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Genesis of a growth triangle in Southeast Asia

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Chapter 6

Regional Advantage in a Globalizing World

Both individual and joint performance of Singapore, Johor and the Riau Islands did not form an isolated process, but were deeply integrated with the world economy. This chapter focuses on the external aspect of the growth triangle, using the model of globalization introduced above. It starts with a general description of the external network formed by trade and shipping. The second part offers an analysis of the external integration by using four dimensions of globalization model.

1. The formation of external connections

External connections are defined as outward links of the triangle area with world market. They are directly materialized by the movement of commodities, capital, information, etc. Singapore as a traditional entrepôt had very limited production. On the export side, it depended on produce from Johor and the Riau Islands as discussed above. Throughout the period under study, the export structure of Singapore underwent several changes. In the late nineteenth and early twentieth centuries, traditional agricultural commodities, such as pepper and gambir from Johor and the Riau Islands created the first international connections with the world market. They were replaced by rubber and mining products from 1910s onwards. After achieving independence, there were also structural changes in exports. The development of

manufacturing and service sectors changed Singapore into a staple port, whereas exports from Johor and the Riau Islands still relied on agricultural and very few manufactured products, such as palm oil, rubber and minerals. The growing volume of exports from the triangle area indicated an intensified external connection with the global economy.

Within this network, Singapore, Johor and the Riau Islands played different roles. Since the nineteenth century, for Singapore, the world market has been its large destiny for export with the majority of products coming from its Malaya, and Indonesian hinterland. Especially after the 1870s, the international shipping connections of Singapore with the West were intensified by the arrival of the steamship rather than sail, and the use of cable telegraph, especially with Britain. As a result, the total tonnage of ships increased at an astonishing rate, which facilitated the international trade of Singapore, especially with western countries (Appendix xix). On the import side, imports of raw materials from British Malaya and the Netherlands Indies accounted for more than 40 per cent of the total in 1870, whereas imports from the West differed. Imports from Britain declined gradually from around 30 per cent in the 1870s to around only 10 per cent in the early 1900s, whereas the USA and Japan gained a larger share. Articles imported from Britain included cotton piece goods, apparel and ironware. From the USA came cigars, tinned provisions, paper, motor cars and oil products; from Japan, coal, cotton piece goods, wooden furniture, matches and cement. On the export side, among the Western countries, Britain had the largest share. In the 1870s, it only accounted for around 17 per cent of Singapore's total exports. This proportion increased slightly to 20 per cent in the first decade of the twentieth century. Exports to Britain were mainly preserved pineapples, oil cakes, tin, sago, gambir, pepper and rubber. These commodities were also exported to the USA, especially from the 1900s onwards when rubber was in a great demand. Exports to Japan included raw cotton, copra, rattan, rubber and tin. British Malaya and the Netherlands Indies had a share of around 20 and 30 per cent respectively in Singapore's re-export of Western manufactured goods around 1900.

More changes took place when rubber and tin replaced traditional agricultural products from the 1910s onwards, while Singapore still served as the pivotal point in trade and commerce for Japan, China, India and other countries in the Pacific and Indian oceans.¹ Among the trade partners of Singapore, the emergence of Japan as the third naval power in the world fundamentally altered the strategic situation of Singapore.² Japan began to gain significance in the trade with Singapore in the 1920s, replacing Britain in exports of cotton piece goods to Singapore in exchange for large

¹ Beale, *A Review*, 8.

² CSAR (1956), 318.

imports of mining products.³ It was also in this period that Britain was surpassed by the USA and the Netherlands Indies because of the expanding trade in rubber. In 1932, the USA took 67 per cent of rubber exports and 42 per cent of tin exports from the Straits ports.⁴

The external network was completely destroyed during the period of Japanese Occupation when Japanese military administration cut off also international connections of this region with the world market. These outward connections did not recover until achieving independence. By then, the pattern of economic development of Singapore began being transformed from entirely depending on trade to industrialization. Local production of industrial and manufactured products had a growing importance for Singapore's trade, reducing the importance of its previous Malaya and Indonesia hinterlands. In 1965, the political separation of Singapore from peninsular Malaya made this trend irreversible. Although there are no official statistics of trade between Indonesia and Singapore published between 1963 and 1965, there was a significant decline in trade with Indonesia during the mid-1960s, although it was unofficially believed that Singapore-Indonesia trade had recovered its pre-Confrontation level by the end of 1968.⁵ By contrast, Singapore's trade connections with other countries were re-established, reflecting its enlarged and varied forelands and hinterlands. Among these countries, Japan and the USA gradually gained considerable importance (Table 6.1).

The long-term development of Singapore's external connections mirrored the extended and intensified network of Singapore. In this network, the easy access to the world market attracted capital, technology, information to this island.

Table 6. 1. Geographical composition of Singapore's trade, 1961-1969.
(percentage share)

	Import				Export			
	1961	1963	1967	1969	1961	1963	1966	1969
P. Malaya	23.1	23.2	19.1	17.5	28.4	31.5	23.6	16.4
UK	13.0	11.7	8.0	6.7	7.9	6.3	6.1	5.8
Japan	10.8	11.1	12.4	16.3	5.6	4.3	4.5	7.1
USA	6.0	6.2	5.6	7.8	7.2	7.2	7.0	10.7
Other	47.1	47.8	54.9	51.7	50.9	50.7	58.8	60.0

Source: Courtenay, *A Geography*, 236.

³ Beale, *A Review*, 9.

⁴ Courtenay, *A Geography*, 129.

⁵ Ibid., 237-9.

Different from Singapore, the access of Johor and the Riau Islands to the international market was rather limited. Within the triangle, Johor played a role as an exclusive hinterland, mostly for Singapore. The only international connection was created in the late 1920s with the emergence of shipping directly to Japan without passing Singapore for mineral ores. In 1928, the total volume of ore cleared out was 584,588 tons. In 1930 and 1932, there were 113 and 118 Japanese steamers respectively.⁶ The rapid development of Japanese shipping resulted in a much extended Johor network. Different from other international trade, export of mineral ores from Johor to Japan continued during the Pacific War and this pattern remained unchanged during the post-war period. In the 1960s, more than 80 per cent of the exports of iron and bauxite ore from Johor were destined for Japan, a situation not different from pre-war years.⁷

The Riau Islands showed much similarity with Singapore. On the one hand, the Riau Islands acted as the hinterland of Singapore for exports of regional produce. On the other hand, it also served as a centre in Indonesia for the re-export of commodities from elsewhere in Southeast Asia and as a middle point between Java and other parts of the Netherlands Indies. Nevertheless, the international shipping network was limited in Southeast Asia representing a pattern of entrepôt transshipment. The import of food and other daily necessities was directly transhipped to other places in the Netherlands Indies. The reason for the foreign transshipment taking place through the Riau Islands rather than Singapore was the aim of the Dutch colonial government to attract shipment from Singapore to ports in the Indonesian archipelago. It was partly realized by the opening up of the Riau Islands as a 'duty-free region'. Yet the Riau Islands were marginalized in the shipping network of Singapore, exemplified by the limited shipping navigation between Singapore and ports in the Riau Islands. For instance, 'in 1877 only one new vessel, a schooner was registered. This was due to the great dullness of the local trade between Singapore and the indigenous states in Sumatra.'⁸ 'In 1891, several steamers had been laid up, and a line to Sumatra under Dutch flag had ceased running; the vessels were offered for sale in Deli.'⁹ Nevertheless, the role of Riau Islands did not entail any direct connection to the Western market. Even the commodities that met world market, such as rubber, tin and oil, still relied on the market channels of Singapore. This pattern kept unchanged after independence in Indonesia.

Although both Johor and the Riau Islands expanded their international foreland to certain extent, such expansion was still limited. Their access to the world market

⁶ JAR (1919, 1920, 1928, 1930, 1932).

⁷ 1960-1964, Production: ABSM (1964), 43.

⁸ ARSS (1877).

⁹ Ibid. (1891).

still depended on Singapore as intermediary. Through Singapore, Johor and the Riau Islands were exposed indirectly to international influence. Within the triangle area, local crafts and sails navigated between Singapore, Johor and the Riau Islands, while there was a growing expansion of ocean-going steamers transporting commodities from Singapore to the world market. These two types of shipping strengthened Singapore's connections with the world shipping network, as well as with the regional markets. This pattern determined that both Johor and the Riau Islands' economies were vulnerable, and they were deeply affected by the economic changes in the world market.¹⁰ From a global perspective, world trade has achieved rapid growth as indicated by its share in total GDP since 1870.¹¹ But periodic and geographic differences remained (Table 6.2). Compared to Johor and the Riau Islands, Singapore followed a relatively similar trend with the global trade growth, suggesting a far-reaching integration of Singapore with the world economy. By contrast, the trade of Johor and the Riau Islands showed a different path due to their regional specialities.

Table 6. 2. Average growth rates of trade of different regions, 1870-1970.
(annual average percentage rate)

	1870-1910s	1910s-1940s	1945-1970
World	3.5	1.8	5.8
Singapore	3.3	3.1	7.8
Johor	3.7	7	5
Riau	1.3	6	Slow recovery

Source: World trade growth from Held et al., *Global Transformations*, 218-29.

2. Analysis of external integration using the globalization model

Generally, there was a gradually deepened external integration of the triangle area with the global economy, revealing increasing globalization, whereas the individual processes of Singapore, Johor and the Riau Islands differed during the period under research. In this part, we consult four dimensions in the globalization model to reveal these spatio-temporal differences: extensity, intensity, velocity and impact.

Extensity

In the early period of imperialism, a worldwide trade and shipping network was just in embryo, as most of the commodities from this region were to large extent confined

¹⁰ Turnbull, *A History*, 7.

¹¹ Klasing et al., 'Trade Theory and Trade Growth Since 1870'.

to Asia and characterized as a flourishing entrepôt trade. Limited connections to the Western world were created from Singapore by exports of gambir and imports of manufactured goods from the West, particularly Britain, but the value was rather low. In exchange, manufactured goods were imported from Europe, particularly Britain. Although part of the raw materials came from Johor and the Riau Islands, transshipment through Singapore reflected an indirect outward connection, which was moderate in the Riau Islands and extremely limited in Johor.

Such a network was extended and stimulated by exports and shipping of rubber and oil products which was in a strong demand in the world market during the period of high colonialism. The expansion took place in all three regions, although compared to Singapore, the extensity of Johor and the Riau Islands remained limited. Steamship routes radiated from Singapore to Europe and the USA, carrying commodities and people. At the same time, the traditional intra-Asian network was also maintained or strengthened as indicated by the increasing importance of trade with Japan. In Johor, the extensity of the network was also enlarged by the shipping of mining products to Japan, and in the Riau Islands, the extension involved transshipment of oil products from Pulau Sambo. The most important regional agricultural product, rubber, was still exported via Singapore. In this way, the indirect connection prevailed above direct integration. It hence limited the extensity of Johor and the Riau Islands, which, at any rate, was lower than in Singapore.

The network was completely destroyed during the Pacific War and the only connection was with Japan. It thus resulted in an extremely low extensity. However, the smuggling trade and shipping still maintained the feeble existence of interregional connections.

A recovery took place in the post-war period but in a different fashion. In Singapore, internationalization deepened with continued liberal economic policies and the encouragement of foreign capital. But in Johor and the Riau Islands, particularly the latter, in the context of rising nationalism, more attention was given to the domestic market, resulting in a shrinkage in the world market and a limited foreign investment, especially from Japan and the USA. In Johor, the extensity was enlarged by the direct connection to the Western world and the wider utilization of FDI, although Singapore and Britain were still the chief partners. Nevertheless, compared to the situation in the first half of the twentieth century, such an extension was not very significant and reflected the considerable influence of the colonial legacy.

Intensity

The direct indicator to assess the intensity is the absolute volume or value of trade, shipping and capital. With respect to the dynamic process, growing intensity is also signified by the relative increase. The discussion hitherto has shown that the absolute

value of these aspects kept increasing over one hundred years, but also that there were spatio-temporal differences.

- Generally, the intensity is ranked by Singapore, Johor and the Riau Islands according to the absolute value of trade and shipping capacity
- The intensification as indicated by growth rates in trade and shipping was much stronger and faster in the post-war period than before in all the three regions as indicated by higher growth rates in trade and shipping.
- In the high colonialism era, the growth of trade and shipping compared to the period of early imperialism was faster in Johor and the Riau Islands, but slower in Singapore.

The formation of this pattern is attributed to (1) different levels of integration with the world market, which was deeper in Singapore than in Johor and the Riau Islands. It indicated the degree of globalization of the three regions from another way around; (2) the rising and falling importance and position of Europeans and Chinese in the three parts of the triangle as they directly pursued these connections.

Velocity

Velocity is described as the speed of the exchange of commodities, people and information between the origins and the destinations. To a large extent it can be indicated by the development of transport and communication which had a positive impact on the velocity. The development of transportation systems is shown by the construction of ports, the application of advanced technology in shipping, the improvement of shipping yards and shipping facilities and the improvement of inland traffic in this region. Communication is accelerated as a result of technological progress, including the use of telegram, steamers and later also aviation development. This point is also facilitated by the development of financial services, such as the establishment of banks, merchant firms, and the circulation and recognition of currencies. The discussion reveals that in general all these points showed improvement in the time series, yet more significantly in Singapore than in Johor and the Riau Islands. The change of velocity shows a similar trend with that of intensity.

Impact

The impact of globalization on a certain region is defined as how external influence and the interaction between these external factors changed regional social structure. These external factors included the immigration of Chinese and Europeans and their mobility and foreign capital.

In the period of early imperialism, such an impact had already been considerable in Singapore, as shown by the growing political power of Europeans and the design of Western institutions. But in Johor and the Riau Islands, the political

regime of a traditional sultanate to a large extent still autonomously existed and Western influenced was limited. The influx of Chinese people was on a large scale, but many of them came from adjacent areas, suggesting their regional characteristics rather than external factors. They, from Sumatra, mainly crossed the Straits of Malacca to bases in Singapore and Penang, either as refugees or as smugglers, because they found Singapore most convenient for their operations. Therefore, it seems that social structures did not change much compared to the previous period. This is suggested by the continued existence of Chinese secret societies and their cross-regional networks.

Structural changes were significant in the period of high colonialism. As the rubber plantations and the exploitation of petroleum expanded, so exogenous elements swarmed into Singapore. Politically, these changes were indicated by the further elaboration of administrative colonial institutions, the introduction of Western education, the suppression of Chinese secret societies and the building of Western houses and infrastructure. The political impact was also so far-reaching in Johor that the final coming of a British General Advisor changed the equilibrium at the Malay court. Such a change facilitated a growing importance of Europeans. The Malay sultanate came to depend strongly on British advisors and policies. Europeans' high hierarchy in the colonial government encouraged both British and Singaporean Chinese investors who were anxious to contribute revenue to the British economy. Reflected in terms of geomorphology, the former Chinese *kangkar* areas developed into market towns servicing the agricultural populations of the area. In Mukim Pentong, there was a rapid capitalist expansion.¹² In the Riau Islands, the abolishment of the sultanate brought an abrupt end to the political continuity. However, the continuation of the Chinese autonomous system maintained a certain stability in this area.

Apart from the political impact, social forces and social order created another connection to the process of globalization.¹³ Socially, the expansion of regional economy necessitated the influx of large numbers of workers preferred by Chinese and British planters, because they were more suitable for work, living conditions, and the discipline of the plantations than local residents. A dynamic social structure was created due to the increasing number of Chinese of different language groups and Europeans. The impact was increased by more aggressive colonial policies, which did not only influence the Chinese community, many of whom accepted Western education, but also affected indigenous Malays.¹⁴ Nevertheless, the citizenship and

¹² Guinness, *On the Margin*, 13.

¹³ Chin, 'The State of the 'State' in Globalization: Social Order and Economic Restructuring in Malaysia'.

¹⁴ Guinness, *On the Margin*.

identity of ethnic Chinese in the post-war period did have a certain effect on regional integration and connection.¹⁵

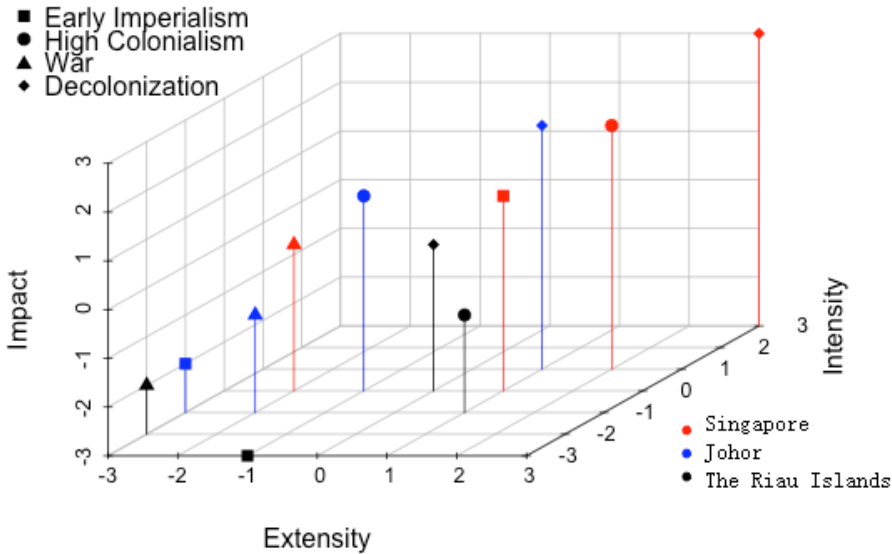
The impact of regional integration was extremely low during the Japanese occupation. There was no external impact. During decolonization, pre-war overseas networks were disrupted, replaced by trade routes determined by wartime territorial division. In Singapore, the social structure remained stable, as can be seen from the unchanged demographic structure. The impact was even deeper because of the continuation and increase of foreign investment, not only from the British Commonwealth, but also from Japan and the USA. By contrast, the external impact was relatively insignificant as a result of nationalism. Structural change took place as a result of internal factors, such as government policies, domestic capital, national trade and shipping. Nevertheless, due to the effectiveness of government administration, the colonial pattern was maintained to a large extent in the Riau Islands, which was likely to have tightened links across the Straits of Malacca with Singapore, but informally or illegally.

Table 6. 3. Globalization indicators of Singapore, Johor and Riau Islands by period, 1870-1970.

Region	Political	Extensity	Intensity	Impact	Velocity
Singapore	Early Imperialism	1	0	1	0
	High Colonialism	2	1	2	1
	The Pacific War	-2	0	0	0
	Decolonization	3	3	3	3
Johor	Early Imperialism	-3	-1	-2	-1
	High Colonialism	-1	0	1	0
	The Pacific War	-2	-1	-1	-1
	Decolonization	1	1	2	1
The Riau Islands	Early Imperialism	-1	-3	-3	-3
	High Colonialism	1	-1	-1	-1
	The Pacific War	-3	-2	-2	-2
	Decolonization	0	0	0	0

¹⁵ Lyons and Ford, 'Citizenship'.

Figure 6. 1. Visualization of the process of globalization in Singapore, Johor and Riau Islands, 1870-1970.



Based on the above information, the assignment of the value is displayed by Table 6.3. The individual processes of the integration with the world economy are visualized in Figure 6.1.

1. The process of globalization is different from region to region. It thus confirms the argument of Held, McGrew and others that globalization does not reflect a simple linear development.

2. In general, as globalization is achieved by the exchange of commodities, people and information, the case of Singapore is characterized as a direct pattern. By contrast, the process of indirect globalization in Johor and the Riau Islands is to a large extent through Singapore because of their limited access to the world market. In short, the globalization of Johor and the Riau Islands depended on Singapore.

3. There was a gradually deepening integration with the world in Singapore. Full globalization was achieved in the post-war period. In Johor, the integration was also deepened chronically, but the limited extensity meant that an integration was realized on the regional rather than global level. This process was different in the Riau Islands, where the deepest integration took place in the period of high colonialism and the relatively lower extensity, intensity, velocity and impact resulted in a low level of regionalization.

4. The continuation of colonial patterns into the post-war period in the Riau Islands showed a clear pattern of path dependence. The discontinuity during the war and post-war Johor can be attributed to political changes. The process was subject to

effective implementation of government policies which now still plays an important role in influencing regional economic development.

5. The direct integration of Singapore and indirect integration of Johor and the Riau Islands into the world market suggests a global stratification whereby countries or regions with economies of scale and political gravity blend into globalization directly, whereas underdeveloped countries or regions achieve indirect globalization through regionalization by integrating with their closest developed neighbours.

6. Within a core-periphery framework, it has been pointed out that a functional regional economy will typically consist of a central urban core and a surrounding, large rural, periphery.¹⁶ However, application of this argument varies by situation. From the point of view of Southeast Asia, Singapore together with its closest neighbour of Johor and the Riau Islands, played the role of core with the rest of the Southeast Asia area as the periphery, whereas from a national perspective, the Riau Islands occupied a peripheral position in Indonesia. The dual position of the Riau Islands is thus an uncertain factor of regional integration.

These hypotheses help us to understand the relationship between globalization and regionalization, always a matter of dispute among scholars.¹⁷ Marchand and others argue that regionalization reflects state and non-state forces reacting in opposition to globalization.¹⁸ But this study accepts Dent's view of regionalism as 'structures, processes and arrangements that work towards greater coherence within a specific international region in terms of economic, political, security, socio-cultural and other kinds of linkages.'¹⁹ If globalization can be conceived fundamentally as increasing levels of connectivity, integration and interdependence between different parts of the world economy and society occurring on a worldwide scale, then regionalism is a manifestation of very similar processes occurring on a lesser scale.²⁰ We suggest that globalization is a form of extremely extended and intensified regionalization, with the level of globalization declining from the economic and political core to the periphery. While regionalism may be viewed as a building block of globalization, it has also, conversely, been perceived at times as fragmenting the international system into separate competing regional blocs.²¹ Although Mittelman shows certain doubt about the effect of regional cooperation as a means to improve

¹⁶ Hughes and Holland, 'Core-Periphery Economic Linkage: A Measure of Spread and Possible Backwash Effects for the Washington Economy'.

¹⁷ Mansfield and Solingen, 'Regionalism'.

¹⁸ Marchand et al., 'The Political Economy of New Regionalisms'.

¹⁹ Dent, *East Asian Regionalism*.

²⁰ Hettne, 'Beyond the 'New' Regionalism'.

²¹ Dent, 'Paths'.

international cooperation and a sound base for sharing in globalization,²² the SIJORI case gives a positive answer.

This process is correlated to the factor of 'government' in the model of competitive advantage: (1) the ideology of laissez-faire with certain government intervention encourages both competition and cooperation of all ethnic groups and strengthened mutual connections; (2) an effective government administration indicated by 'direct rule', has a positive impact on the formation of mutual connections; (3) various ethnic groups, the Europeans, the Chinese, and to some extent the Japanese, actively performed a role as actors of internal connection. This can only be facilitated and encouraged by harmonious ethnic relationships; (4) extreme militarism and interventionism hamper economic development, resulting in a hostile ethnic relationships and weak internal connections. In short, stable and effective government administration, preservative and regulative liberal economic policies and fair ethnic policies are the direct impetus of regional economic connection and cooperation.

3. Concluding remark

The external integration of the growth triangle with the global economy was realized by the exchange of trade, shipping and capital through Singapore as a gateway, while these products largely originated from Johor and the Riau Islands where access to the world market was limited. By applying the globalization model, we found that there was direct integration with the world in Singapore, whereas this process in Johor and the Riau Islands was indirect and relied on Singapore as intermediary. Rather than globalization, Johor and the Riau Islands showed a strong characteristic of regionalization.

²² Mittelman, 'The Globalisation challenge: Surviving at the Margins'.