JB-SG Special Economic Zone (JSSEZ)

1+1 > 2: Harnessing the Multiplier Effect

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FBMKLCI	1629.79
Resistance	1640-1650
Support	1610-1620

Summary

- **We believe the Johor-Singapore Special Economic Zone (JSSEZ) will generate strong synergies moving forward. Furthermore, it will enhance the region's competitiveness within ASEAN, potentially attracting increased foreign direct investments.**
- **Drawing inspiration from successful models such as Shenzhen and Suzhou, we believe the JSSEZ will follow a similar concept, creating a wide range of opportunities within various investment themes. In our view, it will drive growth in the Construction, Property, Utilities, Building Materials, and Technology sectors.**

Key objectives of JSSEZ

- **Enhance cross border connectivity.** JSSEZ focuses on improving infrastructure and transportation links to ensure seamless trade and interactions between regions, fostering economic integration and efficiency.
- **Facilitate freer movement of people.** By streamlining immigration and travel processes, JSSEZ encourages talent mobility, and workforce collaboration, driving innovation and inclusivity.
- **Strengthen business ecosystem to foster a robust business environment.** JSSEZ aims to create a robust environment for businesses by encouraging innovation, attracting investments, and supporting entrepreneurship, ensuring sustainable economic growth and resilience.
- **Ultimately, the JSSEZ aims to create decent synergy and growth for both countries within Johor and Singapore regions.**

JSSEZ offers wide range of opportunities

- **Strategic Location and Connectivity.** JSSEZ serves as a hub with excellent regional and global connectivity, facilitating the export of goods through Johor or Singapore.
- **Attractive Policies and Incentives.** Offers tax breaks, grants, and streamlined regulations, including special tax rates for companies investing in high-value high growth sectors.
- **Designated Flagship Zones.** Focused on prioritised sectors within Iskandar Development Region and Pengerang for targeted growth.
- **Strong Government Support.** Collaborative infrastructure and funding support from Malaysia and Singapore governments.
- **Competitive Cost Advantage.** Affordable business costs in areas like real estate, labour, and tax regimes.

Flagship zones in JSSEZ and Sectors to Focus

- **The JSSEZ highlights flagship zones across Johor,** each with unique sectoral focuses, such as JB City Centre, Iskandar Puteri, and Pasir Gudang.
- **Three new proposed zones** include Forest City, PIPC (Pengerang Integrated Petroleum Complex), and Desaru, catering to specialized industries.
- **Key Sectors to Focus:**
  - **New Priority Sectors:** Aerospace, Electrical & Electronics, Chemicals, Medical Devices, Pharmaceuticals.

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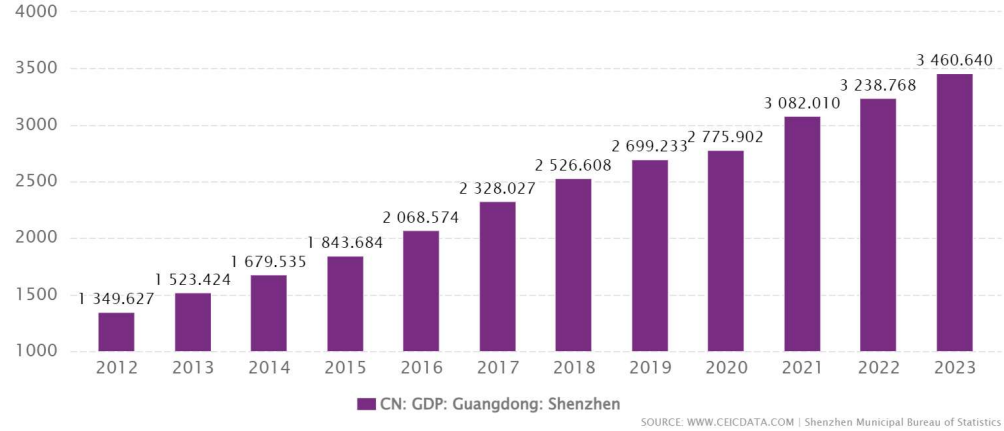
- **Zone-Specific Sectors:**
  - Manufacturing, Energy, and Logistics in PIPC.
  - Financial Services in Forest City.
  - Education, Health, and Tourism in Desaru.

SEZ Success Stories: From Shenzhen to Suzhou

Shenzhen SEZ, China. Established in 1980, Shenzhen transformed from a small fishing village into a global technology hub and a model for successful SEZ implementation.

- **GDP growth.** Over the past two decades, Shenzhen's GDP experienced remarkable growth, increasing from approximately RMB252.3bn in 2003 to RMB3.46T in 2023, according to CEIC.
- **Population growth.** Its population mirrored this rapid development, growing from about 7.05m in 2003 to over 17.68m in 2023, reflecting an influx of talent and labour driven by industrialization and urbanization.
- **Targeted industries.** This transformation was fuelled by strategic policy incentives, robust infrastructure, and a focus on high-value industries such as technology and manufacturing. Shenzhen's success underscores the potential of well-executed SEZs to drive industrialization and economic expansion.

Fig #1 Shenzhen 2012-2023 GDP

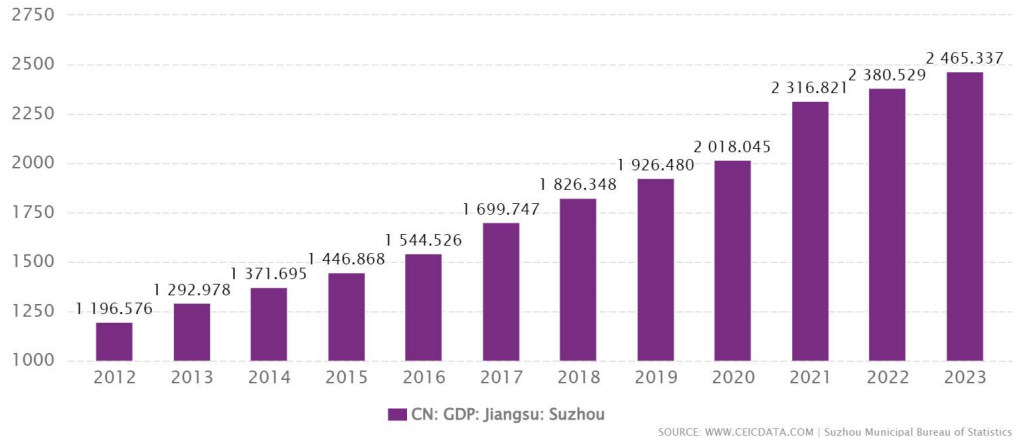


Source: CEIC

Suzhou Industrial Park, China. Initiated in 1994, the Suzhou Industrial Park has evolved into a prominent center for manufacturing and innovation.

- **GDP growth.** Between 2003 and 2023, Suzhou's GDP grew from around RMB716.3bn to RMB2.47T, solidifying its position as a manufacturing powerhouse, according to CEIC.

Fig #2 Suzhou 2012-2023 GDP



Source: CEIC

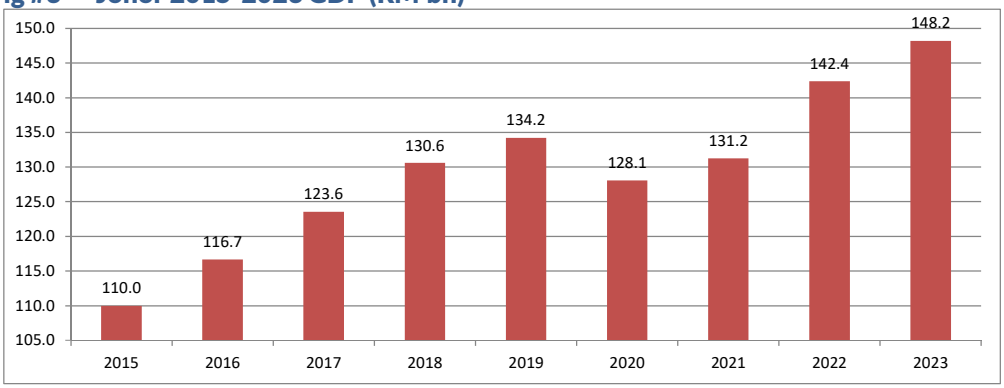
- **Population growth.** Suzhou's population also grew significantly during this period, rising from approximately 5.7m in 2003 to over 12.75m in 2023, underscoring the region's ability to attract skilled workers and businesses.
- **Targeted industries.** The park's success stems from its ability to attract foreign direct investment through targeted incentives and its emphasis on technology, electronics, and research-driven industries. Suzhou's trajectory demonstrates how SEZs can catalyse regional economic growth and industrial diversification.

JSSEZ Strategy

JSSEZ. The Johor-Singapore Special Economic Zone (JSSEZ) aims to replicate the successes of Shenzhen and Suzhou by leveraging its strategic location near Singapore and implementing cross-border infrastructure enhancements.

GDP. Johor's GDP was RM148.2bn in 2023, accounting for c.9.6% of Malaysia's national GDP, with the manufacturing and service sectors contributing nearly 80%. Under the Maju Johor 2030 (Progress Johor 2030) economic masterplan, Johor has an ambitious goal to raise its GDP to RM260bn by 2030 through a targeted annual growth rate of 7.8% (higher than the average pre-pandemic growth rate of 5.1% between 2016 and 2019), supported by high-value sectors like aerospace, electronics, and pharmaceuticals. These initiatives, paired with policy incentives, could drive significant economic development and emulate the successes of leading SEZs globally.

Fig #3 Johor 2015-2023 GDP (RM'bn)



Source: OpenDOSM

Population. According to OpenDOSM, the state's population of 4.19m makes it Malaysia's second-most populous, positioning it as a vital economic hub.

Given the benefits of a Special Economic Zone, we believe the JSSEZ will, in the long run, contribute to the potential materialization of earnings across several key sectors:

- **Construction.** The establishment of the JSSEZ will require infrastructure development to support the mobility of people within the region. This could translate into large-scale projects, such as the development of LRT, MRT, ART, or BRT systems over the next 3–5 years. These efforts would complement the almost-complete RTS Link, which is set to commence operations in 2026, providing a more comprehensive transportation network for the region. This increased infrastructure activity should also positively impact the building materials segment. **Companies that could benefit include GAMUDA, IJM, SUNCON, BNASTRA, SSB8.**

- **Property.** As the population grows over time, taking inspiration from the success stories of Shenzhen and Suzhou, we expect an influx of high-skilled and high-income talent into the region. This demographic shift will likely boost demand for residential properties and rentals. Additionally, the economic zone is expected to enhance land values and attract greater investor interest. We foresee significant demand for industrial and commercial spaces, including logistics hubs, factories, and office spaces, driving growth in Johor's property sector. **Companies that could benefit include SUNWAY, ECOWLD, AME, UEMS.**

- **Utilities.** Utilities companies will need to expand their capacity to support increased demand for power, water, and gas within the zone, especially for high-value industries. In alignment with the sustainability goals outlined in the National Energy Transition Roadmap (NETR), renewable and green energy sources, such as solar power, are likely to play a crucial role. Furthermore, with rising investments in data centers, the availability and management of water resources will become increasingly critical. **Companies that could benefit include GASMSIA, RANHILL, PEKAT, YTLPOWR, SCGBHD, MNHLDG, SLVEST.**

- **High growth, high value segments.** The JSSEZ is expected to generate synergies that will catalyze growth in high-value industries such as aerospace, E&E, manufacturing, chemicals, and pharmaceuticals. These activities will provide a robust foundation for the sustained development of these sectors. Additionally, we believe technology-related stocks offering smart or IoT services could experience significant growth in tandem with the JSSEZ. **Companies that could benefit include PCHEM, DIALOG, ITMAX, CLOUDPT, SMRT, VSTECS.**

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