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Malaysia-Singapore Relations: Economic Diplomacy and the IDR

Saravanamuttu



Whichever way one looks at it, the recent meeting in Pulau Langkawi in mid-May between the Malaysian and Singapore premiers, Abdullah Badawi and Lee Hsien Loong, and their cabinet-level entourages was a diplomatic coup of no minor proportion. The centerpiece of the diplomatic success was no doubt the agreement to set up a Joint Ministerial Committee with oversight over economic cooperation in the Iskandar Development Region (IDR) in the state of Johor in Malaysia, separated from Singapore by a 1km long causeway. It was unexpected that both sides so quickly agreed to the introduction of 'smart cards' to facilitate the two-way traffic of Malaysians and Singaporeans to the IDR.

There was even icing on cake, which came in the shape of a categorical statement that both governments would accept the ruling of the International Court of Justice on the Pedra Branca (*Pulau Batu Putih*) dispute, a rocky island outpost contested by both countries by November of this year. Without doubt, the event marks the high watermark of Singapore-Malaysia over some two decades of bumpy and oftentimes acrimonious relations. It is particularly interesting that in this era of globalisation, economic diplomacy has seemingly led the way to perhaps the most significant turn in Malaysian-Singapore relations, in recent years.

According to the Malaysian prime minister, more could be in the offing after this new warming up of relations. Even prior to the diplomatic retreat, there was already talk of a new fast train link between Kuala Lumpur and Singapore undertaken by the YTL Corporation of Malaysia, and the building of "several bridges" linking Singapore and Malaysia (much like in New York and Manhattan) to supplement the overcrowded 1 km causeway and the underutilised Second Link.

Going beyond the hype of media reports, I would like to explore a little more thoroughly the idea of whether the IDR could be a realistic economic project for Singapore's long-term economic involvement in Johor and, by extrapolation, Malaysia in general. Along with that, could it provide a fillip to other foreign investments into the IDR? Using the Malaysian premier's own analogy, could the whole project develop into a relationship much like a Hong Kong's with Shenzhen? If so, then the IDR could indeed become a prime and actual example of how economic diplomacy would pave the way for sustainable economic relations between Malaysia and Singapore in years to come.

However, by the same token, the IDR could also become the Achilles heel of a relationship often wrecked on the shores of irreconcilable 'national' economic interests, as witness the unresolved water supply issue and the much earlier parting of the ways of Malaysia and Singapore airlines. Much could go wrong if the political players fail to resolve or manage differences that have come with a baggage of historical irritations in Malaysia-Singapore relations.

Let us start with some facts about the IDR, which, to say the least, are quite spectacular. The region spans an area of 2,217 sq. km., which is about thrice Singapore's size. Reportedly US\$105 billion is to be expended in the IDR, although we are not told over what period of time. We are told that the committee overseeing the IDR will be chaired by the Malaysian premier himself and one its members will be the doyen of the Johor UMNO (the anchor party in the national coalition), Tan Sri Musa Hitam. Furthermore, the main stakeholder of the IDR will be Malaysia's national investment company, Khazanah Holdings, while the primary developer would be UEM Land, a major Malaysia government-linked-company.

In a seminar in Singapore on 23 May, the Managing Director of UEM Land, Wan Abdullah Wan Ibrahim, was upbeat about the prospect of private sector investment from across the border. He said that by the year's end, some S\$38.5 million would be purchased by Singaporeans in industrial lots in the IDR. The Nusajaya area, the first to be developed, will see the establishment of an industrial park, a waterfront precinct, theme parks, an educational city, a medical park and residential areas. Plans are in place for a medical faculty to be run by Newcastle University and a private institution run by iCarnegie of Carnegie Mellon University.

All of this sounds like a jolly good start. However, a reality check reveals several possible hitches. If one were to take Shenzhen as the model, clearly many criteria do not obtain in the IDR. First, a joint ministerial committee is far from being the equivalent of a governmental authority with full decision-making powers. Admittedly, the Malaysian government has said it will relax various governmental norms including keeping in abeyance the dreaded stipulations of affirmative action and quotas. Still, Johor and UMNO politics could get in the way. Some rumblings by detractors of the Abdullah Badawi government, not least of all the former premier Mahathir, have already dubbed the project as a 'sell-out' to Singaporean interests.

More serious would be the questions regarding Malaysian human resource capacities. Malaysia has a poor track record with respect to 'mega' projects and clearly, the IDR constitutes as one. From most accounts, the Multimedia Super Corridor (MSC) and Cyberjaya, constructs of the Mahathirian era, have remained in limbo. What could push the IDR (also known as the "Southern' Corridor") beyond the kind of problems that have stalled the MSC? Would it be the economic diplomacy factor? The hallmark of such diplomacy is to let economics lead the way rather than politics. But could Malay or Malaysian politics stall such a process?

In the current era of globalisation and open borders, it is has become axiomatic that private sector collaboration is the driver for economic cooperation and integration. If the IDR could prove to be the lynchpin for the beginnings of the economic integration of this region of Johor, to the industrial and financial hub of Singapore, the venture may well work. A bilateral economic zone is evidently a much better formula than the ASEAN 'growth triangles' initiative, which have not made much progress.

The ultimate vision for the IDR-Singapore economic zone would be a customs union, where tariff and non-tariff barriers are harmonised, or even a common market that presages the free flow of capital and labour. For now, however, it remains for the architects and purveyors of the new economic diplomacy on both sides to put their money where their mouth is.

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