

THE ISKANDAR DEVELOPMENT REGION: A PERSPECTIVE FROM SINGAPORE

by

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The Iskandar Development Region (IDR) is an initiative of the Malaysian government to turn a region that already has developed significant industrial, logistics, tourist and business centres to a more substantial urban conurbation with a wider economic base and which by 2030 is projected to have a per capita income of a developed country. The IDR was formally launched by Malaysian Prime Minister Abdullah Ahmad Badawi in November 2006.

The 2,216-sq-km IDR is located in the southern part of Malaysia's Johor state. It already has an international airport, a successful port, good road and rail links to other parts of Malaysia as well as Singapore, existing townships, developed tourist resorts and a population of 1.4m. It also has a large manufacturing hub which is already globally competitive.

The Iskandar Development Project is in the interests of both Singapore and Malaysia as there are huge benefits and synergies which can be gained through closer integration between Singapore and the Iskandar region. The IDR is a culmination of a natural, symbiotic and historical relationship between Singapore and Malaysia, which is more much complementary than competitive. Nevertheless, obstacles do exist in this cooperation, mainly political. However, a change in mindsets is possible, and new mindsets will work towards benefiting the region to flourish.

A brief overview of Singapore and Malaysia's economic trends will be made to provide the context to understand why mutual benefits are to be reaped from their economic integration.

Singapore's economy will experience an up cycle of growth in the next 7 to 10 years; enjoying the powerful results of economic restructuring implemented before the economic crisis in late 1996. Examples include deregulation, which has brought about tax changes, new incentives, and even allowed forth the Integrated Resorts project, as well as the inward migration of talents. From this rosy economic outlook, it may be argued that Singapore is doing extremely well and does not need to cooperate with Malaysia. However, this is an inaccurate conclusion. As a result of the growth, Singapore is increasingly affected by capacity constraints, such as rising wages and costs, soaring rental prices and worsening traffic congestion.

To achieve Singapore's aspiration to be a global city, it has to find means to overcome its limitations, especially in the aspects of land and labour. Global cities, such as New York and London, have huge clusters of

interlocking activities that feed off the critical mass that they have achieved. However, for Singapore to attain its desired status as a global city, it needs to grow bigger as the mass within the Singapore territory is insufficient.

Globally, there has been an increase in concentration of activity in urban centres. For the first time in history, there are more people living in urban areas than in rural areas. Despite this trend of urbanisation, cities such as Paris, Frankfurt and Boston have lost out to other cities which have established sufficient critical mass ahead of time. Evidently, there is room for only a few truly global cities in the world, and probably only space for 2 or 3 global cities in Asia. While Singapore does not have sufficient critical mass, Hong Kong and Shanghai have already met this prerequisite. They are major contenders to become one of the few truly global cities in Asia. Other contenders include Bombay. It may prove to be competitive from 2012 onwards, with its improved infrastructure, strategic location and rapid growth, which will provide it with sufficient critical mass. In addition, Bangkok has established itself as a transport hub and the capital city of the Mekong region, a region which is gaining new impetus from the growth of Vietnam, Cambodia and China.

Any global city needs a dynamic hinterland which will provide it with the necessary economies of scale and critical mass. Unfortunately, ASEAN has been, in relative terms, losing out as a result of the financial crisis and China and India's rapid growth. ASEAN was, in actual fact, hit by two shocks. The first was the visible financial shock, and the second the competitiveness shock from China and India. It is critical for ASEAN to integrate further and quickly, to gain economies of scale. If Singapore was to provide the vital push to jumpstart the integration process in ASEAN, then Singapore would benefit from its extremely vital role in ASEAN's integration.

In comparison with other global cities with multiple airports, Singapore is lagging behind with just one. However, Singapore is highly constrained by its limited land and it is impossible to have another large airport or seaport in its territories. In addition, Singapore is also constrained by population density limits as an overpopulated country may lead to a decrease in the quality of life. This will cause it to lose its competitive edge, as it will fail to appear attractive to investors and the talents it wishes to attract.

Malaysia's economic performance is currently mediocre. It is experiencing a decline in competitiveness in manufacturing. Such growth, or lack thereof, may not be sustainable politically. Malaysia's exportable services are strong as a result of the cheap ringgit. Their education services, medical services, business process outsourcing, tourism and Islamic finance-related industries are doing well. However, it may not be sufficient. The sharp deceleration of foreign investments due to a lack of confidence in Malaysia has prompted the government to intervene. Hence, the 5% growth the economy is experiencing can largely be attributed to governmental intervention, which will be unsustainable in the long run. It

is necessary for Malaysia's private sector to regain its competitive edge to prompt an increase in foreign investments.

Malaysia has lost out, mainly because of the degradation of its underlying economy. In the 1970s and the early 1980s, Malaysia had an extraordinary economy, especially in comparison to its Third World counterparts. Malaysia had superior infrastructure, as well as political and education institutions. A country's competitiveness boils down to the quality of its institutions. In order for Malaysia to get back on track, it is necessary to address the underlying degradation of institutions and implement a meritocratic incentive structure, which will support productive growth.

Historically, Singapore has always had a close relationship with Johor. Even before the British rule in 1819, and up till 1967, despite different political systems and jurisdictions, there was a seamless flow of goods and people between both countries. From August 1965 to 1967, after Singapore left Malaysia, despite the divergence of the direction of Singapore and Johor's economies, a seamless flow continued. Although they were separate political entities, legal paperwork such as state business licenses was mutually recognised and there was no need for work permits. After 1967, the integration between Singapore and Malaysia began to wither, as they followed separate economic and political paths. From 1986 to mid 1990s, there was an outward relocation of manufacturing activities from Singapore, and Singapore tourism ventured into Johor. From 1996 onwards, the relationship between Singapore and Malaysia remains competitive, although the crisis had reduced the competitiveness of IDR.

Nevertheless, trade between Singapore and Johor still remains very significant. Singapore and Malaysia are currently one of each others top few trade partners, with 15% of Malaysian exports entering Singapore and 13% of Singapore exports entering Malaysia. With 8.6% of its investments flowing into Malaysia, Singapore is the top investor in Malaysia. In addition, a substantial number of daily labour movements and tourism occur between Singapore and Malaysia.

The Iskandar region is 3.5 times the size of Singapore, but the population is 1/3 of Singapore's. Iskandar's demographic profile is youthful, in contrast to Singapore's aging population. In addition, Iskandar attracts inward migration from other states in the country. Iskandar, a relatively rich region, has great potential for development as only 15% of the region has been developed, while Singapore has high land constraints. While Singapore excels and outstrips Malaysia in terms of world rankings in competitiveness and attractiveness to foreign investors, it can benefit from a larger hinterland coupled with Malaysia's increased capacities, a younger workforce and excellent entrepreneurial spirit. On the other hand, Malaysia can take advantage of the critical mass and connectivity, such as transportation facilities, that are available in Singapore. In essence, the relationship between Singapore and Malaysia is complementary. Economic integration can occur, even in the absence of political integration, as evinced in the periods 1819 to 1963 and 1965 to 1967; nevertheless,

political trust is vital. Great progress made in economic integration without much compromise of national sovereignty is best observed in the case of the European Union (EU), in which there is a regulatory seamlessness in the flow of people, capital and goods between countries in the EU. This successful model can be applied to Singapore and Malaysia's economic integration, to revert back to the "Two countries, one economy" approach.

With the IDR, Singapore can reap many benefits. Firstly, it can shift land usage and labour to higher value uses by moving the lower value-added services to its neighbour. The IDR can also provide the country with an area to house its vital support services, such as backroom, transactions processing, or even international schools and universities. It may even be possible for Singapore to move part of its existing port operation to the IDR. This is akin to the current ports of New York and New Jersey which operate as a single entity. High value land could be released for other purposes, but the city still retains its strategic importance services to the industry, such as high value legal and other services. It was also suggested that since airports tend to be land intensive, Singapore could have a secondary airport at Senai, connected to Changi by a high speed rail, operated as a joint company of Changi airport. Large scale IDR tourist attractions would benefit Singapore, if they are near and accessible enough. The combined draw of the IDR and Singapore may encourage repeat tourists. Through economic integration, greater economies of scale can be enjoyed. Furthermore, the increased diversity – a key characteristic of global cities – in the talent pool, business activities, consumer preferences and skills sets will prove to be highly beneficial to Singapore. In addition, economic integration between Singapore and Malaysia would also lower business costs, which is of great importance to SMEs (Small and Medium Enterprises). Lower cost of living as a result of the integration will significantly ease the burden of lower income groups. The synergy from heightened economic cooperation will also improve the overall quality of life, as congestion may be reduced and the increase in diversity would create greater choice for consumers.

However, the IDR is not without its risks. A consequence of economic integration is increased competition. A relevant example is the case study of Port of Tanjung Pelepas (PTP). It took away business and hurt Singapore. But PSA (Port of Singapore Association) reacted to the competition it posed and have since expanded and flourished. Similarly, PTP also grew. Competition is not a risk; conversely, the lack of it is the danger. The risk of excessive dependence on Malaysia, given the chequered relations between both countries, works both ways as interdependence will force both countries to work together. Mutual interdependence greatly reduces the risks. To further safeguard this risk, there could also be similar Singapore tie-ups with Riau or other ASEAN counterparts. A diversification in channels of economic integration will prevent over-reliance on any single country.

To benefit both countries, there are certain prerequisites which come into play. Seamless connectivity between Singapore and the IDR is vital. This could be in the form of increased MRT links and easy immigration with the

use of smart cards, it may even require a third land link, perhaps from Kanji into Iskandar. However, given the increased terror risks faced, as well as the high crime rates in Johor, a streamlined transport linkage with reduced barriers may prove to be a threat to security. Seamless business operations also must be put into place. These can, for instance, take the form of inter-operability of company registration, works visa for both Singaporeans and Johoreans, as well as standardisation of licensing. In addition, taxes and tariffs for the movement of goods and capital between Singapore and Malaysia borders will have to be reduced.

For both countries to succeed in the IDR there are obstacles to overcome. Political differences and a history of political distrust have to be overcome by economic rationale. Ethnic tensions between the Malays and the Chinese must be resolved. Furthermore, a common ground must be found between the divergent economic policies and philosophies. While the Singaporean system is based on meritocracy, Malaysia currently has the New Economic Policy (NEP) in place. However, there is a large incentive for mindset changes for both countries. Singapore cannot attain its desired status as a global city without the IDR, while on Malaysia's part, the IDR can become a success only with substantial integration with Singapore. Thus, Singapore has to be more confident in order to overcome its traditional fear of competition and loss of its key activities. On the part of Malaysia, changes are underway with the dramatic upset in the March elections. The shift away from the NEP and cronyism has become increasingly likely with more opposition members in the Malaysian Parliament and a new breed of policy leaders.

In conclusion, there are many benefits and advantages to be gained through economic integration and cooperation with Malaysia. The key obstacles to successful economic integration are mainly political and it appears positive that these differences can be overcome.