

ASEAN: Levelling up cooperation via Johor-Singapore Special Economic Zone (JS-SEZ)

Summary

The signing of MOU between Malaysia and Singapore in Jan 2024 on the Johor-Singapore Special Economic Zone (JS-SEZ) showcases yet again the extent of deepening of cooperation among ASEAN member states, in contrast to a world that is increasingly fragmented, confrontational, and distrustful.

While details will only be unveiled in later part of 2024, there are good chances that JS-SEZ will move forward given both Malaysia and Singapore governments have endorsed this project, increased connectivity and business flows between both sides, and the fact that Johor state itself is an economic powerhouse in its own right.

A successful implementation of JS-SEZ, with Shenzhen-Hong Kong being the prime example, will be a “win-win” to both sides in a case of 1+1>2, as it complements the strengths of both Singapore and Malaysia and therefore elevates the economic potential.

Elevating cooperation in ASEAN with Johor-Singapore Special Economic Zone (JS-SEZ)

Malaysia and Singapore signed a Memorandum of Understanding (MOU) on 11 Jan 2024 to work on a Johor-Singapore Special Economic Zone (JS-SEZ) that would pave the way for higher cross border trade and investments as well as strengthening economic connectivity between Johor and Singapore. The agreement to finalise the establishment of the JS-SEZ will be signed by end of this year.

The JS-SEZ was initiated in 2023 after leaders from both countries agreed to set up a special task force to study the establishment of the special economic zone. This special economic zone is also expected to improve the business ecosystems of both the Iskandar Malaysia region and Singapore. Among the sectors that the zone is targeting are electronics, financial services, business-related services and healthcare.

The signing of MOU for JS-SEZ showcases yet again the extent of deepening of cooperation among ASEAN member states amidst a world that is increasingly fragmented, confrontational, and distrustful. Other examples of such ASEAN cooperation include the entering into force of the [Regional Comprehensive Economic Partnership \(RCEP\) in Jan 2022](#), and the ongoing project of the [ASEAN Economic Community \(AEC\)](#), among others.

Deja vu

The excitement about Johor is not new and rings back to 2013 during former Prime Minister Najib's tenure (2009-2018), when the Iskandar Region project was established. There was similarly much anticipation then about Johor and Iskandar Region which was touted as the “Shenzhen of Malaysia”. However, the buzz cooled off in subsequent years, and followed by the termination of Kuala Lumpur-Singapore High Speed Rail (HSR) in Jan 2021, after both sides failed to agree on proposed changes by Malaysia, which paid nearly S\$102.8 mn to Singapore to settle the cancellation.

What is different this time

1) Strong support and proactive governments

There have been several working visits by the country officials as bilateral relations between Singapore and Malaysia scale to its highest point. In addition, unlike the Iskandar Malaysia corridor, the current JS-SEZ was signed by both governments, increasing the likelihood of more concrete follow-up actions. In early 2023, both countries also signed an MOU to cooperate in the field of personal data protection, cybersecurity and digital economy.

Since then, a committee, co-chaired by Malaysia's Economic Minister Rafizi Ramli and Singapore's Minister for National Development Desmond Lee, have proposed a number of areas for joint cooperation, including industrial development, tourism activities, innovation facilitation and improved connectivity.

In addition, the SEZ and HSR also receive high-level support from the current King who hails from Johor, as these landmark projects would further elevate the state in terms of economic activity, investments, and development.

2) Improved infrastructure and connectivity

The Rapid Transit System (RTS) linking Johor Bahru and Singapore will be completed by Dec 2026, that would enhance economic activity between Johor and Singapore by enabling more seamless connectivity.

It should be noted that the Singapore-Malaysia land border crossing is one of busiest in the world, with an estimated 400,000 travellers per day before COVID-19, using all modes of transport including 90,000 motorcycles, 70,000 cars, and about 7,000 each of lorries and buses. Post-COVID, the number of travellers has returned to an average of 350,000 per day. The RTS, once completed, will go a long way in providing an additional mode of transport, alleviating the congestion and increasing connectivity between both sides.

The revival of the Kuala Lumpur-Singapore High-Speed Rail (KL-SG HSR) connecting Kuala Lumpur and Singapore would further enhance transport connectivity, economic development and bilateral relations. There is strong interest and high-level of support with seven consortia (comprising of 31 companies) having submitted concept proposals to build the KL-SG HSR. One of the key considerations is the project cost and for the HSR to be largely private financed. This is also to ensure its viability and completion, given that the Malaysian government axed the project back in 2021 due to its high cost and burden to the government's balance sheet.

3) Tide of investment flows

Malaysia has clearly benefited from the trend of supply chain diversification since 2016. In particular, Johor has been one of the key recipients given its geographical location, vast land, connectivity, and resources that makes it a viable option as Singapore or China (Plus One) strategy. The state government is embarking on its "Maju Johor 2030 - Powering Johor into the New Economy" initiative to elevate the state on a new growth trajectory. The Invest Malaysia Facilitation Centre (IMFC) in Johor is expected to be established this year, and is aimed to attract more new investors.

Johor state government is expecting MYR60 bn in additional investments covering various projects at the Pengerang Integrated Petroleum Complex (PIPC) in Pengerang, Kota Tinggi, involving the third phase of the development. The third phase of the PIPC will cover the years 2026 to 2031, in line with the PIPC Master Plan. Various projects in the pipeline are expected to be realised during the third phase of the PIPC, including the construction of solar farms, bio-refineries and facilities producing nitrile-related products.

In addition, Johor has become Malaysia's new data centre hub, and the state will see some MYR17 bn in new investments in 2024. As a case in point, Ministry of Investment, Trade and Industry's (MITI) one-day investment mission to Singapore in Jan 2024 has yielded MYR2.8 bn of committed foreign direct investments (FDI) from two companies.

Johor was ranked as the fifth largest investment destination in Malaysia, garnering significant investment values last year (as at Jan-Sep 2023): Wilayah Persekutuan Kuala Lumpur (MYR48.9 bn), Pulau Pinang (MYR44.9 bn), Selangor (MYR41.6 bn), Kedah (MYR22.6 bn), and Johor (MYR20.0 bn).

Seamless travel for people and goods

The government has not identified the boundary of the JS-SEZ as more details will only be known by year-end. Successful implementation of seamless connectivity will be critical for the SEZ success. A key requisite is to implement passport free travel between Johor and Singapore and digitized process for cargo clearance which would be a game changer.

Other potential areas to expand include enhanced corporate connections in common areas of interest such as ESG, smart city cooperation and innovations, explore sandboxes for new tech applications in Johor, joint pitches for large scale strategic foreign investments, expanding the elderly care ecosystem, co-organising tourism events, and establishment of Johor-Singapore Chamber of Commerce to connect companies with cross border investments.

Replicating the success of Shenzhen

Drawing parallels and lessons from Shenzhen, which was established in Mar 1979 and became one of the first four special economic zones (SEZs) that China created in 1980. Shenzhen functions as a link between Hong Kong and the mainland where Hong Kong provided capital, logistical support, access to world markets and management know-how amongst others. Since then, Shenzhen has developed into an important transport hub on China's southern coast and is considered an important economic base for high-tech industries, financial services, exports, and maritime transport services. The development of Shenzhen SEZ came at a time of China's opening up while Hong Kong, Macau and Taiwan, China were upgrading their industrial structures. As such, Shenzhen was also quick in identifying its industrial position. The SEZ became a major platform to attract foreign investment, capital, technologies and talent. One of the key strengths of the SEZs is that they have a high concentration of skilled labour, including many R&D personnel. As a result, they have become centers of knowledge and technology generation, adaptation, diffusion and innovation. The innovative culture driven by a large migrant population in Shenzhen is unique that contributed to its success.

Thus, well-designed policies and effective policy execution would make it more conducive for FDI to flow into Johor. This is especially in the case of the JS-SEZ where two countries are involved. Infrastructure and incentives to attract FDI and skilled labour must be present. The measures for attracting FDI in Shenzhen included streamlined administrative control; concessionary tax rates, breaks, and exemptions; preferential fees for land or facility use; reduced duties on imports; free or low-rent business accommodation; flexibility in hiring and firing workers; depreciation allowances; and favorable arrangements pertaining to project duration, size, location and ownership. The attractiveness of the Shenzhen SEZ is also enhanced by the presence of a large manufacturing supply chain and scientific research ecosystem within China.

Facts about Johor's economy and infrastructure: An Economic Powerhouse in its Own Right

Johor contributed 9.4% to Malaysia's overall GDP in 2022, becoming the third top state contributor after Selangor and Kuala Lumpur.

In 2022, Johor was the top state that attracted the highest approved investments in Malaysia, accounting for ~MYR70.6 bn or 26.7% of overall approved investments in the country.

In 2023, Johor ranked second highest in terms of total trade, ~MYR753 bn (Exports: MYR414 bn, Imports: MYR339 bn) or 29% of the country's total trade.

Johor's economy is mainly dominated by services and manufacturing activities. Manufacturing accounts for 30.2% share of Johor's economy with significant activities in electronics and petroleum/chemicals sectors, while services' share is about 53.3%. Johor is earmarked to be one of the high performing states under the 12th Malaysia Plan Mid-Term Review (MTR) with targeted growth of 5.5%, which is on the upper end of the national growth targets of 5.0-5.5% for 2023-2025.

Reflecting the close business relations between the two sides over the years, total trade between Malaysia and Singapore has expanded 60.3% between 2019 and 2023, to RM 363 bn, with an annual growth rate of 13% during the same period.

Leveraging on Singapore's position as the regional financial, investment and technology hub, a successful implementation of the JS-SEZ will be a "win-win" to both sides in a case of 1+1>2, as it complements the strengths of both Singapore and Malaysia and therefore elevates their economic potentials. The successful Shenzhen-Hong Kong SEZ will be one prime example that both sides can aim for.

Johor: Key economic sectors

Indicator	2021		2022	
	MYR mn	% share	MYR mn	% share
GDP, Johor	131,303		142,056	
Manufacturing	40,727	31.0	42,949	30.2
Oil & Fats from Vegetables & Animals, Food Processing, Beverages & Tobacco Products	5,307	4.0	NA	NA
Petroleum, Chemical, Rubber & Plastic Products	8,957	6.8	NA	NA
Non-Metallic Mineral Products, Base Metals & Fabricated Metal Products	5,114	3.9	NA	NA
Electrical, Electronic & Optical Products	13,386	10.2	NA	NA
Transport Equipment, Other Manufacturing & Repairs	7,973	6.1	NA	NA
Services	68,316	52.0	75,672	53.3
Utilities, Transport & Storage, Information & Communication	18,279	13.9	19,991	14.1
Wholesale & Retail Trade, Food, Beverage & Accommodation	18,233	13.9	21,827	15.4
Finance & Insurance, Real Estate & Business Services	13,301	10.1	14,318	10.1
Other Services	6,625	5.0	7,046	5.0
Government Services	11,878	9.0	12,491	8.8
Agriculture	16,980	12.9	17,304	12.2
Construction	3,424	2.6	3,967	2.8
Building construction	1,507	1.1	NA	NA
Civil engineering	1,265	1.0	NA	NA
Specialised construction	651	0.5	NA	NA
Mining & quarrying	587	0.4	631	0.4

Source: Macrobond, UOB Global Economics & Markets Research

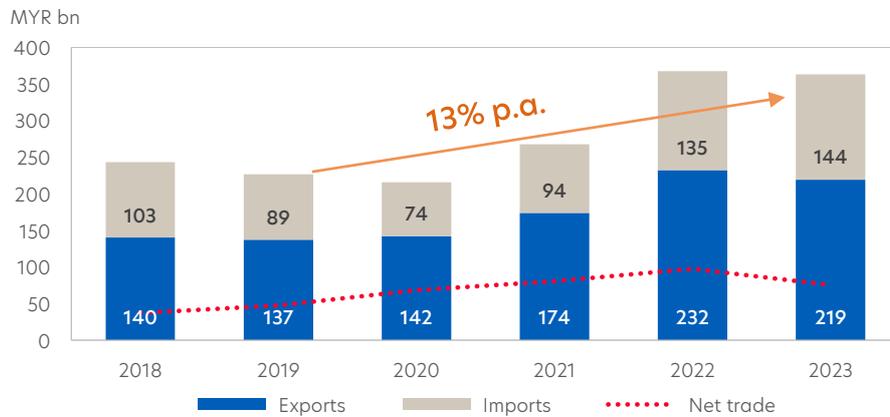
Five flagship zones in Iskandar Malaysia

Source: Iskandar Regional Development Authority



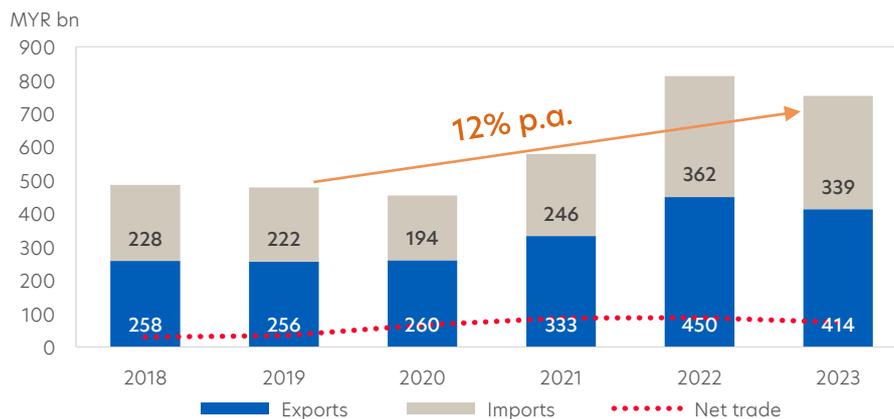
Malaysia-Singapore trade

Source: Macrobond, UOB Global Economics & Markets Research



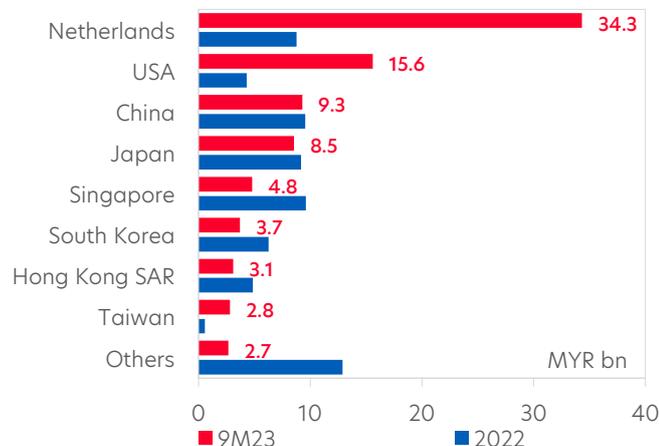
Johor State trade

Source: CEIC, UOB Global Economics & Markets Research



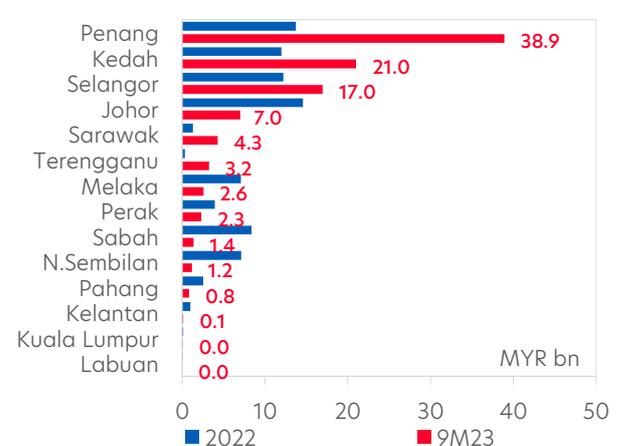
Sources of foreign manufacturing investment approvals

Source: MIDA, CEIC, UOB Global Economics & Markets Research



Manufacturing investment by state

Source: MIDA, CEIC, UOB Global Economics & Markets Research



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