

## Integrations of Nation Beyond the Maritime Borders: Efforts and Experiences from Malaysia to Strengthen and Develop Relations with Indonesia

Mohd bin Samsudin

Faculty of Social Humanities, The National University of Malaya, Malaysia

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### Abstract

Malaysia inherited the legacy of the famous maritime empire of Srivijaya and Malacca Sultanate. Before the arrival of western imperialism, the Malay community in the region, especially in the Strait of Malacca enjoyed a close relationship, regardless of borders. Historical experiences revealed the importance of maritime in establishing relations between the people of Malaysia and Indonesia. In fact, this interdependence enriched people's economic and cultural lives. Western colonialism broke the ties of society and created borders. However, after the two countries became independent, there was an effort to re-establish relation based on historical and cultural experiences. Despite the experience of love and sorrow, the fact is that the priority placed on strengthening relations with Indonesia has never been forgotten by Malaysian leaders. Various efforts were made in establishing cooperation in economic, social, and cultural fields including IMT-GT, communication and cultural cooperation. The economic difficulties encountered during the financial crisis of the late 1990s, and the sharing of common experiences have strengthened leaders' confidence to prioritize intergenerational integration. Using the Collective Memory method, this paper will examine historical and cultural experiences as the basis for closer relationships. Furthermore, it will discuss Malaysia's efforts to strengthen and prosper the people of both countries through various means, especially ASEAN, IMT-GT economic development cooperation, SIJORI, inter-governmental cooperation, and inter-community cooperation that took place during the leaderships of Prime Minister Tun Abdul Razak's and Tun Dr. Mahathir Mohamad.

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*Corresponding Author:*

moss@ukm.edu.my

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### Introduction

Historically, maritime activity is the main activity of the Malay community and the islands. They traded via some city ports. Through these ports, interactions with the outside community took place. Since Funan to Srivijaya, maritime governments had been expanding their trade interests. Srivijaya was established in the 7th century AD and later collapsed in the 14th century AD along with the emergence of the Majapahit empire as a maritime power (Sodhy 1983, 22). Even the prominent historian, O.W Wolters, who studied Srivijaya, state that the wealth and power of its ruler were based mainly on trade, on the dues, tolls, and taxes that he collected at the various ports.

The ruling center of the Srivijaya Empire was located in Palembang from the 7th to the 11th century AD but later was moved to Jambi. Srivijaya had an effective government system with the King assisted by a monarch also known as "datus". This datus helped the King run the government while also taking on a diplomatic mission. More importantly, the datus supplied The King of Srivijaya with naval power. Another important group who assisted the King were the "sea people" on the islands around Srivijaya empire. It was also the Sea People who assisted the King in the expedition of the sea when needed.

Trading activities were conducted by foreign traders Srivijaya introduced to the Malay world. The commodities around Srivijaya were very diverse, namely timber materials, resins, and metals for trade. To strengthen political and trade relations, the Srivijaya empire engaged with China for trade and diplomacy. The importance of trade relations had placed Srivijaya as an important kingdom before the Chinese dynasty. Due to the existence of good relations with the Tang Dynasty Srivijaya

around the year 904, Emperor Tang was awarded the title of vice Malay (Wolters 1970, 30). The wealth of the Srivijaya empire is proof of the region's importance in the role it played in economic activities since the 7th century AD. The economic co-operation provided by the small governments around the Srivijaya empire had turned this area into an economic hub subsequently strengthening the position of the Srivijaya empire which lasted for 4 centuries up to the 11th century. Its strategic position alongside the wisdom of its government enabled diplomatic relations to be tied with foreign countries thereby guaranteeing the prosperity of the region. This prosperity provided trading and commercial advantages.

The glory of the Malay trading network in the Malay archipelago continued to expand through the collaborative efforts among the small kingdoms. Srivijaya empire, Majapahit and Malacca indeed utilized a concept of collaborative commerce to carry out trades within the triangular area extending from northern Malaya to Majapahit (Java).

### **Financial Solutions of Malaysia**

Dr. Mahathir opposed the system of economic imperialism led by the International Monetary Fund (IMF) which exposed small countries to the control of large economic powers. The IMF's strategy had often been to overthrow the government and even startle small nations to push the leaders of small countries to comply with their political and economic demands resulting in loss of independence for the affected countries. The super powers manipulated the world trade system and demand the restructurisation of IMF. According to Dr Mahathir, the IMF gave the wrong advice in that whilst the interest of independent countries was to be free in carrying out any kinds of trade and political system, economic imperialism, as propagated by the IMF, challenged the world's community to the point that countries were no longer free to operate their economic, financial, and political systems (Mahathir 2013).

Malaysia's success, however, was aided by the country's financial reserves and the financial system without borrowing money from the IMF. Hedge Fund came with problems, and from Malaysia's experience, both traders and country were losing money.. Therefore, Malaysia needed to come up with policies and regulations that could protect the people and the country. Malaysia's actions prompted criticisms of cronyism. In fact, Dr. Mahathir was accused of trying to bail out of his son. However, this criticism was denied by Dr. Mahathir, instead, he criticized the perpetrator internationally. Despite the criticisms, Malaysia's move to deny the hedge fund actually alerted most other countries to the dangers of the said fund. Among his most powerful words was this statement he gave in relation to the IMF issue, "what is the worth of a nation, if someone can devalue it and bankrupt it?" It is clear that the fall in the stock market was not due to financial fundamentals. On June 17, 1997, two weeks before the stock market crash in Malaysia, the IMF praised the fundamentals and recognized investors' confidence in the Malaysian stock market (*Executive Intelligence Review* (EIR), 1998).

Dr. Mahathir led Malaysia's efforts in resolving the financial crisis of 1998 in his own way. Peter Alford of the Australian newspaper likened this Malaysia-alone measure to Frank Sinatra's slogan "we do it our way" (*Utusan Online*, October 25, 1999). One major effort taken was imposing currency control designed specifically to prevent currency traders exploiting the Malaysian currencies. At the same time, the Malaysian government implemented a policy to tighten market activities by means of new regulations where stock for market-foreign investment were to be retained in the country for at least one year. In this way, "short selling" speculating that could smash the stock market could be avoided. Dr Mahathir believed that lack of world trade regulations jeopardized the financial systems of the small nations thus along with the new regulations. He also started an attack campaign against traders (whom Dr. Mahathir called 'currency '). One individual who was the target of criticism was George Soros.

## **ASEAN as an Economic Cooperation Entity**

ASEAN as an economic cooperation entity among ASEAN members is based on the 1972 United Nations report. The UN proposed the establishment of ASEAN in the form of economic cooperation similar to the Latin American Free Trade Area (LAFTA). The Latin American countries were experiencing balance payment problems in terms of current account deficit arising from an industry policy based on imported spare parts industry that had failed to stimulate exports and financial growth. Seeing that the same activity was occurring among ASEAN countries, the UN suggested the same method of economic cooperation to be done among ASEAN countries (Aslam 2005, 206).

From the beginning of ASEAN, the Malaysian government had good faith in the body seeing it as an important entity in the development of economic cooperation, despite having a difference in opinion on the importance of developing economic position of the respective countries. There was the confidence that the cooperation between members (which eventually achieved a total of ten countries) with a large number of population and area will make the body influential. Malaysia as a member country often raised the need for trading cooperation. Historically, Malaysia's experience in maritime trade since the 6th century had since given the country the confidence that the region can be important in moving the economy of all member countries. On October 7, 2003, the ASEAN state leaders agreed to develop the ASEAN community by 2020, in the 2nd Bali Agreement meeting by establishing a 3 component's frame or spinal.

The ASEAN country also faced problems in the AIP industry project. The significant problem is in terms of capital shortage, and expertise in the manufacturing industry, such as Thailand which built urea fertilizer in 1984, Malaysia in 1986. However, this project was less successful. The problems identified were the lack of studies on the facilities, especially cost and interest analysis. This project also encountered a problem of obtaining sufficient funds to fund the project.

## **From Tradition and Culture of Maritime Cooperation**

Zuhdi (2014) in his book entitled *Nationalism, Seas and History* discusses the advantages and speciality in Maritime tradition and culture. Further he mentioned that "From the 'South of Javanese' report, the various life-focused living in based on the agriculture sector was the consummation of the traditions and culture of the southern coastal community of the south Java" (Zuhdi 2014, 105). It is true that a culture and belief can prevent efforts towards developing the potential of the natural economy in a larger scale. With Malaysia, once maritime area on the West Coast was more developed as compared to the maritime community on the East Coast; cultural factors being a deterrent to progress. The vulnerability of a society that hangs on practices and beliefs was exploited by the West to give them space to establish themselves and conquer Malaysia. For instance, the British East India Company which began its presence in Penang in 1790 marked the beginning of British colonial policy in Malaysia and the opportunity to conquer the maritime area especially the Straits of Malacca. Stamford Raffles then occupied Singapore in 1819. Interestingly, Raffles' experience at Bencoolen in 1818 gave him useful knowledge to dominate the port and maritime in the Straits of Malacca. The British eventually became a major force that dominated the economy and commerce along the Straits of Malacca.

The maritime field in the Malay world and the Southeast Asian region was a tradition to the relevant communities. Historically, in terms of the geography and the economy, the idea of Malaysia as maritime state is not a new thing. Malaysia and Indonesia had inherited the maritime characteristics because they both had a history of success as maritime empire and power. This success resulted in the arrival of western colonial power to control the maritime route around the region. As maritime state, economic and commercial activities contributed to prosperity which was shared with neighboring countries. This was seen to have already since the existence of the empire, comprising the Melaka government, Mataram, Majapahit, and others. Among the positive elements

inherited from the previous community were maritime management as well as diplomatic relations. Maritime management had been long practiced by the residents of Malaysia. The government and the locals were so good at using the available natural environment and resources to manage the operation of specific port city. There was healthy competition among the ports given that all roles were distributed among the ports that went towards contributing to the government. During the Srivijaya period, the small port towns around the region were used to provide the source of raw materials and natural products such as spices, including black wood leather, pala, wood, agarwood, cloves flowers. The Melaka government had built the entrepot trading system as a center for local and international freight collection among the external traders including the Chinese, Arabic, and Indian. As soon as the British took over Penang and Singapore, they sought to develop these two islands into an important port for the residents of the region. Borneo is also the most important maritime trading area for traders from all over the Chinese regions such as Nanking, Amoy, and Canton. Together with the Bugis and Malay traders, they dominated the maritime trade in the Borneo archipelago.

The history of Malacca proves that the people in the Malay world had diplomatic relationship with the major powers in China. Also the Malacca government established links with small countries to maintain an image as a government that has an open policy. Diplomatic relations were necessary to maintain the strategic position of the Straits of Melaka as an important world trade routes. Besides that, the position of the Straits of Malacca as a maritime important route requires it to maintain its strategic interests. The need to hold high-level diplomacy due to the historical importance of maritime activities often became a collective memory to Malaysia and Indonesia. According Evers (2011, 40) that there were different centers that have emerged to offered by location close to trade and shipping, shelter, supplies and trading opportunities. Srivijaya, Junk Ceylon, ancient Kedah, Aceh Malacca, Johor, Brunei Darussalam, and further afield Banten, Gerisek and Makassar were the centers to mention. They have lined, like pearls on a string, the sea lanes from East to West and from West to East.

### **Economics as Tools and Threats**

The Asian economic crisis which happened from 1997-1998 bridged Indonesia and Malaysia's relations. The economic crisis caused Indonesia's economy to plummet including increasing number of unemployments and inflation by up to 80%. Indonesia faced a tough problem, as described by a Prime Minister of Australia Paul Keating (2000) in his book.

“Indonesia's problem began when the government was unable to sustain the informal currency peg it limits established between the rupiah and the US dollar. Indonesia limits benefited greatly from this link. But Although it helped bring in foreign investment, it also generated a huge offshore bondage burden. Indonesian businesses borrowed US dollars at US interest CBS rather than at the higher Indonesian CBS and did not hedge their notes because they assumed they faced no exchange risk. The Offshore bondage was around USS74 billion. Three-quarters of it were unhinged, and it was mostly short term. Suharto told me later that his Government had no idea of the size of this private sector borrowing.”

As Indonesia was unable to face the economic crisis, President of Suharto turned to the IMF for help. The IMF intervention of the rupiah currency took place on 2 July 1997 and on 15 January 1998, President Suharto signed IMF's aid, witnessed by Michel Camdessus, Director General of IMF, pumping in \$43 billion to save Indonesia's economy. However, the IMF also provided the terms and conditions for Indonesia to change its financial and fiscal policy.

President Clinton and also Michael Camdessus asked President Suharto to abort the idea of the establishment of the currency board or a loss of help of US \$43 billion. This event provided a glimpse of the stress and the pressure faced by Indonesia from the U.S. and the IMF (Hanto 2003). The attacks of currency traders in Malaysia and Indonesia also revealed some important matters regarding economic and financial activities. Both countries were often exposed to external traders' activities on the pretext of trade freedom and the free market. Being countries with strategic

standing in the Asian region, therefore whatever economic pandemonium striking the region would have a big impact on the region. Because of the fall of the stock market and the financial system used by the United States for spreading the IMF's influence, Washington sought to send Camdessus to persuade President Suharto to receive the IMF assistance package (Hanke 2003). The IMF intervention destroyed the stability of the ASEAN Free Trade Area (AFTA) planned by the ASEAN leaders and championed by important figures such as Dr. Mahathir and President Suharto. They believed that AFTA would make available free trade areas within the ASEAN region providing relief injections for the members of the ASEAN and thus the benefit of economic prosperity. However, the financial crisis 1997-1998 resulted in the economic recession of the region's economy, slowing down the development process, and crushing the eco-politics and social element within the ASEAN nations. In other hand, ASEAN could not be an economic competitor to the United States and its affiliates.

Dr. Mahathir used the economic element as a foundation for nation-building giving emphasis on policies and finances. Dr. Mahathir's goal was to transform Malaysia as an economic or Asian tiger. In developing Malaysia's economy, there needed to be cooperation with other countries. Malaysia saw a way to do this in ASEAN. However, Malaysia needed a loyal friend in Indonesia. Dr. Mahathir believed in East Asia's potential for strengthening the goods market thus of the opinion that ASEAN should be reinforced and opened to developed countries (Shuib 2009). Mahathir's and President Suharto then formed an ASEAN coalition with foreign countries involving Japan, South Korea, and China. However, Japan wanted to play the major role as an economic mover. In a need to recover Malaysia from the economic crisis, Mahathir needed Japan as a rescue power. As quoted from his book:

“Japan came to the rescue by making available substantial soft loans amounting to several billion US dollars. Japan was also prepared to guarantee any bond issue by the Malaysian Government. And so despite Moody's and Standard and Poor's low ratings, when the Government tested the American bond market in 1999, the issue was oversubscribed by three times. (Mahathir, 1999).”

Malaysia's actions were criticized by the international community, especially Western countries, as well as by IMF. However, the Malaysian government avoided the IMF's assistance and the external hand to save the country. The approach used by Dr. Mahathir was successful for several years after the financial crisis. Malaysia was able to recover and improve the economic environment. In the month of June 2003, Bank Negara Malaysia announced that there was improved growth in the country's finance. Malaysia's approach in tackling the financial crisis was recognized by the international community. Mahathir's success saved Malaysi, and finally the IMF recognized his efforts.

An important step taken by Dr. Mahathir was to restructure the financial institutions by consolidating 71 institutions with a total capital of RM 13.2 to RM 6.6 billion. Those 71 institutions then merged into only 9 institutions; every institution owning capital/fund at average of RM 38.3 billion. The profit of the financial institution grew positively with an average of RM 17.7 billion as compared to only RM74 billion in 1997. The restructuring of the financial institutions strengthened the local financial system in terms of giving it large sources of funds. The success of the financial crisis proved to the international community that Malaysia was able to manage the financial system without the US intervention and the IMF. Oeing to this success, Dr. Mahathir was confident when faced with the same crisis in 2008 saying that Malaysia “won't slip into full recession next year if the country economy is well managed by the government” (*Bernama*, December 5, 2008).

### **Mahathir-Suharto's Leadership**

The role of leadership in driving relations between Indonesia-Malaysia is profound. Historically, among the prime ministers who played leading roles were Tun Abdul Razak (2<sup>nd</sup> Prime Minister) and Tun Dr. Mahathir Mohamad (4<sup>th</sup> Prime Minister). Tun Razak was an important figure who reaffirmed relations with Indonesia after the confrontation in 1962-1966. Even after becoming

prime minister, Tun Razak's biggest challenge was to build efforts toward restoring relations with Indonesia. The communist threats faced by both countries as well as the experience of the Cold War forced Tun Razak and President Suharto to cooperate thus strengthening their relations. The Civil war conflicts and communist threats in Indochina, especially Vietnam, also provided the two countries ground for cooperation in order to prevent similar threats from expanding into Malaysia and Indonesia. The Tunku's involvement resulted in North Vietnam providing training to more than 5,000 Vietnamese officers in Malaysia, trained 150 American soldiers in detecting dogs and supplying light weapons (Rahman 2008, 31).

ASEAN strengthened Indonesia-Malaysia relations. Tunku Abdul Rahman had always believed that one way to strengthen the nation's position in Southeast Asia was by establishing a union. This union would also help defend the country against communist threats (IDFR 2008). The Tunku was the leader who recommended the establishment of the Association of Southeast Asia (ASA) involving the membership of Malaysia, the Philippines and Thailand. ASA was the foundation for ASEAN's establishment.

President Suharto and Dr. Mahathir were recognized as two key figures behind ASEAN's mobilization. When they were in office, Malaysia enjoyed a very good relationship with Indonesia. The efforts to make ASEAN a strong organization resulted in the growth of members. ASEAN at present has 10 members and has become very influential in the region, although when Vietnam was brought into ASEAN on July 28, 1995, The US was believed to have disagreed.

Vietnam's interest to join ASEAN started during a Summit in Bali in 1976 after President Suharto and Dr. Mahathir persuaded Vietnam to join ASEAN. This initiative succeeded in Vietnam fully embracing the ASEAN concept of regional cooperation in 1992. By 1994 Vietnam had gained observer status in ASEAN (Frost 1995, 3). Vietnam's membership in ASEAN had a significant impact on breaking the taboo that ASEAN is pro-Western and anti-communist. Vietnam's entry into ASEAN is clearly the most substantial single development in the Association's history. That ASEAN, which based much of its development of identity and cohesion on suspicion of Communism, should now welcome as a new member the world's second largest Communist state is a striking illustration of the changes and realignments which the end of the Cold War has made possible and desirable. The new association between Vietnam and its ASEAN co-members offers major potential benefits to all parties (Frost 1995, 3).

Vietnam's entry provided a guarantee of the future of Indochina's conflict resolution that led to the successful election and establishment of a coalition government in Kampuchea. Even Vietnam's membership in ASEAN offered a valued boost to Vietnam's security. Vietnam's membership was welcomed by ASEAN community and leaders. According to Ali Alatas, Indonesia's Foreign Minister, Vietnam's membership was a 'momentous event' and said that he was confident that an expanded ASEAN membership would contribute even more substantially to the maintenance of international peace and security in the region.

Vietnam's membership in ASEAN opened up many collaborative planning spaces among its members. ASEAN leaders believed that this move also invited stronger commitment to AFTA launched in 1993 offering market opportunities to more than 400 million people. AFTA pushed ASEAN members to remove the tax barriers to goods and opened up market opportunities and attracted foreign investment. The move to further strengthen AFTA's position led to efforts towards securing ASEAN membership for the entire region.

### **The Development of Economic Cooperation: IMT-GT and SIJORI-GT**

ASEAN promotes the cooperation and trust among its members. With the experience of meeting challenges together, the development of a triangle area was a model developed by Malaysia and Indonesia aimed at economic cooperation. This was an effort taken based on the fact that the regional countries had experience since the reign of Srivijaya (7th and 15th centuries AD) of maritime trade and how it became the basis of regional relations. Trade carried out was based on maritime trade that had been successful to bring prosperity to the area involved. The advances in

maritime trade brought in mainly foreign traders from China. In fact, the Southeast Asian region had become an important trading area for foreign countries for food, jewelry, forest products and more.

The existence of the Srivijaya Empire provided an opportunity for the surrounding small kingdoms to engage in trade especially of their own produce. The King of Malacca inherited Srivijaya maritime tradition. Rahman (1979) argued that Srivijaya's major contribution was in developing maritime activity which became a legacy of the Malacca Sultanate. The success of Malacca as a major port is in fact based on developments that had taken place since the time of Srivijaya. There are some Archaeological evidences indicate that there were several secondary trading centers such as in Selangor, Kuala Selinsing, and China Town. During the eleventh century, Bujang Valley in Kedah was the main entrepot trade center in the Straits of Malacca. By conquering these areas, Srivijaya was able to become the power of international trade at that time (Rahman 1979).

Srivijaya's emergence as a center of maritime trade was due to the role played by small city states. This development occurred in the days of the Malacca government followed by other governments in the region. The development of maritime activities has taught us that building trade cooperation between the peoples of the region is not a problem. The people of the region had historically been exposed to the locals. Proceeds from the merchant tax became the main income for Srivijaya empire.

In order to strengthen the country's position and to ensure healthy ecological development among ASEAN countries, a joint effort was made to develop the region's major economic potential. The idea is to share resources and to enable various forms of economic activity in the industrial field. This idea was also important at the end of the Cold War and expanded efforts toward the formation of a trade protection blockade that involved the US and European countries. Dr. Mahathir opposed the establishment of a trade block set up by Western countries to protect their interests from rivals. Therefore, he proposed the formation of the East Asia Economic Group (EAEG) in December 1990 with the aim to encourage closer trade cooperation among countries of the Asia-Pacific region, a region with extensive maritime relations (Mohammad 2004, 4).

The EAEG encompasses 15 countries with a wide area including Asia Pacific, with population recorded in 1988 exceeding into 1.6 billion. The plan of the EAEG is facing strong opposition from the US as it hindered their influence in the movement. Strong support came from President Bush's administration that influenced foreign minister of Japan and South Korea to reject the plan (Shanmuganathan 2007). Instead, the US promotes Asian Pacific Economic Cooperation (APEC) as a strategy to prevent Japan from joining the EAEG (Khalifah 1992, 21). As a result, the US strong opposition to the EAEG prohibited other countries from joining this body, resulting in the inability of countries with economic capabilities, particularly Japan to lead the movement. Dr. Mahathir's plan to make the organization 'exotic' also became a cause of disagreement between Australia and New Zealand. The EAEG plan was finally under control.

The US began to propose the formation of NAFTA while European Union is working hard to help the economic protection block in the interests of its members. NAFTA was implemented on January 1, 1994 involving the US, Canada and Mexico. Early history begins with the Free Trade Agreement between the United States and Canada (CFTA) on October 3, 1987 (Villarreal and Ferguson 2007). Against the CFTA, NAFTA emphasize on trade protection block that aimed at preventing the competition of member nations trade with foreign powers. One of the first regional development partnerships between Malaysia and Indonesia was the SIJORI-GT Triangle Cooperation that also involved Singapore in 1990.

The countries involved are Brunei, Japan, Hong Kong, Singapore, South Korea, Malaysia, Thailand, Philippines, Indonesia, China, Laos, Vietnam, North Korea, Kampuchea and Taiwan. The cooperation agreed to involve Singapore, Johor and the Riau Islands. The three governments' efforts to encourage investment, immigration and the creation of attractive policies for industrial worked. Historically the development area consist of ex-empire of Johor-Riau-Lingga that dated from the 16th century.

The Indonesia-Malaysia-Thailand Growth Triangle (IMT-GT) idea was introduced in 1993 by Dr. Mahathir, President Suharto, Chuan Leekpai, Prime Minister of Thailand. Dr. Mahathir proposed for the establishment of the IMT-GT would be started at Langkawi Island. The IMT-GT offers a sub-regional cooperation framework to promote economic cooperation and integration of member states and territories. IMT-GT encourages the private sector to lead economic growth and regional development facilities by exploiting existing resources. The IMT-GT is a collaborative framework for developing the Indonesia, Malaysia, and Thailand's economy. As it is a shared economic area, it is important for the three countries to cooperate in areas that mutually agreed among them.

IMT-GT collaborative travel framework has been developed for the 2017-2021 term. It focuses on cooperation in agriculture, agro-based industry, tourism, halal Products and Services in Focused Areas. The formation of IMT-GT was one of the steps designed by Dr. Mahathir to build economic and financial strength among ASEAN countries. Maritime leadership plays a key role in ensuring the success of each program that is set up with the consent of the governments of Indonesia, Malaysia and Thailand.

The IMT-GT formed the basis of ASEAN strength in attracting major nations. In 1997, during the ASEAN conference in Kuala Lumpur, Dr. Mahathir was moving ASEAN's close ties with the East Asian region. It is the first attempt to form an alliance between ASEAN and China, Japan and South Korea which the goal is to form a free trade area.

The Singapore-Johore-Riau Growth Triangle (SIJORI-GT) was earlier established than the IMT-GT. The government was proposed by Goh Chock Tong, Deputy Prime Minister of Singapore in 1989 with the demands of industrial intensive labour. At the formation time, it was a sub-regional economic cooperation that was facilitated by ASEAN members through investment cooperation rather than trade. Although involving Malaysia and Indonesia, the framework of investment cooperation was expected to meet the needs of Singapore. By the end of the 1980s, Singapore was facing two shocking developments in its government. The first was the increase in wages among workers in Singapore that forced to become cheaper labour. The cheaper labour was only available from neighbouring countries, such as Indonesia and Malaysia.

The second factor is that the US government had no longer ranked Singapore as a developing country which led Washington to withdraw trade privileges. To avoid major problems for its manufacturers, the Singapore government sought to relocate its factories to Batam and Johor to obtain cheap labour and privilege tariffs. Early initial initiatives were undertaken by Lee Kuan Yew and President Suharto who agreed to develop Batam Island. Since it was less profitable, Malaysia devoted less attention to SIJORI. SIJORI involved various economic, social and political components making the situation more complicated. Only two-way economic relations between Singapore-Indonesia and Singapore-Malaysia instead of multilateralism. In implementing any form of cooperation, it is more a negotiation between the two governments. As an example, in filling the economic needs of Singapore's interests in Johor, the Singapore government will consult with Malaysia only. This is contradictory with Dr. Mahathir's efforts to develop regional cooperation. Therefore, he was quite confident to develop the IMT-GT because he believed it would be as successful as Indonesia and Thailand cooperation. The shared experience of Indonesia, Malaysia and Thailand gave Dr Mahathir and President Suharto confidence.

The cooperation of the SIJORI, however, could fulfil President Suharto's desire to open Batam for foreign investment. In 1989, President Suharto liberalized investment rules in Batam Island to attract Singapore investment,. The new rules introduced and allowed foreign investors to hold 100% equity in Batam for 5 years and allowed only 5% transfer of shares to Indonesian investors. The Batam Industrial Park (BIP) then was set up as a joint project of Singapore and Indonesia investors in 1990. It encourages the establishment of a light and electronic industry that accepts 8,000 workers.



## Conclusion

Economic development cooperation among Malaysia and Indonesia during contemporary time was based on historical experiences. History has shown that the maritime economy since the premodern era has been used as a lesson for today's development. The importance of raw materials, forest products and manpower used as trade is also still the same today. The Southeast Asian region has provided a trade collaboration opportunity among the countries. The role of leaders and government are important in developing regional economic cooperation. Dr Mahathir's effort to fight trade freedom and to carry out relationship with any country allowed a more seamless effort for ASEAN to conduct its economic activities. In addition, efforts to enable ASEAN members to enjoy trading systems led to the formation of economic cooperation development areas. It is important to face challenges from the formation of trade blocks such as NAFTA set up by Western countries.

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