

Malaysia

23 September 2024

Special Financial Zone Incentives Look Promising

- The government announced additional incentives to attract investments into the Special Financial Zone (SFZ), established at Forest City in Johor, on 20 September.
- The incentives centre around providing competitive tax rates for businesses and individuals to attract investments and talent.
- While these incentives look promising, the SFZ will likely be viewed in conjunction with the Johor-Singapore Special Economic Zone (JS-SEZ), for which official announcements are expected towards end-2024.

Lavanya Venkateswaran
 Senior ASEAN Economist
 +65 6530 6875
lavanyavenkateswaran@ocbc.com

The government announced additional incentives to attract investments into the Special Financial Zone (SFZ), established at Forest City in Johor, on 20 September 2024¹. This is not just to resuscitate life into the project but also complement the development of the Johor-Singapore Special Economic Zone (JS-SEZ). The official Memorandum of Understanding (MoU) between Singapore and Malaysia for the JS-SEZ was signed on 11 January 2024 (See Box 1).

Key events regarding the Forest City development	
06-Mar-16	Launch of the USD100bn project
23-Aug-23	Special Financial Zone to be created in Forest City
17-Jul-24	5 bills regarding the Pulau Satu Island were approved in the lower house including make the zone duty-free with special tax provisions similar to Labuan, Langkawi
20-Sep-24	Incentives announced regarding boosting investments into SFZ

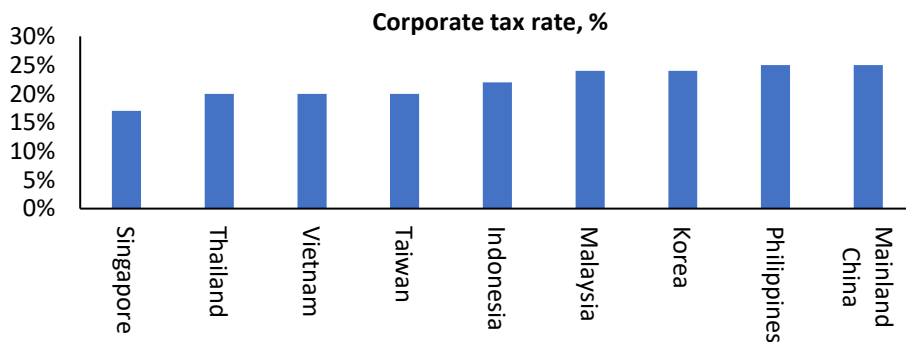
Source: Bernama, The Edge, Strait Times, Nikkei, OCBC.

The incentives centre around providing competitive tax rates for businesses and individuals to attract investments and talent. Specially, Finance Minister II Datuk Seri Amir Hamzah Azizan, who made the announcements on 20 September 2024, offered family wealth offices a 0% tax for ten years with the potential to extend it further if certain criteria are met, concessionary corporate tax rates of 0-5%, lower individual tax rates for skilled foreign workers and other incentives such as special deductions on relocation costs, withholding tax exemptions etc.

¹ The Forest City development was initiated in 2016 with the aim of housing 700,00 people on four reclaimed islands upon completion in 2035. 'Seeing is believing': Country Garden's Malaysia project in spotlight, Reuters, 14 September 2023.

Entity	Tax rate	Notes
Family wealth offices	0%	For revenue of their transactions for 10 years with a potential to extend if certain criterion is met; minimum assets of MYR30mn
Corporate tax (concessionary)	0-5%	n.a.
Individual tax rate for skilled foreign workers	15%	n.a.
Financial services, financial technology companies, foreign payment system operators	5%	n.a.
Other incentives include:		
Special deductions on relocation costs		
Enhanced industrial building allowances		
Withholding tax exemptions		
Relax regulations for locally incorporated foreign banks to open additional branches		
Allow flexibility in foreign exchange for offshore borrowing in foreign currency and investments in foreign currency assets.		
Source: Malaysia Star; The Edge; Straits Times; OCBC.		

The incentives are highly competitive and will help differentiate the SFZ for its lower tax rates. These newly announced corporate rates would be the lowest amongst regional peers. In addition, the push to attract family offices reflects the higher investments on this front in neighbouring ASEAN countries, particularly Singapore. Singapore, as of 31 December 2023, noted that there were around 1,400 Single Family Offices (SFOs) that have been awarded tax incentives².

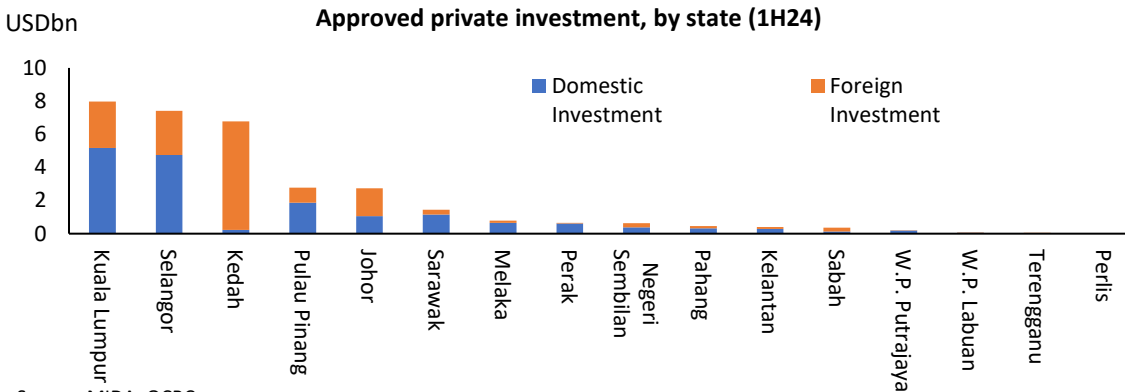


Source: PwC; OCBC.

More fundamentally, approved private sector investments into Johor trailed KL, Penang, Kedah and Selangor in 1H24. These tax incentives could prove attractive for domestic, regional and international investors. That said, they will need to be complemented by a strong regulatory framework and business incentives to encourage financial services and financial technology companies to set up shop within the SFZ.

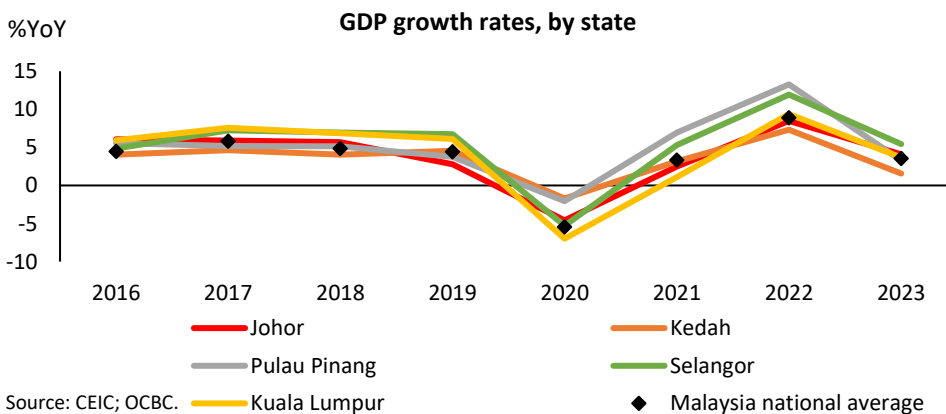
² <https://www.mas.gov.sg/news/parliamentary-replies/2024/written-reply-to-parliamentary-question-on-family-offices> , accessed 23 September 2024.

The schemes regarding the SFZ are expected to become operational in 1Q25. Ahead of this, the Budget 2025 announcement on 18 October will be watched closely for announcements around the regulatory framework for setting up family offices in Malaysia³ as well as potential incentives to attract more domestic investments into Johor in anticipation of the end-year announcements regarding the JS-SEZ.



To that end, the SFZ will most likely be looked at in conjunction with the Johor-Singapore Special Economic Zone (JS-SEZ). The development of the broader JS-SEZ, accompanying physical infrastructure developments and improvements regarding people mobility, can help catalyse investments into the SFZ. Indeed, there are discussions around integrating the SFZ into the SEZ⁴.

The SFZ and JS-SEZ can help boost Johor’s growth over the medium-term. The services (54% share of 2023 GDP) and manufacturing (~30% of 2023 GDP) sectors have together contributed to Johor’s economic growth in recent years. However, Johor’s economic growth, while higher than the national average, has remained below growth in Selangor and Penang.



³ Regulatory framework for setting up family offices to be unveiled in this year's budget announcement, The Edge Malaysia, 25 March 2024.

⁴ Forest City's SFZ to be integrated into Johor-Singapore SEZ, 12 August 2024, New Straits Times.

Box 1: Johor-Singapore SEZ: The Next ASEAN Hotspot?

The Johor-Singapore SEZ has been met a great deal of excitement since the official Memorandum of Understanding (MoU) was signed on 11 January 2024. Since then, developments around the SEZ have continued with a formal announcement regarding the financial incentives, the area, the sectors targeted and plans to develop the SEZ expected by end-2024.

Key dates/developments on JS-SEZ	
11-Jan-24	MoU on Johor-Singapore SEZ
Mar-24	Pilot for Passport free QR code clearance at land checkpoints (Singapore started in March 2024 while Malaysia started in June 2024 to allow factory buses)
Apr-24	Some details, including the development of the SEZ's draft policy; investment prospects; locations; and suitable initiatives were discussed by Johor CM and PM.
May-24	Johor Chief Minister Onn Hafiz Ghazi discusses area & sectors for the SEZ
Jun-24	PM Wong & PM Anwar meet and concerns on the SEZ and RTS link were discussed
11-Jul-24	Malaysia Economy Minister Rafizi Rafizi said the proposed JS-SEZ will span over 3,505 square kilometres, encompassing six local authorities in Johor.
28-30 Aug-24	Workshop between Singapore and Malaysian officials.
20-Sep-24	Incentives for Special Financial Zone at Forest City announced
18-Oct-24	Malaysia Budget 2025 announcement - fiscal incentives for the SEZ are expected to be announced
Dec-24	11th Singapore-Malaysia Leaders' Retreat (potentially).
Jan 19-25 2025	ASEAN Tourism Forum at Forest City (Johor Bahru)

Source: Straits Times; The Edge Malaysia; Malaysia Star; OCBC.

There were some key initiatives stated in the MoU as first steps to developing the JS-SEZ. This included setting up a one-stop shop for investment approvals, i.e., Invest Malaysia Facilitation Centre (IMFC). IMFC aims to expedite investment approvals and will be the first outside of Kuala Lumpur. Since the MoU, there have also been discussions around potentially incorporating the Special Financial Zone (SFZ) in Forest City to become a part of the SEZ, potentially making it a larger undertaking.

In the run-up to formal announcements, we expect the following areas/sectors to garner significant interest based on Johor's current standing:

- Electronics & Electrical (E&E) sector: Current production is focused more on back-end activities and attracting the right companies can help improve Johor's standing in the E&E sector.
- Construction: Activities in this sector have already started to pick up given large scale infrastructure projects.
- Property: There are incipient signs that the property sector is turning for the better and this could stand to benefit further as the SEZ develops.
- Data Centres: Johor is already a strong data center hub, and this could be further supported by deeper synergies with Singapore particularly since Singapore is also a large data centre hub.

Macro Research

Selena Ling
Head of Research & Strategy
lingssselena@ocbc.com

Tommy Xie Dongming
Head of Asia Macro Research
xied@ocbc.com

Keung Ching (Cindy)
Hong Kong & Macau Economist
cindyckeung@ocbc.com

Herbert Wong
Hong Kong & Taiwan Economist
herberhtwong@ocbc.com

Lavanya Venkateswaran
Senior ASEAN Economist
lavyanavenkateswaran@ocbc.com

Ahmad A Enver
ASEAN Economist
ahmad.enver@ocbc.com

Jonathan Ng
ASEAN Economist
jonathannq4@ocbc.com

Ong Shu Yi
ESG Analyst
shuyionq1@ocbc.com

FX/Rates Strategy

Frances Cheung, CFA
Head of FX & Rates Strategy
francescheung@ocbc.com

Christopher Wong
FX Strategist
christopherwong@ocbc.com

Credit Research

Andrew Wong
Head of Credit Research
wongvkam@ocbc.com

Ezien Hoo, CFA
Credit Research Analyst
ezienhoo@ocbc.com

Wong Hong Wei, CFA
Credit Research Analyst
wonghongwei@ocbc.com

Chin Meng Tee, CFA
Credit Research Analyst
mengteechin@ocbc.com

This publication is solely for information purposes and general circulation only and may not be published, circulated, reproduced or distributed in whole or in part to any other person without our prior written consent. This publication should not be construed as an offer or solicitation for the subscription, purchase or sale of the securities/instruments mentioned herein. Any forecast on the economy, stock market, bond market and economic trends of the markets provided is not necessarily indicative of the future or likely performance of the securities/instruments. Whilst the information contained herein has been compiled from sources believed to be reliable and we have taken all reasonable care to ensure that the information contained in this publication is not untrue or misleading at the time of publication, we cannot guarantee and we make no representation as to its accuracy or completeness, and you should not act on it without first independently verifying its contents. The securities/instruments mentioned in this publication may not be suitable for investment by all investors. Any opinion or estimate contained in this report is subject to change without notice. We have not given any consideration to and we have not made any investigation of the investment objectives, financial situation or particular needs of the recipient or any class of persons, and accordingly, no warranty whatsoever is given and no liability whatsoever is accepted for any loss arising whether directly or indirectly as a result of the recipient or any class of persons acting on such information or opinion or estimate. This publication may cover a wide range of topics and is not intended to be a comprehensive study or to provide any recommendation or advice on personal investing or financial planning. Accordingly, they should not be relied on or treated as a substitute for specific advice concerning individual situations. Please seek advice from a financial adviser regarding the suitability of any investment product taking into account your specific investment objectives, financial situation or particular needs before you make a commitment to purchase the investment product. Oversea-Chinese Banking Corporation Limited ("OCBC Bank"), its related companies, their respective directors and/or employees (collectively "Related Persons") may or might have in the future interests in the investment products or the issuers mentioned herein. Such interests include effecting transactions in such investment products, and providing broking, investment banking and other financial services to such issuers. OCBC Bank and its Related Persons may also be related to, and receive fees from, providers of such investment products. There may be conflicts of interest between OCBC Bank, Bank of Singapore Limited, OCBC Investment Research Private Limited, OCBC Securities Private Limited or other members of the OCBC Group and any of the persons or entities mentioned in this report of which OCBC Bank and its analyst(s) are not aware due to OCBC Bank's Chinese Wall arrangement. This report is intended for your sole use and information. By accepting this report, you agree that you shall not share, communicate, distribute, deliver a copy of or otherwise disclose in any way all or any part of this report or any information contained herein (such report, part thereof and information, "Relevant Materials") to any person or entity (including, without limitation, any overseas office, affiliate, parent entity, subsidiary entity or related entity) (any such person or entity, a "Relevant Entity") in breach of any law, rule, regulation, guidance or similar. In particular, you agree not to share, communicate, distribute, deliver or otherwise disclose any Relevant Materials to any Relevant Entity that is subject to the Markets in Financial Instruments Directive (2014/65/EU) ("MiFID") and the EU's Markets in Financial Instruments Regulation (600/2014) ("MiFIR") (together referred to as "MiFID II"), or any part thereof, as implemented in any jurisdiction. No member of the OCBC Group shall be liable or responsible for the compliance by you or any Relevant Entity with any law, rule, regulation, guidance or similar (including, without limitation, MiFID II, as implemented in any jurisdiction).

Co.Reg.no.: 193200032W