CHAPTER IV

GENESIS AND EVOLUTION OF GROWTH TRIANGLES IN ASEAN

The Southern China Growth Triangle, which had gone into operation in the early 1980s, had demonstration effect on the political and corporate leaders in some ASEAN countries, particularly in Singapore. More importantly, however, there existed certain objective pull and push factors at the national, bilateral, regional and global levels for some ASEAN countries to forge economic co-operation among three or more of them in a more localised manner. The impulses were both market-driven and government-led. There emerged three growth triangles in the region of the old ASEAN since 1989. The Southern Growth Triangle, popularly known as SIJORI (Singapore-Johor-Riau Growth Triangle) but officially called the Indonesia-Malaysia-Singapore Growth Triangle (IMS-GT), links Singapore with Malaysia's southern most state of Johor and some of the Riau islands of Indonesia. Later on more states of Malaysia and provinces of Indonesia were included in the IMS-GT catchment area. The Indonesia-Malaysia-Thailand Growth Triangle (IMT-GT), also known as the Northern Growth Triangle, consists of the northern parts of Malaysia and Indonesia, and the southern part of Thailand. And the third sub-regional economic zone, called the East Asean Growth Area (EAGA) but better known as the Eastern Growth Triangle, connects together the geographically proximate areas of Indonesia, Malaysia and the Philippines, and Brunei.

Three trends in the global economy since the late 1980s are relevant to the emergence of growth triangles in ASEAN. The first is the growing protectionism in the OECD countries manifested in the European Union and NAFTA, despite the parallel rise of WTO. Secondly, the surplus capital in Japan and in the NICs of East Asia appreciated after the Plaza accord of 1985 was ripe for investment in suitable overseas locations. And
thirdly, there emerged competitors for ASEAN in the countries like Mexico in terms of attracting foreign direct investment. The message for the ASEAN was to consolidate its ranks in terms of economic co-operation. But then intra-ASEAN economic performance has not been so enviable over the last three decades and already there was the concern over its slow pace and over the ASEAN principle of consensus as a factor inhibiting quick decision on any matter, particularly economic in nature. So it was imperative on the part of the ASEAN members to accelerate the pace and to expand the scope of intra-ASEAN economic co-operation.

Cognisant of this urgent need, the ASEAN Foreign Ministers felt in 1990 that it was timely to take more concrete steps towards more effective intra-ASEAN economic co-operation. The Foreign Ministers also acknowledged the growing importance of the private sector participation in the dialogue process as well as in intra-ASEAN co-operation and expressed the hope that such participation would be intensified. This and the other mode and principles of intra-ASEAN economic co-operation later on found expression even at the ASEAN summit level. The Framework Agreement on Enhancing ASEAN Economic Co-operation of 1992, apart from having agreed to establish the ASEAN Free Trade Area (AFTA) within fifteen years and the ASEAN Preferential Trading

31. For that the intra-ASEAN economic co-operation has been minimal see Clifford Tan, "Growth Triangles from Several Angles: A NIE Perspective based upon Hong Kong-Guangdong Industrialisation", Paper presented at the Conference on Regional Co-operation and Growth Triangles in ASEAN, organised by the National University of Singapore, 23-24 April 1992, and Toh Mun Heng and Linda Low, "ASEAN Growth Triangles: Experiments in Cooperation, Complementarity or Competition?" Paper prepared for International Centre for the Study of East Asian Development (ICSEAD) Model Comparison Conference on Trade Development and Regional Groupings in East and Southeast Asia, Kitakyushu, 30-31 July 1992.


34. ibid.
Arrangements (PTA), contains provisions for private sector participation and, more importantly, for sub-regional economic arrangements.\footnote{35}

Sub-regional economic co-operation was easier among Singapore, Malaysia and Indonesia. For one, these three are more developed than the rest of the ASEAN members, and, secondly, Singapore has already had close business links with Malaysia’s bordering state of Johor and, to a much lesser extent, with some of the Riau islands of Indonesia. On the part of Singapore, the economic imperatives were much more fundamental and pressing. Unlike in the 1970s, the structure of the economy of Singapore had changed significantly in the 1980s, with financial and services sectors gaining more in prominence with higher value-added, necessitating its restructuring. This, in turn, sent wages and property value soaring, only to be exacerbated by labour shortage and an appreciating Singapore dollar in the City State. The cost of doing business in Singapore rose very sharply and the way out for the manufacturing companies was to go for horizontal linkages and "relocate some of their activities to other lower-cost locations in order to stay competitive".\footnote{36}

\footnote{35} Article 1(3) of the Framework Agreement lays down that "All Member States shall participate in intra-ASEAN economic arrangements. However, in the implementation of these economic arrangements, two or more Member States may proceed first if other Member States are not ready to implement these arrangements". Article 4 specifically stipulates that "Member States acknowledge that sub-regional arrangements among themselves, or between ASEAN Member States and non-ASEAN economies, could complement overall ASEAN economic cooperation". The Singapore Declaration of 1992 also highlights the nature of sub-regional co-operation that it would complement overall ASEAN economic co-operation. See ASEAN Documents Series 1991-1992, Supplementary Edition, ASEAN Secretariat, Jakarta, 1992, pp. 7-20.

Singapore was also facing recreational resources constraints. For lower costs of travel and transportation,\(^{37}\) the obvious choices before Singapore for the relocation sites were its most adjacent foreign lands, namely the state of Johor of Malaysia and the Batam island of the Riau archipelago of Indonesia. Land and labour were cheaper, and physical and 'software' infrastructure was much less developed there compared to Singapore's excellent infrastructure facilities and network of global links. Indeed, Singapore rightly claims to be the springboard for Asia-Pacific and the hub in the region with "an excellent location on strategic shipping lanes and a natural deep water port, and an infrastructure which manages to keep pace with economic growth. Singapore has led the way in the region in developing highly efficient port facilities, a superb airport, extensive road networks and world class telecommunications".\(^{38}\)

Indonesia and Malaysia, which have been doing otherwise well under their nationalistic strategy of import substitution until the recession of 1985/86, decided to improve the efficiency of their economies through liberalisation and deregulation in order to be more competitive with the outside world. Also, Indonesia had embarked upon a regional development plan about the same time. In response to such measures, foreign investments in the two countries grew rapidly. Johor, peninsular Malaysia's southern-most state that is just a causeway away from Singapore, wanted to benefit from its close proximity to the City State as well as from Malaysia's relaxation of foreign investment rules and regulations. Batam, which is only 20 minutes ferry ride from Singapore, also wanted to benefit from the factor price differentials with respect to the City State. The Multinational Corporations (MNCs) operating in the region were also interested in maintaining the capital- and

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knowledge-intensive operations in Singapore, and labour-intensive and spatially driven operations in Johor and/or in Batam.

4.1 The Indonesia-Malaysia-Singapore Growth Triangle (IMS-GT)

The market-driven forces of comparative advantages, stemming from the complementarity in the factor endowments and the proximity of the three areas, were not good enough for the emergence of a sub-regional economic zone. In view of the obtaining realities, a government initiative was launched by Goh Chok Tong, the then Deputy Prime Minister and the current Prime Minister of Singapore, stating in December 1989 that Singapore, Johor and Batam could form a "triangle of growth",39 and thus formalising the term "Growth Triangle". Thus was to be born the first growth triangle in ASEAN, to be known as SIJORI or the Southern Growth Triangle. The Johor Menteri Besar (Chief Minister) dubbed it as Nusa-Tiga, while B. J. Habibie, the Science and Technology Minister of Indonesia who eventually became his country's President, called it by the acronym of SIJORI. In 1994 it was officially named as the Indonesia-Malaysia-Singapore Growth Triangle (IMS-GT) as the catchment area expanded, involving Singapore, five provinces of Indonesia (Riau, West Kalimantan, Jambi, Lampung and South Sumatra) and four states of Malaysia (Johor, Pahang, Malacca and Negri Sembilang). The IMS-GT initiative was then to be followed by similar political initiatives by some other ASEAN member states. Malaysia floated the idea of forming the Northern Growth Triangle in 1992, while the Philippines mooted the same in 1994 for another such venture called the Eastern Growth Triangle.

Indeed, apart from the objective conditions prevailing then in the region and beyond, there were several other factors contributing to the initiative first by Singapore and then endorsed by Indonesia and Malaysia. Observers complimented not only the role of the governments and their foresight and vision, but also the personalities involved and their close

personal ties with each other and the timing of mooting the idea of sub-regional co-operation.\footnote{Linda Low explains how all these factors helped SIJORI to take shape. See Linda Low, "Governments to SIJORI", Asia-Pacific Development Journal, ESCAP, Bangkok, Vol. 3, No. 1, June 1996, pp. 1-19.}

4.1.1 Policy Framework

The IMS-GT was not a formalised economic co-operation arrangement in the sense the ASEAN or, for that matter, any other regional co-operation set up is. In fact, the idea was not to build a regime in its strict sense, not to speak of any supranational regulatory body. The idea has rather been for the government to play a facilitating role and create an enabling environment for the private sector to operate, the basic motive being reaping economic benefits for the country. In other words, the concerned governments are simply to provide a "facilitating platform" to the private sector. This apparently dictates that the institutional mechanism would not be strictly regulatory, with

Personality in this context seems to have two elements: the charisma of a leader and the personal chemistry in the relationship between the leaders of two or more countries. For example, if and when an initiative is taken by leaders like President Suharto of Indonesia, or Prime Minister Mahathir of Malaysia, or Lee Kuan Yew or Goh Chok Tong of Singapore, it is taken seriously by others in the region. Secondly, the relationship among the three heads of government, particularly between those of Indonesia and Singapore is warm and close. Mya Than and Bilveer Singh made reference to this factor to me during my interviews with them in Singapore on 4 and 21 November 1997 respectively. Several visits of Suharto and Lee Quan Yew to each other's countries took place since 1973. Eventually these visits matured into what Lau and Singh call a special "Pak Harto-Lee Kuan Yew rapport", which characterised the relationship between the two countries in the 1980s and early 1990s. They maintain that the excellent bilateral ties between the two leaders led to spillovers into areas such as politics, economics, military and even socio-cultural. See Lau Teik Soon and Bilveer Singh, "Singapore-Indonesian Relations in Perspective" in Lau Teik Soon and Bilveer Singh (eds.), Singapore-Indonesia Relations: Problems and Prospects, Singapore Institute of International Affairs, Singapore, 1991, p. 1. Singh added in his interview that the timing of Goh Chok Tong's initiative was just right given the events and processes taking place then in the region and outside as well as Singapore's own intentions and objectives.
binding legal norms and other provisions. However, the IMS-GT gradually assumed a semblance of a formal character. As such, the loose policy framework includes inter-governmental institutional framework, occasional missions to market the concept, dispute settlement mechanism, private sector business council, and national policy measures.

**Inter-governmental institutional framework.** The most important element in this framework is the political commitment at the highest level declared at the summits endorsing the idea of sub-regional co-operation and the subsequent development in this regard. The other institutional arrangements are the Tripartite Memorandum of Understanding (MOU), the bilateral agreement/understanding, the joint ministerial committee, the senior officials meeting, the sectoral working group, and the co-ordination board to assist countries willing to invest.

The political commitment of the three partner countries - Indonesia, Malaysia and Singapore - was manifested in the discussions between and among their leaders on the idea of sub-regional co-operation and then in its endorsement. For example, at a meeting in Brunei on 2 August 1989, President Suharto and Prime Minister Lee Kuan Yew discussed the possibility of encouraging MNCs, especially in electronics, to go to Batam by offering them terms and conditions similar to those in Singapore. Following this discussion, the Indonesian Cabinet decided to relax the rules governing foreign investment on Batam and, within a short span of time, Suharto informed Lee Kuan Yew of the decision while the latter visited Jakarta. Suharto, during his visit to Malaysia in June 1990, discussed the concept of SJORI with Prime Minister Mahathir Mohammad. They came out with an official statement endorsing the concept and agreeing that the three countries would work together for mutual benefits. President Suharto and Prime Minister Goh Chok Tong graced the grand occasion of the

41. This is taken from my interview with two Senior Executives of Singapore’s Economic Development Board (EDB) on 20 November 1997.

42. See Linda Low, *op. cit.*, p. 16.

completion of the first phase of the Batam Industrial Park (BIP) by opening it on 18 April 1992. It may be recalled that the concept of growth triangle was formally endorsed at the fourth ASEAN summit held in Singapore in January 1992.

It should be noted that initially the growth triangle was not based on any treaty or agreement among the three co-operating partners. However, there are three bilateral agreements between Indonesia and Singapore, and one MOU between Indonesia and Malaysia. In the presence of Suharto and Lee Kuan Yew on the Batam Island, two agreements were signed at the ministerial level between Indonesia and Singapore on 28 August 1990. One agreement provided the framework for the joint development of Riau province, while the other was on the promotion and protection of investments by Singapore-based companies in Indonesia, including Batam and the Riau region. The third agreement signed in June 1991 was on the development of water resources in Riau by Indonesia and Singapore jointly. The agreement stipulated guaranteed water supply for Singapore for fifty years.

The two sides also signed two Memoranda of Understanding. One was the Memorandum and Joint Venture Agreement signed on 11 January 1990 to form PT Batamindo Investment Corporation (BIC) and Batamindo Industrial Management (BIM). BIC owns and develops the park, and BIM constructs, manages and markets it. The other MOU was signed on 28 October 1991 for the development of Batam Executive Village, a luxurious residential-cum-resort project for tenants of BIP.44 An MOU was signed in 1996 between the provincial government of West Sumatra and the Johor State Economic Development Corporation (JSEDC) for the Padang Industrial Park in West Sumatra. The activities in the Park include electronics manufacturing, textiles, ceramics, food products, engineering, packaging and supporting industries.45 Economic co-operation between Singapore and Johor has been taking place for quite sometime, and the ties between them just got an additional push under the growth triangle scheme.

44. Linda Low, op.cit., pp. 16-17.

However, there was no formal understanding among all the three partners for several years since the concept of growth triangle was put into operation in 1990. It was only in 1994 when a tripartite Memorandum of Understanding was signed, officially naming the sub-regional growth area as IMS-GT and marking the second phase of such co-operation among the three. Under the impetus of this formalised tripartite endorsement, the area of operation of the growth triangle was expanded in 1996 into four more provinces of Indonesia (West Kalimantan, Jambi, Lampung and South Sumatra) and three more states of Malaysia (Pahang, Malacca and Negri Sembilan).

A framework for some sort of a loosely structured co-operation is provided by Joint Ministerial Committees, Officials Committees and Sectoral Working Groups for such bodies do discuss ideas and projects relating to economic co-operation between or among them. The three Economic Ministers meet annually, and they are assisted by Senior Officials of the Ministry of Trade and Commerce as well as by Working/Sub-Groups constituted sectorally. The Senior Officials and the Working Groups also have their own meetings. There are also Co-ordination Boards to assist countries investing and willing to invest in various areas of the growth triangle.46

Marketing the concept: In their bid to market the concept of growth triangle, and specifically to promote foreign investment, the partners in co-operation sometimes do undertake joint investment promotion missions overseas. Two Junior Ministers of the Ministries of Trade and Industry of Indonesia and Singapore led the first such joint mission to Osaka and Tokyo in Japan in December 1990. A second such mission took place in September 1991 when they visited Hong Kong, Taiwan and South Korea.47 These efforts worked as a marketing strategy, as they helped disseminate information about the growth triangle among potential investors and signalled that the concerned governments had enthusiastic support for the sub-regional co-operation arrangements.

46. This information was given by two Senior Executives of the EDB during my interview with them, as cited earlier.

47. Linda Low, "Government Approaches to SIJORI", op. cit., p. 17.
Although such efforts were thought to have contributed in terms of attracting foreign investment in the growth area, Malaysia was not particularly interested in participating in such joint missions abroad for investment promotion either bilaterally or trilaterally.

**Dispute settlement mechanism**: Since IMS-GT is apparently a government/public sector-led facilitating platform for private sector co-operation, and since it is not a supranational regulatory body created to administer such co-operation, there seems to be no formal dispute settlement mechanism functioning as such. In reality, however, there are three channels of communications operating as problem-solving mechanisms. The first is the bottom-up-and-top-bottom channel of communication. For example, when investors face any problems at the decision-making or operational levels, they tend to informally take them up with the concerned sector sub-groups, which would, if necessary, go up the ladder of hierarchy, i.e., to the Senior Officials level and then to the ministerial meetings. The process then would take the reverse direction with a decision on or redress to the problem(s). Notably, all this is done in an informal manner.

The second 'mechanism' is more of a direct and instant method of communication. And this takes place between businessmen/corporate representatives and the Officials and/or Ministers. As is well known as an ASEAN practice of economic diplomacy, businessmen/industrialists/investors usually accompany the Senior Officials or Ministers when they go to meet their ASEAN and non-ASEAN counterparts. Lots of queries are responded to and problems addressed on such occasions and gatherings. The other channel is, of course, political. This may be taken recourse to under extreme circumstances that would appear to threaten bilateral and multilateral co-operation and other ties.

**IMS-GT Business Council**: In order to safeguard the private sector interests as well as to promote co-operation among the national chambers of commerce and industry, a business council called the Indonesia-Malaysia-Singapore Growth Triangle Business Council (IMS-GTBC) was established on 5 March 1996. The Council was formalised first at the Senior
Officials Meeting and then at the Ministerial Meeting respectively on 6 and 7 March 1996.\textsuperscript{48} The arrangement helps run private sector operations as well as strengthen public sector-private sector co-operation.

**National policy measures:** The bilateral, multilateral and other inter-state institutional mechanisms have policy implications at the national levels of the concerned countries co-operating under the IMS-GT. Some of the sectors where policy implications are felt most are infrastructure development, movement of labour and goods, land tenancy and property rights, investment policy, housing and health, and tourism. A brief discussion is given below on each of the sectors.

**Infrastructure development:** Public sector investment is necessary for developing basic infrastructure like industrial estates, housing, transportation, electricity, water, and telecommunications. For example, both the federal and state governments have developed the basic infrastructure in Johor. But both the Indonesian and Singapore governments took up the initiatives for industrial and tourism development in Batam. The Singapore Government-Linked Companies (GLCs), like the Singapore Technologies Industrial Corporation and Jurong Engineering, along with Indonesia’s private company, called the Salim Group, formed a joint venture to develop the Batam Industrial Park. On the other hand, the Indonesian government, through the Batam Industrial Development Agency (BIDA), improved road, airport, port facilities, the delivery of electricity and water.\textsuperscript{49}


Movement of Labour and Goods: Co-operation in growth triangle calls for certain policy changes in the personnel movement and labour migration regulations at the national level as well as in the bilateral arrangements. For example, Indonesia has set up a recruitment agency in Batam, with a view to regulating labour migration from other parts of the country, their employment and residence requirement, and preventing poaching by their previous employers. Singapore imposes a stiff levy on all foreign workers, more so being on the unskilled ones. The objective is to enhance capital-intensive manufacturing in the City State. The policy, in force since the early 1980s, was modified in October 1997, the skilled workers having been the beneficiaries while the unskilled ones affected further. To speed up the entry of workers and other personnel through immigration, the use of "smart cards" has been introduced. Intensified and fast cross-border movement of goods calls for simplifying customs and immigration procedures. This was done with regard to the Causeway linking Singapore with Johor. A second Causeway, under a bilateral agreement between Malaysia and Singapore, was open to traffic in 1998.

Land Tenancy and Property Rights: These rights in Indonesia are different from those in Johor and Singapore, owing to the fact that the former follows the Dutch colonial laws while the latter the British colonial legal system. The laws in Johor and Singapore allow for freehold acquisition of land and its long-term leases, while the Indonesian laws do not permit freehold acquisition, and permit land tenancy normally up to 30 years with possibility for renewal. But attempts at harmonising these property rights policies do not appear to be on the agenda and the investors have to bear with the risk.

Investment policy: The growth triangle caused certain policy implications at the national level in terms of providing investment incentives, apart from the collective regional efforts at attracting businesses to the region. Mention was made earlier of Lee Kuan Yew's request to Suharto in August 1989 to offer more incentives to the foreign investors. In less than three months, the Indonesian Cabinet reviewed the country's

investment rules in Batam, under which foreign investors would enjoy 100 per cent foreign ownership for five years. Thereafter, they were required to divest 5 per cent, retaining 95 per cent of foreign ownership. Eventually, this requirement too was removed, permitting 100 per cent foreign equity ownership. Malaysia’s investment policies in Johor and Singapore’s investment incentives had already had 100 per cent equity ownership with full repatriation of profits.

**Housing and health:** This mainly concerns the areas of the growth triangle other than Singapore. For example, Johor and Riau had to take into account the problem of improvement of health, basic services, etc in its bid for rural development. In Batam, the government asked the private sector to build low-cost housing, while efforts have been made to provide affordable health care services and other utilities.

**Tourism:** This is a growing service industry. In order to develop this sector, the co-operating countries have had to improve upon their immigration formalities and customs bottlenecks as well as infrastructure facilities such as ports and airports, and recreational facilities.

All the above sectors are areas that demand constant policy attention, as they are evolving policy issues within the framework of sub-regional co-operation.

### 4.1.2 Areas of Co-operation

Currently, co-operation is conducted in five different areas, namely, manufacturing, infrastructure building, primary resources, human resources development, and tourism development.

The manufacturing sector includes a number of activities, both in public and private sectors. However, more prominent sub-sectors are electronics, metal products, chemicals, garments, transport equipment, oil-mining equipment, assembly of consumer products, air conditioners, automobile parts, surgical gloves, processed foods, etc. In the infrastructure development sector, industrial estates, industrial townships, resort development in the form of hotels, seaside facilities, golf courses, oil service and ship repair centres, airport and sea port
building, electric generators, dormitories for workers, telecommunications links, etc are worth mentioning. Primary resources, such as in agriculture, fishery and mining, are also being developed. In the Riau island of Bulan, agribusiness is done in pig and orchid raising and in crocodile and poultry farming. Some of the places in Johor and in the Riau islands have also been developed as tourist destinations.\textsuperscript{51}

Training of unskilled labour is a prominent area in human resource development. In November 1997, the National Development Minister and Second Minister for Foreign Affairs of Singapore, Lim Hng Kiang, offered his country's assistance to provide training opportunities for young Indonesians. He said that, in addition to training them directly in relevant employable skills, Singapore could help train them to train other Indonesians back home.\textsuperscript{52}

What has been the impact of sub-regional co-operation under the IMS-GT, i.e. how successful has the growth triangle been? The measure of success could be in terms of partner-wise and sectoral growth rate, trade volume, investment volume, number of tourists, rise in incomes, and employment generation. Regrettably, data on these indices of success were hardly to lay hand on to. One of the reasons for this could be that it is indeed difficult to quantify success in such terms and attribute it specifically to the co-operative efforts within the IMS-GT.

What, however, could be done under the circumstances is to comprehend and appreciate the extent of activities in the growth triangle by observing the increased political commitment of the three participating countries, and the consequent increase in the areas and extent of co-operation. The signing of the tripartite MOU, mentioned earlier, in 1994 was a glaring display of the political commitment at the highest level for further development of the growth area. Such commitment, particularly of Malaysia that was not particularly keen on the growth triangle in the beginning, attests to the fact that IMS-GT has been making progress in sub-regional co-operation. Mention was also made of the US$20 million Padang Industrial


\textsuperscript{52} \textit{The Straits Times}, Singapore, 10 November 1997.
Park in West Sumatra developed in 1996-97 by the state-owned Johor Economic Development jointly with the government of West Sumatra. This Park caters to the manufacturing, production and distribution of electronics, textiles, ceramics, food products, engineering, packaging and supporting industries.\textsuperscript{53}

### 4.1.3 Challenges

The IMS-GT, as an innovative venture for cross-border integrated development at the sub-regional level, has understandably been facing certain problems and challenges at various stages and levels of co-operation. These are operational, social, and political, occurring at the intra-country, intra-state, inter-state and sub-regional (tripartite) levels.\textsuperscript{54}

#### 4.1.3.1 Operational problems

There have been several such problems in the process of sub-regional co-operation in the IMS-GT. The first of them relates to the difficulties in terms of border formalities for both labour and

\begin{itemize}
  \item \textsuperscript{53} Linda Low's article in \textit{The Straits Times}, op. cit. The difficulty in gathering the latest and primary sources of information could have been alleviated, to a great extent, by extensive fieldwork to all the concerned countries but that was not to be, for lack of cooperation on the part of certain individuals in Singapore.
  

I gratefully acknowledge that this sub-section draws extensively on these works.
\end{itemize}
goods. Cross-border labour mobility is hindered by procedural delays and due to rent seeking. Malaysian labour policy tends to favour hiring of local skilled labour, resulting in difficulty for the skilled workers of Singapore. On the other hand, the Singapore authorities have imposed workers levy and ceiling on foreign workers brought by Singapore employers from other parts of the growth area, causing tremendous dissatisfaction in them due to consequential increase in the cost of training and decrease in the advantages of moving offshore. There has been a steady outflow of skilled workers from Johor into Singapore, causing labour shortage in the Malaysian state. This prompted calls for restricting labour movement from Johor to Singapore. There have also been discrepancies in transhipping facilities between the MNCs, and the small and medium sized enterprises; while the former have had no difficulty in doing so across borders, the latter have been subjected to such customs procedures that are not only time-consuming but some times also arbitrary.

How inter-state relations are affected by elaborate customs procedures are exemplified by the notorious traffic jams caused at the Causeway between Singapore and Johor in September and October 1997. The jams started when the Johor Customs and Excise officials clamped stringent checks on lorries to catch smugglers and tax evaders. The jams were also caused, among other factors, by the increase in the number of Singaporeans taking advantage of the weakened ringgit to shop in Johor Baru and the stepped-up GST checks by Singapore Customs on those coming back from their shopping trips in Johor Baru. Although the traffic jams were hurting businesses on both sides of the

55. "Keep our workers home - raise their pay: Umno leader". This was a prominent news headline in Singapore's Straits Times of 8 November 1997. An Umno politician has urged the Ministry of Human Resources to review the monthly wages of workers in the industrial sector to stop the exodus of Malaysian workers attracted by salaries offered in Singapore. Mohammed Zaid Mohammed Yusof, the Batu Pahat Umno Youth chief, is quoted as saying that the wages in Johor must be in keeping with the country's economic and industrial development. A factory worker in Malaysia earns between M$600 and M$700 in basic salary a month, while the minimum monthly salary of a factory worker in Singapore is about M$1,300. "As such, the government with the private sector, which invests in this country, should review the salary of industrial workers, including professionals, to bring it on par with that offered by the same company in another country. This move may help to halt the outflow of manpower, especially among professionals".


Causeway, Singapore tended to accuse the other side for the same. It went to the extent that the Chairman of the Economic Development Board of Singapore, Philip Yeo, had threatened to relocate companies operating in Johor if the disruptive Causeway jams would not ease. He said: "...if people are illogical, we'll just be logical [to relocate]."\(^56\)

As co-operative projects went into operation for some time in the growth triangle area, some of the original comparative advantages were found to have reduced mainly due to increase in labour and property costs caused by greater investments. Also, initially some investors incurred losses mainly due to labour productivity that had belied expectations. However, that phase is now over, as labour productivity has increased considerably, particularly in Johor. Sometimes infrastructure is found to be inadequate, given the investment boom and the accompanying rapid increase in population. Lack of harmonisation in guidelines, particularly investment regulations, bureaucratic red tapism, and rent seeking are some other operational problems often encountered. Until recently, co-operation within the IMS-GT had been mostly bilateral, the missing link having been the weak co-operative ties between Johor and Riau largely due to competitive rather than complementary nature of their factor endowments. There has been another difficulty, which is that it is easy to grant duty free status to islands like Singapore and Batam, but not easy for a state like Johor.

4.1.3.2 Social problems

These problems arise from several sources. They are the rising cost of living in Johor and Batam\(^57\), the inadequate

\(^56\) The Straits Times, 23 and 24 October 1997. Opinions were also expressed in the newspapers in Singapore suggesting to relocate the Singapore companies operating in Johor. One such opinion suggests, "Given the nature of such uncertainties in the relationship [between Malaysia and Singapore], shouldn't we review the composition of partners in the growth triangle?" See Boon Chuan Whee, "Johor-Singapore-Riau partnership: Relook growth triangle", The Straits Times, 10 November 1997.

\(^57\) This often creates pockets of inflation due to regional variations in income levels and due to price hike as a result of increased spending by foreigners. For example, prices considerably rise as Singaporean shoppers with their much stronger currency flock to Johor Baru and offer more for their
infrastructure in Johor and Batam, particularly housing and basic amenities, leading to mushroom growth of shanty towns around industrial townships, and the changing cultural-ethnic mix in towns and urban centres, due, for example, to the influx of workers from Java and Sumatra into the Chinese-dominated Batam. Sree Kumar maintains that the other factors contributing to social problems are the migration of young single female workers in large numbers to industrial locations, resulting in a precarious gender imbalance in the area, increase in crime rate and conflicts due to social imbalances, and increase in tourism-related prostitution.

4.1.3.3 Political problems

Political problems are seen to emanate from varying perceptions on the distributional aspect of the gains from co-operation, from historical memories, from geopolitics of the sub-region, and from some measure of divergence in the security perceptions of the actors concerned.

The benefit-sharing problem has three elements in it. The first is the difference in perceptions on the gains from the comparative advantage due to endowment factors differentials - which country gains what from the whole enterprise of the sub-regional co-operation. The second is the centre-periphery dichotomy - which state or province gaining what, while the third element is the ethnic dimension in the distribution of the gains.

There are perceptions prevailing in both Johor and Riau that Singapore stands to gain disproportionately more from the sub-regional co-operation experiment. They seem to resent their respective places in the international division of labour among the three. For example, Johor likens itself to be in a position to compete with Singapore in terms of being a location for high-tech manufacturing, growth of heavy industries, and being a purchases than do the locals. The locals cannot keep up with the price escalation. It has gone to such an extent that an official of Johor's Enforcement Division of the Domestic Trade and Consumer Affairs Ministry has advised Johoreans to stay clear of shopping on weekends when businessmen take the opportunity to reap benefits by jacking up the prices of non-controlled items, in order for them to avoid clashing with the visitors. See The Straits Times, Singapore, 14 November 1997.
tourism and services centre in its own merit. As an effort in this direction, Johor is building a new port at Tanjung Pelepas, near the second Causeway between Singapore and Malaysia, which may be an alternative to Singapore’s port due to its proximity to the industrial areas there. Malaysia hopes that, with the highly competitive cost advantage and modern facilities to be developed at the new port, it is possible that as a consequence of the second crossing international trade destined for Singapore, or originating from the City State, would choose Tanjung Pelepas. The Johor Chief Minister, Datuk Abdul Ghani Othman, has expressed the hope that the upcoming port would develop into a major transhipment centre and he has not denied that his government will take steps to encourage exporters to use the new port rather than Singapore. In fact, what he actually meant was that the relationship could be either "complementary or competitive".

It may be recalled that the Malaysian Prime Minister, Datuk Seri Dr. Mahathir Mohammad, had openly declared his intention in 1996 to make Port Klang the alternative Southeast Asian hub port to Singapore. This perhaps lends credence to the ‘theory’ that the real intention behind the Malaysian clamp down by its Customs, which hurt both sides of the Causeway because of unprecedented jams, was to encourage/force Malaysian traders to use Port Klang. The Causeway jams eventually subsided, but only after Malaysia seemed to have made the point vis-à-vis Singapore, which is that while Johor acknowledges the economic advantage of twinning with Singapore, as part of Johor’s long-term strategy, it does not want to be merely a repository of cheap land and labour.

Similarly, the same feelings seem to be shared in Indonesia too, where its position at the bottom line in international division of labour is resented, as it supplies unskilled and low-paid labour under the sub-regional scheme for the development of the Riau islands. Polin Pospos mentions about the resentment in some Indonesian circles that liken the forest investment in developing the industrial zones in some of the Riau islands to a new version of the old colonial ‘plantation economy’. It is also resented that the manufacturing industries in those Riau islands have not been a great source of foreign

exchange earner. It is argued that these islands have been nothing more than an export platform for the benefit of Singapore which takes advantage of the situation in order to maintain its international competitiveness.

As such, the argument goes on, the development of those Riau islands has been an opportunity cost for Indonesia, as it is not ‘local people friendly’ and it does not show tangible linkages with the people’s economy and improvement in the welfare of the people of the country at large. This is also reflective of Indonesia’s nationalist sentiments vis-à-vis Singapore that is perceived to be “controlling” and “managing” the Riau islands. Within Indonesia, there has been another criticism regarding the limited number of domestic participants in the development projects in the Riau islands. Only a few Jakarta-based groups appear to be actively involved in investments there.

Another distributional problem is related to the centre-periphery conflicting perceptions regarding budget allocation, the authority of decision-making, regulating and monitoring development issues, and prioritising developmental projects. Pospos, for example, again refers to a feeling in Indonesia, according to which what is taking place in that country under the IMS-GT arrangement is not regarded as regional development but as development in a region. And this clearly implies that one of the basic principles of the country’s development - equality in opportunities for all provinces for regional development - is not being observed. In other words, question is raised as to why priority should be given to a particular province when there are other less developed areas in the country. The national government in Jakarta oversees developmental issues under IMS-GT. For example, the task of developing Batam rests with the Batam Industrial Development Agency that comes under the direct jurisdiction of the President and whose budget is granted by the central government.

In Malaysia too, as Fatimah Abdullah writes, there are demands from other states for equal opportunities in receiving foreign direct investment and enjoying infrastructure development. The clamour is also for closing the widening gap between the per capita income of those states and that of the state of Johor by redistributing the latter’s benefits to the other deserving parts of the country. It should be noted here that,
unlike Batam or other Riau islands, Johor is an important state of Malaysia in terms of population (about 2.2 million), physical size (the second largest state making up large part of peninsular Malaysia), and strategic location due to its proximity to Singapore as well as being on the strategic sea lanes straddling the Malacca Straits. So whatever happens in Johor is often seen in the rest of Malaysia with suspicion as well as envy.

There is also another dimension to the federal-state relations in Malaysia. This relates to the legal jurisdiction in terms of the authority and competence of negotiating with other sovereign states like Singapore. Johor, being a constituent unit of the Malaysian federation, cannot make autonomous decisions without the federal government's approval except when it concerns land, religion, and the Malay culture. This often creates tension between Kuala Lumpur and Johor Baru in matters of selecting the sector of co-operation and/or project location and of official endorsement and action from the former. This problem has yet another facet, which is rather more fundamental. Indeed the issue of sovereignty raises another problem in that Singapore is a sovereign state whereas the Indonesian provinces and Malaysian states are just parts of sovereign states. Singapore has to wait for these federating units to get endorsement from their central governments for certain co-operative activity, resulting in unproductive delays in the whole process.

There are also views in both Indonesia and Malaysia that there is an ethnic dimension to the benefits from the IMS-GT. The criticism is clearly targeted at the Chinese groups who appear to dominate the businesses in Johor and the Riau islands. This often causes grumbling among the locals. This reminds one of the age-old Malay-Chinese schisms in this part of the world. With unmistakable reference to this, the Deputy Prime Minister of Singapore, Brigadier-General Lee Hsien Loong, said that the Singapore Government's clash with Tang Liang Hong and his Workers' Party in the January 1997 general elections over 'Chinese Chauvinism' had shown how the old pulls of race, language and religion were still alive. This ethno-religious divide sometimes tends to creep into the realm of

foreign policy and security perceptions in the whole exercise of sub-regional co-operation.

**Foreign and security policy aspect:** It may transpire from the above discussion that the growth triangles in East and Southeast Asia have been based primarily on economic logic and rationality. This is perhaps a bit too economistic. The questions that arise here are from a non-economist's perspective: Is the strategy of sub-regional co-operation an interest in itself or is it a policy? Whether the political and security interests of the concerned states have gone into the making of sub-regional development strategy? Several scholars tend to argue that sub-regional co-operation is a policy involving political and security interests in it. One of them contends that it is politics as well as economics that brought about the growth triangles. And hence, national leadership will support sub-regional co-operation if they see tangible benefits to the participating state and country and do not fear any competition or challenge to their national role and decision-making authority. In other words, there must be a convergence of national and sub-national interests.

From Singapore's perspective, sub-regional co-operation has been a security-enhancing exercise as well as a response to its economic imperatives, because it reduces the incentive to settle international disputes by military means. However, Bilveer Singh contends that Singapore's idea of growth triangle was essentially the result of its politico-security considerations, that it was primarily a politics-driven initiative with a market cover. He tends to argue that for Singapore, a City State sandwiched between two large Muslim neighbours - Indonesia and Malaysia, the underlying motive behind mooting the idea of sub-regional co-operation with these two giant neighbours is believed to have been gaining lateral access to neighbouring territories, indeed to strategic space through economics, by


sharing its prosperity with them, by making them dependent through interdependence, and thus deterring them.

He makes three points in support of his contention. The first is that Singapore's office for Batam affairs was first located in its Ministry of Defence, not in the Ministry of Trade and Industry. The second point is that Singapore got involved in strategic infrastructure building like airport and sea port building. Of course, these are needed for pure economic cooperation too, but the defence/security dimension of such infrastructure building cannot be altogether ruled out. And the third is that the role of the Singapore's government-linked company, called the Singapore Technologies which is known for its defence deals with the government of the Island-State, is rather prominent in the Riau islands either in manufacturing or infrastructure building.  

Indeed, Singapore's perennial worries about its larger neighbours were heightened with the latter's economic growth and stability over the last more than one decade. For Singapore, the growth triangle strategy, a strand in its grand strategy of regionalisation, appears to have been a part of its 'constructive engagement' with these neighbours, pursued with a view to intricately binding them with itself in economic development and thus dangling before them the incentive to remain on friendly terms with it. This is a strategic issue for the Island nation, as it is deemed to reduce the threat that her neighbours are perceived to pose to her.

Singapore makes another strategic gain from sub-regional cooperation in that it has diversified the sources of water supply it requires. Singapore, which has been buying water from Johor under the agreements of 1962 and 1990, has always been mindful of the implications of such dependence on Malaysia. Under the sub-regional cooperation scheme,  

62. This part on security is based on the author's interview in Singapore with Bilveer Singh of the Department of Political Science, National University of Singapore, Singapore.  
63. For similar views see "The Three-Cornered Bonanza", Asia-week, 29 June 1990, pp. 53-55.  
64. Water is a strategic material for Singapore. For the importance of water for the island see Jacqueline Lee, "Water as political weapon", The Independent, Dhaka, 10 September 1997.
Singapore moved quickly to have signed a fifty-year agreement with Indonesia for supply of water from the Riau island of Bintan. For Singapore, sub-regional co-operation in the form of IMS-GT seems to be bringing beneficial dividends, and the support for such scheme of co-operation is understandably the strongest in the City State, while it has been the weakest in Malaysia.

Malaysia cannot but be aware of these security considerations and motives of Singapore. Although wary of Singapore's move, Malaysia has taken the 'plunge' and joined the sub-regional co-operative venture out of several considerations. Mention has already been made above that Malaysia wants to build Johor as an alternative to Singapore. Another objective of Malaysia is to engage Singapore and make it dependent for its continued growth on co-operation with Malaysia. The 'Indonesia factor' also seems to have played a role in Kuala Lumpur's strategic calculus. Given the unstated rivalry between Indonesia and Malaysia for predominance in the region, the latter cannot afford to be left out on the fringe when the former is poised to enter into meaningful co-operation with Singapore.

Malaysia is pretty much sensitive about the 'Johor factor' in its relations with Singapore for historical and contemporary reasons as well as for the ethnic Chinese connection. Again, Mahathir's words are succinct here. He wrote: "Singapore belonged to Johor until the Englishman Stamford Raffles installed a puppet sultan, and obtained a dubious concession. The puppet was later dropped when his usefulness was over. The main reason for the British take-over of Singapore was the weakness of the state of Johor. It had nothing to do with legality. The fact that Singapore is now an independent state has nothing to do with the history of Singapore and Malaya..."

65. This view about Singapore is not new in Malaysia. Mahathir Bin Mohammad, Malaysia's current Prime Minister, wrote way back in 1970 that "In the Malay Archipelago, Singapore stands out like a sore thumb. Singapore's progress and prosperity must depend on, indeed must be at the expense of, her neighbours." "...Malaysia has gone ahead with preparations which will cause Singapore to lose importance as a trading partner and probably as a strategic defence base." See Mahathir Bin Mohammad, The Malay Dilemma, Times Books International, Singapore, 1970, 9th reprint, 1989, p. 187.
the case of Malaysia and Singapore, the effect of non-ideologicalism and similarity of governmental system is marred by factors of race and personalities which proximity reveals. Singapore is essentially a Chinese nation with racial minorities, composed of people who have racial ties with the people of Malaysia. Malaysia on the other hand is a multiracial nation. Malaysia thus looks upon Singapore as a primarily Chinese nation, while it accuses Malaysia of being a Malay state.  

Johor's ties with Singapore are strong and continue to grow stronger. Therefore, Malaysia's sensitivities about its southern state's closeness with the City State seem to continue unabated. Indeed, this is fuelled by a tendency of the Johoreans, particularly the Chinese segment, to look up to Singapore instead of Kuala Lumpur for economic leadership. Malaysia fears that economic interests could lead to political loyalties of the Johoreans buttressed by ethnic affinities with most Singaporeans. That Singapore gave the concept paper on growth triangle to the authorities in Johor, not to the federal authorities in the Malaysian capital, bore ample testimony to Kuala Lumpur's suspicions about the Singapore-Johor nexus.

Having said that, it should also be noted that Johor has its own fears regarding the nature of co-operation with Singapore, despite the former's economic advantage due to its proximity to the latter. Johor's views are abundantly clear from the words of its former Chief Minister, Tan Seri Muhyiddin. He said, "There could be some degree of complementary interest and support, but we don't want a servant-master relationship". Malaysia-Singapore relations also sustain occasional jolts due to the poor image of Johor in Singapore, manifested in the form of pronouncements made by some elder statesmen and in the media coverage in the Island Republic. It may be recalled that Singapore's Senior Minister, Lee Kuan Yew, stirred up a serious controversy in March 1997 with his description of Johor as "notorious for shootings, muggings and car-jacking" in his


sworn affidavit for a law suit he and his son, Lee Hsien Loong, had filed against opposition politician Tang Liang Hong. Malaysia responded by pouring out an unprecedented stream of vitriol before Singapore could realise that beneath the surface of the cordial, businesslike relationship between the two countries, a delicate mix of ethnic and economic tensions had been boiling. Lee Kuan Yew had to back down in the face of Malaysian protest. However, both the sides are still smarting under the long-term impact of the inadvertent statement.

Johor's relations with Singapore, and indeed the inter-state relations between Singapore and Malaysia, also tend to suffer due to the allegedly distorted reports on Johor in the island state's media.

Although Indonesian (former) President Suharto and Singapore's Senior Minister (former Prime Minister) Lee Kuan Yew have had very close personal relationship with each other for several decades, Indonesia seems to have its own security concerns in the whole enterprise of the Singapore-led sub-regional co-operation. The Indonesians have certainly not been comfortable with the fact that Singapore is the driving force behind the move for sub-regional co-operation. One military official in Jakarta expressed this uneasy feeling by saying: "Singapore will be the command centre" and "this may raise constitutional issues for us in the future." The "China factor" also has always been active in the Indonesian mind. A general feeling in Indonesia is that if Singapore is left alone, it may move closer to the lap of China, an eventually not quite palatable to

69. For details see Far Eastern Economic Review, 27 March 1997, p. 16.
70. Deputy Prime Minister of Singapore, Lee Tsien Loong, considers his father's remarks as Lesson No. 2 for Singapore in the year 1997, the first being the clash with Tang and the Workers' Party over Chinese chauvinism, as stated earlier. See The Straits Times, Singapore, 25 November 1997.
71. Blasting the Singapore media, the Johor Chief Minister, Datuk Abdul Ghani Othman, said: "When there is something bad, the Singapore media will blow it up to tarnish our image. We are happy we are also a developed state, but the Singapore press always focuses on the negative aspects". See The Straits Times, Singapore, 7 November 1997.
the other regional actors. So Indonesia tends to feel that it is better to keep Singapore engaged regionally.

However, the top Indonesian leadership broadly seemed to have been more supportive than the Malaysian one, though not enthusiastic, of the growth triangle venture because of its self-confidence in its power and as it intended to turn the situation in its favour in the regional context. Indeed, Indonesia is in a position to meet any possible threats from Singapore alone and, as Riau is too far away from mainland Indonesia, the threats, if any, may not be considered to be too serious and immediate. Furthermore, through a web of co-operative ventures, Indonesia might have decided just to get Singapore sucked into Jakarta's scheme of things in the sub-region/region.

A related issue here is national sovereignty. And the moot point is whether there is any loss of sovereignty in forging sub-regional co-operation. This may be looked at from two angles: one is the role of the state vis-à-vis the ongoing all-pervasive globalisation process, while the other is the role of the state in the context of sub-regional co-operation.

Although predictions on the demise of the nation state started some two hundred years ago, beginning with Immanuel Kant in his essay "Perpetual Peace" of 1795, through Karl Marx in "Withering Away of the State", to the speeches of Bertrand Russell in the 1950s and 1960s, the debate over the impact of globalisation on the nation state has been around over the last several decades. Some scholars question the validity of the concepts of sovereignty and nation-state, while others still see a supreme value in such concepts as the organising principles and regulatory mechanisms in the affairs of human society.

Denham and Lombardi are of the opinion that "the meaning and utility of sovereignty as an operative concept in transnational politics are suspect. The traditional conception of sovereignty that looks on the state as the supreme actor in the global community does not help us in either defining current international problems or in fashioning workable solutions". They maintain that "the reality is that sovereignty cannot be an accepted dogma either in terms of its theoretical utility or political sufficiency. The Hobbesian elevation of sovereignty and statehood to universal supremacy is not just being called into question, but is being eclipsed by the press of events and ideas... Participation in the global capitalist system proved
antithetical to the basic Euro-centric precepts of sovereign authority. Essentially, international economics inhibited the development of a domestic political culture." 73 Wendt holds the view that the sovereign state is an ongoing accomplishment of practice, not a once-and-for-all creation of norms that somehow exist apart from practice. 74

The views supportive of the nation state are upheld by another set of scholars. Drucker, for example, writes, "despite all its shortcomings, the nation-state has shown amazing resilience". He sums up his views succinctly but in short while he concludes in one of his recent writings: "...Whenever in the last 200 years political passions and nation-state politics have collided with economic rationality, political passions and the nation-state have won". 75 Another such view is that the globe-spanning networks will strengthen the state in the international system. 76

There are conflicting views with regard to sub-regional co-operation also. While Ohmae maintains that sub-regional economic zones are a result of the recent globalisation of markets and production, and that they are an indication of the decline and obsolescence of the traditional nation-state and its replacement by "the region state", Marty contends that it is not the power of the borderless global economy but politics which is the crucial factor for the emergence of transnational economic zones. 78 All in all, reality shows that sub-regional economic


zones are not trans-governmental, not to speak of being supranational. Weatherbee cogently argues that these growth areas are not international political actors or units with international legal personalities. The national elements of IMS-GT and other such growth zones, while economically integrated into a wider economy in a framework of regional co-operation, "remain institutionally, operationally, jurisdictionally, legally, and politically, within the state."79 Clearly, the nation-states are well active as the principal and ultimately the deciding actors in the whole process of sub-regional co-operation, and there is no loss of their sovereignty whatsoever.

One of the main contributions of sub-regional co-operation has been its positive economic impact on regional co-operation process itself, as referred to earlier. The three parties seem to be confident in the increasing benefits of participation in their new venture in sub-regionalism. The activities at the localised, sub-regional level have not been conflicting with or at the expense of those at the larger ASEAN level. Such sub-regional co-operation has indeed fostered closer co-operation, as this new mode of cross-border ties has been taking place under the conditions of political will and stability within the general framework of a well-functioning regional co-operation organisation. It would be ideal if co-operation had assumed a triangular content rather than a bilateral one. But then co-operation among the three has of late been increasing with the expansion in the area of IMS-GT operation.

The long-term prospects of sub-regional co-operation would depend on the continuing political goodwill of the participating countries, the extent of benefits accruing to the co-operating partners, a conducive regional environment, the ability to remain competitive with others in the region and beyond, and the favourable global economic climate. The SIJORI-turned-IMS-GT has been the first successful attempt of the three ASEAN member states for co-operation at the sub-regional level. Following the cue, two other similar initiatives have been taken in other areas of ASEAN, which are at various stages of evolution. As already mentioned, these are the Northern Growth

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Triangle and the Eastern Growth Triangle. Just a brief account of the two may be in order, with a view to getting some insights into these evolving sub-regional growth areas.

4.2 The Indonesia-Malaysia-Thailand Growth Triangle (IMT-GT)

The success of the Indonesia-Malaysia-Singapore Growth Triangle has prompted the launching of another growth triangle in the northern ASEAN region, namely, the Indonesia-Malaysia-Thailand Growth Triangle (IMT-GT) or the Northern Growth Triangle. Malaysia took the initiative for this sub-regional economic zone in 1991. The IMT-GT comprises the two northern provinces of Indonesia (North Sumatra and Aceh), the four north-western states of peninsular Malaysia (Kedah, Perak, Penang and Perlis) and the five southern provinces of Thailand (Satun, Songkhla, Yala, Narathiwat and Pattani). The basic idea behind this GT has been to initiate a process of synergistic growth among these three geographically contiguous, bordering areas lying outside the mainstream development centres in their respective countries.

The sub-region is endowed with vast resources. The area has mineral resources, such as tin, oil and natural gas; marine resources; agricultural resources like commercial crops, livestock development and commercial horticulture. However, the area is far more dependent on its agriculture sector than the three co-operating national economies are. Fruits and food crops dominate the sector in the Thai section, while food and plantation crops are the most important agricultural commodities in the Indonesian segment. And rubber and palm oil crops dominate agriculture in Malaysia's part. The other resources include fishing and livestock production in Thailand, and forestry and livestock production in northern Sumatra.

The manufacturing sector in the IMT-GT sub-region is relatively small. A conspicuous exception to this situation is Penang, which is the most industrialised state in northern Malaysia. But labour shortage and land scarcity in the state is forcing relocation of industries in the neighbouring sister states of the country. Although less industrialised than northern Malaysia, North Sumatra is Indonesia's most industrialised area outside of Java, boasting of industries like cement, fertiliser,
aluminium, pulp and paper, palm oil, rubber, fish processing, and engineering products. North Sumatra's Medan City, which is the third largest city in Indonesia, is a major industrial zone, mostly under private ownership though, in the country along with Jakarta and Surabaya. The province of Aceh is rather poor in manufacturing sector. The manufacturing sector in southern Thailand is also poor, owing mainly to the country's policy of concentrating most of its industries in the Bangkok Metropolitan Region as well as to the security problems in the area.

However, tourism offers a promising area for co-operation among the three countries participating in sub-regional co-operation. But the full potentials are far from being realised. Complementarity seems to exist between and among the three units of co-operation in the above sectors. A surging sense of confidence for economic co-operation is also buoyed by the ethnic, cultural and historical links among the co-operating components. But more infrastructural and human resources development and more active role of the private sector are required, while more political and economic autonomy of the outlying, less developed areas of the participating countries is to be granted for more fruitful sub-regional co-operation. The Manila-based Asian Development Bank (ADB) has been involved with the IMT-GT at various stages of its evolution.

The priority areas of development are tourism, infrastructure, transportation, power, telecommunications, and agricultural and human-resource training projects. Some 20 projects have so far been signed. These projects are for (i) setting up an export processing zone, an inland cargo dry port and a power plant in Southern Thailand, (ii) the production of


automobile parts and concrete poles in Sumatra, (iii) building a bridge linking Penang to Songkhla in Thailand, and (iv) the construction of hotels and tourist facilities in Medan. The agreements also include services, such as training programmes for hotel staff and shared forwarding, warehouse and hauling services among the three countries. The Northern Growth Triangle is more formalised than the Southern Growth Triangle. That is why, although the private sector is called upon to be the engine of growth, the IMT-GT is essentially administered by the national governments of the countries participating in the sub-regional co-operative venture.

4.3 The Brunei-Indonesia-Malaysia-Philippines East ASEAN Growth Area (BIMP-EAGA)

This sub-regional economic zone, situated as it is in the eastern parts of ASEAN, was set up in March 1994, largely on the initiative of (former) President Fidel Ramos of the Philippines, which he first mooted in 1992. This third growth triangle within ASEAN originally comprised Brunei, the 3 Indonesian provinces of East Kalimantan, West Kalimantan, North Sulawesi, the 3 Malaysian states of Sabah, Sarawak and Labuan, and the Philippines province of Mindanao. On 6 July 1996, the catchment area of EAGA expanded a great deal as 7 more provinces of Indonesia joined in, raising the number of its provinces participating in the growth area to ten. These new cooperative components are Central Kalimantan, South Kalimantan, Central Sulawesi, South Sulawesi, Southeast Sulawesi, Maluku, and Irian Jaya. This east ASEAN growth area is rich in natural resources, such as the forest and timber resources of Brunei, Kalimantan, Sabah and Sarawak; oil and gas in Brunei, East Kalimantan, Sabah and Sarawak; and the marine resources and agricultural products in Mindanao and north Sulawesi. The whole area is also blessed with a variety of tourist attractions, including sites suitable for eco-tourism.


The participating areas have a long tradition of trade and family links since the days of the Sulu Empire of the 18th century. But EAGA includes some of the poorest and least developed areas of ASEAN. President Ramos wanted to develop the southern part of his country that has been beset with poverty and insurgency. Indonesia was easily persuaded in the collective efforts, as the per capita income was about US$40 in some of the eastern parts of its vast territory in contrast to Brunei's US$ 16,000. One of the striking features of EAGA is the lack of factors that facilitate growth. Therefore, the objective of this sub-regional economic zone has been to jointly develop the vast potential resources for the mutual benefit of the cooperating partners. This, in reality, calls for infrastructure development, trained labour force, enterprising entrepreneurial community, fund mobilisation, and, above all, stable and formal political commitment and political interactions.

Therefore, the targeted priority areas of co-operation are expansion in air and sea linkages, fisheries co-operation, and joint tourism development. The nine other areas earmarked for joint efforts are construction, agro-industry, capital formation and financial services, forestry, telecommunications, energy, people mobility, human resource development, and environmental protection.  

Ever since President Ramos had broached the idea of EAGA in October 1992 in Brunei Darussalam, there have been persistent official interactions both at the highest east Asean Heads of Government level and at the Officials level. All this culminated in a Senior Officials meeting and the inaugural Ministerial Meeting in Davao City in March 1994. The Ministers signed the Agreed Minutes and formalised the creation of BIMP-EAGA. Notably, EAGA does not have a central secretariat like the other two ASEAN growth triangles. However, co-ordination of its policy proposals is done through a series of ministerial and senior officials level meetings held in different venues from time to time.

As public sector backing and private sector-led growth is the guiding spirit of the sub-regional economic zone, private

sector representatives also participate in these meetings. Indeed, a private sector forum, called the East Asean Business Council (EABC), was established in November 1994, involving representatives from the regional chambers of commerce of the member countries of EAGA. Not surprisingly, the Royal Brunei Government bears one half of EABC’s operating cost, since the secretariat of the businessmen’s forum was established in Bandar Seri Begawan in 1996. The principal task of the EABC is to collect and disseminate information, with a view to encouraging cross-border investment. And indeed, representation of the private sector from the member countries is now a permanent fixture in all the committee meetings as they are a vital component of any growth strategy in the growth area.85

The ADB has been involved in a big way in the EAGA venture. For example, the Bank provided funds for a technical study that undertook to explore ways to promote economic cooperation. The study focused on areas such as human resource development, agriculture and fishing, transport and communications, trade and tourism, and energy and power.86 In a new study, the ADB has sketched interlocking potentials that could be pooled by the four EAGA partners. The Bank, in its report, has presented four "tranches" of 151 policy, programme and project initiatives. The first tranche, called the Early Action Plan, consists of 51 public and joint private sector initiatives. The estimated cost is US$ 109.9 million. The Plan is expected to jump-start those projects which would require just a little policy or institutional overhaul and which might not fall prey to bureaucratic red tape, such as simplification of customs procedures, introducing additional airline services, etc.87

The ADB study is of the opinion that the rich Brunei could bankroll high-value-added processing industries, while Indonesia could underpin light industrial clusters in East Kalimantan and small manufacturing enterprises in West

Kalimantan and North Sulawesi. The Bank also notes that Malaysia's Sabah and Sarawak could reinforce firms based on "industrial clustering and nurturing of indigenous innovative capability" in order to "leapfrog towards a high technology future." In the report, the Philippines is billed to be a "breadbasket of EAGA, serving both local and export markets." Considerable skills and investment on fish processing already exist in Mindanao, while a metals industrial cluster is also evolving there. And, of course, the Philippines will "continue supplying much needed labour and skills throughout the area." But the report also betrays the feeling of a challenge the Bank package is confronted with in the form of underdevelopment in regions cobbled together in the Eastern Growth Triangle. This is clear from a line in the report that reads: "EAGA is characterised...by a low-wage, low-skill and low-productivity workforce."

But it is hoped that, given the level of political commitment of the concerned national leaderships to the development of this underdeveloped and remote part of the region, the eastern Asean sub-region will be able to overcome the challenges confronting it. As such, it is expected that such co-operation will raise the standard of living of the people living there and contribute to stability in the area.

The words of President Ramos are apt to be cited here, as they are relevant from the perspective of the foreign policy and national security interests of the countries involved in the sub-regional co-operation scheme. He wrote: "The initiative of regional statesmen in starting up cross-border growth poles has been crucial. And the first requirement for the success of these economic alliances is the political commitment of national leaders. In East Asia, growth triangles are as much instruments of foreign policy and national security as they are instruments of economic policy." He writes on: "The East Asean growth zone, initiated by the Philippines, has changed the entire focus of relationship between Malaysia and the Philippines from political to economic. Once Prime Minister Mahathir and I, with the support of President Suharto, agreed to set aside the

88. ibid.

89. ibid.
contentious issue of (the Philippines claim to part of) Sabah and allow the expansion of economic relations even while we worked at the problem's amicable resolution, trade and investment between our two countries began to expand dramatically. 90

It appears from the above that the sub-regional economic zones launched in three different parts of the ASEAN region are moving ahead not at the same pace, motivated not by the same factors, and following not the same approach. The three are also witnessing not the same roles played by the governments and extra-regional agencies, and experiencing not the same kind of problems.

The Indonesia-Malaysia-Singapore Growth Triangle, having been launched in 1990, is of course the oldest and by far the most successful of the growth triangles in ASEAN. The IMS-GT is making good progress in terms of economic integration in trade, services and investment flows as well as infrastructure building and employment generation in the sub-region. While the other two growth areas, which are later initiatives, are not yet fully operational, the Indonesia-Malaysia-Thailand Growth Triangle is ahead of the East Asean Growth Area in terms of feasibility studies, infrastructure building and the extent of cooperative efforts already put into operation. The motivating factors for sub-regional co-operation in IMS-GT are essentially to gain from the synergistic growth spurred by comparative advantage in the factors of production, relocate industries in order to maintain global competitiveness, and manufacture for export. The same for the EAGA are mainly for infrastructure building and development of the common resources of the participating countries.

These differences in motivation are also clear from President Ramos' words when he writes, "for Singapore and Malaysia, growth triangles are a way of sustaining the competitiveness of their exports despite rising wages and increasing shortages of land and workers. For Indonesia, Thailand and the Philippines, and eventually for Vietnam, they are a means of speeding up development, creating jobs and importing technology." 91

90. This is taken from an article written by President Fidel V. Ramos of the Philippines. See The Straits Times, Singapore, 1 December 1994.
91. Fidel V. Ramos, op. cit.
And from the difference in the motivating forces also comes the difference in approaches towards co-operation. Although not quite likeable to the Indonesians and Malaysians, the type of co-operation taking place in IMS-GT may be called 'hub-spoke' model, Singapore being the hub. The approach adopted in the case of EAGA, on the other hand, may be labelled as 'joint development of resources and infrastructure'. In the second case, initially the differentials in factor endowment may not be that sharp and the complementarities in comparative advantage not too obvious, but there are untapped resources and historical ties that could make up for the factor differentials. Whether this model is going to pay-off in EAGA or in the Greater Mekong River Basin co-operative venture is difficult to say conclusively, as they are still evolving and have not gone into full operation, the fact remains that such a model is being pursued for sub-regional co-operation.

There are, of course, high hopes for the success of this approach, as is evident from what an analyst writes about it. Dillon maintains that "the EAGA as the new growth triangle may lack apparent factors that facilitate growth in comparison with Sijori [former name for IMS-GT] for example, where highly advanced industries, services, capital market, technology and infrastructures of Singapore function as the engine of growth for the Triangle. On the other hand, we are inspired by striking features of this sub-region, such as the natural beauty of its land and waters, the richness of its soil and natural resources, and the strong ties of language, culture, religion and trade that bind its indigenous populations, that extend back for millennia. This is truly an area of great but untapped development potential. If we could complement it by developing its infrastructures and upgrading its human resources, and by harmonising the rules and procedures for unobstructed flows of production factors across national borders, we could accelerate and enhance the exploitation of those resources. The biggest challenge confronting us in this sub-region, however, is making it highly competitive in attracting capital investment from outside." All in all, there is a prime mover in IMS-GT in none other than Singapore, while there seems to be none in EAGA.

As was indicated earlier, the role of the government in IMS-GT has been to create an enabling environment in order to facilitate private sector activities with regard to trade, services and investment flows in the sub-region. Although the role of the government is crucial in the sense that the enabling environment depends on the political commitments of the governments of the participating countries, the engine of growth has been the private sector/market force. However, the role of the government in EAGA as well as in IMT-GT is more than just that of a facilitator, given the purpose and areas of sub-regional co-operation, and the relatively weaker position of the private sector and the less developed relationship between the public and private sectors. While mobilising financial resources has been one of the major problems facing the sub-regional economic zones like the EAGA, the IMS-GT did not have to suffer from such critical challenge. While the EAGA depends on financial assistance from the ADB for feasibility studies and other assistance, the IMS-GT attracts lots of MNCs for doing profitable, stable business.

What transpires from the above comparison between IMS-GT and EAGA? While we can identify the critical factors accounting for the success of the Southern Growth Triangle, we cannot possibly do so in the case of EAGA just because it has not matured into full-gear operation as a sub-regional economic zone. The major factors contributing to IMS-GT’s success are: (i) The political commitment of the governments concerned for sub-regional co-operation, framing the necessary policy framework, both nationally and internationally, required to promote such ties. (ii) Geographical proximity, minimising the cost of production and transportation. (iii) Economic complementarities and comparative advantage, and infrastructure development. (iv) The other important factor is the political recognition by all co-operating partners that the private sector is the engine of growth and that there has to be a harmonious relationship between the public sector and the private sector. (v) The leadership role, political stability and national consensus are some of the other factors that can be accounted for the success of the IMS-GT. (vi) The ‘Asean way’ has also been a contributing factor to this success story in that it stands for an informal way of settling disputes. Asean way
also implies the steadfastness of the political leadership to stick
by the set course of co-operation despite occasional hiccups,
political, institutional, operational, or otherwise. Whether the
ASEAN model of sub-regional co-operation, particularly that in
the form of IMS-GT, and the experiences learned thereof can be
replicated elsewhere may be examined by means of conducting
a case study on an initiative for such co-operation in South
Asia.