The role of government in the economy and estimating assignment

As such, affective competition provides significant benefits for consumer through greater choice, lower prices, and better quality goods and services. Competition also provides strong incentives for firms to be more efficient and innovative, thereby helping raise productivity growth across the economy. Even though market driven by the private sector, the markets will not necessarily deliver the best outcomes for consumers, companies or government. As for that, government sets legal and institutional framework for markets and companies to operate.

This is to ensure entities in the markets conduct business appropriately. Markets thus do not exist independently of government, which has legitimate role in intervening in and shaping them. Government can affect markets either through direct participation which is as a market maker or as a buyer or supplier of goods and services. They also can indirectly participate in private markets such as through regulation, taxation, subsidy or other influence. When government takes this such action, intervened in the market, they are call as " Interventionist State".

Interventionist State can be define as the government have he legitimacy in giving order to forces the markets such as the entrepreneurs and the private sector in giving effort to impact the economy (Mimes, 1998). In the late asses, the neo-liberalism opposing the idea of mercantilism whereby active government participation in leading the state economic development which most of developing countries government has been working on (Woo-Cummings, 1999).

Neo- liberalism believe that less government participation can give more towards economic growth by following exactly Anglo-Saxon economic structure that has been practically by the Western countries. As mentioned earlier, it is well accepted in literature that economic policy that is as part of government intervention can be of great significance in stimulating growth and development within overall approach of the role of government in the economy (Luau, Manson, & Pupa, 2006). As for Malaysia and Singapore, both countries have attracted the world’s attention for their extraordinary economic performance.

As an emerging market economy, Malaysia is clearly a success story. During the past three decades, the Malaysian government has effectively implemented numerous medium to long term development plans. In particular, the economy has shifted from being dependent on agricultural sector to the development of a strong manufacturing sector. As for Singapore, the state has long been identified as one of the Asian miracle economies that have enjoyed a high level of economic growth since the end of the colonial period in the late asses.

Both states acknowledged the role of their government in leading the economic market and their efforts to give impact towards the outputs. Thus, it gives consent that state intervention does give change in the economic growth. GOVERNMENT IN THE MARKET Based on the various literatures made on Singapore economic, it can be assumed that the Singapore government intervenes in matters deemed important to maintain economic and social orders not only in the short run but in the longer term too.

It is a demonstrated good economic Judgment and made sound economic policies to improve the living standards of Singapore. The devotion to the development and training, creation of legal administrative efficiency and fiscal incentives was essentials in the initial stages of the development to attract multi-national companies : Macs) to Singapore. The Macs have contributed significantly to Singapore rapid growth. The department of statistic in Singapore had estimated that the Macs contributed 41. 5% to Singapore gross domestic product (GAP) in 1998 (Ramirez & ran, 2003).

Apart from that, the Government-Linked Companies or Glass also played huge role in shaping the state economic. Both Singapore and Malaysia governments have huge investment inside theirs Glass. Subsequent to the prevarication program initiated by United Kingdom government to improve the efficiency and resources allocation of Glass in the late asses, the prevarication of Glass n Malaysia and Singapore has made significant changes to the composition of the capital markets in these economies. Although being privatized, the government still exercising its power in controlling stake in the privatized Glass.

Basically, government Nil influence in the appointment of directors and senior management officers, and consequently take part in making major decisions and corporate planning. In fact ells under supervision of the government perform better than the private sector as they being receiving advantages being supervised by the government (Moran, 2004). As in 2005, in Malaysia, over 30% of its market capitalization is controlled by Glass Nile, in Singapore, Glass have the biggest control with more than 50% market capitalization (Scales, Kandahar, & Alai, 2011).

Malaysian government largest CLC Investment was made in Khans National Bertha (Khans) whereas, Singapore government largest investment made in Tamales Holding (Tamales). Ere locally listed Glass under Khans and Tamales have a total market value of approximately 19. 51% and 22. 46% of the Malaysian and Singapore GAP, respectively (Lye, 2011). In the other hand, government of Singapore also plays a vital ole in attracting investment inside the state. The task was handed to statutory boards as the board will be more specialize and operation focus.

For example, Economic Development Board was form in 1961 (Economic Development Board, 2012), Inch administers a wide range of activities aimed to promote investment in Singapore and Journo Town Corporation that found in 1969 mainly to provides prepared industrial land and ready built factories to industrialists who set the operations in Singapore Round Town Corporation, 2012). As statutory boards are more flexible than ministries as they have autonomy to review and change their elicits, it will make the business environmental friendly in the state.

In fact, there are several other statutory boards established by the government, but this is part of the example. The establishment of such boards has effected foreign direct Investment (FED), whereby from the year 1980 to 1990, FED has increased US$555 million to IIS$1, 224 million (Richards, 1994). In fact, the improvement can be seen in recent period of time whereby within ten years from 2001 until 2010, FED flown into Singapore market from SAG 216, 455 million to staggering SAG 618, 576 million Singapore Department of Statistics, 2012) (see Appendix l).

The implementation of new development policy has witnessed the increased of government involvement in intervention in the market. Like Singapore, Malaysian government also established its own statutory bodies that initiated to booster the economic activities in the country by increasing number of investments either foreign or domestic as well as inducing environmental friendly for business activities. Malaysian Industrial Development Authority, Petroleum National Bertha (Patronage), the Tourist Development Corporation (DC), and various state economic development corporations (Seeds) mongo statutory bodies that has been established.

MAIDA found in 1967 assists companies which intend to invest in the manufacturing and services sectors, as well as facilitates the implementation of their projects. The wide range of services provided by MAIDA includes providing information on the opportunities for investments, as well as facilitating companies which are looking for Joint venture partners (Malaysian Investment Development Authority, 2012). As much Malaysian government to attract FED, MAIDA aggressively executed its responsibilities, to attract and convince firms to relocate to Malaysia.

As consequences, it has increased the export oriented firms to the country. Apart from that, when Singapore trying to upgrade from labor intensive assembly to more complex activities, MAIDA spotted the opportunity and made concerted efforts to target electronic industries Macs in the US at the time when semi-conductor assembly booming in developing countries and reaching at its peak. MAIDA plan was worked as MAIDA purposefully targeted FED in sectors that had the potential for growth and it so happened that electronics was among them. (see Graph 1 & 2). Source: World Development Indicators (WAD) 2012

Source: World Development Indicators (WAD) 2012 The role of government in shaping the market of the state can be seen in term of subsidies and taxation. Taxes and subsidies can be used to influence the incentives and behavior of private firms. However, subsidies and taxes can also create entry barriers in a market and allow firms to build and exploit market power. So, both countries need to design carefully both the degree of competition in the market and the way in which different approaches might affect this competition to minimize the potential negative impacts on competition.

Common types of subsidy include direct grants, tax exemptions, capital injections, equity participation, soft loans and guarantees (Office of Fair Trading, 2009). Further elaboration will be made on MAIDA (Malaysia) and DB (Singapore) toward the incentives for the businesses in both states with respective regulation and policies governing the incentives. Tax incentives in Malaysia either direct or indirect established and govern under the Promotion Investment Act 1986, Income Tax Act 1967, Customs Act 1967, Sales Tax Act 1972, Excise Act 1976 and Free Zones Act 1990 (MAIDA, 2012).

The acts established were dedicated to cover potential economic sector in the country ranging from manufacturing, agriculture, tourism (including hotel) and approved services as well as research and development, training until to the environmental protection activities. Basically the direct tax incentives are usually a tax relief granted to qualified business. As for indirect tax incentives, usually it comes in form of exemptions from import duty, excise duty and sales tax. For example, Malaysian companies who investing in manufacturing sector.

Company that granted with Pioneer Status will enjoy a five year partial exemption from the payment of income ax. Investment Tax Allowance (TIT), allow qualified company to entitle to an allowance of 60% on its qualifying capital expenditure such as plant, machinery and other equipment incurred within five years from the date the first qualifying capital expenditure is incurred (MAIDA, 2012). This is only part of incentives introduce by Malaysian government. To clarify the intention of government introduce such incentives was none other to attract investment, domestically and internationally.

Such influx of investment in the country will affect the economic growth. Since the introduction of such incentives, number of company establish in Malaysia has increased in the past decades. The investment increases the GAP percentage and provides employment for the nations. Thus it also will improve social well-being of the population in the country. For example, the GAP growth in Malaysia was recorded positive from the late asses until the late 1984 (see Graph 3). In this case, the increase of GAP also induced by increase number of FED influx in the country (see Graph 2).

As mentioned earlier, investment would create Job opportunities, thus lowering the unemployment rate as well as the incident of poverty. For example, from 1990 until 2010, the unemployment rate was below 4. 5% from the total labor force Inch is still in manageable position (Statistic

Department of Malaysia, 2010) and poverty rate decrease from 49. 3% in 1970 to 3. 8% in 2009 (Economic Planning Unit, 2009). In Singapore, the government also plays a greater role in attracting Investment into the state. Incentives also being given out to the companies invest in the state.

DB on behalf of Singapore government plays a key role in driving Singapore economic development through granting of fiscal incentives. The allocation of an incentive depends primarily on such considerations as the amount of investment involved, the technical output, the export potential, the employment opportunities and the general conduciveness t Singapore economic activity. Therefore, a comprehensive list of incentives and development scheme have been developed in order to attract firms invest in the state.

For example for pioneer Industries, corporations manufacturing approved products with high technological content, providing qualifying services or engaging in countered activities may apply for tax exemption for five to fifteen years (RSI International, 2011). Apart from that, for high-value-added or expanding industries, they may apply their profits to be taxed at a reduced rate of not less than 5% for an initial period of up to 10 years. Export of services oriented companies also granted with tax exemption on 90% of the qualifying export income.

It is given for a period of five years, with provision for an extension. Perhaps, these are part of incentives listed. Yet, government also works on to support labor market in the state. The establishment of Institute of Technical Education (TIE) is one of the approaches to provide highly skilled labor that meet the industry requirements. Rational behind this competitive tax regime in Singapore is none other rather than to encourage the growth of new start-up companies (DB, 2012). Similar with other state, the influx of investment will pour the wealth to the state resulting prosperity of the state economy.

The government intervention is proven in help growing Singapore economic market. Referring to the GAP growth example Asian Financial Crisis in 1998-1999 and economic recession in the 2009. Recent data for GAP in 2007 was amounted to US$247, 170 million increasing to US 299, 625 million in 2011 (Department of Statistic Singapore, 2012). In fact, for the past decade, the number of new companies formed in the state also increased. In 2001, there were total of 8, 51 1 companies formed and as for 2011, it was boomed to 32, 317 companies formed in the state (Department of Statistic Singapore, 2012).

State Incentives and subsidies must be one of the factors of such increase in the formation of new companies. Apart of that, when government intervened in the labor market by providing various of labor scheme such TIE, Singapore manage to control unemployment rate in the state. Between the year of 2001 and 2011, highest unemployment rate recorded in 2003 at 4%. However, in 2011, they manage to reduce t to 2% of the overall unemployment rate (Ministry of Manpower Singapore, 2012).

Government expenditure in the social sector such as providing economic Infrastructure, increasing labor productivity through education and health, balancing between public and private interests and enhancing export industries can impact the economic growth (Lam, Sultana, & Butt, 2010).

Basically, the tool is fiscal budget. Government budget mostly affected the public well-being. The placement expenditure such as in education, health, shelter and nutrition is DOD for economic growth. For example, when government invests more in education and rural infrastructure, it can give impact on both economic development and poverty eradication.

Rural infrastructure such as roads can link rural area with urban areas. Thus, it will encourage rural-urban migration as they will find Job opportunities in the urban areas. It eventually reducing the incident of poverty in the rural areas and at the same time, it will increase the standard of living of the public. Malaysian government spent a lot for development. Analyzing government total expenditure from the period of asses to 2000, total expenditure on development made has increased from ARM 10, 689 million to ARM 27, 941 million. It was including Investment on rural infrastructures, education, health and more (Economic Planning Unit, 2012).

It has positive impact toward rural poverty and employment opportunities as in unemployment rate was recorded at 4. 5% in 1990 has decreased to 3. 0% in 2000 (Statistic Department of Malaysia, 2010). Furthermore, it also has affected the overall rural poverty whereby poverty rate has significantly decreased from 21. 2% to 10. % from 1992 to 1997 (Economic Planning Unit, 2010). In fact, Singapore government also put a lot of its development expenditure investing in education. In 2001 alone, Singapore invested an amount of SAG 6, 577 million in its education sector.

In 10 years period which in 2010, it has increased to SAG 9, 829 million (Asian Development Bank, 2012). Government of Singapore belief on the rational of the increase of education level will lead to improved labor that eventually Nil increase the capacity to produce. In other words it will improve productivity, improve the quality of Jobs in the economy and increase economic growth. Analyzing Singapore economic growth through GAP as indicator, at one point, there is correlation between investment made in education and the economic growth in the state. In 2001, GAP was recorded at IIS$ 157, 136. Million and has increased to IIS$ 326, 832. 4 million in 2011 (Department of Statistics Singapore, 2012). So, relatively Conclusion Ere debate on whether should the government involve in the market or ‘ out’ from there is still going on. Neo-liberal that advocate on open market urges for the state to stay out from the market whereby for ‘ interventionist’ state, they opt to be in the arrest as it is necessarily for the economic growth. Discussion has been made in the role of the government in the economy from the perspective of Malaysian and Singapore government.

Based on the relevant indicators that has been showed, it IS can be assumed that what government decided to invest, consume, regulate and act in the market did impact the market. However, it is depend on the policy makers and the leader of the state how to govern the economy whenever they decided to Intervene. Whenever government intervenes, it will take one person’s liberty to give it to other person. So, the success or the failure of the government intervention in the market depends upon the overall social, economic and politic framework.

While globalization will have deep changes n the role of the government, it will surely not be the end of the nation state and even less end of the government. People will continue their life governs by the rules, incentives and constraints that are primarily national. Governments, however, will have to fugue out ways of reducing their intervention in some aspects but refocus on other aspects. Government still has an important role to play but it will no longer absolute ole monopoly in deciding on the ours of national agenda.

There are now calls for reforms and reinvention of government and its role. It is true that the new global trends will change the character of government. Government will increasingly have to lo beyond their borders and economic policies will be pushed to the forefront. But, however the basic function of the government will remain unchanged even though affected by the Change. The role of government will continue to be constructed around the link of the growth, equity and human development. In short, the state will continue to succeed. Most of all, political leadership will still matter.