groups (Khan & Blankenburg, 2009). As such, this can lead to rigidity among the governing elite that can impede economic policy changes, and likely limit the capacity to grow.

A Sketch of Malaysia Political Economy

Most scholars have described the Malaysia economic policy as adopting market liberalism that emphasises trade, foreign direct investments and the role of the private sector in pursuit of an outward-oriented economy (Lall, 1995; Hill, 2012). The extraordinary continuity of the same ruling coalition responds to the need for industrial development as part of modernising the country's economy. The state maintains market mechanisms thereby ensuring a 'level playing field environment' such as the role of private enterprise and encouraging the FDI-led export strategy. At the same time, the ruling coalition also responds to emerging demands such as ethno-nationalism, political pressures and domestic enterprise demands. The state actors are actively maintaining domestic enterprises' interests and a nationalist economic project. Therefore, there has been no complete 'rolling back' of the state, particularly in the policy-making process (Ghosh, 1999).

The emphasis of ethno-economic development seems to be inevitable. After the epochal racial riot occurred due to serious socio-economic disparities across races. The Chinese, who dominated the commercial and business have fared better in economic activities while majority Malays were still lagging behind in the mainstream of economic development. To redress the problem of inequality and incomes disparities, New Economic Policy was introduced in 1970. The policy has two pronged objectives (i) eradicate poverty (ii) restructuring society by eliminate economic functions by race. The NEP gave the state direct intervention in economic development. Industrial development has since been tailored along the need in the NEP to redress socio-economic inequality (Rasiah & Shari, 2001). Various state-owned enterprises were

formed to facilitate the growth of Bumiputra entrepreneurs. The government also fosters the growth of Bumiputra suppliers in manufacturing activities. Bumiputra business groups are given strong preferences and special privileges in terms of financing, education, skills and training, and licenses, among others.

Industrial development has been the government agenda to modernise the economy along with facilitate Bumiputra to partake in business activities. In the mid-1980s Prime Minister Mahathir Mohammad introduced heavy industrialisation program under Industrial Master Plan (IMP I 1986 - 1996). This is one of the turning points for Malaysian economic policy (Jomo, 2007; Rasiah, 2011). Mahathir's industrial development plan modelled along Northeast Asian countries which spelled out in Look East Policy. The programme aims at deepening and diversifying industrial structure through building linkages and developing indigenous technology capabilities. This is an Import Substitute Strategy (ISI) intends build towards Export Oriented Industrialisation (EOI). The Heavy Industries Corporation of Malaysia (HICOM later privatised in the 1990s), a state-owned enterprise was established to diversify manufacturing activities and develop forward and backward linkages.

Mahathir's administrations also introduced Vision 2020 in which the country will become a developed country and the economy driven by science and technology. Industrial development continues being emphasis in IMP II and IMP III with a focus on technological upgrading, innovative activities, moving up the global value chain and human capital development. Although heavy industry was intended to diversify and strengthen the country's industrial base, politically, the programme was part of a nationalist economic project (Jomo & Wee, 2014). The purpose was to allow Bumiputra to lead industrial development and allow for the creation of a Bumiputra Commercial and Industry Community (BCIC) (Embong, 1996, p.58). Therefore, the Bumiputra agenda is a significant part of the economic policy-making process. The NEP has formed a policy legacy for 'guiding principles' in Malaysia's economic policy (Menon, 2008; Gomez, 2016).

The formation of industrial policy in Malaysia cannot be separated from politics. This is due to the strategic role of the state in policy making while adapting the domestic political economy. Policy formation and implementation largely coincide with political interests and economic considerations. These two sets of interests tend to intertwine between state actors: on one hand, to preserve political legitimacy and the Bumiputra class interest, meaning the state requires a certain degree of economic control over the marketplace. On the other, industrialising the country requires a market-friendly environment (liberalisation) to create a competitive economy. Often there is an economic efficiency trade-off when economic development is embedded

with political considerations (Tan, 2015). However, this does not mean industrial development is not attainable. In fact, the strategic role of the state managed to transform Malaysia economic structures into industrial base economy, though not as 'stellar' as Northeast Asian country. This reveals the institutional capacity of the ruling elite in policy-making institutions to formulate and implement industrial policy. Since policy-making institutions is too centralised and emphasis on racial consideration, this gives rise to patronage and rent-seeking behaviour which to some extent have implications to the overall development progress.

Integrated Framework: Politics of Malaysia's Policy-Making Process

Eliciting the theoretical themes in neo-institutionalism, developmental state approach and institutional arrangement from the previous discussion are integrated in order to frame and analyse the political economy and politics of Malaysia's policy-making institutions. In the context of Malaysia's policy-making institutions, when the country adopted a developmentalist state approach it underpinned the role of the political elites, bureaucrats and 'selected' business groups. In this paper this is framed as a 'triangular arrangement'. These main actors are deemed as a policy community that can construct the 'rules of the games' (see Figure 1). Institutional arrangements between these agents are crucial to configure industrial policy.

Considering the historical specificities and social context in Malaysia, the power relations in the institutional arrangements lies in the political elites (executive branch) (further explanation below). That is, the existing structures enable the political elite to drive the policy development agenda. As such, the political elite can come out with industrial policy preferences and agenda. Having control of the political institutions and agenda setting, the political elite can transfer and allocate resources to drive certain segments of industry, under the rubric of national development (Doner, 1992). Pertinent to Malaysia's political institutions is the ethno-economic development of the Bumiputra group becomes a central part of political consideration in the industrial development project. The ruling coalition, which is led by UMNO and represents Bumiputra's interests, has dominant role to secure the ethno-economic requirement in policy-making institutions.

There is a close reciprocal relationship between the elites and selected business groups. Such ties exist during the formative years of industrialisation where there is absence of industrialist groups, political elites who enable them to have access to state resources foster so most business groups. The business groups can be labelled as a 'rentier class' (Searle, 1999) that has grown dependent upon rents generated by state elite. An important consideration in the context of Malaysia is that there are existing well-established industrial groups in the, however, when ethnic consideration becomes

part of developmental projects, the political elite by-pass the existing industrial groups and create new industrial groups that are ethnically determined (Jomo, 1990).

The new business groups, in this case selected Bumiputra groups who are dependent on the state rents. The arm's length relationship between the ruling elite and business groups enables them to adjust policy terms in favour of the growth of groups. The ruling elite can divert resources to reduce risk for the group to invest in the market, even though in certain segments of the industry there is no comparative advantage. The state is able to facilitate through macroeconomic policy adjustment and allocate sufficient resources to grow with less opposition forces from other societal groups. Since this group relies on the ruling elite to obtain access to state resources, power relations tend to lie with the political elite. This enables the political elite to influence the direction of the business group, since it relies on state resources. Patronage then becomes the mode of exchange or interaction, due to interlocking interests between the political elite and the 'selected' business groups.

The dominant role of the political elite to formulate the industrial policy is necessary but not sufficient. The political elite must have a significant degree of control over the state bureaucracy to exert interest in industrial policy implementation. In the case of Malaysia, the politico-bureaucratic relationship enables the elite to control the state institutions in the policy-making domain and direct economic outcomes (Searle, 1999). The role of the bureaucracy is to realise the policy interest of the elites and devise policy for the business groups to grow in the market. Here, the bureaucrats act as operating agents to the political elites and connect them to social groups (that may not be productive) whose function is to meet their interests. Certain predilections and biases towards industrial policy are expected to ensure the groups' economic interest is likewise secured (Khalid & Abidin, 2014). Industrial policy being formulated tends to give certain privileges (implicit or explicit) to domestic enterprises such as low tax, de facto protective measures and financial supports or subsidies. Terms of policy are negotiable (either through formal or informal linkages) to facilitate the growth of the enterprises.

It is important to discuss the specific political institutions in Malaysia in order to further understand the political economy of policy-making institutions. The United Malay National Organisation (UMNO) is the main Malay political party that represents the interests of the largest community in Malaysia. UMNO has also built a political coalition as a means of power-sharing between the other main non-Malay political parties, including the Malaysian Chinese Association (MCA) and the Malaysia Indian Congress (MIC), as well as other minority political parties (Gomez, 2008). The ruling coalition, led by UMNO and has been the government for more than half of a century,

since the formation of Malaysia in 1963. Their long domination in the executive and legislative branch has given their political elites the primary role of deciding industrial policy preferences (Ansori, 2013).

Malaysia's political institutions can be described as a consociational democracy, which refers to a government by elite cartel where political order might be maintained through power sharing so that the main ethnic communities are all represented in the government (Lijphart, 1977). In this sense, the consociationalist approach posits that there is somehow equal access for the elite from each ethnic group to compete for resources in the policy-making domain to reduce political tension (Means, 1991). Political fraction is reduced through this inter-elite bargaining and accommodation to foster inter-ethnic cooperation (Crouch, 1996). Inter-elite bargaining enables the political elite to set the rules of the game in their institutional structures, define how things are done and set a decision-making process based on formal and informal rules. This enables the country to meet the political and economic interests from each ethnic group to form a stable government (Leftwich, 2000).

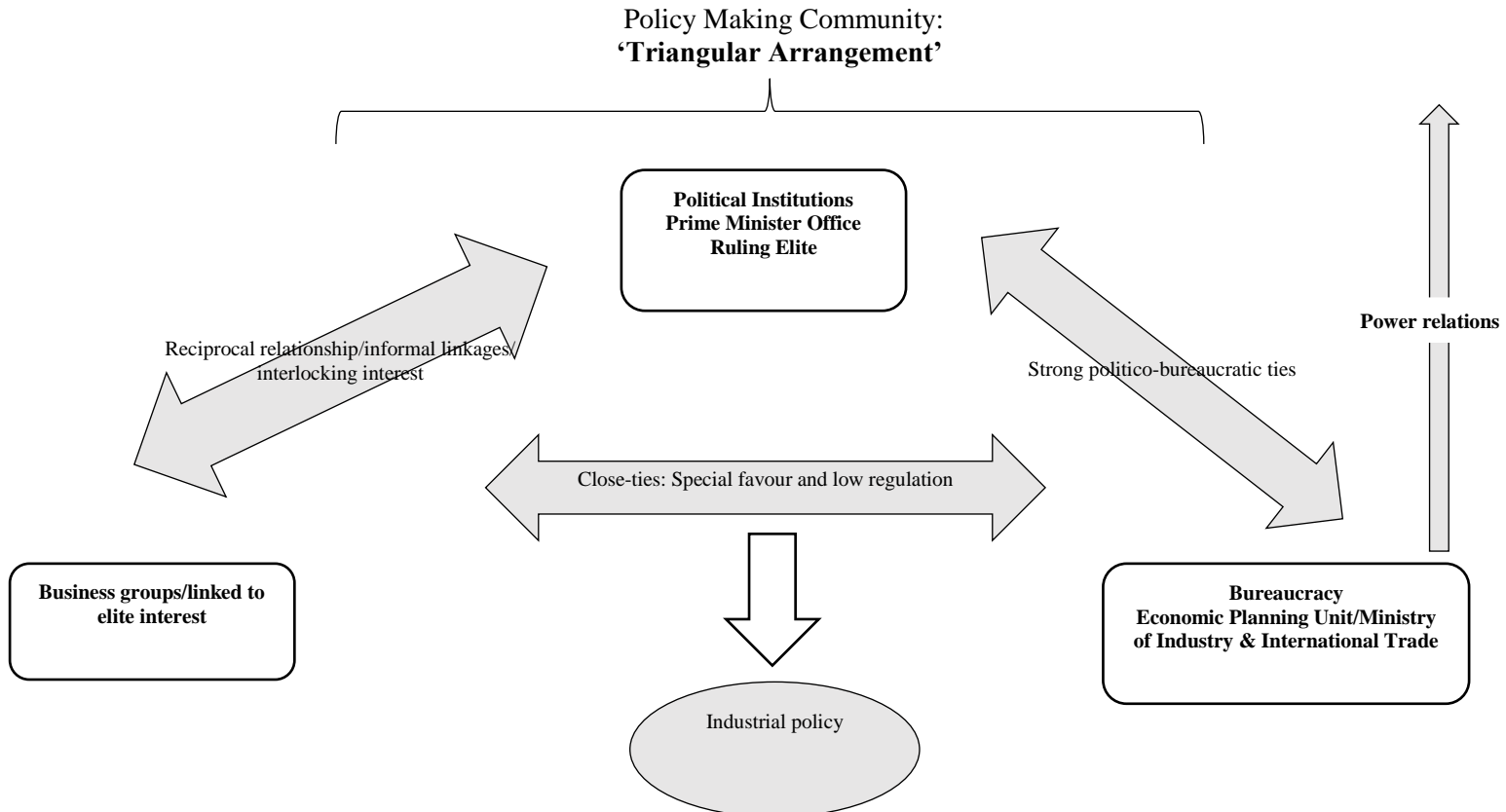


Figure 1: Triangular arrangement

Power sharing in the political coalition has changed after the racial riot in 1969. This episode changed the 'rules of the game' in the political institutions (Crouch, 1996). It was a critical juncture that changed the political inter-elite bargaining. The political institutions had structured the power relations to lie in the UMNO, which increased the Malay bargaining power to command economic resources (Mauzy, 1993). The NEP is an affirmative action policy that institutionalised ethnic imperatives in socio-economic development policy. In the institutional context where 'race matters', the political elite (UMNO led coalition) may repress other ethnic groups' access to resources through what Mauzy (1993) terms as 'coercive consociationalist'. That is, the less dominant ethnic groups (e.g., the Chinese and Indian) tend to compromise with the more dominant ethnic group (i.e., Bumiputra) in the policy-making process.

When the state adopts a developmentalist state approach to pursue industrial development, executive branch in a political institution has the dominant role over the policy formulation. Policy ideas and problem recognition are confined to the executive branch, and discussion is limited to close allies to the Prime Minister (Leong, 1992). The parliament is supposed to be a check and balance for the policy arena, but it does little more than 'rubber-stamp' executive decisions (Brown et al., 2004). The longevity of the ruling coalition has rendered the executives with considerable power to impose their interests in the policy-making institutions.

Bureaucracies in a developmental state are important institutions to plan and implement economic policy. As stated earlier, in a developmentalist approach, technocratic elites play an important role in planning and enforcing economic policy. To this end, the political actors provide freedom for the technocrats to formulate and implement policy (Evan, 1995; Johnson, 1999). The space for the bureaucracy to act independently enables the bureaucrats to learn, get information from relevant R&D, formulate coherent economic policy and deploy effective coordination across the agencies to implement industrial policy at a target sector (Ritchie, 2009). Here, the political actors provide vision for the developmental goals in the policy, while bureaucrats implement it independently with less private intervention. The policy recommendation for the political actors mostly comes from the bureaucracy (Woo, 1999). The bureaucracy has to connect with the most productive groups in the society to form coherent industrial policy. Access to state resources are devised at the state bureaucracy to facilitate how selected industrial groups can grow in the market.

However, bureaucracy captured by executive dominance enables the political elite to have dominant control over the state's institutions. Thus, the policy process tends to be orchestrated by the political elite. Strong politico-bureaucratic nexus and institutional arrangements between them can influence the configuration of policy planning (Loh, 2015). Although the state bureaucracy operates based on the Weberian

ideal, the task performed is based on codified rules (Lim, 2002). Through executive dominance, a political institution is able to intervene in bureaucratic institutions to exert their interest in the policy-making process (Chin, 2011). Bureaucratic institutions, captured by elites or their allies, enable them to secure compliance with the top government officials to realise policy interests despite possibly not being based on economic consideration (Menon, 2009). The politico-bureaucratic ties have rendered layering or drifting rules and policy to serve the interest of the governing elites (Siddeeqee, 2006).

In Malaysia, policy-making institutions structure the Prime Minister's office and his department plays a central role in determining the broad direction of industrial policy. Following the developmental state approach, a key pilot agency to plan economic policy is essential to organize and direct industrial outcome. The Economic Planning Unit (EPU), part of the Prime Minister's department, is the primary site of the policy-making process. It has overarching influences over policy strategy and influences the allocation of resources. The unit is in charge of overseeing the development and implementation of medium and long-term economic strategies (Brown et al., 2004, p.9). The EPU is one of the principle agencies in configuring economic policy, and it provides policy input to the highest level of decision-making of the country (Embong, 2012). The agency is staffed by technocrats who have specific expertise on economic policy (ibid, p.224). However, Henderson et al. (2002) point out that since the 1990s there has been a gradual demise of innovative-policy making at the EPU. The centralisation of economic policy making that revolves around the Prime Minister and private enterprises enables the elites to influence the state bureaucracy. Henderson et al. (2002) argue that the central site of economic policy formation, such as the EPU, has become an 'operation-oriented' body, rather than becoming technocrats to serve as an advising agency. In general, the EPU remains an important agency in daily operations, it obtains feedback from diverse social groups, provides technical evaluation and policy recommendations.

The Ministry of International Trade and Industry (MITI) is also one of the primary government bodies involved in policy formulation, inspired by the Japanese model. The key state bureaucracy, MITI plays a strategic role in planning and implementing policy. This ministry was established by Mahathir, then deputy Prime Minister, to oversee industrial development. This ministry, along with the EPU, coordinates industrial policy and makes necessary adjustments to the terms of policy to facilitate domestic enterprises. The MITI and EPU both hold formal policy discussions with various private sector and civil societies group concerning annual budgets and other policy recommendations. This may present a formal open structure for other groups to provide policy input for the policy maker. However, Brown et al. (2004) observe that the formal policy dialogues may not achieve anything concrete because

economic preferences and decision making is still largely centralised to the state elites (p.8).

Policy interest of the industrial groups (linked to governing elites) in the institutional arrangement can have impact on maintaining the status quo or bringing changes in industrial policy (Tan, 2015). They have the influence because the governing elites have interlocking interests with the business groups, since these groups are formed by the state elites and usually have close ties with the political elite. The close ties are further strengthened when the government under Mahathir's administration introduced its privatisation plan in the early 1990s, to transfer state-owned enterprises (SOE) to private ownership under the rubric of improving efficiency. The privatisation was a response to the SOEs crowding out the market during the NEP period. This led the government to privatise most SOEs. The privatisation plan was intended to create wealth for select individuals (not exclusively Bumiputra groups but other politically linked individuals as well) to run the formerly state-owned enterprises (Felker, 2003; Jomo, 1999). Thus, privatisation is not done in a transparent manner (Jomo & Wee, 2014), as the political elite handpicked rather than picking the winner to head private enterprise.

Patronage in appointment makes those who have close ties with the political elite the main beneficiaries in a privatisation plan. This forms a strong patronage between the business group and governing elites. The privatisation plan forms a high-level state-business network crucial in formulating policy. There is broad exercise of the patron-client network to enable business groups to have access to state resources through 'unusual' institutional arrangements (Tan, 2008). On another note, Jomo (1999, p.5) and Gomez (2016; 2009) argue that the formation of the business group can become an important way to support and subsidise politically well-connected individuals. The existing institutional arrangement evolves around elites and with a strong patronage system, it is easily susceptible to regulator and political capture. Regulator captures are associated with favouring certain producers (even unproductive groups) over consumers. Political capture refers to when regulation becomes a tool for self-interest of the political elites (Tan, 2008). Consequences of regulatory and political captures lead to credible commitment problems in policy, misleading policy enforcement and biases in the mobilisation of resources.

In short, the politics of Malaysia's policy-making institutions present an unlevel playing field environment. Institutional arrangements taking place between the political elites, bureaucracy and selected industrial groups can influence the terms of industrial policy. As a developmental state, the policy agenda, strategy and choice of industrial policy are largely determined by the principle actors. The power relations lie within the political elites; hence policy ideas, agenda and interpretation of policy intent are largely

manufactured by the elites. The strong politico-bureaucratic ties enable them to realise policy choices. The state elite can devise industrial policy for selected industrial groups, so they have access to state resources to grow in the market. Their triangle arrangement can mobilise, prioritise and coordinate policy preferences in the policy-making institutions. Institutional arrangements formed by the elite can construct ‘rules of the game’, and thus influence the policy-making institutions based on their interests, which can fall under the rubric of national development.

CONCLUSION

To recapitulate, the aim of this research is to understand the politics and political economy of industrial policy formation for a late industrialiser like Malaysia. While industrial policy has had significant impact on growth for developing countries over the past decades, this has prompted scholars to probe into the countries’ institutional structures. The historical and social contexts of particular institutions influence the interaction of principle actors, which has implications in the policy-making process. The developmental state approach structures the strategic role of the state elites (e.g., politicians and bureaucrats) and selected business groups in policy making. Typical developmental state economic planning and coordination are orchestrated by the elites with less interference by organized groups. This gives advantage for the governing elites to mobilize, priorities and coordinate policy preferences in the policy-making institutions. The governing elites have control over institutional arrangements to construct ‘rules of the game’, enabling elites to influence the policy-making institutions based on their interests, which can fall under the rubric of national development. In the context of Malaysia’s policy-making institutions, the triangular arrangements between political elites, bureaucrats and domestic industrial groups (who are linked to state elites) can determine policy choices. Together they are important policy community in policy making institutions. The governing elites can come out with developmental goals and they have the power to adjust and refine policy formulation. The elites can also provide preferential access to state rent for industrial groups. Institutional arrangements form these actors is crucial in configuring and interpreting policy preferences. The structures of power relations in the institutional arrangement also influence the coordination of economic preferences. In each mode of institutional arrangement, it can be argued that the continuum of power relations lies within the state elite

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