

**THE ROLE OF THE STATE IN ECONOMIC DEVELOPMENT:
A CASE STUDY OF JOHOR, MALAYSIA**

By:

**TAN WEI LIN
(EGA 99017)**

**SUBMITTED TO THE FACULTY OF ECONOMICS AND ADMINISTRATION,
UNIVERSITY OF MALAYA IN PARTIAL FULFILLMENT OF THE
REQUIREMENT FOR THE DEGREE OF MASTER OF ECONOMICS**

OCTOBER 2000



ACKNOWLEDGEMENTS

I wish to express my appreciation to various individuals who were generous with their time and have given me much advice, help, co-operation and most of all, encouragement during this study.

I gratefully acknowledge the help and guidance given to me by my supervisor, Associate Professor Dr. Pazim @ Fadzim bin Othman. His invaluable advice and constructive suggestions at each stage of the study are much appreciated.

Many thanks are also due to the assistant directors and officers from Johor Economic Planning Unit, MITI (Johor branch), MIDA (both Kuala Lumpur and Johor branch), Johor Techno Park and the librarian from Johor Corporation for their assistance in collecting data and information for my study.

Last but not least, I would like to thank my parents, sisters and brother, and my peers, for their understanding, patience and loving support. They have been a great source of encouragement to me.

Abstract

Johor is one of the fastest growing states in Malaysia. Its strong economic growth is very much to the credit of the state; in one form or another, the government intervened, systematically and through multiple channels, to foster development.

In relation to this, the study found that the state has not only created a business- friendly environment where the legal and regulatory structure was generally hospitable to private investment, the state has also established clear performance criteria for selective interventions and to monitor performance. In other words, intervention has taken place in disciplined and performance- based criteria.

The State has been pragmatic and flexible in formulating the development plans for Johor. In addition, it is an active participant in the economic activities too. For example, the state Government, through its investment arm , Johor Corporation, has achieved remarkable success in the development of resource-based industries in the mid 1980s.

However, the State is faced by some major challenges. Among others: 'Singapore factor' that has a detrimental effects of rising cost of living, problem of serious shortage of skilled and semi- skilled workers, limited linkages between MNCs and the indigenous Malaysian industry, and over concentration of economic activities in Johor Bahru.

Table of Contents

Acknowledgements	i
Abstract	ii
Table of Contents	iii
List of Tables	vi
Chapter 1: Introduction	1
1.1 Background of the study	1
1.2 Scope and significance of the study	3
1.2.1 Defining state intervention	3
1.2.2 Significance of the study	4
1.3 Methodology of the study	7
1.4 Layout for the rest of the study	8
 Chapter 2: Selective literature review	 10
2.1 The Golden Age and the rise of the state	10
2.2 The neo- liberal upsurge	11
2.3 Institutional criticisms of the foundations of the neo- liberal analysis	13
2.4 Literature review on the role played by the state via public enterprises	16
2.4.1 Residual Claimant Theory	16
2.4.2 Dispersed Knowledge Theory	18
2.5 Selective review on the studies done on the East Asian Miracle Economies	23
 Chapter 3: The role of the state in economic growth and structural change	 27
3.1 Geography	27
3.2 Reasons and justification for state intervention in Johor	27
3.3 Economic Growth 1980-1999	30
3.4 The Agricultural sector	31
3.5 The Manufacturing sector	38
3.5.1 Electrical and Electronic	50
3.5.2 Textile and Apparel	51

3.6 The Services sector	56
3.6.1 Distributive trade	56
3.6.2 Finance	57
3.6.3 Tourism	58
3.7 Supporting Infrastructure and Services	62
3.7.1 Ports	62
3.7.2 Highways and Access Roads	63
3.7.3 Telecommunication and Information Technology	63
3.8 Human Resource Development	64
 Chapter 4: The state as the provider of vision and institution builder	 65
4.1 Introduction	65
4.2 Hierarchy of Institutional set- up in planning	65
4.2.1 Federal Government	65
4.2.2 State Government	66
4.2.3 Local Government	67
4.3 Implementation Framework	69
4.3 Assessment on Implementation Framework	70
 Chapter 5: A case study on Johor Corporation	 74
5.1 Introduction	74
5.2 History and development of Johor Corporation	74
5.3 JSEDC's experience in the development of the resource- based industries	75
5.3.1 Establishment period	83
5.3.2 Growth and Expansion	83
5.3.3 Diversification and pioneering into new areas	85
5.4 Johor Corporation's experience in dealing with the 1997 financial crisis	85

Chapter 6: The role of the state in other selected areas	89
6.1 Widening the growth prospects through regional economic cooperation: The Indonesian- Malaysia- Singapore growth triangle	89
6.2 Scope for Collaboration	92
6.2.1 Agricultural sector	92
6.2.2 Industry	92
6.2.3 Tourism	93
6.2.4 Transport and Communication	93
6.2.5 Human Resource Utilization and Development	94
6.2.6 Information Exchange	94
6.2.7 Institutional Arrangements	95
6.3 Social Aspect: High Cost of Living in Johor Bahru	95
6.4 Current Policies Affecting Price of Goods	98
 Chapter 7: Some major issues and challenges facing Johor	 100
7.1 Introduction	100
7.2 Shortage of Labor	100
7.3 Economic Infrastructure	102
7.4 Inter- Firm Linkages	103
7.5 Research and Development	104
7.6 Concentration of economic Activities	104
7.7 Conclusion	105
 End-notes	
 References	

List of Tables

		page
Table 1	Johor: Annual Growth Rate by Sector	2
Table 2	Johor: State Government's Financial Position, 1989-1998	5/6
Table 3	Johor: GDP, 1980& 1999	32
Table 4	Johor: Productivity by sector of origin	32
Table 5	Johor: Employment by sector of origin	35
Table 6	Johor: Land area of main agricultural components	35
Table 7	Johor: Export value for main agricultural product	36
Table 8	Johor: Manufacturing project approved in Malaysia	39
Table 9	Johor: Capital Investment of approved projects	39
Table 10	Johor: Distribution of projects approved, by industry	41
Table 11	Johor: Capital intensity in projects approved, by industry	42
Table 12	Johor: Average approved investment per project, by industry	44
Table 13	Johor: Approved projects with the condition of export 50% and above, 1987- July 1997	45
Table 14	Distribution of industrial estates, industries and Population, by district, 1995	48
Table 15	Johor: Factories that were approved and in operation as at 31 Dec 1998	49
Table 16	Johor: Foreign arrival, 1996- Oct 1998	61
Table 17	Johor: Number of Hotels and Rooms & Occupancy Rate	61

Table 18	Johor: Road Distribution by type, 1985-1995	63
Table 19	Johor: Allocation by federal government	66
Table 20	Malaysia: Crude palm oil production, 1986 & 1987	78
Table 21	Malaysia: Palm kernel oil production	78
Table 22	Components of tourists, visitors and day- trippers, 1996 & 1997	97