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Genesis of a growth triangle in Southeast Asia

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Title: Genesis of a growth triangle in Southeast Asia : a study of economic connections between Singapore, Johor and the Riau Islands, 1870s – 1970s

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Introduction

Southeast Asia in the post-war¹ period has been considered a place with changing dynamics, such as strengthened foreign relations, reduced intra-regional tensions and enhanced domestic security. Although there still remain local insurgencies, political disagreements and ideological divergences, much progress in regional economic cooperation and integration has been made by the Southeast Asian nations.² The achievement was further encouraged and formalized during the Bali Summit in 1976, when official cooperation within ASEAN (Association of Southeast Asian Nations) countries was declared. Within this context, then deputy prime minister of Singapore, Goh Chok Tong, announced the establishment of the SIJORI (Singapore-Johor-Riau Islands) Growth Triangle in 1989 with the purpose of economic cooperation between the respective regions. This arrangement also attracted great interest from other regions; 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 into a new grouping, the IMS-GT (Indonesia-Malaysia-Singapore Growth Triangle).

¹ In this study, 'post-war' refers to post-Pacific War.

² Leung, *Improving Southeast Asian Security within the ASEAN Framework: Insurgencies and Counterinsurgencies*.

The constituent parts of the SIJORI Growth Triangle 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). Singapore was represented by its national leaders while Johor was represented by its state leaders and Riau was by its government leaders from Jakarta. Attributed to the effort made by the three states, the SIJORI Growth Triangle 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.³ In Johor, the economy benefited greatly from the close ties with Singapore. In the late 1990s, more than 40 per cent of Singapore's trade with Malaysia was done through Singapore each year. Up to 1998, Singapore became the largest source of foreign investment in Johor and in the same year about 50,000 Johoreans crossed into Singapore daily to work there. The Riau Islands also picked up economic momentum with imminent bilateral links with Singapore. In Batam, Singapore was the largest foreign investor. The US\$200 million Batam Industrial Park was jointly developed by Singapore and Indonesian public and private sectors.⁴ The Riau Islands hence rapidly became a regional industrial centre and tourist destination.

Although this regional cooperation scheme was materialized very recently, as a matter of fact, the formation of regional connections and cooperation is historically rooted. As early as the seventeenth and eighteenth centuries, there was a unified kingdom in this region – the Johor-Riau Sultanate, the territory of which approximately covered the entire area of the triangle.⁵ The Malay authority of the kingdom was destroyed by the Europeans in the late eighteenth century, resulting in the formation of three different polities in the nineteenth century under colonial influence: Singapore, Johor State and the Riau Residency. This division still remains today's border between Singapore, Malaysia, and Indonesia well into the post-colonial period, except during the Japanese occupation when the three regions were placed under a unified Japanese military administration. Such a political separation, however, could not cut off the socio-economic ties within the triangle. Carl Trocki describes a Chinese network covering the three regions, which to a large extent was created by Chinese activities in the form of *kongsi*⁶, opium farming, and

3 Chou, 'Multiple Realities of the Growth Triangle: Mapping Knowledge and the Politics of Mapping'.

4 Thambipillai, 'The ASEAN Growth Areas: Sustaining the Dynamism'. Thambipillai, 'The ASEAN Growth Triangle: The Convergence of National and Sub-National Interests'.

⁵ Andaya, *The Kingdom of Johor, 1641-1728: A Study of Economic and Political Developments in the Straits of Malacca*.

⁶ Or clan society, an organization found among overseas Chinese communities to overcome economic difficulty, social ostracism, etc.

gambir⁷ and pepper plantations particularly in the nineteenth-century, prior to the influx of Western capital.⁸ This network as an early type of regional growth triangle was further identified and underlined by Freek Colombijn. He attributes the formation of this nineteenth century network crossing the Strait of Singapore, to the cooperation of Chinese planters and their plantation of gambir and pepper in the Riau Islands and the financial capital and processing industry in Singapore.⁹ Aside from these visible, legal and formal connections, there are also scholars focusing on the invisible, illegal, illicit and informal aspects – piracy and smuggling. Ota Atsushi depicts how pirates in these areas established and operated their military and commercial networks, and how the Europeans and locals dealt with piracy.¹⁰ Such a type of regional network, mainly created by illegal goods, such as salvage, opium, weapons, raw silk and linen, suggested intensive interaction across the Strait of Singapore from another perspective.¹¹

All three regions used to be incorporated in a unified sultanate, but the conflicts between the Westerners and indigenous Malay rulers in obtaining both political and economic interest resulted in its break-up. On the one hand, it was political relationships, social structures and economic connections helping the construction of modern political borders. On the other hand, informal connections also influenced the colonial state building. The illicit activities of people, objects and ideas crossing the border represented a challenge to the authority of the state and the modernist project of state formation.¹² As E. Tagliacozzo has argued, during the colonial period the border was ‘quickly hardening, with dire consequences for politics, trade, and movement for a wide range of local actors, but resistance to state formation in the periphery and the laying of hard and fast boundaries was determined and swift’. The establishment of modern borders has involved a protracted struggle between demarcating states and recalcitrant local communities.¹³

⁷ A plant originally used as the ingredient of betel drug, later also used in tanning.

⁸ Trocki, *Opium and Empire: Chinese Society in Colonial Singapore, 1800-1910*. Turnbull, *A History of Modern Singapore, 1819-2005*.

⁹ Colombijn, 'Of Money and Trees: A 19th-century Growth Triangle'.

¹⁰ Ota, 'The Business of Violence: Piracy around Riau, Lingga, and Singapore, 1820-1840'.

¹¹ Rosenberg, 'Book Review: Elusive Pirates, Pervasive Smugglers: Violence and Clandestine Trade in the Greater China Seas'.

¹² Tagliacozzo, *Secret Trades, Porous Borders: Smuggling and States along a Southeast Asian Frontier, 1865-1915*. Tagliacozzo and Chang, *Chinese Circulations: Capital, Commodities, and Networks in Southeast Asia*. Gainsborough, *On the Borders of State Power: Frontiers in the Greater Mekong Sub-region*, 105.

¹³ Tagliacozzo, *Secret Trades*, 366.

Singapore was separated from the sultanate and set up as a trading post by Raffles in 1819. Later on in 1826, it was established as a part of the British Straits Settlements and became the government centre for the Straits Settlements.¹⁴ In the years following its establishment, Singapore rapidly achieved paramountcy in the maritime commerce of Southeast Asia, a position earned partly by its strategic location and partly by its jealously protected free-port status.¹⁵ It survived as a British base, living not by taxation upon trade but on the trading activity itself. Its free status turned the island within a few decades into the most flourishing port Southeast Asia had ever seen, a centre of a vigorous and politically demanding mercantile community.¹⁶ As an important entrepôt, Singapore has established broad external linkages with the world, supported by the prosperity of international trade with frequent communications between Singapore and other regions.¹⁷ It was the rise of Singapore that created a gateway to the world economy, which was essentially important for the economic development of Johor and the Riau Islands.

The final Johor-Riau separation took place in the mid-nineteenth century, when the Johor-Riau Sultanate was split into present-day Johor and the state of Riau-Lingga. Johor eventually came under British control, officially becoming a protectorate in 1914 with a British advisor present in the court.¹⁸ For the rest of the territory, a new Riau-Lingga kingdom was built on the ashes of the Johor-Riau Sultanate. Sultan Sulaiman Badrul Shah signed an agreement with the Dutch, surrendering sovereignty over his part of the territory to the Dutch in the early 1860s. Sulaiman was the first sultan to be appointed by a Dutch Governor-General and he worked successfully to improve the economy of the sultanate.¹⁹ His successors were not as obedient as him and the Dutch finally subjugated and dissolved the rebellious sultanate in 1911. Different from Singapore's position as a world trade centre, the economic development in Johor and the Riau Islands relied much on regional production in which both large European plantations and local smallholders exerted their influence.

1. Research period and historiography

Regional socio-political conditions experienced drastic changes, especially since the start of building colonial states in eighteenth century. However, this matter is still less studied. This study focuses on the regional economic connections for the period 1870s-1970s, when Europeans replaced Chinese in terms of economic significance in

¹⁴ Chandler and Steinberg, *In Search*, 137.

¹⁵ *Ibid.*, 137. But Huff emphasizes the importance of geographical location.

¹⁶ *Ibid.*, 136.

¹⁷ Wong, *The Trade of Singapore, 1819-69*.

¹⁸ Butlin, *Geographies of Empire: European Empires and Colonies, c. 1880-1960*, 70.

¹⁹ Matheson, 'Strategies of Survival: The Malay Royal Line of Lingga-Riau'.

the late colonial period and when the status of Malays began rising after achieving independence.

The choice for the 1870s is for several other reasons. First, in contrast to limited colonial activities before the 1870s,²⁰ the period that came after marked a new era for the history of Southeast Asia, represented by new shapes of European empires and considerable colonial expansion.²¹ In a political sense, it witnessed an intensification of European influence in existing imperial territories and the rapid acquisition of new territories, facilitated by the Anglo-Dutch Sumatra Treaty of 1871, which resolved territorial disputes between the two main colonial powers involved.²² On the British side, the Straits Settlements' transformation to a Crown Colony in 1867 further strengthened its direct official governance in the Malay world. Meanwhile, in Johor and the Riau Archipelago, colonial administration showed a pattern of indirect rule. Second, the 1870s saw the final break-up of the old Johor-Riau Sultanate. Abu Bakar, temenggong of Johor, declared himself as a *maharaja* (sultan), assumed control over Muar and declared himself an independent ruler in 1868. In the Riau Archipelago, a Resident was appointed to represent the reality of Dutch political dominance, whereas the Malay sultan was only regarded as an honorific title. Third, external factors, such as the wide use of steamers and telegraph, and the opening of the Suez Canal, brought regional economic development, especially in trade. It accelerated regional integration into the world market.

This study brings the analysis up to the 1970s, when Western colonialism disappeared from this region and local powers intensively stimulated regional economic cooperation and political development by the establishment of ASEAN in 1967. Political pacification created new stimuli for possible economic recovery by the signing of multilateral agreements and resulted, ultimately, in the formation of the SIJORI Growth Triangle. Regional economic development thus stepped into a new era with the process of industrialisation, impressively referred to as the 'Asian Miracle' from the 1980s onwards.

This period is not only largely neglected in historiography but also crucial for understanding current potentials and bottlenecks in the SIJORI. Only several years after the establishment of SIJORI, many scholars have focused on this topic. Most of them have sought the rationales behind and predicted the process, such as Myo Thant, Lee Tsao Yuan, David Wadley and Hayu Parasati, Pushpa Thambipillai, etc.²³

²⁰ Butlin, *Geographies*, 76-7.

²¹ Wesseling, *The European Colonial Empires: 1815-1919*, 75.

²² Butlin, *Geographies*, 32-3.

²³ Thant et al., *Growth Triangles in Asia: A New Approach to Regional Economic Cooperation*. Lee, *Growth Triangle: The Johor-Singapore-Riau Experience*. Wadley and Parasati, 'Inside South

However, the historical aspects are neglected by them. Nevertheless, it has been widely accepted that political separation of this region in the colonial period did not lead to an economic and social break-up. The economic development of Southeast Asia as a whole since the 1870s has attracted a vast amount of scholarship.

In general, as argued by D. P. Chandler and D. J. Steinberg, Southeast Asia in the colonial period has been considered as an exporter of raw materials of tropical agricultural commodities and mining products and an importer of Western manufactured goods determined by colonial policies and other impersonal forces of the world market. By means of these commodities, Southeast Asia entered the emerging world economy, establishing various links with other regions.²⁴ This trade-directed economic development was thus characterized by export industries, involving millions of people and vast planting and trading areas, as a consequence of scientific and industrial revolution.²⁵ On the Malay Peninsula, the once great importance of trade as the economic base of policies was retarded from the late seventeenth century, not to be restored until the twentieth century. Nevertheless, the pattern of trade – tropical agricultural raw materials and some mining products for imported manufactured goods – continued through the export boom of the late nineteenth and early twentieth centuries. The same situation held true in the Netherlands Indies, where export of plantation commodities boomed under the influence of liberal economic policies from 1870. Economically important products – coffee, sugar, tobacco and tin – were, or came to be, concentrated in the three centres of Java, the northern Philippines, and the Straits Settlements (SS). The rest of island Southeast Asia was both economically marginal and politically marginal.²⁶ Such a picture of discrepancy between the core and the marginal could also be applied to describe the different economic patterns of Singapore, Johor and the Riau Islands: Singapore's predominance in trading and shipping, which relied directly or indirectly on Johor and the Riau Islands.

With regard to the economic development of Singapore, first Wong Lin Ken, followed by W. G. Huff, has described a continuous trade expansion and port development from 1819 till the modern period. Their global perspective puts Singapore to a world context. Guided by economic development theory, W. G. Huff describes the development process of Singapore's port economy in detail. Before the Pacific War, it performed as a staple port, without agricultural and industrial foundation, relying heavily on the commercial products from Malaya and Indonesia, which were also fundamental to its post-war development.²⁷ By the 1970s, when

East Asia's Growth Triangles'. Thambipillai, 'The ASEAN Growth Areas'.

²⁴ Chandler and Steinberg, *In Search*, 167.

²⁵ Ibid.

²⁶ Ibid., 141.

²⁷ Huff, *The Economic Growth of Singapore: Trade and Development in the Twentieth Century*,

manufacturing became the economy's leading sector, Singapore could no longer be defined as a staple port, but rather as a centre of protected import substitution industrialization.²⁸

By contrast, the study of economy in Johor, as a district region, is relatively lacking. It is usually combined with the economic history of the Straits Settlements, and later on with Malaysia.²⁹ Even so, Johor does not receive much attention in this general picture, despite some work done by Trocki³⁰, Patrick Guinness³¹ and C. M. Turnbull.³² Their research shows that the economic embryo of Johor was nourished by the introduction of Chinese gambir and pepper plantations in the 1840s; the plants had been cultivated in the Riau Islands and Singapore before they reached Johor.³³ When these traditional agricultural plantations declined at the end of nineteenth century, rubber plantation took their place, facilitating the formation of the modern economic sector. However, as argued by Colin Barlow and John Drabble, rubber cultivation in Malaya was concentrated on the western side of the peninsula, namely the Federated Malay States (FMS).³⁴ After 1970, Johor came under the guidelines of the New Economic Policy (NEP), with increasing economic opportunities for Malays. Johor was integrated gradually into the national economy of Malaysia.

Nevertheless, the significance of Johor in this general picture needs more examination. In its long course of economic development, several sub-phases can be identified according to the shift of capital or economic pattern: Chinese domination in traditional plantations before the twentieth century; the expansion of European capital in the first half of twentieth century; and the formation of a state economy after independence with focus on the Malays. The changing power of these different ethnic groups in Johor's economic development resulted in a controversy about the

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²⁸ Ibid., 34.

²⁹ Important works include Cho, *The Malaysian Economy: Spatial Perspectives*. Rahman et al., *The Maritime Economy of Malaysia*.

³⁰ Trocki, *Opium, Empire and the Global Political Economy: A Study of the Asian Opium Trade*. Trocki, *Prince of Pirates: The Temenggongs and the Development of Johor and Singapore, 1784-1885*.

³¹ Guinness, *On the Margin of Capitalism: People and Development in Mukim Plentong, Johor, Malaysia*.

³² Turnbull, *A History of Singapore, 1819-1975*. Turnbull, *The Straits Settlements 1826-67: Indian Presidency to Crown colony*.

³³ Guinness, *On the Margin*, 2-3.

³⁴ Barlow and Drabble, 'Government and the Emerging Rubber Industries in Indonesia and Malaya, 1900-1940'.

reasons for the decline of Chinese plantations (gambir, pepper and coffee), the rise of Western rubber plantations from the end of the nineteenth century, and favourable policies towards the Malaysia from the 1950s. Trocki attributes the decline to plant disease, lower world market prices and labour shortages.³⁵ The same factors are also applied to the Riau Islands and are partly indicated by the trade structures of Singapore. It helps explain the mutual relationships of the three in the context of British and Dutch expansion.³⁶ The rise of national consciousness with the enhancement of Malays brings about another controversy. During the colonial period, kampong residents (also called kampong Malays³⁷) had already been increasingly involved in plantation work, but they were marginalized in the expansion of Johor economy due to their low economic status.³⁸ Although post-war government policy deliberately raised their political status, their economic incapability resulted that the ethnic Chinese still played a dominant role in the economic field. Therefore, the post-war ethnic relationship became an uncertain factor in economic development in Johor.

Different from both Singapore and Johor, economic development in the Riau Islands represented a combination of plantations and trade as shown by historians. Commodities exported from the Riau Islands from the 1870s onwards included the traditional agricultural products of gambir, pepper, gutta-percha and palm fruits, and mining products, such as tin.³⁹ From the 1920s, rubber and petroleum (in the Lingga Islands) dominated the trade. The importance of these two products in the regional economy has been maintained up to present times. However, except the traditional agricultural products which were locally produced in a large amount, only a small quantity of tin was produced in Bintan, Singkep and the Lingga Islands. Moreover, the majority of rubber exported from the Riau Islands was planted in the plantations on the mainland Sumatra, whereas all petroleum products came from the oil fields in Sumatra and Borneo. This situation indicates that the transshipments in the Riau Islands performed a key role in the entrepôt trade between the Outer Islands of the Netherlands Indies and Singapore. Attributed to its strategic position, more than 65 per cent of the commodities from the Riau Residency were exported to Singapore, and only 28 per cent to Java. As a result, early as the nineteenth century, a number of coastal towns in the Netherlands Indies, such as Tanjung Pinang (1829), Bandar Lampung (1839) and Sabang (1899) were selected as free ports. In the Riau Islands, both Europeans and Chinese dominated the regional export business, although the

³⁵ Trocki, *Prince of Pirates*, 195.

³⁶ *Ibid.*, 6.

³⁷ In Malay: *ummah*. It refers to Malays living in the villages, in contrast to urban Malays (*rakyat*).

³⁸ Trocki, *Prince of Pirates*, 12.

³⁹ SHS (1879, 1910), MCKS (1938).

role of indigenous Malays could not be ignored.⁴⁰ Economic development in the Riau Islands has been depicted as a plural economy in which both large European plantations and local smallholders exerted their influence.

In short, current historiography describes the regional economies individually and points out some factors accounting for the regional development. However, with regard to economic development of the three regions as a whole and the internal relationships between these factors, the study is insufficient. From a macro perspective, we see a general picture of economic networks in Southeast Asia: world-shipping centre at Singapore, the origin of primary commodities in the Malay Peninsula and the Netherlands Indies. But from a micro perspective, the attention has been unbalanced. The central position of Singapore has already been established in academic works, whereas the individual economic development of Johor and the Riau Islands has often been linked to the economic performance of British Malaya and the Netherlands Indies. A biased perspective erases the memory of the glories of the old Johor-Riau Sultanate. Rather than see it from either a Eurocentric perspective or a local ideology, in this study we have tried to stand outside and bridge the gap, searching for unity between them.

2. Research question, methodology, sources and structure

Although we should be cautious to identify the effect of these historical events, undoubtedly, colonial legacies have strong impact on present decision-making. Departing from this point, this study tries to reveal the economic connections within the SIJORI Growth Triangle covering Singapore, Johor and the Riau Islands, to answer the central research question: how did the regional economic system integrate into the world market in the context of globalization?

The research question is addressed in a twofold manner: internal integration to strengthen the existing regional economic system and external integration vis-à-vis the world market. The formation of a regional economy is indicated by three aspects in this study: trade, shipping and capital, which should be analysed within a socio-political background. The economic development with mutual connections between the three states has been attributed to individual comparative advantage of resource endowment, strategic position and favourable policies. In this study, we try to seek more factors beyond the range of comparative advantage and to adopt Porter's Diamond Model of competitive advantage to reveal the factors for the different paths of economic development in Singapore, Johor and the Riau Islands. In

⁴⁰ Touwen, *Extremes in the Archipelago: Trade and Economic Development in the Outer Islands of Indonesia, 1900-1942*.

addition, their individual performance was not an isolated process, but deeply interwoven with the world economy. We apply David Held, Anthony McGrew and other co-authors' concept of 'global transformations' to measure the integration of the SIJORI region as a whole with the outside world in the process of globalization to demonstrate the relationship between globalization and regionalization.

The study is based on the consultation of trade and shipping statistics, annual reports, bank reports and other official and unofficial publications covering a wide range of languages. Although these sources provide sufficient data for this study, the information remains unbalanced. First, these sources are sufficient for the analysis of official trade and shipping connections. On the other hand, hardly any sources exist that give information on illicit trade, piracy and other financial dealings. Therefore, this study can only marginally touch on illegal, invisible or secret connections. Second, primary sources are not available for the whole period, especially concerning the period of Japanese occupation. The discussion hence relies on the secondary literature. Third, many statistics concerning the post-war situation relate to the national level. An examination of the relationship between the national economy and the regional economy is required.

Based on these concepts, the rest of this dissertation is designed as follows: Chapter 1 outlines an analytical framework presenting the theoretical models. Chapter 2 provides an overview of the socio-political background of Singapore, Johor and the Riau Islands, with specific attention given to political transformations and ethnic relationships. Chapter 3, Chapter 4 and Chapter 5 focus on the three networks individually in three spheres – trade, shipping and capital – in the period under study. Each of the three chapters describes both individual performance and mutual connections. The points discussed in these four chapters are synthesized using the Porter's Diamond Model to show the process of regional internal integration. Chapter 6 analyses the external link of the growth triangle by using the globalization model. If without specification, all the values in this study are in current prices. When describing long-term trends, we consult a regional price index or deflator to reveal economic development in real terms.