

Chapter Four:

A Case Study on Singapore-Johor-Riau Growth Triangle (SIJORI)

Introduction:

This chapter is the first case study in this research. In order to build up a coherent and comprehensive understanding of three cases explored in thesis, this chapter will lay out a format for the next two chapters to follow. The first section introduces the history background of the case. How and why this SREZ was brought into existence is described. And the content of the SREZ is presented. The second section defines key actors. Their relationship with each other and their involvement in the SREZ will also be assessed. The third section is an integrated analysis of the case. EGPIB factors are utilised to examine the progress of the case. And the interaction between micro-regionalism and micro-regionalisation will be discussed.

Can a SREZ be a more pragmatic option for region-building in the East Asia Pacific? This research seeks to explore the dynamics and the extent of transnational sub-regional cooperation in terms of paving the way for East Asian integration through examining three SREZs which are with best chance to achieve the goal. And SIJORI is one of the cases that form the subjects for comparison in the end of this thesis. SIJORI was the first official launched transnational sub-regional cooperation in the East Asia Pacific. It is also the first case study in this empirical thesis.

As discussed in Chapter One and Two, the historical tangle in the East Asia Pacific region has provoked many informal and political barriers on economic affairs, transnational sub-regional cooperation, with “informal nature”, is comparatively effective in outwitting cultural or political confrontation between governments, and promoting economic cooperation. For example, it may be less likely for Taiwan to propose an official cooperation project with China, or vice versa, due to the political and ideological tension. However, as the initial cooperation goal for the SREZ is limited to export-oriented and technology sectors, it is more likely to be adopted between political rivals. Moreover, the close ethnic and language connections between contiguous nations can be a good basis operating economic cooperation for the both sides. The SIJORI has followed the same rationale too.

The establishment of SREZs could also be seen as a process of resources exchanging. A nation can participate in several SREZs and exploit others’ complimentary resources according to self-insufficiencies and comparative advantages. As defined in the methodology chapter, economic complementarity is one important factor which would affect the establishment and transformation of SREZs in the East Asia Pacific, the concept of the “resources” that SREZs members are concerned to meet the economic complementarity factor requires a discussion first.

Leftwich (2004b: 103) claims that “politics comprises all the activities of cooperation, negotiation and conflict, within and between societies, whereby

people go about organising the use, production or distribution of human, natural and other resources in the course of the production and reproduction of their biological and social life”. That is to say, resources can be anything, “both material and non-material, that people use to further their own desired ends as individuals or collectively in groups (*ibid*:106). According to this definition, the resources that SREZs members are concerned to meet the economic complementarity factor can be human resources, foreign direct investment, natural minerals, land, technology, knowledge and so on. In order to develop a systematic analysis in all three cases, here we generalise all these possible resources into four categories: people (human resources), capital (foreign direct investment), natural resources (minerals and land), and technology (skills and knowledge). Moreover, through observing the changes or the moving of these four kinds of resources in the SREZs, the significance of the economic complementarity factor is expected to be revealed.

However, as pointed out in the literature, it is generally believed that economic complementarity can only be exploited when a favourable policy, profitable political environment, and well-constructed infrastructure are available (Chia and Lee, 1994:372.) In other words, areas that meet better business requirements, including workers, skills, and official support in infrastructure and land, are more likely to succeed in attracting investors as well as facilitating the movement of goods, people, and capital. Even though scholars have laid out key elements for successful SREZs, there are gaps in the existing literature: are these elements equally important in developing a SREZ? Or are some elements

more significant than the others? In order to fill the gaps, EGPIB factors were proposed as a ideal type to investigate the case studies in this thesis.

Since SIJORI is the pioneer of transnational sub-regional cooperation in the East Asia Pacific, it is important to understand how it was shaped. Therefore, we will start with history review in this chapter. The positive effect, interest conflicts, the involvement of key actors, and the interaction between micro-regionalism and micro-regionalisation in SIJORI will also be analysed later in this chapter. Furthermore, since it is the first case study in this thesis, a tentative research will be discussed in the last section to inspire further exploration in the following two cases.

History Review

Before going into deep discussion of our first case study SIJORI, it is important to look back at its backgrounds to understand the reasons it has come into being. Johor-Singapore-Riau SREZ, also known as Johor-Singapore-Riau Growth Triangle, Southern Growth Triangle (i.e. GT), SIJORI, JSR, or NusaTiga, was the first SREZ in Southeast Asia¹. It was officially proposed by Singapore Deputy Prime Minister Goh Chok Tong in 1989, aiming to transfer its labour-intensive industries to neighbouring areas. Unlike other traditional cooperation, this new form of sub-regional economic cooperation in ASEAN operates through cooperation in investment rather than through trade (Chia and Lee, 1994:366).

¹ (1) "Johor-Singapore-Riau Growth Triangle" is commonly used in Singapore.
(2) Southern Growth Triangle (i.e. GT) was brought up by Anwar (Anwar, 1994).
(3) SIJORI, an acronym constructed from the first two letters of Singapore, Johor, and Riau, was raised up by Indonesian Minister B. J. Habibie.
(4) JSR, was also coined by Habibie.
(5) NusaTiga which signifies "three areas" was brought up by Chief Minister Muhyiddin of Johor.

During the 1980s, Singapore was stricken with two economic transitions: the wages increase was much faster than the growth of productivity. Besides, the United States has no longer considered Singapore as a developing country that its trade privilege was cancelled in January 1989 (Peng 2002: 633). In the meantime, a perspective on pursuing foreign direct investment, export-oriented manufacturing in Malaysia and Indonesia has complemented exactly Singapore's need of shedding its labour-intensive industries. Thus, Singapore decided to move some of its firms to Johor and Batam where it could enjoy both cheaper labour and tariff favours, and concentrate its resource on developing higher-valued added manufacturing (Chen, 1995: 607) (See Map 4 below). And the cooperation allows Singapore to play a significant role in services as a regional headquarter for Multinational Corporations (MNCs) to oversee their firms in Johor or Riau (Ho, 1994: 43).

Map 4: The Location of SIJORI



Source: Triangulating the Borderless World: Geographies of Power in the Indonesia-Malaysia-Singapore Growth Triangle, p487.

The rationale for SIJORI was to make it possible the joint economic development upon resource complementarily and geographic proximity of the three geographic-close areas. Not quite coincident with the foundation of SREZs carried out mainly by private sectors, scholars like Chia, Lee, and others argued SIJORI was achieved because of the political commitment at the highest levels. Far before an official sub-regional economic cooperation mechanism was launched by Singapore Deputy Prime Minister Goh Chok Tong in 1989, the Indonesian Minister of State for Research and Technology, B. J. Habibie, who has responsibility for the development of Batam Island had already discussed the possibility of joint development with Singapore Prime Minister Lee Kuan Yew

in 1979. He stated that only if the neighbouring economies sought to link each other, could the area continue to grow without being bursted like a balloon. Thus, policies of free entry and exit of people, goods as well as services in the area were necessary (Habibie, 1992).

Such discussion was carried on at the meeting between Indonesia's President Suharto and Lee Kuan Yew, and had therefore resulted in deregulations of foreign direct investment on Batam, and the growth in economic relations in Indonesia. And ever since Suharto visited Malaysia in June 1990, the concept of the growth triangle was formally introduced by the endorsement of the heads of both governments (Chia and Lee, 1994:368-370). However, unlike Singapore officially advocated forming a growth triangle, or Indonesian government played an active role in building up the linkage mostly with Singapore, there is always natural economic connection between Singapore and Johor. Not much extra political contribution was made to enhance bilateral economic cooperation though.

SIJORI encompasses various economic, political, and social components. Although the official endorsement of increased cooperation at the highest levels are made by all three governments, scholars like Peng (2002:633-634) argues that economic interaction is mostly bilateral-- between Singapore and Indonesia, and between Singapore and Malaysia-- rather than a multilateral interaction among these three countries. There is yet no formal trilateral agreement. The only two formal documents signed by Singapore and Indonesia are not directly related to the "whole transnational sub-regional cooperation project" has outlined

the SIJORI is not a balanced triangle that the three involved economies all keep equally weighted relations with each other. In fact, the bilateral cooperation between Johor and Riau has lagged behind. Therefore, the focus of next section is the involvement of key actors in this transnational sub-regional cooperation.

The Involvement of Key Actors

As just mentioned, instead of being bound together with a formal trilateral agreement, SIJORI is an unbalanced growth triangle officially sustained by two formal documents both signed by Singapore and Indonesia. However, it is worth noting that Singapore and Johor have maintained a close relationship far before SIJORI was brought into existence. The fact that they are geographically closely connected has promoted a strong economic interaction between these two economies. For example, Johor became the first water supplier to Singapore. This case shows the dynamic relationship between the participants that their involvement in the SREZ is presented in different forms, either formal or informal. Therefore, this section is devoted to disclose the divergence and the similarity of key actors, as well as their involvement in the transnational sub-regional cooperation.

(1) Singapore and Johor:

Johor is in the north of Singapore. With 18,986 km² and 2.5 million population, it is the 2nd largest and one of the most developed states in Peninsular Malaysia (Chia, 2001). As said in the paragraph above, before the SIJORI was formed, Singapore has already developed a strong network with Johor, a province of Malaysia. In fact, because of the similar colonial background and geographical

proximity, the relations between Singapore and Malaysia were always tight. Nevertheless, the economic cooperation was hampered by ethnic and political tension after Separation in 1965 (Parsonage, 1992). Singaporean Second Industrial Revolution in the mid-80s, aiming to restructure manufacturing into high-value-added operation, was a turning point for re-warming mutual economic relations. Cooperation was carried out between the Malaysian Industrial Development Authority and Singapore's Economic Development Board as sequence to promote industrial relocation and tourism linkages (Strait Times, 14 November 1984). Several economic deregulations with Singapore were implemented by Malaysian government later on. And in 1988, the Johor state government announced a policy "twinning with Singapore", aiming to construct itself to be an industrialised economy by absorbing the capital from Singaporean investment and tourism. Such policy has resulted in a dramatic consequence that the investment from Singapore to Johor has increased 200% at the same year (Parsonage, 1992: 309).

However, after the success of attracting investment, Johor has faced the shortage of infrastructure and labour force that it has to construct a second causeway, which includes enhanced rail and ferry links. Such a construction has symbolised the trend Johor is seeking wider and deeper cooperation with Singapore.

Other cooperation includes a Memorandum of Understanding achieved by two governments in 1989 for the purpose of assuring that Singapore's access to Johor's water and Malaysian gas. Moreover, in the same year, the Joint

Committee on Business Cooperation was established to facilitating mutual tourism and business (The Star, 1989).

(2) Singapore and Johor:

Riau island is in the south of Singapore. It is a part of the larger Riau province, one of Indonesia's largest producers of oil and natural gas. Riau province includes Central East Sumatra and Natuna Islands. The total population is 3.5 million. The archipelago has over 3000 islands, but the population of larger islands such as Batam, Bintan and Bulan are quite few (Chia, 2001).

Indonesian President was first persuaded to liberalising the investment regulations in Batam in 1989 (Strait Times, 1989). The deregulation allows foreign investors to retain 100% equity in Batam for five years, and only 5% is to be transferred to Indonesian investors after then. Batam Industrial Park for international investors, a joint venture of Singapore and Indonesia, was founded in 1990, which both Indonesian political and economic elites were highly involved. It emphasised on attracting electronic and light industries, which the growth is constrained in Singapore due to the labour shortage. And up to 8,000 contracted workers from other parts of Indonesia are accommodated in dorms (Economic Bulletin, 1990). Companies like Philips, whose regional headquarter maintains in Singapore, still preferred to have their R&D centres in Singapore in order to enjoy the skilled engineers and government support, and transfer those labour-intensive business to the other wings of SIJORI.

Besides industrial items, there was also cooperation in tourism. “Bintan Resort Development” based on Bintan, next to Batam and was two and a half times bigger than Singapore, was developed later on. A “mega-resort” with condominium complexes, hotels, a golf course and marinas was included in the development project by a Singaporean and Indonesian joint venture. Similar to Batam, the Indonesia elite were very much involved in Bintan Resort development. A good example is that the Indonesian Navy Foundation had the majority equity in the development project (Straits Times Weekly Overseas Edition, 1991).

Water sale was another cooperation item. A water Pact was signed in June 1991 to develop water resources in the Riau province. Such pact ensures that industrial and tourist sectors planned for Batam and Bintan will have sufficient water, and is especially crucial to Singapore that it has an alternative water source other than just Johor. In other words, it could reduce Singapore’s dependence on Malaysia.

Analysis of the Case

In this chapter, the history review was provided in the first section to reveal why and how SIJORI was established. The background information of the participants, and the involvement of the key actors in the case were introduced in the second section to describe the dynamic process of SIJORI. Since it is one of the three case studies which forms the subject for comparison in the end of this thesis, in this section, I use the EGPIB factors as the criteria to make systematic analysis on the case with the anticipation that the findings from this case can answer the

research question: what accounts for the establishment and the transformation of the SREZ? In addition to that, what can transnational sub-regional cooperation contribute to region-building in the East Asia Pacific?

(1) Economic Complementarity

First of all, when it comes to economic complementarity, we must ask two questions: first, what economic resources do the members have? Second, in SIJORI's case, have the members satisfied each other's desire for technology-intensive and capital-intensive manufacturing? In the beginning of this chapter, we have clarified what resources mean in economic complementarity, and generalised possible resources into four categories: people (human resources), capital (foreign direct investment), natural resources (minerals and land), and technology (skills and knowledge). Under such definition, we can now identify what resources do the members of SIJORI have, and answer the question: are they satisfied with exchanging economic resources?

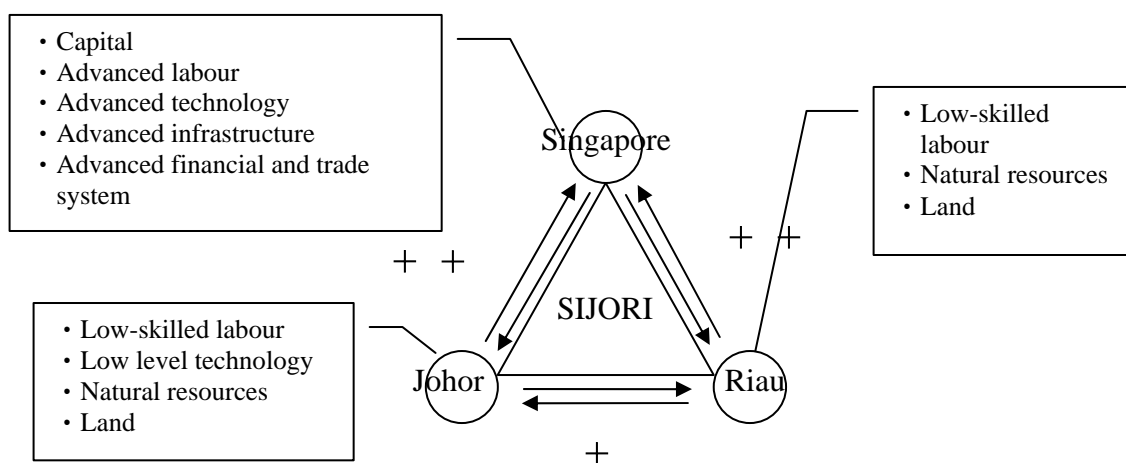
From the second section in this chapter, we realise that SIJORI was composed of fairly well-developed urbanised areas, with abundant "soft resources", as well as less developed low-income areas, with capable "hard resources". In such transnational sub-regional cooperation Singapore was considered the higher level in terms of technology, having better quality in service, and more experiences in personnel. These characters have made Singapore comparatively capable to offer operational, logistical, and managerial networks to the neighbouring areas. Johor and Riau, on one hand, needed these

support that Singapore could offer; and on the other hand, were capable to provide abundant land and labour force for return.

Figure 4.1 below provide us an integrated concept about economic complementarity in SIJORI. Singapore, as the higher tier in this SREZ, has found its perfect complementary partners. The economic complementarity it has with Johor or Riau are fairly strong. Singapore could have just chose not to join a SREZ but still to enjoy the economic benefit from Johor, for example, since they always have strong economic ties with each other way back in the history. However, it was Singapore's will to make this SREZ happen-- Goh Chok Tong, the Deputy Prime Minister of Singapore, officially proposed the transnational sub-regional cooperation in 1989. There can be two possible answers to this: first, it was to pursuit greater economic profits; and second, it was to secure its resources supply.

As we can see, Singapore is a very tiny country with a limited number of residents and almost no natural resources. The only economic activity that does not necessarily require land, natural resources or a large number of labours is financial capital-related business. Therefore, it makes sense that Singapore is devoted to investing in nearby areas in exchange for other resources. Although Singapore shares close relationship with Malaysia in terms language, cultural, and economic connection, they are not always politically harmonious with each other. Thus, Singapore must concern a back up plan to secure its access to resources. And the next geographically close economy is Riau.

Figure 4.1: The Economic Complementarity in SIJORI



* “+” means there is positive economic complementarity exists between two participants. The number of “+” refers to the tense of economic complementarity.

In addition to economic concerns, Singapore may also have a political reason for doing so. As what mentioned earlier in Chapter One, in most cases, political concerns and economic concerns are tied up together in dealing with international affairs. They can hardly be separated from each other and act as one single factor in the international society. In SIJORI’s case, the central governments of three participants may want to raise their influence in ASEAN by forming an economic bloc through sub-regional cooperation. However, since the main concern of this research is on the establishment and transformation of a SREZ and its relation to East Asian integration, I provide such opinion only for reference but will not go beyond the point to prove it in thesis.

As for the relationship between Johor and Riau, their economic interaction is comparatively weak. The reason to this fact can be explained if we can answer the two questions asked in the beginning of this sub-section: what economic resources do they have? Have they satisfied each other's desire for resources? The resources these two members have overlap completely with each other. Therefore, the economic complementarity factor has well-explained why there is no further economic activity developed between Johor and Riau in SIJORI, and has proven itself an determinant factor in initiating transnational sub-regional cooperation.

Moreover, SIJORI shows a clear flying geese pattern with Singapore, the higher, acting as the leading engine in the project. It echoes to our discussion in Chapter Two that in the course of pursuing regional integration, countries taking a flying geese pattern can generate spill-over effect. It seems to work in the same way to the economies taking a flying geese pattern in the transnational sub-regional cooperation. However, such statement can only be proven true if two following evidences are available: first, the expansion of the cooperation; and second, same pattern is found in next two cases.

In this research spill-over effect is defined as the expansion of the transnational sub-regional cooperation in three aspects: geographical, economic, and political. If the SREZ has expanded its embraced territory to a wider range, this is seen as spill-over effect. Also, if the members of the SREZ have engaged in more economic activities with more economies, it is considered spill-over effect. Moreover, if the members of the SREZ have their interaction increased

from pure economic affairs to political matter, such as coordinating policies or signing official agreements, that is definitely spill-over effect. These criteria are to be applied to TRADP and SC SREZ in the next chapters.

Furthermore, Singapore provides invisible resources such as capital, knowledge, and technology; while Johor and Riau provide visible resources such as land and people. Therefore, the physical areas of SIJORI are in Johor and Riau. It makes more sense and is more likely to measure the economic growth in Johor and Riau. This concern should be applied to the following two case studies too.

(2) Geographical proximity

Geographical proximity is a crucial factor reduces transportation costs, and furthermore, facilitates cooperation among the member states. The empirical studies discussed previously in the literature review have shown that states, under the principle of the rational choice, tend to trade with neighbouring countries as transportation and communication costs are more likely to be minimised (Summers, 1991). In other words, the lower transportation costs a SREZ could offer, the more investment it could attract.

In this chapter, geographical proximity is definitely one important reason. However, as we said when making analysis on economic complementarity, we realise that geographical proximity is not as significant as economic complementarity is in establishing a SREZ. Otherwise, Singapore would have stuck its cooperation with Johor only.

(3) Political commitment and Policy coordination

Although market and private sectors are the main driving force in most SREZs, the endorsement of central and local government in implementing appropriate policies relating to tariffs, employment regulation, real estate, finance, foreign investment, and foreign exchange is very helpful in facilitating the growth of the SREZs. For example, with the government's commitment and involvement in relaxing regulations on foreign direct investment in Batam, allowing 100 percent foreign equity ownership, local processing of investment applications, and establishment of industrial estates by private sectors, Chia and Lee argue that Indonesia has attracted investors' attention as well as their desire in this area (Chia and Lee, 1994: 375-376).

In SIJORI, Singapore has playing an active role in proposing the sub-regional cooperation. Such proposal was approved by Mohamad Mahathir and Mohamed Suharto. In other words, it was three central governments efforts to make SIJORI happen. Singapore remains enthusiastic all the way through the progress. As for its relations with Malaysia and Indonesia, there was direct contact between Johor government-Singapore and Riau government-Singapore after SIJORI was official set up. A strong micro-regionalism is presented in this case.

(4) Infrastructure Development

As mentioned earlier, instead of launching a national-wide cooperation with contiguous states, only the local part of a country is engaged in a transnational sub-regional cooperation. Infrastructure development is also a very important

condition which could lead to smooth development of a SREZ. The infrastructure in Singapore is very well developed. However, as we have addressed in this section that the physical areas of SIJORI is in Johor and Riau, it is how well these two areas' infrastructure are that matters.

The basic infrastructure in the areas engaged in sub-regional cooperation were well-developed. It was especially obvious in Johor. Relatively speaking, some infrastructure projects are still required in the Batam Industrial Park and in the Bintan Integrated Development Project area though.

(5) Business networks

The logic for "Growth Triangle" is that a cooperation project with three participants can create more complementary advantages than that with two. However, it is not always a positive force to have large number of member states participating in a SREZ. Weatherbee (1995:425-426) claims that the more participants, the more conflicts over interests and policies would be raised to hinder the development of a SREZ. Looking back to the case of SIJORI, such transnational sub-regional cooperation embraces only three members is a good example in response to the viewpoints above. It also responds to Peng's suggestion that the pragmatic way of a SREZ is to involve fewer members in the initial stage and expand it to a larger scale afterwards (Peng, 2002: 640).

There is a fairly strong micro-regionalisation in SIJORI. The business networks in SIJORI are mostly from Singapore. As demonstrated earlier in this

sub-section, Singapore is acting the role of provider, infusing financial capital, knowledge and technology into Johor and Riau. However, given its small population, its business networks may not be as influential as, for example, Chinese business networks.

Analysis on Data

This section continues to analyses the economic data collected from SIJORI. In Chapter Three, the research limitation on data-collection has been addressed. In this thesis, I have done my best on collecting primary data. However, appropriate secondary data would also be used when the primary data is not available.

As said earlier, Johor and Riau are the physical areas of SIJORI. It would make more sense to explore the economic data in this area than to assess “invisible” data of Singapore. There are 4 tables presented below regarding to the economics of Johor and that of Riau. From Table 4.1 to Table 4.3, both Johor and Riau have presented stable but slow economic growth in successive years. As discussed in Chapter One, many East Asian economies take part in cross-border subregional cooperation for the purpose of attracting Foreign Direct Investment, which may not necessarily come from the member partners. For example, some SREZs in Southeast Asia are established by countries that are equally economically under-developed. However, the purpose of setting up the sub-regional cooperation is not to attract foreign direct investment from each other but to develop the area by taking comparative advantages from each other. Once the area is properly developed, it will attract foreign direct invest those from outside the region. Meanwhile, the economic growth of the members and

the sub-regions is still considered the achievement of participating in the sub-regional cooperation.

Table 4.1: Gross Domestic Product in Johor, Malaysia at Constant Prices (2000 = 100), 2005 – 2007

Year	Gross Domestic Product by State RM (Million)			Gross Domestic Per Capita by State RM (Million)		
	2005	2006	2007	2005	2006	2007
Johor	44,276	46,498	48,044	15,520	16,074	17,802
MALAYSIA	449,250	475,525	504,919	19,996	21,563	23,544

Source: various years from 2005 to 2007, Department of Statistics, Malaysia
<http://www.epu.gov.my/nationalaccounts>

Table 4.2: Gross Regional Domestic Product at Current Market Prices In West Sumatra and Riau, Indonesia 2004 - 2008 (Million Rupiahs)

Province	2004	2005	2006	2007*	2008**
West Sumatra	37,358,645.93	44,674,569.24	53,029,587.57	59,799,045.30	70,614,210.04
Riau	114,246,373.66	139,018,996.15	167,068,188.89	210,002,560.30	276,400,129.95
Total of 33 Provinces	2,210,818,376.42	2,669,975,426.73	3,118,121,114.98	3,536,797,375.84	4,204,359,374.23

Note: *) Preliminary Figures

***) Very Preliminary Figures

Source: various years from 2004 to 2008, Indonesian Central Bureau of Statistics,
<http://www.bps.go.id/eng/>

Table 4.3: Percentage Distribution of Gross Regional Domestic Product at Current Market Prices by Provinces, 2004-2008 (Percent)

Province	2004	2005	2006	2007*)	2008**)
West Sumatra	1.69	1.67	1.70	1.69	1.68
Riau	5.17	5.21	5.36	5.94	6.57

Source: various years from 2004-2008, Indonesian Central Bureau of Statistics,
<http://www.bps.go.id/eng/>

As addressed in Chapter Three, one of the research limitations in this thesis is about data-collection. In this case study, it is difficult to collect first hand data in person when being outside of the SIJORI sub-region. Therefore, the collecting of the primary economic data can only rely heavily on the information published on these members' official websites. So far, Table 4.1, Table 4.2, and Table 4.2 on the last page have included the most recent official data that are available. One can always check up for updated data on the website of the Department of Statistics of Malaysia and Indonesian Central Bureau of Statistics for continuous study.

Table 4.4 below is the latest economic data of Batam in detail which was last updated in 2010 by Batam Industrial Development Authority. It shows the investment on Batam is mostly from the domestic. Meanwhile, the government also keeps stable investment. The ratio of government to private investment is almost the same over time. Overall, the economic development in Batam is stable, yet, slow in progress.

Table 4.4: Indicators of Batam Economic, 2004-2009

INDICATORS	Remarks	2004	2005	2006	2007	2008	2009
Investment	US\$ Billion	11.53	11.89	12.42	13.08	13.34*	-
Government Investment	US\$ Billion	2.28	2.34	2.45	2.61	2.77*	-
Foreign Investment	US\$ Billion	3.81	4.08	4.47	4.76	4.85*	5.60
Domestic	US\$ Billion	5.44	5.47	5.50	5.71	5.71*	5.72

Investment							
Ratio of Government to Private Investment	Ratio	1 : 4.06	1 : 4.1	1 : 4.07	1:4.01	1:3,81*	1 : 3.95*
Gross Domestic Regional Product (current price)	Trillion Rupiah	22.16	25.90	29.22	33.02	-	-
Economic Growth	Percent	7.46	7.65	7.47	7.51	-	6.50*
Foreign Companies	Companies	750	813	894	973	1,015	1,094
Small & Medium Enterprise	Companies	9,810	10,020	9,900	9,900	-	-
Population	People	591,253	685,787	713,960	724,315	791,608	988,555
Indonesian Work Force	People	221,163	221,391	252,667	240,509	246,638	260,350
Foreign Work Force	People	3,097	2,988	3,464	3,348	3,995	5,081
Comparison Percentage of Work Force to Population Growth	Ratio	1 : 2.64	1 : 3.05	1 : 2.83	1:2.97	1:3.21	1: 3,72
Transferred Funds to Worker's Families	Billion Rupiah	147.50	161.68	188.35	189.96	113.34	-
Tax Revenue From Batam	Billion Rupiah	1,033.52	1,233.70	1,544.86	1,806.08	1,213.90	1,951.49
Regional Revenue	Billion Rupiah	164.16	178.28	229.99	273.62	147.64	1.166,47
Non Oil & Gas Oil Export	US\$ Billion	4.07	5.24	3.869	6.06	3,12	5.75
Foreign Visitors	Visitors	1,527,131	1,043,418	1,012,711	1,077,306	521,357	951,384
Foreign Visitor Revenue	US\$ Million	468.56	250.93	221.15	305.00	-	268,46
Paved Roads	Kilometres	1,154	1,154	1,167	1,119.50	-	-

Electricity	Mega Watt	445	405	461.62	468.41	459.81	522.81
Fresh Water	Litre/Second	2,100	2,100	2,100	2,127	2,343.34	2,351.79
Star Hotel	Hotels	38	43	43	52	56	56
Inflation	Percent	4.22	14.79	4.54	4.48	5.94	1.88

Source: various years from 2004-2009, Batam Industrial Development Authority, http://www.batam.go.id/home/eng/indikator_ekonomi.php

The slow growth shown in these 4 tables (i.e. Table 4.1 to Table 4.4) has pointed out one problem: the business networks in this sub-region are not strong enough to keep this SREZ going. After adopting micro-regionalism for decades, SIJORI has finally come to a stop point.

Criticism

One of the research purposes in this thesis is to explore whether transnational sub-regional cooperation can result in integration. The rationale is that since each participant can benefit from complementary resources and comparative advantages, they may therefore be willing to engage in expanding the cooperation to obtain more interests. The expanded cooperation may eventually diminish the divergences between participants and achieve integration.

However, as for SIROJI, an invisible risk is that the economic development of Johor and Riau, limited to labour-intensive business has trapped them into relying heavily on Singapore for higher-level business. As a result, they are incapable of making the transition to higher value-added production themselves. Thus, the interaction among SIJORI members can hardly be defined as

“interdependent” relationship. Peng (2002:618 and 633-634) also argues that there is uneven development within SIROJI, and the communication between Johor and Riau is extremely weak.

It seems Singapore is the only one that can benefit from both other participants at the same time as it cooperates simultaneously with Johor and Riau for an inexhaustible supply of land and water. As discussed in the second section of this Chapter, SIJORI is carrying out a small scale of “flying geese” development model which Singapore plays as a leading engine to enhance an overall growth. Nevertheless, it could also turn out that Singapore enjoys its hegemonic position and makes its growth much faster and wider than the other participants. In other words, instead of shaping the SIJORI area as a whole, it will sharpen the development gap between participants and increase barriers for integration.

In addition to that, SIJORI could also have raised domestic problems and such intrastate crisis may have affected the unification within a nation. Peng (2003) argues that “skewed income distribution” will cause both social and political problems especially in Malaysia and Indonesia. As the growing speed is much faster in Johor and Riau than in inland, the per capita income gap between these areas and inland is increasing. Thus, Johor and Riau seem to form their own independent system and drift away from the mainstream of the national economics. Take Johor as an example, it is getting more and more oriented towards Singapore rather than the federal government in Kuala Lumpur. As the dominant political party UMNO (United Malays National Organisation) has a

strong connection with Johor², it may turn out that Malaysia's political economy shifts southwards to Johor, and Kuala Lumpur becomes the periphery instead of being the core.

A large number of temporary labour immigration across and within SIJORI borders is criticised as another issue that would trigger social and political conflicts. For example, according to Johor state government estimation, nearly 35,000 workers commute from Johor to Singapore through the causeway bridge for work everyday (Ho, 1994: 42). However, as Singapore believes these foreign labours, essentially non-Chinese, could result social problems, it tries to keep inter-state and intrastate unskilled labour controlled in its "playground", either in Johor or in Riau but just outside its boundary. It also reveals a fact that ethnicity in Southeast Asia not only influences national, regional, or even international politics, but also economics and social affairs. For instance, Parsonage (1992: 316) argues that political and economic issues are often articulated with ethnic mobilisation. In SIJORI case, Chinese has played a prominent role. Although Chinese is the minority in Malaysia and Indonesia, the value of local Chinese capital and the need to reduce the gap between local and Chinese communities are stressed by both governments.

Finally, it can be seen in the practice of a SREZ that the more developed economy like Singapore is a player of "hollowing out" industrial capacity in the case, while less developed economies such as Johor and Riau involve more in acquiring and improving of technology. With the increasing interdependency

² Johor is the birth place of UMNO (Parsonage, 1992: 314).

between the participants, national borders of these three economies are no longer prominent. In other words, transnational sub-regional cooperation as a positive force for binding the contiguous nations together is therefore reflected in the case of SIJORI.

SIJORI based on the fact that it has achieved most of its goals set for the cooperation, it should be considered a successful experience of transnational sub-regional cooperation. However, SIJORI seems to have reached its limitation. The economic growth is getting slowly. The involvement of both governments and business networks seem to have lost their enthusiasm. Some conflicts between these three member states remain unsolved.

Taking Singapore and Malaysia for instances, some persistent conflicts have not yet alleviated though. The main issues are as followed: the cost of water, the territorial dispute, and the building of a new causeway³. Others may argue that these persistent disputes are the hindrance for either even deeper integration or expansion of SIJORI as the mutual trust can hardly be founded for further cooperation.

Water trade is the main cooperation item in SIJORI. The original water trade agreement between Singapore and Malaysia is about to expired in ten years and a new treaty is being discussed. Malaysia claims to raise the price up to 50 times than the original price which is far beyond what Singapore can accept. The bargain has been ongoing for ten years already. Although Singapore can have an

³ Further information can be found on:
<http://202.186.86.35/news/story.asp?file=/2004/2/2/nation/7227815&newspage=Search>

alternative to buy water from Indonesia, the cost is much higher to build up pipes due to the farther distance. Besides, Indonesia is brewing to raise the price of water too. Thus, Singapore has been carrying out project of purifying sea water and used water, sewer water and toilet water for example, in the last two year to decrease the need of huge amount of water from either Johor or Riau. However, the result has not prominent yet.

Summary:

This empirical research aims to explore the dynamics of transnational sub-regional cooperation and its relation to economic integration in the East Asia Pacific through examining three case studies. This chapter is the first case study in this thesis.

SIJORI was the pioneer of transnational sub-regional cooperation in the East Asia Pacific. In this chapter, we have examined the involvement of the key actors and found out the unbalanced relationship between Singapore-Johor and Singapore-Riau cooperation. The former one was based on already-growing economic network, undertaken by the private sectors; while the latter one, with weak market forces, was promoted by official policies.

Even though the nature of SREZs is informal, SIJORI is supported with political endorsement at the highest levels. It has lots of potential to overcome the shortages of power, water, telephone services, slow labour recruitment, cumbersome customs, immigration procedures, as well as re-evaluating the present policies.

Although SIJORI was demonstrated as a successful cooperation experience, some on-going problems remain unsolved. The major factors which hinder the SIJORI from further development can be described from two facets: political conflict which leads to languishing economic cooperation, and ethnic difference which provokes social problems. However, it is highly possible that political and ideological barriers can be weakened by sharing comparative economic advantages and ethnic ties.

According to Chen (1995: 614), “the integration of global and domestic capital can strengthen the political and administrative autonomy of provincial and local government at the expense of the central government”. Over the years, many SREZs were carried out simultaneously all over the East Asia Pacific but only a few have achieved expansion. According the definition set in this chapter, such expansion could be the basis for substantial integration. Those growing cases may not have strong spill-over effect, expanding the projects to broader areas directly; they may have inspired the emergence of other SREZs and become the leading force for future regional integration in the East Asia Pacific.

Although there is no following projects for full-scale integration, SIJORI has already fulfilled its original goal set for three involved economies and shall be taken as a successful, yet, not an on-going case of sub-regional cooperation. In short, the members of SIJORI have their economic affairs much more integrated after taking the sub-regional cooperation. SIJORI was prosperous

because Singapore, the leading engine, has provided strong logistical support and abundant capital in the project. Nevertheless, it has now gradually come to a stop.