Malaysia and the Johor–Singapore Special Economic Zone

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Separation and the division of financial institutions

The relationship with Malaysia has a different starting point. Singapore was part of Malaysia from 1963 until its separation on 9 August 1965, which Chapter C.II examines.[1] The financial system was divided only gradually after separation. The currencies of the two countries remained interchangeable at par until 8 May 1973, when the Malaysian government terminated the arrangement.[2] With the end of interchangeability, the Stock Exchange of Malaysia and Singapore was divided into the Kuala Lumpur Stock Exchange and the Stock Exchange of Singapore, although companies of each country remained listed on the other exchange for some years.[3] The founding of the Monetary Authority of Singapore in 1971, described in Chapter C.V, belongs to this process of separation.

The banking systems remained closely connected. Maybank and CIMB, the two largest Malaysian banking groups, operate substantial businesses in Singapore, while OCBC and UOB run large subsidiaries in Malaysia.[4] Several Malaysian business groups have Singapore roots or keep their treasury in Singapore. Many Malaysian families, like their Indonesian counterparts, use Singapore banks and family offices.

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The Causeway economy

Daily life connects Johor and Singapore more closely than any other border in the region. The Johor–Singapore Causeway, opened in the 1920s, carries road and rail traffic. Together with the Second Link it is used by about 300,000 travellers on a normal day. On 28 March 2024, before the Good Friday weekend, a record 510,000 people crossed Singapore's land borders.[5] Most of these commuters are Malaysians who work in Singapore and live in Johor, where housing is cheaper. Many Singaporeans in turn shop, eat and own property in Johor Bahru.

The water agreement of 1962 symbolises the interdependence. It allows Singapore to draw up to 250 million gallons of water a day from the Johor River until 2061. Transport links are being renewed. The high-speed railway between Kuala Lumpur and Singapore was abandoned on 1 January 2021, after the two governments failed to agree on changes by the deadline of 31 December 2020. The smaller Rapid Transit System Link between Johor Bahru and Woodlands, agreed in 2018, is a four-kilometre line with a projected capacity of about 10,000 passengers per hour in each direction. In October 2026 its opening was postponed to February 2027.[6]

Iskandar Malaysia and its lessons

Johor has tried several times to turn proximity into growth. Iskandar Malaysia, established on 8 November 2006, was the first large attempt. It covers some 2,300 square kilometres around Johor Bahru and claims cumulative investment of more than RM 413 billion. A Joint Ministerial Committee of the two governments has met regularly since 2007 to coordinate its development.[7] Iskandar attracted factories, ports, universities and housing estates. Its residential projects also showed the risks of speculative development financed from outside.

Forest City is the clearest example. The project of artificial islands off the western coast of Johor, opposite Singapore, was financed mostly by the Chinese developer Country Garden, which held 60 per cent of the joint venture with a Johor state company. When Country Garden defaulted on its offshore bonds in October 2023, the project was left with large unsold inventories.[8] Malaysia responded by

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designating Forest City a special financial zone, discussed below. The episode shows that the zones in Johor are both an opportunity for Singapore and a competitor in some of the services in which Singapore specialises.

The agreement of 2025

The Johor–Singapore Special Economic Zone is the most ambitious attempt so far. After a joint task force had been announced on 14 July 2023, a Memorandum of Understanding followed on 11 January 2024. The agreement itself was signed by the responsible ministers on 6 January 2025 and exchanged on 7 January 2025 at the eleventh Leaders' Retreat in Putrajaya, in the presence of Prime Ministers Anwar Ibrahim and Lawrence Wong.[9]

The zone covers 357,128 hectares, about 3,571 square kilometres. It comprises nine flagship areas: Johor Bahru City Centre, Iskandar Puteri, Tanjung Pelepas–Tanjung Bin, Pasir Gudang, Senai–Skudai, Sedenak, Forest City, the Pengerang Integrated Petroleum Complex and Desaru. The two governments aim to attract 100 projects within ten years and to create 20,000 skilled jobs. An interim target of fifty projects applies to the first five years. The agreement promotes eleven economic sectors, among them business services, financial services, manufacturing, logistics and health.[10]

The practical measures concern the movement of people and goods. Singapore introduced passport-free clearance by QR code at its land checkpoints in March 2024. Since 1 January 2025, traders have been able to use a single permit for land intermodal transshipments, where two permits were previously required. Malaysia has set up the Invest Malaysia Facilitation Centre – Johor as a one-stop centre for investment applications and approvals.[11] The model is a division of labour. Headquarters, financing and high-value services remain in Singapore, while land-intensive and labour-intensive activities move to Johor.

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Incentives and the Forest City Special Financial Zone

Malaysia designed the tax incentives on its own. Companies making new investments in a global services hub in the Johor Bahru waterfront or Iskandar Puteri may receive a corporate tax rate of 5 per cent for up to fifteen years. Eligible knowledge workers in qualifying sectors pay a flat income tax rate of 15 per cent for up to ten years. Applications must generally be made by 31 December 2034. The package took effect on 1 January 2025.[12]

The Forest City Special Financial Zone goes further and addresses Singapore's own wealth management industry directly. Announced in August 2023, it received its incentive package on 20 September 2024. Single family offices may benefit from a corporate tax rate of zero for up to twenty years. Global business services, financial technology firms and foreign payment system operators pay 5 per cent, and knowledge workers pay a flat income tax rate of 15 per cent. Bank Negara Malaysia offers foreign exchange flexibilities that make it easier for foreign banks to borrow and invest in foreign currencies within the zone. The family office vehicle must be certified by the Securities Commission. Disposals of unlisted shares and transfers of permitted assets to the vehicle benefit from one-off exemptions from capital gains tax and stamp duty.[13]

For Singapore, the zone is both complement and rival. The Singapore family office regime under sections 13O and 13U of the Income Tax Act, described in Chapter E.III, does not offer a nominal zero rate. It exempts specified income of qualifying funds and requires minimum assets, local business spending and investment professionals. Forest City offers lower nominal rates and lower costs a few kilometres away. It cannot yet offer the depth of Singapore's banks, courts, professional services and talent, which Chapters F.I and J.IV describe. A family office in Forest City will in practice still bank, invest and litigate in Singapore. The real competition concerns the location of staff and the booking of income.

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What the zone means for the financial centre

Almost two years after the agreement, results are emerging slowly. In January 2026 a business report put the investment so far at US$4.3 billion and observed that the dream of a "Malaysian Shenzhen" remained distant.[14] Data centres have been the fastest-growing segment, drawn by the land and power that Singapore lacks.

For Singapore's financial institutions, the zone creates a market close to home. Banks finance the factories, data centres and logistics parks of their clients in Johor. Asset managers and infrastructure funds invest in them, while Singapore law firms document the transactions, often under Singapore law with arbitration at SIAC, as Chapter F.II explains. Companies operating on both sides of the border need treasury services in ringgit and Singapore dollars. The cross-border link between the real-time payment systems PayNow and DuitNow, launched on 17 November 2023, already allows individuals to transfer up to S$1,000 or RM 3,000 a day instantly between the two countries.[15] The success of the zone will depend less on the tax incentives than on the speed of the border crossing, the reliability of water and power supplies and the predictability of policy on both sides.

Notes

1. Wikipedia, "Malaysia–Singapore relations" (accessed November 2026): Singapore's independence was proclaimed on 9 August 1965 after its separation from Malaysia. ↩
2. Wikipedia, "Malaya and British Borneo dollar" (accessed November 2026), section "End of common currency": the currencies were exchangeable at par "until 8 May 1973 when the Malaysian government decided to terminate it". ↩
3. Wikipedia, "Bursa Malaysia" (accessed November 2026): "with the termination of currency interchangeability between Malaysia and Singapore, the SEMS was separated into the Kuala Lumpur Stock Exchange Bhd (KLSEB) and the Stock Exchange of Singapore (SES)"; "Malaysian companies continued to be listed on SES and vice versa". ↩

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4. On the Singapore operations of Maybank and CIMB and the Malaysian subsidiaries of OCBC and UOB, see the annual reports of the four groups for 2025. ↩

5. Wikipedia, "Johor–Singapore Causeway" (accessed November 2026): opened to passenger traffic on 1 October 1923; about 300,000 road and rail travellers daily; on 28 March 2024, 510,000 people crossed Singapore's land borders, the highest single-day traffic (Immigration and Checkpoints Authority, via CNA). ↩

6. Wikipedia, "Malaysia–Singapore relations" (accessed November 2026): under the 1962 Water Agreement Singapore can draw up to 250 million gallons of water per day from the Johor River; "This right expires in 2061."; Wikipedia, "Malaysia–Singapore relations" (accessed November 2026): on 1 January 2021 the two prime ministers announced the cancellation of the high-speed rail project after no agreement was reached by the deadline of 31 December 2020; Wikipedia, "RTS Link" (accessed November 2026): length 4.0 km (2.3 km in Malaysia, 1.7 km in Singapore); bilateral agreement of 16 January 2018; capacity of about 10,000 passengers per hour per direction; operator RTS Operations Pte Ltd, a joint venture of Prasarana Malaysia and SMRT; "In October 2026, the opening of the line was delayed to February 2027.". ↩

7. Wikipedia, "Iskandar Malaysia" (accessed November 2026): established on 8 November 2006; area of 2,300 km^2; over RM 413.1 billion invested (citing MIDA, 1 October 2024); Malaysia–Singapore Joint Ministerial Committee for Iskandar Malaysia established in 2007. ↩

8. Wikipedia, "Forest City, Johor" (accessed November 2026): Country Garden's joint venture vehicle holds 60 per cent and the Johor state company KPRJ 40 per cent; in October 2023 cross defaults hit up to $11 billion in offshore bonds (Bloomberg, 25 October 2023). ↩

9. Wikipedia, "Iskandar Malaysia" (accessed November 2026): on 14 July 2023, at the 16th JMCIM meeting, a task force was announced to study a Special Economic Zone; representatives of both countries signed the MoU on 11 January 2024; Malaysian Investment Development Authority, "Everything

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you need to know about the Johor-Singapore Special Economic Zone" (mida.gov.my), 7 January 2025: agreement signed on 6 January 2025 by Rafizi Ramli and Gan Kim Yong; Allen & Gledhill, "Singapore and Malaysia exchange Agreement on the Johor-Singapore Special Economic Zone" (allenandgledhill.com, accessed November 2026): exchanged on 7 January 2025 at the 11th Malaysia–Singapore Leaders' Retreat. ↩

10. Malaysian Investment Development Authority, "Everything you need to know about the Johor-Singapore Special Economic Zone", 7 January 2025: area of 357,128 hectares; nine flagship zones as listed; 11 economic sectors; target of 100 projects over ten years and 20,000 skilled jobs; establishment of the Invest Malaysia Facilitation Centre – Johor (IMFC-J); Allen & Gledhill, "Singapore and Malaysia exchange Agreement on the Johor-Singapore Special Economic Zone" (accessed November 2026): eleven economic sectors including business services, financial services, manufacturing, logistics and health; 50 projects within the first five years and 100 within ten years; 20,000 skilled jobs. ↩

11. Allen & Gledhill, "Singapore and Malaysia exchange Agreement on the Johor-Singapore Special Economic Zone" (accessed November 2026): passport-free QR code clearance at Singapore's land checkpoints since March 2024; single permit for land intermodal transshipments from 1 January 2025; Invest Malaysia Facilitation Centre – Johor as a one-stop centre. ↩

12. PwC, *Worldwide Tax Summaries*, "Malaysia – Corporate – Tax credits and incentives" (taxsummaries.pwc.com, accessed November 2026): JS-SEZ flagship areas A and B, global services hub, 5 % corporate income tax for up to 15 years; knowledge workers in qualifying JS-SEZ sectors, 15 % personal income tax for up to 10 years; applications by 31 December 2034 unless otherwise specified; Allen & Gledhill, "Singapore and Malaysia exchange Agreement on the Johor-Singapore Special Economic Zone" (accessed November 2026): the tax incentive package was announced on 8 January 2025 and took effect on 1 January 2025. ↩

13. BDO Malaysia, "Incentives for Forest City Special Financial Zone (FCSFZ)" (bdo.my, accessed November 2026): zone announced in August 2023,

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incentive package announced on 20 September 2024; 0 % corporate tax rate for family offices for up to 20 years; 5 % for global business services, fintech and foreign payment system operators; 15 % flat income tax for knowledge workers; foreign exchange flexibilities from Bank Negara Malaysia; duty-free status; PwC, *Worldwide Tax Summaries*, "Malaysia – Corporate – Tax credits and incentives" (accessed November 2026): 0 % corporate income tax for up to 20 years for a Securities Commission-certified Single Family Office Vehicle; one-off capital gains tax exemption on disposals of unlisted shares to the vehicle; one-off stamp duty exemption on transfers of permitted assets; relocation cost deduction of up to RM 500,000. ↩

14. Kentaro Takeda, "Johor-Singapore Special Economic Zone gathers investor momentum", *Nikkei Asia*, 6 January 2026: subheadline "$4.3bn invested in project but 'Malaysia's Shenzhen' dream still far from reality"; the RTS Link station at Bukit Chagar due to open in 2027. ↩

15. Monetary Authority of Singapore, media release "Launch of Cross-border Real-time Payment Systems Connectivity between Singapore and Malaysia", 17 November 2023 (mas.gov.sg): MAS and BNM "have jointly launched the real-time payment systems linkage between Singapore's PayNow and Malaysia's DuitNow"; customers can "send and receive funds of up to S$1,000 or MYR3,000 daily". A cross-border QR payment link had been launched earlier, on 31 March 2023. ↩

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