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Singapore-Malaysia Relations at a Time of Political Transition

By Ariel Tan

SYNOPSIS

Singapore-Malaysia relations are on the upswing, but political transitions have added new complexities.

COMMENTARY

Singapore-Malaysia relations are on the upswing. There has been quiet management of longstanding issues, including the price review of raw and treated water under the 1962 water agreement, airspace management, and implementation of the 2008 ICJ judgement on Pedra Branca, Middle Rocks, and South Ledge. For high-impact complex initiatives like the Kuala Lumpur-Singapore High-Speed Rail (HSR) and the Johor-Singapore Special Economic Zone (JS-SEZ), both sides have adopted a well-warranted measured approach.

In engaging with Malaysia, Singapore has had to contend with the evolving dynamics of competition and inter-dependency common to neighbouring states, in the context of political transitions and global geo-economic uncertainties.

Prospects and Concerns

In 2023, Malaysia was Singapore's third largest trading partner, with total bilateral trade amounting to S\$123.6 billion (US\$92.1 billion). Singapore was Malaysia's second largest trading partner and its largest source of foreign direct investment (FDI), contributing RM43.7 billion (US\$9.6 billion) or 23.2 per cent of Malaysia's total FDI. Johor recorded RM31 billion (US\$6.8 billion) in FDI, with Singapore and the United States being the main sources of manufacturing investment.

The Johor Bahru-Singapore Rapid Transit System (RTS) is the most exciting bilateral

initiative for the public. Expected to open by the end of 2026, it will be able to carry up to 10,000 people per hour in each direction.

Higher wages attract Malaysian workers to Singapore, contributing significantly to the Singapore economy and society, and bringing home earnings that support the Malaysian economy. The strong Singapore dollar makes Johor an attractive place for Singaporean families to reside, shop and play, thereby boosting the Malaysian economy but also increasing inflation risks there.

The [JS-SEZ](#) agreement was finalised this January. Covering the Iskandar Development Region and Pengerang, it is more than four times the size of Singapore. The agreement aims to attract global high-tech investments, including those in AI, quantum computing, medical devices, and aerospace manufacturing, and create 20,000 skilled jobs within five years, with a target of 50 projects during that time. Singapore will set up a fund to facilitate investment. Malaysia will provide infrastructure and has announced tax incentives for knowledge workers and companies in the targeted fields.

While Singapore-based companies may benefit from lower costs by shifting operations to Johor, there are concerns that Johor and Malaysia could present increased economic competition for Singapore in the longer term. Acknowledging these concerns, Singapore Prime Minister Lawrence Wong noted that the two economies had complementary strengths while competition also came from elsewhere.

Malaysia hopes that higher wages in the SEZ could reduce the need for its workers to commute or relocate to Singapore. The Johor government views it as a key catalyst for the state to achieve developed status by 2030.

While the SEZ is primed to attract advanced sectors, it remains to be seen if it would also welcome less sophisticated industries which are interested to participate. Malaysia's plan to build infrastructure as projects are agreed upon, rather than first installing it to attract companies, is financially prudent, but requires a responsive investment facilitation agency that can deliver on demand.

Seamless Travel

The growing expectation of the public for fast and seamless travel must be balanced against the need for border security and the prevention of cross-border criminal and terrorist activities.

Media reports suggest that Singaporeans may be responsible for up to half of the demand in some Johor shops for vaping products, which are illegal in Singapore. The annual [report on terrorism](#) released in July 2024 by Singapore's Ministry of Home Affairs noted that the Southeast Asian region continues to see ISIS-linked or ISIS-inspired attacks and foiled plots. In May 2024, a radicalised man, likely ISIS-inspired, attacked a police station in Ulu Tiram, Johor, killing two police officers. Law enforcement agencies on both sides enjoy close cooperation and are expected to intensify their efforts with the upcoming RTS and SEZ.

Leadership Transitions

In the last decade, Singapore has adopted an open and forward-looking approach, relaxing some of its historical defensive reflexes. Wong is expected to continue with this approach.

The brief tenures of recent Malaysian governments made it challenging for leaders on both sides to build personal ties. Fiscal constraints, domestic priorities, and public scepticism over mega projects susceptible to corruption have also reduced Malaysian appetite for the HSR. Malaysian Prime Minister Anwar Ibrahim prefers to leave this to the private sector.

Anwar has been a friendly and open-minded leader keen on improving bilateral relations. In Johor, the sultan, who is concurrently the King of Malaysia, and the Regent, as well as the Mentri Besar (chief minister), Onn Hafiz Ghazi, are energetic advocates of stronger relations with Singapore. Johor is a key state for UMNO and the Harapan ruling coalition. Singapore would be seeking to capitalise on this federal-state alignment where possible.

Anwar, however, presides over a much more contested polity than before, and is under pressure from all sides. When the government devotes resources to projects in Johor, Harapan-run states like Selangor and Penang can be expected to seek similar support, while the four less developed states run by PAS, namely Kelantan, Terengganu, Kedah, and Perlis, also need federal assistance. A different administration may have different priorities.

When the first Harapan government, led by Dr Mahathir Mohamad, took office in 2018, it halted major projects for review, including the RTS and HSR. One conclusion to be drawn from this is that major projects may not survive a new administration if they are not economically or financially sustainable or lack public support. Buy-in from elite players alone would no longer be sufficient.

More pertinently, in the 2018 general election, the then opposition had cautioned voters against the likely influx of PRC citizens to the Forest City development project in Johor. The current opposition has also played up instances of PRC flags being waved in Penang and Perak, raising questions about the loyalty of Malaysian Chinese. The growing Singaporean presence in Johor may, in time, also be politicised for electoral gains.

The Singapore government has diversified its relations with Malaysian political parties. It may also be beneficial to explore economic opportunities beyond the familiar grounds of Johor, Penang, and the Klang Valley. Singapore's historic ties with East Malaysia, especially Sarawak, are being renewed. Discussions are ongoing for a 1,000 MW undersea electricity transmission project from Sarawak to Singapore.

Managing racial and religious relations is crucial for both countries. Given their geographical proximity and overlapping online space, racial or religious frictions in one country could easily spill over to the other. As Singapore's Senior Minister Lee Hsien Loong has said, Malaysia and Singapore have taken "radically different approaches" to managing their multiracial societies. "Therefore, things that either side does – things

that we take for granted within our own societies – can easily raise eyebrows and be misinterpreted by the other side and can cause misunderstanding or unhappiness every now and then”.

Finally, it is estimated that more than 1.18 million Malaysians currently work in Singapore, with approximately 300,000 to 400,000 commuting daily across the Causeway. From time to time, Malaysians have lamented the loss of their talents to Singapore, from doctors to aircraft engineers. The desire to retain their people is understandable and evident in the case of Johor’s stakes in the JS-SEZ. Competition for Malaysian manpower will intensify as Malaysia transitions to being an aged nation by 2040.

Conclusion

The Johor state government, in collaboration with the federal authorities in Putrajaya, has recently allocated RM5.0 billion (US\$1.12 billion) to develop three reservoirs and three water treatment plants, aiming to reduce Johor’s dependence on Singapore for treated water by 2030. This ambitious project to improve the raw water collection in Johor and produce more treated water needed by its people and industry should be welcomed. A recognition of our shared water security would contribute to neighbourly relations, particularly as climate change and water scarcity worsen.

In recent years, Singapore has increased its water production and diversified its sources of food, energy, and labour. This could, counterintuitively, ease bilateral tensions, as happened when Singapore decided to step up water reclamation, desalination, and collection when the water talks between the governments stalled in the early 2000s. Similarly, synergistic collaboration combined with a healthy dose of competitiveness would serve to spur both countries forward at a time when they need to cooperate in regional and international forums to safeguard free trade and the rule of law in international relations.

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