Socio-Economic Research Centre

SERC 社会经济研究中心

Quarterly Economy Tracker (Oct-Dec 2024 & 2025 Outlook)

2025: Can the Government Rise to the Challenge?

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Agenda

1. Global Economy in the “VUCA” Year 2025
2. Malaysia’s Economic Outlook in 2025: Insights and Trends
3. Trump’s Trade and Economic Agenda: Potential Spillovers on Malaysia

Global Economic Outlook

The “VUCA” Year 2025

- *Easing inflation and continued monetary easing trajectory are expected to support the global economy in 2025.*
- *Persistent geopolitical conflicts and the Trump’s trade and economic agenda would stir influences on the global economy, trade, and financial markets.*
- *Economic growth will vary among advanced and emerging economies.*
- *Trump’s policies-induced high inflation risk could reset the Fed’s interest rate path.*

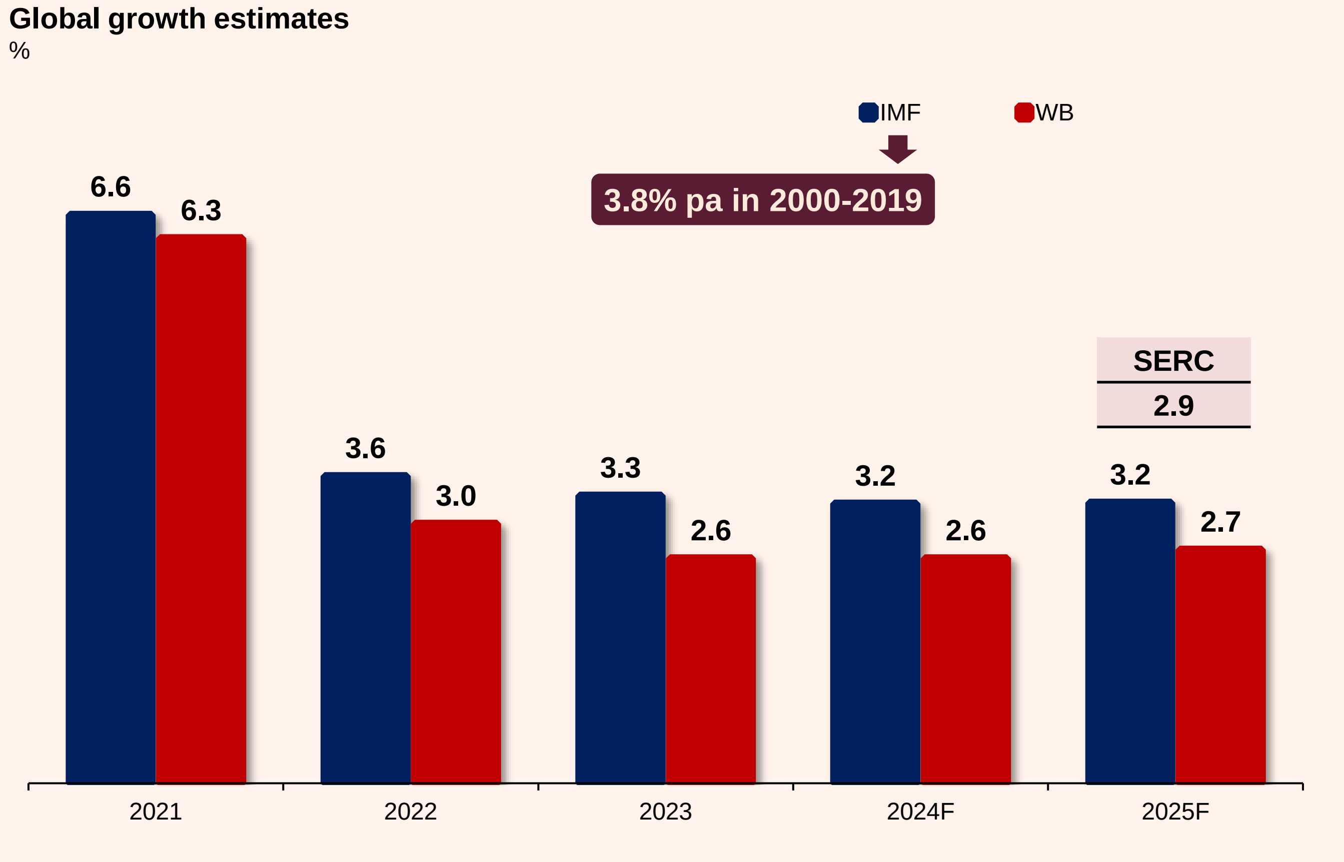
Volatility

Uncertainty

Complexity

Ambiguity

The global economy will continue to expand in 2025



What could go wrong?

#1 Geopolitical tensions and military conflicts

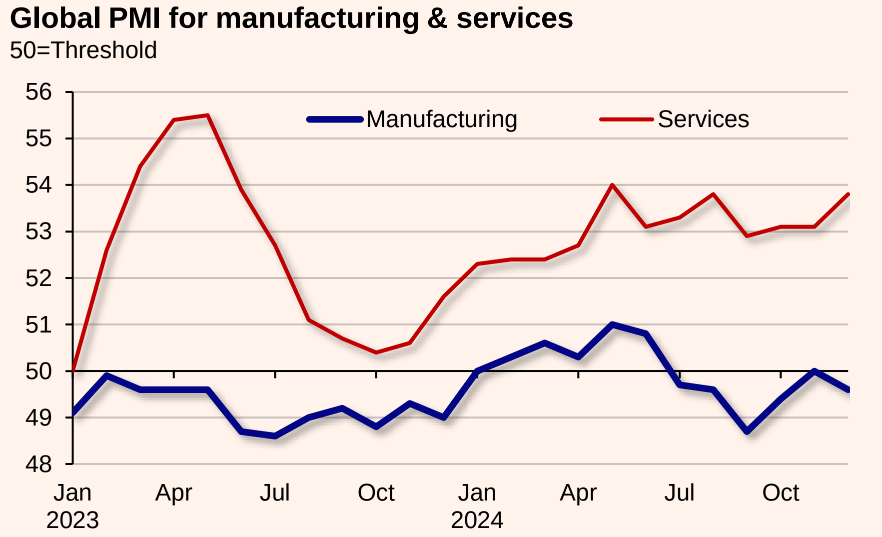
#2 Global trade war

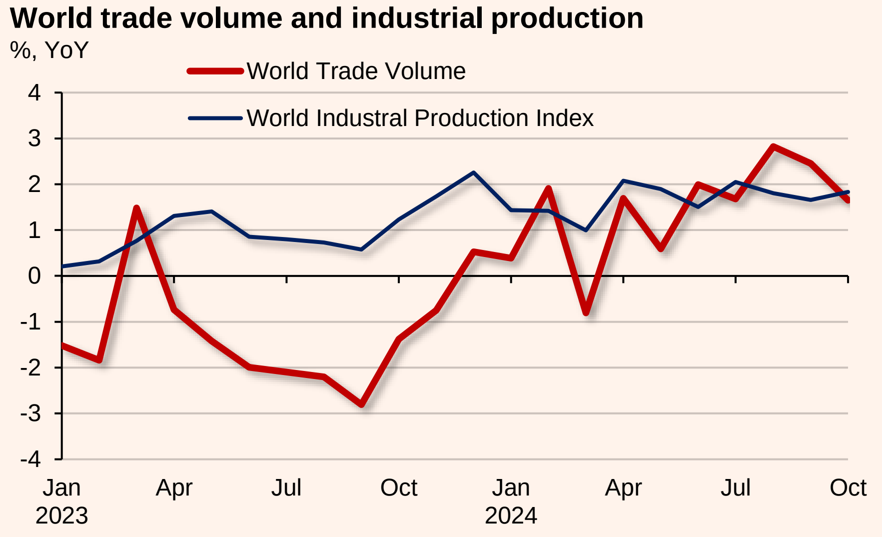
#3 Inflation risk flares up

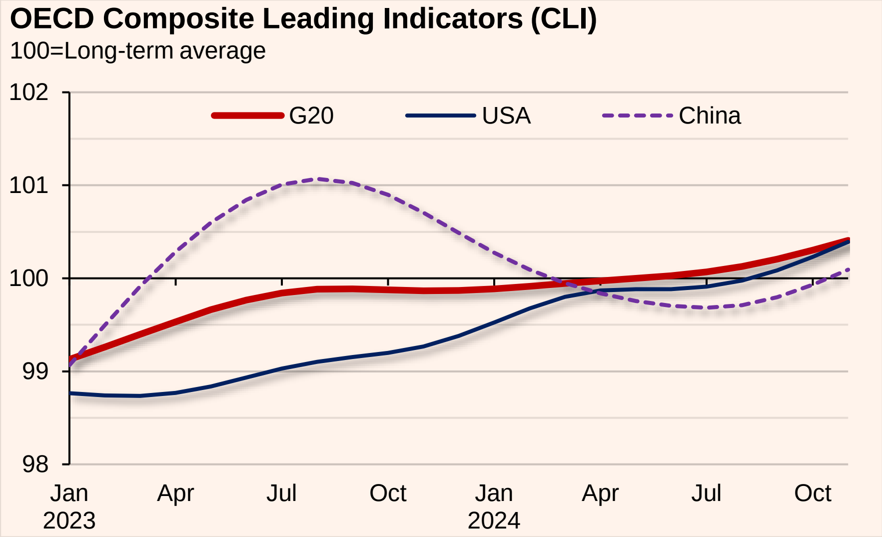
#4 Soaring global debt

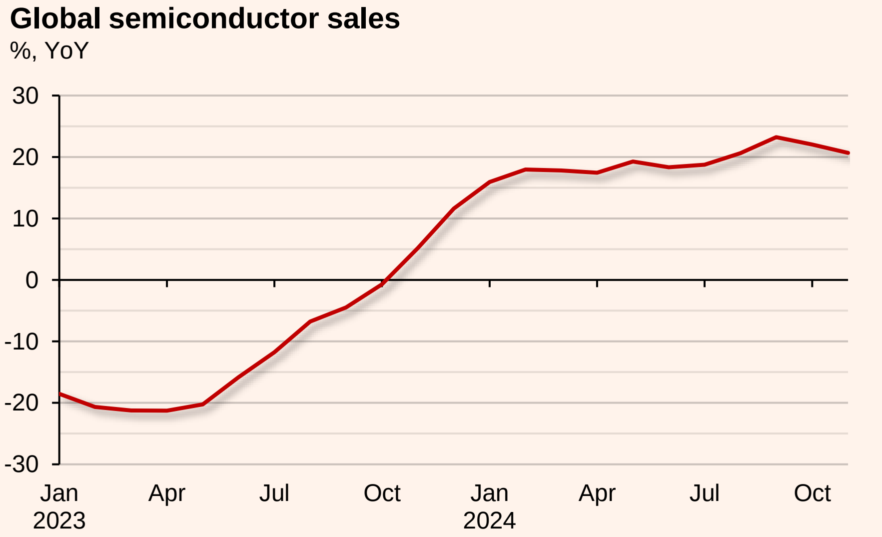
Source: International Monetary Fund (IMF); World Bank (WB)

Global current and forward indicators show mixed trends





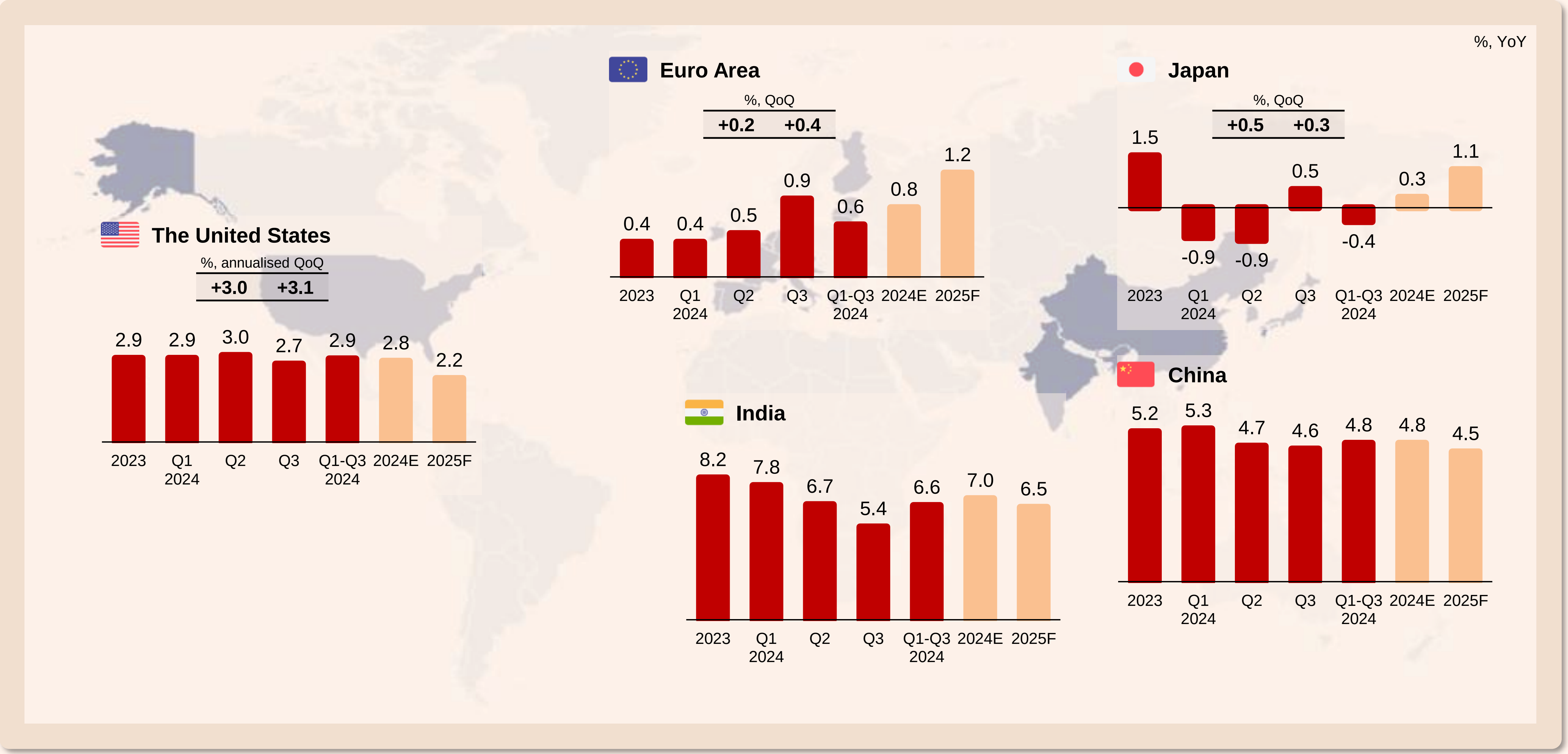




- Global manufacturing PMI fell below 50-pt again in Dec after at the threshold in Nov 2024.
- Global Services PMI remains on a robust trend.
- The OECD composite leading indicators signal steady global growth outlook.
- Global trade volume grew for the seventh consecutive month in Oct 2024.
- Global semiconductor sales surged 19.4% yoy in Jan-Nov 2024. The WSTS forecasts semiconductor sales will grow by 11.2% in 2025.

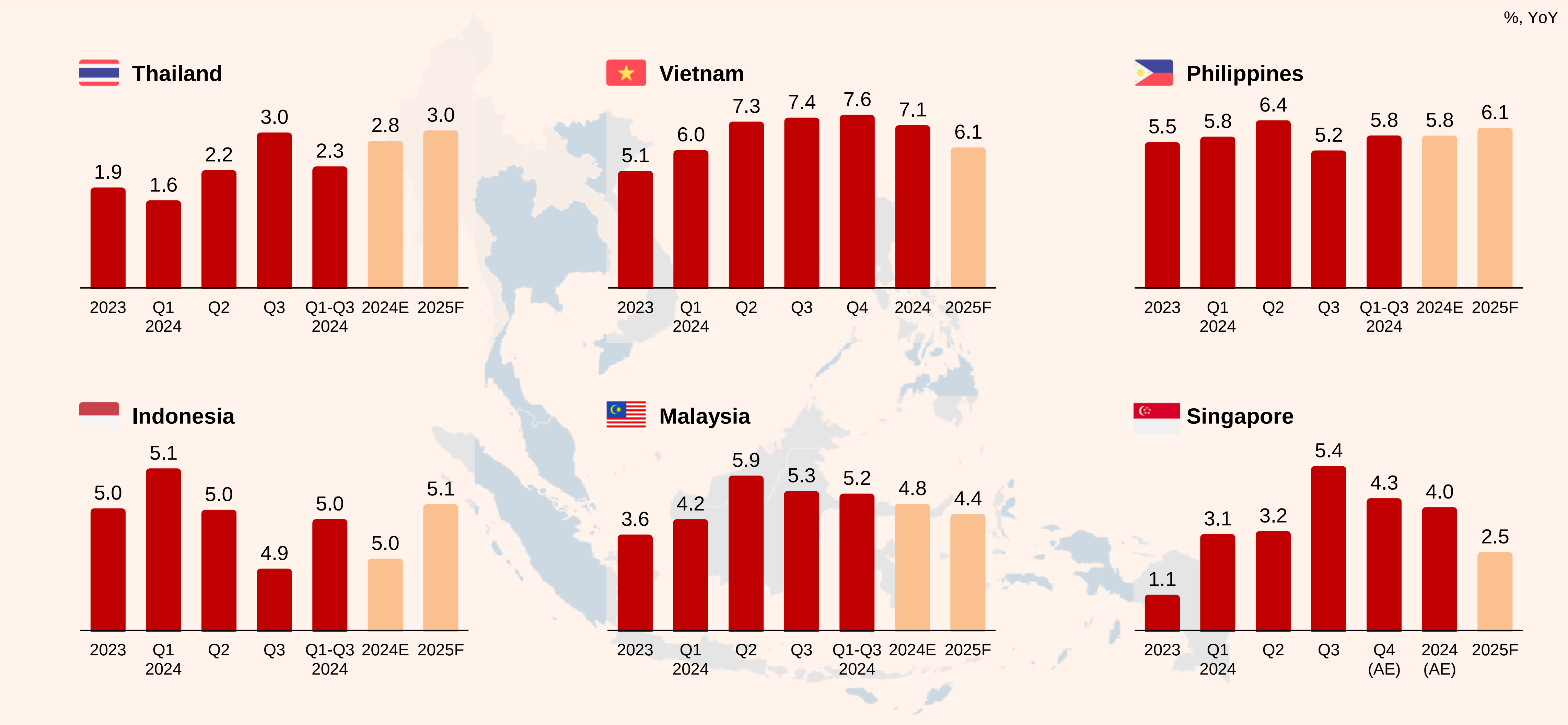
Source: S&P Global; Organisation for Economic Co-operation and Development (OECD); CPB Netherlands; Semiconductor Industry Association (SIA)

Growth varies among major economies



Source: Various officials (unadjusted data except for Euro Area); IMF's estimation and forecast *Note: Annual GDP for India is on fiscal year basis, as per reporting practice of the country.*

GDP growth outlook of selected ASEAN members



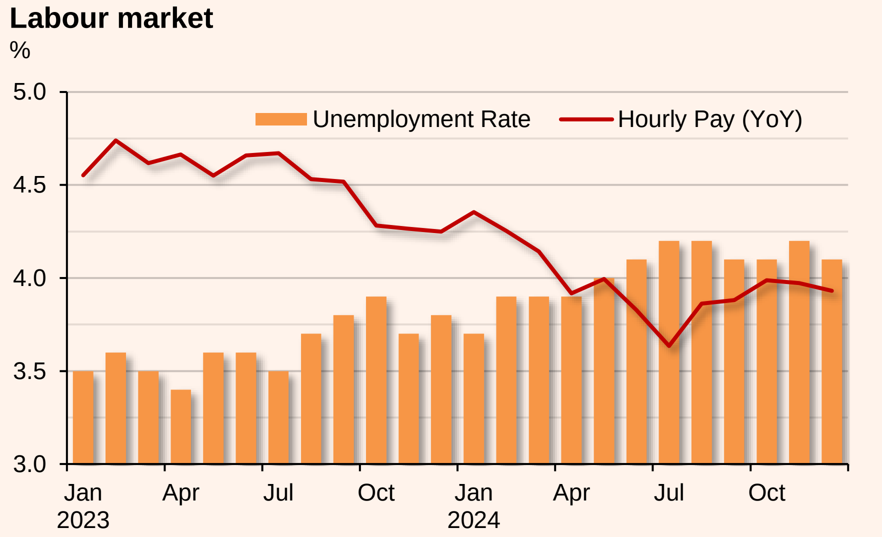
Source: Various officials; IMF's estimation and forecast

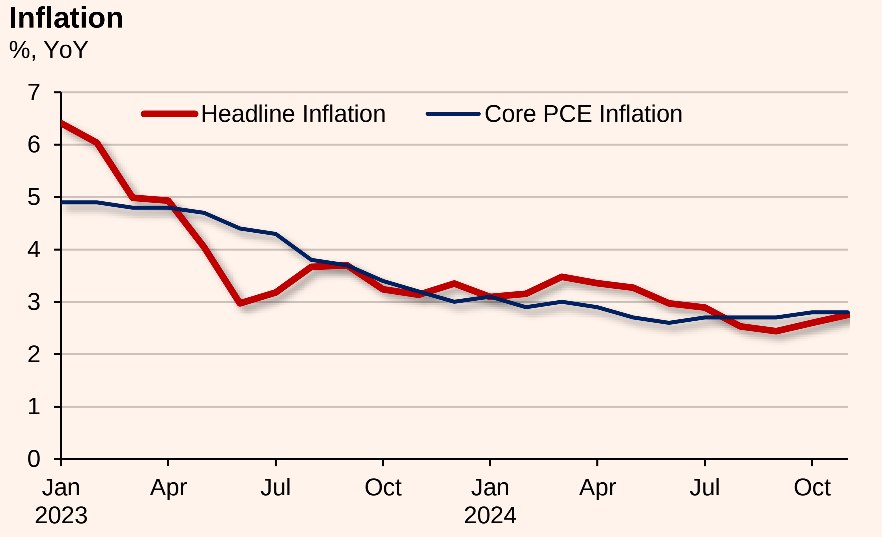
High frequency indicators in the US and Eurozone

The United States

All eyes are on Trump's policies

- Positive labour market conditions and wage growth.
- Market expects reduced Fed rate cut on the expectations of higher inflationary risk under Trump's policies.

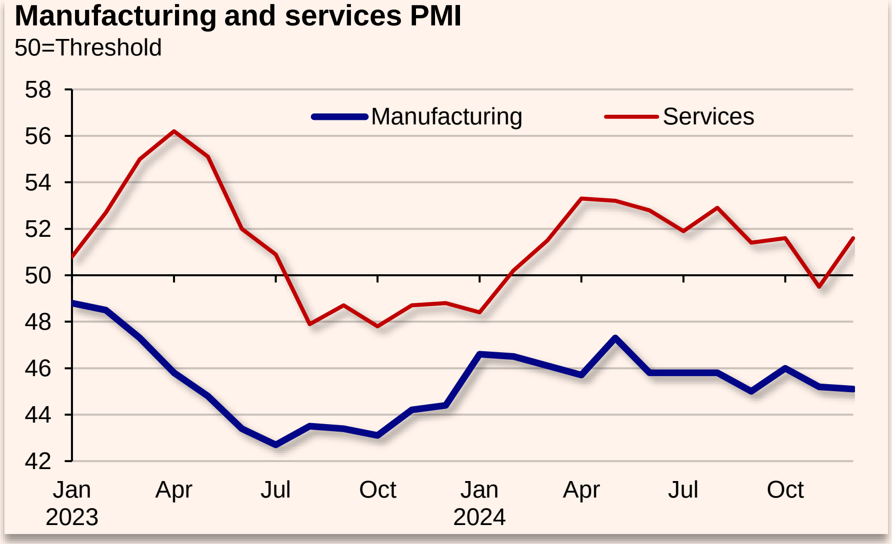


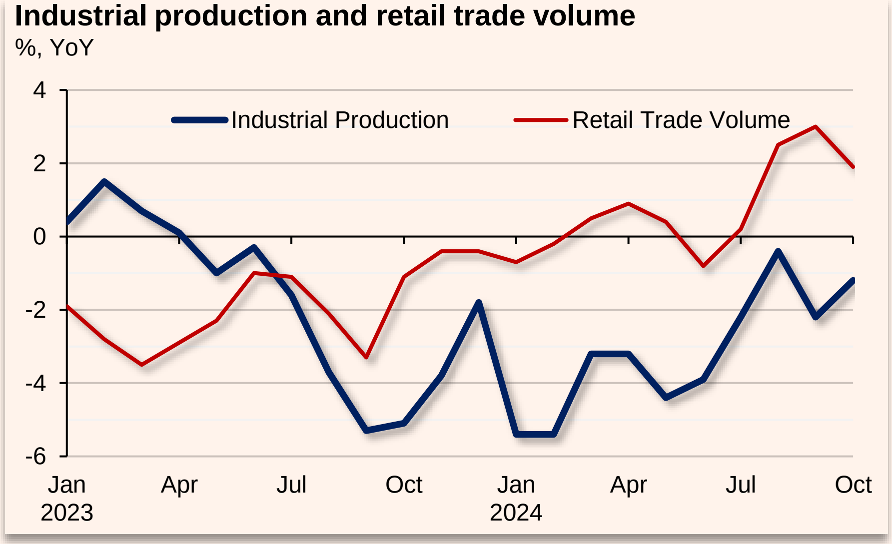


Euro Area

Modest expansion in 2025

- Industrial production posted an 18-month decline in Oct 2024.
- Disinflationary trend continues.
- Jobless rate at record low of 6.3% in Aug-Nov 2024.





Source: Institute for Supply Management (ISM); US Bureau of Labor Statistics; US Bureau of Economic Analysis (BEA); S&P Global; Eurostat

High frequency indicators in Japan and China

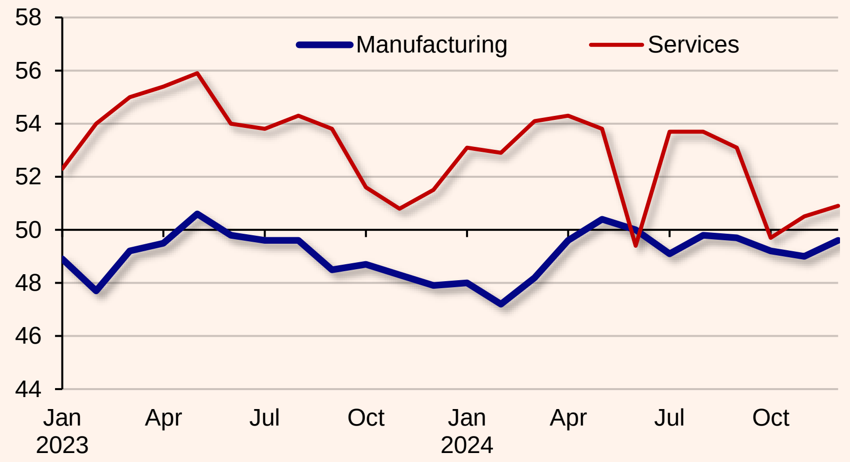
Japan

Struggling with a falling yen

- Inflationary pressure rises and consumer confidence dampened on the weakening yen.
- Trade deficit for five months in a row since Jul 2024.

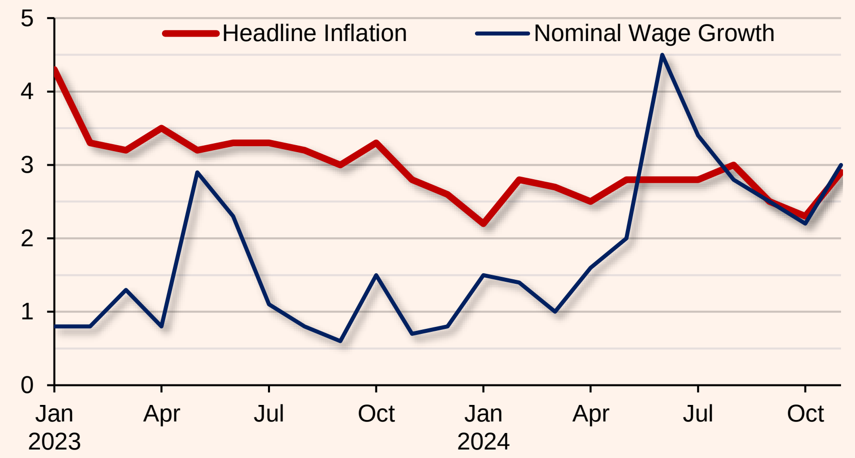
Manufacturing and services PMI

50=Threshold



Inflation and wage growth

%, YoY



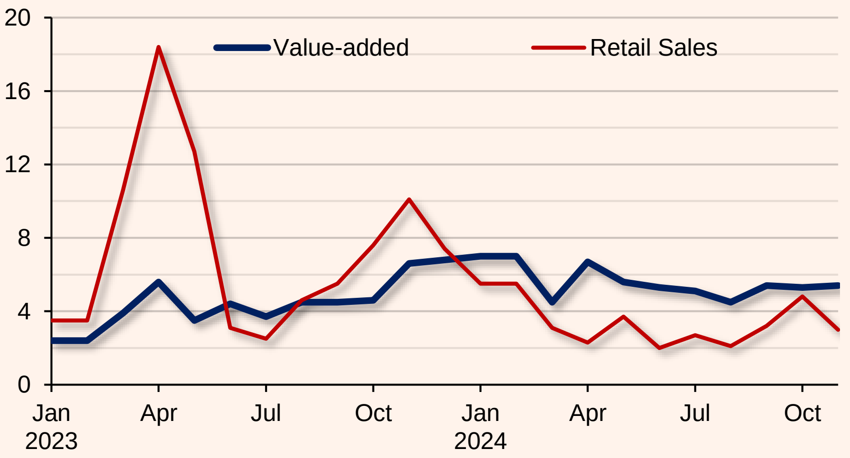
China

Will the massive stimulus work?

- Deflationary risk reflecting weak consumer demand.
- Exports value (in the USD terms) reached a 26-month high in Nov 2024.

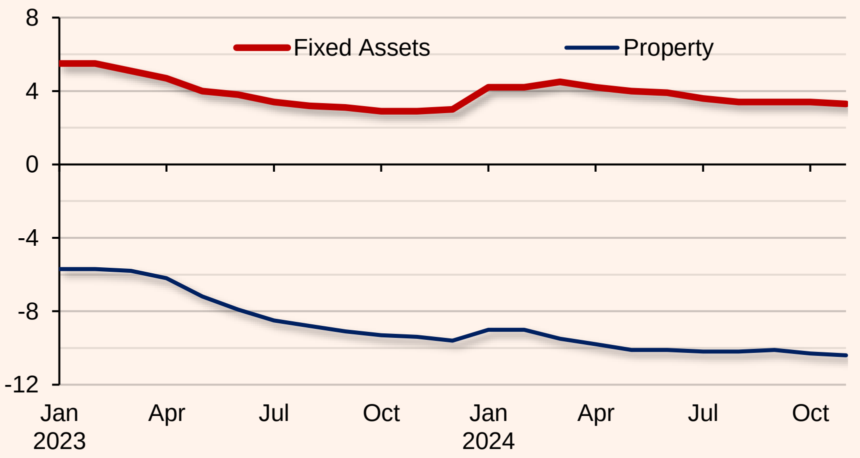
Industrial production and retail trade volume

%, YoY



Accumulated fixed assets and property investment

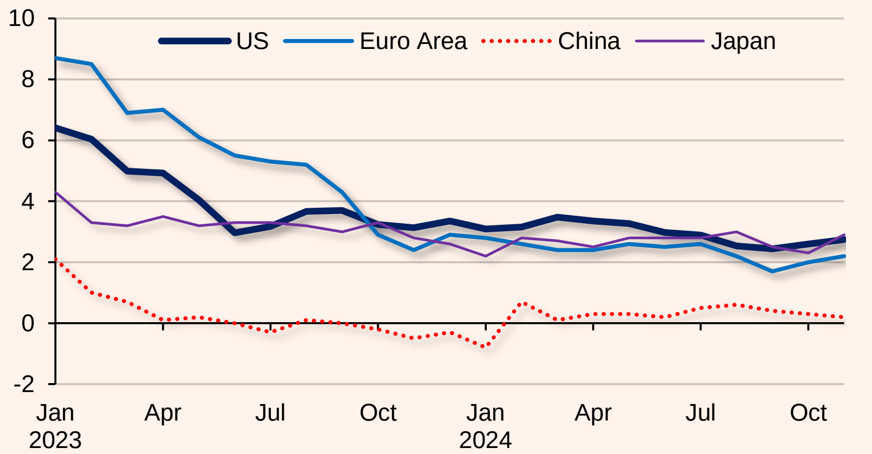
%, YoY



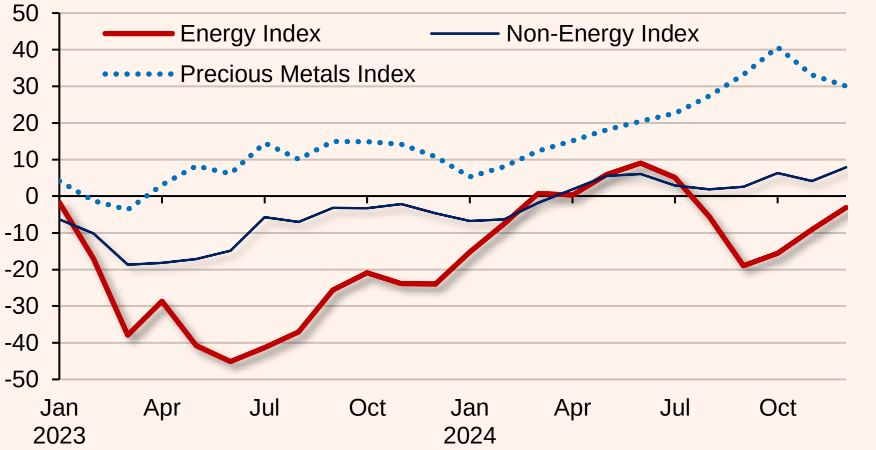
Source: S&P Global; Statistics Bureau, Japan; Ministry of Health, Labour and Welfare (MHLW), Japan; National Bureau of Statistics of China (NBS China)

Global disinflation process continues

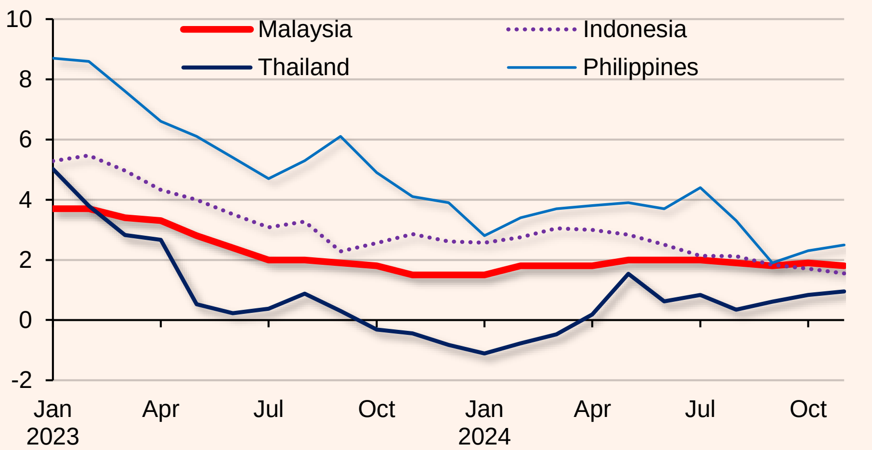
Inflation – Major economies
%, YoY



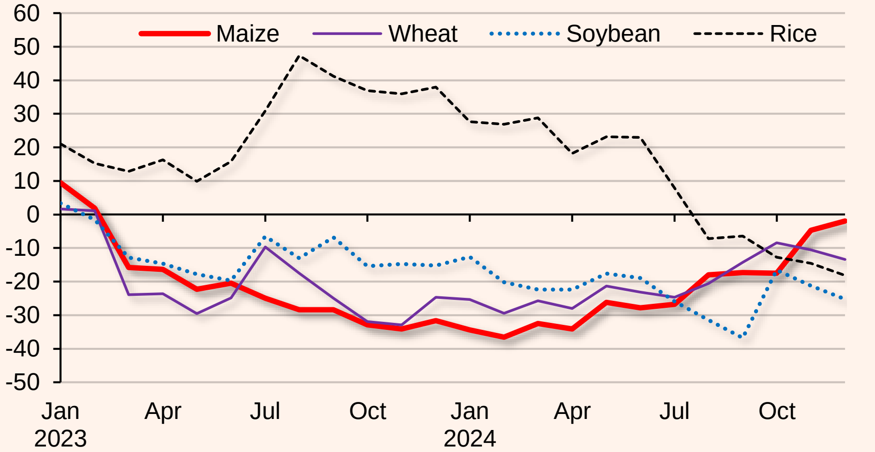
Price Index
%, YoY



Inflation – Selected ASEAN economies
%, YoY



Selected global food prices
%, YoY



- Services inflation seen in some advanced economies.
- Stickiness in the last mile of disinflation to meet some major central banks' target.
- Upside risks to inflation: Intensifying global geopolitical conflicts and ensuing risk to the supply chains, commodity and energy prices.
- Trump's economic plans would worsen inflation.
- According to Drewry's World Container Index (WCI), the price of a 40ft container increased by 28.8%, rising from USD3,095 (24 Oct 2024) to USD3,986 (9 Jan 2025).

Source: World Bank; Various officials for inflation data

Global monetary policy tracker

Increase
Reduce
No change

Policy rate (%, end-period)

Central Bank	2019	2020	2021	2022	2023	2024	2025*F*
US, FED Federal Funds Rate	1.50-1.75	0.00-0.25	0.00-0.25	4.25-4.50	5.25-5.50	4.25-4.50	3.75-4.00
Euro Area, ECB Deposit Facility	-0.50	-0.50	-0.50	2.00	4.00	3.00	2.00
Japan, BOJ Overnight Call Rate	-0.10	-0.10	-0.10	-0.10	-0.10	0.25	0.75
China, PBC 1-year Loan Prime Rate (LPR)	4.15	3.85	3.80	3.65	3.45	3.10	3.00
UK, BOE Bank Rate	0.75	0.10	0.25	3.50	5.25	4.75	3.75
Australia, RBA Cash Rate	0.75	0.10	0.10	3.10	4.35	4.35	3.35
India, RBI Policy Repo Rate (LAF)	5.15	4.00	4.00	6.25	6.50	6.50	6.00
South Korea, BOK Base Rate	1.25	0.50	1.00	3.25	3.50	3.25	3.00
Malaysia, BNM Overnight Policy Rate	3.00	1.75	1.75	2.75	3.00	3.00	3.00
Indonesia, BI BI-Rate	5.00	3.75	3.50	5.50	6.00	6.00	5.50
Thailand, BOT 1-Day Bilateral Repurchase Rate	1.25	0.50	0.50	1.25	2.50	2.25	2.00
Philippines, BSP Target RRP Rate	4.00	2.00	2.00	5.50	6.50	5.75	5.25

Source: Various officials; SERC's forecasts

Malaysia’s Economic Outlook

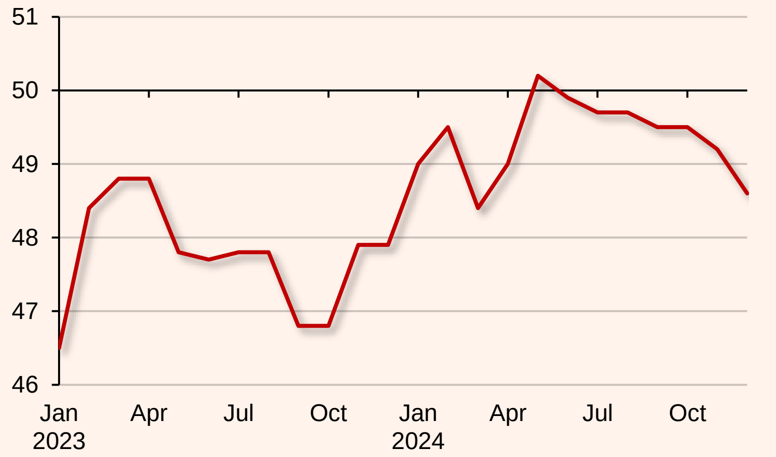
Cautiously Promising Outlook 2025: Insights and Trends

- *Continued economic expansion amid facing external and domestic challenges.*
- *Supportive expansionary fiscal and still accommodative interest rates.*
- *Domestic demand still anchoring growth.*
- *Trump’s blanket tariffs policy will impact exports and investment flows.*
- *Inflationary pressure and increased business costs.*
- *BNM to keep interest rate steady at 3.00% in 2025.*

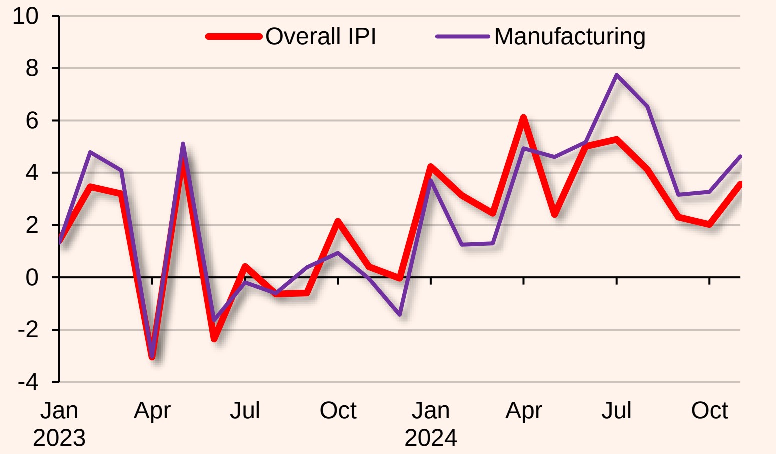
Tracking Malaysia's economic indicators

Leading indicators
%, YoY

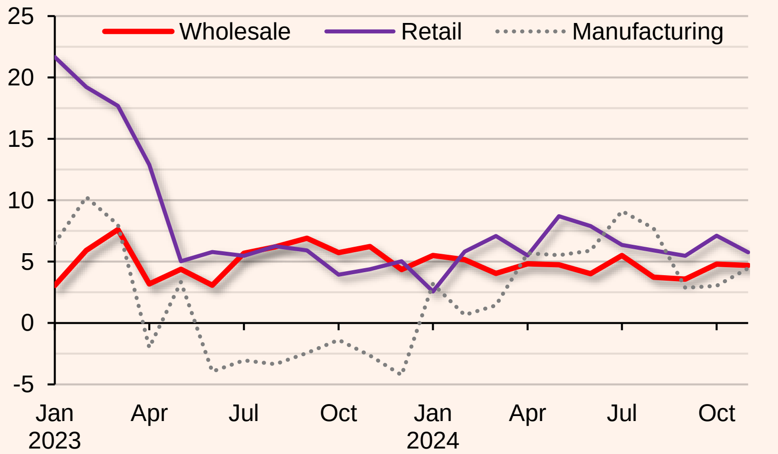
Purchasing Managers' Index (PMI)
50=Threshold



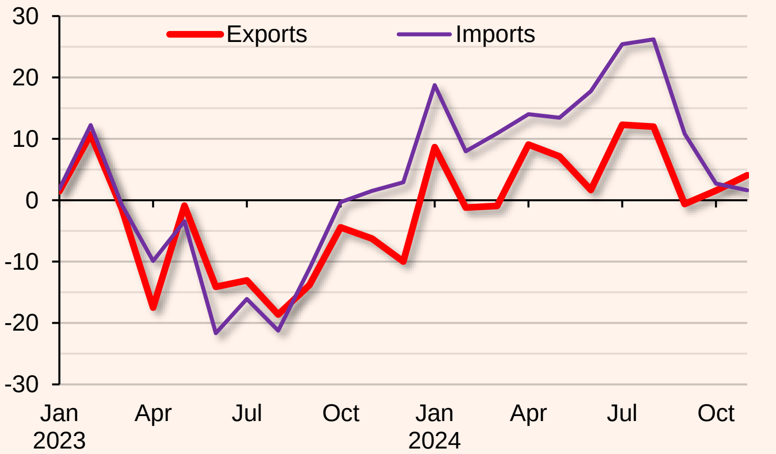
Industrial production index (IPI)
%, YoY



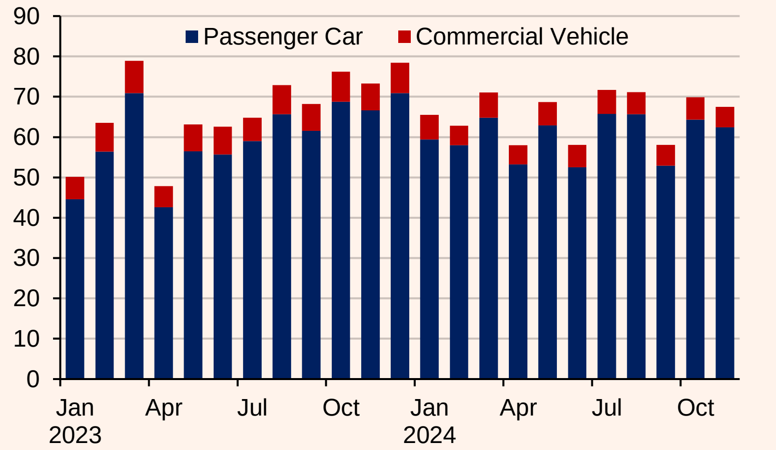
Wholesale, retail & manufacturing sales
%, YoY



External trade
%, YoY

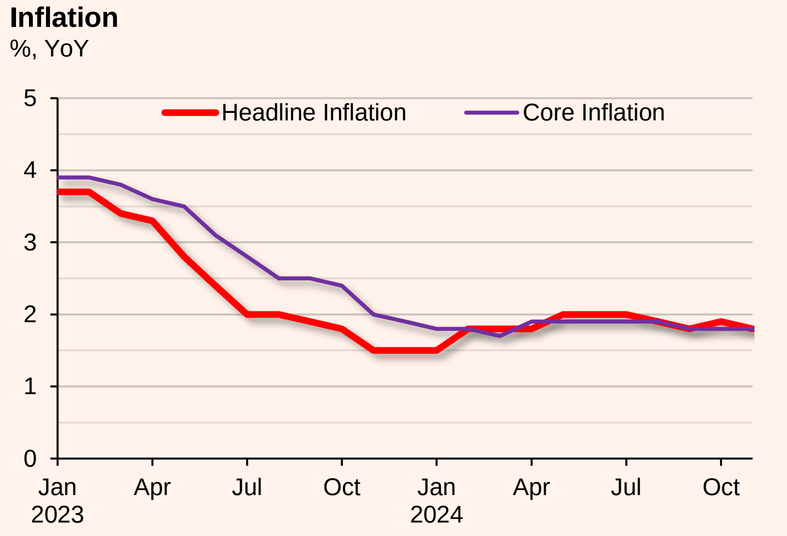


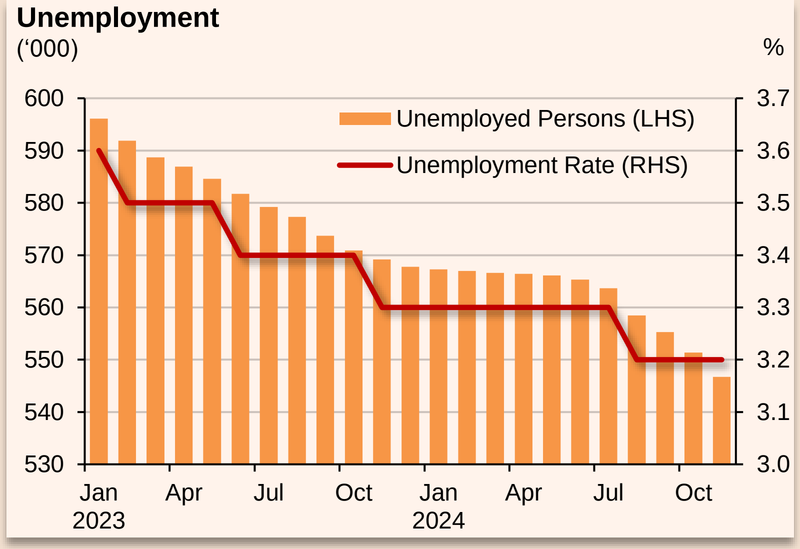
Sales of passenger & commercial vehicles
Thousand units

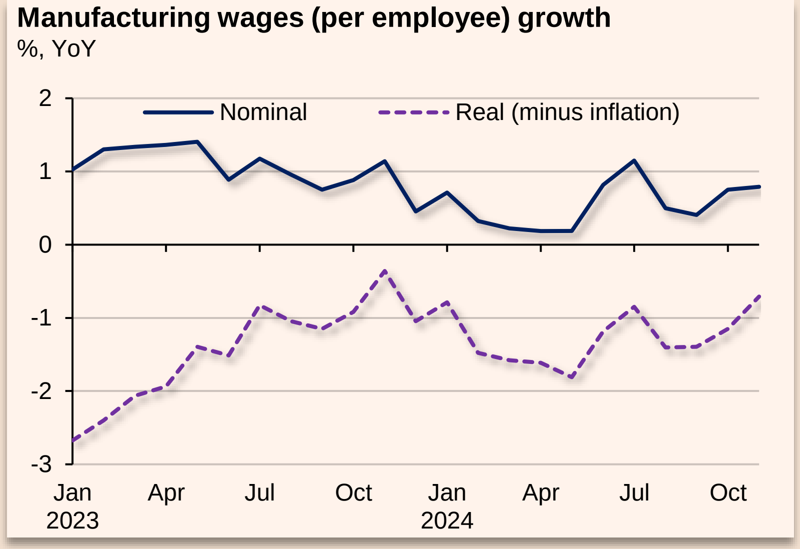


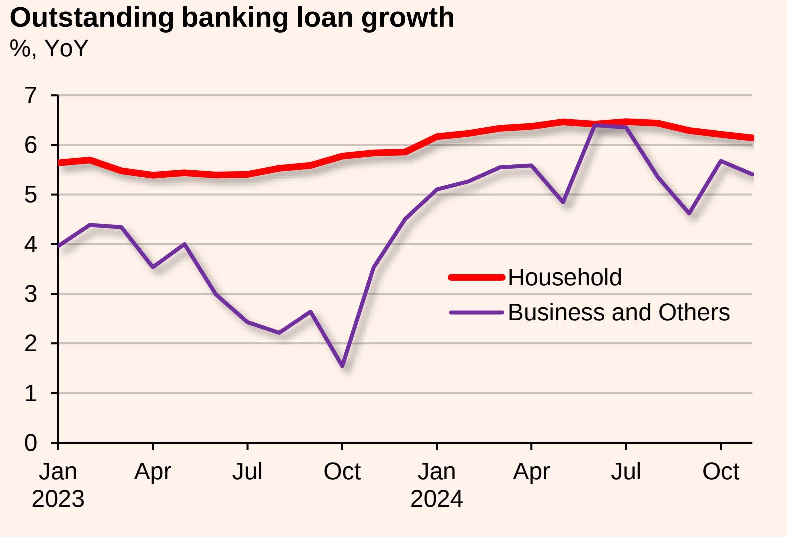
Source: DOSM; S&P Global; Malaysian Automotive Association (MAA)

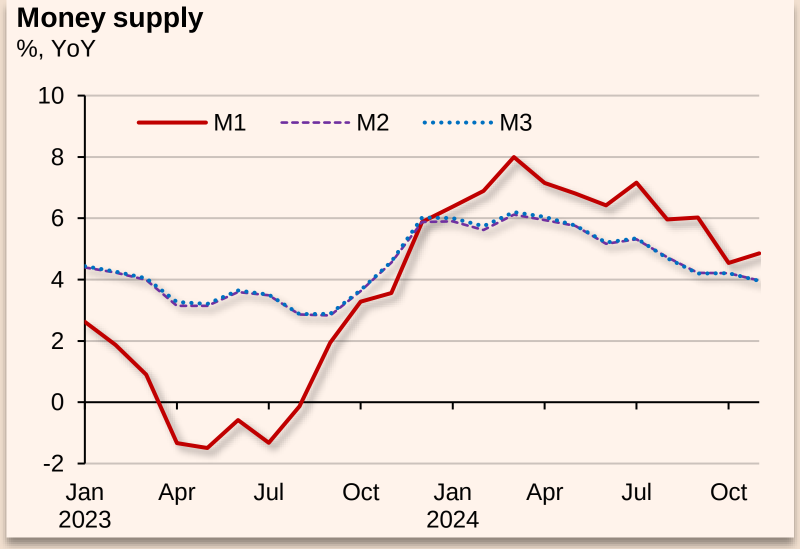
Tracking Malaysia's economic indicators (cont.)







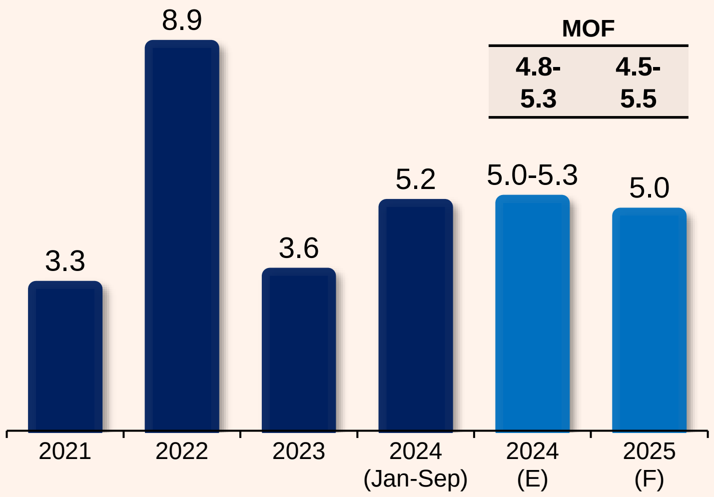




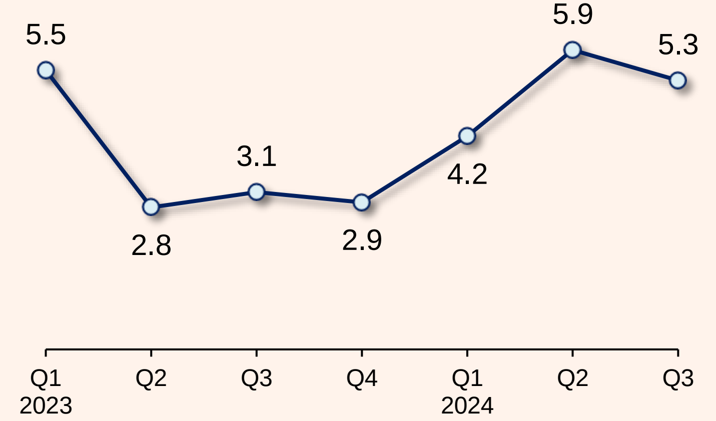
Source: DOSM; BNM; MIDA

The Malaysian economy to stay on course amid headwinds

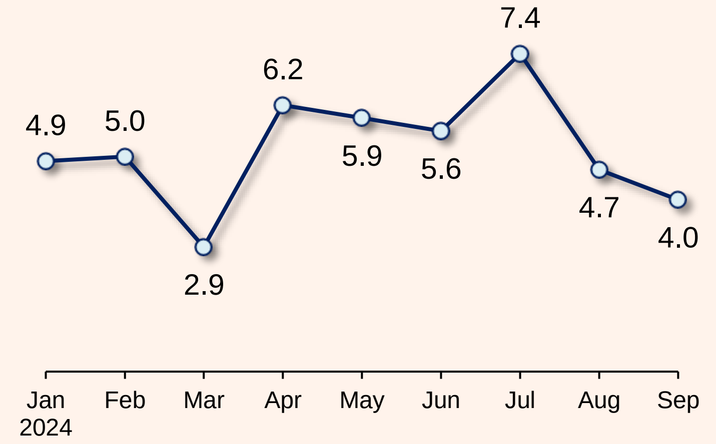
Annual GDP growth (%)



Quarterly %, YoY



Monthly %, YoY



Drivers of growth:

#1 Firm labour market conditions and improvements in discretionary consumer spending: Higher minimum wage, higher cash aids, and the EPF Flexible Account

#2 On-going public infrastructure projects; multi-year private investment cycle ahead

#3 Sustained tourism activities

Risks for 2025: Largely external-driven

#1 Trump's tariffs-inflicted trade war causes supply chains disruption

#2 Further escalation of geopolitical conflicts

#3 Weaker-than-expected global growth, particularly the US and China

#4 Lower commodity and energy prices

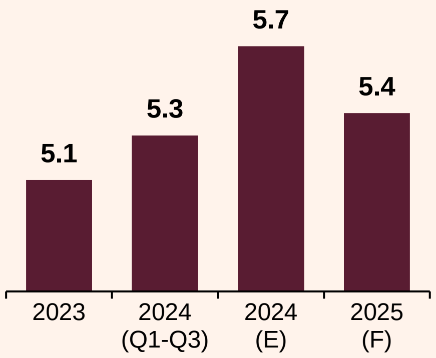
#5 Faster-than-expected inflation
(petrol subsidy rationalisation, SST scope expansion, and inputs cost inflation)

Source: DOSM; MOF; SERC's estimation and forecast

Bolstered by services, manufacturing, and construction activities

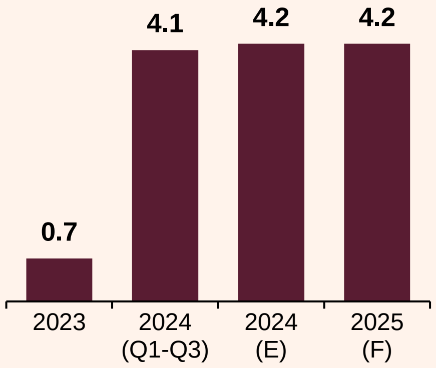
GDP growth by economic sector (%, YoY)

Services



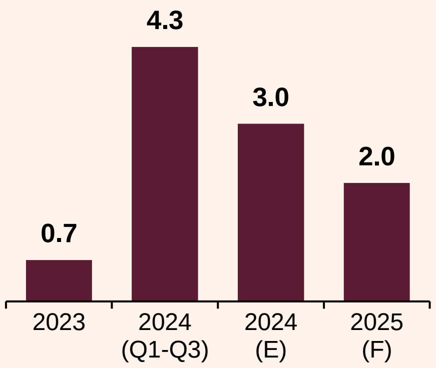
- Continuous consumer spending.
- Robust tourism-related activities.
- Increased business- and trade-related activities, benefitting professional and business activities as well as logistic industry.

Manufacturing



- Implementation of major policies (e.g. NIMP 2030, NETR, NSS).
- Increasing approved and realised investment propel growth in manufacturing of construction materials.
- Higher demand in electronic components and semiconductors.

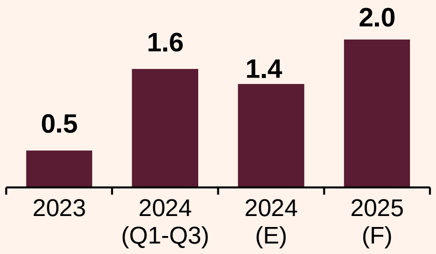
Agriculture



- Plantation sector continues driven by palm oil and rubber production.
- Other agriculture, livestock and fishing subsectors supported by National Agrofood Policy 2021-2030.

CPO Prices:
2025F: RM3,500-RM4,000/tonne
(2024: RM4,180/tonne)

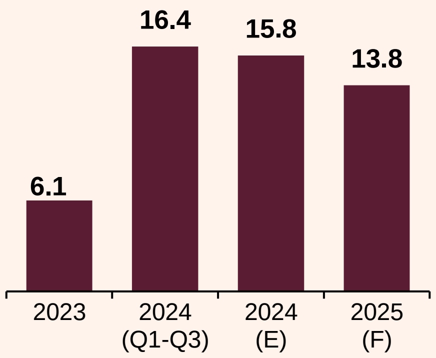
Mining and Quarrying



- Continued global expansion will support crude oil demand, albeit softer.
- OPEC Plus extended a voluntary adjustment in production to end-Dec 2026.

Brent crude oil prices:
2025F: US$75-US$80/barrel
(2024: US$81/barrel)

Construction

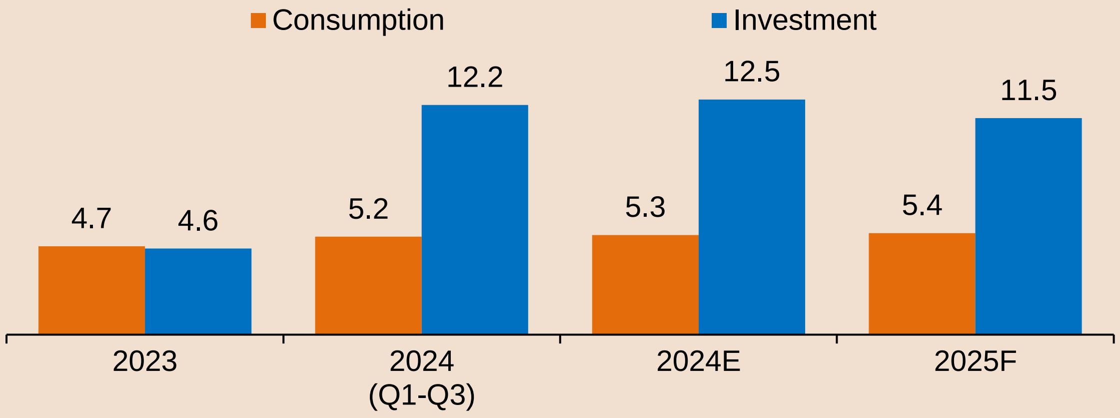


- Broad base expansion: Strong demand for industrial facilities from realisation of approved investments and development of new industrial areas.
- Strategic infrastructure and utility projects, including the Central Spine Road (CSR), Pan-Borneo Highway, MRT, LRT, and East Coast Rail Link (ECRL).

Source: DOSM; SERC's estimation and forecast

Private sector spending remains the key driver of growth in 2025

Private Consumption and Investment (%, YoY)



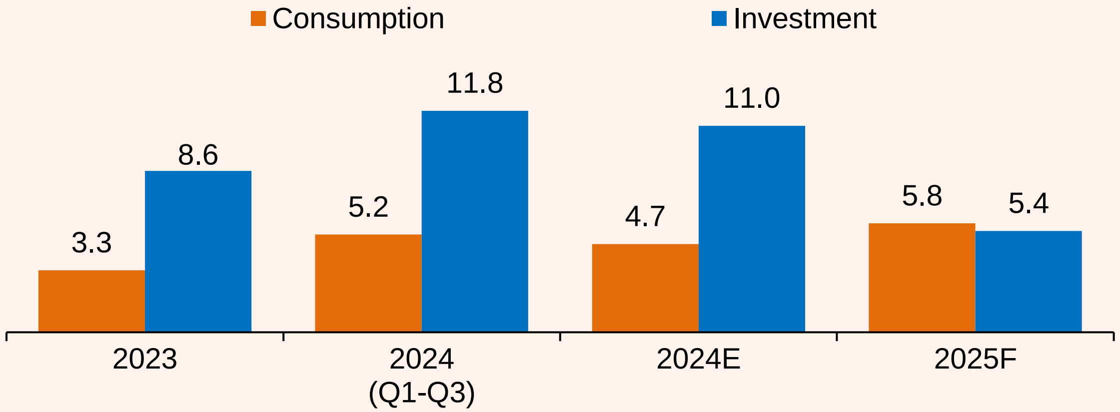
Private consumption

- Improvement in disposable income and robust labour market conditions.
- Higher minimum wage, EPF Account 3 withdrawal facility, as well as the implementation of Public Service Remuneration System (SSPA).
- Improved targeted cash assistance programmes: RM13 billion in 2025.
- Sustained tourism activities: Target 31.4 million tourists in 2025 (22.5 million in Jan-Nov 2024).

Private investment

- New and ongoing multi-year projects.
- Government's efforts in strengthening the investment ecosystem.
- Realisation of projects, especially related to semiconductors and data centres.
- RM120 billion GEAR-uP initiative over 5 years.
- Johor-Singapore Special Economic Zone (JS-SEZ).

Public Consumption and Investment (%, YoY)



Public consumption

- Increased spending on emoluments following the implementation of Public Service Remuneration System (SSPA).

Public investment

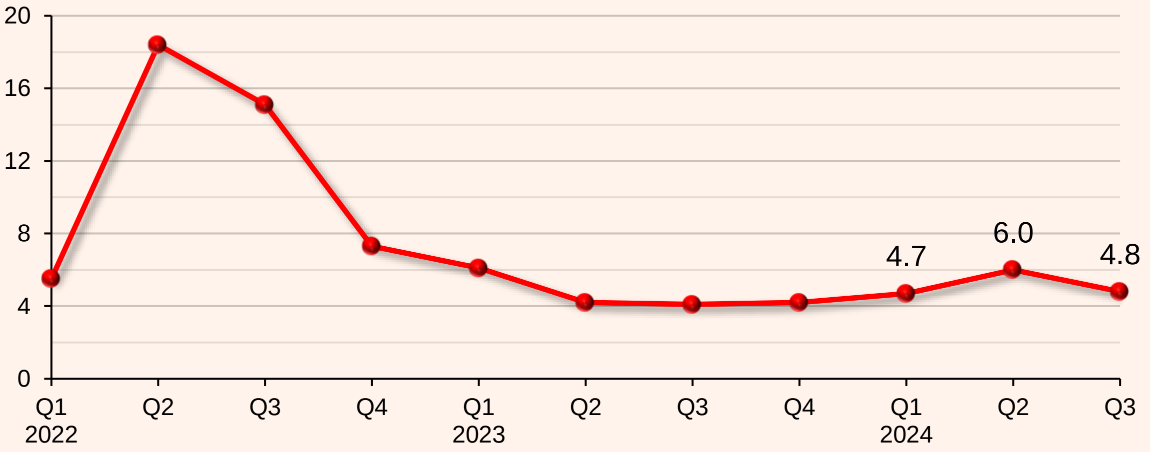
- Higher spending on capital outlays by non-financial public corporations (NFPCs).
- Acceleration of key projects in the final year of Twelfth Malaysia Plan.
- GEAR-uP initiative.

Source: DOSM; SERC's estimation and forecast

Positive consumption factors amid rising cost of living

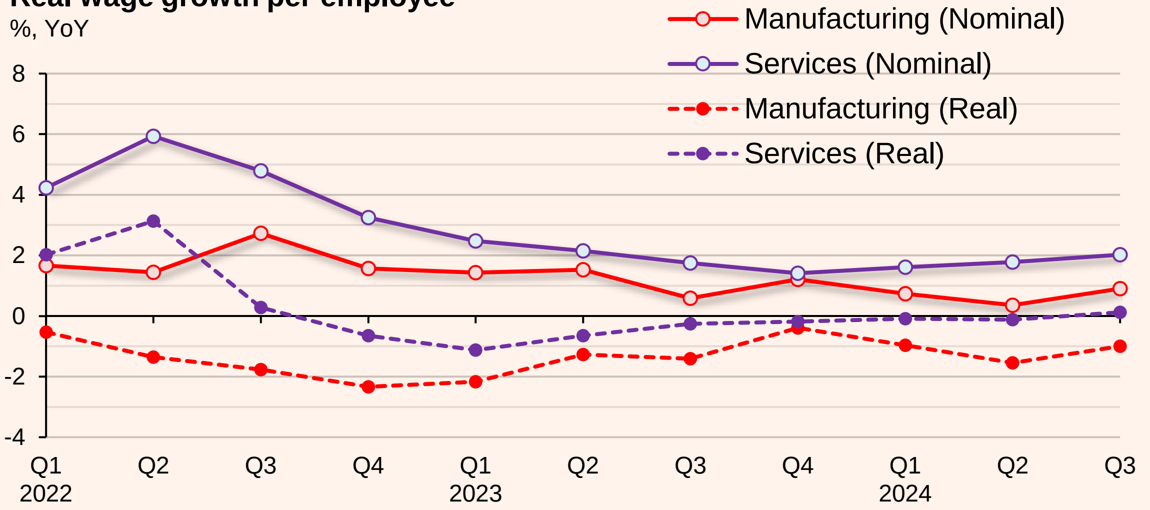
Private consumption growth (60.7% of GDP in 2023)

%, YoY



Real wage growth per employee

%, YoY



Recipient category	Monthly income	Number of recipients	No. of children	Sum of STR assistance (RM)	Sum of SARA assistance (RM)*	Total (STR + SARA) (RM)
Household	RM2,500 or lower	**3.1 million**	0	1,000	900	1,900
			1-2	1,500	900	2,400
			3-4	2,000	900	2,900
			≥5	2,500	900	3,400
	RM2,501-RM5,000	**1.0 million**	0	500	900	1,400
			1-2	750	900	1,650
			3-4	1,000	900	1,900
			≥5	1,250	900	2,150
Single senior citizen (≥60 years old)	RM5,000 or lower	**1.3 million**	0	600	450	1,050
Single (21-59 years old)	RM2,500 or lower	**3.4 million**	0	^600	-	600

Note:

* *(**New**) 5.4 million STR recipients in the household and senior citizen categories will receive SARA assistance up to RM100 per month through MyKAD starting from Apr 2025.*

^ *Increase to RM600 in 2025 from RM350 in 2024.*

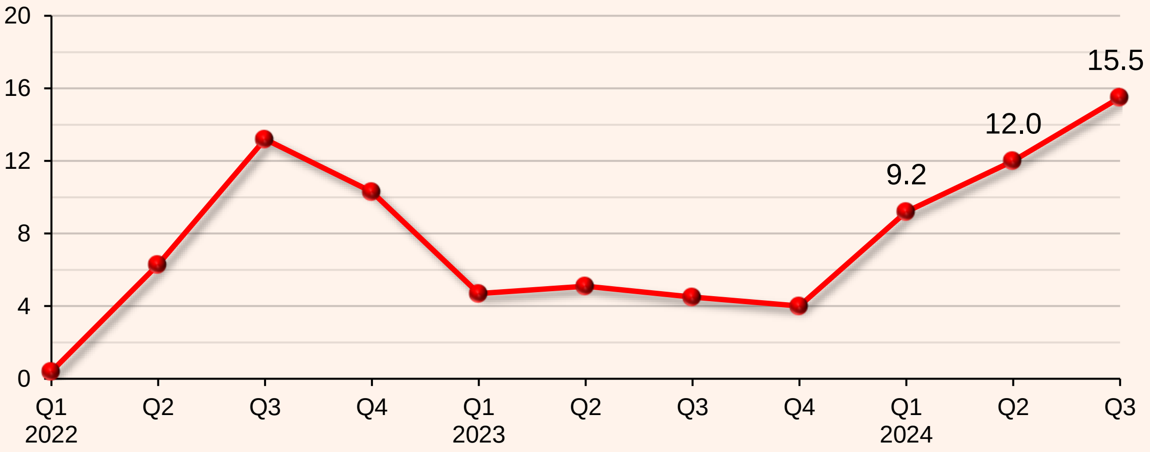
** *Additional SARA of RM100 / RM50 per month for 12 months, is eligible for the Poor & Hardcore Poor Categories under e-Kasih and Department of Social Welfare (JKM).*

Source: DOSM

A multi-year expansion in private investment cycle

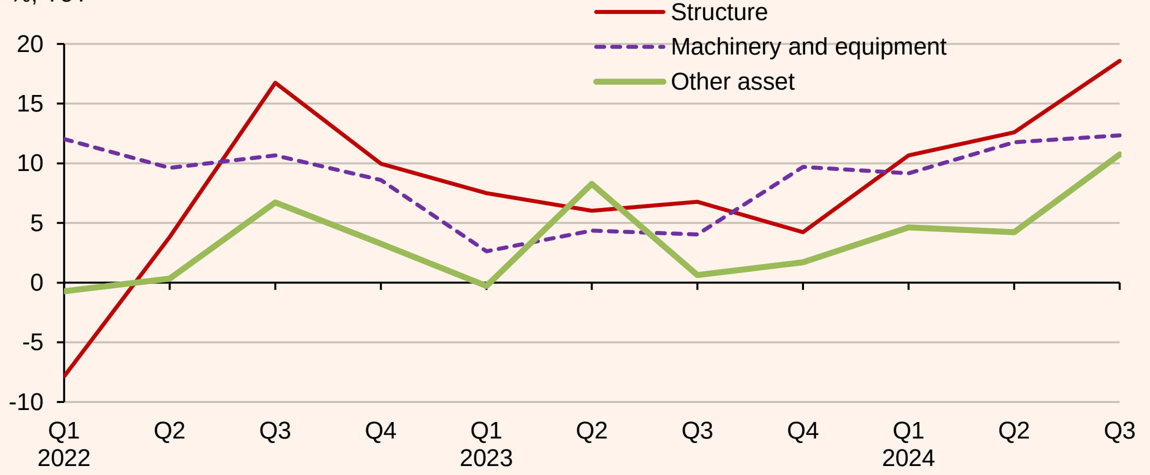
Private investment growth (15.5% of GDP in 2023)

%, YoY



Gross fixed capital formation by type of assets

%, YoY



Electrical & Electronic products

Industry target: By 2025 –
GDP contribution: RM120 billion
Export earnings: RM495 billion

Intel, Bosch, Infineon, neways, Enovix, Micron

PRIVATE Investment

Data centre

>RM114 billion
Announced investment

NVIDIA, Microsoft, ByteDance, Google, aws

Live capacity:	280 MW
Under construction:	159 MW
Committed capacity:	766 MW
Planned Capacity:	2,016 MW

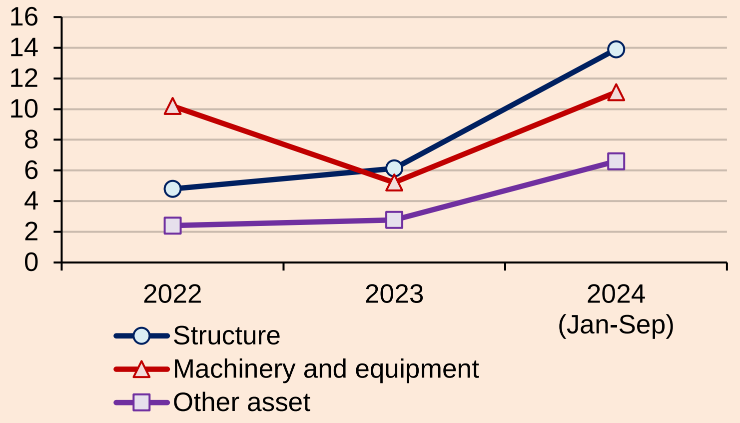
Green / High tech industry park

Kulim Hi-Tech Park
Sedenak Tech Park
Bayan Lepas FIZ
Batu Kawan IP

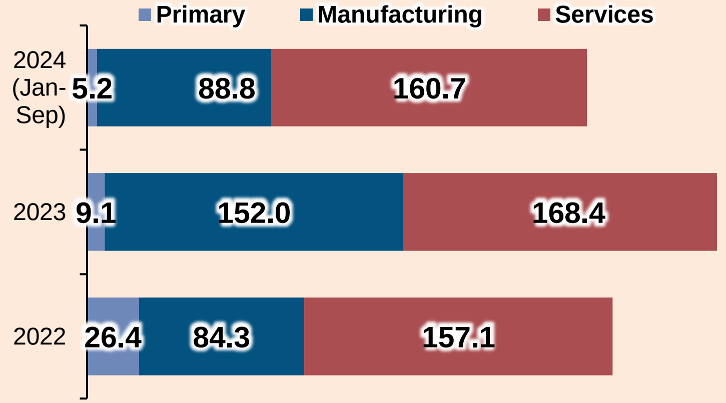
Source: DOSM

Strong private investment drives Malaysia's future economic growth

Gross fixed capital formation by type of assets (Growth, % YoY)



MIDA's approved Investment by major sector (RM billion)



Source: DOSM; MIDA

Selected approved investment by subsector (RM million)	2023	2024 (Jan-Sep)
Information & Communications	63,698.1	71,069.8
Real Estate	60,950.1	48,750.4
Electrical & Electronics	85,427.3	46,960.0
Support Services	10,457.6	10,290.5
Distributive Trade	11,129.8	7,964.9
Chemicals & Chemical Products	8,906.1	7,021.3
Transport Equipment	7,066.8	7,016.3
Utilities	11,143.9	6,766.3
Machinery & Equipment	22,558.2	6,316.4
Transport Services	1,344.3	4,850.7
Mining	8,768.5	4,463.9
Financial Services	6,313.9	4,312.3
Non-Metallic Mineral Products	8,753.6	4,238.6
Food Manufacturing	3,174.4	4,129.7
Global Establishments	878.2	3,983.9
Fabricated Metal Products	4,083.5	3,448.5
Petroleum Products (Incl. Petrochemicals)	939.5	2,513.9

Services sector
Manufacturing sector
Primary sector

Progress for selected key public projects

Transport

Highway
Pan Borneo Sarawak **>99%**
Pan Borneo Sabah Phase 1A **78%**

Train transit
LRT3 **97%**
RTS Link **95%**
ECRL **76%**

Renewable energy

Solar energy
Cypark Solar Plant **100%**
Batang Ai Floating Solar Farm **100%**

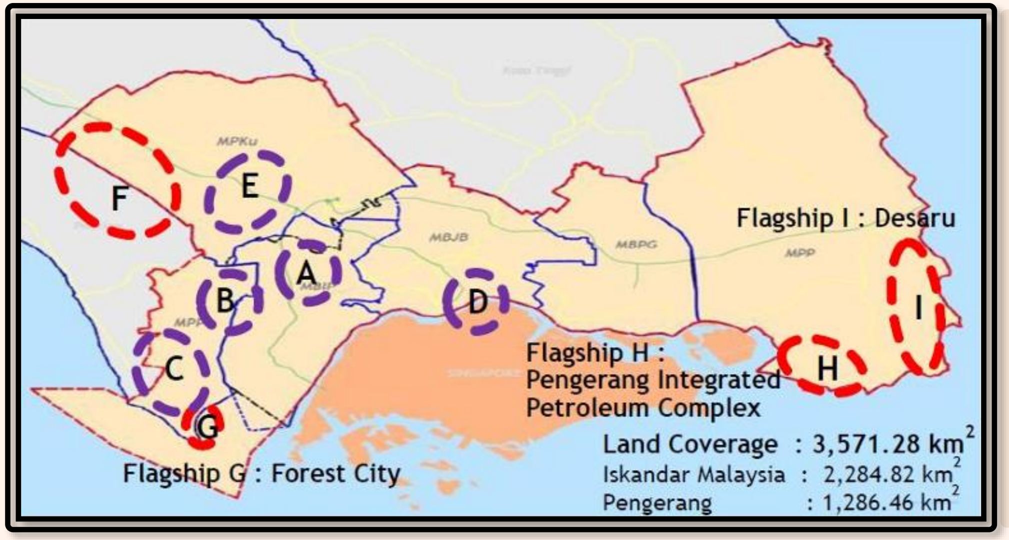
Hydroelectricity
Baleh Dam **43%**
Nenggiri Hydro **41%**

Network

MyDIGITAL 5G **82% coverage**

Source: Various

The JS-SEZ is poised to become a new growth engine for Malaysia



Nine (9) flagship zones

A. JB City Centre
B. Iskandar Puteri
C. Tg. Pelepas – Tg. Bin
D. Pasir Gudang
E. Senai – Skudai
F. Sedenak
G. Forest City
H. PIPC
I. Desaru

11 key sectors in the nine (9) flagship zones

- Manufacturing
- Logistics
- Food security
- Tourism
- Energy
- Digital economy
- Green economy
- Financial services
- Business services
- Education
- Health

Selected incentives

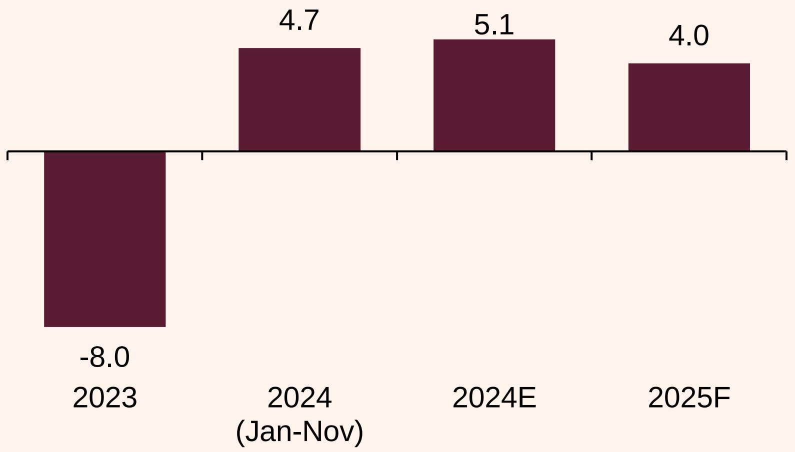
- ✓ **A special 5% corporate tax rate is available for up to 15 years for companies making new investments in qualifying activities, such as AI and Quantum Computing Supply Chain, Medical Devices, Aerospace Manufacturing, and Global Services Hub.**
- ✓ **Special tax rate of 15% for 10 years for eligible knowledge workers working in JS-SEZ.**
- ✓ **Forest City Special Financial Zone (FCSFZ), e.g. 0% tax rate for family offices.**

Target:

50 projects within the first 5 years and a cumulative of 100 projects within first 10 years, aiming to create 20,000 skilled jobs.

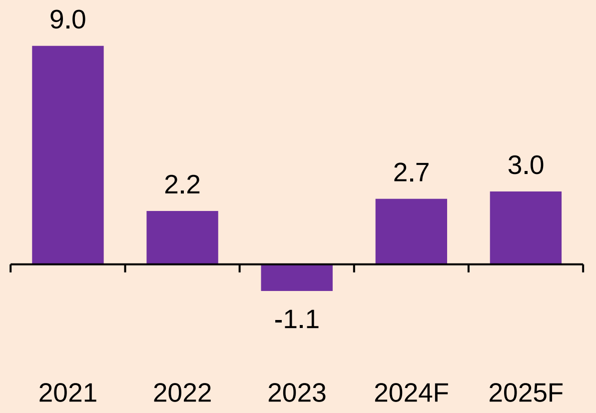
Exports recovery continues amid external risks ahead

Gross Export Growth (%)

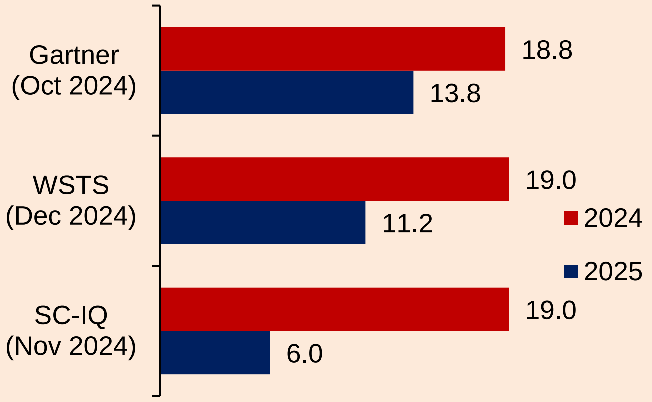


- Improved performance in global trade as well as acceleration in the demand of E&E products driven by global technology upcycle.
- Steady demand for semiconductors.
- Higher demand for non-E&E products, particularly for petroleum products, other manufactures, chemicals and chemical products, as well as machinery, equipment and parts.
- Steady global demand for palm oil and palm oil based agriculture products.
- Softer demand for LNG and crude petroleum from major markets.

WTO's merchandise trade volume growth (%) (Oct 2024)



Selected semiconductor market forecast:

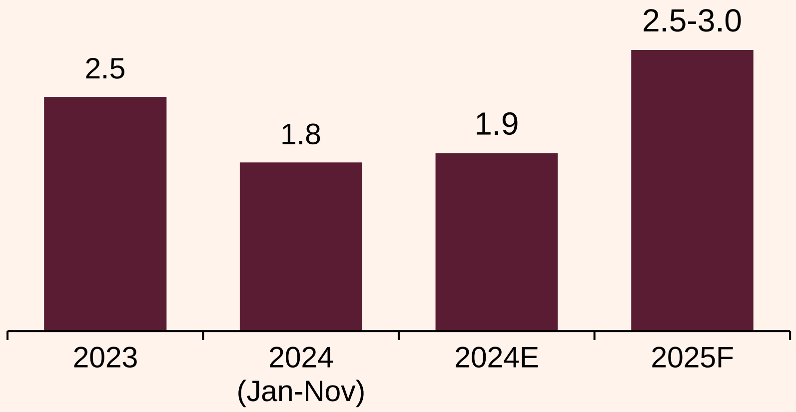


Approved export-oriented manufacturing investment (RM million)	2023	2024 (Jan-Sep)
Electrical & Electronics	85,427.3	46,960.0
Chemicals & Chemical Products	8,906.1	7,021.3
Machinery & Equipment	22,558.2	6,316.4
Petroleum Products (Inc. Petrochemicals)	939.5	2,513.9
Plastic Products	4,137.8	1,297.5
Scientific & Measuring Equipment	1,307.0	982.4
Textiles & Textile Products	241.8	852.0
Wood & Wood Products	392.9	767.3
Rubber Products	897.8	581.3
Furniture & Fixtures	420.3	402.8

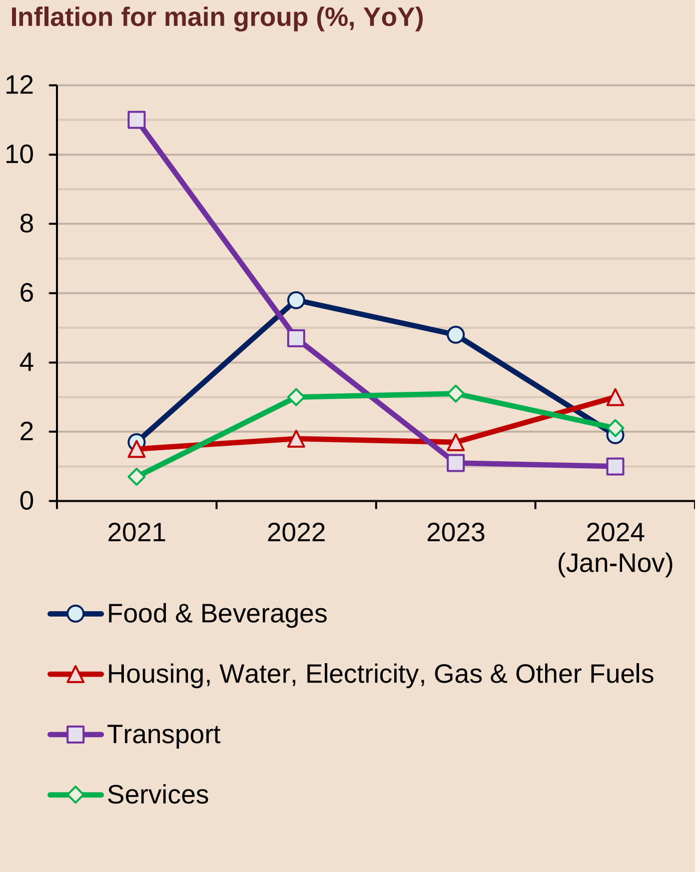
Source: DOSM; MOF; MIDA

Inflation risk can tilt higher amid a resilient labour market

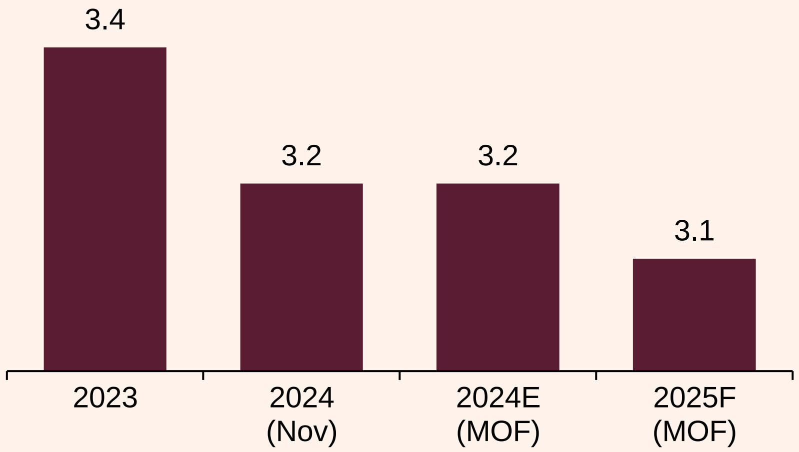
Inflation (%)



- Trade war spillovers.
- Volatility in global commodity prices.
- Global supply chain disruptions.
- Upward inflation pressures from domestic sources:
  - ➢ **Pay hikes for civil servants (1.7 million or 10.2% of total employment)**
  - ➢ **Higher minimum wage**
  - ➢ **Petrol subsidy rationalisation in mid-2025**
  - ➢ **Increased business costs pass-through effects**



Unemployment Rate (%)



- Stable employment conditions in tandem with better economic growth prospects.
- Low-skilled foreign workers is expected to hover around 2.5 million persons to accommodate the needs of economic activities, particularly in labour-intensive industries.
- Expatriates hiring is expected to increase marginally to fit the demand of skilled talent in critical jobs.

Source: DOSM; MOF; SERC

Increased business costs can spill over to consumer inflation

1 E-invoicing implementation

- Effective 1 Jan 2025 for businesses with an annual turnover or revenue of more than RM25 million and up to RM100 million *(Started 1 Aug 2024 for those >RM100 million, with 8,036 companies used e-invoice system [source])*.
- **Effective 1 Jul 2025 for all other businesses** (except those revenue not more than RM150,000).

2 Minimum wage

- **Effective 1 Feb 2025**, monthly minimum wage will increase from RM1,500 to RM1,700 (+13.3%) for employers hired at least 5 employees.
- **Effective 1 Aug 2025** for other employers who hired less than 5 employees.

3 Mandatory EPF contribution for non-citizen workers

- For all non-citizen employees with a new contract, the contribution rate is the same as for Malaysian citizen employees, which is 11% (employee's contribution rate), 12% or 13% (employer's contribution rate), subject to wages.
- For those who are in the current contract, the rate employer and employee contributions will start with 2% each and will be increased in phases until the contribution rate is the same as in line with the citizen employee contribution rate within 6 years.
- Note: EPF contribution is mandatory for PR since 2001. [source]
- Effective date: To be confirmed.

4 Multi-tiered foreign worker (FW) levy

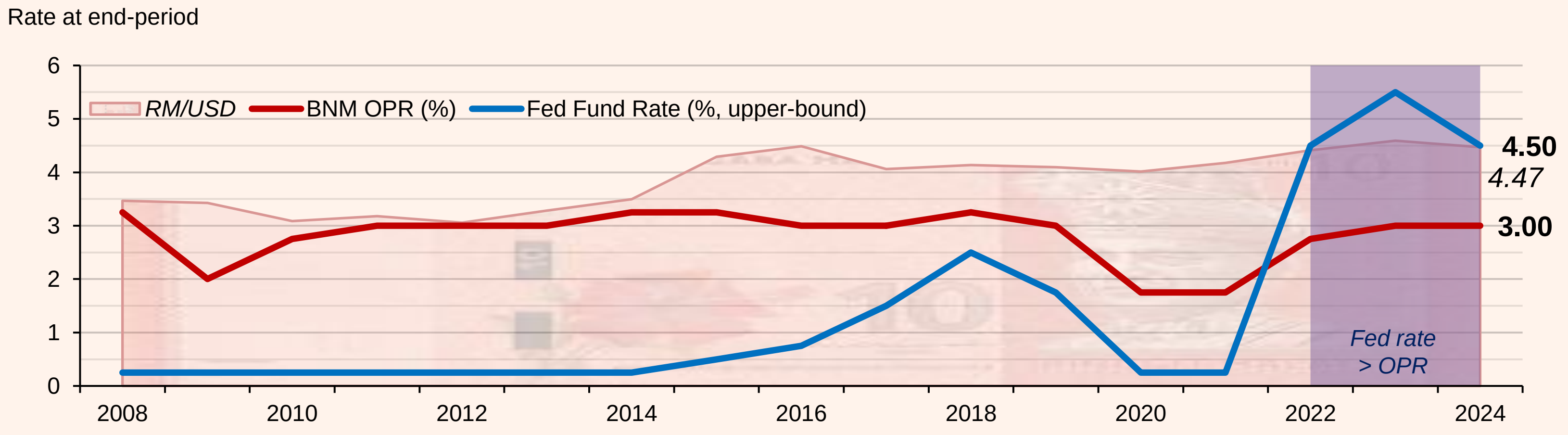
- Multi-tiered FW levy for all sectors, except plantation and agriculture sectors to remain single-tiered. Part of the total levy collection will be channelled to businesses to transform from labour-intensive to technology-intensive. [source]
- Prior to the implementation of a multi-tiered foreign worker levy, the 80:20 local-to-foreign worker ratio for the manufacturing license continued to be exempted.
- Effective date: To be confirmed.

5 Subsidy rationalisation for RON95 petrol

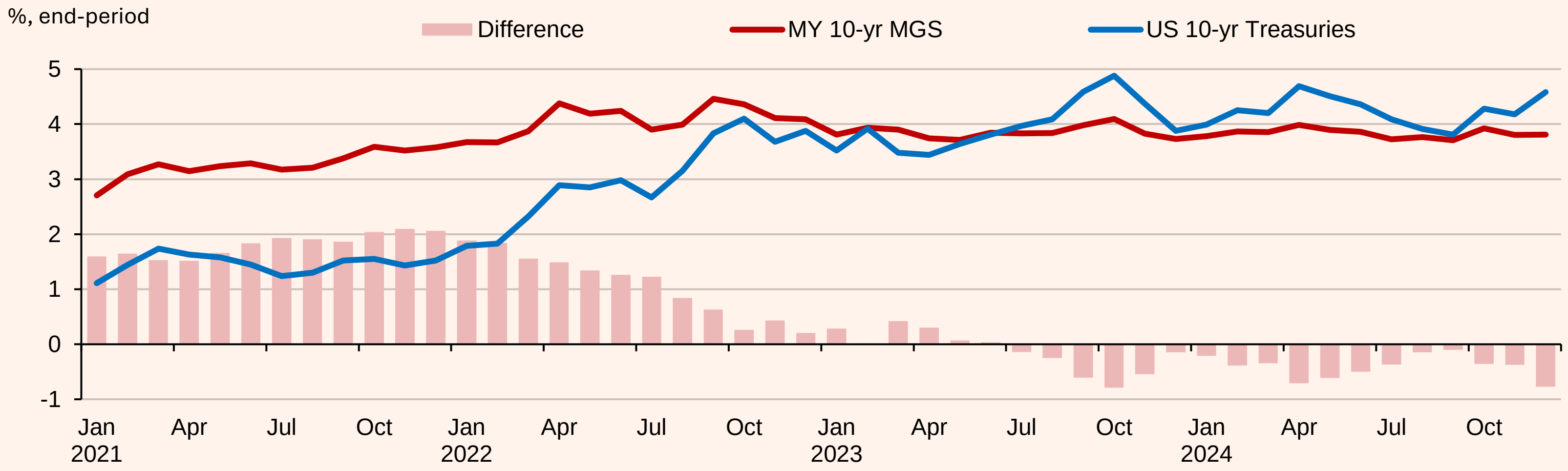
- **Expected to roll out in mid-2025**.
- Current estimated actual price is around RM2.80/litre, i.e. subsidy of 75 sen/litre vs. current retail price at RM2.05/litre.

BNM to keep interest rate steady in 2025

BNM OPR vs. Fed Funds Rate vs. RM/USD



Yields: MY 10-year MGS vs. US 10-year Treasuries



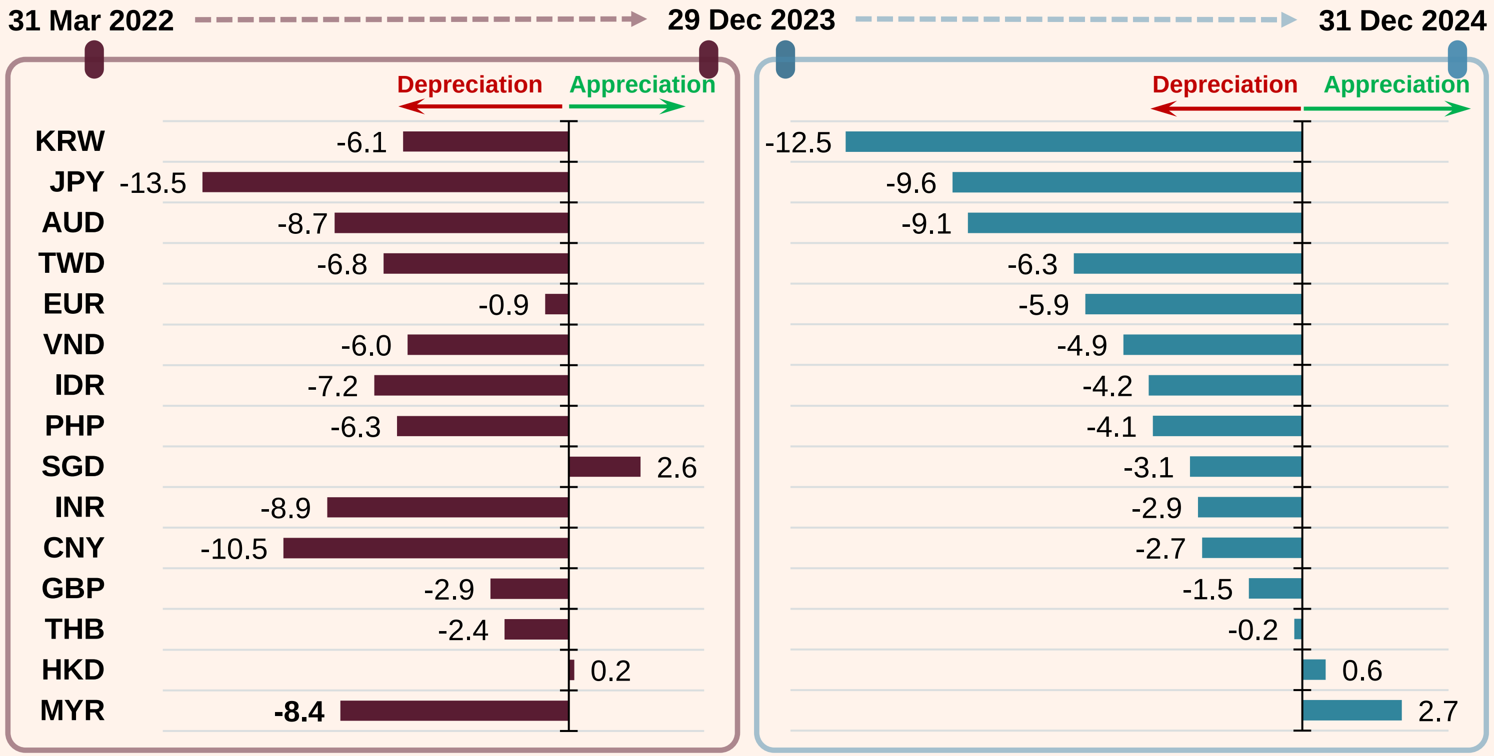
Source: Fed; BNM; US Treasury Department

BNM is expected to keep its policy rate unchanged at 3.00% in 2025 while keeping vigilance of the potential risk of second-round cost-driven inflationary pressures coming from the anticipated fuel subsidies rationalisation and wage increases.

Foreign reserves rise steadily; near-term headwinds to the Ringgit

Foreign reserves
USD billion

Selected major and regional currencies against the USD (%)



Foreign reserves

- The reserves position is sufficient to finance 5.0 months of imports of goods and services and is 1.0 times of total short-term external debt.

Ringgit

- Near-term headwinds to the Ringgit are the policy uncertainty surrounding the Trump's economic and investment agenda; concerned about the planned tariffs-inflicted trade war and stimulative tax cuts and investment incentives may reignite inflation risk, hence supporting the USD index.
- Positive economic growth and investment prospects, continued repatriation of realized investment income abroad by the GLICs and GLC as well as continued economic reforms will support the Ringgit.

Source: BNM

Trump’s Trade and Economic Agenda:

Potential Spillovers on Malaysia

Trump's trade & economic agenda

The US President-elect Donald Trump's trade and economic policies aimed at reshaping the US's strategic economic, technology and financial dominance.

1 Universal tariffs

- Across-the-board tariffs (10% - 20% on all imports in the US.

2 Tariffs on key trading partners

- 60% tariffs on imports from China, and phase out essential goods from China.
- 25% tariffs on imports from Canada and Mexico.
- 200% tariffs on auto imports from Mexico.

3 Other tariffs

- Threaten a 100% tariffs on BRICS blocs if the US dollar is undermined.
- Trump Reciprocal Trade Act.

4 Withdrawal of trade engagements

- Terminate the participation in Indo-Pacific Economic Framework (IPEF).
- Intends to withdraw from World Trade Organization (WTO).
- Revise the United States-Mexico-Canada Agreement (USMCA).

5 More …

- Corporate tax rate cut.
- Fewer regulations and expedited approvals and permits for huge sum of investment.

What are the implications?

- Spillover effects via trade, income and investment channels.
- Trade war will affect consumer prices, foreign investment flows and trade relations.
- Increased cost, lower demand, disrupt the supply chains, higher imports cost and consumer inflation risk.
- Redirection of investment flows.
- Trade diversion as the industries and firms reroute to evade the tariffs.

A quick recap of the US-China tit-for-tat trade spat in 2018-2019

7 Feb 2018

Implemented 'global safeguard tariffs' – a 30% tariff on all solar panel imports, except for those from Canada and a 20% tariff on washing machine imports.

23 Mar 2018

Imposed steel and aluminium tariffs of 25% and 10%, respectively, with subsequent exemptions to selected countries.

No retaliation was made.

Effective 6 Jul 2018: The US imposed tariffs on US$34bn worth of China's imports (25% tariffs on ~800 tariff lines), and retaliated by China with same amount [**First batch**].

Effective 23 Aug 2018: The US slapped tariffs on US$16bn worth of China goods (25% tariffs on ~300 tariff lines), and China also countered with same amount [**Second batch**].

Effective 24 Sep 2018: The US imposed 10% tariffs on additional US$200bn worth of China's products (~5,800 tariff lines) [**Third batch**].

China retaliated by imposing 5-10% tariffs on additional US$60bn worth of US's products.

Effective 10 May 2019: The US tariffs on US$200bn of China's products increased to 25% from 10% [**Third batch**].

Effective 1 Jun 2019: China imposed 5-25% tariffs (from 5-10% previously) on US$60bn of US's products.

Effective 1 Sep 2019: The US imposed 15% tariffs on ~3,2000 tariff lines from China, and China retaliated by imposing 5-10% tariffs [**Fourth batch**].

14 Feb 2020: Following a trade deal between the US and China, US reduced the 15% tariffs to 7.5%, and China lowered to 2.5%-5.0%.

Biden administration ratcheted up tariffs on Chinese goods

Steel and aluminium

0%-7.5% ➔ 25% in 2024

Semiconductors

25% ➔ 50% by 2025

Electric vehicles (EVs)

25% ➔ 100% in 2024

Solar cells

25% ➔ 50% in 2024

Batteries, battery components and parts, and critical minerals

Lithium-ion EV batteries:

25% ➔ 100% in 2024

Lithium-ion non-EV batteries

7.5% to 25% in 2026

Battery parts

7.5% to 25% in 2024

Natural graphite and permanent magnets

0% ➔ 25% in 2026

Certain other critical minerals

0% ➔ 25% in 2024

Ship-to-shore cranes

0% ➔ 25% in 2024

Medical products

Syringes and needles

0% ➔ 50% in 2024

Certain personal protective equipment (PPE)

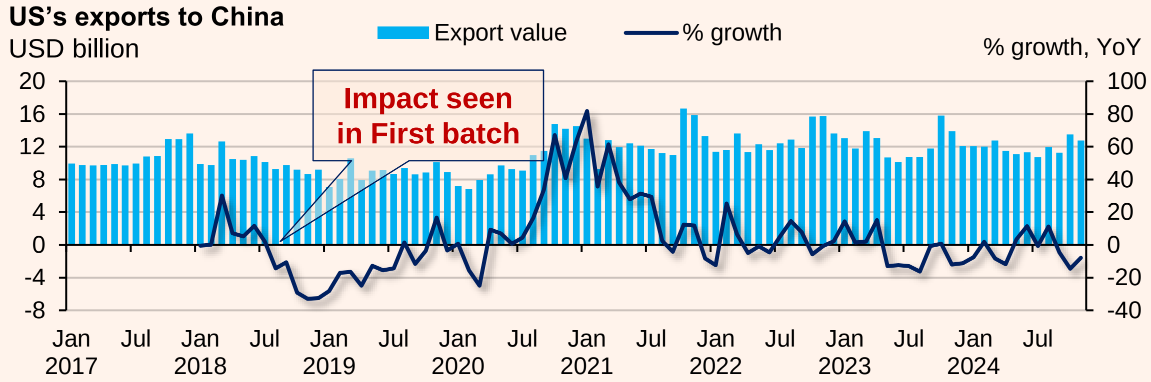
0%-7.5% ➔ 25% in 2024

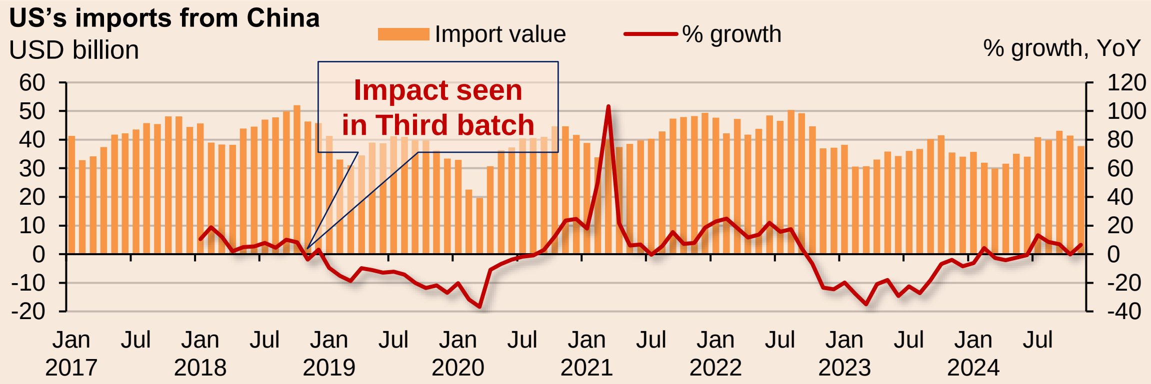
Rubber medical and surgical gloves

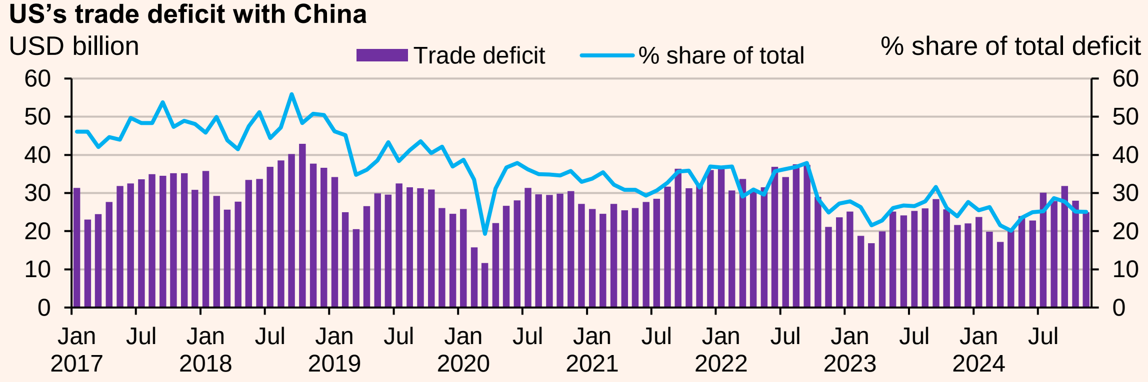
7.5% ➔ 25% in 2026

Source: *The White House Fact Sheet: President Biden Takes Action to Protect American Workers and Businesses from China's Unfair Trade Practices (source)*

The implications on the US-China trade conflicts







US's exports to China

- US exports had experienced a significant decline since the first wave of the tit-for-tat tariff war, with agricultural products being among the hardest hit. As a result, China's share of total US exports dropped from 8.4% in 2017 to 6.5% in 2019.
- Although there was a rebound to 8.6%-8.7% in 2020-2021, the share fell again to 6.9% for Jan-Nov 2024 (7.3% in 2023).

US's imports from China

- No significant impact was observed during the first two rounds of tariff hikes on imports from China. The effects began to materialise in Nov 2018 with the third round of tariff hikes, targeting ~5,800 tariff lines or USD200 billion worth of imports from China. In 2019, imports from China to the US had declined by 16.6%.
- Over the years, China's share of total US imports dropped substantially, declining from 21.6% in 2017 to 13.5% as of Jan-Nov 2024 (13.9% in 2023).

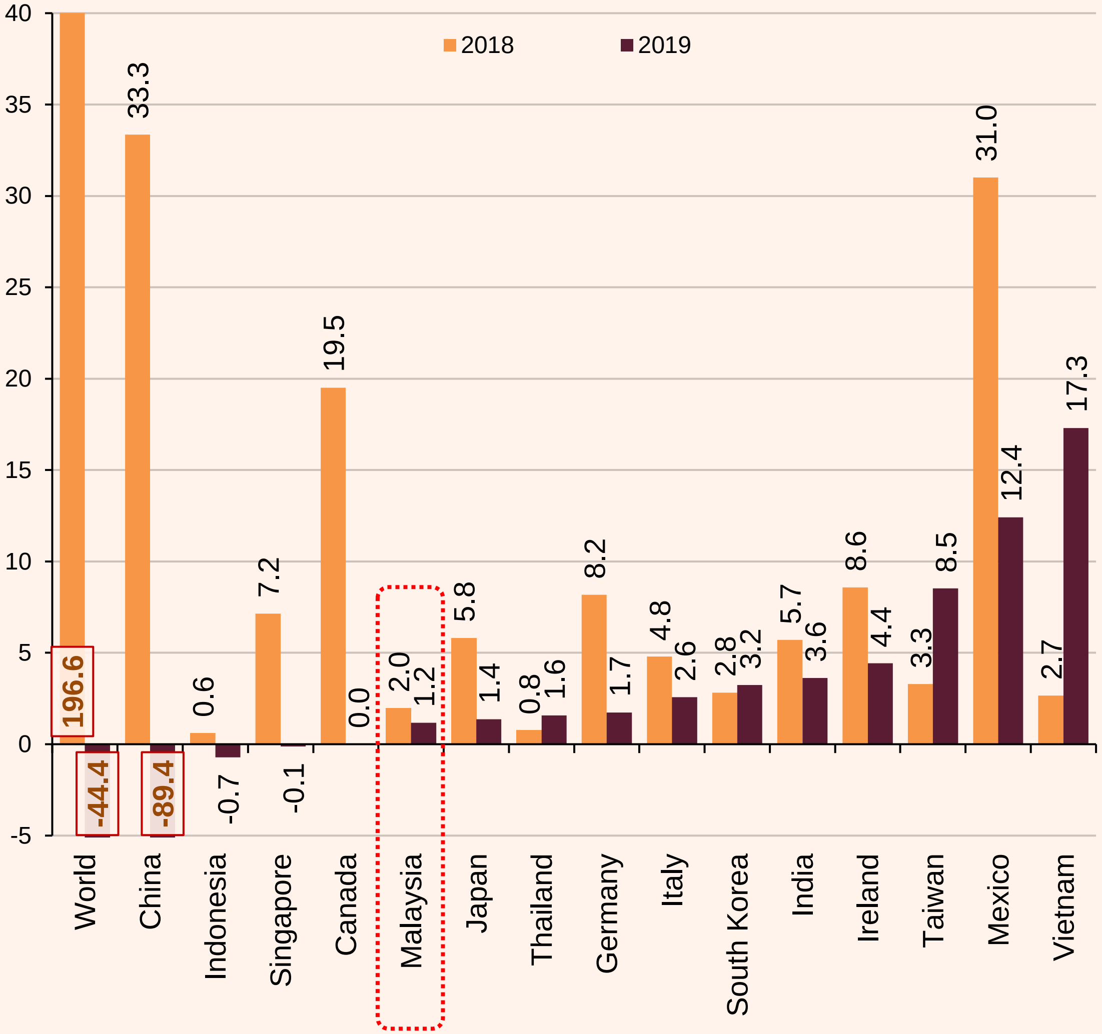
US's trade deficit with China

- China accounted for more than half of the US trade deficit in 2017. However, following the imposition of a series of tariffs by the US aimed at addressing trade imbalances and reducing dependency on imports from China, this share declined significantly over the years, dropping to 25.0% in Jan-Nov 2024 (26.3% in 2023).

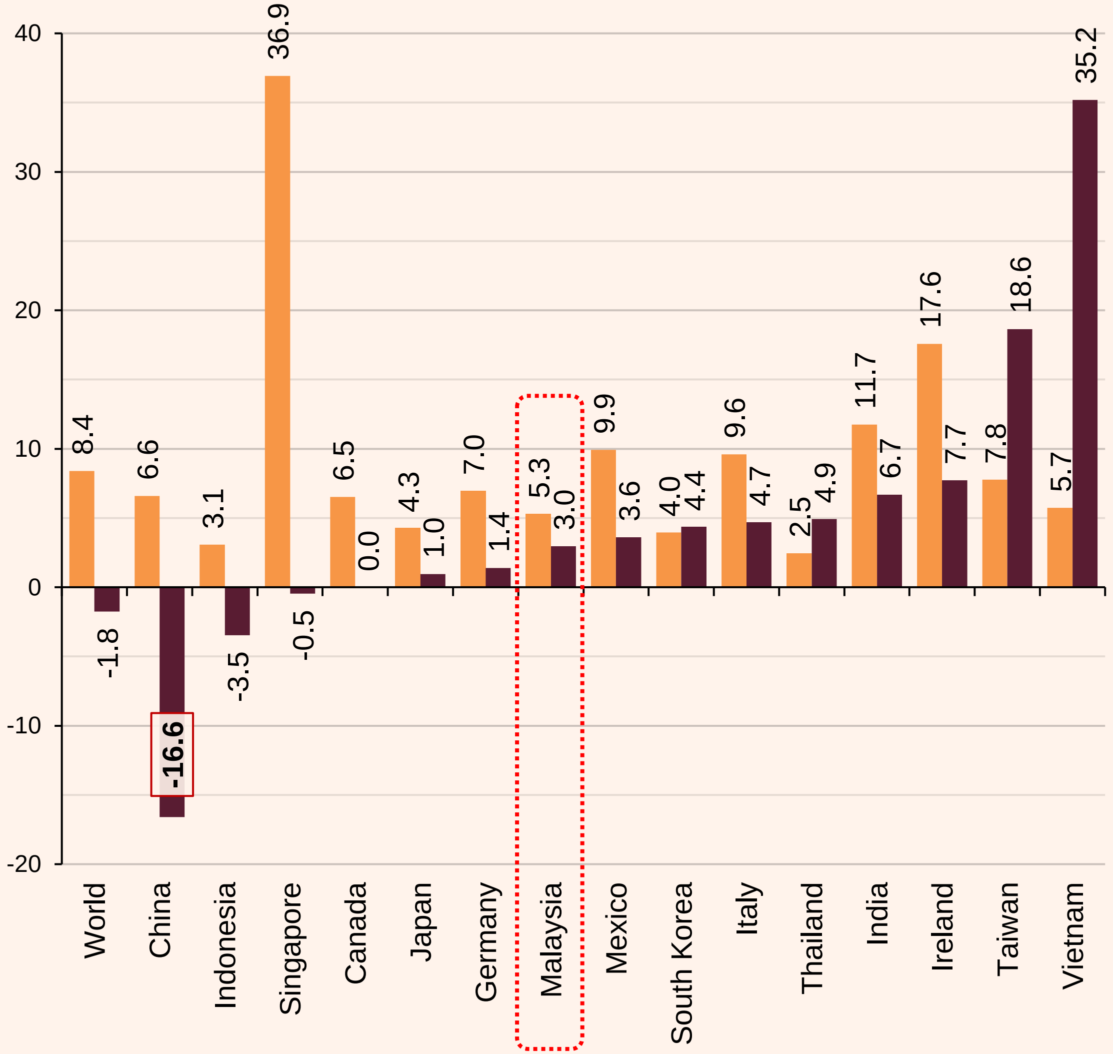
Source: US Census Bureau

By 2018-2019, who had filled up the US's imports vacuum from China?

US's imports value changes by selected source of imports
USD billion



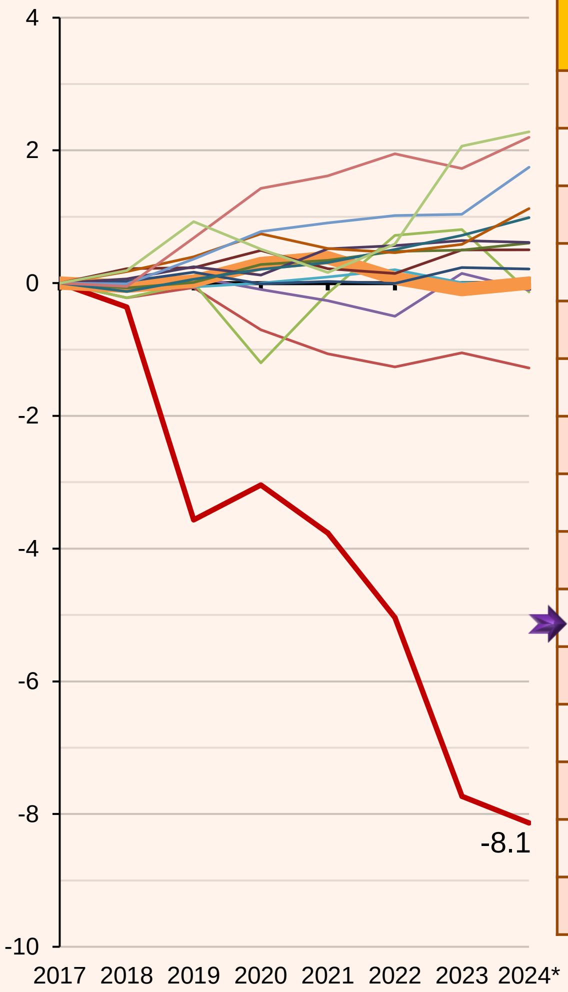
US's imports growth by selected source of imports
% change



Source: US Census Bureau

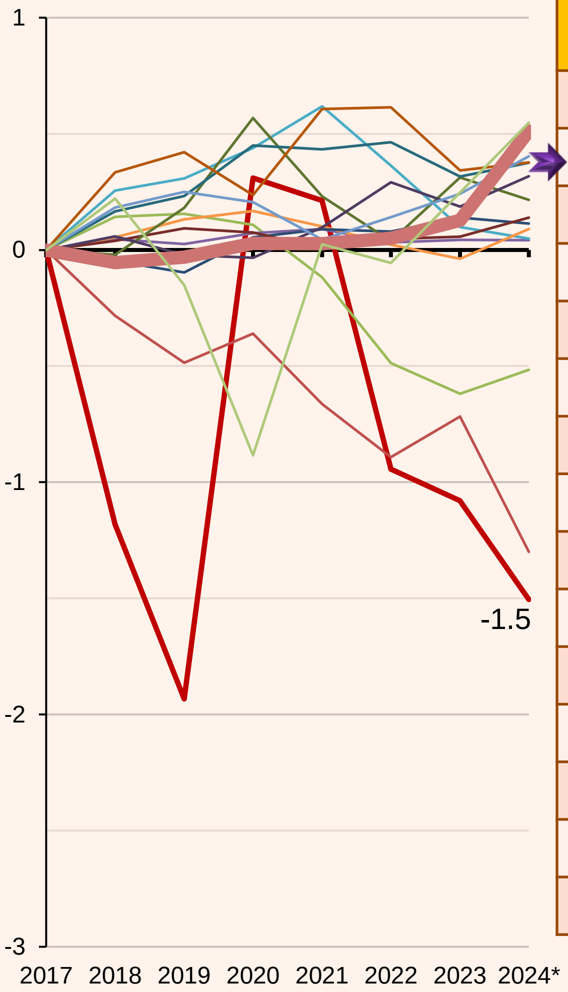
By now, who has filled up the US's trade vacuum left by China?

Difference in share of US's imports vs. 2017
% point



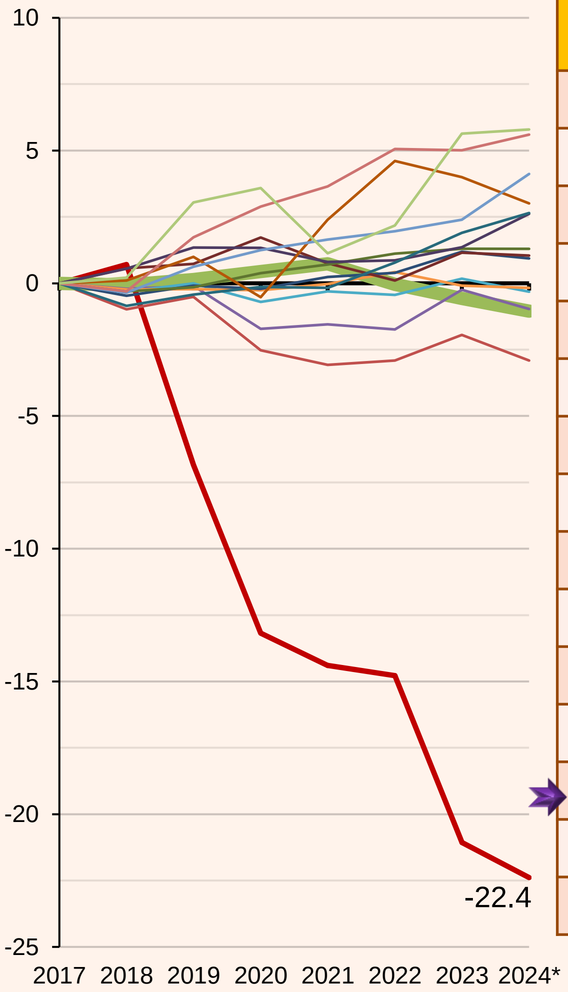
Selected Partner	%-pt vs. 2017
Mexico	**+2.3**
Vietnam	**+2.2**
Taiwan	**+1.7**
Ireland	+1.1
South Korea	+1.0
India	+0.6
Thailand	+0.6
Singapore	+0.5
Italy	+0.2
Malaysia	0.0
Indonesia	0.0
Germany	-0.1
Canada	-0.1
Japan	-1.3
China	**-8.1**

Difference in share of US' exports vs. 2017
% point



Selected Partner	%-pt vs. 2017
Mexico	**+0.5**
Malaysia	**+0.5**
Italy	**+0.4**
India	+0.4
Taiwan	+0.4
Singapore	+0.3
Germany	+0.2
Thailand	+0.1
Ireland	+0.1
Vietnam	+0.1
South Korea	0.0
Indonesia	0.0
Japan	-0.5
Canada	-1.3
China	**-1.5**

Difference in share of trade deficit vs. 2017
% point



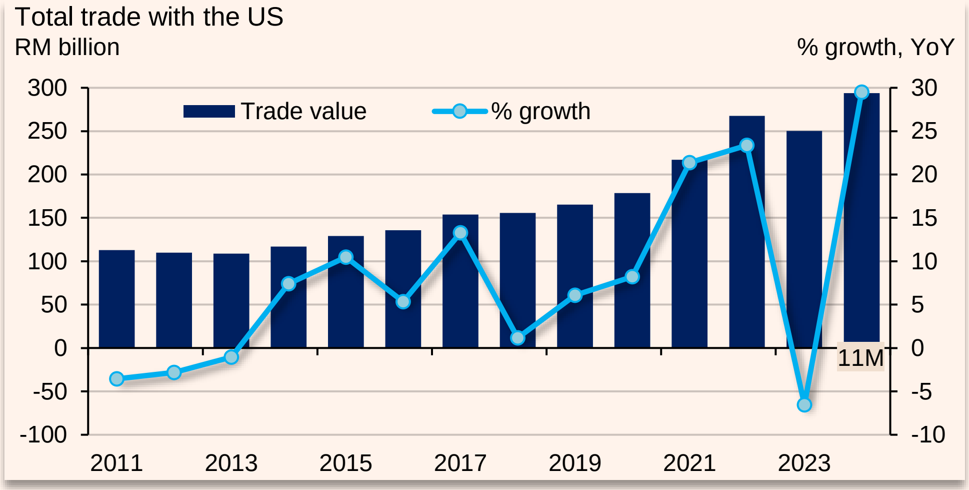
Selected Partner	%-pt vs. 2017
Mexico	**+5.8**
Vietnam	**+5.6**
Taiwan	**+4.1**
Canada	+3.0
South Korea	+2.6
Ireland	+2.6
Thailand	+1.3
Singapore	+1.0
India	+0.9
Indonesia	-0.2
Italy	-0.3
Germany	-1.0
Malaysia	-1.0
Japan	-2.9
China	**-22.4**

Source: US Census Bureau *Note: For 2024, Jan-Nov only.*

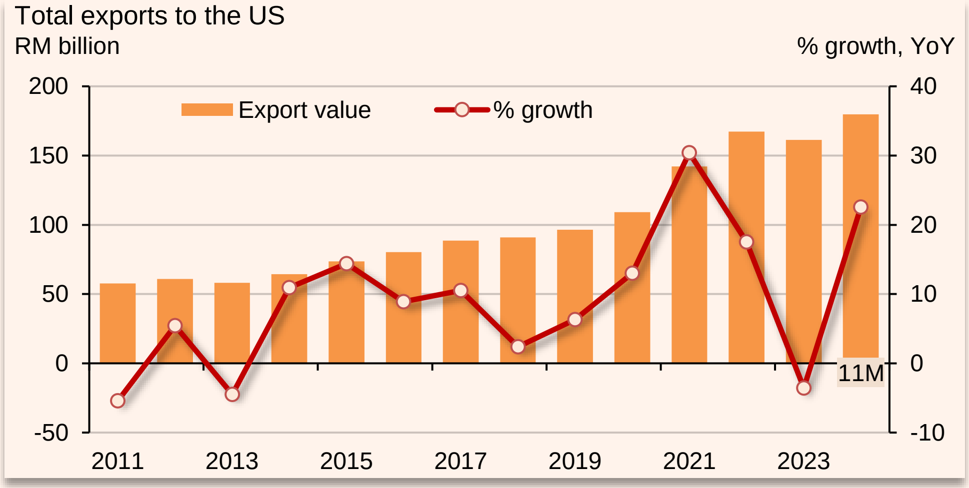
Potential Spillovers on Malaysia

The United States is Malaysia's third largest trading partner

The US accounted for 11.2% of total Malaysia's trade value in Jan-Nov 2024 (average 9.0% in 2016-2020, 9.5% in 2021-2023)



The US is Malaysia's second largest exports destination in Jan-Nov 2024



Major export products to the US by HS code in Jan-Nov 2024

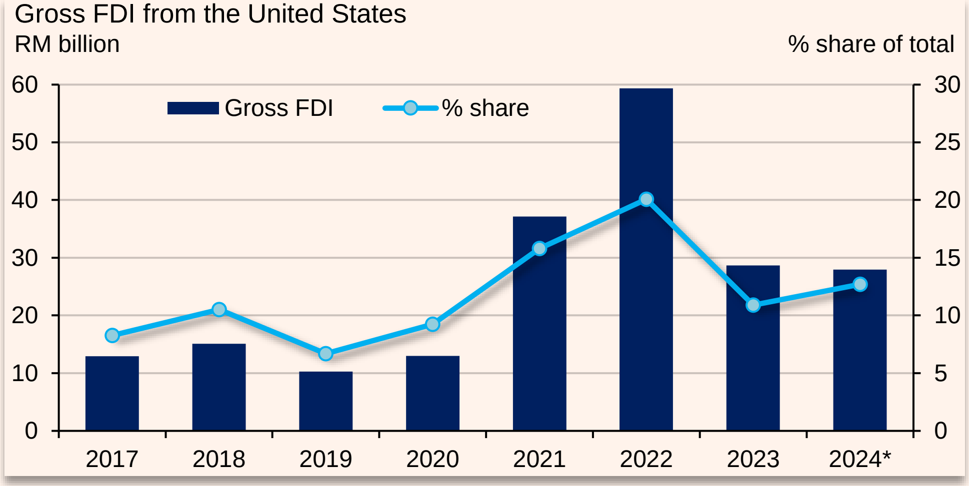
Product category by HS code	Exports value (RM million)	% share	% growth (YoY)
85 Electrical and electronic (E&E) products	97,683.9	54.4	+22.2
84 Machinery and equipment	26,356.8	14.7	+29.7
90 Optical & scientific equipment	16,337.9	9.1	+27.1
40 Rubber and rubber products	6,904.9	3.8	+32.3
94 Furniture products	6,398.1	3.6	+15.6
15 Palm oil and palm oil products	2,486.9	1.4	+114.2
39 Plastics and plastic products	2,403.6	1.3	+16.2
72 Iron and steel	2,005.4	1.1	+50.3
73 Iron and steel products	1,909.5	1.1	+19.8
44 Wood and wood products	1,371.6	0.8	+28.9
Others	15,848.0	8.8	+2.0
Total	**179,706.5**	**100.0**	**+22.6**
Top 5 categories	**153,681.7**	**85.5**	**+24.1**
Top 10 categories	**163,858.6**	**91.2**	**+25.0**

- More than half of the exports to the US are E&E products.
- Products diversification is limited – top 5 category constituted 85.5% of overall exports to the US.
- Other products, in total, did not register strong growth compared to the top 10 categories.

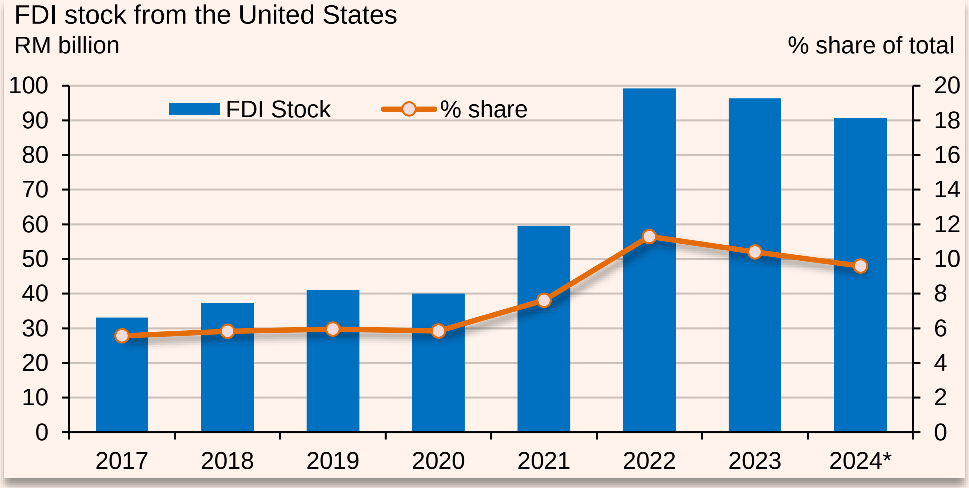
Source: DOSM Note: For 2024, Jan-Nov only.

The United States is Malaysia's key source of investment

The United States ranked second in terms of gross FDI in Malaysia in 2023



The United States was the fourth largest investor in terms of FDI stock as at end-Sep 2024



Source: BNM ** For 2024, Jan-Nov only.*

Approved US's participation in the manufacturing projects in 2017-Sep 2024

Year	Number of projects	Investment amount (RM million)	Rank
2017	18	1,107.2	9
2018	18	3,155.0	5
2019	37	14,226.2	2
2020	28	3,664.1	5
2021	21	1,146.1	8
2022	24	4,300.4	8
2023	27	18,119.7	2
2024 (Jan-Sep)	14	8,020.8	3

Source: MIDA

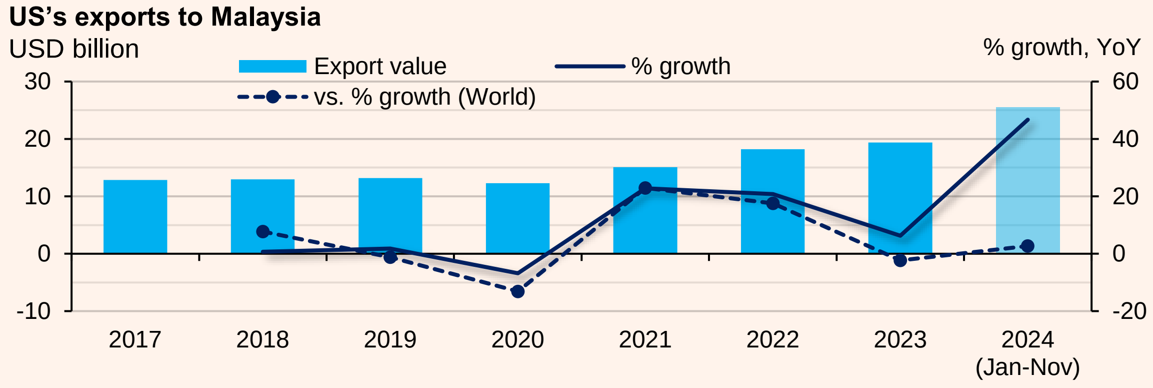
Malaysia is potentially on the US's radar for trade actions

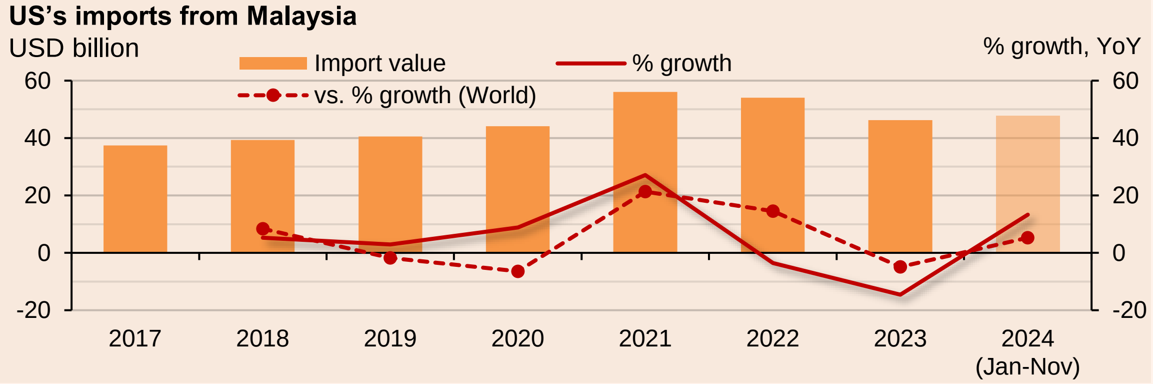
In Jan-Nov 2024:

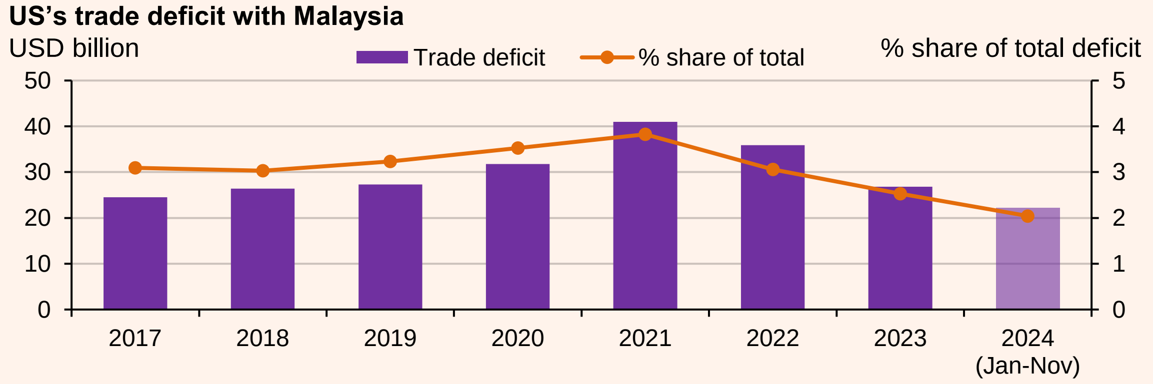
No.	Top trading partners	Trade value (USD billion)	% share	Top importing economies	Import value (USD billion)	% share	Top deficit partners	Deficit value (USD billion)	% share
1	Mexico	776.0	15.9	Mexico	466.6	15.6	China	-270.4	25.0
2	Canada	699.6	14.3	China	401.4	13.5	Mexico	-157.2	14.5
3	China	532.4	10.9	Canada	377.2	12.6	Vietnam	-113.1	10.4
4	Germany	217.1	4.4	Germany	146.7	4.9	Ireland	-80.5	7.4
5	Japan	208.9	4.3	Japan	135.8	4.6	Germany	-76.4	7.1
6	South Korea	180.8	3.7	Vietnam	124.8	4.2	Taiwan	-67.4	6.2
7	Taiwan	144.9	3.0	South Korea	120.5	4.0	Japan	-62.6	5.8
8	Vietnam	136.5	2.8	Taiwan	106.2	3.6	South Korea	-60.2	5.6
9	United Kingdom	134.6	2.8	Ireland	95.8	3.2	Canada	-54.8	5.1
10	India	118.8	2.4	India	80.1	2.7	Thailand	-41.5	3.8
11	Netherlands	113.8	2.3	Italy	69.9	2.3	India	-41.5	3.8
12	Ireland	111.1	2.3	United Kingdom	62.1	2.1	Italy	-39.7	3.7
13	Italy	100.1	2.1	Thailand	57.7	1.9	Switzerland	-25.5	2.4
14	France	95.0	1.9	France	55.0	1.8	Malaysia	-22.1	2.0
15	Brazil	83.9	1.7	Switzerland	49.2	1.7	Indonesia	-16.4	1.5
	Malaysia (#18)	73.2	1.5	**Malaysia (#16)**	47.7	1.6	**Malaysia (#14)**	-22.1	2.0

Source: US Census Bureau

How has Malaysia impacted by the US's tariffs as a whole?







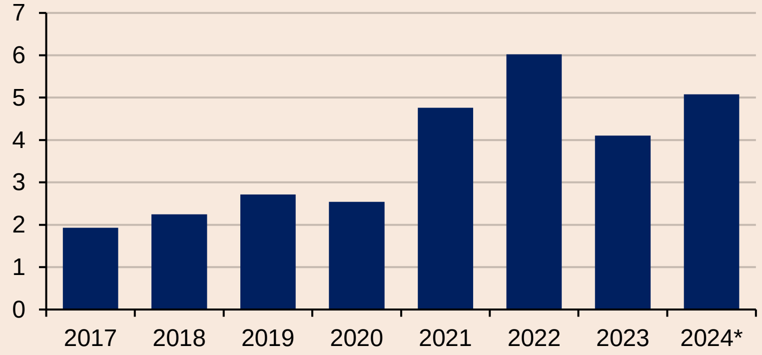
Findings

- No noticeable spike in exports value from the US to Malaysia during the trade war, suggesting that exports diversion from the US to Malaysia was insignificant. Malaysia's share of total US exports has increased from 0.8% in 2017-2019, to 0.9% in 2020-2021, and 1.3% in Jan-Nov 2024 (1.0% in 2023).
- Imports from Malaysia to the US stood at 1.6% of the total US imports prior to the trade war in 2017 and remained at 1.6% in 2018 and 2019, respectively. While it increased to 2.0% in 2021, it fell back to 1.6% in Jan-Nov 2024 (1.5% in 2023). Overall, **imports from Malaysia to the US grew by 7.7% per annum from 2018 to 2022**.
- The blanket tariffs imposed by the US on selected products (i.e. steel and aluminium products, solar panels, and washing machines) do not appear to have resulted in a significant impact on Malaysia, **except for photovoltaic products in 2018**. However, it increased substantially in 2019.
- Malaysia's share of total US trade deficit was around 3.0%-3.2% in 2017-2019, peaking at 3.8% in 2021. In Jan-Nov 2024, the share dropped to 2.0% (2.5% in 2023), driven by a substantial increase in US's exports to Malaysia recently.

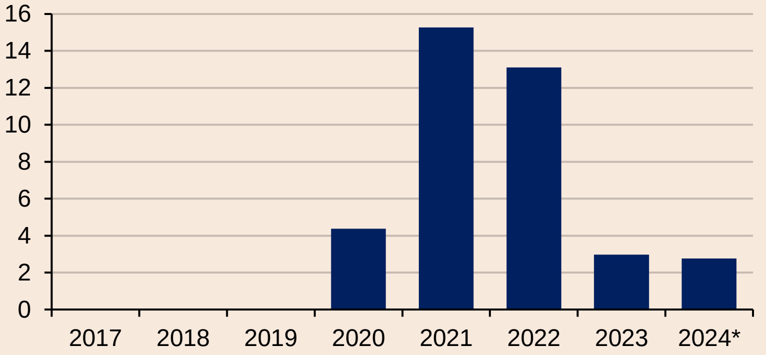
Source: US Census Bureau

Take a look at selected products slapped by the US's blanket tariffs

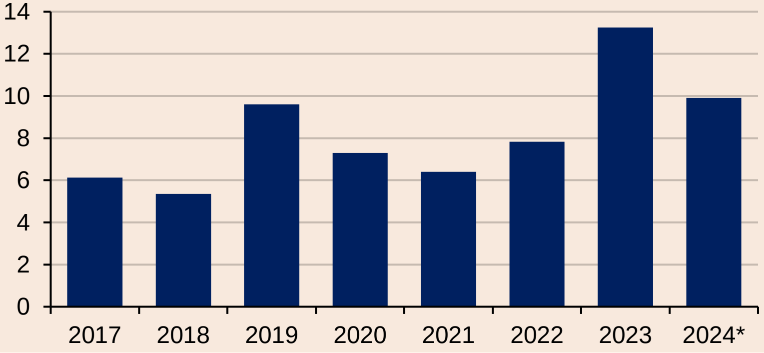
Exports of iron and steel products (HS72 & 73) and aluminium and aluminium products (HS 76) to the US
RM billion



Exports of washing machines (HS 8540) to the US
RM million



Exports of photovoltaic (HS 854140, 854142 & 854143) to the US
RM billion



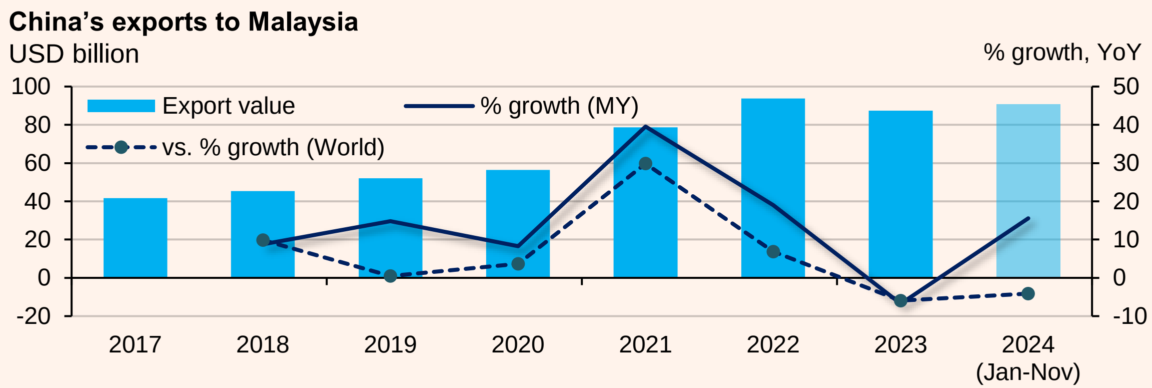
- *The US initiated a temporary, 24-month bridge to facilitate certain imports from Cambodia, Malaysia, Thailand, and Vietnam duty-free to ensure robust deployment while the domestic solar manufacturing base ramped up.*
- *While the bridge ended as scheduled on 6 Jun 2024, producers in Southeast Asia that have been found to be circumventing anti-dumping and countervailing duties on solar manufacturers from China will be subjected to the imposed duties. (source)*

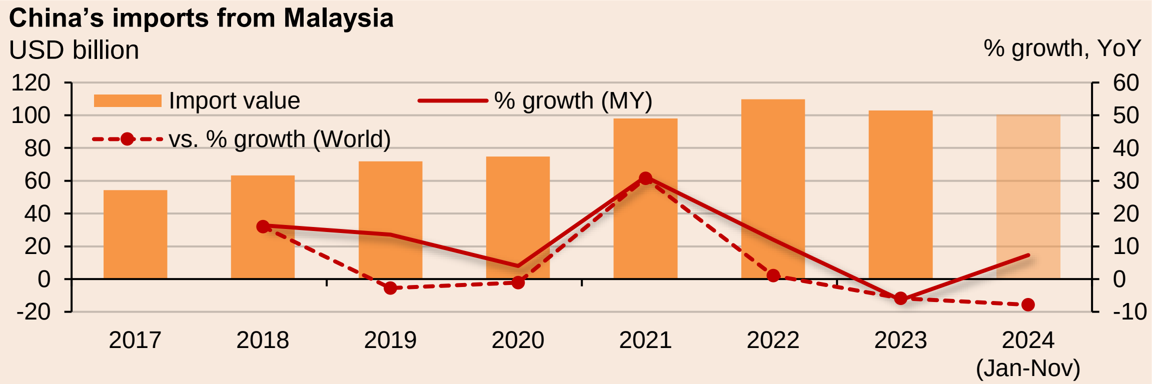
** For 2024, Jan-Nov only*
Source: DOSM

Findings

- The United States did not impose a tariff hike on a wide range of Malaysian goods, unlike China.
- **The US's blanket tariffs imposed on selected products (i.e. steel and aluminium products, solar panels, and washing machines) does not appear to have resulted in a significant impact on Malaysia, except for photovoltaic products in 2018**. However, it increased substantially in 2019.
- **Anecdotal evidence indicated that firms affected by the blanket tariffs have reported neutral to mildly negative impact**. Some local manufacturers of steel products have stopped exporting to the US following the US's blanket tariff on imports of steel products. Meanwhile, manufacturers of solar panels and components have indicated that the US's blanket tariff on solar panels has not affected their exports and production volumes, given the strong demand (Source: Bank Negara Malaysia).

Is there a trade diversion from China into Malaysia?





Source: China Customs *Note: Yearly data is not updated with the revised figures.*

Findings

- **China's exports to Malaysia increased substantially by 17.6% per annum, from USD41.7 billion in 2017 to USD93.7 billion in 2022**, before falling by 6.8% in 2023. In Jan-Nov 2024, the exports rebounded and grew by 15.6% yoy. As a result, Malaysia's share of total China's exports increased from 1.8% in 2017 to 2.8% in Jan-Nov 2024.
- While growth of exports to Malaysia has consistently outpaced total exports in 2019-2022 as well as in Jan-Nov 2024, this suggests a potential trade diversion into Malaysia, especially in 2019 and 2024.
- **In terms of China's imports from Malaysia, imports value also grew substantially by 15.1% per annum from 2017 to 2022**. In Jan-Nov 2024, it rebounded by 7.3% after a contraction in 2023, with Malaysia's share of total China's imports rising to 4.3%, up from 3.0% in 2017.
- The US-China trade spat has spurred the relocation of manufacturing facilities or the expansion of operations outside China to circumvent tariff measures. Malaysia has emerged as a prominent choice among investors seeking alternative investment destinations.

Approved China's participation in the manufacturing projects in 2017-Sep 2024

	2017	2018	2019	2020	2021	2022	2023	2024 (Jan-Sep)
Number of projects	20	40	79	71	43	46	64	73
Investment amount (RM million)	3,851.7	19,673.3	15,300.3	17,752.4	16,604.2	9,554.9	11,992.0	7,876.7
Rank	1	1	1	1	4	2	5	4

Source: MIDA

Trump 2.0: Unpredictable impact under different scenarios

Trump 2.0 proposals during the US Presidential campaign:

- 10%-20% tariffs on all imports, and as much as 60% on imports from China.
- 25% or even 100% on Mexican-made goods and 200% or 500% on autos imports from Mexico.
- 100% tariffs on countries that want to shift away from using the US dollar.
- 25% "anti-drug" tariff on all imports from Mexico & Canada, 10% "anti-drug" tariff (additional) on all imports from China.
- Trade diversion from China to ASEAN to bypass tariffs could be pursued by Trump.

Base case

- Lower tariffs from the proposed 60% on imports from China; lower tariffs or selectively on other countries.
- Staggered implementation, probably in 2H 2025.
- Gentle retaliation measures by China.

50% *Probability*

Best case

- Both the US-China's engagement to ease severe tariffs retaliation.
- Moderate "anti-drug" tariff on imports from China, Mexico and Canada.

15% *Probability*

Worst case

- Severe trade tariffs retaliation.
- 100% implementation of the proposed measures.
- Immediately hit on China within the Trump's 100 days in office.

35% *Probability*

Probable impact on the global economy, the US and China

%	2017	2018	2019	2024	2025F: Base case (Probability: 50%)	2025F: Best case (Probability: 15%)	2025F: Worst case (Probability: 35%)
GDP Growth *(2024 is IMF's estimations)*					Global economy still growing, albeit slower due to uneven pace in the advanced economies and China. Monetary easing will support growth and spending.	Better than expected, underpinned by gentle tariffs war amid still good global demand. The timeline of implementing the tariffs is gradual.	Severe tariffs retaliation punctured the global supply chains; dampened production and exports. Higher consumer inflation and interest rate to remain high for longer.
Global economy	3.8	3.6	2.9	3.2	2.9	3.2	1.9
The United States	2.5	3.0	2.6	2.8	2.2	2.4	1.2
China	6.9	6.7	6.0	4.8	4.5	5.0	3.5
US Inflation	2.1	2.4	1.8	3.0 *(Jan-Nov)*	2.8 Moderate inflation risk	2.6 Manageable inflation risk	3.5 Higher inflation risk
US Federal Fund Rate *(End-period)*	1.25-1.50	2.25-2.50	1.50-1.75	4.25-4.50	3.75-4.00	3.50-3.75	4.75-5.00

Probable impact on Malaysia

<table>
<tr><th>%</th><th>2017</th><th>2018</th><th>2019</th><th>2024E (SERC)</th><th>2025F: Base case (Probability: 50%)</th><th>2025F: Best case (Probability: 15%)</th><th>2025F: Worst case (Probability: 35%)</th></tr>
<tr><td>GDP Growth</td><td>5.8</td><td>4.8</td><td>4.4</td><td>5.0-5.3</td><td>5.0
Positive growth supported by stable labour market conditions, expansionary fiscal and accommodative monetary policy. Domestic demand offsets moderate exports.</td><td>5.3
Sustained domestic demand. Better-than expected exports and commodities prices underpin the economy.</td><td>4.0
Severe trade wars and supply chains disruption slowed down production, exports, and the manufacturing sector. Domestic sectors mitigate the negative spillovers.</td></tr>
<tr><td>Export Growth</td><td>18.8</td><td>7.3</td><td>-0.8</td><td>5.1</td><td>4.0</td><td>4.5</td><td>2.0</td></tr>
<tr><td rowspan="2">Inflation</td><td rowspan="2">2.1</td><td rowspan="2">2.4</td><td rowspan="2">1.8</td><td rowspan="2">1.9</td><td>2.5-3.0</td><td>2.5-3.0</td><td>2.5-3.0</td></tr>
<tr><td colspan="3">Higher inflation risks mainly from the fuel subsidy rationalisation, higher private and public sectors’ wages and higher inputs cost.</td></tr>
<tr><td>BNM’s OPR
(End-period)</td><td>3.00</td><td>3.25</td><td>3.00</td><td>3.00</td><td colspan="3">Keeping interest rate steady at 3.00% while keeping close tab on cost-driven inflation and any demand pressure.</td></tr>
<tr><td rowspan="2">Investment Flows</td><td rowspan="2"></td><td rowspan="2"></td><td rowspan="2"></td><td rowspan="2"></td><td colspan="2">Mildly positive</td><td>Negative</td></tr>
<tr><td colspan="3">The potential impacted industries could be textiles, semiconductors, telecommunications, electrical equipment, machinery, computers, and automotive industries.</td></tr>
<tr><td>Ringgit against the USD</td><td></td><td></td><td></td><td></td><td colspan="2">Strengthening towards end-2025</td><td>Weakening towards end-2025</td></tr>
</table>

Probable impact of the trade war on Malaysia

Economic Variables \ Scenario	Base case (Probability: 50%)	Best case (Probability: 15%)	Worst case (Probability: 35%)
Real GDP	Moderate impact	Mild impact	Strong impact
Exports	Moderate impact	Mild impact	Strong impact
Domestic Demand	Mild impact	Mild impact	Moderate impact
Inflation	Mild impact	Mild impact	Moderate impact
FDI	Moderate impact	Mild impact	Strong impact
Overnight Policy Rate (OPR)	No impact	No impact	Moderate impact
The Ringgit	Moderate impact	Moderate impact	Strong impact

Policy strategies to mitigate the risks from trade tensions

- Overall, the direct and indirect impact of the trade war on Malaysia's economy and exports is largely **dependent on the substitutability of the affected products, reconfiguration of supply chains and production, transshipment and Malaysian firms' products' cost and price competitiveness**.
- Malaysia has **unique strength in terms of strategic sweet spot to be one of the conducive investment locations in the region**. The Government must continue to enhance Malaysia as a competitive manufacturing and services hub, maintained liberal trade policies and puts a high emphasis on multilateral and bilateral trade agreements in efforts to diversify its supply chains and markets.
- We must continue to **engage with our trading partners and foreign investors to sustain their long-term strategic investing in our country**. The Government must convince foreign investors that Malaysia is **a valued partner for strategic collaborations** to thrive vibrant trade and investment opportunities through enhancing economic connectivity and supply chains reconfiguration.
- Malaysian businesses and manufacturers have **to strengthen their capabilities in terms of cost competitiveness and process efficiency, product quality, supply chains diversification and market diversification** to mitigate the impact of the trade conflicts.

The Government can consider the following measures:

a) **Enhancing regional economic integration** under RCEP and ACFTA, and CPTPP, focusing on trade liberalization and investment facilitation.

b) Provide some form of **exports credit scheme to domestic SMEs; reduce import duties on raw materials**; assist in exploring new export markets; and diversify supply chains.

c) Provide **attractive incentives to conglomerates and MNCs to establish their principal hub** in Malaysia.

d) **Widen and deepen the trade relationships by actively participate in multi-and bi-lateral trade agreements with new markets** such as Middle-east, Africa and Asia Pacific. Diversify more trading activities with European Union (EU), revisit the Malaysia-European Union Free Trade Agreement (MEUFTA) negotiation or accelerate the proposed ASEAN-EU FTA.

e) **Fostering open communication channels** with governments of major trading partners while promoting transparency in our trade practices.

f) **Stimulate higher domestic investments and attract more quality foreign direct investments** through more streamline of regulatory requirements, ease of doing business and review of investment incentives, etc.

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