PRODUCTIVE CAPACITY, A PLATFORM FOR INSTITUTIONAL CHANGE AND SUSTAINABLE DEVELOPMENT: THE CASE FOR DEVELOPING ECONOMIES

Lamya Kanoo*

Ahlia University, Kingdom of Bahrain

Abstract: Globalisation of the world economies has brought about a fragile balance between the opportunities and risks for developing markets. The development of productive capacity depends on the policy choices, which a nation adopts to manage its domestic infrastructure and national economy with that of the global economies market requirements. The institutional structures of developing economies have developed incrementally towards a dualistic market production structure, lacking domestic market coherence and sustainability. Therefore, creating an institutional infrastructure gap that requires dynamic institutional change, productive capacity measures and deliberate policies to deter path dependency and encourage sustainability.

Keywords: *globalisation; policy choices; domestic infrastructure; productive capacity; dualistic market infrastructure gap; path dependency.*

INTRODUCTION

The productive capacity of a nation creates a potentiality of its economic growth and sustainability. Within all markets, there are potential for static or dynamic growth and development resulting from factors such as productive resources, entrepreneurial capabilities and production linkages that have incrementally and situation-specifically developed over time. Moreover, as the increasing integration of the developing economies into the global economy is taking place a potential for positive global market integration encompassing the development of positive productive capacities, through capital accumulation, technological progress and most importantly structural change. On the other side, there is an equal potentiality for the global economy to encourage market development that is unequal and limited within certain domestic market spheres creating instability.

It maybe suggested that the role of institutional infrastructure is the common link that holds the potentiality for creating a

* Corresponding author: Ahlia University, Kingdom of Bahrain, Bahrain; e-mail: kanoo.lamya@gmail.com

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framework for adaptive capacity measures, resulting in sustainable development. The institutional link addresses the fact that there is a noteworthy and differentiated pattern of institutional matrices underlying market exchanges. A similar pattern of institutional development has emerged in advanced market economies of the first world and is being observed in emerging and transitional economies. Hence, the need to address the relationship between sustainable market conditions and institutional development is to identify the characteristics of adaptive efficient features and productive capacity. Moreover, encouraging international developmental policy to support the concept of institutional transformation, as a precursor for sustainable development.

CONCEPT OF INSTITUTIONS

In order to address the concept of institutions as a framework for development, it is essential to know how it maybe defined and the parameters that are set for this definition.

Institutions as viewed through a Northian perspective is defined as the formal rules and informal constraints including their enforcement mechanisms, such as transaction costs, which underlie economic and political exchange and shape human interaction. Institutions provide the incentive structure for the behaviour of political, economic and other organisations. North (1990, 1994, 2005) argues that economic change and development essentially depend on the adaptive efficiency of a country's institutional matrix, i.e. a society's dynamic capability and capacity to craft institutions which are productive, broadly accepted and fair, stable and yet sufficiently flexible to adapt to new circumstances as a response to exogenous shocks or to growing tensions inherent to society's development.

Productive capacities, on the other hand, are used by international developmental policy agents to describe a basket of policy measures that can be adopted to encourage development. The United Nations, in its programme of LDCs (2001) suggests that the focus should be on both the structural and supply side constraints and encompasses physical infrastructure, technology, human resources, enterprise development, technological capabilities as magic bullets for economic growth and poverty reduction.

Within the sphere of productive capacity building there are three main elements that form the concept, firstly, productive resources, entrepreneurial capabilities and finally production linkages. As these concepts take shape, each play a pivotal role in determining the capacity of a developing economy and institutional structure.

Within the three basic elements of productive capacity building, the middle link begins to emerge as the main link that is responsible for binding the other elements together.

Entrepreneurial capabilities are the core competencies and dynamic or technological capabilities agent. This core group incorporates the sources of authority and control within the developing economies, accurately defined by Fukuda-Parr et al. (UNDP, 2002) as a 'process by which individuals, groups, institutions and societies increase there abilities to (1) perform core functions, solve problems and define and achieve objectives and (2) understand and deal with their development needs in a broad context and in a sustainable manner'. In relation to role of entrepreneurial capabilities within the dynamics of institutional development a clear picture emerges on the importance this core group has on dynamic institutional change. North (1990, 2005) sets the parameters on the definition of the institutional environment, 'the set of political, social and legal ground rules that establish the basis for production, exchange and distribution, ...and institutional arrangements, regular relationships amongst economic agents which govern the way in which they cooperate and compete'.

CORE COMPONENTS

The effects of e.ntrepreneurial capabilities developing institutional matrices are more successfully noticeable when they result in rapid capital accumulation and potential profit investment opportunities. Hall (2005) suggests that the key lies in the perspective which regards political action as driven by the interests of individual actors, which means that 'politics is usually about who gets what, when, where and how'. Moreover, as Ahrens (2002) view the effects of this core sector as an actor-centred and rationalist approach, VoC theory conceptualises the political economy as an environment populated with entrepreneurial actors seeking to advance their interests as they construe them and looking for ways to make institutions work for them.

Another component of productive capacity is the concept of cumulative causation in which the accumulation of knowledge, indigenous market experience from the existing institutional and production infrastructure is used as a platform for a developing economy. Cumulative causation is a gradual and incremental process of market and institutional transformation. Hence, capital accumulation, technological progress and structural change are dynamic and cumulative processes and are always in a state of transformation, progressive or regressive. In relation to addressing the problem of developmental institutional infrastructure gaps, a process of market development will result from the emerging variety of conditions. A complementarity effect results as developing markets create the required frame work for institutional structures. The notion of complementarity Miller (2005) implies that 'it is not possible for a capitalist regime to easily switch from one system to the other. Self-reinforcing differences imply diversity in the other hand, have their competitive advantage in industries where success is based on building up cumulative knowledge and company-specific skills. Incremental innovation prevails in this system'.

Finally, globalisation and global integration of emerging economies creates new opportunities for transformation and development. As a result, capital accumulations, technological and structural change with the growth of demand, require the creation of viable domestic markets to sustain development. Globalisation of the market economies involves an, 'increasing flow of goods and resources across national borders and the emergence of a complementarity set of organisational structures to manage the expending network of international activity and transactions' (UNCATD, 1997). With the global integration of developing economies into one global economy, a link is created between the different components of productive capacity. The role of entrepreneurial capabilities, in which the actors, groups and organisations direct the resources of industry and market development towards the requirements of global market demands. Hence, through the process of cumulative causation a gradual and incremental knowledge of domestic market formation emerges. Creating the conditions for developing markets, and in turn, a complementarity effect triggers institutional infrastructure change and transformation.

THE DARK SIDE OF GLOBALISATION

However, there is a dark side to globalisation in which the developing nations will experience an uneven domestic market and institutional infer structure gap making it vulnerable and unsustainable. "It has been shown that the unevenness of globalisation processes has been associated with increasing inter-country inequality, as well as widening the gap between the richest and poorest countries (Svedberg, 2004; Milanovic, 2005). Hence, dualistic productions infer structure of domestic markets and institutional development is encouraged. Uneven aspect of a hierarchical production network is created depending on the requirements of the market system at that time.

The policy implications that are required to address the problem of fractured and uneven market development of developing economies are vast. The risks of being integrated within the global economy can bring a successful international integrated economy or a divided dualistic economic path dependent development. It is the responsibility of the developing economies to pursue and adopt the appropriate policy measures that will manage their integration into the global economy. The intended outcome for policy makers of cohesive market and infrastructure development maybe achieved by utilising productive capacities measures because they focus on the whole process of market development as a cohesive entity that requires all aspects of the domestic market to develop equally. The link between economic growth and poverty reduction is constantly being evaluated. Viewing demand and supply side conditions/constraints in relation to achieving a balanced market system. For instance, catering to relax supply side constraints using indigenous cumulative causation capacities and reinforcing local processes of economic growth.

That policy makers view the domestic market using productive capacity measures, such as entrepreneurial capabilities the core and controlling sector of the economy since developing economies are enterprise and activity specific emphasising economic growth at an individual's micro level instead of the broader macro level.

Policy makers make the distinction between the growth of productive resources in actual terms and potential terms (fully utilised) and the underutilisation of resources, the potential gap of growth rates including the roles of demand and supply. This would help highlight the conditions that encourage economic growth and poverty-reducing schemes that target pro-poor growth which are more poverty reducing. The path towards development is viewed by many as a cumulative and step-by-step approach.

But in most cases it is still path dependent. Policy makers objectives is to build on the infer structure that is already in existence because they view development strategies as an evolutionary process emphasising the key links between economic growth, productive capacity and institutional infrastructure development.

CONCLUSION

The increasing integration of developing national economies into the global economy has created new opportunities for an easy access to new markets, technological knowledge and capital.

On the other end of the globalisation spectrum lies the dark side of the global economy that is responsible for creating a divided and dualistic market and institutional infrastructure gap that will lead developing economies into path dependency.

The role of productive capacities measures depends on the policy choices which a developing economy adopts to develop its local market infrastructure. Capital accumulation, technological change and structural change are the main components of productive capacities. There is a pivotal link between the roles of productive capacities measures, institutional and infrastructure development and market sustainability.

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