

## The SIJORI Growth Triangle: Progress, Problems and Prospect

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### Abstract

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The Singapore-Johor-Riau (SIJORI) Growth Triangle established in the late 1980s is the first regional cooperation framework in Southeast Asia. However, such a promising framework ran into a dilemma after ten years of development. Main factors accounting for its unanticipated limited progress include uneven regional economic performance, divergent individual interests at all levels, rising social problems, and uncertain external environment. A thorough review of the growth triangle with special attention on the progress as well as the issues be inspiring for the further promotion of the regional cooperation, which requires dynamics both internal and external. The first category of dynamics includes the design of a unified administrative institution, coordination between public and private sectors, more liberal policies, the proper understanding of social and knowledgeable elements, the role of overseas Chinese and the utilization of historical legacies. The other category mainly underlines utilizing external stimuli outside the region, especially China's Maritime Silk Road Initiative (MSRI).

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### Introduction

Southeast Asia in the post-WWII period has been considered a place with changing dynamics, such as strengthened foreign relations, reduced intra-regional tensions and enhanced domestic security. Although there remain local insurgencies, political disagreements and, ideological divergences, much progress in regional economic cooperation, and integration have been made by Southeast Asian nations (Leung 2012). The achievement was further encouraged and formalized during the Bali Summit in 1976, when official cooperation within ASEAN countries was declared. Within this context, the then deputy prime minister of Singapore, Goh Chok Tong, announced the establishment of Singapore-Johor-Riau Islands Growth Triangle (i. e. SIJORI-GT) in 1989, aiming at promoting more economic cooperation between the three neighbouring regions.

Within the SIJORI-GT, theoretical rationales for this regional cooperation have been searched by both officials and scholars. At heart lay an expectation of improved redistribution and exchange of regional comparative advantage, such as massive flows of foreign investment, geographical proximity, labour, capital, technology, etc. (Thant 1998; Lee 1991). On the one hand, Singapore, as the most significant trade and financial centre in Southeast Asia, was then endowed with considerable capital, skilled labour, high technology, easy access to world markets, and advanced infrastructure. By contrast, the lack of these advantages was a check on economic development in Johor and the Riau Islands. On the other hand, Singapore is a very tiny island without natural resources, sufficient land and unskilled labour, which, however, were abundant but rarely utilized in adjacent Johor and the Riau Islands. Such complementary differences were expected to help expand the tripartite cooperation on the basis of the relocation of industries, creation of new logistic chains, and optimization of the economic structure. The expected outcome would not only stimulate regional integration but also improve the capacity of the unity as a whole in resisting external risks from international market. Therefore, this arrangement attracted significant interest from other regions immediately after its establishment; thus, when more Malaysian and Indonesian states joined the partnership, a Memorandum of Understanding (MoU) was signed on 17 December

1994 by the representatives of the participating countries to expand SIJORI-GT into a new grouping, namely the Indonesia-Malaysia-Singapore Growth Triangle (IMS-GT). It has been hailed as a major step in sub-regional cooperation, and was regarded as a model for further economic cooperation in ASEAN (Lee 1991). Encouraged by the initial progress, several new cooperative frameworks were also promoted, such as IMT-GT, BIMP-EAGA, GMS-GT involving Indonesia, Malaysia, Philippines, Thailand and other countries along the Mekong River.

Widely discussed debates have been generated over the establishment of this cooperation framework. In the late 1980s and early 1990s, scholars including M. Thant (1998), Lee Tsao Yuan (1991), Chou (2010), and Thambipillai (1991) have intensively investigated the influence of transnational economic cooperation, the factors accounting the development of SIJORI-GT as well as the challenges it encountered. However, such an ideal initiative ran into a dilemma when the Asian Crisis broke out in 1997. The fluctuations in international market exerted negative impact on the regional flows of capital and technology. The tripartite economic cooperation hence fall into stagnation. It was further deteriorated by the global financial crisis starting from 2008. As a result, neither SIJORI-GT nor IMS-GT gained much attention after entering the twentieth-first century. Nevertheless, there are still scholars, such as Tan (2014), Peng (2002/2003), Das et al. (2013), Sparke et al. (2004), trying to emphasize its significance and draw lessons for promoting other cooperation frameworks presently.

It is evident that, on the one hand, scholars have positively assessed the achievement of SIJORI-GT, but on the other hand, they have also pointed out that the progress still leaves much to be desired. Three decades have passed after its establishment, and it is instead time to make a reassessment of the past experience. This article hence tries to do a thorough review of the SIJORI-GT, summarize its progress as well as the problems. In order to provide advice on how to resolve the problems that restrict the tripartite cooperation, this article presents a more efficient utilization of both internal and external dynamics, especially by taking advantage of China's new Maritime Silk Road Initiative (MSRI).

### **Regional Progress in Retrospect**

The SIJORI-GT drew significantly on mutual complementarities of the three economies involved. The three economies were at different stages of development. Such a condition helped them to gain benefits from closer cooperation by enabling them to make the best use of their comparative and competitive advantage. The growth zone allowed the stakeholders to combine individual competitive strengths to make the sub-region an attractive destination for regional and international investors. Following great endeavour by the three governments in the late 1980s and early 1990s, significant progress could be perceived in many aspects.

#### ***Resource Redistribution, Industrial Relocation, and Infrastructure Reconstruction***

The immediate benefits brought by the establishment of SIJORI-GT to Singapore were the supply of fresh water, natural resources such as food and natural gas. The water supply was of the most significant importance to Singapore. Although as early as in 1961 and 1962 Singapore signed agreements with Malaysia to give Singapore rights of drawing up water from Johor, more considerable work was done after the establishment of the SIJORI-GT. The planned Linggiu Reservoir was finally completed in the 1990s as agreed by the supplementary agreement between the two governments in 1990 by building a dam across the Johor River. Together with Johor River Water Works (JRWW), Singapore was able to draw raw water from the reservoir and channelled the water to the three water treatment plants (Jackson and Hangzo 2016). Moreover, in 1990, Singapore and Indonesia signed an agreement to cooperate in the development of the Riau Province. The 1990 agreement includes provisions covering a wide range of cooperation, among which is to assist in water supply, transportation infrastructure development, and maintenance (Wong and Ng 2009).

Meanwhile, advanced infrastructure, financial resources and management expertise flowed adversely from Singapore to Johor and the Riau Islands. The advent of the funds from Singapore had profound impact on local economic development of Johor and the Riau Islands, which initiated various reforming schemes and preferential policies to accommodate and utilize these resources. As a result, many labour and land intensive industries as well as other non-manufacturing enterprises of Singapore relocated their plants in the neighbouring areas, especially in the industrial parks and free trade areas which were jointly developed by property developers from Singapore in order to take advantage particularly of the cheap labour wages (Wong and Ng 2009).

Infrastructure in Johor and the Riau Islands was hence improved for the relocated industries, particularly the establishment of industrial parks and improvement of port and airport facilities. In Johor in 1994, 16 industrial estates were operating, and a further 12 were planned. Among them, Pasir Gudang, which was next to Johor port and located very close to Singapore, was the largest and most successful industrial estate and free-trade zone in Johor (Wadley and Prasati 2000). In addition to the relocation of small firms engaging in rubber processing, garments, textiles, and electronics, Singapore also spread information resources to Johor. Five stations of Singapore Media Corp covered the main area of Johor Bahru (Ho and So 1997).

The progress was more significant to the south of the strait. Long before the establishment of growth triangle, the Indonesian government has been keen in establishing a regional centre of industry, logistics, and tourism to alleviate the problem of regional overdependence on oil and gas in Riau. In Batam, facilitated by the Batam Industrial Development Authority (BIDA) formed in 1973, the island became a duty-free zone and was intended to be a high-technology centre. In 1992, the US\$200 million Batam Industrial Park (Batamindo) was opened; it was developed jointly by Singapore and Indonesian public and private sectors, including Singapore Technologies Industrial Cooperation, Jurong Environment Engineering and major Indonesian business conglomerates including the Salim Group and Bimantara (Thambipillaia 1991). Considerable electronics industry investment together with pharmaceutical, plastics, and light industries, were attracted to Batam (East Asia Analytical Unit 1973). Port facilities were also upgraded with the investment from Batamindo to build a regional transit port. Such improvement of infrastructure was indicated by the reconstruction of Hang Nadim International Airport, road network and water supply facilities on the island (Wong and Ng 2009).

The improvement was witnessed on Bintan Islands as well, where plantations produced palm oil, coconut. Moreover, the Bintan Industrial Estate was developed on the west of the island and the Bintan Beach International Resort (BBIR) was developed on the north coast. Up to 1998, a total of 29 international companies set up their branches in Bintan, including Khong Guan, Sumitomo Metal, Foster, etc. Same agribusiness, light industries and shipping services were also established on other islands, such as Bulan, Singkep, and Karimun (East Asia Analytical Unit 1973).

### ***Capital and Labour Flows***

The construction of industrial parks and transfer of manufacturers led to a considerable increase of FDI and migration for investment and tourism. In Johor, the local economy benefited greatly from the close ties with Singapore. For the 1981 to 1990 period, the share of Singaporean investments in Johor accounted for 22.7 percent of approved investments (Ho and So 1997). When coming to the late 1990s, more than 47 percent of Singapore's investment in Malaysia was directed to Johor represented by 104 projects and RM170 million. Investment took place in a wide range of industries including petrochemicals, chemicals, steel mills, electrical and electronics, textiles, rubber and processed food. To attract FDI, the Johor government took adequate measures to encourage the development of industrial estates in particular.

The Riau Islands also rapidly became a major destination of Singapore's FDI. In 1996, more than 20 percent of Singapore investment in Indonesia was directed to the Riau Islands. Singapore was the largest foreign investor in Batam, accounting for around 48 per cent of total investment. In the adjacent Bintan Island, in 1991, Singaporean capital investment was seen in the following fields:

tourism (25.6 per cent), real estate (25.7 per cent), steel and iron (15.1 per cent), oil mining equipment (13.1 per cent) and electronics (10.2 per cent) (Ho and So 1997).

Accompanied by caption flows, the number of labour migration and cross-border tourists increased simultaneously. In the 1990s, more than 70 percent of the tourists entering Malaysia came from Singapore, and their annual expense in Johor exceeded 0.4 billion us dollars. Each day more than 50,000 tourists and 18,000 vehicles entering Johor through Singapore. The Riau Islands also witnessed a net inflow of 1 million immigrants annual due to the establishment of industries (See [www.bps.go.id](http://www.bps.go.id)).

For Singapore, Johor provided Singapore with resources of leisure and tourism, as well as opportunities for investment and commerce. While cross-border movement also took place from Johor and the Riau Islands to Singapore, mainly in the form of the workforce, who moved easily to Singapore to sell their labour services. In the case of Johor, according to the regional statistics, only in 2000, an average of 30,000-50,000 workers travelled from Johor to Singapore per day. The position of Johor as an intermediate for Singapore was thus strengthened.

Attributed to the effort made by the three states, the SIJORI-GT has played a crucial role in stimulating regional economic development since its establishment. It opened up new economic opportunities and allowed a considerable transfer of commodities, capital, technology, human resources and knowledge beyond and across national boundaries (Chou 2006). Such achievements led to consistent economic growth in the first decade of the present century. Johor and the Riau Islands picked up economic momentum with their following bilateral links with Singapore and became regional industrial centres and tourist destinations. This progress was indicated clearly in Table 1, which displays their accelerating growth rates of GDP. The economic growth of Johor and the Riau Islands were even higher than the national average, respectively (Wong and Ng 2009).

**Table 1. Basic Indicators for the IMS-GT, in 1994, 2003-2017 (selected years)**

	1994	2003	2005	2007	2009	2011	2013	2017	
<b>Singapore (S\$ billi.)</b>									
GDP (at current price)	112.7	170	212.1	271.2	279.9	346.7	378.5	408.1	422.7
Growth rate (2010 constant price)	10.9%	4.4%	7.5%	8.9%	-0.1%	6.2%	5%	1.9%	3.6%
<b>Johor (RM billi.)</b>									
GDP (at current price)	16.6	46.1	50	59.8	62.5	80.3	91.4	106.7	119.8
Growth rate (2005 constant price)	9.6%	4.1%	4.2%	4.1%	-3.0%	6.4%	4.7%*	5.6%*	6.2%*
% of total national GDP	6.3	9.0	10.2	9.8	9.4	9.6	9.2	8.5	8.2
<b>The Riau Islands (IDR trilli.)</b>									
GDP (at current price)	143.2	32.8	40.9	51.8	63.9	80.2	100.3	124.9	133.8
Growth rate (2000 constant price)	12.1%**	-	6.6%	7.0%	3.5%	6.7%	6.1%	6.0%*	2.0%*
% of total national GDP	-	1.67	1.53	1.46	1.37	1.33	1.32	1.29	1.27

Note: \* at 2010 constant prices; \*\*data of the Riau Province, 1993

(The higher growth rate was mainly due to the exploitation of petroleum around Dumai on the mainland)

Source: Department of Statistics Singapore (<http://www.singstat.gov.sg/>), Department of Statistics Malaysia (<http://www.statistics.gov.my/>), Statistics Indonesia (<http://www.bps.go.id>).

## Unsolved Problems and Explanatory Factors

The individual economic performance of the three regions is illustrated by some basic indicators shown in Table 1. However, such progress was made in the shadow of dissatisfaction which can be summarized from the same table. There are still problems unsolved, especially the expected economic boom did not take place in the triangle through expected metropolitan spillovers and coupling effect.

### *Unsolved Problems*

Firstly, GDP growth was much slower in the first decade of the present century than in the 1990s and growth rates of the three regions kept declining after the announcement of SIJORI. Notably, the lowers growth rates of Johor and Riau Islands than that of Singapore indicated an enlarged gap between them.

Secondly, the declining proportion of regional GDP of Johor and the Riau Islands in the total of Malaysia and Indonesia further affirmed the unsatisfactory economic performance, as their economic status did not get enhanced or was still marginalized. For instance, the core area of the triangle, the Riau Islands, remains one of the poorest provinces in Indonesia.

Thirdly, the intended capital and advanced technology from Singapore flowed much more into tourism rather than that into manufacturing sectors. As a result, the upgrade of industry and optimisation of economic structure in Johor and the Riau Islands was delayed.

Fourthly, the industrial transfer of Singapore did not help solve the problem of unemployment in Johor and the Riau Islands. In the latter, rates of regional unemployment were higher than the national average. Especially in the 1990s when SIJORI-GT was just initiated, such stimuli resulted in the rise of unemployment rate ironically.

The last, the economic connections between the three regions were not intensified evenly. From a historical perspective, the economic connection between Singapore and Johor was much stronger than that between Singapore and the Riau Islands, while the connection between Johor and the Riau Islands was negligible. Such a patten remains unchanged from then up to the present day. Therefore, the three regions did not form a complete form of “triangle,” but an “hourglass” with Singapore as its neck. Within the once mighty unified empire in this area, the Johor-Riau Sultanate, there are still intensive social, cultural and religious relations between Johor and the Riau Islands, but their economic connections were not maintained.

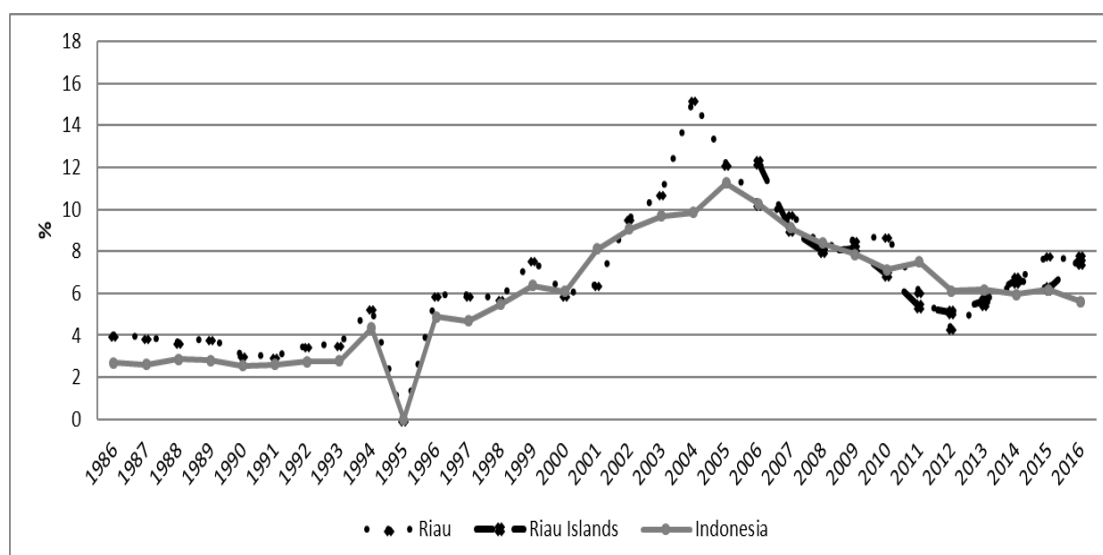


Figure 2. Unemployment rates of Riau Province, Riau Islands Provinces and Indonesia, 1986-2016

Source: Unemployment Rate (UR) by Province, 1986-2016

(<https://www.bps.go.id/index.php/linkTabelStatis/981>)

Therefore, the positive effect of the SIJORI was somewhat limited. Following Koch's argument, we should view this region with cautious optimism from the economic perspective (Koch 2000). In practice, the expected redistribution of regional comparative advantage was not realized, or the initial progress failed to extend its scale and level of cooperation (Chen 2009). Peng (2002/2003) has also argued that Singaporean business did not have the cultural resources to expand far beyond the growth triangle. Neither Malaysia nor Indonesia adopted effective policies to direct the capital in the triangle to other parts of their nations. After the mid-1990s, the SIJORI-GT reached its limit as labour costs and rent rose in Johor and the Riau Islands, and FDI became saturated. Thus, the growth triangle has not been able to generate a strong chain effect that results in extensive geo-economic changes in Southeast Asia.

Moreover, many regional projects were carried out independently rather than cooperatively. In the Riau Islands, the BIDA was operated separately by utilizing domestic private capital. So was the Iskandar Malaysia, a project some three times the size of Singapore, in southern Johor, developed by the Malaysian government in 2006. Instead of cooperation, Iskandar Malaysia was designed to both compete with and integrate with the Singaporean economy (Rizzo 2012). Such independent endeavour rather than Singapore-dominated collaboration resulted in better economic growth as indicated by the indicators in 2010.

### ***Explanatory Factors***

In retrospect, it is hard to see the effect and benefit of mutual cooperation between the three regions, although scholarship and politicians have not widely admitted the unsatisfactory outcome of SIJORI (Grundy-Warr 1999). Reasons for the limited progress are various.

The most important rationale for SIJORI-GT was the idea of redistributing regional comparative advantage, especially capital and technology from Singapore, while land and labour from the other two places. When considering conditions one and a half centuries ago, this idea was not new. Just as Hughes and Holland have argued that the core region supplied the periphery with higher-order services, while the periphery furnished the core with natural resource-based commodities in the colonial period of Singapore (Hughes and Holland 1994). Since the 1870s when agriculture and agricultural processing industries dominated regional economic structure, the advantage of Singapore was the regional concentration of using advanced technology and the high potential of well-qualified skilled workers. Nevertheless, Singapore had also been faced with problems of limited available land and large demand for unskilled or semi-skilled labour force (Stejskal and Hajek 2012). Unfortunately, these problems were never solved although there was moderate utilization of land and labour from Johor and the Riau Islands, technology and capital were still concentrated in Singapore. This pattern hence resulted in very weak backward linkages from Singapore to the periphery of Johor and the Riau Islands, as Huff and Angeles have argued that in the post-1870 Southeast Asia relatively few major flows of commodities were created (Huff and Angeles 2011). Coming into the late twentieth century, economic development and structure in the Riau Islands did not experience much improvement as compared with colonial times. Small markets and weak economic infrastructure meant that Johor and the Riau Islands were too small for advanced Singaporean elements, pushing Singapore to seek external markets for cooperation. Therefore, the spread effect of redistribution of regional comparative advantage was somewhat limited.

Meanwhile, there was divergent political intentions among the region. Individual interests of governments involved were not convergent at all levels. Especially in Johor and the Riau Islands, the disadvantage of the limited scale of economy was further signified by different intentions of national and regional governments. Regarding the SIJORI-GT, commitment, and promotion from high-level politicians played an essential role in its establishment. However, their purposes diverged significantly. Singaporean politicians preferred an easing and flexible policy environment, so that Singapore could intensify its regional connections with Johor and the Riau Islands by using their resources on the one hand and extended its international links to the world market on the other side. However, national development plans for Johor and the Riau Islands in Malaysia and

Indonesia were different from Singapore respectively. For these two countries, the highest priority was to maintain and protect national interest. Therefore, their starting point of policy making was to improve national competitiveness, and regional cooperation was only one of the measures for this purpose. As such, Johor and the Riau Islands might not fully participate in a formal cooperative organization or agreement unless the cooperation would not impede national interests. To some extent, general or complete regionalism or regional integration was not preferred by Malaysia and Indonesia.

Moreover, Malaysia and Indonesia were not satisfied with its role in the SIJORI-GT only as a supportive partner for Singapore. The flows of natural resources and labour from Johor and the Riau Islands were realized without too much difficulty, but the expected transfer of technology and managerial expertise from Singapore could not be realized in the short run, because it depended greatly on the willingness of Singapore but without commitment. And in this framework, the dominant position of Singapore as the core of region was implicitly admitted, which undermined the status of Johor and the Riau Islands. High officials of Johor State mentioned that Johor should deserve an equal position as Singapore in the triangle (Rizzo and Glasson 2012). Also, the then prime minister of Malaysia, Muhyiddin Yasin expressed more than once publicly that Johor was not only the supplier of Singapore to provide natural resources, but was also eager to develop manufacture and tourism. In Indonesia, the government evaluated the agriculture and source intensive industry as “sensitive” or “strategic”. Restrictions were consequently set up to protect these two sectors. Also, in the Riau Islands, Batam was planned by the Indonesian government as “the Singapore of Indonesia” to direct trade and commerce of Singapore to Indonesia. Therefore, preferential policies were adopted as a consequence to accommodate foreign enterprises, but reality proved that such an intention was challenging to realize. Within this context, Singapore did not have full access to the abundant regional natural sources, and all sorts of barriers and obstacles inhibited the activities of Singaporean capital, leading to insufficient and inefficient regional cooperation.

Even with one country, national and regional interests also contradicted with each other frequently. The SIJORI-GT was promoted from the top down, while the policy from central government met numerous obstacles during the implementation. Especially when interests of involved parts were not concurrent, problems concerning land rent, human right and social equality would emerge. For instance, as a state in the Malaysia, Johor enjoyed certain autonomy in the process of policy-making. In recent years, Malaysian government hoped to improve the infrastructure in Johor, especially to reconstruct airport and expressways to fulfil the expanding commerce. But meanwhile, central government had also to pay attention to the interests of other states, so that policies could not be particular in favour of Johor and conflicts between different states would also rise. In Indonesia, central government had also to take consideration of the development of non-frontier areas of cooperation and the periphery where the economic development was relatively lagged, therefore, in the Riau Islands, a group of projects of infrastructure construction was located in the inland area rather than along the ports near Singapore. The influence of these investments was thus limited.

In addition, there were rising social problems brought by the SIJORI-GT. Mass public of the three different areas were concerned with the change of environment as influenced by the triangle. At the same time, people of different religions and ethnicities from the same area might also conflict with each other because of the change of their economic status. Local society in Johor was not clear about Singaporean economic intention in Johor, and also unsatisfied with the increasing expense on living because of the rising price index caused by the influx of Singaporean capital. Regional merchants thus called on the government to restrict the scale of economy and trade between Johor and Singapore (Rizzo and Glasson 2012). In the Riau Islands, local government worried about the negative impact if all investments were concentrated in the coastal area. As a result, divergence between core and periphery, and urban-rural would be enlarged, causing the problem of social inequality (Long 2011).

The change in the external environment exerts a negative impact. Recently, both Singapore and the other two stakeholders have more options when conducting regional cooperation. SIJORI-

GT was not the sole candidate especially when faced with the gradually implementation of China's Belt and Road Initiative and other cooperative frameworks. For Singapore, although Johor and the Riau Islands are geographically approximated, abundant labour forces and broad markets in India and Vietnam were also favoured by Singaporean capital. Also, in both Johor and the Riau Islands, Singaporean capital was not particularly favoured, while either domestic capital or capital from other countries, such as China, India, Vietnam, or Japan was encouraged.

### **New Dynamics for Regional Economic Cooperation and Development**

Above discussion shows that complementary economic structures and geographic proximity brought in the possibility for cooperation, but more efficient and consistent trans-boundary cooperation requires more dynamics to eliminate conflicts of interest and to converge agreement. It is suggested that the precondition of sub-regional cooperation depends on the improvement of individual regional competitiveness which is guaranteed by two sorts of dynamics. One category focuses on internal elements including the design of a unified administrative institution, coordination between public and private sectors, more liberal policies, the proper understanding of social and knowledgeable factors and the utilization of historical legacies. The other category mainly underlines utilizing external stimuli outside the region, especially China's MSRI.

#### ***Internal Dynamics***

The constituent parts of the SIJORI-GT included three individual states: a city-state (Singapore), a state within a federal system (Johor) and a province under a unitary system (the Riau Islands). Its national leaders represented Singapore while its state leaders represented Johor and Riau was by its government leaders from Jakarta. Such unequal political status caused a group of problems such as the conflicts of interest, low efficiency of governmental administration, etc. Therefore, it is increasingly urgent to set up a new unified managerial institution to coordinate the three stakeholders when faced with divergent interest pursues to encourage more efficient cooperation. Consideration the fact that such an institution has to accommodate three political units of different hierarchies, the central governments of Malaysia and Indonesia probably have to give more local autonomy in the process of policy-making in the context of regional affairs for the sake of validity and authority of local policies. In this regard, the establishment of a special policy zone might be a possible solution.

The critical role of public sectors represented by the government is to provide facility and safeguards by making policies to ensure positional relationship and cooperation. Therefore, either the central or local governments have to create the systems for the flow commodities and service freely in the area to bring more opportunities for commerce and investment. Necessary measures may include making regulations to free and encourage trade and investment, simplify labour movement and recruitment, reduce the restrictions of external exchange, as well as ensure sustainable development of resource and energy (Wadley and Parasati 2000). Limited government inference will thus indicate the largest extent of an open market and profitability to form a development pattern driven by market integration (Acharya 1995). The effect of this concept in promoting regional connections was testified in the period before the Great Depression when no customs tariff was involved, protectionism and interventionism was light and foreign investment were encouraged. These measures and attitudes facilitated the free flow of capital and people both locally and from outside. Therefore, in order to recover or re-promote such historical cooperation, it is better for the government to remove barriers between the regions which were placed in the 1950s and 1960s.

Currently, the new regionalism is a direct result of the success of multilateral liberalisation whereby countries or regions trying to enter the multilateral system compete among themselves for the direct investment necessary for their successful participation in that system. By internalising an important externality, regionalism plays a key role in expanding and preserving the liberal trade order (Ethier 1998). A good sign was the negotiation of bilateral or multilateral free trade



agreements and the creation of domestic institutions since the 1990s at both national and regional levels. Nevertheless, more liberal preference is still needed at the sub-regional level, especially in the Riau Islands, where concerns still remain about the historically rooted smuggling, piracy, and trafficking. Historical experience shows that harsh policies did not manage to eliminate these problems. Thus, the implication of non-state involvement in the regulation should be promoted and favoured to enhance interdependence rather than individual independence (Ford and Lyons 2013).

As discussed above, economic complementariness, to some extent, also reflects the gap and divergence between different partners. Lower economic development or more mediocre growth potential will thus result in a weaker position of a lagging area in the cooperation, undermining the stability of the cooperative framework. It is hence particularly crucial for Johor and the Riau Islands to take significant consideration of advanced and endogenous knowledgeable and social factors, such as practical managerial expertise, advanced technology, and innovative concepts, etc.

Moreover, the structural difference in society and social problems resulting from unbalanced economic development have also to be carefully handled. Although since 1995 the Riau Islands has been characterized by increasing population mobility, the influx of population was as a result of inter-provincial migrants rather than foreign migrants (Suryadinata 2008). Thus, it would be regrettable if these non-Malay ethnic groups could not receive stimuli from the government since the economy today is focusing on the communication of social capital (Stejskal and Hajek 2012). Moreover, evidence shows that there has been growing Japanese importance in the triangle area since the nineteenth century. Regional economic cooperation should not only rely on Singapore; instead, the Japanese seem to offer a third alternative. A pattern of harmonious multi-ethnic diversity can thus contribute not only to political balance, but also to social stability and mobility, and economic diversity (Sasse 2010). Therefore, respecting and coordinating with social discrepancies are the precondition for eliminating the social suspicion resulting from different political and economic intentions within the triangle.

### ***The Role of Regional Overseas Chinese***

Phelps (2005) has argued that closely intertwined regional colonial histories have ensured the importance of traditional concerns. Secure internal connections had already been there since the foundation of Singapore in 1819. The development of port facilities and the establishment of both Chinese and Western business firms and shipping companies endowed Singapore with initial advantage to attract trade, people and capital from adjacent regions. The economics of proximity, complementarity and a shared history drove participation between neighbours (Ho and So 1997). The advantage brought by them was consolidated by the arrival of steamers and the establishment of industry, banks, and insurance companies during high colonialism. Progress was mainly achieved with the help of the Europeans and the Chinese. However, their role was restricted in the post-war Johor and Riau Islands, where Malays gained more preference. Although we cannot deny the economic importance of Malays, compared to the Europeans and Chinese, their mobility and economic abilities were limited. Thus, when the Europeans and Chinese were not supported or even restricted to the post-colonial Johor and Riau Islands, the regional connections were also undermined. Olzak (1998) has suggested that both political and economic integration into the world system is influentially related to ethnic politics both in the periphery and core. It is hence suggested that the re-establishment of regional connections lies in the recovery of European and Chinese economic and social initiatives as a continuation of the colonial pattern. Some effort in this direction has been made, but not enough.

### ***The Utilization of Historical Connections***

The current borders and interstate relations between Singapore, Johor and the Riau Islands were created and maintained by colonization. Thus, the role of political administration plays an essential role as illustrated by the analysis of competitive advantage. A high degree of collaboration is associated with a unified government (in colonial Malaya), harmonious diplomatic relationships

(Anglo-Dutch relationship in the period of high colonialism) and effective administration (Singapore, Johor after 1911, and the Riau Islands during high colonialism). The integration of labour, commerce, finance, and investment is an outcome of the easing of political tensions and the formation of a unified institutional framework (Ho and So 1997). These points explain the better cooperation between Singapore and Johor than elsewhere. Politically, Johor has a strong political elite represented by the chief minister, who is very much at the forefront of promoting Johor's industrial development. And throughout his long reign from 1895 to 1959, Sultan Ibrahim regarded himself as the political equality and social superior of the Governor of Singapore (Turnbull 2012). The Johor government had a direct role in determining its development with more administrative efficiency (Ho and So 1997).

As to the Riau Islands, on the other hand, was guided directly from Jakarta, so much so that one concern was that the regional government would be left out of the overall planning and development (Pangestu et al. 1991). As to the Riau Islands, for a long period its peripheral position in the political picture of Indonesia resulted in a low political hierarchy, government neglect, and considerable ineffectiveness. Therefore, there was a demand for better governance (Sparke et al. 2004). Things have improved recently. According to Law No. 22 (1999), all regencies in the Riau Province were to receive autonomous status (<http://prokum.esdm.go.id/uu/1999/uu-22-1999.pdf>). Local government was freer to engage in economic affairs, and natural resources were enabled for local communities (Vidyattama 2010). Such a decentralized trend was further facilitated by the formation of Riau Island province in 2002 and the Decentralization Law of 2004.

### *External Stimuli*

It may be essential to bring the region more “foreign factors,” which were historically lacking (Locher-Scholten 1994). For a long time, Japanese elements have played a key role in the development of regional economy, especially from the perspective of trade and economy. However, after the signing of Plaza Accord in 1985, Japan has fallen into the long-term economic recession. With its gradually deteriorated economic situation, its economic influence on the SIJORI area was also weakening. Nevertheless, the China's MSRI seems to be a proper alternative to Japan for regional economy to rely on.

In 2013, Chinese President Xi Jinping initiated the 21st Century Maritime Silk Road when he visited ASEAN. In the same year, Chinese Premier Li Keqiang emphasized the need to build the new MSRI oriented towards ASEAN, and to create strategic propellers for hinterland development. Such a Chinese initiative aims at the creation of a highly integrated, cooperative, and mutually beneficial set of maritime economic corridors linking European and Asian markets. The Straits of Malacca, with Singapore, Johor and the Riau Islands situated along, is a crucial corridor for the building of new MSRI. Therefore, the SIJORI-GT may gain another impulse after its long silence if the three regions could actively and adequately participate in this initiative.

Rationales for the implementation of MSRI in triangle area are very similar to those for SIJORI cooperation, namely economic complementarities. From an economic perspective, there is a need for China to develop industrial capacity and demand outside. Rather than a traditional method of importing raw materials and producing in China, it tries to shift specific industries to outside of China and play a bigger role in the production chain by providing infrastructure and services to enable this and seeks to increase the purchasing power of locals in various countries and diversify China's export markets. Therefore, China is eager to participate in the construction of ports and other related facilities in Southeast Asia and hopes that outward infrastructure investment will help boost production capacity in its iron, steel, aluminium and cement industries for export purposes (Zhao 2015). By contrast, ASEAN countries badly need more infrastructure investment and perceive that multilateral and private sector organizations are not acting fast enough to meet their needs. Building roads, laying railways, upgrading ports and boosting trade are those projects with highest priorities.

There is no exception for the SIJORI-GT. Attributed to its strategic geographical location, China regards this area where the Straits of Malacca is located as highly sensitive and critical as

Chinese shipping interest is vulnerable to disruption by unfriendly parties in times of conflict. Thus, securing a foothold in the Strait of Malacca will be a significant strategic achievement for China. Johor and the Riau Islands, situated along both sides of the strait, stand on a more advantageous position compared with other regions in the Malay Peninsula and Indonesia. It is hence natural them to become a key partner for the promotion of China's MSRI in Southeast Asia.

Several advantages and achieved success guarantees the promotion of MRSI in Johor and the Riau Islands. In Johor, Iskandar Malaysia is the earliest beneficiary of Chinese investments and attracts most of China's investments in Malaysia. There have already been several trade missions between Chinese private and public sector groups, and Johor chambers of commerce and government parties to facilitate new trade cooperation activities in Iskandar Malaysia. Greenland's joint venture with the Johor government to develop a 3,000-acre site in eastern Johor, including major industrial components, is one example. In addition, the RM7 billion Gemas-Johor Baru electrified double-tracking rail project was awarded to the state-owned China Railway Construction Corp. The track provides capacity for existing trains to move up to 160kph, improving the transport of goods across the country, including to Singapore. By late 2017, it is hoped to see the completion of the first Chinese development projects and also the start of construction for the HSR as well as the rapid transit system linking Singapore and Johor Baru. These will bring in the next wave of Chinese investors, which will primarily be in the manufacturing and services sectors. This is on top of the real estate and construction companies that we tend to focus on today.

Apart from industrial and trade cooperation, port construction is another field for China's MSRI initiative in Johor. The Johor Port, together with another five ports in Malaysia and 10 Chinese ports, has formed a port alliance to fast-track trade by reducing customs bottlenecks at both ends, according to China's top envoy to Malaysia, Huang Huikang. The port alliance will serve not only as a maritime network between the two countries but also the bond of trade and business and tourism.

For the Riau Islands, it is the joint of China's MSR and Indonesia's global maritime fulcrum strategy, which aims to expand and deepen exchanges and cooperation in infrastructure, connectivity, tourism and people-to-people ties to further strengthen the China-Indonesia comprehensive strategic partnership. For this reason, the Riau Islands Province, especially its Municipality of Batam, is leading the way in exchanges and cooperation with China, and numerous Chinese enterprises are operating in this part of Indonesia. Batam is Indonesia's first and most developed exclusive economic zone and has a great potential to attract more investment from Chinese enterprises in infrastructure, manufacturing, and tourism. For instance, on 2 September, 2015, Chinese Sany Group invested in an attractive project. With the support of the Indonesian government, the "Sany Asia-Pacific Logistics Center" in Batam was established covering an area of 225 acres. Sany hopes to provide better quality service for local customers in Batam; meanwhile, is expected to be a powerful machine & spare parts logistics warehouse distribution centre, which can expand its influence to Malaysia, Philippines, Singapore, Thailand, and other neighbouring countries. Sany will strive to boost construction machinery development and urban construction for Southeast Asia.

In addition, it also welcomes more Chinese tourists to Batam and Bintan and will continue to provide quality hard and soft environment for Chinese enterprises and tourists. From a Chinese perspective, China is likely to continue to support and encourage established Chinese enterprises to invest in the Riau Islands Province and the Municipality of Batam, encourage Chinese tourists to visit Riau Islands and move forward the multi-faceted exchanges and cooperation between the two sides.

## **Conclusion**

The SIJORI-GT has undeniably promoted regional economic development and was regarded as a model of development for other regional cooperation initiatives. But at the same time, this article also shows that the progress of SIJORI-GT lacks sustainability. Reasons are various, but political.

Therefore, the best stimuli to encourage further cooperation and development relies on improved political coordination both regionally and internationally. At the regional level, the conventional top-down decision-making process needs a more equalized relationship between the three stakeholders to improve the efficiency of administration and operation regarding local affairs. At the international level, external factors aim at providing more resources and a more broad market from outside, especially under the background of global slow economic recovery. Therefore, this article argues that China's MSRI has been so far the best external factor for this purpose. Based on the economic complementarities, China can cooperate as well as coordinate with the three stakeholders to conduct concrete industrial projects to help region economic development on the one hand, and to encourage the regional economic integration on the other.

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