

Can Malaysia's Johor resurrect its growth corridor with Singapore?

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Development progress of Iskandar Malaysia

Iskandar Malaysia is the main southern development corridor in Johor, Malaysia. It is one of five priority regional development projects promoted by the Malaysian government since 2006. Iskandar Malaysia's plan aims to develop the economy of the southern part of the state with a population of 3 million and a nominal GDP of RM120.4 billion by 2025. However, as of 2020, the population had only increased to 1.93 million while the nominal GDP had grown to 83,225 million, according to Iskandar Regional Development Authority (IRDA). [Refer to chart 1]

	2006	2015	2019	2020	2025 (Target)
Population (million)	1.34	1.95	1.92	1.93	3.0
Nominal GDP (RM million)	34,924	61,456	87,140	83,225	120,427
GDP per capita (RM)	26,085	32,791	45,300	43,150	42,631

(Chart 1: Key KPIs and Results of Iskandar Development)

One of the reasons for the stagnation of growth is the impact from the coronavirus disease (COVID-19). The border closure as well as the inter-state movement control order have halted the flow of foreigners and Malaysians into the region, impacting industries including retail and tourism. The real estate market has also been hit hard by declining demand for luxury condominiums and land. However, since the restrictions have been lifted, the flow of people has recovered, signs of economic recovery have begun to appear, and progress has begun to be made in the plan.

Johor's major investment sectors

The investment sector in Johor is divided into three sector categories, namely the primary sector (i.e. agricultural and plantation & commodities), the manufacturing sector (i.e. chemicals, electronics, etc.) and the service sector (i.e. information & communication, real estate, etc.).

The top two investors in Iskandar Malaysia from 2006 to 2021 are China and Singapore, with inflows of RM54.9 billion and RM25.1 billion, respectively, followed by US and Japan, according to IRDA.

Johor received RM70.6 billion worth of investments in 2022, the highest amount recorded in the past decade and the highest among all of the states in Malaysia in 2022. These investments are primarily from multinational companies seeking to diversify their operations to other countries as they adopt a China-plus-one strategy amid the trade war, according to the Johor's State Investment, Trade and Consumer Affairs Committee chairman.

The majority of the recent investments in Johor have been in the service industry, including technology-intensive projects like hyper-scale data centers (HDCs). The reason for this focus is attributed to Johor's availability of land and utilities capacity, which makes it suitable for supporting the funding and infrastructure requirements of such projects. The state is a hot spot for large tech players with operations in Singapore to set up data centers in the Johor for a couple of reasons – lower construction cost for data centers, affordable access to large-capacity energy, wholesale high-speed data connections and their close proximity with Singapore to support their business, all without compromising the time lag in data transmission. As such, the state's favorable conditions demonstrate the region's potential for new business creation in Southeast Asia (SEA). With the right management consulting support and strategic planning, Johor can leverage these advantages to attract even more investments and foster new business growth in the area.

The investments in Johor could also have a positive ripple effect that can help mitigate the issue of unsold residential properties due to an increase in employment opportunities. In April 2023, the Prime Minister announced that Malaysia received an investment return of RM170 billion from Chinese investors, witnessing the highest investment in history. Of China's total commitment, an estimated RM80 billion will be invested for the petrochemical refinery in Pengerang, Johor. Further investment inflows in Johor are also likely to soar in 2023 as the state government is in active discussions with more companies involved in petrochemicals, pharmaceuticals and data centers to move their operations there.

Brain drain and connectivity problem

To fully capitalize on the potential for new business creation in SEA, Malaysia must address two key issues affecting the progress of further economic development in Johor, which are brain drain to Singapore and connectivity with Singapore.

One key factor impeding growth in Johor is the outflow of talent to Singapore. In fact, a total of 1.13 million out of 1.86 million Malaysians who have migrated overseas are residing in

Singapore as of 2022, according to the Malaysian Human Resources Minister. The demand for skilled labor will increase in tandem with the inflow of tech-intensive investments in Johor, thus the state government would need to address the issues of talent retention and attraction back into Malaysia, including nudging local industries to offer higher wages to entice Malaysians currently employed in Singapore.

Secondly, making progress with the longstanding connectivity challenges in Singapore, especially in terms of traffic congestion at the Woodlands Causeway and Tuas Second Link (the two land crossings across the Straits of Johor connecting Singapore and Malaysia), is another key aspect that can aid Iskandar Malaysia's growth. Massive traffic jams are norms at one of the busiest land borders in the world which could often make a usual 30-minute journey an agonizing 3 hours or even longer. Reducing congestion is a key priority for the state government since it would have a "multiplier effect" on investment, jobs and the economy.

New Rapid Transit System (RTS) Link as a double-edged sword

To improve connectivity, foster people-to-people ties and generate shared economic and social benefits between Johor, Malaysia and Singapore, the two governments are working on Johor Bahru – Singapore Rapid Transit System (RTS) Link. The RTS Link will cross the Straits of Johor via a 25m-high bridge from Woodlands North Station in Singapore to the Bukit Chagar Station in Johor Bahru. When commencing passenger service by end-2026, the RTS Link will be a standalone Light Rail Transit (LRT) System with the capacity to serve up to 10,000 commuters during peak periods, for every hour and in each direction, and it is anticipated to help lessen traffic congestion as well as the stress associated with cross-border travel.

When fully operational, the faster and easier commute between the two countries will benefit the local economy in Johor. One industry expected to benefit from the RTS Link is real estate. During the height of the property boom in Iskandar Malaysia from 2010 to 2013, many Singaporeans bought residential properties in the hopes of flipping them for investment gains or even using them as a second home. The RTS Link will be seen as a major boost for these property owners, who can now expect a stress-free cross-border journey, as well as for new owners looking to find reasonable housing options in Johor and commute back and forth for work and study in Singapore. Other than the real estate industry, tourism, retail, education, medical industries in Johor are also expected to benefit from the RTS Link.

While the RTS Link certainly benefits the local economy in Johor, the game-changing transport system will potentially accelerate the issue of brain drain to Singapore. There are reportedly over 300,000 Malaysians commuting daily for work in Singapore. Currently a large number of them travel by chartered bus or private motor vehicle but as the journey between the two countries is

made more convenient, more Johoreans might look for employment in Singapore commuting via the RTS Link.

There is a delicate line between increased connectivity to Singapore and brain drain, and Iskandar Malaysia will need to find the balance and tackle these issues in tandem. That being said, the state government, in collaboration with management consulting experts, should develop comprehensive strategies to maximize the benefits of the RTS Link while ensuring that Johor retains its skilled workforce and nurtures a conducive environment for new business creation in SEA.

Media reports in the past referred to Johor as potentially the next Shenzhen of Malaysia and as a possible New Jersey to Singapore's Manhattan. With a strong focus on innovation, strategic partnerships, emerging sectors, and talent development, Johor has the potential to establish itself as a leading hub for new business creation in SEA, enhancing its economic growth and integration with Singapore. And as connectivity is one of the key factors to economically integrate people in these cities for reasons including trade, investment, and tourism, we will pay close attention to the new RTS Link and its impact on future developments between Johor and Singapore.

*This article is based on the lecture IGPI Singapore gave to the Japanese business community in Johor Bahru in April 2023. IGPI Singapore provides management consulting services to companies including new business development, talent acquisition and retention, and restructuring of offices, factories, and logistics facilities which appear to be urgent problems to tackle in companies based in Johor, Malaysia. As a premier management consulting firm, IGPI Singapore can help businesses identify lucrative opportunities and develop tailored strategies to enter Asian markets, make structural improvements and more.

About the author

Mr. Ryota Yamazaki is the Director of IGPI Singapore. Before joining IGPI, Ryota worked in Deloitte Consulting in Singapore, where he was a leader in the areas of Consumer Business and Supply Chain & Logistics in Southeast Asia. His areas of expertise are Strategy & Operations such as market entry, Route-to-Market (RTM) strategy, business due diligence, and PMI. He started his career with A.P. Moller-Maersk Group as a management trainee and also worked for Kurt Salmon, where he had vast project experiences especially in Supply Chain & Logistics for the retail and consumer goods clients. Ryota graduated from the Faculty of Economics at Keio University.

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