Indonesia and Malaysia: The Near Neighbours

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Singapore has two neighbours with which it shares a strait, a history and a large part of its daily economic life. Indonesia, the most populous state of Southeast Asia, lies a short ferry ride to the south across the Singapore Strait. Malaysia, from which Singapore separated in 1965, lies across the Causeway to the north. Both countries supply the city with water, labour, food, energy and land for industry. Both also supply a large share of the clients of its banks, wealth managers and family offices. This chapter examines the economic relationship with the two near neighbours from the point of view of the financial centre: the wealth that Indonesian families hold in Singapore, the cross-border zones in the Riau Islands and in Johor, the tax amnesties through which Jakarta and Kuala Lumpur tried to bring undeclared assets home, and the opportunities and risks that proximity creates.

The subject has a long history. Earlier chapters have shown that the free port of 1819 was founded on the territory of the Johor–Riau sultanate and that its prosperity depended from the beginning on the trade of the archipelago and the Malay peninsula. The political borders drawn in 1824, 1965 and after changed the legal form of these links without interrupting them. What had been trade within one region became cross-border trade, cross-border investment and, increasingly, cross-

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border wealth management. The questions this raises are those of every financial centre that lives next to larger neighbours. How far may it serve the wealth of their citizens, how does it react when they tighten their tax laws, and how does it share the benefits of growth across the border?

The Geneva volume posed the same questions for a city surrounded by France and close to Italy. Geneva's relationship with its French hinterland, with its 107,200 cross-border commuters, and the regularisation programmes through which France and Italy recovered tax on assets held in Switzerland offer instructive parallels. The comparison at the end of this chapter shows how far they hold and where Singapore's position differs, because its neighbours are large developing economies whose own financial systems are still growing.

Essentials

Singapore is the most important foreign location for the wealth of Indonesian families. In Indonesia's tax amnesty of 2016–2017, Indonesians declared Rp 751.19 trillion of assets held in Singapore, about 73 per cent of all declared foreign assets, while only about Rp 85 trillion was repatriated from Singapore. Singapore is also by far the largest source of foreign direct investment in Indonesia, part of which is Indonesian and international capital channelled through Singapore holding companies. In the Riau Islands, Batam, Bintan and Karimun have been developed since the 1970s, and above all since the growth triangle of 1989, as an extension of Singapore's industrial economy. The extradition treaty with Indonesia has been in force since March 2024. With Malaysia, the Johor–Singapore Special Economic Zone agreed on 7 January 2025 covers about 3,571 square kilometres and offers corporate tax rates of 5 per cent, a 15 per cent income tax rate for knowledge workers and a zero rate for single family offices in Forest City. Proximity brings Singapore clients, land, labour and growth, but it also exposes the financial centre to the capital controls, tax policies, financial crime and environmental crises of its neighbours.

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