

The Eastern Keystone: Unlocking Malaysia's Pivotal Role in Global Trade

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Malaysia asserts a diverse and strong economy illustrated by its natural resources and burgeoning services sector. From the start of 2024, the Asian nation has continued to weave its way through intricate global



fluctuations, managing to maintain consistent growth. Sectors such as manufacturing, services and commodities like palm oil and rubber, play their part in sustaining a robust economy. Like its neighbours, Malaysia too has committed greatly to digital transformation and sustainable development, making for favourable trading conditions which has enticed significant foreign interest.

In global economic terms, the country is influenced by several variables, including geopolitical tensions, trade dynamics and technological change. A slow recovery from the pandemic has brought with it both challenge and opportunity; supply chain disruption and inflationary pressures very much part of the former. That being said, Malaysia has been proactive with its policies and economic diversification strategies which have positioned it well to make good on the shifting economic landscape. Stronger co-operation with ASEAN, and solidifying strategic international partnerships, seem the staple diet Malaysia requires to build resilience and growth during volatile times.

Malaysia's economic engine: diverse and dynamic

The country's economy is fuelled by a diverse array of sectors, with electronics, palm oil and natural gas standing out as prominent drivers. In semiconductor manufacturing, the electronics sector accounts for almost 30% of the nation's exports.

Giants like Intel and Broadcom have made substantial operations in Malaysia, enhancing its position as a major electronics hub. Statistics suggest that the electronics sector is set to expand by 5% over the next five years, due in part to rising demand for electronic components to facilitate computer manufacture and AI development.

Palm oil is a big industry for Malaysia and a vital part of its economy, adding approximately 3.5% to the GDP and employing millions. The country is the second largest producer of palm oil in the world, with businesses like Sime Darby and IOI Corporation leading the race. Despite environmental concerns, palm oil exports are expected to grow by 3.3% year on year to 15.6m tonnes in 2024, with the export value to increase by 4.3% to Malaysian ringgit (M\$)110bn or US\$23.3bn.

Natural gas is also a crucial aspect of Malaysia's energy sector. The nation is one of the top global Liquefied Natural Gas (LNG) exporters with household name Petronas being the primary stakeholder. This gas sector contributes close to 10% to the GDP and is expected to grow by 4% each year.

Strategic initiatives and investment

The country's growth is also supported by strategic initiatives and investment projects from both the private commercial sector and government. Major projects like the East Coast Rail Link (ECRL) and the Digital Free Trade Zone (DFTZ) are set to bolster connectivity and digital capabilities. The ECRL promises to improve logistics and encourage economic activities along its path, while the DFTZ looks to set the stage for Malaysia becoming a significant e-commerce hub.

Investments in the energy sector, in particular renewable energy projects such as solar farms, are looking to improve Malaysia's sustainable energy output and reduce fossil fuel dependence.

Foreign direct investment (FDI) plays an important role in the country's economy. Trends indicate a consistent increase in FDI, with technology and manufacturing attracting the most attention.

Key sources of FDI comes from countries to include Japan, China and the United States. These investments play an important role in creating employment and promoting economic diversification.

Malaysia's role in ASEAN and global trade

Membership in ASEAN allows Malaysia to take advantage of trade agreements like the ASEAN Free Trade Area (AFTA) and the Regional Comprehensive Economic Partnership (RCEP), which permit smoother and more favourable trade. These agreements are seen as vital elements of the country's strategy to expand export markets and attract more investment.

Malaysia's export trends illustrate a healthy diversified economy and strong demand for its product offerings. Prominent exports include electronics, palm oil and LNG, which are all in high demand globally. Electronics and semiconductors are also a huge contributor to GDP. Furthermore, Malaysia is seeking new emerging markets to broaden its export footprint, with particular focus on countries in Africa, the Middle East and South Asia. These activities diversify the nation's export portfolio and reduce dependence on traditional markets.

Implications for international business

Malaysia is a country with a dynamic international business hub, offering opportunities for multinational corporations (MNCs) looking to take part in its expansion. Major sectors ripe for the picking include manufacturing, in particular within the electronics and automotive industries, renewable energy and, of course, the booming digital economy.

The nation's legal framework is highly conducive to foreign businesses, which is strengthened by the government's pro-investment policies and initiatives like the Multimedia Super Corridor (MSC). The MSC is a Special Economic Zone and high-technology business district in central-southern Selangor, Malaysia, delivering tax incentives and stable streamlined infrastructure.

There are, however, challenges for MNCs operating in Malaysia. Regulatory obstacles in the form of stringent foreign investment approvals and red tape bureaucracy create significant barriers to entry. As usual, currency movements and political instability require strategic risk mitigation in the event of negative trading conditions. Forming strategic partnerships with domestic firms is seen as a popular way to enhance trading longevity and navigate smoothly through less understanding conditions.

Malaysia and its close ties to the West

Analysts believe that Malaysia's close bond with the US is the cornerstone of its international relations and economic strategy, providing sound reassurance to investors. This bilateral relationship is embodied by robust diplomatic and trade ties, allowing for a more predictable trading climate for FDI. The US is one of the country's most significant trading partners. This strong relationship allows US investors to take advantage of the country's location within ASEAN and its free trade agreements, gain access to regional markets, while enjoying favourable trading terms.

Conclusion

Malaysia's strong economy, bolstered by its natural resources and manufacturing prowess, creates an attractive environment for international business. The country's strategic initiatives and investor-friendly policies establish a stable base for MNCs. Despite strict regulatory practices and geopolitical volatility, Malaysia's close ties with the West, particularly the US, along with its active role in ASEAN, enhance its appeal as a base for foreign operations. All indicators suggest that Malaysia is a compelling destination for international investment.

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