Eye on the Economy
Iskandar: A win-win deal for S'pore and Malaysia

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When Mr Keith Martin first took on the chief executive's role at Global Capital Development (GCD) two years ago, his first message to the management was: "We have to align ourselves to Singapore's growth."

GCD is not a Singapore company. It is, in fact, the company tasked to develop Medini, one of the key development projects in Malaysia's Iskandar region in Johor Baru.

Mr Martin sees Singapore as being a critical factor in Medini's success. "Medini can play a complementary role to many of the industries such as health and media that Singapore has developed."

Singapore is the single largest foreign investor in the Iskandar region, since it was launched by the Malaysian government in 2006.

Singapore companies have set up more than 300 manufacturing projects in Iskandar, investing more than RM5 billion (S$2 billion) since its inception. This is about 13 per cent of the total RM37 billion invested in the region so far, as at September.

The Iskandar project consists of five zones in Johor Baru, each focusing on various areas from creative media, to residential and industrial developments. Together, the total land is about three times the size of Singapore.

But in a departure from past economic projects, Iskandar has positioned itself as being complementary rather than competitive to Singapore, its bustling neighbour down south.

This is in sharp contrast to projects like Tanjong Pelapas, a container port in Johor, which lured two of PSA's biggest customers, Danish Maersk and Taiwan's Evergreen Marine, over to its side back in 2002.

In the 1990s, Malaysia also launched the Multimedia Super Corridor, aimed at attracting high-technology firms to set up shop. Although it was never officially stated, the MSC competed directly with Singapore, which at the time was also trying to become South-east Asia's technology capital.

Warming relations

THE influx of capital and investments into Iskandar from Singapore is a result of two main factors.

One is politics; more specifically, the warming of relations between Singapore and Malaysia. The relationship between both countries is a complex but interdependent one, since the day Singapore left Malaysia in 1965 to chart its own path in history.

The relationship thus far has been one of "love-hate" with flare-ups and quarrels almost a normal occurrence.

Mr Lee Yoong Yoong, a research associate at the Institute of Policy Studies, said that some leaders in Malaysia have always seen Singapore as Malaysia's "small brother".

But there has been a significant improvement in the relationship since former Prime Minister Mahathir Mohamad stepped down in 2003, he said.

This improvement has also thus allowed for "more mature and rational policies and interactions on both sides," said Mr Manu Bhaskaran, an economist and partner at Centennial Group.

The improvement in ties got a real boost in 2010, when the two countries settled a 20-year dispute over railway land.

In September that year, Singapore and Malaysia sealed a landmark land swap deal to settle the issue of Malayan railway land in Singapore, which has long affected bilateral ties.

Prime Minister Lee Hsien Loong set the tone for Singapore's attitude towards Iskandar, when he said in January this year that it was very much in Singapore's interest that Iskandar Malaysia prospers.

And just last week, Malaysian Prime Minister Najib Razak said "Singapore can continue as the hub for commercial and financial development, whereas southern Johor can be an area of high-quality living" for Singaporeans.

"This will be a win-win situation. Johor will benefit from the influx of people, talent and capital," he said.

The warming of relations between both sides has been followed by a flood of investments into Iskandar by Singapore entities.

Billionaire Peter Lim has committed to more than RM13 billion worth of projects in Iskandar, including a new motorsports hub.

Property developer Ascendas Land has also inked a deal with a unit of Malaysia's UEM Land to develop a technology park in Iskandar Malaysia in Johor worth $1.5 billion.

But while ties may be warm now, there is always the risk that political tensions will rise again and affect the economic relationship.

As Citigroup economist Kit Wei Zheng noted: "Political uncertainties, especially with Malaysia's impending general election, may also have an impact."

In April, two Singapore diplomats were accused of having participated in anti-government protests in Malaysia. While this was quickly sorted out, that event clearly showed that political tensions can rise quickly.

Singapore firms could become easy targets should tensions break out and anti-Singapore sentiment rise in Malaysia.

Economic factors

WHILE warming relations have opened the gate for large investments into Iskandar, the real push factor for local firms is domestic cost and manpower pressures.

Singapore's economy is undergoing a massive structural change as the Government embarks on a concerted push to raise productivity.

A big part of this policy is aimed at weaning firms off cheap labour through tighter foreign worker policies. This has led to a tight labour market which has pushed wage costs up as well.

Companies are also struggling with the high costs of land, with industrial property prices rising 27 per cent in the first nine months of the year.

Many companies need land and manpower that they cannot find here.

Enter Iskandar, which has plenty of land and workers who are eager and hungry for jobs.

As Mr Bhaskaran puts it, Iskandar is a "perfect foil for Singapore" as its hinterland.

What's more, proximity with land access is a huge benefit for firms still hoping to anchor their operations here, said Spire Research & Consulting chief executive officer Leon Perera.

"There are clearly some benefits - in areas where access to cheaper land, labour and/or raw materials may help anchor and enhance certain activities in Singapore," he said.

This might even help solve the perennial problem of inflation.

By moving some of the demands on these resources to Iskandar, resource constraints will be eased and this will help combat inflation, said Mr Bhaskaran.

Competition rising

BUT the region is also unlikely to stay stagnant and want to play second fiddle to Singapore forever. Iskandar will one day also want to attract the same type of investments that Singapore gets.

In other words, while the talk now is about mutual cooperation, the day will come when competition becomes the name of the game.

"Difference in strategic objectives between Malaysia and Singapore with respect to the development of Iskandar could lead to conflicts further down the road," said Mr Kit. But this will probably not happen any time soon.

Singapore clearly has built a niche in areas such as finance, tourism and biomedical manufacturing and is a global leader in many areas.

Iskandar is starting out and is just finding its footing in areas such as media, general business services and logistics.

"Yes maybe in some years, a foreign bank might want to locate higher-value activities here,"said Mr Martin. "But, in the meantime, it's clear that both parties are benefiting. Singapore has access to a hinterland while Iskandar is growing."

In any case, both Mr Lee Yoong Yoong and Mr Bhaskaran believe there is nothing to fear from healthy competition.

"Of course, they may compete against us now and in the future. What is the big deal? You mean we have not faced competition before?" said Mr Bhaskaran.

In the final analysis, Iskandar represents the type of ideal win-win partnership Singapore and Malaysia have both wanted but found hard to achieve.

In Iskandar, both countries are able to leverage on each other's strengths and mutually benefit from the project.

Symbolically, it also reinforces the shared history and deep ties that both countries have with each other.

Firms going into Iskandar would be wise to do so with their eyes open to the risks that may arise from investing in Iskandar, notwithstanding the proximity to their home base.

But as it stands, Iskandar remains a very good bet for Singapore firms which are coping with rising domestic costs at home, while aspiring to compete with the best in the region.