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

CGC Investors Engagement

Navigating the Path Ahead: Balancing Growth, Rising Costs, Uncertainty

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Key Points

1. Policy Uncertainty Pushes Global Economy Lower
2. The Malaysian Economy Slowed But Not Collapsing
3. Malaysia is Well-Positioned to Navigate External Headwinds
4. The 13MP and 2026 National Budget will Ensure National Development Continuity, Prioritise Economic Resilience and Sustaining High Quality Investment

Global Economic Outlook

Intensifying Downside Risks Amid Shifting Trade Policy

- *Global growth is projected at 2.8% in 2025 and 3.0% in 2026, below the historical 2000-2019 average: 3.7%*
- *Global trade growth is estimated to contract by 0.2% in 2025 before rebounding to 2.5% in 2026, surpassing slightly its long-term average (2011-2019 average: 2.4%)*
- *Heightened trade policy uncertainty and geopolitical fragmentation hinder both short-term and long-term growth prospects*
- *High frequency indicators suggest that global growth continues, albeit highly cautious about its near-term direction*
- *Monetary policy pivoting amid upside risks to global inflation expectations*

Global themes shaping the world economy

1

Shifting trade policy and geopolitical disruptions

- Trump administration tariffs initiated a reset of global trade rules.
- Abrupt policy shifts created uncertainty, impacting the global economy, trade, and investment flows.
- Firms are adjusting by delaying investment, reassessing relationships, and rerouting supply chains, leading to higher input costs, disruptions, and trade risk.
- Geopolitical tension poses substantial risks to financial markets, energy prices, and global trade.

2

A repricing risk in a shifting landscape

- Asset classes are undergoing a broader risk repricing.
- USD's safe-haven status questioned due to US fiscal trajectory, rising public debt, and escalating trade tensions.
- Gold and crypto assets are emerging as safe-haven investments.

3

Supply and demand shocks and price volatility

- Price volatility (input costs and consumer inflation) is fundamentally reshaped by tariffs and trade fragmentation.
- Tariff-imposing economies (e.g., the US) face supply shocks, increased input costs, and distorted resource allocation, leading to higher prices.
- Economies facing tariffs experience negative demand shocks, reduced exports, and elevated uncertainty impacting manufacturing, exports, revenues, and employment.

4

Cautious recalibration amid uncertainty

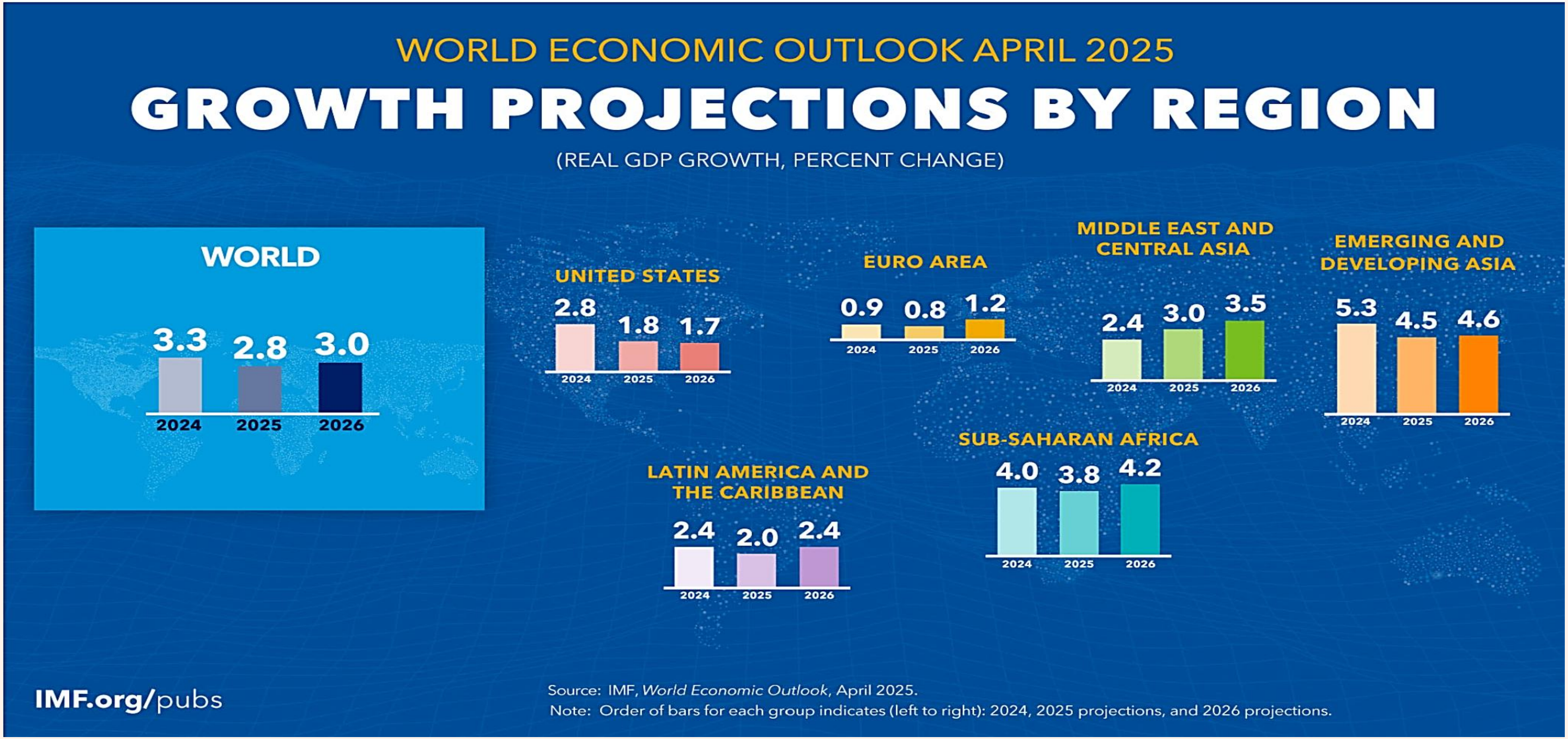
- Global monetary policy is fragmenting as central banks recalibrate based on diverging inflation paths and domestic priorities.
- Fiscal policy navigates competing priorities, aiming for stimulative and sustainable strategies that support long-term productivity without undermining market confidence.

5

Workforce skills and AI-driven productivity

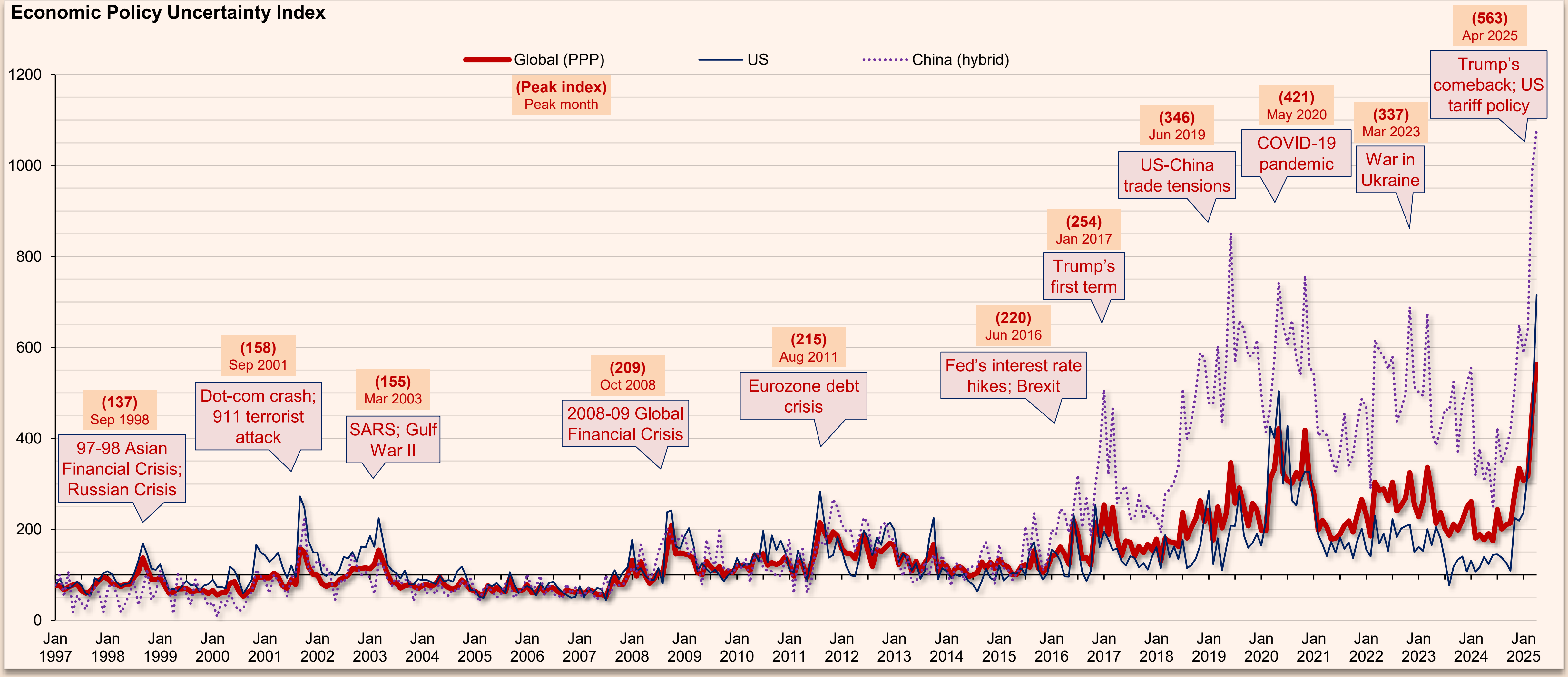
- Global labour markets are transforming due to cost pressures, demographic constraints, and technological advancements.
- Firms are prioritising training, automation, and generative AI to manage labour costs and enhance productivity.
- AI and digital tool integration is crucial for competitiveness.
- Talent shortages persist, making immigration policies, education systems, and labour participation dynamics vital for future growth.

Uneven growth trends in advanced and emerging economies



Source: IMF (World Economic Outlook, April 2025)

Economic uncertainty is now higher than it ever was during the COVID-19 pandemic

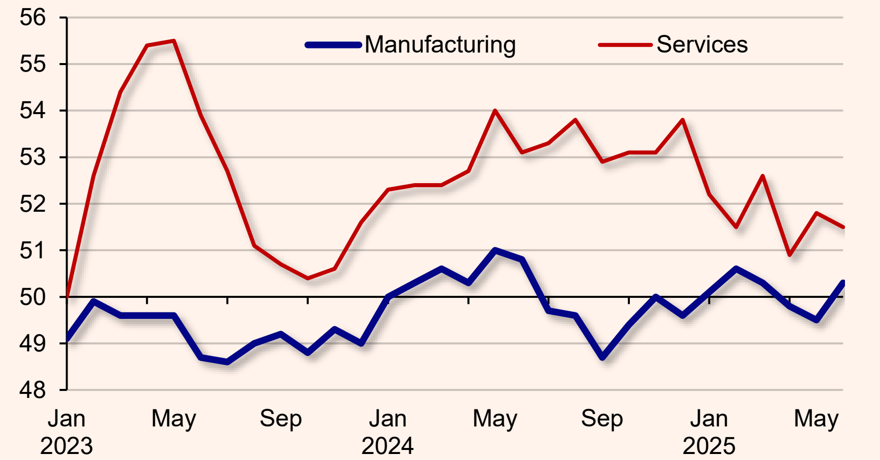


Source: Global: Davis (2016); United States: Baker, Bloom and Davis (2016); China (hybrid): Baker, Bloom, Davis and Wang (2013) & Davis, Liu, and Shang (2019)

Global current and forward indicators show mixed trends

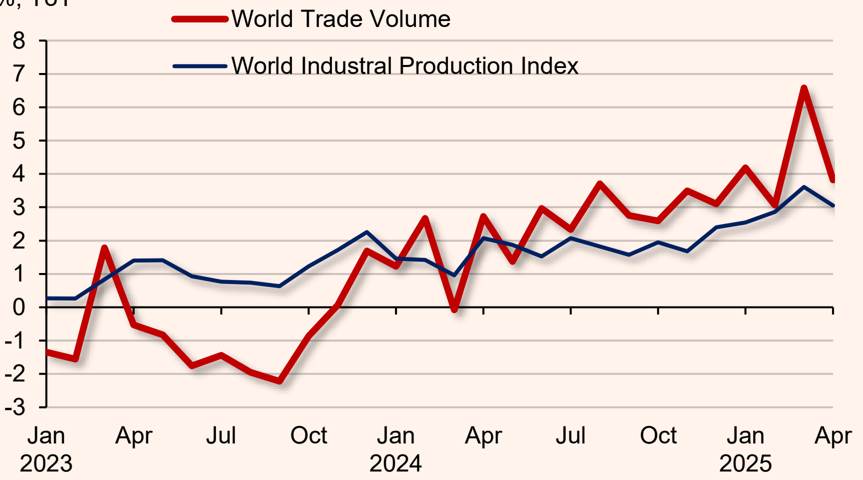
Global PMI for manufacturing & services

50=Threshold



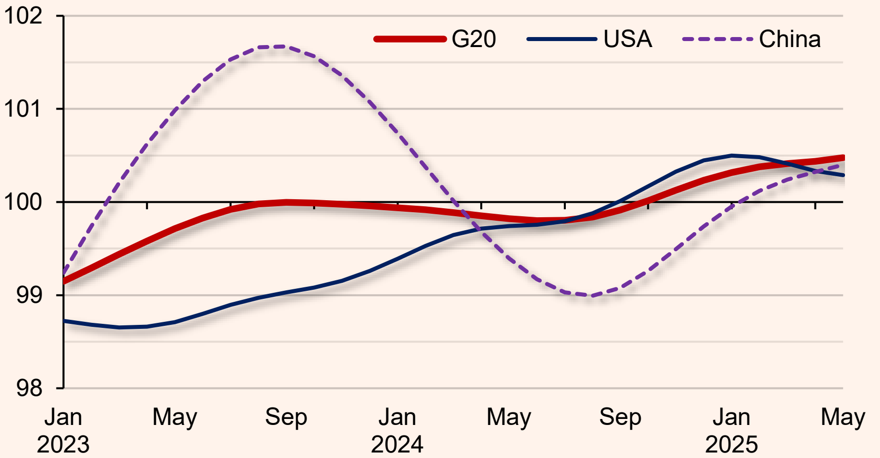
World trade volume and industrial production

%, YoY



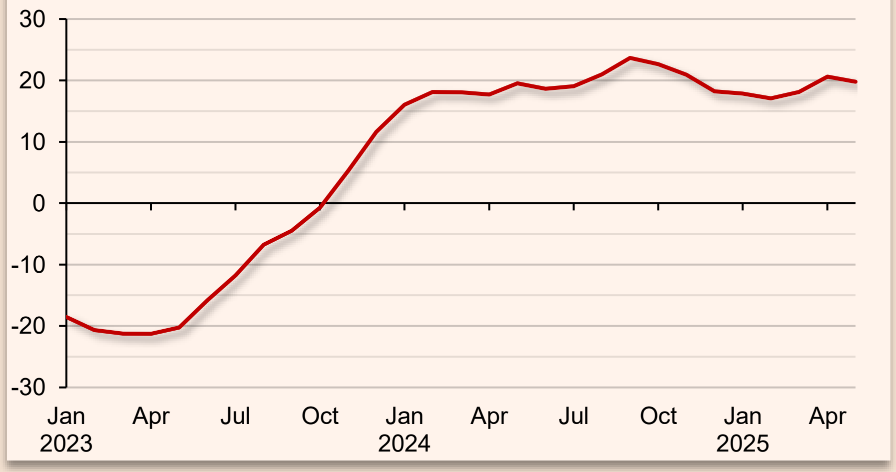
OECD Composite Leading Indicators (CLI)

100=Long-term average



Global semiconductor sales

%, YoY



- June's global manufacturing PMI slightly above 50-pt indicating a rebound amidst shifting trade policy; global services PMI signals expansionary track ahead.
- The OECD composite leading indicators signal steady global growth outlook, with a potential turning in the US economy.
- Global trade volume growth is expected to decelerate as the front-loading effects fade.
- Global semiconductor sales continued to expand by strong double-digit growth (18.7% yoy in Jan-May 2025). The WSTS projects global sales will grow by 11.2% to USD700.9 billion in 2025. In 2026, global sales are projected to reach USD760.7 billion.

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

UNCERTAINTY - Policy upheaval and coordination risks

Uncertain times

Share of chief economists who think that uncertainty:

82%

IS CURRENTLY VERY HIGH

56%

WILL BE LOWER IN A YEAR

Top 3 areas of the highest global uncertainty

Trade policy **97.0%**

Monetary policy **49.0%**

Fiscal policy **35.0%**

Source: Chief Economists Survey. (2025, April)

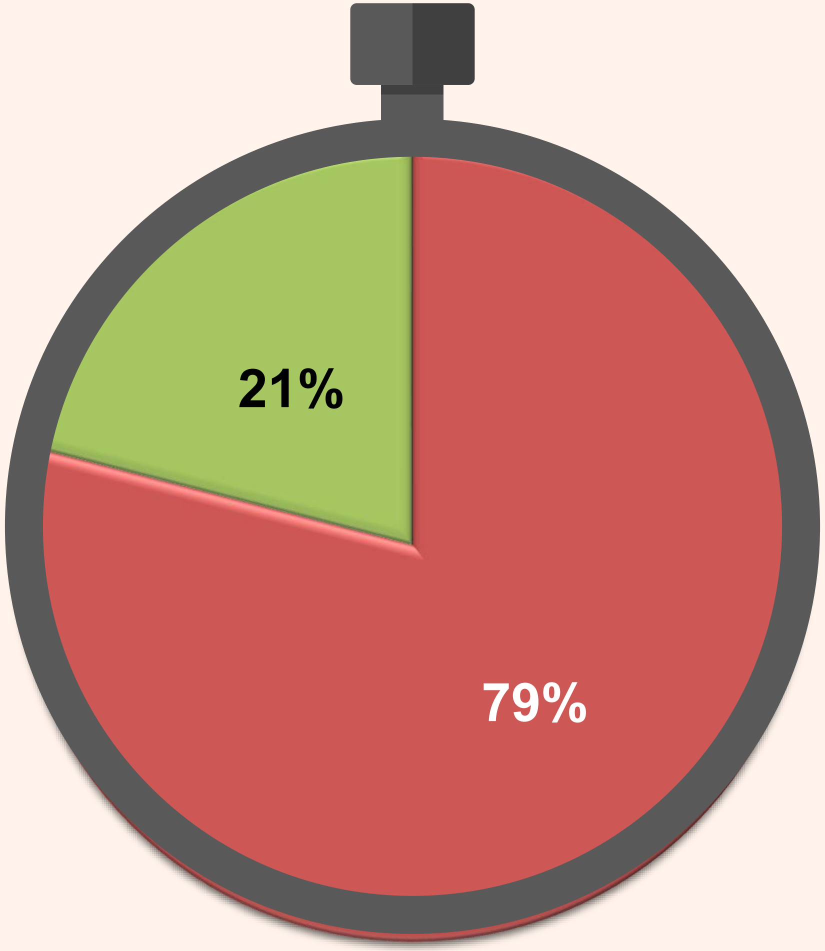
The US government policies on the global economy trajectory

Make America Great Again (MAGA)
"3-3-3"
- 3% real economic growth
- 3% budget deficit of GDP
- 3 million barrels of oil per day

21%

SHORT-TERM DISRUPTION

The US policy impact on the global economy



Share of respondents %

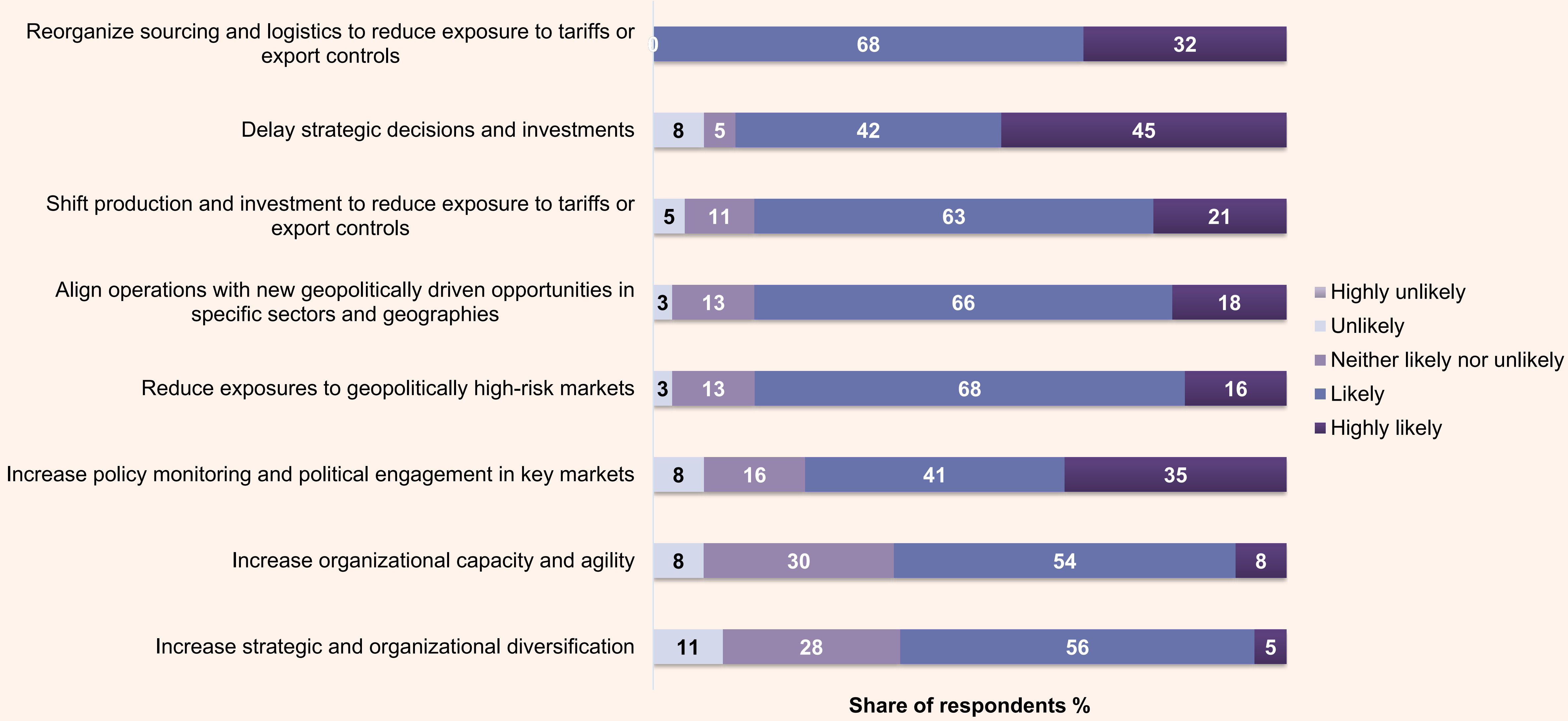
One Big Beautiful Bill Act
- Make many of the individual tax cuts from the Tax Cuts and Jobs Act (TCJA) permanent and introduce new tax breaks

79%

LONG-TERM SHIFT

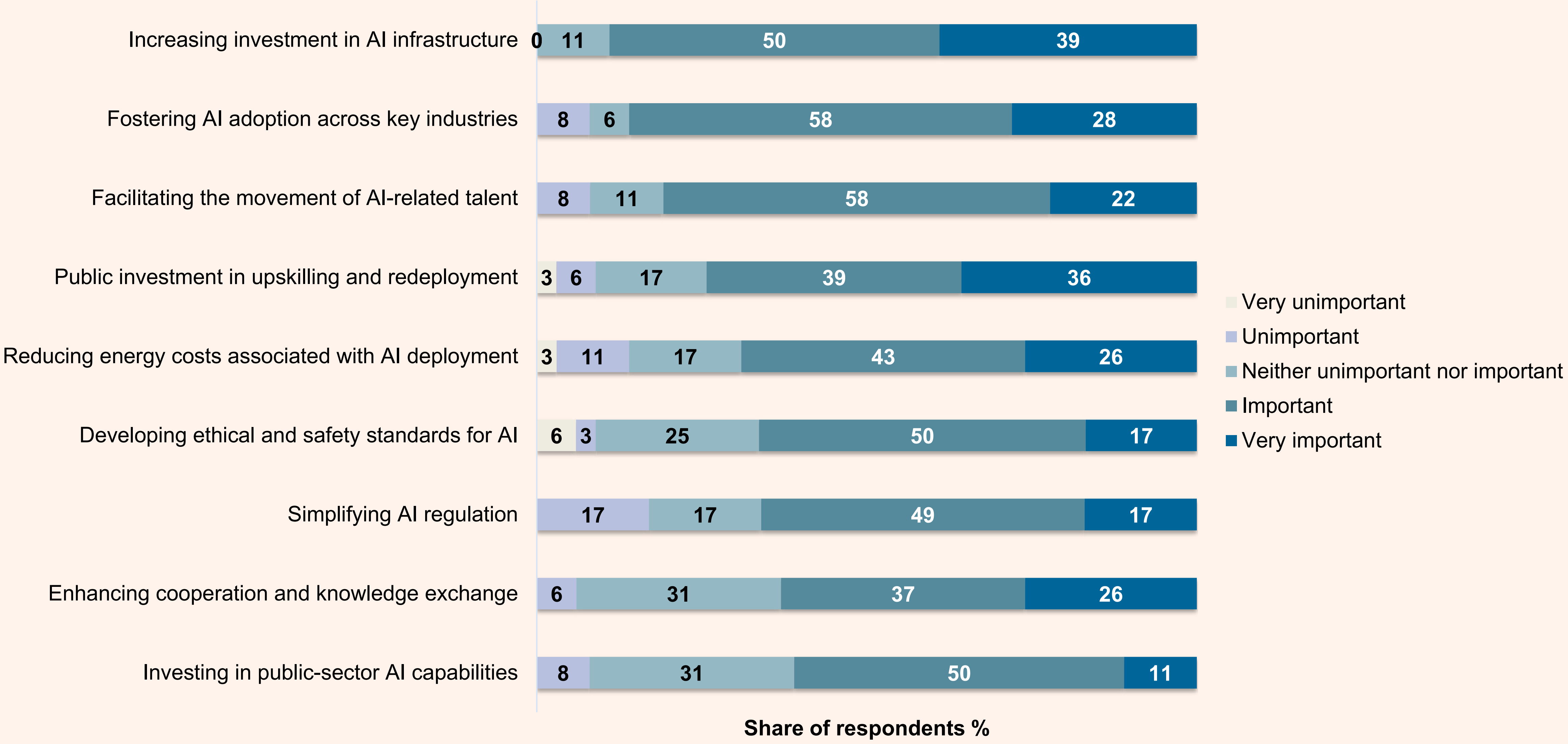
Source: Chief Economists Survey. (2025, April)

How will multinationals adapt over the next three years to economic uncertainty?



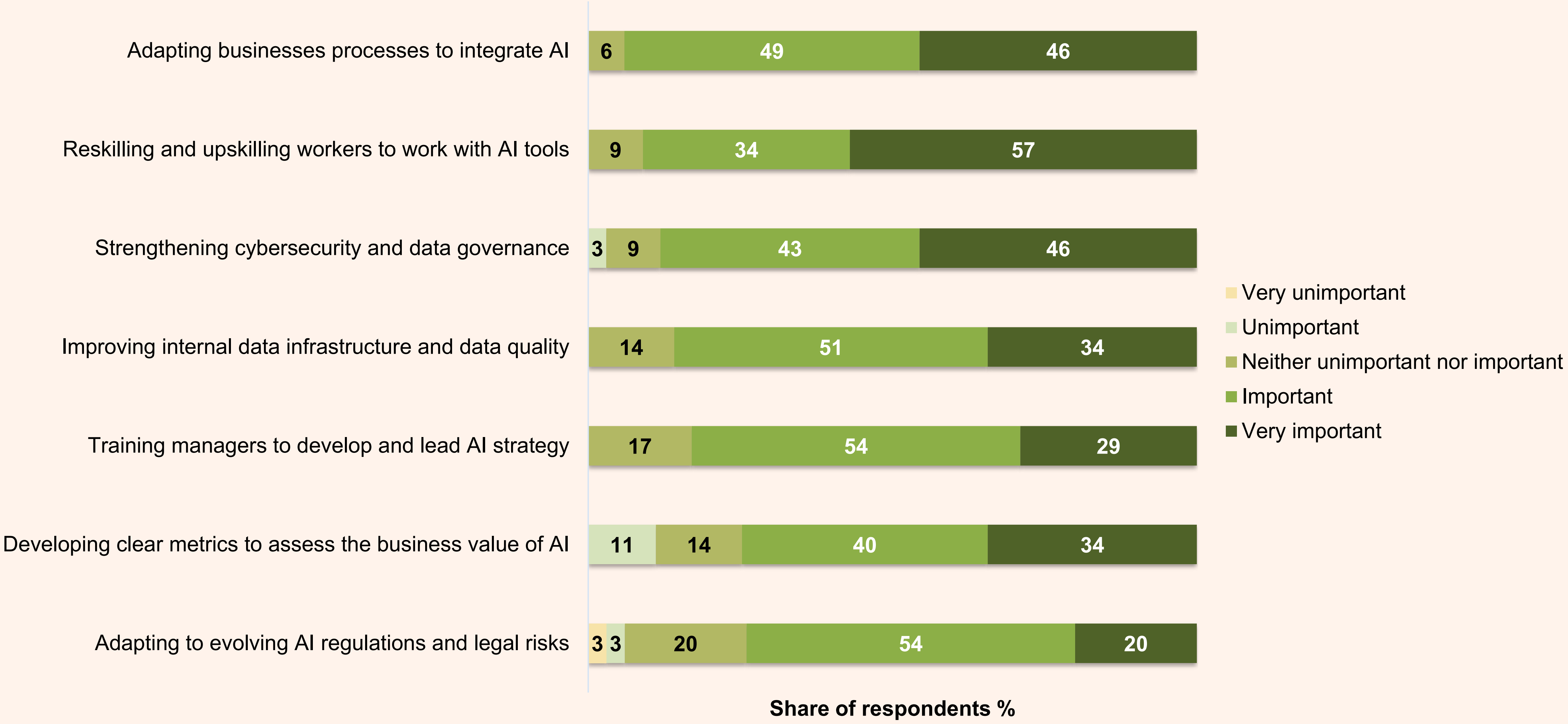
Source: Chief Economists Survey. (2025, April)

How important are the following strategies for countries to leverage AI growth?



Source: Chief Economists Survey. (2025, April)

Will these strategies drive AI adoption in businesses over the next three years?



Source: Chief Economists Survey. (2025, April)

Malaysia’s Economic Outlook

Navigating Uncertainty, Costs Pressure and Sustainable Growth

- *Slowing economic growth momentum amid external headwinds*
- *Tapering discretionary consumer spending*
- *Private investment momentum continues, albeit slower*
- *Exports at risk due to the trade tensions as well as geoeconomic fragmentation*
- *Risks to inflation are tilted to the upside*
- *Monetary policy to support growth while keeping price stability*

Malaysia can buffer against external shocks

Malaysia is in a position of strength to face headwinds. Still-sound economic and financial fundamentals supported by facilitative policies and accommodative monetary policy.

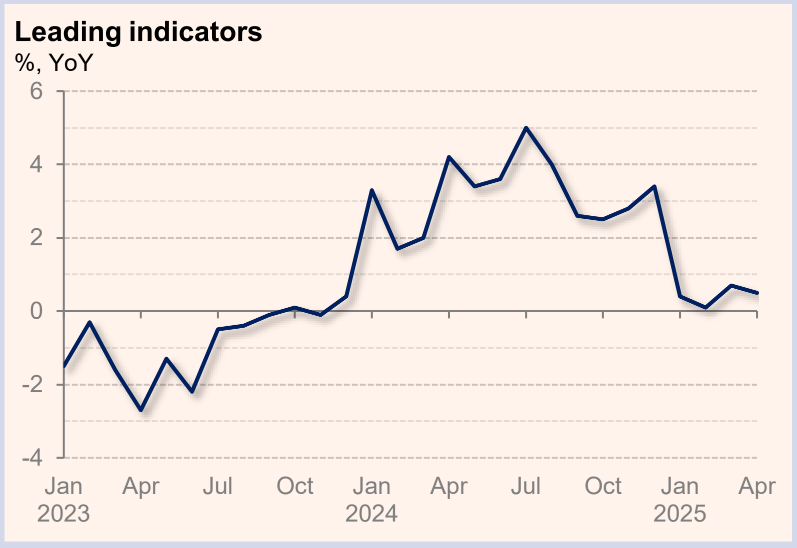
A well-diversified trade, economic sectors and sources of foreign direct investments. This helps to reduce vulnerability and risks inflicted by a particular sector and industry as well as a country.

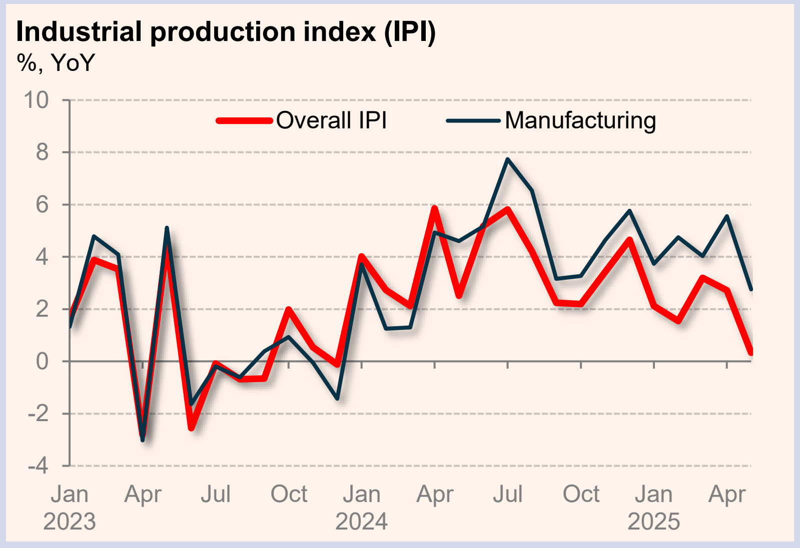
Gradual fiscal consolidation path is appropriate while continuing to strengthen domestic resilience, protect the vulnerable group.

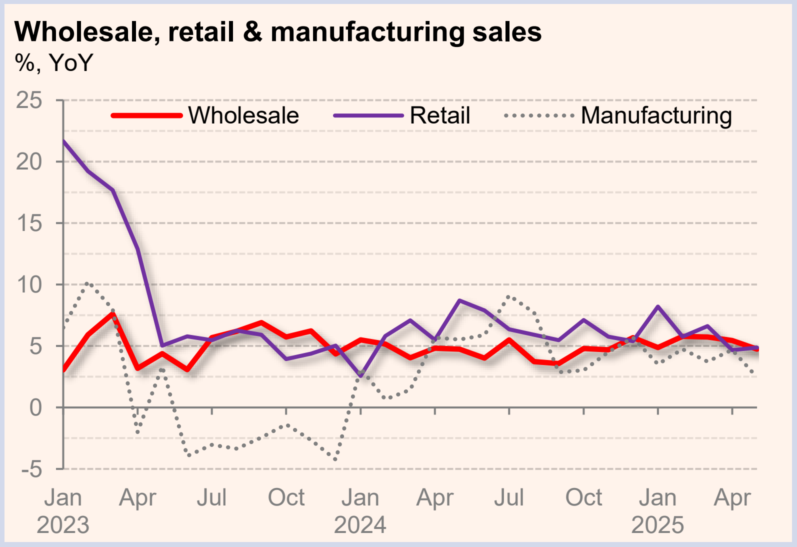
The financial sector is well-capitalised to cope with most shocks. As at end-2024, banks' liquidity buffers exceeded regulatory levels with strong loan quality (aggregate non-performing loans (NPLs) at 1.4% of gross loans) and sizeable provisions (91.4% of total impaired loans). Liquidity coverage ratio (LCR) is well-above the required level (100% starting 2019) at 160%.

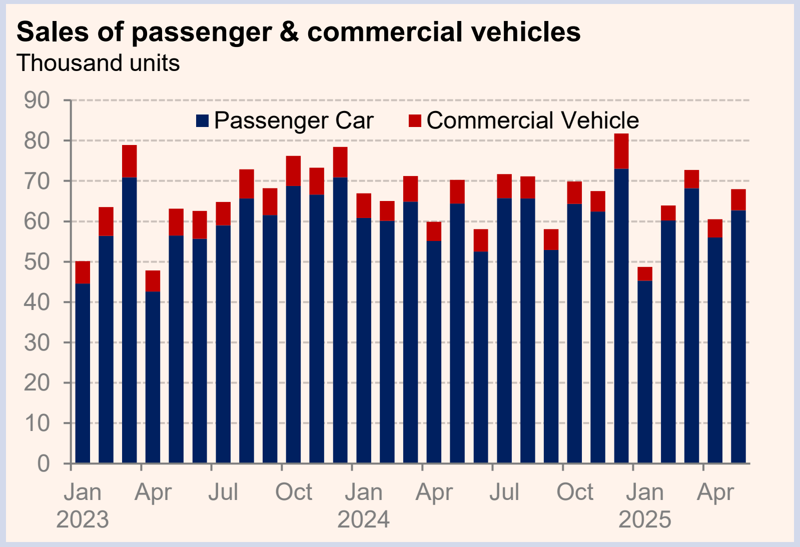
Flexible exchange rate is essential continue to play the role of shock absorber and remains the first line of defence against external shocks in the context of protracted uncertainty in global economic and financial conditions. This is backed by **adequate international reserves and sustained current account surplus, albeit smaller.**

Tracking Malaysia's economic indicators





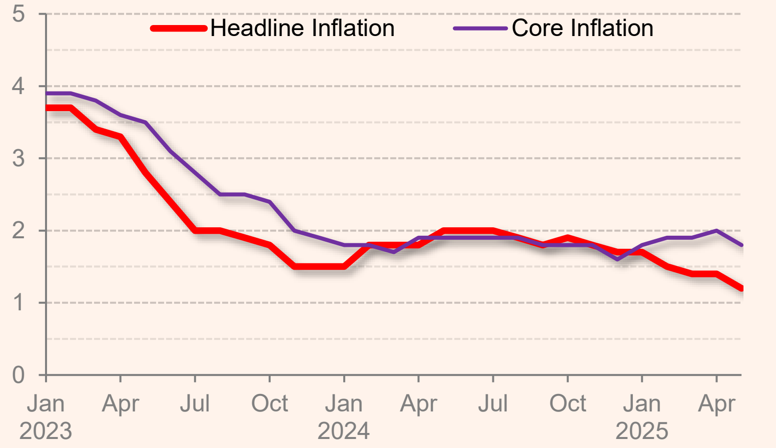




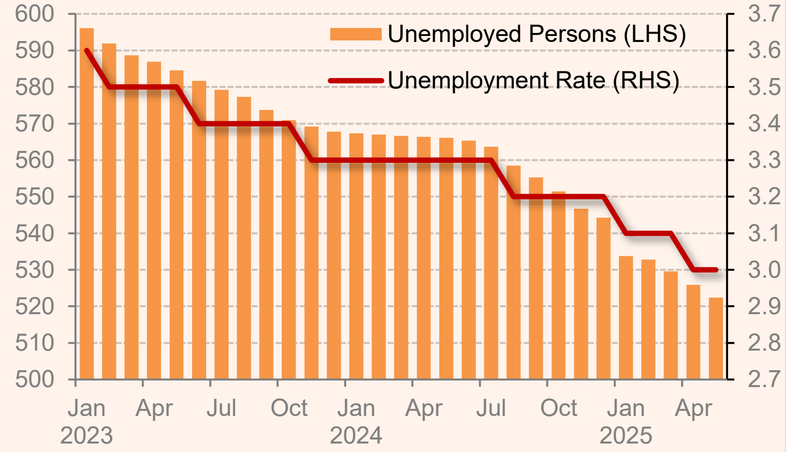
Source: DOSM; S&P Global; Malaysian Automotive Association (MAA)

Tracking Malaysia's economic indicators (cont.)

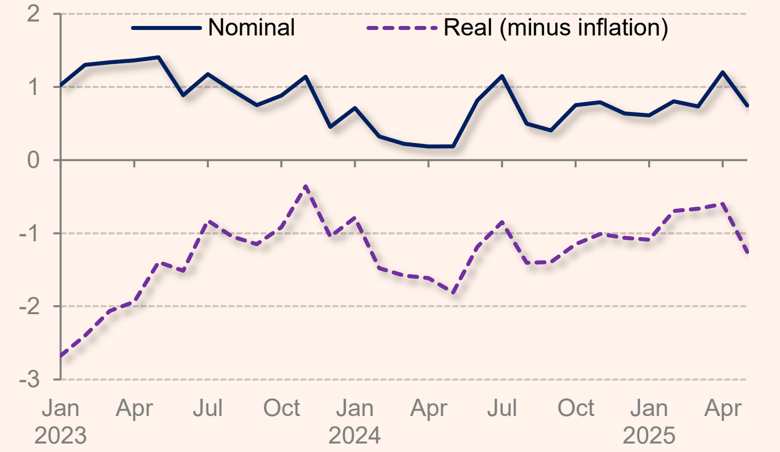
Inflation
%, YoY



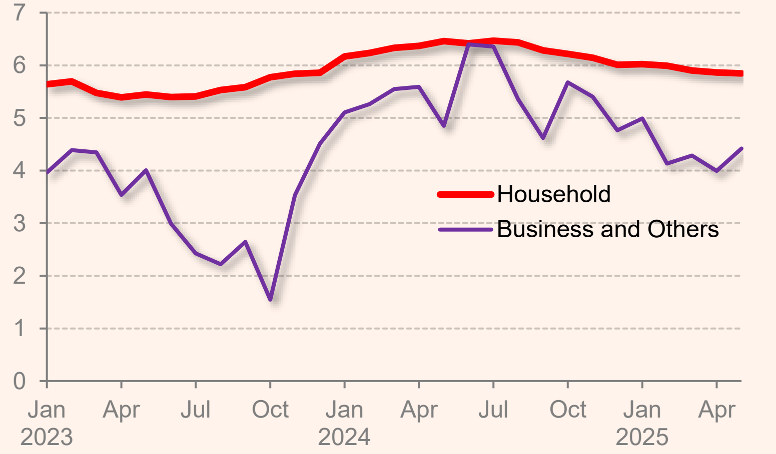
Unemployment
('000)
%



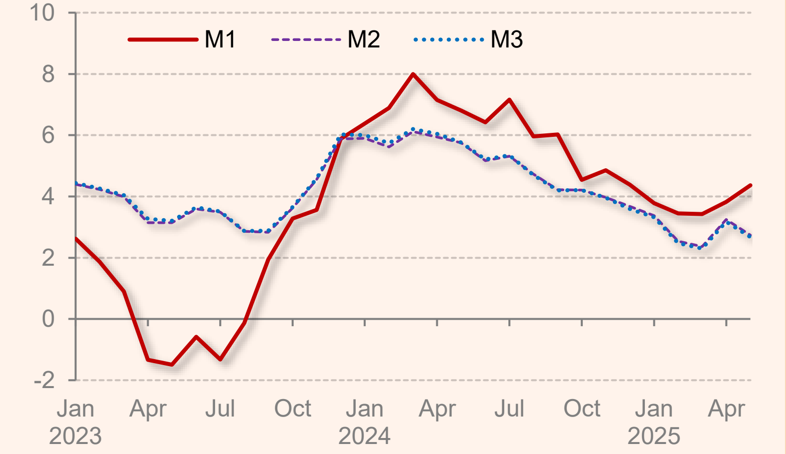
Manufacturing wages (per employee) growth
%, YoY



Outstanding banking loan growth
%, YoY



Money supply
%, YoY

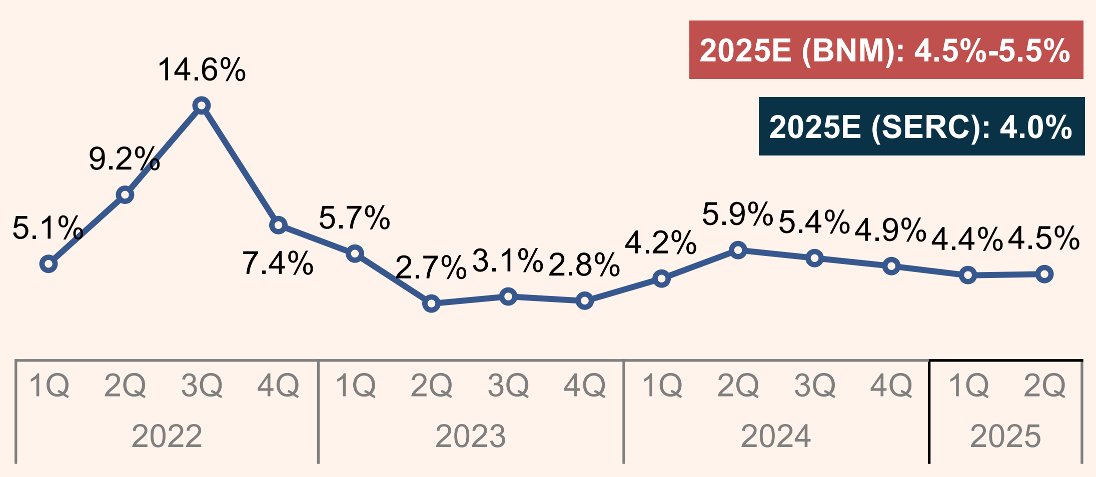


Foreign exchange reserves
USD billion

Source: DOSM; BNM

The Malaysian economy will slow to 4.0% in 2025 and 4.0-5.0% in 2026-2030

Quarterly Real GDP Growth (Annual change, %)



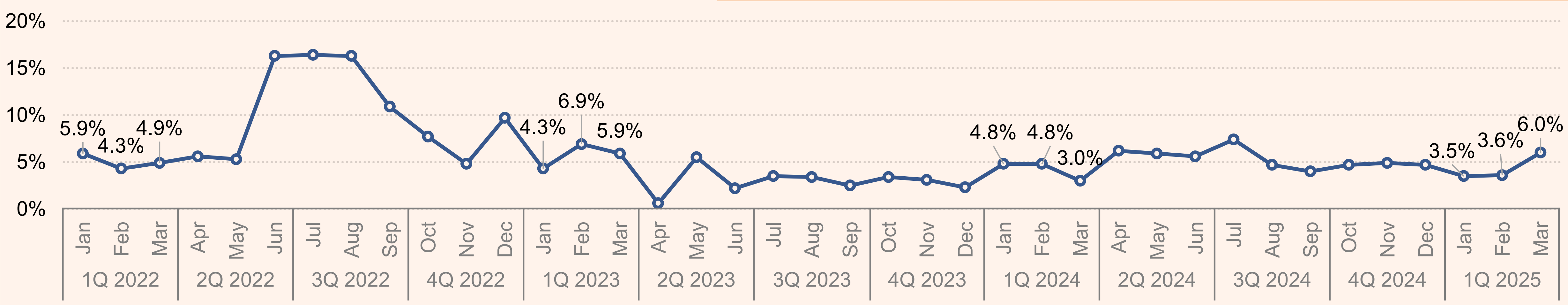
Factors Supporting Growth in 2025

- Sustained household spending on stable employment and policy support
- Steady expansion in private investment and public spending
- Sustained tourism activities

Factors Weighing on Growth in 2025

- Slowing global economy due to direct and indirect impact of tariffs
- Cautious business and consumer sentiments
- Domestic policy changes (fuel subsidy rationalisation; the expansion of SST)

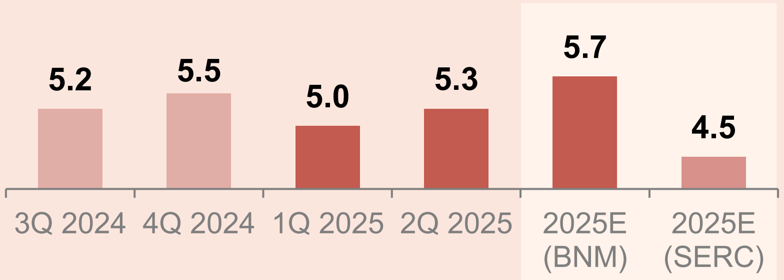
Monthly Real GDP Growth (Annual change, %)



Source: DOSM   Notes: GDP for Q2 2025 is advanced estimtate

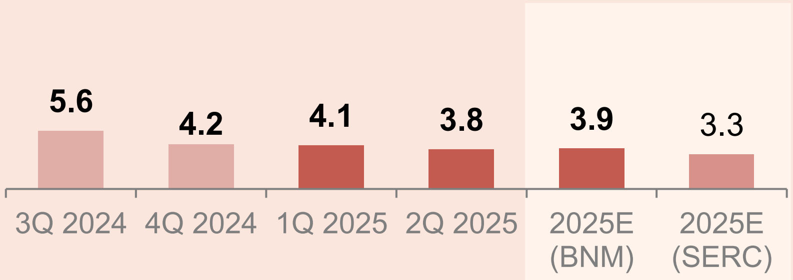
Continued expansion in most economic sectors, except the mining sector

Services (%) [59.3% of GDP]



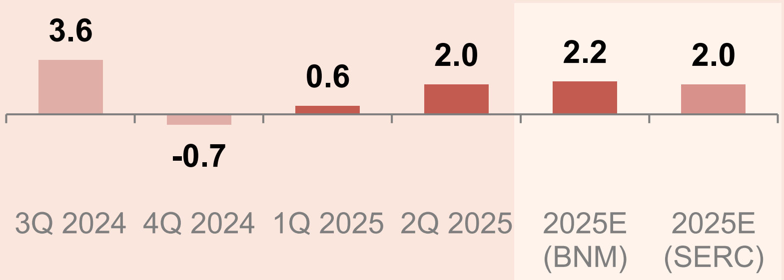
- Intensified promotions for Visit Malaysia Year 2026
- Increased government services spending due to higher civil servant emoluments

Manufacturing (%) [23.2% of GDP]



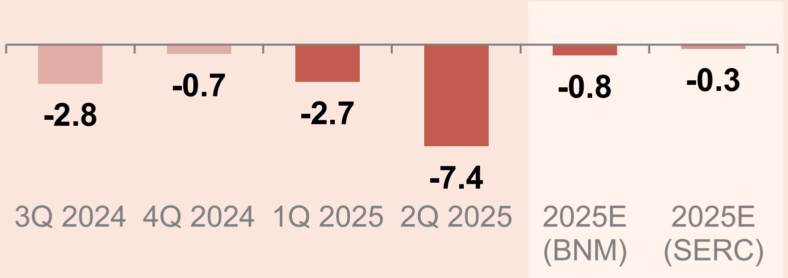
- Expansion in the electrical & electronics (E&E) industry, supported by the global tech upcycle
- Growth in consumer-related industries, driven by household spending

Agriculture (%) [6.3% of GDP]



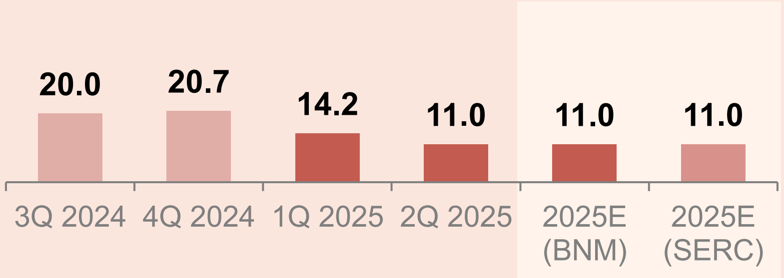
- Improved food crop production due to better weather conditions
- Continued crude palm oil expansion, supported by productivity gains and improved fertiliser

Mining and quarrying (%) [6.0% of GDP]



- Planned maintenance at key oil and gas facilities
- Support from the commencement of new fields, ongoing expansions and enhanced recovery measures in some existing fields

Construction (%) [4.0% of GDP]

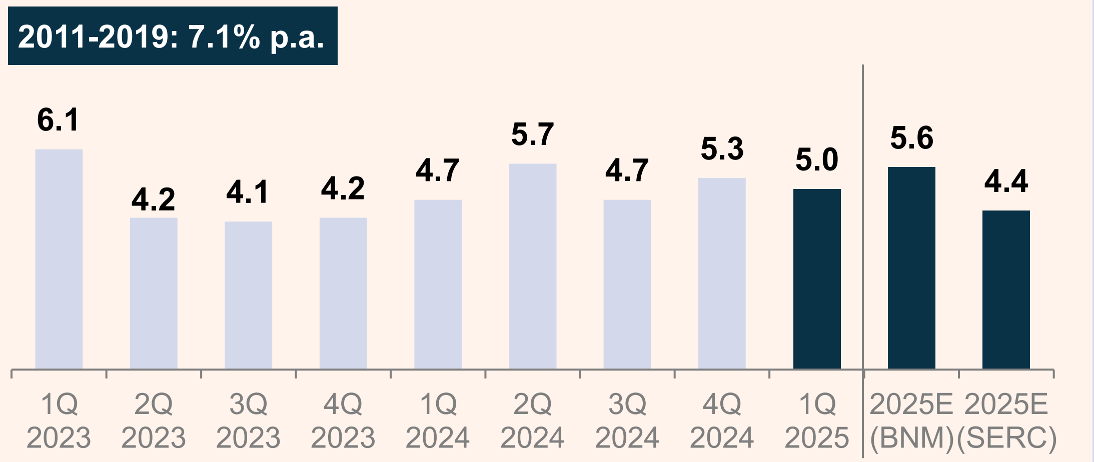


- Continued activity in non-residential, special trade, and residential subsectors
- Small-scale projects from Budget 2025 and end-stage infrastructure works

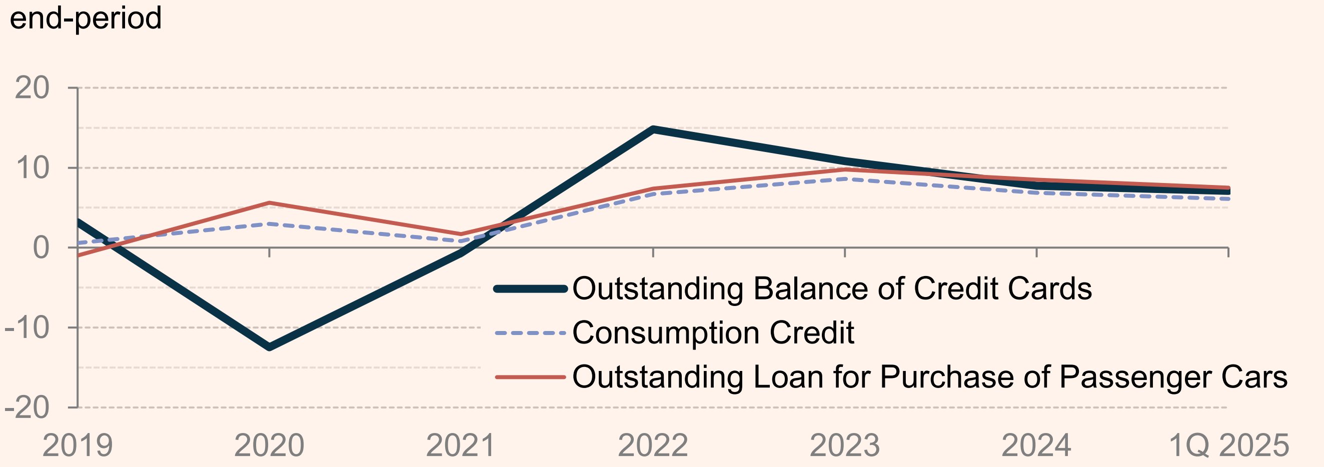
Note: Figure in parenthesis [ ] indicates share of GDP in 2024. GDP for Q2 2025 is advance estimate.
Source: DOSM; BNM; SERC

Households could begin to bend, but not break

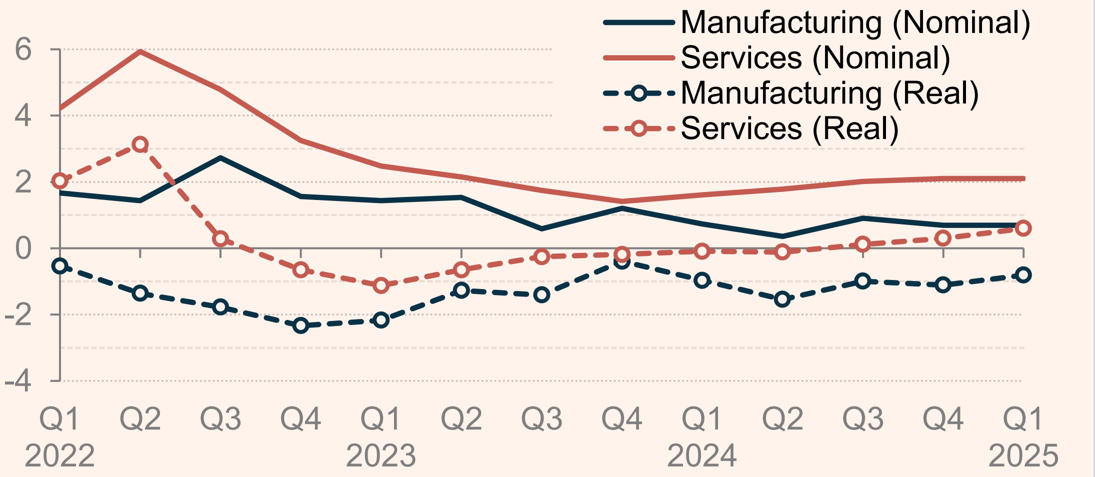
Private Consumption Growth (Annual change, %)



Selected Private Consumption Indicators (Annual change, %)



Real Wage Growth per Employee (Annual change, %)



Factors Supporting Household Consumption Expenditure

- Stable labour market with improved disposable income.
- Higher minimum wage, EPF Flexible Account 3 withdrawal facility, and the 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).

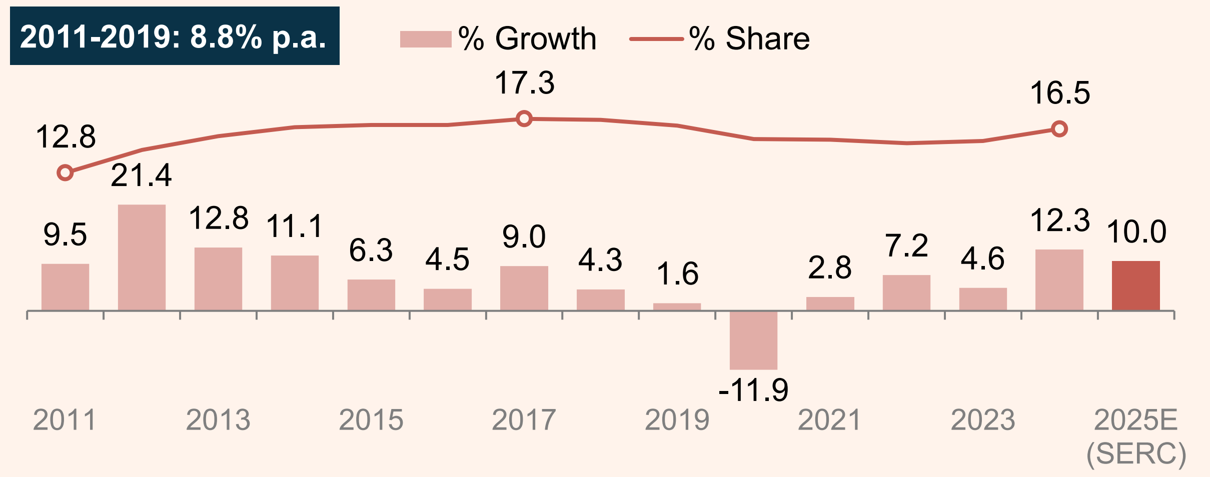
Factors Weighing on Discretionary Consumer Spending

- Rising cost of living pressure.
- Consumer inflation due to pass-through effect from increased business costs. Direct and indirect effects from the expanded SST.

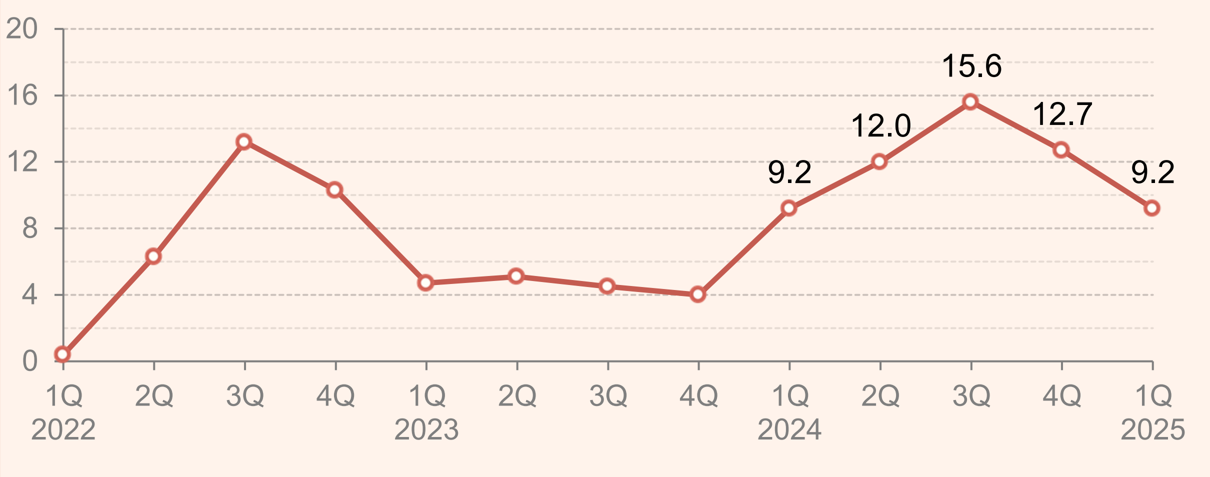
Source: DOSM; BNM; SERC's forecast

Malaysia is on the cusp of a multi-year private investment growth

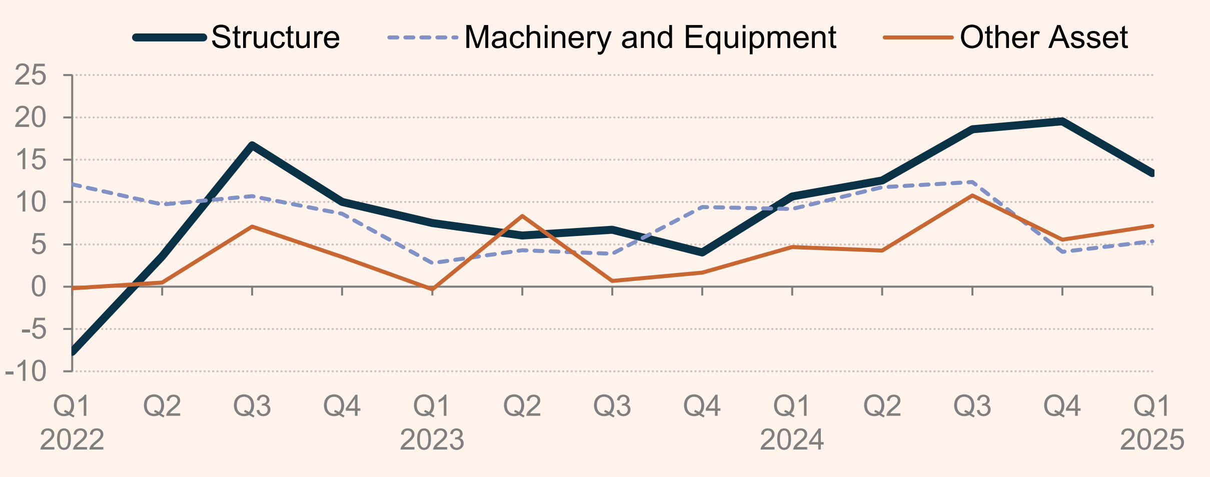
Private Investment Growth – Annually (%)



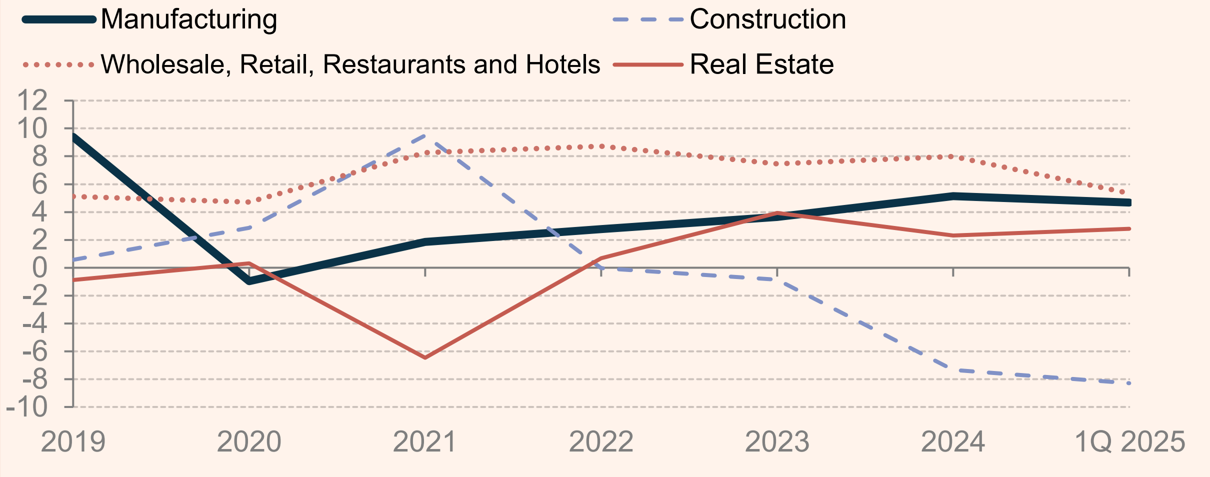
Private Investment Growth – Quarterly (Annual change, %)



Gross Fixed Capital Formation by Type of Assets (Annual change, %)



Selected Business Loans (Annual change, %)



Source: DOSM; BNM; SERC's forecast   *Note: Revision and expansion of the loans/financing data in 2022.*

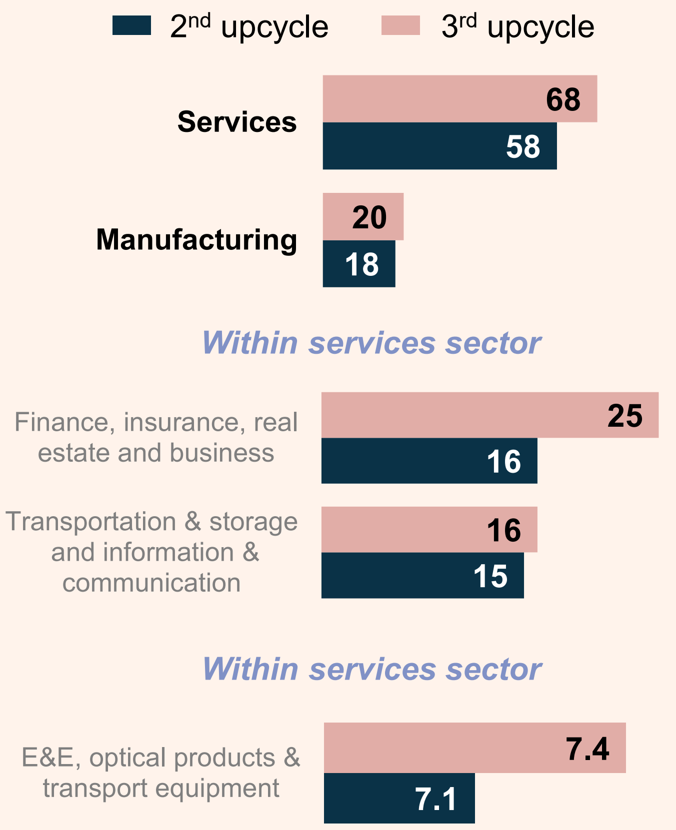
Malaysia's third investment upcycle characterised by high quality investments

1 Shift towards high value-added services & manufacturing activities

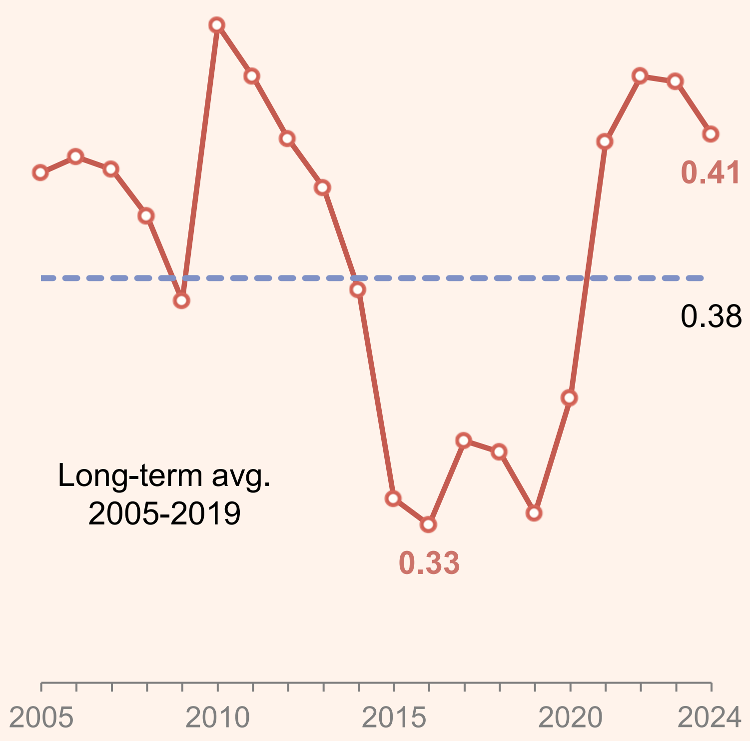
2 Increased share of machinery & equipment investments

1 Greater role of private sector in driving investments

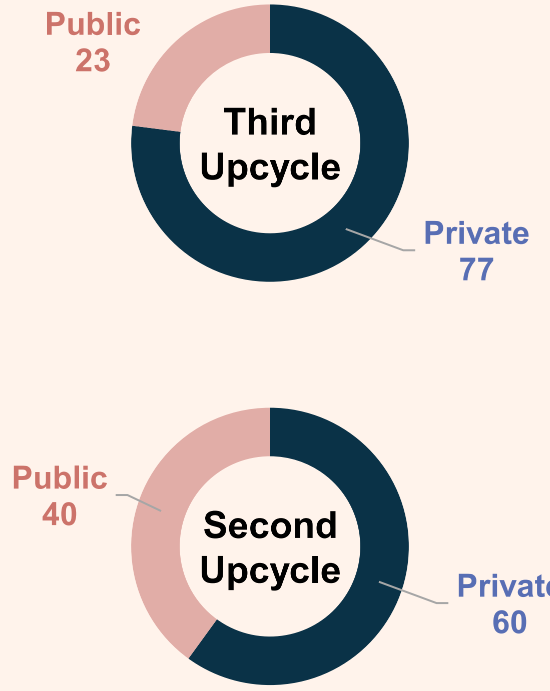
% Share of Real GFCF by Sectors



Ratio of M&E to Real GFCF



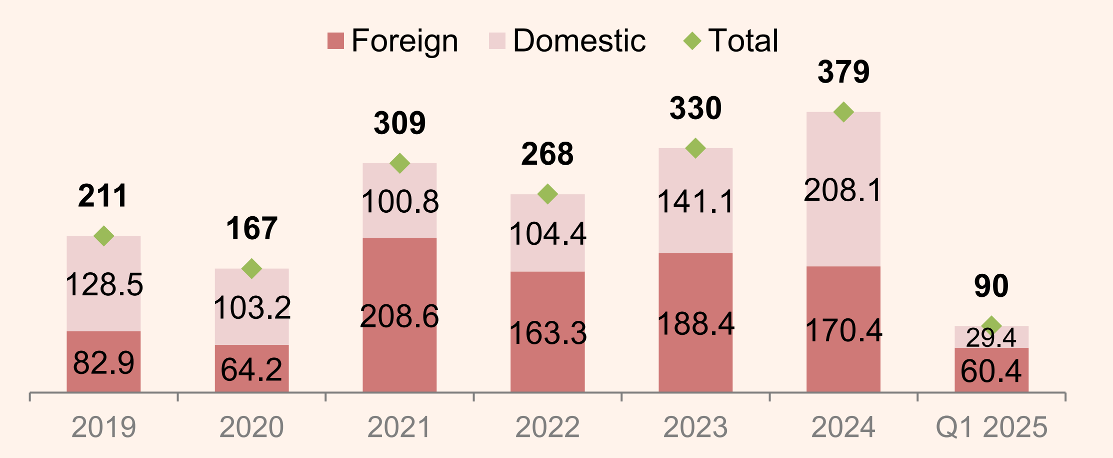
% Shre of Real GFCF



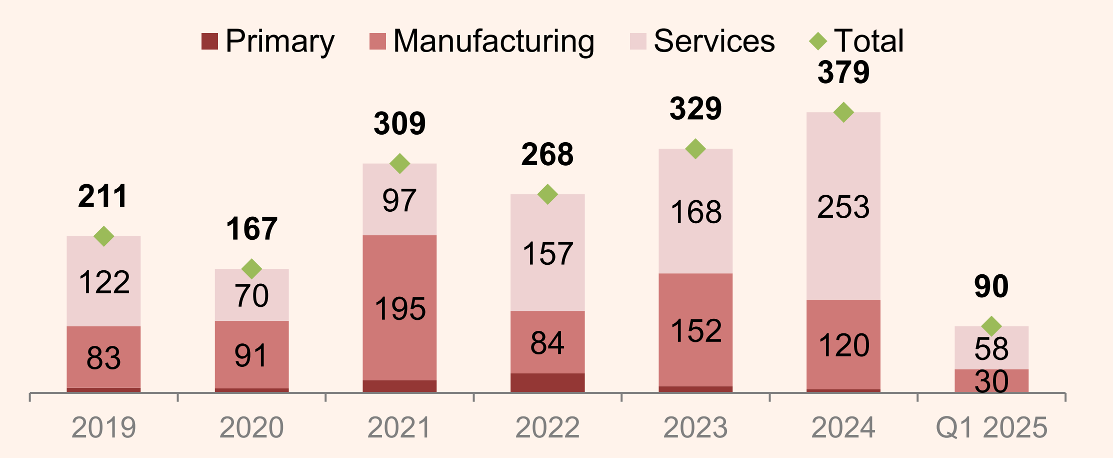
Note: Second upcycle refers to the 2011-15 period, while third upcycle refers to mid-2023 onwards. Where there are data constraints, comparisons are conducted using only 2023 data for the third cycle.
Source: DOSM; BNM; Haver

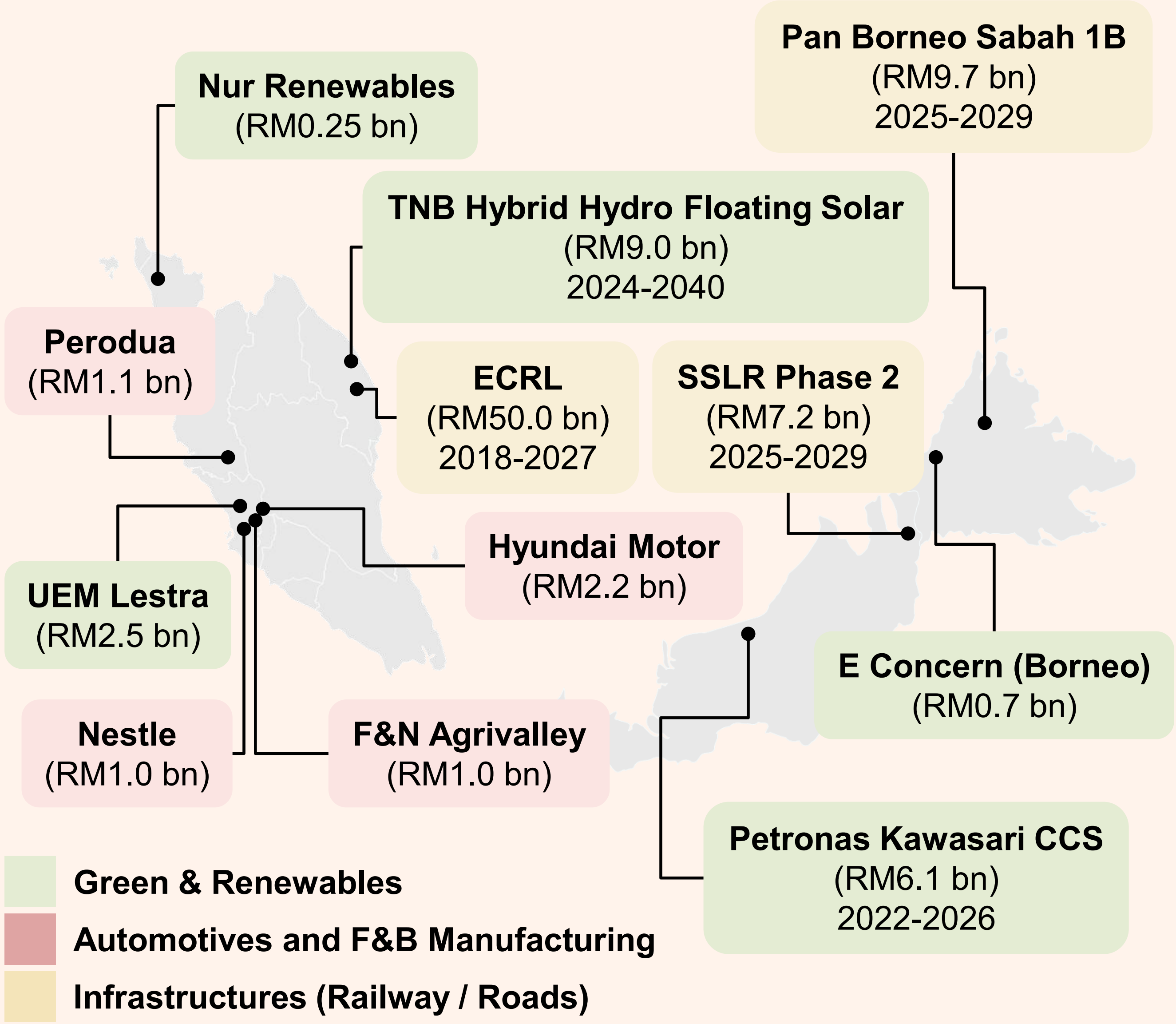
Investment is underpinned by the realisation of multi-years strong approvals

MIDA: Foreign vs Domestic Approved Investment (RM billion)



Approved Investment by Sectors (RM billion)





Source: MIDA; DOSM

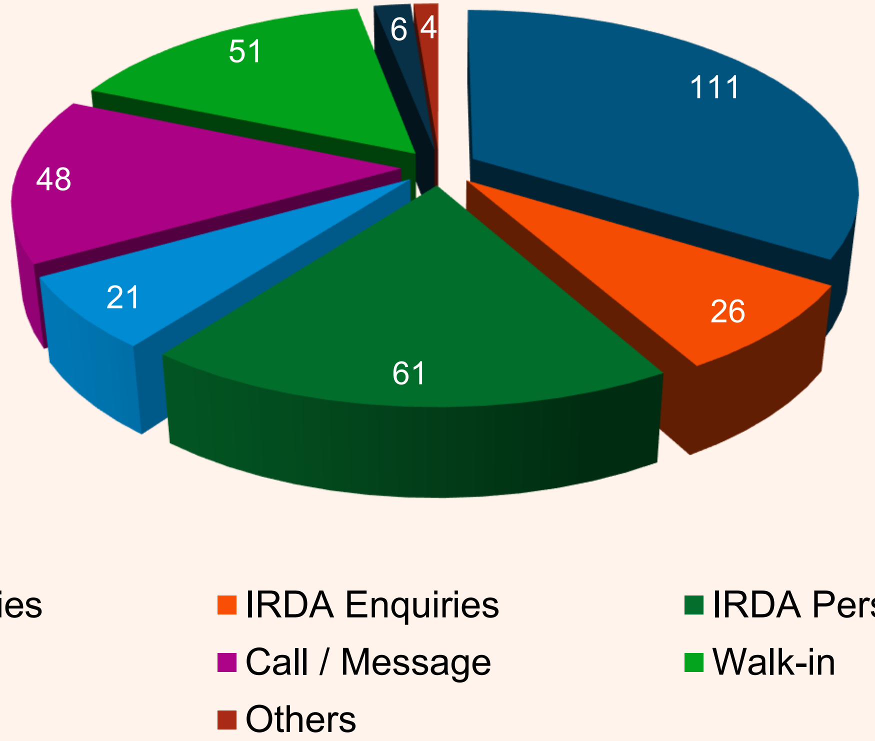
Invest Malaysia Facilitation Centre - Johor (IMFC-J): January to 25 April 2025

439

Accumulated Enquiries

as of 19 June 2025

- General Queries: 276
- Potential: 52



57 **Potential Investment**

7 Domestics

40 Foreign

RM26.2 billion

Top Country
- China (14)
- Singapore (13)
- Korea (4)

Top Sector
- Manufacturing
- Data Centre
- Energy

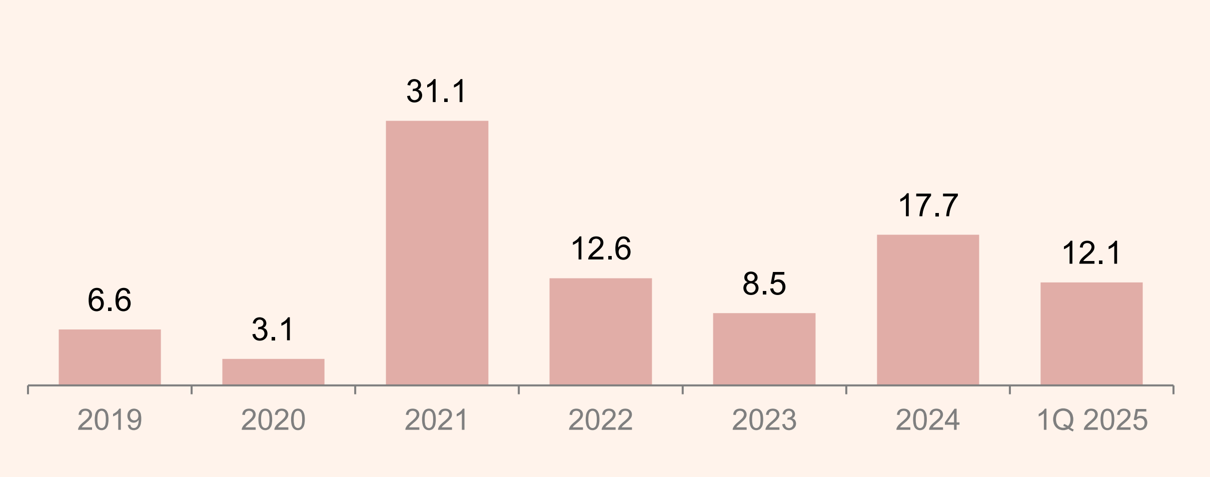
6 **Committed Investment**

RM16.7 billion

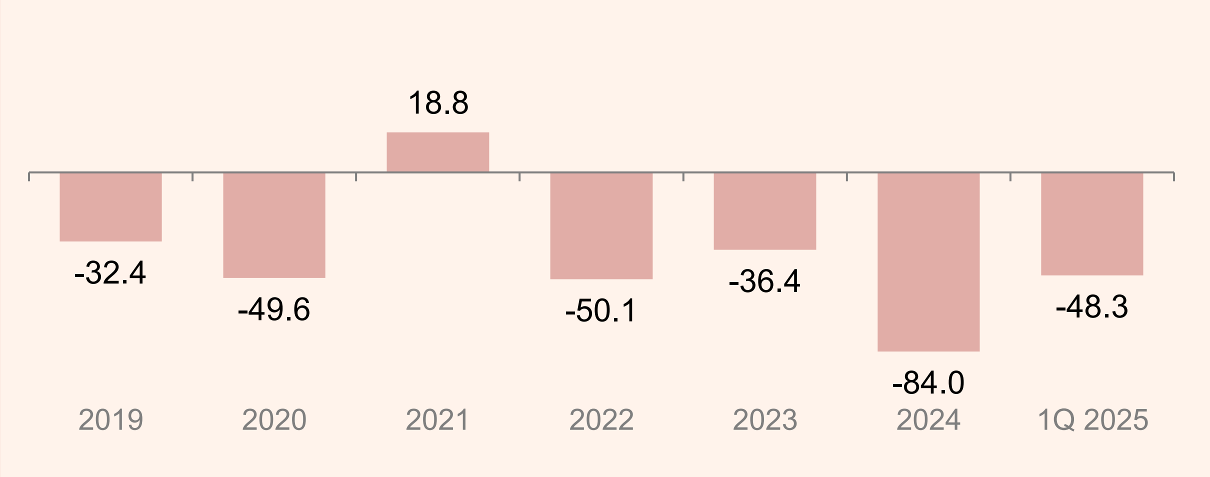
Source: IMFC-J

FDI vs. Portfolio investments

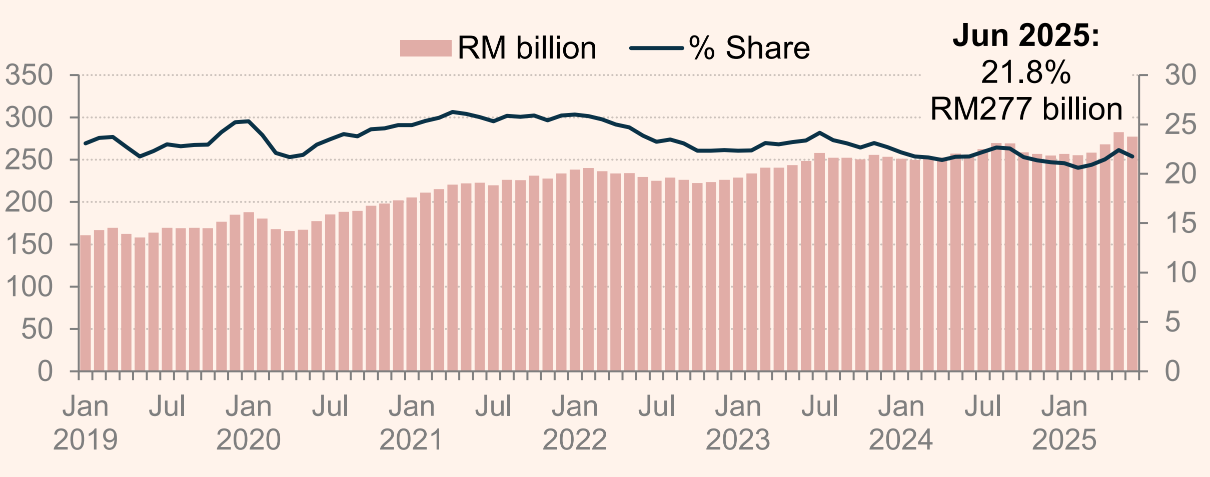
Net Foreign Direct Investment (RM billion)



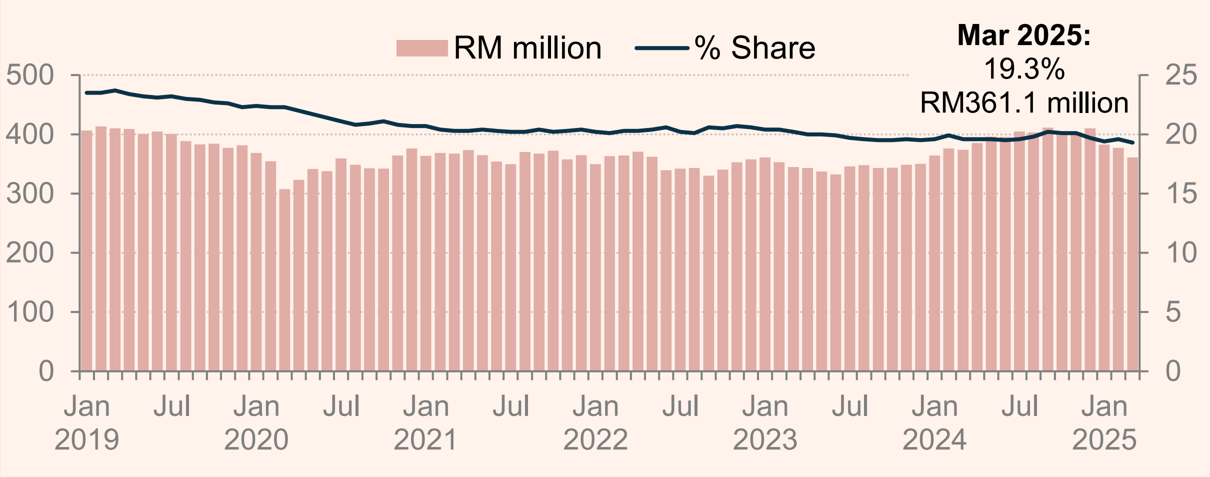
Net Portfolio Investment (RM billion)



Foreign Shareholding of Government Bonds (MGS + GII)



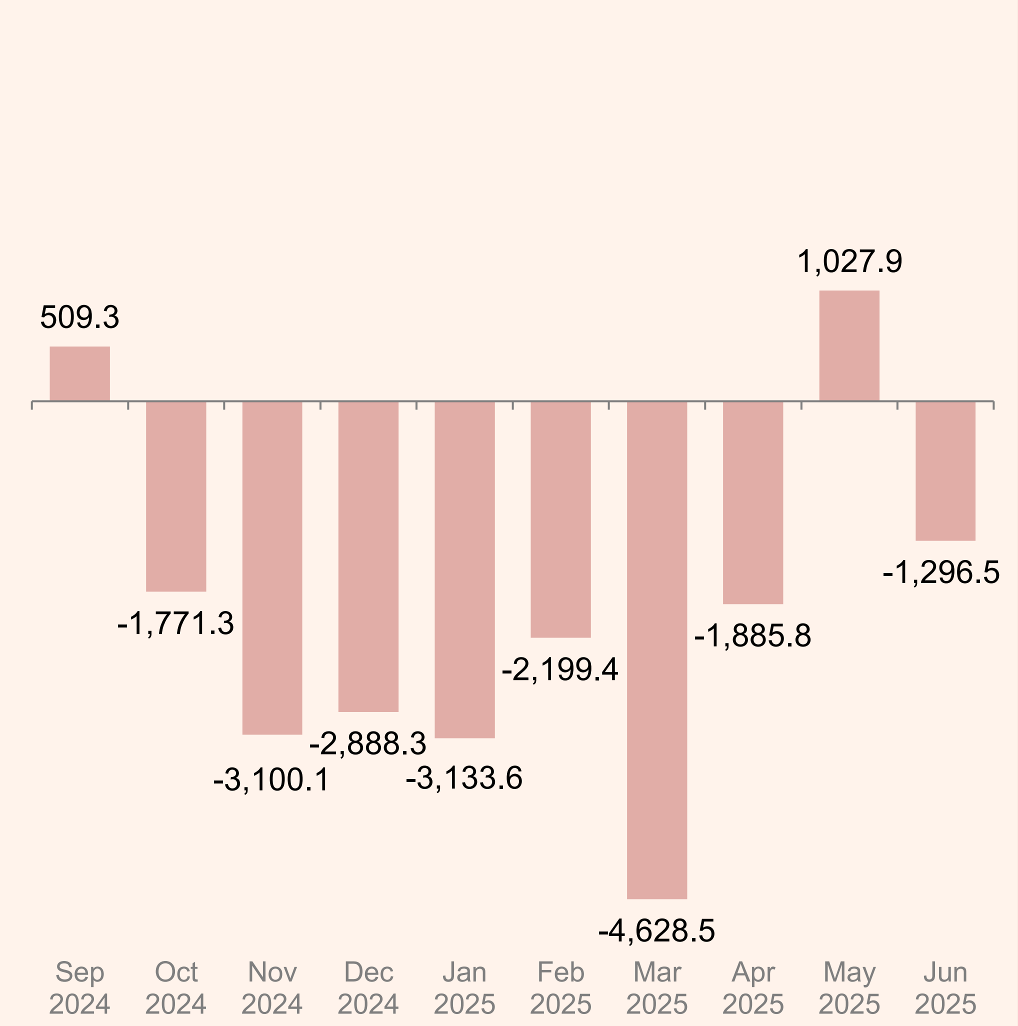
Foreign Shareholding of Malaysian Equities



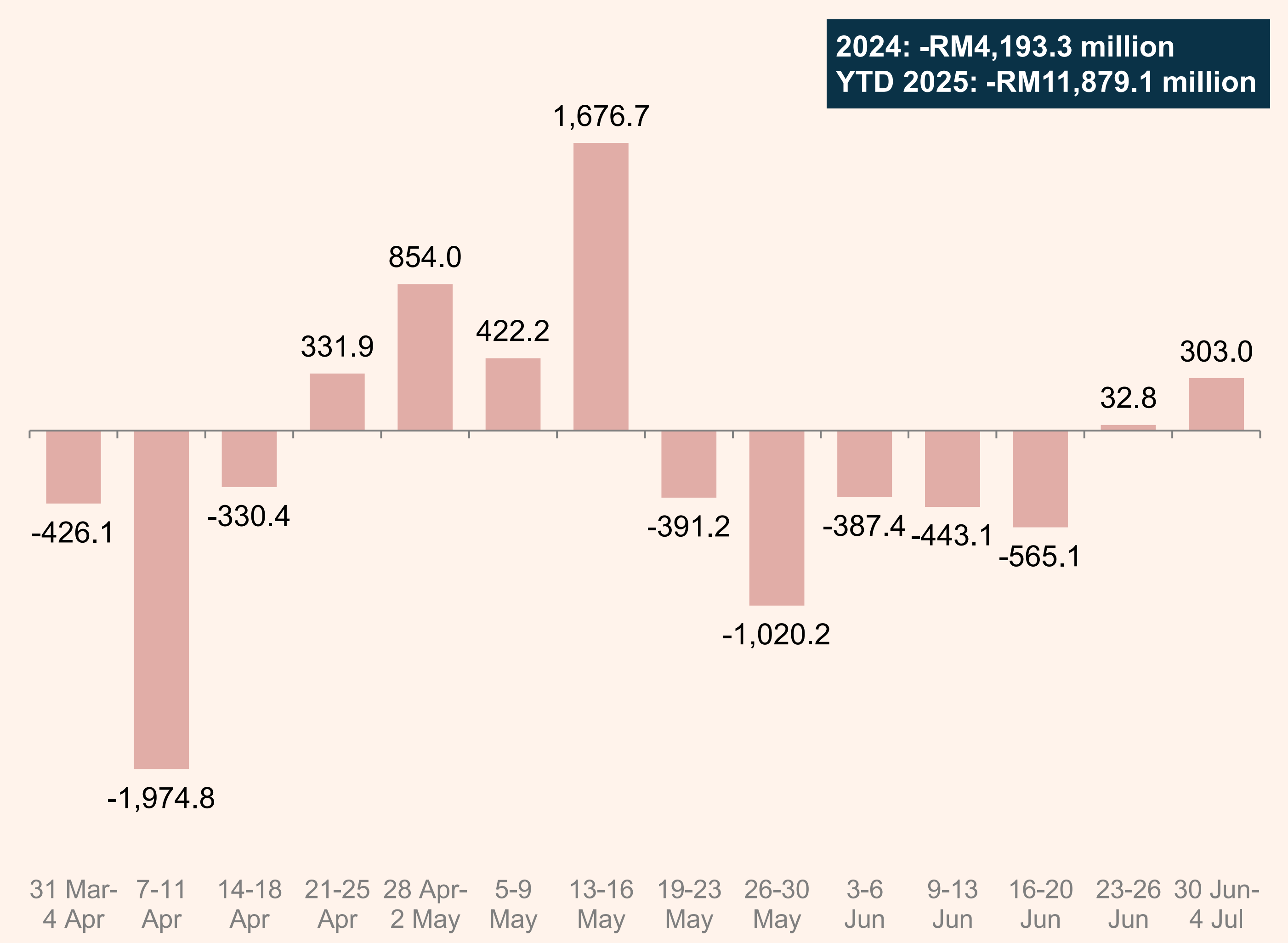
Source: DOSM; BNM; Bursa Malaysia

Foreign investors turned to net buying of domestic equities in recent weeks

Monthly Net Buy/Sell Flows by Foreigner (RM million)



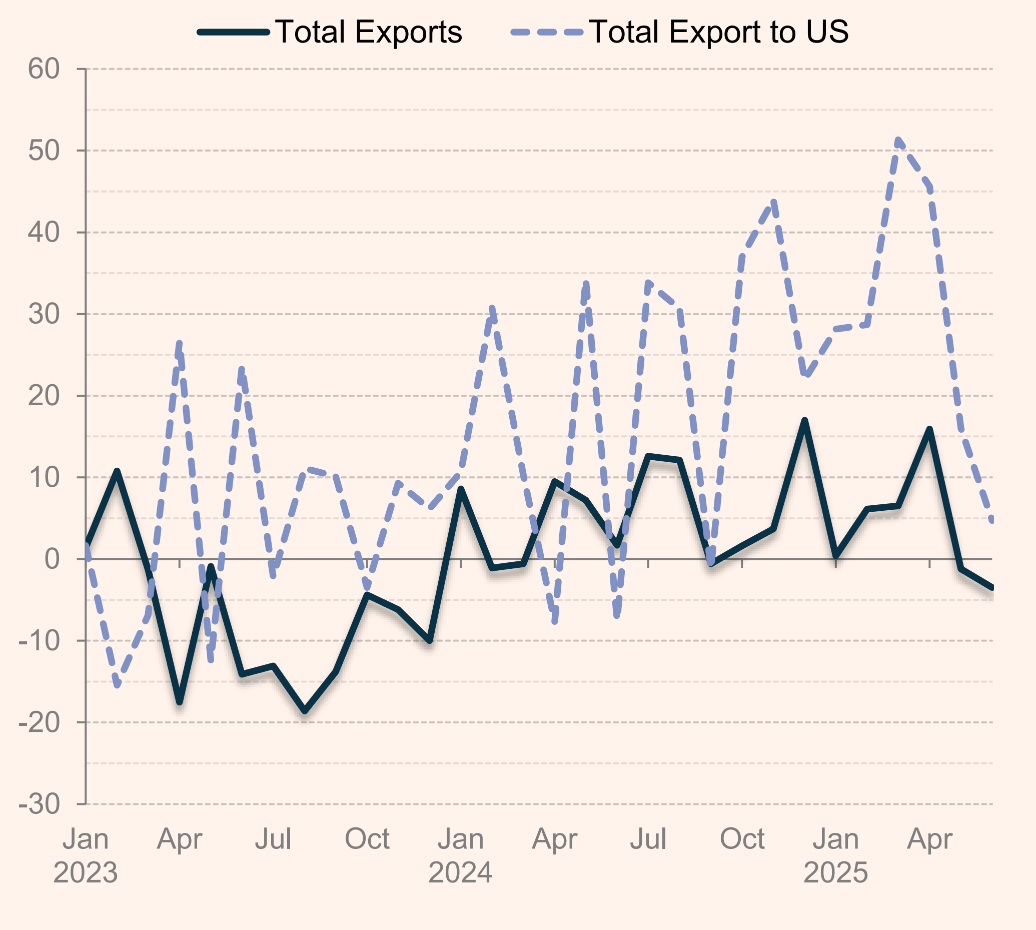
Weekly Net Buy/Sell Flows by Foreigner (RM million)



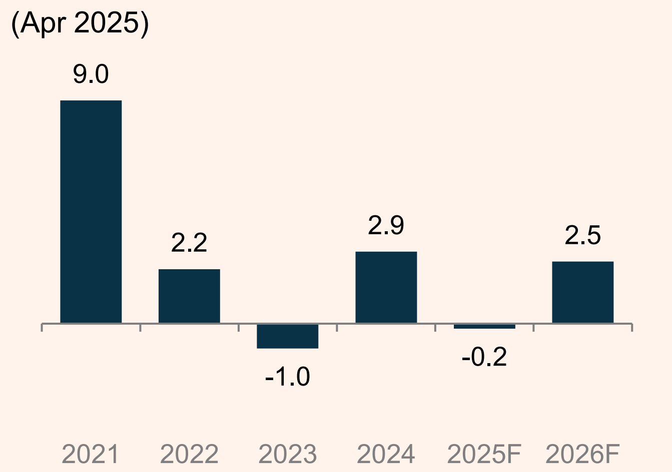
Source: CIMB Securities

Exports "front-loading" effects fade in 2H 2025

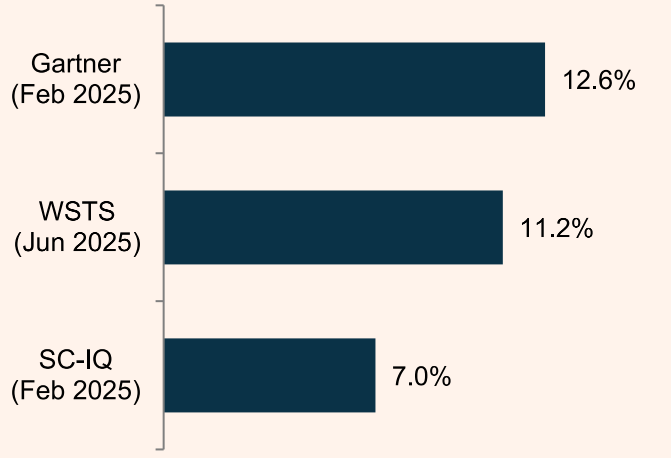
Total Exports (Annual change, %)



WTO's Merchandise Trade Volume Growth (%)



Selected Semiconductor Market Forecast for 2025 (%)



The impact of tariffs is not immediate

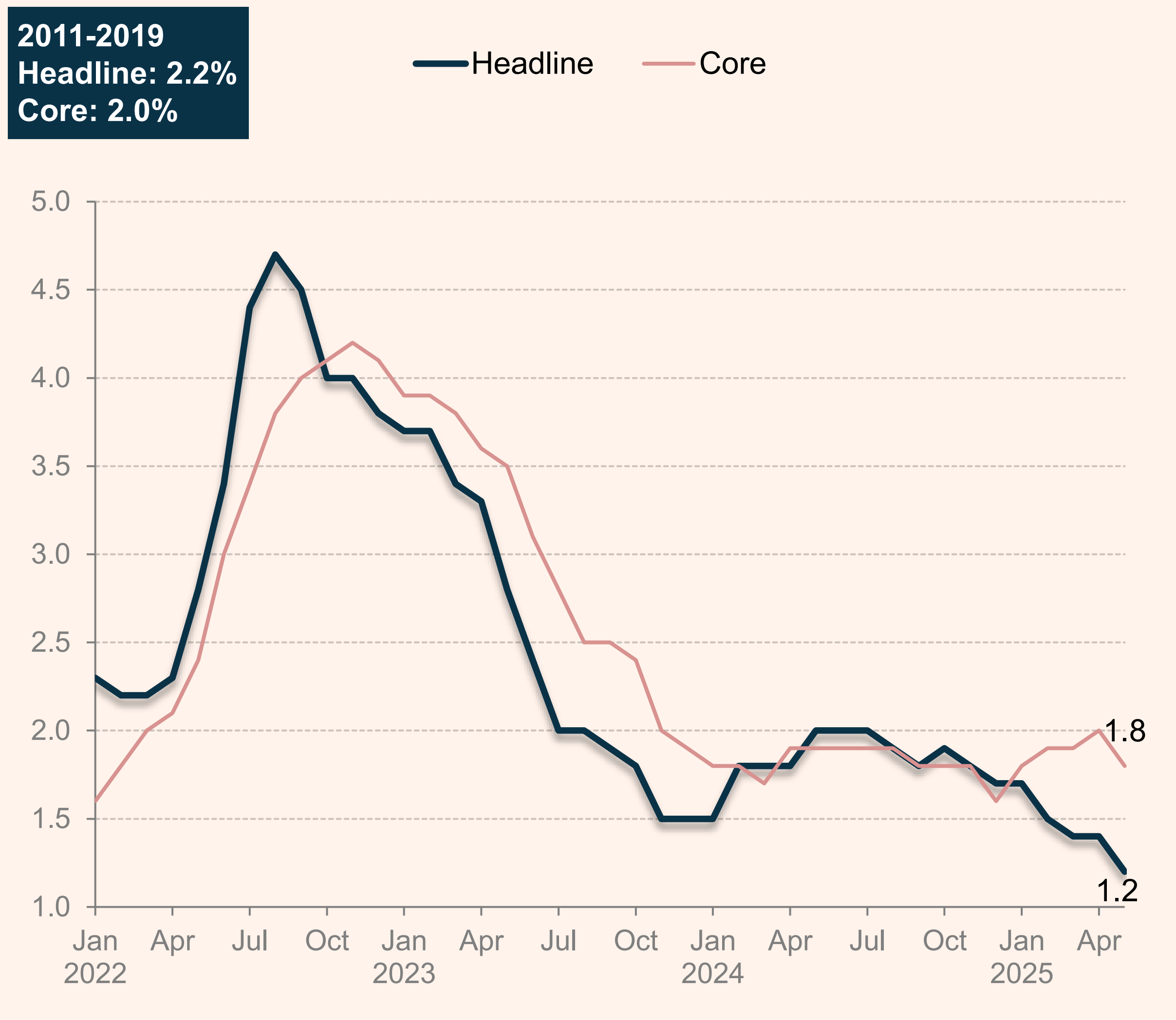
- ❑ Front-loading of exports to the US during the 90-day tariff pause period
- ❑ Tariff exemptions on Malaysia's key export products (e.g. Semiconductors)
- ❑ 83% of Malaysia's exports to the US are price inelastic (e.g. Semiconductors, office machines, optical scientific equipment)

Note: Based on the US's import price elasticity as estimated by UN ESCAP (2020) in "'New global estimates of import demand elasticities: a technical note", and scaled to short-term elasticity based on American Economic Review (2023) 'The long and short (run) of trade elasticities. Price inelastic goods refer to products with elasticity below 1, while price elastic goods refer to products with elasticity equal to or above 1.

Source: DOSM

Inflation risk can tilt higher amid a resilient labour market

Headline and Core Inflation (Annual change, %)



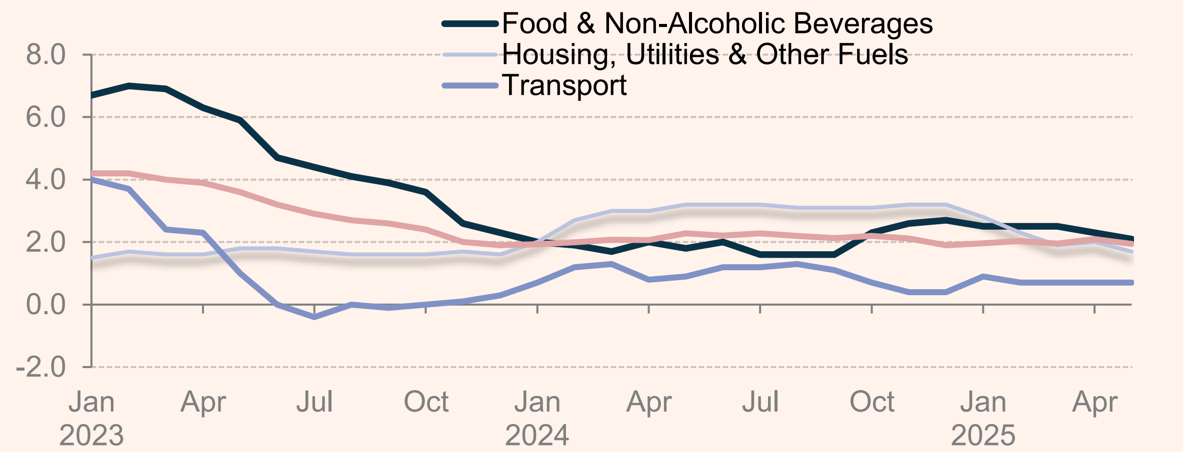
Upside risks to inflation in 2025

- Higher global commodity prices amid supply chain disruptions
- Higher external cost conditions from financial market uncertainties
- Larger spillovers from domestic policies

Downside risks to inflation in 2025

- Lower global commodity prices from weaker global demand conditions
- Smaller than expected cost pass-through from policy reforms
- Slower wage growth amid weaker export demand

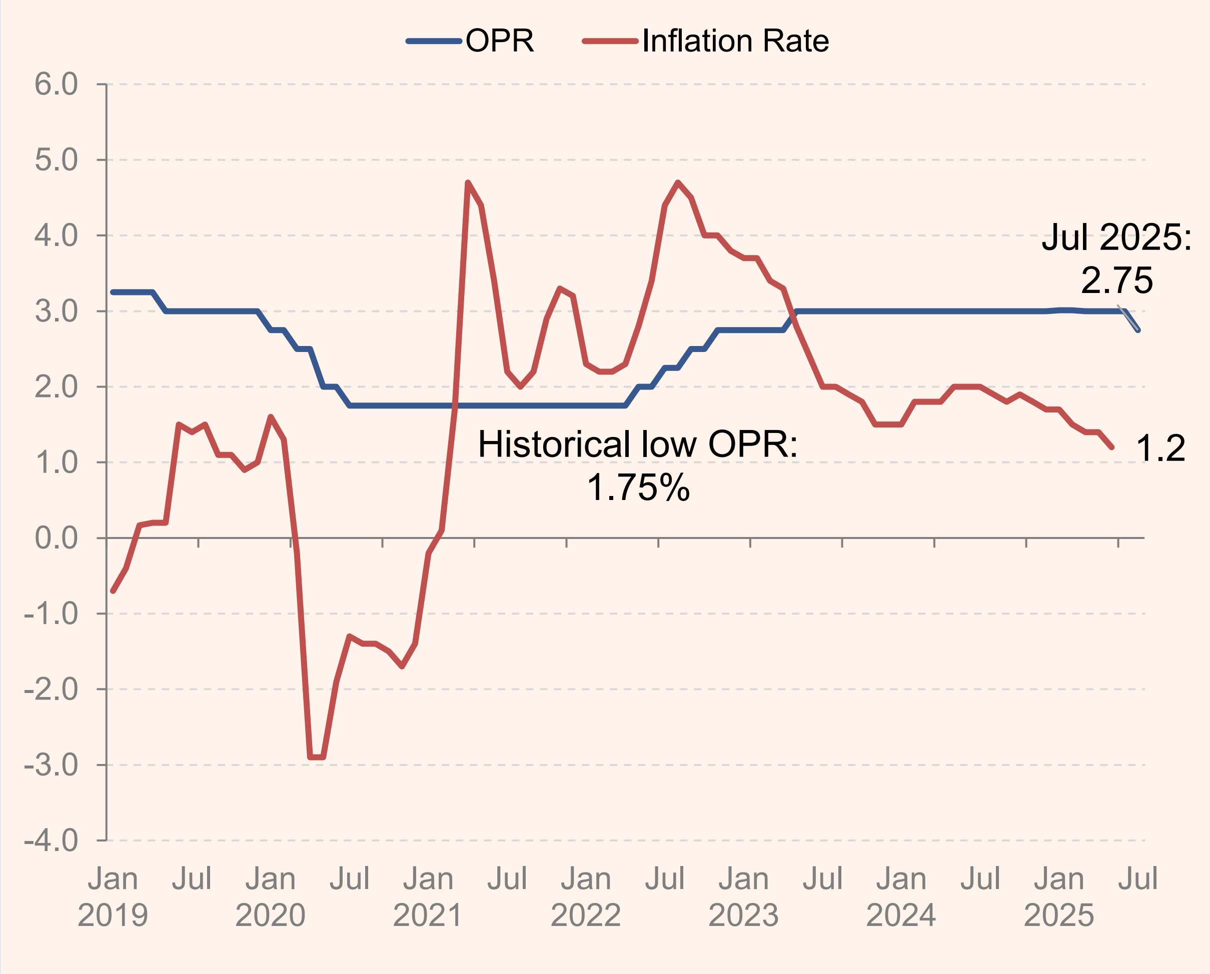
Headline and Core Inflation (Annual change, %)



Source: DOSM; BNM

Pre-emptive interest rate strike to secure 4% economic growth in 2025-2026

Overnight Policy Rate (%)



Source: BNM; DOSM

Monetary policy stance is consistent with the current assessment of domestic inflation and growth prospects.

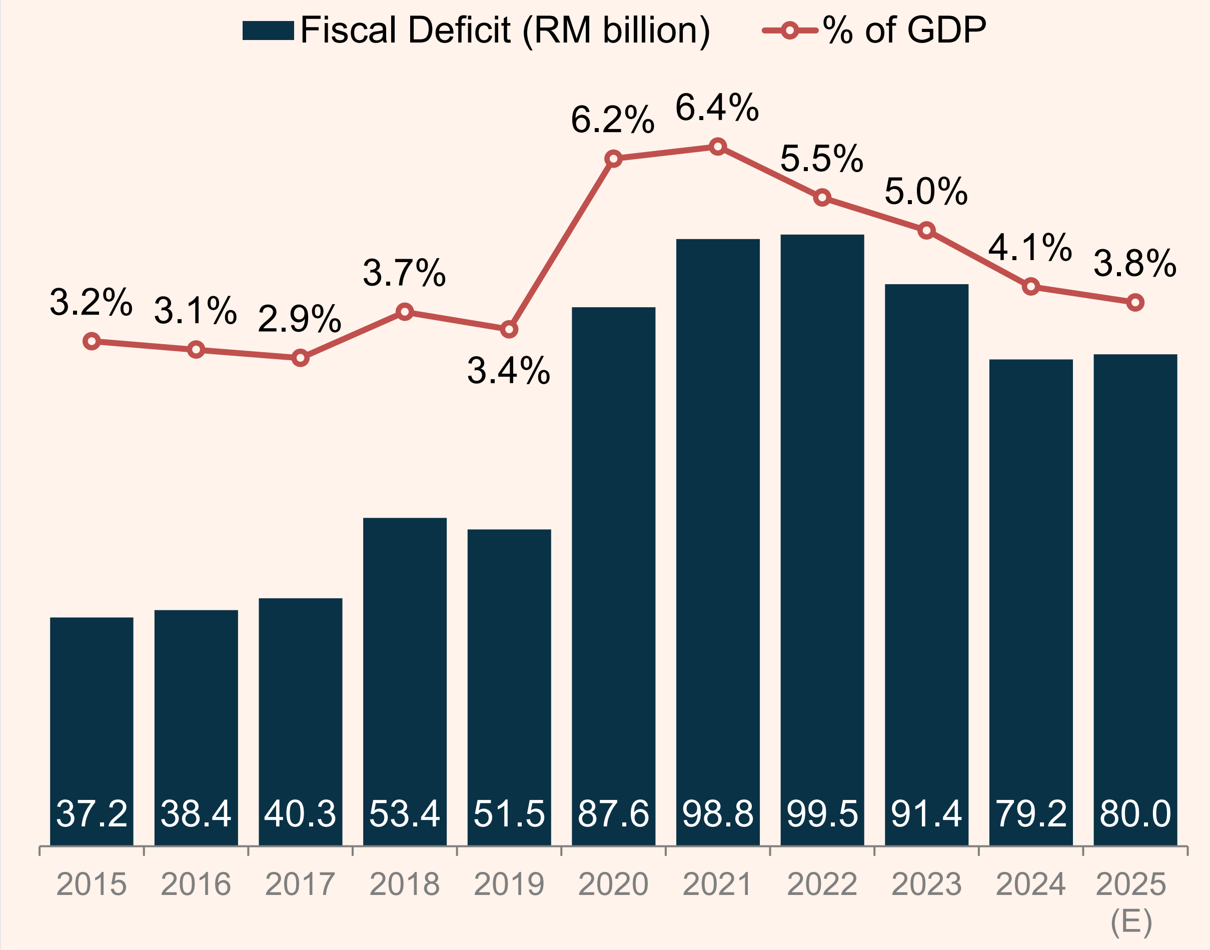
- Resilient domestic demand would continue to support growth.
- But trade tensions and heightened global policy uncertainties will weigh on the external sector
- Inflation would remain manageable amid lingering pass-through effect of the expanded SST

The Ringgit outlook remains positive

- Strong economic fundamentals and economic resilience - diversified economic sectors and export markets, sustaining investment flows, and services growth (tourism)
- Negative risks – global growth prospects, the US trade policy, the Fed's interest rate path and Chinese renminbi
- End-2025E – RM4.20/US$

Can the Government meet the fiscal deficit target (3.8% of GDP) for 2025?

28th consecutive year of fiscal budget deficit since 1998



Note: Fiscal deficit in 2025 is based on the estimate of Budget 2025.
Source: BNM; DOSM; MOF

Estimated Savings / Revenue gain

2024

Feb – Water Tariff
Increased water tariff across all states in Peninsular Malaysia
Estimated Savings / Revenue gain: NA

Jun – Diesel Subsidy
80% of diesel consumers continue to receive cash aid
Estimated Savings / Revenue gain: RM4.0 billion

2025*

Jun – SST Expansion
Expand the scope of Sales and Service Tax to include new services such as commercial service transactions between businesses (B2B)
Estimated Savings / Revenue gain: RM5.0 billion

Aug – Egg Subsidy
Phasing out the egg subsidy, starting with a reduction to 5 sen per egg on 1 May, and ending completely on 1 Aug
Estimated Savings / Revenue gain: RM1.2 billion

2H – RON95 Subsidy
Target Top 5/15 and foreigners. Top 5/15 consumers account for 40% of consumption
Estimated Savings / Revenue gain: RM8.0 billion

***Additional revenue gain/savings of RM14.2 billion in 2025**

Economic Policies: Motivation, Impact and Mitigating Measures

1 Aug 2024

E-invoicing

Phase 1: Enhance the efficiency of tax management. Taxpayers with annual turnover or revenue >RM100 million (1 August 2024)

1 Jan 2025

E-invoicing

Phase 2: Taxpayers with an annual turnover or revenue of more than RM25 million and up to RM100 million (1 January 2025)

1 Feb 2025

Higher minimum wage

+13.3% to RM1,700 per month from RM1,500 necessary to improve workers' income, and thereby benefitting 4.37 million workers as of February 2025.

August 2025 - Employers fewer than 5 employees will need to comply by then.

1 Jul 2025

Expanded SST; New electricity tariff structure, E-invoicing

- Increase revenue and broaden tax base; yield RM5 billion tax revenue in 2025, and annualised RM10 billion for a full year.
- Restructured tariffs based Automatic Fuel Adjustment mechanism with enhanced Time-of-Use (ToU) tariffs; Efficient Energy Incentive (EEI)
- **Phase 3:** Taxpayers with an annual turnover or revenue of more than RM5 million and up to RM25 million

Jul or Aug 2025

RON95 fuel subsidies rationalisation

Targeted subsidy

Oct/Nov 2025

Employer's 2% EPF contribution for foreign workers

2.3 million legal foreign workers (14.6% of the total workforce) as of February 2024 – RM1.9 billion per year

Jan 2026

E-invoicing

Phase 4: Taxpayers with an annual turnover or revenue of more than RM1 million and up to RM5 million

2026

A multi-tiered levy

Government will hold engagement sessions with all industry stakeholders before implementation.

Jul 2026

E-invoicing

Phase 5: Taxpayers with an annual turnover or revenue of of up to RM1 million

Economic Policies: Motivation, Impact and Mitigating Measures (cont.)

Impact

- For businesses, bunching costs, essentially increased operating expenses negatively impact profitability and can be passed on to consumers through price increases.
- **Multiple cost increases are coinciding with a challenging global and domestic economic environment**, exacerbated by **the uncertainty surrounding trade tariffs polic**y and ongoing conflicts in the Middle East, which together create significant economic headwinds. The effects of rising costs, which have been felt in 2025, are expected to persist or influence the business and economic landscape in 2026.
- In challenging in competitive markets, businesses often face tough decisions regarding these costs, balancing profitability with customer retention and market share.
- For households, an increase in the cost of living would have a disproportionate impact on households. **Household expenditure data showed that B40 spend 52% of their income on basic necessities; followed by M40 (37%) and T20 (32%).**

↓ Reduce to ↑ Increase to = Remain at

Category	2022			2025		
	Exempted	5%	10%	Exempted	5%	10%
Animals & Animal Products	498	120	4	↓ 289	↑ 331	4
Fruits & Vegetables	377	132	2	↓ 217	↑ 294	2
Processed Foods & Beverages	177	294	97	↓ 108	↑ 397	98
Raw Materials & Intermediate Goods	2,501	118	1,492	↓ 651	↑ 1,863	1,598
Consumer Goods	331	5	1,465	↓ 109	↑ 219	1,473
Machinery, Transport & Electronics	1,268	250	2,195	↓ 453	↑ 962	2,298
Miscellaneous & Special Categories	12	0	48	= 12	= 0	= 48

Note: Animals & animal products refer to the HS code of 1-5; fruits & vegetables refer to 6-14; processed foods & beverages refer to 15-22; raw materials & intermediate goods refer to 23, 25-40, 44-49, 68-70 and 72-83; consumer goods refer to 24, 41-43, 50-67, 71 and 94-96; machinery, transport & electronics refer to 89-42, and miscellaneous & special categories refer to 93 and 97-98. This is a rough grouping based on 2-digit HS code due to many entries.

Source: Various federal government gazettes

Quick-Take poll at the NCCIM's National Economic Forum 2025 on 17 July 2025

What are the challenging factors impacting businesses in 2025-2026?

53% Multiple business cost increases

8% Weak demand

8% Uncertainty over US tariffs

24% High compliance and regulatory costs

8% Manpower shortage

Source: National Economic Forum 2025

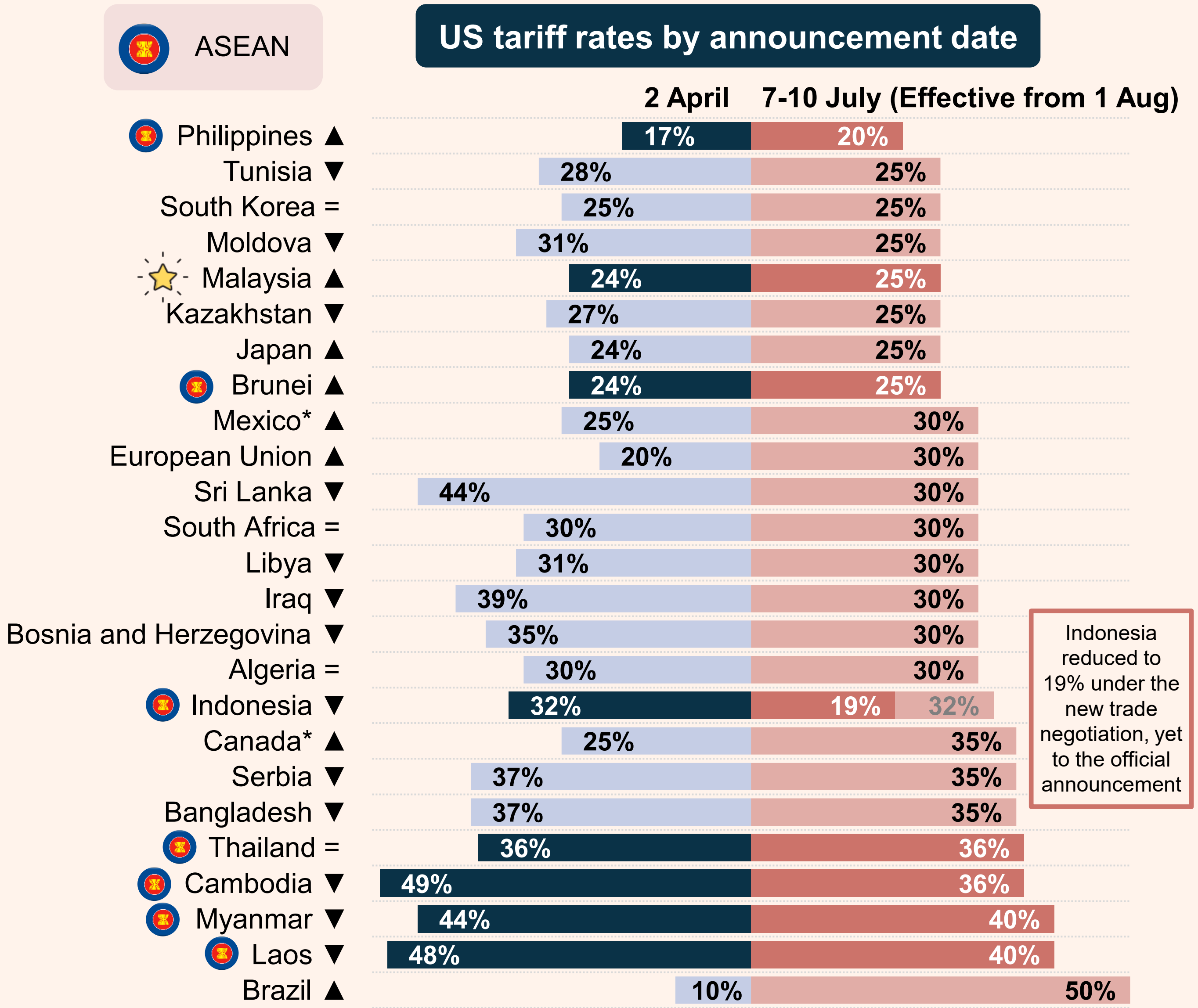
Malaysia will not cross "red lines" in the US tariff negotiations

▲ Increase compared to before
▼ Decrease compared to before
= No change

USTR: Key trade and investment barriers in Malaysia

Import restrictions on motor vehicles	• High import duties on fully built-up vehicles (up to 105%) • Excise duties calculated in non-transparent ways • Import permits (AP system) still required, especially for foreign vehicles
Government procurement	• Preference for Bumiputera-owned companies • Foreign suppliers often excluded • Restricted access in sectors like constructions, engineering and defence
Limitation on foreign ownership	• Caps foreign equity in key sectors e.g. telecoms, financial services, oil and gas • Sometimes restricted to 30%-70% • Strategic sectors require government approval
Cabotage policy on undersea cable repairs	• Local licensing requirement delay repair operations • Average approval time = 27 days vs global standard of 3 days • Impacts global internet firms (Google, Facebook, etc.)
Halal certification	• All imported meat (besides pork) and animal-based products require halal certification • Malaysia's halal requirements are more prescriptive than relevant international practices

Source: US Trade Representative's National Trade Estimate Report 2025



Source: White House; Truth Social

* Old tariff rate under the United States-Mexico-Canada Agreement (USMCA)

Note: It is currently unclear whether Canada and Mexico will be subject to higher tariffs under their United States-Mexico-Canada Agreement (USMCA) or new reciprocal tariffs schedule.

Escalation in trade tensions and heightened uncertainties weigh on external trade and spillover to domestic demand

Feedback loop

US Tariff on Malaysia
(direct channel)

- *Lower demand from the US (a first-order positive impact due to Malaysia's relatively lower tariff advantage over competitors)*
- *Higher cost of imports from the US, especially intermediate goods*
- *Lower investment from the US due to reshoring activities*

Weaker Global Growth & Trade
(indirect channel)

- *Lower global demand for Malaysian products due to a slow global economic growth – the US, China and the EU*
- *Higher cost of inputs leads to supply chain disruption and higher cost of production*
- *Cautious investment approach*

Lower Exports & Imports

Reduced demand from the US and Malaysia's major trading partners

- Based on the export value (6-digit HS code) to the US in 2024, 55.1% of the total export is subject to US tariffs; 44.9% is currently exempted.
- Malaysia's major trading partners (2024):
  - US: 11.3% of total trade
  - China: 16.8%
  - ASEAN: 26.6%

Slower Consumption & Investment

Reduced income & profits and weaker sentiments

- 30% of labour income & ~20% of employment are from external-oriented sectors
- ~30% of investments are in export-oriented sectors

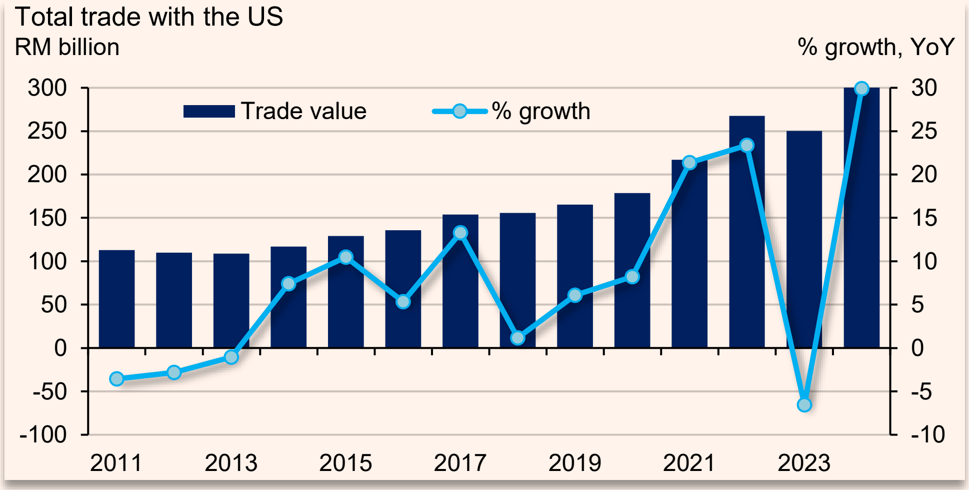
Affect Malaysia's GDP

Higher uncertainty

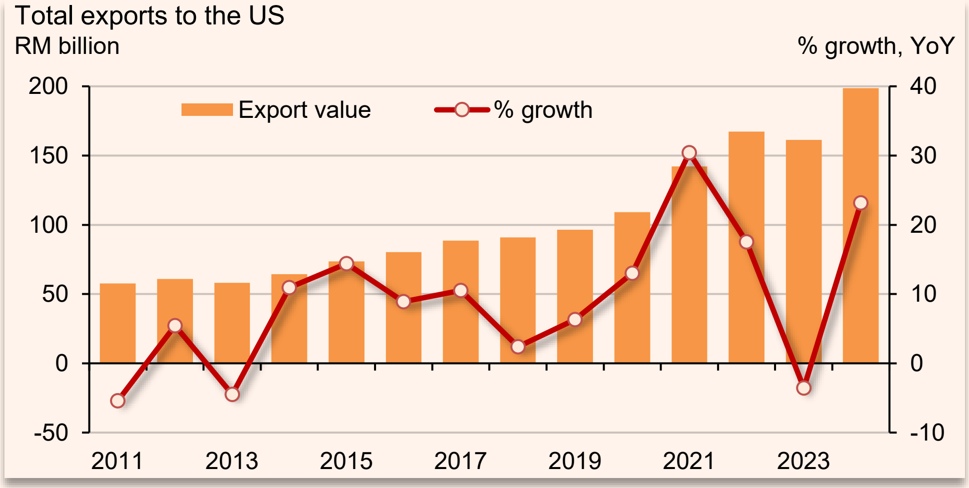
Note: *Products under Annex 2 and expansion list are currently exempted, while selected E&E products (e.g. smartphones, laptops) are exempted temporarily*
Source: *DOSM; BNM; SERC*

The United States is Malaysia's third largest trading partner

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



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



Major export products to the US by HS code in 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 US 25% tariff on Malaysia's major products to US (Deadline on 1 Aug 2025)

Product category by HS code Year 2024	**Exports value** RM million (% share of total exports to the US)	**Current tariff rate based on HTSUS**	**New tariff rate: Additional 25.0%**
85 Electrical and electronic (E&E) products^	39,223 (19.7%)	Up to 15.0%	Up to 40.0%
90 Optical & scientific equipment	17,782 (9.0%)	Up to 16.0%	Up to 41.0%
84 Machinery and equipment^	14,454 (7.3%)	Up to 9.9%	Up to 34.9%
40 Rubber and rubber products^	7,438 (3.7%)	Up to 14.0%	Up to 39.0%
94 Furniture products	7,038 (3.5%)	Up to 12.8%	Up to 37.8%
15 Palm oil and palm oil products	2,743 (1.4%)	Up to 19.1% or 12.3¢/kg	Up to 44.1%#
39 Plastics and plastic products^	2,159 (1.1%)	Up to 6.5%	Up to 31.5%

Note:
HTSUS = The Harmonized Tariff Schedule of the United States
^ Export value for HS Code 85, 84, 40, and 39 have excluded the exempted products under Annex II (including the expansion) of Trump's Executive Order. Please note that discrepancies may arise as the export values are aggregated based on HS-6 digit codes, whereas the tariff exemption list in Annex II is specified at the HS-8 digit level.
 # There is a list of tariff lines charged by volume; hence, the new tariff rate is unknown.
Source: DOSM; HTSUS

Decoding the tariffs' impact by major sectors

Major Products Impacted by Tariffs 2024	Global product elasticity* (relatively)	Exports to the US by HS code**	Affected exports to the US under the Reciprocal**	Share of affected items in total product exports	Impact (relatively)	Note
Electrical and Electronic (E&E) products	Low (4.8)	RM108.4 bn (54.6%)	RM39.2 bn (19.7%)	7.1% Total: RM554.6 bn	Low-Medium	• Highly integrated and interconnected supply chain – disrupt global tech upcycle.
Optical and scientific equipment	Low (4.6)	RM17.8 bn (9.0%)	ALL RM17.8 bn (9.0%)	25.1% Total: RM70.9 bn	Medium	• Despite their low elasticity and small export share, 25% of them were shipped to the US.
Machinery and equipment	Medium (5.6)	RM28.8 bn (14.5%)	RM14.5 bn (7.3%)	9.9% Total: RM145.9 bn	Medium	• Overall medium impact due to its medium level of elasticity and export share to the US.
Rubber and rubber products	Medium (7.7)	RM7.7 bn (3.9%)	RM7.4 bn (3.7%)	24.2% Total: RM30.7 bn	Low	• Remain competitive compared to key glove-protruding countries, especially China (+145%)
Furniture products	Medium (5.9)	RM7.0 bn (3.5%)	ALL RM7.0 bn (3.5%)	43.6% Total: RM16.1 bn	High	• Moving production abroad is not straightforward, as adapting styles and designs takes time.
Palm oil and palm oil products	Medium (6.9)	RM2.7 bn (1.4%)	ALL RM2.7 bn (1.4%)	3.2% Total: RM85.7 bn	Medium	• Indonesia has lower tariffs compared to Malaysia. • The US may opt for soybean oil.

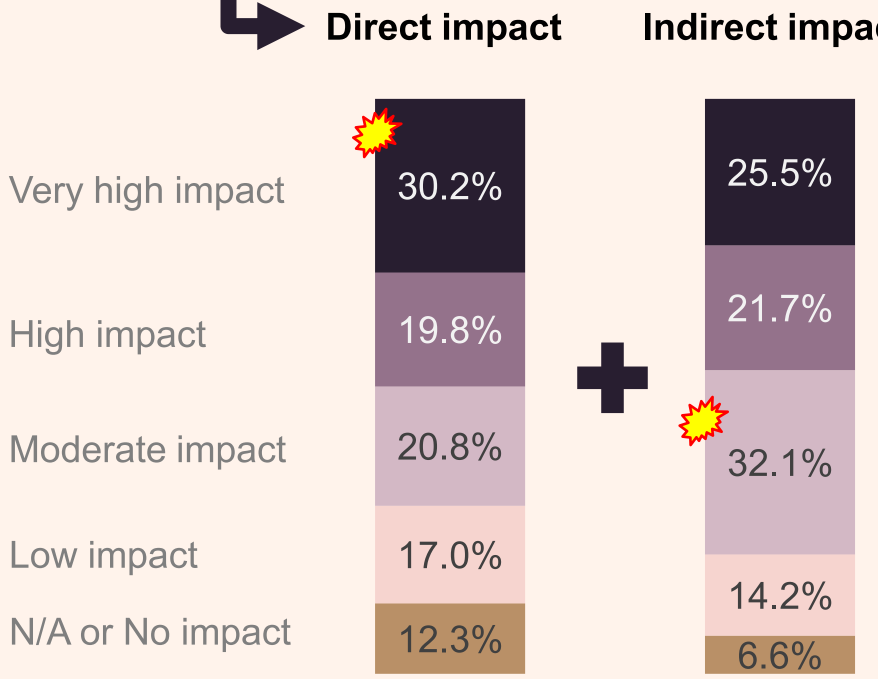
** Product-level elasticity is calculated as the average elasticity across 4-digit HS codes. For example, an elasticity of 4.8 means that, on average, a 1% increase in the product's price leads to a 4.8% decrease in quantity demanded. Classification is based on value (low: <5, medium: 5 – 10, high: >10), indicating a relative comparison rather than absolute. ** Figures in parentheses represent the share of each respective export in Malaysia's total exports to US.*
Source: DOSM; Journal of International Economics, 2022, vol 133

ACCCIM's Quick-Take survey on the impact of the US tariffs

55.2% of total respondents are impacted by the tariffs

Yes
55.2%
(n=106)

No
44.8%



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Affected products listed by respondents:

2

61.3% of businesses indicated that their sales will be impacted should the tariff increase more than 10%

Above 20%	**34.9%**
11% - 20%	**26.4%**
6% - 10%	**25.5%**
1% - 5%	**8.5%**
Not significant	**4.7%**

Bank Negara Malaysia's engagements with firms suggest that negative impact from tariff could be limited in the short-term

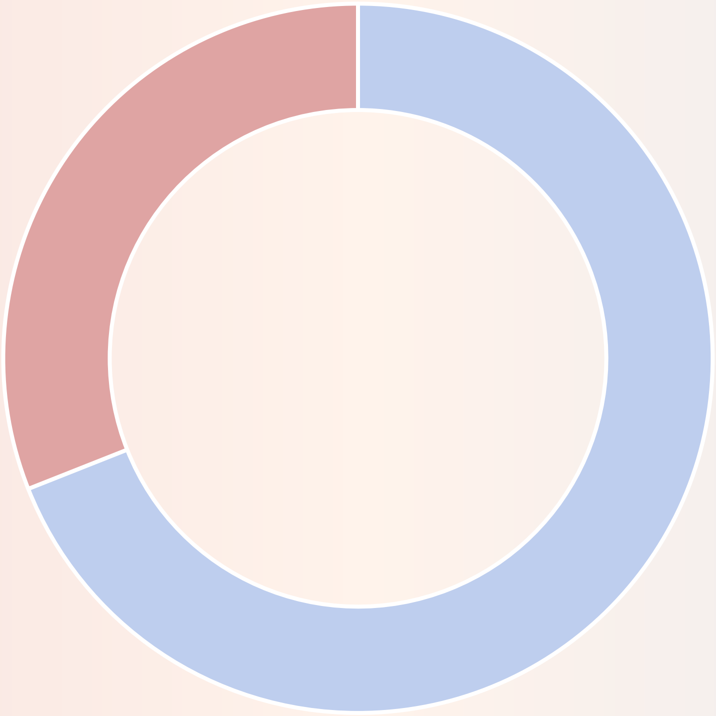
Preliminarily, most firms did not expect significant impact from tariffs in the next three months

31% of firms surveyed are negatively impacted

due to

- Lower final demand
- General demand uncertainty
- Higher business costs and prices

How will you be impacted by tariffs in the next three months?



69% of firms surveyed are not affected or positively affected

due to

- Products exempted from tariffs
- Limited exposure to the US
- Orders secured in near-term
- Front-loading to build inventory

Note: Findings based on corporate engagements between 20th April and 13th May 2025.
Source: BNM

Malaysia's action plans to mitigate the impact of the US tariffs

Malaysia will not cross certain **"RED LINES"** in its negotiations with the US. The US had made demands that encroached on **Malaysia's national interests and sovereignty.**

#1 Establish National Geo-economic Command Centre (NGCC)

Conduct an in-depth study on the impact of tariffs on several export sectors to the US. Collect feedback from various stakeholders to minimise the effects of tariffs on Malaysia's exports and investment.

#2 Targeted Measures for Specific Sectors

Export-oriented industries: RM1.0b in government guarantees to help SMEs access bank financing, RM500.0m in soft loans via development financial institutions (DFI) and continued targeted aid for directly impacted exporters.

Promoting Regional Cooperation and New Markets: Emphasis on diversifying exports to new markets like Europe, the Middle East, Central Asia and South America, while strengthening ASEAN trade via ASEAN Power Grid and cross-border trade activities. An additional budget worth RM50.0m has been allocated to MATRADE under the Market Development Grant (MDG) to help exporters expand to new markets.

Source: MITI

#3 Strategic High-level Engagement with the US

Leverage on the Malaysia-US Trade & Investment Framework Agreement (TIFA) and consider the establishment of a Technology Safeguard Agreement with the US to facilitate high-tech cooperation in semiconductors, aerospace and digital economy sectors.

#4 Diversify Malaysia's Export Markets

Diversify and broaden Malaysia's export markets, targeting regions such as the Middle East (including through MIHAS), Africa, and South America.

#5 Increase Usage of Other Free Trade Agreements (FTA)

Malaysia signed a Comprehensive Economic Partnership with the UAE on January 14, 2025, and an FTA with EFTA member states (Switzerland, Norway, Iceland, and Liechtenstein) on June 23, 2025. Further priorities include resuming FTA negotiations with the European Union and South Korea, as well as upgrading the ASEAN Trade in Goods Agreement (ATIGA).

The 13MP (2026-2030) Priorities and Deliverables (31 July 2025)

The 13MP (2026-2030) Must Be Bold and Implementable Solutions. The 13MP is the "last leg of transformation," to achieve the ambitious targets set by the MADANI Economy framework launched in July 2023.

Indicators	Target/Estimates (MTR 12MP)	2021	2022	2023	2024	2025E	CAGR/Average (2021-2024)	CAGR/Average (2021-2025)	13MP Target (2026-2030) (SERC)
GDP Growth (%)	5.0-6.0	3.3	9.0	3.5	5.1	4.5-5.5	5.2	5.1-5.3	4.5-5.5
Private consumption growth (%)	6.2	1.8	11.4	4.6	5.1	5.6	5.7	5.6	5.0-5.5
Private investment growth (%)	5.8	2.8	7.3	4.5	12.3	10.1	6.7	7.3	7.5-9.0
Gross export growth (%)	11.9	26.1	24.9	-8.0	5.7	5.2	11.3	10.0	5.0-7.5
Inflation (%, average)	2.8-3.8	2.5	3.3	2.5	1.8	2.0-3.5	2.5	2.4-2.7	2.0-3.0
Unemployment rate (%)	3.3 (2025)	4.6	3.9	3.4	3.2	3.1			3.0-3.2
Gross development expenditure (RM million)	415,000 (2021-2025)	64,257	71,574	96,091	84,012	86,000			425,000-450,000
Budget deficit (% of GDP)	-3.5 to -3.0 (2025)	-6.4	-5.5	-5.0	-4.1	-3.8			-1.5 to -3.0

Source: DOSM; MOF; The Mid-Term Review of 12MP, Bank Negara Malaysia, SERC

Megatrend 1: Power shifts and new economic blocs.

Megatrend 2: Technological and digital evolution.

Megatrend 3: Demographic shifts and quality of life.

Megatrend 4: Environmental and climate change crisis.

The 13MP must continue to maintain credible and pragmatic macro-economic management, including fiscal soundness, monetary and price stability to sustain economic resilience, maintain inclusive and sustainable growth, investors friendly and business-ready environment, and a dynamic workforce to reinforce Malaysia's pivotal position in the region.

The 13MP is only as good as its implementation

Sustainability and Inclusivity are central – better education, reskilling and upskilling, increased quality jobs, improved disposable income, better healthcare for an ageing nation, better standard of living, reduced income inequality, and adequate social protection.

#1 Investing in Human Capital

Bold education system and training reforms. Foster a skilled workforce capable of adapting to evolving economic landscapes and industry demand, equipping with the AI skills to boost productivity, and innovation

#2 National Youth Development Policy and Women Empowerment

Nurturing well-rounded youth through empowerment, skills development, and knowledge enhancement to support national progress and future readiness

#3 Creating New Driving Forces for Investment & Economic Growth

Sustaining high-quality DDI and FDI as well exports expansion in High Growth High Value sectors: semiconductors, digitalisation and AI, green investment, wellness and lifestyle, pharmaceuticals, medical devices, electric vehicles, rare earth, aerospace, halal services, biomass, modern agriculture and agri-based as well as logistics

#4 Bold Education and Training Reforms

A quality curriculum design, learner-centred approaches, effective STEM curricula, quality teachers, and innovative teaching methods. Malaysia has to create a dynamic, flexible, and responsive Technical and Vocational Education and Training (TVET) system

#5 Silver economy: Affordable and Equitable Healthcare

A robust healthcare system is vital, necessitating improved delivery through enhanced accessibility, quality, technology adoption, and proven healthcare models

#6 Efficient and Effective Public Service Delivery

Enabled through public-private collaboration, open government, data sharing, enhanced e-services, and AI-driven process simplification

Source: SERC

The 2026 Budget – Strengthening Resilience, Future-Proofing Economy (10 Oct 2025)

2026, the first year of the 13MP (2026-2030), to lay stronger foundation to strengthen **economic resilience and future-proofing the economy through sound fiscal management, investing in high growth high value sector, accelerating technology and innovation, capacity building, developing a flexible and responsive workforce, and fostering public-private partnership in driving Malaysia forward**

#1 Economic Restructuring and Competitiveness

Positioning Malaysia as a key economic leader in the Asian region. Prioritizing investments in innovation, high growth high value sectors, and research and development (R&D)

#2 Anchoring Domestic Demand

Focuses on income growth, targeted subsidies, and cash assistance (STR), aiming to boost private consumption and overall economic resilience

#3 High Growth High Value Sectors

Reduction in corporate tax rate; higher threshold for SMEs enjoying preferential tax rate; 100% Extended Reinvestment Allowance; overhaul of R&D support system; Strategic fund and grant for AI and innovation

#4 Greening for Growth

Carbon tax is set for implementation in 2026. Low Carbon Transition Facility (LCTF) - financing amount, tenure and financing rate; incentives and invest in green innovation, sustainable technologies and green skillset

#5 Future-proofing for the Digital Economy

The formulation of the AI Technology Action Plan 2026–2030; Addressing the digital gap between SMEs and larger companies through strategic partnerships and tailored support

#6 Reskilling and Upskilling

Higher allocation for TVET - examining industry partnerships, curriculum changes, the integration of new and emerging technologies, and encouraging government policies. Continued allocation for skill enhancement, quality programmes and development.

Source: SERC

Conclusion

- The dynamics of **TRADE POLICIES, GEOECONOMIC TENSIONS, CAPITAL FLOWS AND CURRENCY MOVEMENTS** remain key influences on economic and business growth.
- Government, companies, and households must **CHANGE HOW THEY THINK, ACT AND PLAN**.
- The Government to calibrate policy responses aimed at **BUFFERING NEAR-TERM DOWNSIDE RISKS** while **SUPPORTING MEDIUM-TERM ECONOMIC RESILIENCE**.

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

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