

Macro Note

Malaysia: JS-SEZ Update #3 – Joint agreement officially signed

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- The Joint Agreement on Johor-Singapore Special Economic Zone (JS-SEZ) was officially signed with both Prime Ministers of Singapore and Malaysia witnessing the exchange of the agreement at the 11th Malaysia-Singapore Leaders' Retreat on Tue (7 Jan). Concurrently, six Memorandum of Understanding (MOUs) and one Letter of Intent (LOI) on education, women and social welfare, climate change, carbon capture and storage, urban development and combatting transnational crimes were also endorsed during the two-day (6-7 Jan) official visit by Singapore's Prime Minister to Malaysia.
- We understand that the JS-SEZ Agreement has outlined some details relating to (i) JS-SEZ Areas; (ii) key areas of cooperation; and (iii) specific initiatives. In a briefing last Fri (3 Jan), Malaysia's Economy Minister Rafizi Ramli updated that three new Flagship Zone Areas (FZAs) were proposed, in addition to the existing six FZAs, with new priority sectors (i.e. aerospace, electrical & electronics, chemical, medical devices and pharmaceuticals). Pro-business policies and incentives will be granted based on the 11 priority sectors across FZAs within the JS-SEZ. It also aims to promote and facilitate expansion of 50 projects within the first five years and a cumulative 100 projects within the first ten years.
- In a nutshell, JS-SEZ will adopt a phased expansion approach, which will allow for the piloting of innovative and impactful policies and relaxation of regulation. Hence, any further announcement related to policies and incentives will be made as and when necessary. The agreement will be ratified by 3Q25. We concur with the governments' view that the JS-SEZ will unlock value for investors through strategies and initiatives that enhance its competitiveness on the global stage amid challenges in the areas of talent, capital, Industry Revolution 4.0, green economy and global trade fragmentation.

Binding of the JS-SEZ

Both Singapore and Malaysian governments officially signed the Joint Agreement on Johor-Singapore Special Economic Zone (JS-SEZ) on Mon (6 Jan 2025), almost a year after the JS-SEZ memorandum of understanding (MOU) was endorsed on 11 Jan 2024 (details in [report](#)). The agreement aims to strengthen the value proposition of Johor and Singapore to compete for global investments together by (i) improving cross-border goods connectivity between Singapore and Johor; (ii) enabling freer movement of people; and (iii) strengthening the business ecosystem within the region. Prime Ministers of both countries witnessed the exchange of the agreement at the 11th Malaysia-Singapore Leaders' Retreat on Tue (7 Jan). Both countries will work towards ratification of the agreement by 3Q25.

Concurrently, six Memorandum of Understanding (MOUs) and one Letter of Intent (LOI) on education, women and social welfare, climate change, carbon capture and storage, urban development and combatting transnational crimes were also endorsed during the two-day (6-7 Jan) official visit by Singapore's Prime Minister to Malaysia. Kindly refer details in appendix.

Key elements of the Agreement

We understand that the JS-SEZ Agreement has outlined some details relating to (i) JS-SEZ Areas; (ii) key areas of cooperation; and (iii) specific initiatives.

i. New Flagship Zone Areas and priority sectors proposed

In a briefing last Fri (3 Jan), Malaysia's Economy Minister Rafizi Ramli updated that three new Flagship Zone Areas (FZAs) were proposed, taking the total to nine FZAs within JS-SEZ with new priority sectors, namely aerospace, electrical & electronics, chemical, medical devices and pharmaceuticals. The three new FZAs are:

- **Flagship G - Forest City**, which has been declared as Special Financial Zone (SFZ) and focusing on financial services (details in [report](#));
- **Flagship H - Pengerang Integrated Petroleum Complex (PIPC)** with manufacturing, energy and logistics named as prioritized sectors, as well as incentives packaged under PIPC-JPDC; and
- **Flagship I - Desaru**, which will focus on education, food security, health and tourism sectors.

This is in addition to the existing six FZAs stipulated in the Iskandar Malaysia Blueprint:

- **Flagship A - Johor Bahru City Centre**: Business services, digital economy and health;
- **Flagship B - Iskandar Puteri**: Manufacturing, business services, digital economy, health, education and tourism;
- **Flagship C - Tanjung Pelepas-Tanjung Bin**: Manufacturing, energy and logistics;
- **Flagship D - Pasir Gudang**: Manufacturing, energy and logistics;
- **Flagship E - Senai-Skudai**: Manufacturing, digital economy, education, logistics and tourism; and
- **Flagship F - Sedenak**: Manufacturing, business services, digital economy, education, energy, food security, health, logistics and tourism.

With that, pro-business policies and incentives will be granted based on the 11 priority sectors across FZAs within the JS-SEZ. According to media reports, special corporate tax rates and pioneer status will be offered to companies undertaking new investments in high-growth and high value-added activities within the JS-SEZ. Similar to the Forest City Special Financial Zone, we expect the tax structure to be more outcome focused to attract new investments and reward expansionary activities that invest and grow the skilled workforce as well as enhance sustainability efforts. It was reported that JS-SEZ will also offer a special personal income tax rate to be announced by Malaysia's Ministry of Finance (MOF) at a later date.

One foreign news report highlighted that the JS-SEZ agreement includes funding obligations for both countries, with Malaysia providing funding for infrastructure and Singapore to fund facilitation of investments. The JS-SEZ will operate on a project-by project basis, whereby infrastructure will be built as projects and investments are agreed as opposed to conventional arrangements of building infrastructure before attracting investments.

ii. Boosting cooperation, connectivity, talent and ease of doing business

Both countries will leverage on each other's complementary value propositions and make the JS-SEZ a much more competitive and attractive venue for businesses to operate from via several key areas and initiatives. They include:

▪ Economic cooperation

- Promotion and facilitation of investments across 11 economic sectors from third countries and Singapore companies expanding into the JS-SEZ. These sectors include manufacturing, logistics, food security, tourism, energy, digital, green economy, financial services, business services, education and health. These investments also aim to achieve net-zero aspirations in the JS-SEZ.
- Expansion of 50 projects in the first five years and a cumulative 100 projects in the first 10 years to enhance the growth potential of Malaysia and Singapore, with goal of creating 20,000 skilled jobs.
- Facilitate development of renewable energy projects to accelerate renewable energy trading between Malaysia and Singapore.
- Development of new areas for free zones and facilitate the application for licensed manufacturing warehouses in the JS-SEZ.

▪ Movement of people and goods

- Enhance Malaysia's existing passes (e.g. the DE Rantau Nomad Pass)
- To ease the movement of people and goods in phases by - (a) increasing clearance capacity; (b) implementing automated immigration lanes; and (c) paperless clearance of goods.
- Seamless connectivity by strengthening local transport links between Singapore and Malaysia.
- Study on feasibility of encouraging more commercial vehicles to use the Second Link.
- Explore potential data sharing to enhance customs processes in facilitating cross-border movement of goods, subject to requirements and regulations of both countries.
- Explore other aspects related to movement of people and goods, mutually agreed by the Parties.

▪ Talent development

- Attract talents aligned with industry needs to work in JS-SEZ, including enhancing industry-ready skills training and education programmes and to pursue these initiatives in collaboration with the Johor Talent Development Council (JTDC) and other relevant institutions.

▪ Ease of doing business

- Establishment of the Investment Malaysia Facilitation Centre – Johor (IMFC-J) to act as a one-stop centre in facilitating investments and businesses in the JS-SEZ.

iii. Continuously explore new initiatives

New initiatives would include exploring enhancing market access of financial institutions, subject to laws, rules, regulations and requirements in both countries. This is in addition to several early initiatives stipulated in the Jan 2024's MOU (details in [report](#)), such as passport free QR code clearance, IMFC-J and streamlined customs procedures for land intermodal transshipments.

A phased expansion approach with ongoing updates

In a nutshell, JS-SEZ will adopt a phased expansion approach, which will allow for the piloting of innovative and impactful policies and relaxation of regulation. Hence, any further announcement related to policies and incentives will be made as and when necessary.

In addition, both countries will work towards refreshing the Joint Ministerial Committee for Iskandar Malaysia (JMCIM) to support the ambition and implementation of the JS-SEZ. This refreshed JMCIM will reinforce bilateral co-operation on other fronts, such as transport and the environment.

Back in late Nov 2024, Malaysia's Economy Minister Rafizi Ramli said that a blueprint for JS-SEZ would be drawn up according to the development nodes set after signing the Agreement. He added on Tue (7 Jan 2025) that the government will use the metric of number of projects as a target to ensure the JS-SEZ delivering on its promise, rather than using GDP or total investment value.

We concur with the governments' view that the JS-SEZ will unlock value for investors through strategies and initiatives that enhance its competitiveness on the global stage amid challenges in the areas of talent, capital, Industry Revolution 4.0, green economy and global trade fragmentation. The advantages draw on complementarities of the entire ecosystem of both countries. Ultimately, the success of JS-SEZ rides on shared vision and goals, mutual understanding, strong objectives, and steady execution on both sides.

After signing the Agreement, a JS-SEZ blueprint is expected to be drawn in the near term

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

Key objectives of the JS-SEZ

- Enhance cross-border connectivity
- Facilitate freer movement of people
- Strengthen business ecosystems to foster a robust business environment

The joint effort is designed to foster stronger business connections and improved connectivity between the two countries, as the region combats a global economic slowdown.

Vision for the JS-SEZ

- Enhanced cross-border business interactions
- Easy flow of labour between countries
- Holistic business ecosystem & enhanced ease of doing business
- Improved connectivity and cost-effectiveness in trade
- Increased economic development

The JS-SEZ will focus on the combination of key factors necessary for the successful development of the zone:

- 1. Engineers and skilled workers**
High quality engineers and graduates from universities in Malaysia, Singapore and the region to drive continuous innovation in diverse industries
- 2. Robust capital and investments**
Attract capital and investments through incentives for both businesses and the workforce, and strong support from the government to improve ease of doing business
- 3. Industrialisation**
Remaining relevant in the 4th Industrial Revolution, driven by digitalisation, Internet of Things ("IoT") and high speed exchange of data. This will fundamentally increase productivity and change the way work is carried out globally.



3 New Proposals for Flagship Zone Areas

- 1. Flagship G - Forest City**
- 2. Flagship H - Pengerang Integrated Petroleum Complex (PIPC) - Incentive Packages under PIPC-JPDC**
- 3. Flagship I - Desaru**

*New priority sectors

- Aerospace
- Medical devices
- Electrical & electronics
- Pharmaceuticals
- Chemical

	Flagship A: JB City Centre	Flagship B: Iskandar Puteri	Flagship C: Tg. Pelepas - Tg Bin	Flagship D: Pasir Gudang	Flagship E: Senai - Skudai	Flagship F: Sedenak	Flagship G: Forest City	Flagship H: PIPC	Flagship I: Desaru
Sector(s)	• Business Services • Digital Economy • Health	• Manufacturing • Business Services • Digital Economy • Education • Health • Tourism	• Manufacturing • Energy • Logistics	• Manufacturing • Energy • Logistics	• Manufacturing • Digital Economy • Education • Logistics • Tourism	• Manufacturing • Business Services • Digital Economy • Education • Energy • Food Security • Health • Logistics • Tourism	• Financial Services <i>Note : Special Financial Zone (SFZ)</i>	• Manufacturing • Energy • Logistics	• Education • Food Security • Health • Tourism

The distinctive value proposition of the JS-SEZ offers a wide range of opportunities

Note: Attractive policies and incentives proposed are subject to negotiations between Johor and Singapore

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

Competitive cost of doing business due to affordability in areas such as:

- Real estate
- Labour costs
- Favourable tax regime

Strong government support and commitment:

- Malaysia Government to establish **fund** for purposes of **infrastructure support**
- Singapore Government to design **funding support** to facilitate **Singapore companies' expansion** in JS-SEZ and the **potential twinning operations** of Multi-National Companies in Singapore and JS-SEZ
- Invest Malaysia Facilitation Centre – Johor (**IMFC-J**) to act as **one-stop centre** in facilitating investments, including expediting approvals and streamlining processes



- **Technology-enhanced** movement of people and goods for increased clearance capacity, automated immigration lanes and paperless clearance for goods
- **Enhanced passes** (Malaysia's existing visas to be enhanced e.g DE Rantau Nomad Pass)
- Strategic hub with excellent **regional and global connectivity**, where goods manufactured in JS-SEZ can be exported through either Singapore or Johor

Pro-business policies and incentives, such as tax breaks, grants, and streamlined regulations

- **Special corporate tax rate** to companies that undertake new investments in high growth and high value-added activities within JS-SEZ
- **Special personal income tax rate** to be announced at later date by MOF

- The JS-SEZ will encompass Iskandar Development Region and Pengerang, including industrial parks located within the region, especially the **designated flagship areas** with **prioritised sectors**

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