Economics

Chartbook: Johor-Singapore Special Economic Zone's potential

Economics/Growth

Group Research 19 September, 2024

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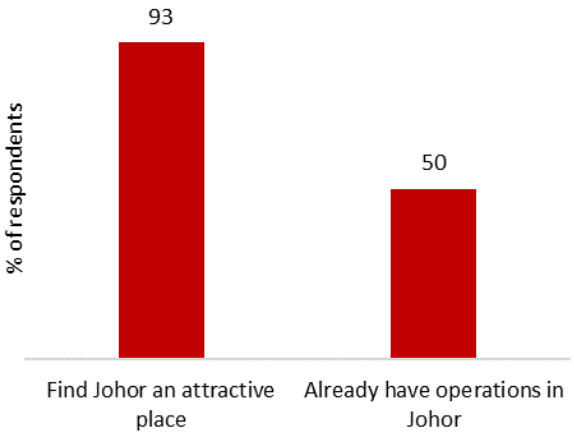
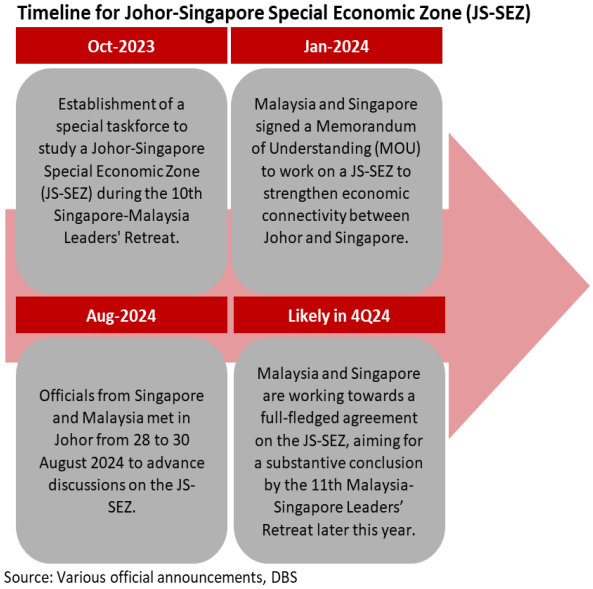
- *The Johor-Singapore Special Economic Zone promises a significant scaling up of an already deep regional symbiosis.*
- *Firms can benefit from Singapore's strength as a business and financial centre, complemented by Johor's abundant land, energy, and labour force.*
- *Potential key beneficiaries: data centres, electronics, tourism, and renewable energy.*
- *Issues and challenges: manpower; movement of people and goods; ease of doing business.*

Interest of Singaporean businesses in Johor



Source: Singapore Business Federation
Note: Survey of over 160 Singaporean businesses conducted from March to June 2024.

Timeline for Johor-Singapore Special Economic Zone (JS-SEZ)

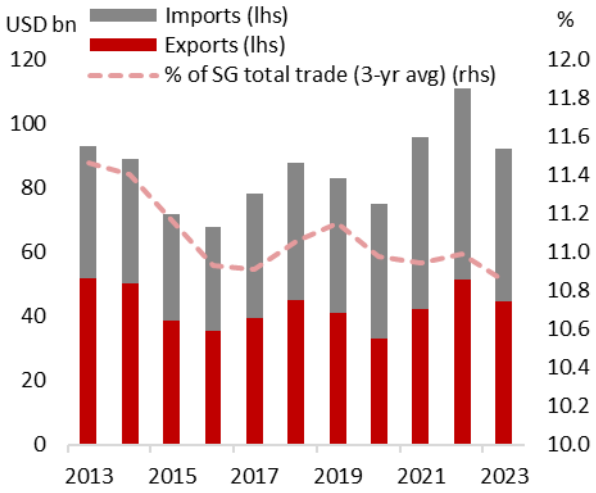


Source: Various official announcements, DBS

Singapore-Malaysia linkages

Singapore and Malaysia share strong trade ties, a relationship we expect will continue to flourish in the long term. Malaysia was Singapore's third largest trading partner in 2023, with a market share of approximately 11% since 2013.

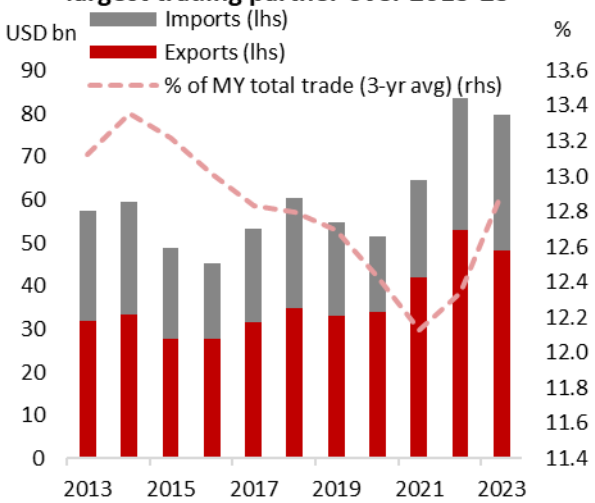
Malaysia was among Singapore's top three trading partners over the years



Source: CEIC, DBS. Note: Based on Singapore's accounts.

Singapore has maintained its position as Malaysia's second largest trading partner from 2013 to 2023. Singapore's share of Malaysia's trade has increased in the post-pandemic period.

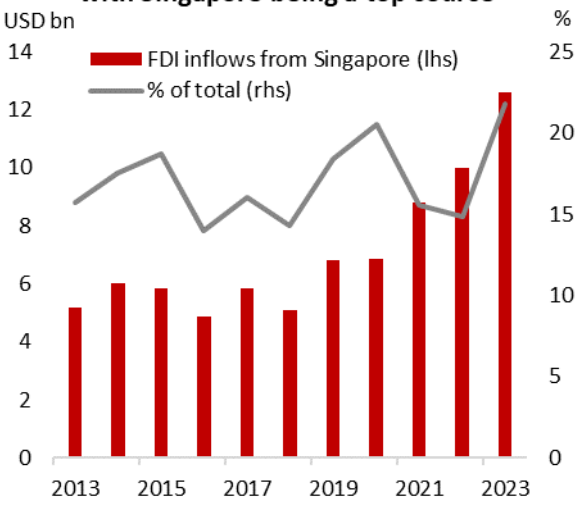
Singapore was Malaysia's second largest trading partner over 2013-23



Source: CEIC, DBS. Note: Based on Malaysia's accounts.

Singapore has consistently been Malaysia's top foreign investor over the years, with foreign direct investment inflows from Singapore into Malaysia demonstrating a strong uptrend in recent years.

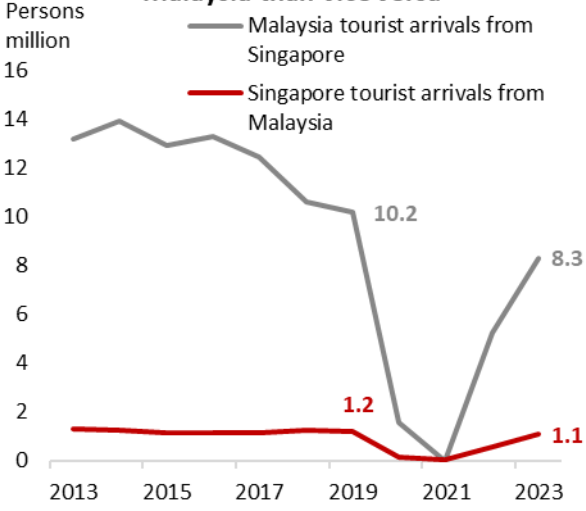
Rising FDI inflows into Malaysia, with Singapore being a top source



Source: CEIC, DBS

Singapore is Malaysia's top tourist source market, with visitor arrivals reaching 8.3mn in 2023, a recovery to 81.7% of pre-pandemic 2019 levels. In contrast, Malaysian visitors to Singapore were much smaller at ~1.1mn.

More visitors from Singapore to Malaysia than vice versa

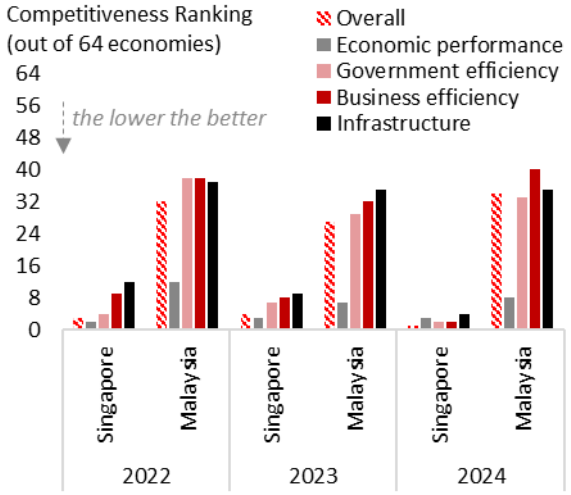


Source: CEIC, DBS

Complementary strengths in the JS-SEZ

The Johor-Singapore Special Economic Zone (JS-SEZ) can leverage the strengths of both Singapore and Johor to create a dynamic economic hub. This includes Singapore's highly ranked business competitiveness.

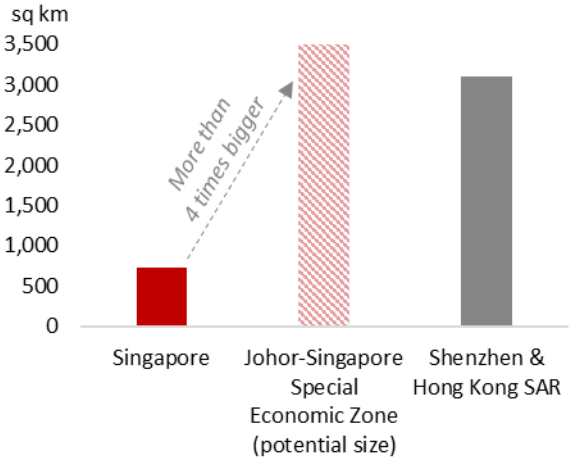
Johor can leverage on Singapore's capabilities as a financial centre and business hub



Source: IMD World Competitiveness Ranking, DBS

The JS-SEZ could span a vast area of 3,505 sq km, comparable in size to the combined area of Shenzhen and Hong Kong SAR. Land-constrained Singapore could benefit significantly from the abundant land supply.

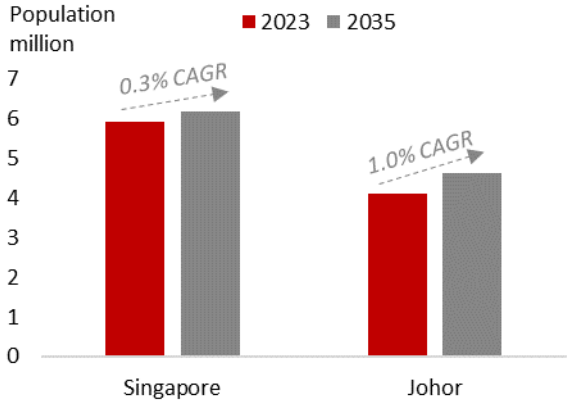
Singapore can tap on Johor-Singapore Special Economic Zone's bigger land area



Source: Singstat, Hong Kong SAR government, CEIC, CNA, DBS

Johor is the second most populous state in Malaysia after Selangor, with a population of 4.1mn in 2023. It is projected to grow at a faster rate than Singapore. Firms can tap on the expanding workforce within the JS-SEZ.

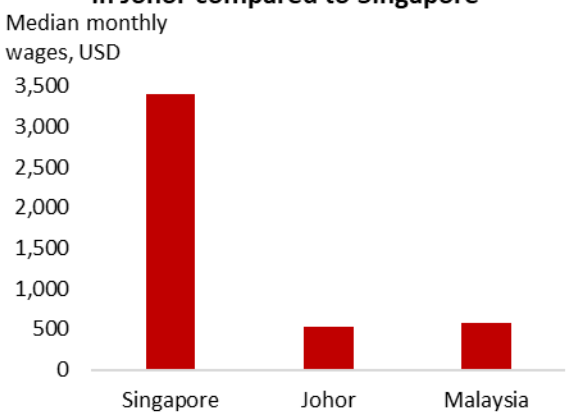
Singapore can benefit from Johor's faster population and growing workforce



Source: CEIC, DBS
Note: Singapore's forecast in 2035 is according to UN, and Malaysia's forecast in 2035 is according to Department of Statistics Malaysia.

The median monthly wages in both Johor and Malaysia are significantly lower than in Singapore. Companies that operate within the JS-SEZ can leverage the lower labour cost, making their production more competitive.

Significantly lower median monthly wages in Johor compared to Singapore

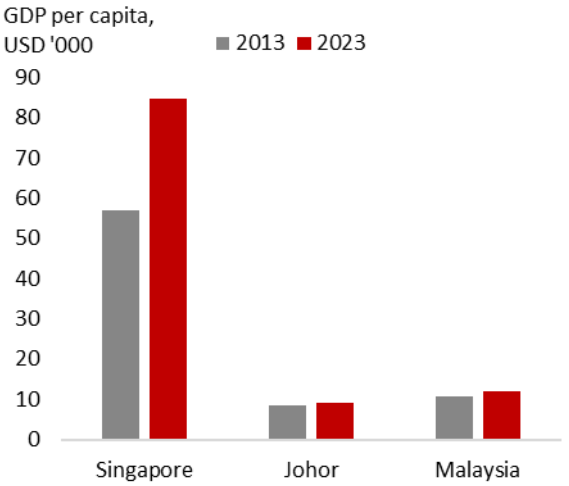


Source: CEIC, MoM, DOSM, DBS
Note: As of June 2023. Singapore's data excludes employer CPF provided to full-time employed residents, Malaysia's and Johor's data are for the formal sector.

GDP dynamics

Singapore's GDP per capita picked up in 2023 from 2013, ranking among the highest globally. In contrast, Malaysia's and Johor's GDP per capita were much lower, and have potential to rise in the coming years.

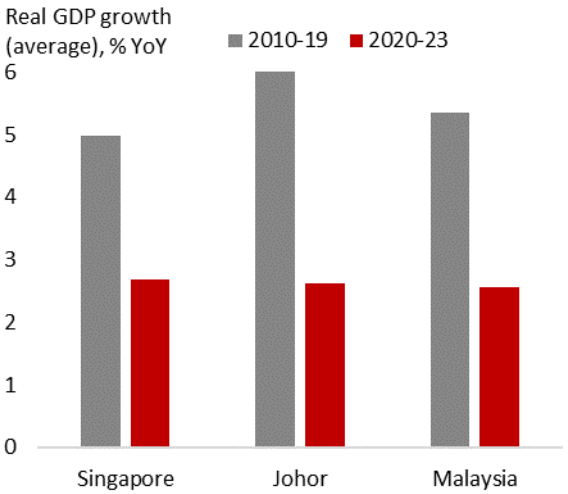
Singapore recorded much higher GDP per capita than Johor and Malaysia



Source: CEIC, DBS

Despite Singapore's maturing economy, it grew by an average of 2.7% between 2020-23, and 5.0% in 2010-19. This was comparable to that achieved by Johor and Malaysia in 2020-23, but lower than their growth in 2010-19.

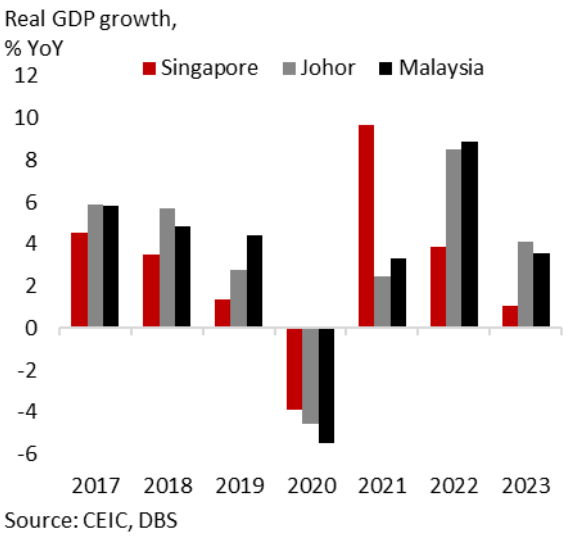
Singapore's economic growth was quite close to Johor and Malaysia



Source: CEIC, DBS

At a time of weak external demand in 2023, Johor's economy proved to be more resilient. Johor's growth outpaced the national rate, but it also significantly outperformed Singapore.

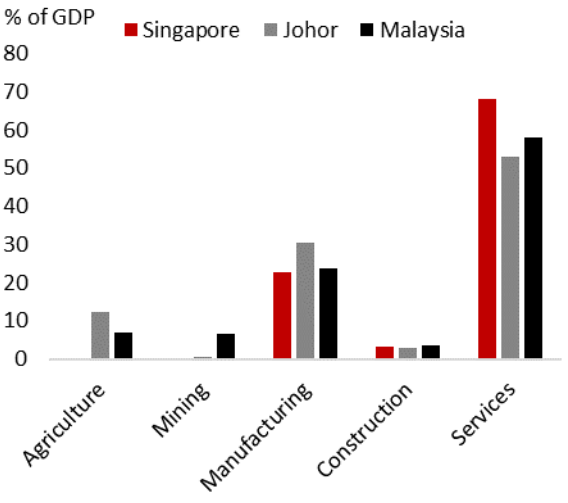
Johor outperformed Malaysia and Singapore in 2023



Source: CEIC, DBS

Singapore was more services-oriented than Johor and Malaysia in 2020-23, with strengths in trade-related and modern services. Johor relied more on manufacturing, while agriculture was higher than the national rate.

Singapore dominated in services, while Johor's manufacturing was sizeable

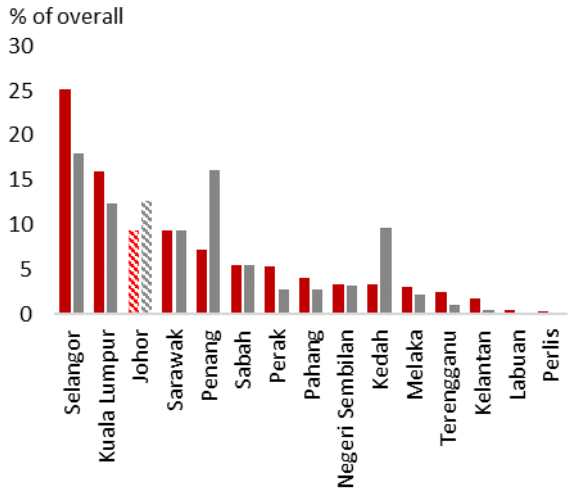


Source: CEIC, DBS. Note: 2020-23 average.

Johor's economy and connectivity

Johor's economy is prominent in Malaysia, and has significant potential. Its real GDP ranked third in the country, trailing only Selangor and Kuala Lumpur between 2020-23. Approved investments were after Selangor and Penang.

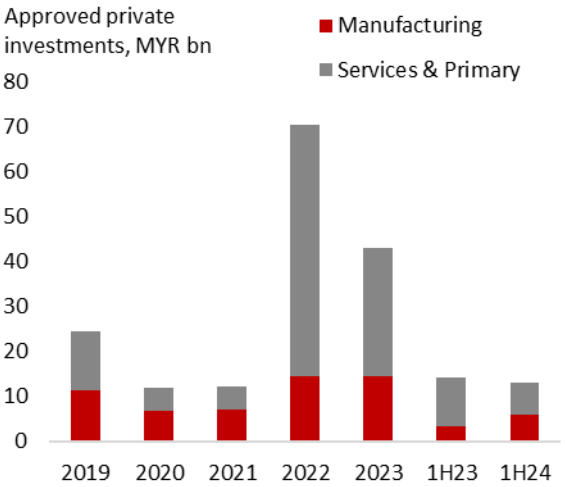
Johor ranks third in economic size and approved investments



Source: CEIC, DBS. Note: 2020-23 average.

Johor has emerged as a top investment destination in Malaysia in recent years, with its ranking reaching 4th in 2023 and 1st in 2022. The services sector, particularly technology services, has been a major driver of these investments.

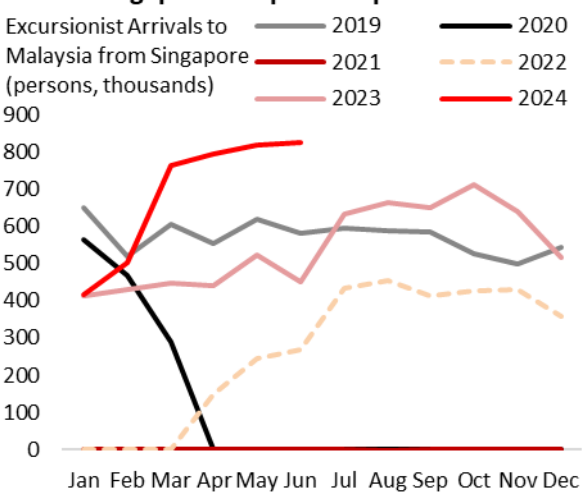
Johor's investments increasingly driven by services sector



Source: MIDA, DBS

Cross-border travel to Malaysia, notably to Johor, by Singaporeans is already high and continues to rise. Singapore day-trippers to Malaysia has surged in 2024, facilitated by a favourable SGD-MYR exchange rate.

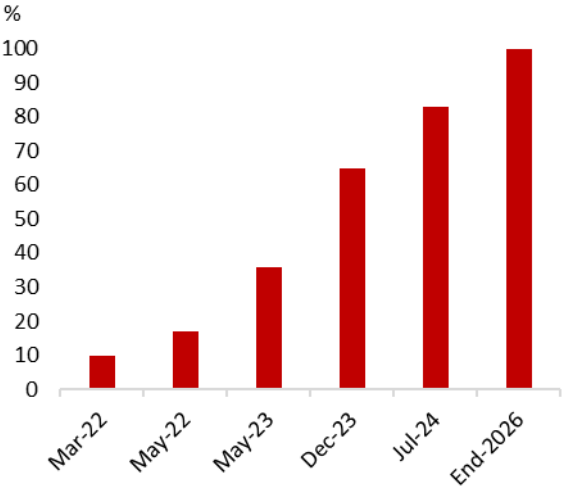
Number of daytrippers to Malaysia from Singapore has picked up in 2024



Source: Tourism Malaysia, DBS

The Johor Bahru-Singapore Rapid Transit System (RTS) Link is progressing well. Upon completion in end-2026, it would cut travel time from hours to as little as 15 minutes, significantly improving connectivity.

The Johor Bahru–Singapore Rapid Transit System (RTS) Link is on track for end-2026 completion

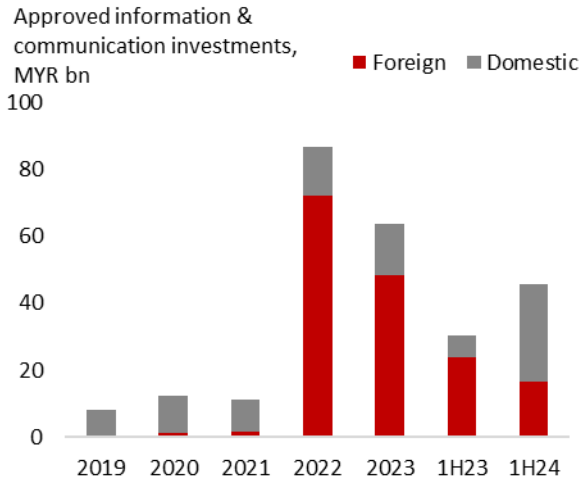


Source: Various new sources, DBS

Potential beneficiaries of the JS-SEZ

Approved foreign investments in technology services are likely to benefit from Johor's emergence as a data centre hub. Johor is the fastest growing market in Southeast Asia, based on DC Byte's 2024 Global Data Centre Index.

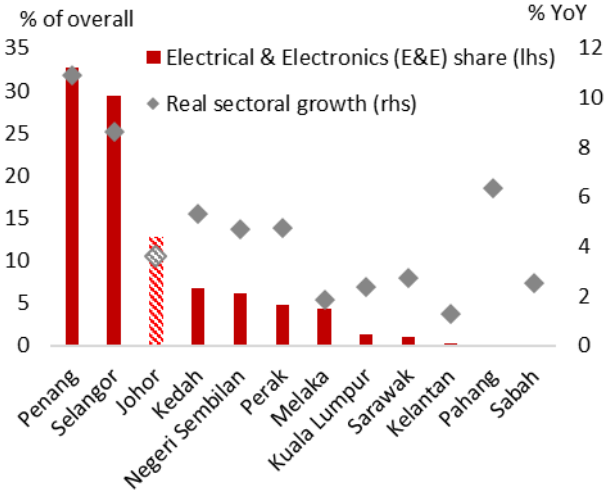
Technology services investments in Malaysia have jumped in recent years



Source: CEIC, MIDA, DBS

Electrical & electronics (E&E) is one of the priority sectors in Johor's economic masterplan. Johor has room to catch up to Penang, Malaysia's semiconductor powerhouse, despite being the 3rd largest E&E manufacturing state.

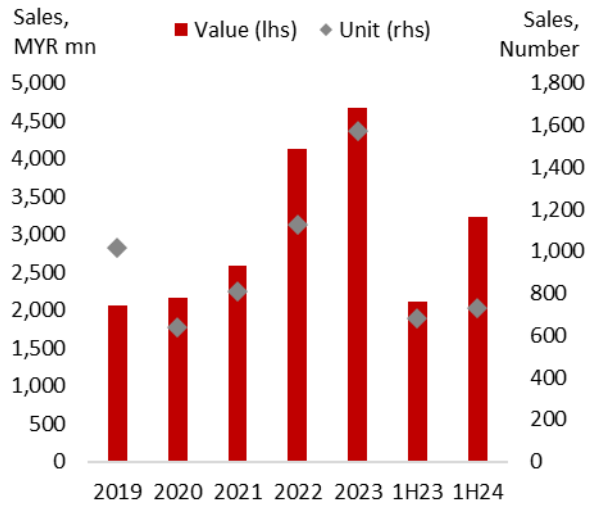
Johor was the 3rd largest electronics manufacturing state in Malaysia



Source: DOSM, DBS. Note: 2020-23 average.

The JS-SEZ has potential to stimulate further demand for industrial properties in Johor. We already see a strong pick-up in the number and value of industrial property sales in the state in recent years.

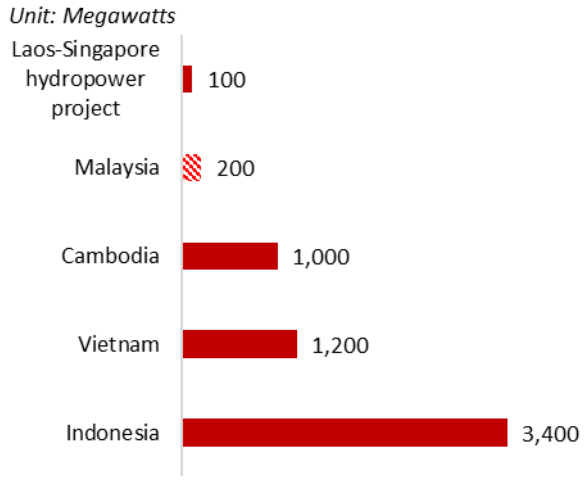
Rising interest in Johor's industrial properties



Source: CEIC, DBS

Renewable energy is a key area of cooperation agreed upon for the JS-SEZ, with potential for deeper collaboration. For e.g., Singapore is already conducting an electricity import trial from a gas-fired power plant in Johor.

Malaysia is among the sources where Singapore is looking to import its low-carbon electricity

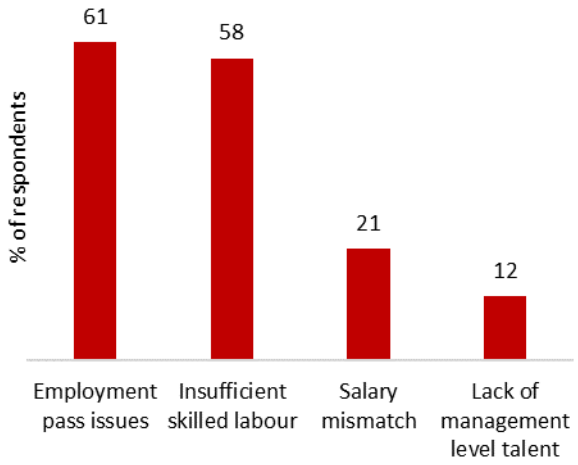


Source: The Straits Times

Challenges and Issues to tackle

Manpower is a key challenge faced by Singaporean businesses operating in Johor. A majority highlighted challenges in employment pass issues, and sourcing technical and skilled workers.

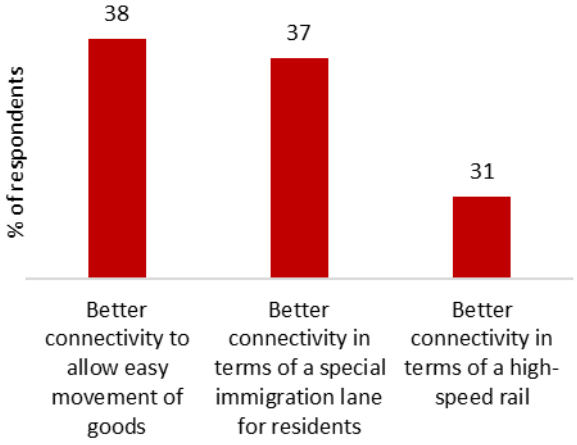
Factors contributing to manpower crunch



Source: Singapore Business Federation
Note: Survey of over 160 Singaporean businesses conducted from March to June 2024.

Improved connectivity is key to move goods and people efficiently. The RTS will enhance cross-border human flow. Businesses are looking at the possibility of a special immigration lane and the potential revival of a high-speed rail to KL.

Features in JS-SEZ that could smoothen connectivity



Source: Singapore Business Federation
Note: Survey of over 160 Singaporean businesses conducted from March to June 2024.

Businesses highlighted several significant challenges in cross-border trade between Singapore and Johor, including tax rules and supply chain inefficiencies.

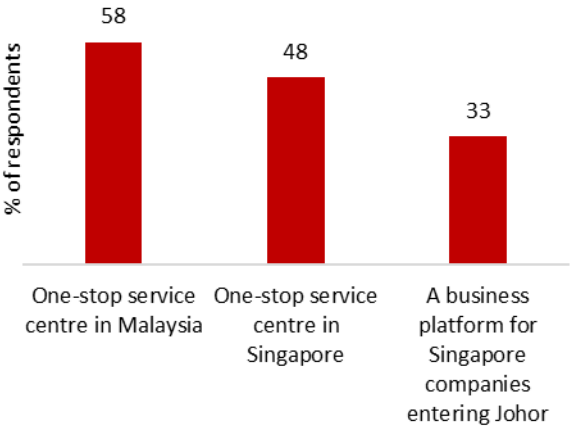
Challenges regarding movements of goods between Singapore and Johor



Source: Singapore Business Federation
Note: Survey of over 160 Singaporean businesses conducted from March to June 2024.

Investors perceive the investment process in Malaysia as fragmented, and most highlighted the need for a unified one-stop service centre in Malaysia. The Investment Malaysia Facilitation Centre Johor has been established.

Potential solutions to improve investment facilitation landscape



Source: Singapore Business Federation
Note: Survey of over 160 Singaporean businesses conducted from March to June 2024.

Initiatives under the JS-SEZ Memorandum of Understanding (MOU)

#	Intiatives building towards the JS-SEZ announced on 11 January 2024
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 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.

Source: Ministry of Economy, Malaysia; Ministry of Trade and Industry, Singapore

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