

6 THE ROLE OF THE STATE IN OTHER SELECTED AREAS

6.1 Widening the growth prospects through regional economic cooperation:

The Indonesia- Malaysia- Singapore growth triangle

The Indonesia- Malaysia- Singapore growth triangle (IMS-GT) was the first government initiated concept for sub- regional cooperation to take full advantage of the so- called 'natural economic zones' prevailing in the ASEAN region. The IMS- GT concept can be utilized as an effective framework for sub- regional cooperation to generate synergistic benefits for the three countries, especially in an environment of increasing global competition and protectionism. Initially, it was to include only the southern peninsular Malaysia state of Johor, Singapore and the Indonesian Riau islands of Batam, Bintan and Bulan. It was then called Sijori (Singapore- Johor- Riau). Later, the boundaries were enlarged to include other states in peninsular Malaysia such as Pahang, Malacca and Negeri Sembilan; other islands in the Riau archipelago and other parts of Indonesia like Bengkulu, Jambi, South Sumatra, Lampung and West Kalimantan. (Johor,1996b)

The linking of three areas with their different factor endowments and comparative advantages to form a large grouping is expected to enhance the potential for economic growth and trade. The differences in comparative advantage complement each other and form the basis for the formation and strengthening of economic cooperation and integration.

The IMS-GT is supposed to be private sector- led and market driven. The private sector will be the 'engine of growth' with the respective governments providing a smooth path for economic progress by removing legal, policy, institutional and other constraints to ensure the easy flow of goods, services, investments and human resources across borders. However, more often than not, one can see how the government actually plays an active role in promoting economic growth via economic cooperation and integration (will be discussed later).

When this concept was first proposed by the then Deputy Prime Minister of Singapore Goh Chok Tong in December, 1989, he was merely formalizing and institutionalizing economic links that were already in existence, given the fact that the connection between Singapore and Johor have been cemented over the past decades, if not centuries.

Many Johoreans work in Singapore, commuting to the island republic daily. However, since the early 1980s, the flow reversed with Singaporean companies and investors setting up factories and business in Johor to take advantage of the lower costs of land and labor there. With millions of ringgit of Singaporean investments pouring into Johor, the state's economy picked up and sectors like property, construction, hotels and retail were given a boost. From 1990 to 1996, Singaporean investors pumped RM9.81 billion involving 1138 manufacturing projects in Malaysia. Of these, 652 projects worth RM 5.85 billion were sited in Johor. In other words, 60 per cent of the investment made by Singaporean is

concentrated in Johor and most of these investments were concentrated in electrical & electronic and metal products.

Some years ago, there was criticism that the IMS- GT was turning out to be Singapore- Riau and Singapore- Johor linkages, without significant development in the Johor- Riau node. However, this has been corrected by aggressive moves embarked on by the Johor Corporation, the investment arm of the Johor state government.

Johor Corporation is in a joint- venture, through its subsidiary, EPA management, with Indonesian companies P.T. Bintara Tani Nusantara and P.P Kodel to invest USD35 million to plant 11,000 hectares of oil palm in Air Bangis, West Sumatra. Another Johor state government subsidiary, Johor Technopark Sdn. Bhd. and an Indonesian partner is developing a USD90 million 616-hectare Padang industrial park in Sumatra.

The Johor state government has realized that Sumatra has an abundant supply of manpower but they lack skills, training and education. Malaysia, on the other hand, has the expertise and capital. With Indonesia being endowed with rich natural resources², more joint- ventures between Malaysia and Indonesia will be in the pipeline to complement the comparative advantages that the two countries have.

6.2 Scope for Collaboration

The Johor state government has identified several areas for further collaboration.

6.2.1 Agricultural sector

Singapore has considerable expertise in bio- technology; Johor has highly productive plantation and horticultural sector and well developed research capabilities; Batam is developing shrimp breeding, pig rearing and other agro-based activities. Gains to the mutual benefit of all parties could be secured through sharing of the R&D infrastructure and for the exchange of information and other agricultural data. Besides that, cooperation between the IMS- GT members in agricultural product marketing, both within the triangle and international markets should be promoted. As regards to marketing within the triangle, cooperation is needed to resolve issue such as dumping. The scope for collaboration in the marine fishing and aquaculture sub- sector is potentially significant. For example, there could be an establishment of a tripartite joint venture company for sharing technology in developing a fish product processing plant and development of large prawn rearing ventures.

6.2.2 Industry

Usually, Multinational Corporation (MNC) investment can be attracted by two principal advantages, i.e. the availability of basic resources, notably land and labor, and the availability of higher level resources such as skilled work force, excellent communications, and technology support and business services. A full range of such resources and services is available within the IMS-GT promoted as

a single unit. The Johor state government is now embarking on a very aggressive industrialization program with the objective of turning Johor into the country's center of high technology industries by the year 2005. Thus, foreign investments promotion mission carried out overseas are aimed primarily at attracting high-tech industries.

6.2.3 Tourism

There is a need to identify, define, as well as market the tourism products of the triangle as it offers a wide range of complementary tourist attraction. It is also critical to improve air, sea and surface transportation links to and within the growth triangle. It is also possible to design package travel program where the urban based and shopping attractions of Singapore is linked with the historic cultural, eco tourism and beach resort attractions of Johor and the Riau Islands. The private sector is expected to play an active role with inter- government initiatives providing the supporting facilities. Meanwhile, tourism promotional programs could be organized jointly so as to minimize duplication and to lower unit costs.

6.2.4 Transport and Communications

The provision of reliable, adequate and efficient transportation and communication infrastructure is crucial for the economic development of the triangle. Thus, trilateral collaboration to promote the maximum possible rational utilization of transport facilities and infrastructure within the sub- region is important. Singapore is in the process of developing a sophisticated information

infrastructure and it should be possible for Johor and Riau to eventually wire into this and for a sub- regional information system to be developed.

6.2.5 Human Resource Utilization and Development

Trilateral cooperation can help ameliorate the constraints on mobility of workers and lead to the establishment of clear procedures and identification mechanism for migrating and commuting workers, inducing a 'guest worker' program with 'smart- card' ID's. The Malaysian and Indonesian governments have already signed a memorandum of understanding which attempts to regularize the importation of Indonesian labor, subject to annual quotas and other conditions. There is also room for cooperation across borders in manpower training program for various sectors. This can take the form of provision and exchange of instructors, exchange of students, provision of on- the- job training facilities and joint utilization of specialized equipment and facilities.

6.2.6 Information Exchange

The governments can assist in making information available in a convenient and timely manner by establishing a Growth Triangle Information Centre (GTIC) in each of the three countries. As such, information required by investors, suppliers, consumers and governments would be collected, processed, stored and updated according to an agreed format. This will ensure that up to date information shall be available at all the information centers.

6.2.7 Institutional Arrangements

It is apparent that the member countries should have regular consultations in order to implement the triangular growth concept. Thus, an appropriate institutional mechanism should be devised. Although the private sector is supposed to be the engine of growth, the public sector is required to provide an enabling environment for subsequent development. This could be done through Council of Ministers, an IMS- GT technical Committee and Joint Business Council involving the three constituent members.

The IMS- GT concept is an also good example of how the state and federal government work hand in hand in promoting growth. The state government plays an active role in complementing and supporting federal government's decision. Thus, the development goals and strategies of Johor state do not differ much from the overall national objectives as contained in the Second Outline Perspective Plan (OPP2-1990-2000).

6.3 Social Aspect: High Cost of Living in Johor Bahru

The strong growth of Johor has many positive externalities. There has been a vast improvement in its residents' standard of living. Nonetheless, the increased economic prosperity has its own consequences. The cost of living in Johor Bahru has risen as well.

Price disparities exist between states and between urban and rural areas within the state. Some price differentials are seasonal due to heavy rainfall, draught,

flood or festive periods. Usually, non-controlled items are slightly more expensive during festive seasons due to extraordinary demand. In general, rural-urban price disparities of most consumption goods may not be so significant because some prices are higher in the urban areas while others may be higher in the rural areas. Bulk purchase and intense competition among hypermarket retailers such as Carrefour, Giant and Makro push prices lower than those in the rural areas. Nevertheless, the cost of living as a whole is higher in Johor Bahru, mainly because of high rentals and the 'Singapore factor'. This could be real or artificial. The real factor includes influx of Singaporean for shopping, in particular for food items. In addition, it could also be due to local shortages resulting from direct supply to Singapore. The artificial factor could be the perception of Johor Bahru's consumers and retailers themselves. In fact, the retailer's attitude could be the real factor behind this perception.

It has been found that the influx of Singaporeans is most apparent during weekends and public holidays. The proximity of Johor Bahru to Singapore, the higher purchasing power of Singapore dollar in Johor, are among the factors that attract the Singaporeans to Johor Bahru, to the extent that they are willing to take four to five hours for the crossing that should take at most 20 minutes.

According to estimates by the Immigration Department, day-trippers spent more than 70 per cent of their money on shopping, compared to 20 to 30 per cent of those by visitors and tourists. The day-trippers also spent around 10 per cent of their expenditure on food and beverages (refer to Table 22). Such a strong

demand, particularly from Singapore, which comprised 83.7 per cent of total day-trippers in 1997, has indirectly driven up prices in Johor Bahru. A better understanding of the Singaporean shopping pattern and behavior will provide a better guideline for policy makers to design better policies in order to attract more day-trippers and tourists from Singapore without neglecting the welfare of Johor's own local residents.

Table 22 Components of Tourists, Visitors and Day-trippers, 1996 & 1997

Types of expenditure	Tourists		Visitors		Day-Trippers	
	1996	1997	1996	1997	1996	1997
Accommodation	35.6	34.7	32.8	32.0	-	-
Food and beverage	18.4	18.7	17.8	18.1	11.2	10.8
Shopping	19.4	21.5	23.6	25.6	72.6	74.5
Local transportation	7.4	4.8	7.3	4.5	6.6	6.7
Organized sightseeing	7.6	8.3	7.0	8.2	0.4	0.6
Entertainment	4.3	4.4	4.1	4.1	2.2	1.2
Domestic airfares	4.7	3.6	4.3	3.4	-	-
Others	2.6	4.0	3.0	4.2	7.0	6.2
total	100.0	100.0	100.0	100.0	100.0	100.0

Source: Annual Tourism Statistical Report 1996 and 1997

The 'Singapore factor' can appear in an indirect form too. It has been found that there are local demand and supply imbalances that has contributed to increase in price of goods, especially food items. For example, the vegetables grown in Machap are owned by an investor from Singapore, while the seed is obtained from Taiwan and labors are from Indonesia. The vegetables are later exported to Singapore. In this case, the local production does not affect the local supply and does not benefit the locals at all. (Johor,1999)

6.4 Current Policies Affecting Prices of Goods

Although the government, through its agencies like Lembaga Kemajuan Ikan Malaysia (LKIM), FAMA...etc., has set policies that aim to cope with the escalating prices of consumer goods in Johor Bahru, these efforts remained ineffective. This is because each of the policy was formulated on an ad hoc basis, thus duplicating if not conflicting with each other. Thus, the state government is now working on a new comprehensive policy to address this issue.

It is found that some goods sent to Singapore were later returned to Johor Bahru as rejects, which in turn were sold in Johor Bahru to locals. If these goods were dutiable, then the duty element and transportation cost to and from Johor Bahru would be added to the price sold locally. Although in certain cases, the exporter can apply for refunds, it is not practical for perishables, as the procedure for refunds is quite complicated and tedious. As a result, the local consumers are the direct victims of this system where they have to pay higher prices for the same type of goods (if they were not exported). Hence, this is a typical example that the lack of government interventions in the form of regulations is detrimental to the society's interests.

Another issue worth addressing is that of Singaporeans buying subsidized consumer goods. As we know, subsidy is payment by the government to reduce prices of some food items in order to keep down the cost of living. These subsidies are financed by the taxpayers. Thus, it is actually revenue forgone. As such, it should benefit domestic consumers only. Also, prices of certain essential

goods are kept low by price controls. The Prohibition of Export Act 1987 has listed limits on the purchase of certain goods by foreigners such as sugar and wheat flour. Thus, goods to be exported to Singapore have to get customs certification. However, the custom enforcement of this regulation is not so tight. In addition, the provisions stated in the Act are open to various interpretations.

From the above discussion, it is no doubt that the 'Singapore factor' has exacerbated shortages of supply and prices of certain products. Although the demand has encouraged production and sales of certain products and therefore increased income of certain groups, there are people who are worse off due to the erosion in their purchasing power. Hence, the 'Singapore factor' has become a challenge for the state government to adopt appropriate policies to minimize the detrimental effects of rising cost of living (which the state has not been successful in doing so for the past two decades) while capturing the positive benefits associated with economic success.