ALLIANCEDBS RESEARCH

Economic Focus

Johor-Singapore Special Economic Zone: 1 + 1 > 2

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Research Analysts

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- **Johor-Singapore SEZ presents a paradigm shift for multi-year growth opportunity to emerge as the epicentre of thriving ASEAN economies**
- **Strong Malaysia-Singapore bilateral relations with firm commitments to embrace unprecedented opportunity to uplift economic growth amid shifting global dynamics**
- **Win-win proposition with multi-faceted positive spillover to mark the beginning of a second economic take-off**

Collaboration of two key ASEAN states

ASEAN has consistently proven its resilience and appeal as a leading destination for FDI despite the overall decline in global FDI flows. The renewed uncertainties arising from increasing unilateralism and protectionism in the global landscape has made ASEAN, a traditionally non-aligned bloc, a rising economic hotspot. More importantly, ASEAN's rising prominence as a major hub for global supply chain underscores its competitive advantage in positioning itself as a critical partner for multinational companies to navigate a changing world order. Malaysia and Singapore – the two richest in ASEAN by GDP per capita – are already closely integrated in terms of trade, business and labour movement which is evident with the high traffic volume exceeding 300k people daily at the Johor-Singapore Causeway. The establishment of the Johor-Singapore Special Economic Zone (JS-SEZ) covering a land area of 357k ha crucially presents a rare multi-year growth opportunity to be the epicentre of thriving ASEAN economies, creating powerful synergy combining Singapore's global connectivity and Johor's growing industrial base.

New leaderships are aligned

Scepticism is not unexpected given the high aspirations of Iskandar Malaysia since its inception. We believe it is markedly different this time around as both Malaysia and Singapore have expressed strong political and economic commitment to the JS-SEZ which was first mooted in May 2023, before the signing of MoU in Jan 2024 and official agreement in Jan 2025. The JS-SEZ blueprint is also expected to be completed by the Malaysian government by 3Q25. Both countries are likely to adopt a long-term approach for JS-SEZ, targeting 100 projects in its first 10 years, as more action plans are taken to address the key structural pain points faced by businesses including enabling smoother transfer of goods and people, scaling up the work force and making the regulatory and approval process faster and easier for investors. Much has been achieved over the past 1.5 years, including the set-up of Invest Malaysia Facilitation Centre – Johor, the implementation of QR-code immigration clearance and streamlined customs procedures for land intermodal transhipments. Meanwhile, the completion of Rapid Transit System (end-2026), Gemas-JB double-track rail (Sep 2025), elevated Autonomous Rapid Transit (2027) and the potential revival of KL-SG HSR will all contribute to the promising future of JS-SEZ as the leading ASEAN investment destination.

Johor is riding on a new wave of industrialisation

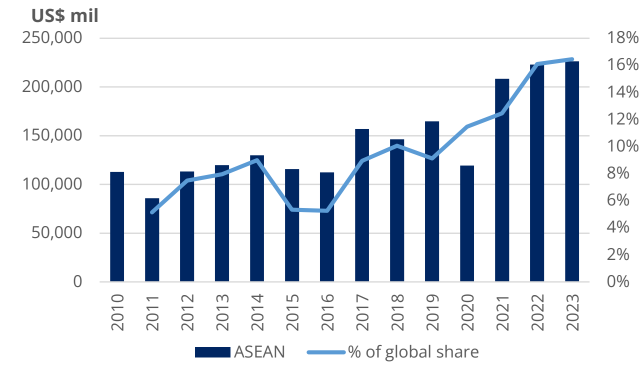
Investment-driven spending has now emerged as a new growth driver for Malaysia under the Madani Economy Framework, encompassing the New Industrial Masterplan (NIMP) 2030 and the National Energy Transition Roadmap (NETR), benefitting the Johor state as a traditional industrial powerhouse. In 2023, Johor's GDP, accounting for 9.5% of Malaysia's GDP grew by 4.1% in 2023, outpacing the national growth of 3.6%. Importantly, Johor punches above its weight as approved investments account for 13% while claiming a lion share of 20% of Malaysia's exports in 2024. As JS-SEZ continues to progress in the coming years with its carefully-curated development plans, we believe this is set to be the next catalyst for Malaysia's second economic take off.

ASEAN is emerging as the new hotspot

The establishment of JS-SEZ comes at an opportune time as the world faces changing dynamics, especially with the on-going US-China trade tensions and the shift in global political landscape which have all contributed to renewed uncertainties. This structural shift has made ASEAN, a traditionally non-aligned bloc, a rising economic hotspot. Since Trump's first US presidency in 2017-2021, ASEAN has largely benefitted from the geopolitical landscape with increasing share of goods trade as well as marked increase in foreign direct investments due to supply chain diversification under "China + 1" strategy.

ASEAN has consistently proven its resilience and appeal as a leading destination for FDI despite the overall decline in global FDI flows. The shifting patterns and priorities in global FDI, particularly the growing focus on digital and renewable energy are also strongly manifest in the region. More importantly, ASEAN's rising prominence as a major hub for global supply chain underscores its competitive advantage in positioning itself as a critical partner for multinational companies to navigate a changing world order under the new US administration.

Rising FDI inflow into ASEAN



Source: AllianceDBS, UNCTAD

Malaysia, under the leadership of Prime Minister Anwar Ibrahim since Nov 2022, has continued to focus on rebuilding and restructuring its economy with the inception of Madani Economy Framework in Jul 2023 as the overarching principle to propel Malaysia's goals to achieve a progressive, inclusive and dynamic economy. Subsequently, the NETR and the NIMP 2030 were rolled out, both of which have the lofty ambitions of lifting Malaysia's economic competitiveness and elevating the overall socioeconomic status of the people.

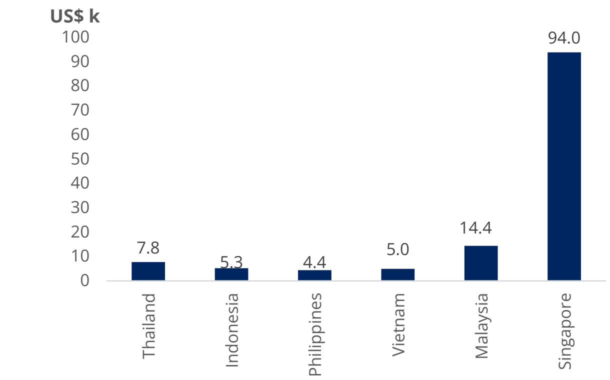
The concerted efforts by the Madani government to accelerate Malaysia's economic growth trajectory has started to bear fruits in 2024 with the higher-than-expected GDP. With Malaysia's economy firing on all cylinders and the government embarking on fiscal reforms, JS-SEZ stands out as a new growth driver to further propel its second economic take-off toward a high-income nation.

On the other hand, Singapore has always strived to enhance its global competitiveness, cementing its position as a vibrant global business hub and international finance centre. Singapore's policy focus will continue to be anchored by the 4G leadership's Forward Singapore agenda. Singapore has benefitted from the on-going global tech upcycle, thanks to its exposure in the advanced semiconductor manufacturing technology. With its supportive fiscal spending, Singapore's growth prospect remains favourable given its unwavering focus in sharpening economic competitiveness such as higher budget allocation for National Productivity Fund, Changi Airport Development Fund and Future Energy Fund.

Nevertheless, Trump's second presidency has brought about significant uncertainties on global trade, going by the imposition of tariffs against US' top three trading partners that account for ~40% of US' whopping US$3.3tr annual import of goods. Potential reciprocal trade measures could further complicate trade relations, potentially creating challenging economic conditions for all parties involved.

Since both Malaysia and Singapore are highly-open trading economies with large exposure to the US and China, the shifting global order has culminated in the establishment of JS-SEZ – a testimony of close economic collaboration between Malaysia and Singapore to foster a new growth driver that is beneficial for both nations. JS-SEZ could also potentially benefit from Singapore's close bilateral trade relations with the US under the US-Singapore Free Trade Agreement, notwithstanding the short-term volatility arising from uncertain US trade policies.

GDP per capita



Source: AllianceDBS, IMF

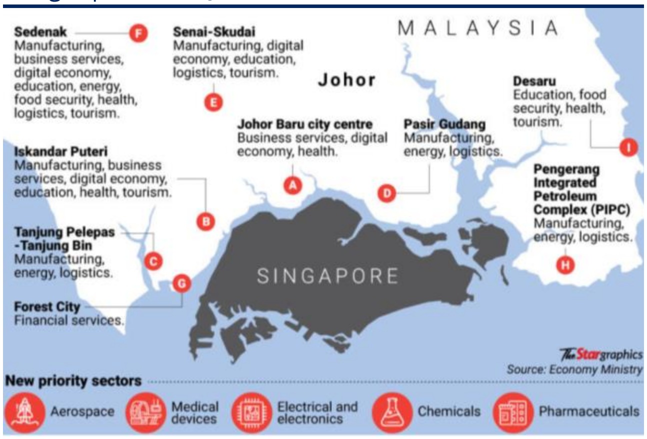
JS-SEZ holds promising future

Scepticism is not unexpected given the high aspirations of Iskandar Malaysia since its inception. We believe it is markedly different this time around as both Malaysia and Singapore have expressed strong political and economic commitment to the JS-SEZ which was first mooted in May 2023, before the signing of MoU in Jan 2024 and official agreement in Jan 2025.

Much has been achieved over the past 1.5 years, including the set-up of Invest Malaysia Facilitation Centre – Johor, the implementation of QR-code immigration clearance and streamlined customs procedures for land intermodal transhipments. The JS-SEZ blueprint is also expected to be completed by the Malaysian government by 3Q25.

Both countries are likely to adopt a long-term approach for JS-SEZ, targeting 100 projects in its first 10 years, as more action plans are taken to ease the pain points faced by businesses from both sides. Meanwhile, the completion of the upcoming Rapid Transit System (end-2026), Gemas-JB double-tracking rail (Sep 2025), elevated Autonomous Rapid Transit (2027) and the potential revival of KL-SG HSR will all contribute to the promising future of JS-SEZ as the leading ASEAN investment destination.

9 flagship zones of JS-SEZ

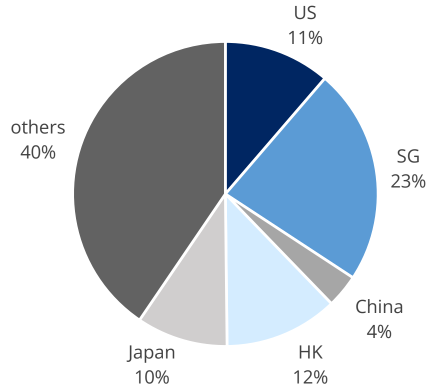


Source: AllianceDBS, The Star, Economy Ministry

Malaysia and Singapore – the two richest in ASEAN by GDP per capita – are already closely integrated in terms of trade and business trade with Singapore being Malaysia's second-largest trading partner and Malaysia ranking as Singapore's third-largest. Meanwhile, the Johor-Singapore Causeway is one of the busiest land crossing in the world with high traffic volume exceeding 300k people daily. Therefore, the establishment of Johor-Singapore Special Economic Zone (JS-SEZ) covering a land area of 357k ha crucially presents a rare multi-year growth opportunity to be the epicentre of thriving ASEAN economies, creating powerful synergy combining Singapore's global connectivity and Johor's growing industrial base

We believe the JS-SEZ is poised for success as the timing is ripe for both Malaysia and Singapore to further enhance the close economic collaboration that has been enjoyed for years. It serves as a win-win proposition that leverages on the unique strength from both countries to uplift the economic growth. Singaporean businesses already have a significant presence in Johor as the largest foreign investor, and this jointly-developed initiative will further enhance cross-border collaboration.

Singapore is largest foreign investor in Malaysia

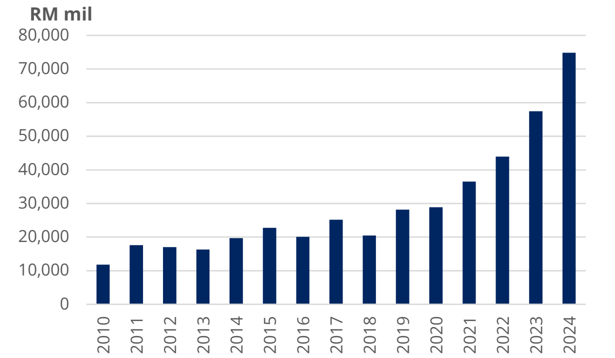


Source: AllianceDBS, CEIC

Johor offers lower operational costs compared to Singapore, including cheaper land, labor and utilities. Businesses can leverage Singapore's financial and logistics hub while setting up operations in Johor to optimize costs. In terms of talent and workforce availability, Johor has a large, cost-competitive workforce, while Singapore provides access to skilled talent and research capabilities.

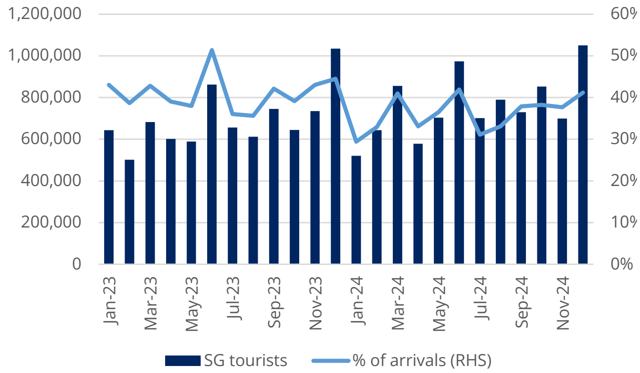
In fact, Johor Talent Development Council (JTDC) has been established as a coordination platform for designing training programmes and skill enhancement initiatives to meet the demand for a high-quality local workforce within the JS-SEZ. Cross-border talent mobility could be facilitated to allow businesses to tap into a diverse talent pool. Furthermore, a favourable regulatory and tax framework such as 15% tax incentive scheme for knowledge workers will ensure competitive business environment in JS-SEZ which is attractive for investors.

FDI inflow from Singapore to Malaysia



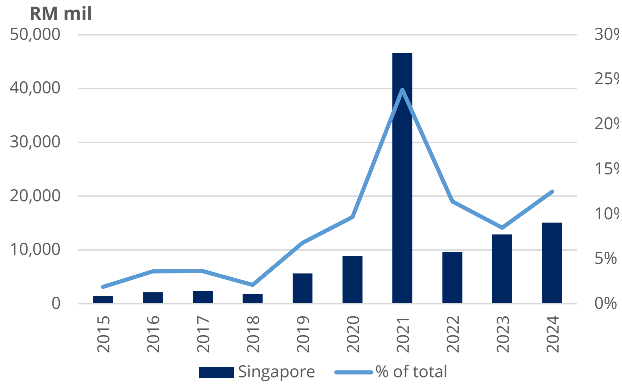
Source: AllianceDBS, CEIC

Singapore is Malaysia's largest source of tourists



Source: AllianceDBS, CEIC

Rising approved investments from Singapore



Source: AllianceDBS, CEIC

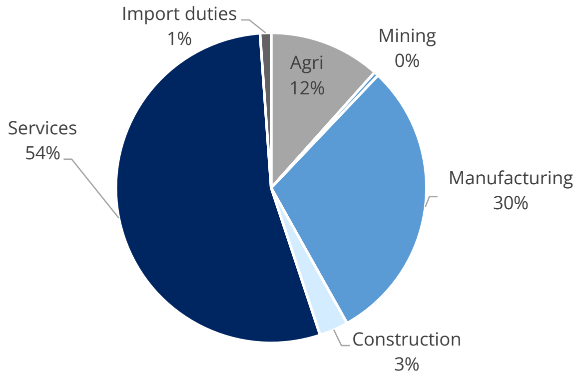
Critically, the JS-SEZ can serve as a gateway for businesses looking to expand into ASEAN and beyond. Singapore's global connectivity and Johor's growing industrial base create a powerful combination for international trade and investments. This is especially more pertinent in today's evolving global trade landscape as multi-national corporates seek to ensure supply chain security by diversifying outside of China.

The strategic location of the JS-SEZ, further enhanced by the on-going connectivity improvement measures to improve cross-border of goods and people, is likely to attract joint investments and technology transfers in high-value high-growth industries such as renewable energy and advanced manufacturing. Ongoing and planned infrastructure upgrades in Johor, including industrial parks, ports, and transport networks, will all come in handy to support business operations.

The golden era of Johor beckons

Investment-driven spending has now emerged as a new growth driver for Malaysia under the Madani Economy Framework, encompassing the New Industrial Masterplan (NIMP) 2030 and the National Energy Transition Roadmap (NETR), benefitting the Johor state as a traditional industrial powerhouse. In 2023, Johor's GDP, accounting for 9.5% of Malaysia's GDP grew by 4.1% in 2023, outpacing the national growth of 3.6%. Importantly, Johor punches above its weight as approved investments account for 13% while claiming a lion share of 20% of Malaysia's exports in 2024.

Johor's GDP composition



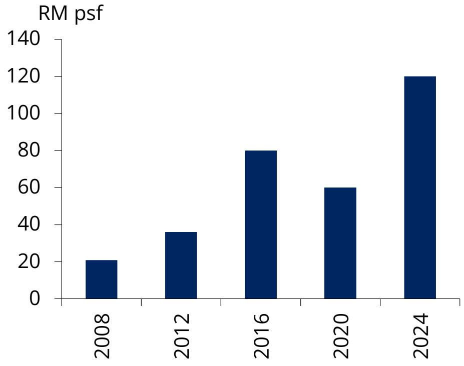
Source: AllianceDBS, CEIC

As JS-SEZ continues to progress in the coming years with its carefully-curated development plans, we believe this is set to be the next catalyst for Malaysia's second economic take off. There is a wide range of industries that both Malaysia and Singapore can collaborate on, including manufacturing, logistics, food security, tourism, renewable energy and digital economy, especially with the heightening geopolitical tensions globally.

Johor has now emerged as a data centre hotspot, thanks to its proximity to Singapore, access to renewable energy, affordable land cost and utilities. The green lane pathway set up by Tenaga Nasional in 2023 to fast-track power supply application for data centre operators has yielded significant success as 1.3GW of data centre capacity has been completed in the 2024, compared to just 0.6GW at the beginning of 2024. As at Dec 2024, 20 data centre projects with a collective capacity of 4GW are either under construction or in the pipeline which will bring the total data centre capacity in Malaysia to 5.9GB over the next few years.

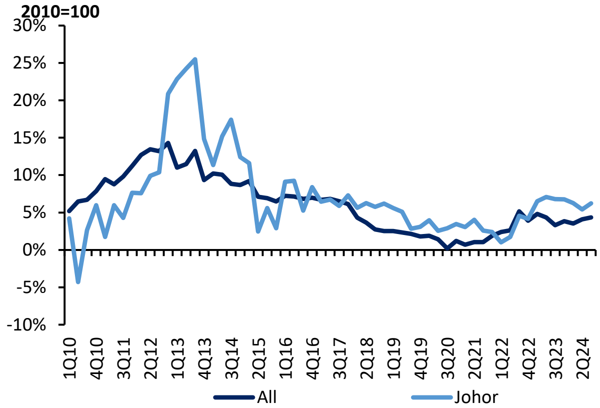
The data centre investment boom with the entry of global tech giants such as Microsoft, Google and ByteDance has driven a new growth driver for Johor which has traditionally depended heavily on its industrial sector. Several large industrial parks such as Nusajaya Tech Park, Sedenak Tech Park and YTL Green Data Centre Park have attracted billions of investments from global tech players. Therefore, it is not surprising that Johor's industrial land has experienced a strong wave of price appreciation over the past two years, creating a strong positive spillover effect for the state's property sector.

Iskandar Puteri industrial land in high demand



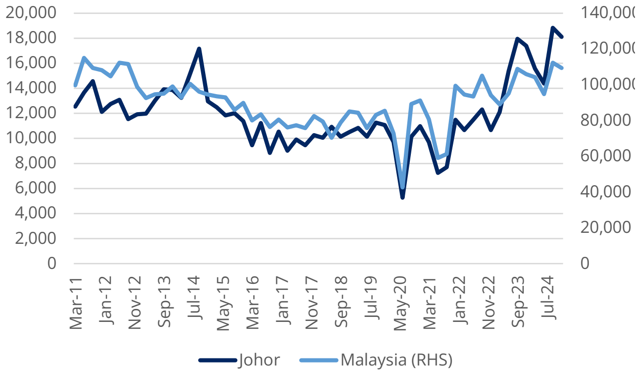
Source: AllianceDBS, various media

Johor's house price index outperformed national average



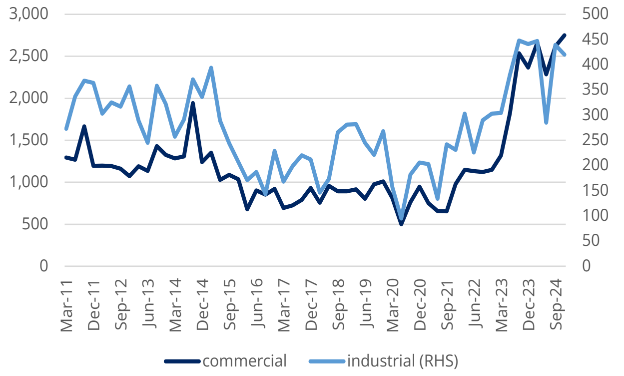
Source: AllianceDBS, NAPIC

Johor's property volume outperformed national average



Source: AllianceDBS, NAPIC

Johor's non-residential properties benefit from a new wave of industrialisation



Source: AllianceDBS, NAPIC

We believe the carefully-curated JS-SEZ incentive package will help to ensure that Johor continues to upscale its economy by focusing on high-value industries. The introduction of the knowledge worker incentive which offers an attractive 15% tax rate for employees earnings above RM20k/month clearly demonstrates the government's commitment to upscale the entire industrial value chain.

Given Johor's large exposure in industrial developments, which is aligned with the federal government's strategic pivot to push for high value-added industrialisation under various national policy blueprints, Johor is well-poised to achieve above-average economic growth target of 7%-8% in the near-to-medium term. The JS-SEZ is set to be the key gamechanger for Johor to realise its goal of becoming a high-income state by 2030 by transforming into a prominent, dynamic and competitive business hub.

JS-SEZ tax incentive package

Projects	Tax incentive	Flagship
Manufacturing i. AI & Quantum Computing ii. Medical devices iii. Pharmaceutical iv. Aerospace MRO services	-New company - 5% tax incentive for min RM500m capex (excl. land) -Existing company - 100% investment tax allowance (ITA) within 5 years for >RM500m capex (excl. land)	Kulai-Sedenak, Senai-Skudai
Global Services Hub	-5% tax rate for 15 years -annual turnover >RM500m, opex >RM50m -min 50% positions >RM10k salary for locals	Johor Bahru Waterfront, Iskandar Puteri
Integrated Tourism Project	-100% ITA within 5 years -min RM500m capex (excl. land) -min 80 hotel rooms, min 1 tourist attraction	Desaru-Penawar
Smart Logistics Complex	-100% ITA within 5 years -min RM500m capex (excl. land) ->50k m² smart warehouse complex with 3 enabling IR4.0 technologies -min 30% positions >RM10k salary for locals	Tanjung Pelepas
Manufacutring - Downstream specialty chemicals	-min RM500m capex (excl. land) -Special tax rate of 5-10% or ITA of 60%-100% for up to 10 years	Tanjung Langsat-Kong-kong
Knowledge worker incentive	-15% tax rate for 10 years -monthly salary above RM20k	All

Source: AllianceDBS, MITI

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