

## The State

1. Roles of the State in globalizing economy & economic development
2. Trade, FDI & Industry policies
3. Impact of the State on national economies

## (1) ROLES OF THE STATE

- ✓ State remains most significant force in shaping world economy, important in economic development of all nations
- ✓ All governments intervene to varying extents in the market
- ✓ Globalizing economy: web of interdependencies involving governments, international organizations & transnational organizations (TNCs & NGOs)
- ✓ Roles of nation-state in global economy:
  - Container of institutions & practices
  - Regulator in trade, foreign investment & industry policies

### State as Containers of culture, practice & institution

- ✓ State & individual ways of doing things (E.g. China 关系)
- ✓ Dominant ideologies & nature of political and economical institutions
- ✓ Different governance models
  - **Neo-liberal:** faith in market mechanisms
  - **Social-market capitalism:** collaboration between stakeholders (state & firms)
  - **Developmental capitalism:** state plays central role in economy

### States as Regulators of trade, foreign investment & industry

- ✓ Precise policy mix adopted influenced by:
  - Size of domestic market
  - Quantity of resources
  - Level of economic development & industrialization
- ✓ Provision of physical & human infrastructure
  - Transportation & communications
  - Educated workforce & laws regulating economy
- ✓ Regulatory tools used to control & stimulate economic activity & investment
- ✓ **All policies overlap / reinforce in a cohesive national economic strategy**

## (2) TRADE POLICIES

- ✓ Since late 1970s, new wave of protectionism with governments trying to manage trade
- ✓ National policies have to operate within WTO regulations
- ✓ Two types of trade policies: import & export

### Import policies

- ✓ **Tariffs**
  - Taxes on imports to make goods less competitive
  - Lowest tariffs on raw materials, highest on finished goods (protect domestic manufacturing)
  - Used to protect ‘infant’ industries in early development or ‘geriatric’ industries struggling to survive
  - Tariffs have declined through international negotiation in General Agreement on Tariffs & Trade (GATT)
- ✓ **Non-tariff barriers (NTBs)**
  - More important than tariffs in influencing level & composition of trade
  - Import quotas: restraints on imports
  - Import licenses
  - Labeling & packaging requirements (e.g. cigarettes & magazines)
  - NTBs widely used by MEDCs & LEDCs

## Export policies

- ✓ **Aimed at stimulating nation’s exports**
- ✓ Tax & tariff concessions
- ✓ Export promotion offices overseas
- ✓ Establishment of Export Processing Zones / Free Trade Zones
- ✓ Exchange rate manipulation (make exports cheaper)
- ✓ Policies can be adopted to restrict exports (E.g. embargoes)

## **(3) FOREIGN DIRECT INVESTMENT POLICIES**

- ✓ National governments have vested interest in FDI effects
- ✓ Two types of FDI: outward investment by domestic firms (E.g. SingTel in Optus) & inward investment by foreign firms (E.g. Carrefour in Singapore)
- ✓ MEDCs tend to be less restrictive in FDI policies compared to LEDCs

## Inward Investment policies

- ✓ **Entry** of foreign firms
  - Exclusion from sensitive sectors of economy (E.g. defense)
  - Restrictions to firm control by foreigners (E.g. Thailand’s 50% cap on foreign ownership)
  - Foreign firms employ local personnel in managerial positions
- ✓ **Operations** of foreign firms
  - Local involvement in manufacturing (increase benefits on indigenous suppliers)
- ✓ **Government attitudes towards corporate profits & capital transfer**
  - Profit taxes & restrictions on remittance

## Outward Investment policies

- ✓ **Necessity for government approval on projects**

#### (4) INDUSTRY POLICIES

- ✓ Boundaries between trade, FDI & industry policies blurred
- ✓ Stimulatory & regulatory policies can be applied across the nation or selectively

##### Stimulatory measures

- ✓ Capital grants / loans to firms to supply investment required
- ✓ Tax concessions (tax reductions / holidays)
- ✓ Stimulate R&D in key sectors (To encourage technological collaboration between firms & entrepreneurial activity)

##### Employment & Labour policy

- ✓ Help shape & encourage industrial activity
- ✓ Firms encouraged to increase labour force by direct subsidy
- ✓ Training provided to provide labour force with appropriate skills
- ✓ Controlling labour unions

##### Regulation of National Industrial Activity

- ✓ Increased privatization
- ✓ Regulation of labour markets (through labour union regulations & immigration policies)
- ✓ Technical & product standards

#### (5) IMPACT OF STATE ON NATIONAL ECONOMIES

- ✓ Seen in NIEs, central role of state in economic development
- ✓ Developmental states: market economies where state performs highly interventionist role
- ✓ Range of involvement from being open in FDI to tight regulation of investment to nurture domestic firms (E.g. Malaysia's Proton)

##### Export Processing Zones (EPZs)

- ✓ **Key measure used to stimulate export industries & attract FDI**
- ✓ Also form of regional development strategy
- ✓ Special conditions applicable only in EPZs:
  - Special investment incentives & trade concessions
  - Exemption from certain legislation
  - Provision of all physical infrastructure & services
  - Waiver of restrictions on foreign ownership

##### Industrial Clusters (Competitive cluster)

- ✓ Cluster development focus of many government programmes
  - Techno-clusters / science parks: Silicon Valley, Bangalore

- Business clusters / parks: Singapore's International Business Park (IBP)
- ✓ Sectoral & geographical concentration of firms in cluster **enhances competitiveness**
  - **Economies of agglomeration** (external EOS)
  - Specialized suppliers of raw materials, parts, machinery, skills, technology & other supporting services in cluster
  - Cooperative interactions lead to collective learning & innovation
  - Joint R&D projects within cluster firms
  - Attracts more FDI
- ✓ Success of clusters vary
  - E.g. Suzhou Industrial Park suffering losses
  - E.g. Silicon Valley facing decline today
- ✓ Government often play catalytic role in cluster development