

IDR and real reform
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In his speech in Johor Baru, DAP secretary-general Lim Guan Eng outlined five challenges facing the newly launched Iskandar Development Region (IDR) in Johor. The challenges are the low investment inflow from Singapore, high crime rates and public safety, lack of emphasis on human capital development, the continuation of New Economic Policy and a differential treatment for local and foreign investors which discriminates against the former.

This article intends to examine his claims and to look at the real synergy which made the Pearl River Delta (PRD) region of Guangdong province the most dynamic region in the People's Republic of China since the start of China's reform initiative in 1979. Prime Minister Abdullah Ahmad Badawi claimed that the IDR was modeled after the PRD. However, the success story of both the special economic zones may differ due to several inherent attributes which are peculiar to the regions.

What was clear is that the PRD was established as a testbed for reform and to serve as a model for other jurisdictions in China. Before 1979, economic development in Guangdong paled in comparison with the eastern coastal development zones. Moreover, Guangdong was chosen as a special economic zone due to its proximity to both Hong Kong and Macau.

The PRC government saw several real advantages in this move. First, the PDR will tap both Hong Kong and Macau for the much needed investment funds. Second, PDR will allow Hong Kong to play a significant role in helping to modernise the region's economy and the rest of China. Third, the PRC government wanted to tap into Hong Kong, which has a matured jurisdiction, an efficient logistics hub and an advanced professional services sector, as an export and investment gateway of mainland China.

It is history that the decision wielded significant success to PRD. Since 1979, both Hong Kong and Macau accounted for 70 percent of the cumulative FDI in the region. Hong Kong manages almost 70 percent of both seaborne and airborne exports from the region to overseas. More than 90 percent of Hong Kong imports from the PRD were re-exported.

The integration between the two economies is significant and important. A study from the Hong Kong Centre for Economic Research showed that in 2000, the city state companies employed 11 million workers in PRD. By 2002, more than 52 percent of all manufacturing and import-export firms in Hong Kong had manufacturing operations in the mainland China. As an investment gateway to PRD, more than 82 percent of both Japanese and Taiwanese investors operated out of Hong Kong.

The success of PRD economic integration with Hong Kong is evident. From 1980 to 1999, the GDP of the PRD and Hong Kong grew by 15 times and five times respectively. PRD's economic success created spillover opportunities in the property, tourism and consumer sectors. Over 90 percent of the foreign tourists to PRD were from Hong Kong and in return 41 percent of tourists to Hong Kong were from the region.

Non-restrictive policies

An important question would be; "What are the contributory factors to the PRD?"

The most important contributor was flexible and non-restrictive economic policies adopted by the PRC government for the region. The special economic zone was created single-mindedly to integrate and tap into the vibrancy and dynamism of Hong Kong's economy. Hence, a generous corporate tax of 15 percent and tax holidays of up to five years were given to all investors.

Apart from that, other incentives included the ability to repatriate corporate profits and capital investments after a contract period, duty-free imports of raw materials and intermediate goods used for exported products, exemption of export taxes and a limited access to the domestic market were implemented.

PRD was given greater autonomy to decide on its finance and fiscal matters, FDI rules and guidelines, commerce and distribution, allocation of resources, labour system and other market decisions.

Back to Lim's argument, his assertion of a lack of investment interest from Singapore can be analysed from a few angles. First, the statement of purpose and intent to integrate IDR to Singapore is not as solid as the PRD and Hong Kong's integration. Moreover, it was launched at the time when Singapore's investors are spoilt for choice to locate their manufacturing operations unlike the PRD. Hence, it is difficult to establish the IDR as the hinterland to Singapore's economic development.

The republic's economic planning, since the last two decades, did not include Johor as its key overseas platforms. For the first eight months of 2006, Singapore's investment in the state stood at a paltry RM209 million. In 2000, the republic's cumulative investment in PRD was more than US\$5 billion. Unless Singapore is consulted and involved in the planning of the IDR, it will be difficult to see a quantum jump in the investment from the republic.

Second, whilst PRD was created with the intent to serve as a testbed for reform, the IDR's investment relaxation and waiver of the controversial NEP was limited and subjected to only foreign investors operating within a small area of 1,780 hectares. In addition, the decision to exclude the FIC rules from the small area is seen as shaky and unsure.

There is also a burden of history in some of the politically overcharged corporate acquisitions made by Singapore's investors of some Malaysian firms for example the Pantai shares by Parkway Holdings Ltd. It is undoubtedly that political interference is seen as a business risk to foreign investors. The Shincorp saga will deter more Singaporean acquisitions in economies which demonstrated intense nationalism.

PRD's success can be largely attributed to its ability to foster a relationship of dependence and mutual support with Hong Kong. Hong Kong provided investors who are interested to invest in PRD with reliable and efficient financial services, logistics support, information gateway, legal system and management expertise and knowledge on doing business in the region. As a result, many enterprises from other countries employed a large number of Hong Kong professionals to help manage their PRD operations. Some economists argued that the transfer and exchange of management experience is even more important than technology transfer. Given the knowledge transfer from Hong Kong, the region was able to cultivate, groom and attract better local skilled workers to work in PRD.

It means that IDR must find a complementary synergy and a win-win partnership with Singapore. It must be given the autonomy to dictate its own relationship with the republic without the unnecessary political interference which is often filled with racial nuances and

blinded ethno-nationalism. It must repair its image amongst Singaporean investors and policy makers. A credible action must go beyond the usual rhetoric of cooperation and mutual dependence.

I agree with Lim's third and fourth points on the need to balance 'software' (human capital development) and to exert policy consistency. Presently, we are not benefitting from the management expertise of Singaporeans but instead suffered a massive brain drain to the republic. It is estimated that there are close to 300,000 Malaysians working in the republic in various knowledge based industries.

Attract top brains

Malaysia must not only think of a way to stop bleeding more brains but to attract top brains to work in the IDR. Hence, the retraction of a Free Access Area originally pledged in IDR is a step backward. In PRD, a large number of people commute daily between Hong Kong and the region for work and meeting purposes. An easier access to IDR will facilitate other nationals who are based in Singapore to seek out opportunities in the region.

Given that the IDR initiative is a signature project under the present administration, the government should initiate serious policy discussions with relevant parties including foreign investment groups chiefly with the Singaporean investors and administration. A lingering uneasiness would still be the controversial NEP which is a bulwark of the 9th Malaysia Plan. Malaysia's past habit of fiddling with its policies had caused uneasiness with many foreign investors.

To rewrite our past records of failures and half successes, the government should emulate the PRC government's decision to use the PRD as a testbed for reform which has provided numerous lessons to other economic regions in China. A half hearted attempt at reform will ensure more failures. Moreover, the IDR is 30 years behind PRD and it should never be seen as a lesser attempt at reform compared to the latter.

On crime and safety, the threat of criminal activities is real but yet not as significant as the impact of bad policy direction and implementation to the IDR. Investors who have made forays into the PRD do have some horrible stories to relate as well. However, efforts must be taken to ensure that IDR is a safe haven for investors, workers and dwellers. What Johor needs is an image clean-up and a stronger commitment to rebuild its credibility as a serious economic player in the region.

In a nutshell, the success of the IDR rests on several key decisions which may contradict the current administration's stand. A thorn in the flesh which invites uncertainty and uneasiness amongst foreign and local investors is the NEP. The government has called for a revival of the NEP target last year before the release of the 9th Malaysia Plan.

With the economy going through a real bottleneck soon and competition for FDI getting tougher, the government must decide between its race affirmative agenda or a more inclusive socio-economic policy which is acceptable to both foreign and local investors.

It is without a doubt that the race affirmative policy is more a hindrance than a catalyst for social engineering and economic development in the country.