AHK AKTUELL 1/24 **29 November 2024**

#PartnerForTrade

Johor-Singapore Special Economic Zone (JS-SEZ)

Introduction

The Johor-Singapore Special Economic Zone (JS-SEZ) is a collaborative initiative between Malaysia and Singapore, formalized through a **Memorandum of Understanding (MOU) signed on January 11, 2024** by the Malaysian Minister of Economy (MOE) Mohd Rafizi Ramli, and the Singaporean Minister for Trade and Industry (MTI) Gan Kim Yong.

The JS-SEZ aims to **enhance cross-border trade and investment while strengthening economic connections** between Johor and Singapore. A formal agreement to establish the zone is expected by the end of the year.

Initiated in 2023, the JS-SEZ focuses on **key sectors** such as electronics, financial services, renewable energy, and healthcare. It seeks to improve the business ecosystems of both Johor's Iskandar Malaysia region and Singapore, creating opportunities for economic growth and cooperation.

This briefing provides an introduction to the JS-SEZ, outlining its **objectives and the potential economic impact and expectations from the local business community**.

What is a Special Economic Zone?

Special Economic Zones (SEZ) are generally **defined as a clear geographical area that receives infrastructural support and underlies a different regulatory regime than the rest of the economy**. Those include special fiscal and custom rules and might entail other regulations for foreign investments, ownership and employment rules. This aims to attract foreign direct investment and facilitate the flow of goods and talent.

A well-known example of a successful special economic zone is the Hongkong-Shenzhen SEZ, established in 1980, which enabled Shenzhen to grow from a fishing village to a global metropolis. The SEZ became crucial for capital, technologies and foreign investment. Shenzhen is now considered an important economic hub and transport base in China.

Singapore – Malaysia: Regional Relations

The already **strong economic relationship between Singapore and Malaysia** has gained further traction in recent years. Between 2019 and 2023, bilateral trade increased by 60% to a total of MYR360 billion (US$82 billion).

Efforts to enhance economic connectivity between Johor and Singapore are not new. The **Iskandar Region Project**, launched in 2013 during the tenure of former Malaysian Prime Minister Najib (2009-2018) was initially seen as a transformative initiative for Johor, often referred to as the "Shenzhen of Malaysia." However, while the initiative´s momentum waned and the project never fully materialized, there are several factors that make a successful implementation of the JS-SEZ more likely.

First, unlike the Iskandar Region Project, which was merely a national Malaysian project, the JS-SEZ is built on bilateral agreements and **high-level political support from both nations**. In addition to the MoU that was signed earlier this year, the SEZ aligns with agreements on cybersecurity and the digital economy, reflecting a forward-looking and strategic approach.

Second, **key infrastructure projects**, such as the Rapid Transit System (RTS) which for the first time will provide cross-border train service between Singapore and Malaysia, are set for completion in 2026. Furthermore, the potential revival of the Kuala Lumpur-Singapore High-Speed Rail (HSR) and the proposal of a T-shaped extension of the RTS in Johor promise to address current connectivity challenges and boost economic integration. Currently, every day roughly 450.000 people are crossing the Singaporean-Malaysian border via the two existing land checkpoints, often referred to as the busiest cross-border checkpoints in the world.

Third, Malaysia has emerged as a **key beneficiary of global supply chain diversification trends**. Leveraging its geographic advantages, connectivity and infrastructure, and resources, the country is becoming a more attractive destination for investments by companies applying a Singapore twinning model or a "China Plus One" strategy. For instance, the Johor state government anticipates MYR60 billion (US$13.4 billion) in additional investments for various projects at the Pengerang Integrated Petroleum Complex (PIPC) in Pengerang, as part of its third phase of development from 2026-2031. The development includes planned projects such as solar farms, bio-refineries, and facilities for producing nitrile-related products. Additionally, Johor has established itself as Malaysia's new data centre hub, with MYR17 billion (US$3.8 billion) in fresh investments expected in 2024.

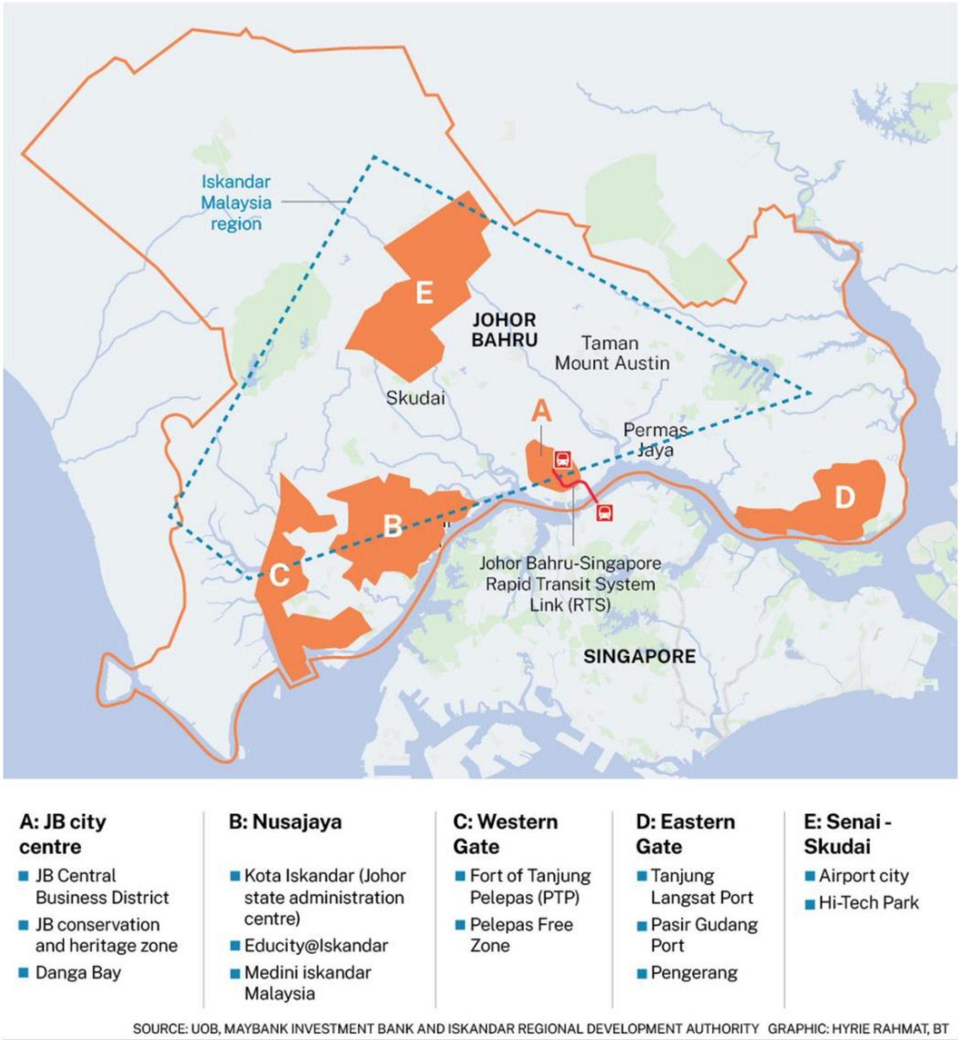
What is the JS-SEZ aiming to achieve?

The Malaysian and Singaporean governments aim to **stimulate economic activity and attract investments** within the proposed JS-SEZ. The SEZ seeks to **facilitate the seamless movement of goods and people across the border, promoting foreign direct investment (FDI) and talent development**. With its focus on education and training, the zone also aims to address regional skills gaps and enhance local workforce development.

The core idea behind the establishment of this SEZ is **leveraging the complementary strengths of Singapore and Johor**. While Singapore is well-established as the regional financial, investment and technology hub, it is scarce in land and manpower – hence limiting the growth of its already strong manufacturing sector. Johor, on the other hand, offers abundant land, a workforce with potential for upskilling, and lower operational costs, making it an attractive complement to Singapore's capabilities. Johor stands to gain from increased foreign investment, job creation, and enhanced access to global markets through stronger ties with Singapore. By integrating the strengths of both regions, the SEZ aims to create a seamless ecosystem where businesses can benefit from Singapore's advanced infrastructure, expertise, and global networks while leveraging Johor's resources and cost advantages. This synergy is expected to enhance economic activity on both sides, boost cross-border trade, and foster innovation, ultimately driving mutual growth and prosperity.

Although specific details are yet to be finalised, the **JS-SEZ has ambitious targets**, including achieving a gross domestic product (GDP) of MYR260 billion (US$59 billion) through an annual growth rate of 7 per cent. Additionally, it aims to create 400,000 high-income jobs and raise household incomes to MYR13,000 (US$2900) per month.

Figure 1: **Proposed coverage of Johor-Singapore Special Economic Zone**



How?

Leading up to the **fully-fledged agreement expected to be sealed in late 2024**, the **first initiatives were stated in the MOU**. In April 2024, the Malaysian government concretized two out of the seven initiatives:

I. The **Investment Malaysia Facilitation Centre Johor (IMFC-J)**, envisioned as a comprehensive service hub and expected to be located in Forest City, aims to facilitate business and investment cooperation between federal and state agencies, while streamlining the administrative procedures necessary for Singapore businesses to set up operations in Johor.

II. Regarding **cross-border travelling**, as of June 2024, following Singapore's system implementation in March 2024, Malaysians can travel between both Johor and Singapore using a **QR code system**, easing the congestion at the land checkpoints, essential for commuters with commitments on both sides.

The further five initiatives are as follows:

III. Implementation of **digital processes for cargo clearance** at land checkpoints.

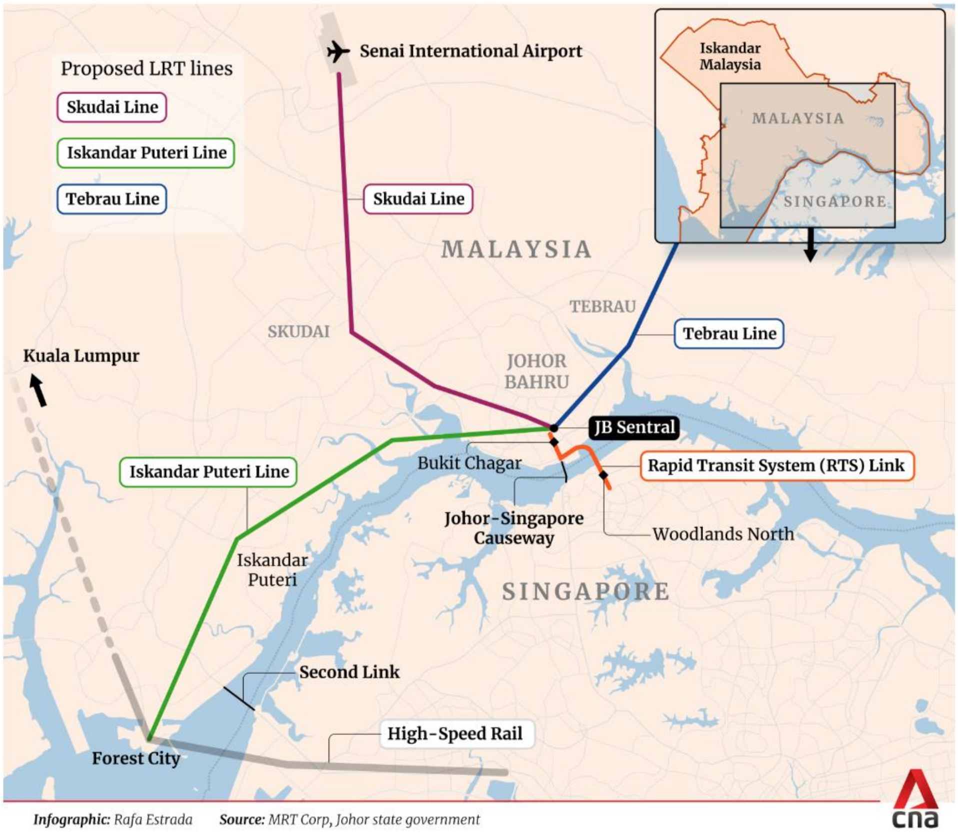
IV. Joint coordination of an **investors forum** to collect feedback from Singapore and Malaysia businesses on the JS-SEZ.

V. Promotion of the Malaysia and Singapore **renewable energy cooperation** in JS-SEZ.

VI. Organization of **training and work-based learning initiatives** to bridge talent and skill gaps for relevant industries in JS-SEZ.

To enhance cross-border connectivity, Malaysian authorities have proposed a **T-shaped integrated transport infrastructure** that would complement the upcoming Rapid Transit System (RTS) between Johor and Singapore, scheduled to operate by December 2026. Also, the proposal includes a possible revival of the High-Speed Rail (HSR) project linking Singapore to Kuala Lumpur.

Figure 2: **Proposed Transport Infrastructure Projects**



Who will benefit?

In line with Malaysia's ambition to transform Johor into a smart and green state, the JS-SEZ is actively seeking innovative and environmentally friendly industries.

With this, Malaysian authorities have suggested making **digital economy a focal point of the JS-SEZ**, capitalizing on Johor's potential to complement Singapore's established regional position and strengthen its own data connectivity, digital economy, and cyber-related matters as Malaysia's new data centre hub. Johor has welcomed global technology players such as Microsoft and Nvidia, who are committed to developing the state's artificial intelligence infrastructure. For 2024, it is estimated that new investments in data centres will amount to MYR17 billion (US$3.8 billion).

Moreover, Johor's proximity to Singapore positions it to benefit significantly from Malaysia's transition from fossil fuels to **renewable energy**. This transition is supported by the commitment of both Malaysia and Singapore to collaborate on renewable energy and green technology, as well as Malaysia's recent decision to lift the export ban on renewable energy to Singapore. Enhancing this shift is the Pengerang Integrated Petroleum Complex (PIPC) in Johor, a growing regional hub for oil and gas, which is evolving towards greater sustainability and is poised to potentially host Southeast Asia's largest solar energy storage system.

Overall, **Johor has put forward 16 economic sectors for the JS-SEZ**, further including electrical and electronics, medical and pharmaceutical, aviation, specialty chemicals, healthcare, and education. This extends to Johor's largest economic sectors, agriculture and manufacturing and services, with predicted spill-over effects to the energy, property, and logistics sectors. Other industries include tourism, the financial sector and business services, food, creative industry, and the halal industry.

Reactions from the Business Community

According to the report titled ***'Greater Together: Two Economies, One Ecosystem'*** by the **Singapore Business Federation (SBF)**, Singaporean companies are eagerly anticipating the opportunities presented by the JS-SEZ. While the outlook is optimistic, the report highlights potential hurdles that may impact the success of the SEZ and compiles findings from a survey of over 160 Singaporean companies, along with recommendations to address these challenges.

Local businesses emphasise the need to leverage the complementary strengths of the two regions. Johor's lower operating costs, greater land availability, and resources can complement Singapore's connectivity, branding, talent pool, and headquarter capabilities. Businesses suggest this integration could be further enhanced by **creating an efficient labour ecosystem** that draws on both economies' strengths. Singapore's expertise in management, finance, and advanced R&D could align with Johor's technical skills in execution and operations, enabling businesses to optimise their operations across the zone.

Efficient **movement of goods** is also crucial for the SEZ's success. Businesses have highlighted current challenges such as traffic congestion, differences in customs procedures, and the lack of streamlined import/export processes, which increase costs and inefficiencies. Drawing inspiration from the Hong Kong-Shenzhen model, businesses recommend implementing digital solutions such as QR code-based customs clearance, biometric verification, and single-window platforms for tax and logistics. Dedicated freight lanes, automated inspection systems, and harmonised customs policies could significantly reduce delays and facilitate seamless trade within the SEZ. Aligning tax regimes and introducing simplified tariffs for goods produced in the SEZ, including intermediary products crossing borders, are also seen as priorities.

Businesses also stress the importance of **streamlining investment facilitation** processes to attract and retain high-quality investments. Inspired by global examples such as Shenzhen, Suzhou Industrial Park, and Dubai's Jebel Ali Free Zone, businesses recommend establishing one-stop investment facilitation centres to reduce bureaucracy and processing times. Digital platforms allowing investors to submit and track applications and fast-track channels for high-impact projects could further enhance efficiency. Offering attractive tax and incentive regimes, such as tax holidays, duty-free imports, and subsidies for prioritised industries, is also suggested as a means to create a competitive investment environment. Additionally, a robust legal framework, transparent approval criteria, and a dedicated dispute resolution mechanism are essential to providing clarity and confidence to investors.

Improving transport infrastructure is another key recommendation. Investments in high-speed rail, metro extensions, and multimodal transport networks, including freight rail and logistics hubs, would alleviate congestion and strengthen connectivity. Reviving discussions on the Singapore-Kuala Lumpur High-Speed Rail (HSR) project and improving last-mile connectivity would further enhance accessibility and trade flows, positioning the SEZ as a regional logistics hub.
Additionally, seamless cross-border mobility is viewed as essential. Businesses advocate for streamlined processes for workers, including biometric identification and

automated clearance systems, to enable frictionless movement of talent. Harmonised regulations and **mutual investments in workforce development** are considered critical to addressing skill gaps and ensuring the efficient movement of talent and goods across the SEZ.

Tight coordination and commitment from both governments are seen as fundamental to the SEZ's success. Establishing a joint business framework and a dedicated authority to oversee the SEZ would ensure governance tailored to its unique needs, while adopting flexible, adaptive approaches. This comprehensive coordination, combined with targeted investments in infrastructure, digitalisation, and investor facilitation, would position the JS-SEZ as a model for cross-border collaboration and economic growth.

Similar sentiments were echoed in **interviews with local SMEs** conducted by Channel News Asia, where many companies expressed confidence in the realisation of the JS-SEZ, citing the Malaysian government's progress on the seven key initiatives. However, concerns were raised that improved cross-border movement could lead to more Malaysians seeking employment in Singapore, potentially exacerbating the skill gap in Malaysia.

Relevance for German Companies

As a whole, the JS-SEZ presents **vast opportunities for German companies**, with Germany being the largest bilateral trading partner within the European Union for both Malaysia (MYR63.5 billion (US$14 billion) in 2023) and Singapore (S$24 billion (US$18 billion) in 2023).

The SEZ's industrial focus on sectors such as electronics, semiconductors, advanced manufacturing, renewable energy, and healthcare aligns closely with the strengths of German companies in innovation, engineering, and sustainability. German companies serving these market segments stand to benefit from the SEZ's incentives, enhanced connectivity, and proximity to Singapore's global networks, providing a strategic gateway for regional operations and investment in ASEAN's dynamic markets.

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Supported by:

Federal Ministry for Economic Affairs and Climate Action

on the basis of a decision by the German Bundestag

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