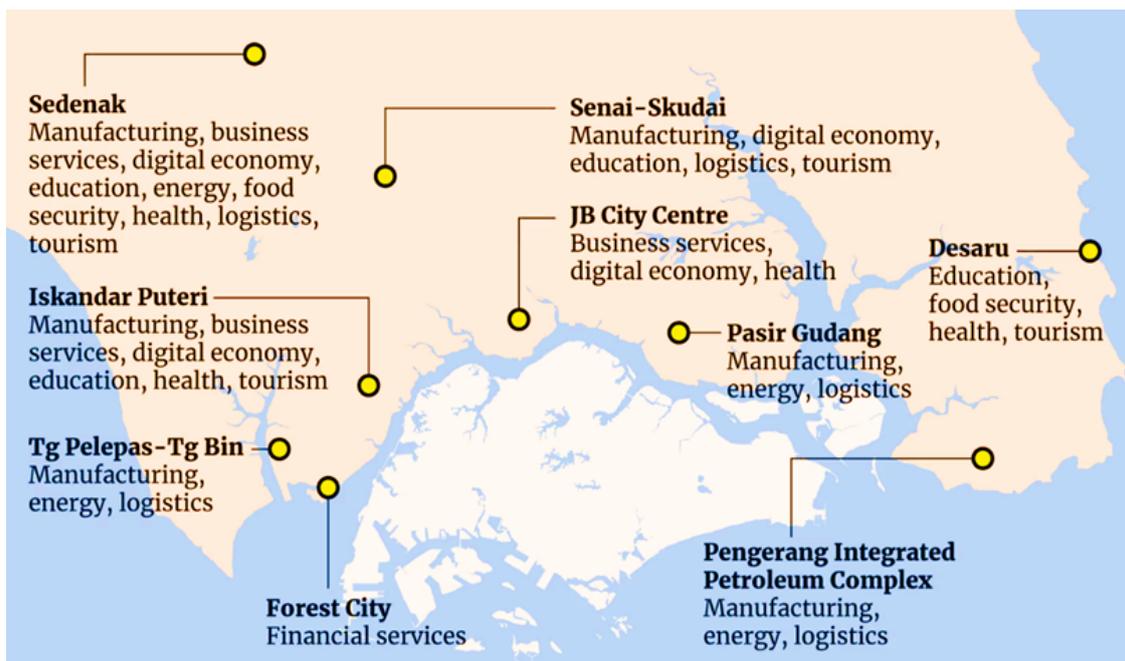


Can JS-SEZ Deliver on Its Promise?

By Mohd Khairul Ramli

The Johor-Singapore Special Economic Zone (JS-SEZ) holds significant promise as an engine of regional economic powerhouse in the region. Positioned as Southeast Asia’s answer to the Shenzhen-Hong Kong partnership, the JS-SEZ aspires to bridge Malaysia’s industrial ambitions and new source of growth with Singapore’s financial and logistical expertise. However, a closer analysis reveals critical challenges that must be addressed to ensure its success. These issues span the project’s phased execution model, resource management, environmental concerns, political realities, and the disparity in benefits distribution between Malaysia and Singapore.

Figure 1: Johor-Singapore Special Economic Zone (JS-SEZ) Area.



Source: Ministry of Economic, Malaysia

Challenges of the Build-As-You-Go Approach

One of the JS-SEZ’s primary challenges is its phased, “project-by-project” approach, where infrastructure development occurs only after investments are secured.¹ While this model aims to mitigate the risk of overbuilding, it introduces significant delays in infrastructure availability, which can disrupt investors’ operations and expansion plans. Unlike pre-developed industrial

¹ <https://www.channelnewsasia.com/asia/johor-singapore-sez-build-invest-model-prudent-infrastructure-delays-rafizi-ramli-4843126>

parks offering ready-to-use facilities, investors in the JS-SEZ face uncertainty over essential amenities like electricity, water, and Wi-Fi. There have been past instances in Johor where insufficient electricity forced companies to bear the cost of laying their own cable.² This would create an unattractive prospect for foreign investors seeking efficiency and predictability.

Moreover, the phased model risks creating an uneven development trajectory, where certain projects progress rapidly while others lag, diluting the overall impact of the SEZ. Bureaucratic inefficiencies and potential red tape further exacerbate these challenges, making it difficult for the SEZ to compete with well-established zones globally. This chicken-and-egg situation where investors hesitate without assured infrastructure, and infrastructure is delayed without confirmed investments would presents a fundamental obstacle to the SEZ's success.

From Water Pipes to Power Lines: The Real Constraints

A significant concern with the JS-SEZ lies in its reliance on Malaysia's abundant but underdeveloped water resources to support industries such as data centres and semiconductors. These facilities require treated water, yet Malaysia lacks adequate infrastructure, such as dedicated pipelines and treatment plants, to meet this demand sustainably. This poses both logistical and environmental risks, as competition for water could jeopardize public access and environmental conservation.

Additionally, data centres are notorious for their high energy consumption, raising alarms about the environmental costs of accommodating such industries. Without robust regulatory frameworks, Malaysia risks compromising its natural resources for short-term economic gains. A sustainable approach would require integrating renewable energy mandates, energy-efficiency standards, and carbon-neutral policies into the SEZ's strategic plan. Singapore's temporary moratorium on data centre expansion in 2019 underscores the importance of managing these industries responsibly.³

Economic Spillover or Spillout

The economic spillover from the SEZ is another point of contention. While Singapore brings investment and expertise, Malaysia's capacity to absorb and amplify these benefits remains limited. The rising cost of living in Johor Bahru highlights the economic disparities and spillover effects between emerging and advanced economies. Import inflation from Singapore, driven

² <https://sg.headtopics.com/news/malaysia-to-develop-johor-singapore-sez-infrastructure-on-64482464>

³ <https://www.channelnewsasia.com/business/new-data-centres-singapore-temporary-pause-climate-change-1355246>

by the city-state's stronger currency and higher purchasing power, has inflated prices for numbers of goods, services, and property in Johor Bahru.⁴ For an example a decent Condominium prices in the border city now rival or exceed those in Kuala Lumpur, ranging from RM800,000 (US\$177,900) to over RM2 million (US\$445,000).⁵

Similarly, Johor Bahru's high-end condominiums are far less competitive compared to similar properties in Singapore. This reflects a broader challenge on how to lessen the inflationary pressure from the neighbour while, at the same time, creating jobs and economic opportunities in Malaysia that justify competitive wages and leverage Singapore's proximity and expertise.

Importantly, Malaysian industries must adopt innovative benchmarking practices for wages and productivity, avoiding comparisons with lower-skill economies. Instead, the narrative should frame Malaysia as a cost-effective alternative to Singapore, offering "Singapore at a discount" without compromising on quality or competitiveness. This requires investments in human capital, infrastructure, and institutional capacity to ensure that the SEZ delivers equitable growth for both nations.

Who Wins and Who Pays?

The cross-border nature of the JS-SEZ introduces a complex layer of political and financial considerations. Malaysia is expected to finance infrastructure development, while Singapore focuses on facilitating investments. This asymmetry raises concerns over the distribution of immediate and long-term benefits. Singapore's capital-driven contributions may yield faster returns, while Malaysia's infrastructure investments are likely to accrue benefits only over a longer horizon. This imbalance could strain bilateral relations and erode public support for the SEZ, particularly in Malaysia, where taxpayers might perceive their contributions as subsidizing Singaporean gains.

Periodic reviews of responsibilities and contributions will be necessary to address potential disparities. Both governments must establish transparent mechanisms for accountability and ensure that the project's benefits are equitably shared. Political stability will also play a crucial role, as changes in leadership or policy could disrupt the SEZ's trajectory. Managing these realities requires proactive and adaptive governance to maintain investor confidence and bilateral cooperation.

⁴ <https://www.malaymail.com/news/malaysia/2023/12/02/is-the-influx-of-big-spending-singaporeans-a-factor-in-johor-barus-rising-living-costs-johoreans-and-analysts-weigh-in-video/105377>

⁵ <https://www.channelnewsasia.com/today/big-read/singaporeans-malaysia-ringgit-rising-costs-spending-big-read-3961036>

Moving Forward: Blueprint for Success

For the JS-SEZ to succeed, it must adopt a comprehensive and balanced strategy that addresses its multifaceted challenges. Predictability, accountability, and proactive investor engagement should form the cornerstone of this approach. A national policy framework that integrates resource conservation, environmental sustainability, and carbon-neutral goals is urgently needed. For instance, investment in alternative water sources, renewable energy, and robust regulatory measures will be critical in mitigating the environmental impact of high-consumption industries.

Additionally, Malaysia should look to its existing economic corridors for insights. Successful zones, such as the Sarawak Corridor of Renewable Energy, demonstrate the importance of aligning industrial priorities with regional strengths. The JS-SEZ should leverage Johor's proximity to Singapore while ensuring that its development model is inclusive, sustainable, and resilient to external shocks.

Conclusion

The Johor-Singapore SEZ represents an ambitious vision of cross-border economic collaboration. However, its success hinges on resolving key challenges related to infrastructure, resource management, economic spillover, and political coordination. Without a robust, sustainable, and inclusive strategy, the SEZ risks becoming another unrealized ambition in a region filled with potential. Balancing the interests of both nations, securing investor confidence, and safeguarding natural resources will be critical to transforming the JS-SEZ into a model for future economic zones. Only through proactive governance and innovative planning can the project truly fulfil its promise of mutual growth and prosperity.