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country report

KAS Malaysia, Southeast Asia Programme

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Malaysia's Special Economic Zones

Growth Engine and Economic Equalisation Mechanism

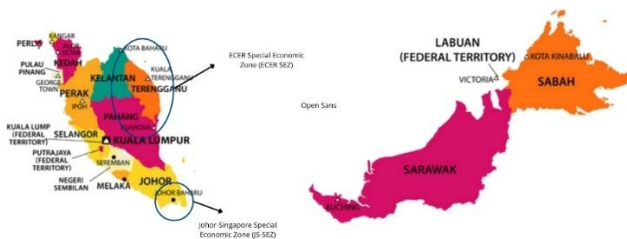
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Malaysia is classified as an 'upper middle-income economy' and is well on its way to achieving 'higher-income' status. With projected economic growth for 2026 of between four and five per cent, supported by robust domestic demand and strong export performance³, Malaysia occupies a distinctive position in

Southeast Asia. Strategically situated along the key maritime trade routes between the Indian Ocean and the South China Sea².

Given the intensifying geopolitical tensions between major powers and the repeated blockades of the Strait of Hormuz — which have placed considerable strain on global trade and supply chains — Malaysia's position as a 'middle power' situated along the Strait of Malacca can no longer be regarded as a mere geographic footnote. The region is



increasingly emerging as a strategic hub of international trade. Goods worth trillions of euros pass through the Strait of Malacca each year. It is widely considered the world's busiest waterway, through which approximately 25 to 40 per cent of global seaborne trade is transported.³

Special Economic Zones: More Than Just a Vision

Malaysia is pursuing a deliberate economic strategy through the establishment of Special Economic Zones (SEZs) to strengthen its role as a regional centre for manufacturing and services within ASEAN. The SEZs represent an important economic policy instrument for attracting foreign direct investment, promoting industrial value creation, and enhancing the country's international competitiveness.

These zones fulfil two distinct functions. First, they attract foreign direct investment in higher-value, technology-based sectors such as digital services, advanced manufacturing, and green industries. In doing so, the SEZs offer companies a range of benefits, including tax incentives, streamlined regulatory procedures, customs concessions, and modern infrastructure.⁴ These targeted measures are designed to accelerate investment processes and facilitate the establishment of international companies.

Second, they counteract uneven development between regions. The comparison between the Johor-Singapore Special Economic Zone and the ECER Special Economic Zone illustrates these objectives. In the context of ASEAN economic integration, Malaysia is positioning itself as a hub for export-oriented manufacturing, logistics, digital services, and high-tech industries. The SEZs thus support not only national industrialisation but also Malaysia's integration into regional and global supply chains.

Johor-Singapore Special Economic Zone (JS-SEZ)



The JS-SEZ, officially launched in January 2025, is a cross-border economic region covering approximately 3,588 km² in the state of Johor, bordering Singapore.⁵ Its core concept links the south of Johor with Singapore's financial and technology centres. The Johor-Singapore Special Economic Zone (JS-SEZ) is a notable example of cross-border economic integration. It brings

together the complementary strengths of both countries: Malaysia provides land, labour, and cost advantages, while Singapore contributes capital, financial services, global connectivity, and access to international markets.⁶ The zone spans several sectors, including the digital economy, logistics, manufacturing, green technologies, energy, financial services, and tourism. The deliberate aim is to shift away from traditional assembly-based manufacturing towards integrated value chains that demand higher-skilled employment.

The investment climate has been strong thus far. Approvals associated with the JS-SEZ reached RM 68 billion (approximately EUR 14.1 billion) in the first nine months of 2025, accounting for roughly three-quarters of total approved investments in Johor.⁷ This is significant in the broader national context, in which Malaysia recorded approved investments totalling RM 285.2 billion over the same period.⁸

Strategically, the zone aligns with trends towards supply chain diversification. In keeping with the 'China-Plus-One' strategy, Malaysia is positioning the JS-SEZ as a competitive alternative to other economic centres in the region.¹⁰

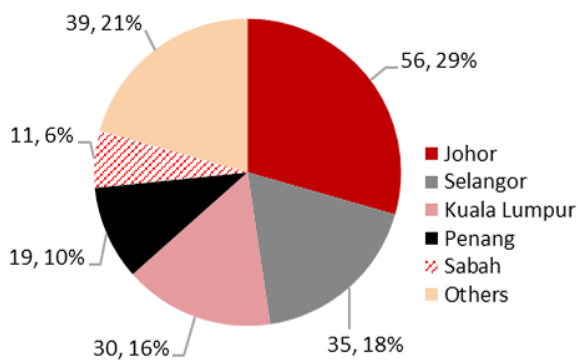
The 'China-Plus-One' strategy refers to an approach whereby international companies maintain part of their production and supply chains in China while simultaneously establishing at least one additional location — such as Vietnam, India, or Malaysia. This development is driven by rising labour costs in China, geopolitical tensions, and a desire for more resilient supply chains, as well as the wish to reduce the risks of excessive dependence on China. It has gained increasing importance due to rising labour costs, trade tensions, and geopolitical uncertainty.

This dynamic cross-border economic space also deepens practical economic integration within ASEAN. The close interlinkage between Johor and Singapore could, in the long term, serve as a model for further regional cooperation frameworks.

However, risks are also present.¹⁰ Concerns have already been raised about rising land and living costs. Property speculation in Johor, particularly in connection with mega-projects such as Forest City, is a classic illustration of the tension between ambition and reality.¹¹ While some local factors may have contributed to its difficulties, this serves as evidence that building tens of thousands of homes far from urban infrastructure is not sufficient to persuade people to live there.

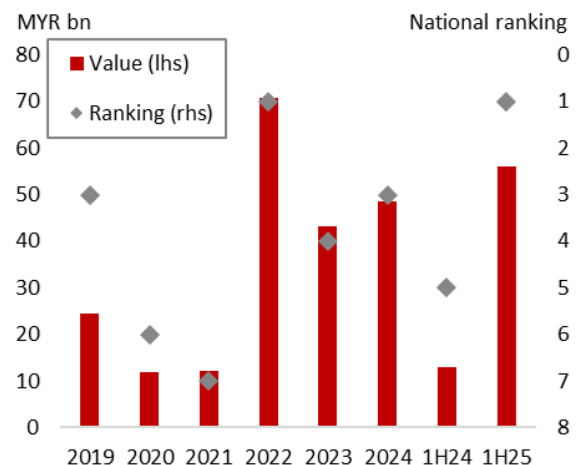
The long-term success of the JS-SEZ depends substantially on sustainable political and economic coordination between Malaysia and Singapore. Critical factors include efficient administrative and approval processes, an investor-friendly business environment with lean bureaucratic structures, and the timely development of infrastructure. Delays in transport projects, energy supply, or digital networks could undermine the zone's competitiveness relative to other regional economic centres.¹²

Johor led overall investment approvals in 1H25



Source: CEIC, MIDA, DBS
Note: Value in MYR bn. Others include other states that accounted for <5% of the total.

Investment approvals into Johor have climbed the ranks



Source: CEIC, MIDA, DBS

Johor recorded a sharp increase in investment in 2022 followed by a cooling off. In 2025, investment rose again, driven by the Johor-Singapore Special Economic Zone. A comparison of the respective half-year figures illustrates the dynamism generated by the Special Economic Zone.

Special Economic Zone (ECER SEZ)

The ECER Special Economic Zone is part of a broader regional development corridor encompassing Kelantan, Terengganu, Pahang, and parts of Johor along the east coast of the Malay Peninsula. Established around 2008–2009, it aims to address longstanding regional inequalities by attracting investment and creating jobs in the east coast states.¹³

Its sectoral focus differs from that of the JS-SEZ. The ECER places emphasis on oil and gas, the petrochemical industry, manufacturing, tourism, agriculture, and downstream industries.¹⁴ This reflects a development model based more on existing comparative advantages than on cross-border integration.

The zone's objectives are ambitious, encompassing investments of RM 90 billion and the creation of over 220,000 jobs.¹⁵ However, actual progress has been rather slow. Committed investments stood at RM 13 billion in 2021, indicating a steady but limited momentum compared to Johor.¹⁶

Structural constraints account for this gap. The east coast region lacks comparable infrastructure connectivity and global visibility. Logistics networks are underdeveloped, and investor perception remains weaker than that of the JS-SEZ. As a result, the ECER is more dependent on sustained federal government support and long-term planning.

Despite these challenges, the ECER plays a critical national role. It functions as a redistribution mechanism with the objective of reducing income disparities and preventing an excessive concentration of economic activity on the west coast.

Cumulative realised investment by clusters, 2007 - 2024 (RM billion)

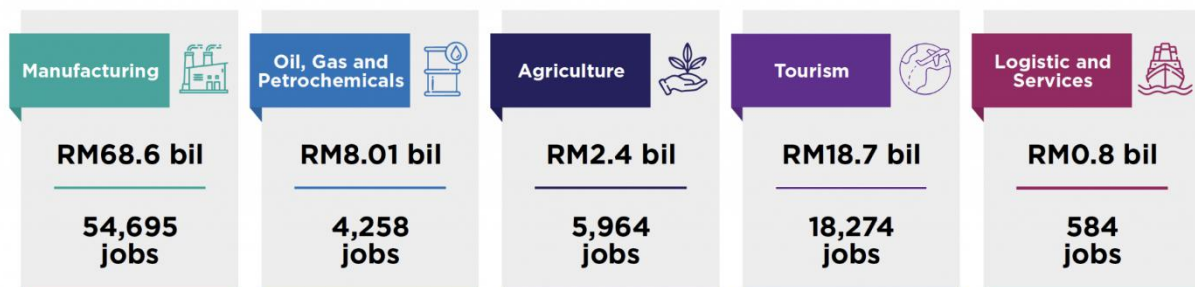


Figure 3 from [ECER, n.d.](#)

Comparing Both Approaches

The JS-SEZ and ECER Special Economic Zones reflect two distinct policy concepts. The JS-SEZ is market-oriented and outward-looking. Its growth is founded on proximity to Singapore, one of Asia's leading financial and logistics hubs. This enables rapid networking and attracts strong investor interest.

The ECER, by contrast, is state-directed and domestically oriented. Its aim is to build an industrial base in less developed regions. Progress is slower, as structural disadvantages must be overcome rather than existing global networks leveraged.

This divergence gives rise to policy tensions. High-performing zones such as the JS-SEZ can accelerate national growth but carry the risk of widening regional inequalities. Zones such as the ECER, by contrast, require sustained public investment and subsidies with lower return prospects. The comparison suggests that location and connectivity remain decisive factors in the performance of special economic zones. Policy instruments alone cannot fully compensate for structural constraints such as geographic and infrastructural deficits.

Key Findings and Outlook

Malaysia's strategy for special economic zones finds ambitious visions colliding with real-world constraints that may limit the prospects for success. The JS-SEZ demonstrates the country's capacity to attract high-value investment by embedding itself in regional supply chains. The ECER reflects a longer-term commitment to inclusive development and regional balance.

The evidence points to uneven outcomes. Growth is concentrated in well-connected corridors, while lagging regions continue to face structural obstacles. This raises a central policy question: Can special economic zones evolve from isolated growth nodes into broader engines for national development?

Three conclusions follow. First, implementation capacity is critical. Complex zones require consistent governance, efficient approval procedures, and the timely provision of modern infrastructure. Second, connectivity remains a limiting factor. Without improved logistics and visibility, regions such as ECER will struggle to grow. Third, balance is required. Excessive dependence on high-performing zones risks entrenching existing inequalities.

Malaysia's development will depend on its ability to maintain investor confidence in the JS-SEZ while gradually strengthening the fundamentals of regions such as ECER. The next phase will reveal whether these zones can deliver sustainable transformation rather than fragmented growth.

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