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Technology and Indonesia's Industrial Competitiveness. Comments.

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Departamento de Integração e Programas Regionais (INT)

Comments on Thee Kian Wie "Technology and Indonesia's Industrial Competitiveness".

Mauricio Mesquita Moreira
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Paper Objectives

- Discuss major factors which affect Indonesia's industrial competitiveness, specifically the determinants of its industrial technology development.
- Structure
    - Overview of Indonesia's industrial development.
    - Analysis of the determinants industrial technology development.
    - Policy Implications

Main Argument

• “Government did not have a clear idea about fostering and internationally competitive sector…[neglected] basic and enabling conditions necessary to promote the development ITCs.

•Basic Conditions: Macro, antitrust, human capital policies;

•Enabling: Access to foreign technology, tech support, R&D expenditures.

• The implicit argument: this is behind the slow down of Indonesia’s manufacturing exports and economic growth.

My concerns and issues

•The cause of the post-1997 slowdown seems to be directly linked to the destructive effects of the 1997 economic, political and social crisis.

• The roots of the crisis:well beyond the neglect of “basic and enabling conditions”. E.g cronyism, state companies, exch. rate regime, financial deregulation.

•To list basic and enabling conditions is not enough! Weight, relevance, impact.

• “Institutions did not keep up with economic growth”, but they didn’t (and don’t) in most of East Asia.

•Why the benevolent/wise dictator model worked better in Korea and Taiwan than in Indonesia?

Policy Recommendations

- “Only realistic choice: attract more FDI” .
- “Improve the investment climate” (catch all…)
- Improve incentives for ITC: more trade liberalization and domestic competition; more education.
- Demand driven R&D expenditures (but how?)

My concerns: What about China? Complementarities? A new oil boom? How to spend the rents? How to avoid the Dutch Disease? What to do about labor intensive industries?

Challenge: How to devise public policies to deal with market failures, which address political economy issues, but that at the same avoid authoritarian gambles. Incentive Theory?

Comments to Fabio's Brazilian Industrial Policy

- **Assessment of the ISI period:**
  - ✓lack of selectivity
  - ✓Huge anti-export bias (huge subsidies)
  - ✓Fiscal irresponsibility
- **IP in the "liberal" period.**

Was it really liberal?

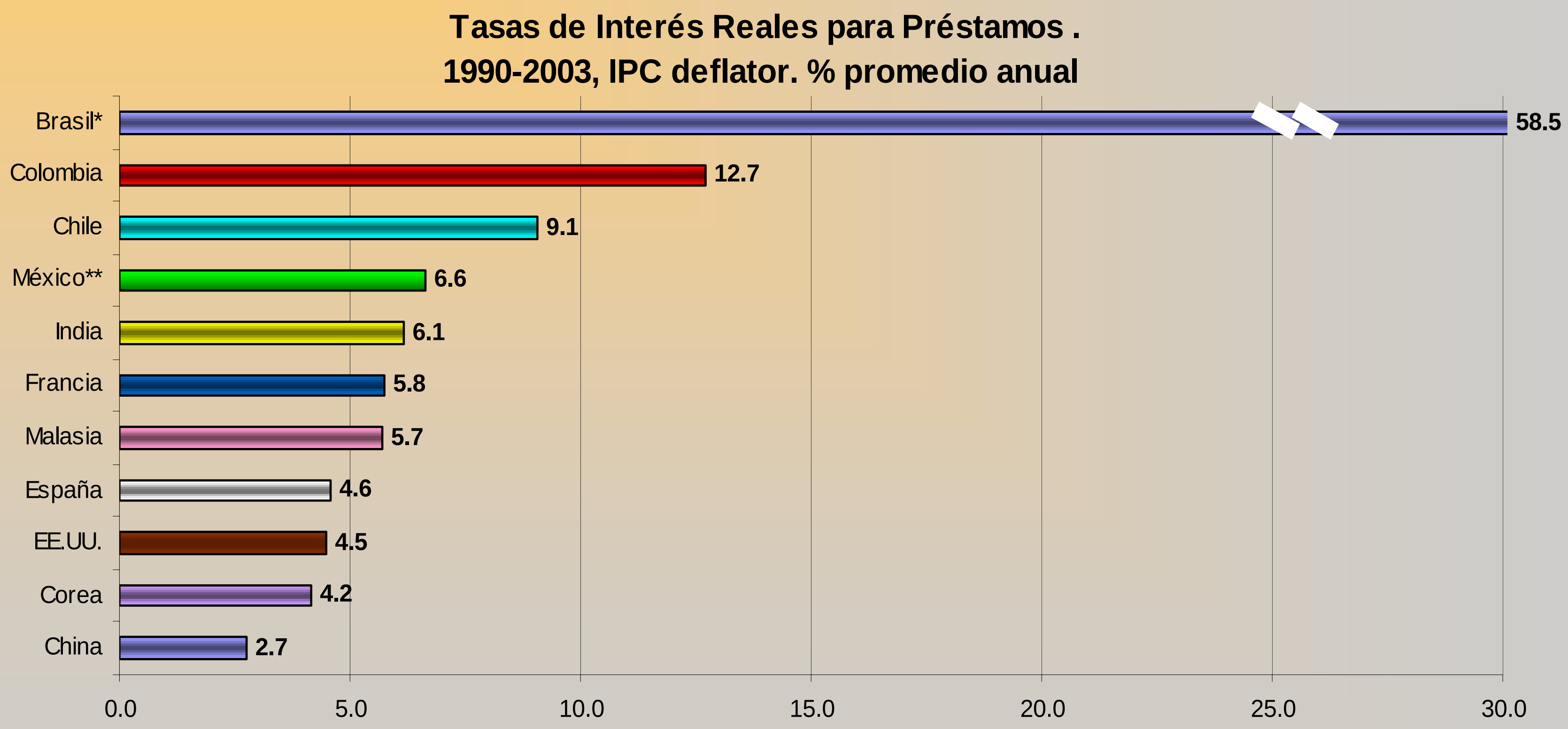
BNDES, Banco do Brasil, etc.. 14% average tariff

Comments to Fabio's Brazilian Industrial Policy

- **The New Industry Policy**

- The macro imbalances are overwhelming
- Is it wise to select sectors? Economic justification, Political economy issues, resources available.
- Do we really need another bureaucracy?
- Checks and balances. Exit strategies. Sustainability.

Comments to Fabio's Brazilian Industrial Policy



Fuente: IMF_IFS

* 1997-2003 ** 1993-2003