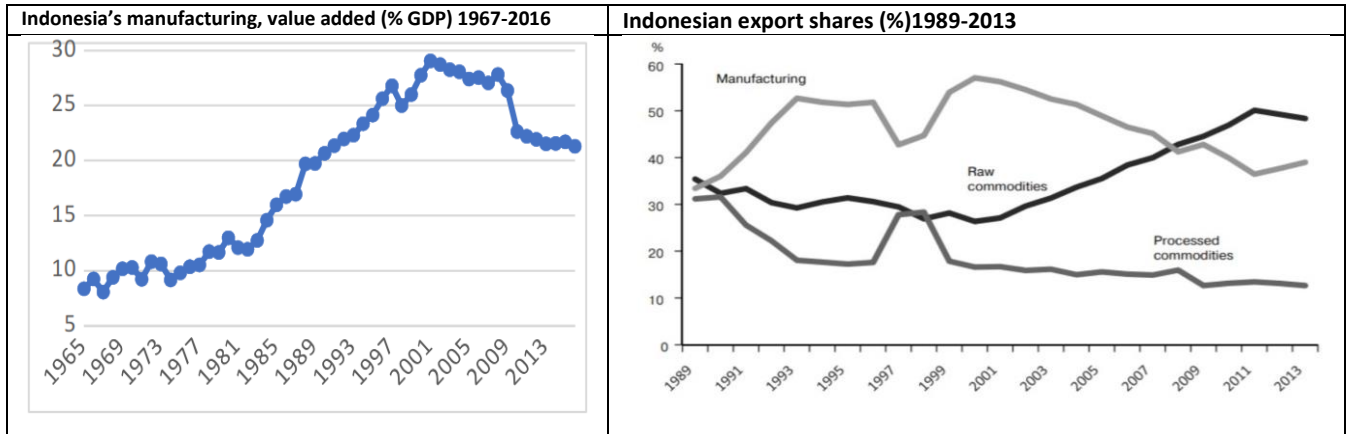


Quiz #2 – Suggested Solution

EE460 (Semester 1/ 2019)

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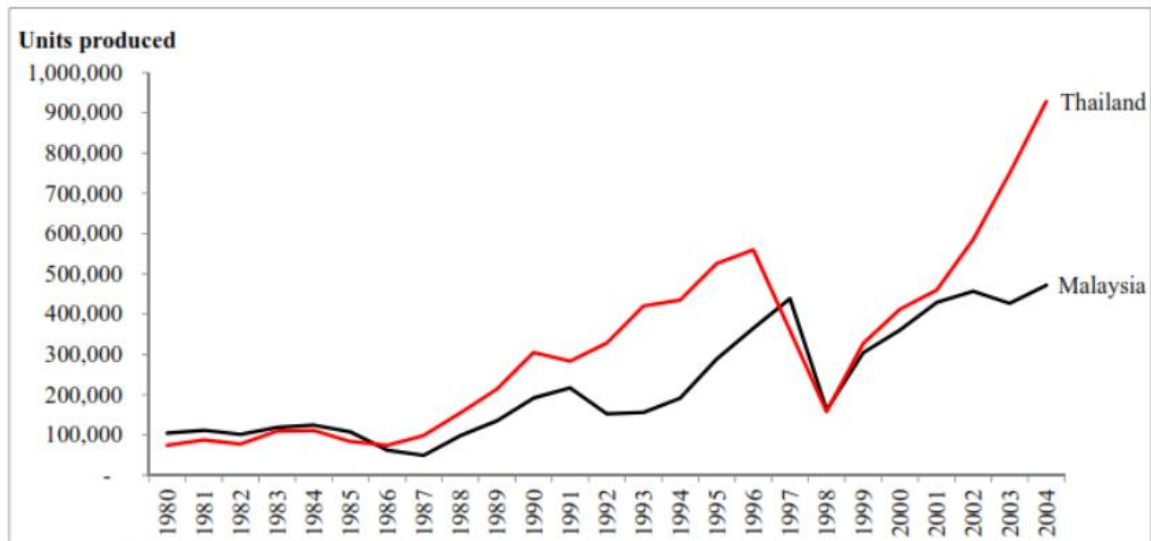
Question 1: According to both figures shown below, what is the current structural problem of Indonesian economy? Is this problem similar to the current situation of Thai and Malaysian economies?



Source: World Bank

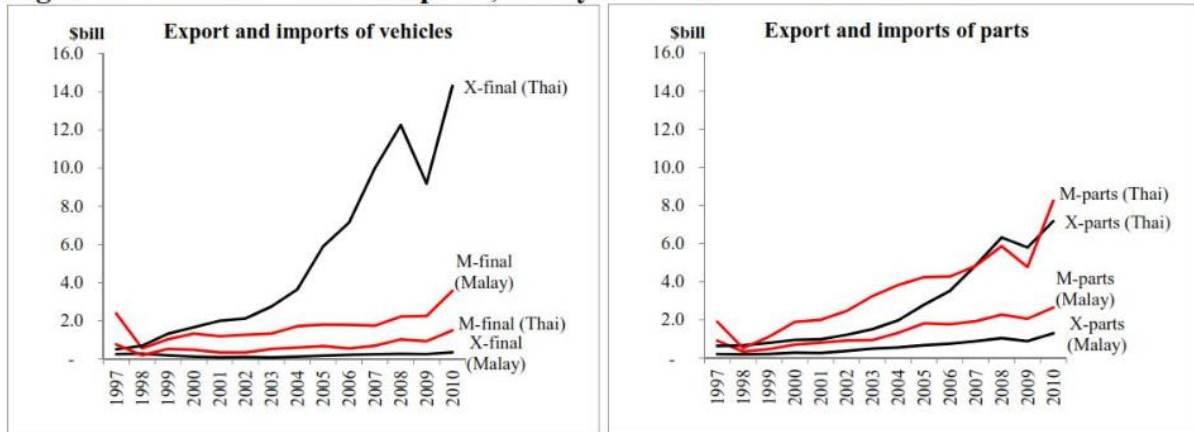
Question 2: What are main factors influencing the different outcomes of automotive productions in Malaysia and Thailand as shown in the following figures?

Figure 12: Vehicles produced, Malaysia and Thailand, 1980-2004



Source: Fuangkajonsak (2006 Table 1).

Figure 13: Trade in autos and parts, Malaysia and Thailand 1997-2010



Source: WITS online database, SITC v.3.

Answer for Question 1: Both figures indicate Indonesia's problem of premature deindustrialization. Specifically, the share of industrial production in the total value of export has been shrinking, and the ratio of value added is also declining. Conversely the resource-based export has been rising. This problem has raised the concern regarding the future development path because the industrialization was the main transformation process enabling Japan, South Korea and Taipei-China to ultimately become the high-income economies. Without the continuously expanding industrialization, the capability to increase the value added and international competitiveness would be very limited. In addition to Indonesia, Malaysia has similarly been experiencing the premature deindustrialization, continuously lowering the export of manufactured products and increasing the export of resource-based commodities. On the contrary, Thailand has never experienced the similar situation. The electronic parts and automobiles have been her major exports for decades.

Answer for Question 2: Malaysia has conducted the import-substitute policy, aiming at conquering the largest share of domestic market. On the other hand, Thailand has implemented the different program, targeted at export-oriented industrialization. Malaysia's policies included the establishment of national car companies and the implementation of the market distortion schemes such as imposing the tariff barrier and the local content restriction. The early phase of conducting these policies was very successful but there was still a lack of technological development, especially the engineering skills to design and produce subtle parts. Finally, the national car companies went to bankruptcy due to their limitations of both financial performance and technological competitiveness.

In the case of Thailand, Thai government has aimed at creating the regional cluster of car production. All government's promotions have been conducted in order to stimulate the export-oriented production. The outcomes are clearly exhibited in given figures, showing that Thailand's total number of production and the total export of cars and automotive parts have significantly surpassed those of Malaysia. Furthermore, the automotive cluster in Thailand has become the important part of global production chain. However, there is still a serious concern regarding the actual competitiveness because the R&D expenditure in Thailand has been very low for many decades. Therefore, as suggested in ADB's report discussed in the class, the indigenous competitiveness is still limited, leading to the long-term vulnerability.

Student's name:

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