

1 INTRODUCTION

1.1 Background of The Study

The economic performance of Johor has been remarkable until 1997, when the financial crisis hit the East Asian Economies. The Johor economy grew at a rate of above 9 per cent per annum, surpassing some of its targets and exceeding the national average. (see Table 1) On many fronts, Johor is certainly ahead of many other states in Malaysia. It is claimed that Johor's strong economic growth and development is very much to the credit of the state (both the federal and state governments) where the state has promoted industry-led strategy that has strengthened not only the state economy, but also provided a strong base for future expansion.

Despite the impressive performance, the future of Johor's economy remains challenging, especially after the financial crisis that had hit the economy badly. The economic environment is changing and with 'liberalization' becoming a fashionable concept in the social sciences and a catch- phrase for journalist and politicians of every stripe, the question is, to what extent shall we follow the prescription and what are the remaining possibilities for state intervention?

It is no doubt that the state has undertaken major responsibilities for the promotion of economic growth. The role of the state, however, is not just being a catalyst, but also as an active participant in the economic activities. (examples will be discussed in the rest of this paper)

Table 1 Johor: Annual Growth Rate by Sector

Sectors	1985	1986	1987	1988	1989	1990	1991	1992
Agricultural, forestry and fishing	12.4	7.3	0.5	2.7	9.3	-2.9	-1.1	2.7
Mining and quarrying	10.4	5.9	-1.4	5.5	-6.9	-13.0	-4.1	-3.5
Manufacturing	-12.6	4.1	12.9	19.6	13.8	25.4	17.7	14.2
Construction	5.8	-26.8	-11	3.8	14.4	20.4	19.9	17.1
Electricity, gas and water	10.9	9.3	8	9.6	10.9	20.4	14.1	16.1
Transport, storage and communication	3.7	21.1	6.5	9.7	13.9	13.5	10.5	9.4
Wholesale, retail trade, hotels and restaurants	-3.2	-15.4	4.8	9.0	12.0	15.7	21	15.1
Finance, insurance, retail estate, business services and dwelling	4.5	17.3	6.2	12.9	14.7	20.4	12.6	9.2
Government services	5	3.9	2.6	2.5	5.8	5.8	5.5	6.6
Other services	2.9	1.7	2.1	2.3	14.7	21.7	8.1	7.6
Johor	2.2	3.8	4.3	8.5	11.2	11.4	10.1	9.7
Malaysia	-1.1	1.2	5.4	8.9	9.2	9.7	8.7	7.8

Sectors	1993	1994	1995	1996	1997	1998	1999
Agricultural, forestry and fishing	5.1	1.4	4.9	6.2	3.5	-0.5	1.1
Mining and quarrying	-8.6	-2	2.0	2.0	1.9	-18.5	0.2
Manufacturing	16.1	15.1	14.3	15.0	13.0	-5.2	2.8
Construction	8.9	15.7	12.5	13.5	9.8	-2.2	3.7
Electricity, gas and water	12.5	14.1	7.6	7.7	7.1	-5.0	10.4
Transport, storage and communication	7	12.6	8.6	8.1	8.4	-1.5	3.3
Wholesale, retail trade, hotels and restaurants	11.3	13.7	10.4	10.0	8.9	-2.6	2.9
Finance, insurance, retail estate, business services and dwelling	11.5	11.7	10.2	9.9	8.8	-8.8	-2.1
Government services	4.6	4	5.0	4.8	4.7	-3.7	0.7
Other services	7.5	7.2	6.0	5.7	4.5	2.3	-2.9
Johor	10.2	10.2	9.8	10.2	8.7	-3.8	1.9
Malaysia	8.5	8.2	8	8.2	8.0	-4.8	5

Source: Economic Planning Unit, Johor

1.2 Scope and Significance of The Study

1.2.1 Defining State Intervention

State intervention means different things to different people. The same state action can be considered as an 'intervention' in one society but not in another. For example, few people in the advanced economies would regard the ban on child labor as a state intervention restricting entry into the labor market, but many third world capitalists would regard it as state intervention. For another example, many neoclassical economists who criticize minimum wages as unwarranted state intervention that artificially set up labor entry barrier into the labor market do not regard heavy restrictions on immigration as state intervention, although it sets up the same artificial barrier as the above mentioned interventions. The examples can go on, but the point is that, if we want to decide whether a particular market is free or not, we need to understand the underlying institutions which define the rights-obligations structure for the participants in the relevant market. Hence, the apparently simple exercise of defining what constitutes 'state intervention' is not so obvious any more and it is even more complicated if we try to measure state intervention.

Traditionally, the most popular measures of the degree of state intervention have been the total government budget as a ratio of GDP and the share of the public enterprise sector in GDP. However, these are not actually good indicators as 'big' government is not necessarily a more 'interventionist' government, which is well illustrated by the East Asian countries of Japan, Korea, and Taiwan.

Table 2 gives us an illustration of the financial statistics of the Johor state government from year 1989 to 1998. These statistics might give us a rough idea of the states' fiscal position, but it offers little information about the role of the government or how often the government intervenes in promoting economic growth and efficiency. Therefore, it would be more useful to study the real situation and circumstances. Basically, the interventions are usually organized around four major themes: industrial policies, cooperation and competition, equality and export- led growth. However, due to time and resources constraints, the study would just focus on the first two themes mentioned above in my study.

Also note that the terms 'state' and 'government' would be used interchangeably since the government speaks and acts on behalf of the state¹.

1.2.2 Significance of The study

Much of the discussions on the East Asian success have underlined the link between governance and economic development. However, many would dispute that there is such a thing as an East Asian growth model. This raises two questions: What policies and other factors have contributed to that growth? Can other developing countries replicate these policies to stimulate equally rapid growth? In my opinion, the state has played a considerable role, in almost every aspect of economic activities, to the success of the East Asian economies. In supporting my view, the state of Johor, Malaysia has been selected as my case study because Johor has forged ahead faster than its neighbors have since early

1980s, spurred principally by its pragmatic government and special geographical location.

Table 2 Johor: State Government's Financial Position 1989-1998

	1989	1990	Year / 1991	million 1992	RM 1993	1994
Balance sheet						
<i>Asset:</i>						
Cash	20.02	72.15	50.52	45.18	51.02	72.47
Investment	63.41	343.3	221.05	345.29	432.81	515.04
<i>Total</i>	<i>83.43</i>	<i>415.45</i>	<i>271.57</i>	<i>390.47</i>	<i>483.83</i>	<i>587.51</i>
<i>Financed by:</i>						
Revenue account	(155.92)	79.510	49.07	(0.23)	6.38	16.07
Trust account	183.84	278.10	182.51	355.79	428.00	504.84
Loan account	55.51	57.84	39.99	34.91	49.45	66.60
<i>Total</i>	<i>83.43</i>	<i>415.45</i>	<i>271.57</i>	<i>390.47</i>	<i>483.83</i>	<i>587.51</i>
Development fund						
Balance on 1 Jan	3.27	0.33	1.49	1.27	1.54	1.2
<i>Receival:</i>						
Transfer from revenue account	35.00	50.20	58.50	76.00	53.00	56.06
Transfer from loan account	15.06	8.91	8.14	5.05	2.45	2.35
others	27.16	17.39	13.07	18.08	26.64	37.99
<i>Total</i>	<i>77.22</i>	<i>76.50</i>	<i>79.71</i>	<i>99.13</i>	<i>82.09</i>	<i>96.4</i>
<i>Payment:</i>						
Direct expenditure	54.56	65.18	71.16	91.07	77.31	90.00
Expenditure on loan	15.21	8.94	8.14	5.05	2.45	2.36
Pay back by federal government	10.39	1.22	0.63	2.74	2.67	4.46
<i>Total</i>	<i>80.16</i>	<i>75.34</i>	<i>79.93</i>	<i>98.86</i>	<i>82.43</i>	<i>96.82</i>
<i>Surplus deficit</i>	<i>(2.94)</i>	<i>1.16</i>	<i>(0.22)</i>	<i>0.27</i>	<i>(0.34)</i>	<i>(0.42)</i>
Balance on 31 Dec	0.33	1.49	1.27	1.54	1.20	0.78

Continuation:

	Year / 1995	million 1996	RM 1997	1998
Balance sheet				
<i>Asset:</i>				
Cash	28.91	96.88	18.81	32.61
Investment	599.01	794.8	960.33	739.44
<i>Total</i>	<i>627.92</i>	<i>891.68</i>	<i>979.14</i>	<i>772.05</i>
<i>Financed by:</i>				
Revenue account	16.83	17.88	161.14	158.13
Trust account	585.65	867.03	808.13	604.21
Loan account	25.45	6.77	9.87	9.71
<i>Total</i>	<i>627.93</i>	<i>891.68</i>	<i>979.14</i>	<i>772.05</i>
Development fund				
Balance on 1 Jan	0.78	0.61	1.06	1.68
<i>Receival:</i>				
Transfer from revenue account	73.19	98.02	89.5	120.98
Transfer from loan account	4.21	7.91	0.34	5.69
Others	25.39	25.89	32.72	23.83
<i>Total</i>	<i>102.79</i>	<i>131.82</i>	<i>122.56</i>	<i>150.50</i>
<i>Payment:</i>				
Direct expenditure	92.86	117.85	120.00	145.19
Expenditure on loan	4.21	7.92	0.34	5.69
Pay back by federal government	5.89	5.60	1.60	-
<i>Total</i>	<i>102.96</i>	<i>131.37</i>	<i>121.94</i>	<i>150.88</i>
<i>Surplus/ deficit</i>	<i>(0.17)</i>	<i>0.45</i>	<i>0.62</i>	<i>(0.38)</i>
Balance on 31 Dec	0.61	1.06	1.68	1.30

Source: Annual Economic Report, Johor (several series)

It is hoped that this study can provide a balanced analysis regarding the role of the state. There are a few theories regarding the role of the state, each has not been developed in a vacuum but in relationship with each other. Economic theory is essentially a rationalization of particular historical experiences. Hence, by looking at the economic development experiences of Johor, it would be easier to highlight the extent of government's intervention in achieving high economic growth.

1.3 Methodology of The Study

The study is basically divided into 2 parts. In the first part, the existing theories regarding the role of the state were examined. This is done through an extensive research on publications of journals, seminar papers, books...etc. In the second part, the study would look at Johor state government's experiences in various sectors and discipline in order to evaluate the extent of government's intervention in the economy.

Due to time constraint, data are drawn entirely from secondary sources. It is hoped that the use of such data to support an historically informed analysis of a subject that is as yet relatively uncovered represents another form of contribution to economic analysis.

1.4 Layout for The Rest of The Study

The rest of this study is organized as follows:

Chapter 2 presents a selective review of the literature on the role of the state. In particular, it discusses the developments and provides some critical comments on the major contemporary anti- interventionist theories. The State's involvement in economic development via public enterprises is discussed too. The analysis also looks at the studies done on the East Asian Miracle economies and finds that the state has in fact played an active role in the success of the economies.

Chapter 3 moves on to examine the role of the state in economic growth and structural change in Johor. This is done by examining the performance of the primary, secondary and tertiary sectors and the role of state in this regard. The supporting infrastructure and services available in Johor is also discussed but due to time and space constrain, the government's role in this area is not examined in detail. . Human resource development is discussed too in order to see how important the role of the governments in preparing the state towards a more advanced economy.

Chapter 4 presents the hierarchy of institutional set- up in Johor. Discussions and assessment on the implementation framework is done in order to highlight the role of the state as the provider of vision and institution builder.

Chapter 5 examines the issue of public enterprises and economic efficiency by choosing Johor Corporation's (previously known as Johore State

Economic Development Corporation-JSEDC) as the case study. In particular, the corporation's experience in the development of resource base industries and in dealing with the 1997 financial crisis is examined. The evidence all lead to the conclusion that public enterprises can in fact be economically efficient.

Chapter 6 evaluates the role of the state in specific areas. In particular, the positive role played by the state in IMS- GT is contrasted against the failure of the state government in overcoming the high cost of living in Johor Bahru. The intention is to see if the proximity of Johor to Singapore has actually benefited the Johorean and what has been the government's role in this area.

Chapter 7 concludes the paper by discussing major issues and challenges for the state in the future.