

Macro Note

Malaysia: JS-SEZ Update #2 – Actively in progress

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- Post the Johor-Singapore Special Economic Zone (JS-SEZ) memorandum of understanding (MOU) signed on 11 Jan 2024 (details in [report](#)), both countries' governments continue to work closely on formalizing the implementation of the cooperation. Just this month (Apr 2024), Malaysia's government has taken bold actions on two out of the seven initiatives stated in the MOU (see details in [official press release](#)) to support the JS-SEZ.
- Chief Minister of Johor, Datuk Onn Hafiz Ghazi, revealed that the JS-SEZ would be closely linked with the Forest City Special Financial Zone (SFZ) to bring more investment opportunities, job creation and development projects to Johor. These two zones will likely be interconnected with a T-shape integrated transport network (i.e. Johor Bahru-Singapore Rapid Transit System (RTS), revised Kuala Lumpur-Singapore High-Speed Rail (KL-SG HSR) project and proposed Light Rail Transit (LRT) system).
- There are comprehensive blueprints with clear and ambitious goals guiding the state and regions which goes beyond traditional development paradigms. Both JS-SEZ and Forest City SFZ have also been planned as main catalysts to power up and elevate a new era of growth and development in Johor. The drafted policy and investment package offered by the government, policy stability, and finding a suitable location and availability of land to develop the JS-SEZ will be pivotal drivers to realise the plan's success.

Taking preliminarily actions to drive the success of JS-SEZ

Post the Johor-Singapore Special Economic Zone (JS-SEZ) memorandum of understanding (MOU) signed on 11 Jan 2024 (details in [report](#)), both countries' governments continue to work closely on formalizing the implementation of the cooperation. Just this month (Apr 2024), Malaysia's government has taken bold actions on two out of the seven initiatives stated in the MOU (see details [in official press release](#)) to support the JS-SEZ. The two initiatives were:

- i. Establish the Investment Malaysia Facilitation Center Johor (IMFC-J) to foster investment cooperation between the federal government and state agencies, streamline business and investment dealings in Johor, as well as pave the way for enhanced economic partnerships. It is expected to be set up in Forest City, which was granted a Special Financial Zone (SFZ) status in Aug 2023, and be completed this year (2024); and
- ii. Malaysians travelling to Singapore on factory buses will be able to clear immigration through QR code starting Jun 2024. It follows similar measures in Singapore which began in Mar 2024 and is expected to ease travel for hundreds of thousands of passengers crossing the causeway daily for work, education, business and family reasons. This passport-free QR code clearance system on both sides is also part of the initiatives identified in the MOU, whereby the SEZ aims to achieve "better and easier" arrangements for the flow

of people who have to work both in Singapore and Johor, said Singapore PM Lee Hsien Loong on 30 Oct 2023.

The government has also announced the hosting of the ASEAN Tourism Forum at Forest City (Johor Bahru) on 19-25 Jan 2025, which will showcase Forest City's potential as a premier destination for tourism and hospitality. This recognition of Forest City as a venue for tourism and major events suggests that it may host more significant domestic and international events in the future, which is expected to include the joint promotion events as mentioned in the JS-SEZ MOU (one of the seven initiatives).

Nevertheless, other details such as government policy for the SEZ, investment prospects, precise location, suitable investment initiatives and packages to be offered, as well as feedback from businesses on the JS-SEZ have not been released at this juncture. Presumably, there will be more details disclosed by 3Q24 given that the full-fledged agreement is expected to be signed by year-end and Malaysia's national budget for 2025 is due to be tabled in Sep/Oct.

To recap, the Unity Government announced its plan to create a SFZ in Iskandar Malaysia (IM) during the retabling of Budget 2023 (on 24 Feb 2023) while Forest City was officially granted SFZ status (on 25 Aug 2023) with several incentives and the expansion of incentives in IM to Forest City, including a special income tax rate of 15% for skilled workers as well as multiple entry visas and fast track entry for workers from Singapore.

Seven initiatives stated in the JS-SEZ MOU on 11 Jan 2024

Source: Ministry of Economy, UOB Global Economics & Markets Research

No	Initiative
1	A one-stop business/investment service centre in Johor - to facilitate the application processes for various approvals and licenses necessary for Singapore businesses to set-up in Johor
2	Adoption/implementation of a passport-free QR code clearance system on both sides - to facilitate more expeditious clearance of people at land checkpoints
3	Adoption of digitised processes for cargo clearance at the land checkpoints
4	Co-organising an investors forum - to gather feedback from Singapore and Malaysia businesses on the Johor-Singapore Special Economic Zone (JS-SEZ)
5	Facilitating Malaysia-Singapore renewable energy cooperation in JS-SEZ
6	Curating training and work-based learning initiatives - to address talent and skills gaps for relevant industries in JS-SEZ
7	Developing joint promotion events between Johor and Singapore - to promote trade and investment into JS-SEZ

Selected incentives for Iskandar Malaysia (IM)

Source: Various Media, UOB Global Economics & Markets Research

No	Incentive
1	A special income tax rate of 15% for skilled workers
2	Multiple entry visas, fast track entry for workers from Singapore
3	A 100% tax exemption of up to 10 years on statutory income for promoted activities
4	A 200% tax deduction of up to 10 years on investment activities in promoted sectors
5	Approved developers Medini Iskandar Malaysia (MIM) can receive income tax exemption from statutory income derived from the rental or disposal of a building located in an approved area in MIM until 2025
6	Approved development managers (businesses that provide the management, supervisory, or marketing services at MIM) can receive income tax exemption until 2024

JS-SEZ and SFZ will be closely linked with T-shape connectivity

Chief Minister of Johor, Datuk Onn Hafiz Ghazi, revealed that the JS-SEZ would be closely linked with the Forest City SFZ to bring more investment opportunities, job creation and development projects to Johor. Forest City's SFZ status with tailored incentives and regulations will foster financial innovation and entrepreneurship, making it a global hub for finance and trade. The SFZ is expected to create and form a new financial ecosystem that is complementary and cooperative with Singapore, just like the development models of Shenzhen and Hong Kong. Such complementary cooperation will form a financial "dual-core engine" in the ASEAN region. The JS-SEZ will focus on high technology manufacturing industries.

These two zones will likely be interconnected with a T-shape integrated transport network, kicking off with the Johor Bahru-Singapore Rapid Transit System (RTS) project that is expected to begin operations by Dec 2026. Trailing the RTS project will be the revived Kuala Lumpur-Singapore High-Speed Rail (KL-SG HSR) project and proposed Light Rail Transit (LRT) system, whereby both are still in the proposal stages. These three networks will form a T-shaped system passing through the southern Johor corridor.

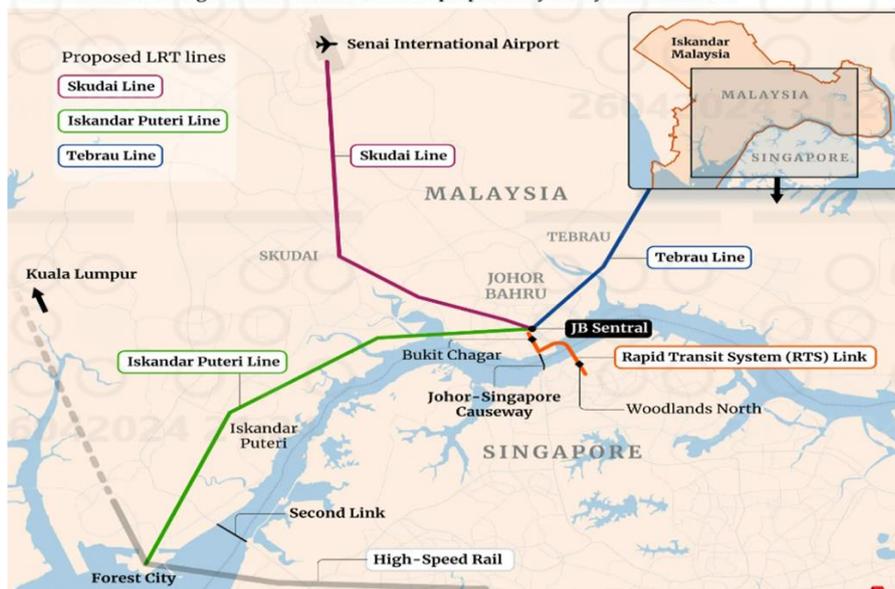
Meanwhile, the government is also mindful of the importance of incorporating the Forest City SFZ and the JS-SEZ into the planning process of the revived KL-SG HSR project to ensure sustainable development as well as synergy with strategic areas for regional growth. Due to large-scale cost of building the T-shaped integrated transport network, the projects will likely be conducted under the public-private partnership (PPP) model. The estimated cost of the proposed LRT project is MYR20bn, while the HSR project is estimated to cost at least MYR100bn. This compares to the cost of RTS at MYR10bn. Back in Jan 2024, the government announced that seven Malaysian and international groups - comprising 31 firms - have submitted their concept proposals for the development of the KL-SG HSR project.

On top of that, the Gemas-Johor Bahru electrified double-tracking rail project (Gemas-JB EDTP), expected to be completed by 2025, is also eyed to be one of the game changers for Johor. Once completed, this link would run from Peninsula Malaysia's southernmost tip all the way to Padang Besar on the Thai border, thereby enhancing significantly the efficiency of moving people and cargo in the west coast of Peninsular Malaysia.

Proposed T-shaped integrated transport network

Source: MRT Corp, Johor State Government, CNA, UOB Global Economics & Markets Research

The HSR and LRT alignments are based on latest proposals by Malaysian authorities



Eyeing Johor to be a developed state by 2030

With the establishment of the JS-SEZ and Forest City SFZ, the government projects the economic growth in Johor to pick up at a faster pace to be a developed state in Malaysia by 2030. With positive spillovers to other economic regions, this will help drive Malaysia's economic development more rapidly.

Under Johor's economic masterplan (Maju Johor 2030), the state government targets to raise Johor's GDP by 7.8% per annum to MYR260bn by 2030, from MYR142.1bn in 2022 and pre-pandemic average growth rate of 5.1% between 2016 and 2019. The state government also acknowledged that an accommodative economic policy and quality investments must be injected quickly in order to achieve this ambitious target.

Priority sectors outlined in the state's masterplan are electrical & electronics (E&E), life science & med-tech, advanced manufacturing & engineering, digital economy, green economy, halal industry, electric vehicles (EV), aerospace and ports & logistics. It will also focus on ESG and actively seek more investments in renewable energy (RE) and other green technology sectors that will support the growth of new industries such as data centres.

Between 2022 and 2023, the Johor state government approved MYR113.7bn in investments, which was 19.0% of Malaysia's total approved investments of MYR597.2bn in the same period. In 2023 alone, Johor drew 751 committed projects worth MYR43bn while in 1Q24, it has approved 221 projects that accounted for 30% of 2023's number. These investments focus on four sectors, namely machinery & equipment, food processing, E&E and chemical & petrochemical. The Johor state government said in early Apr that they aim to attract further investments than last year based on investment opportunities lined up presently, such as the JS-SEZ and Forest City SFZ.

For Iskandar Malaysia (the expected location of JS-SEZ), it has recorded a total cumulative investments of MYR409.5bn as of Sep 2023. Domestic investments contributed 55% of the cumulative investment recorded so far (or equivalent to MYR226.4bn) while the remaining 45% or MYR183.1bn were foreign investments. Foreign investments were mainly sourced from China (MYR61.8bn or 33.8%), Singapore (MYR45.8bn or 25.0%), the Netherlands (MYR11.9bn or 6.5%), Japan (MYR11.1bn or 6.1%) and the US (MYR9.5bn or 5.2%). About 58% or MYR236.8bn of the cumulative investments have been realized.

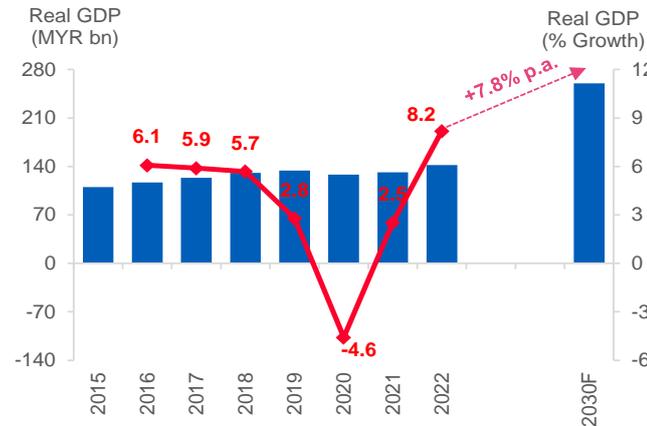
In Jan-Sep 2023, Iskandar Malaysia attracted a total of MYR33.6bn committed investments with MYR11.0bn having been realized and business services sector being the main contributor. This included investments in regional data centres amounting to MYR22.4bn and MYR7.7bn of manufacturing investments.

Given that Iskandar Malaysia's cumulative investments of MYR409.5bn have surpassed the region's initial target of MYR383bn by 2025, the Iskandar Regional Development Authority (IRDA) raised its cumulative investment target to MYR636bn by 2030, a new target set in its recently-launched Iskandar Malaysia Comprehensive Development Plan III (CDPiii) 2022-2030. The plan consists of four focus areas, namely high-value economy, productive society, climate resilience & carbon-neutral region and integrated & liveable city.

The fact that Iskandar Malaysia achieved its initial target for investments well ahead of time and by a wide margin suggest that its potential is yet to be fully realized, and JS-SEZ will be a key catalyst for further achievements ahead.

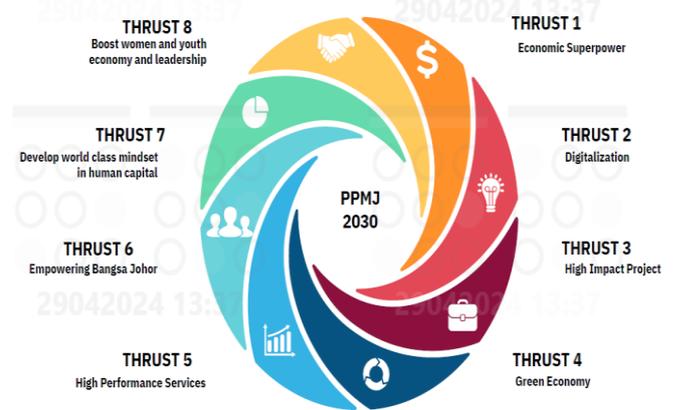
Johor's real GDP growth since 2016 and target for 2030

Source: CEIC, Maju Johor 2030, UOB Global Economics & Markets Research



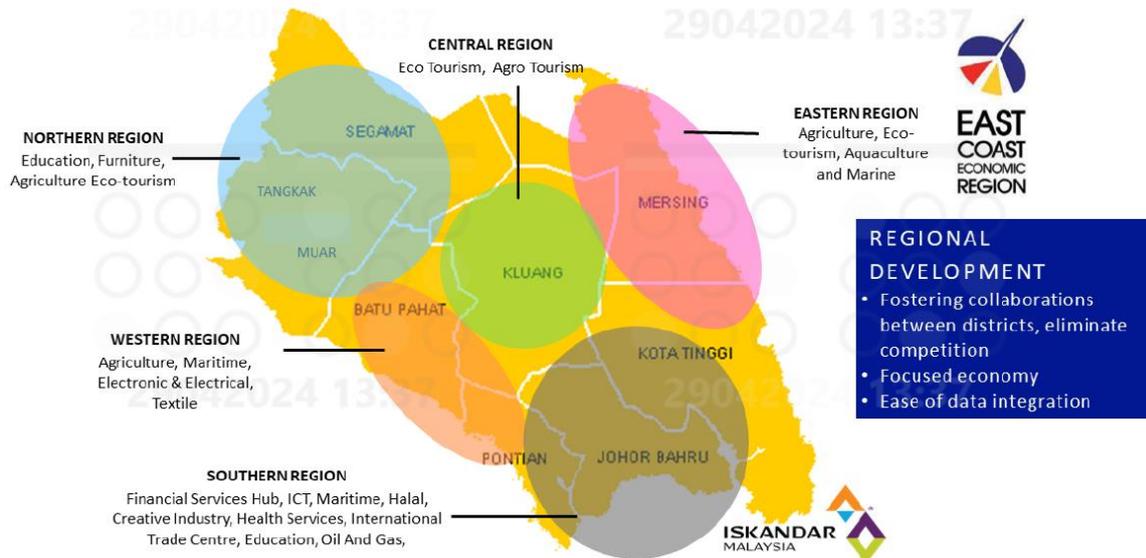
Eight thrusts of Johor's masterplan (reform strategies)

Source: Maju Johor 2030, UOB Global Economics & Markets Research



Regional-based development in Johor

Source: Maju Johor 2030, CNA, UOB Global Economics & Markets Research



Priority sectors outlined in Johor's masterplan

Source: Maju Johor 2030, UOB Global Economics & Markets Research



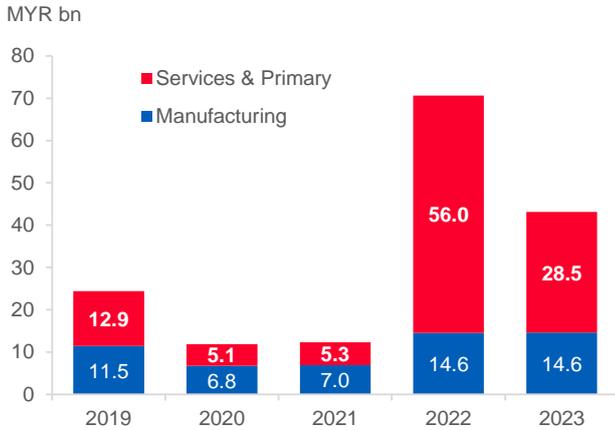
Nine promoted sectors in Iskandar Malaysia (IM)

Source: IRDA, UOB Global Economics & Markets Research



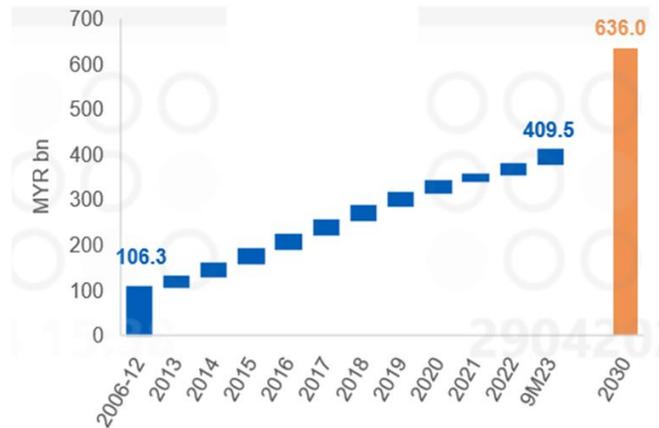
Total approved investments in Johor since 2019

Source: MIDA, UOB Global Economics & Markets Research



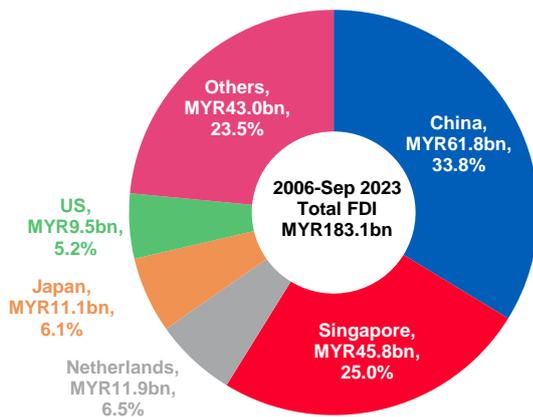
IM's cumulative investments as of Sep 2023

Source: IRDA, UOB Global Economics & Markets Research



Top five foreign investment sources in IM

Source: IRDA, UOB Global Economics & Markets Research



Cumulative record investments in IM by sector (MYR bn)

Data as of end-2022

Source: IRDA, UOB Global Economics & Markets Research



Key focus is on details of drafted policies and location of JS-SEZ

On perusal, there are comprehensive blueprints with clear and ambitious goals guiding the state and regions which go beyond traditional development paradigms. Both JS-SEZ and Forest City SFZ are planned as main catalysts to power up and elevate a new era of growth and development in Johor. These are also aligned with the country's Madani Economic Framework and masterplans such as New Industrial Master Plan (NIMP) 2030 (details in [report](#)) and the National Energy Transformation Roadmap (NETR, details in [report](#)).

Focus will now turn to the drafted policy and investment package offered by the government to ensure a long-term successful implementation of the special economic and financial zones as well as to develop Johor as a developed state by 2030 and the nation's second metropolitan after Greater Klang Valley. Based on channel checks, details of the drafted policy and investment package offered by the government, policy stability, and finding a suitable location and availability of land to develop the JS-SEZ will be pivotal drivers to realise the plan's success.

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