



# ECONOMIC/THEMATIC RESEARCH:

# JOHOR



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capitalising on the connectivity and proximity to Singapore.

The signing of the memorandum of understanding on Jan 11 this year between Malaysia and Singapore for the establishment of the Johor-Singapore Special Economic Zone (JS-SEZ) has reinvigorated efforts to boost cross-border flows, streamline business processes and foster mutual economic growth.

Although a full-fledged agreement, outlining the details of the JS-SEZ, is only expected to be inked by year end, the JS-SEZ has generated a lot of buzz since it was mooted in 2023, more so given its significance to Johor's future economic development.

JS-SEZ is likely to be developed in Iskandar Malaysia and Pengerang, involving five local authorities of Johor Bahru and 16 economic sectors.

Another bright spot is the status of Forest City as a Special Financial Zone, as well as the establishment of an Invest Malaysia Facilitation Centre in the state.

One of the critical success factors for Johor has been its strategic location, which enables it to serve as an important trade route. This, coupled with a well-connected logistics network consisting of three main ports (namely Tanjung Pelepas, Tanjung Langsat and Johor Port) and the Senai International Airport, has enabled Johor to attract various industries to its manufacturing sector, beginning with furniture and textiles to E&E and O&G. So, it is unsurprising that improved transport linkages within the JS-SEZ have piqued the interest of businesses and visitors alike on both sides of the Causeway.

#### OPPORTUNITIES AHEAD

Another reason for optimism is the state government's plan to integrate the Rapid Transit System Link (RTS Link) between Johor Bahru and Singapore with the state's own proposed LRT or elevated Autonomous Rapid Transit (ART) system, and the proposed revival of the Kuala Lumpur-Singapore high-speed rail (HSR) project.

KGV International Property Consultants executive director Samuel Tan describes the RTS Link, set to be operational by end-2026, as a "significant game changer". This seamless connectivity will make travelling so much easier and faster, he says.



SME BANK

**"The JS-SEZ and RTS Link may lure more investments from Singapore, and other countries that have existing investments in Singapore and are looking to expand into Malaysia, particularly to Johor due to the proximity."**

Lee

"What used to be hours of bottlenecks at both the Causeway and the Second Link will soon be a short 15-minute experience, thanks to co-immigration counters at each departure point in JB and Singapore. The train will be capable of carrying 10,000 passengers per hour each way. Hopefully, with good last-mile connectivity and affordable fares, people will adopt this new mode of transport. The economy of both countries will benefit from this initiative," he adds.

SME Bank chief economist Lynette Lee says "the JS-SEZ and RTS Link may lure more investments from Singapore, and other countries that have existing investments in Singapore and are looking to expand into Malaysia, particularly to Johor due to the proximity. Given the right incentives and strategic programmes by the governments of both countries, foreign investors may split their investments between Singapore and Malaysia where headquarters and R&D centres could be set up in Singapore while back-end manufacturing facilities are located in Johor".

Calvin Cheng, research fellow in economics, trade and regional integration at the Institute of Strategic and International Studies (ISIS) Malaysia concurs, adding that a rise in foreign investments in Johor, which seek to take advantage of lower costs while accessing Singapore's market and skilled workforce, is expected.

"From a labour mobility standpoint, higher labour mobility between Johor and Singapore because of greater connectivity could, in the short term, lead to the migration of skilled labour from Malaysia into Singapore to take advantage of wage differentials. But in the longer term, we may expect

this greater integration to gradually narrow the wage differentials between Johor and Singapore," he adds.

As was the case when Iskandar Malaysia was launched, news of the RTS Link and JS-SEZ will fuel the property sector.

"Residential and commercial buildings along the RTS Link are likely to be fuelled by these developments," says Lee, noting that Johor had the largest share of Malaysia's unsold commercial shops in 4Q2023 (at 27.1%) and ranked third (10.7% share) in terms of unsold residential property.

"Increased economic activities will attract investors that may gradually help to ease the property glut in the state. Moreover, Malaysians who work in Singapore will be encouraged to purchase or rent a place near the Bukit Chagar RTS station instead of renting in Singapore," she adds.

Economic activities in other sectors such as hospitality, tourism and education can expect to see some upward movements, says Tan. On the flip side, the cost of living, especially in JB, will likely increase because of the influx of foreigners, particularly Singaporeans.

"While this is a happy problem, local wage earners will find it tough to manage with the lower local ringgit," says the JB-based consultant.

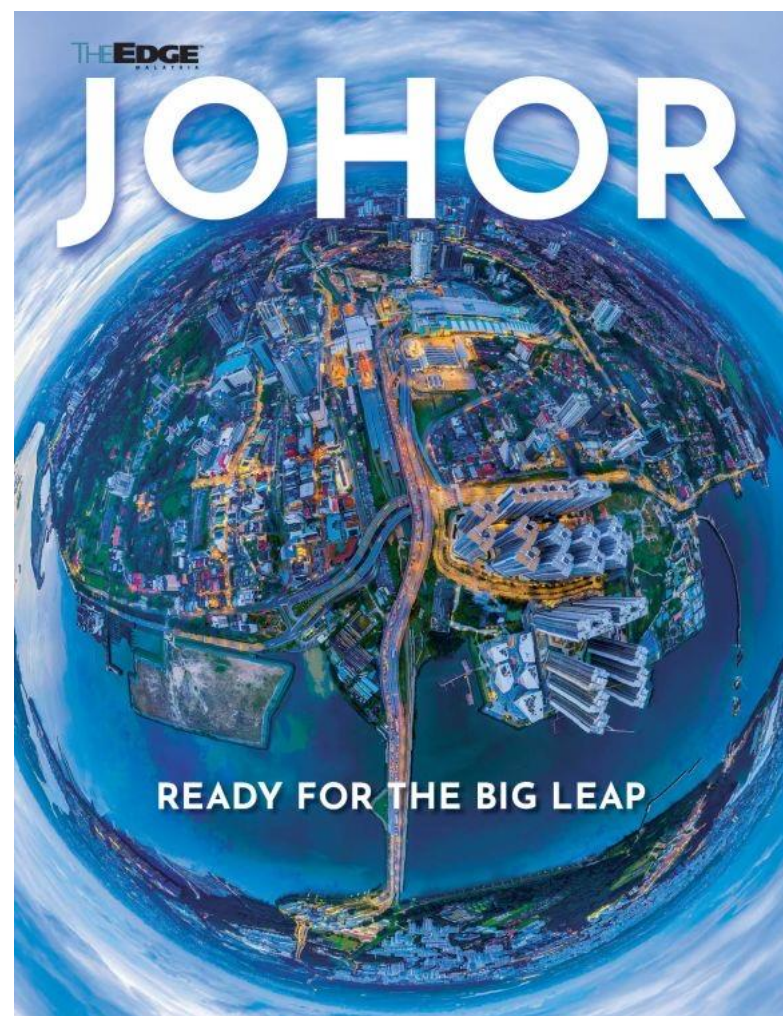
#### CHALLENGES TO JOHOR'S ECONOMIC DEVELOPMENT

Lee adds that the influx of Singaporean businesses and consumers may make it less affordable for Malaysians to reside around prime areas in JB.

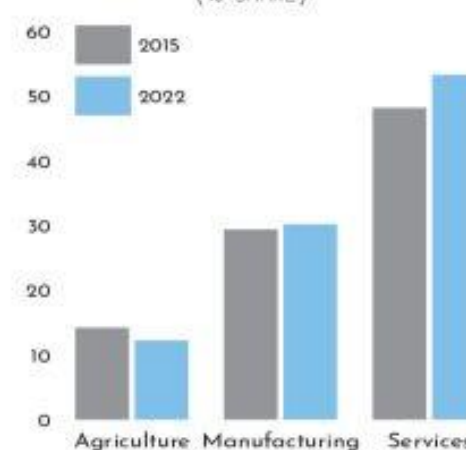
"Based on Economist Intelligence Unit's Worldwide Cost of Living 2023 survey, Singapore kept its position as the world's most expensive city for the ninth time in 11 years, particularly driven by expensive transport and clothing. Similarly, Johor ranked first in Malaysia (excluding Putrajaya) for inflation of both clothing (0.5% year on year) and transport (1.2% y-o-y) in the latest data release in January 2024, which is also above the national average of 0.7% y-o-y and -0.1% y-o-y respectively," she says, adding that growth in Johor's house prices is also higher than the national level.

Johor has been facing a brain drain, fuelled by the stronger Singapore dollar. Exacerbating the brain drain is the fact that although Johor has one of the highest rates of labour force participation, and its unemployment rate has tended to be both lower and more stable than the national average, wage growth in the state has been among the lowest in the country over the last decade, notes ISIS' Cheng.

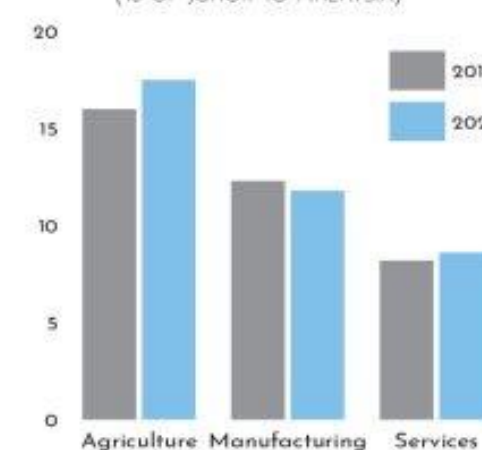
"The only way is to increase our wages



**JOHOR'S GDP BY ECONOMIC SECTOR**  
(% SHARE)



**GDP BY ECONOMIC SECTOR**  
(% OF JOHOR TO MALAYSIA)



SOURCES: COMSTAT, CEC & SME BANK ECONOMIC RESEARCH



1

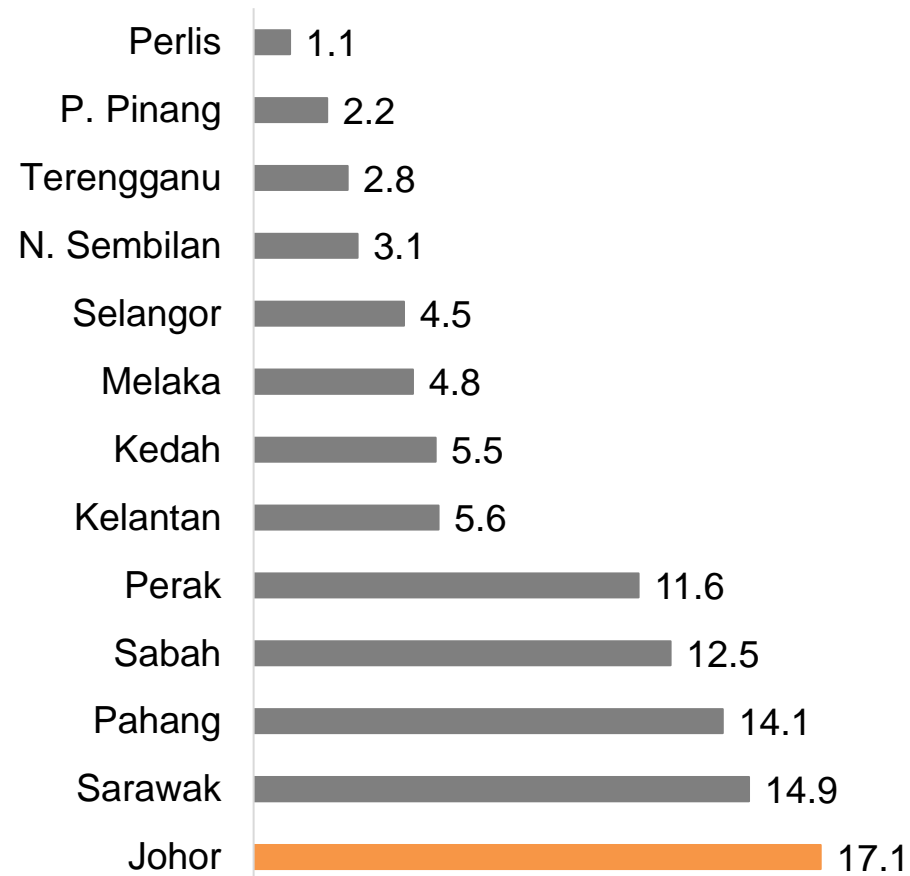
**Thematic: Johor**



**Johor is a diversified economy with services and manufacturing being their main economic sectors.** With an influx of investment in data centres and cloud services, **Johor is poised to become a digital economy hub in the region.** Nonetheless, we also view **agriculture as a key sector** for the state given its importance at the national level compared to other states. These **three sectors have recovered to pre-pandemic level while mining and construction are still behind.**

State  
Johor

State Agri GDP to National Agri GDP in 2023 (% share)



Large pool of **high- and semi-skilled employees** but **more brain drain may take place** if not compensated well especially with easy commuting after RTS

Steady approved investment in the manufacturing sectors

Main **producer** of many **agricultural products** but subject to **risk from climate change & seasonality**

Spillover benefit due to close proximity with Singapore but face some **competition from Indonesia**

**2 economic corridors:** Iskandar Malaysia & ECER

Influx of investment in **data centres** and cloud services but **economic impact may be limited** once in operation



**Slow development progress** of Forest City but establishment of **special financial zone** may help

Influx of Singaporean businesses and consumers may **accelerate the cost of living** in the state's prime areas.

## OPPORTUNITIES & CHALLENGES

Johor-Singapore Special Economic Zone

**9 promoted sectors** under Iskandar Malaysia. Refer page 11 for more details.

Priority sectors under **Maju Johor 2030** Refer page 12 for more details.

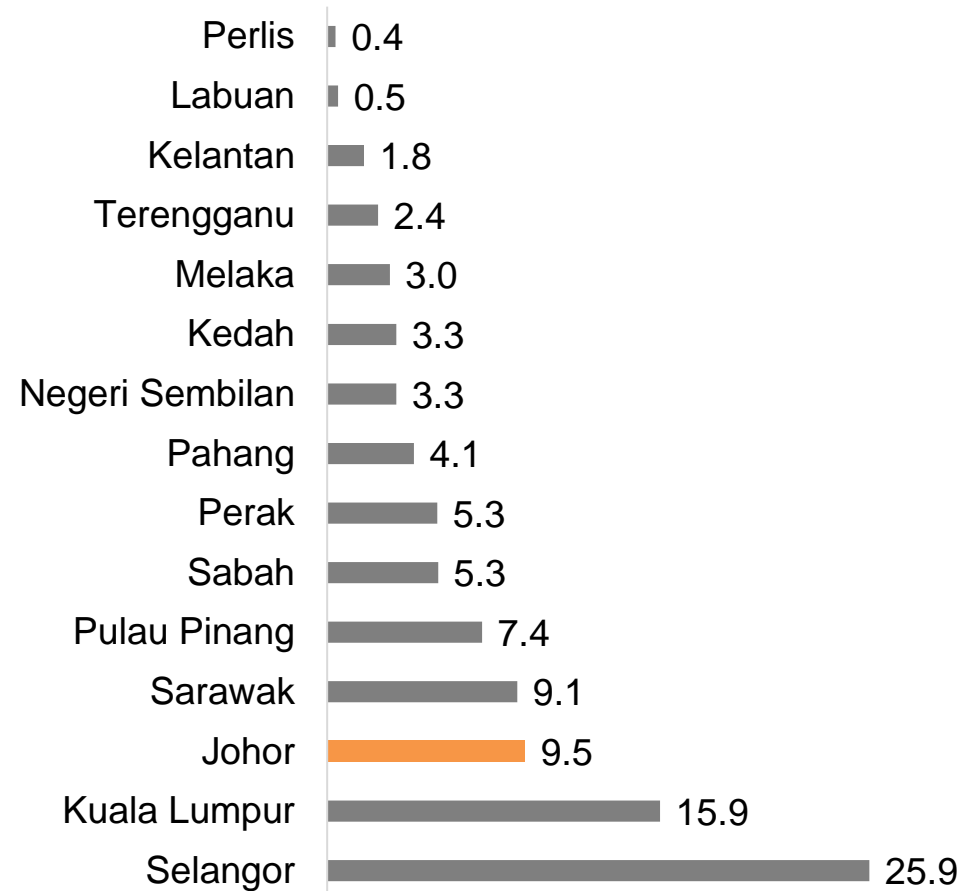
RTS and its feeder: **ART @ LRT**



1

## 3<sup>rd</sup> largest contributor to Malaysia's GDP

### % share to Malaysia GDP 2023

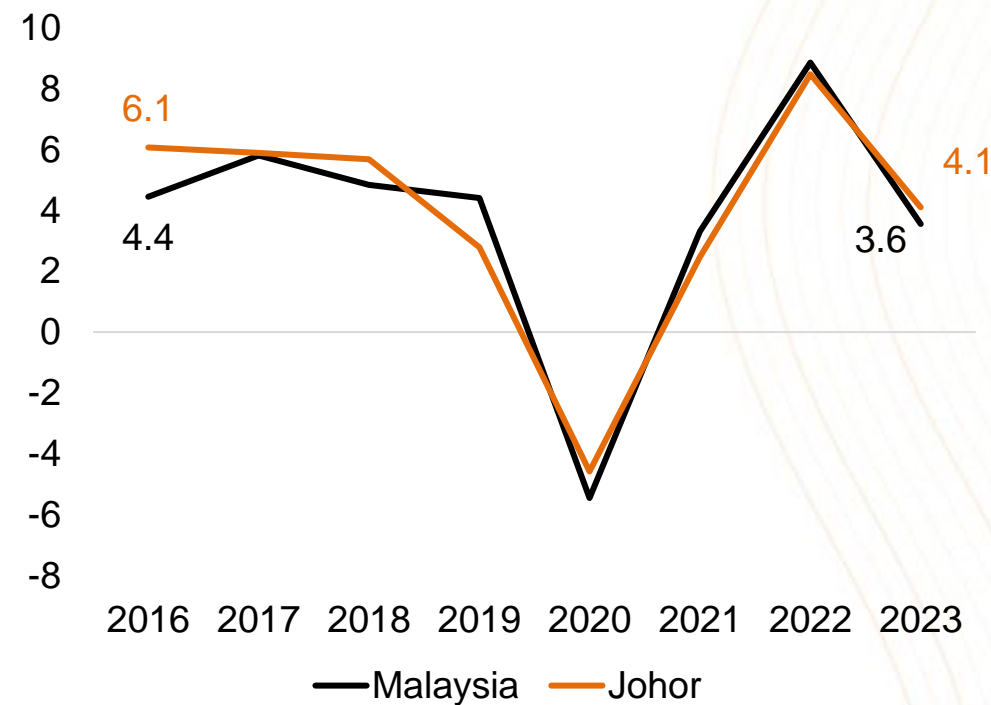


- Johor's contribution to Malaysia's GDP has been stable all these years at around 9%.
- It became the third largest contributor to national GDP in 2022, overtaking Sarawak and retained the position in 2023.

2

## Slightly lower GDP growth compared to national's

### GDP: Johor vs Malaysia in 2023 (% YoY)

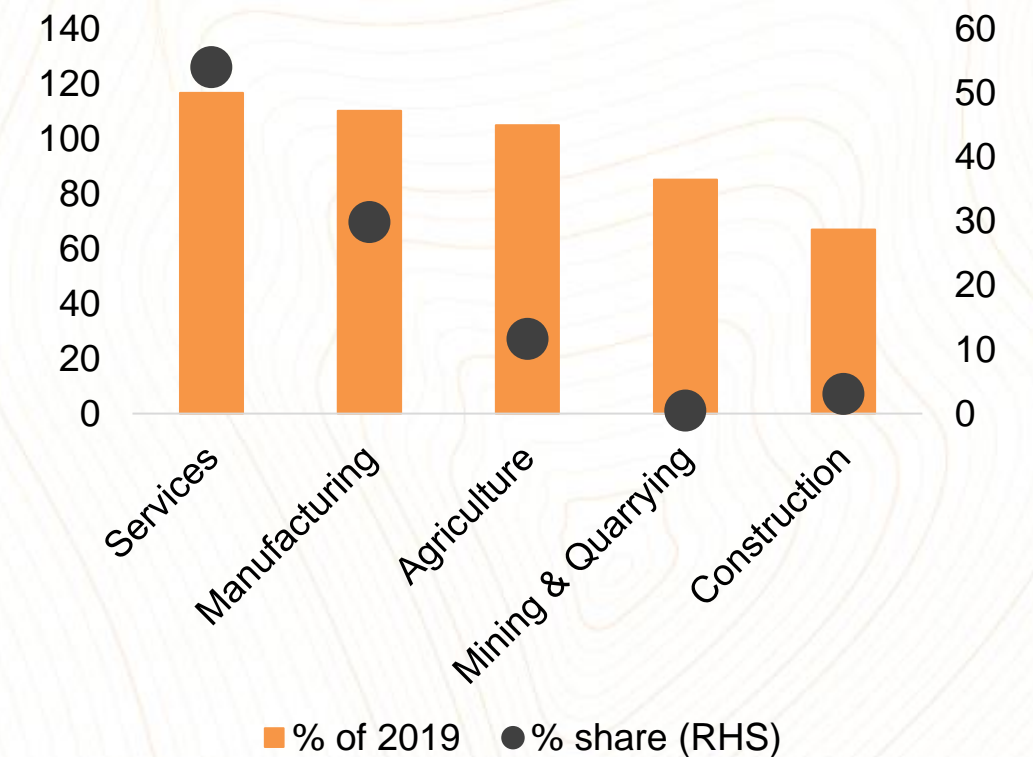


- Post Covid-19 recession in 2020, the state's GDP grew slightly **below national's** mainly due to **lagged recovery** in its **construction and mining** sectors.
- However, Johor's GDP growth managed to outpace those of national in 2023 as all key sectors' growth outperformed country's level except agriculture.

3

## Key economic sectors have recovered to pre-pandemic level

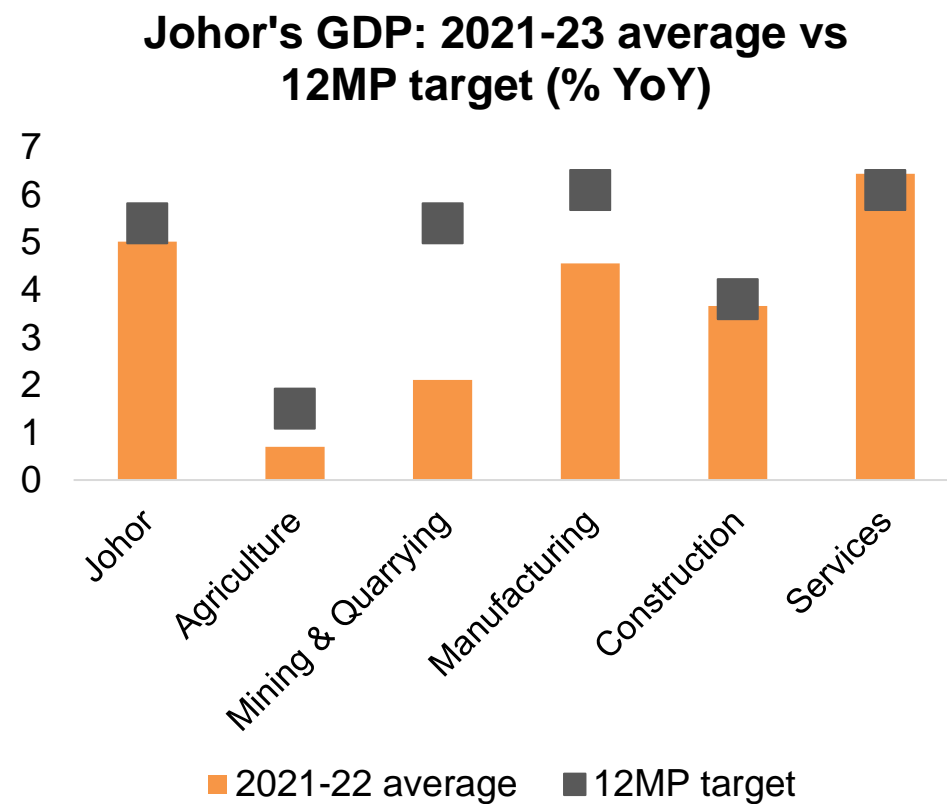
### Johor's GDP by economic sectors



- In 2022, the services, manufacturing and agriculture sectors have recovered and outperformed 2019's level.
- While construction and mining continue progressing, they remain below 2019's level. In 2023, mining sector has recovered to 85% (2022: 81%) of 2019's level while construction at 67% (2022: 62%).

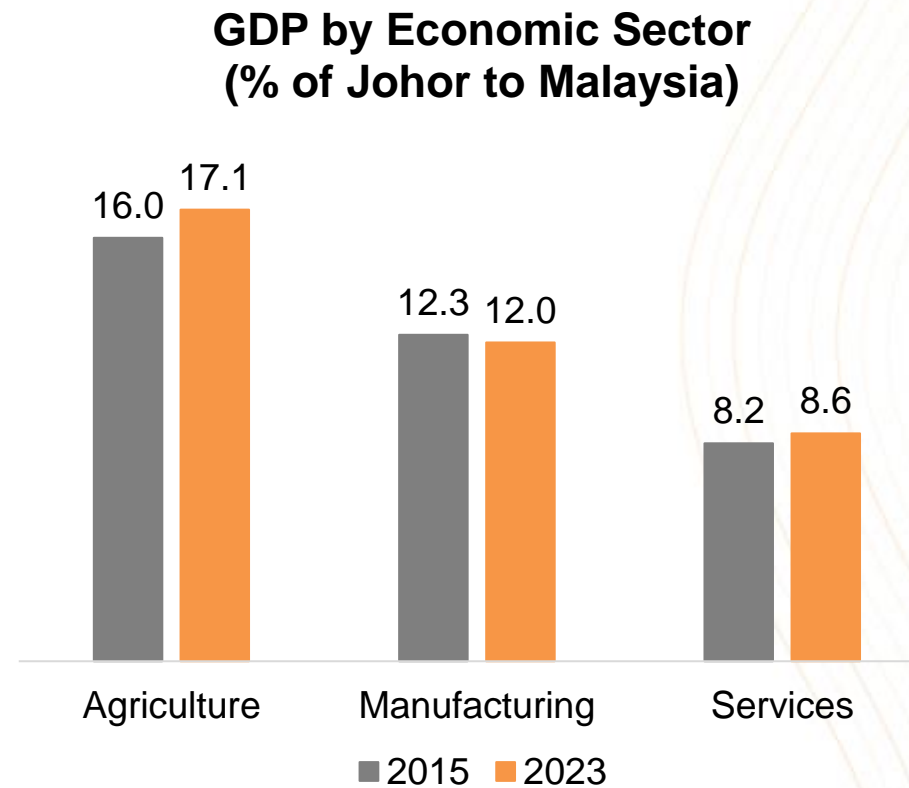


## 4 Services sector has achieved 12MP GDP growth target



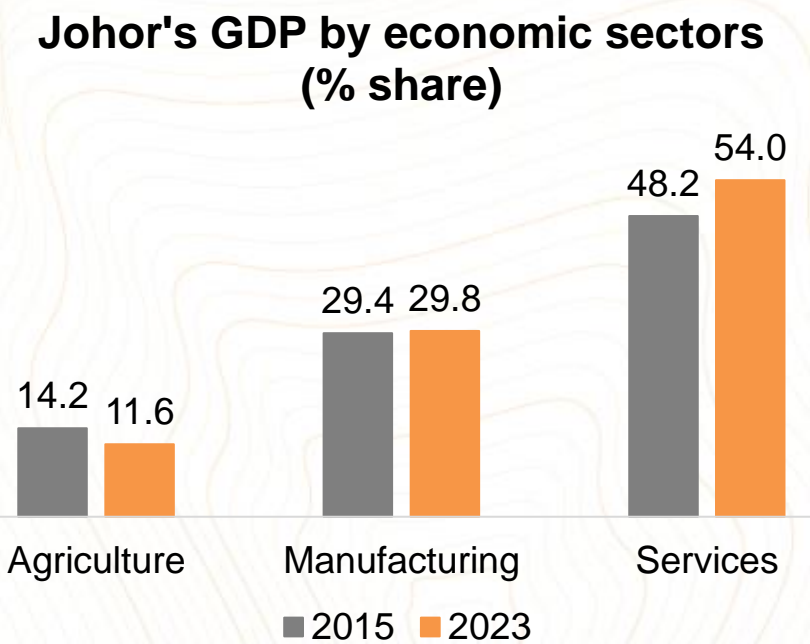
- Under the 12MP MTR, Johor's targeted growth of 5.4% is on the upper end of the national growth target of 5.0% – 5.5%. It was also revised upward from 5.1% in the original 12MP target (11MP: 3.1%).
- Services sector has achieved 12MP GDP growth target in the first 3 years of the 5 years period. Meanwhile, mining sector remain far below target.

## 5 Johor's agriculture is becoming more important at national level...



- Johor is the largest contributor to Malaysia's agriculture GDP and its share has been increasing since 2015.
- Johor is deemed to have bright prospect in agriculture as the state is the largest producer in Malaysia for numerous fruits (e.g. pineapple, durian), vegetables (e.g. spinach, long bean), and industrial crops (e.g. coconut).

## 6 ...but does not seem to be the case at state level.

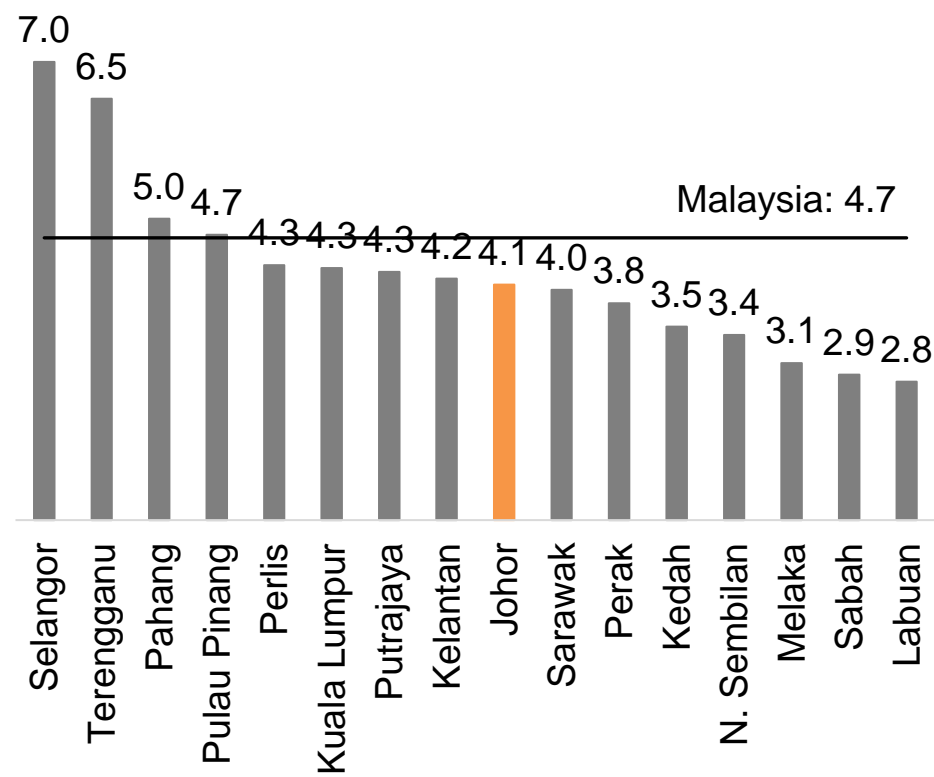


- At state level, services and manufacturing sectors are gaining more share, in comparison to agriculture. In fact, all 9 promoted sectors under Iskandar Malaysia are those of services and manufacturing (*Refer page 10 for more details*).
- Wholesale, retail trade, food & beverages and accommodation made up the most (29%) of services sector while electrical, electronic & optical products have the largest share (34%) of manufacturing activities.



## 1 Monthly median household income expanded above national level...

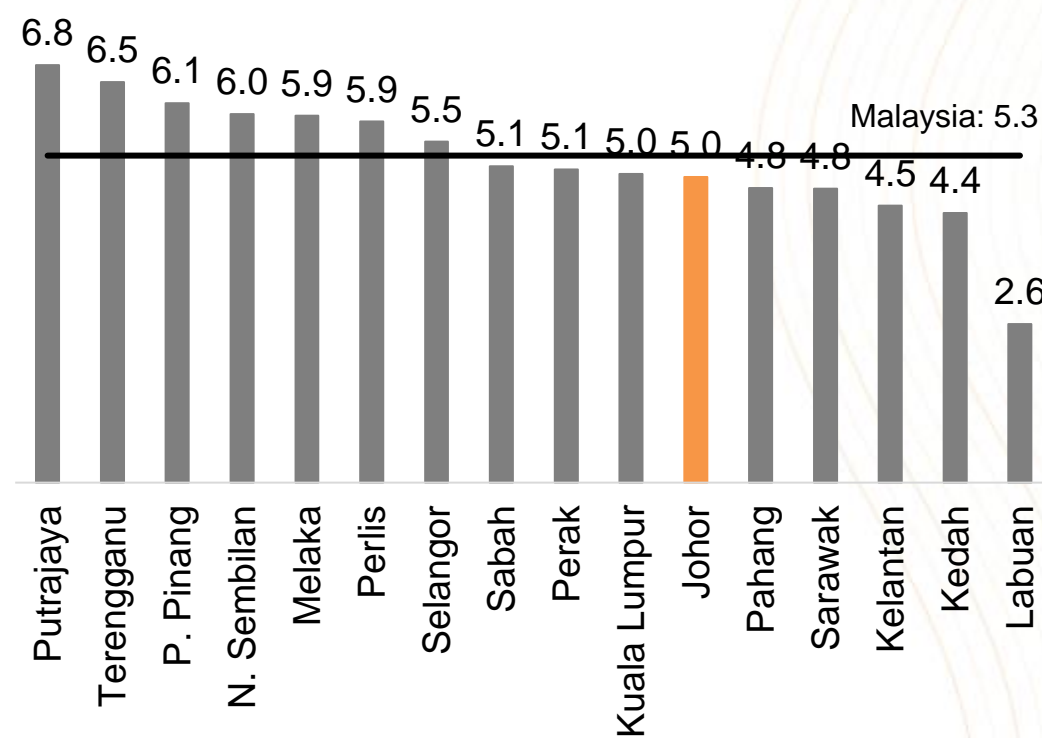
### CAGR of Monthly Gross Median Income by State (%)



- Johor is among the top 5 states/territories with the highest median monthly household income in 2022.
- It had been growing at a CAGR of 4.1% for the period of 2014 to 2022, below national level (4.7%) and quite far behind from Selangor which has the highest (7.0%).

## 2 ...but household monthly average expenditure grew below national level.

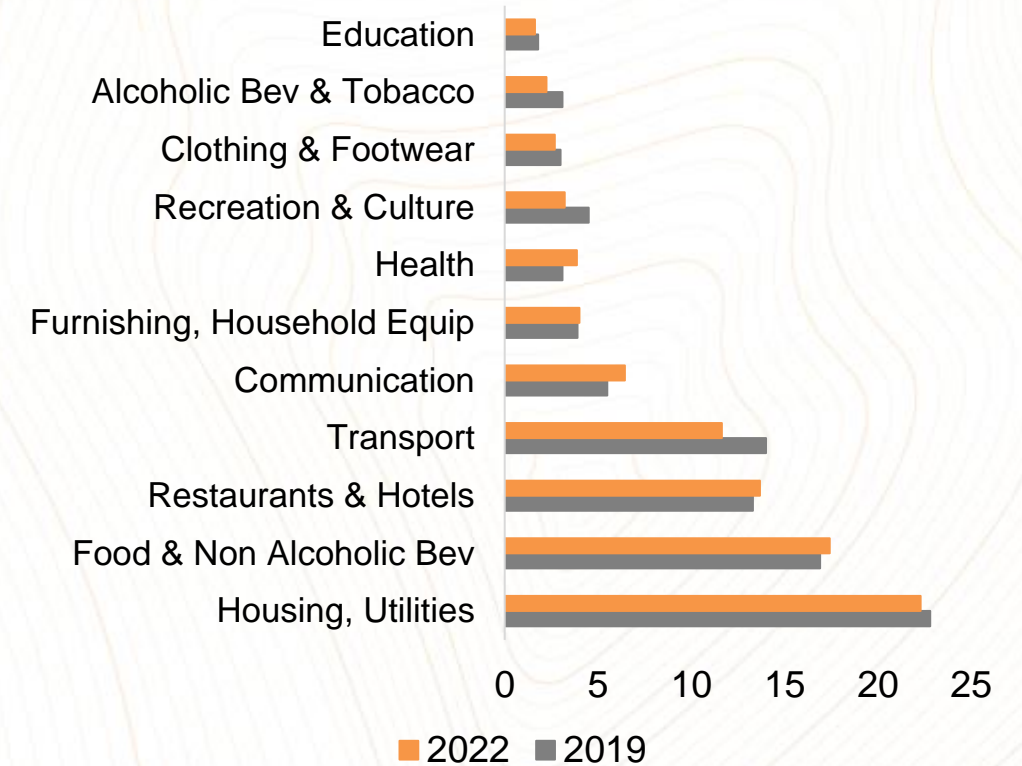
### CAGR of Monthly Average Expenditure between 2014 - 2022 (%)



- In line with income, Johor is also among the top 5 states/territories with the highest average monthly household expenditure in 2022.
- It had been growing at a CAGR of 5.0% (higher than CAGR of income) for the period of 2014 – 2022, slightly below national level (5.3%) and pushed to the lower quartile.

## 3 Households are increasingly spending on tourism sector

### Johor: Expenditure per household (% share)



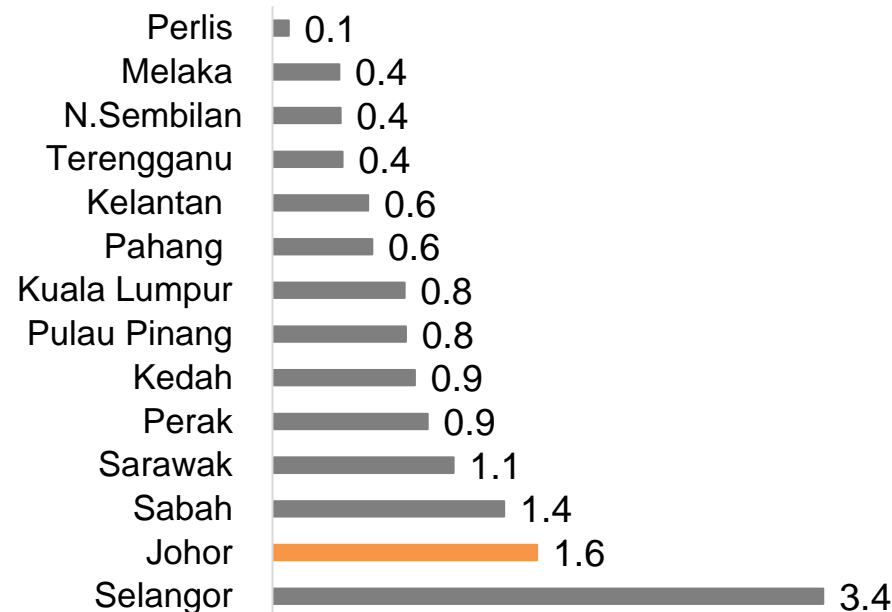
- Johor's household expenditure is mostly spent on housing and utilities, albeit slightly moderated to 22.3% of total expenditure in 2022 (2019: 22.8%).
- However, we note that expenditure share for **food at home, restaurants & hotel, health, furnishings and communication have increased** in 2022.



1

Johor ranked 2nd in the employment of high- and semi-skilled employees

### High & semi-skilled employment (mil person)

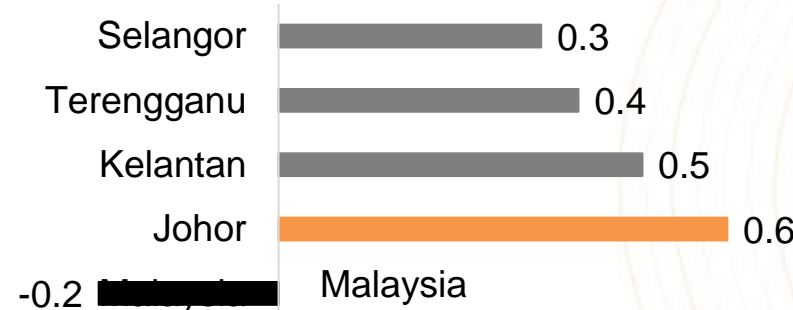


- While Rapid Transit System (RTS) can make Johor's job market more competitive, it may also cause an exodus of workers to Singapore for higher salaries.
- Nonetheless, it can be a win-win situation – Malaysia retaining our professionals with niche specialties or gaining skillset/ technological transfer from talents hired from Singapore to be based in Johor operations.

2

Influx of Singaporean businesses and consumers may accelerate the cost of living in Johor...

### Inflation YTD 2024: Clothing (% YoY)



### Inflation YTD 2024: Transport (% YoY)

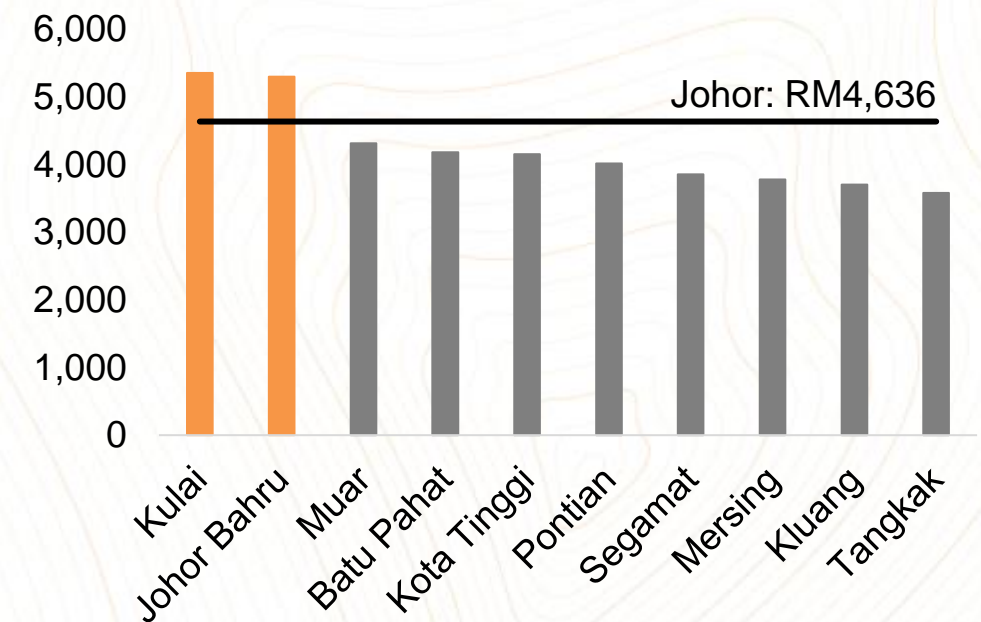


- Singapore kept its position as the world's most expensive city in 2023, for the 9<sup>th</sup> time in 11 years, driven by expensive transport and clothing.
- In line, Johor is among the **top for inflation** of both **clothing and transportation**.

3

...particularly in the prime areas such as Kulai and Johor Bahru.

### Johor: Median Monthly Household Consumption Expenditure by District in 2022 (RM)



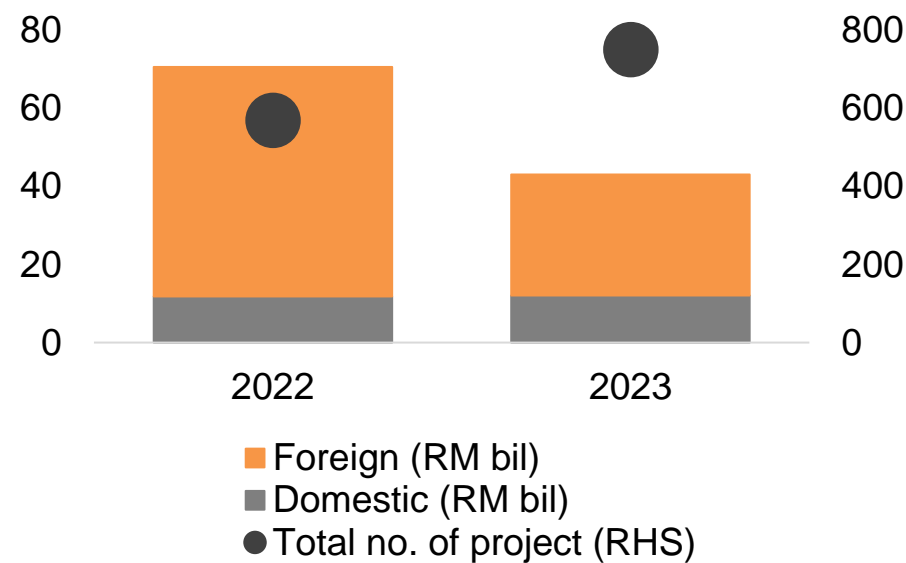
- Kulai (15.5% higher) and Johor Bahru (14.3%) have median household expenditure above state level.
- This is in line with industrial developments particularly of data centres in these areas.
- While other districts are comfortably below state level, they might still be exposed to the spillover effects as more projects progress including better connectivity.





## 1 Overall approved investment value decreased in 2023 while number of projects increased

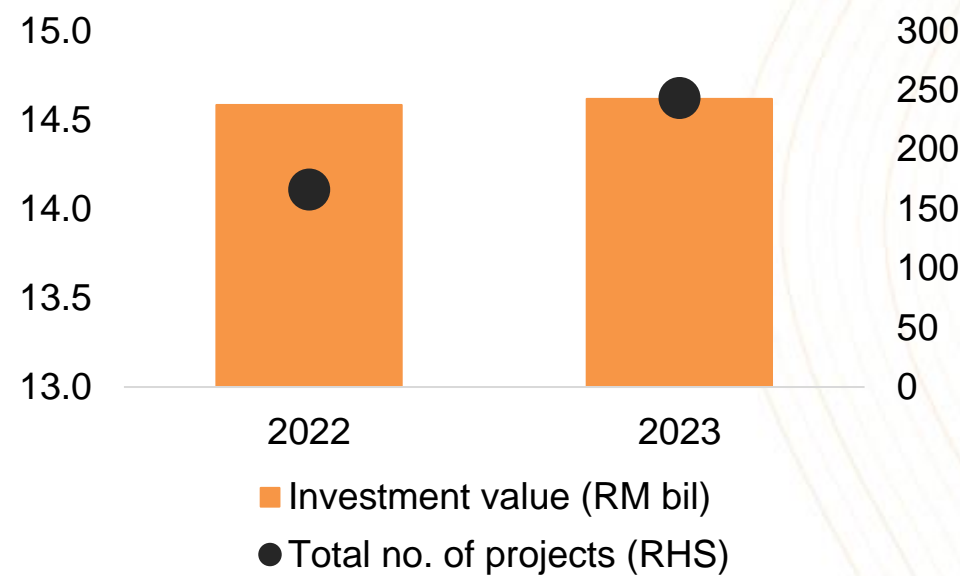
### Approved private investments in Johor



- Johor had the **largest investment approval in 2022**, at RM70.6 bil or **26%** share of Malaysia's total approved investment.
- As **foreign investment** makes up the bulk of the State's total investment, it can be cyclical and lumpy, hence this could be a reason for moderation in 2023.
- Nonetheless, **domestic investment has been relatively steady**, clocking in around RM12 bil for 2022 - 2023.

## 2 43% increase in overall projects in 2023 came from manufacturing

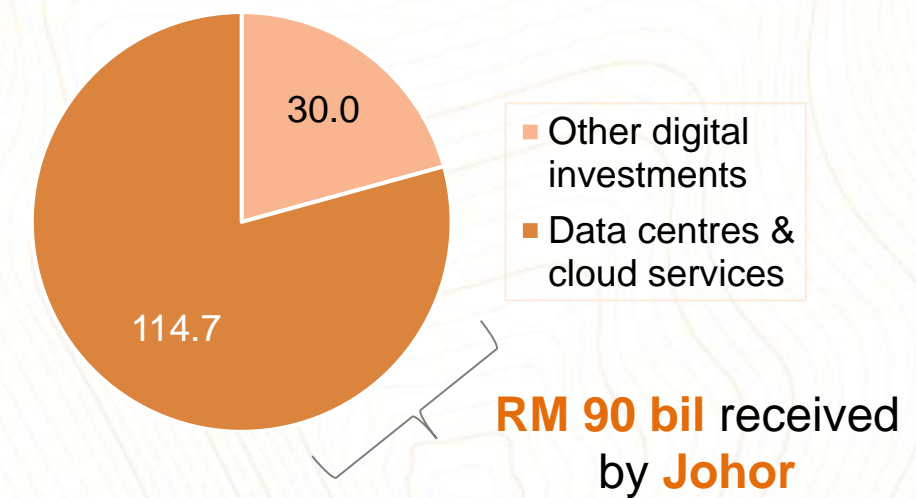
### Approved private manufacturing investment in Johor



- While overall approved investment in the state dropped in 2023, those of manufacturing held steady at RM14.6 bil.
- Despite small change in investment value, **number of manufacturing projects soared 43.4% to 243 in 2023**, suggesting smaller size projects.
- Chemical & chemical products, scientific equip.** and **E&E** are the main manufacturing investment recipients in 2022.

## 3 Johor poised to become digital economy hub in the region

### Malaysia: Approved digital investments 2021-2023 (RM bil)



- Johor had received almost **80% of the approved digital investment in the country for 2021-2023**. There are 2 clusters of data centres – Sedenak Tech Park & Nusajaya Tech Park.
- 8 data centres are already operating; 10 more in development stages; 13 companies are currently in discussions or at the planning stages to invest.
- While data centers may have limited spillover effect during operations, it is highly capital-intensive in the form of construction of a new building, purchases of computer servers & other equip., and consumption of electricity.



## 1 East Coast Economic Region (ECER)

- Mainly intended to accelerate economic growth in Kelantan, Terengganu and Pahang.
- For Johor, it only involves a specific area around Mersing – Rompin. In Jan 2024, Segamat officially became a part of this ECER region.
- The focus is mainly only on tourism (Mersing) and agriculture (Segamat) related industries.
- Hence, the impact from ECER to overall Johor’s economic performance may be limited or hardly seen.
- In fact, average occupancy rate for hotel rooms in Johor for the period of 2008 to 2019 was lower at 56.9% in comparison to the few years before the formation of ECER (avg. 2004-2007: 60.8%), which can be partially influenced by increased in number of hotel rooms (pre-ECER 2004-2007 average: 1.3% YoY; 2008-2019 average: 6.9% YoY).
- Ongoing project: **Jemaluang Dairy Valley** expected to be in operation in 2025.

## 2 Iskandar Malaysia

- Johor centric and focuses on 9 promoted sectors: **1) Electrical & Electronics; 2) Petrochemical and Oleochemical; 3) Food & Agro-Processing; 4) Logistics; 5) Tourism; 6) Creative Industries; 7) Healthcare Services; 8) Education Services, & 9) Financial and Business Services.**
- It also covers a wider geographical area including Johor's heavy industrial zone Pasir Gudang, its capital city Johor Bahru, Iskandar Puteri, Kulai and part of Pontian town.
- Johor’s GDP has almost tripled in 2019 compared to 2006, at the point of Iskandar MY’s establishment. The corridor contributed around 65% of the state’s GDP, albeit a drop compared to ~70% in 2006.
- Between 2006 – 2019, Johor’s GDP performance saw a CAGR of 8.6%, where about 5.5ppt came from Iskandar corridor alone, with a CAGR of 7.9%.
- For the period between 2006 to Sep 2023, Iskandar MY contributed 58% of total cumulative realised investment out of RM409.5 bil recorded investment in the State.
- **Iskandar MY’s biggest impact** is being the State’s **main driver of growth** in the **services sector**. Services accounted for about 63% of Iskandar’s GDP which is above state level’s services share to GDP (52.3%).
- In fact, **6 sectors** (logistics, tourism, healthcare, education, financial & business and creative industry) **out of the 9 promoted sectors** under Iskandar are **services** related.
- In recent years, we have also observed the influx of data centres to Johor with investments worth RM51.1 bil in 2022 particularly to areas under Iskandar corridor such as Iskandar Puteri and Kulai.
- Besides that, **Johor-Singapore Special Economic Zone (JS-SEZ)** was announced to be developed in the areas of Iskandar MY and Pengerang – to sign deal with Singapore in Sep – involving 6 local authorities: Johor Bahru, Iskandar Puteri, Pasir Gudang, Kulai, Kota Tinggi and partially Pontian.
- Economic sectors that are expected to be involved include **E&E, pharmaceuticals, aviation, specialty chemicals, logistics, healthcare, education, halal industry, finance and business services, digital economy and tourism.**



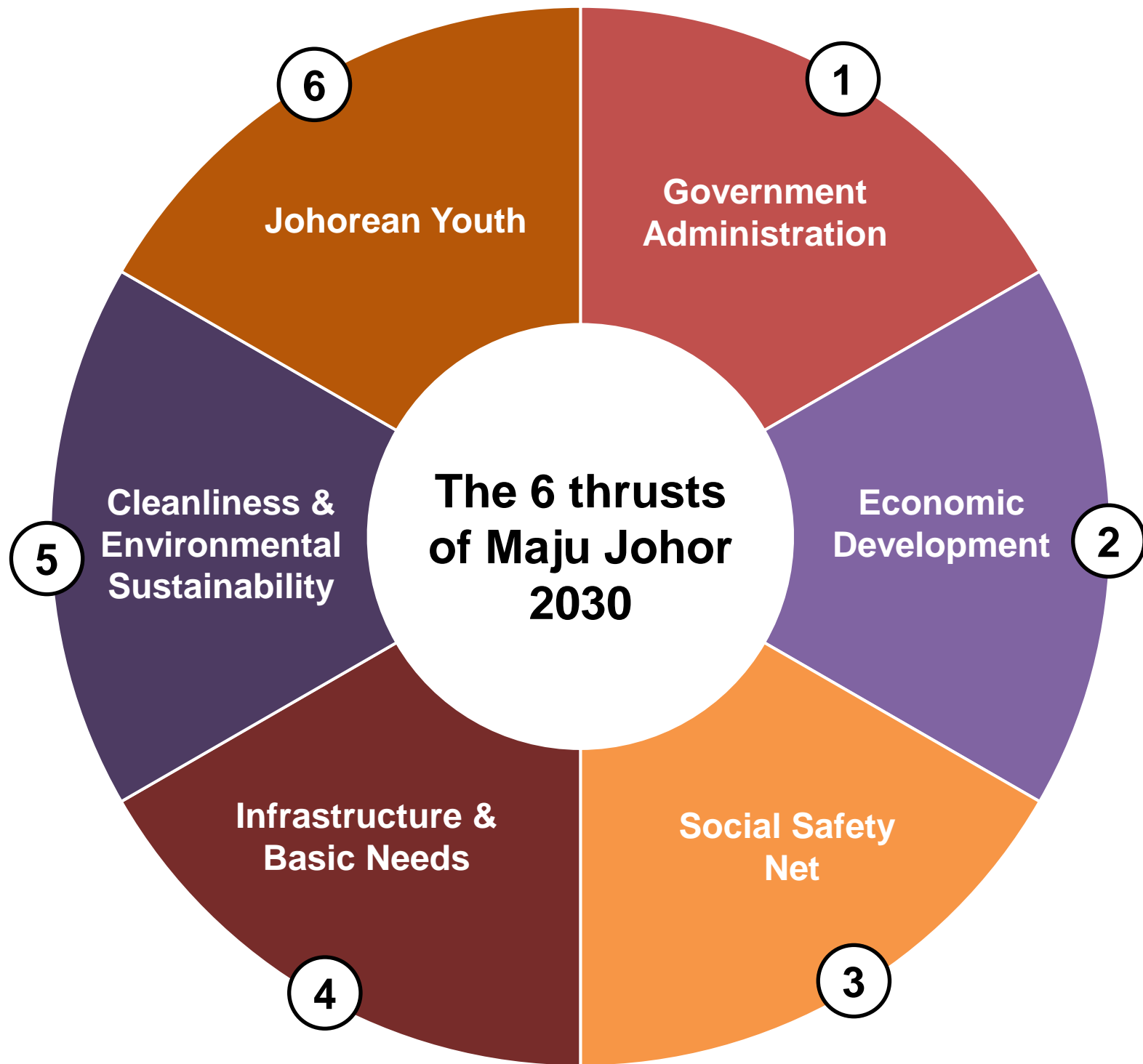
- 77.6% completion rate as of May 31.
- Capacity: up to 10k passengers per hour, each direction
- Completion date: End 2026
- May lure more investments & tourists

### Feeder for RTS

#### ART @ LRT



- 2 proposals: autonomous rapid transit (ART) system & light rail transit (LRT) line.
- Estimated cost: ART: RM7 bil vs LRT: RM16.7 bil.
- Needs to be ready by end 2026, coinciding with the start of RTS to disperse the congestion that will occur at the Bukit Chagar RTS station



## VISION

Holistic advancement of Johor encompassing economic & infrastructure growth, as well as people development in terms of thinking, culture, knowledge, character, customs, morals, identity & personal attribute

## GDP TARGET

To reach **RM260 bil by 2030** (2023: RM148.2 bil), Johor's economy need to grow **8.4% YoY each year on average from 2024 until 2030** (avg. GDP growth 2016-2022 excl. 2021-2022: 5.8%).

## PRIORITY SECTORS

For the next 5 years:

1. Electric & Electrical,
2. Life Science & Med-Tech
3. Advanced Manufacturing & Engineering
4. Digital Economy
5. Green Economy
6. Halal industry
7. Automotive (EV)
8. Aerospace
9. Port & Logistics

## OTHER FOCUS

ESG and actively seek more investments in renewable energy (RE) and other green technology sectors that will support the growth of other new industries such as data centres.



**55%** (2H 2023: 55%) of respondents foresee **sales to increase** in the next 6 to 12 months

- Accommodation
- Mfg rubber & plastics
- Mfg furniture

**80%** (2H 2023: 94%) expect **cost of doing business to go up** particularly those of **raw materials**

Currency depreciation may pose limited risk as **83%** of the respondents **source their raw materials locally**

Johor **ranked 1<sup>st</sup>** among other states with the highest number of respondents **exporting >50% of their goods and services** overseas

- Mfg food products
- Mfg furniture
- Mfg rubber & plastics



## SME SENTIMENT INDEX 1H 2024

**63%** (2H 2023: 29%) do not intend to hire nor terminate employees but rather **maintain current workforce**

**>50%** feel that changes in both **government policies** (2H 2023: 7%) and **digital transformation** (2H 2023: 14%) **have neutral impact** on their business operations

**55%** (2H 2023: 59%) prefer to **prioritise marketing and branding** of their goods and services as their **focus area** in the next 6 to 12 months

Johor **ranked 2<sup>nd</sup>** after Melaka in terms of having the most respondents (**56%**; 2H 2023: 29%) with **strong cash reserves of more than 3 years** to sustain their business

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