

Business & AI Conference

Empowering Malaysia's SMEs: Unlocking AI Innovations for Future-Ready Growth

Malaysia Business & Economic Outlook: SME Challenges and Opportunities

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20 March 2025



Agenda

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Global and Malaysia's Economic Outlook in 2025: The VUCA Year

2

Malaysia's Business Prospects: "Neutral" Perception

3

SMEs Business Trends: Challenges and Opportunities

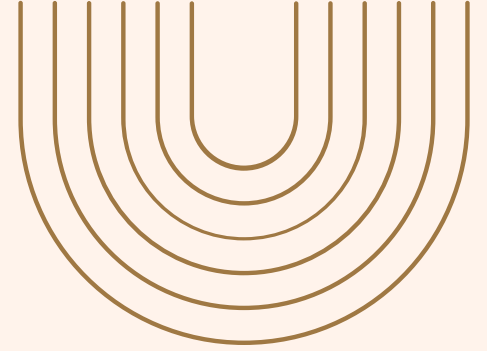
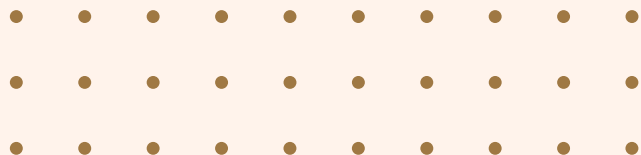


Global Economic Outlook

The “VUCA” Year 2025

KEY TAKEAWAYS

- *Global growth “steading”, 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 disrupt global growth, trade and investment flows as well as upend inflation expectations*
- *Monetary easing at different pace and magnitude*



Volatility

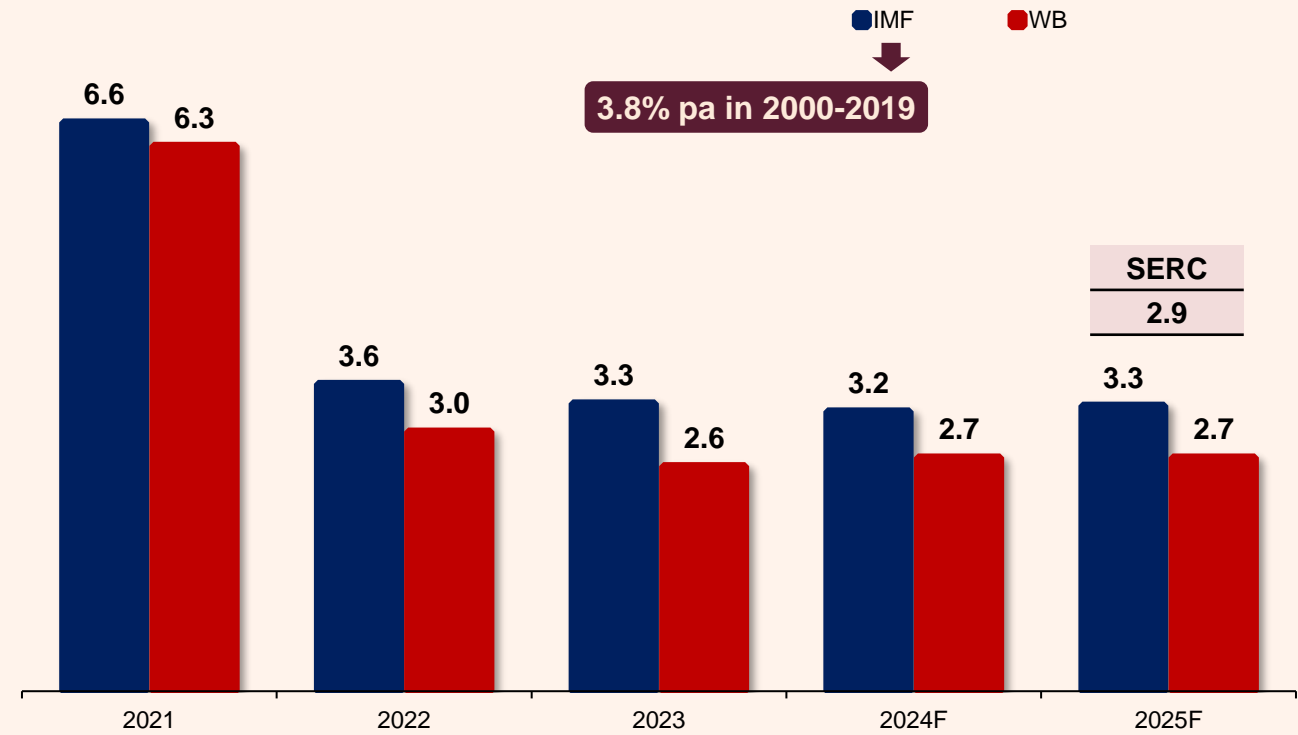
Uncertainty

Complexity

Ambiguity

Global growth to remain moderate amid lingering uncertainties

Global growth estimates
%



What could go wrong?



#1 Geopolitical tensions and military conflicts



#2 Elevated trade war



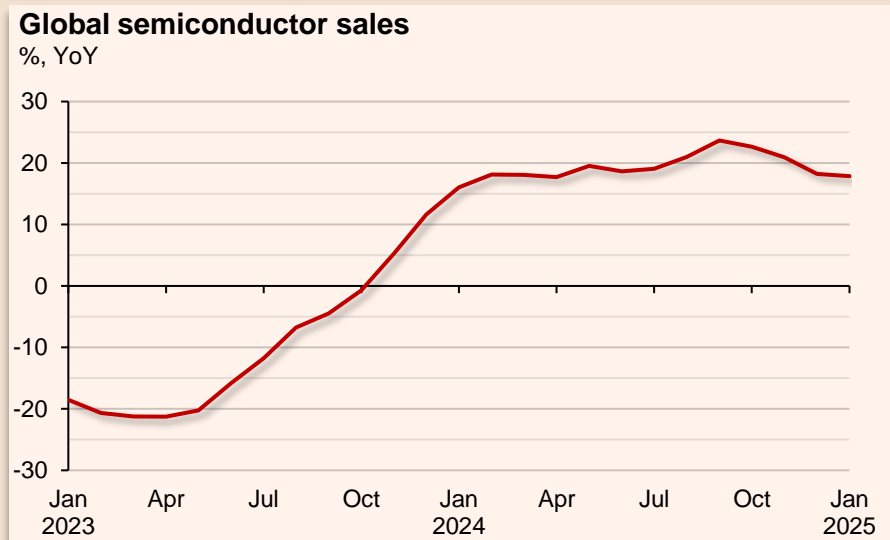
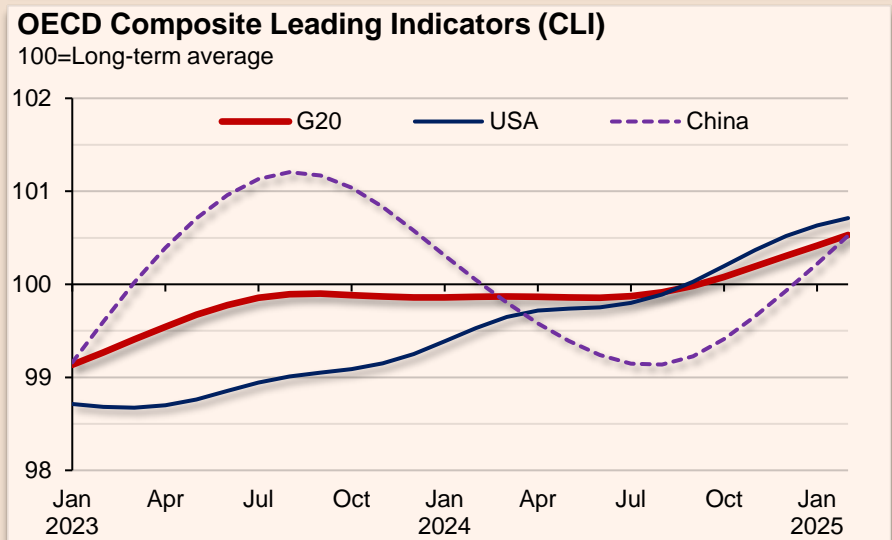
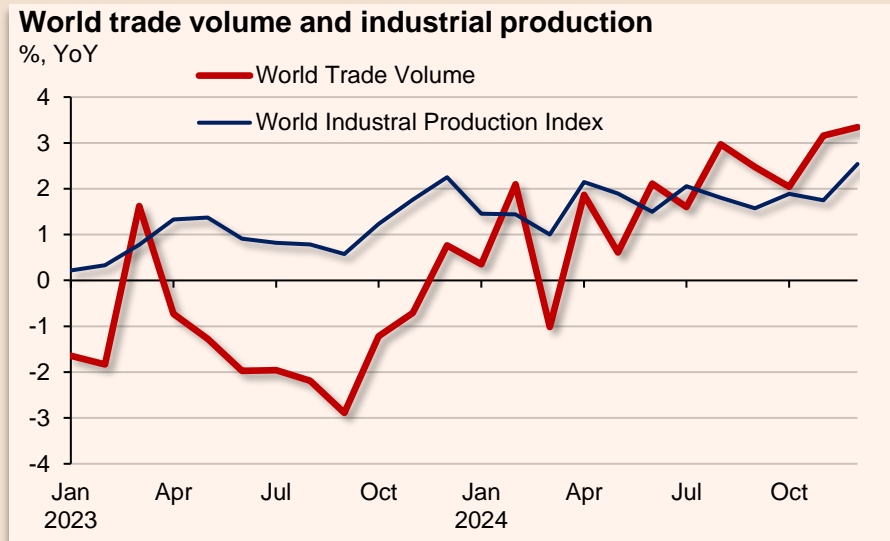
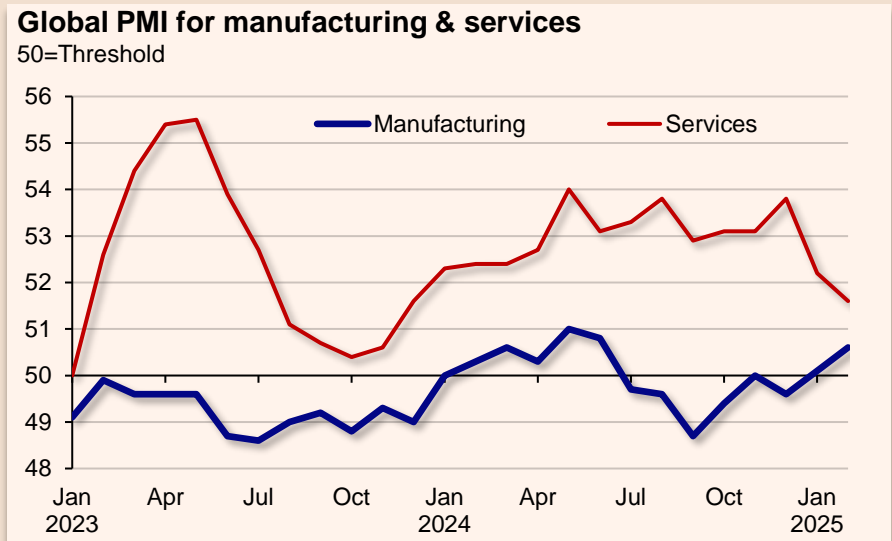
#3 Inflation risk flares up



#4 Soaring global debt

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

Global current and forward indicators show mixed trends



- Global manufacturing PMI remained above the 50-point mark for the second month, reaching an 8-month high of 50.6 in Feb 2025.
- Global Services PMI in Feb 2025 remains in expansionary territory, though the index has moderated.
- The OECD composite leading indicators signal steady global growth outlook.
- Global trade volume grew for the ninth consecutive month in Dec 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)

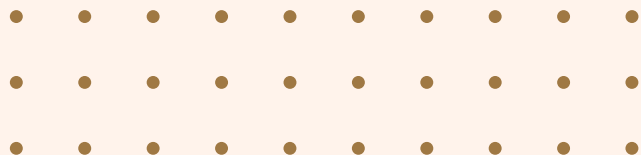


Malaysia's Economic Outlook

Cautiously Promising Outlook 2025: Insights and Trends

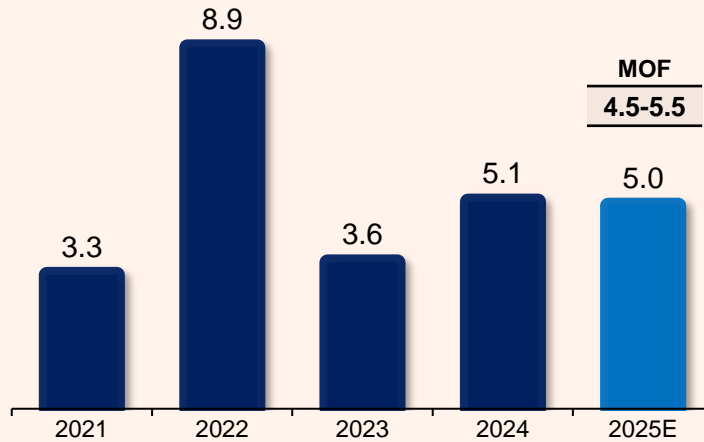
KEY TAKEAWAYS

- *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*



The Malaysian economy to stay on course amid headwinds

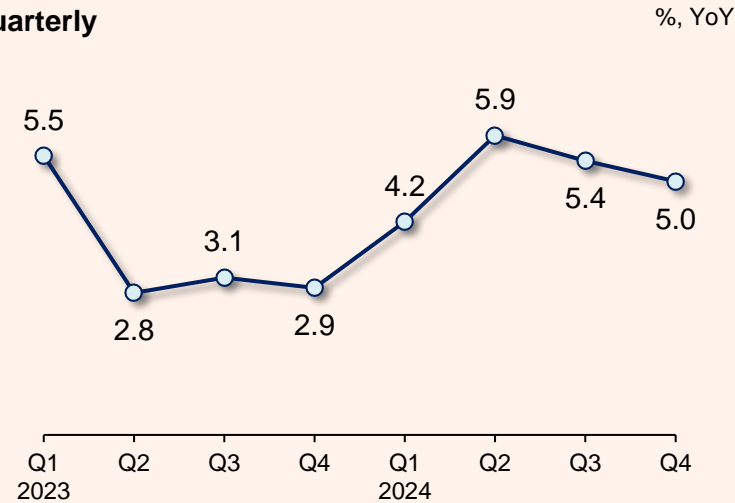
Annual GDP growth (%)



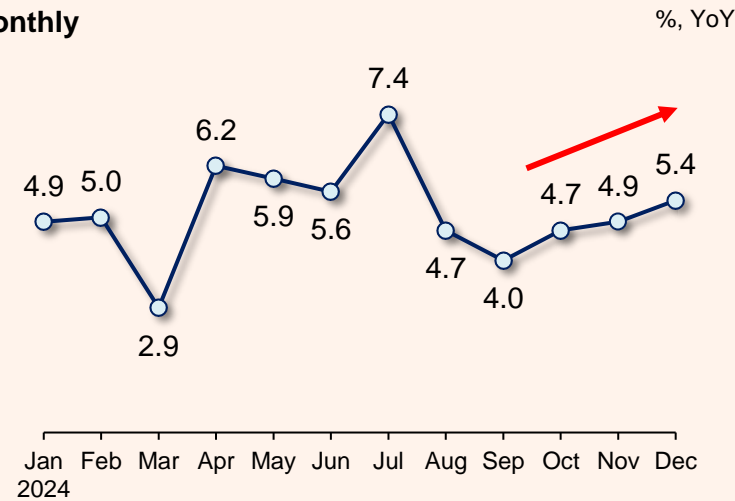
Drivers of growth:

- #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

Quarterly



Monthly



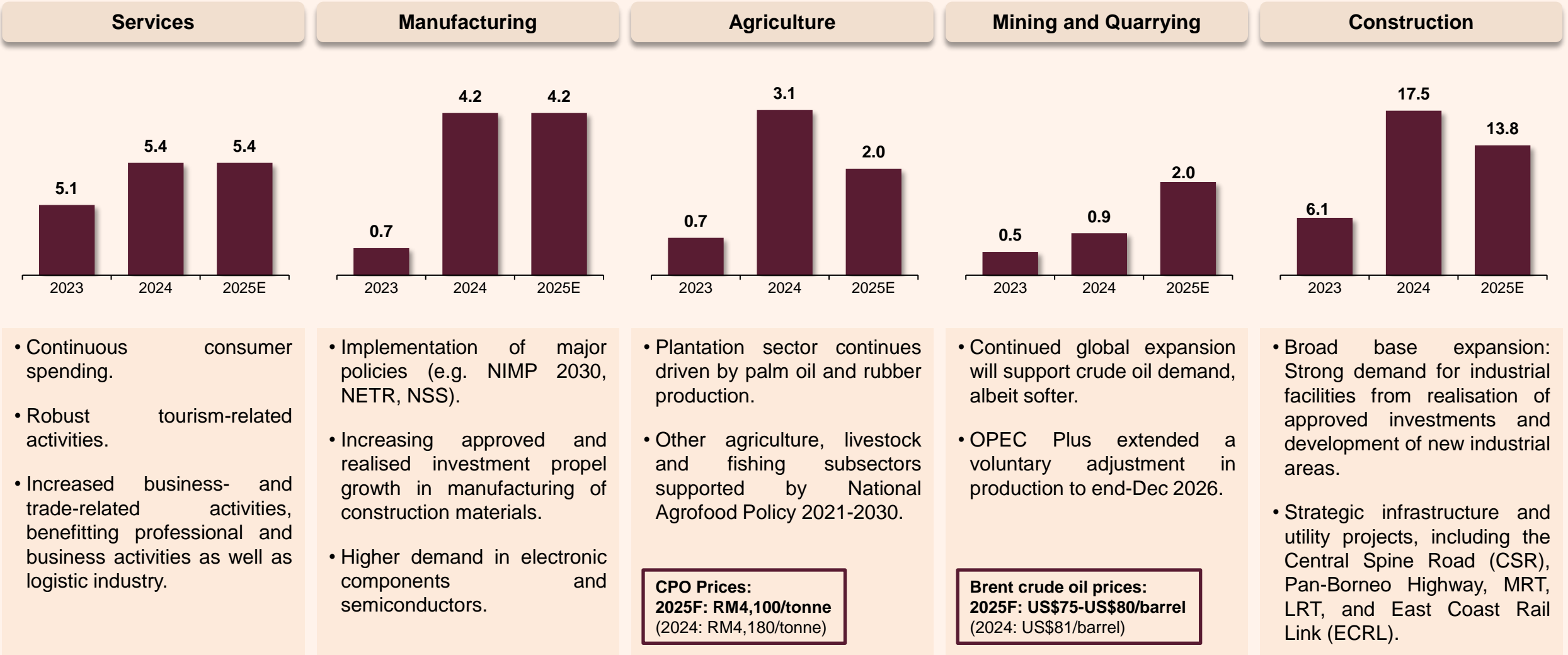
Risks for 2025: Largely external-driven

- #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

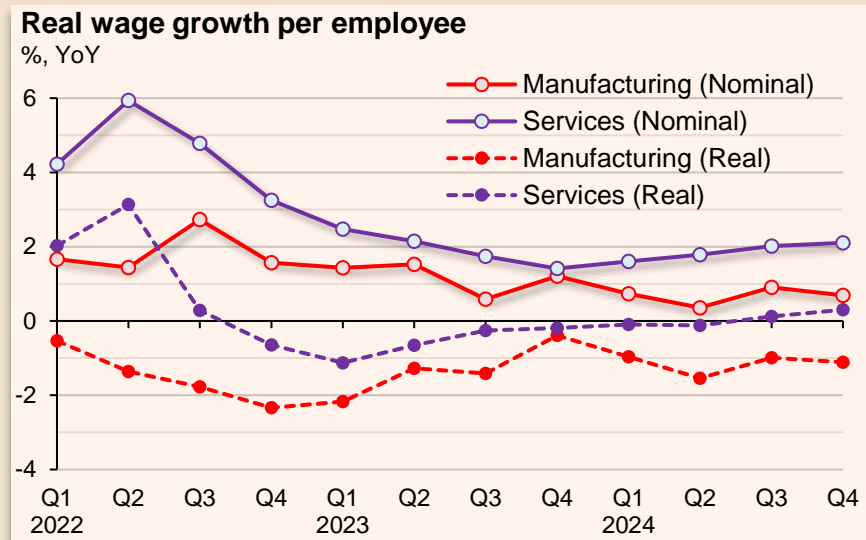
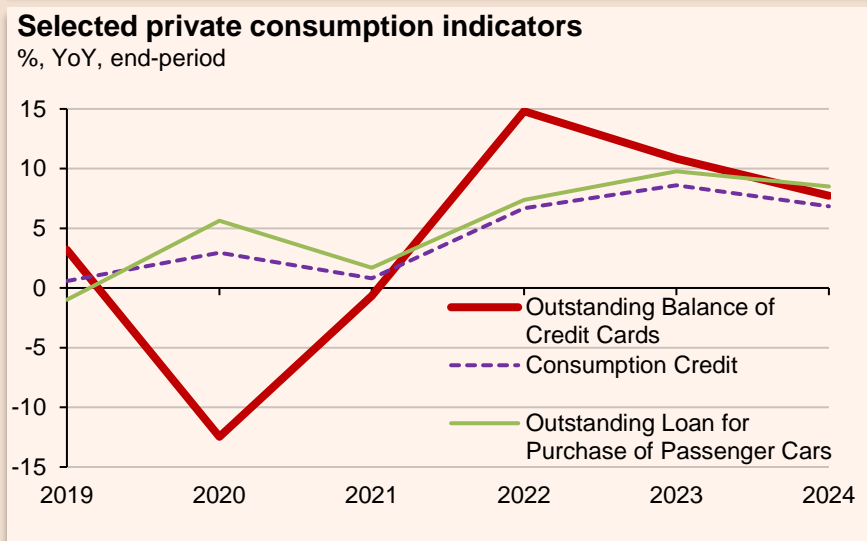
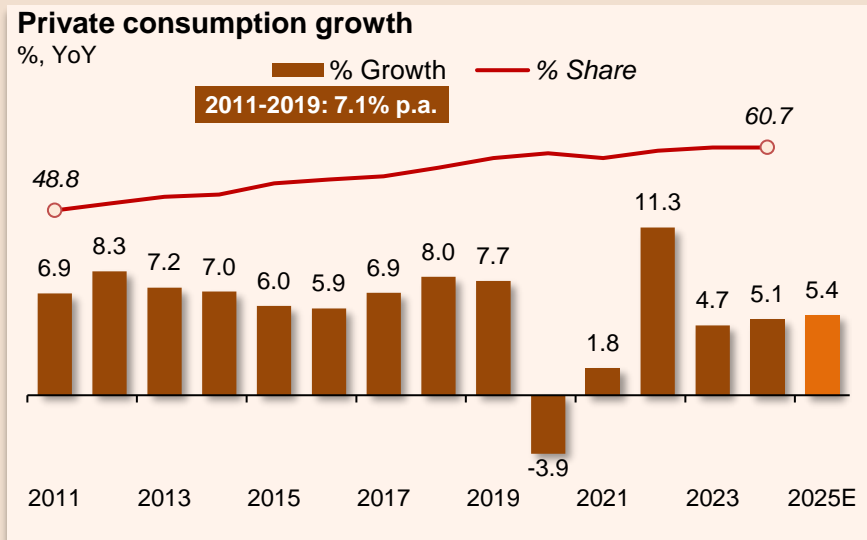
Bolstered by services, manufacturing, and construction activities

GDP growth by economic sector (% YoY)



Source: DOSM; SERC's forecast

Households could begin to bend, but not break



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

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).

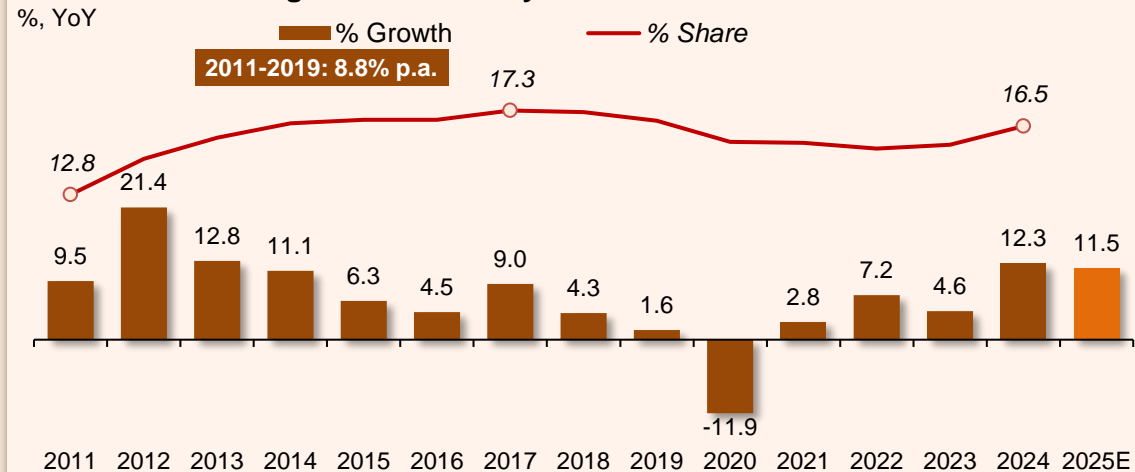
Dampener

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

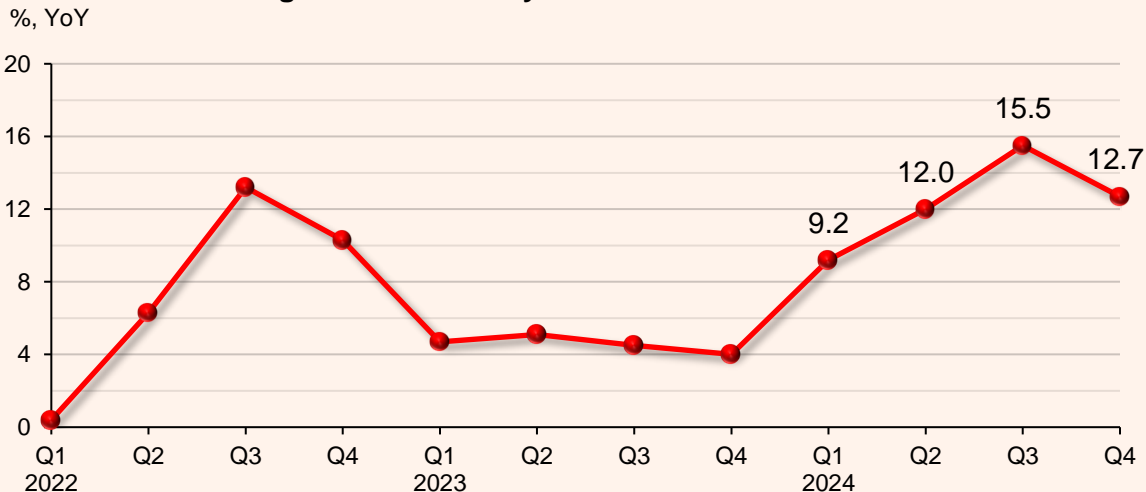
Source: DOSM; BNM; SERC's forecast

A multi-year expansion in private investment cycle

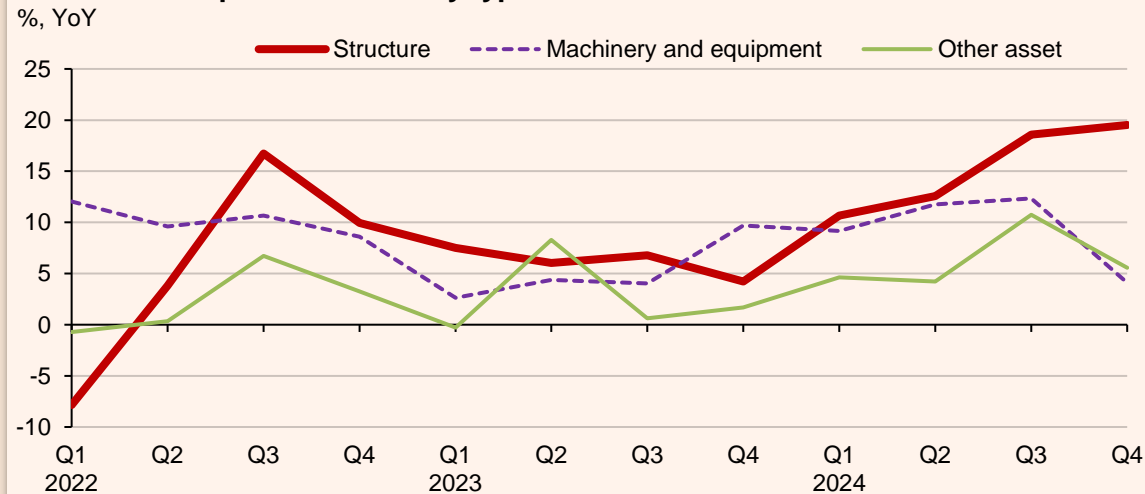
Private investment growth – Annually



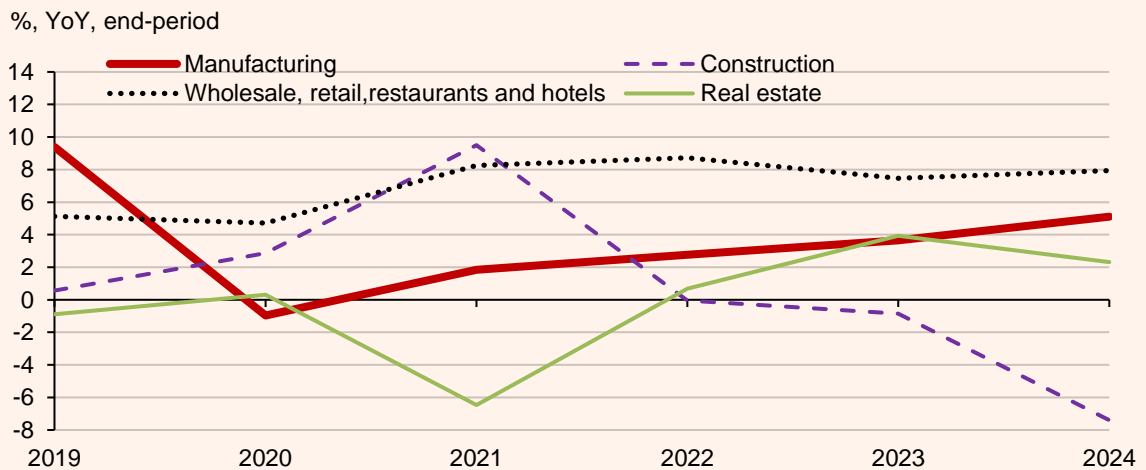
Private investment growth – Quarterly



Gross fixed capital formation by type of assets



Selected business loans



Source: DOSM; BNM; SERC's forecast

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

Catalytic drivers of private investment



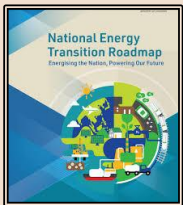
New Industrial Master Plan (NIMP) 2030

- 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 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



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

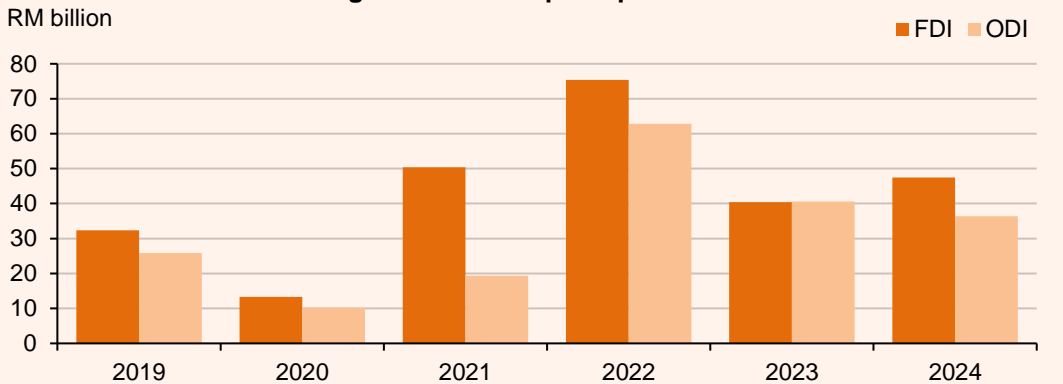


Johor - Singapore Special Economic Zone (JS-SEZ)

- 11 sectors in 9 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

Direct investment according to directional principle

RM billion



All sectors RM million (% share of total)	Approved foreign investment (Immediate source)			Approved foreign investment (Ultimate source)	
	2022	2023	2024		2024
Singapore	13,466.8 (8.2%)	45,877.2 (24.4%)	44,525.3 (26.1%)	United States	32,819.8 (19.3%)
Austria	81.8 (0.05%)	9.4 (0.005%)	30,088.4 (17.7%)	Germany	32,186.5 (18.9%)
United States	29,160.0 (17.9%)	21,531.2 (11.4%)	29,728.4 (17.4%)	China	28,249.6 (16.6%)
China	55,431.9 (33.9%)	12,280.8 (6.5%)	14,200.0 (8.3%)	Singapore	27,257.8 (16.0%)
Hong Kong	5,130.6 (3.1%)	5,133.6 (2.7%)	12,986.2 (7.6%)	Hong Kong	7,416.1 (4.4%)

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

A red flag analysis under the 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



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.

Source: Global Trade Alert

Probable impact of the trade war 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	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 <i>(End-period)</i>	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

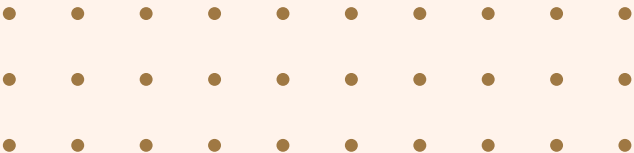
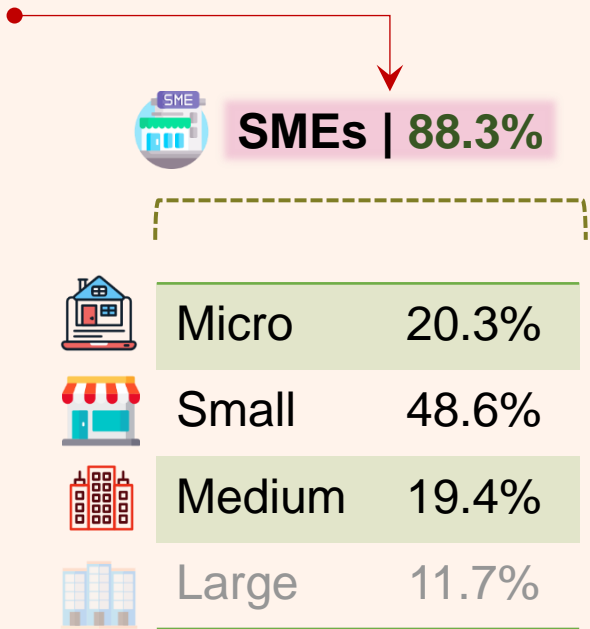
Malaysia's Business Prospects

The ACCCIM M-BECS Findings

A total of **630 responses** were received throughout the survey period (18 Nov 2024 to 15 Jan 2025). **88.3% were SMEs.**

KEY TAKEAWAYS

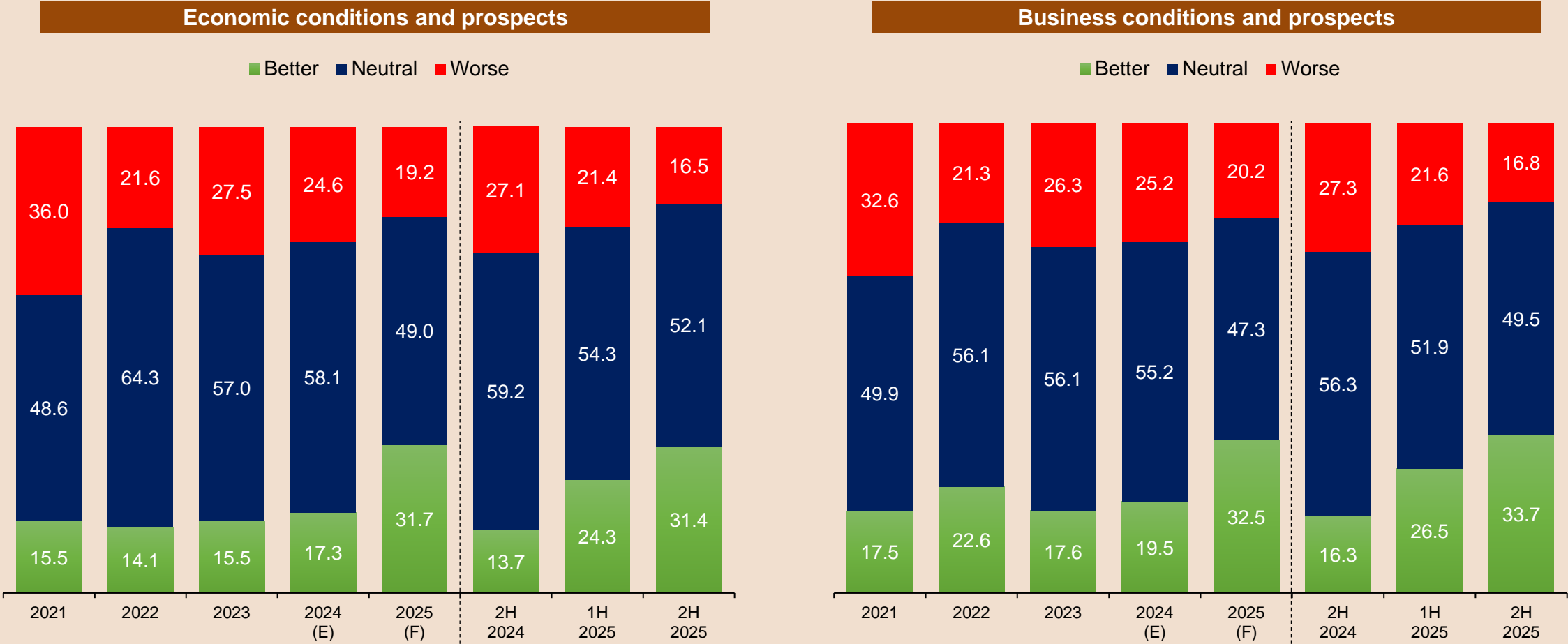
- *Cautiously optimistic views on the economic and business prospects*
- *High business costs*
- *Increasing compliance requirements and regulations*



Cautiously optimistic views on the economic and business prospects

Results of ACCCIM's Malaysia Business and Economic Survey (M-BECS) 2H 2024 and 1H 2025F

% of respondents



ACCCIM M-BECS is an SME-oriented survey designed to capture insights on business conditions, challenges, and emerging trends affecting micro, small and medium enterprises (MSMEs).

Source: ACCCIM

Factors affecting business performance

% of respondents

1st



**High operating costs
and cash flow
problem**
(50.0%)

2nd



**Increase in prices of
raw materials**
(41.3%)

3rd



**The Ringgit's
fluctuation**
(40.2%)

4th



**Lower domestic
demand**
(39.0%)

5th



**Changing consumer
behaviour**
(36.8%)

6th



**Declining business
and consumer
sentiment**
(33.5%)

7th



Shortage of workers
(27.3%)

7th



**Availability of skilled
labour**
(27.3%)

7th



**Increase in bad debt
and delay payments**
(27.3%)

10th



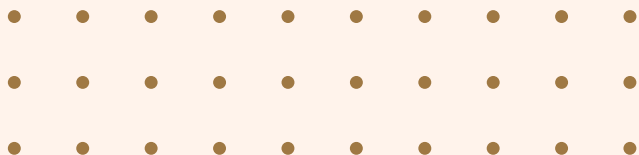
Political climate
(24.8%)



SMEs Business Trends: Challenges and Opportunities

KEY TAKEAWAYS

- *Navigating rising cost pressures amid external uncertainties*
- *Aligning SMEs with the megatrends*
- *Competitive strategies for SMEs in a globalised market*

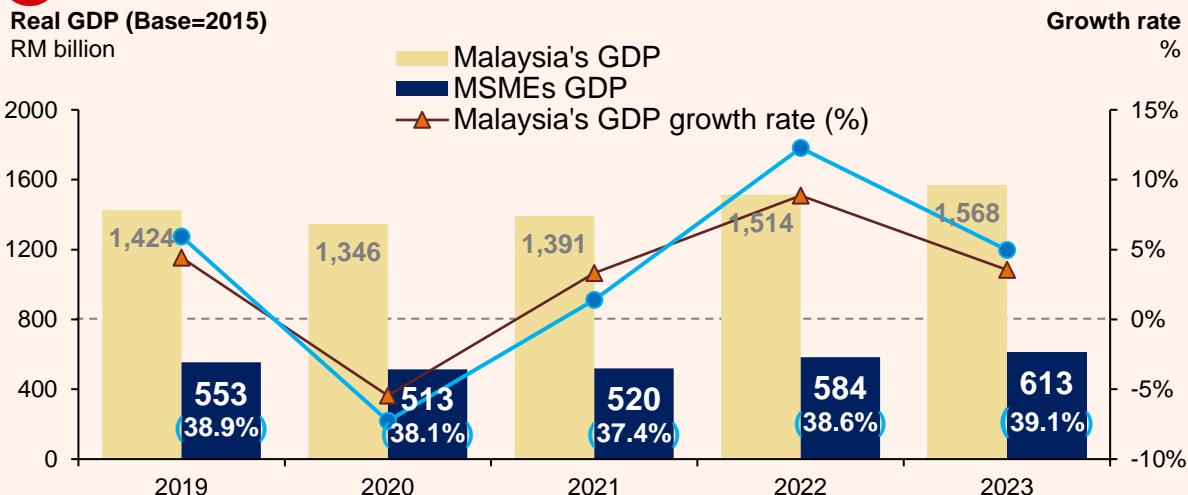




Malaysia MSMEs sustained growth resilience

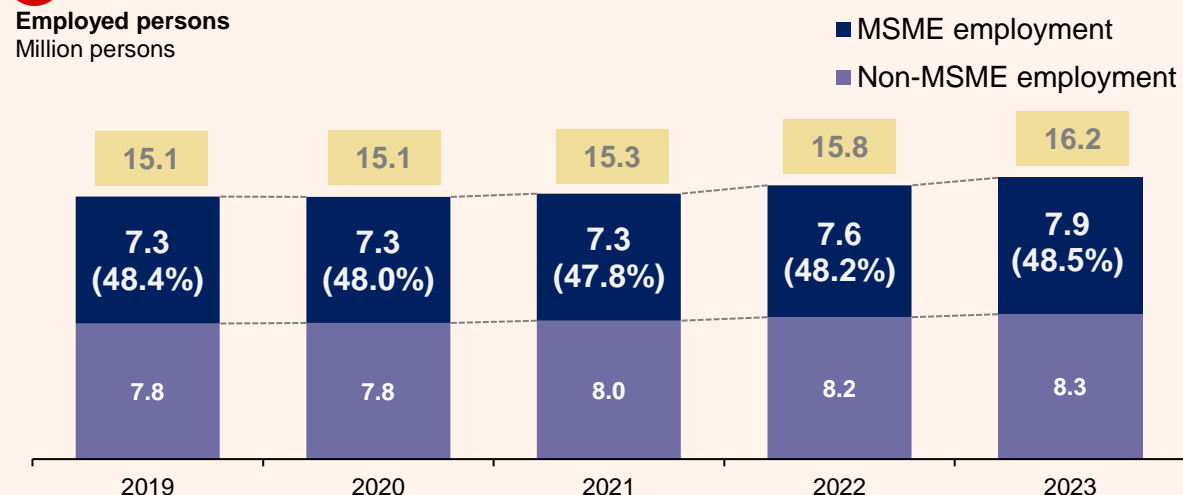
1 MSMEs GDP's contribution inching closer to its target of 41.0% by 2025

Real GDP (Base=2015)
RM billion



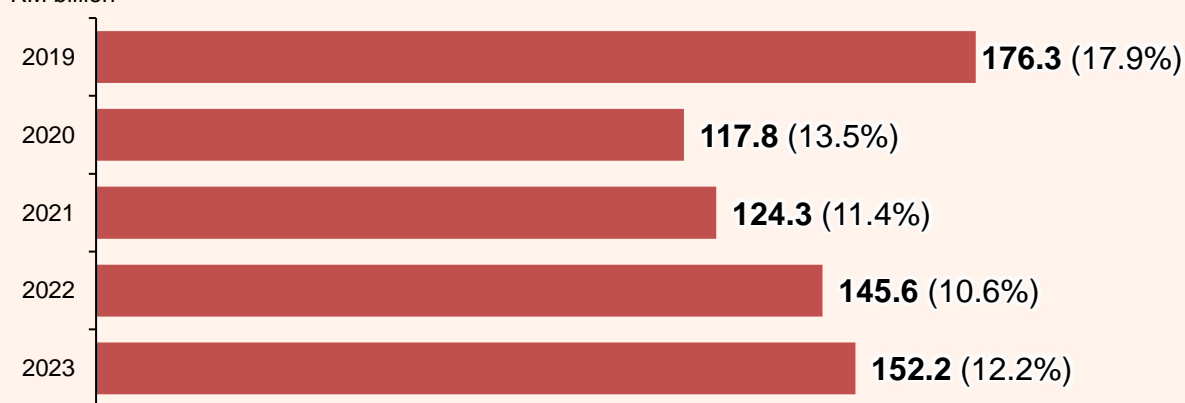
2 MSMEs have employed close to half of total employment in Malaysia

Employed persons
Million persons



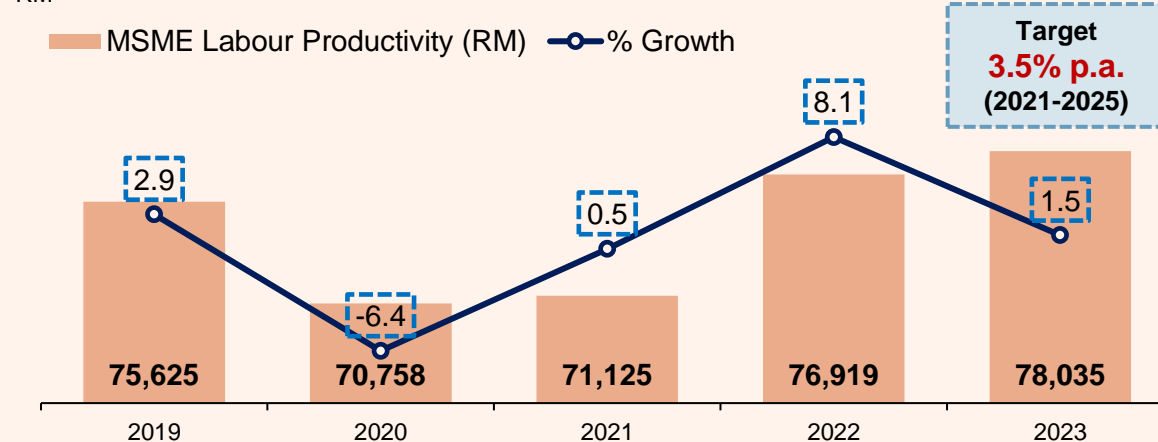
3 MSMEs' exports value remains below the pre-pandemic level

MSME's exports of goods and services
RM billion



4 MSMEs' productivity had grown by 4.7% p.a. in 2021-2023

MSME labour productivity
RM



Note: Figure in parenthesis indicates percentage share to total.

Source: DOSM; Mid-Term Review of 12MP

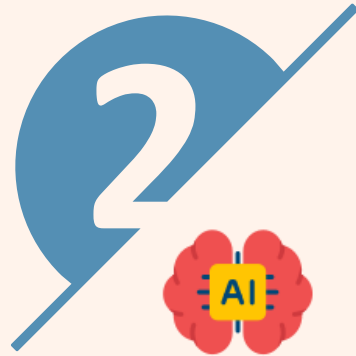


Business megatrends – Highlights and actions



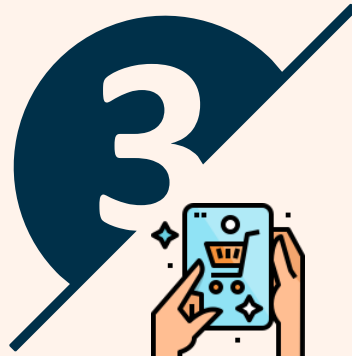
Green economy for sustainability growth

- ESG, sustainable practices, consumers prefer eco-friendly brands
- Developing eco-conscious product lines, driving demand for sustainable products



AI for digital transformation

- Integrate AI-driven solutions to enhance efficiency and reduce costs
- Prioritize emerging technologies and skills development that foster adaptability and innovation.



Transforming e-commerce

- AR (Augmented Reality) and VR (Virtual Reality) are improving the online shopping experience, offering interactive and immersive customer journeys



Rise of halal industry

- Rapid growth in global demand for halal-certified goods; halal tourism is gaining traction
- Malaysia's market size by 2030: USD113.2 billion; Halal export value: USD8 billion annually
- Businesses should invest in halal certifications and innovate halal-compliant products



Government incentives and policies

- Sector-specific incentives covering IT, green energy, and manufacturing
- Enhance awareness about the grants, incentives as well as simplify application process to increase utilization



Workforce skill transformation

- Building a trusted, human-led and tech-powered workforce
- Focus on upskilling and reskilling of workforce; and partnering with institutions for targeted skill-building programs



Competitive and sustainability challenges for SMEs

1

Intensified competition pressures

- Malaysia's liberalised economy exposes SMEs to strong competition
- At a disadvantage against stronger local and global competitors

2

Limited access to finance

- Stringent collateral requirements and risk perception
- Gaps in financial documentation limit loan approvals

3

Access to talent constraints

- Constrained by financial realities to attract and retain talent
- Limited upskilling opportunities hinder workforce development and innovation

4

Market reach limitations

- Small customer base and restricted distribution networks
- Insufficient technical assistance and market knowledge limits overseas expansion opportunities

5

Innovation and technology hurdles

- Constrained keeping up with rapidly evolving technologies
- Limited R&D budget and expertise hinder innovation and adaptation

6

Supply chains vulnerability

- Dependence on large suppliers increases exposure to price fluctuations
- Limited economies of scale heighten vulnerability to supply disruptions



How to remain competitive in today's market?

05 – Access alternative financing

- P2P lending and equity crowdfunding offer flexible, fast funding beyond traditional bank loans
- Alternative financing options help SMEs secure capital with more flexible terms and lower collateral requirements

04 – Digitalisation and embrace ESG

- Participate in workshops, training, and expert collaborations to improve knowledge and adoption
- Digitalisation enhances efficiency, while ESG compliance unlocks business opportunities
- Leverage government incentives, including RM50 million for Digital PMKS MADANI and RM20 million for R&D and training grants

01 – Expand export markets

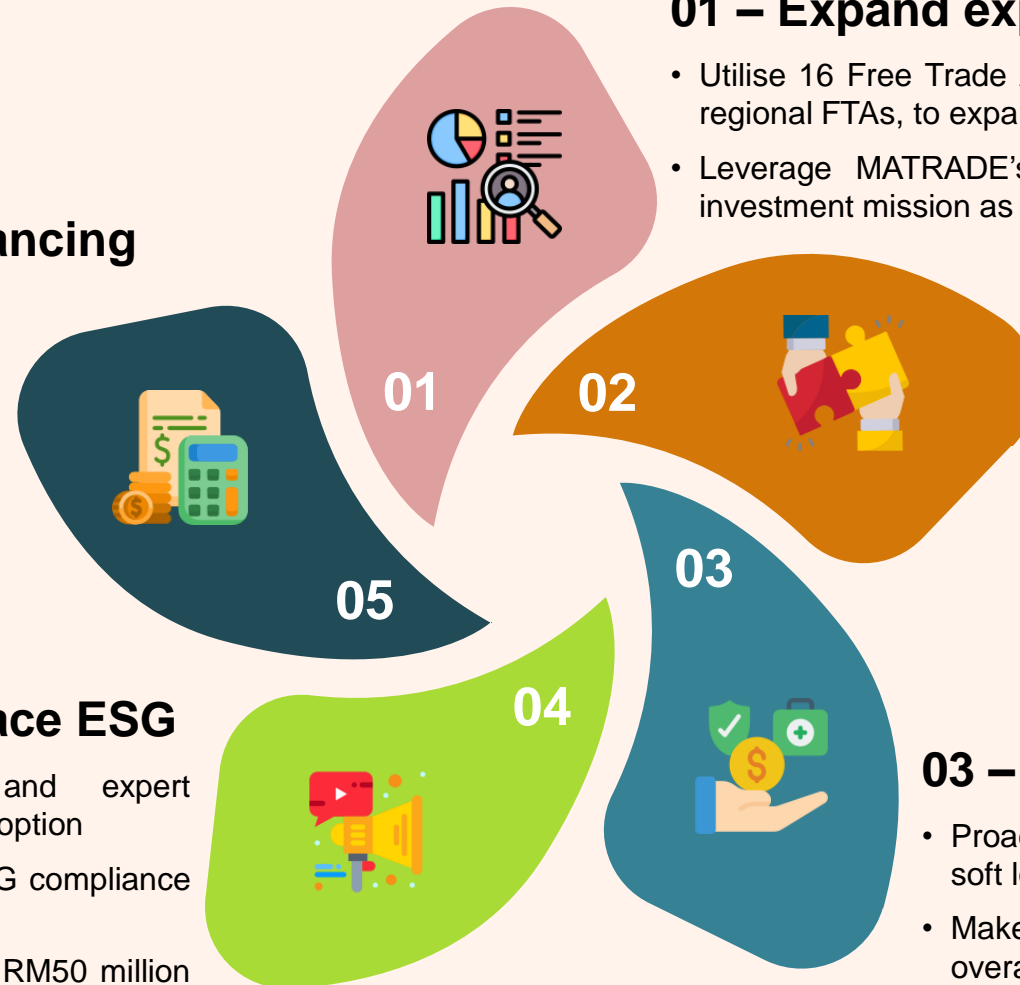
- Utilise 16 Free Trade Agreements (FTAs), including 7 bilateral and 9 regional FTAs, to expand market reach
- Leverage MATRADE's initiatives such as trade fairs, and trade investment mission as well as participate in business matching

02 – Effective collaborations

- Partnering with major local companies and foreign multinational corporations (MNCs) strengthens SMEs' position in global supply chains
- Strategic collaborations can provide market access, technology sharing, and business expansion opportunities

03 – Utilisation of government incentives

- Proactively apply for various government incentives – Grants, soft loans, tax incentives, etc.
- Make use of RM40 billion allocation under Budget 2025 as overall loan facilities and business financing guarantees



THANK YOU

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