

Putting the “Special” in the Johor-Singapore Special Economic Zone (JS-SEZ) Report 2025

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1. Executive Summary

There are compelling reasons for Malaysia and Singapore to pursue the Johor-Singapore Special Economic Zone (JS-SEZ), given the many beneficial synergies both countries can achieve through such cooperation.

Given both countries have relatively small and highly open economies, strengthening their already high levels of integration will encourage stronger trade flows, cross-border investment and the movement of people between the two countries. While both countries have pursued different economic strategies, these are complementary in nature. It helps both share similarities in their basic policy orientations – being highly open to trade and welcoming towards foreign capital.

The JS-SEZ initiative will help each country address specific challenges. Malaysia's policymakers, aware that progress in converging with high-income countries has stalled in recent years, are keen to ensure that Malaysia breaks out of the Middle-Income Trap. On its part, Singapore is keen to maintain its economic vibrancy and continue to develop as a global heart of commerce and finance despite its land and labour constraints that are becoming more pressing.

The combined advantages of the two territories will create complementarities that can go a long way in helping both countries overcome these challenges.

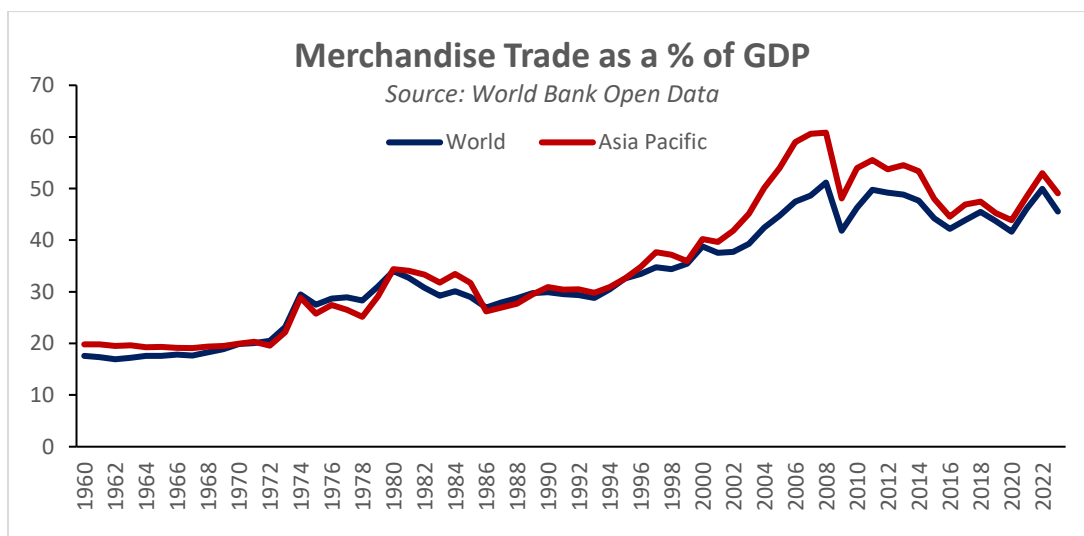
Key to this is maintaining Singapore's status as a connectivity hub for the region. The JS-SEZ will help both countries to achieve synergies and address current drawbacks such as fragmented approval processes, inadequate harmonisation of regulations, infrastructure bottlenecks that cause congestion and other irritants and the need to develop human capital and attract talent.

The report concludes by reviewing other cross-border integration efforts, such as those of Shenzhen-Hong Kong and US-Mexico. These cases provide valuable guides on what further changes are needed to make the JS-SEZ a success for both parties involved.

2. Global Outlook and the Role of the JS-SEZ

2.1 Adapting to a Changing Global Landscape: New Strategies to Fortify Growth

Emerging Asia's decades-long success story, built on trade-oriented growth strategies, now faces mounting challenges from an increasingly complex global environment. As policymakers in major economies such as the United States and China prioritize their domestic industry, trade-reliant economies may find it harder to sell their goods abroad. The proliferation of trade barriers illustrates this shift: since 2010, the number of trade restrictions imposed each year has increased almost ten-fold; this trend is set to intensify, given ongoing trade restrictions and retaliation. Relatedly, merchandise trade as a percentage of GDP, both globally and in the Asia Pacific, also peaked in 2008 and has stagnated since; trends in trade restrictions suggest that this is set to decline further in the future.



It is not just the world's largest economies that are becoming less receptive to open trade and economic cooperation. Even among the member states of the Association of Southeast Asian Nations, contrary to the rosy rhetoric over managing its economic diversity, there are signs that key members have approaches to economic policy that are fundamentally at odds with each other. For example, Vietnam has taken an expansive approach towards free trade agreements, which explains much of its recent success in securing foreign investments. At the same time, Indonesia has pursued a less outward approach in the belief that its domestic market is large enough to drive future growth.

These trends suggest that global economic integration will face severe headwinds going forward. In particular, various countries' divergent interests and objectives mean that large, formal groupings such as the United Nations, the European Union, and ASEAN that try to pursue anything beyond modest economic integration and coordination efforts will be stymied by vetoes from major constituent members. This calls for a more targeted approach to promoting economic integration. This approach, sometimes called "coalitions of the willing", will see smaller groups of countries whose incentives are better aligned create ad-hoc arrangements where more substantial measures can be agreed upon and implemented without seeking consensus across many players with potentially divergent interests.¹

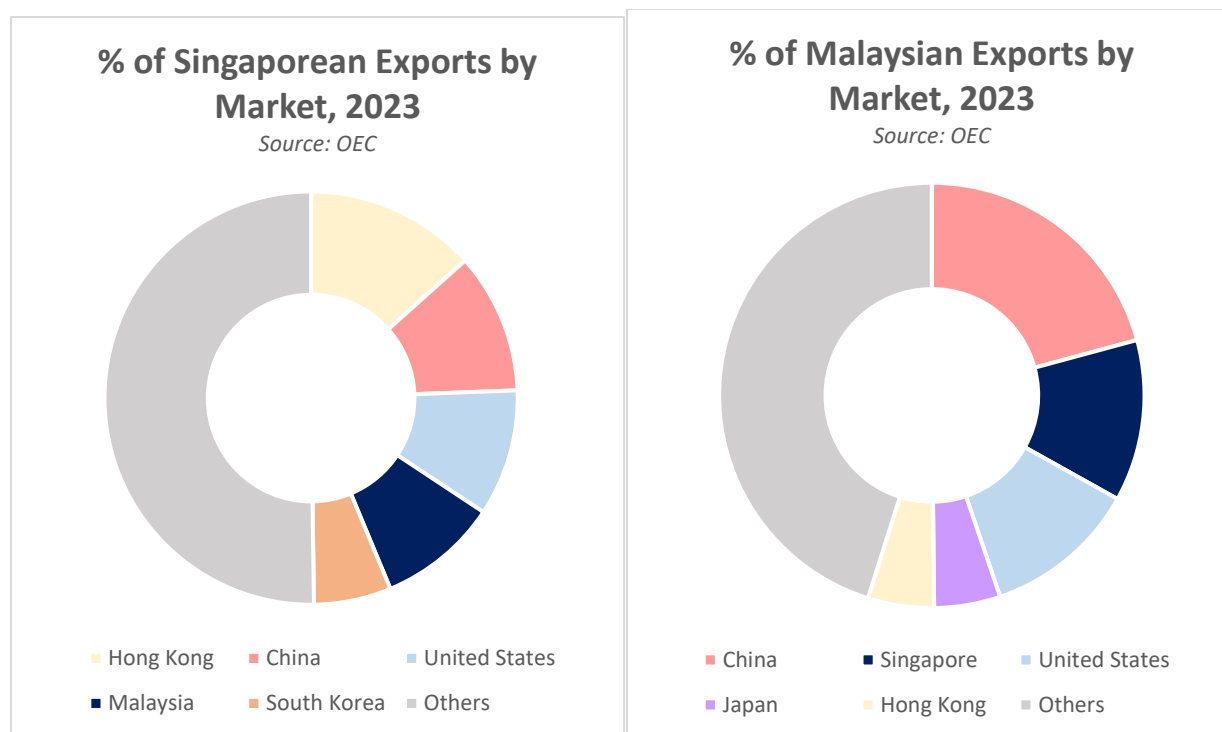
In this context, the JS-SEZ represents one such coalition, where Malaysia and Singapore, two countries with a deep degree of interconnectedness, are creating a special zone in which businesses from both countries and the rest of the world can leverage off the interlinkages and synergies between the two countries while exploring new opportunities in the Southeast Asia region.

2.2 Asia's "special relationship" and Johor's role in sustaining it

Against a more turbulent external environment, the JS-SEZ marks a key milestone in cross-border cooperation between Malaysia and Singapore. While ties have often been subject to the shadow of Singapore's separation from the federation of Malaysia in 1965, the Malaysia-Singapore relationship has remained one of Southeast Asia's closest bilateral relationships, exhibiting a high degree of interdependence and resilience. The realities of the two countries' shared history, geographical complementarities, people-to-people ties, and economic interlinkages mean that the two countries will remain closely connected regardless of the occasional personal rivalries between political leaders.

The economic statistics bear this: both countries rank among each other's top trading partners, with data as of 2023 showing that Malaysia is Singapore's fourth-largest export market, while Singapore ranks as Malaysia's second-largest export market. Despite the two being relatively small economies, the bilateral trade shares are higher than those of other major economies such as the United States, Japan, and India.

¹ Bauer, Pandya, Sharma, and Sisto (2024) [Reinventing Europe's Single Market: A Way Forward to Align Ideals and Action](#)



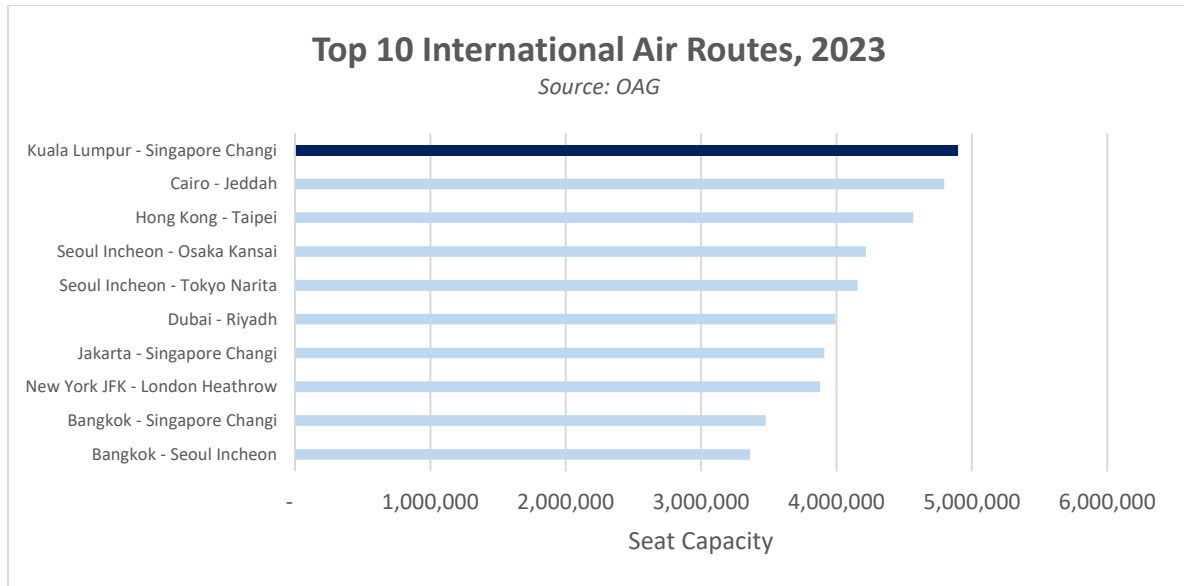
In terms of bilateral investment flows, Singapore has also been Malaysia's largest origin of foreign direct investments (FDI), contributing RM22.6 billion in FDI inflows for the year 2023. For the same year, Singaporean investors received RM22.4 billion in income from their Malaysian investments, the second-largest recipient only after the United States.²

The economic ties are also exhibited via the movement of people across the border. Singapore is, by a large margin, Malaysia's largest inbound tourist market. In the January-November 2024 period, over 8 million Singapore-origin tourists³ entered Malaysia, larger than Indonesia, China, and Thailand combined. While data for Malaysia-origin tourists is muddled by the employment-related movements across the Johor-Singapore border, considering air and sea passengers entering Singapore, around 7% of total tourist arrivals originate from Malaysia, the second-highest among ASEAN member states after Indonesia.⁴ Reflecting this, the Sepang – Changi air route, linking the two countries' largest airports, is one of the busiest air routes in the world, a fact especially remarkable given the availability of land-based alternatives.

² Department of Statistics Malaysia (2024) [Statistics of Foreign Direct Investment in Malaysia 2023](#)

³ Tourism Malaysia defines "tourists" as any individual who, other than for taking up employment, enters the country with an overnight stay. This excludes "day-trip" visitors, which are designated as excursionists.

⁴ Department of Statistics Singapore (2025) International Visitor Arrivals, Jan-Nov 2024



The commonalities between Malaysia and Singapore also extend to their shared outlook on foreign policy and geopolitical affairs. As small, open economies that rely heavily on maritime trade, the overlap in the foreign policy priorities of Putrajaya and Singapore is substantial, even if this is rarely acknowledged explicitly by political elites in either country. Both nations have demonstrated a high degree of alignment in their voting behaviour at the United Nations General Assembly⁵, reflecting their shared interest in upholding international norms. Additionally, Malaysia and Singapore have consistently been among the most enthusiastic proponents of ASEAN regional integration, pursuing this goal even when other member states have shown less consistent interest.

Focusing on the Johor-Singapore border further highlights its role as a critical economic artery facilitating the movement of products, services, and people between the two countries. The border is ranked as one of the busiest land borders in the world, with an estimated 300,000 daily crossings via the Johor-Singapore Causeway and the Second Link, over 7% of Singapore's resident population. Over 2,000 lorries cross the border through the Sultan Ismail and Sultan Abu Bakar customs complexes carrying goods, underscoring the border's role in the trade and logistics sectors.⁶

⁵ Based on the Lowy Institute's Asia Power Index 2024, Malaysia and Singapore are aligned in 93.8% of general assembly votes.

⁶ Bernama (22 October 2024) [4.4 Mln Vehicles from S'pore Paid Almost RM88 Mln to Enter Johor in Nine Months](#)



Business and resident complaints about congestion and processing times at the immigration and customs checkpoints have been commonplace, especially after the lifting of pandemic-era movement controls. Part of this relates to the physical constraints of existing infrastructure and inefficient customs processes; given the large traffic volumes, especially during peak periods such as holiday weekends, waiting times have been known to extend up to three hours.⁷ But regular-period traffic is already large enough to impose significant waiting times on those wishing to cross the border. This is even before considering possible disruptions to systems and infrastructure, which only worsens congestion and imposes costs for travellers and businesses reliant on timely cross-border movements.⁸

Beyond the immediate demands on the Johor-Singapore border, there are other signs of strong demand for more seamless (or even outright frictionless) movements between Malaysia (not just Johor) and Singapore. We have already alluded to the fact that the KUL-SIN air corridor is one of the busiest in the world. The surge in interest for Johor residential properties from Singapore-origin purchasers also suggests that there will be future demand for more seamless movements between the two territories as more individuals undertake cross-border commutes.

These pressures are behind unilateral and bilateral initiatives to smoothen cross-border movements in recent years. These include the QR-based, passport-free immigration clearance system implemented by Singapore to cut waiting times. Efforts by both sides to digitise cargo clearance schemes have also made progress in improving the flow of goods. However, these efforts are still yet to be wholly harmonised between the two sides of the border, and firms still face a “double burden” in undergoing two customs clearance processes.

⁷ Immigration and Checkpoints Authority of Singapore (2025) [Continuous Heavy Traffic Expected at Land Checkpoints for Upcoming Lunar New Year](#)

⁸ The Star (2024) [Tens of thousands of travelers affected after autogates went down at BSI](#)

2.3 The JS-SEZ complements both countries' efforts to solve internal challenges

Closer integration between Johor and Singapore through mechanisms such as the JS-SEZ can help Malaysia and Singapore address long-standing economic challenges. For the former, the Zone could contribute to Malaysia's high-income ambitions by generating high-valued investment and employment opportunities. Singapore can also leverage the Zone to alleviate cost and demographic pressures and provide a larger market for its firms.

The JS-SEZ can be a key contributor to Malaysia's broader high-income ambitions

The more volatile global environment coincides with a pivotal turning point in Malaysia's economic development. Aware that convergence with high-income economies has stalled in recent decades, the country's policymakers are keen to break out of the middle-income trap. Structural headwinds will emerge over time, such as demographic pressures and more competition from peer emerging economies, which are strengthening their attractiveness to foreign investors and building their human capital. Malaysia needs a game changer before the window to achieve its high-income ambitions closes.

In the government's own words, Malaysia has been stuck in a "low cost, low wage, low profits" vicious cycle, which has led to a structural loss in economic competitiveness.⁹ Among the contributors to this vicious cycle include a decline in the quantity and quality of investments, stagnant economic complexity, and a failure to create sufficient high-value-added employment opportunities.

Malaysia's current economic strategy, centred on the Madani Economic Framework, aims to address these structural challenges. The overall framework has two central pillars:

- a. **Raising the Ceiling** by improving the competitiveness of Malaysian businesses, including by promoting expansion into regional markets, improving economic sophistication, and leveraging trends in digitalisation and green growth.
- b. **Raising the Floor** by ensuring that Malaysians enjoy the fruits of growth in terms of higher spending power and quality of life. These include measures to create good-quality jobs, improve infrastructure, promote socioeconomic mobility, and deepen human capital.

In this context, the JS-SEZ should be viewed not just for its direct implications but also for its role in acting as a renewed engine of growth that can propel the Malaysian economy to escape the middle-income trap. This can occur via several channels:¹⁰

- a. **Promoting investment and capital deepening:** given the emphasis on advanced-technology sectors, economic activity in the Zone is likely to be capital- and technology-intensive. Together with access to Singapore's strengths in finance, logistics, and innovation, this will contribute to Malaysia's quest to improve its economic sophistication.
- b. **Expanding Malaysia's export markets:** with access to the combined resources, logistics, and business services ecosystem of Johor and Singapore, firms operating within the Zone may

⁹ Government of Malaysia (2023) Ekonomi Madani, Memperkasakan Rakyat

¹⁰ Deng (2015) [Global Experiences on Special Economic Zones](#)

have a significant advantage in their production and transportation processes. This can help firms make their product and service offerings more competitive in the global market.

- c. **Uplifting household incomes and career prospects:** job creation in the JS-SEZ, whether by Singapore-origin or other multinational firms, can lead to higher-salaried employment opportunities for Malaysian workers. Further complementing this are wage-uplifting policies and training and development initiatives to improve skills and productivity.¹¹
- d. **Improving economic resilience and regional equality:** while Johor is by no means a poor state within Malaysia, the country can nonetheless benefit from a growth strategy that is not overly reliant on the Klang Valley, which is already facing price and resource pressures that limit its potential as a manufacturing hub.
- e. **A testing ground for nation-wide reforms:** Emulating Shenzhen's role in being a "laboratory" for market-friendly reforms that were subsequently rolled out to the rest of China, the JS-SEZ should also be used to experiment with government, regulatory, and sectoral reforms that can later be emulated in the rest of the country.

The JS-SEZ also provides a solution to cost and demographic challenges in Singapore

The imperatives for Singapore are no less pressing. Despite being a high-income city-state, the economy faces mounting internal pressures that will impact its competitiveness. The constraints imposed by Singapore's small land size and limited access to resources are starting to bite; the JS-SEZ can be part of the solution to these issues.

A key advantage of Singapore is the network and agglomeration effects that arise from its critical mass of interlinked economic activities that characterise a thriving economic hub. The network of high-end financial services, technology-intensive manufacturing, business services, and transportation creates an attractive proposition for firms to establish themselves in Singapore. Reliable public service provision via physical infrastructure, credible tax and regulatory policy, and an open trading and business environment further underpin this network. However, despite these strengths, Singapore faces increasing challenges that call for new strategies to maintain its competitiveness in the global economy.

One significant headwind is Singapore's rising cost structure. With unit labour costs rising faster than in peer economies and escalating expenses such as rental costs making it harder for companies to sustain profitability, Singapore faces growing pressures on its economic competitiveness. Reflecting this reality, then-Finance Minister Lawrence Wong stated that while the government acknowledges the cost pressures businesses face, it cannot permanently subsidise firms that are not self-sustaining.¹² This conundrum highlights the importance of alternative solutions like the JS-SEZ, which can provide businesses with a platform to reduce costs and expand operations without relying on ongoing government support.

¹¹ The Johor state government has announced a RM4,000 starting wage benchmark for diploma holders and above, which is higher than the current national median wage (approximately RM2,700)

¹² The Business Times (29 Sep 2023) [Cost-of-living package leaves out firms; unsustainable to 'permanently subsidise' them: Lawrence Wong](#)

The second issue is Singapore's demographic challenge. Like most developed countries, Singapore's internal birthrates are less than half the replacement rate. Given global experience, forms of pro-natal policies are unlikely to change this course. Policies such as financial incentives, extended parental leave, and subsidised childcare have had limited impact on reversing this trend. The solution that has been tried, which is to rely on migration, is also facing mounting political resistance. Public concerns about overcrowding, infrastructure strain, and social integration have constrained Singapore's ability to expand its migrant population significantly. This demographic reality poses a long-term threat to the country's growth potential, reducing the availability of labour and putting upward pressure on wages, which further compounds Singapore's cost challenges.

Singapore can benefit from the Zone in the following ways:

- a. **Reallocation of Singapore's scarce resources:** An integration of the two economies would likely see activity from the lower segments of Singapore's value chain relocated to Johor, where costs are more manageable, alleviating some of the demand-side pressures for the higher-end activity that will remain in Singapore. At the same time, ensuring that these activities remain in close proximity will ensure that some of the economic spillovers will continue to benefit Singapore, as opposed to if they were to relocate to further locations.
- b. **Supporting business expansion and regional growth:** With greater connectivity to its hinterland, Singaporean firms, particularly smaller, local firms that do not have the financial ability to cope with rising business costs, can utilise the lower cost base of the JS-SEZ to scale up and expand into new products, services, and markets. These reallocation decisions help loosen a key constraint that has dragged on the performance of the local private sector.
- c. **Expanding the labour pool:** By tapping into Johor's, and by extension Malaysia's, larger and younger population, the JS-SEZ offers Singapore-based firms access to a broader labour market, alleviating workforce shortages while reducing reliance on large-scale immigration. The cross-border collaboration will also allow businesses to tap into complementary talent pools, ensuring a more diverse and specialised workforce to meet the demands of an evolving economy.
- d. **Improving innovation capacity and culture:** The JS-SEZ opens up the scope for innovation by opening up zones for experimentation and research that may not be feasible in Singapore due to constraints brought about by urban density, resource scarcity, or regulatory frameworks. The Zone could also create a larger combined internal market that enables some degree of economies of scale. The combined talent pool of Singapore and Malaysia is a further advantage in this regard.

3. Opportunities within the JS-SEZ

3.1 Making the JS-SEZ Special: What are the Constraints that the Zone can loosen?

Based on stakeholder interviews, as well as research into papers and statements issued by governments, businesses, and other stakeholders, the following stand out as key constraints that the JS-SEZ can play a role in resolving, thus attracting businesses to locate within the Zone and unlocking economic dynamism:

1. Fragmented Approval and Licensing Processes

Investors seeking to explore opportunities in the Zone currently have to navigate a fragmented process of approvals, licenses, and authorisations. In 2023, Malaysia had 31 investment promotion agencies; this has led to some uncertainty from businesses about which agencies to approach, adding to the length and duplication of approvals and licensing processes.¹³ This fragmentation is compounded by the need to coordinate between the bureaucracies of Malaysia and Singapore, even as efforts are ongoing to streamline processes on the Malaysian side. There is an urgent need for a truly “one-stop” centre that allows businesses to access integrated investor services; we view the Invest Malaysia Facilitation Centre-Johor (IMFC-J) as a positive step in this direction.

2. Lack of Harmonized Tax, Customs, and Regulatory Regime

Differing regulations, tax structures, and customs practices between Malaysia and Singapore create complexity for businesses operating across both jurisdictions. For example, manufacturers based in Malaysia, including Johor, may have to undertake compliance processes, such as testing or certification, for product regulations in Singapore, which may differ from those in Malaysia. These regulatory differences increase transaction costs, hindering market integration. The JS-SEZ presents an opportunity to harmonise these systems and provide a streamlined framework that allows firms operating in the Zone to operate their businesses seamlessly and sell their products and services across the Causeway.

Furthermore, there may be a challenge for businesses operating multiple sites in Malaysia within and outside the JS-SEZ. Currently, goods movements in and out of existing zones such as the Free Trade Zones require a full customs entry declaration, which adds to business costs and may hamper flexibility in moving materials and finished goods between different zones in Malaysia. Simplifying this declaration process using digital technology or providing exemptions for goods moving in and out of the JS-SEZ is a recommendation worth considering.

To add, Malaysia and Singapore can mutually recognize each other's Importer of Record (IOR) and Exporter of Record (EOR) statuses/licenses to facilitate smoother cross-border trade. This arrangement allows licensed entities in Singapore to import goods into the JSSEZ without duplicative

¹³ Government of Malaysia (2023) New Industrial Master Plan 2030

licensing, and vice versa. It streamlines regulatory compliance and enhances supply chain efficiency across both jurisdictions.

3. Infrastructure and Transportation Bottlenecks

These arise from several issues. The first is the condition of physical infrastructure. Given the large volume of movement across the border and the current capacity constraints, congestion across the causeway is a key issue. This has led to calls for expanded border infrastructure, including the in-progress Rail Transit System (RTS) and a proposed third link. Intra-Johor transportation also faces congestion, with existing infrastructure such as Senai Airport and intra-city transit in Johor requiring upgrades to cater to the increased demand arising from the JS-SEZ.

4. Border Congestion and Customs Efficiency

Long wait times and inefficiencies in customs clearance processes represent a significant barrier to seamless cross-border trade and movement. There are basic operational issues, such as complaints about counters not being adequately staffed or slow processing times per vehicle.¹⁴ Current systems suffer from insufficient integration of advanced technologies like risk profiling and data-sharing platforms. Stakeholders have called for a higher degree of automation and harmonisation, such as pre-clearance systems and dedicated border lanes in the long run for specific sectors or businesses, as seen in the Authorized Economic Operator (AEO) programs and mutual recognition programs that have operated in the Shenzhen Special Economic Zone. Looking at the current infrastructure constraint at the Causeway, for the immediate, both Malaysia and Singapore Customs may explore off peak hours for a dedicated lane. Improving these systems will reduce delays and enhance the ease of doing business in the Zone

Additionally, with the mutual recognition of AEO status businesses in Singapore and Malaysia can benefit from single customs clearance within the JSSEZ. Once goods are cleared by customs in either Singapore or Johor, they can move across the border without undergoing a second round of inspection. This significantly reduces clearance times and enhances trade facilitation between the two countries

5. Talent Development and Retention

The demand for high-skilled talent is a further pressing issue. Under the status quo, many skilled workers commute daily from Johor to Singapore for better employment opportunities, while others move to Kuala Lumpur for similar reasons. This outflow will need to be managed if the Zone is to have a talent pool that can serve the needs of existing and incoming businesses in the Zone. In addition to relaxing restrictions on skilled labour immigration, it will be essential for the Zone to develop a self-sustaining talent ecosystem that meets the long-term needs of businesses in the JS-SEZ.

3.2 Using the JS-SEZ as a sandbox for cross-border initiatives

While the cross-border nature of the Zone raises challenges in terms of the division of responsibilities and jurisdictions between Malaysia and Singapore, it also presents opportunities for the two governments to explore new ways of collaboration that overcome these challenges, thus allowing the

¹⁴ Channel News Asia (n.d.) [Clearing the Causeway](#)

Zone to maximise its economic potential. There are case studies or proposals on how the infrastructure, process, and regulatory frictions can be overcome, and experience from cross-border collaboration in other contexts can be used to inform the policies governing the JS-SEZ. We discuss some examples below:

- I. The **Unified Cargo Processing scheme** was implemented by the customs agencies of the United States and Mexico, where the two jurisdictions offered joint inspection processes involving joint inspection teams and unified facilities. This allows businesses moving goods from Mexico into the United States via the land border to undergo just one instead of two inspections. The economic gains have been substantial, with certain entry points seeing reduced border crossing times from eight hours to as low as one hour. Companies also reported to have enjoyed substantial cost savings of around 60% from removing the duplicate customs process.¹⁵
- II. The **Windsor Framework** is a negotiated solution to create a “soft border” between Northern Ireland and the Republic of Ireland to ensure that goods entering the latter were not subsequently moved to the rest of the European Union’s Single Market. The Framework stipulated regulatory harmonisation between the two regions, which enabled goods to move across the border with minimal checks. There was also a “green lane” and trusted trader scheme, where goods or businesses that met certain compliance and data-sharing criteria could enjoy reduced customs checks and simplified documentation requirements.¹⁶
- III. The ASEAN Business Advisory Council, currently under Malaysia’s chairmanship, has proposed the **ASEAN Prospectus and the ASEAN Business Entity** to promote economic integration at an ASEAN-wide level. The former envisions a single set of disclosures and approvals that companies can use to issue securities or raise funds in multiple stock exchanges, while the latter envisions a special designation for qualified businesses operating within ASEAN that provides certain privileges, such as the free movement of skilled labour and selected exemptions from off-shoring restrictions. Such schemes can be rolled out at a JS-SEZ level as a testbed, enabling designated businesses to enjoy regulatory conveniences in Malaysia and Singapore.¹⁷
- IV. The **Shenzhen-Hong Kong Stock Connect** provides a mechanism for investors in mainland China and Hong Kong to trade eligible stocks listed on each other’s stock exchanges via local brokerages. Under this mechanism, Hong Kong and international investors can buy most stocks included in the main indices of the Shenzhen Stock Exchange, while mainland Chinese buyers can purchase selected stocks under the Hang Seng Composite Index. Both sides also have access to A-shares of dual-listed companies. This has the impact of deepening financial integration between Hong Kong and mainland China while delivering benefits both to Hong Kong’s status as a financial hub as well as bringing international capital to Shenzhen. A similar

¹⁵ US Customs and Border Protection (2017) [Collaboration continues to keep the U.S. – Mexico border vibrant](#)

US Customs and Border Protection (2022) [U.S. and Mexico United in Cargo Processing](#)

¹⁶ European Council (2024) [Northern Ireland Protocol and Windsor Framework explained](#)

¹⁷ Bernama (2024) [Malaysia to Propose ASEAN Business Entity Category to Foster Regional Business Growth](#)

scheme can also be considered, with an initial introduction for businesses with a nexus within the Zone.¹⁸

4. Lessons from the Shenzhen Experience

Given that Shenzhen has often been cited as a model to be emulated by the JS-SEZ, it is worth exploring the key success factors that enabled Shenzhen's rise in depth. While there are substantive differences between the two contexts, such as the bilateral nature of the JS-SEZ, there are common success factors that Malaysia and Singapore should consider in further developing the Zone. Furthermore, Shenzhen's experience also points to what is necessary to create a successful Special Economic Zone.

Some of the early characteristics and decisions show promise. For one, Johor and Shenzhen benefit from a coastal location and proximity to a global financial hub (Singapore and Hong Kong, respectively). This allowed it to tap into international trade and financial markets. More broadly, being in Southeast Asia allows the JS-SEZ to act as a gateway into a dynamic regional market, similar to how Shenzhen enabled investors to gain an initial foothold into the rest of China. We also observe strong support from the top echelons of both governments to make this a success. Strong political will was essential for Shenzhen's success, given that it required the Chinese government to make relatively radical reforms that may have faced internal resistance.

There are, however, some areas in which more progress and ambition are necessary. The Shenzhen Special Economic Zone (and other zones in China) were measured against pre-determined development targets such as the GDP growth associated with the zones' activities, foreign investments attracted, and exports generated. These helped to place clear objectives and pressure on the zones' authorities to use the powers they have to deliver. In this context, the JS-SEZ has yet to outline what would constitute "success" – a reference to promote and facilitate 50 projects within the first five years and a cumulative of up to 100 projects over a ten-year period does not clarify what would constitute such a project. A target of 20,000 skilled jobs created is also relatively modest compared to Johor's overall labour force of almost two million.

The comparison with Shenzhen also highlights the next steps that need to be taken for the JS-SEZ to achieve its full potential. A key ingredient in Shenzhen's success was that firms operating within Shenzhen had access to "special" measures that were not available to firms operating in the rest of China's then-centralised economy. Beyond the initial tax breaks, which other zones can easily emulate, the ability of firms to operate in a relatively more market-oriented environment than the rest of China while leveraging China's structural advantages was crucial in attracting and retaining firms within the Zone. The local authorities governing Shenzhen were also given unprecedented autonomy to implement and tailor policies that served the needs of Shenzhen's firms, such as the relaxation of otherwise restrictive *hukou* rules to attract workers and residents from elsewhere. In other words, there was something fundamentally "special" about operating in Shenzhen compared to the rest of China.

¹⁸ Hong Kong Stock Exchange (n.d.) [Stock Connect](#)

In the context of the JS-SEZ, many of the proposed initiatives, such as improved immigration and clearance and streamlined business facilitation, should be seen as the first steps towards improving economic interconnectivity and market integration between the two sides. The measures to date focus on reducing the friction of moving goods and people across the border. Beyond that, the JS-SEZ needs to institute a suite of preferential policies that firms can enjoy in the JS-SEZ, whether it is a lighter-touch approach to cross-border movements compared to non-JS-SEZ entities, sandbox treatment for emerging technologies and products or mutual recognition in areas such as capital markets regulation. This calls for deeper thinking on what can be done beyond improving connectivity and initial tax breaks so that the JS-SEZ can create a compelling value proposition to establish and remain in the Zone.

Success Factor	Shenzhen/China Experience	Preliminary Observations on JS-SEZ
Strategic Location Advantage	Shenzhen's coastal location and proximity to existing urban hubs such as Hong Kong and Macau facilitating international trade and business	JS-SEZ benefits from proximity to Singapore's financial hub but must improve its logistical infrastructure and connectivity to rival Shenzhen's strategic location advantages.
Strong Government Support & Commitment	- Shenzhen's top leadership took a gradualist approach to ensure a stable macro environment for reforms. It also ensured policies were adapted to its unique context. - Central and local governments are heavily invested in infrastructure, business services, and creating a conducive environment for growth.	- A positive undertone from leaders highlights strong political will and commitment to the JS-SEZ's success. They have committed to quarterly meetings to discuss progress. - However, further work is needed to finalise governance and institutional structures.
Investment Facilitation	- The SEZ attracted FDI through incentives such as low tax rates and streamlined procedures. - Firms also enjoyed other preferential policies not available in other parts of China, such as the ability to repatriate income, looser rules on foreign equity holdings, and flexibility to hire and dismiss employees.	- IMFC-J provides a one-stop centre for investment facilitation services - Announced incentives to date are time-limited tax breaks rather than preferential policy treatment
Innovative Culture & Competitive Drive	- SEZs were built in new areas or suburbs of cities, attracting migrants and youths, which fostered entrepreneurship and innovation - There were also government measures on technology learning and innovation	Progress in cooperation in technical and vocational education and training (TVET) initiatives is reported
Clear Objectives & Benchmarks	- SEZs had clear development targets for GDP growth, FDI, and exports - Intense internal competition between SEZs pushed for higher standards and more efficient services	Targets are ill-defined (promote and facilitate 50 projects within the first five years and a cumulative of up to 100 projects over a ten-year period) or relatively modest (20,000 skilled jobs)

Trade Facilitation	• Shenzhen utilised a "Single Window" system, allowing businesses to submit standardised documents and electronic information through a single digital platform. • Shenzhen and Hong Kong have adopted mutual recognition of AEOs, allowing businesses with certified security standards to benefit from expedited customs clearance.	• Adoption of digitised processes for cargo clearance at land checkpoints • Regulatory harmonisation and streamlining to reduce the need for clearance processes
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Source: Framework found in Building Engines for Growth and Competitiveness in China: Experience with Special Economic Zones and Industrial Clusters (Zeng, 2010).

5. Principles for Developing the JS-SEZ Further For Long-run Success

The January 2025 Agreement is likely the beginning of the JS-SEZ's further evolution and development. If done right, this could be a radical, game-changing initiative that can positively contribute to both countries' broader economic ambitions. For Malaysia, the Zone provides a potent growth engine that interacts positively with the agenda for economic diversification and sophistication. Singapore can also use the Zone to fortify the resilience of its economy and alleviate some of the binding constraints imposed by its status as a small island nation. The rewards for getting this right are immense, and we argue that this is the time for ambition and creativity, not excess caution and conservatism.

As the two governments progress, they should adopt several key principles to ensure that the Zone's initiatives are aligned with the needs of the businesses and individuals, ultimately making the JS-SEZ a success.

1. **Continued strong commitment and leadership:** Running a special economic zone within one country is complex enough, given the need to secure buy-in and commitment from the various arms of government. Operating a cross-border zone compounds this complexity. To this end, the top leadership of both governments need to sustain their commitment to the project. They need to provide impetus and authority to overcome internal bureaucratic or policy obstacles and ensure that implementation occurs satisfactorily.
2. **Measuring and reporting progress:** The two sides should agree to and publish a "dashboard" that reports on the progress of several pre-determined objectives and initiatives, similar to how some government agencies report on key performance indicators and other project updates. For instance, data on the clearance times for the movement of goods and people should be measured frequently to assess the efficiency of ongoing measures and identify emerging bottlenecks. This allows policymakers and other stakeholders to scrutinise progress and take remedial action.

3. **Extensive stakeholder engagement:** As the Zone's initiatives develop, it will be key to solicit user feedback as businesses and individuals on the ground may face unintended obstacles in leveraging the facilities and initiatives in the JS-SEZ. For instance, businesses may be able to identify opportunities to further simplify the streamlined customs processing system, such as by reducing redundant information requests. Soliciting and considering their input will be key in ensuring that any pilot project can pre-emptively identify and resolve emerging issues.
4. **Sustainability and inclusivity:** in line with its priority sectors, such as energy, health, and the digital economy, the JS-SEZ should be designed to leverage the latest technology and infrastructure to uphold environmental and social sustainability. Additionally, the Zone's design should cater to a broad base of society. In addition to large multinational firms, the needs of other segments, such as local residents and small and medium enterprises, should be catered to.
5. **Putting resilience at the forefront:** foreseeable risks, such as constraints on energy and water supply or infrastructure pressures from the additional cross-border traffic, should be anticipated, and mitigating strategies should be put in place to ensure that they do not hamper the effectiveness of the Zone.

While originating as a connectivity initiative, the JS-SEZ has the potential to be a deeper form of economic cooperation and integration between the two governments. In a world where countries are turning inward, the JS-SEZ, if successful, can be a shining example of how cross-border cooperation can help achieve shared objectives and drive growth across borders despite the more turbulent external environment.

6. Appendix: Current Developments of The JS-SEZ

The JS-SEZ was formalised by a January 2025 agreement between the governments of Malaysia and Singapore. The agreement’s signing comes after repeated delays from Malaysia’s target timeline of September 2024, reportedly due to disagreements over specific details, such as the financial contributions to special-purpose funds and the need for both government’s attorney-general’s chambers to vet the proposed agreement.¹⁹

Geographical and Sectoral Coverage

According to a joint statement between the Singaporean and Malaysian signatory ministries of the JS-SEZ agreement, the Zone will cover the Iskandar Development Region and Pengerang. Nine “flagship zones” within Johor have been identified, although the limited information available in the public domain raises questions about the precise geographical coverage of the JS-SEZ. More information on the precise boundaries of the JS-SEZ is necessary for firms seeking to decide on the location of their proposed investments.

The approach in the finalised agreement notably differs from an earlier Johor state government proposal, which envisioned a contiguous area that includes six local councils in the state, namely Johor Bahru, Iskandar Puteri, Pontian, Pasir Gudang, Kulai, and Kota Tinggi. It is worth noting that the Iskandar Malaysia region also does not correspond with district boundaries; only parts of Pontian are included in the Iskandar region, while Kota Tinggi, where Pengerang is located, does not have any area within the Iskandar region.

Location	Business Services	Digital Economy	Education	Energy	Financial Services	Food Security	Health	Logistics	Manufacturing	Tourism
JB City Centre	✓	✓					✓			
Iskandar Puteri	✓	✓	✓				✓		✓	✓
Tg. Pelepas-Tg. Bin				✓				✓	✓	
Pasir Gudang				✓				✓	✓	
Senai-Skudai		✓	✓					✓	✓	✓
Sedenak	✓	✓	✓	✓		✓	✓	✓	✓	✓
Forest City					✓					
Pengerang Integrated Petroleum Complex				✓				✓	✓	
Desaru			✓			✓	✓			✓

¹⁹ The Straits Times (2024) [Malaysia’s Sept target for Johor-Singapore SEZ deal pushed to year end](#)

The choice of sectors and their associated areas reflects several key themes in the Zone’s development strategy. Firstly, there is a focus on future-oriented, technology-intensive sectors via the digital economy, energy, and advanced manufacturing activity. These sectors fit into Malaysia’s broader goals of promoting economic sophistication while also being sectors where the resource constraints on Singapore are binding. The second is the ambition to establish a self-contained business ecosystem in the Zone, including business and financial services. This suggests that both governments recognise the need for the Zone to establish a network of service suppliers that facilitate activities by other firms. The focus placed on the health, education, and tourism sectors is also appropriate to provide workers in the Zone with a high standard of living and access to quality-of-life amenities.

Preliminary and Early Initiatives

The January 2024 Memorandum of Understanding outlined several initiatives that would be implemented in the run-up towards formally establishing the JS-SEZ. Many of these measures may be described as “low-hanging fruit”, and there has been progress on multiple fronts, summarised below:

Initiative	Latest Progress
One-stop investment service centre in Johor to facilitate business applications from Singaporean firms	The Invest Malaysia Facilitation Centre – Johor (IMFC-J) was established in February 2024 and aims to accelerate various business approval processes and offer consultation and advisory services while reducing bureaucracy in public service delivery. ²⁰
Adoption of passport-free, QR-based clearance system at land checkpoints	The initiative was established in March 2024 to help ease congestion and traffic flow. ²¹
Adoption of digitised processes for cargo clearance at land checkpoints	The adoption is still underway, but initiatives have already been implemented to streamline customs procedures. From January 2025 onwards, traders would only need to apply for one transshipment permit, compared to 2 separate permits previously. ²²
Co-organising an investors forum to gather feedback on JS-SEZ	The forums aim to gather businesses that have operations in Johor or are looking to invest in Johor and gather suggestions and insights to enhance the state's attractiveness for businesses. One such forum occurred in Kuala Lumpur in July 2024 ²³ and another in Johor in April 2025 ²⁴ .

²⁰ Malaysia Investment Development Authority (2024) [IMFC expands to Johor to stimulate economic growth](#)

²¹ Immigration Checkpoint Authority (2024) [Redefining Border Clearance and Service Delivery](#)

²² Singapore Ministry of Trade and Industry (2025) [Malaysia and Singapore Strengthens Economic Connectivity with Johor-Singapore Special Economic Zone](#)

²³ Singapore Business Federation (2024) [93% of Businesses Eye Opportunities in Proposed Johor-Singapore Special Economic Zone, SBF Report Reveals](#)

²⁴ Malaysia Investment Development Authority (2025) [Advancing Cross-Border Investment: JS-SEZ Business and Investment Forum](#)

Facilitating renewable energy cooperation	Singapore signed a supply agreement in December 2024 to import 50MW of renewable energy for 2 years as part of the Energy Exchange Malaysia pilot project. ²⁵
Curating training and work-based learning initiatives	Both nations have committed to partnerships to strengthen ties in technical and vocational education and training. One such partnership is the MOU signed on 24 October between Singapore Polytechnic and the Federation of Malaysian Manufacturers (FMM). ²⁶
Developing joint promotion events between Johor and Singapore to promote trade and investment into JS-SEZ	Limited publicly available detail about high-level joint events, but some joint missions between business associations (FMM-SMF joint missions)

Fiscal Incentives from Malaysia

Separately from the agreement, Malaysia, via the federal Finance Ministry and the Johor state government, announced a package of incentives available to companies that pursued qualifying investments in selected manufacturing and service sectors.²⁷ These incentives, which were backdated to 1 January 2025, include:

- A special corporate tax rate of 5% for up to 15 years on trading and services income or services income
- A two-tier Special Tax Rate or Investment Tax Allowance (ITA) for companies with capital investment (excluding land) of at least RM500 million in the manufacturing sector
- A 100% investment tax allowance on qualifying capital investments over five years
- Additional tailor-made incentives for businesses operating in certain flagship areas of the JS-SEZ
- A special income tax rate of 15% for 10 years for eligible knowledge workers within the JS-SEZ
- Lower entertainment duties to be introduced by the Johor state government

Institutional Design and Governance of the JS-SEZ

The joint statement suggests that the main decision-making platform for matters relating to the JS-SEZ would be a refreshed Joint Ministerial Committee for Iskandar Malaysia (JMCIM). The JMCIM, under its current form, is a bilateral platform intended to enhance collaboration in the context of the existing Iskandar Malaysia region. We assume that part of the revamp would be to give it an explicit remit to oversee developments in the JS-SEZ. The membership of the JMCIM is as follows:

²⁵ Ministry of Trade and Industry (2025) [Factsheet on the JS-SEZ Agreement](#)

²⁶ The Business Times (2024) [Singapore Polytechnic, Federation of Malaysian Manufacturers ink MOU to groom more tech talent](#)

²⁷ Ministry of Finance (2025) [JS-SEZ Incentive Package to Drive High-Value Investments into Johor](#). The statement reads that further details on the incentives and zones will be revealed at a later date.

Jurisdiction	Ministerial representatives	Also in attendance
Malaysia	Minister of Economy (Co-chair) Menteri Besar of Johor	Senior officials from relevant ministries and agencies
Singapore	Minister for National Development (Co-chair) Minister for Transport	Senior officials from relevant ministries and agencies

Source: Joint Press Statement of the 16th Meeting of the JMCIM

The JMCIM platform has its advantages. The participation of high-level ministers from both governments ensures sufficient political weight and decision-making authority so that issues brought up can be resolved. However, this advantage comes with some drawbacks as well. The ministerial membership means that meetings are typically held only annually.²⁸; we anticipate this would not be sufficient given the evolving nature of the JS-SEZ, which will require regular and responsive decision-making. Both governments have committed to “refreshing” the JMCIM in the coming year.

Furthermore, the limited scope of membership means that some matters may need to be brought back to the rest of the government, causing possible delays in decision-making. For instance, neither the Malaysian transport nor trade and industry ministers are members of the JMCIM, despite the key role that their ministries are expected to play in developing the JS-SEZ’s transport infrastructure and investment ecosystem. They are likely to rely on representation from civil servant representatives.

The other entity set up under the goals of the JS-SEZ is the Invest Malaysia Facilitation Centre – Johor (IMFC-J). Established as one of the measures under the 2024 Memorandum of Understanding, IMFC-J’s role is to facilitate and coordinate end-to-end investment-related processes, acting as a single contact point for investment facilitation, advisory services, and other incentives and support.²⁹ The IMFC-J would meet stakeholder demands for a streamlined investment and approval process in investment approvals and facilitation.

Next steps in the development of the JS-SEZ

With the official agreement signed, the path is now clear for detailed negotiations between the two governments to develop further details for the JS-SEZ. The following steps have been publicly announced:

- Both governments will need to ratify the agreement in their respective legislatures and pass any necessary legislation or regulatory changes to give effect to the agreement. In Malaysia, the federal parliament and the Johor state legislature will likely be involved.
- Both governments are developing a joint blueprint that identifies additional economic nodes and clusters to finalise the document within a year of signing the agreement. Stakeholders, such as market observers and business associations, have called for the blueprint to provide more clarity on the JS-SEZ’s operational details.³⁰

²⁸ The JMCIM was established in 2007 and held its 16th meeting in July 2023.

²⁹ Iskandar Regional Development Authority (2024) [Invest Malaysia Facilitation Centre Johor \(IMFC-J\)](#)

³⁰ Channel News Asia (2025) [Q&A with Malaysian Economy Minister Rafizi Ramli on Johor-Singapore Special Economic Zone](#)

- Another key step would be implementing the “refreshing” of the JMCIM, as conveyed in the joint statement. The next meeting of the JMCIM was scheduled for the first half of 2025.³¹
- Expanding the Johor-Singapore Special Economic Zone (JS-SEZ) to include the Bintan, Batam, and Karimun (BBK) region in Indonesia³² would mark a significant step toward the creation of a tri-national economic corridor in Southeast Asia. Following the idea of ‘Two is better than one and three is better than two’, integrating BBK into the broader JS-SEZ framework could unlock new value chains, enhance regional supply chain resilience, and position the area as a cohesive, multi-jurisdictional hub for trade, technology, and green industry. However, such an initiative would require robust trilateral coordination in regulatory harmonization, infrastructure development, and talent mobility. A phased, strategic approach to expansion, aligned with economic integration goals, could yield substantial benefits for all three nations, while reinforcing their collective competitiveness in the global economy.

³¹ Singaporean Ministry of National Development (2024) [Singapore and Malaysia Make Progress in Discussions on Johor-Singapore Special Economic Zone](#)

³² The Business Times (2025) [Johor-Singapore Special Economic Zone could get power-up with Indonesia’s Bintan, Batam, Karimun](#)

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