

The state role in economic development



In this chapter will seek to throw light on some keys issues from many scholars in the context of theory it related to this research. It is useful for situating the study for charting out what kind of theoretical implication the finding of this study are likely to offer. Therefore in this chapter we discuss the role of state in economic development and the competitiveness in the term of competitiveness in the world market by using revealed comparative advantage and lastly are short brief about the electronics industry.

2. 1. The Role of the State in Economic Development

The role of state in economic development is enormous not only as regulator but also in law enforcement, the provision of education, adequate infrastructure until on health. The achievement of all the government's role in economic development is depends on the readiness and the government itself. In East Asia has been stated that in the role of state has played in economic development in the region. This can be seen from the many studies about the success of the role of state in East Asia by many authors such as World Bank, 1993, Johnson, 1982, Wade and White, 1984, Amsden, 1989 and Castell, 1992.

In this session we will discuss about the perception of the role of state development in East Asia, with emphasis on the relationship between public policy and economics. There are 3 models of the state which we will discuss is the market led model, the state led business model and toward the state interdependence.

The Market Led-Model

Major institutional anchor market and East Asian development model is a symbol and development strategies, as already stated in the 1980s. by World Bank. In a world development report 1987, the World Bank has been consistently to provide some insight straight from the neo classic from Alfred Marshall's point of view that emphasizes the positive effects of unlimited market in the optimal allocation of resources in order to support free trade and free market development model . In the policy, the World Bank gave some suggestions that the development of the country to adopt a more market development programs such as making links with international bodies like the International Monetary Fund. The story of East Asian development emphasizes the importance of market forces that have been written by Little, 1981, Balassa 1982 and Balassa et. al, 1988.

In view of the market-leading model, the role of the state has a limited function as a catalyst and corrector of market failure. According to Little (1981) said that export success in East Asia NIEs stresses because the positive effects of free trade conditions. In this era, the East Asian NIEs have been the transition to industrial capitalism, such as Korea, Taiwan and Hong Kong. In this case, the stability of government is essential to provide stable conditions for long-term business conditions and also the regulatory framework and infrastructure capacity too.

Balassa remarks in his study of the ' lessons' of East Asian development:

“ The principal Contribution of government in the Far Eastern NIEs has been to create a modern infrastructure^{1/2}¥ to provide a stable incentive system,

and to ensure that government bureaucracy will help rather than hinder exports...More generally less use has been made of government regulation and bureaucratic controls in East Asia than elsewhere in the developing world. Finally there have been fewer policy-imposed distortions in labor and capital markets, and greater reliance has been placed on private enterprise". (Balassa, 1988; . 286-8)

Its opposite with Paul W. Kuznets views. Kuznets took a different view of the Balassa by comparing the diametric in Japan, Taiwan and South Korea and end with a diametrically different view of the state of the Balassa. Kuznets states, in three countries, " Government intervention, although limited by the need to keep exports competitive, had penetrated "(Kuznets, 1988; 36).

Latin America East Asia: the secret of export-led growth

According to Balassa, (1988; 271-288) stated that the East Asian NIEs (including Hong Kong) have adopted the first phase of import-replacing industrialization (the primary local market and import of consumer products are replaced by labor-intensive local production) and is opposite with Latin America NIEs by adopting the second phase of import-substituting industrialization (local production as a producer of goods, capital-intensive import substitute).

Balassa (1988) said that export growth in East Asia NIEs which they recorded the highest GDP growth rates among developing countries. Factors influencing this are:

Export carried out in accordance with comparative advantage by contributing to the allocation of resources. This condition is an advantage of

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the new, improved efficiency based on the excellence of each industry and the country concerned. (Balassa, 1988; 280-1)

East Asia NIEs exports provide to overcome the limited domestic market with to maximalist use of resources and reap the benefits of large-scale production.

Import substitution and protection are often monopolies; export-oriented industrialization is more towards the competition with a change toward more modern technology in order to improve their position in world markets.

According to Balassa (1988; 268-8) that four determinants of economic performance of East Asian NIEs are beneficial are:

- Stability of an incentive system.

History of East Asian countries shows that the system is to encourage exports by setting up incentives, eliminating administrative barriers' and create a favorable environment for exporters with a relatively stable condition. These conditions contrast with Latin America NIEs. Where East Asia NIES countries are more inclined to avoid any increases or fluctuations in exchange rates, and exporters can usually expect that the incentives they receive will be maintained in the period, while countries in Latin American NIEs with fluctuating exchange rates and wage increases in exports, so it is reduce the profitability of exporters.

- Limited government intervention.

Countries in East Asia have implemented the administrative system is far more limited than in Latin America. This condition is meant by East Asian

nations to create a positive environment for economic growth with free markets working.

- Well function labor and capital markets.

The existence of the policy of East Asian countries has instituted in distortion imposed on labor and capital markets. Where labor markets are generally free in East Asia NIEs is different with the regulation in Latin America NIEs. These conditions not only on the labor market but also more free capital markets in East Asia NIEs than in Latin America NIEs. Another factor is the interest rate in line with market prices to provide incentives for domestic savings and to prevent capital outflow, while in Latin America NIEs, artificially low interest rates affect currency values is considered too high to encourage overseas capital.

- Dependence on private capital.

Comparing the existence of dependence of the private sector in East Asia NIEs is greater than in Latin America NIEs. In East Asia NIEs private companies to take an important role in making the necessary investments, and through the relationship of international competition to makes efficient and profitable. While in Latin America NIEs, the public companies tend to play a more important role than in the East Asian NIEs.

The State-led models

State led model is very opposite perspective with the neo classical. The story of the revised outlook from East Asia to the view of the market led to a state model of development led to the concept of state has been expressed by Johnson, 1987, Castell, 1992, as well as success in industrialization on late

development in the context of state as the biggest agent in the transformation has been expressed by Gerschenkron, 1962.

Wade and White observe that:

“ If we turn to Japan, South Korea and Taiwan, among the most dramatic and equitable Cases in the history of Capitalist development, industrialization has in each case been accompanied by aggressive government intervention. The authorities have acted to guide markets and moderate the competitive process in a way that neo classical economics says public officials cannot get right”. (Wade and White, 1984; 1)

Other scholars such as Deyo said about proposed capacity model strategic, emphasizing the new industrialism East Asia:

“[the] state’s commitment to economic expansion and, more important, its capacity to implement well-chosen development strategies differentiates these NIEs from other developing Countries better endowed in natural resources, scale of domestic markets, and other economic assets”. (Deyo, 1987; 228)

According to the static view, Stephen W. K. Chiu and Tai-Lok Lui (1998; 144) said that state intervention is required for successful late industrialization. This is consistent with Gerschenkron perspective which said that the importance of strong state to overcome the lack of defects, and lack of smooth industrial markets. (Gerschenkron, 1962; Rueschemeyer and Evans, 1985).

By following Gerschenkron, Amsden (1989) stated that the industrialization of East Asia is characterized by 'Late' instead of 'Newly' of his (such as the economy in new industries). As a newcomer to East Asian companies must be able to compete with Western companies in terms of technology.

In other words, Wade, 1992 said that the magnitude of problems faced by latecomers from the developmental state is to offset the weakness that is often faced by companies in East Asia into International Competition and the transfer of its industrial structure to a more dynamic activity technology.

The capitalist developmental state

Speaking about development capitalism state directs us to the opinion of Johnson (1987) state that capitalism development does not attempt to replace the market mechanism and private decision, but neither does it abdicate to private profit-seeking Behaviors in the development process.

Johnson argued about capitalist development is the 'logic of the system comes from the interaction of two sub-systems, one public and directed to other development objectives and the private sector and aimed at maximizing profits' (Johnson, 1987; 141-2)

State of development, according to Johnson, 1987 concept 'have the following features:

'Elite Development produced and come to the fore because of a desire to exit the stagnation of dependence and backwardness, that really understand that they need to successfully market to maintain efficiency, motivate the

people in the long term, and serves as a check on institutionalized corruption as they struggle against underdevelopment '(Johnson, 1987; 140).

Because not a socialist country, state development firm committed to private property and markets. The market system is very closely with the government to formulate a strategic industrial policy to promote development. While the development of elite state economic intervention not only on the market.

In the state bureaucracy, the pilot agencies (such as MITI in Japan) plays an important role in the formulation and implementation of strategic policy. The agency is given sufficient scope to take initiative and operate effectively, and manage the best people. Johnson showed that a good recruitment in the civil bureaucracy will give good results but also produces a sense of unity and common identity on the part of the elite bureaucracy.

Another story about how the state promotes late industrialization has been expressed by Amsden (1989) in which the Korean emphasis on subsidy policy for the revolution industry and disciplined in protecting the new industry grow. Subsidies have given because Korean Integration cannot fight with Japanese companies. Subsidies are given to entrepreneurs to build industry. Korea in the future so that eventually became the major industrialized countries. The discipline Policy, firmly Korean government made a rule that companies that have good performance was the company will be able to award a management and bad performance will get a penalty. This suggests that state intervention is in need when Korea in the industry lags

It is required in state bureaucracy that has been selected to get a bureaucracy meritocracy have capable and competent in running the government both in terms of policy and regulation.

According to Stephen W. K. Chiu and Tai-Lok Lui (1998; 147) bureaucratic autonomy was also guarded by the politicization of the major economic decisions, or what Johnson calls the separation between “reigning and ruling”:

Otherwise, Johnson said that

“the politicians set broad goals, protect the technocratic bureaucracy from political pressures perform “safety valve” functions when the bureaucracy makes mistakes, and take the heat when corruption scandals are uncovered...the official bureaucracy does the actual planning, intervening and guiding of the economy”. (Johnson, 1987; 152).

All this is a portrait of the importance of the relationship between state development, conglomerates private sector, banks and other institution in economic development. So the bureaucracy and public-private sector can work together in bringing a strong autonomous states that are not only able to formulate strategic development objectives, but also able to translate national goals into broad effective policy measures to promote late industrialization in East Asia.

Towards state-business interdependence?

According to Stephen W. K. Chiu and Tai-Lok Lui (1998, 149) states in-state theory emphasizes state autonomy in making decisions and carrying

capacity to dominate the market. In East Asia, the theory Gilbert and Howe said:

“ We argue that state-centred theorists disregard the interrelation of state and society; in viewing the state as an independent entity, they fail to see how it is related to the wider society. Further, they oversimplify & societal forces and ignore class conflict within and beyond the state. State and society are interdependent, and must be analyzed as such”. (Gilbert and Howe, 1991; 205)

Author such as Weiss argued the ‘ governed interdependence theory’, premised on the proposition that

“ The ability of East Asian firms and industry more generally to adapt quickly to economic change is based on a system that socializes risk and thereby coordinates change across a broad array of organizations – both public and private”. (Weiss, 1995; 594).

On the other hand, Weiss argues not only about autonomy is emphasized in state-led model but also the attributes of institutional capacity for coordination with the appropriate type of relationship industrialized countries. Weiss said that

“ in Korea, Taiwan and Japan, the complex matrix of institutions have been established between state institutions and the private sector such as policy networks provides an important mechanism to obtain information and to coordinate cooperation with the private sector with examples of MITI in Japan” (Weiss, 1995; 600).

This differs with the opinion Samuels in his study of Japan's energy policy (Samuel, 1987; 8) says that it is an iterative process of confidence among market participants and public officials, which works better where the parties are stable and negotiations where institutions compacts that ensure their survival. Samuels suggests that Japanese nationals wishing to pursue an energy policy that aims to maintain a stable private market rather than be used to compete or replace private entrepreneurship.

Another example, Okimoto debate about the close relationship of government business:

It has served as the main instrument for consensus building, the vehicle for information exchange and public-private communication. Close government business relations would be hard to imagine in its absence. Indeed the whole system of Consensus, on which Japan's political economy relies, would be hard to maintain without industrial policy as an integrative mechanism.

(Okimoto, 1989; 231)

Also like Okimoto, Calder said about

“ the financial industry in Japan and the formulation of the ‘ strategic capitalism’ also emphasizes the public-private hybrid system, ‘ pushed ahead in the calculation of market-oriented private sector, but with the active involvement of the public sector to encourage public spiritedness and long-term vision “(Calder, 1993; 16).

Finally, Evans also highlighted the fact that states the successful development can not only be autonomous, they are also ‘embedded in a

concrete set of social ties that bind the state to society and provide institutionalized channels for continual negotiation and re-negotiation objectives and policies' (Evans , 1995; 12).

Competitiveness

Competitiveness is the ability to compete in international term between industries not between countries (Krugman, 1996). In winning the competitiveness, the company has its own strategy, such as lower costs, improve product quality and looking for network marketing. However, sometimes the company still needs government support for companies already in several contexts proved to be an important component of the process of achieving competitiveness.

The essence of competitiveness strategy are: to improve in-company learning, skills development and technology efforts, to increase the supply of information, skills and technology from around the markets and institutions, and to coordinate collective learning processes that involve different companies in the same industry or in related industries (popularly known as ' clusters' such as, geographic or activity-wise, see Porter, 1990).

To win the competitiveness of companies occasionally develop their skills in the ' market' is different for example relating to physical infrastructure, human, financial, technology, capital, and the cluster effect. Competitiveness policy needs arise when one of the ' markets' fails to function efficiently. The experience of East Asian countries in achieving the victory proved that the policy required a coherent and carefully both from the government and the company itself.

In order for companies to succeed in international competition, then the measurement of competitiveness needs to be done. One method that can be used in measuring industrial competitiveness in the international area by looking at the competitiveness of industrial products is an international market. One method often used is the RCA (Revealed Comparative Advantage).

Revealed Comparative Advantage

Beginning of comparative advantage was pioneered by David Ricardo's that had opposed the theory of absolute advantage by Adam Smith in *The Wealth of Nations*. In the theory of comparative advantage, David Ricardo states that the country must produce and export goods and services that are relatively more productive than other countries and imports of goods and services that other countries are relatively more productive (Mahoney et al 1998). This theory refers to the productivity based on technological differences in each country.

In the literature several techniques used to measure a nation's competitiveness by using comparative advantage. There are a number of ways to examine the comparative advantage of the country. One common method is to determine just how special of a country in the production both through building 'Balassa index' or revealed comparative advantage index. This check is good proportion of manufactured or exported, or the numbers working in each industry, compared with other countries.

Revealed comparative advantage (RCA)" was developed by Balassa (1965). RCA essentially measures normalized export shares, in connection with the

same industrial exports in the reference state. RCA index used to determine the position of international competitiveness in terms of trade. RCA Approach, which was pioneered by Balassa, (1965, 1977, 1979 and 1986) have been widely used to test industrial excellence in exports in international market.

RCA index is defined as the ratio of a country's share in world exports of a given industry divided by the share of overall world trade. RCA is still a valid measure of comparative advantage in industries across the country. This is also true by definition still reflects the relative export performance in countries, industries and time and thus still useful for the analysis of the state.

Several studies have been done using the concept of RCA by using export and import data. Balassa (1977) have performed an analysis of patterns of comparative advantage of industrialized countries for the period 1953-1971. This method has been used also by the scholar to know the position of industrial competitiveness in international markets such as UNIDO; 1986; World Bank; 1994, Aquino; 1981; Crafts and Thomas; 1986; van Hulst et al; 1991 and. Lim; 1997.

Revealed Comparative Advantage And Competitiveness: Evidence For Turkey Vis-À-Vis The Eu/15

All seven indices show that Turkey has revealed comparative advantages for seven of the 63 product groups: clothing and clothing accessories; vegetables and fruit; sugar, sugar preparations, honey; tobacco; oil seeds

and oleaginous fruits; rubber manufactures; textile yarn, fabrics and related products.

2. (Amita Batra and Zeba Khan (India, 2005))

Revealed Comparative Advantage: An Analysis for India and China

The analysis of the degree of competition reveals that there is no correlation between the manufacturing sectors of India and China in the global economy.

3. (Naseem Akhtar, Nadia Zakir and Ejaz Ghani) (2007)

Changing Revealed Comparative Advantage: a case study of Footwear Industry of Pakistan

The changing revealed comparative advantage in Pakistan's footwear industry i. e., its shift from disadvantage situation to comparative advantage indicates that there is a potential in this sector for higher growth and the industry can become a source of higher exports earnings.

4. (Diarmaid Addison-Smyth in 2005)

Ireland's Revealed Comparative Advantage

The researcher stated that that Ireland has a RCA in the food and beverages, chemicals and IT sectors.

5. (L. G. Burange and Sheetal J. Chaddha in 2008)

India's Revealed Comparative Advantage In Merchandise Trade

Results suggest that India enjoys a comparative advantage in the exports of Ricardo and HO goods. The category of ' Other goods' is also enhancing its presence on the list of items offering comparative advantage. All production of goods requiring standard technology is shifting to developing economies like India as reflected in the absence of RCA in imports of HO goods.

Electronics Industry

Electronics manufacturing is a commodity that is growing rapidly. In 2005, the global electronics industry has achieved the production of U. S. \$ 1. 338 trillion, the largest manufacturing industry in the world. The biggest share of world electronics industry is Asia Pacific for 36. 8% and America by 25. 54% followed by Europe and Japan at 21: 35% 15: 11%. While for the period 2002-2005 the growth rate, the world's electronics industry is able to reach 8. 2% (table 2. 2).

Today electronics industry seeks to make changes or moving from the high cost industry to the low cost industry. Based on data concerning the movement of high-cost industries to low cost in mind that manufacturing companies located the United States, Canada, Japan and the West have been migrated and set up their production plants in Asia Pacific countries. This is due to lower costs so that the opportunity to earn much higher profits of manufacturing profits (see figure 2. 1).

Migration to Low-Cost Locations

Source: Reed Research, 2005 in Satiago (2007)

Today, with rapid technological advances that have occurred shift segmentation of electronic product with a tendency to electronic networking in the Asia Pacific region including China amounted to 2 / 3 electronic products (see figure 2. 2).

Segments by Product Output in 1982 and 2004

Source: Santiago, 2007

Based on data on the automotive electronics segment have also been due to various electronic components and parts which have been widely used in automotive. The report said that current industrial electronics industry contributes about 30% of the cost of cars and is expected to rise continue in the future.

In terms of market size of electronic components, from the figure 2. 3 indicated that the major Asian countries contribute to 43%, excluding Japan 19%, bringing the total of Asia now contributes 62% of the total market and Western countries such as Americas and European) to contribute only 38%. Over the last few years, Asian countries also have penetrated Electronics Manufacturing Services (EMS) business in the world and are expected to reap 67% of the global EMS revenue in 2009.

Electronics Components Market

Source: European Electronic Components Manufacturers Association, 2005 in in Satiago (2007)

Based on the trend growth rate of the primary and then the electronics industry can be divided into 4 parts electronics industry, namely (Santiago, 2007):

Consumer Products: TV flat panel, high definition TVs, iPods, digital cameras and set top box.

Communications products: 3G handset, TV reception on handsets, mobile services.

Electronic Industry: Radio Frequency Identification (RFID), green electronics, optical recognition

Automotive electronics: products such as global positioning systems (GPS), hybrid cars and electronics for safety purposes.

Electronic games for casinos.

Indonesia Electronics Industry

Indonesian electronics industry is one of strategic industries and important role in the Indonesian economy. The contribution of electronics industry in Indonesia's manufacturing exports in 2005 reached 8%, the third largest non-oil exports in the industrial sector (figure 2. 4).

Share of the Electronics Exports of the Total Manufacturing Exports (in percentage) Period 2005-2009

Note: *) Period of January-October.

Source: BPS (2010)

Electronics industry in Indonesia is divided into 3 parts (Ministry of Industry, 2007), namely:

Consumer electronics industry, which is a function of their use of electronic product is intended for household needs, such as radio, television, video cassette recorders, refrigerators, washing machines.

Industrial electronics business / industry, ie electronics products that use the function intended for business or industrial needs such as computers, calculators, medical equipment.

Industry electronics component that is part of an electronics product such as television tubes, integrated circuits, resistors, capacitor, motherboard.

Of the three categories, consumer electronics industry is relatively developed industry in Indonesia because it uses technology that is easy to use machines like most in other manufacturing industries (eg, injection-molding machines, inserting machines, dipping machine, press machine, roll-formed steel equipment , machine tools, etc.). Another factor is technology that is relatively simple, so easy in the company relocating from principal to Indonesia. Industrial electronics industry has undergone significant developments supported by booming communications and telecommunications sectors.

Weakest segment in the electronics industry is an industry component.

Component industry is still underdeveloped compared to both other electronics industries. So the electronics industry is still a high dependence Indonesia with imported components. This is due in addition to limited local

component industry also collided in terms of product innovation. The majority of the domestic component industry produces low-tech components, such as plastics, rubber, and metal parts, passive components, mechanical parts, such as speakers, transformers, heat sinks, cable connection, flyback transformer, and printed circuit board (PCB).

When we compare in terms of number of firms, output, and work with other industries in Indonesia such as the textile industry, the electronics industry in Indonesia is relatively small. According to the survey of medium and large manufacturing firms conducted by the Central Bureau of Statistics, Industrial electronics assembly industry is still dominated by the level of innovation and simple modification and limited-production capabilities. Only a minority of companies have the ability to modify the basic, design, and engineering innovation. Viewed from the point of production structure, most electronics companies are very dependent on imported components from principal.

Base on survey conducted by the Ministry of Trade in 2008 found that the Indonesian electronics industry is still concentrated in the regions of West Java and Banten, Riau Island, Jakarta and East Java with a percentage of the industry amounted to 59.70 percent, 17.14 percent, 12.05 percent, and 8.10 per from the above provinces such as in Central Java, DI. Yogyakarta and North Sumatra is still far smaller than the fourth region. Based on the data, the Indonesian electronics industry is still concentrated in only four regions. These conditions actually facilitate Indonesian to building facilities and infrastructure that can support Indonesia's competitiveness in electronic products.

Relevant literature:

Ken Togo* Musashi University and Yasuhiro Arikawa

Agglomeration Effects versus Policy Effects: The Case of the Electronics Industry in Malaysia

In the present paper, we examined firms' location choice within the Malaysian electronics industry, using a conditional logit model.

We find that agglomeration and industrial estate have a positive effect on location choice. In particular, agglomeration has much larger effect on location-choice behavior by firms than any other factor. Although the government establishes industrial estates in underdeveloped areas to attract new investment, their effectiveness on location choice is very limited because of the lack of agglomeration effects.

From these results, we draw the following two policy implications. First, establishing industrial estates is not an efficient strategy to overcome the regional inequality of industry in a developing country. Other policy tools should be considered for this purpose. Second, enlarging existing industrial estates and/or building new ones will be a good policy tool to attract firms to regions that already have plentiful firms.

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Dieter Ernst in 2004

Late Innovation Strategies in Electronics Industries: A Conceptual Framework and Illustrative Evidence

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This paper has developed some important conceptual building-blocks that we need to capture peculiar features of Asia's "late innovation" strategies in the electronics industry.

The paper has finding that Asian firms recently have been able to innovate in industries that involve highly complex technological knowledge, despite the fact that they continue to lag substantially behind advanced nations in the development of their R&D and innovative capabilities. In addition to design implementation, this includes innovations in process technology for electronic components and in the design of complex system architectures.

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Show-Ling Jang National Ta