

Iskandar Malaysia woos Singapore firms
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When Tastyfood Industries decided to boost production to meet demand in Africa and the Middle East, the maker of Mr Cafe instant coffee and Vitamax cereal did not expand its Singapore factory or another one it owns in Xiamen, China.

Instead, it plans to close its Singapore plant next year and move up the road to Malaysia's Iskandar economic zone, where it will set up a factory three times the size on low-cost freehold land and hire willing workers as cheaply as it can in China.

"New generation Singaporeans do not like production positions as they are more educated now," Tastyfood founder and managing director Joseph Lim, a Singaporean, told Reuters.

"It's not easy to manage a manufacturing company in Singapore unless you are in high-tech, high value-added businesses like pharmaceuticals."

Singapore companies dominate the firms setting up factories in Iskandar, accounting for around 15 percent of the RM32.7 billion (US\$10.7 billion) committed as of June, according to the Iskandar Regional Development Authority (Irda).

Firms from Spain, Japan, the Netherlands and Germany are other large manufacturers in the zone in Malaysia's southern state of Johor, while companies from the United Arab Emirates are involved in housing and other property projects.

Lim, who will keep Tastyfood's marketing and product development operations in Singapore, said an average factory worker in Malaysia and China earns S\$400-S\$500 (US\$330-US\$410) per month, less than half the wage in the wealthy city-state.

Proximity is also key. The new Iskandar factory is just a 30-minute drive from Tastyfood's home base and major market, he said, against the four-hour flight from Xiamen.

"Doing business in China also carries a lot of risks, although things have been improving there," Lim said.

Singapore manufacturers are not the only ones heading to Iskandar.

Theme park Legoland and Britain's Marlborough College chose Iskandar for their first forays into Asia. US-based Simon Property Group Inc set up its first Premium Outlets shopping centre in Southeast Asia there through a joint venture with Malaysia's Genting Group, eyeing Singapore's affluent customers.

"We consider Johor and Singapore our resident markets," said Siegfried Boerst, general manager of Legoland Malaysia. "We are really convinced that the whole development of Iskandar will help to create major tourist destinations in southern Malaysia."

Being cheaper, and yet close by, is making Iskandar and nearby areas popular among bakeries, dry cleaners and other small and medium-sized firms that have shop-fronts in Singapore but do much of the work just across the border.

Awfully Chocolate - a Singapore cake and ice-cream retailer that has expanded into China, Taiwan and Indonesia - makes some of the items for the 10 stores in its home market at a facility near the state capital of Johor Bahru.

Mutual benefits

In recent years, Singapore has begun to focus on banking, wealth management and other services, moving on from the manufacturing boom of the 1970s and 1980s that first brought prosperity to the city.

Iskandar, a 2,200 square km (850 square mile) zone three times the size of Singapore, is just across a narrow strip of water and Malaysia is pushing its many advantages for factories looking to relocate.

Land prices are far lower and electricity costs are about half of Singapore's rates. Tax incentives are also on offer.

Tastyfood paid RM6.5 million for its freehold site in Iskandar that is the size of two soccer fields - about US\$15 per square foot. Singapore prices industrial sites by the potential built-up area and the cost could have been up to 30 times more.

Many see the budding relationship between Iskandar and Singapore as similar to the role that Shenzhen, once home to fishing villages and now a vibrant manufacturing centre, played in the growth of Hong Kong.

The Hong Kong Trade Development Council says the territory's companies now employ about 11 million people in Shenzhen and other parts of the Pearl River Delta, but still use Hong Kong for logistics, marketing, banking and other services.

But the shared history of the two Southeast Asian states may give some investors pause. Singapore was once part of Malaysia but was expelled in 1965 amid tensions between its Malay-dominated government and the city-state's ethnic Chinese rulers.

Fifteen years ago, former Singapore prime minister Lee Kuan Yew derided Johor as "notorious for shootings, muggings and carjackings" - reflecting the still testy relationship as much as the rough-and-tumble realities of the Malaysian state.

Initially lukewarm

Singapore firms were initially lukewarm about Iskandar and interest picked up only after the two countries signed a broad agreement in 2010 to address longstanding issues.

Both countries are discussing shared immigration check-points to speed up traffic on the two bridges across the causeway, along with ferry and water services. Subway operator SMRT Corp will build a rapid rail transit link to connect Johor to Singapore by 2018.

A number of Singapore residents have already bought homes in Iskandar, including Templeton fund manager Mark Mobius, who has a bungalow for weekend getaways.

Malaysia's IHH Healthcare Bhd is building a 300-bed hospital that will provide medical treatment to Singaporeans at half the cost.

The many changes "gave us the extra encouragement", said Singapore businessman Ricky Tan, whose Kinderworld group is building a private school with boarding facilities in Iskandar.

Ismail Ibrahim, head of the IRDA, said the Singapore companies in Iskandar are mostly small and medium enterprises but he is confident the larger firms will follow.

"We have the space, we have the geographical position and we have all the necessary infrastructure," he said. "With the right signals from both governments, big players from Singapore will be definitely coming in."

One of them could be engineering and property conglomerate Keppel Corp, which is in talks to buy a 30 percent stake in a power plant that will supply electricity to Singapore, according to media reports.

Singapore state investor Temasek Holdings is involved in two large property developments in Iskandar that will cost an estimated RM3 billion.

Still, some analysts warn that improved Singapore-Malaysia relations could hit a few speed bumps in the medium term. Ties could sour if there are changes to the political leadership in either country, said Chan Chong Beng, president of Singapore's Association of Small and Medium Enterprises.

The association recently surveyed members to gauge their interest in Iskandar and found that several had concerns about crime and the potential for costs to rise rapidly due to the zone's proximity to Singapore.

Many analysts and businessmen say there is a mutual interest in having Iskandar flourish.

"In the past, relations between Singapore and Malaysia were a bit chaotic," said Kinderworld's Tan. "But I think the economic benefits will drive the politicians in the future."

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