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Iskandar Malaysia: Policy, Progress and Bottlenecks

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Synopsis:

Malaysia is in serious need of private investments to restart and rejuvenate its sluggish economy. To encourage investors, the Malaysian government has widened and deepened its statist development model by rolling out five economic corridors schemes that cover 70% of the country. In this top-down approach, federal and state allocations are used to improve infrastructure and key government-linked companies help to plan, promote and make long-term and catalytic investments. Iskandar Malaysia (IM) is arguably the corridor with the best chance for success, given its proximity to vibrant Singapore and the major cost savings arbitrage it offers versus the island state. After the withdrawal of Middle Eastern funds, its commercial take-off now largely depends on the buy-in by Singapore-based investors, hopefully following the lead of Singapore's state-run wealth fund. Challenges in policy and implementation abound, not unexpected for a project that is three times the size of Singapore. IM has seen some grand early projects fall off. Its investment achievements are lagging simple straight-line projections and it is still heavily reliant on initiatives by government-linked investors and property developers, who are keen to spark off a much-awaited Johor land price appreciation trend. IM has had several changes in direction and there are questions about reliance on hot money and about project feasibility. The corridor aims to both complement and compete with Singapore. IM is also vulnerable to Malaysian domestic politics, the countervailing forces of the traditional versus the "business" bureaucrat, federal - state government tussles, and the Singapore-Malaysia bilateral relationship. These are factors behind IM's stop-and-start nature. However, Singapore's increasing need for more land is a certainty and a constant. While the success of IM seems inevitable, the lingering question is this: how fast will it develop?

Bio

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Iskandar Malaysia: Policy, Progress and Bottlenecks

INTRODUCTION

The special economic corridor of Iskandar Malaysia (IM) is located in the southern part of the state of Johor, immediately north of Singapore. The 2,200 square kilometre area accounts for 60% of the GDP of the state. Since 2006, it has been undergoing infrastructure and property development to attract investors. Currently, it is perhaps the country's most heavily promoted economic area outside of the Klang Valley. It is a mix of plans for expanding established sectors and zones, and for building new sectors and green field sites - such as education and medical services in the Nusajaya area. The Malaysia federal and state governments' roles are to provide better infrastructure, invest in catalytic and long-gestation projects and market the corridor to investors. The Malaysian private sector is expected to provide the bulk of the funding for property developments, to help spur domestic and foreign direct investment in the area.

The Nusajaya area with Kota Iskandar and its just-completed state administrative centre is the planned new township for IM. It is located in southwest Johor, near the Second Link with Singapore. It is this area, owned by UEM Land Berhad and Iskandar Investment Berhad (IIB), which is the heart of IM. Its development is studied most keenly, even though there is a lot more going on in other established parts of IM. As with many new townships, companies and individuals have been cautious to settle in Nusajaya. It is in the early stages of a large multi-year construction programme, whose development plans continue to evolve. There have been significant changes already. The apparent cooling-off of Middle East investment interest following the 2009 global recession appear to have removed some hopes for rapid 'mini Dubai' developments here. Areas next to neighbouring Tanjung Pelepas and within Nusajaya, had been identified for impressive high-rise townships; artists' impressions and scale models display sky-lines that could rival Singapore's central business district. The Middle East turmoil that has erupted since late 2010 raises further uncertainty on their appetite for far-off green field investments such as this.

Hopes for Middle East money have diminished and IM's investment run-rates are lagging. Its promoters and its Malaysian property developers seem to be realigning to focus more on Singapore-Johor synergies - to attract Singapore and other foreign investors. Improved bilateral ties between Singapore and Malaysia are expected to boost investor interest from the island state. RM3 billion worth of mixed-development projects between their state-owned investment companies, respectively Temasek Holdings Pte (Temasek) and Khazanah Nasional Berhad (Khazanah) via a 50-50 joint-venture, was recently announced in late June 2011. This is bigger than the expected RM500 million "wellness" project announcement anticipated in May 2011. Singapore-based investment in Johor is not new (comprising Singapore-owned companies and foreign companies based in Singapore). Singapore is already Johor's biggest investor and trade partner. The IM project will boost these ties and accelerate Singapore investor interest. In sectors such as manufacturing, property development and in some service sectors, ties with Singapore are likely to strengthen. In others such as oil, gas and energy, there may be more competition and tension between the two.

2011 marks the start of IM's second phase, where the government "hands over the growth reins" to private initiatives. It is hoped that the infrastructure built and various seed funding and investments have provided the necessary foundations. It remains to be seen when the real take-off for IM will be achieved. Easy transport linkages may be what IM really needs. Most significantly, a mass rapid transit (MRT) link between Johor and Singapore is promised by 2018 as is easier customs and immigration clearance. Also, it is hoped that IM be more than a “property play” where financial investors are more interested than direct investors. Much of the existing investment commitments have been initiated by government-linked corporations. Given the current pace (investment commitments are undershooting a linear projection) it may take years for IM to develop into a vibrant city centre and services hub. The endorsement of IM by Singapore’s Temasek and its related companies, and its effect on pulling in new direct investors will be eagerly watched. Analysts are keen to see a healthy pipeline of non-GLC investor projects, especially from global blue-chip companies, in areas other than property development.

BOOSTING INVESTMENTS AND REGIONAL DEVELOPMENT

Malaysia seeks to attract foreign direct investment (FDI) and its economy continues to be highly dependent on external trade. While other countries in the region, notably Singapore, have remained attractive despite the challenges posed by China and other emerging economies, Malaysia has not been as successful as it used to be during the pre-Asian Crisis period. In 2006-2010, the average FDI inflow was a meagre 2.7% of GDP[1]. Moreover, the problems of low domestic private investments, net capital outflows, a brain drain, and a weakening public fiscal balance have plagued Malaysia for several years. There has been a serious need to boost private sector investments in the country – both from domestic and foreign sources. A lot of these problems have been identified in the Tenth Malaysia Plan, which argues that “The next phase of transformation, from a middle income to high income nation, requires a shift towards higher value-add and knowledge intensive activities. Competitiveness in higher value-add activities necessitates specialisation, in terms of having a critical mass and ecosystem of firms and talent to drive economies of scale. A shift from an initial phase of sectoral diversification towards specialisation in the subsequent phases of development is consistent with the transformation journey experienced by high-income countries, such as the Republic of Korea and Taiwan.”

Regional development corridors were among the previous Prime Minister Abdullah Badawi’s (PM Badawi) strategies to boost flagging investments in the country. Prior to the corridors projects, Malaysia already had extensive investment incentives, administered by the Malaysian Industrial Development Authority (MIDA), part of the Ministry of International Trade and Industry (MITI). The corridors aim to bring the economies of agglomeration to lagging regions, to expand regional centres to complement the established urban-industrial conurbations and to achieve a more balanced regional development in the country. The corridors brought with them new development corporations and administration, layered over the existing investment promotion bureaucracy.

Current Prime Minister Najib Razak (PM Najib) has also been working hard to attract investments by liberalising investment policies and boosting investor interest with a multitude of big-ticket projects. He has eased some requirements of the long-standing

[1] Economist Intelligence Unit, www.eiu.com, accessed May 2011.

pro-Bumiputra policy and introduced an Economic Transformation Programme (ETP). The Bumiputra policy favours ethnic Malays and other indigenous groups for economic advancement or catch-up via quotas and preferential access to certain economic resources. In mid-2009, PM Najib relaxed controls on foreign investments and curbed the powers of the Foreign Investment Committee (FIC), which had been blamed for its lengthy approval process. Foreign investors are now allowed majority stakes in non-strategic sectors. At the same time, he changed a requirement that ethnic Malay investors must hold a combined 30% stake in listed companies. For newly-listed companies, the quota would be cut to 12.5% and could be further reduced if more shares are later issued. Foreign companies seeking a listing on the Kuala Lumpur Stock Exchange are not subject to the quota. While there is hope for more liberalisation of the Bumiputra policy, it will likely continue to apply in certain key areas, such as the financial sector, government procurement and education[2].

At the same time, a tight fiscal stance is anticipated, as the government continues to prioritise fiscal consolidation. As a result, Malaysia's new projects are designed as public-private partnerships, where the private sector leads (notably the government-led corporations or GLCs) and provides the bulk of the funding. Under PM Najib's administration, a slew of multi-billion Ringgit mega projects have garnered significant interest in a relatively short space of time. These include the Klang Valley MRT project, major property projects in the Klang Valley (including a new financial centre at the Sungai Besi airbase, and a 100-storey tower to be built by the key Bumiputra trust body, Permodalan Nasional), major investment in the domestic oil and gas sector, two proposed nuclear power plants and more. Malaysia's hunger for investments has been acute. Some critics say it is overly so, pointing to the recent example of the apparent fast-track approval of a rare earths processing plant.[3]

MALAYSIA'S ECONOMIC CORRIDORS

Malaysia has one information and communication technologies (ICT) corridor and five regional development corridors or economic corridors. The ICT corridor is the Multimedia Super Corridor (MSC), launched by former Prime Minister Mahathir Mohamad (PM Mahathir) in 1996. This project was designed to leapfrog Malaysia into the information and knowledge age. It aimed to attract companies with temporary tax breaks and infrastructure such as high-speed Internet access and proximity to the

[2] Economist Intelligence Unit, www.eiu.com, accessed May 2011.

[3] The project, owned by 'new kid-on-the-block', Lynas Corporation of Australia, is located in the coastal wetland Gebeng industrial area. This is in the special economic zone of the East Coast Economic Region (ECER) corridor. The government has shown its support by awarding it "pioneer" status, which includes a special 12-year tax exemption. This project has generated controversy due to public concerns over the safe handling and disposal of radioactive and toxic products and wastes. Moreover, according to a New York Times article dated 29 June 2011, whistleblowers (including engineers involved in constructing the processing plant) report that the construction and design may have serious flaws. It has raised déjà-vu fears of Mitsubishi Chemical's Asia Rare Earth plant which operated despite much local protest and legal battles for 12 years (1982-1994) in Bukit Merah, near Ipoh in central Peninsula Malaysia. It was blamed for birth defects and leukaemia cases in the local community. Recently, the media reports that clean up costs have exceeded RM300 million, and that decontamination work is ongoing. Sources: Bloomberg news article, http://www.bloomberg.com/news/2011-05-31/malaysia-rare-earths-in-largest-would-be-refinery-incite-protest.html and Malaysian Insider news article, http://www.themalaysianinsider.com/malaysia/article/in-bukit-merah-mitsubishi-seeks-to-undo-old-harms/.

international airport. The MSC covered an area of approximately 15 km by 50 km or 750 sq km, stretching from the Petronas Twin Towers to the Kuala Lumpur International Airport, and including the towns of Putrajaya and Cyberjaya. Later, Port Klang was added to the MSC and over the years it has been extended to include various 'cyber centres', located all over Malaysia. The Multimedia Development Corporation (MDEC) was created to oversee development of the MSC. This model of private sector investment, with government provision of investment incentives and infrastructure, and administration by a federal agency is replicated in PM Badawi's economic corridors projects, launched 2006-2008.

The corridors aim to accelerate economic growth and investment in non-core areas, to improve the incomes and living standards for its peoples. Apart from IM, the others are the Northern Corridor Economic Region (NCER), East Coast Economic Region (ECER), Sabah Development Corridor (SDC) and the Sarawak Corridor of Renewable Energy (SCORE). Although the various corridors were set up by previous Prime Ministers, their successors have continued to promote them to varying degrees, while layering on their own new policy initiatives.

The five economic corridors have large areas of coverage. The smallest corridor is IM at 2,200 sq km (three times the size of Singapore and the MSC) while the three largest average some 70,000 sq km in size (93 times the size of Singapore). Cumulatively, they cover vast swathes of the country: about 70% of Malaysia's land area. They broadly encompass the lagging economic regions of Malaysia. They are so large that they mostly comprise the 'business as usual' of existing settlements, businesses and industries. The key region excluded from the corridors project is the Peninsula's west coast from Johor to Perak; the country's main urban-industrial strip, which includes Melaka, Negeri Sembilan, Kuala Lumpur, and Selangor. The only lead industrial area included is Penang, which is within the NCER.

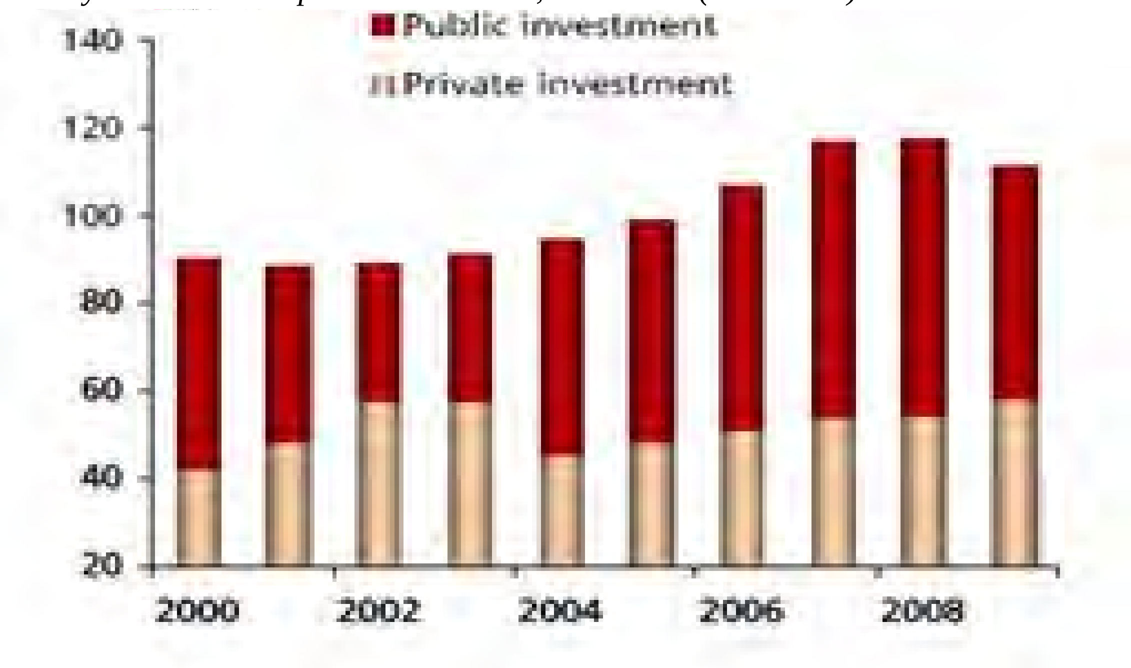
The economic corridors adopt the private-sector led model for investments. Federal and state allocations are used to improve infrastructure and for investment promotion and facilitation activities. The government set up a RM20billion facilitation fund for the five economic growth corridors[4]. GLCs and state-owned enterprises also assist by investing in catalytic and long-gestation projects. The master plan for IM was developed by Khazanah, the NCER plan was conceived by Sime Darby Berhad and the ECER has been helmed by the national petroleum company, Petroliam Nasional (Petronas).

IM has transnational aspirations, and NCER and ECER are transborder corridors. The last two corridors to be established, SDC and SCORE, differ as they are contained within state boundaries. The transnational and transborder features of the first three corridors are interesting, as they seek to promote economic cooperation in order to spread the benefits of economic development and investments, from the more developed to less developed regions. The latter can offer cheaper and more plentiful land and labour to the former. Thus, synergies should help improve the collective economic potential of the cooperating regions, which would mutually benefit from the corridor developments.

[4] "Irda: Events in IIB will not affect Iskandar Malaysia," 8 April 2011, The Star. http://biz.thestar.com.my/news/story.asp?file=/2011/4/8/business/8436678&sec=business.

Under the corridors programme, expected investments total RM1,119 billion over an average period of about 18 years. Thus, about RM62.9 billion of investments per year is sought. For 2000-2009, total investments for Malaysia ranged RM90-120 billion per year, with private investment at RM40-60 billion and public investments at RM50-60 billion each year. The corridors programme hopes to contribute significantly to a large increase in private investments. It expects employment to grow to a total of 11.5 million. Malaysia’s labour force in 2010 was about 12.2 million.

Malaysia: Private vs. public investments, 2000-2009 (RM billion):



Note: “Malaysia is suffering from outflow of investment and the share of domestic private investment has also been overshadowed by the public sector in recent years. Foreign direct investment has also been dwindling over the years as the country gradually lost its appeal to foreign investors.
Source: “Malaysia: A step towards Vision 2020,” 18 October 2010, DBS Group Research

While the smallest in terms of area, IM is tasked to draw in RM382 billion of investments, over the period 2006-2025. The ECER has the smallest investment target of RM112 billion, for 2007-2020. At May 2010, on a run-rate basis, IM was lagging in investment commitments compared to its age: RM60 billion (16% of expected investments) while about 4.5 years old (24% of time progress). The ECER had achieved almost RM28 billion of committed investments (25% of total expected) while 3.5 years old (27% of time progress), for an almost in-line performance. However, data on actual to committed investment was not readily available for comparison. As the former is lower than the latter, on an actual investment basis, it appears that the corridors are failing their targets. This is partly because they are at the earlier phase of their development, where the ‘foundations’ of improved infrastructure and catalytic investments are nearing completion. There should therefore be a significant pick-up in actual and committed investments in the next few years.

Malaysia's economic corridors program – summary information:

	Iskandar Malaysia (IM)	Northern Corridor Economic Region (NCER)	East Coast Economic Region (ECER)	Sabah Development Corridor (SDC)	Sarawak Corridor of Renewable Energy (SCORE)	NOTE
Development Period	2006-2025 (19 years duration, 5.5 years old or 29% time progress at mid 2011)	2007-2025 (18 year duration, 4.5 years old or 25% time progress)	2007-2020 (13 years duration, 4.5 years old or 35% time progress)	2008-2025 (17 years duration, 3.5 years old or 20% time progress)	2008-2030 (22 years duration, 3.5 years old or 16% time progress)	Average duration: 17.8 years (4.3 years average age to-date or 24% of duration at mid 2011)
Area of coverage	2,216 sq km; District of Johor Bahru, partial district of Pontian – Mukim Jeram Batu, Mukim Sungai Kerang, Mukim Serkat and Pulau Kukup)	17,816 sq km; Penang, Kedah Perlis and Northern Perak – Districts of Hulu Perak, Kerian, Kuala Kangsar and Larut Matang-Selama	66,736 sq km; Pahang, Kelantan, Terengganu and district of Mersing, Johor	73,997 sq km; whole of Sabah	70,708 sq km; Tanjung Manis-Similajau and hinterland	Total area: 231,473 sq km or 70% of Malaysia's land area[@]
GLC leaders	Khazanah Nasional	Sime Darby Berhad	Petroliam Nasional (Petronas)			These key GLCs helped to create the master plans for the corridors
Corridor Authority	Iskandar Regional Development Authority (IRDA)	Northern Corridor Implementation Authority (NCIA)	East Coast Economic Region Development Council (ECERDC)	Sabah Economic Development and Investment Authority (SEDIA)	Regional Corridor Development Authority (RECODA)	Federal entities, that develop policy, coordinate implementation with the states and act as one-stop-shops to assist investors
2008, Expected Employment^	1.4 million	3.1 million	1.9 million	2.1 million	3.0 million	Total expected employment: 11.5 million#
2008, Expected Investment (RM billion)^	382	178 (1/3 from government finance)	112	113	334	Total expected investment: RM1,119 billion; or average RM62.9 billion per

	Iskandar Malaysia (IM)	Northern Corridor Economic Region (NCER)	East Coast Economic Region (ECER)	Sabah Development Corridor (SDC)	Sarawak Corridor of Renewable Energy (SCORE)	NOTE
						year*
Investments Committed (May 2010, RM billion)	60.2 (16% of expected investment)	39.9 (22%)	28.3 (25%)	32.0 (28%)	87.6 (26%)	Total: RM248 billion (22% of expected investment)

Notes:

@ Areas not covered: a) The Peninsula's west coast, from Johor to Perak i.e. West & NW Johor, Melaka, Negeri Sembilan, Putrajaya, Kuala Lumpur, Selangor, and southern Perak; b) Sarawak coastal areas.

^ By the end of the respective development period.

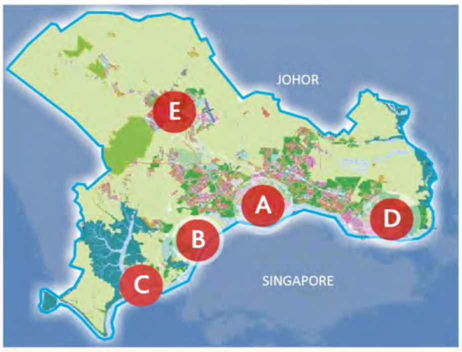
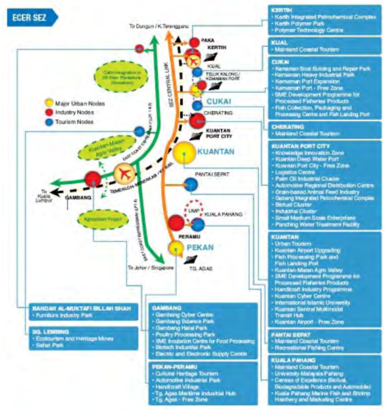
Current Malaysia labour force: 12.2 million (2010 estimate)

* For 2000-2009, the average total investment (public and private) for Malaysia ranged RM90-120 billion per year, with private investment ranging RM40-60 billion per year.

Source: "Mid-Term Review of the Ninth Malaysia Plan, 2006-2010," 2008, Government of Malaysia; "Rm248b invested in country's economic corridors," 12 July 2010, Bernama; with analysis by Khor Yu Leng.

The corridors represent a refocused effort to raise FDI and domestic investments by taking Malaysia's statist developmental model to the next step, with greater micromanagement. First, each corridor is expected to specialise in a range of economic sectors. IM is to specialise in the services sectors: education, financial, health care, ICT & creative industries, logistics and tourism. ECER is slated to focus on education, tourism, agriculture, manufacturing, oil, gas & petrochemicals. Second, within each corridor, several geographic clusters are identified for different economic activities and target projects, with improved infrastructure facilities. Third, one or more special economic zones have been designated for special promotion and rapid growth. Thus, special incentives do not apply to the entire corridor area; they are highly targeted by economic sub-activity and geographically restricted to designated special economic zones *within* each corridor. The table below summarises the focus sectors, geographic cluster and target activities and the special economic zone for IM and the ECER, to illustrate the economic corridor planning 'model.'

Malaysia's economic corridors planning model – Iskandar Malaysia and the ECER:

1. Economic corridor and focus sectors	2. Geographic clusters and targeted economic activities	3. Special economic zone – target projects and infrastructure
Iskandar Malaysia  Focus sectors: education, financial, health care, ICT & creative industries, logistics and tourism.	 A : Johor Bahru City B: Nusajaya(including Medini) C : Western Gate Development D : Eastern Gate Development E : Senai – Skudai	 IM's Medini special economic zone is a green field new township located in Zone B, Nusajaya.
East Coast Economic Region  Focus sectors: education, tourism, agriculture, manufacturing, oil, gas & petrochemicals	 The ECER has clusters or local corridors for tourism, manufacturing and logistics, oil, gas and petrochemicals.	 The ECER's special economic zone is a 25x140km strip layered on the established coastal belt of Terengganu and Pahang, stretching from Paka to Pekan.

Source: Data for Iskandar Malaysia, IRDA and IIB websites and for ECER the ECERDC website. Analysis by Khor Yu Leng

(For enlarged maps and diagrams see Appendix 1-6)

MAJOR POLITICAL-ECONOMIC SHIFTS SINCE 2008

The 2008 general election upset has had a significant impact on the outlook for the economic corridors project. The Pakatan Rakyat (PR) opposition coalition benefited from a large vote swing, which resulted in the loss of the ruling Barisan Nasional (BN) coalition's long held two-thirds majority. BN has ruled Malaysia since Independence in 1957. PR comprises Anwar Ibrahim's Parti Keadilan Rakyat (PKR), the Islamist Parti Islam Se-Malaysia (PAS) and the Chinese-oriented Democratic Action Party (DAP). At the same time, five of thirteen state governments came under opposition control: Selangor, Perak, Kedah, Penang, and Kelantan. Previously, only the north-eastern states of Terengganu and Kelantan had been in opposition hands. (Kelantan has been under PAS since 1990 and the party governed Terengganu for one full term, between 1999 and 2004.) In 2009, Perak reverted back to BN control. As a result of the BN's poorest electoral showing, PM Badawi was ousted and replaced by PM Najib in April 2009. Thus, the corridors project lost their key promoter and his synergistic economic agenda to develop agribusiness, rural industries and small and medium-scaled enterprises (SMEs).

The transborder economic corridor of the NCER faced the additional challenge of coordination as two of its states, Penang and Kedah, fell to the opposition (respectively, DAP and PAS) while Perlis remained BN-run. The transborder efforts envisaged that the several states would cooperate, with more developed states helping their neighbours, in order to improve their collective investment appeal and economic potential. The corridors represented a new approach for the state governments of the NCER and the ECER (Pahang, Terengganu and Kelantan), which have historically operated in their own 'silos'. Interestingly, PM Badawi included Kelantan in his economic corridor programme, even though the state was under opposition (PAS) control.

There was concern that the corridors projects would be still-born when PM Badawi left office, but their economic rationale and Malaysia's crucial need for investments has kept the programme alive. However, some of the economic corridors have shifted their emphasis to adjust to the new economic agenda and circumstances. PM Najib has offered a different set of economic policies in his Economic Transformation Program (2010-2020): including a new sectoral emphasis on the wholesale and retail trade, oil, gas & energy, financial services and tourism; a refocus on mega projects (construction and property development); an emphasis on attracting high-tech and capital intensive investments; and a reorientation toward further developing the Klang Valley. He has faced a different Malaysian political landscape and the challenges of the recent global economic downturn. In the push to deal with the ongoing problem of low investments in a tougher political-economic environment, his focus seems to have reverted to bigger ticket projects in more developed regions. These areas have better infrastructure and more plentiful labour, making them an easier 'sell' to investors. Outside of the Klang Valley, PM Najib seems to be keen to promote IM and economies ties with Singapore. Thus, PM Badawi's goals for regional development and SME development have been somewhat side-lined.

Under the economic corridors project, total expected investments are RM1,119 billion, or an average of RM62.9 billion per year (2007-2025), in areas which cover some 70% of Malaysia (but excludes much of the Peninsula west coast, including Greater KL). Under the Economic Transformation Programme (ETP), RM1,419 billion of investments or an average of RM141.9 billion per year (2010-2020) is sought for nationwide implementation including RM172 billion for Greater KL (comprising Talent Corp's investments of RM118 billion, attracting global MNCs of RM41 billion, and infrastructure projects including urban mass rapid transit system of RM21 billion and high speed rail system to Singapore of RM6.2 billion). Thus, on average annual targets, the economic corridors ought to attract about 44% of the nationwide ETP targets (RM63 billion of RM142 billion per annum for ETP).

PM Badawi's plan for Malaysia's economic corridors (c. 2007-2025) – focus sectors:

	Iskandar Malaysia (IM)	Northern Corridor Economic Region (NCER)	East Coast Economic Region (ECER)	Sabah Development Corridor (SDC)	Sarawak Corridor of Renewable Energy (SCORE)	NOTE
Focus sector / industry – services	Education *^, Financial*^, Health care*^, ICT & creative*^, Logistics^, Tourism^	Tourism, Logistics (transshipment)	Education, Tourism	Environment, Human Capital, Tourism, Logistics	Tourism	Common sectors: Education / Human Capital and Tourism
Focus sector / industry - other	Electrical & Electronics, Food & Agro Processing, Petrochem & Oleochem	Agriculture (modern farming, biotech), Manufacturing (high-end value add)	Agriculture, Manufacturing, Oil, Gas & Petrochemical	Agriculture (palm oil, agro-marine, livestock, horticulture), Manufacturing (oil & gas, biomass, minerals)	Aluminium, Glass, Marine Engineering, Metal-Based, Petroleum-Based, Timber-Based, Aquaculture, Livestock, Palm Oil	Common sectors: Agriculture

Note: For Iskandar Malaysia: *new economic sectors to be added, and ^key promoted sectors.
Source: "Mid-Term Review of the Ninth Malaysia Plan, 2006-2010," 2008, Government of Malaysia; websites of the various corridor authorities, accessed early June 2011; with analysis by Khor Yu Leng.

PM Najib's plan for Malaysia's Economic Transformation Programme (2010-2010) – focus sectors or National Key Economic Areas:

Economic Transformation Program (2010-2020)	Targeted investments	Total investments (Oct 2010-April 2011)	
NKEAs	RM billion	RM billion	% of target
Wholesale and retail trade	255.0	9.5	4%
Oil, gas & energy	218.0	28.2	13%
Financial services	211.0	-	0%
Tourism	204.0	15.5	8%
Greater KL (GKL)	172.0	39.4	23%
Palm oil & rubber	124.0	1.1	1%
Electronics & electrical (E&E)	78.0	4.8	6%
Communications content & infrastru	51.0	1.0	2%
Business services	41.0	0.9	2%
Health services	23.0	1.3	6%
Agriculture	22.0	0.1	0%
Education	20.0	1.1	6%
Total:	1,419.0	102.9	7%
Annual target:	141.9		

Note: a) Investments: 70% from domestic sources, 30% FDI; b) targets GNI growth 6% per annum to double GNI per capita from USD6,700 in 2009 to USD15,000 in 2020
Source: Government of Malaysia, PEMANDU, http://etp.pemandu.gov.my/; accessed early June 2011.

In setting out the goals and strategies of the ETP, PM Najib noted that the ETP aimed to "lift Malaysia's gross national income (GNI) per capita from USD6,700 or RM23,700 in 2009 to more than USD15,000 or RM48,000 in 2020, propelling the nation to the level of other high-income nations. This GNI growth of 6 percent per annum will allow us to achieve the targets set under Vision 2020….. (with) strong focus on a few key growth engines: the 12 National Key Economic Areas (NKEAs). These NKEAs are expected to make substantial contributions to Malaysia's economic performance, and they will receive prioritised public investment and policy support. The ETP will be led by the private sector; the Government will primarily play the role of a facilitator. Most of the funding will come from the private sector (92 percent) with public sector investment being used as a catalyst to spark private sector participation and deliver the increased GNI required to become a high-income nation by 2020."

The largest investments in the ETP are RM60 billion for Petronas' south Johor refinery and petrochemical complex and RM36.6 billion for the Greater KL MRT. The oil and gas sector has been identified as one of the biggest key growth engines amongst the 12 National Key Economic Areas ("NKEAs") in the ETP. It wishes to promote Malaysia as the 'No.1' Asian petroleum hub for oil fields services and equipment. Petronas has also announced its plan to invest approximately RM250 billion in exploration and production activities to sustain the oil and gas production over the next five (5) years.

ISKANDAR MALAYSIA

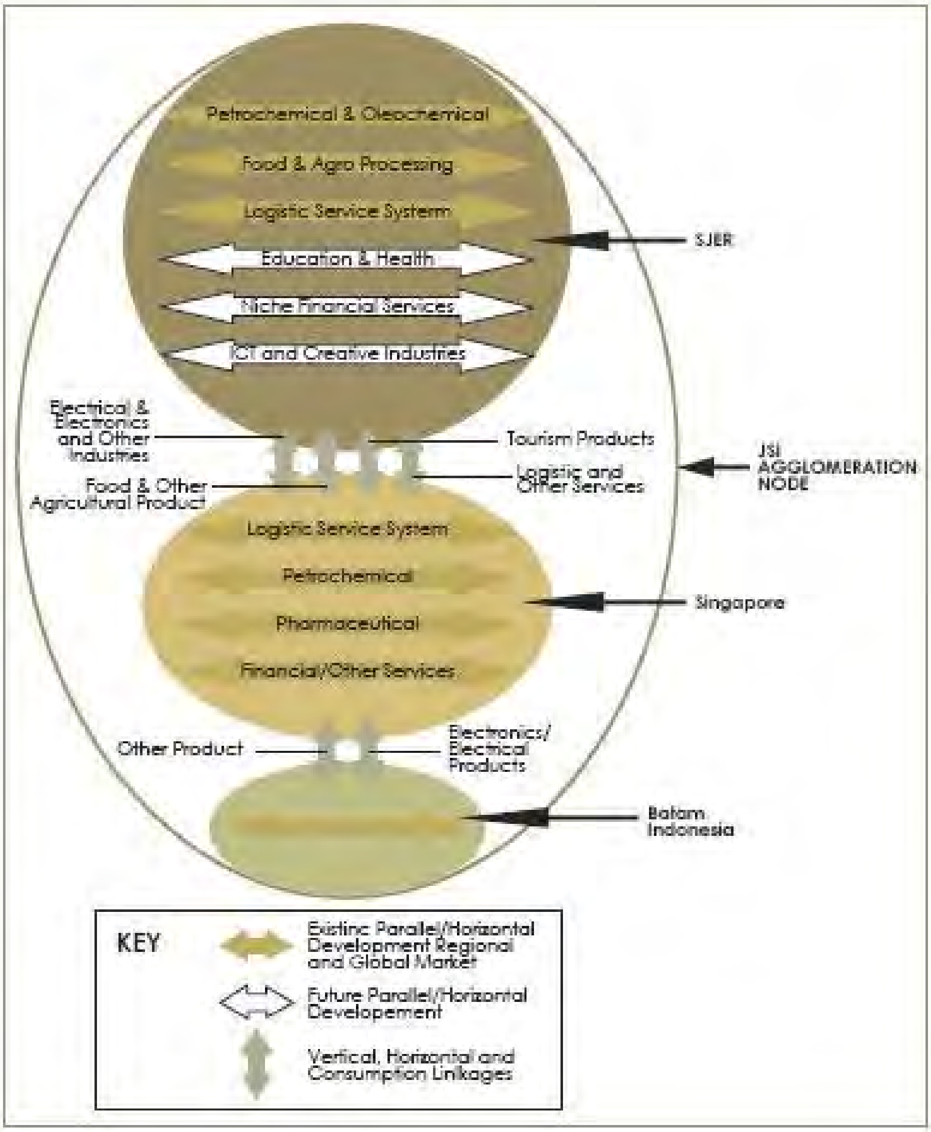
Iskandar Malaysia or IM, formerly known as the Iskandar Development Region and the South Johor Economic Region, has been promoted as the Malaysia's main economic corridor in terms of investment size. Its total investment target is RM382 billion over a 19-year period (2006-2025). This amounts to 34% of the total targeted for all five economic corridors. Its annual investment target is about RM20 billion.

IM is prominent in recent Malaysian government investment promotion efforts and in property sector marketing efforts in Singapore. Investment promotions have been stepped up as the corridor has entered its second phase of development, as key infrastructure and catalytic investments are nearing completion. Also, Singapore-Malaysia bilateral relations have warmed significantly since May 2010.

Located in the southern state of Johor, IM was established on 30 July 2006 by then PM Badawi. The project is administered by the Iskandar Regional Development Authority (IRDA) and was named after the late Sultan of Johor, Almarhum Sultan Iskandar. IM grew out of a 2005 government requested feasibility study by Khazanah, Malaysia's key sovereign wealth fund. It was singled out as among the high-impact developments of the Ninth Malaysia Plan (9MP), for the period of 2006 to 2010. Late in 2006 PM Badawi, the Chief Minister of Johor Abdul Ghani Othman and Khazanah revealed its Comprehensive Development Plan.

IM is modelled after the Pearl River Delta Economic Zone. It is envisaged to capitalise on its current synergies with nearby Singapore, as it aims to complement the dynamic island state's role as an economic hub. Malaysian policy makers hope that Johor could benefit from spillovers from Singapore's economy, similar to what has been enjoyed by Shenzhen from Hong Kong's proximity. It is hoped that Singapore investors would avail themselves of ample cheaper land and labour (plus various investment incentives), a short drive away and within easy control. IM should benefit from this contiguity with Singapore, if it can strengthen its position within the Johor-Singapore-Batam triangle, which could have the potential to develop into a strong international agglomeration within the Asia Pacific region. Khazanah's masterplan argues that IM can compete with "other international nodes which include Hong Kong – Shenzhen, Sydney, Bangkok, Manila and even Dubai and Bangalore. As investors tend to select among major agglomeration nodes rather than countries, a strategic stance for (IM) to take in the global arena is to compete as part of a (Johor-Singapore-Batam) node rather than 'going it alone.'" The graphic below illustrates the possible horizontal and vertical linkages of such a growth triangle.

Khazanah Nasional's proposed Johor-Singapore-Batam agglomeration node (horizontal and vertical linkages, existing and future:



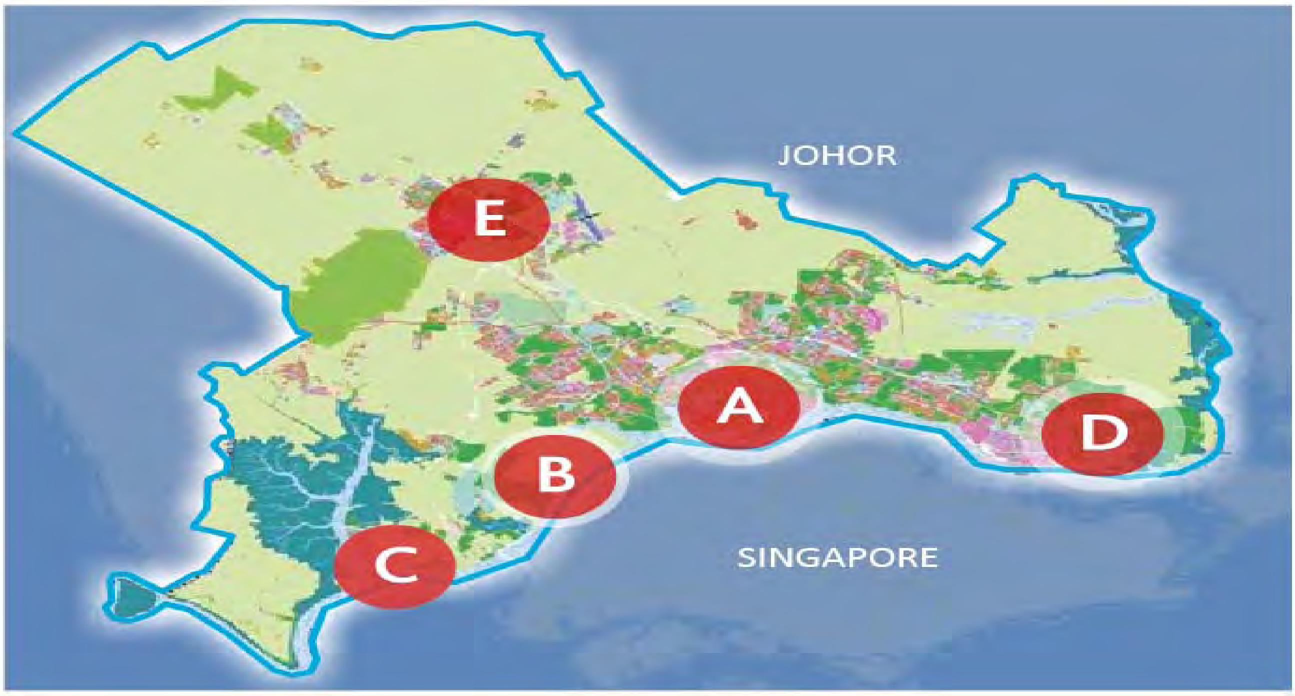
Note: SJER is the South Johor Economic Region, since renamed as Iskandar Malaysia
Source: "Comprehensive Development Plan for South Johor Economic Region, 2006-2025," November 2006, Khazanah Nasional. (For enlarged diagram see Appendix 7)

IM's development plans cover three (3) phases: Phase 1, 2007-2010, planning and building foundations; Phase 2, 2011-2015, strengthening and generating growth; Phase 3, 2016-2025 sustaining and innovating. Its promoters are marketing 2012 as the 'tipping point' for IM as infrastructure upgrading and several key catalytic projects are due for completion. IM targets that businesses start operations on or before 31 December 2015.

Its main features

IM covers the southern part of Johor state, stretching along the southern coast from Tanjung Pelepas Nusajaya-Johor Bahru-Pasir Gudang (areas C, B, A and D) and the Senai-Skudai area (area E), north-west of Johor Bahru. It includes the ports of Tanjung Pelepas, Pasir Gudang, and Tanjung Langsat. Under the plan, the five "Flagship Zones" are identified as developmental focal points and particular focus is on Nusajaya.

Iskandar Malaysia – geography of its flagship zones:



Source: IRDA website

Iskandar Malaysia's Flagship Zones and their key projects:

	Key projects
Flagship Zone A, Johor Bahru City Centre	Including development of a new financial district, the central business district, the waterfront city of Danga Bay, a mixed development in Tebrau Plentong and the Malaysia/Singapore Causeway.
Flagship Zone B, Nusajaya	With planned development of the new Johor state administrative centre, Medini Iskandar Malaysia, a medical hub, an "educity", a resort for international tourism and an industrial logistic cluster and Residence Horizon Hills, Bukit Indah.
Flagship Zone C, the Western Gate Development	Focuses on the Port of Tanjung Pelepas (PTP), providing a second transportation link for Malaysia/Singapore, a free trade zone, the RAMSAR World Heritage Park and the Tanjung Piai.
Flagship Zone D, the Eastern Gate Development	Focuses on the Pasir Gudang Port and industrial zone, Tanjung Langsat Port, the Tanjung Langsat Technology Park and the Kim-Kim regional distribution centre.
Flagship Zone E, Senai-Skudai	Development is focused on the Senai International Airport, hubs for cargo and knowledge, a multimodal centre and the MSC Cyberport city.

Source: IRDA website.

IRDA, the corridor authority, reports the following economic facts about IM. Its land size of 2,217 sq km, is three (3) times the size of Singapore. The gross domestic product (GDP) for IM was about USD 20 billion in 2005, accounting for some 60% of Johor's total GDP of USD 33.4 billion. Current per capita GDP within IM is about USD 14,790 which is substantially higher than the Johor per capita GDP of USD 10,757, and half that of Singapore's (about USD 30,000). The Johor and IM population is expected to grow from 3.2 and 1.4 million in 2005 to 5 and 3 million in 2025, respectively. IM is expected to create over 800,000 new jobs by 2025.

The services and manufacturing sectors are the two main pillars of IM's economy, but services dominate by contributing about USD 10 billion. Within this sector, the wholesale and retail trade contributes 42% of the total, tourism and hospitality (17%), professional and business (15%), transport and related (13%), medical and educational (7%), and financial (7%)[5].

The 'business as usual' sectors within IM are electrical and electronics (E&E), food and agro-processing, petrochemicals and oleochemicals. No special incentives (beyond those from MIDA and other agencies) have been introduced for these sectors. The new feature of this economic corridor is the key promoted sectors. Six service-based sectors that have been identified as "new pillars" to strengthen existing economic sectors:

- Creative
- Education
- Financial advisory and consulting
- Healthcare
- Logistics
- Tourism

IM wants to attract skilled knowledge-based workers to settle in spanking new facilities and apartments, particularly in Nusajaya. Some office and residential apartments may be marketed at near Kuala Lumpur prices, but well below Singapore levels. There will be a wellness township, an education hub, and tourism facilities. Key projects due for completion include the coastal highway and a portion of the educational hub in 2011, and key portions of the leisure sector in 2012 (refer to table immediately below). Thus, 2012 is the year IM's promoters tout as a 'tipping point'.

[5] Source: IRDA website, accessed early June 2011.

Key upcoming projects at Iskandar Malaysia:

Projects in Iskandar Malaysia	Timeline
Johor Premium Outlet (Senai)	Nov-11
Newcastle Medical University (Nusajaya)	Sep-11
NMIT (Nusajaya)	3Q 2011
Coastal Highway (Nusajaya to Johor Bahru)	Dec-11
Legoland Malaysia (Medini)	By 2012
Lifestyle Mall	By 2012
Puteri Harbour Indoor Theme Park (Nusajaya)	By 2012
Traders Hotel (Nusajaya)	By 2012
Marlborough College UK (Nusajaya)	By 2012
Southampton University (Nusajaya)	By 2012
Pinewood Studio	By 2013
Kulai Cybercity (Senai)	By 2013
Medini Square	By 2013
1 Medini	By 2013
Medini Residence	By 2015

Data: IRDA, IIB, UOB Kay Hian
Source: "Iskandar Malaysia – reaching the tipping point," 18 April 2011, UOB Kay Hian.

An upcoming attraction will be the Johor Premium Outlet at Genting Indahpura, Kulai (near Senai). It is a project by Chelsea Premium Outlets (part of Simon Property Group Inc., one of the largest real estate companies in the USA and an S&P 500 company) and Genting Plantations (the landowner, part of the Genting Group which operates casinos and theme parks). It will have gross lettable area of 175,000 sq ft. It has already secured 80-100 tenants. Johor Premium Outlet is expected to attract four million shoppers annually. Phase 1 of the project is the premium outlets and it is expected to cost RM150 million and to be completed in late 2011. The remaining parts of the mixed development project will include a hotel and an international water theme park, to be completed in 2013.

Workers and *free access zones*

The original plan for IM envisages that "growth will be fuelled mainly by migration… not only from neighbouring districts in Johor, but also from other parts of Malaysia, and from other countries. The proportion of foreigners is expected to increase, especially in the more skilled professional and managerial category, from the present 6.6% (in 2006) to between 12% – 15%."[6]

What is the current policy on foreigners working in Malaysia? Foremost is the development and training of a skilled and capable workforce among Malaysians and the reduction in reliance on foreigners. In some instances, Malaysia allows foreign expertise and labour. Therefore, a foreigner may work in Malaysia provided that the pre-requisite criteria are met such as the qualification of the foreign individual, and the profile of the employer and the sector/industry. IM's promoters say that no restriction will be imposed on 'IDR(Iskandar Development Region) status' companies, approved developers or approved development managers with respect to hiring of foreign knowledge workers. Thus, 'free' foreign worker access is available in the geography of Medini for specified economic sub-sector activities. However, because the criteria on foreign worker qualifications are set by other parts of the traditional bureaucracy, their well-known tendency toward protectionism could result in a targeted opening of foreign worker access instead of total free access. (The latter would imply that qualified companies could bring in as many workers as they would like from diploma holders with no direct work experience to PhD holders with years of experience.)

Indeed, the current policy described above for IM is a shadow of the original masterplan's proposal for Free Access Zones (FAZ): "areas… where 'seamless' work and living environment between Johor and Singapore is created, enabling foreign workers, especially those from Singapore to move in and out of the FAZ with limited or no impediments i.e. with no immigration and custom checks… Two initial areas have been identified …: Johor Bahru FAZ (East of the Causeway, near the former customs, immigration and quarantine or CIQ site) and Nusajaya FAZ (between the Port of Tanjung Pelepas and the Second Link)[7]."

But these plans were apparently dropped from the plan for IM in 2007. When the economic corridor was announced, the media reported some resistance at state level. Such contestation is perhaps quite natural given that the plan was developed significantly outside the Johor state administration. Among the concerns reported was the dilution of Johorean and Bumiputra ownership of Johor land. Thus, the radical and ground-breaking idea of the FAZ would likely have been too controversial. In general, the broad concerns about the corridor plan seem to have been overcome via a dilution of its more radical proposals, a strategic renaming of the project after the then Johor Sultan, and communications efforts with state bodies as well the local community.

MANAGEMENT OF ISKANDAR MALAYSIA

A new parallel federal bureaucracy and increased executive control?

Each of Malaysia's economic corridors is promoted by a new federal agency. These bodies are largely run by private sector staffers (many apparently from GLCs) instead of federal or state civil servants. In fact, they form a new layer or parallel

[6] "Comprehensive Development Plan for South Johor Economic Region, 2006-2025," November 2006, Khazanah Nasional.
[7] "Comprehensive Development Plan for South Johor Economic Region, 2006-2025," November 2006, Khazanah Nasional.

administration that makes policy, promotes and facilitates investments in their given area; a new “business bureaucracy”. There has been a proliferation of these one-stop-shops as new regions and new economic sectors have been selected for promotion in the last decade. Unlike the traditional bureaucracy, they recruit staff on private-sector pay scales and on a contract basis. The well-funded agencies have been able to attract better qualified staff with experience in the private sector. This has resulted in some suspicion and natural antagonism from the traditional federal and state civil servants, who have been blamed for poor policy-making and investment promotion efforts.

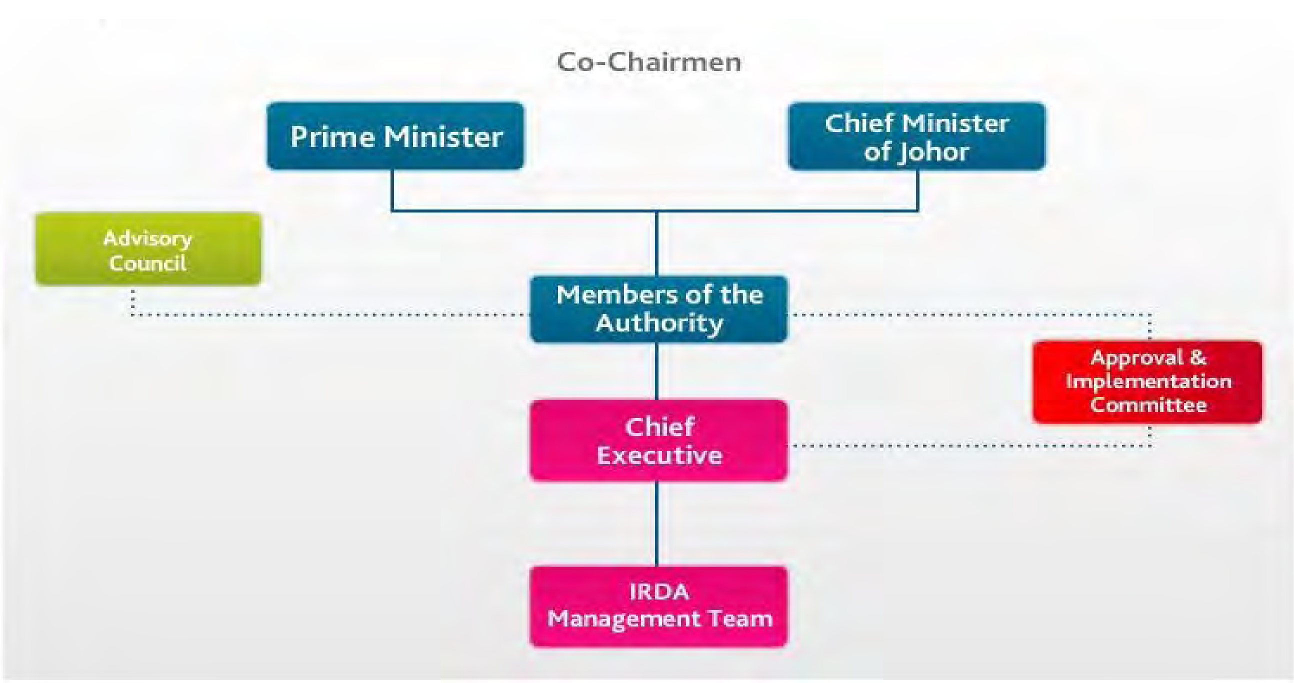
The new parallel federal agencies represent a structural change in Malaysia’s economic policy-making and administrative system. Analysts have observed increased centralised control by the Prime Minister. This trend, apparent under previous PM Badawi seems to have been accelerated by PM Najib. Under both prime ministers, there has been a proliferation of new federal bodies. There has also been a very rapid expansion of the budget and staffing of the Prime Minister’s Department. In 1981, when Prime Minister Mahathir Mohamad (PM Mahathir) assumed power, there were 4,414 staff and 20 years later, in 2001, there were 9,673. PM Badawi expanded the staff to 21,045 in 2003 and under PM Najib, the 25,332 staff strength in 2009 was expanded to 43,544 in 2010. Thus, there has been a 4.5-fold increase within ten years. Some analysts view this as a ‘presidentialisation’ of the Malaysian parliamentary system.

However, these attempts to boost executive control can also be regarded as a sign of weakness. Many observers cite the problem of mixed messages coming from Malaysia’s top political leaders. This is considered to have contributed to substantial domestic capital flight and continued uncertainty among both domestic and foreign investors. The recent liberalisation and loosening of pro-Bumiputra policies by PM Najib has been accompanied by the rise of pro-Malay rights groups. Perkasa is quite prominent in this regard. It is openly supported by ex-PM Mahathir (a vocal critic of both his successors), who officiated its launch in March 2010. Its views have been given wide coverage in Utusan Malaysia, the key Bahasa-language daily newspaper, which is BN-controlled. Among its pronouncements on race and business, is the warning by Perkasa that the Kentucky Fried Chicken business in Malaysia should not be divested to non-Malay investors. Many professionals involved in promoting Malaysia to direct investors have expressed some frustration at these countervailing messages. While the investment numbers are picking up, analysts also point out that public sector and GLC-investments continue to take the lead, while private sector investments and FDI remain muted.

Are the various economic corridors an extraneous institution merely duplicating what can be done by each state? Malaysia’s top-down approach to economic development and industrial policy has deepened into the realm of micromanagement. Instead of the old approach where MIDA and state economic development authorities took the lead, the policy and promotion activities have been outsourced to sovereign fund Khazanah and government-linked corporate giants and monitored by “text-book young guns occupying the 4th Floor (under PM Badawi)”. There has been a small boom in ‘one-stop centres’. Some regard the emergence of this large group of “business bureaucrats” as a criticism of the traditional civil service. However, the transborder efforts of the economic corridors was an innovation that did require a change in the state administration, particularly the insertion of new facilitators with strong marketing skills to attract private sector investors.

Reports of tussles over management of IRDA

Governance structure of Iskandar Malaysia:



Source: IRDA website.

The Malaysiakini online newspaper carried an expose on management issues at IM in November 2009[8], reporting that "two chief executive officers of the Iskandar Regional Development Authority (IRDA) have not lasted two years on the job and there are now rumblings from Middle East investors over the slow pace of progress. Apart from that, the relationship between some of the main players — the Johor Civil Service (JCS), Khazanah Nasional, Iskandar Investment Board (IIB) — leaves much to be desired…. Relations between the JCS and Khazanah Nasional have been uneasy since the inception of the project in 2006, with Johor civil servants complaining of being sidelined from the decision-making process. They have resented the fact that important decisions regarding Iskandar were being made in Kuala Lumpur."

While the IRDA board has been jointly chaired by the Prime Minister and the Johor Menteri Besar (Chief Minister), it was reported that the latter sought a full chairmanship and control of the development agency; and he demanded the resignation of then IRDA chief executive, Harun Johari (an ex-Shell staffer, chosen by Khazanah). Harun had brought in several of his former Shell colleagues to fill senior positions. Harun had replaced Datuk Ikmal Hijaz, a chief executive of Pos Malaysia. He was also picked by Khazanah and he had surrounded himself with former colleagues from Pos Malaysia and the now defunct Renong Group (where he oversaw construction of the Second Link crossing and massive land acquisition in the Nusajaya area).

The current CEO of IRDA is Ismail Ibrahim, a Muar (Johor)-born career civil servant. A trained town planner, he was a director at the Urban and Rural Planning Department

[8] "Trouble in Iskandar Regional Development," 20 November 2009, Malaysiakini, http://malaysiakini-at-malaysiakini.blogspot.com/2009/11/trouble-in-iskandar.html.

and one of the pioneers who helped Khazanah draw up the 2006 Comprehensive Development Plan for IM. Thus, he was likely acceptable to both Khazanah and the Johor authorities. It appears that IRDA currently has among its senior ranks several ex-staffers of Syed Mokhthar Bukhary's MMC Group (he is listed by Forbes as Malaysia's richest bumiputra tycoon).

Issues at Iskandar Investment Board (IIB)

Khazanah formed IIB, a 60% subsidiary, with the Employees Provident Fund (EPF) and Kumpulan Prasarana Rakyat Johor (a state investment corporation), each holding a 20% stake. IIB is the catalyst investor for IM, focusing on green-field developments and long-gestation investments in the economic corridor. Management issues at IIB have also come under press scrutiny: "several of the Middle East investors are exhibiting signs of restlessness at the pace of the project…. Government officials told The Malaysian Insider that Khazanah Nasional was forced to buy back some land in (Medini), which it sold to a consortium of Middle East investors. This happened after some disagreement over responsibilities and obligations.[9]" There is little official information available on the unraveling of Medini's Middle East consortium, but senior bankers in Malaysia think that continuing investment flows from Abu Dhabi and Qatar suggest that those investors could remain active, while others have pulled out.

In April 2011, IIB announced that it had lodged a police report against its former chief executive, Arlida Ariff , and some other former members of its senior management team. Arlida was with the company from 2007 to November 2010, and during her tenure IIB attracted investments in many projects. She was a well-regarded professional who had spent many years with KLCC Group, the Petronas-related company that developed the Petronas Twin Towers and other key buildings. IIB alleges fraudulent practices among some of its ex-senior managers. Details are so far unknown, but the press reports "irregularities in the awarding of infrastructure contracts.[10]"

The apparent fast turnover of chief executives and senior managers at IRDA likely had some impact on IM's efforts. In contrast, IIB seemed more stable and was likely offered a leadership role in promoting IM amidst the tussles between federal and state entities for control of the IM agenda. However, the recent emergence of problems at IIB was the proverbial spanner in the works. The market will no doubt be looking for the IM economic corridor to prove itself by showing a good ramp up of committed and actual investments. On the positive side, was the shift to a more pro-business stance by the Johor Palace, under the new Sultan. The warming of Singapore-Malaysia bilateral relations and the deal to jointly develop projects in Singapore and IM will also be positive for IIB.

INVESTMENTS IN ISKANDAR MALAYSIA

IM has garnered a pipeline of committed investments, both in 'business as usual' as well as in new promoted sectors. Its annual investment target is about RM20 billion. As

[9] "Trouble in Iskandar Regional Development," 20 November 2009, Malaysiakini, http://malaysiakini-at-malaysiakini.blogspot.com/2009/11/trouble-in-iskandar.html.

[10] "Iskandar lodges police report alleging fraudulent practices by former management members," 5 April 2011, The Star, http://biz.thestar.com.my/news/story.asp?file=/2011/4/5/business/8415135&sec=business.

at end 2010, IM reported that it had attracted RM70 billion in committed investments, with 60% from local investors and the rest from foreign sources. It aims to double this to RM140 billion by the end of 2015. The actual committed investments and its near term target undershoot a simple straight-line projection which would target RM80 billion by 2010, RM180 billion by 2015 and so on, to reach RM382 billion by 2025. It appears that IM would need to accelerate its investment targets and achievements post-2015 in order to reach its final target. However, this is not quite consistent with IM's special investment incentives, which require investors to implement their projects by end 2015 to be eligible. Thus, it is possible that IM's investment targets need to be stepped-up or its incentives need to be adjusted for a slower investment pace (e.g. longer time allowed).

Early plans gone awry

IM has gone through two earlier incarnations. Large swathes of land were acquired by the now defunct Renong Group in relation to its development of the Second Link crossing between Johor and Singapore. This key Malaysian GLC ran into financial difficulties at the time of the Asian Crisis, and its planned investments for its Johor land bank never took off. Under lead developers IIB (Khazanah) and UEM Land (UEM Group was the successor to Renong), Middle East investors were initially targeted. The scale models for the Nusajaya area depict over 30 high-rise towers, in what many commentators have dubbed a 'mini Dubai' concept. The name 'Medini' was also likely chosen for its Middle Eastern flavour. Some analysts point out that the square footage presented in this scheme rivals that of the central business district of Kuala Lumpur. However, while the Greater KL / Klang Valley area has a population in excess of 7 million the population of southern Johor is only about 1.5 million. Thus, the feasibility of the larger township plans for IM has always been questioned.

In April 2008, just before the global financial crisis and recession of 2008/9 accelerated, PM Badawi announced a slew of projects and investments for IM[11] including the Tanjung Langsat port in Pasir Gudang (RM 1 billion), Maritime Centre in Tanjung Bin (an initial RM2 billion), the Asian Petroleum Hub (RM1.4 billion), Acerinox and Nisshin Steel joint-venture project (RM5 billion), the Middle East Consortium and IIB joint-venture in Medini (RM4.2 billion), Lido Boulevard (RM2.7 billion), Tradewinds (RM1.2 billion) and Tenaga Nasional (RM1 billion). In terms of government allocations, there was RM1.9 billion to build roads and highways (three were completed, seven were under construction and six would be started in June 2008), RM1 billion for environmental projects (cleaning up of three rivers and the upgrading of the drainage system) and RM 340 million to build more district police headquarters and police stations, to improve safety.

There has been concern about the cancellation of Middle East investments in IM. In late 2009, IIB reported that its project faced no pullouts but press articles soon reported some land buy backs. Middle Eastern investors had committed USD 2 billion (representing 15% of the corridor's then total) in the areas of property, hospitality, retail, manufacturing and petrochemicals with IIB. The investors were Islamic lender Kuwait Finance House, Abu Dhabi investment arm Mubadala Development Co, Aldar Properties and Dubai-based Limitless under state-owned Dubai World (Middle Eastern

[11] "No Let Up In Government Commitment To Iskandar Malaysia, Says PM," 8 April 2011, Bernama.

Consortium)[12]. The status of these investments has not been officially updated since late 2009.

In addition to the issues faced by IIB, the Maritime Centre and the Asia Petroleum Hub (APH) projects also went awry. Both were grand plans to compete with Singapore. In September 2007, MMC Berhad-Dubai World announced plans to develop a RM16 billion (USD4.7 billion) Maritime Centre in Tanjung Bin, an area close to Tanjung Pelepas. (This port had captured the transshipment container business of Maersk and Evergreen from Singapore's port.) MMC is controlled by Syed Mokhthar and the planned development with Dubai World involved RM9bn for a petroleum and maritime industrial zone and RM7bn in ports and logistics, dry docks, shipyards and associated real estate development. They would jointly develop areas in IM, including MMC's landbank of 9,125 square meters (2,255 acres) at Tanjung Bin. In November 2009, MMC-Dubai World terminated their memorandum of understanding. During the global financial crisis, Dubai World was reported to be crushed by USD59 billion in liabilities.

The stalled Asia Petroleum Hub (APH), was a RM1.4bn bunkering facility built on reclaimed land off Tanjung Bin (opposite Tanjung Pelepas). Newspapers report that the Malaysian government invested RM100m to create the 40 ha island and provide supporting infrastructure. APH was being developed by a consortium led by KIC Oil and Gas (an ownership battle involving MMC Group's Syed Mokhthar and others was reported around 2009). The terminal, with work starting in 2007, was scheduled for completion in 2009. It would handle 30 million tonnes of petroleum products and accommodate 3,000 vessels annually (designed to be one of the world's largest fully-integrated petroleum terminals). The project had problems with rising costs due to land reclamation issues, and it was unable to pay its contractor, Muhibbah Engineering, which is owed some RM300 million. There have been hopes that the project could be revived in 2011, but it remains on hold. Problems are said to relate to continuing ownership tussles and the need for fresh financing.

Investment incentives at IM

Investment and labour incentives at IM have been widely publicised. However, the generous headlines belie the fact that they are highly targeted and restrictive in the geography and economic sectors to which they apply. Many interesting top-level policy moves or ideas have rather disappointed in their implementation. This is suggestive of some tension between policy makers and bureaucrats or between the federal and state level decision-makers.

Companies undertaking qualifying activities in the new six service-based sectors and within Medini are eligible to apply for 'IDR status'. This would grant them exemption from the Foreign Investment Committee (FIC) rules and flexibilities under the foreign exchange administration rules (make and receive payments in foreign currency with residents, borrow any amount of foreign currency from licensed onshore and non-residents, invest any amount in foreign currency assets onshore and offshore, and retain export proceeds offshore). They would also be entitled to unrestricted employment of foreign knowledge workers (who can import a car free from import duties and enjoy

[12] "Iskandar Investment Bhd secures 5b dirhams," 14 October 2009, Singapore Business Times.

15% income tax rate, if they apply and commence work in Iskandar by end 2015.) IDR-status companies are not required to have 30% Bumiputra equity. They are also eligible for tax incentives which include corporate tax exemption for 10 years for business with customers situated within Medini and outside Malaysia or wholly for customers outside Malaysia. Such activities must commence on or before 31 December 2015. Property developers within Medini are also eligible for special incentives with Approved Developers (AD) and Approved Developers Manager (ADM) status, including family entertainment centres or lifestyle malls developments. [13]

Special incentives were only available to companies that invest in certain economic sectors within Medini, a 2,230 acre site in Nusajaya (representing 0.4% of the IM's total area of coverage). For investors in non-qualifying projects or those sited in the other 99.6% of IM's geography, the regular investment incentives (which can be very generous) are available via MIDA or other sector-specific development agencies. These include MDEC for multimedia technologies, Ministry of Agriculture for food and agro-processing, Malaysia Islamic Financial Centre, Malaysian Biotechnology Corporation and the Halal Industry Development Corporation. General incentives available from MIDA for various sectors include 5-year pioneer status, tax exemption at 70% of statutory income and 60% investment tax allowance on qualifying capital expenditure incurred within 5 years which can be set off against 70% of statutory income. These are available to direct investors on a Malaysia-wide basis.

Thus, the bulk of IM was not particularly 'special' for about five years of its life. In early May 2011, a new package of incentives was announced for companies undertaking new five-star hotels, and new colleges and universities (but they are not available to the developers of the properties). These apply to a wider geography beyond Medini: all flagship zones of IM can enjoy these incentives.

The Ninth Malaysia Plan (9MP) allocated RM10 billion for infrastructure spending by the Iskandar Region Development Authority (IRDA) for 2006-2010. An RM 20 billion facilitation fund for the five economic corridors was reported in 2011. In the 2011 Malaysian Budget, there were additional allocations for the various economic corridors as well as the introduction of several high profile developmental projects to induce public-private partnership to unleash private investment growth. Allocations for the key economic corridors are: Iskandar Malaysia (RM339 million), Northern Corridor (RM 133 million), East Corridor (RM 178 million), Sabah Development Corridor (RM 110 million) and SCORE (RM 93 million).

Manufacturing and property account for 75% of investments

Investments in manufacturing and property development are dominant at IM. At end December 2010, the total committed investment was nearly RM70 billion and RM29 billion or 41% was implemented. Manufacturing accounted for 43% of committed investments (with 43% of the committed total implemented), and property development was 32% (37% implemented). These two sectors accounted for 75% of committed investments and a similar proportion of actual investments. Government and utilities sector spending, presumably mostly on infrastructure, was 13% of the total. Key

[13] IRDA website, accessed early June 2011, http://www.iskandarmalaysia.com.my/faqs.

manufacturing investments include the Acerinox and Nisshin Steel joint-venture project worth RM5 billion.

Iskandar Malaysia's committed vs. actual investment, as at Dec 2010:

Sector	Committed investment, 2010 (RM billion)	Actual investment, Dec 2010 (RM billion)	Actual % of committed
Manufacturing	29.65	12.78	43%
Property	21.89	8.02	37%
Government	6.28	3.30	53%
Utilities	2.90	0.58	20%
Tourism	1.46	0.20	14%
Others	10.03	3.66	36%
Total	72.21	28.54	40%

Data: IRDA, UOB Kay Hian
Source: "Iskandar Malaysia – reaching the tipping point," 18 April 2011, UOB Kay Hian.

Investment in services and knowledge sectors measure under 10%

The services sector of IM is courting Singapore and other investors to transfer lower value-add segments across the Causeway. These sectors are measured under the tourism and 'others' sectors; and they represent about 14% of committed investments with 36% implemented. The low measure for the services sector is partly due to measurement issues; the low capital intensity of these projects generates small project investment values under methods that focus on capital investments.

In the services and knowledge sectors, workers are a key resource and the promoters of IM have tried to address this by allowing free access to foreign knowledge workers for designated companies. In addition, knowledge workers with the required qualification, working in a designated company and living in IM may be eligible to apply for the 15% personal income tax incentive. The designated companies must have special status such as IDR-status, MSC, BioNexus or other criteria in the following sectors: educational services, healthcare services, creative industries and related services, financial advisory and consulting services, logistics services, tourism, biotechnology, and green technology (with specific sub-sectors identified for each). Workers with bachelors or masters degrees must have 10 years of relevant working experience in the target sectors and Phd degree holders must have five years[14]. Such criteria are obviously aimed at protecting lower and mid-level jobs for Malaysians. In a way, this limits the free employment of foreign skilled workers at a stage when the availability of local "talent" is uncertain. If the tax incentive was aimed at jumpstarting the lower value-add services work spillover from Singapore, its restrictive details disappoint.

Two areas of success have been in medical services and education services. Since March 2010, Singapore has allowed its mandatory state-run Central Provident Fund holders to use their medical account funds in 12 designated private hospitals or medical

[14] IM Bizwatch 6/2011, 24 June 2011, IRDA.

centres in Malaysia. They include Health Management International's (HMI) Regency Specialist Hospital in Johor Bahru and Parkway Holding's Gleneagles and Pantai units (Parkway-Pantai). HMI is a Singapore-listed company, as was Parkway-Pantai, before a shareholder bidding war was won by Malaysia's Khazanah (which then sold a 30% stake to Japan's Mitsui & Co Ltd in April 2011 for RM3.3 billion[15]). The economic rationale for outsourcing and offshoring medical and retirement care for Singaporeans in locations nearby was stated rather plainly by Singapore's then Minister for National Development Mr Mah Bow Tan. He is widely quoted as saying: "My personal view is, our land is expensive. But we have nearby neighbours in Johor, Batam and Bintan. The elderly want to reach their doctors within half to one hour. So retirement villages in neighbouring countries is possible, barring the cross-border hassle. It is best to find cheap land on short leases."

Educity is located in Nusajaya, just outside the Medini area. The corridor has successfully attracted several key global brand names including Newcastle University, Marlborough College and Southampton University. The focus on the education services sector has been elevated with the recent addition of special incentives.

Medini: Take-up for promoted zone and promoted activities expected to pick up

Medini is located within the Nusajaya development zone (one of the five Flagship Zones). It is a high-end planned urban township area, comprising an area of 96 million sq ft / 2,230 acres, with a business district, residential and commercial (lifestyle and tourism) areas. The expected Gross Development Value (GDV) of USD20 billion is over 15-20 years. IIB targets that 20% will be developed by 2014 with a targeted population of 50,000. Take-up seems to be lagging at Medini, especially with the unraveling of its Middle East Consortium. Can Singapore help revive foreign investor interest?

For over a year, details of a RM500 million, 500-acre wellness centre and mixed development township which sovereign funds Temasek and Khazanah agreed to build in a joint venture, were awaited. Depending on the scale, Mr Ismail the CEO of IRDA was quoted as saying that the project could take between five and seven years to build. There had been market speculation that the rather moribund Danga Bay area (to benefit Dijaya Corp or Credence Resources which is linked to Dato' Lim Kang Hoo of Ekovest) or Stulang in Johor Bahru, or Nusajaya (to benefit UEM Land) would be possible locations. In the end, none of the locations were selected and the project value was much larger.

On 28 June 2011, Temasek and Khazanah said that they would jointly develop USD 9.8 billion of projects in downtown Singapore and Iskandar Malaysia. SGD11 billion (USD8.8 billion) of Singapore developments will include hotels, apartments, offices and shops (501,020 square metres or 5.4 million square feet of space in two main areas) and RM3 billion (USD980 million) would be invested in IM, to develop homes, retail space and "wellness-related offerings." Much as the Malaysia investment community liked to speculate that private developers would benefit from the projects, Temasek-Khazanah announced an "Urban Wellness" development in Medini North and a "Resort Wellness" development in Medini Central. Medini is owned by IIB.

[15] "Mitsui buys 30% of Integrated Healthcare for RM3.3bil,"8 April 2011, The Star.

The Malaysian project will be run through a 50-50 venture called Pulau Indah Ventures Sdn Bhd. The permitted gross floor area of up to 1.36 million square metres is estimated to have a total gross development value of RM3 billion (SGD1.2 billion). They plan for serviced apartments, a corporate training centre and commercial, retail, residential and wellness-related facilities. The two sovereign wealth funds are in negotiations with potential partners and operators for the various components. Planning and design works started in early 2011 and the next steps towards design and further implementation will take place over the next five years. Medini North is the location for a Legoland theme park and the Lifestyle Retail Mall, the largest retail centre in southern Malaysia. The site in Medini North is purely for commercial facilities and covers about 65,000 square metres. The development in Medini Central, however, is much larger at 1.3 million square metres and is zoned for both commercial and residential purposes.[16].

Property market rising in anticipation

Much of the recent marketing hullabaloo of IM has also been quite visible in the property and housing sector. Stockbrokers in Malaysia are enthusiastically promoting investment property developers with large landbanks in Johor to their clients as 'Iskandar plays'. Some reports suggest that Johor property investors could enjoy rapid property price appreciation. Previously, the Johor property market has been among the most subdued in terms of capital appreciation in the whole of Malaysia. Property pundits are saying that Johor property underperformance is set to change.

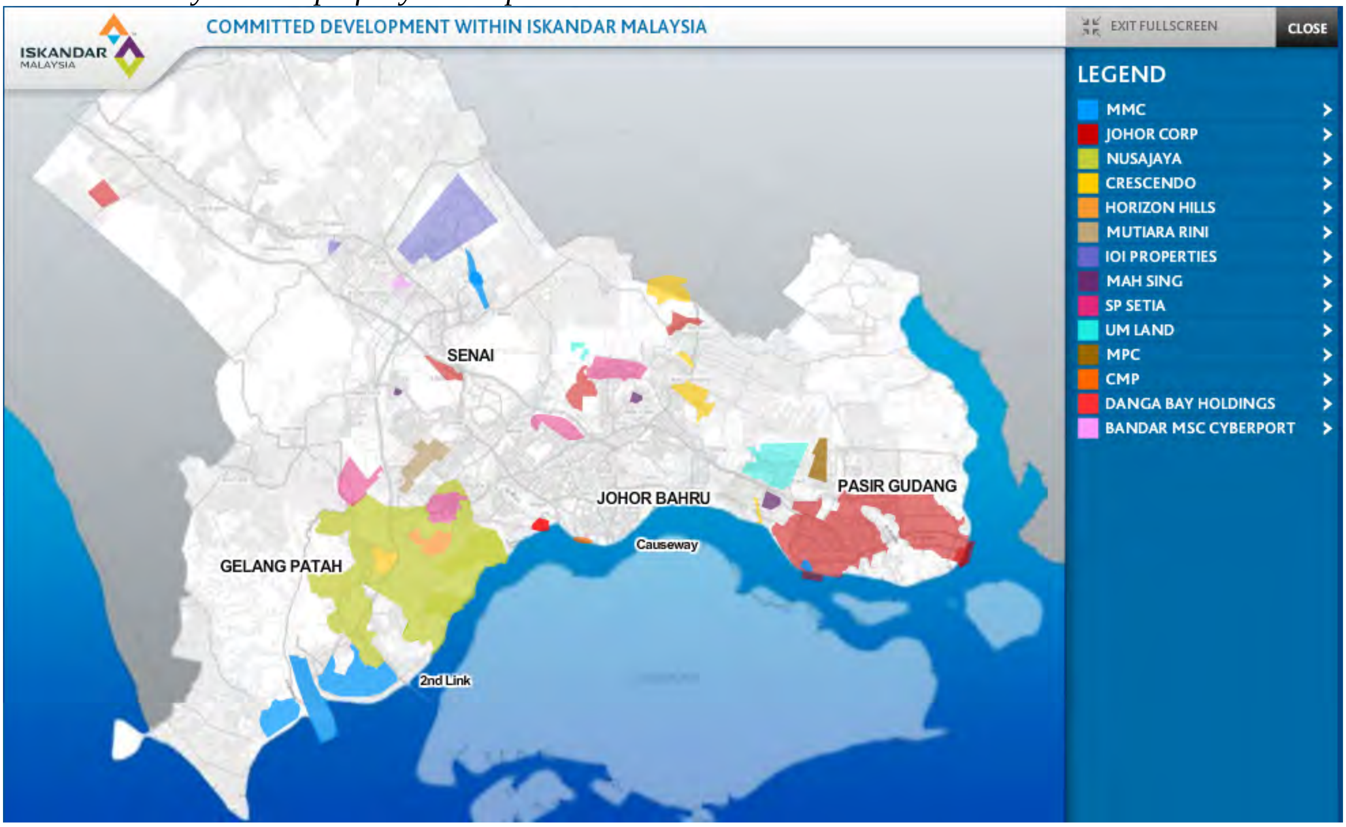
UOB Kay Hian says in its report that "the catalytic projects will add the much-needed economic vibrancy to IM. For example in 2010, UEM Land's bungalow land at East Ledang rose by an estimated 25%, and its industrial land has risen about 8%. We believe land values will continue to rise 10%-15% in the next few years. Eventually, unlisted major developments in IM could seek listing on Bursa Malaysia." Research by CB Richard Ellis, the property valuation consultants, finds that industrial property has risen by some 6% per annum in recent years. Thus, the IM economic project has already started to drive up property prices and perked up interest from financial investors (to be distinguished from direct investors).

Singapore property investors have also in recent months been treated to quite a few marketing shows, to promote 'cheap' homes for their investment-cum-retirement purposes. On the cautionary side, Johor has a history of property investments gone awry: anyone who has driven around Johor Bahru will be well aware of the number of abandoned projects littering the city centre and beyond. A lunchtime spent at Puteri Harbour in Nusajaya, and an evening spent at Danga Bay, both prime IM greenfield sites, displays the 'build and they shall come' hope. However, the current reality is that demand for these facilities lags supply and the areas are still early-stage construction sites. On the optimistic side, the IM economic corridor project and the entry of GLCs and many well-regarded national property developers into property development in Johor is a new feature of its property market. It was previously dominated by non-brand name and small-scale, local and Singapore-origin property developers.

[16] "Temasek, Khazanah to develop 2 sites in Iskandar," 28 June 2011, Singapore Business Times.

Malaysia private sector development is led by large government-led corporations (GLCs) such as UEM Land Berhad, Gamuda Berhad, and Johor Corporation Berhad. Many public-listed property developers are active in Johore, notably SP Setia Berhad, and others are expanding their land bank in the state. MMC Berhad (MMC), controlled by well-connected tycoon Syed Mokhthar, has a big stake in the area. MMC is a utilities and infrastructure group. It owns the ports of Tanjung Pelepas in the south-west, Pasir Gudang in the south-east, as well as the Senai Airport area in the south-central area.

Iskandar Malaysia – map of key developments



Source: IRDA website (For enlarged map see Appendix 8)

Potential beneficiaries of construction & property projects in Iskandar Malaysia:

Construction	
MRCB	River cleaning and drainage project in Sg Skudai, Sg Tebrau in Johor
Gamuda	Benefit from infrastrucutre works in Medini. Also JV with UEM Land for Project 'Horizon Hills' in Nusajaya.
WCT	4 contracts of construction and completion of infrastrucutre works in Medini worth a total of RM766.5m.
Property	
IJM Land	Acquired 1,188 acres in Johor's Sebana Cove marina for RM120m.
Tradewinds	Owns 3 potentially strategic land parcels: 953-acres Pulai land, 704-acre Tebrau land and 2,004-acre plot in Sedili (norht of Desaru).
UEM Land	Largest landbank owner in Nusajaya.
Tebrau Teguh	Majority of its landbank is located in Johor Bahru.
Mulpha Int'l	High-end residences at 'Leisure Farm' in Nusajaya.
Ekovest	A common major shareholder with Danga Bay Sdn Bhd - Datuk Lim Kang Hoo.
Multi-Purpose	Owns 5,000 acrees of land in Kota Tinggi.
SP Setia	Residential projects such as Bukit Indah, Setia Indah, Setia Tropika and Setia Eco Gardens.
Mah Sing	Residential projects such as Sri Pulai Perdana, Austin Perdana and Sierra Perdana. Launching i-Parc, a 206-acre integrated industrial and business park near Port of Tanjung Pelepas (gross development value of RM610 m)

Data: Bloomberg, UOB Kay Hian
Source: "Iskandar Malaysia – reaching the tipping point," 18 April 2011, UOB Kay Hian.

However, many public policy economists regard property development as a 'low quality' generator of growth. Real investors and end-users for IM may also be discomfited if there is a growing presence of financial investors or speculators who drive up property prices too fast. Much of recent interest in IM from the investment community is about rising property prices. This is typified in commentary such as this by UOB Kay Hian in its 3 June 2011 "Strategy – Malaysia" report: "(PM Najib's) upcoming visit to Singapore could rekindle interest in the Iskandar development, as we expect the Malaysia-Singapore iconic wellness township joint venture (JV) to acquire land in Stulang, Johor Bahru, at new benchmark prices. The venture could also be scouting for land in Nusajaya, thereby lifting land values for the main property developer there – UEM Land." The Singapore-Malaysia joint projects are widely regarded as key to helping raise property values. Another economic research agency AmResearch also noted, "We view the joint development by Khazanah and Temasek positively as it would create business activities and lift property values in Iskandar. In turn, these would boost demand for properties in Johor…. Genting Plantations Bhd, which has property development projects in Johor, is expected to be an indirect beneficiary of the proposed development by Khazanah and Temasek. Other plantation companies with oil palm estates in Johor are Kulim Bhd, Kuala Lumpur Kepong Bhd, TH Plantations and IOI Corporation Bhd."[17]

[17] "Genting Plantations: Indirect beneficiary of the development of Iskandar,"28 June 2011, AmResearch.

Credit Suisse even quantified the importance of Singapore's participation in IM to the land valuations there: "Our bottoms-up RNAV estimate for the entire land bank of RM28/per sq ft was based on GDV guidance and land valuation assumptions which did not reflect Singapore's participation in the region. We are of the view that sticking to the earlier valuation would be conservative given that circumstances have changed with regards to Singapore's participation in Iskandar. We are now taking a top-down approach in valuing UEM Land. We have assigned an average price of RM32/per sq ft to UEM Land's land bank, the price Khazanah sold 2,200 acres of land to Middle Eastern consortium in 2007. While this transaction can be seen to be done at the peak of the market in 2007, we expect this price to be the benchmark in the early days of Singapore Inc in Iskandar."[18] Thus, the research house priced in a 14% increase in land valuations for the island state's participation and endorsement of the IM project.

Malaysia property prices – five segments with the biggest and lowest increase:

Type of property	State	% change since 2000	Type of property	State	% change since 2000
Detached House	KL	80.3%	Terrace House	Johor	-4.9%
Terrace House	Penang	72.0%	Detached	Johor	-2.4%
Semi-D	KL	70.1%	Semi-D	Johor	0.0%
Terrace House	KL	53.4%	Terrace House	Penang	4.1%
High Rise	Penang	49.0%	High Rise	Johor	6.9%

Note: The national average was an increase of 31% since 2000
Source: "Malaysia Market Strategy: Property boom-boom," 26 January 2011, UBS Investment Research

The Malaysian government is supportive of increased foreign ownership of properties. Foreigners can now own all types of residential property including landed property. There are no restrictions on the number of properties a foreigner can own. Bank Negara Malaysia has also made it conducive for foreigners to tap the local banks for loans. Real property gains tax is 5% for first five years and it is a level playing field. Since 2009, foreigners can also buy all types of property subject to a RM500,000 minimum level without FIC approval.

The price disparity has been wide and has grown even wider between Singapore and Malaysia, as the former has enjoyed a strong currency, the benefits of casino projects and liberal immigration policies. The measures taken by the Singapore government to cool its residential property market could encourage Singapore investors to buy properties overseas. Malaysian developers are actively promoting their projects to this market, riding on the back of improved Singapore-Malaysia bilateral ties and the prospect of MRT system linkage between Johor and Singapore by 2018 and a high speed rail system between Singapore and Kuala Lumpur. According to a UBS report, "….. in Nusajaya, Johor, landed residential stands at RM150-200 per square foot (psf) (based on built up area) and industrial lots are at RM28psf compared to SGD650psf and SGD137psf for residential and industrial land in industrial area Jurong, Singapore, respectively. Again, this is only 10% of Singapore prices.[19]"

[18] "UEM Land Holdings Bhd, One step closer to a new era in Malaysia-Singapore relations," 27 September 2010, Credit Suisse Research.
[19] "Malaysia Market Strategy: Property boom-boom," 26 January 2011, UBS Investment Research.

Oil, gas & energy: competing with Singapore?

PM Najib has made announcements for investments in the ETP (Economic Transformation Programme) projects between October 2010 and June 2011 valued at some RM173 billion. The top 10 projects amount to nearly RM142 billion or 82% of the total. By value, about 77% of the top 10 projects were initiated by Malaysian GLCs, about 12% came from the Malaysian private sector and 7% from FDI. However, as the Petronas refinery and petrochemicals complex (RAPID) project's RM60 billion investment will eventually come from a variety of investors (GLCs, domestic investors (non-GLC) and FDI), the GLC component will be diluted. (See table below)

While two economic corridors, ECER and SDC, feature in the top 10 projects listing, IM only features indirectly. The RM5 billion investment by Dialog Group in the Independent Deepwater Petroleum Terminal and the RM60 billion Petronas RAPID project will both be located in nearby Pengerang, near the south-east tip of Johor (directly east of Changi Airport on the east coast of Singapore). This area was chosen because its waters can reach depths of more than twenty metres, which is needed for very large crude carriers (VLCC) and ultra large crude carriers (ULCC). While these are located outside the IM economic corridor zone, the economic corridor would benefit from the spillover or multiplier effects from the construction and operation of these projects. Although the owners and promoters of these projects may say that they complement Singapore's petroleum hub role, they are more widely regarded as being competitive to the island state.

Top 10 ETP Projects (Oct 2010-June 2011)	Investment RM million	ETP Sector	Location (economic corridor)	Investor (initiated by)
Petronas; Refinery and Petrochemicals Integrated Development (RAPID); largest green-field investment by Petronas in downstream sector in APAC	60,000	Oil, gas & energy	Johor (*near IM)	GLC
MRT which connects Greater KL; three lines (without land acquisition and rolling stock)	36,600	Greater KL	Greater KL	GLC
ExxonMobil E&P Malaysia Inc and Petronas Carigali; projects for enhanced oil recovery activities in Tapis Field and development of Telok project; start-up 2013	10,000	Oil, gas & energy	Terengganu (ECER)	GLC & FDI
Consortium including Crystal Enterprises and Chen Lip Keong with landowners, Karumbunai Corp & Petaling Tin; develop Karambunai Integrated Resort City as a premier ecotourism destination	9,600	Tourism	Sabah (SDC)	non-GLC
Small Retailer Transformation Programme (TUKAR) to modernise sundry shops and prepare them for GST implementation	5,430	Wholesale & retail	Malaysia-wide	??
Shell Malaysia; upgrade/expand/build facilities across Malaysia including Shell MDS wax plant in Bintulu, new diesel processing in Port Dickson, Gumusut deepwater development offshore Sabah	5,100	Oil, gas & energy	Malaysia-wide (including SDC)	FDI
Dialog Group; develop Independent Deepwater Petroleum Terminal in Pengerang, Johor	5,100	Oil, gas & energy	Johor (*near IM)	non-GLC
Tenaga Nasional; three new power plants in 2011, two hydro plants (Ulu Jerai & Hulu Terengganu Hydroelectric), one coal plant in Perak and power transmission infrastructure	4,000	Oil, gas & energy	Pahang, Terengganu, Perak (ECER)	GLC
Tanjong Agas Oil & gas and Logistics Industrial Park in Pekan, Pahang over the next 10 years	3,000	Oil, gas & energy	Pahang (ECER)	GLC
Country Heights Group; MINES Resort City expanded into MINES Wellness City, an integrated health & wellness resort city.	3,000	Tourism, Healthcare	Greater KL	non-GLC
Total ETP projects investments:	172,700			
Top 10 - sub total	141,830	82%	of total	
Initiated by:				
Domestic investors (GLC)	108,600	77%	of top 10	
Domestic investors (non-GLC)	17,700	12%	of top 10	
FDI	10,100	7%	of top 10	

Note: *Pengerang, Johor is located east of the Iskandar Malaysia (IM) economic corridor.

Source: Pemandu, CIMB Research, CLSA Research with analysis by Khor Yu Leng

(For enlarged table see Appendix 9)

Petronas' massive investment is at the feasibility study stage. In its press release dated 13 May 2011, the Malaysia state oil and gas giant says that it will "comprise a crude oil refinery with a 300,000 barrels per day capacity[20], a naphtha cracker that will produce about three million tonnes of ethylene, propylene, C4 and C5 olefins per year, and a petrochemicals and polymer complex that will produce differentiated and highly-specialised chemicals….Greater in scale and scope than that of Petronas' Melaka, Kertih and Gebeng complexes combined, the proposed development is expected to turn Southern Johor into another major petroleum and petrochemical centre in the region. The area has been identified because of its strategic location, being near deepwater port facilities, international shipping lanes and regional demand centres. The project is expected to be commissioned by the end of 2016….. RAPID seeks to attract significant investments from international companies within and further down the business value chain… Petronas is also looking at the possibility of building a new liquefied natural gas receiving and re-gasification terminal in the area. The facility will not only support the energy needs of the complex but will also contribute to the efforts to diversify the sources of gas supply to meet existing and future gas demand in Peninsular Malaysia." The Johor government will be a joint-venture partner of the project and will provide the land.

Newspapers cite industry sources who say that this project is designed to replicate what Singapore has already done successfully. While the investments would come from Petronas and its partners, the Government was looking into allocating money for infrastructure developments in the area. Another aspect is for Malaysia to venture into the lucrative area of oil trading. Singapore accounts for hundreds of billions worth of oil trading every year (by 2007, more than RM1 trillion in physical oil trade and RM2 trillion in derivative trade), an area of business that is virtually absent in Malaysia. The Government may consider providing additional incentives to attract oil trading firms to be located in Johor.[21]

Factors influencing investments

Lacklustre investments in Malaysia have been attributed to concerns over the political climate and the lack of policy certainty: top-level policy flip-flops such as the reintroduction of property gains tax in October 2009; federal vs. state level policy frictions; and disjuncture between high level policy (typically freer and more market-friendly) and implementation on the ground (petty bureaucrats and protectionist behavior). Also, private and domestic foreigner investors preferred the opportunities afforded in the new emerging Asian economies and in the more liquid and transparent developed markets. According to the Economist Intelligence Unit (EIU), while Malaysia's ranking in regard to business environment has improved in global terms , its regional ranking is not expected to improve.[22] The political environment has continued to be dominated by tension over corruption, race and religion. Political risk remains heightened, especially since the 9 July 2011 NGO-organised march for free and fair elections in the country. In defiance of clampdowns by the government and threats from UMNO-linked Malay groups, over 20,000 people rallied in the streets of Kuala Lumpur. For his heavy-handed approach to this rally, PM Najib has been widely criticised in the local blogosphere and in the international press for a series of mis-steps that has even been described as Mubarak-esque by UK's The Guardian newspaper.

[20] Petronas owns and operates four (4) refineries (three in Malaysia and one in South Africa) with a total refining capacity of more than 448,000 barrels per day.
[21] "Petronas to announce RM50bil complex in Johor," 11 May 2011, The Star.
[22] Economist Intelligence Unit, www.eiu.com, accessed May 2011.

Malaysia business environment - rankings overview by EIU, September 2010:

Value of index[a]		Global rank[b]		Regional rank[c]	
2005-09	2010-14	2005-09	2010-14	2005-09	2010-14
7.16	7.44	26	23	6	6

[a] Out of 10. [b] Out of 82 countries. [c] Out of 17 countries: Australia, Bangladesh, China, Hong Kong, India, Indonesia, Japan, Malaysia, New Zealand, Pakistan, Philippines, Singapore, South Korea, Sri Lanka, Taiwan, Thailand and Vietnam.
Source: Economist Intelligence Unit, www.eiu.com, accessed May 2011

Singapore investors are perhaps affected more than the general foreign investor given their deep familiarity with their close neighbour and the spectacle of ongoing spats between PM Mahathir and Singapore's ex-PM Lee Kuan Yew over several decades. Singaporeans have en masse been negatively affected by the halt in CLOB trading of Malaysia shares in Singapore during the Asian Financial Crisis and treated to fairly frequent news articles about problems faced by fellow Singaporeans when visiting Johor or other parts of the Peninsula on weekends or holiday breaks.

Thus, Singaporean concerns are more particular and they relate to the Singapore-Malaysia bilateral relationship and ensuring security and safety in Johor. The former has been much improved and perhaps turned around. On the second, while Malaysia has made significant efforts to improve security via the application of more police and resources per capita in Johor over the last two years (it had previously been under-resourced compared to Selangor) and by allowing master developers to have private auxiliary security, the good efforts have been tainted by a widely reported June 2011 incident at the Johor immigration where two Singapore women were detained and made to do the infamous "nude squats". On the plus side, direct investors at IM can also benefit from lower electricity and rental costs, as well as speedier approvals—the time taken for project development and licensing approval is faster than at various government agencies outside IM.

Iskandar Malaysia – value proposition approvals timeline

Iskandar Malaysia Value Proposition		
Cost	Medini	Singapore
10kWh/mth	US$ 5460.50	US$ 6816.00
Office Rental psf	US$ 1.6-2.0	US$ 2.6-6.2
Retail Rental psf	US$ 1.37-13.7	US$ 7.11-34.33
Residential Non-Landed psf	US$ 0.55-0.68	US$ 2.17-8.61

Note: kWh = kilowatt hours

Source: "Iskandar Malaysia – reaching the tipping point," 18 April 2011, UOB Kay Hian.

Timeline (days) for project development & licensing approval in Malaysia			
	Agencies outside IM	IM's Target	Average Actu Timeline
Land Registration	30	14	2
Land Development	180	60	55
Planning Permission	92	30	25
Building Plans	92	30	26

Source: "Iskandar Malaysia – reaching the tipping point," 18 April 2011, UOB Kay Hian.

MALAYSIA-SINGAPORE ECONOMIC TIES

The potential to further develop Johor-Singapore linkages seem quite obvious: the economic linkages are already quite extensive as evidenced by the presence of Singapore small and medium-scale enterprise (SME) investments in the state and the heavy flow of Johor workers to Singapore on a daily basis.

The Comprehensive Development Plan for IM (Khazanah Nasional 2006) summarises the linkages in the manufacturing and services sectors and for human resources. In the manufacturing sector, they are as follows: a) vertical linkages, mainly in the E&E sector, with the value added and more skill- and knowledge- intensive activities located in Singapore while Johor hosts the lower value added and manufacturing end of the value chain; b) consumption linkages where Johor exports consumer products to Singapore and Johoreans shop in Singapore and make use of the airlines and other services in Singapore; c) horizontal/ parallel (competitive) developments for example, resource-based industries such as petrochemical, oleochemical, and some components of food and agro-processing industries that process raw materials obtained from Johor and other parts of the country for the domestic and export market; and d) horizontal development (competition) and integration in high technology industries which has yet to take place.

In the services sector, linkages with Singapore are strong in tourism and logistics, and for tourism it is largely a complementary development. Singapore's sea port is still an important outlet for exports from Johor and Changi airport is an important international gateway for Johor residents and visitors. However, both the Port of Tanjung Pelepas and Senai Airport are developing as largely horizontal (competitive) to those in Singapore. The plan for IM says that "while vertical and consumption linkages such as in E&E industries, logistic services, tourism, food and agro processing industries will continue and strengthen, future focus will be on further horizontal (competitive) developments, especially in high technology, knowledge-based as well as resource-based industries. This will include educational and health services, niche financial services and the ICT & creative industry.

In terms of human resources linkages, "it is estimated that 150,000 Malaysians are working in Singapore. Of this, about 41,000 are commuting daily (mostly from areas within IM). In 1989, the total number was around 24,000. About 51% of the commuting workers are employed in the E&E industries…. 60% of the commuters are Johor-born. Unlike those Malaysian workers that reside in Singapore who are mainly in the skilled professional and managerial class, the majority of commuting workers are unskilled and semi-skilled (general workers and machine operators). Only 16% are skilled workers – 10% are employed as technicians and 6% in managerial or administrative positions. The major attraction for these workers is the wage differential between Singapore and Johor. The salary differentials for Malaysian workers in Singapore could range from at least two to three times higher than that in Johor." (Khazanah Nasional 2006)

Singapore GLCs also have a presence in Malaysia, although they seem to prefer to keep a lower profile, and are more muted in the usage of their brandnames e.g. Capitaland participates via UM Land and Ireka Berhad; it is the owner of the Johor Bahru City Square shopping and commercial complex. The Malaysia Department of Statistics reports that Singapore was the first ranked market for Malaysia in 2010, with 13.4 % of the total; and among Malaysia's leading suppliers in 2010, Singapore was third, with 11.4% of the total. In 2010, merchandise exports (on a customs basis) to Singapore totalled USD198.9bn and imports amounted to USD164.8bn, yielding a trade surplus of USD34.1bn for Malaysia.

In contrast, to the large level of cross-border economic activities and interactions, top level policy makers have sounded 'cool' on the idea of Johor-Singapore ties until more recently. Malaysia-Singapore bilateral relations were quite obviously strained for many years, notably under the long- serving PM Mahathir. Insiders speculate that he had not been a keen promoter of Johor's economic development for several reasons: a) he may have taken for granted Johor state as it is a political stronghold for UMNO and the ruling BN coalition, and b) he may have harboured some private ambivalence, as Hussein Onn and Musa Hitam, two of his biggest political foes hailed from this state. As a result, Johor has developed the superficial image and reputation of being a slightly run-down border area where Singaporeans may venture forth with some trepidation for some cheap meals and hypermarket shopping. There, they risk robberies, immigration hassles and worse.

Since May 2010, Singapore-Malaysia relations have warmed with a landmark agreement to implement the 1990 Points of Agreement on Malaysian Railway Land in Singapore[23]. Land swaps in Singapore were agreed and a joint venture company owned by the two governments' investment arms would jointly develop the new land parcels. They also agreed to cooperate on projects such as a rapid transit system link between Johor Baru and Singapore, and a mixed development and wellness township in IM. This high-level deal is important in signaling long-term support from both Malaysia and Singapore for IM. GLCs are quite dominant in both these economies and they can be supportive of investments in IM, most likely targeting their favoured sectors.

Several Malaysian GLCs already have large stakes in IM, so it is really investments from more Singapore GLCs that have yet to come forth. Crucially, private sector (non-GLC) investments would be needed. In this regard, Singapore billionaire Peter Lim's Thomson Medical Centre purchase of 14 hectares of land in the Stulang Laut area for a medical facility and Raffles Education Corporation Limited's plan to set up the RM200 million Raffles University Iskandar are encouraging. Singapore-Malaysia political and economic ties will likely deepen as the Temasek-Khazanah ventures get underway.

[23] "Landmark land deal sealed," 21 September 2010, The Straits Times.

There is likely to be cooperation and tension as the two countries find themselves enjoying synergies in certain economic sectors but competing in others.

CONCLUSION: IM'S PROGRESS AND ITS FUTURE CHALLENGES

The assessment of IM can be split into two parts: i) the oil, gas and energy segment and ii) all the other segments. The former appears to have done particularly well in garnering investments, as south-east Johor benefits from its natural endowment of deepwater. However, the RM65 billion from the Petronas RAPID and Dialog petroleum hub projects are going to be implemented just east of the IM zone. They are therefore not part of the IM economic corridor but the spillover and multiplier-effects from the massive investments will benefit IM. This 'near miss' can therefore be counted as an indirect success for the economic corridor.

In the other segments, recent commentary about IM has been cautiously optimistic. UOB KayHian says that "(IM) has cumulatively attracted RM72 billion worth of investment commitments as at 1Q11 (2010: RM69 billion)…. However, notwithstanding the achievements, this phase is a crucial test-bed of IM's commercial viability as the present and ongoing catalytic projects (as well as investments) have essentially been driven by Khazanah". Two site visits to IM in recent months (in the first half of 2011) shows promise and activity, with infrastructure developments and busy construction sites in the Nusajaya area. The bustle of construction is related to state allocations and Khazanah's efforts. At the same time, IM also shows the impact of earlier missed expectations with a desolate and incomplete feel to Danga Bay and Puteri Harbour. These are related to domestic investors efforts, non-GLC and GLC.

It is therefore no surprise that analysts question the quality and pace of the investments at IM. The investment achievements of IM, while highly credible, remain below target (undershooting linear projections). IM's market share of recent investments announced under the ETP has been poor in the strict sense but measures at 38% if the Petronas RAPID and Dialog petroleum hub are generously counted.

The challenges for IM are several. In April 2011[24], Ratings Agency Malaysia chief economist Yeah Kim Leng said that "efforts would have to be re-doubled, otherwise Iskandar's organic growth would be very slow given the absence of critical mass. New supply chains and business linkages can only develop once this has been established". He was also of the view that 'bottlenecks' such as a proposed MRT station linking Iskandar with Singapore ought to be quickly resolved given the anticipated increase in passenger and goods movements. However, IRDA has said that both governments plan to undertake a study on how connectivity can be improved and were " at the final stages of determining if and at all where this link is going to be." At the same time, IRDA has proposed) an MRT network of some 500 km for Iskandar to meet its future needs, starting with a track of about 40 km around the flagship zones, with a first phase by 2020. Many agree that connectivity is a key issue.

Direct investors (both domestic and foreign) from the non-GLC private sector are cautious**.** They invest in many other countries and IM will have to compete for their attention. Success for the economic corridor would require that private sector direct

[24] "Tepid take-up at Iskandar M'sia," 14 April 2011, Singapore Business Times.

investments accelerate from now. These should be independent of sovereign funds, state corporations and GLCs. There is also concern over the ratio of actual to committed investments. These would all affect the timing of a real take-off for IM which needs to achieve critical mass. Some argue that this may only be when the Johor-Singapore transport linkages are expected, toward the end of the 2010s.

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Appendix 1

Iskandar Malaysia Economic Corridor

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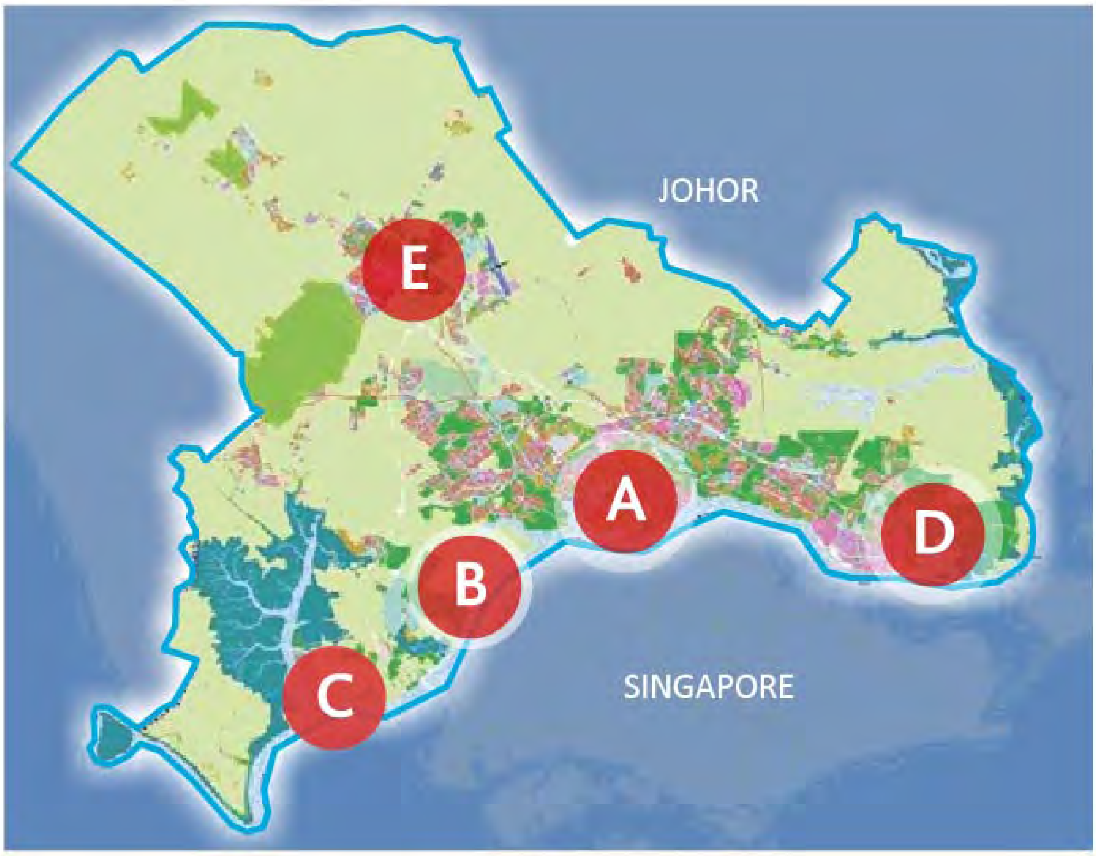
Appendix 2

Iskandar Malaysia (Geographic Clusters/Flagship Zones)



A: Johor Bahru City B : Nusajaya (including Medini) C : Western Gate Development
D : Eastern Gate Development E : Senai – Skudai

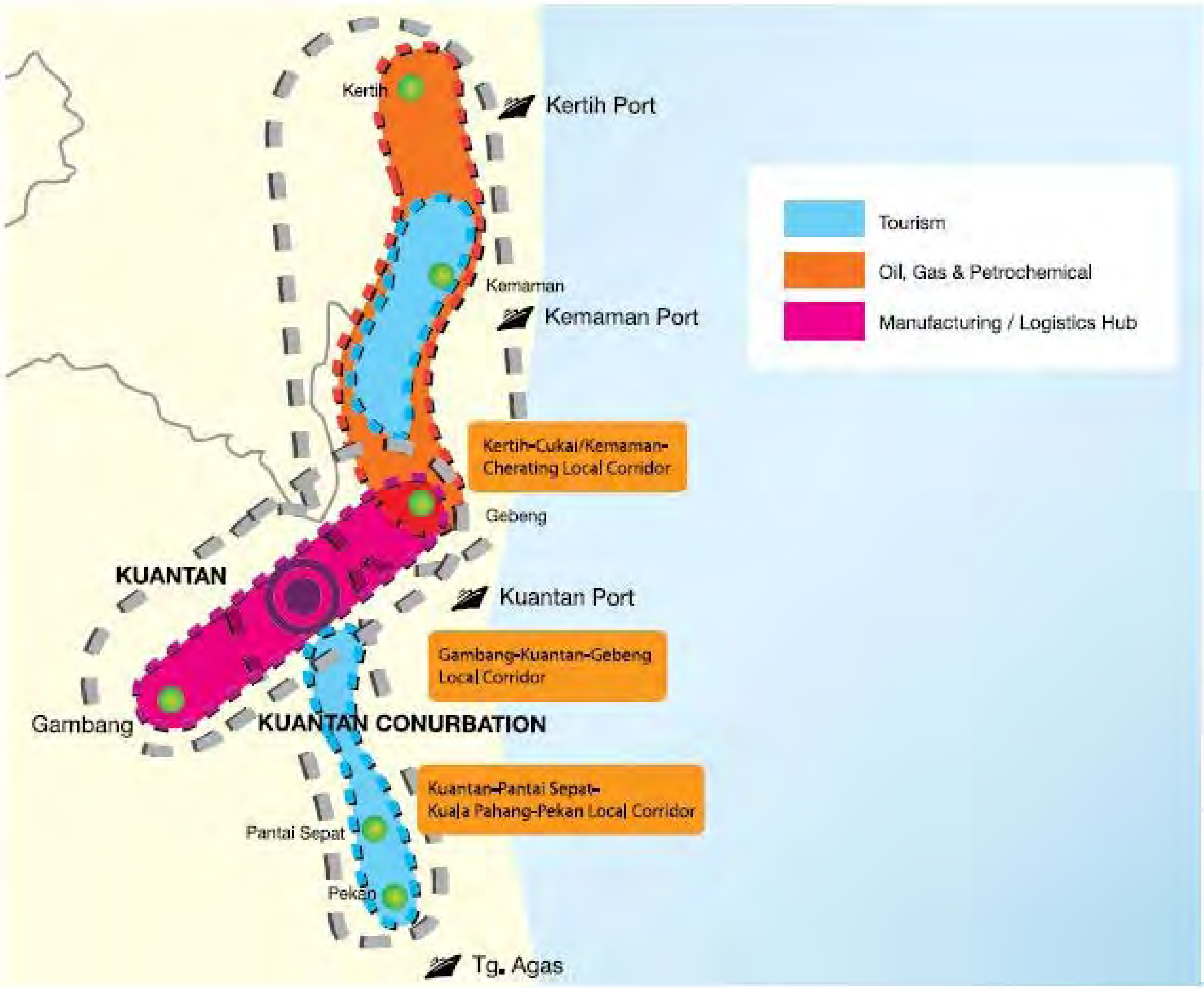
Medini-Iskandar Special Economic Zone Appendix 3

Appendix 4

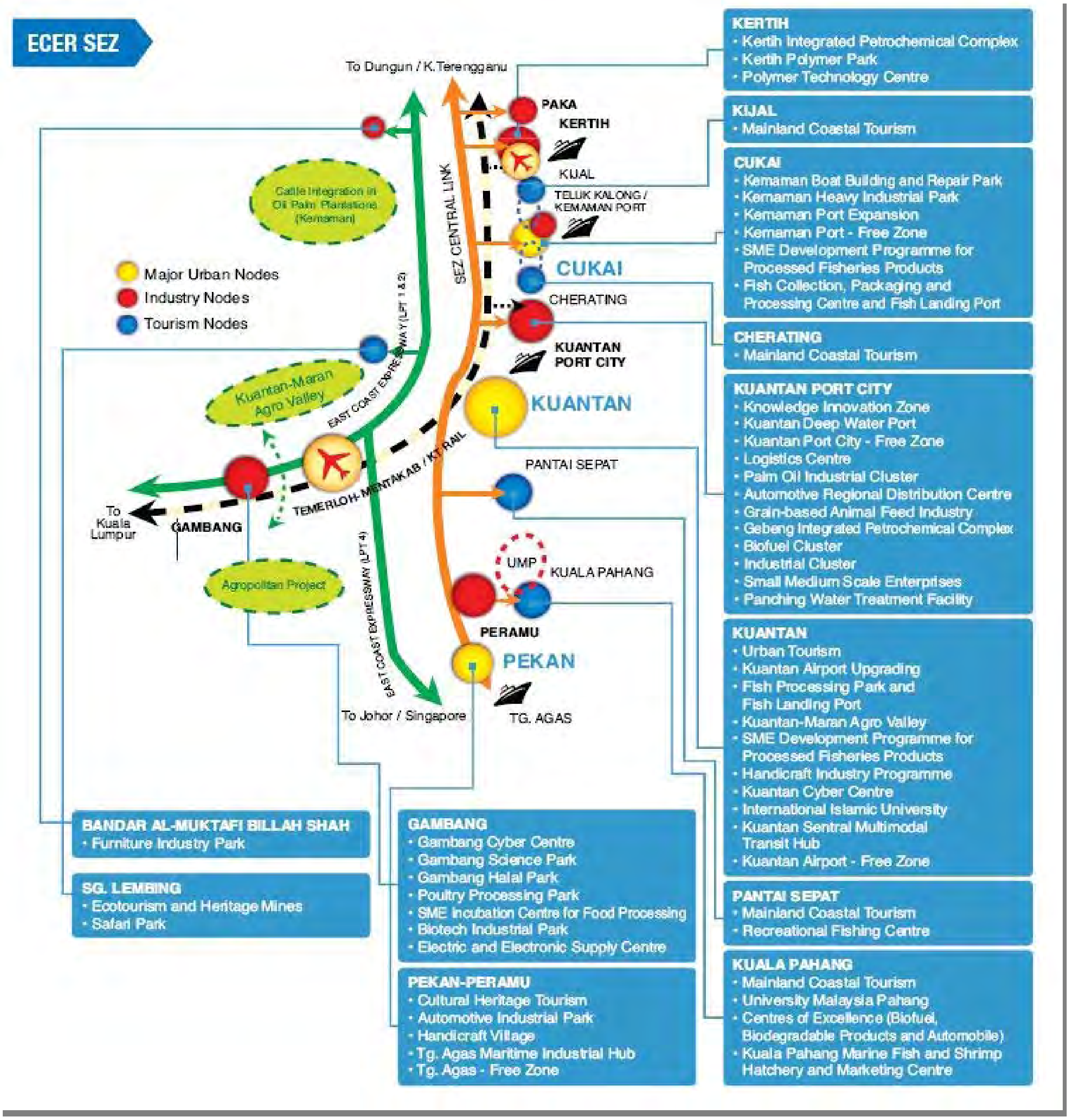
East Coast Economic Region (ECER)

Appendix 5

ECER Geographical Clusters

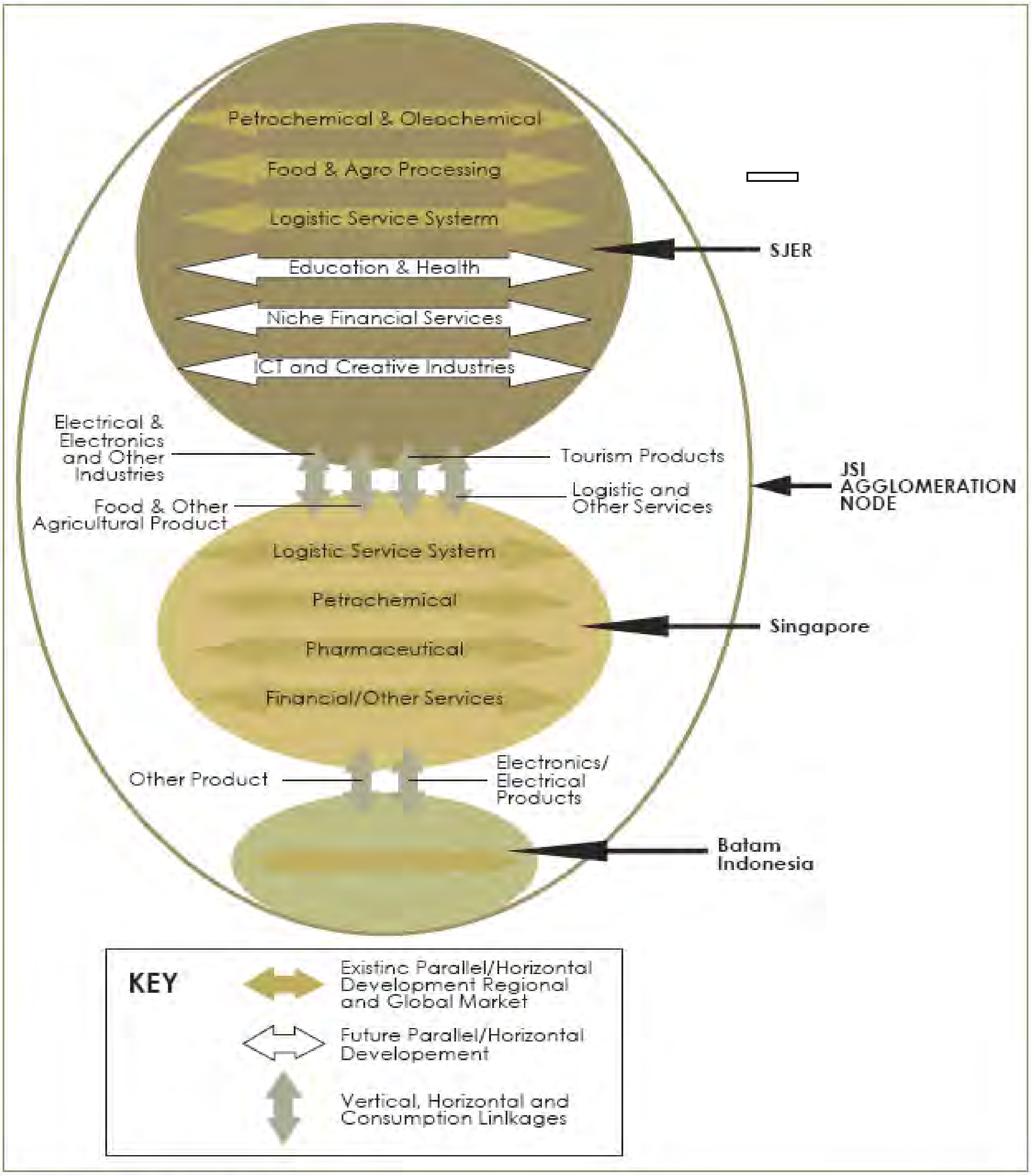


Appendix 6



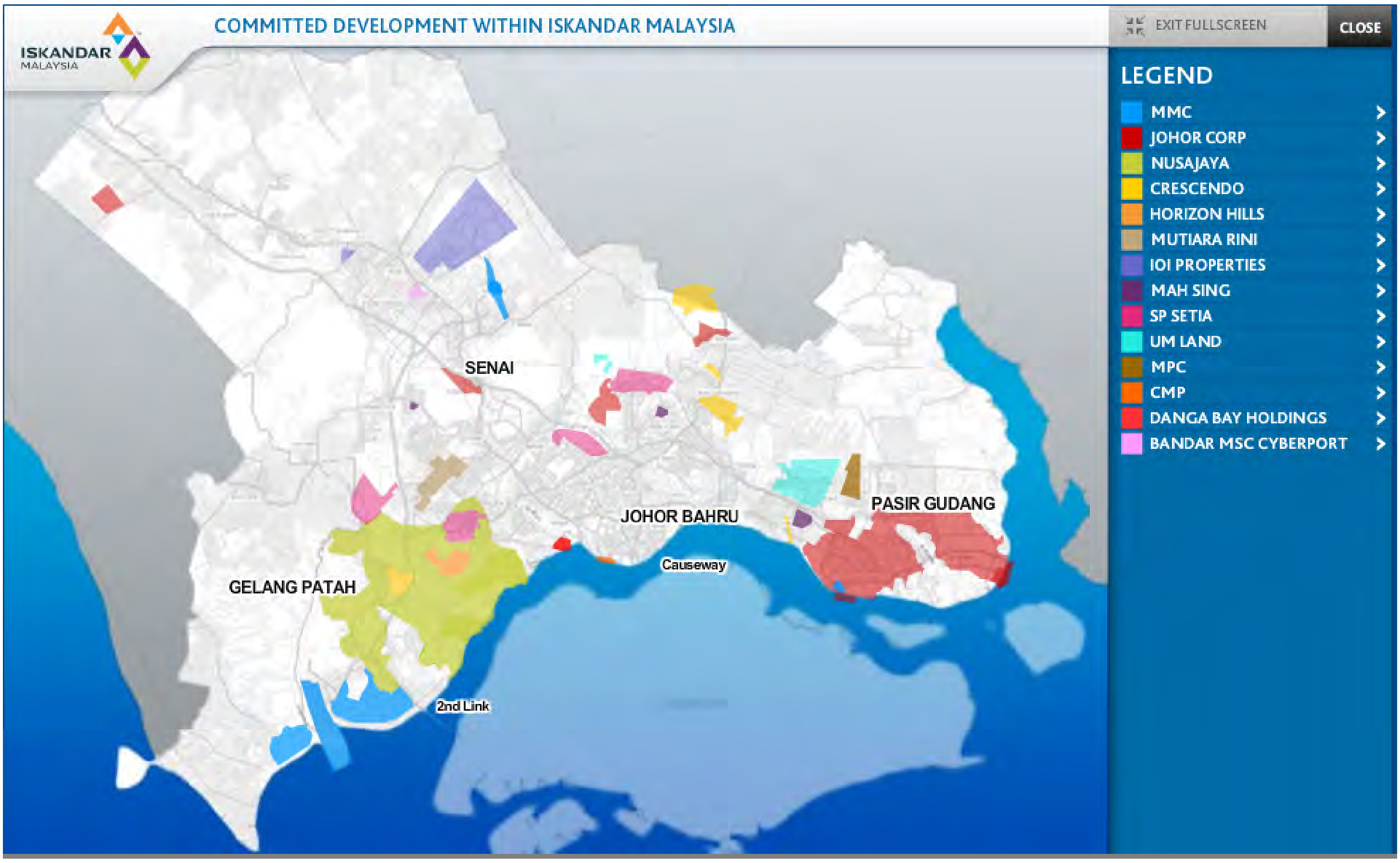
ECER SEZ
To Dungun / K.Terengganu
PAKA
KERTIH
KIJAL
TELUK KALONG / KEMAMAN PORT
CUKAI
CHERATING
KUANTAN PORT CITY
KUANTAN
PANTAI SEPAT
UMP
KUALA PAHANG
PERAMU
PEKAN
TG. AGAS
To Johor / Singapore
To Kuala Lumpur
GAMBANG
SEZ CENTRAL LINK
EAST COAST EXPRESSWAY (LPT 1 & 2)
EAST COAST EXPRESSWAY (LPT 4)
TEMERLOH-MENTAKAB / KT RAIL
Cattle Integration in Oil Palm Plantations (Kemaman)
Kuantan-Maran Agro Valley
Agropolitan Project
Major Urban Nodes
Industry Nodes
Tourism Nodes
KERTIH
• Kertih Integrated Petrochemical Complex
• Kertih Polymer Park
• Polymer Technology Centre
KIJAL
• Mainland Coastal Tourism
CUKAI
• Kemaman Boat Building and Repair Park
• Kemaman Heavy Industrial Park
• Kemaman Port Expansion
• Kemaman Port - Free Zone
• SME Development Programme for Processed Fisheries Products
• Fish Collection, Packaging and Processing Centre and Fish Landing Port
CHERATING
• Mainland Coastal Tourism
KUANTAN PORT CITY
• Knowledge Innovation Zone
• Kuantan Deep Water Port
• Kuantan Port City - Free Zone
• Logistics Centre
• Palm Oil Industrial Cluster
• Automotive Regional Distribution Centre
• Grain-based Animal Feed Industry
• Gebeng Integrated Petrochemical Complex
• Biofuel Cluster
• Industrial Cluster
• Small Medium Scale Enterprises
• Panching Water Treatment Facility
KUANTAN
• Urban Tourism
• Kuantan Airport Upgrading
• Fish Processing Park and Fish Landing Port
• Kuantan-Maran Agro Valley
• SME Development Programme for Processed Fisheries Products
• Handicraft Industry Programme
• Kuantan Cyber Centre
• International Islamic University
• Kuantan Sentral Multimodal Transit Hub
• Kuantan Airport - Free Zone
PANTAI SEPAT
• Mainland Coastal Tourism
• Recreational Fishing Centre
KUALA PAHANG
• Mainland Coastal Tourism
• University Malaysia Pahang
• Centres of Excellence (Biofuel, Biodegradable Products and Automobile)
• Kuala Pahang Marine Fish and Shrimp Hatchery and Marketing Centre
BANDAR AL-MUKTAFI BILLAH SHAH
• Furniture Industry Park
SG. LEMBING
• Ecotourism and Heritage Mines
• Safari Park
GAMBANG
• Gambang Cyber Centre
• Gambang Science Park
• Gambang Halal Park
• Poultry Processing Park
• SME Incubation Centre for Food Processing
• Biotech Industrial Park
• Electric and Electronic Supply Centre
PEKAN-PERAMU
• Cultural Heritage Tourism
• Automotive Industrial Park
• Handicraft Village
• Tg. Agas Maritime Industrial Hub
• Tg. Agas - Free Zone

Horizontal and Vertical Linkages within the Johor-Singapore-Indonesia (JSI) Agglomeration Node (Present and Future)



Source: SJER CDP 2025

Appendix 8



ISKANDAR MALAYSIA
COMMITTED DEVELOPMENT WITHIN ISKANDAR MALAYSIA
EXIT FULLSCREEN
CLOSE
LEGEND
MMC
JOHOR CORP
NUSAJAYA
CRESCENDO
HORIZON HILLS
MUTIARA RINI
IOI PROPERTIES
MAH SING
SP SETIA
UM LAND
MPC
CMP
DANGA BAY HOLDINGS
BANDAR MSC CYBERPORT
SENAI
JOHOR BAHRU
PASIR GUDANG
GELANG PATAH
Causeway
2nd Link

Appendix 9

Top 10 ETP Projects (Oct 2010-June 2011)	Investment RM million	ETP Sector	Location (economic corridor)	Investor (initiated by)
Petronas; Refinery and Petrochemicals Integrated Development (RAPID); largest green-field investment by Petronas in downstream sector in APAC	60,000	Oil, gas & energy	Johor (*near IM)	GLC
MRT which connects Greater KL; three lines (without land acquisition and rolling stock)	36,600	Greater KL	Greater KL	GLC
ExxonMobil E&P Malaysia Inc and Petronas Carigali; projects for enhanced oil recovery activities in Tapis Field and development of Telok project; start-up 2013	10,000	Oil, gas & energy	Terengganu (ECER)	GLC & FDI
Consortium including Crystal Enterprises and Chen Lip Keong with landowners, Karumbunai Corp & Petaling Tin; develop Karambunai Integrated Resort City as a premier ecotourism destination	9,600	Tourism	Sabah (SDC)	non-GLC
Small Retailer Transformation Programme (TUKAR) to modernise sundry shops and prepare them for GST implementation	5,430	Wholesale & retail	Malaysia-wide	??
Shell Malaysia; upgrade/expand/build facilities across Malaysia including Shell MDS wax plant in Bintulu, new diesel processing in Port Dickson, Gumusut deepwater development offshore Sabah	5,100	Oil, gas & energy	Malaysia-wide (including SDC)	FDI
Dialog Group; develop Independent Deepwater Petroleum Terminal in Pengerang, Johor	5,100	Oil, gas & energy	Johor (*near IM)	non-GLC
Tenaga Nasional; three new power plants in 2011, two hydro plants (Ulu Jerai & Hulu Terengganu Hydroelectric), one coal plant in Perak and power transmission infrastructure	4,000	Oil, gas & energy	Pahang, Terengganu , Perak (ECER)	GLC
Tanjong Agas Oil & gas and Logistics Industrial Park in Pekan, Pahang over the next 10 years	3,000	Oil, gas & energy	Pahang (ECER)	GLC
Country Heights Group; MINES Resort City expanded into MINES Wellness City, an integrated health & wellness resort city.	3,000	Tourism, Healthcare	Greater KL	non-GLC
Total ETP projects investments:	172,700			
Top 10 - sub total	141,830	82%	of total	
Initiated by:				
Domestic investors (GLC)	108,600	77%	of top 10	
Domestic investors (non-GLC)	17,700	12%	of top 10	
FDI	10,100	7%	of top 10	

Note: *Pengerang, Johor is located east of the Iskandar Malaysia (IM) economic corridor.

Source: Pemandu, CIMB Research, CLSA Research with analysis by Khor Yu Leng