

ASEAN Economics

Johor-Singapore SEZ: What's Special and Different

Is the Special Economic Zone (SEZ) a Game Changer?

The proposed Johor-Singapore Special Economic Zone (SEZ) has been billed as a potential “game changer,” particularly for Johor. There is strong impetus from both Malaysia and Singapore to make the SEZ a success, as greater economic integration, with freer movement of people, goods and capital, will open up fresh opportunities that tie in with long-term policy goals. We highlight 6 reasons why this time it could be different and how the SEZ could spur the flow of trade, labor, investments and energy.

Six Catalysts for Success

#1 Strong Support from Both Governments & the King: Relations between Malaysia and Singapore have improved significantly under Malaysia PM Anwar. Johor’s Sultan Ibrahim wants to “produce a win-win outcome with tangible benefits for their people and businesses.” Sultan Ibrahim was elected as the current Malaysian King for a five year term from 31 Jan 2024. Singapore is keen to boost trade, investment and connectivity, and ease the constraints on land, labor and renewable energy.

#2 Greater Land Connectivity: The upcoming Johor-Singapore RTS Link is expected to have a capacity of over 100K passengers a day when it commences end-2026, improving connectivity and reducing congestion on the Causeway by 35%. There are plans for an Autonomous Transit System (ART) network in southern Johor, which would ease the congestion in Johor Bahru town center. The High-Speed Rail may be revived.

#3 Capturing MNCs’ Supply Chain Shifts Amid US-China Rivalry: The SEZ can be a formidable competitive advantage in attracting FDI by integrating Singapore’s financial, logistics and advanced manufacturing capabilities with Johor’s competitive costs, energy resources and abundant land. Transparent and clear rules for cross-border goods and people flows will enhance supply chain resilience, a key consideration after pandemic-era disruptions. Joint developments of more industrial parks can leverage on the Singapore brand and expand the range of MNCs, replicating the success of Capitaland-UEM Sunrise’s Nusajaya Tech Park.

#4 Lower Operating Costs & Competitive Ringgit: Johor offers a steep cost advantage, which is amplified by a favorable exchange rate. Salary levels are more than 80% lower than Singapore for manufacturing, and 40% lower for hospitality. Businesses are not subject to high foreign worker levies and strict quotas they would face in Singapore. Electricity tariffs are about 60% lower for businesses; and 80% lower for households. Rents in Iskandar are 75% lower than Singapore for offices, and 85% lower for housing.

#5 Easing Talent & Labor Shortages: The SEZ will create high-value added jobs, build up Johor’s human capital, and stem the “brain drain.” A potential SEZ residency pass and/or long-stay visa scheme will allow Singaporeans or foreigners to live in the SEZ and work in Singapore. Shorter travel time will increase the supply of Malaysian workers willing to commute without the pressure on Singapore housing supply and rents. A concessionary My Second Home Scheme for Singaporeans (lower fixed deposit & income requirements) could increase investments and spending in Johor.

#6 The Green Transition: The SEZ will benefit from Singapore’s green energy transition, as Singapore targets to import 30% of its energy mix from renewable sources by 2035. Malaysia lifted its renewable energy export ban in 2023, and plans to export up to 300MW of renewable energy to Singapore for a start. Massive investments in data centres are already being built in Johor, partly to serve the Singapore market.

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“(The Johor-Singapore) friendship goes back to the time of Lee Kuan Yew, and generations of Malaysians and Singaporeans have since been very good friends ... We often have tea and meals together. As I said, many things can be sorted out over a cup of tea.”

Sultan Ibrahim Iskandar of Johor, the current King of Malaysia, 27 Aug 2023

“(The Johor-Singapore SEZ) will serve as a game changer for Malaysia’s economic growth and social strategy with Singapore, as well as strengthen ties between both countries”

Malaysia Prime Minister Anwar on the Special Economic Zone, 18 Apr 2024

“Johor is Singapore’s gateway to Malaysia. More than neighbours, Singapore and Johor are partners linked by generations of friendship and kinship.”

Singapore Prime Minister Lee on Singapore-Johor relations, 11 Oct 2023

Singapore and Malaysia will be creating a special economic zone (SEZ) in Johor, which is next to the Singapore border. A Memorandum of Understanding was signed on 11 January 2024, about 3 months after the project was announced during the 10th Malaysia-Singapore Leaders’ retreat in October 2023.

The SEZ’s geographical boundaries will likely encompass Iskandar, Forest City, Pengerang and parts of Pontian. Iskandar is an economic growth corridor which spans 2,217 sq km across southern Johor, an area three times the size of Singapore. Iskandar encompasses Johor’s capital city, Johor Bahru, the heavy industrial city Pasir Gudang, Iskandar Puteri and Kulai (Fig 1). Forest City is a Chinese-built integrated residential development on the southern Johor coast, which will be designated as a Special Financial Zone.

Fig 1: Map of Iskandar Malaysia



Source: Maps4news, Financial Times

Details of the SEZ have yet to be announced, including the exact location, regulations and associated investment incentives. More information may be revealed at the next joint leaders’ retreat in September 2024, where the formal agreement could be signed.

The Johor-Singapore SEZ has received much fanfare, billed as a potential “game changer,” especially for Johor as more investments will land in the SEZ. However, sceptics point out that policy flip-flops and U-turns had been made after much excitement on cooperation projects in the past, such as the Kuala-Lumpur-Singapore High Speed Rail.

We are optimistic that the creation of a SEZ will drive a step-up jump in the cross-border flow of goods, people and investments. There is a strong impetus from both the Malaysia and Singapore governments and the King to make the SEZ a success, given that it offers win-win opportunities that tie in with long-term policy goals. Multiple sectors stand to benefit, as covered in our previous report (*Johor-Singapore Special Economic Zone - Causeway to Opportunities*, 16 Apr 2024).

We lay out 6 key catalysts that could maximize the SEZ’s economic potential.

Six Catalysts for Success

#1 Strong Support from Both Governments and the King

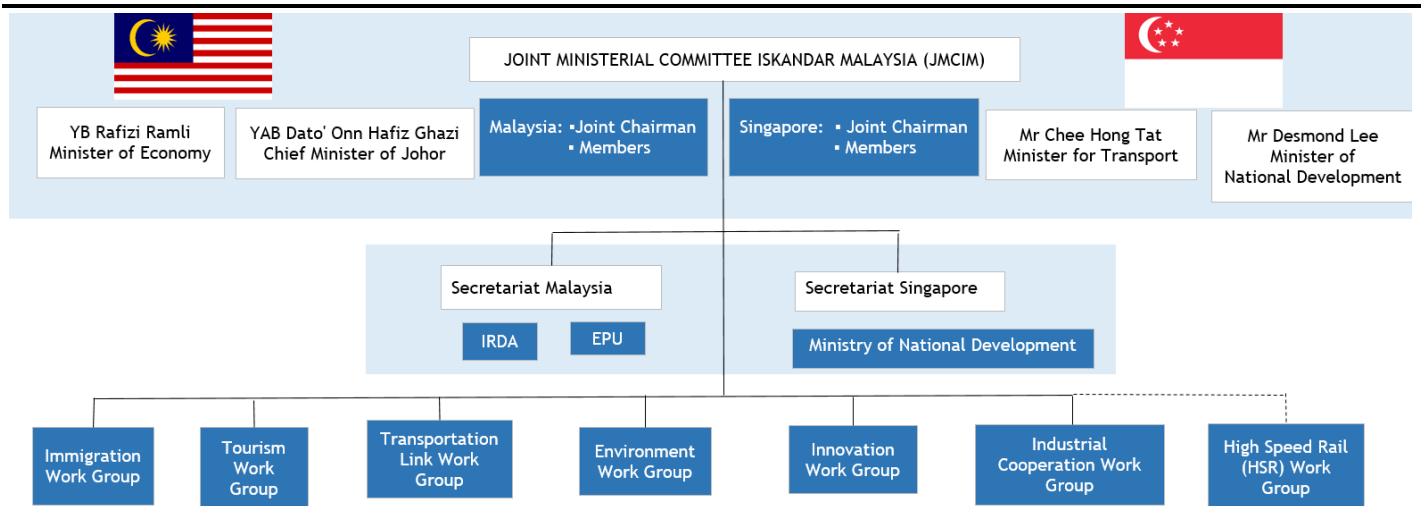
The SEZ enjoys strong support from both national governments and the King. A Memorandum of Understanding was signed within 6 months after a taskforce was set up in July 2023 to study the SEZ’s establishment.

Steady progress has been made on Malaysia-Singapore ties under the current Anwar administration, with a keen impetus to deepen cooperation. The current King of Malaysia is the Sultan of Johor, who has long pushed for closer Johor-Singapore ties. Sultan Ibrahim was elected as the current Malaysian King for a five-year term from 31 Jan 2024. The King’s first State Visit was to Singapore on 6 May, a testament to his close and longstanding friendship with the Republic.

The project is already off to an encouraging start, with both countries progressing on cross-border integration efforts. For instance, Singapore’s customs has implemented passport-free immigration clearance (using QR code) at the Causeway and Tuas Link land checkpoints from 19 March. Malaysians travelling to Singapore on factory buses will be able to clear immigration with QR codes under the Malaysian government’s pilot initiative from June.

The SEZ’s Invest Malaysia Johor Facilitation Centre (IMFC-J) is scheduled to be operational in 3Q 2024. The JB-Singapore RTS Link is about 70% completed and on track to meet the operational start date at end-2026.

The Malaysia-Singapore Joint Ministerial Committee for Iskandar Malaysia (JMCIM) has facilitated cooperation. The Committee is co-chaired by Malaysia’s Economy Minister Rafizi Ramli and Singapore’s National Development Minister Desmond Lee. There are work groups spanning across immigration, tourism, transportation links, environment, innovation, industrial cooperation and the High Speed Rail. The JMCIM’s governance structure is outlined in the below flowchart (Fig 2).

Fig 2: Joint Ministerial Committee Iskandar Malaysia Governance Structure


Note: IRDA stands for Iskandar Regional Development Authority; EPU stands for Economic Planning Unit

Source: Iskandar Regional Development Authority

Sceptics of the SEZ point to the Kuala Lumpur-Singapore High Speed Rail (HSR) project, which was terminated in 2021, following a legally binding bilateral agreement signed by PM Lee and former Malaysian PM Najib Razak in 2016. Malaysia had to compensate Singapore S\$102.8mn (US\$74mn) for the cancellation.

The HSR project had been hit by delays due to cost overruns, as well as the change in Malaysian government following the May 2018 general election. Former PM Mahathir Mohamad initiated a two-year postponement shortly after taking office, purportedly due to insufficient financial resources.

A repeat of the HSR incident is unlikely in our view, given that political stability has improved. PM Anwar's government term will last until 2027, and may be re-elected thereafter. The next general election will be due by 2028. The new King is supportive of the Prime Minister's economic reforms and has officially emphasized that he would not permit any opposition moves to change the government outside of the general election. Johor Sultan Ibrahim was elected as the Malaysian King for a five-year term from 31 Jan 2024.

#2 Greater Land Connectivity

The upcoming Johor-Singapore Rapid Transit System (RTS) Link is expected to have a capacity of over 100k passengers a day when it commences end-2026, improving connectivity and reducing congestion on the Causeway by 35%. Malaysia's MRT Corp expects ridership to be about 40k passengers per day upon opening.

With the RTS Link, cross-border train capacity will be increased to 10,000 passengers per hour per direction, from just 640 passengers hourly for the current KTM service. The rail infrastructure is already 70% completed as of end-March 2024.

The 4km rail link will have two stations, one in Bukit Chagar, Johor Bahru and one in Woodlands, Singapore (Fig 3). Travel time between Singapore and Johor Bahru will take just 6 minutes. Trains will be much more frequent (every 3.6mins - 6mins), compared to the KTM service's 30 mins (early morning) and 1.25hr-1.5hr (other times) frequency (Table 1). An immigration, customs and quarantine (ICQ) complex will be integrated with each RTS station so that

commuters need to clear immigration only once from each way of travel, instead of at both sides currently.

Fig 3: Proposed RTS link between Woodlands and Bukit Chagar



Source: Straits Times Graphics, Maybank IBG Research

Table 1: Key Facts of Rapid Transit System (RTS) Link

Category	Details
Length	4km
Capacity	10,000 people per hour in each direction
First-Year Estimated Daily ridership	40,000 pax
Train journey time	6 mins
Frequency	3.6 mins (peak hours), 6 mins (off-peak)
Operating hours	6:00 am - Midnight

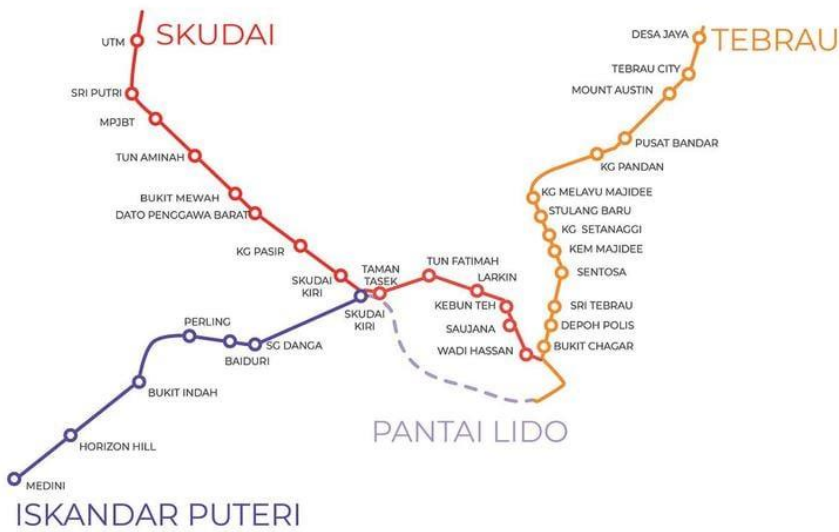
Source: MRT Corp (Malaysia)

Pending the federal government's approval, there are plans for an Autonomous Transit System (ART) network in southern Johor, which would ease the heavy congestion in Johor Bahru city centre. The bus-train hybrid network will run on a virtual track on roads where traffic is less crowded, while other parts will run on elevated structures like viaducts and bridges separate from ground traffic¹. The ART route will likely follow the three proposed Bus Rapid Transit (BRT) lines, spanning across Iskandar Puteri, Skudai and Tebrau (Fig 4).

Such a system would be more effective if the ART is seamlessly integrated with the RTS Link, in our view. To maximise connectivity to the rest of Malaysia, the RTS Link could also be integrated with the KTM Electric Train Service (ETS). The KTM ETS will be extended to Johor Bahru from Gemas by April 2025, and will shorten travel time between Johor Bahru and Kuala Lumpur to 3.5 hours from the current 5.5 hours.

¹ CNA, "From LRT to ART: Johor switches gear to autonomous rapid transit system to ease congestion, spur development", 29 Apr 2024.

Fig 4: Autonomous Transit System (ART) Will Likely Follow Planned BRT Routes



Note: Phase 1 of IMBRT routes

Source: Iskandar Malaysia Bus Rapid Transit (IMBRT)

Improved connectivity and lower congestion will sharpen Johor’s competitive edge as a business and leisure hub. A common bugbear of Singapore-based day-trippers and businesses investing in Johor has been the long and unpredictable traffic jams and heavy congestion at border crossings and within the city centre.

Singapore firms may benefit from a higher supply of Johor workers if the daily commute takes less of a toll. Malaysians seeking work in Singapore tend to gravitate towards retail, personal care and food services, healthcare, manufacturing and technology sectors. Foreign worker wages may cool, given more competition for jobs in these sectors. Yet Singaporean jobs will be protected, given the system of Dependency Ratio Ceilings (DRCs) and foreign worker levies which increase with the number of foreign workers hired (Table 2 and Table 3).

Table 2: Singapore - Quota & Monthly Levy Rate for Work Permit Holders in Services & Manufacturing

Services Sector			Manufacturing Sector		
Quota	Basic-skilled	Higher-skilled	Basic-skilled	Higher-skilled	Quota
Tier 1: Up to 10% *	S\$450	S\$300	S\$370	S\$250	Tier 1: ≤ 25%*
Tier 2: > 10% & ≤ 25%*	S\$600	S\$400	S\$470	S\$350	Tier 2: > 25% & ≤ 50%*
Tier 3: > 25% & ≤ 35%*	S\$800	S\$600	S\$650	S\$550	Tier 2: > 50% & ≤ 60%*

*Denotes to percentage of total workforce

Source: Singapore Ministry of Manpower

Table 3: Singapore - Sector Dependency Ratio Ceilings (DRC)

Sector	DRC
Construction	83.3%
Process	83.3%
Marine shipyard	77.8%
Manufacturing	60%
Services	35%

Note: DRC specifies maximum share of foreign workers (S Pass and Work Permit holders) in a company.

Marine shipyard DRC will reduce to 75% in 2026 from current 77.8%.

Source: Singapore Ministry of Manpower

On the Singapore end, infrastructure and process improvements will include digitized cargo clearance processes and QR-code based immigration clearance at land checkpoints on the Causeway and Tuas Second Link. In addition, a *fivefold* expansion of the Woodlands Checkpoint (95ha vs. 19ha currently) will be undertaken from 2025, with the aim of cutting average vehicle clearance time from 60 to 15 minutes during peak periods. The first phase will be completed by 2032².

#3 Capturing MNCs Supply Chain Shifts amid US-China Rivalry

Global competition for investments has intensified with rising impetus for countries to re-shore and friend-shore production. At the same time, MNCs are diversifying their supply chains away from China, and looking for alternative production bases.

Against this backdrop, governments are looking to strengthen their competitive strengths to capitalise on this shift in supply chains and attract more foreign investments. The SEZ could prove to be a formidable competitive advantage in attracting fresh FDI from multinationals, by integrating Singapore's global financial, logistics and advanced manufacturing capabilities with Johor's access to competitive labor, abundant land and cheaper energy resources. Singapore enjoys wide and deep connectivity to global capital sources. The Republic also serves as a gateway to the ASEAN and Asian market, given unrivalled transport and trade links (Table 4).

Table 4: Singapore's Extensive FTA Network Strengthens Overseas Market Access

	RCEP	CPTPP	China	EU	US	UK	Japan
Indonesia	✓		✓				✓
India							✓
Korea	✓		✓		✓	✓	
Malaysia	✓	✓	✓				✓
Philippines	✓		✓				✓
Singapore	✓	✓	✓	✓	✓	✓	✓
Thailand	✓		✓				✓
Vietnam	✓	✓	✓	✓		✓	✓

Source: Compiled by Maybank IBG Research

² Straits Times, "Woodlands Checkpoint expansion work to start in 2025, first phase to be completed by 2032", 29 Jan 2024.

The SEZ enhances the resilience of cross-border supply chains, a key consideration for MNCs after pandemic-era supply chain disruptions. Digitized cargo clearance will cut down clearance times. Special tax arrangements and bonded warehouses may foster easier and more efficient border flows. The SEZ agreement could be governed by a set of internationally established rules and guidelines, making border trade more reliable and predictable.

This combination of speed and resilience will make it more viable for multinationals to set up interconnected supply chains across Singapore and Johor. Regional headquarters and advanced manufacturing plants can be set up in Singapore, while tapping on the SEZ's lower costs for branch/backend offices and feeder manufacturing facilities.

Policy alignment in both countries and strong investment incentives will be key to attracting MNCs' supply chain shifts. Corporate tax exemptions, discounts and other investment allowances are already available to investors in Johor, and it will be important to watch what else is offered over and above current schemes. Some companies have suggested that existing grants offered by the Singapore government to defray costs and enhance productivity (e.g. **Productivity Solutions Grant**) could be extended to local enterprises expanding into the SEZ.

For MNCs investing in both countries, authorities will need to help businesses navigate the different FTA networks, certificate of origins, and corporate tax regimes. Singapore and Malaysia will both be adopting the 15% top-up tax rate from 2025 under Pillar Two of the Base Erosion and Profit Shifting initiative (BEPS), which could mean that corporate tax concessions may need to be replaced by other grants. Singapore, for instance unveiled a Refundable Investment Credit in Budget 2024 for high-value activities to offset qualifying expenditures, including capital expenditure, manpower and training costs.

To minimise red tape and provide more clarity on investment policies, Malaysian authorities are working on the Invest Malaysia Johor Facilitation Centre (IMFC-J), which is to be located in Forest City. The centre will bring together relevant government ministries, agencies and Johor local authorities under one roof, fast-tracking approval processes for businesses and serving as a one-stop shop for consultation and advisory services.

Table 5: Main Malaysia Tax Incentives Offered by MIDA (At the National Level)

Scheme	For Who?	Benefits
Special Tax Incentive (Relocation)	Introduced in 2020; Main objective is to attract manufacturing companies that intend to relocate operations to Malaysia following global supply chain disruptions	<p><u>For new company:</u></p> <ul style="list-style-type: none"> - 0% special tax rate for 10 years for new investment (RM300mn-RM500mn) - 0% special tax rate for 15 years for new investment (above RM500mn) <p><u>For existing company:</u></p> <ul style="list-style-type: none"> - Income tax exemption equivalent to Investment Tax Allowance (ITA) of 100% on the qualifying capital investment (excluding land) above RM300 million incurred within 5 years for an existing company in Malaysia relocating overseas facilities into Malaysia. <p><u>Special income tax treatment for individuals:</u></p> <ul style="list-style-type: none"> - Flat 15% rate for 5 consecutive years to non-citizen individuals holding C-Suite positions (vs. statutory rate: maximum marginal tax rate of 30% for income exceeding RM2mn)
Pioneer Status	Eligibility determined based on certain priorities, including level of value-added, technology used and industrial linkages.	<ul style="list-style-type: none"> - 5-year partial exemption from corporate tax; pays tax on just 30% of its statutory income. Strategic projects of national importance enjoy 10-year exemption on 100% of income - Unabsorbed capital allowances incurred during the pioneer period can be carried forward and deducted from the post-pioneer period income of the company - Accumulated losses incurred during the pioneer period can be carried forward and deducted from the post-pioneer period income of the company for a period of seven consecutive years.
Investment Tax Allowance	Same as Pioneer Status	<ul style="list-style-type: none"> - As an alternative to Pioneer Status, a company may apply for Investment Tax Allowance - Tax allowance of 60% (100% for strategic projects) on qualifying capital expenditure (factory, plant, machinery or other equipment used for the approved project) incurred within five years from date expenditure incurred - Company can offset this allowance against 70% of its statutory income for each year of assessment. Any unutilised allowance can be carried forward to subsequent years until fully utilised.

Source: MIDA³, compiled by Maybank IBG Research

We think there is scope for Singapore's Southeast Asia Manufacturing Alliance (SMA) to be expanded to other industrial parks within the SEZ. Incentive schemes covering other sectors could also be considered. This will provide additional impetus for complementary investments in Singapore and Johor, building on incentives offered by Malaysian authorities. The Malaysian Investment Development Authority's (MIDA) tax incentive schemes, including the Special Tax Incentives for Relocation and Pioneer Status are summarized in Table 5.

³ Reference information can be found at the following links: [here](#) and [here](#).

The Southeast Asia Manufacturing Alliance (SMA) was launched in 2021 as a tripartite agreement between the Singapore Economic Development Board (EDB), Enterprise Singapore (ESG) and private sector partners, with the objective of helping Singapore-based manufacturers expand into selected industrial parks in Southeast Asia. The current list spans across Malaysia, Vietnam and Indonesia, operated by local developers Capitaland, Sembcorp Development and Gallant Venture.

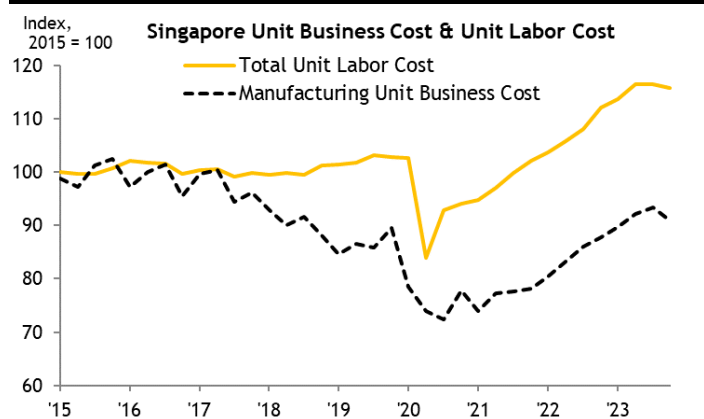
The Nusajaya Technology Park in Iskandar Malaysia is one such park. Jointly-owned by Capitaland (60%) and UEM Sunrise (40%), the 210-ha tech park will provide 9mn sq ft of commercial space for up to 200 enterprises when fully built out⁴. Companies investing in both Nusajaya Tech Park and Singapore will enjoy benefits such as preferential pricing for logistics services, complimentary consultation on business set-up in Malaysia, supplier identification and matching services, and support for eligible innovation activities undertaken in Singapore⁵.

As of September 2023, 36 MNCs, mainly in advanced manufacturing and data centres, have pledged a total of RM1.7bn (S\$500mn) investments in Nusajaya Tech Park⁶. Examples include GDS' Data Center Campus⁷, GKN Aerospace's aero-engine parts repair facility⁸ and food and feed ingredient supplier Stern-Wywiol Gruppe's Asia-Pacific manufacturing hub⁹.

#4 Lower Operating Costs and Competitive Ringgit

Rising business costs in Singapore have increased the need for a hinterland, which Johor is well-positioned to provide. Business costs in the island-state have climbed markedly in the post-pandemic period (Fig 5), driven by rising global inflation, a tight labour market, rents and adjustments to taxes, and administrative wage policies.

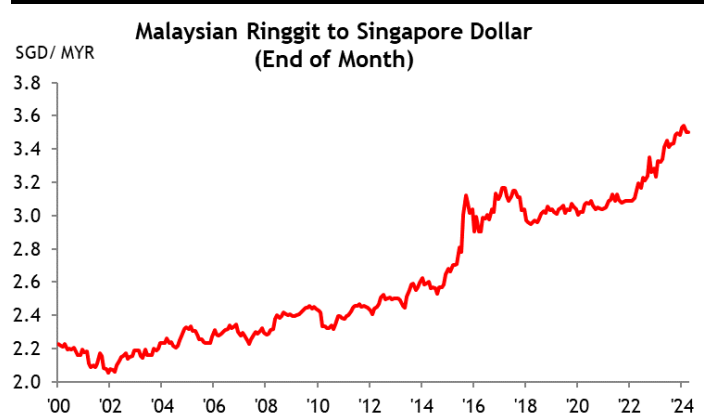
Fig 5: Singapore's Business & Labour Costs Have Soared After the Reopening



Note: Last data point as of 4Q23.

Source: CEIC

Fig 6: Ringgit Has Depreciated by More Than 60% Against Singapore Dollar Over the Last 20 Years



Note: Last data point as of Apr 2024.

Source: CEIC

⁴ Capitaland Factsheet on Nusajaya Tech Park ([link](#)).

⁵ EDB, "New alliance to help Manufacturers expand into Southeast Asia", 3 Feb 2021.

⁶ EDB, "How Indonesia and Malaysia's industrial parks help manufacturers reduce dependence on a single production base", 27 Sep 2023.

⁷ GDS, "GDS Launches Nusajaya Tech Park Data Center Campus in Johor, Malaysia, Driving Digital Economy in Southeast Asia", 10 Aug 2023.

⁸ MIDA, "GKN Aerospace invests RM160 mln to set up repair facility in Johor", 22 Sep 2022.

⁹ Capitaland, "Stern-Wywiol Gruppe opens new regional manufacturing hub in Nusajaya Tech Park", 12 Sep 2018.

The 2023 survey by the Singapore Business Federation highlights that increased costs, manpower availability and rentals are amongst the major challenges for SMEs (Table 6).

Table 6: Top 5 Current Challenges amongst Businesses (2023)

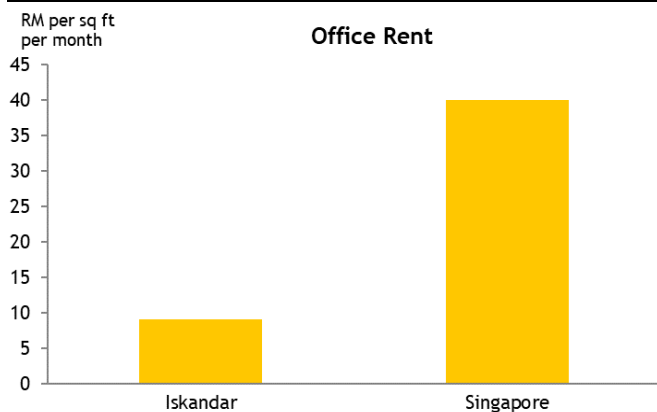
	SME	Large Company
Increase in business costs	58%	61%
Availability of manpower	54%	52%
Retention of manpower	40%	51%
Foreign workforce policies	39%	39%
Rental cost	37%	34%

Source: SBF, Maybank IBG Research

Johor offers a steep cost advantage, which is amplified by a favourable exchange rate. Salary levels in Johor are much more competitive than Singapore (Fig 10). Salary levels in Johor are more than 80% lower for manufacturing; and 40% lower for hospitality. Businesses hiring Malaysian workers are not subject to the foreign worker levies and quotas that they would face in Singapore. Average electricity tariffs in Johor are around 60% lower for businesses than Singapore; and 80% lower for households (Fig 11).

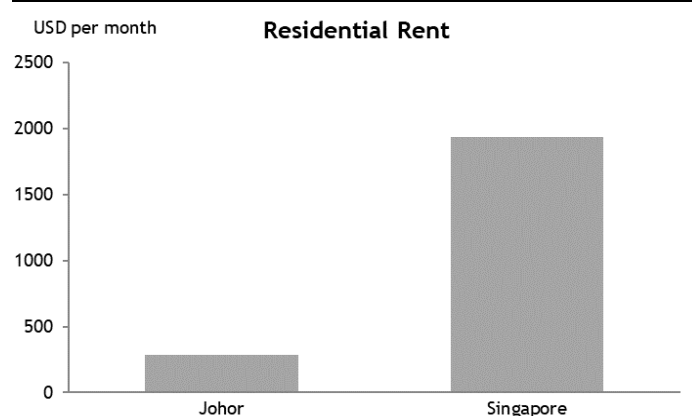
Rents in Iskandar are 75% lower than Singapore for offices, 65% lower for factories and 85% lower for housing. Office rents are roughly RM9 per sq ft in Iskandar, compared to S\$11-S\$12 (RM38 - RM42) in Singapore (Fig 7). Residential rents in Johor are around a seventh of Singapore's public housing (HDB apartment) rents (Fig 8). Ready-built factory rents in Johor are roughly a third of Singapore (Fig 9).

Fig 7: Singapore's Office Rents More Than Fourfold of Iskandar



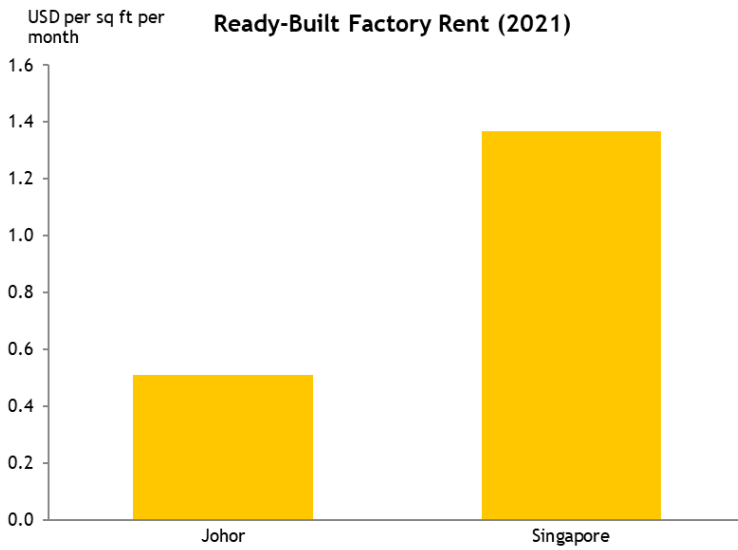
Source: News articles, Maybank IBG Research

Fig 8: Singapore HDB Apartment Rents More Than Sevenfold of Johor Residential Rents



Source: Property Guru, Dot Property, Maybank IBG Research

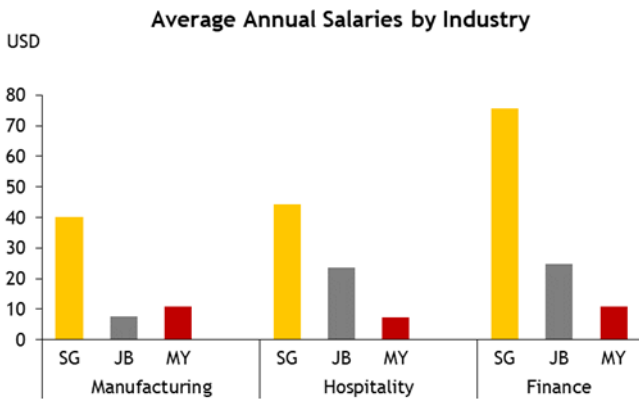
Fig 9: Singapore’s Industrial Rents Nearly Triple of Johor



Source: MIDA, Mapletree Industrial Trust

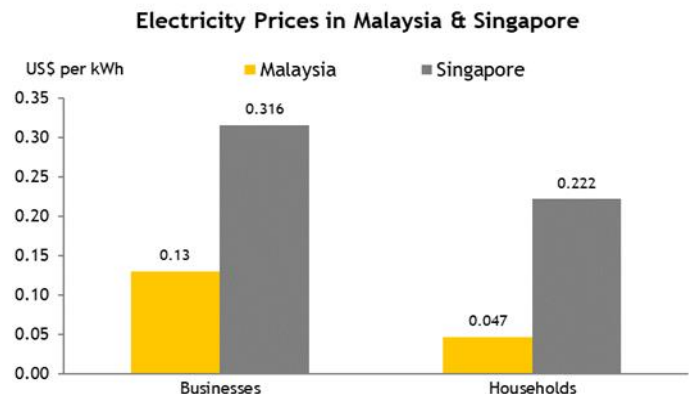
The ringgit has fallen by more than 60% over the past 20 years, from the point when one Singdollar could buy RM2.24 in 2004 to the current RM3.50 (Fig 6).

Fig 10: Average Annual Salaries Are Much Lower in Johor Than in Singapore



Source: Statista, Payscale, Glassdoor, Maybank IBG Research

Fig 11: Electricity Tariffs for Businesses in Malaysia is Around 40% of Singapore



Note: For households, data is calculated at the average annual level of household electricity consumption. For businesses, data uses 1,000,000 kWh annual consumption

Source: Global Petrol Prices.com

#5 Easing Talent and Labour Shortages

The Johor-Singapore SEZ represents an opportunity to build up Johor’s human capital and stem the “brain drain” to Singapore. A 2022 study by the Malaysian government found that nearly three in four Malaysians working in Singapore are skilled and semi-skilled, and that more than half have tertiary-level qualifications¹⁰. As of 2022, about 61% of the 1.86 million strong Malaysian diaspora were living in Singapore, attracted by higher pay and advantageous exchange rates.

¹⁰ CNA, “Malaysian government study warns of ‘brain drain’, finds 3 in 4 Malaysians living, working in Singapore skilled or semi-skilled”, 22 Feb 2024.

Better job opportunities accorded by an influx of Singaporean and multinational firms into the SEZ would help enhance Johor's human capital, build up a critical population base, and increase investments. Moreover, authorities are looking at jointly developing technical and vocational programmes to train up to 100k Johorean workers, potentially through link-ups between tertiary institutions and industries.

That said, **stemming the talent drain will not be easy**, as the RTS Link could make it more convenient for Johoreans to work in Singapore. To attract and retain talent, firms may need to offer more attractive remuneration packages than Johor's market, which could eat into some of their cost savings (vis-à-vis Singapore). Wages pegged in between the market rates of Johor and Singapore may prove acceptable to Johor workers, given the increased convenience, time saved and lower living costs by working in Johor, instead of Singapore.

Another strategy would be for authorities to offer more attractive working or residency visa terms to attract skilled foreigners, such as concessionary income tax rates and longer temporary visa durations. The Special Financial Zone in Forest City plans to offer a flat income tax rate of 15% for skilled foreign workers compared to 30% elsewhere, multiple entry visas and fast-track entry for those who are based in Singapore. These benefits could be extended to the rest of the SEZ.

A potential SEZ residency pass and/or long-stay visa scheme that will allow Singaporeans or foreigners to live in the Johor SEZ and work in Singapore could be a game-changer and increase the population base in the SEZ dramatically. Amid the global race for talent, many countries are offering attractive long-term visas for highly-skilled professionals, wealthy individuals or remote workers ("digital nomads").

Thailand's long-term resident (LTR) visa targets wealthy global citizens, pensioners, remote workers for well-established overseas companies and experts in targeted industries. Some of the benefits include a 10-year renewable visa with permission to work in Thailand, fast track service at international airports, a discounted 17% personal income tax for highly-skilled professionals, as well as immigration and work permit facilitation at a one-stop center.

Indonesia's Golden Visa programme offers a 5 or 10-year residence permit with the right to work and set up a business in the country, alongside priority immigration and other privileges. The 5-year visa requires a commitment to establish a company valued at ≥US\$2.5mn or an investment of ≥US\$350k in Indonesian government bonds, shares or savings deposits. The 10-year visa requires twice the commitment.

Under the UK High Potential Individual visa, the UK grants a 2-year work visa to individuals who graduated from global top 50 non-UK universities within the last five years, without the need for having a job offer in the UK.

In comparison, Malaysia's long-term passes have stricter requirements.

The Residence Pass-Talent (RP-T) introduced in 2011 allows skilled expatriates the ability to work and stay in Malaysia for 10 years (renewable), with the flexibility to change employers and for spouses to seek employment. However, the individual must have worked in Malaysia on an Employment Pass, for a minimum of three consecutive years¹¹. The work presence requirement is waived for strategic investors (encompassing company owners, top-level management and key decision makers) committing investments of at least RM5bn.

¹¹ Full eligibility requirements can be found at the following [Talentcorp](#) link.

The **Premium Visa Programme (PViP)** for high-income earners (introduced in 2022) has a lower annual salary requirement of RM480k (US\$107k) compared to Singapore's equivalent ONE Pass (US\$262k). However, the PViP imposes one-off participation fees (RM200k (US\$45k) for themselves and RM100k (US\$24k) for dependents) and the need to open a fixed deposit account of RM1mn (US\$224k) with a Malaysian bank. Half of the amount is permitted to be withdrawn after 1 year for purchasing real estate, education or medical expenses.

A **DE Rantau Digital Nomad Pass** was introduced in Oct 2022, allowing for remote workers and their dependents to stay for up to two years¹². The pass is applicable to professionals skilled in the fields of IT, digital marketing, digital creative content, digital content development as well as advanced manufacturing (e.g. electrical & electronics, integrated circuit design).

Malaysia introduced a **Returning Expert Programme** in 2011 to encourage skilled citizens working abroad to return. The perks include a 15% flat income tax rate for 5 years, permanent residency for foreign spouses and children, and tax exemption on personal effects as well as car purchase/import. That said, the takeup has been modest, with around 6,500 applications approved from 2011 to 2022¹³.

A concessionary **My Second Home Scheme (MM2H)** for Singaporeans and permanent residents (lower fixed deposit & income requirements; flexible part-time work) could make it more attractive to live and work in Johor. The scheme was revamped in Dec 2023 to introduce a three-tiered structure with differing fixed deposit requirements, but minimum income and liquid asset requirements have not yet been confirmed (Table 7). MM2H visa holders are currently prohibited from working in Malaysia.

Table 7: New Conditions for Malaysia's Retirement Residency Visa (MM2H)

Sep 2021 to Dec 2023		From 15 Dec 2023		
Category	Single category	Silver	Gold	Platinum
Fixed deposit	RM1mn	RM500k	RM2mn	RM5mn
Visa duration	5 years	5 years	15 years	Eligible for PR
Age requirement	At least 35 years old	At least 30 years old		
Liquid assets	RM1.5mn	Not announced yet		
Income	At least RM40k a month	Not announced yet		
Required days in Malaysia per year	90 days	60 days		

Source: CNA¹⁴, compiled by Maybank IBG Research

Singaporeans accounted for less than 2% of the 56,000 MM2H pass holders (as of Jan 2024). Chinese nationals formed the largest number (24,765), at about 44%. This was then followed by those from Australia (9,265), South Korea (4,940), Japan (4,733) and Bangladesh (3,604)¹⁵.

¹² See Malaysia Digital Economy Corporation (MDEC)'s website ([link](#)).

¹³ TalentCorp, Returning Expert Programme spreadsheet ([link](#)).

¹⁴ CNA, "Chinese nationals make up about 44% of active pass holders for Malaysia's retirement residency visa scheme: Minister", 12 Mar 2024.

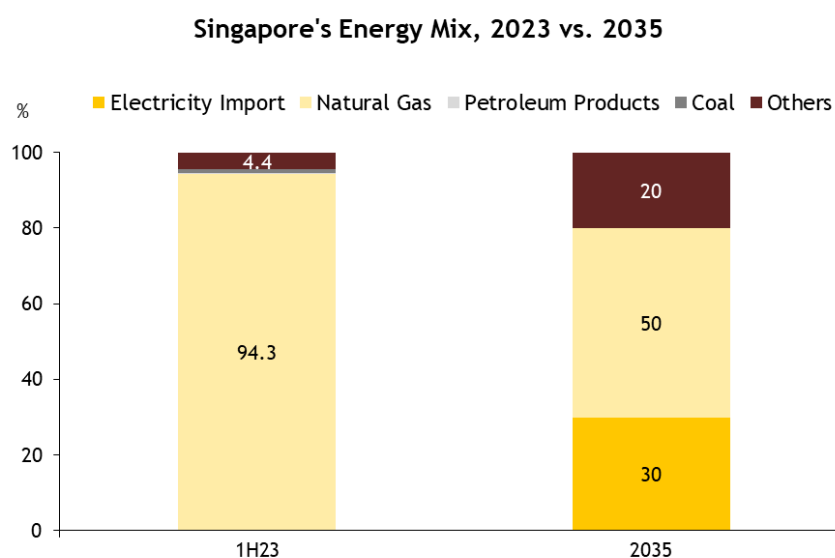
¹⁵ CNA, "Chinese nationals make up about 44% of active pass holders for Malaysia's retirement residency visa scheme: Minister", 12 Mar 2024.

#6 The Green Transition

The SEZ offers win-win opportunities for both countries in the green transition to renewable energy. Malaysia is in a position to capitalise on the proliferation of data centres, which face constraints from expanding in Singapore.

The SEZ will facilitate closer cooperation on renewable energy, aligning with the decarbonization goals of both countries. Both nations aim to achieve Net Zero greenhouse gas emissions by 2050. Malaysia aims for 70% of its electricity to be generated from renewables in 2050, up from under 25% currently. Singapore targets to import up to 4GW of low-carbon electricity (30% of energy mix) annually by 2035 (Fig 12). Singapore recently announced a new Future Energy Fund to build energy transition infrastructure.

Fig 12: Singapore Targets to Import 30% of Energy Mix from Renewable Sources by 2035



Note: "Others" for 2023 include solar and municipal energy waste. "Others" for 2035 could include solar, various forms of hydrogen, biofuels, nuclear power and geothermal power.

Source: Energy Market Authority

Singapore's access to green funding and its own sustainable energy needs, coupled with Johor's abundance of land and natural resources should catalyze joint investments in renewable energy projects. Malaysian authorities estimated that their 2050 renewable energy target would require around RM637bn in investment for power generation, grid infrastructure and energy storage.

The SEZ will itself be a major source of clean energy demand, given its own energy requirements and manufacturers' rising green energy mandates. Production capacity could be ramped up to supply renewable energy to Singapore's data centres.

Malaysia lifted its renewable energy export ban to Singapore in 2023, and recently announced that it would export up to 300MW of RE to Singapore for a start. This amounts to 7.5% of Singapore's 2035 electricity import target and only about 2.2% of its annual needs. The arrangement is also dwarfed by recent renewable import agreements with Vietnam (1.2GW), Indonesia (2GW), Cambodia (1GW) and Laos (100MW) (see Table 8).

Nonetheless, transmission from Johor and the SEZ would be a more feasible and proximate option. There is scope for further capacity ramp up, given that the 300MW is calculated based on excess capacity in the existing 1GW Malaysia-Singapore power line. Malaysia's state utility Tenaga Nasional Berhad (TNB) signed a MoU with Singapore Power last year to conduct a feasibility on setting up a second interconnection.

Table 8: Singapore's Renewable Energy Import Agreements

Country	Annual Capacity	Date Announced	Details
Vietnam	1.2GW	Oct 2023	Sembcorp will develop offshore wind and other capacity with Petrovietnam Technical Services for export to Singapore, via new 1000km subsea cables.
Indonesia	2GW	Sep 2023	Electricity will be sourced from solar power projects developed by Keppel Energy, Pacific Medco Solar Energy, Adaro Solar International, EDP Renewables APAC, and Vanda RE. Keppel will begin to import 300MW of lower-carbon electricity from Indonesia, starting from end-2027. Electricity will be transmitted through a shared subsea cable system, developed by Keppel, EDP and Vanda.
Cambodia	1GW	Mar 2023	Keppel inked long-term agreement with Cambodia's Royal Group Power Company to import primarily solar-powered electricity through onshore overhead high voltage transmission lines and subsea high voltage transmission cables.
Laos	100MW	Jun 2022	Singapore saw its first import of 100MW of renewable hydropower in Jun 2022 (for a 2 yr period), following Sep 2021 agreement between Keppel Electric and Electricite du Laos. Electricity transmitted via cross-border power trade using existing interconnections, through Thailand and Malaysia. In Oct 2022, Keppel signed a binding agreement with Laos' PSG Corporation Public Co Ltd (PSGC) to jointly explore further opportunities.

Source: Reuters¹⁶, compiled by Maybank IBG Research

Singapore has traditionally been the prime jurisdiction for data centre investments, due to its strategic position as a major hub for subsea cable networks that connect Asia with Europe, North America and the Middle East. This connectivity allows for rapid and reliable data transmission between East and West, essential in a tech-enabled world.

Johor has emerged as a leading destination for data storage, after Singapore enforced a four-year moratorium on new data centre builds in 2019 over sustainability concerns. Although the moratorium ended in January 2022, new capacity remains tightly regulated with only four projects (totaling 80MW) approved since then¹⁷.

Singapore's digital economy initiatives will require significant computing power and data centre capabilities. The Digital Economy Framework for Action aims to upgrade the digital capabilities of businesses and grow next-generation digital industries such as AI, blockchain and cybersecurity. The government announced in Budget 2024 that more than S\$1bn will be invested into AI development over the next five years, to complement the National AI Strategy 2.0 and further catalyse AI activities.

The close proximity of Johor is a significant advantage, minimizing the lag effects for data transmission between connected data centres in Johor and companies in Singapore, as compared to other destinations. The SEZ would bring about better connectivity and potentially a robust policy framework in areas such as data privacy and security. For instance, technical staff could be allowed to travel urgently from Singapore into the SEZ to fix technical issues and outages.

¹⁶ Reuters, "Singapore expands low-carbon power import agreements", 24 Oct 2023.

¹⁷ EDB, "Four data centre proposals selected as part of pilot Data Centre - call for application", 14 Jul 2023 ([link](#)).

Table 9: Examples of Renewable Energy and Data Centre-Related Investment Projects in Johor

Announcement Date	Project	Company	Country	Value	Sector	Details
May-24	Likely data centre	Microsoft	US	RM132.5mn	Data Centres	Microsoft bought 102,560 sq m plot of land in Kulai from local property developer Crescendo Corporation Berhad
Feb-24	Solar-ready factory & green industrial township	Paragon Globe Bhd & Solarvest Holdings Bhd	Malaysia	-	Renewable Energy & Property	Combination of commercial & industrial, end-use energy & electric vehicle charging facilities
Jan-24	Maharani energy gateway projects	Maharani Energy Gateway Sdn Bhd (MEG) & China Energy International Group (CEIG) Sdn Bhd	Malaysia & China	RM9.5bn	Renewable Energy	Combined cycle gas turbine (CCGT) power plant & a green hydrogen & green ammonia plant
Jan-24	UEM 500 MW hybrid solar power plant	UEM Group Berhad; HEXA Renewable Malaysia Sdn Bhd & ITRAMAS Corp Sdn Bhd	Malaysia	-	Renewable Energy	Solar PV project
Jan-24	Biomass power plant	Samaiden Group Bhd	Malaysia	-	Renewable Energy	Renewable energy
Dec-23	AI infrastructure development- at data centre	YTL Corp & Nvidia	Singapore & US	US\$4.3bn	Data Centres	Nvidia's GB200 NVL72 supercomputing equipment will be utilized at YTL Green Data Center Park in Iskandar. The YTL AI Supercomputer will be powered by its on-site 500MW solar energy facility.
Aug-23	54 MW Nusanjaya Tech Park Data Centre Campus	GDS	China	RM1.4bn	Data Centres	22,500 sq m, 54 MW hyperscale campus.
Jun-23	Biofuel production facility	EcoCeres Group	China	RM1bn	Renewable Energy	Sustainable Aviation Fuel & Hydro-treated vegetable oil facility in Pasir Gudang
May-23	150 MW hyperscale data centre campus	Princeton Digital Group	Singapore	RM2bn	Data Centres	Acquired 31 acres of land from JLand Group to build a 150MW data centre campus within the 700-acre Sedenak Tech Park in Johor. RM2bn and 60MW first phase will begin operations by 2Q 2024
Apr-23	Pekat solar power projects	Pekat Group Bhd	Malaysia	RM29.1mn	Renewable Energy	Solar PV project
Aug-22	500 MW YTL Green data centre park	YTL Corp	Singapore	RM1.5bn	Renewable Energy & Data Centres	Data Centre Park powered by solar energy
Aug-22	Palm-fibre oil extraction plant	Kulim Bhd & Eonmetall Technology Sdn Bhd	Malaysia	-	Biofuel	Harnesses waste oil as feedstock for biofuels. Will produce red palm oil.
Jun-22	Print circuit board assembly plant	Wiwynn Corp	Taiwan	RM300mn	Data Centres	Print circuit board assembly plant for cloud data centres

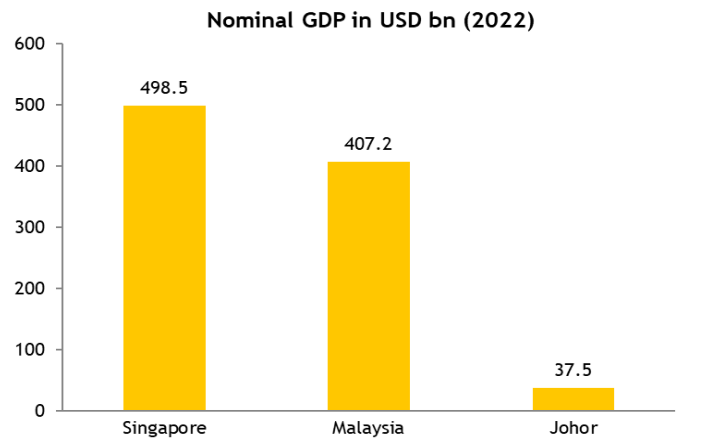
Source: News articles, Maybank IBG Research

Appendix:

Malaysia-Singapore Economic Ties

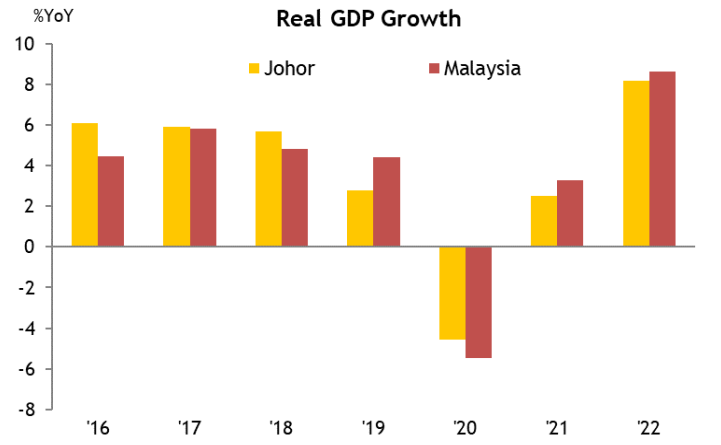
The economies of Malaysia and Singapore are already closely integrated via trade, investment, tourism and labor ties.

Fig 13: Johor Nominal GDP Equivalent to 7.5% of Singapore’s GDP and 9.2% of Malaysia’s GDP



Source: CEIC

Fig 14: Johor’s Economy Grew +8.2% in 2022, in Line With Malaysia’s 8.6% Growth

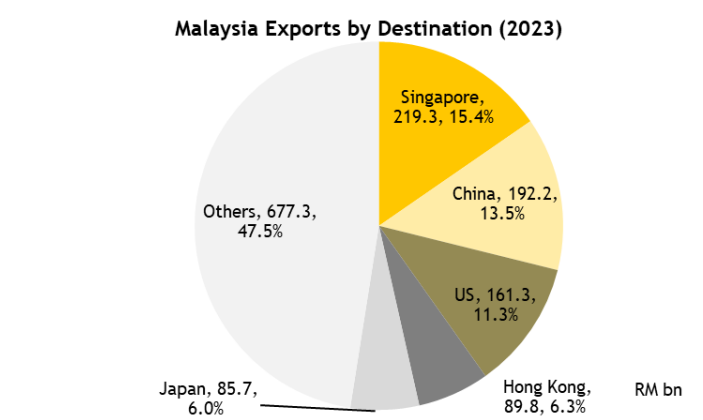


Source: CEIC

At a GDP of \$37.5bn, Johor’s economy was about a tenth of Malaysia’s GDP in 2022, and 7.5% of Singapore’s GDP (Fig 13). Growth has been broadly in line with nationwide performance, with Johor’s real GDP climbing by +8.2% in 2022 (vs. Malaysia’s +8.6% growth) (Fig 14).

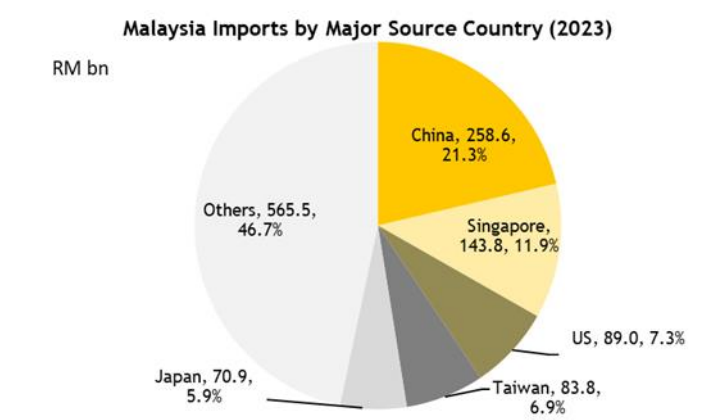
Malaysia is Singapore’s third-largest trading partner with total bilateral trade reaching S\$123.6bn (US\$92.5bn) in 2023, while Singapore is Malaysia’s 2nd largest trading partner.

Fig 15: Singapore is Malaysia’s Top Export Market, Accounting for 15.4% of Total Exports in 2023



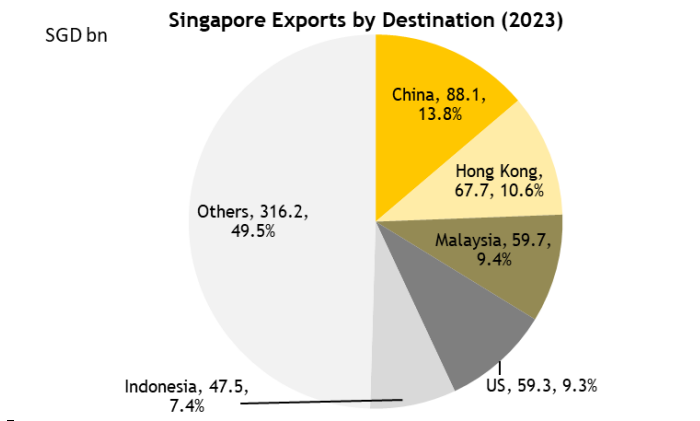
Source: CEIC

Fig 16: Singapore is No. 2 Source of Malaysia’s Imports, Accounting 11.9% of Total in 2023



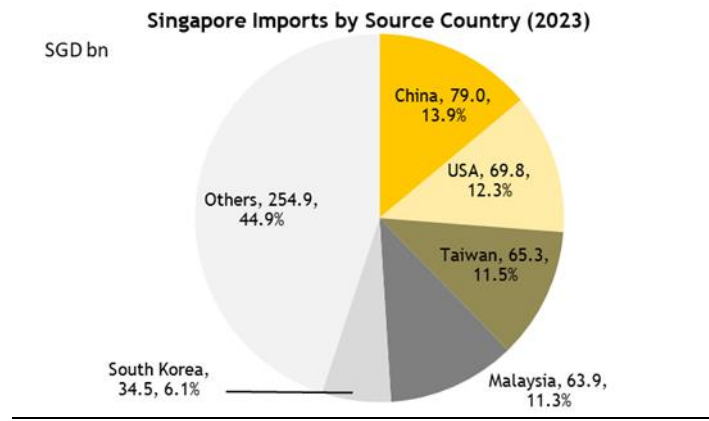
Source: CEIC

Fig 17: Malaysia is Singapore’s 3rd Largest Export Market, Accounting for 9.4% of Total Exports



Source: CEIC

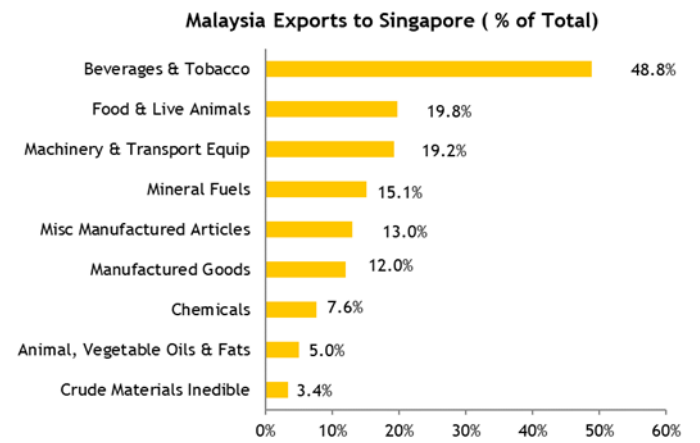
Fig 18: Malaysia is 4th Largest Source of Singapore’s Imports, Contributing 11.3% of Total



Source: CEIC

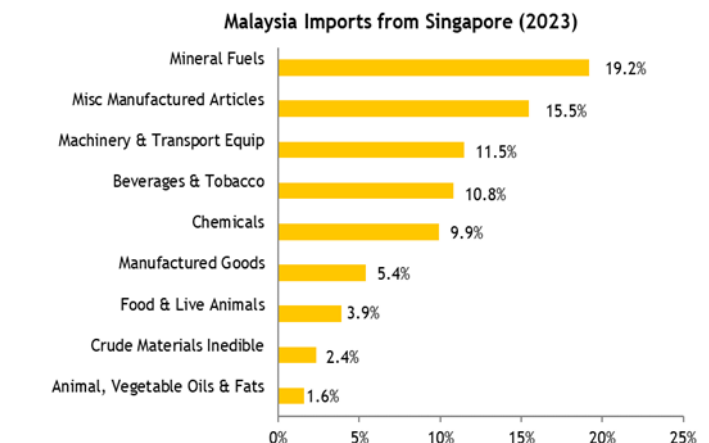
Malaysia shipped nearly half of its beverages & tobacco and 20% of its food & live animal exports to Singapore in 2023 (Fig 19). Around 19% of Malaysia’s mineral fuel imports are sourced from Singapore, a petroleum hub (Fig 20).

Fig 19: Malaysia Shipped Half of its Beverages & Tobacco and 20% of Food & Live Animals Exports to Singapore in 2023



Source: CEIC

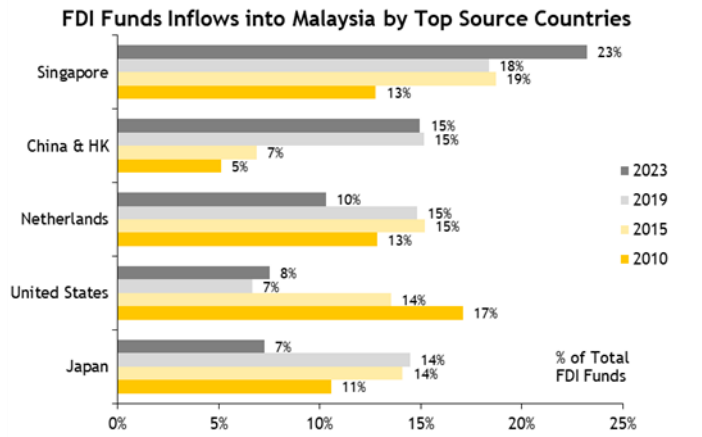
Fig 20: Malaysia Sourced 19% of Its Mineral Fuels Imports From Singapore in 2023



Source: CEIC

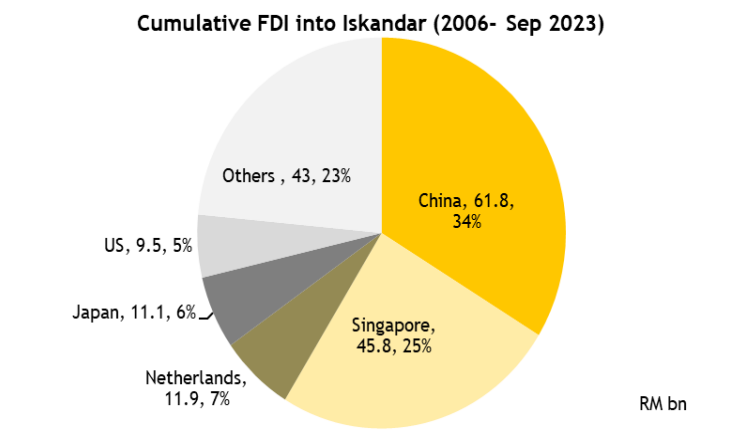
Singapore was Malaysia’s top source of FDI in 2023, contributing RM43.7bn (US\$9.3bn) or 23% of Malaysia’s total FDI (Fig 21). Since the Iskandar region was established in 2006, cumulative investments as of Sep 2023 amounted to RM45.8bn (US\$9.7bn), equivalent to 25% of total foreign investments¹⁸ (Fig 22). Singapore is the second-largest foreign investor in Iskandar, behind China.

Fig 21: Singapore Was No. 1 Investor into Malaysia in 2023, Accounting for 23% of Total FDI Inflows



Source: CEIC

Fig 22: Cumulative FDI into Iskandar Reached RM 183bn as of Sep 2023 with Biggest Investors Being China and Singapore

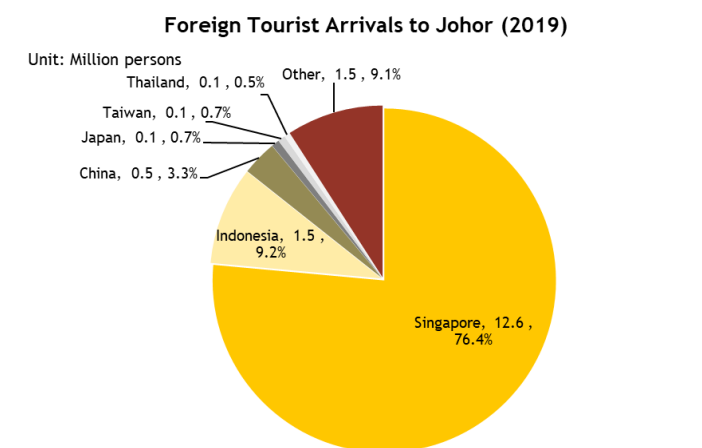


Source: Iskandar Regional Development Authority, The Star Malaysia

Singapore residents account for the largest share of Johor’s tourists. More than 16mn foreign tourists visited Johor in 2023, close to pre-pandemic levels of 16.5mn. In 2019, Singapore accounted for 76% of Johor’s inbound arrivals (Fig 23). The average daily number of travelers using Johor’s two land checkpoints with Singapore ranges from 430k to 450k (as of Mar 2024), exceeding pre-pandemic levels of 400k.

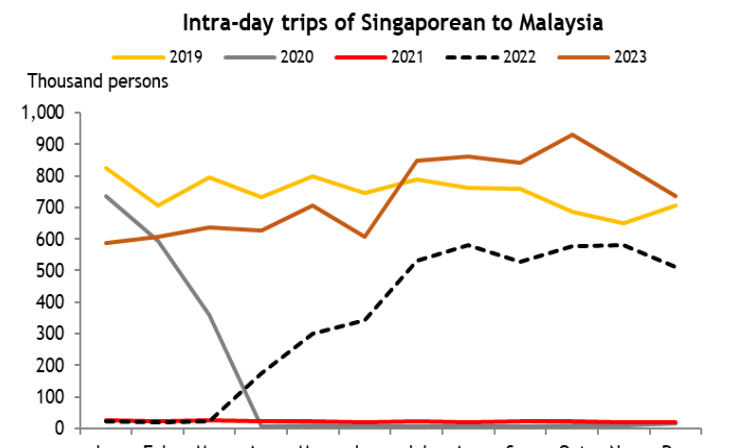
There were 6.52mn cross-border day-trippers from Singapore in 2023, comprising 74% of the total. The monthly number of Singaporean day-trippers to Malaysia has exceeded pre-pandemic levels since July 2023, as Singaporeans flock to Johor for shopping and leisure amid a favourable exchange rate (Fig 24).

Fig 23: Singapore Visitor Arrivals to Johor Reached 12.6mn in 2019, Accounting for 76% of Total Visitors



Source: “Basic Data on the State of Johor 2021” Report, Johor State Immigration Department

Fig 24: Number of Singaporean Daytrippers to Malaysia Has Exceeded Pre-Pandemic Levels since July 2023



Note: Monthly data.
Source: Tourism Malaysia

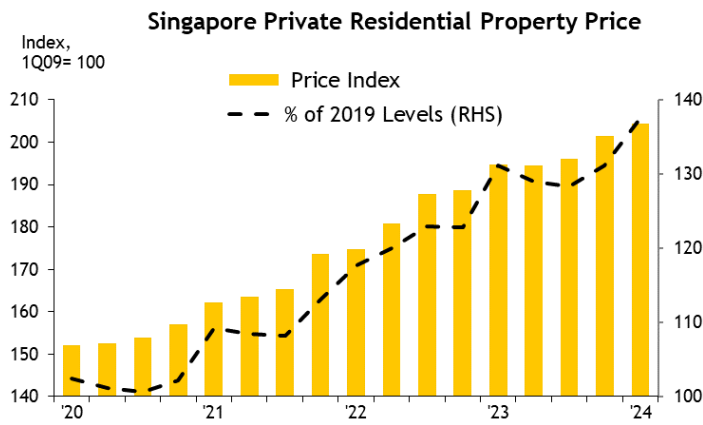
¹⁸ The Star Malaysia, Iskandar Malaysia sets new investment target”, 9 Jan 2024.
May 10, 2024

Singapore is a popular place for Malaysians to work. As of 2022, some 1.13mn (60.8%) out of the 1.86mn-strong Malaysian diaspora resided in Singapore. More than 300k Malaysians cross the Woodlands Causeway daily from Johor to Singapore for work. More Malaysians are seeking jobs in the island-state, as salaries get more attractive with the increasingly favourable exchange rate. Recruitment agencies in Singapore have recently observed 30-50% uptick in interest and job applications from Malaysians¹⁹.

Johor is an important source of Singapore’s energy and water needs. About 95% of Singapore’s electricity is generated from natural gas, which is piped from Malaysia and Indonesia. Water from the Johor River accounts for roughly 40% of Singapore’s water supply, the other sources being local catchment, NEWater and desalinated water. Singapore buys up to 250mn gallons of water daily from the Johor River (3 sen per thousand gallons) under the 1962 Water Agreement²⁰, and is obliged to sell Johor treated water amounting up to 2% of the total imported quantity (at 50 sen per thousand gallons).

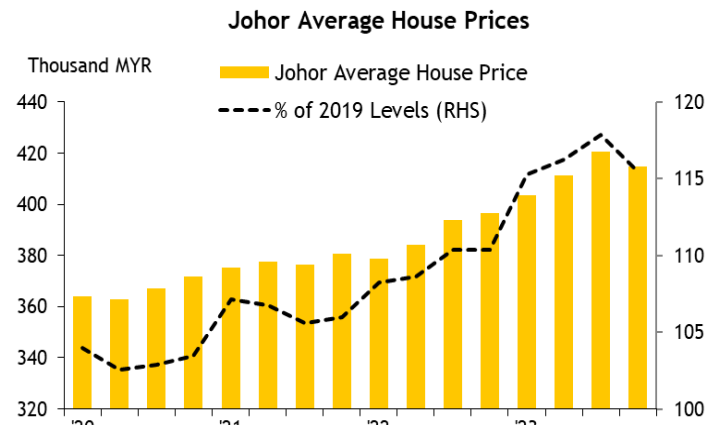
Singaporeans account for a considerable share of real estate demand in Johor, with more buying Johor residential properties in recent years amid skyrocketing property prices in Singapore and anticipated connectivity gains from the Johor-Singapore RTS Link. Private property prices in the Republic have jumped +31% from 2019 levels, as of end-2023 (Fig 25).

Fig 25: Singapore Private Residential Property Price Index Jumped +31% from 2019 Levels, as of 4Q 2023



Source: CEIC

Fig 26: Johor Average House Prices Stood At RM414k in 4Q23, Rose 15.5% from 2019 Levels



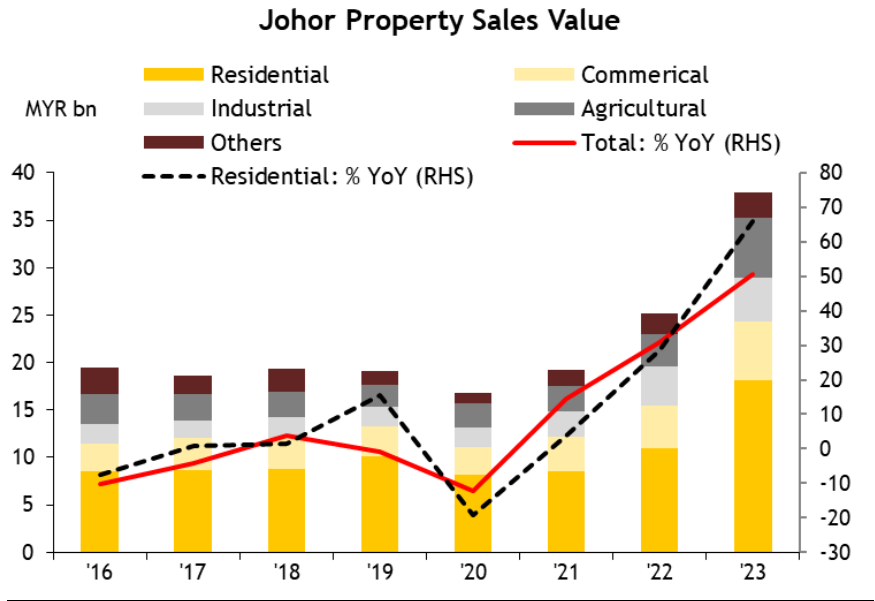
Source: CEIC

Property sales in Johor have nearly doubled from pre-pandemic levels, with strong growth across all categories (Fig 27). Residential sales have jumped by +80%. Although there is no data published on the aggregate percentage of Singapore buyers, Singaporeans made up 40% of buyers for the Princess Cove condominium which is within walking distance of the Johor Bahru checkpoint. Many buyers have been keen on investing in well-located Johor properties, after Singapore hiked Additional Buyers’ Stamp Duty rates (ABSD) applicable on 2nd and subsequent homes in April 2023.

¹⁹ CNA, “More Malaysians seeking jobs in Singapore amid weakening ringgit, inflation: Recruiters”, 16 Apr 2024.

²⁰ Gov.sg, “Can the prices in the 1962 Water Agreement be revised?”, 9 Jul 2018.

Fig 27: Johor’s 2023 Property Sales Have Nearly Doubled From Pre-Pandemic Levels, With Residential Sales Jumping 80%



Source: CEIC

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