Socio-Economic Research Centre
SERC 社会经济研究中心

UOB Kay Hian Pre-POC Seminar

Malaysia at the Crossroads – Can the Government Rise to the Challenge?

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24 February 2025

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

KEY TAKEAWAYS

- *Global growth “steadying”, albeit settling at lower rate*
- *Growth divergence in key economies – facing their own challenges.*
- *The Trump’s factor – “The elephant is in the room”*
- *Tariff moves upend inflation expectations*
- *Monetary easing to continue, albeit at varying pace*
- *Downside risks have risen – Negatives outweigh Positives*

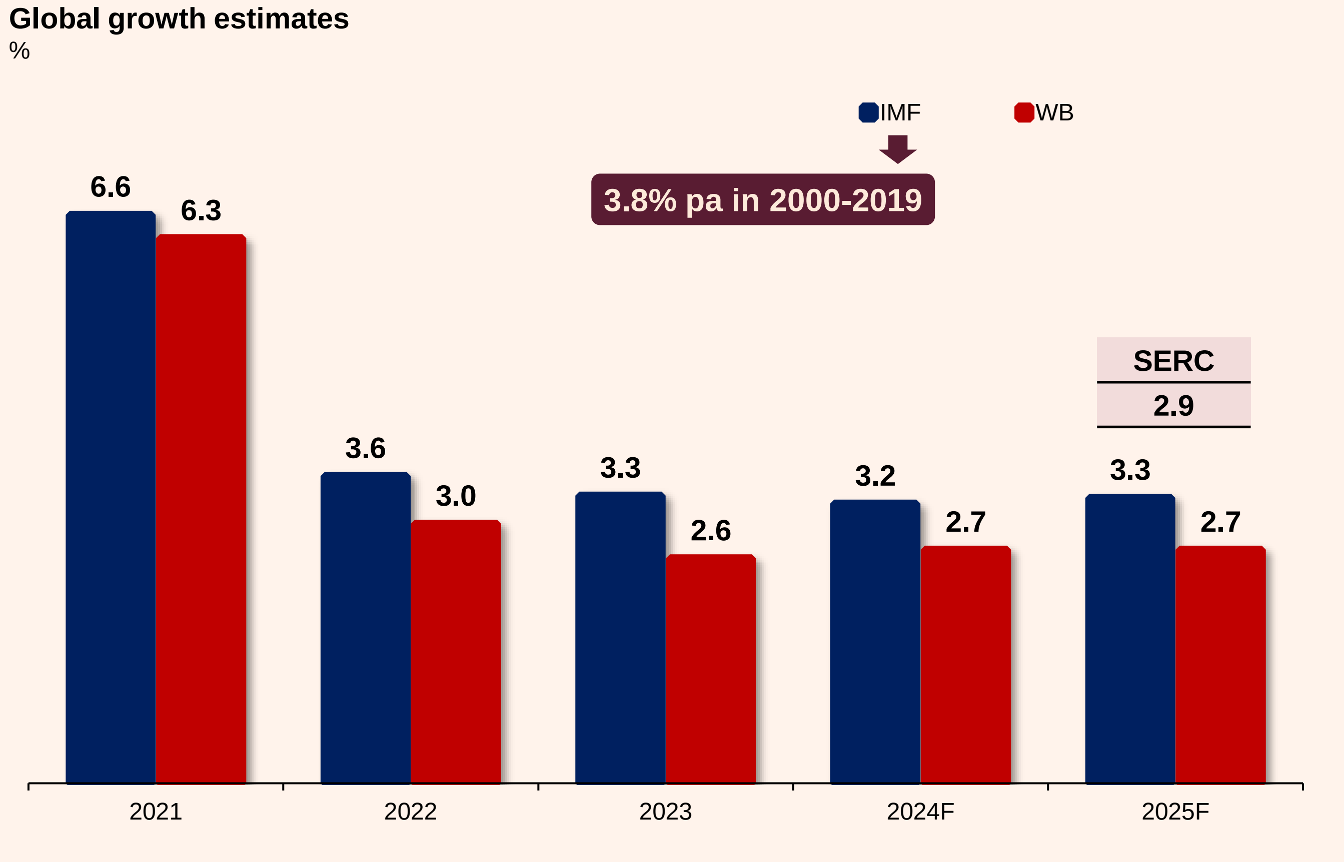
Volatility

Uncertainty

Complexity

Ambiguity

Global growth to remain subdued amid lingering uncertainty



What could go wrong?

#1 Geopolitical tensions and military conflicts

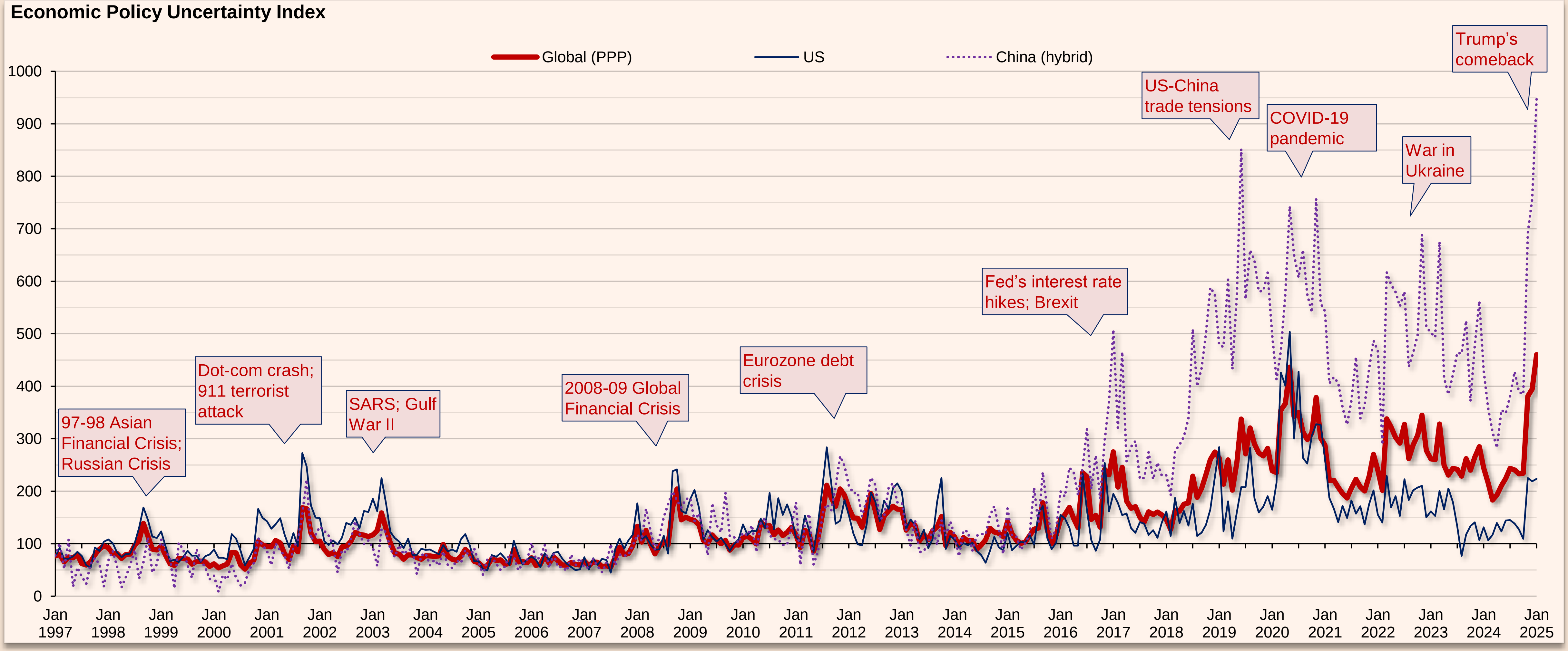
#2 Elevated trade war

#3 Inflation risk flares up

#4 Soaring global debt

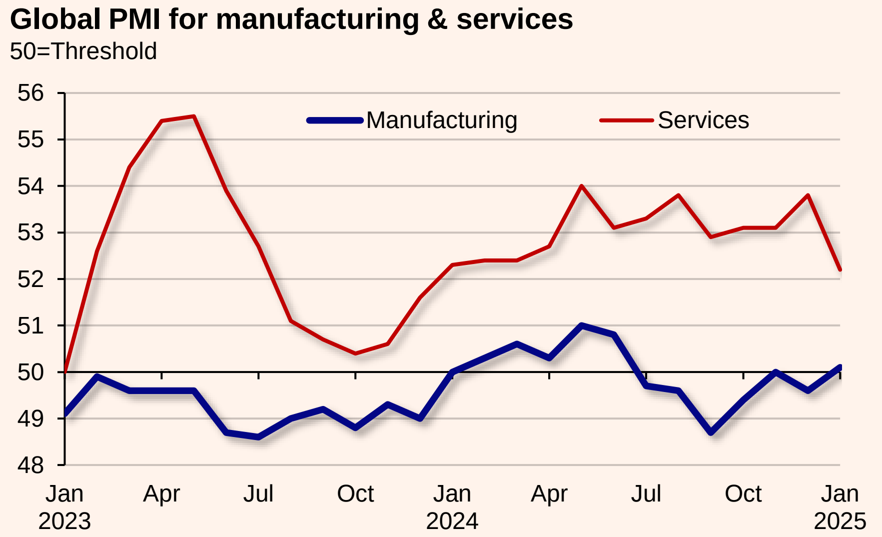
Source: International Monetary Fund (IMF); World Bank (WB)

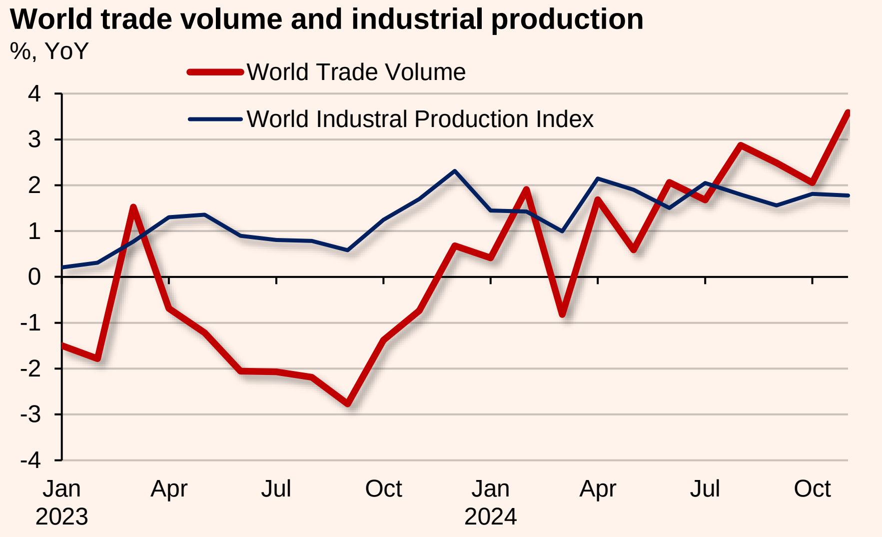
The Economic Policy Uncertainty (EPU) Index spiked up

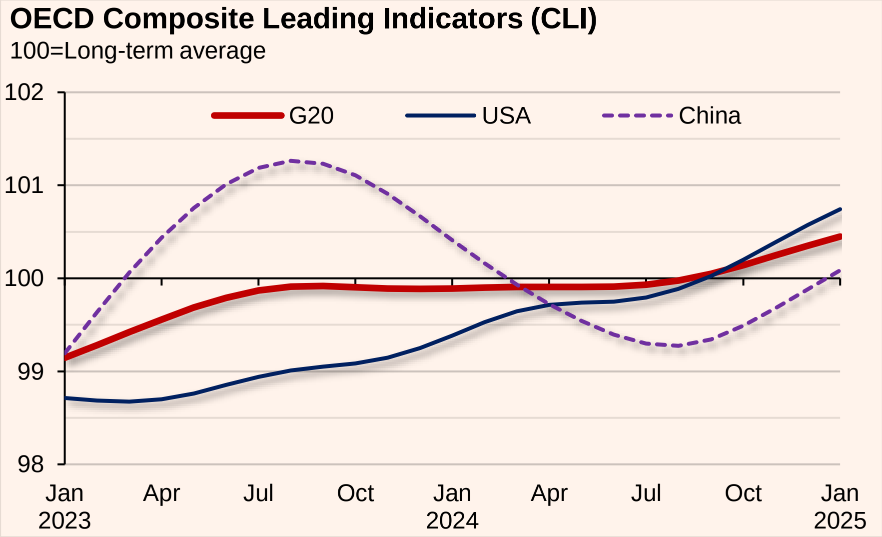


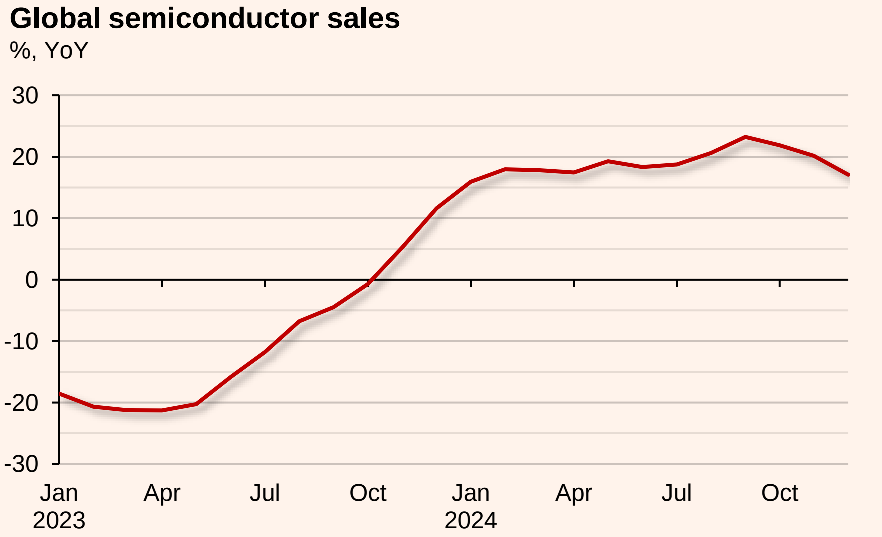
Source: Global: Davis (2016); United States: Baker, Bloom and Davis (2016); China (hybrid): Baker, Bloom, Davis and Wang (2013) & Davis, Liu, and Shang (2019)

Global current and forward indicators show mixed trends









- Global manufacturing PMI edged above the 50-point mark for the first time since Jun 2024, reaching an 8-month high of 50.1 in Jan 2025.
- Global Services PMI in Jan 2025 remains in expansionary territory, though new business growth has slowed.
- The OECD composite leading indicators signal steady global growth outlook.
- Global trade volume grew for the eighth consecutive month in Nov 2024.
- Global semiconductor sales surged 19.1% in 2024. The WSTS forecasted that semiconductor sales will grow by 11.2% in 2025.

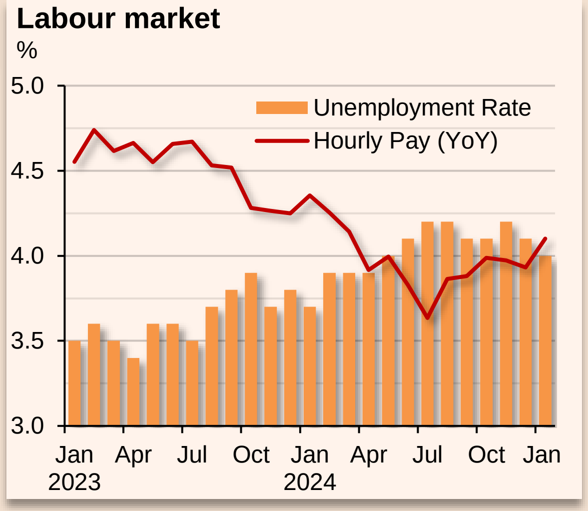
Source: S&P Global; Organisation for Economic Co-operation and Development (OECD); CPB Netherlands; Semiconductor Industry Association (SIA)

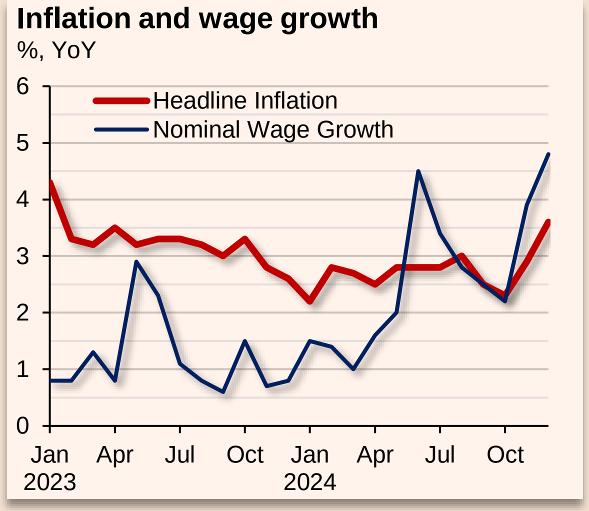
Growth divergence in key economies – Facing challenges

United States

2024: 2.8%; 2025F: 2.2%

- Trump's policy shifts
- Demand stimulating – deregulation, output rise and inflation
- Supply constraints – tariffs, immigration curb





Japan

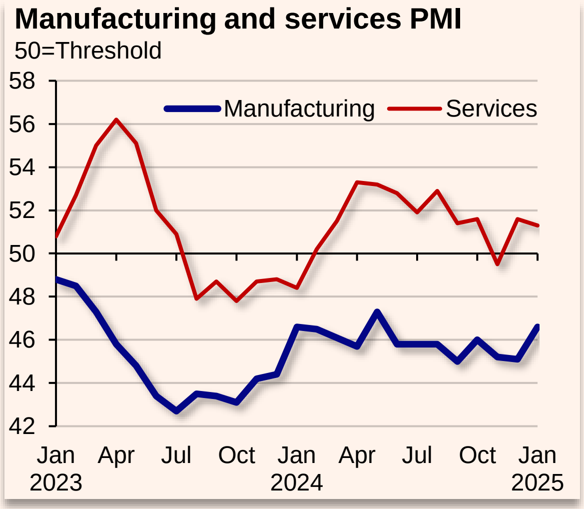
2024E: 0.1%; 2025F: 1.1%

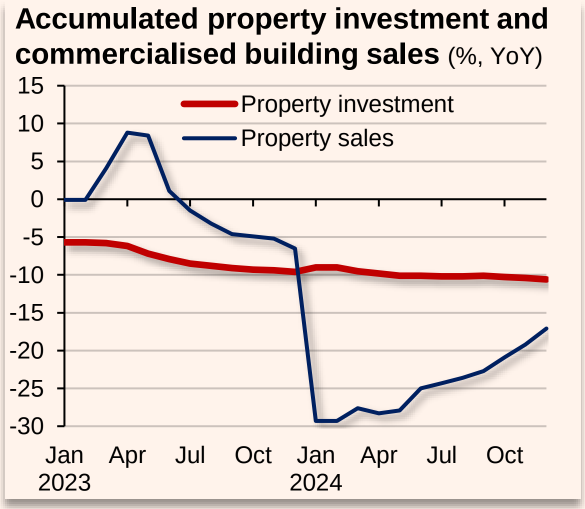
- Gradual monetary tightening
- Inflation price pressures
- Yen carry trade could make a comeback

Euro Area

2024: 0.7%; 2025F: 1.0%

- Weak manufacturing momentum
- Fiscal vulnerabilities, including weak fiscal fundamentals, high debt
- ECB to continue cutting interest rates





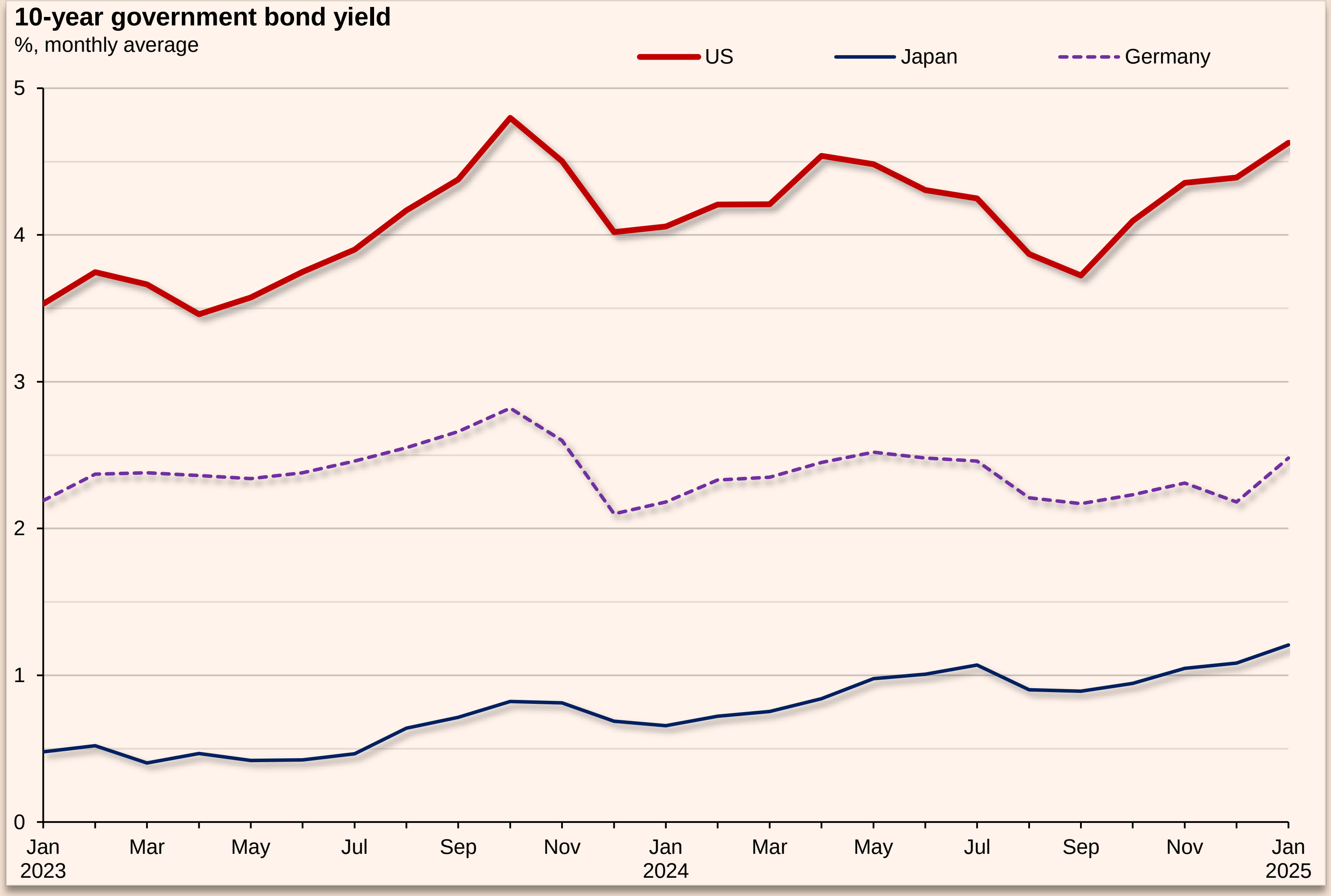
China

2024: 5.0%; 2025F: 4.6%

- Responsiveness of consumers and businesses to stimulus
- Pivot to domestic engine
- Debt deflation trap
- Declining bond yields could indicate a prolonged economic downturn
- Trade tensions with the US

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

Rising bond yields are disturbing …



- The bond market has been undergoing a transformation over the past few months. Yields on longer-term bonds — with maturities of 10 years and up — have been rising. That's been the case not just in the US, Germany, UK, Japan, and China.
- Tensions between the central banks' policy rate coming down and the long-term yields (funding cost) for government spending going up.
- If the economy slows down and requires further rate cut to near zero, then have to rely on fiscal policy to stimulate growth. However, there is limited fiscal space due to higher long-term yields.
- It could come to a situation of exhausting monetary space and limited fiscal space.

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

Global monetary policy tracker

Increase
Reduce
No change

Policy rate (%, end-period)

Central Bank	2019	2020	2021	2022	2023	2024	2025 (Jan/Feb)	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	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	2.75	2.00
Japan, BOJ Overnight Call Rate	-0.10	-0.10	-0.10	-0.10	-0.10	0.25	0.50	0.75
China, PBC 1-year Loan Prime Rate (LPR)	4.15	3.85	3.80	3.65	3.45	3.10	3.10	3.00
UK, BOE Bank Rate	0.75	0.10	0.25	3.50	5.25	4.75	4.50	3.75
Australia, RBA Cash Rate	0.75	0.10	0.10	3.10	4.35	4.35	4.10	3.35
India, RBI Policy Repo Rate (LAF)	5.15	4.00	4.00	6.25	6.50	6.50	6.25	6.00
South Korea, BOK Base Rate	1.25	0.50	1.00	3.25	3.50	3.25	3.25	3.00
Malaysia, BNM Overnight Policy Rate	3.00	1.75	1.75	2.75	3.00	3.00	3.00	3.00
Indonesia, BI BI-Rate	5.00	3.75	3.50	5.50	6.00	6.00	5.75	5.50
Thailand, BOT 1-Day Bilateral Repurchase Rate	1.25	0.50	0.50	1.25	2.50	2.25	2.25	2.00
Philippines, BSP Target RRP Rate	4.00	2.00	2.00	5.50	6.50	5.75	5.75	5.25

Source: Various officials; SERC's forecasts

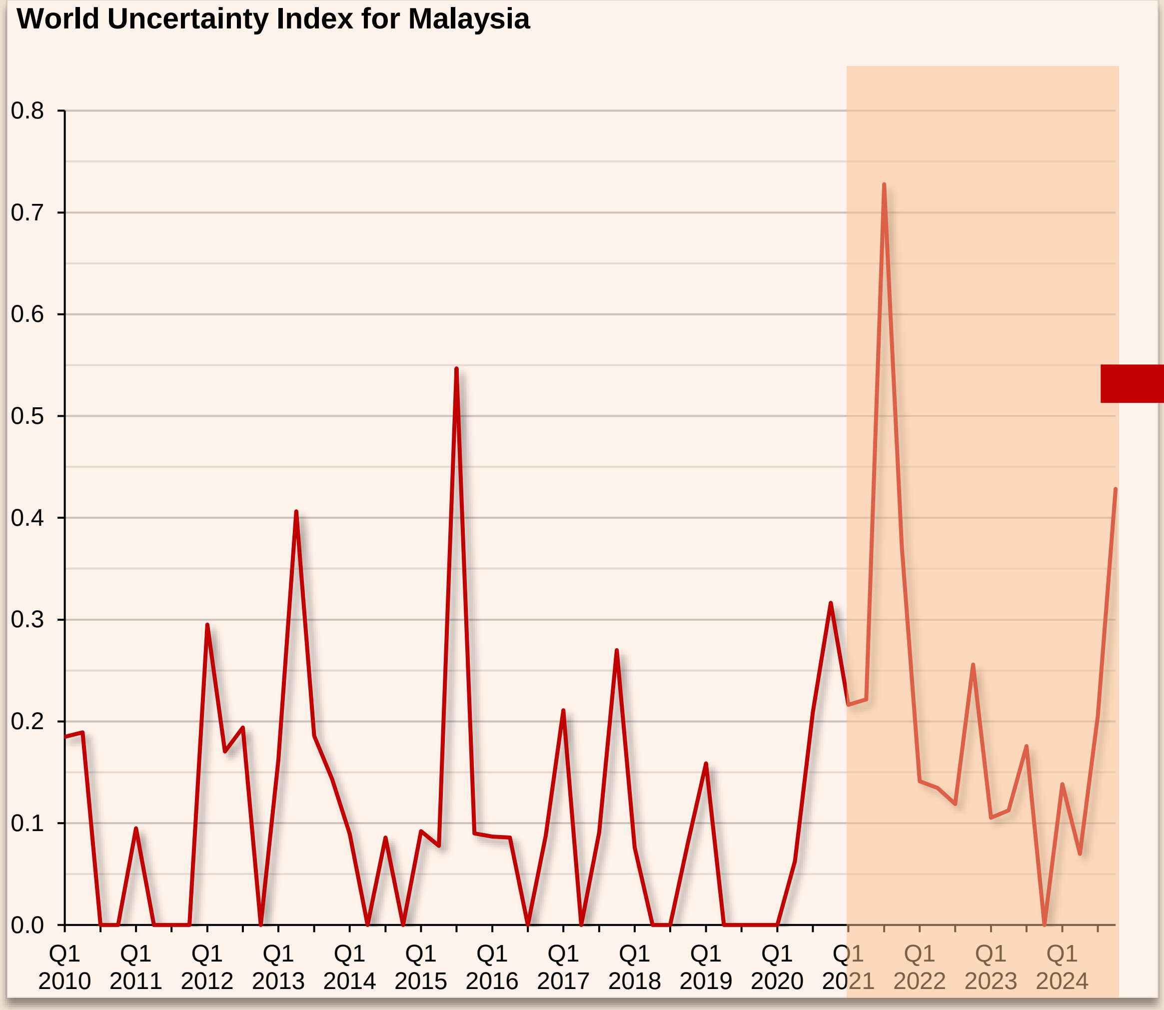
Malaysia’s Economic Outlook

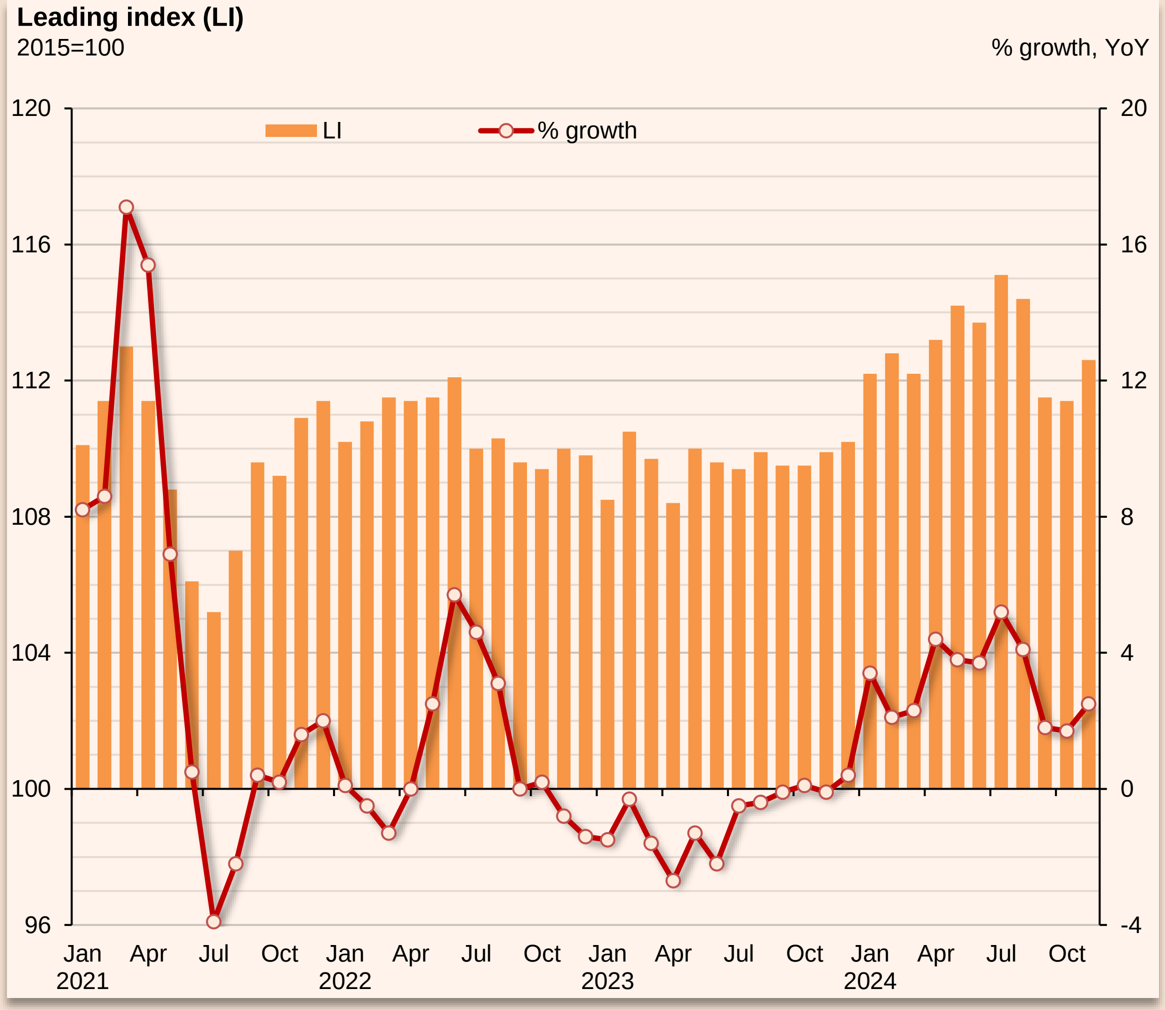
Cautiously Promising Outlook 2025: Insights and Trends

KEY TAKEAWAYS

- *Continued economic expansion amid 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*
- *Wary of inflation expectations and increased business costs*
- *BNM to keep interest rate steady at 3.00% in 2025*

World Uncertainty Index for Malaysia vs. the leading indicators

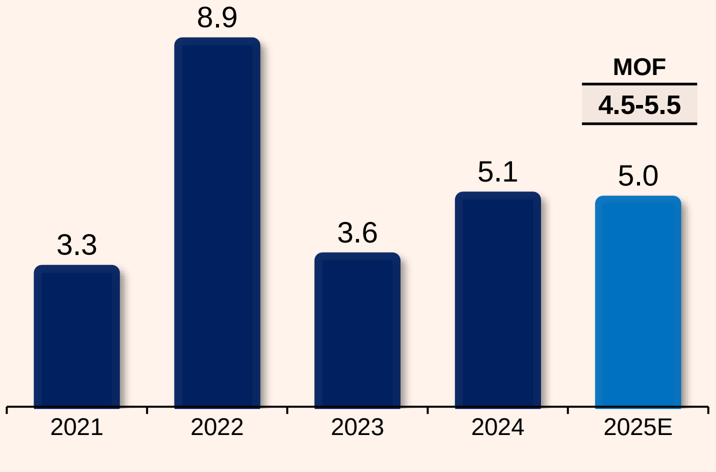




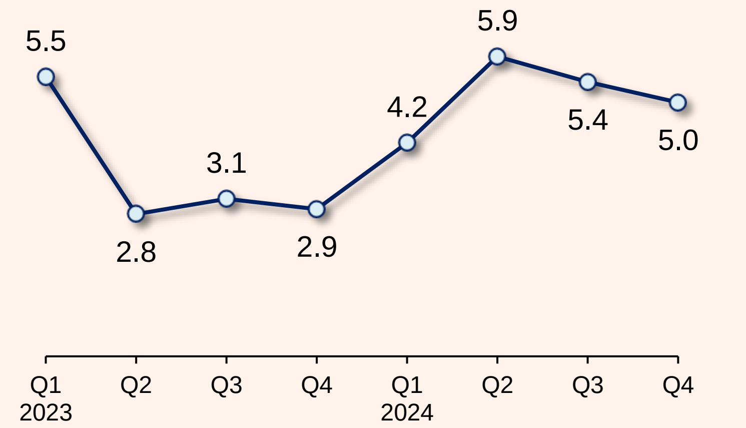
Source: World Uncertainty Index (the index is associated with greater economic policy uncertainty (EPU), stock market volatility, risk and lower GDP growth). DOSM

The Malaysian economy to stay on course amid headwinds

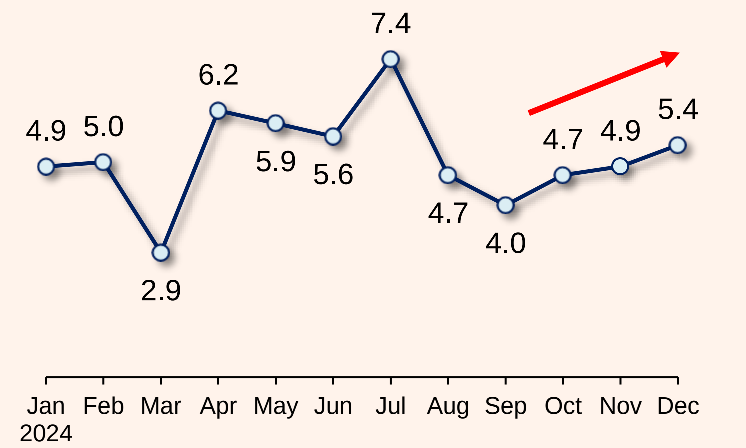
Annual GDP growth (%)



Quarterly



Monthly



Drivers of growth:

#1 Firm labour market conditions and continued discretionary consumer spending: Higher minimum wage, salary hikes for public servants, higher cash aids, and the EPF Flexible Account

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

#3 Sustained tourism activities

Risks for 2025: Largely external-driven

#1 A wide scale tariffs war impacts global growth and trade as well as 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

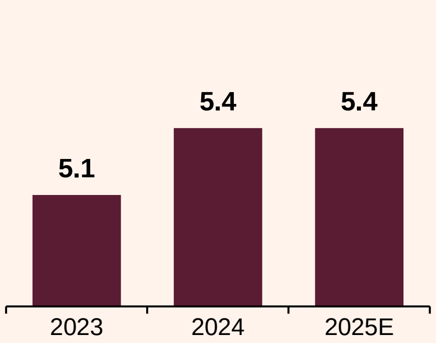
(wage increases, petrol subsidy rationalisation, SST scope expansion, and inputs cost inflation)

Source: DOSM; MOF; SERC's forecast

Bolstered by services, manufacturing, and construction activities

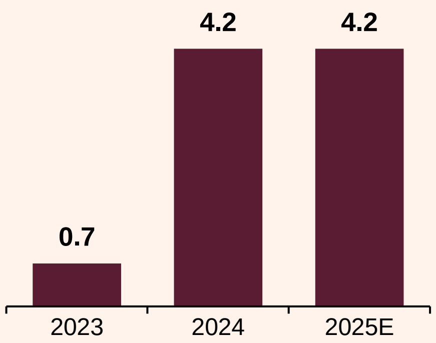
GDP growth by economic sector (%, YoY)

Services



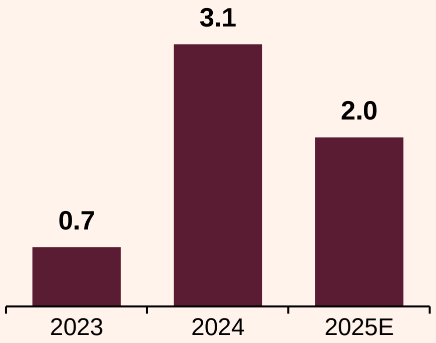
- Continuous consumer spending.
- Robust tourism-related activities.
- Increased business- and trade-related activities, benefitting professional and business activities as well as logistic industry.

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.

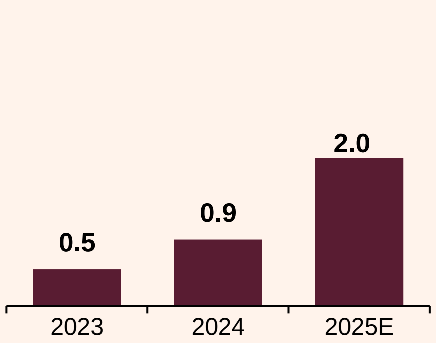
Agriculture



- 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: RM4,100/tonne
(2024: RM4,180/tonne)

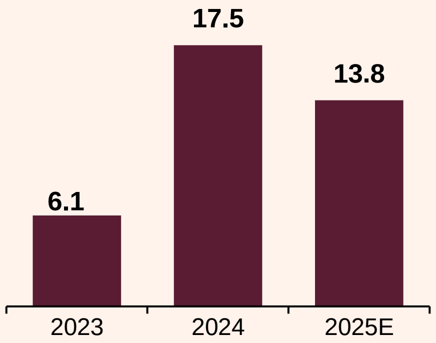
Mining and Quarrying



- 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

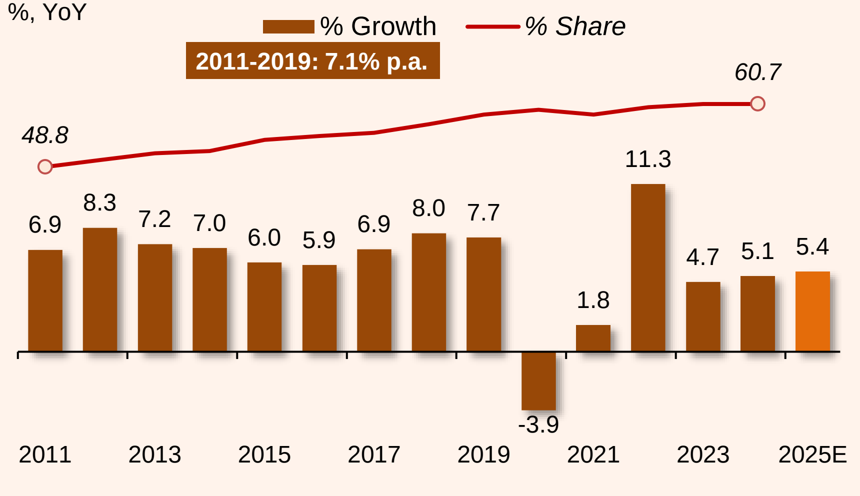


- Broad base expansion: Strong demand for industrial facilities from realisation of approved investments and development of new industrial areas.
- Strategic infrastructure and utility projects, including the Central Spine Road (CSR), Pan-Borneo Highway, MRT, LRT, and East Coast Rail Link (ECRL).

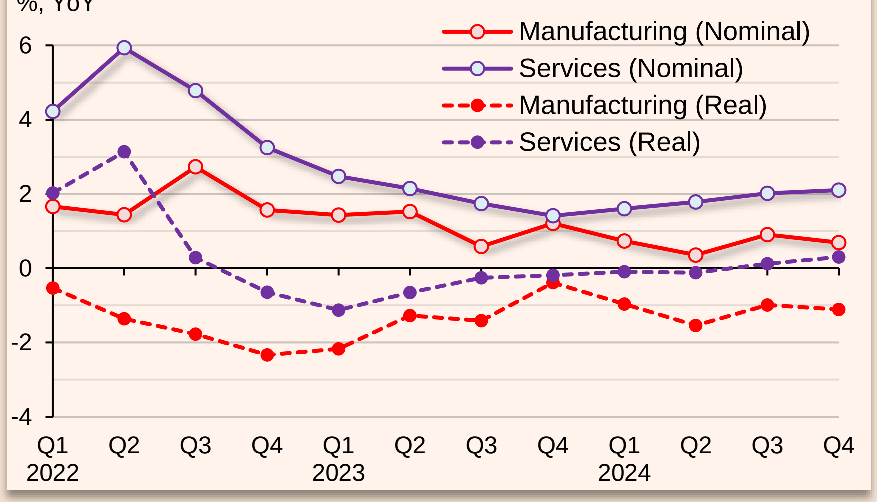
Source: DOSM; SERC's forecast

Households could begin to bend, but not break

Private consumption growth



Real wage growth per employee



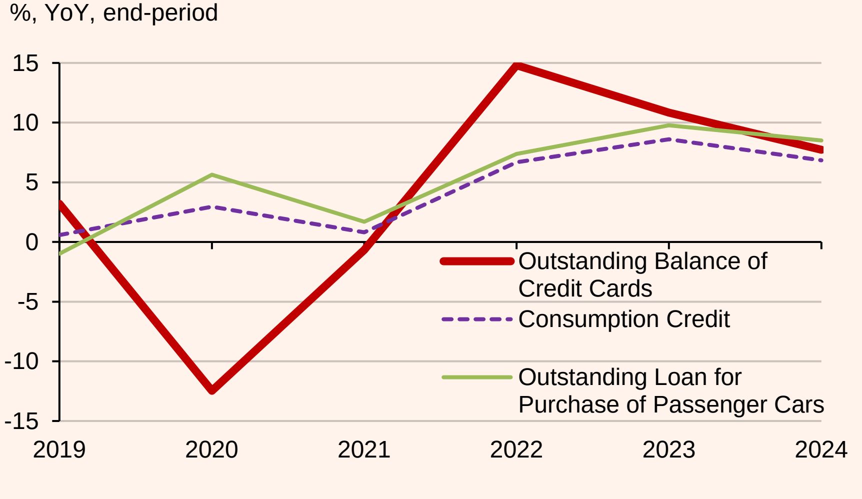
Positives

- Improvement in disposable income and robust labour market conditions.
- Higher minimum wage, EPF Flexible Account 3 withdrawal facility, and the implementation of Public Service Remuneration System (SSPA).
- Improved targeted cash assistance programmes: RM13 billion in 2025.
- Sustained tourism activities: Target 31.4 million tourist arrivals in 2025 (25.0 million in 2024).

Dampener

- Rising cost of living pressure.
- Consumer inflation from the fuel subsidy rationalisation, pass-through from increased business costs.

Selected private consumption indicators



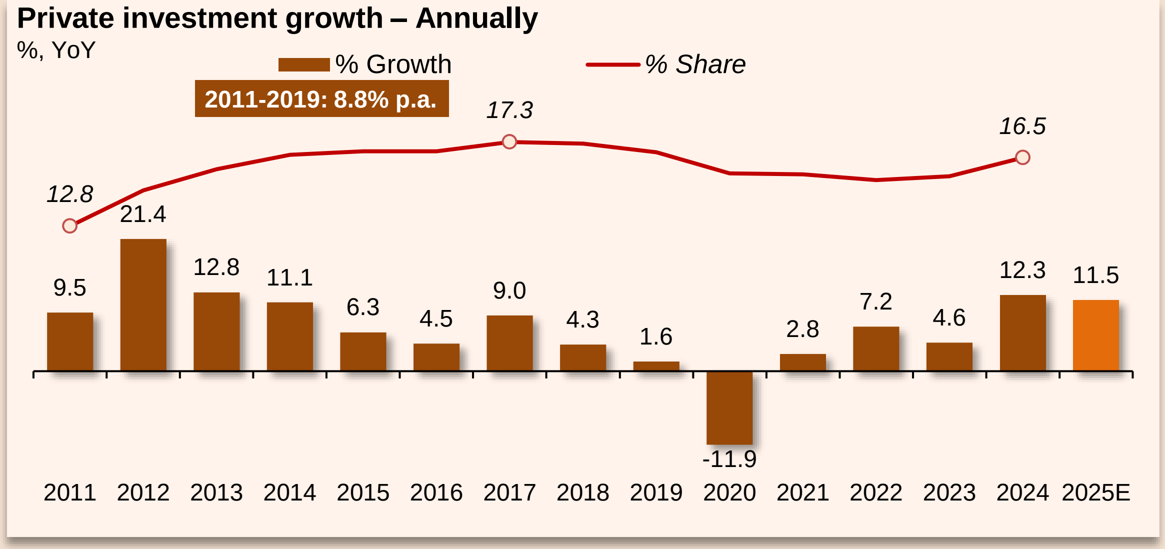
What are consumers spending on?

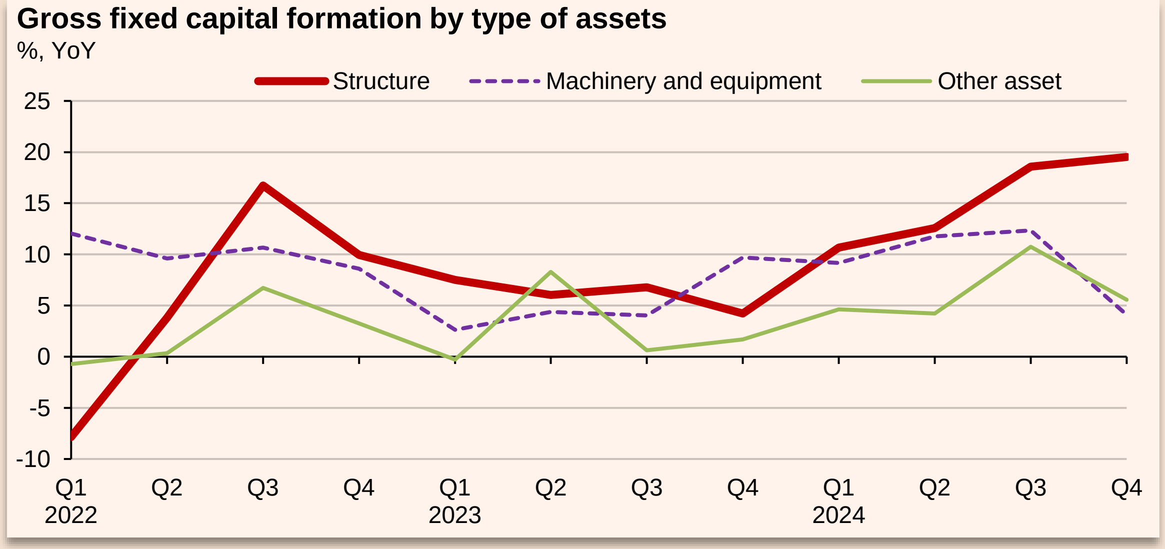
Note: Figure in parenthesis indicates % share of private consumption in 2024

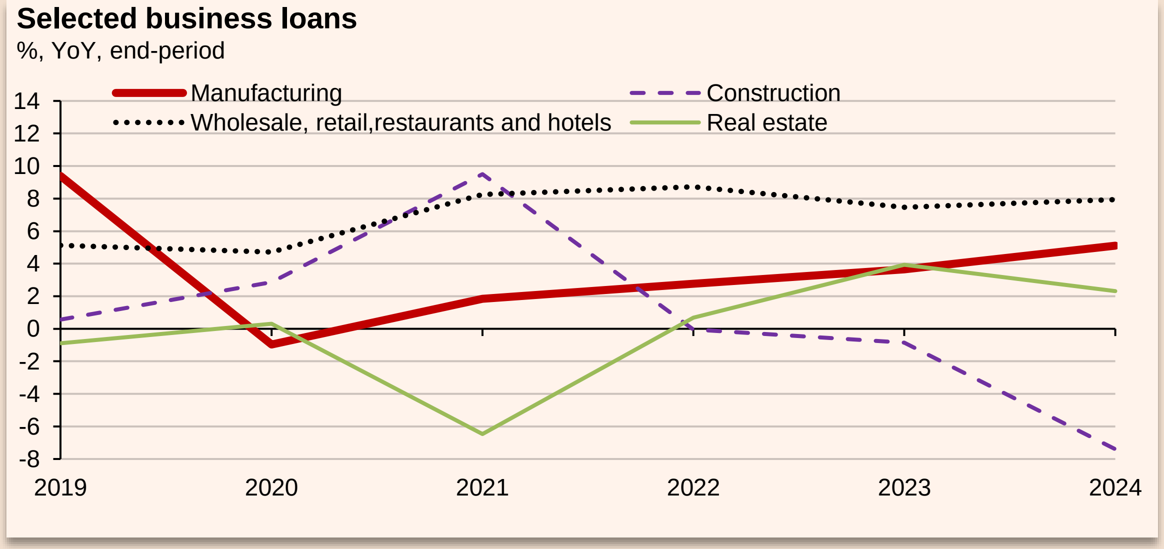
Selected private consumption components % growth, YoY	**2022 Q1**	**2022 Q2**	**2022 Q3**	**2022 Q4**	**2023 Q1**	**2023 Q2**	**2023 Q3**	**2023 Q4**	**2024 Q1**	**2024 Q2**	**2024 Q3**	**2024 Q4**
Food and non-alcoholic beverages (24.1%)	4.6	11.0	6.8	5.5	3.4	2.8	4.9	5.9	4.0	7.2	3.7	3.8
Housing, water, electricity, gas and other fuels (15.6%)	2.5	7.7	6.8	10.6	8.9	6.3	5.9	5.6	7.5	3.8	5.3	3.1
Transport (13.8%)	8.3	89.8	54.8	10.7	11.2	6.1	11.0	10.1	6.4	8.9	13.7	12.4
Communication (10.7%)	11.6	10.5	10.6	7.7	7.2	7.1	7.8	7.3	6.0	4.0	3.6	8.0
Restaurants and hotels (9.1%)	10.9	36.7	43.3	16.0	9.1	5.1	7.8	7.6	8.4	10.5	14.2	13.8

Source: DOSM; BNM; SERC's forecast

A multi-year expansion in private investment cycle







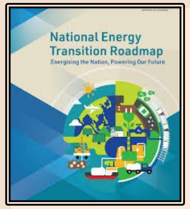
Source: DOSM; BNM; SERC's forecast

Note: Revision and expansion of the loans/financing data in 2022.

Catalytic drivers of private investment

New Industrial Master Plan (NIMP) 2030

- Estimated RM94.7 billion for 7 years, driven by private sector
- Government funding through NIMP Industrial Development Fund and NIMP Strategic Co-investment Fund
- 21 sectors in focus, of which five (5) are high-tech sectors

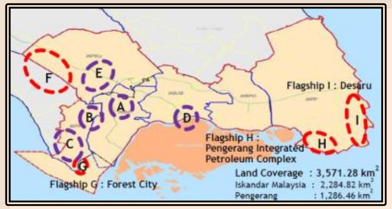


National Energy Transition Roadmap (NETR)

- Six (6) energy transition levers with ten (10) flagship catalyst projects
- Potential investment opportunities totalling between RM1.2 trillion and RM1.3 trillion by 2050
- Uplift annual GDP value up to RM220 billion with 310,000 job creations by 2050

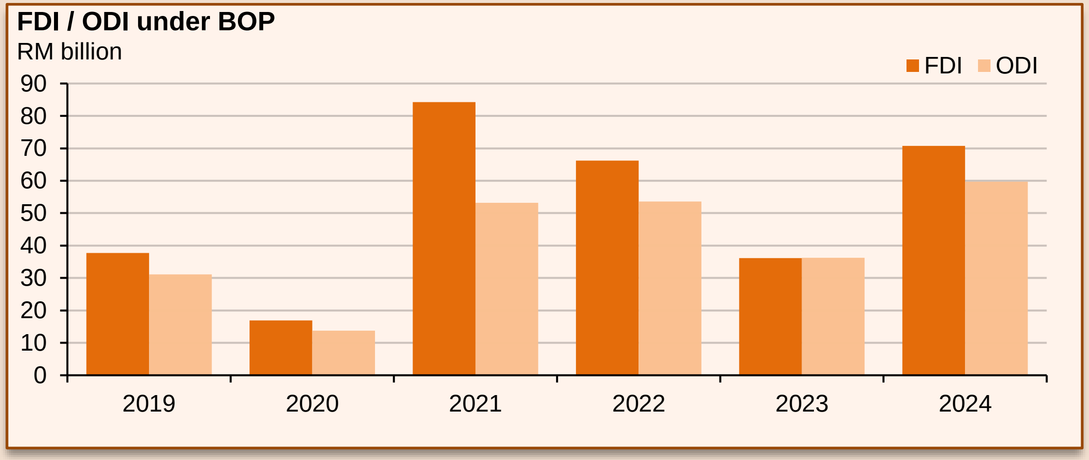
National Semiconductor Strategy (NSS)

- A total investment of RM500 billion by 2030
- Train and upskill 60,000 high-skilled local engineers
- Develop local companies to be global champions; become global semiconductor R&D hub



Johor - Singapore Special Economic Zone (JS-SEZ)

- 11 sectors in 7 flagship zones, with tax rate as low as 5% for companies and 15% for skilled workers
- 50 projects within the first 5 years and a cumulative of 100 projects within first 10 years
- Create 20,000 skilled jobs



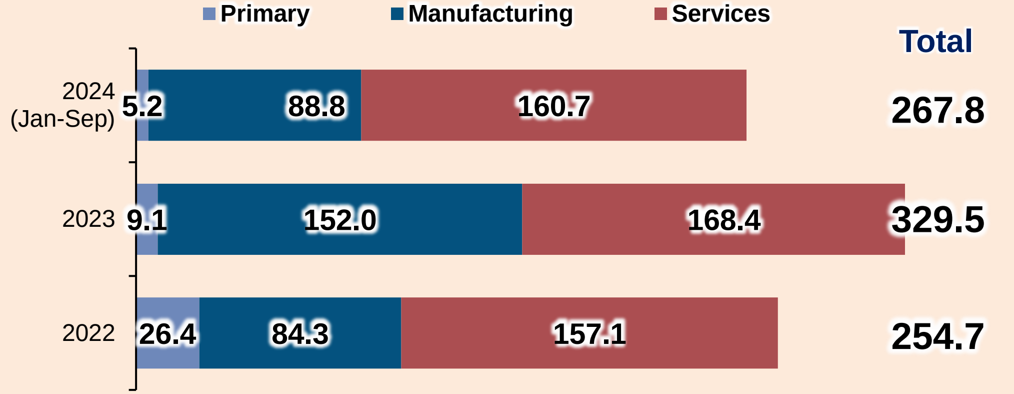
Approved investment in various economic sectors with foreign participation RM million (% share of total)	**2022**	**2023**	**2024 (Jan-Sep)**
Austria	81.8 (0.05%)	9.4 (0.005%)	30,077.0 (28.2%)
Singapore	13,466.8 (8.2%)	43,691.8 (23.2%)	26,130.2 (24.5%)
China	55,431.9 (33.9%)	14,466.1 (7.7%)	12,009.5 (11.3%)
United States	29,160.0 (17.9%)	21,531.2 (11.4%)	9,061.2 (8.5%)
Japan	11,396.3 (7.0%)	13,645.7 (7.2%)	4,391.1 (4.1%)

From 2020 till Jun 2024, 3,204 projects (or 81.0%) and RM430.5 billion (or 73.9%) of total approved manufacturing projects had been realised.

Source: DOSM; MIDA

Data lend credence to continued upturn in private investment cycle

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



Source: MIDA

Public investment: Progress for selected key public projects

Transport

Highway

Pan Borneo Sarawak	>99%
Pan Borneo Sabah Phase 1A	78%
Central Spine Road	66%

Train transit

LRT3	98%
RTS Link (Infrastructure)	Complete
ECRL	78%

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

PRIVATE Investment

Electrical & Electronic products

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

Intel, BOSCH, Infineon, neways, ENOVIX, Micron

Data centre

>RM114 billion
Announced investment

NVIDIA, Microsoft, ByteDance, Google, aws

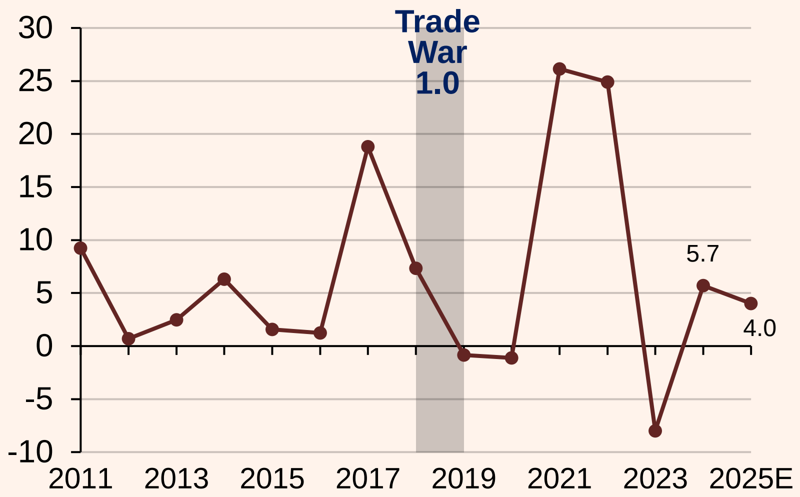
Live capacity:	280 MW
Under construction:	159 MW
Committed capacity:	766 MW
Planned Capacity:	2,016 MW

Green / High tech industry park

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

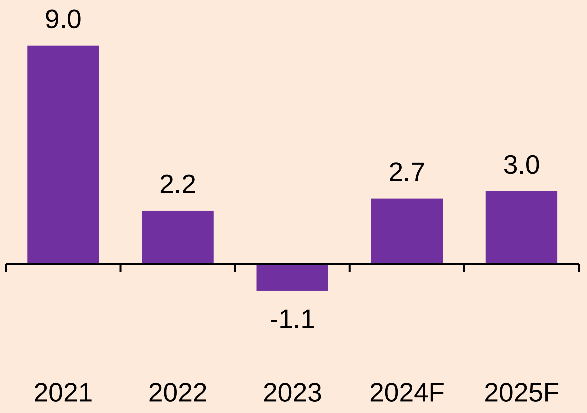
Will exports disappoint in 2025?

Gross Export Growth (%)

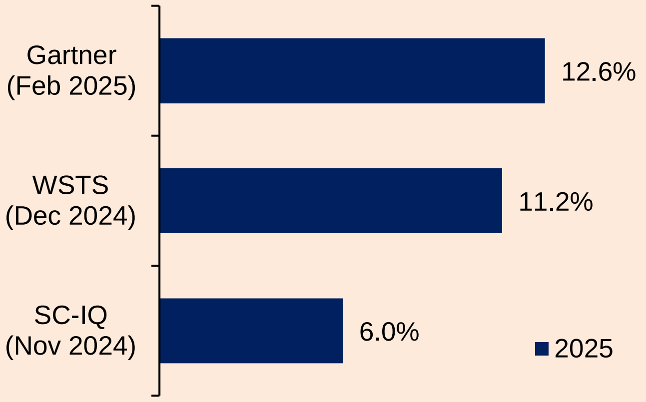


- Be wary of the trade war impact on global trade growth
- The ongoing global tech upcycle, continued growth in non-electrical and electronic goods
- Potential trade diversion effect from Trump 2.0, albeit lower.

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



Selected semiconductor market forecast:

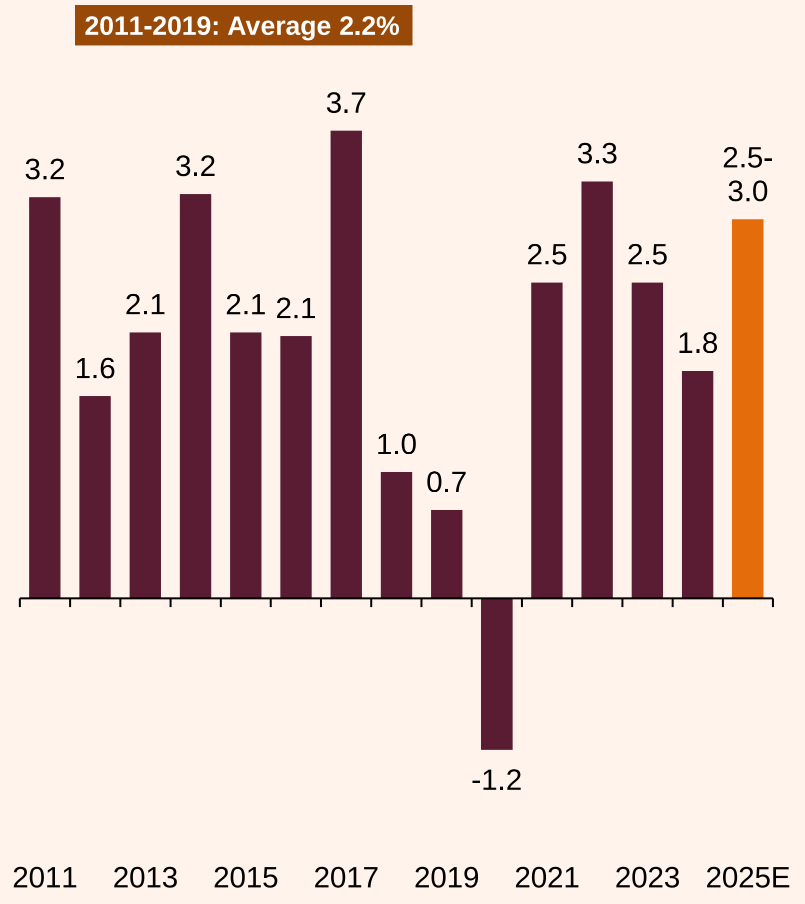


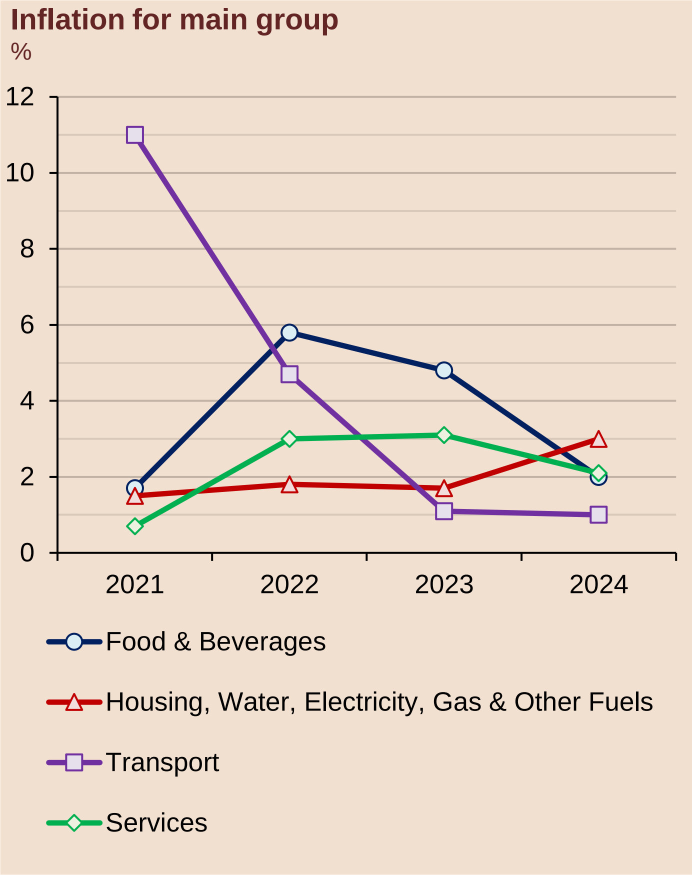
Approved export-oriented manufacturing investment (RM million)	2023	2024 (Jan-Sep)
Electrical & Electronics	85,427.3	46,960.0
Chemicals & Chemical Products	8,906.1	7,021.3
Machinery & Equipment	22,558.2	6,316.4
Petroleum Products (Inc. Petrochemicals)	939.5	2,513.9
Plastic Products	4,137.8	1,297.5
Scientific & 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 (%)





Signs emerge of inflation expectations becoming de-anchored, risking a wage-price spiral, or when private and public wages spur demand

External drivers

- Trade war spillovers; supply chains disruption
- Volatility in global commodity prices.

Internal drivers

- Pay hikes for civil servants (1.7 million or 10.2% of total employment)
- Petrol subsidy rationalisation in mid-2025
- Increased business costs pass-through effects

Source: DOSM; SERC

Increased business costs can spillover 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 increased 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

- The rate for employer and employee contributions will start with 2% each and subject to further review in the future.
- Note: EPF contribution is mandatory for PR since 2001. [source]
- Effective date: To be confirmed after the tabling of amendment to Employees Provident Fund Act 1991 (Act 452).

4 Multi-tiered foreign worker (FW) levy

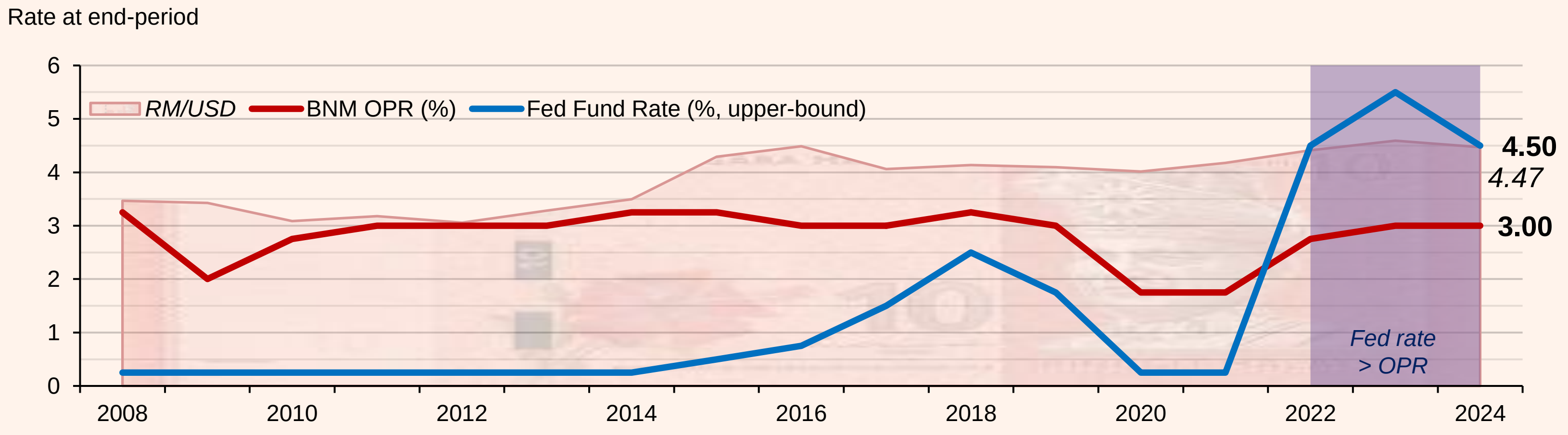
- Multi-tiered FW levy for all sectors, except plantation and agriculture sectors to remain single-tiered. Part of the total levy collection will be channelled to businesses to transform from labour-intensive to technology-intensive. [source]
- Prior to the implementation of a multi-tiered foreign worker 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

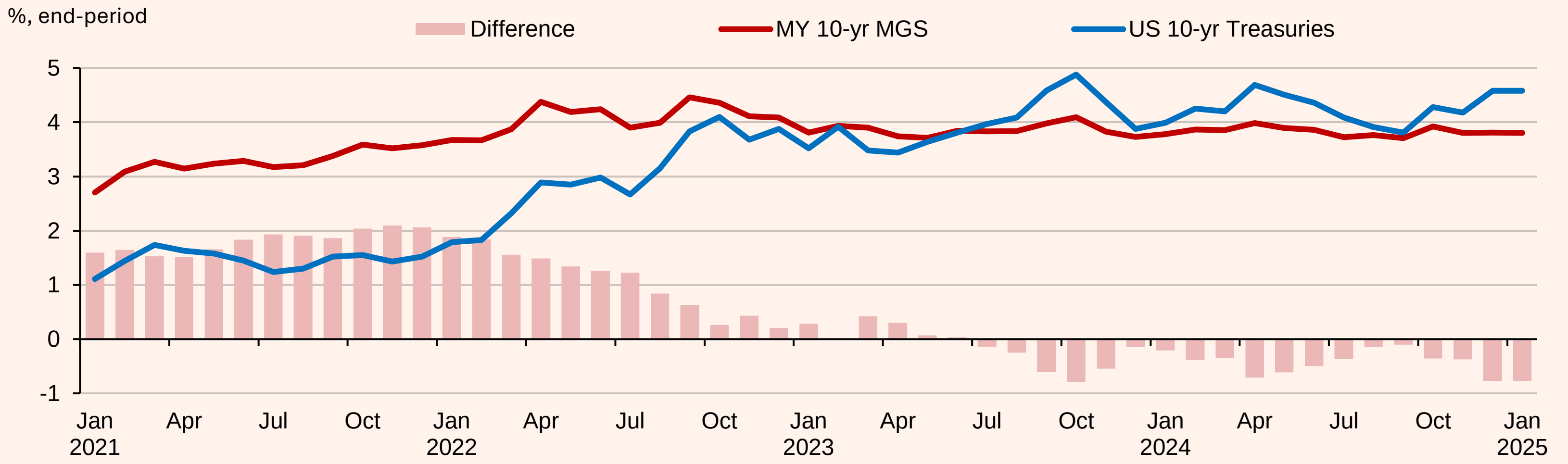
- **Expected to roll out in mid-2025**.
- Current estimated actual price is around RM2.80/litre, i.e. subsidy of 75 sen/litre vs. current retail price at RM2.05/litre.

What could make BNM to move the interest rate needle?

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



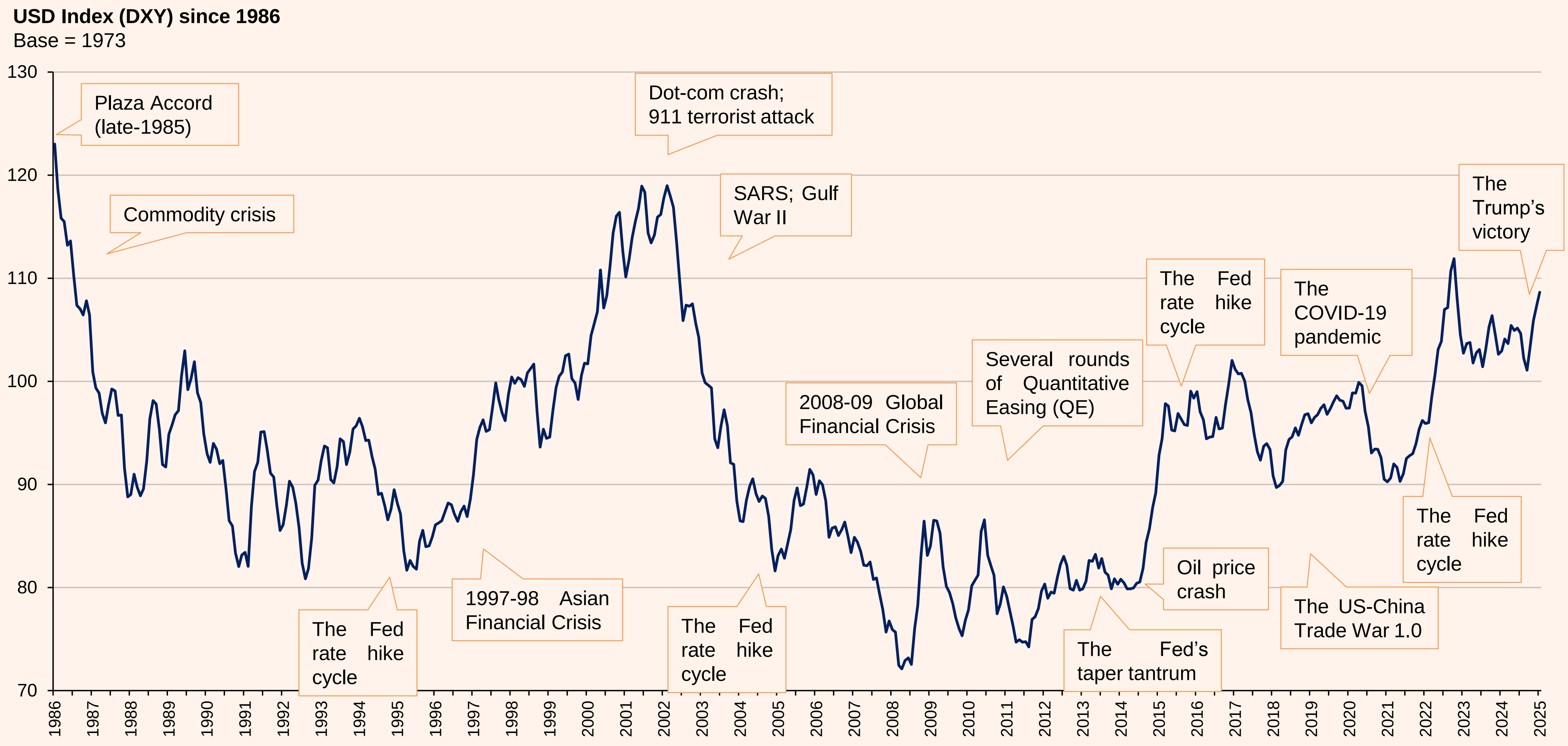
Yields: MY 10-year MGS vs. US 10-year Treasuries



Source: Fed; BNM; US Treasury Department

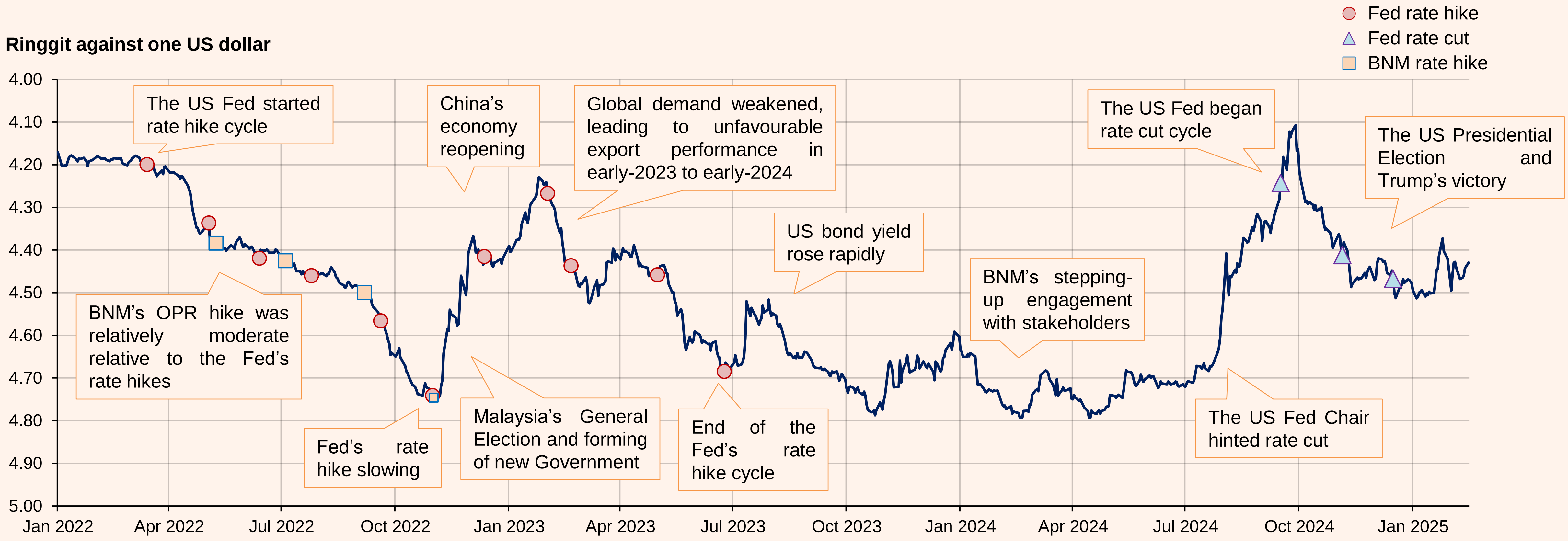
- Closely watch on signs emerge of inflation expectations becoming de-anchored, risking a wage-price spiral, or when fuel subsidies kick in.
-
- Baseline is **a NEUTRAL monetary policy,** keeping the policy rate unchanged at 3.00% in 2025.
- **Cut interest rate** if GDP growth slows to below 4.0%.
- Keeping vigilance of the **potential risk of second-round cost-driven inflationary pressures** coming from the anticipated fuel subsidies rationalisation and wage increases.
- But, BNM is not inclined to hike interest rate to damp cost-driven inflation.
- High Fed rate holds longer means still wide US-Malaysia interest rate differentials restrain BNM to lower interest rate.

The USD has been strengthening since its recent low in Sep 2024



Source: WSJ

The Ringgit's movement against the US dollar since 2022



BOP (Net, RM million)	2019	2020	2021	2022	2023	2024
Current Account	52,918	59,091	60,178	57,223	28,203	32,799
% of GDP	3.5%	4.2%	3.9%	3.2%	1.5%	1.7%
Financial Account	-38,023	-77,396	16,242	8,533	-15,460	-14,846
Direct Investment	6,555	3,111	31,065	12,593	-180	11,028
Portfolio Investment	-32,403	-49,584	18,802	-50,114	-36,355	-84,040

!!!

-42,248 in Q4 2024 (50.3% of 2024)

Direct Investment (Net, RM million)	ODI (Outflow)	FDI (Inflow)	Net
2021	19,373	50,438	31,065
2022	62,825	75,417	12,593
2023	40,583	40,403	-180
2024	36,401	47,429	11,028

Source: BNM; DOSM

Where is the Ringgit heading under Trump 2.0?

MYR/USD during the Trump 1.0

MYR/USD during the Trump 2.0

Source: BNM

Supportive factors:

- Positive economic and financial fundamentals
- Fiscal consolidation and reform measures
- Trade surpluses; continued inflow of (FDI)
- Continued coordinated actions by the Government and BNM

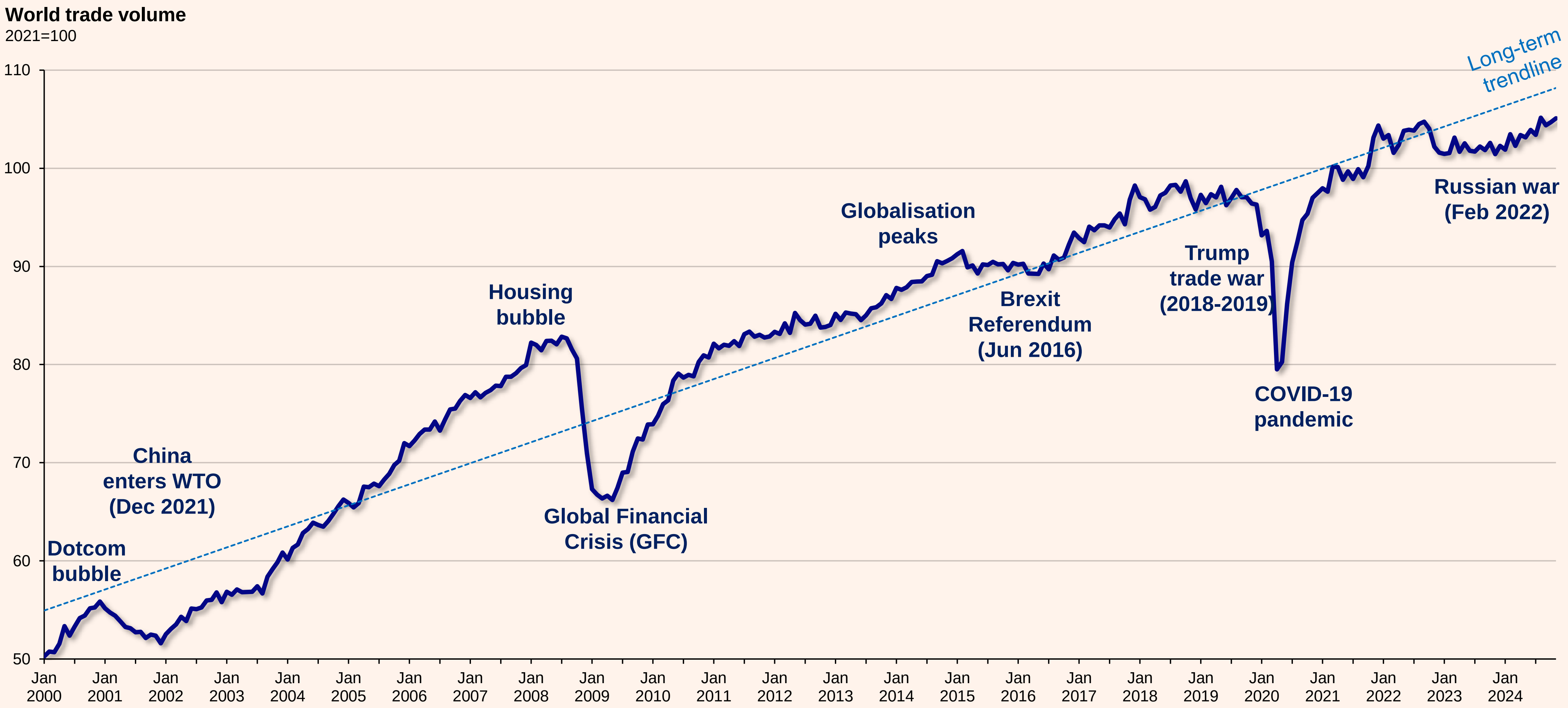
Dampening factors:

- Escalation in trade tariffs conflict
- Geopolitical tensions dampen investors' sentiment on risky assets in emerging markets
- More gradual reduction in US policy rate due to inflation and strong US economy
- Higher US bond yield and greater financial market volatility.

Trump’s Trade and Economic Agenda:

Potential Spillovers on Malaysia

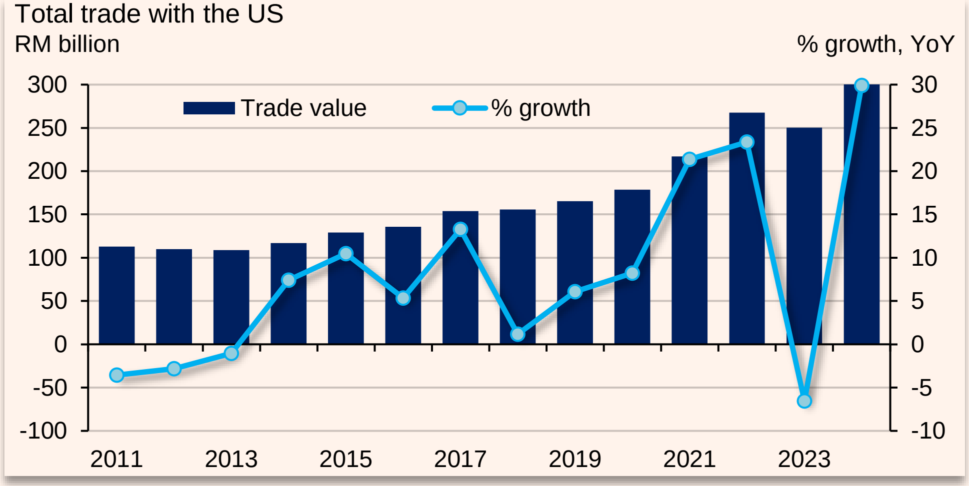
Trump's tariffs reshaped global trade relations



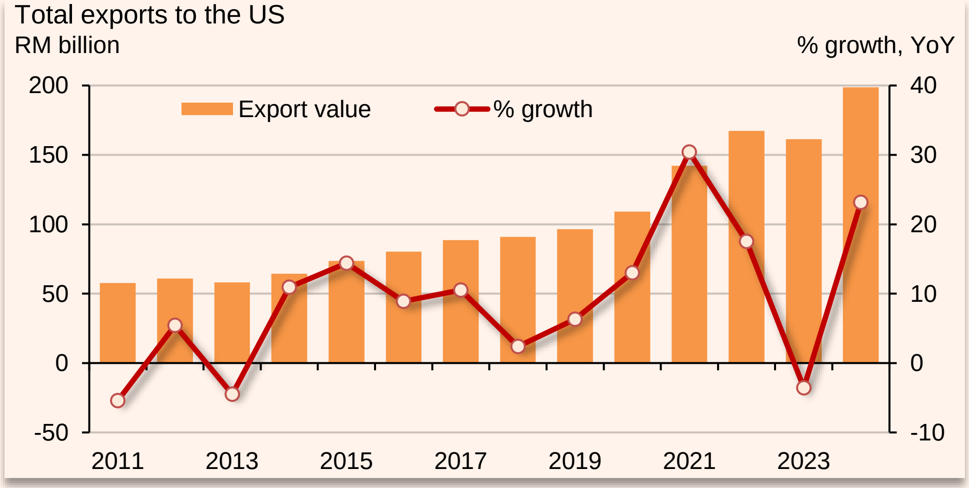
Source: CPB Netherlands

The United States is Malaysia's third largest trading partner

The US accounted for 11.3% of total Malaysia's trade value in Jan-Dec 2024 (average 9.0% in 2016-2020, 9.5% in 2021-2023)



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



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

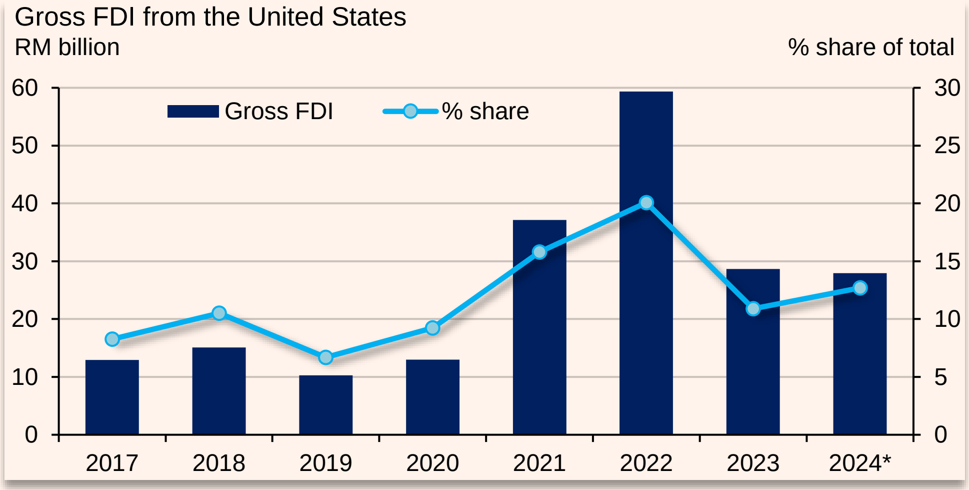
Product category by HS code	Exports value (RM million)	% share	% growth (YoY)
85 Electrical and electronic (E&E) products	108,373	54.6	+22.7
84 Machinery and equipment	28,826	14.5	+30.4
90 Optical & scientific equipment	17,782	9.0	+25.1
40 Rubber and rubber products	7,705	3.9	+35.0
94 Furniture products	7,038	3.5	+14.3
15 Palm oil and palm oil products	2,743	1.4	+117.5
39 Plastics and plastic products	2,613	1.3	+15.1
73 Iron and steel products	2,074	1.0	+19.2
72 Iron and steel	2,062	1.0	+48.2
76 Aluminium and products	1,643	0.8	+68.7
Others	17,789	8.8	+4.0
Total	**198,647**	**100.0**	**+23.2**
Top 5 categories	**169,724**	**85.4**	**+24.3**
Top 10 categories	**180,858**	**91.0**	**+25.5**

- **More than half of the exports to the US are E&E products.**
- Products diversification is limited – top 5 category constituted 85.4% of overall exports to the US.
- Other products, in total, did not register strong growth compared to the top 10 categories.

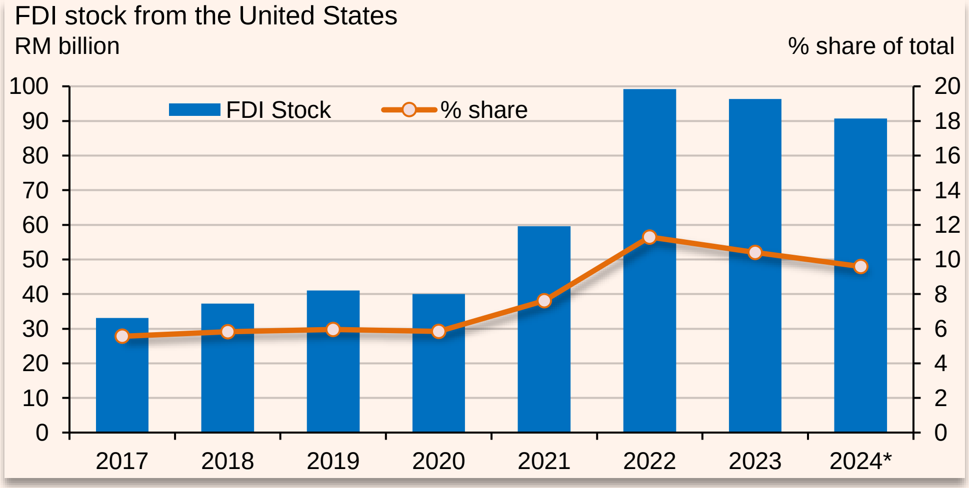
Source: DOSM

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



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

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

Will Malaysia on the US's radar for trade actions

In Jan-Dec 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	839.9	15.8	Mexico	505.9	15.5	China	-295.4	24.6
2	Canada	762.1	14.3	China	438.9	13.4	Mexico	-171.8	14.3
3	China	582.5	10.9	Canada	412.7	12.6	Vietnam	-123.5	10.3
4	Germany	236.0	4.4	Germany	160.4	4.9	Ireland	-86.7	7.2
5	Japan	227.9	4.3	Japan	148.2	4.5	Germany	-84.8	7.1
6	South Korea	197.1	3.7	Vietnam	136.6	4.2	Taiwan	-73.9	6.1
7	Taiwan	158.6	3.0	South Korea	131.5	4.0	Japan	-68.5	5.7
8	Vietnam	149.7	2.8	Taiwan	116.3	3.6	South Korea	-66.0	5.5
9	United Kingdom	148.0	2.8	Ireland	103.3	3.2	Canada	-63.3	5.3
10	India	129.2	2.4	India	87.4	2.7	India	-45.7	3.8
11	Netherlands	123.8	2.3	Italy	76.4	2.3	Thailand	-45.6	3.8
12	Ireland	119.8	2.2	United Kingdom	68.1	2.1	Italy	-44.0	3.7
13	Italy	108.8	2.0	Switzerland	63.4	1.9	Switzerland	-38.5	3.2
14	France	103.4	1.9	Thailand	63.3	1.9	Malaysia	-24.8	2.1
15	Brazil	92.0	1.7	France	59.9	1.8	Indonesia	-17.9	1.5
	Malaysia (#19)	73.2	1.5	**Malaysia (#16)**	52.5	1.6	**Malaysia (#14)**	-22.1	2.0

Source: US Census Bureau

A red flag analysis under Trump 2.0

Number of US trading partners' triggering red flags based on recent commercial policies and associated market outcomes

Trade or policy outcome	Number of trading partners meeting this condition
Excessive bilateral trade surplus in goods	21
Significant gain in competitiveness from exchange rate, subsidy/industrial policy, or productivity changes	62
Excessive threat to US bilateral exports in home market	20
Subject to significant scrutiny during first Trump Administration	26
Import tariffs far in excess of comparable US level	59

Fourteen trading partners of the US triggered at least three red flags

5 flags

- South Korea

4 flags

- Canada
- China
- India
- Japan

3 flags

- Brazil
- European Union (EU)
- Indonesia
- Ireland
- Italy
- Kenya
- Malaysia
- Mexico
- Thailand

2 flags: 35 economies

1 flag: 68 economies

Source: ZEITGEIST SERIES, Global Trade Alert

Who taxes whose imports more?

Foreign economy	US exports to foreign economy in 2024 (US$ billion)	Foreign applied import tariff rate minus US applied import tariff: Percentage (%) of products where:								
		US tariff higher by				Tariff gap between -5% and +5%	Foreign tariff higher			
		>20%	10%-20%	5%-10%	More than 5% higher		More than 5% higher	5%-10%	10%-20%	>20%
EU-27	370.2	0.2	0.8	3.8	**4.8**	84.1	**11.1**	7.5	3.3	0.3
China	143.5	0.3	0.8	4.4	**5.5**	53.1	**41.5**	32.1	7.5	1.9
United Kingdom	79.9	0.2	1.6	6.5	**8.3**	82.9	**8.7**	5.5	2.9	0.3
Japan	79.7	0.4	1.2	6.1	**7.7**	85.3	**6.9**	4.1	2.1	0.7
Brazil	49.7	0.2	0.2	1.4	**1.8**	30.3	**67.9**	31.8	29.5	6.6
India	41.8	0.2	0.0	0.0	**0.2**	12.2	**87.6**	31.8	36.6	19.2
Malaysia	27.7	0.6	3.5	8.4	**12.5**	62.2	**25.3**	8.2	10.6	6.5
		<<< Growing foreign exporter disadvantage					**Growing US exporter disadvantage >>>**			

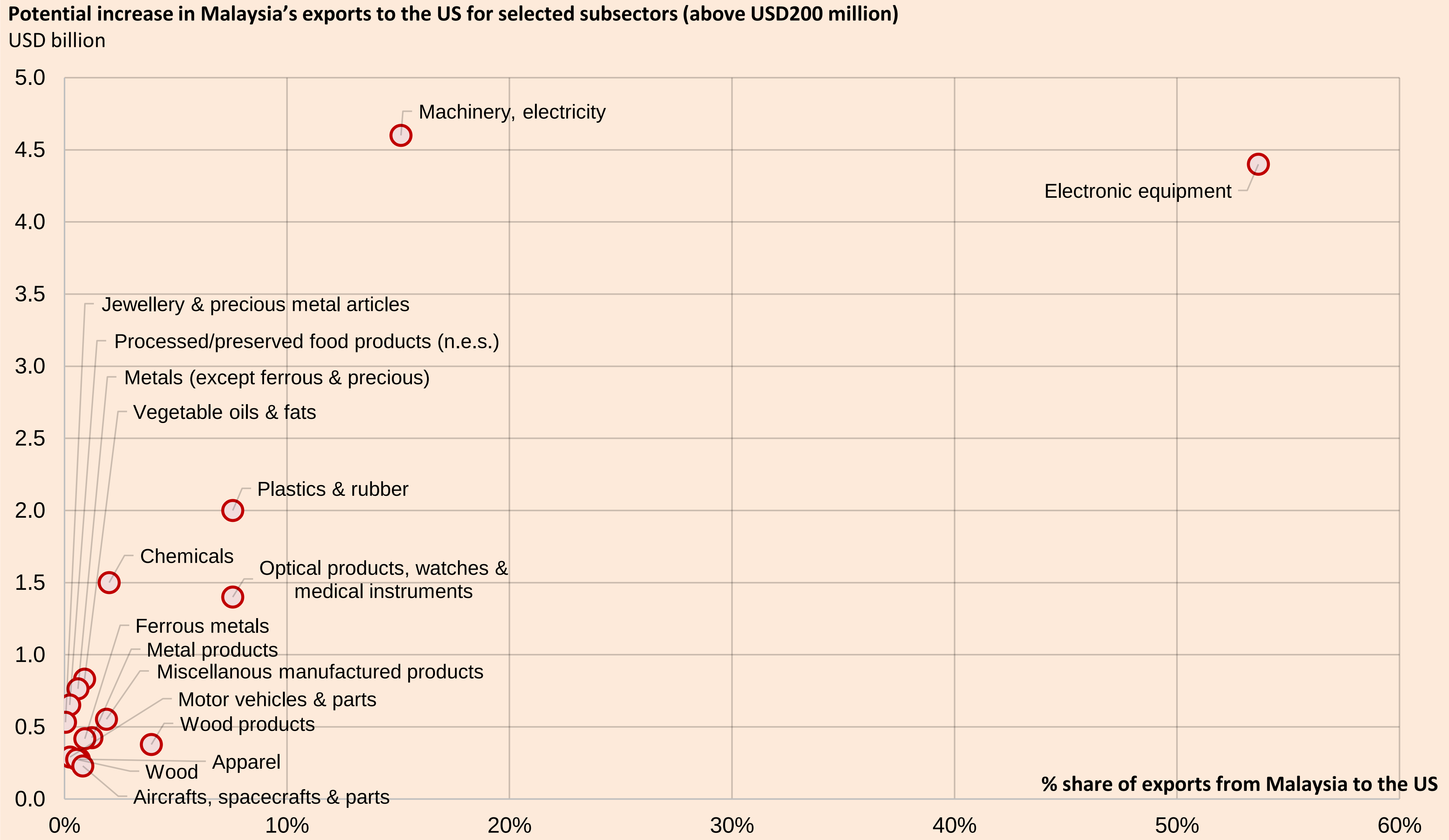
Note: *Applied Most Favoured Nation import tariff rates on 5000+ products obtained from latest reported to the WTO.*
Most fine-grained product tariff data available that is comparable across nations. Analysis restricted to ad-valorem (percent) tariffs.
Export data downloaded from U.S. Census Bureau.

In 12.5% of products, US import tariff rates is higher by more than 5%

Local tariffs often exceed US import tariffs by a larger margin

Source: *Global Trade Alert*

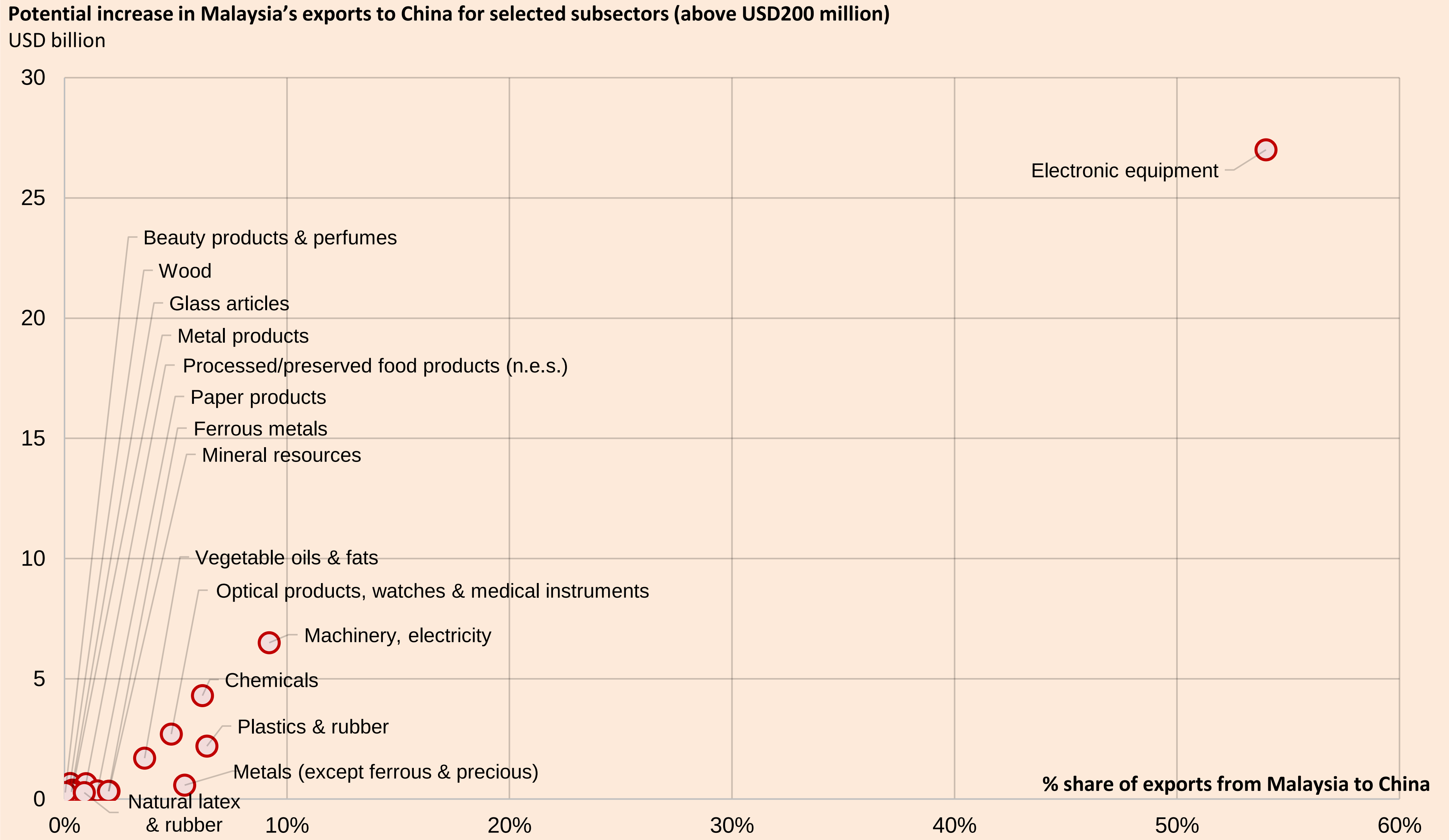
Malaysia's exports to the US: Potential gain from trade substitution



- In total, **potential increase in export value to the US amounted to USD22 billion**, with subsectors like machinery & electricity, electronic equipment, and plastics & rubber, topping the list.
- In addition to the 17 subsectors that registered potential increases of at least USD200 million, other subsectors such as mineral products, pharmaceutical components, and cocoa beans & products, also exhibited significant potential increases.

Source: ITC (last accessed on 15 Feb 2025)

Malaysia's exports to China: Potential gain from trade substitution

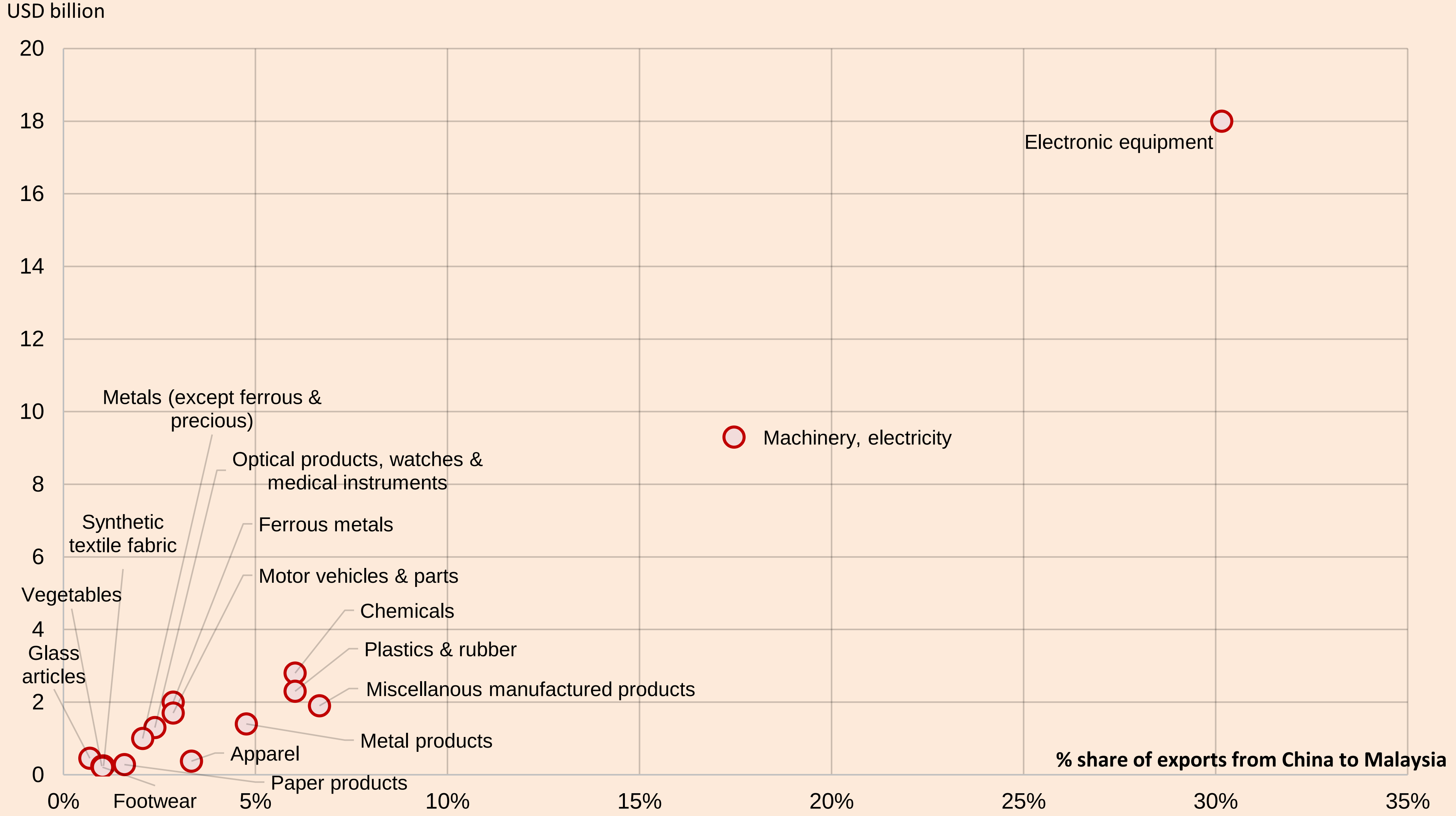


- In total, **potential increase in export value to China amounted to USD50 billion**, with subsectors like electronic equipment, machinery & electricity, and chemicals, topping the list.
- In addition to the 16 subsectors that registered potential increases of at least USD200 million, other subsectors such as motor vehicles & parts, miscellaneous manufactured products, fish & shellfish, eggs, honey and other edible animal products, also exhibited significant potential increases.

Source: ITC (last accessed on 15 Feb 2025)

China's exports to Malaysia: Potential impact from trade diversion

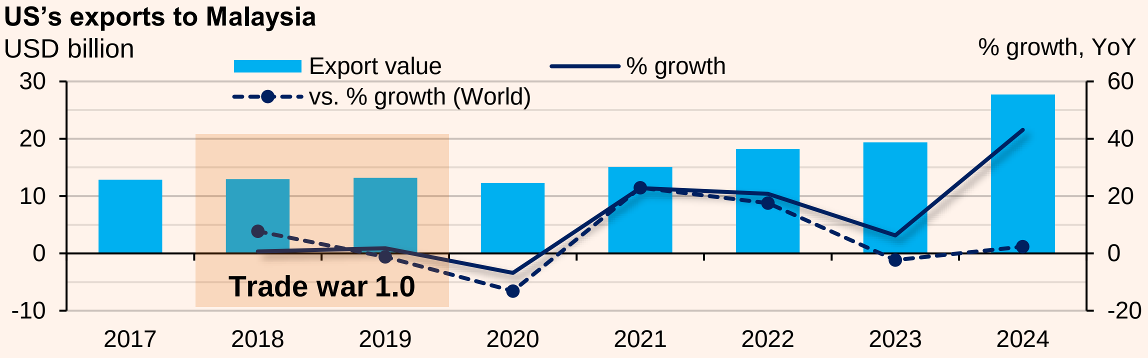
Potential increase in exports from China to Malaysia for selected subsectors (above USD200 million)

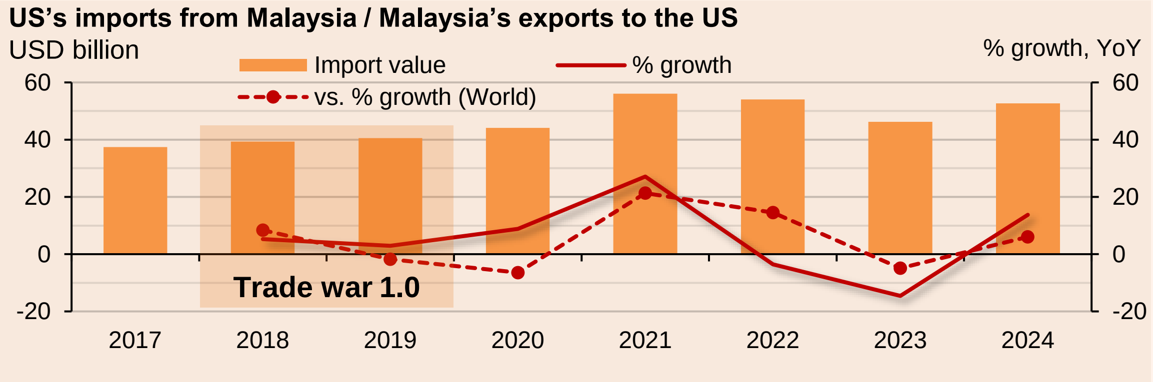


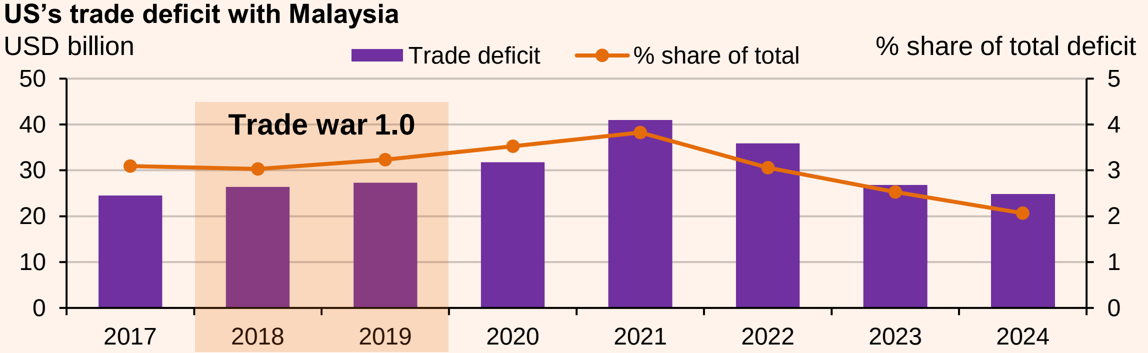
Source: ITC (last accessed on 12 Feb 2025)

- In total, **potential increase in export value from China to Malaysia amounted to USD47 billion**, with electronic equipment and machinery & electricity leading among the sub-sectors.
- In addition to the 16 subsectors that registered potential increases of at least USD200 million, other subsectors such as wood products, processed/preserved food products, mineral products, and ceramic articles also shown significant potential increases.

How the US's tariffs impacted Malaysia?



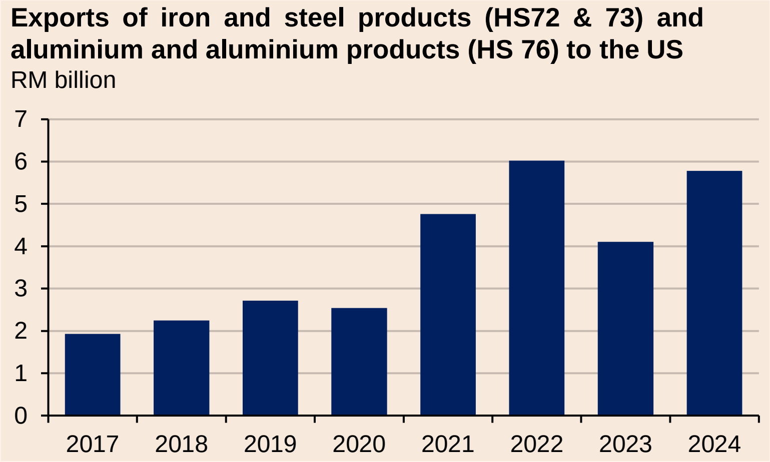


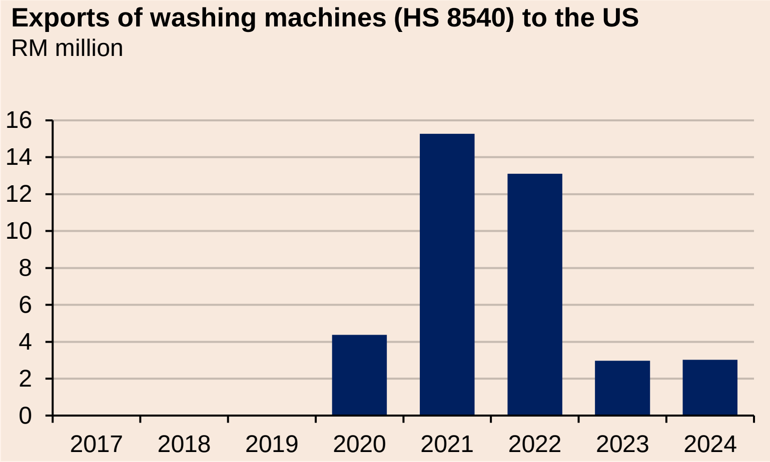


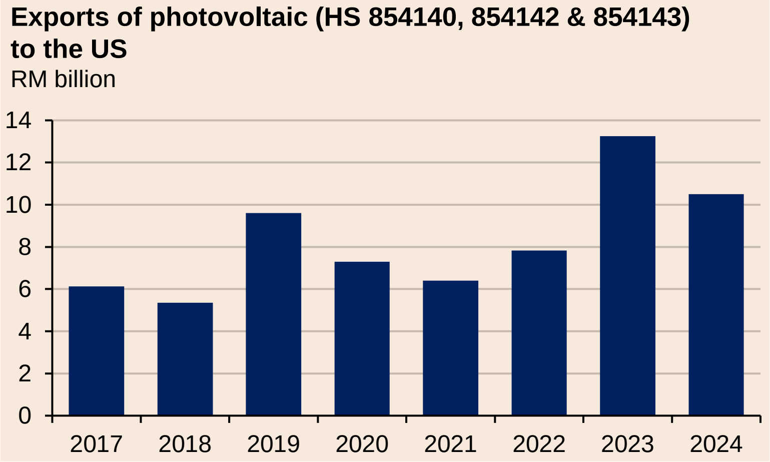
Source: US Census Bureau

- **Trade diversion effect** - dependent on the **substitutability of the affected products, reconfiguration of supply chains and production, transshipment and Malaysian firms' products' cost and price competitiveness**.
- There was no noticeable spike in US exports to Malaysia during the 2018–2019 trade war. Notwithstanding, it grew significantly post-pandemic, with an exceptional surge of 43.1% in 2024. As a result, 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 2024 (1.0% in 2023).
- **Malaysia's exports to the US grew by 7.7 % per annum from 2018 to 2022** (stood at 1.6% share of total US imports in 2018-2019).
- The US's blanket tariffs on selected products (i.e. steel and aluminium products, solar panels, and washing machines) **have not resulted in a significant impact on Malaysia**, **except for photovoltaic products** in 2018.

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





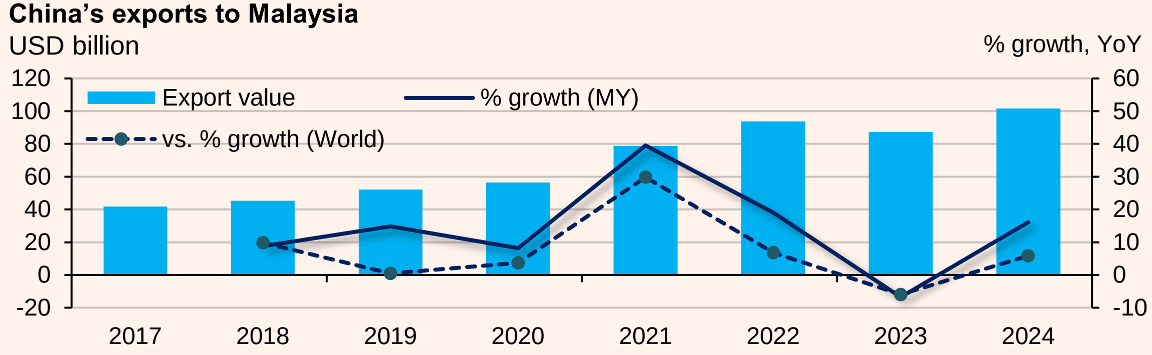


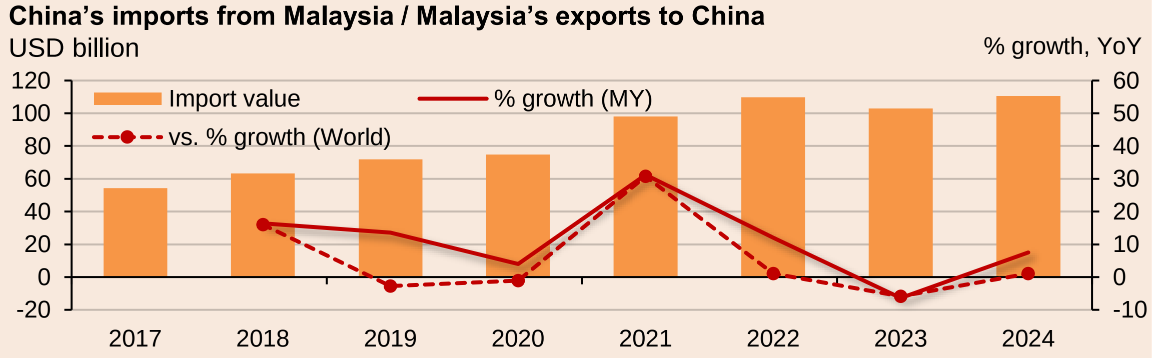
- *The US initiated a temporary, 24-month bridge to facilitate certain imports from Cambodia, Malaysia, Thailand, and Vietnam duty-free to ensure robust deployment while the domestic solar manufacturing base ramped up.*
- *While the bridge ended as scheduled on 6 Jun 2024, producers in Southeast Asia 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)*

- During the Trump 1.0, 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.
- 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).

Source: DOSM

Is there a trade diversion from China into Malaysia?





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

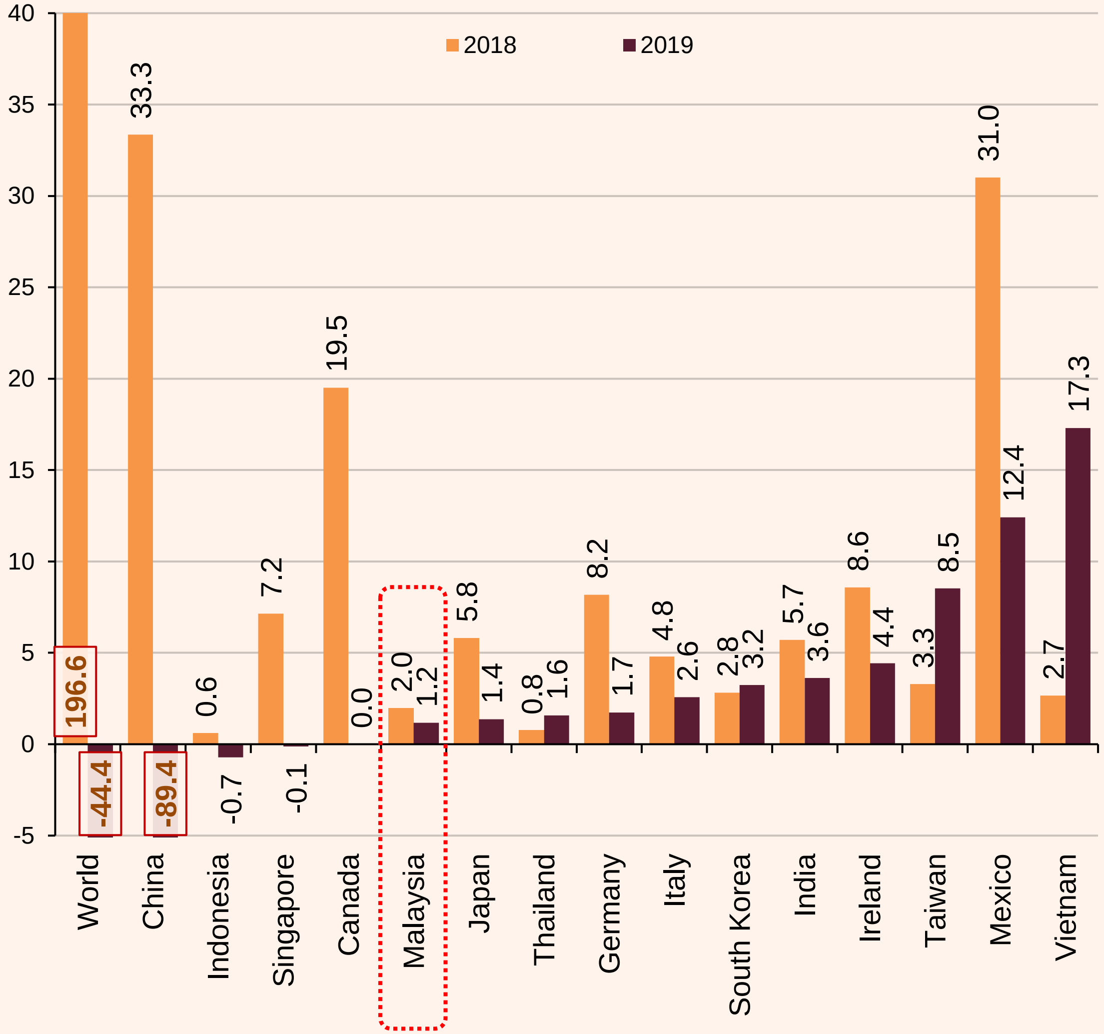
- China's exports to Malaysia increased substantially by 17.6% per annum, from USD41.7 billion in 2017 to USD93.7 billion in 2022.
- In 2024, exports rebounded and grew by 16.1% yoy to USD101.5 billion (export share of 2.8% in 2024 vs. 1.8% in 2017).
- **Malaysia's exports to China also grew substantially by 15.1% per annum from 2017 to 2022.** Malaysia's share of total China's imports rising to 4.3% in 2024, up from 2.9% 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.

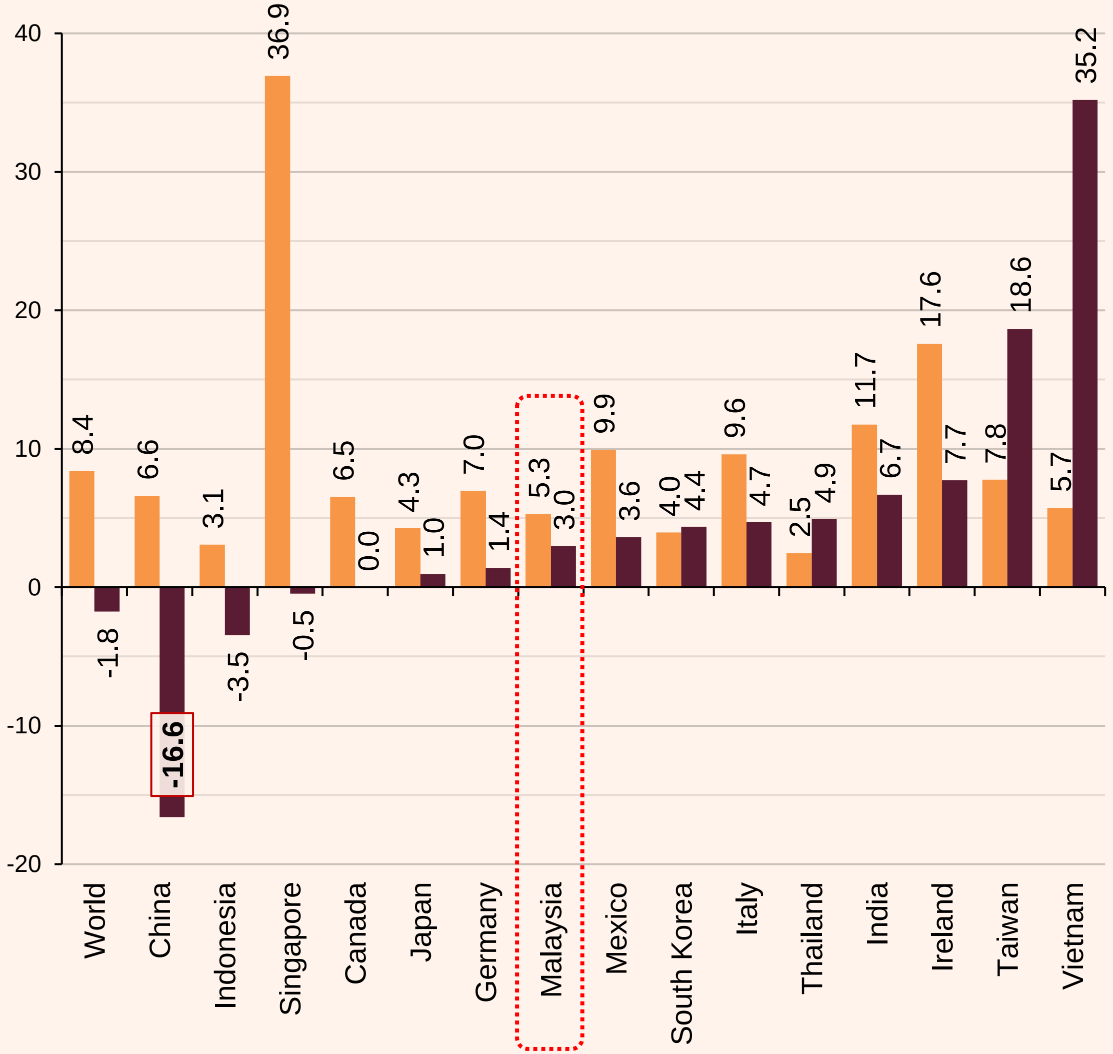
Approved China's participation in the manufacturing projects in 2017-Sep 2024

	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

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



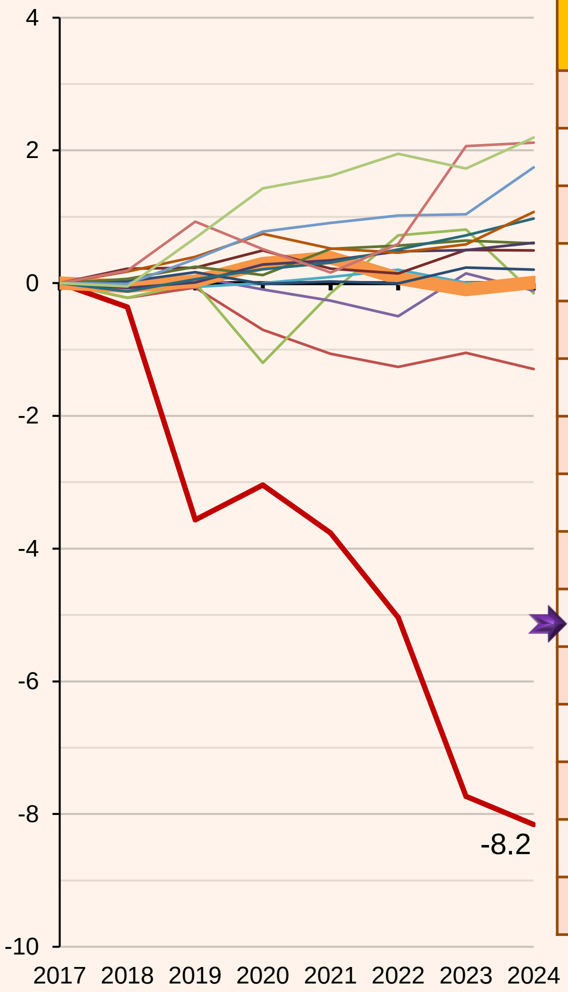


Source: US Census Bureau

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

Difference in share of US's imports vs. 2017

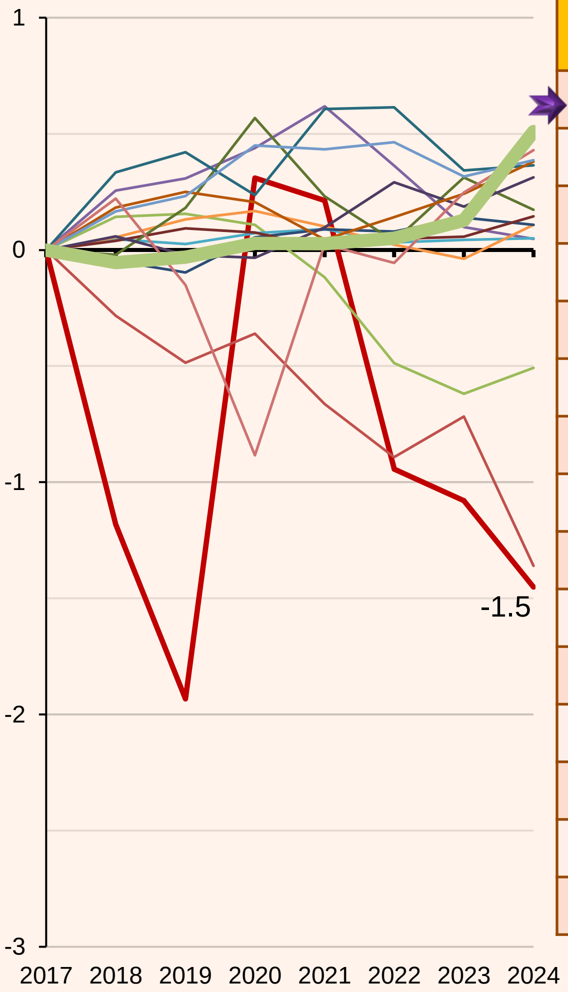
% point



Selected Partner	%-pt vs. 2017
Vietnam	**+2.2**
Mexico	**+2.1**
Taiwan	**+1.7**
Ireland	+1.1
South Korea	+1.0
Thailand	+0.6
India	+0.6
Singapore	+0.5
Italy	+0.2
Malaysia	0.0
Indonesia	0.0
Germany	-0.1
Canada	-0.2
Japan	-1.3
China	**-8.2**

Difference in share of US' exports vs. 2017

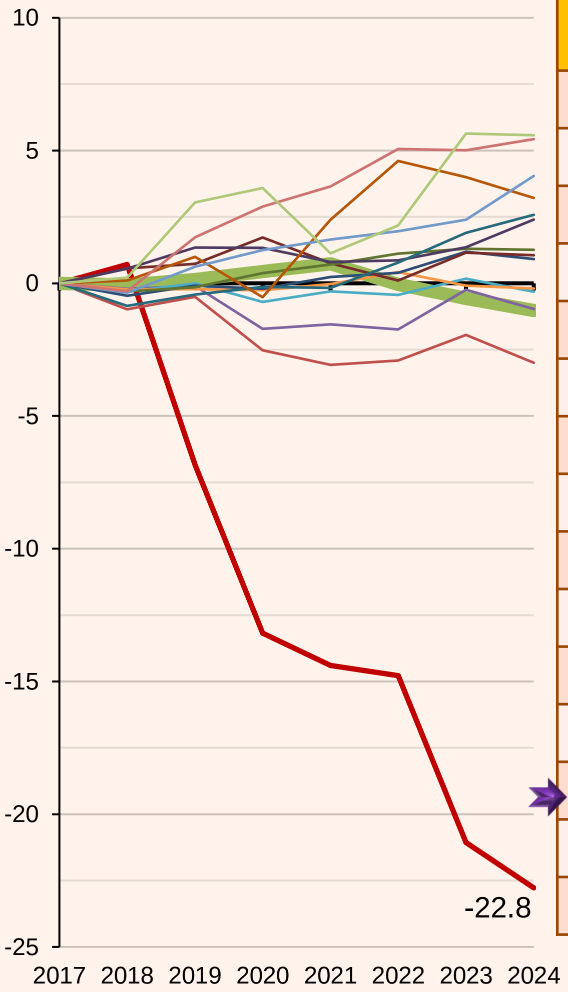
% point



Selected Partner	%-pt vs. 2017
Malaysia	**+0.5**
Mexico	**+0.4**
Taiwan	**+0.4**
Italy	+0.4
India	+0.4
Singapore	+0.3
Germany	+0.2
Thailand	+0.1
Ireland	+0.1
Vietnam	+0.1
Indonesia	+0.1
South Korea	0.0
Japan	-0.5
Canada	-1.4
China	**-1.5**

Difference in share of trade deficit vs. 2017

% point



Selected Partner	%-pt vs. 2017
Mexico	**+5.6**
Vietnam	**+5.4**
Taiwan	**+4.0**
Canada	+3.2
South Korea	+2.6
Ireland	+2.4
Thailand	+1.3
Singapore	+1.1
India	+0.9
Indonesia	-0.2
Italy	-0.3
Germany	-1.0
Malaysia	-1.0
Japan	-3.0
China	**-22.8**

Source: US Census Bureau

Trump 2.0: Unpredictable impact under different scenarios

Trump 2.0 what have announced/implemented/planned:

- A 30-day pause from 4 Feb 2025 on additional 25% tariffs to imports from Canada (10% for energy and energy products) and Mexico
- Additional 10% imposed to imports from China, effective from 4 Feb 2025
- A 25% import tax on all steel and aluminium with effect from 12 March 2025
- Devise a reciprocal tariffs plan in April. Additional tariffs could be flagged for automotive products, pharmaceuticals and semiconductors

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 Malaysia

%	2017	2018	2019	2024	2025F: Base case (Probability: 50%)	2025F: Best case (Probability: 15%)	2025F: Worst case (Probability: 35%)
GDP Growth	5.8	4.8	4.4	5.1 (Adv. est.)	**5.0** Positive growth supported by stable labour market conditions, expansionary fiscal and accommodative monetary policy. Domestic demand offsets moderate exports.	**5.3** Sustained domestic demand. Better-than expected exports and commodities prices underpin the economy.	**4.0** Severe trade wars and supply chains disruption slowed down production, exports, and the manufacturing sector. Domestic sectors mitigate the negative spillovers.
Export Growth	18.8	7.3	-0.8	5.7	**4.0**	**4.5**	**2.0**
Inflation	2.1	2.4	1.8	1.8	**2.5-3.0**	**2.5-3.0**	**2.5-3.0**
					Higher inflation risks mainly from the fuel subsidy rationalisation, higher private and public sectors' wages and higher inputs cost.		
BNM's OPR *(End-period)*	3.00	3.25	3.00	3.00	Keeping interest rate steady at 3.00% while keeping close tab on cost-driven inflation and any demand pressure.		
Investment Flows					**Mildly positive**		**Negative**
					The potential impacted industries could be textiles, semiconductors, telecommunications, electrical equipment, machinery, computers, and automotive industries.		
Ringgit against the USD					**Strengthening towards end-2025**		**Weakening towards end-2025**

Probable impact of the trade war on Malaysia

Scenario / Economic Variables	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

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THANK YOU

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