CHAPTER 2

Macroeconomic Outlook

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Overview

Ekonomi MADANI framework propels Malaysia's growth

The global economy is projected to remain steady in 2024 and 2025 as growth in most major economies stabilises. Inflation continues to track downwards as energy prices moderate and the labour market softens. International trade is expected to strengthen despite an increase in trade tensions and policy uncertainties.

Malaysia's economy continued its growth momentum, supported by favourable economic performance, amid persistent challenges in the external environment. This signifies the country's strong fundamentals and diversified economic activities as well as investor confidence in the domestic market, anchored by sound Government policies. Furthermore, the Ekonomi MADANI framework, which focuses on restructuring and reforming Malaysia's economic agenda, coupled with the implementation of key policy plans such as the National Energy Transition Roadmap (NETR) and New Industrial Master Plan 2030 (NIMP 2030), have started to yield positive results. During the first half of 2024, the economy posted a commendable growth of 5.1% driven by robust domestic demand, combined with further expansion in exports as well as positive growth in all economic sectors. Growth is forecast to continue its momentum in the second half of the year, albeit at a moderate pace. Overall, real GDP in 2024 is revised upward, ranging between 4.8% and 5.3%, surpassing the initial target of 4% to 5%.

For 2025, the economy is projected to grow between 4.5% and 5.5%. On the supply side, the services sector continues to uphold its position as the main driver of growth contributed by tourism activities, sustained exports and acceleration of ICT-related activities. Tourism-related industries, particularly food & beverages, accommodation and retail trade segments, are expected to increase further, while the wholesale trade as well as air and water transportations segments will benefit from sustained trade-related activities. Industries such as the utilities and professional services are anticipated to rise in tandem with the acceleration of ICT development, particularly in data centres. The manufacturing sector is projected to expand further attributed to better performance in export-oriented industries, primarily the E&E segment, as external demand for semiconductors continues to increase. Additionally, the domestic-oriented industries is anticipated to remain favourable in line with higher domestic consumption and investment. The construction sector is expected to rise attributed to growth in all subsectors. Prospects for the agriculture sector remain positive supported by higher production of crude palm oil (CPO) and demand from food-related industries. On the contrary, the mining sector is forecast to decline marginally due to scheduled plants shutdown for maintenance purposes.

On the demand side, growth will be buoyed by strong private sector expenditure and stable global trade. Accounting for about 60% of the economy, private consumption is projected to continue spearheading growth, backed by firm labour market conditions and income growth amid manageable inflation. Gross fixed capital formation or total investment remains high, underpinned by the realisation of private investment, acceleration of public sector strategic projects and initiatives under the Government-linked Enterprises Activation and Reform Programme (GEAR-uP) as well as new and ongoing multi-year projects in the services and manufacturing sectors.

The external sector is expected to continue expanding in 2025, supported by steady global demand. Robust trade activities are projected to contribute to a surplus in the goods account, while the services account is anticipated to post a narrowing deficit attributed to vigorous tourism activities. The income accounts are forecast to continue recording net outflows resulting from a ramp-up in investment activities. Hence, the current account is projected to register a healthier surplus of RM49.1 billion or 2.4% of gross national income (GNI).

On the income side, the compensation of employees (CE) is anticipated to grow supported by, among others, the implementation of the new minimum wage rate and upward salary revision for civil servants. This is also backed by sustained economic growth which will provide better employment opportunities for the rakyat.

However, as an open economy, Malaysia remains susceptible to global vulnerabilities which may pose risks to the nation's economic growth. These include the escalation of geopolitical tensions, supply chain disruptions, volatility in financial market conditions and varying growth prospects across economies. Therefore, the Government remains resolute in ensuring the continuous implementation of pragmatic measures and initiatives to further strengthen the economy.

Economy in 2024

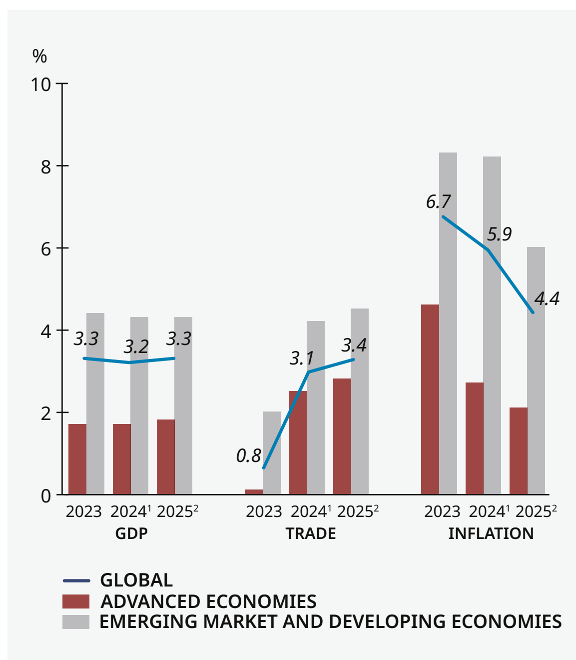
Global Economy

Resilient growth amid uncertainties

The **global economy** is projected to stabilise at 3.2% in 2024 as growth in major economies become more aligned. Growth in the advanced economies is expected to remain at 1.7%. The US economy is forecast to increase by 2.6% owing to continued consumer spending, while the euro area is projected to expand, albeit marginally by 0.9%, with the services sector and higher exports leading the growth. In contrast, Japan is expected to register a slower growth of 0.7% as a result of supply chain disruptions and subdued private investments. Meanwhile, expansion in the emerging market and developing economies (EMDEs) is estimated to register 4.3% on the back of sustained private consumption and exports in Asia. China is anticipated to expand at 5%, bolstered by consumer spending and exports, while India is forecast to record a favourable growth of 7% as domestic demand remains strong. Growth among the ASEAN-5 is expected to strengthen further at 4.5%.

World trade is expected to gain momentum in line with steady economic growth, registering 3.1% in 2024, backed by strong trade activities, particularly in technology-related sectors. **Global inflation** continues to show signs of abating and is expected to soften to 5.9% as energy prices and the labour market moderate. Nevertheless, inflation is expected to remain higher in EMDEs compared to advanced economies.

FIGURE 2.1. *Global Gross Domestic Product, Trade and Inflation Growth*
2023 – 2025
(% change)



[1] Estimate
[2] Forecast
Note: Trade for Advanced Economies and Emerging Market and Developing Economies refers to the average volume of exports and imports of goods and services
Source: International Monetary Fund, World Economic Outlook Update (July 2024)

FEATURE ARTICLE 2.1

Malaysia as a Gateway to a Prosperous ASEAN

Introduction

ASEAN is an influential regional cooperation and integration model that promotes economic growth, social progress and cultural development in Southeast Asia. Since its establishment in 1967, ASEAN has expanded to include 10 member states, each playing a crucial role in ensuring the stability and prosperity of the region. The organisation's vision is captured in its motto, "One Vision, One Identity, One Community," which drives ASEAN's efforts to create a unified and resilient community, capable of competing on the global stage. ASEAN is going through a transformative phase, promising inclusive growth and prosperity for its member states. This regional intergovernmental organisation, which has been a cornerstone of economic cooperation and integration in Southeast Asia, is now poised to ascend towards greater heights of economic development.

ASEAN is expected to remain one of the fastest growing regions of the global economy over the next decade. ASEAN+3 Macroeconomic Research Office (AMRO) has forecast an increase in ASEAN's growth by 4.7% in 2024 from 4.2% in 2023. Similarly, the Asian Development Bank projects the region to become the world's fourth-largest economy by 2030. Between 2013 and 2023, ASEAN total trade in goods, with both internal and external partners, experienced a steady annual average growth of 3.5%, rising from USD2,533.1 billion in 2013 to USD3,560.1 billion in 2023. Meanwhile, ASEAN demonstrated solid foreign direct investment (FDI) inflows, valued at USD165.1 billion during the pre-COVID-19 period, of which Malaysia received investments worth USD7.8 billion. Post-pandemic, FDI surged substantially, reaching USD223.5 billion in 2022, with Malaysia's share increasing more than two-fold to USD16.9 billion. These trends highlight not only ASEAN's resilience as a prime investment destination but also its strategic significance in global value chains.

Malaysia's Competitive Edge: Leveraging Malaysia's 2025 ASEAN Chairmanship

As a founding member of ASEAN, Malaysia offers numerous opportunities across various sectors. Coupled with its strategic position and strong fundamentals, Malaysia is viewed by investors as the gateway to ASEAN, offering unique advantages in strategic areas, such as electrical and electronic (E&E), artificial intelligence (AI), medical tourism as well as environmental, social and governance (ESG) initiatives. Leveraging Malaysia's chairmanship of ASEAN in 2025, the Government will focus on strengthening regional collaboration in these areas. This will involve significant participation from the private sector and local entrepreneurs, in showcasing their products and services, thus highlighting Malaysia's commitment to foster innovation and economic growth.

As the Chair, Malaysia will introduce the ASEAN Community Concept 2045 to enhance cooperation among member states, rally ASEAN solidarity, bridge divergences and promote greater harmony, ultimately promising economic prosperity for the region. In addition, this Concept will further expand ASEAN a large community not only economically, but also in terms of connectivity, energy distribution and infrastructure. Furthermore, the upcoming Chairmanship reflects Malaysia's journey towards realising the Ekonomi MADANI aspirations of becoming a leading Asian economy.

Electrical and Electronics

The E&E industry in Malaysia serves as one of the major contributors to the nation's GDP, investments and employment. With its strategic location and comprehensive infrastructure, Malaysia offers access to a global market of over four billion people through various FTAs. Positioned as the heart of Asia's semiconductor supply chain, Malaysia has attracted substantial and quality investments which generated significant job opportunities in the industry.

At present, Malaysia accounts for 13% of the global semiconductor testing and packaging market and ranks as the world's sixth-largest exporter of semiconductors, constituting 60% of the country's total E&E exports. Under the Twelfth Malaysia Plan, 2021 – 2025, the Government has set a target for the E&E industry to contribute RM120 billion to the nation's GDP by 2025. In 2023, the E&E industry contributed 7.5% of total GDP amounted to RM117.7 billion. Furthermore, Malaysia introduced the National Semiconductor Strategy, aimed at reinforcing the country's role in the global semiconductor supply chain. This Strategy is supported by a growing demand for E&E products, spurred by the expansion of sectors such as electric vehicles (EVs), renewable energy (RE), aerospace and the digital economy.

Artificial Intelligence

According to international experts, AI has the potential to contribute approximately USD1 trillion to Southeast Asia's GDP by 2030, with Malaysia anticipated to capture USD115 billion of this total. Driven by increasing interest from major global technology players, Malaysia is gaining momentum to emerge as the next AI hub in the region. Microsoft has pledged to invest USD2.2 billion over four years to accelerate Malaysia's digital transformation, including building cloud and AI infrastructure, creating AI skilling opportunities for 200,000 people and establishing and AI Centre of Excellence. In addition, Oracle has expressed interest in investing USD6.5 billion to establish a public cloud region in Malaysia.

As envisaged in the National Artificial Intelligence Roadmap 2021 – 2025, AI will be capitalised on creating a thriving and sustainable innovation ecosystem, enabling Malaysia to become a high-technology and high-income nation. In preparation for Malaysia's 2025 ASEAN Chairmanship, the Government is eager to promote collaboration with global partners and advance the digital economy in alignment with the ASEAN Digital Masterplan 2025 and ASEAN Digital Economy Framework Agreement.

Medical Tourism

Medical tourism has been identified as one of the niche industries in Malaysia, offering compelling opportunities for ASEAN countries looking to expand their healthcare options and explore new avenues for economic growth. Equipped with one of the best healthcare systems, with extensive medical expertise as well as Muslim-friendly medical facilities and treatments, Malaysia has become a global hub for medical tourists seeking high-quality healthcare services at competitive prices. In 2023, revenue generated from medical tourism in Malaysia reached RM2.25 billion, nearly a four-fold increase compared to 2021. The Government has been instrumental in promoting medical tourism through strategic policies aimed at easing visa restrictions, investing in healthcare infrastructure and actively promoting the country as a medical tourism hub.

Environmental, Social and Governance

Malaysia's integration of ESG principles reflects a commitment to sustainable development, aligning with Sustainable Development Goals (SDG). The nation's focus on ESG practices is further bolstered by collaborations such as the ASEAN Taxonomy and the ASEAN-Interconnected Sustainability Ecosystem, which aim to promote sustainable development by implementing a common framework for ESG among ASEAN member states. Additionally, the National Industry Environmental, Social and Governance Framework has been formulated to support Malaysian firms in complying with international ESG standards in the manufacturing sector.

Conclusion

Malaysia can contribute to a more resilient, inclusive and prosperous ASEAN by addressing challenges and capitalising on opportunities. Leveraging its resources and digital infrastructure, backed by a stable Government and sound policies, Malaysia can propel ASEAN towards greater economic prosperity and regional integration. To this end, Malaysia will foster greater collaboration among ASEAN members to harmonise policies, standardise regulations and improve cross-border trade, ultimately creating a stronger ASEAN.

Domestic Economy

Sectoral

Services Sector

Sustaining growth trajectory

The **services** sector grew by 5.4% in the first half of 2024 and is poised to remain stable in the second half, driven by robust household spending coupled with vibrant tourism- and travel-related activities. Overall, the sector is projected to expand by 5.3% in 2024, with all subsectors recording positive growth.

TABLE 2.1. *Gross Domestic Product by Sector, 2023 – 2025 (at constant 2015 prices)*

	SHARE (%)	CHANGE (%)		
	2024[1]	2023	2024[1]	2025[2]
Services	59.4	5.1	5.3	5.5
Manufacturing	23.2	0.7	4.1	4.5
Agriculture	6.2	0.7	2.0	1.9
Mining	6.1	0.5	2.2	-1.0
Construction	3.9	6.1	14.1	9.4
GDP	**100.0**	**3.6**	**4.8 – 5.3**	**4.5 – 5.5**

[1] Estimate
[2] Forecast
Note: Total may not add up due to rounding and exclusion of import duties component
Source: Department of Statistics and Ministry of Finance, Malaysia

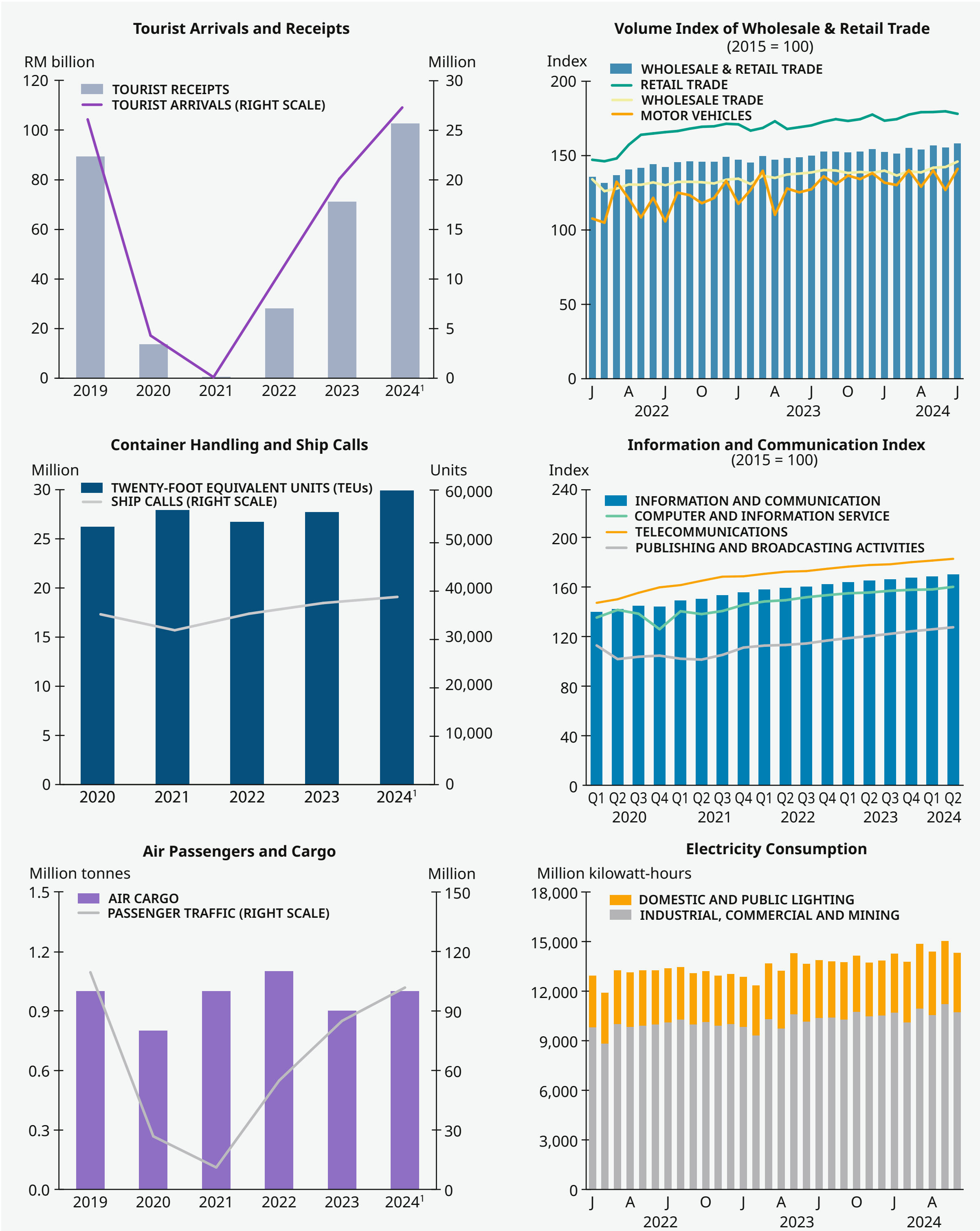
The wholesale and retail trade subsector grew by 4.3% in the first half of 2024, with sustained performance, mainly in retail trade and motor vehicle segments driven by improved consumer spending. The subsector is expected to expand by 4% in the second half of the year supported by positive growth in all segments, particularly retail trade with anticipation of higher tourist arrivals and expenses, while household expenditure is expected to remain resilient, backed by steady income growth and various financial assistance programmes. The motor vehicles segment is also anticipated to remain strong following high demand for new vehicles, notably hybrid and electric vehicles (EVs) exhibiting rapid sales growth, whereas orders for small and compact cars remain high. This has led the industry to revise the target for sales of new vehicles from 740,000 to 765,000 units in 2024. Subsequently, the subsector is projected to grow by 4.1% in 2024.

TABLE 2.2. *Performance of the Services Sector, 2023 – 2025 (at constant 2015 prices)*

	SHARE (%)	CHANGE (%)		
	2024[1]	2023	2024[1]	2025[2]
Wholesale and retail trade	30.0	5.9	4.1	4.7
Finance and insurance	11.3	-2.3	5.7	4.7
Information and communication	10.8	3.6	3.1	2.6
Real estate and business services	7.9	8.7	8.6	6.3
Transportation and storage	7.1	13.8	10.6	10.4
Food & beverages and accommodation	5.1	7.7	5.8	6.2
Utilities	4.4	2.6	4.3	5.9
Other services	7.9	6.3	5.4	5.4
Government services	15.5	4.7	5.0	6.7
Services	**100.0**	**5.1**	**5.3**	**5.5**

[1] Estimate
[2] Forecast
Note: Total may not add up due to rounding
Source: Department of Statistics and Ministry of Finance, Malaysia

FIGURE 2.2. *Selected Indicators for the Services Sector*



¹ Estimate

Source: Department of Statistics, Malaysia; Malaysia Airports Holdings Berhad; Malaysia Tourism Promotion Board; Senai International Airport; and seven major ports (Bintulu, Johor, Klang, Kuantan, Kuching, Penang and Tanjung Pelepas)

The transportation and storage subsector registered a double digit growth of 10.7% in the first half of 2024, led by land and air transport segments. This commendable performance was boosted by an expansion of 15.3% to 46.6 million in air passenger traffic and 6.5% to one billion vehicles in toll highways. This stellar performance is projected to continue into the second half of 2024 at 10.4%. The land transport segment is expected to increase driven by higher ridership of urban rail and bus services in the Klang Valley. Meanwhile, the air transport segment is expected to record a steady growth in tandem with higher air passenger traffic amid the reintroduction of international routes and deliveries of new aircrafts as well as the visa exemption programme for tourists from China and India. The water transport segment is anticipated to grow, supported by steady trade performance, particularly export of manufactured and agriculture goods. Overall, the subsector is estimated to expand by 10.6% in 2024.

The real estate and business services subsector expanded by 9.1% in the first half of 2024 supported by higher demand for professional services, particularly in engineering-related activities. The subsector is expected to grow by 8.1% in the second half of the year supported by the increase of sales transactions from developers to buyers in the real estate segment and higher demand for professional, scientific & technical services. Furthermore, the enhancement of the Malaysia My Second Home visa scheme in June 2024, will help boost sales of the high-end segment of local property. For the year, the subsector is expected to grow by 8.6%.

For the first half of 2024, the finance and insurance subsector grew by 5.2%. This was attributed to higher credit growth and financial intermediation services income within the banking segment, whereas a substantial premium earnings has uplifted the insurance segment to register a positive growth. In the second half of the year, the finance and insurance subsector is poised to expand by 6.1% in line with expansion in both segments. The banking segment is anticipated to record a steady growth following continuous demand for credit facilities, while the insurance segment is expected to gain from higher premium earnings. Overall, the subsector is estimated to rebound by 5.7% in 2024.

The information and communication subsector expanded by 3% in the first half of 2024, attributed to the telecommunication segment. The subsector is expected to grow by 3.2% in the second half of the year supported by the uptick in digital-based services, social commerce activities[1] as well as streaming of entertainment contents and major sporting events. Likewise, the adoption of digital services, particularly artificial intelligence (AI), cloud computing and cybersecurity programming is anticipated to spur the subsector's growth. Moreover, mobile internet packages for civil servants, students and media practitioners are expected to further increase the internet subscription rate. Hence, the subsector is anticipated to record a growth of 3.1% in 2024.

[1] Social commerce activities refers to buying and selling products or services through social media platforms.

INFORMATION BOX 2.1

KL20 Action Plan: Elevating Kuala Lumpur as a Global Startup Hub

Introduction

The Global Startup Ecosystem Report 2024 ranks Kuala Lumpur among the top 21–30 emerging ecosystems, with a value of USD47 billion. With a goal to position Kuala Lumpur as the leading strategic hub for startups in Southeast Asia and top 20 globally by 2030, Government will focus on prioritising digital- and technology-based industries under the high growth high value (HGHV) initiative framework. These initiatives will support Ekonomi MADANI's aspiration in positioning Malaysia as one of the top 30 economies globally.

KL20 Action Plan

The KL20 Action Plan (KL20) has been strategically formulated to strengthen national startup ecosystem and outlined specific goals to be delivered by 2030, as shown in Figure 2.1.1.

FIGURE 2.1.1. *KL20 Targets Towards 2030*

Source: Ministry of Economy, Malaysia

The Action Plan underlines five key priorities and several initiatives to transform the ecosystem comprehensively, as depicted in Figure 2.1.2. The KL20 lays out tangible reforms to converge key stakeholders, consisting of founders, venture capitalists, talents, incubators and accelerators, with the national agenda of spurring new opportunities, including job creation in high-growth potential fields and enhancing socioeconomic values. In addition, these initiatives will benefit SMEs and entrepreneurs by providing funding and business support as well as facilitating prospects for investment and collaboration. These will enable entrepreneurs to scale up their ventures and innovate more effectively.

FIGURE 2.1.2. *KL20 Key Priorities and Initiatives*

Key Priorities	Initiatives	Status
Vibrant startup community	**KL Innovation Belt** An innovation hub (co-working space) that brings together ecosystem players in a single location to facilitate networking and collaboration.	Pre-implementation
	Unicorn Golden Pass An initiative for high-potential global startups to establish offices in Malaysia, acting as a gravity centre for innovation hubs and creating a tech talent pool.	In implementation
Large addressable market	**Startup City Connect** Collaboration and integration between Malaysia and other countries play a crucial role in facilitating startups' smooth operations across international markets.	In implementation
Available funding at all stages	**VC Golden Pass** An initiative for regional venture capitals with a strong track record to establish offices in Malaysia to invest in the local startups ecosystem.	In implementation
	VC Launch Fund Development of new local venture capital fund managers to expand financing and investment options for startups in Malaysia, particularly at the early business stage.	Pre-implementation
	VC Academy A programme to enhance professional skills for venture capitals interested in the venture capital industry.	In implementation
	Startup Seed Grants Initiatives for early-stage startups to access government-provided financing.	In implementation
Access to high-caliber talent	**Innovation Pass** A holistic visa programme for founders and talent to work in Malaysia.	In implementation
	Founder & Talent Relocation Service (Swiftshift) One-stop services to facilitate the migration of foreign talent to Malaysia.	Pre-implementation
	Executive Digital Leadership A three-months programme designed to equip leaders with critical digital skills and knowledge to enhance Malaysia's digital economy through the transformation of their organisations.	In implementation
	Skills@Scale A centralised tech skills marketplace to upskill trainees by matching them with experienced trainers from a variety of different backgrounds.	Pre-implementation
Seamless business environment	**Startup Concierge** A one-stop centre for high-potential startups that provides comprehensive support for business and operational setup.	In implementation
	MyStartup Single Window One-stop services and information for startups, investors and high-potential technology talent.	In implementation
	KL20 General Processing Unit Scheme The provision of world-class artificial intelligence (AI) infrastructure to startups in Malaysia lays the foundation for Malaysia to become a regional leader in AI.	Pre-implementation

Pre-implementation In implementation

Source: Ministry of Economy, Malaysia

Khazanah Nasional Berhad (Khazanah), Kumpulan Wang Persaraan (Diperbadankan) (KWAP) and BlueChip Venture Capital will create a fund of RM3 billion (RM1 billion each) to attract more venture capitals to invest in Malaysia. To date, Khazanah has provided RM1 billion to the fund. Collectively, the proceeds are earmarked to invest in promising early-stage startups, including via equity financing, knowledge-sharing as well as opportunities to collaborate with industry players, incubators and accelerators. This support is instrumental in fostering innovation and growth across various sectors, particularly in digital- and technology-based industries.

Way Forward

In ensuring the successful execution of KL20, it is essential that all initiatives outlined are implemented with urgency and backed by effective collaboration among all relevant stakeholders. The Government will speed up initiatives under the pre-implementation stages with an effective tracking and monitoring as well as addressing any shortcoming during the implementation process. Nurturing the growth of promising startups in Malaysia will not only drive domestic innovation but also pave the way for the emergence of homegrown unicorns[1] capable of thriving on the global stage. In addition, targeted training and educational programmes are essential for nurturing creative minds and empowering them to explore untapped areas within high-growth industries such as financial technology, renewable energy and biotechnology. These programmes will equip individuals and technopreneurs with relevant skills needed to survive ‘the valley of death’ of the startup’s lifecycle.

Conclusion

KL20 is designed as a game-changer for Kuala Lumpur to be at the top 20 global startup ecosystem by 2030. In order to achieve this target, a whole-of-nation approach involving government, industry and civil society is crucial in providing a comprehensive ecosystem for startups to thrive, thus creating new growth and transform our futures.

[1] A unicorn refers to a startup valued at USD1 billion.

The food & beverages and accommodation subsector grew by 5.6% in the first half of 2024 supported by high hotel occupancy rates and patronage at eateries, in tandem with the increase in tourist arrivals to 14.1 million. The subsector is expected to expand by 5.9% in the second half of the year on the back of higher tourist arrivals and vibrant tourism-related activities. This is also supported by vigorous promotion efforts targeting niche segments, particularly business and leisure, gastronomy and Muslim-friendly tourism. Furthermore, the Global Muslim Travel Index 2024 reaffirms Malaysia’s position as the most preferred Muslim travel destination for six consecutive years. Overall, the subsector is projected to register a growth of 5.8% in 2024.

The utilities subsector recorded an increase of 5.2% in the first half of 2024 and is projected to expand by 3.6% in the second half of the year. For the whole year, the subsector is anticipated to record a growth of 4.3% following higher electricity consumption with the development of data centres and rising demand for EV charging.

The other services subsector grew by 5.7% in the first half of 2024, mainly contributed by the increase in demand for private healthcare and enrolment of international students in private learning institutions. The subsector is projected to grow by 5% in the second half of the year supported by positive growth in all segments, in line with robust recreational and entertainment as well as tourism activities. Overall, the subsector is anticipated to expand by 5.4% in 2024. Meanwhile, the government services subsector is expected to increase by 5.2% in the second half of 2024 from the 4.7% growth recorded during the first half of the year due to increase in payment for emoluments as well as expenditure for purchase of supplies and services. Subsequently, the subsector is expected to expand by 5% for the whole year.

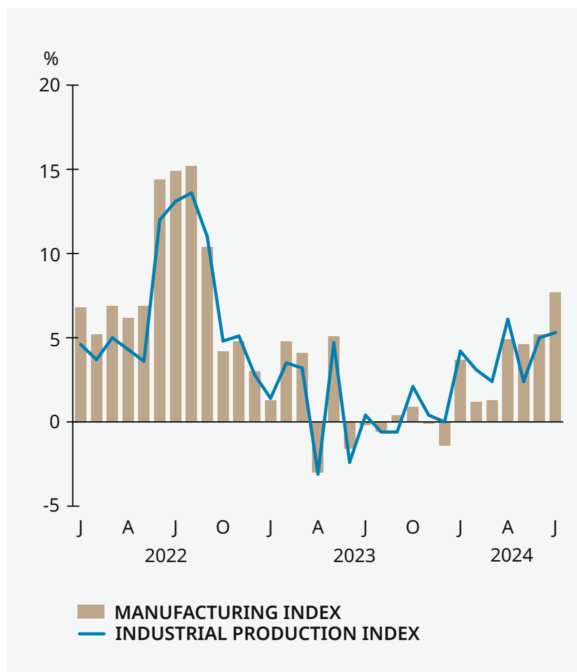
Manufacturing Sector

Upswing in export-oriented industries supports growth

The **manufacturing** sector expanded by 3.3% during the first half of 2024 on the back of higher growth of domestic-oriented industries and a stronger performance of export-oriented industries. The domestic-oriented industries saw a steady growth of 5.9%, fuelled by rising demand, mainly in non-metallic mineral products, basic metal and fabricated products subsector, backed by robust performance in construction activities. Meanwhile, export-oriented industries recorded a growth of 2.1%, supported by an upturn in demand of the E&E segment, attributed to positive market momentum in the global semiconductor industry.

The sector is projected to grow by 4.9% in the second half of 2024, owing to strengthening domestic demand and improving performance of the external sector. Within the domestic-oriented industries, growth is expected to remain resilient propelled by consumer-related activities, particularly in food and beverages as well as transportation segments resulting from flourishing tourism activities. In addition, output for construction-related materials such as metals and cement is anticipated to rise, following acceleration of ongoing infrastructure projects and upcoming development activities. Meanwhile, within the export-oriented industries, the E&E segment is expected to further improve in line with the uptrend in global electronics demand, supported by evolving innovation as well as improvement in the consumer electronics market. In addition, increasing demand for AI chips, data centres, next-generation computing and high-performance computing application will further boost Malaysia's semiconductor industry. Overall, the manufacturing sector is forecast to register a strong growth of 4.1% in 2024.

FIGURE 2.3. *Output of Manufacturing Sector (% change)*



Source: Department of Statistics, Malaysia

TABLE 2.3. *Manufacturing Indices by Export- and Domestic-Oriented Industries, January – July 2023 and 2024*
(2015 = 100)

	INDEX		CHANGE (%)		SHARE (%)	
	2023	2024	2023	2024	2023	2024
Export-oriented industries	**137.9**	**142.1**	***0.0***	***3.1***	***67.9***	***67.2***
Manufacture of vegetable and animal oils and fats	93.4	94.9	*5.5*	*1.6*	*3.7*	*3.6*
Manufacture of textiles	113.7	118.1	*-3.8*	*3.9*	*0.7*	*0.7*
Manufacture of wearing apparel	123.2	125.9	*5.8*	*2.2*	*0.8*	*0.8*
Manufacture of wood and products of wood and cork, except furniture; manufacture of articles of straw and plaiting materials	114.6	117.7	*-6.5*	*2.7*	*1.8*	*1.7*
Manufacture of coke and refined petroleum products	118.1	122.2	*1.1*	*3.5*	*11.9*	*11.8*
Manufacture of chemicals and chemical products	127.7	130.4	*4.3*	*2.1*	*8.7*	*8.6*
Manufacture of rubber products	177.2	189.2	*-9.6*	*6.8*	*4.2*	*4.3*
Manufacture of plastics products	124.3	130.2	*-5.5*	*4.8*	*3.0*	*3.0*
Manufacture of computer, electronics and optical products	165.7	170.6	*0.6*	*2.9*	*24.7*	*24.5*
Manufacture of electrical equipment	147.3	145.8	*0.2*	*-1.0*	*3.5*	*3.3*
Manufacture of machinery and equipment n.e.c.[1]	147.4	152.9	*0.8*	*3.8*	*3.4*	*3.4*
Manufacture of furniture	125.0	135.2	*-8.7*	*8.2*	*1.4*	*1.5*
Domestic-oriented industries	**133.3**	**141.5**	***4.6***	***6.2***	***32.0***	***32.8***
Manufacture of food processing products	163.2	170.8	*4.1*	*4.7*	*6.4*	*6.5*
Manufacture of beverages	132.3	140.3	*0.5*	*6.0*	*0.9*	*0.9*
Manufacture of tobacco products	128.2	141.8	*17.6*	*10.6*	*0.7*	*0.8*
Manufacture of leather and related products	158.2	165.5	*8.5*	*4.6*	*0.3*	*0.3*
Manufacture of paper and paper products	142.1	147.8	*3.3*	*4.0*	*1.8*	*1.8*
Printing and reproduction of recorded media	125.6	135.5	*5.5*	*7.9*	*1.3*	*1.3*
Manufacture of basic pharmaceuticals, medicinal chemical and botanical products	165.6	176.1	*1.9*	*6.3*	*0.7*	*0.7*
Manufacture of other non-metalic mineral products	112.5	122.1	*3.2*	*8.5*	*3.6*	*3.7*
Manufacture of basic metals	122.1	128.5	*3.1*	*5.2*	*3.1*	*3.1*
Manufacture of fabricated metal products, except machinery and equipment	118.3	130.6	*6.2*	*10.4*	*4.8*	*5.1*
Manufacture of motor vehicles, trailers and semi-trailers	153.5	159.3	*5.8*	*3.8*	*5.2*	*5.2*
Manufacture of other transport equipment	101.3	105.8	*3.6*	*4.4*	*1.3*	*1.3*
Other manufacturing	119.8	124.4	*2.6*	*3.9*	*1.0*	*1.0*
Repair and installation of machinery and equipment	136.8	144.9	*5.4*	*5.9*	*1.1*	*1.1*
Manufacturing	**136.3**	**141.9**	***1.4***	***4.1***	***100.0***	***100.0***

[1] Not elsewhere classified
Note: Total may not add up due to rounding
Source: Department of Statistics and Ministry of Finance, Malaysia

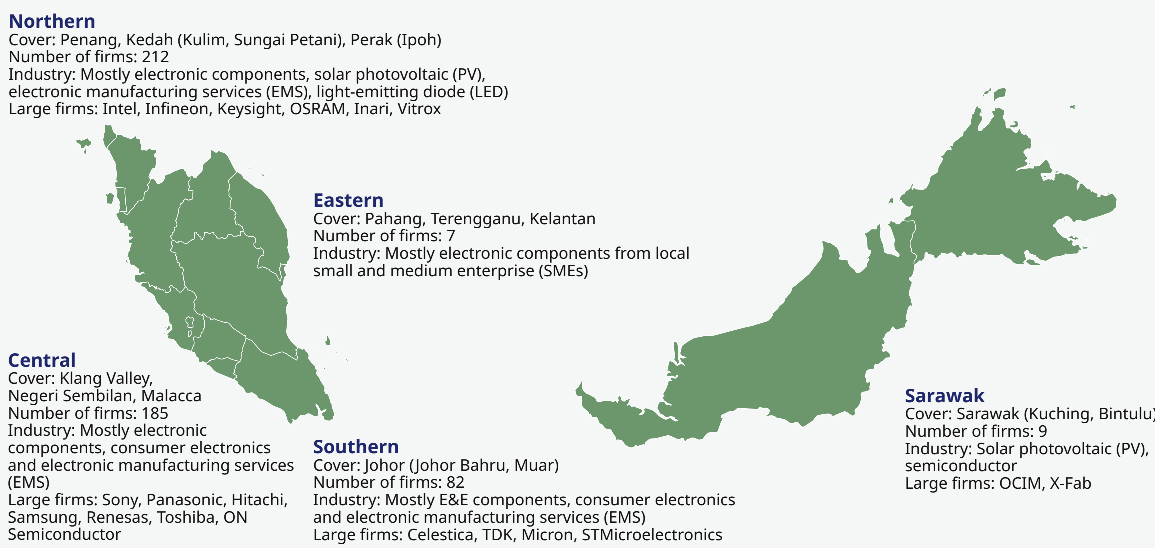
INFORMATION BOX 2.2

Strengthening the Semiconductor Industry through the New Industrial Master Plan 2030

Introduction

The dynamic global economic landscape and rapid technological advancements require Malaysia to keep abreast of industrial developments, necessitating the formulation of the New Industrial Master Plan 2030 (NIMP 2030). The NIMP 2030 sets strategic initiatives designed to position Malaysia as a global leader in industrial development to elevate the manufacturing and manufacturing-related services sectors to greater heights towards capitalising emerging global trends such as artificial intelligence (AI), advanced robotics and electric vehicles (EVs). The NIMP 2030 identifies electrical and electronic (E&E) as one of the priority subsectors that can generate high economic and innovation knowledge spillovers. The E&E subsector forms approximately 40% of Malaysia's exports of manufactured goods, particularly to Singapore, the US and China. Semiconductor industry constitute 60% of total E&E exports, mostly from back-end activities. With strong capabilities and rising global market trends on technological changes, Malaysia aims to move up to higher value-add segments and strengthen both the front- and back-end semiconductor ecosystem. This article highlights updates on the semiconductor industry, including the industry's performance, challenges as well as strategies as outlined in the NIMP 2030. Figure 2.2.1. reflects the current geographical distribution of E&E industry players in Malaysia.

FIGURE 2.2.1. *Geographical Distribution of Electrical and Electronic Industry Players in Malaysia*



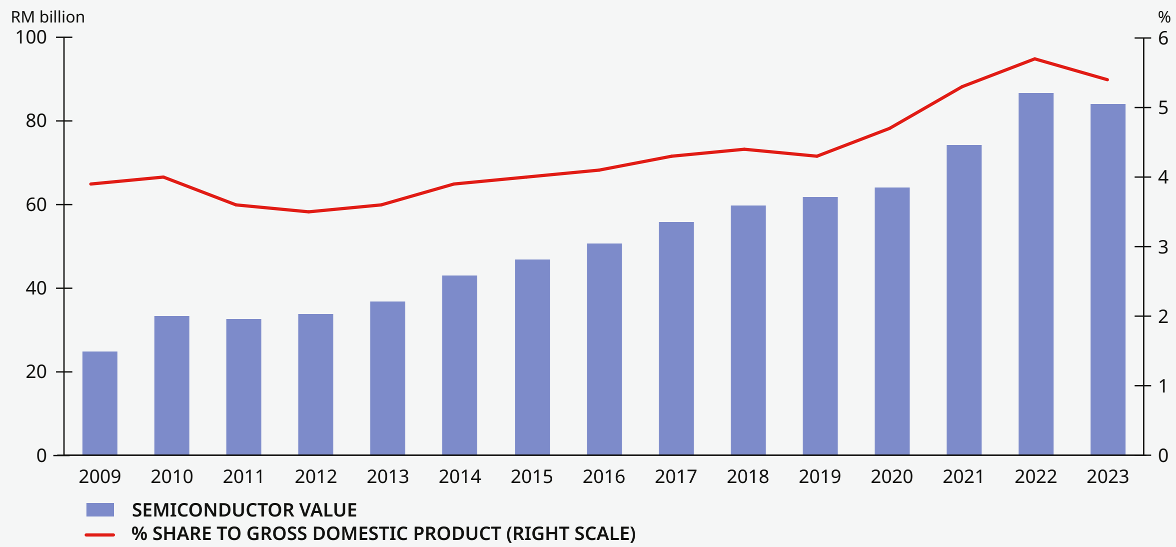
Source: Ministry of Investment, Trade and Industry, Malaysia

The Performance of the Semiconductor Industry

Over the past five decades, Malaysia's semiconductor industry has grown rapidly to become among a prominent player in the global supply chain. Beginning 1971, with the operations of National Semiconductor, an American firm, Malaysia has now become home to global semiconductor manufacturing giants, which include Infineon Technologies, Texas Instruments, Intel and TF-AMD, thus bolstering the country's semiconductor manufacturing capabilities. In addition, Malaysia has successfully developed its homegrown champions such as Inari, Vitrox, Oppstar, Pentamaster and SkyeChip, as part of the semiconductor global value chain.

Between 2009 and 2023, the semiconductor industry continued to play a vital role in driving Malaysia's economic growth, with expansion averaging at 7.7% and recording an average share of 19.5% from total exports. The industry also contributed to Malaysia's GDP with an annual average share of 4.3% over the same period (Figure 2.2.2.). Although this contribution is relatively small, Malaysia aims to elevate the semiconductor industry through quality investments, which entail the transfer of high-value technology, talent development and high-impact spillover activities for the nation as prioritised under the NIMP 2030.

FIGURE 2.2.2. *Performance of Malaysia's Semiconductor Industry, 2009 – 2023 (Value-added and % share to Gross Domestic Product at constant prices)*



Source: Department of Statistics, Malaysia

FIGURE 2.2.3. *Presence of Semiconductor Industry Players along the Electrical and Electronic Value Chain*

		Front-End			Back-End
		Research and Development (R&D)	Design	Manufacture (of components)	Assembly, Packaging and Testing
Electronic Components		Low Presence	Medium Presence	Medium Presence	High Presence
Consumer Electronics		Low Presence	Low Presence	Medium Presence	High Presence
Industrial	Computer Equipment	No Presence	Low Presence	Medium Presence	High Presence
Industrial	Communications Equipment	No Presence	No Presence	High Presence	Medium Presence
Electrical		Low Presence	Medium Presence	High Presence	High Presence
		Higher Value-Add			Lowest Value-Add

Source: Ministry of Investment, Trade and Industry, Malaysia

Figure 2.2.3. summarises the presence of Malaysia's semiconductor industry players along the E&E value chain. Malaysia's strength in the semiconductor industry is concentrated in the back-end segment, particularly the assembly, packaging and testing activities, with lower participation in the front-end segment. Hence, in expanding the semiconductor value chain, the NIMP 2030 aims towards achieving higher value-add front-end segment and modernising the back-end segment.

The National Semiconductor Strategy

The National Semiconductor Strategy (NSS) was announced in May 2024 as part of the NIMP 2030 with the aim of enhancing Malaysia's role in the global semiconductor supply chain from design to production of high-value semiconductor products. Measures taken include prioritising new investments in advanced wafer fabrication and integrated circuit design activities. The extensive initiative of the NSS highlights the nation's strong commitment towards elevating the entire high-tech industry and enhancing workforce to greater heights. The Strategy sets forth five headline targets as reflected in Figure 2.2.4.

FIGURE 2.2.4. *National Semiconductor Strategy – Five Headline Targets*

Source: Ministry of Investment, Trade and Industry, Malaysia

Challenges in Strengthening the Industry

Challenges faced by the semiconductor industry include:

Global Competition and Supply Chain Disruption

Intense competition from market players such as Taiwan, Republic of Korea and China, coupled with global supply chain disruptions, will affect production and increase costs. It is crucial for Malaysia to rigorously invest and engage in research and development (R&D) activities to keep up with industry-wide developments by locally producing the required materials, which will eventually strengthen Malaysia's position in the global supply chain. Nevertheless, this may pose a challenge to companies.

Shortages of Skilled Talent

NSS targets approximately 60,000 engineers, competent in integrated circuit design, to be trained and upskilled in the industry by 2030. Currently, the industry is facing skilled talent shortage as the domestic talent pool remains insufficient to meet the industry's demands caused by brain drain, as talents are drawn abroad with the offer of higher salaries and better opportunities.

Keeping Pace with Rapid Technological Advancement

The rapid adoption of advanced technologies and the increasing complexity of semiconductor devices are driving demand for custom-designed services. Keeping abreast with these rapid technological advancements will be a continuous challenge for the country. Thus, Malaysia will need to seize opportunities to move up the semiconductor value chain as global competition intensifies.

Strategies to Further Strengthen the Industry

The Government and industry require strategic actions to advance Malaysia's semiconductor industry, including:

Foster R&D Collaboration
Focuses on boosting R&D activities by encouraging partnerships between industries, academic institutions and research organisations, to drive innovation and advance semiconductor technologies.

Continuous Technical Skill Learning Programme
The continuous Technical Skill Learning Programme emphasises on building a high-skilled, resilient and sustainable workforce within the industry by providing essential skills and knowledge to drive innovation.

Establishment of an Advanced Packaging Technology Centre
The creation of an Advanced Packaging Technology Centre to enhance semiconductor packaging technologies, which will focus on research and innovation, thereby improving the efficiency and performance of semiconductor products.

Sustainable Development
To embrace a balanced industrial growth model that includes social, economic and sustainable practices to drive future investments. The development of the Kerian Integrated Green Industrial Park (KIGIP) as a green and smart industrial park, powered by renewable energy, which will serve as a catalyst to attract high quality investment.

Conclusion

Malaysia's semiconductor industry is at a transformative juncture, buoyed by strategic national initiatives and a forward-looking vision. Supportive national policies, such as the Ekonomi MADANI framework, which includes the implementation of the NIMP 2030 and NSS, underscoring the Government's commitment to fortify the industry's global competitiveness and sustainability. With all these policies and action plans in place, Malaysia is well-positioned to navigate through the complexities of the global semiconductor market, drive growth and set new benchmarks of excellence in the coming years.

Agriculture Sector

Mixed prospects ahead

The **agriculture** sector accelerated to record a growth of 4.5% during the first half of 2024, mainly attributed to robust performance of oil palm subsector. The subsector registered a significant rebound of 10.7%, following higher production of fresh fruit bunches (FFB) and better CPO yield. The rubber subsector also gained 1.3%, as the subsector recovered from the impact of the Pestalotiopsis leaf fall disease as well as benefitting from a favourable weather condition. In addition, the livestock subsector turned around by 5.2%, particularly supported by stable production in the poultry and egg segments, while the fishing subsector expanded further by 4.3%, buoyed by the marine fishing segment.

The sector is expected to decline marginally, by 0.2% in the second half of the year, mainly due to subdued performance in the oil palm subsector. The low FFB yield, anticipated to be noticeable as early as the fourth quarter of 2024, is forecast to affect CPO production in the second half. This is due to dry weather condition, which began in the second half of 2023 and intensified further in the beginning of 2024, which will adversely impact the quality of fruitlets. Meanwhile, the rubber subsector is expected to contract, while the forestry and logging subsector is projected to continue recording a significant decline. Conversely, other subsectors namely livestock, other agriculture and fishing are anticipated to grow, underpinned by better production and rising domestic demand.

Overall, the agriculture sector is projected to increase by 2% in 2024, as all subsectors are poised to record positive growths except for forestry and logging. The oil palm subsector, which contributes more than 36% of the agriculture sector, is estimated to expand, largely supported by improvements in labour supply and better fertiliser application as well as strong performance recorded during the first half. Despite the expected increase in the CPO production, it remains below potential level due to the impact of dry weather and increase in percentage of ageing oil palm areas following low replanting rates. In terms of prices, the CPO is projected to record an average of between RM3,800 and RM4,300 per tonne due to constraints in global palm oil supply. The rubber subsector is anticipated to record marginal growth supported by stable natural rubber production as recovery in rubber prices encourages tapping activities by smallholders. Moreover, initiatives undertaken by the Government, such as the improvement of the Latex Production Incentive (IPL) and Rubber Production Incentive (IPG), will provide additional support to the subsector's growth.

Similarly, the livestock, other agriculture and fishing subsectors are anticipated to grow through concerted efforts undertaken to enhance national food security, among others, by expanding the Large Scale Smart Paddy Field Programme which covers 79 areas spanning across 35,348 hectares nationwide. In addition, sustained consumer spending and improved tourism activities are expected to provide further impetus to the subsectors' growth.

TABLE 2.4. *Performance of the Agriculture Sector, 2023 – 2025*
(at constant 2015 prices)

	SHARE (%)	CHANGE (%)		
	2024[2]	2023	2024[2]	2025[3]
Oil palm	*36.3*	*0.2*	*2.9*	*0.6*
Other agriculture[1]	*29.3*	*3.7*	*1.0*	*3.8*
Livestock	*17.0*	*0.7*	*4.8*	*3.6*
Fishing	*11.7*	*0.5*	*3.6*	*2.7*
Forestry and logging	*4.1*	*-8.9*	*-13.0*	*-8.4*
Rubber	*1.6*	*-6.6*	*0.2*	*0.9*
Agriculture	***100.0***	***0.7***	***2.0***	***1.9***

[1] Including paddy, fruits, vegetables, coconut, tobacco, tea, flowers, pepper, cocoa and pineapple
[2] Estimate
[3] Forecast
Note: Total may not add up due to rounding
Source: Department of Statistics and Ministry of Finance, Malaysia

Mining Sector

Natural gas subsector drives growth

The **mining** sector rebounded by 4.3% in the first half of 2024 with broad-based expansion recorded across all subsectors. The natural gas subsector posted a growth of 6%, underpinned by higher production from all regions. The crude oil and condensate subsector increased by 1.4% attributed to stable condensate production during the period. Meanwhile, the other mining & quarrying and supporting services subsector posted a steady growth of 5.9%. For the second half of the year, the sector is forecast to grow marginally by 0.3%. Despite the anticipated strong performance in the natural gas subsector owing to the operational commencement of new gas fields, overall growth of the mining sector is expected to moderate due to subdued performance in the crude oil and condensate subsector.

For the year, the mining sector is projected to grow by 2.2%, driven mainly by strong performance in the natural gas subsector. Steady output from existing fields, coupled with commencement of production from new gas blocks in the Kasawari, Jerun and Gansar gas developments as well as the Kayu Manis South East gas development, are expected to contribute significantly to the growth of the subsector. Furthermore, higher demand from major trading partners, in particular Japan and China, as well as increased domestic consumption, primarily from industrial and power sector players, are anticipated to contribute positively to the growth. In contrast, the crude oil and condensate subsector is expected to decline due to reduction in crude oil production, particularly in Sabah. In terms of prices, the Brent crude oil price is expected to remain stable between USD80 and USD85 per barrel, amid uncertainties in the global environment and the Organization of Petroleum Exporting Countries' (OPEC) decision on the production levels.

Construction Sector

Remarkable broad-based expansion

The **construction** sector posted a significant growth of 14.6% in the first half of 2024, driven by expansion in all subsectors. The civil engineering subsector continues its stellar performance, benefitting from the acceleration of ongoing infrastructure projects including the East Coast Rail Link (ECRL), Rapid Transit System Link (RTS Link) between Johor Bahru and Singapore as well as Pan Borneo Highway Sabah. Moreover, residential buildings and non-residential buildings subsectors also contributed to the performance on the back of increasing demand for affordable houses as well as vibrant economic activities, respectively. Meanwhile, the Penang South Reclamation project and the installation of electrical and piping systems supported the specialised construction activities subsector.

The sector is expected to continue its positive momentum in the second half of 2024, with projected double-digit growth of 13.7%. The acceleration of public infrastructure projects towards the final year of the Twelfth Malaysia Plan, 2021 – 2025 (Twelfth Plan) will further support the civil engineering subsector. In addition, the construction of data centres mainly in Johor and Selangor as well as industrial buildings is anticipated to further strengthen the non-residential buildings subsector. The residential buildings subsector is projected to grow, supported by increasing demand for affordable houses in line with the Government's initiatives under Budget 2024. This encompases, among others, the implementation of 36 Program Perumahan Rakyat, including 15 existing projects, which will benefit 5,100 residents, 14 Program Rumah Mesra Rakyat to construct 3,500 housing units and new housing MADANI projects. Furthermore, private sector led projects continue to provide additional support to the residential buildings subsector. Overall, the sector is anticipated to grow further by 14.1% in 2024.

Domestic Demand

Resilient domestic demand to spearhead growth

Domestic demand, led by the private sector, remains sturdy and contributes significantly to the overall economic growth. The growth in the first half of 2024 was recorded at 6.5% and is expected to continue the momentum in the second half of the year. Thus, domestic demand is estimated to expand by 6.3% for the whole year with private sector expenditure envisaged to increase by 6.7%. The role of private sector as the key engine of growth is reflected by its high contribution of 5.1 percentage points to GDP growth. Meanwhile, the public sector expenditure is anticipated to increase by 5%, contributing 0.9 percentage point to GDP growth.

TABLE 2.5. *Gross Domestic Product by Aggregate Demand, 2023 – 2025 (at constant 2015 prices)*

	SHARE (%)	CHANGE (%)		
	2024[2]	2023	2024[2]	2025[3]
Domestic demand	***95.2***	***4.6***	***6.3***	***6.1***
Private expenditure	***77.5***	***4.6***	***6.7***	***6.6***
Consumption	*61.1*	*4.7*	*5.5*	*5.9*
Investment	*16.4*	*4.6*	*11.1*	*8.9*
Public expenditure	***17.8***	***4.6***	***5.0***	***4.1***
Consumption	*13.0*	*3.3*	*3.5*	*3.8*
Investment	*4.8*	*8.6*	*9.3*	*4.9*
External sector[1]	***4.2***	***-16.2***	***0.6***	***5.7***
Exports	*67.9*	*-8.1*	*7.8*	*3.8*
Imports	*63.7*	*-7.4*	*8.4*	*3.7*
GDP	***100.0***	***3.6***	***4.8 – 5.3***	***4.5 – 5.5***

[1] Goods and non-factor services
[2] Estimate
[3] Forecast
Note: Total may not add up due to rounding and excluding change in stocks component
Source: Department of Statistics and Ministry of Finance, Malaysia

Private consumption, which recorded a growth of 5.3% in the first half of 2024, is expected to increase by 5.5% for the whole year. This is on account of higher disposable income arising from favourable domestic economic activities and continued improvements in labour market conditions. In addition, the disbursement of the Early Incentive Payment of the Public Service Remuneration System 2024 for civil servants and pensioners in February 2024 contributed to the positive growth. The expected higher growth in household spending is also contributed by the withdrawal from the Flexible Account of Employees Provident Fund (EPF) as announced in April 2024. The Government has also provided cash assistance programmes to cushion the impact of the targeted diesel subsidy. The spillover impact of an upward salary revision in the civil service, with the first phase to be implemented in December 2024, is expected to further propel household consumption. These favourable conditions are anticipated to generate a higher propensity to consume, thus providing an additional boost in consumer spending.

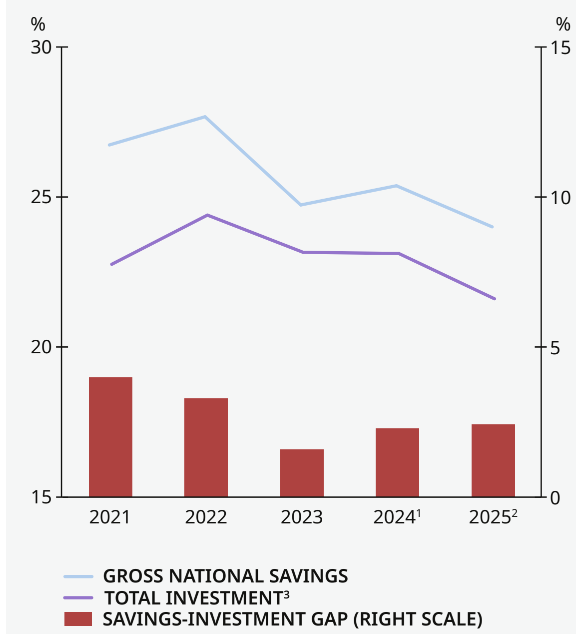
Private investment growth, which surged to 10.6% in the first half of the year, is projected to sustain the double-digit momentum to grow by 11.1% in 2024, mainly driven by firms' higher capital outlays in structure as well as machinery and equipment. This is in line with increasing domestic and external demand as well as the continuous adoption of automation and digitalisation amid the global technology upcycle. Furthermore, the growing trend of approved investments in recent years compared to the pre-pandemic period is expected to translate into higher realised investments in multi-year projects, mainly in the E&E, transport equipment and ICT subsectors. The establishment of Invest Malaysia Facilitation Centre (IMFC) by the Government will enhance the ease of doing business and expedite approval processes for investors. Investment activities promoted under major policies such as the NETR and NIMP 2030, spanning across several years, will also lend support to private investment.

Public consumption expanded by 5.5% in the first half of 2024 and is estimated to register 3.5% for the entire year. In the second half of the year, the growth is expected to moderate following the high base effect in the second half of 2023. However, the moderate growth is offset by the higher spending on emoluments, which includes the salary increment for civil servants under the Public Service Remuneration System (SSPA), as well as supplies and services. The Government's ongoing efforts to optimise value for money in procurement processes for supplies and services reflect its commitment towards efficient and prudent spending.

Public investment demonstrated a strong performance, recording a double-digit growth of 10.3% in the first half of 2024, mainly driven by higher capital outlays from non-financial public corporations (NFPCs). For the full year, public investment is forecast to expand by 9.3%, underpinned by higher capital spending from both the Federal Government development expenditure (DE) and NFPCs, particularly in ongoing key infrastructure projects such as flood mitigation projects, ECRL, Pan Borneo Highway Sabah, Light Rail Transit 3 (LRT3) and RTS Link. Likewise, NFPCs are expected to continue their capital spending in the oil and gas as well as utilities industries. PETRONAS remains an essential player in the oil and gas industry, focusing on strategic projects such as Rosmari-Marjoram Gas Field and Kasawari Carbon Capture Storage. Additionally, TNB is advancing the installation of a Hybrid Hydro-Floating Solar (HHFS) Photovoltaic system for the Nenggiri Dam, which is projected to enhance electricity generation significantly. These initiatives are set to bolster public investment activities further.

The gross national income (GNI) at current prices is estimated to accelerate by 7.2% in 2024 compared to a 1.9% growth in 2023. This is in line with stronger expansion in domestic activities. Similarly, the growth of the gross national savings (GNS) is anticipated to increase at a faster pace of 10%, constituting 25.4% of GNI. After taking into account the total investment at RM438.4 billion or 23.1% of GNI, the **savings-investment gap** in 2024 is forecast to record a surplus of RM43.4 billion or 2.3% of GNI, which could be mobilised for long-term productive investment without recourse to external financing.

FIGURE 2.4. *Savings – Investment Gap (% of GNI)*



[1] Estimate
[2] Forecast
[3] Including change in stocks
Source: Department of Statistics and Ministry of Finance, Malaysia

Income

Achieving equitable wealth distribution remains challenging

Malaysia's GDP in current prices moderated by 1.6% to RM1.8 trillion in 2023. Robust business and economic activities have significantly boosted job creation and income opportunities for the workforce. Consequently, labour income improved by 4.2% to RM603.3 billion. Although the share of **CE**[2] increased to 33.1%, this improvement is still lower compared to the national target of 40% by 2025, indicating workers have yet to fully benefit from economic progress through higher wages. The share of CE is forecast to enhance slightly to 33.2% in 2024, supported by better growth prospects, driven by income from services (62.4%) and manufacturing (23.5%) sectors, in particular from tourism-related industries as well as electrical, electronic and optical products.

[2] Includes remuneration, in cash or in-kind as well as employer's social contribution payable for employees.

TABLE 2.6. *Gross Domestic Product by Income Components, 2022 – 2025*

	SHARE (%)				CHANGE (%)			
	2022	2023	2024[1]	2025[2]	2022	2023	2024[1]	2025[2]
Compensation of employees	*32.3*	*33.1*	*33.2*	*33.5*	*6.5*	*4.2*	*7.2*	*7.8*
Gross operating surplus	*67.1*	*64.8*	*63.6*	*63.2*	*24.3*	*-1.8*	*4.8*	*6.2*
Operating surplus	*53.2*	*49.8*	*48.0*	*47.4*	*35.6*	*-5.0*	*3.0*	*5.5*
Mixed income	*13.9*	*15.0*	*15.6*	*15.8*	*-5.9*	*10.1*	*10.6*	*8.4*
Taxes less subsidies	*0.6*	*2.1*	*3.2*	*3.3*	*-69.7*	*242.0*	*63.1*	*13.5*
GDP at purchasers' prices	***100.0***	***100.0***	***100.0***	***100.0***	***15.8***	***1.6***	***6.8***	***7.0***

[1] Estimates
[2] Forecast
Source: Department of Statistics and Ministry of Finance, Malaysia

TABLE 2.7. *Gross Domestic Product by Income in Selected Countries, 2021 – 2023*

	COMPENSATION OF EMPLOYEES			GROSS OPERATING SURPLUS			TAXES LESS SUBSIDIES		
	2021	2022	2023	2021	2022	2023	2021	2022	2023
	SHARE OF GDP (%)								
Malaysia	***35.1***	***32.3***	***33.1***	***62.6***	***67.1***	***64.8***	***2.3***	***0.6***	***2.1***
Philippines	*36.7*	*36.4*	*35.5*	*55.6*	*55.9*	*57.3*	*7.7*	*7.7*	*7.2*
Singapore	*37.6*	*35.1*	*38.5*	*57.8*	*59.5*	*55.1*	*4.6*	*5.4*	*6.4*
Republic of Korea	*46.7*	*47.5*	*47.9*	*43.6*	*43.0*	*43.6*	*9.6*	*9.5*	*8.5*
Australia	*47.7*	*45.8*	*45.9*	*46.2*	*45.4*	*44.8*	*6.1*	*8.8*	*9.3*
Netherlands	*48.2*	*47.1*	*47.0*	*43.0*	*43.3*	*43.4*	*8.9*	*9.5*	*9.6*
Canada	*50.4*	*49.2*	*51.1*	*40.6*	*40.6*	*38.5*	*9.0*	*10.1*	*10.4*
United Kingdom	*50.6*	*49.2*	*49.5*	*40.1*	*39.7*	*40.1*	*9.2*	*11.2*	*10.4*
Germany	*53.0*	*52.2*	*52.4*	*39.2*	*38.8*	*38.9*	*7.8*	*9.0*	*8.7*
United States	*53.2*	*52.2*	*53.1*	*41.8*	*41.3*	*40.4*	*5.0*	*6.5*	*6.4*

Source: Department of Statistics, Malaysia

Meanwhile, the **gross operating surplus**[3] (GOS) remained the largest component of income amounting to RM1.2 trillion, even though its share of GDP decreased to 64.8% in 2023. Capital owners of commodity-related industries in agriculture, mining and quarrying as well as manufacturing sectors faced challenges due to lower global commodity prices and slower external demand. On the other hand, mixed-income for the self-employed group rebounded 10.1%, with more individuals pursuing self-employment as their main source of earnings. For 2024, mixed-income is expected to surge 10.6%, driven by vibrant economic activities and rising domestic demand, which will enhance income prospect for the self-employed. Overall, the share of GOS to GDP is projected to record 63.6% in 2024, with capital owners retaining significant share of growth benefits.

The share of **net taxes on production and imports**[4] to GDP rose moderately to 2.1% in 2023, due to an increase in tax revenues (3.1%) and significant reduction in subsidy and incentive expenditures (-34.2%). A considerable portion of petroleum subsidies was retained to enable low-income households to cope with the rising living costs. In 2024, income from net taxes is expected to grow by 63.1%,

[3] Consists of operating surplus for capital owners and mixed-income.
[4] Consists of taxes on products and other taxes on production less subsidies on products and other subsidies on production.

supported by ongoing efforts to enhance tax management efficiency and increase in sales tax and service tax. Additionally, the expenditure on subsidies and incentives is expected to decline due to subsidy rationalisation programmes. As a result, the overall share of net taxes on production and imports is expected to expand to 3.2% of GDP.

External Sector

Steady recovery in the external sector

Trade Performance

Total trade is expected to expand by 9.4% to RM2,884.3 billion in 2024, underpinned by a resurgence in the global technology cycle, resilient economic growth in major economies and steady commodity prices. Nevertheless, growth in gross imports are expected to outpace gross exports.

Gross exports are projected to record a turnaround to 5.6% in 2024, attributed to strengthening external demand and an anticipated rebound in global semiconductor sales. Exports of manufactured goods are estimated to grow by 6% following stronger demand in E&E, coupled with robust demand for non-E&E products. The growth of 3.4% for E&E products is on account of rapid advancements in AI, Internet of Things (IoT) and growing demand for EVs that drive the demand for sophisticated semiconductors and advanced chips. The E&E components with the highest share of exports are semiconductor, automatic data processing equipment and telecommunication equipment parts. Meanwhile, exports of non-E&E products is estimated to expand by 8.3%, particularly machinery, equipment and parts; manufactures of metal; as well as chemicals and chemical products, following steady growth among major trading partners.

Similarly, exports of agriculture goods are estimated to grow by 4%, buoyed by higher exports of palm oil and palm oil based agriculture products as well as natural rubber at 2.9% and 15.9%, respectively. Increasing demand, particularly from India, Bangladesh, Germany, Iran and the Philippines, is expected to raise exports of palm oil by 2.3%. Furthermore, exports of mining goods are projected to edge up by 2.8%, attributed to higher global demand for crude petroleum and LNG by 10.1% and 2.4%, respectively.

TABLE 2.8. *External Trade, 2023 – 2025*

	RM MILLION			CHANGE (%)		
	2023	2024[1]	2025[2]	2023	2024[1]	2025[2]
Total trade	**2,637,243**	**2,884,341**	**3,000,041**	***-7.3***	***9.4***	***4.0***
Gross exports	**1,426,199**	**1,506,666**	**1,565,515**	***-8.0***	***5.6***	***3.9***
of which:						
Manufactured goods	1,216,283	1,288,943	1,340,882	*-6.8*	*6.0*	*4.0*
Agriculture goods	94,818	98,624	101,875	*-21.6*	*4.0*	*3.3*
Mining goods	106,078	109,084	111,426	*-9.6*	*2.8*	*2.1*
Gross imports	**1,211,044**	**1,377,675**	**1,434,526**	***-6.4***	***13.8***	***4.1***
of which:						
Intermediate goods	620,607	764,547	791,734	*-12.2*	*23.2*	*3.6*
Capital goods	128,743	160,435	166,570	*7.1*	*24.6*	*3.8*
Consumption goods	104,118	118,293	122,257	*0.1*	*13.6*	*3.4*
Trade balance	**215,155**	**128,991**	**130,989**	***-16.0***	***-40.0***	***1.5***

[1] Estimate
[2] Forecast
Note: Total may not add up due to rounding
Source: Department of Statistics, Malaysia External Trade Development Corporation and Ministry of Finance, Malaysia

TABLE 2.9. *Gross Exports, January – August 2023 and 2024*

	RM MILLION		CHANGE (%)		SHARE (%)	
	2023	2024	2023	2024	2023	2024
Manufactured goods	800,142	847,833	*-6.0*	*6.0*	*85.5*	*85.5*
Agriculture goods	61,158	66,867	*-25.4*	*9.3*	*6.5*	*6.7*
Mining goods	68,866	70,057	*-8.4*	*1.7*	*7.4*	*7.1*
Others[1]	5,495	6,599	*21.7*	*20.1*	*0.6*	*0.7*
Gross exports	**935,662**	**991,357**	***-7.6***	***6.0***	***100.0***	***100.0***

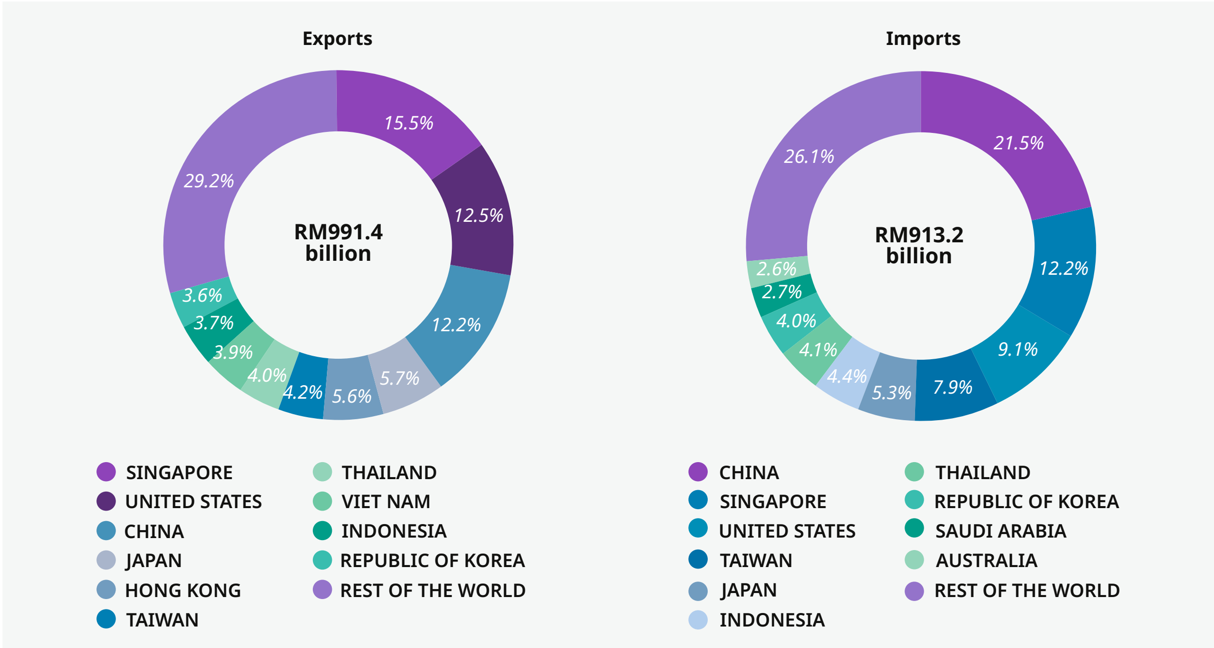
[1] Including gold scrap and waste; worn clothing; and special transaction not classified
Note: Total may not add up due to rounding
Source: Department of Statistics, Malaysia and Malaysia External Trade Development Corporation

TABLE 2.10. *Exports of Manufactured Goods, January – August 2023 and 2024*

	RM MILLION		CHANGE (%)		SHARE (%)	
	2023	2024	2023	2024	2023	2024
E&E	**380,585**	**383,764**	***0.1***	***0.8***	***47.6***	***45.3***
Non-E&E	**419,557**	**464,070**	***-10.9***	***10.6***	***52.4***	***54.7***
Petroleum products	96,492	90,938	*-5.2*	*-5.8*	*12.1*	*10.7*
Chemicals and chemical products	46,966	49,218	*-11.5*	*4.8*	*5.9*	*5.8*
Manufactures of metal	37,583	41,605	*-16.1*	*10.7*	*4.7*	*4.9*
Machinery, equipment and parts	36,372	45,127	*-9.1*	*24.1*	*4.5*	*5.3*
Optical and scientific equipment	35,554	39,521	*-1.8*	*11.2*	*4.4*	*4.7*
Palm oil-based manufactured products	20,490	23,351	*-29.2*	*14.0*	*2.6*	*2.8*
Rubber products	13,983	16,974	*-33.7*	*21.4*	*1.7*	*2.0*
Processed food	19,064	22,717	*3.9*	*19.2*	*2.4*	*2.7*
Iron and steel products	20,121	23,447	*-13.4*	*16.5*	*2.5*	*2.8*
Transport equipment	11,266	12,471	*1.8*	*10.7*	*1.4*	*1.5*
Textiles, apparels and footwear	10,548	11,779	*-10.4*	*11.7*	*1.3*	*1.4*
Manufactures of plastics	10,459	11,588	*-10.1*	*10.8*	*1.3*	*1.4*
Wood products	9,450	10,257	*-25.5*	*8.5*	*1.2*	*1.2*
Non-metallic mineral products	8,105	8,403	*3.2*	*3.7*	*1.0*	*1.0*
Jewellery	4,994	5,993	*6.7*	*20.0*	*0.6*	*0.7*
Paper and pulp products	7,239	9,451	*14.4*	*30.6*	*0.9*	*1.1*
Beverages and tobacco	2,025	2,008	*18.4*	*-0.8*	*0.3*	*0.2*
Other manufactures	28,848	39,222	*-18.9*	*36.0*	*3.6*	*4.6*
Exports of manufactured goods	**800,142**	**847,833**	***-6.0***	***6.0***	***100.0***	***100.0***

Note: Total may not add up due to rounding
Source: Department of Statistics, Malaysia and Malaysia External Trade Development Corporation

FIGURE 2.5. *Top 10 Trading Partners, January – August 2024 (% share)*



Note: Total may not add up due to rounding
Source: Department of Statistics, Malaysia and Malaysia External Trade Development Corporation

Gross imports are projected to expand by 13.8% in 2024, supported mainly by intermediate and capital goods, on the back of continued improvement in domestic economic activities as well as growing investment in data centres amid the rising trend for cloud computing and AI services. Imports of intermediate goods, which constitute the largest share at 55.5%, are expected to accelerate by 23.2%, in tandem with the growth in manufactured exports. Similarly, capital goods, which account for 11.6%, are estimated to surge by 24.6%, benefitting from robust investment activities. Likewise, imports of consumption goods, representing 8.6% of total imports, are anticipated to increase by 13.6% with the improvement in household spending.

TABLE 2.11. *Gross Imports by End Use, January – August 2023 and 2024*

	RM MILLION		CHANGE (%)		SHARE (%)	
	2023	2024	2023	2024	2023	2024
Capital goods	**78,164**	**106,995**	***1.2***	***36.9***	***10.0***	***11.7***
Capital good (except transport equipment)	70,582	101,702	*2.5*	*44.1*	*9.0*	*11.1*
Transport equipment (industrial)	7,583	5,294	*-9.9*	*-30.2*	*1.0*	*0.6*
Intermediate goods	**398,991**	**503,152**	***-15.7***	***26.1***	***51.0***	***55.1***
Food and beverages, primary and processed, mainly for industries	20,135	21,887	*-14.4*	*8.7*	*2.6*	*2.4*
Fuel and lubricants, primary, processed and others	68,419	80,546	*-5.9*	*17.7*	*8.8*	*8.8*
Industrial supplies, primary, processed and n.e.s.[1]	183,174	209,679	*-14.1*	*14.5*	*23.4*	*23.0*
Parts and accessories of capital goods and transport equipment	127,263	191,041	*-22.3*	*50.1*	*16.3*	*20.9*
Consumption goods	**67,034**	**78,643**	***-1.3***	***17.3***	***8.6***	***8.6***
Food and beverages, primary and processed, mainly for household	31,050	36,635	*4.3*	*18.0*	*4.0*	*4.0*
Transport equipment (non-industrial)	997	1,127	*-14.1*	*13.1*	*0.1*	*0.1*
Other consumer goods	34,988	40,881	*-5.3*	*16.8*	*4.5*	*4.5*
Durables	8,877	11,726	*-3.5*	*32.1*	*1.1*	*1.3*
Semi-durables	11,253	12,838	*-1.7*	*14.1*	*1.4*	*1.4*
Non-durables	14,858	16,318	*-8.9*	*9.8*	*1.9*	*1.8*
Others	**27,082**	**32,741**	***1.2***	***20.9***	***3.5***	***3.6***
Re-exports	**210,517**	**191,651**	***-0.2***	***-9.0***	***26.9***	***21.0***
Gross imports	**781,789**	**913,183**	***-8.7***	***16.8***	***100.0***	***100.0***

[1] Not elsewhere stated
Note: Total may not add up due to rounding
Source: Department of Statistics, Malaysia

Balance of Payments

In the first half of 2024, the current account surplus of the **balance of payments** recorded RM19.2 billion or 2.1% of GNI. The surplus was attributed to the goods account, albeit narrowed, as well as smaller deficits in both the services and income accounts. The momentum is expected to continue into the second half of 2024 with the current account surplus expanding to RM24.2 billion or 2.4% of GNI. This improvement is attributed to the narrowing deficit in the services and income accounts, despite a smaller surplus in the goods account. In total, the current account surplus is anticipated to widen to RM43.4 billion or 2.3% of GNI in 2024.

The goods account is expected to register a moderate surplus of RM115.1 billion in 2024, weighed down by surging imports of intermediate, capital and consumption goods, which more than offset the increasing exports of manufactured, agriculture and mining goods. Accelerating imports of goods will be mainly driven by a buoyant manufacturing sector as well as robust performance in the construction sector following the development of data centres and ramping up of ongoing projects.

Nonetheless, the services account is forecast to record a smaller deficit of RM20.4 billion, following stellar performance in the travel account as well as narrowing deficit in the transport account and other services account. In this regard, the travel account is expected to register a healthier surplus of RM32.6 billion, resulting from a vibrant tourism sector with increasing tourist arrivals. Likewise, the transport account is anticipated to record a smaller deficit of RM30.4 billion attributed to higher trade and travel activities, thus contributing to an increase in earnings by domestic companies following competitive airfares and freight charges as well as higher fees generated from airport and port activities. In addition, more flight frequencies and resumption of direct flight operations may contribute to the shrinking deficit. Similarly, the other services account is expected to register a narrowing deficit of RM22.6 billion in 2024, following higher earnings from maintenance and repair services, construction as well as insurance and pension services.

The primary income account is projected to register a narrower deficit of RM48.8 billion in 2024, owing to a smaller deficit in the investment income account, albeit with a higher deficit in compensation of employees. The deficit in the investment income account is expected to improve to RM38.9 billion, attributed to higher investment income earnings, following high inflows of profits from abroad. Correspondingly, the compensation of employees is anticipated to register a broader deficit of RM9.9 billion, attributed to higher outflows.

TABLE 2.12. *Current Account of the Balance of Payments, 2023 – 2025*
(RM million)

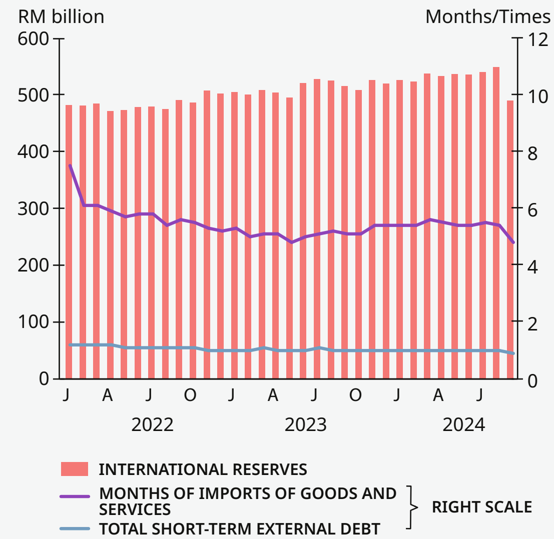
	2023			2024[1]			2025[2]		
	RECEIPTS	PAYMENTS	NET	RECEIPTS	PAYMENTS	NET	RECEIPTS	PAYMENTS	NET
Balance on goods and services	**1,250,183**	**1,157,224**	**92,959**	**1,383,792**	**1,289,057**	**94,734**	**1,454,847**	**1,346,087**	**108,759**
Goods	1,055,187	919,030	136,157	1,142,757	1,027,652	115,105	1,192,873	1,067,270	125,604
Services	194,995	238,194	-43,199	241,034	261,405	-20,370	261,973	278,818	-16,844
Transport	30,826	62,256	-31,430	36,345	66,697	-30,353	39,796	71,393	-31,598
Travel	68,037	50,903	17,134	91,844	59,263	32,581	101,938	65,247	36,691
Other services	96,132	125,035	-28,903	112,846	135,445	-22,599	120,240	142,177	-21,937
Primary income	**90,074**	**142,996**	**-52,921**	**104,547**	**153,298**	**-48,750**	**108,246**	**164,758**	**-56,512**
Compensation of employees	7,766	15,903	-8,136	7,691	17,590	-9,898	8,652	19,055	-10,403
Investment income	82,308	127,093	-44,785	96,856	135,708	-38,852	99,594	145,703	-46,109
Secondary income	**33,279**	**45,113**	**-11,835**	**43,516**	**46,122**	**-2,606**	**46,209**	**49,358**	**-3,149**
Balance on current account	**1,373,535**	**1,345,333**	**28,203**	**1,531,855**	**1,488,477**	**43,378**	**1,609,302**	**1,560,203**	**49,098**
% of GNI			***1.6***			***2.3***			***2.4***

[1] Estimate
[2] Forecast
Note: Total may not add up due to rounding
Source: Department of Statistics and Ministry of Finance, Malaysia

Earnings in the secondary income account for the whole year are anticipated to increase to RM43.5 billion, despite the increasing payments of RM46.1 billion, leading to a smaller deficit of RM2.6 billion. The higher receipts in the secondary income account are the result of an increase in remittances by Malaysians working abroad and the one-off receipt. Meanwhile, the increase in payments is due to larger remittances by foreign workers from Bangladesh, India, Indonesia, Nepal and the Philippines.

In the first half of 2024, the financial account registered a net outflow of RM1.6 billion, following wider net outflows in the direct investment and portfolio investment accounts of RM2.3 billion and RM45.4 billion, respectively. Nevertheless, the outflows were cushioned by the significant increase of net inflows in the other investment and financial derivatives accounts. Malaysia's FDI registered a higher net inflow of RM14.5 billion, mainly channelled into the information and communication; manufacturing; as well as mining and quarrying sectors. Net outflows of direct investment abroad by Malaysian companies widened to RM16.8 billion, primarily directed into the financial and insurance/takaful activities; mining and quarrying; as well as electricity, gas, steam and air conditioning supply sectors.

FIGURE 2.6. *International Reserves*



As at 30 September 2024, Malaysia's international reserves amounted to RM491.6 billion or USD119.7 billion adequate to finance 4.8 months of imports of goods and services and 0.9 times of the total short-term external debt (end-December 2023: RM520.9 billion; USD113.5 billion; 5.4 months; 1.0 times)

Source: Bank Negara Malaysia

FEATURE ARTICLE 2.2

Sensitivity Analysis of Malaysia's Trade on Gross Domestic Product and Impacts of Economic Scenarios in China and the US on Malaysia's Gross Exports

Introduction

Underpinned by the economic dynamism, resilience and openness to international trade, Malaysia has established extensive trade agreements with major trading partners and strategic countries around the world. Malaysia's strong dependency on trade is reflected in its trade-to-GDP ratio, which has consistently been more than 100% over the years, highlighting its strategic position as among the major economic players in the global market. One of Malaysia's key strengths lies in its diversified export portfolio, encompassing a wide range of products and industries. Among the main exports are E&E products; petroleum products; chemicals and chemical products; palm oil and palm oil-based agriculture products; and liquefied natural gas (LNG). This diversification enables Malaysia to mitigate risks associated with fluctuations in global demand and commodity prices, thereby contributing to its economic resilience.

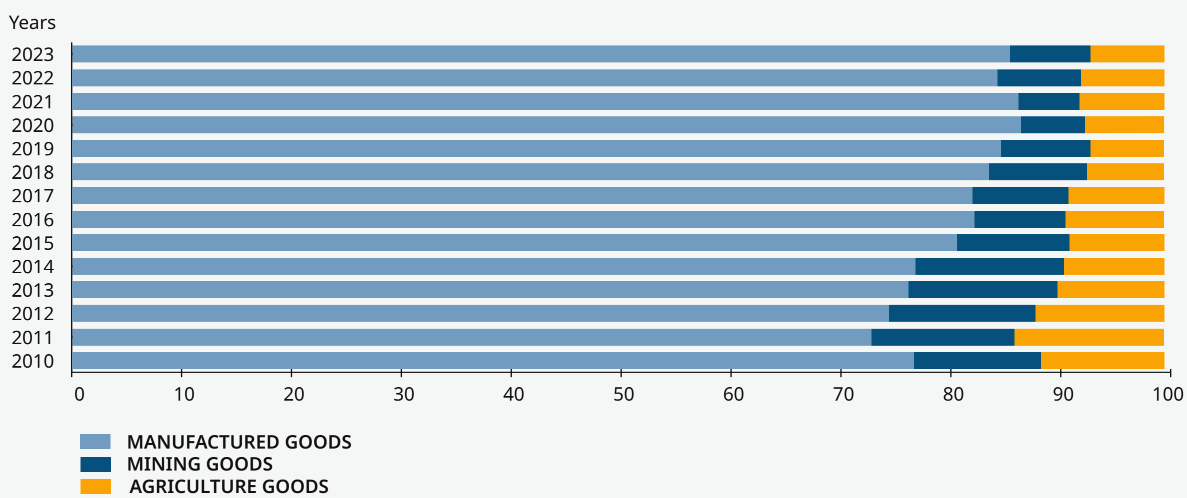
Malaysia's strategic trade relations with major economies, including China, the US, the EU and Japan further underscore its importance in global supply chains. These partnerships boost export earnings, attract foreign direct investments (FDIs), foster technological transfer and enhance industrial linkages. Over the years, Malaysia's external trade policies have been focused on strengthening trade partnerships, enhancing competitiveness and cultivating innovation. Bilateral and regional trade agreements such as the ASEAN Free Trade Area (AFTA), Regional Comprehensive Economic Partnership (RCEP) and Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) have been instrumental in expanding market access and promoting economic integration.

Malaysia's Trade Structure

Malaysia has experienced significant economic transformation, evolving from an economy primarily based on commodities to one driven by robust manufacturing and services sectors. Nonetheless, Malaysia's export is predominantly contributed by trade in goods, which consist mainly of manufactured goods, mining goods and agriculture goods. The share of manufactured goods to total exports increased from 76.6% in 2010 to 85.3% in 2023, reflecting the evolution of the manufacturing sector in Malaysia. Meanwhile, the proportion of mining goods declined from 11.6% to 7.4% and agriculture goods from 11.2% to 6.6% over the same period.

The main export of manufactured goods is E&E products, which constituted over 40% of total exports in 2023. Malaysia plays a vital role in the global E&E supply chain, in tandem with its position as the world's sixth largest exporter of electronics and semiconductors. In this regard, the country accounts for 7% of semiconductor trade flows as well as 13% of back-end operations globally, including chip testing and packaging. Meanwhile, major exports for commodity products include LNG; crude petroleum; palm oil and palm oil based agriculture products; and natural rubber.

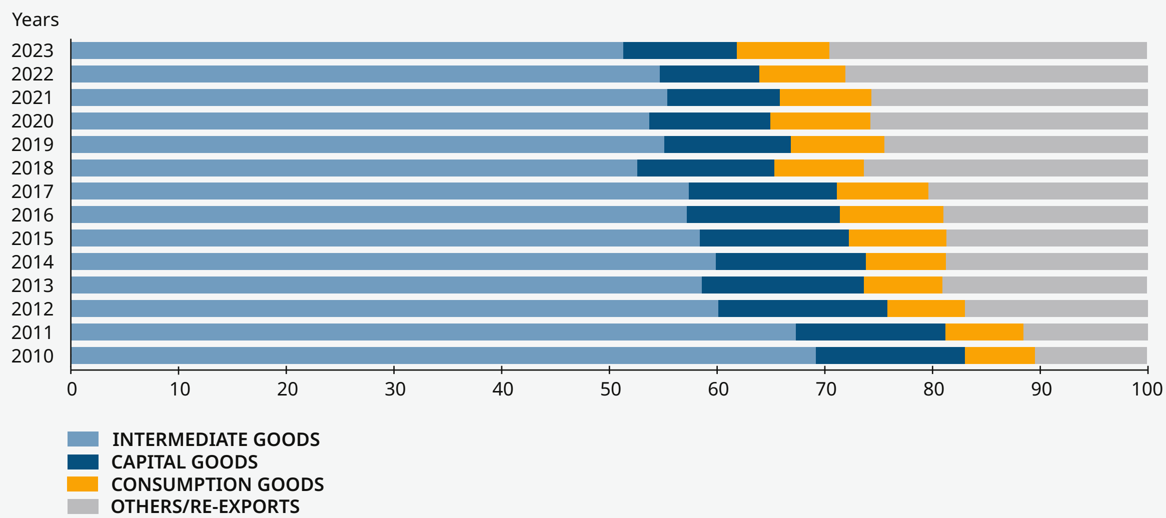
FIGURE 2.2.1. *Composition of Gross Exports by Major Sectors (% share), 2010 – 2023*



Source: Department of Statistics, Malaysia and Malaysia External Trade Development Corporation

On the other hand, gross imports are commonly grouped by broad economic categories (BEC). Malaysia's gross imports by BEC are mainly intermediate goods, capital goods and consumption goods. Intermediate goods are products used in the production process to produce other goods before being sold to final consumers. Intermediate goods still made up the largest share of Malaysia's imports, despite recording a downtrend from 69.1% in 2010 to 51.2% in 2023. This reflected the evolving local manufacturing industry benefitting from high value-added productions, which increased domestic capabilities. Capital goods constituted 10.6% of total imports in 2023, a reduction from about 14% in 2010. Nonetheless, the share of imports for consumption goods increased from 6.5% in 2010 to 8.6% in 2023.

FIGURE 2.2.2. *Composition of Gross Imports by the Broad Economic Categories (% share), 2010 – 2023*



Source: Department of Statistics, Malaysia and Malaysia External Trade Development Corporation

Trade Sensitivity Analysis

Theoretically, an increase in gross exports directly contributes to improving the country's net exports and GDP growth, while a corresponding rise in gross imports could widen trade deficit and reduce the GDP, *ceteris paribus*. Therefore, an econometric analysis was performed to analyse the sensitivity of major components in gross exports and imports to GDP as well as to net exports and imports.

FIGURE 2.2.3. *Sensitivity Analysis Towards Net Exports, Net Imports and Gross Domestic Product (percentage point, ppt)*

COMPONENTS	NET EXPORTS	GDP
Gross exports		
Manufactured goods	↑ 0.854	↑ 0.586
Mining goods	↑ 0.068	↑ 0.047
Agriculture goods	↑ 0.067	↑ 0.046
COMPONENTS	**NET IMPORTS**	**GDP**
Gross imports		
Intermediate goods	↑ 0.568	↓ 0.349
Consumption goods	↑ 0.131	↓ 0.082
Capital goods	↑ 0.054	↓ 0.034

Source: Ministry of Finance, Malaysia (estimates)

From Figure 2.2.3., it can be deduced that changes in the exports of manufactured goods are more sensitive towards net exports and GDP in comparison with exports of mining goods and agriculture goods. A one percentage point (ppt) increase in the exports of manufactured goods will increase net exports by 0.854 ppt and increase the GDP by 0.586 ppt. Meanwhile, exports of mining goods and agriculture goods demonstrate similar results but with minimal impact on net exports and GDP.

On the other hand, a one ppt increase in the import of intermediate goods will increase net imports by 0.568 ppt and reduce the GDP by 0.349 ppt as intermediate goods account for the largest share of imports at an annual average of over 50% from 2010 to 2023. Nonetheless, consumption goods have a higher impact to net imports and GDP than capital goods. This relationship is explained by the shorter economic cycle of consumption goods, as these goods are purchased and consumed directly by households, which immediately influences domestic consumption that also accounts for a large portion of GDP. Conversely, capital goods are used for production and contribute to GDP over a longer period and may not immediately result in an increase in consumption and production output.

Following the higher sensitivity of the manufacturing sector, the findings echo the focus given to the sector, which represents about 23% of GDP and Malaysia is well positioned to diversify and move up the value chain. Meanwhile, mining goods and agriculture goods indicate less sensitivity to GDP due to the fluctuating income that could be derived from the sectors resulting from volatile commodity prices and weather uncertainties. In addition, the growth of resource-based industries in Malaysia is hindered by the shortage of labour, particularly in the agriculture sector that is labour-intensive, as the transition towards a capital-intensive is costly. This has further impeded productivity and growth, despite wide opportunities of the sector (World Bank, 2018). The agriculture sector is also reliant on government assistance and any change in public policies may have a direct impact on development. In the same vein, productivity and competitiveness in the mining sector may be hindered by a shortage of skilled workforce and specialised expertise as well as slow adoption to high technology. Furthermore, the high investment cost in exploring new minerals and areas remain a challenge despite Malaysia being endowed with an abundance of diverse minerals and natural resources.

The findings are in line with the strategies outlined for the manufacturing sector. Through the implementation of the New Industrial Master Plan 2030 (NIMP 2030), National Semiconductor Strategy (NSS) as well as National Energy Transition Roadmap (NETR) and supported by the agriculture and mining sectors, a strong symbiotic synergy can be established between the upstream and downstream industries in Malaysia's economic ecosystem. With the advancement of the manufacturing sector, Malaysia has the potential to move up the value chain and increase export of products with complexity and higher value-added across all sectors. Apart from emphasising on the domestic economic sectors, leveraging trade engagement is equally vital to ensure Malaysia's exports sustainability.

Major Trading Partners

Malaysia is a vibrant Southeast Asian nation with dynamic trade engagements between two of the world's largest economies, China and the US, which are paramount for the country's economic landscape. As Malaysia's largest trading partner, China plays a significant role in the industrial and export activities, while the US, ranked third only after Singapore, contributes to high-value goods and technological innovations. Balancing these relationships enables Malaysia to enhance its global trade competitiveness and sustain robust economic growth.

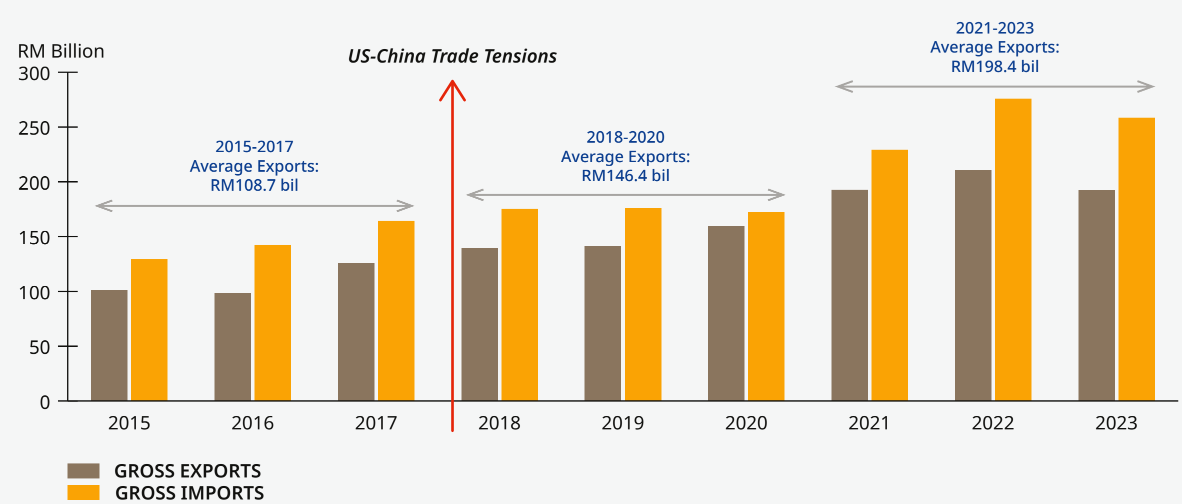
The trade tensions between the US and China, which began in 2018 with the imposition of high tariffs and non-tariff barriers have had significant impacts through inhibiting global trade and investment, disrupting supply chains as well as impacting businesses, jobs and consumers. As Malaysia is an open economy and deeply integrated into the global supply chain, the geopolitical tensions between the two countries have posed both challenges and opportunities. Malaysia benefitted from the trade diversion arising from relocation of industries from China and the US to the Southeast Asian region as ways to avoid future risks out of the increased US-China tensions. The semiconductor, telecommunications and technology-related industries are Malaysia's key beneficiaries of the investment diversion. In this regard, Malaysia continues to enhance competitiveness and streamline policy direction to remain as an attractive investment destination in the region.

Trade with China

Malaysia's trade partnership with China has grown substantially over the past few decades, built on mutual economic interests, geographical proximity and complementary industrial strengths. Malaysia exports a wide range of goods to China, including E&E products; chemicals and chemical products; LNG; manufactures of metal; other manufactures; as well as palm oil and palm oil based agriculture products. Meanwhile, Malaysia's major imports from China include E&E products; machinery, equipment and parts; chemicals and chemical products; manufactures of metal; and petroleum products. The imports of these goods support Malaysia's own manufacturing industries and consumer markets.

The dynamic and evolving economic ties with China bolsters Malaysia's economic growth and enhances regional economic integration, particularly within the framework of initiatives like the Belt and Road Initiative (BRI) and the RCEP. As Malaysia continues to navigate the complexities of global trade, the partnership with China remains a cornerstone of economic strategy, reflecting the strategic importance of China in Malaysia's trade policies and economic development. As illustrated in Figure 2.2.4., Malaysia's exports to China recorded an upward trend from 2015 to 2022, despite trade tensions between the US and China. Nonetheless, exports to China moderated in 2023 due to slower economic growth.

FIGURE 2.2.4. *Malaysia's Trade with China, 2015 – 2023*



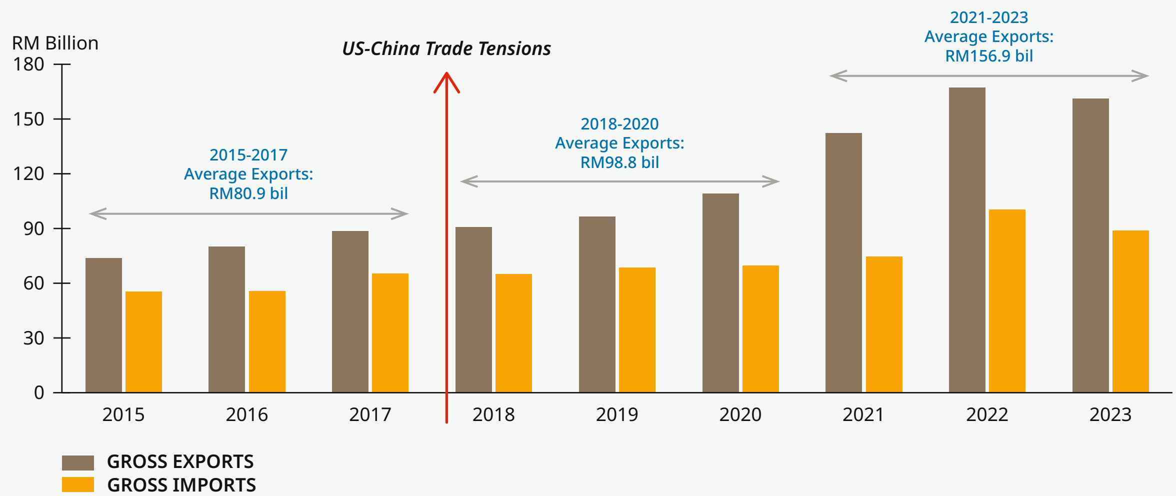
Source: Department of Statistics, Malaysia and Malaysia External Trade Development Corporation

Trade with the US

Malaysia's trade with the US is a critical component of its international economic strategy, reflecting decades of robust commercial and investment linkages. The US plays a pivotal role in Malaysia's export-driven economy, particularly for the E&E products; optical and scientific equipment; rubber products; and palm oil, which underscores the diversity and strength of Malaysia's manufacturing and agriculture sectors. Meanwhile, Malaysia imports high-tech machinery, aircraft parts, optical and scientific equipment and agriculture products from the US, facilitating technological advancement and industrial growth within the country.

The trade engagement is characterised by high-value and technologically advanced exchanges, further augmented by strong FDI flows. This partnership enhances Malaysia's economic resilience and supports its aspirations to be a key player in the global supply chain, fostering innovation and competitiveness in industries. Malaysia's exports to the US grew significantly post COVID-19 pandemic, as depicted in Figure 2.2.5. Average exports to the US surged from RM98.8 billion for the period of 2018 – 2020 to RM156.9 billion in 2021 – 2023. Increasing demand in the recent years by the US was recorded for E&E products; other manufactures; petroleum products; machinery, equipment and parts; optical and scientific equipment; and rubber products.

FIGURE 2.2.5. *Malaysia's Trade with the US, 2015 – 2023*



Source: Department of Statistics, Malaysia and Malaysia External Trade Development Corporation

Gravity Model Analysis

Generally, any disruption in international trade can reduce export earnings, increase market instability and challenge economic growth. High dependency on traditional trading partners limits diversification efforts, hence positioning the country to be more vulnerable to global shocks and policy changes.

FIGURE 2.2.6. *Trade Sensitivity Analysis between Malaysia's Exports with China and the US by Using Gravity Model*

Malaysia's Gross Exports to China: Findings (%)	Any 1% Change in Independent Variables	Malaysia's Gross Exports to the US: Findings (%)
1.13	China's / US' GDP	1.71
-0.04	Malaysia's GDP	0.30
3.99	China's / US' Population	17.27
-4.13	Malaysia's Population	-13.27
0.17	Exchange Rate	0.75

Source: Ministry of Finance, Malaysia (estimates)

A gravity model[1] is applied to analyse the sensitivity of Malaysia's gross exports when trading with China and the US. The variables adopted for the analysis are exporter's and importer's GDP as well as exporter's and importer's population apart from the exchange rate as an added variable to gauge more findings. As depicted in Figure 2.2.6., the findings indicate that a 1% change in China's GDP will influence Malaysia's exports by 1.13%. Meanwhile, a 1% change in the US' GDP will have a bigger impact to Malaysia's gross exports at 1.71%. This is reflective of the fact that Malaysia is a net exporter to the US and a net importer with China.

More exports will result in a trade surplus that contributes to a country's economic growth as export expansion drives the adoption of efficient production of goods and services to achieve economies of scale, particularly in sectors that a country has comparative advantage. The flow of funds into Malaysia will increase when exporting more to the US, which then leads to an increase in consumer spending and aggregate demand that subsequently drives Malaysia's GDP. This is reflected by a positive relationship, where a 1% change in Malaysia's GDP will bring about 0.3% impacts to Malaysia's gross exports to the US. This positive finding bodes well with Malaysia's position as a net exporter to the US where a 1% change in the US' GDP will have bigger impacts to Malaysia's gross exports.

In hindsight, Malaysia is a net importer with China and the analysis concludes a negative relationship on impacts to Malaysia's gross exports to China at 0.04% for any 1% change in Malaysia's GDP. As Malaysia imports more from China, this further explains the lesser impacts of Malaysia's gross exports to the country when comparing with the US, for any 1% change in China's GDP. Higher imports signal a country experiences a trade deficit that could be damaging to the economy if not balanced with strong exports. In essence, a high level of gross imports indicates robust domestic demand and a growing economy especially if the gross imports are mainly intermediate and capital goods used in the production process and investment. As the analysis

[1] The gravity model is a theoretical approach that may explain and predict trade flows based on two main components, namely the GDP and the distance between countries as well as population and exchange rate as control variables.

shows an inverse relationship on the impact of Malaysia's gross exports to China, the imports are mainly supportive of Malaysia's own manufacturing industries and consumer markets that in turn will be favourable to the country's economic productivity in the long run.

The findings imply a positive relationship between Malaysia's gross exports and the respective countries' population. The analysis shows that Malaysia is more sensitive to the population of the US compared to China. A 1% change in the US will affect Malaysia's gross exports to the country by 17.27%, while a 1% change in China will influence Malaysia's gross exports by 3.99%. This is attributed to the fact that an increase in population in these countries will result in higher demand for Malaysia's gross exports. On the other hand, any 1% change in Malaysia's population is inversely related to an increase in the demands from China and the US. The population growth leads to a significant impact on gross exports due to an increase in local consumption needs. Hence, population growth increases local demand for goods and services, thereby reducing exports (Fohoue, et al., 2024). In this regard, local production will be utilised to meet an increase in domestic demand resulting from an increase in Malaysia's population, before entering into the export market.

Furthermore, the findings indicate a positive relationship between Malaysia's gross exports and the exchange rate, where a depreciation in the ringgit will result in an increase in Malaysia's gross exports to the corresponding countries. The analysis shows that Malaysia is more sensitive to the US dollar than the renminbi. In lieu of this, a 1% change in the US dollar will affect Malaysia's gross exports to the US by 0.75%, while a 1% change in the renminbi will influence Malaysia's gross exports to China by 0.17%. This is based on the fact that the US dollar is the most widely traded currency in international trade and transactions, hence any fluctuations in the value of the greenback will have a significant global impact including Malaysia.

In essence, Malaysia's trade volume with China is significantly higher compared to the US, making China the country's largest trading partner. The balance of trade, however, is in favour of China as Malaysia's manufacturing industry is heavily dependent on the gross import of intermediate goods from China, resulting in a trade deficit for Malaysia. Among other reasons include infrastructural development of large-scale projects through Chinese investments, where most of the materials and equipment are sourced from China. Notwithstanding that Malaysia's total trade with the US is lesser than with China, trade with the US is crucial for strategic economic sectors such as technology and healthcare. As the analysis indicates that Malaysia's gross exports are more sensitive to the economic scenario in the US than in China, any policy shift towards protectionism, such as higher tariffs and new non-tariff measures in these countries, could bring repercussions to Malaysia's external sector.

Conclusion

Moving forward, Malaysia's trade with both China and the US is expected to strengthen driven by global economic dynamism and evolving trade policies, despite geopolitical uncertainties. As the country navigates the complexities of global trade, it continues to adapt to shifting economic landscapes and utilising emerging opportunities. Malaysia's commitment to open trade, together with its strategic and far-sighted economic policies, will position it well to sustain growth, enhance economic resilience and remain competitive in the global market. While each engagement has its unique characteristics and benefits, together the ties help Malaysia maintain a balanced and diversified trade portfolio and sustainable economic diversification, in line with the aspirations outlined in the Ekonomi MADANI framework.

Prices

Inflation remains moderate amid the rationalisation of diesel subsidy

Headline inflation, as measured by the **Consumer Price Index (CPI)**, eased to an average of 1.8% in the first eight months of the year, down from 2.8% over the same period in 2023, following favourable cost environment and sustained demand. Notably, the moderation in headline inflation was primarily driven by slower price increases in food & beverages (1.8%), as well as restaurants & accommodation services (3.2%), albeit the increase in housing, water, electricity, gas & other fuels (2.9%), which was driven by upward adjustments in water tariffs and rising prices for sewage collection services. Other main groups recorded price increases surpassing the headline inflation were personal care, social protection & miscellaneous goods & services (2.9%); and health (2%). The targeted diesel subsidy, implemented in June 2024, has a relatively manageable impact on inflation attributed to its small weightage in the CPI basket (0.2%) as well as stricter enforcement actions against profiteering, continuation of diesel subsidies for selected business sectors, and targeted cash assistance.

Headline inflation is projected to remain manageable for the whole year and is expected to range between 1.5% and 2.5%, with inflation projected close to its long-term average of approximately 2%. The risk of inflation would be dependent on the degree of knock-on effects on other items from any implementation of policy measures on subsidies and price controls, as well as fluctuations in global commodity prices.

In the first eight months of 2024, the **Producer Price Index (PPI)** for local production rebounded 0.9% from contraction of 2.4% during the same period in 2023. All key sectors experienced increases, led by water supply (6.4%), agriculture, forestry and fishing (3.8%) and mining (3.3%). In addition, modest growth were recorded in electricity and gas supply (0.5%) and manufacturing (0.4%) sectors. The PPI for the stage of processing

TABLE 2.13. *Consumer Price Index, January – August 2023 and 2024 (2010 = 100)*

	WEIGHT[1]	CHANGE (%)		CONTRIBUTION TO CPI GROWTH (PERCENTAGE POINTS)	
		2023	2024	2023	2024
Consumer Price Index	**100.0**	***2.9***	***1.8***	***2.90***	***1.80***
Food & beverages	29.8	*5.7*	*1.8*	*1.71*	*0.54*
Alcoholic beverages & tobacco	1.9	*0.6*	*0.6*	*0.01*	*0.01*
Clothing & footwear	2.7	*0.3*	*-0.2*	*0.01*	*-0.01*
Housing, water, electricity, gas & other fuels	23.2	*1.7*	*2.9*	*0.39*	*0.67*
Furnishings, household equipment & routine household maintenance	4.3	*2.7*	*0.9*	*0.12*	*0.04*
Health	2.7	*2.0*	*2.0*	*0.05*	*0.05*
Transport	11.3	*1.6*	*1.1*	*0.18*	*0.12*
Information & communication	6.6	*-2.6*	*-0.9*	*-0.17*	*-0.06*
Recreation, sport & culture	3.0	*1.7*	*1.7*	*0.05*	*0.05*
Education	1.3	*1.8*	*1.5*	*0.02*	*0.02*
Restaurants & accomodation services	3.4	*6.2*	*3.2*	*0.21*	*0.11*
Insurance & financial services	4.0	*0.2*	*0.1*	*0.01*	*0.00*
Personal care, social protection & miscellaneous goods & services	5.8	*2.5*	*2.9*	*0.14*	*0.17*

[1] Based on Household Expenditure Survey 2022
Note: Total may not add up due to rounding
Source: Department of Statistics, Malaysia

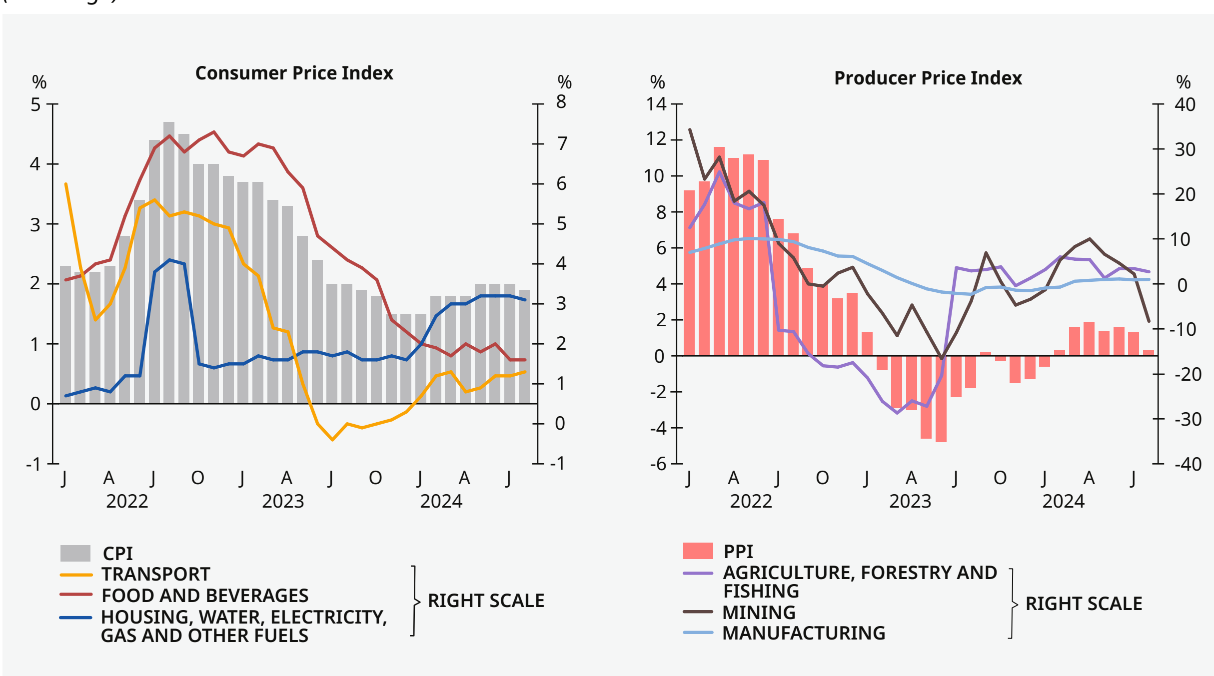
category recorded a turn around of 3.4% for crude materials for further processing while finished goods grew by 2.3%. However, the price of intermediate materials, supplies and components declined by 0.4%. PPI is projected to remain stable throughout the year due to stability in commodity prices and sustained demand across key sectors. Meanwhile, the risk of further cost-push inflation remains, weighing on fluctuation in global commodity prices and supply chain disruptions.

TABLE 2.14. *Producer Price Index, January – August 2023 and 2024 (2010 = 100)*

	WEIGHT[1]	CHANGE (%)		CONTRIBUTION TO PPI GROWTH (PERCENTAGE POINTS)	
		2023	2024	2023	2024
Producer Price Index by sector	**100.000**	***-2.4***	***0.9***	***-2.400***	***0.900***
Agriculture, forestry and fishing	6.730	*-19.4*	*3.8*	*-1.306*	*0.256*
Mining	7.927	*-8.4*	*3.3*	*-0.666*	*0.262*
Manufacturing	81.571	*0.2*	*0.4*	*0.163*	*0.326*
Electricity and gas supply	3.442	*0.8*	*0.5*	*0.028*	*0.017*
Water supply	0.330	*3.2*	*6.4*	*0.011*	*0.021*
Producer Price Index by stage of processing	**100.000**	***-2.4***	***0.9***	***-2.400***	***0.900***
Crude materials for further processing	16.410	*-14.8*	*3.4*	*-2.429*	*0.558*
Intermediate materials, supplies and components	56.119	*-0.2*	*-0.4*	*-0.112*	*-0.224*
Finished goods	27.471	*3.6*	*2.3*	*0.989*	*0.632*

[1] Based on Economic Census 2016
Note: Total may not add up due to rounding
Source: Department of Statistics, Malaysia

FIGURE 2.7. *Consumer Price Index and Producer Price Index Trends (% change)*



Source: Department of Statistics, Malaysia

Labour Market

Stable labour market conditions

The labour market demonstrated consistent improvement in the first half of 2024, driven by robust economic growth. Strong domestic demand and recovery in external sector spurred more job opportunities in the market. The labour force participation rate rose significantly to 70.5%. The total **employment** grew higher by 3.9% to record 16.2 million persons compared to labour force which recorded a growth of 3.5% to 16.8 million persons. The faster pace of employment led to a significant decline in the **unemployment rate** to 3.2% or 534,500 unemployed persons. The services sector remained as the major source of employment during the period at 65.6%, followed by the manufacturing (16.4%) and agriculture (9.2%) sectors.

The improvement in the labour market was also depicted in the number of **retrenchments**, which remained low at 25,796 persons as at end-June 2024, as industries continued retaining talents to accommodate ongoing business activities. Job **vacancies** registered over 748,900 positions, with over 50% accounting for the semi- and low-skilled occupations. Additionally, job **placements** remained positive with over 78,100 persons obtained placements throughout the first half of 2024, signifying that around 10% of vacant positions were filled.

Labour market stability is anticipated to persist in the second half of the year backed by encouraging hiring activities as businesses continue to expand in response to domestic economic growth. Hiring activities will be primarily driven by the services and manufacturing sectors, mainly within the wholesale and retail trade subsector, accommodation and food and beverages services, as well as export-oriented industries. As a result, the unemployment rate is expected to remain at 3.2% for the whole of 2024.

TABLE 2.15. *Labour Market Indicators*

	('000)			CHANGE (%)		
	H1[1]	2024[2]	2025[3]	H1[1]	2024[2]	2025[3]
Labour force	16,773.4	16,837.7	17,180.0	*3.5*	*2.9*	*2.0*
Employment	16,238.9	16,303.3	16,646.5	*3.9*	*3.1*	*2.1*
Unemployment	534.5	534.4	533.5	*(3.2)*	*(3.2)*	*(3.1)*

[1] January to June 2024
[2] Estimate
[3] Forecast
Note: Figures in parentheses refer to unemployment rate
Source: Department of Statistics and Ministry of Finance, Malaysia

TABLE 2.16. *Employed Persons by Sector*

	('000)			SHARE (%)		
	H1[2]	2024[3]	2025[4]	H1[2]	2024[3]	2025[4]
Agriculture, forestry and fishing	1,491.8	1,494.9	1,517.4	*9.2*	*9.2*	*9.1*
Mining and quarrying	90.6	90.4	91.3	*0.6*	*0.6*	*0.5*
Manufacturing	2,668.1	2,670.6	2,748.0	*16.4*	*16.4*	*16.5*
Construction	1,336.6	1,337.2	1,370.6	*8.2*	*8.2*	*8.2*
Services	10,651.8	10,710.1	10,919.1	*65.6*	*65.7*	*65.6*
Total[1]	**16,238.9**	**16,303.3**	**16,646.5**	***100.0***	***100.0***	***100.0***

[1] Total includes 'Activities of extraterritorial organisations and bodies'
[2] January to June 2024
[3] Estimate
[4] Forecast
Source: Department of Statistics and Ministry of Finance, Malaysia

The ongoing commitment to address shortages of workers in the economy coupled with the extension of foreign workers legalisation process under the Workforce Recalibration Programme has eased the recruitment and mobility of migrant workers. Hence, the number of registered low-skilled **foreign workers** indicated a growth of 41.1% to record around 2.5 million persons as at end-August 2024 compared to 1.8 million persons during the same period last year. Foreign workers were sourced mainly from Bangladesh with a share of 37.8%, followed by Indonesia (23.7%) and Nepal (16.7%). In terms of employment, 31.5% of these foreign workers were employed in the manufacturing, followed by construction (28.4%) and services (18.2%) sectors. Currently, low-skilled foreign workers stand at 14.8% of total employment, approaching the allowable threshold of 15%. Meanwhile, the number of **expatriates** increased by 6.3% to 113,493 persons as at end-August 2024. The majority of the expatriates was from China (24.1%), followed by India (18.3%) and the Philippines (8%), mainly hired in the information technology (38.7%), services (26.8%) and construction (10.5%) sectors.

Labour productivity, measured by value-added per worker, improved by 2.6% to RM48,387 in the first half of 2024 attributed to productivity gains across all economic sectors, particularly in construction (13.5%) and mining and quarrying (4.1%). The productivity improvements in these two sectors were also supported by robust expansion in civil engineering; and specialised construction activities; as well as crude oil and natural gas; and mining support service activities. Overall, labour productivity is expected to expand by 2.3% to RM100,000 in 2024, underpinned by continued efforts to support industries accelerating greater technology adoption, automation, research and development (R&D) and innovation as well as talent skills development to meet the needs of industry. The construction sector is projected to record the highest increase of 12.8%, followed by manufacturing (2.6%) as well as mining and quarrying (2.4%) sectors.

Outlook For 2025

Global Outlook

Stable and resilient growth

The **global growth** is projected to register 3.3% in 2025 owing to a convergence of growth among developed economies and steady growth in EMDEs. Advanced economies are expected to expand at 1.8%, with the US GDP is forecast to grow at moderate pace of 1.9% as consumption and the labour market slows down. Meanwhile, growth in the euro area is estimated to increase by 1.5% in 2025 as a result of better consumption and investment activities. Growth in EMDEs are anticipated to remain stable at 4.3%, with China is forecast to register a growth of 4.5% mainly due to sluggish productivity growth. Likewise, the economy of India is projected to increase to 6.5% supported by sustained domestic demand.

Global trade growth is forecast at 3.4% due to upswing in trade activities among advanced economies and EMDEs. Trade in advanced economies is expected to grow by 2.8% while EMDEs are expected to register 4.5% in growth. **Global inflation** is expected to continue its downward trend to 4.4% with advanced economies and EMDEs forecast at 2.1% and 6%, respectively. This is on account of lower energy prices and the gradual cooling effects of labour market.

Domestic Outlook

Sectoral

Services Sector

Consumer spending bolsters growth

The **services** sector is projected to grow by 5.5% in 2025, bouyed by expansion in all subsectors. The growth will mainly emanate from continuous consumer spending as well as robust business- and tourism-related activities.

The wholesale and retail trade subsector will remain as the key contributor to the services sector, with a projected growth of 4.7%. The increase is anticipated to be mainly driven by the retail segment through higher adoption of technologies by traditional and large-scale traders, particularly in AI and big data analytics, as well as utilisation of social media and online shopping platforms. The motor vehicles segment is also expected to remain robust pursuant to the introduction of new models equipped with innovative and advanced features, specifically in EVs and hybrid vehicles.

The transportation and storage subsector is anticipated to grow by 10.4%, buoyed by all segments following the expansion in rail, highway, port and airport activities. The land transport segment is projected to increase attributed to the additional 27 new train sets for the LRT Kelana Jaya Line and is expected to increase daily ridership and reduce waiting time. The expected launching of new and upgraded highways such as the West Coast Expressway (WCE) and Kajang Dispersal Link Expressway (SILK) are anticipated to reduce travel time and ease traffic congestion in the Klang Valley area. Likewise, the air transport segment is projected to increase supported by resumption of direct flights to key destinations as well as thriving air cargo activities due to traders' preference over maritime shipment, following continuous disruptions caused by the Red Sea crisis. Meanwhile, the water transport segment is expected to record a steady growth amid expansion in port's cargo and container handling capacity.

FEATURE ARTICLE 2.3

Promoting Green Mobility in Driving the Nation Forward

Introduction

Malaysia is committed to achieving net-zero greenhouse gas (GHG) emissions by 2050, in line with global goals on climate change. The country also intends to reduce its economy-wide carbon emission intensity against GDP by 45% in 2030.[1] Towards realising this commitment, the Ekonomi MADANI framework has set priorities to elevate and restructure the economy by implementing energy transition initiatives in new industries within green growth areas, including green mobility, renewable energy (RE) and alternative sustainable fuels in the transportation sector. The framework is further strengthened with the formulation of national strategic plans such as the National Energy Transition Roadmap (NETR), New Industrial Master Plan 2030 (NIMP 2030) and Hydrogen Economy and Technology Roadmap, paving the way for investment opportunities and the empowerment of human capital in green growth areas.

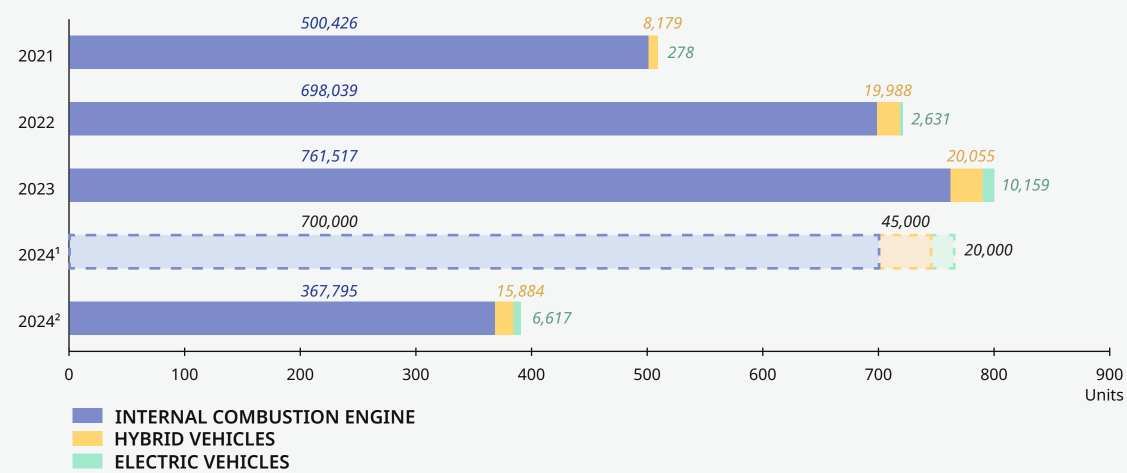
Transportation Sector Performance at a Glance

The transportation sector plays a vital role as the enabler for socioeconomic activities, comprising the mobilisation of goods, people and resources in the economy. However, this sector continues to be a significant contributor to GHG emissions, accounting for 64,973 kilo tonnes or 20% of total CO_2 equivalent in 2019, of which 86.4% was from road transportation (Ministry of Natural Resources and Environmental Sustainability, Malaysia, 2024a).

Total sales volume in the automotive industry grew at an average annual growth rate of 26.3% to 799,731 units during 2021 – 2023, as shown in Figure 2.3.1. A similar trend was also visible in the electric vehicles (EVs) segment, with an increase of 566.3% over the same period, indicating rising

[1] Based on Malaysia's Nationally Determined Contribution to the Paris Agreement of the United Nations Framework Convention on Climate Change compared to emissions intensity in 2005.

FIGURE 2.3.1. *Total Sales Volume in the Automotive Industry, 2021 – 2024*



[1] Estimate
[2] January – June 2024
Source: Malaysia Automotive Association

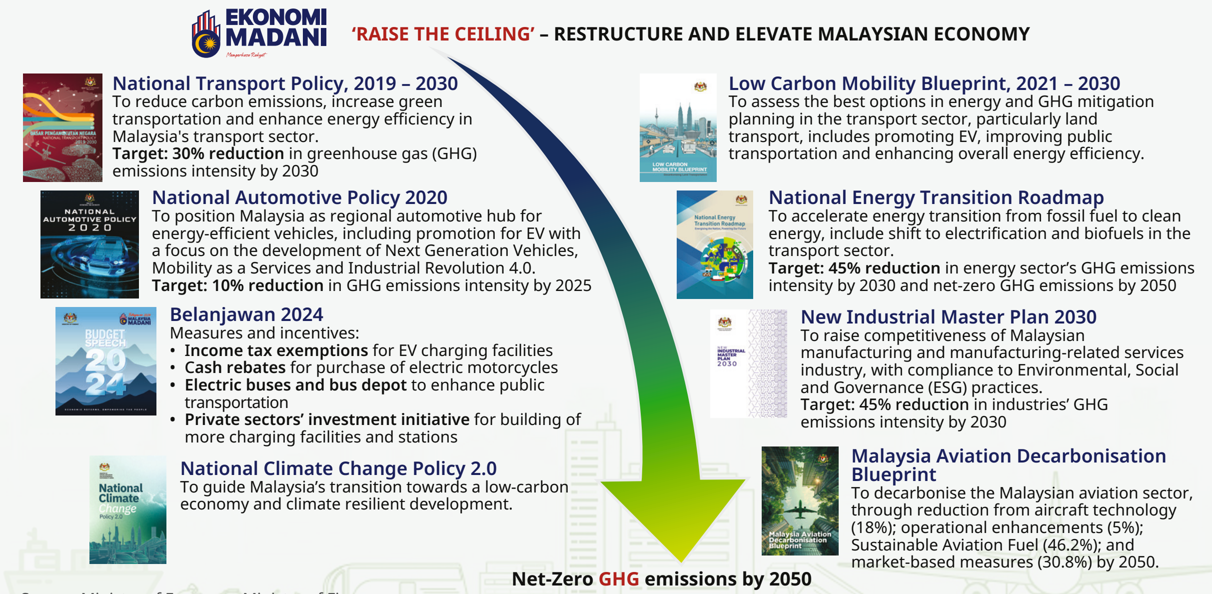
consumer demand for green mobility, supported by attractive incentives offered for EV ownership under the annual budget measures. However, the share of the EV segment was only 1.3% (10,159 units) of the total sales volume in 2023, highlighting that brown mobility remains prevalent in the land transportation segment.

Malaysia's automotive industry has notably transitioned from internal combustion engine (ICE) vehicles to green mobility via energy-efficient and low carbon-emission vehicles. The transition is supported by a surge in EV ownership and increased EV-related investments, including assembly plants, charging facilities and battery components production. In addition, the Government has set targets that will result in 80% of motor vehicle sales being EV by 2050 and 40% RE in the country's fuel mix by 2035 (Ministry of Economy, Malaysia, 2023). The Government also aims to install 10,000 charging points by 2025 (Ministry of Natural Resources and Environmental Sustainability, Malaysia, 2021). As of 30 June 2024, the Malaysia Electric Vehicle Charging Network (MEVnet) dashboard reported the installation of 2,606 EV charging bays across 920 locations nationwide. The recent progress, reaching 26.1% of the target, highlights the need to intensify efforts to accelerate the development of the charging infrastructure within the remaining timeframe.

Green Mobility and Its Economic Potential

Green mobility has gained global attention following rising concerns on climate change, increasing urban pollution and the push towards net-zero carbon emission for sustainable development. Advancements in clean technology, growing consumer preference for environmental-friendly transportation solutions and supportive government policies have also contributed to the rise in public awareness. Cities are striving to reduce their carbon footprint through green mobility, encompassing public transportation, EV, cycling and walking, with cities such as Copenhagen, Oslo and Sydney aspiring to be carbon-neutral cities as early as 2025. Likewise, Malaysia is also joining the global race to net-zero carbon emissions by formulating strategic roadmaps and initiatives, as evidenced by the Putrajaya Smart City Blueprint, an initiative paralleled with the NETR's aspirations. A snapshot of the national green mobility-related strategic plans and initiatives is outlined in Figure 2.3.2.

FIGURE 2.3.2. *Green Mobility-Related Strategic Plans and Initiatives*



Source: Ministry of Economy; Ministry of Finance;
Ministry of Investment, Trade and Industry; Ministry of Natural Resources and Environmental Sustainability; and Ministry of Transport, Malaysia

The transition to green mobility has the potential to generate a substantial multiplier effect across economic sectors, thereby fostering new sources of growth. The Ministry of Finance, Malaysia has identified 15 out of 124 industries in the 2021 Input-Output (IO) Table as proxies for the analysis of green mobility sector to determine the multiplier effect. These industries include wholesale & retail trade, repair of motor vehicles and motorcycles; electronic components and boards; as well as electricity and gas. The IO analysis shows that for every RM1.00 change in demand for green mobility, there will be a RM1.76 change in output from interrelated activities along the supply chain in the economy, as tabulated in Table 2.3.1.

TABLE 2.3.1. *Estimated Value for Intersectoral Linkages*

SECTOR	ESTIMATED VALUE (RM)
Construction	2.00
Manufacturing	1.98
Green Mobility[2]	1.76
Utilities	1.67
Services	1.58
Agriculture	1.30
Mining	1.25

Source: Ministry of Finance, Malaysia (estimates)

[2] Proxy industries to green mobility are wholesale & retail trade, repair of motor vehicles and motorcycles; electronic components and boards; electricity and gas; motor vehicles, trailers and semi-trailers; warehousing and support activities for transportation; ships, boats, bicycles and invalid carriages; electricity distribution & control apparatus, batteries and accumulators; services incidental to water and air transportation; repair & installation of machinery and equipment; rubber tyres and tubes; other transport equipment; and motorcycles as well as land, water and air transports.

Challenges to Green Mobility

In Malaysia, the pace of transition from ICE vehicles to EVs is yet to reach the desired potential due to public perception and infrastructure challenges. These include limited charging stations and public transport networks as well as issues related to affordability and accessibility such as high costs, slow expansion of charging infrastructure and low resale values (Malaysian Investment Development Authority, 2022). Currently, all EVs available in the market are imported, thus causing the retail prices to be comparatively higher than conventional ICE vehicles and less affordable to the masses.

Moreover, the limited availability and utilisation of alternative fuels, such as synthetic fuels and biomass, has caused the transportation sector to continue relying on fossil fuels. Recent efforts have been undertaken to produce sustainable fuels that combine fossil fuels with ethanol derived from renewable sources such as biomass generated from oil palm, agriculture by-products, wood and domestic waste. However, the development of sustainable fuels is still in the nascent stages and limited market production has made it a comparatively more expensive alternative. For instance, the early adoption of sustainable aviation fuel may lead to higher operational costs for airlines and could be potentially passed on to consumers.

Current Efforts and Way Forward

Malaysia possesses the competitive advantage to emerge as a regional automotive manufacturing hub for next-generation vehicles, including EVs and energy-efficient vehicles, as envisioned in the National Automotive Policy 2020. As the sixth-largest semiconductor exporter in the global E&E supply chain, Malaysia can leverage on the local semiconductor ecosystem to move up the value chain by shifting from back-end segment, particularly assembly, packaging and testing activities to higher value-added front-end segment such as advanced packaging, integrated circuit design and smart manufacturing activities. In addition, green mobility will boost industries such as batteries and electric motors activities. Furthermore, the utilisation of local raw materials for the production and development in recycling capabilities for EV batteries have great potential to further enhance the value chain within the manufacturing sector.

The growing demand for green mobility will stimulate growth of the services and construction sectors. The transportation and storage subsector will benefit from fleet electrification, which reduces operational costs and drives logistics companies' efficiency while contributing to lower carbon emissions. Meanwhile, the utilities subsector will benefit from the integration of RE sources to power EV charging stations and support the grid's transition to cleaner energy. The availability of charging infrastructure is essential to accommodate rising EV users, particularly in urban areas. Integrating EV infrastructure into future urban planning and development will also support green city initiatives, mainly energy-efficient buildings and smart cities and further enhancing property values and attractiveness.

Under the National Energy Policy, 2022 – 2040, the national grid is being upgraded to accommodate rising demand from household, commercial and industrial users, while also facilitating the implementation of a smart grid network. Similarly, through the NETR, the Government has set out the commitment to expand investments in RE, focusing on hydro, solar and bio energy to increase the nation's installed capacity. Meanwhile, the development of large-scale battery storage solutions to manage energy supply from renewable sources will contribute to greater energy resilience. These initiatives are expected to significantly increase the output in the energy segment, thus supporting the green mobility infrastructure needs.

Green hydrogen is an emerging source being explored as a potential fuel for the future. At present, development is still in the observation phase, with collaborative efforts among industry players are focused on leveraging hydropower advantages to produce green hydrogen. Efforts are also underway to develop a comprehensive regulatory framework to support and encourage growth across the entire hydrogen energy value chain.

The need to comply with ASEAN fuel economy standards has accelerated the development of sustainable fuels. Efforts to expand local sustainable fuel production will capitalise on the nation's abundant RE resources to meet rising domestic and international demand. In this respect, Malaysia is well-positioned to lead sustainable fuel production, given the abundant availability of biomass from palm oil mill effluent and empty fruit bunches. The sustainable fuel will also contribute to decarbonisation efforts in the aviation and marine sectors, ensuring compliance with international requirements and standards. Therefore, rapid scaling of industrial production volumes is crucial to lowering sustainable fuel production costs, promoting logistic industry decarbonisation and reducing dependency on fossil fuels.

The formulation of coherent policies and provision of necessary support remain critical in expediting the adoption of green mobility. Concerted efforts need to be intensified, including attracting investment from leading automakers to establish production facilities in Malaysia. The Government will also actively promote international cooperation, foster strategic collaboration and encourage partnership for technology transfers to drive innovation and position Malaysia as a key player in green technology for the transportation industry. Consequently, these efforts will spur the industry's growth and help achieve the national emissions target as outlined in strategic policy documents.

Conclusion

Green mobility offers both economic and environmental benefits to propel the nation towards a sustainable future, supported by strategic initiatives and a forward-looking vision under the Ekonomi MADANI framework. It also creates substantial multiplier effects across various economic sectors and promotes new green growth areas, including EVs, hydrogen and sustainable fuels. Additionally, integrating green mobility infrastructure into urban planning can increase future property values and attract investment in low-carbon city initiatives. Therefore, embracing green mobility will transform the economy, enhance national competitiveness and ensure the nation attains net-zero carbon emissions by 2050.

The finance and insurance subsector is projected to expand by 4.7% with positive growth in all segments, in tandem with rising economic and investment activities. The expansion of financial inclusion through the adoption of digital financial services is expected to significantly boost the demand for credit facilities, thus strengthening the banking segment. Meanwhile, the insurance segment is expected to be driven by rising demand for insurance and takaful products on the back of better awareness of financial protection, improvement in premium earnings and implementation of co-payment option.

The real estate and business services subsector is forecast to increase by 6.3% driven by sustained demand for professional services, particularly engineering-related services in construction activities, including new data centre facilities. In addition, the expansion of the subsector will be supported by the improvement in sales of residential houses in the real estate segment. Meanwhile, the information and communication subsector is expected to grow by 2.6%, mainly attributed to the completion of fifth-generation (5G) network that will enhance the coverage and network quality. Furthermore, a surge in investment for digital infrastructure including data centres will be crucial in improving the subsector's growth.

The food & beverages and accommodation subsector is poised to grow by 6.2%, in anticipation of higher tourist arrivals for business and leisure as well as meetings, incentives, conferences and exhibitions (MICE) activities. The tourism industry will benefit from Malaysia’s 2025 ASEAN Chairmanship, as well as nationwide hosting of numerous MICE events at international and regional scales. In addition, the visit state campaign by Kedah, Perlis and Selangor as well as intensive promotion for the Visit Malaysia 2026 (VM 2026) are expected to contribute to the growth of the subsector.

The utilities subsector is anticipated to increase by 5.9%, attributed by strong demand for electricity and water in the industrial, commercial and residential segments. This growth is expected to be driven by higher demand from EV charging infrastructures and data centre operations as well as the development of new and expansion of existing industrial parks.

The other services subsector is projected to rise by 5.4%, driven by private health and education segments. The Malaysia Healthcare Travel Council (MHTC) will engage in reinvigorating the healthcare tourism industry in an effort to establish a larger market base, especially in targeted markets such as China, India and Indonesia. In 2025, the MHTC estimates the industry’s revenue at RM2.9 billion, supported by more focused and segmentised campaigns. Meanwhile, the Education Malaysia offices and the Education Malaysia Global Services, along with local universities, will continue to attract students from abroad through continuous promotional efforts, particularly mobility and edutourism programmes. This include facilitating the issuance of social visit pass (graduate pass) for international students graduating from local universities. In addition, the government services subsector is forecast to record a growth of 6.7% in 2025 due to higher expenditure for salaries and wages, corresponding to the civil servants’ salary revision starting December 2024.

Manufacturing Sector

Firmer footing across industries

Amid stable global economic growth, the **manufacturing** sector is expected to strengthen by 4.5% in 2025 mainly driven by implementation of major policies such as the NIMP 2030 and National Semiconductor Strategy (NSS). Both domestic- and export-oriented industries continue to uphold the sector's performance in line with resilient domestic demand and favourable external environment. On the domestic front, production in household and consumer goods related industries such as food, beverages and textiles is expected to sustain. This is in line with supportive policy measures such as salary adjustment for civil servants and the EPF Flexible Account withdrawal which will stimulate consumer spending. In addition, favourable tourist arrivals in conjunction with major international events will also spur the demand for consumer goods. On the other hand, increasing approved and realised investments signifies a positive outlook for construction activities, thereby propelling the growth in the manufacturing of construction related materials.

The export-oriented industries is also expected to continue its growth trajectory in line with higher global demand for electronics components. The electrical, electronic and optical products subsector is expected to accelerate further, mainly underpinned by sustained demand for intermediate products, including advanced chips, which are used in next-generation smartphones and other consumer devices. Furthermore, rising realisation of approved investment in semiconductor industry, coupled with concerted efforts by the Government to elevate entire high-tech ecosystem under the NSS, will provide additional support to the growth of the subsector.

Agriculture Sector

Outlook remains favourable

The performance of the **agriculture** sector is expected to remain stable in 2025 with a growth of 1.9% supported by all subsectors, except forestry and logging. The oil palm subsector is poised to increase at a modest pace, underpinned by high FFB production and yield, following larger oil palm harvestable areas, favourable weather condition and better labour market. The CPO price is forecast to stabilise within the range of RM3,500 and RM4,000 per tonne in view of better global production. In addition, higher global output of soybean oil and steady demand for CPO from major importing countries are anticipated to contribute to the price stabilisation. The rubber subsector is projected to grow, underpinned by an increase in natural rubber output, particularly from the smallholder segment, which remains the largest contributor to total production. Other factors catalysing growth of the subsector include stable rubber prices, proactive Government support and expansion of mature rubber areas. These factors are expected to bolster production and improve profitability for rubber producers, especially the smallholders.

In addition, efforts to strengthen the food supply chain and improve resilience in the agrofood industry are expected to further propel the performance of other agriculture, livestock and fishing subsectors. These efforts include intensified R&D, commercialisation and innovation activities as well as measures to manage post-harvest losses. Improved domestic spending and higher tourist arrivals will also stimulate growth of these subsectors to cater to the growing demand for food items. Furthermore, the National Agrofood Policy 2021 – 2030, which aims to develop sustainable, resilient and high-technology agrofood industry, will provide further support to the subsectors' growth.

Mining Sector

Subdued outlook ahead

The **mining** sector is forecast to contract by 1% in 2025, following sluggish performance in key subsectors. The natural gas subsector is projected to decline as output decreases mainly due to the planned shutdown of two facilities in Sarawak for maintenance purposes as well as moderating demand from major importing countries such as Japan, China and the Republic of Korea. The overall production of natural gas is expected to remain below the 2024 capacity, despite several new plants being scheduled to commence operations, among others, the Bindu field in Terengganu, Gumusut-Kakap-Geronggong-Jagus East in Sabah and FaS Development in Sarawak. Similarly, the crude oil and condensate subsector is expected to contract due to lower production in Peninsular Malaysia, following the scheduled maintenance in the second half of 2025. In terms of prices, Brent crude oil is projected to average between USD75 and USD80 per barrel in 2025.

Construction Sector

Construction sector remains resilient

The **construction** sector is forecast to register a growth of 9.4% in 2025, largely driven by the acceleration of strategic infrastructure projects. The sector is expected to benefit particularly from civil engineering activities such as LRT3 Phase 2 and Sarawak-Sabah Link Road Phase 2. Similarly, the non-residential buildings subsector is projected to expand further, supported by strong demand for industrial facilities from the realisation of approved investments, coupled with the development of new industrial areas such as the Kerian Integrated Green Industrial Park (KIGIP) and Johor-Singapore Special Economic Zone (JS-SEZ). Furthermore, the residential buildings subsector is anticipated to expand, driven by sustained demand for affordable housing as underlined by the Ekonomi MADANI framework, alongside new development projects by the private sector.

Domestic Demand

Private sector to remain the driver of growth

Domestic demand is expected to expand by 6.1% in 2025, buoyed by private sector expenditure, growing at 6.6%. With strong consumption and investment spendings, the private sector contribution to GDP growth will remain high at 5.1 percentage points. Meanwhile, public expenditure is expected to grow by 4.1% and contribute 0.7 percentage points to GDP growth.

Private consumption is expected to increase by 5.9% mainly attributed to the improvement in disposable income. This will be supported by sustained domestic economic activities and robust labour market conditions, as well as the implementation of the SSPA. Other contributory factors include continued targeted cash assistance programmes, which will further support household spending in 2025.

Private investment is forecast to grow further by 8.9% supported by the progress of new and ongoing multi-year projects mainly in the manufacturing and services sectors, following the Government's efforts to strengthen the investment ecosystem. With a historically high total approved investments recorded in 2023, private investment is projected to remain robust with the realisation of projects, especially related to semiconductors and data centres such as in Bayan Lepas, Pulau Pinang; Kulim, Kedah; and Sedenak, Johor. Government initiatives such as GEAR-uP is expected to spur domestic investments by government-linked investment companies (GLICs) investing in high growth high value (HGHV) industries, which will subsequently provide opportunities for the industries to grow and increase firms' capital spending. Furthermore, the establishment of the JS-SEZ will stimulate investment activities in various industries in southern Johor, particularly financial services, digital economy and logistics. These initiatives will further boost private investment alongside the implementation of investment activities under the major national policies.

INFORMATION BOX 2.3

Johor-Singapore Special Economic Zone: Strengthening Bilateral Cooperation Towards Uplifting Growth Potentials

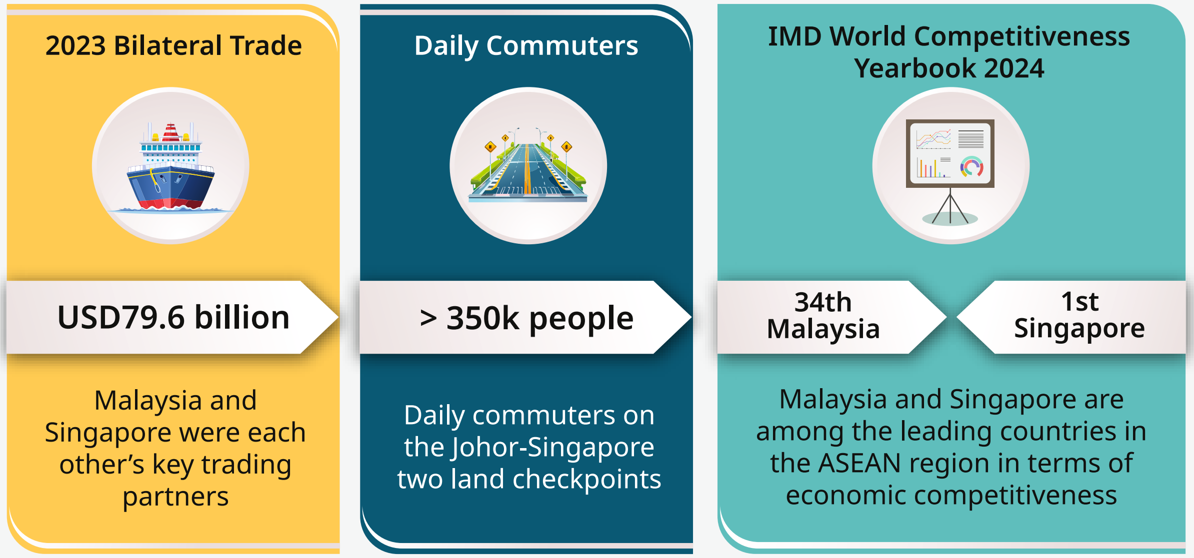
Introduction

Efforts to establish the Johor-Singapore Special Economic Zone (JS-SEZ) were officially initiated through a Memorandum of Understanding signed in January 2024. The development of JS-SEZ aims to enhance economic cooperation and prosperity, facilitate the mobility of people and movement of goods as well as strengthen the entire business ecosystem between Malaysia and Singapore. It is envisioned to be dynamic and competitive, with a vibrant and empowered private sector, thereby elevating the economic potential of both nations as a global hub along one of the world's busiest shipping routes. The Special Economic Zone (SEZ) is modelled after other similar initiatives in other countries, such as the Shenzen SEZ and Dubai International Financial Centre.

Leveraging Existing Strengths and Similarities

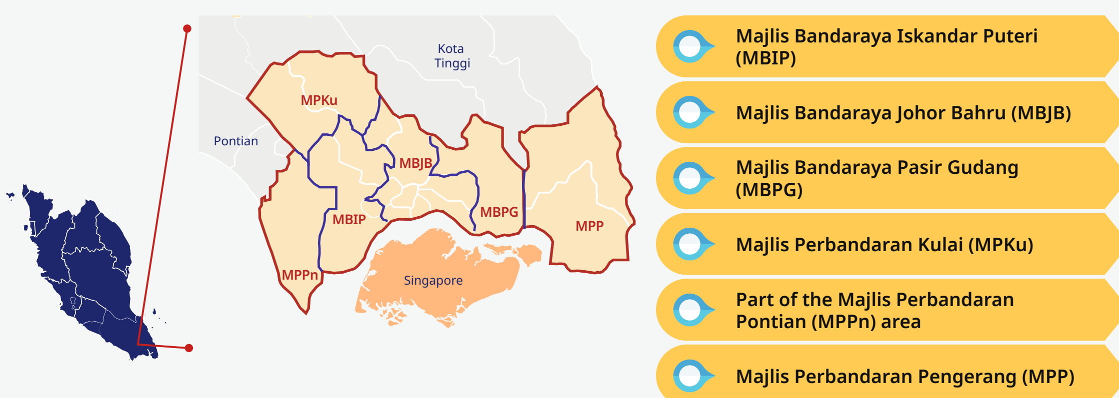
The JS-SEZ initiative reflects significant collaboration in the ongoing economic cooperation between Malaysia and Singapore. The initiative leverages the unique strengths and similarities of both countries to ensure successful implementation that benefits the nations. Figure 2.3.1. illustrates the main economic activities involving the two countries, which will further support the JS-SEZ in becoming a prominent economic corridor in the region.

FIGURE 2.3.1. *Main Economic Activities involving Malaysia and Singapore*



Source: Ministry of Economy, Malaysia

FIGURE 2.3.2. *Johor-Singapore Special Economic Zone Locations*



Source: Ministry of Economy, Malaysia

The establishment of the JS-SEZ will leverage the strategic geographical proximity of Johor and Singapore. The Johor State Government has finalised the locations of the JS-SEZ in Iskandar Malaysia[1] and Pengerang, involving six Local Authorities, as shown in Figure 2.3.2. These locations will cover an estimated total area of 3,505.3 km^2 in southern Johor, or approximately five times larger than Singapore. The development priority of the JS-SEZ in these areas will be guided, among others by the availability of land and infrastructure.

[1] Iskandar Malaysia includes five Local Authority areas namely MBIP, MBJB, MBPG, MPKu and MPPn.

FIGURE 2.3.3. *Development Plans in Johor State, Malaysia and Singapore*

Johor	Malaysia	Singapore
Maju Johor 2030	Ekonomi MADANI Framework	Singapore Economy 2030
Johor Budget 2024	Malaysia Five-Year Plans; Annual Budget	Singapore Budget 2024
Johor Sustainable Development Plan 2030	New Industrial Master Plan 2030	Singapore Industry Transformation Maps
Johor Green Deal	National Energy Transition Roadmap	Singapore Green Plan
Forest City Special Financial Zone	National Semiconductor Strategy	Singapore's National Hydrogen Strategy

Source: Ministry of Economy, Malaysia

The proposed JS-SEZ aligns with the goals outlined in the development plans in Johor state, Malaysia and Singapore, as shown in Figure 2.3.3. These plans share similar goals, which include promoting high-value economic investment, focusing on inclusive development and increasing sustainable growth. Hence, the JS-SEZ will enhance trade and connectivity between Malaysia and Singapore, encourage technological transfer and stimulate growth in various industries. The focus industries for the JS-SEZ will include, among others, logistics, financial and business services, tourism, food security, education, healthcare, digital economy, energy and manufacturing.

Forest City Special Financial Zone

On 25 August 2023, Forest City in Iskandar Puteri was designated as a Special Financial Zone (SFZ) to enhance foreign investment and further support the development of the JS-SEZ, particularly in the financial sector. The Forest City SFZ (Forest City) is expected to attract global companies by offering attractive tax incentive packages, including exemptions and special rates on corporate tax for firms; special rates on income taxes for skilled workers; as well as exemptions and special rates on stamp duty for properties. A dedicated one-stop business centre within the JS-SEZ will further expedite the approval process for global companies to invest in Forest City. Increased investment in Forest City will create new job opportunities for the rakyat, stimulate businesses and boost both state and national growth. Additionally, in July 2024, the Parliament passed the amendments of five Bills to designate Pulau Satu as a duty-free island, which will promote economic activities in Iskandar Malaysia including financial, tourism and retail activities, benefitting both countries.

Way Forward

The JS-SEZ is anticipated to bring mutual benefits by leveraging the existing strengths and similarities between both countries, as shown in Figure 2.3.4.

FIGURE 2.3.4. *Mutual Benefits of the JS-SEZ*

Cross-border business interactions	Flow of labour between countries	Business ecosystem and ease of doing business	Connectivity and trade	Economic development
Increased cross-border business interactions through improved mobility and integration	Increased mobility, talent exchange and collaboration driven by dynamic and integrated labour market	Enhanced ease of doing business supported by a seamless and conducive business environment	Leverage synergies to improve transportation infrastructure, streamline customs procedures and foster closer economic integration	Establishment of high-value added services and advanced manufacturing within Johor-Singapore Special Economic Zone to enhance economic complexity

Source: Ministry of Economy, Malaysia

Conclusion

Overall, the JS-SEZ will serve as a catalyst to boost bilateral economic cooperation and unlock growth potentials in both Malaysia and Singapore.

Public consumption is projected to rise by 3.8%, driven primarily by increased spending on emoluments following the implementation of SSPA. Meanwhile, **public investment** is forecast to grow by 4.9% in 2025, mainly supported by higher spending on capital outlays by NFPCs, constituting approximately 70% of total public investment. Key developments in utilities and transportation-related industries are expected to stimulate investment activities further. These include energy transition projects to accommodate rising demand for electricity as well as efforts to upgrade railway infrastructure and transportation system. Additionally, the public investment is anticipated to increase following the acceleration of key projects in the final year of the Twelfth Plan. Furthermore, investments by GLICs through GEAR-uP initiatives will catalyse economic priorities under the Ekonomi MADANI framework in strategic sectors such as energy, infrastructure, healthcare, education and technology.

The GNI at current prices is expected to grow at 6.7% in 2025, in line with the expansion in domestic economic activities. Meanwhile, the GNS and total investment are anticipated to record 24% and 21.6% of GNI, respectively. The **savings-investment gap** is expected to remain in surplus at RM49.1 billion or 2.4% of GNI, allowing the country to finance investment primarily from domestic sources.

FEATURE ARTICLE 2.4

Empowering Malaysia's Government-Linked Investment Companies: Unlocking Investments to Propel Growth and Societal Development

Introduction

Government-linked investment companies (GLICs) encompass pension, savings and sovereign wealth funds, namely the Employees Provident Fund (EPF), the Retirement Fund (Incorporated) (KWAP), the Armed Forces Fund Board (LTAT), Lembaga Tabung Haji (TH), Permodalan Nasional Berhad (PNB) and Khazanah Nasional Berhad (Khazanah). Each entity functions under a distinct mandate, focusing on investment, which generate sustainable and risk-adjusted returns that are aligned with specific fund objectives and socioeconomic development roles, as depicted in Figure 2.4.1. GLICs have played a pivotal role in supporting the nation's economic development agenda since their inception, while enhancing the financial wealth and savings of Malaysians.

FIGURE 2.4.1. *Overview of Investment-Related GLICs*

Entity	EPF	KWAP	LTAT	TH	PNB	KHAZANAH
Year of Inception	1951	2007	1972	1963	1978	1993
Mandate	• Helps Malaysian workforce to save for their retirement, as stipulated in the Employees Provident Fund Act 1991 • Supports Malaysia's economic development by investing in diverse sectors	• Manages government funds with the objective of achieving maximum sustainable returns • Oversees operations related to civil service pensions • Administers & invests across a range of diversified market instruments	• Manages & invests funds for financial growth & security, benefiting members of the Malaysian Armed Forces • Improves welfare & financial well-being of Armed Forces personnel & their families	• Manages & invests depositors' funds in Shariah-compliant investments for sustainable returns • Facilitates the Hajj pilgrimage for Malaysians with subsidised assistance & logistical support	• Offers diverse financial products to meet client & investor needs • Grows Bumiputera & Malaysian savings through competitive income distribution & investments in diverse assets & key sectors • Increases Bumiputera equity ownership through targeted investment opportunities	• Contributes to the nation's economic progress through strategic investments as Malaysia's sovereign wealth fund • Grows Malaysia's long-term wealth by balancing financial returns and responsible investment strategies
Total Assets or AUM[1] (RM billion)	1,219	184	11	95	339	148

[1]As at end-June 2024
Source: Annual reports and data from government-linked investment companies

Over the decades, these GLICs collectively contributed to Malaysia's transformation from a predominantly agrarian economy to a more diversified and industrialised nation, in line with the country's long-term development plans. Furthermore, the strategic investments of these GLICs have accelerated privatisation initiatives and spurred growth in strategic sectors such as energy, infrastructure, healthcare, education and technology. In this regard, the growth of GLICs reflects Malaysia's dynamic approach to economic management, ensuring resilience and sustained progress in the face of global challenges.

Evolving Through Decades of Growth

The evolution of GLICs in Malaysia can be traced back to the 1980s, marking a significant era of economic restructuring initiated by the Government. During this period, Malaysia pursued a privatisation strategy aimed at transforming government agencies into commercially-driven corporations, with the primary objective of enhancing efficiency and productivity. This move laid the foundation for subsequent privatisation efforts, which were also prominent in the 1990s, thereby reducing the fiscal burden, improving service delivery and fostering a competitive business environment.

Since the 2000s, both GLICs and government-linked companies (GLCs) have embarked on a more proactive transformation plan, with the introduction of the Government-Linked Companies Transformation (GLCT) Programme in 2005. This 10-year Programme set ambitious targets, aimed at transforming GLICs and GLCs into high-performing entities, thereby accelerating the country's social and economic development. Under this initiative, selected GLICs and GLCs underwent comprehensive restructuring to improve governance, performance and accountability, resulting in the enhanced competitiveness and financial performance of the entities.

Building on the foundations established by previous programmes, the Government launched the Perkukuh Pelaburan Rakyat (PERKUKUH) Programme in 2021. The Programme was aimed to strengthen the role of GLICs in national development by further improving the entities' governance, accountability and strategic impact. By aligning GLICs more closely with Malaysia's socioeconomic priorities, PERKUKUH strive to ensure these entities could effectively support the nation's aspirations for sustainable and inclusive growth.

Growth driven by GLICs has proven to be an effective strategy across the world, with these entities contributing towards the needs of their respective countries. A notable example is the Public Investment Fund (PIF) of Saudi Arabia, which plays a crucial role in advancing the nation's Vision 2030 aspiration by diversifying its economy away from oil-related income dependency. Likewise, Norway's Government Pension Fund Global has been instrumental in managing the country's substantial oil and gas revenues, thereby contributing to Norway's economy by investing globally to ensure long-term financial stability and supporting domestic welfare initiatives. Regionally, Singapore's Temasek Holdings has been pivotal in shaping the economy through strategic investments in sectors such as technology, financial services and healthcare. Similarly, GLICs in Malaysia are well-positioned to realign their portfolios towards high growth high value (HGHV) sectors, including energy transition and advanced manufacturing, thereby driving continued economic growth and innovation. Against this backdrop, the Ministry of Finance (MoF) initiated the Government-Linked Enterprises Activation and Reform Programme (GEAR-uP) to strengthen GLICs' roles as key drivers of sustainable and inclusive growth.

Foundation and Purpose of GEAR-uP

The Ekonomi MADANI framework sets aspiring goals that require coordinated efforts across various sectors, including GLICs and GLCs, emphasising the importance of strategic investments, innovation and social inclusion as pillars of national progress. Through GEAR-uP, the role of GLICs will be strengthened in driving high-impact investments, fostering innovation and enhancing governance. GEAR-uP is designed to ensure that GLICs not only continue to generate financial returns, but also reinforce their contribution to Malaysia's long-term economic and social development. GEAR-uP is anchored by four key objectives:

(a) Catalyse economic priorities under the Ekonomi MADANI framework;

(b) Elevate the performance of GLICs and GLCs;

(c) Mobilise and coordinate efforts to promote upward social mobility, equality of opportunity, and improve the quality of life for workers and the communities in which they operate; and

(d) Institutionalise reforms to clarify the Government's ownership philosophy and enhance governance.

As a guiding principle, GEAR-uP aims to align and mobilise GLICs and GLCs to support the implementation of policies, priorities and plans under the Ekonomi MADANI framework. GEAR-uP will involve the six GLICs and their GLCs, as well as Minister of Finance (Incorporated) (MOF Inc.) companies, through a phased approach. At the same time, high-priority operating companies will be shortlisted for focused efforts to drive sustainable performance improvement.

Historically, Malaysia has seen a robust share of private investment relative to GDP. However, this share has diminished, decreasing from an average of 17.1% during the pre-COVID-19 period (2017 – 2019) to 15.5% in the post-pandemic era (2021 – 2023), indicating a reduced role of private investment in the economy. This downward trend highlights the need for renewed efforts to enhance private sector participation. In response, the GEAR-uP initiative involves each GLIC partnering with the private sector towards strengthening economic development.

Collectively, Malaysia's GLICs manage over RM1.9 trillion in assets under management (AUM), which is approximately equivalent to the country's nominal GDP, and represent over a quarter of the market capitalisation of Bursa Malaysia. Along with their GLCs, these entities contribute nearly 10%[1] of GDP, provide around 240,000[2] employment, and support a vendor network of approximately 1,800 companies.

GEAR-uP's Targeted Focus Areas for Growth

The GEAR-uP initiative is designed with three distinct focus areas, each developed across three phases. The first focus area involves realigning the mandates of GLICs to support the Ekonomi MADANI framework. The second focus area centres on driving investments, performance, and impact by catalysing efforts to 'Raise the Ceiling', partnering with the Government to 'Raise the Floor', and transforming firms to become globally competitive. The final focus area is dedicated to future-proofing governance and institutionalising reforms. This involves clearly defining the Government's ownership philosophy, strengthening stewardship capabilities for effective oversight, and implementing necessary legislative reforms.

These targets will be accomplished through a phased approach, with the first phase focusing on GLICs, the second on selected GLCs, and the third encompassing MOF Inc. companies. In the initial phase in 2024, the emphasis will be on building momentum by realigning mandates and harmonising GLICs' support with the Ekonomi MADANI framework. This phase includes the establishment of a performance monitoring framework and the development of a stewardship plan for key GLCs. The second phase, scheduled for 2025 – 2026, will broaden the scope to include MOF Inc., continuing the support for GLIC and GLC efforts as well as reviewing MOF Inc. companies. This phase will also implement a performance improvement programme for selected MOF Inc. companies and introduce an ownership philosophy and stewardship framework. Finally, the third phase, set to commence in 2026, will focus on transitioning the identified entities to a steady state, ensuring long-term sustainability and continuous renewal through robust monitoring and programme processes.

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[1] Derived by aggregating the revenue of six GLICs and their GLCs, then dividing the total by the GDP.
[2] As at end-December 2023.

FIGURE 2.4.2. *GEAR-uP Initiatives*

Source: Annual reports and data from government-linked investment companies

GEAR-uP has delineated seven 'Raise the Ceiling' and seven 'Raise the Floor' initiatives that these GLICs can support under the Ekonomi MADANI Framework, as shown in Figure 2.4.2. In August 2024, the six GLICs collectively committed to a coordinated effort and renewed focus on the nation's development by pledging investments totalling RM120 billion over the span of five years. In addition, each GLIC has agreed to champion specific economic sectors to elevate Malaysia's aspirations of becoming a leading Asian economy, while collectively focusing on enhancing the quality of life and social well-being of workers and communities. These investments are primarily directed towards HGHV industries, including the energy transition industry and advanced manufacturing, particularly in the semiconductor segment.

GLICs are well positioned to play a pivotal role in ensuring the successful implementation of GEAR-uP. Accordingly, Khazanah has embarked on an ambitious investment strategy under the 'A Nation That Creates' framework to boost national productivity and competitiveness. The strategy focuses on transforming firms for value enhancement, driving the energy transition and accelerating digitalisation. Khazanah is also committed to building capacity and advancing workforce upskilling, while spearheading efforts to strengthen Malaysia's connectivity through its aviation portfolio. Furthermore, Khazanah will work to ensure the resilience of the semiconductor segment, foster the growth of mid-tier companies and invest in the venture capital ecosystem to support GEAR-uP. Meanwhile, strategic acquisitions of Malaysia Venture Capital Management Bhd (MAVCAP) and Penjana Kapital Sdn Bhd in July 2024, are integral to establishing the National Fund-of-Funds, which is aimed at expanding capital access for startups, thus driving economic growth and innovation.

KWAP has shown a strong commitment to empowering domestic markets, particularly in the areas of private equity, infrastructure and real estate. Through catalyst funds, including Dana Perintis and Dana Pemacu, KWAP aims to support venture capital and growth-stage firms, focusing on eight key sectors, including food security, the digital economy, energy transition and advanced manufacturing. Likewise, PNB will drive investments in high value-added and sustainable activities to modernise domestic industries and corporations. This includes a specific focus on developing new industrial parks, promoting automation, advancing smart farming in oil palm industry and acquiring green energy transition assets. Additionally, PNB remains committed to empowering the Bumiputera community by nurturing future entrepreneurs and corporate leaders, while also improving financial literacy and security among Malaysian youth.

The EPF is committed to promoting a dignified and prosperous ageing society by investing in commercially viable and sustainable healthcare solutions, in partnership with the Government. The EPF will also continue enhancing social protection and pension reforms to ensure income security for the rakyat. Meanwhile, in the Islamic finance sector, the TH aims to strengthen sustainable social impact through Islamic finance instruments, streamline disbursements to the poor, and enhance the Islamic financial system through strategic collaborations with key financial institutions and market players. Finally, LTAT is focused on boosting Malaysia's pharmaceutical value creation by strengthening local biopharmaceutical production capabilities, while also remaining committed to safeguarding and improving the social well-being of veterans by supporting the ecosystem for a smoother transition to second careers.

To 'Raise the Floor', GLICs are committed to leading the corporate sector in initiatives to improve the well-being of employees. The initial step involves ensuring all employees within their organisations and ecosystems, including those in investee companies, receive a decent monthly living wage, aligned with productivity-driven wage standards. GLICs have also committed to continuous efforts, aimed at promoting equal opportunities through fairer gender representation in the workplace. Furthermore, GLICs will enhance talent pools through targeted reskilling and upskilling programmes, particularly in technical and vocational education and training (TVET). Similarly, GLICs will provide socioeconomic interventions that complement the Government's efforts in supporting basic infrastructure, through coordinated and streamlined corporate responsibility initiatives, such as the Santuni MADANI programme.

Conclusion

Since their inception, GLICs and GLCs have evolved from being government-owned entities to becoming key drivers of Malaysia's economic development, while pursuing commercially viable investments. This evolution reflects the steadfast commitment to enhancing efficiency, competitiveness and governance, significantly contributing to the nation's prosperity and resilience. By realigning mandates, driving strategic investments, and institutionalising governance reforms, GEAR-uP are poised to support the objectives of the Ekonomi MADANI framework and reinforce Malaysia's economic resilience. Similar reforms have garnered global recognition, particularly from esteemed organisations like the World Economic Forum (2020), which highlights the crucial role of sovereign wealth funds in fostering economic equality in the post-pandemic era. Such recognition underscores the significance of GEAR-uP's efforts, and further exemplifies the transformative path that strategically realigns and strengthens Malaysia's economic sustainability.

Income

Institutional reforms to boost income growth

The robust economic growth anticipated in 2025 is likely to generate increased income opportunities for the workforce. The implementation of the new minimum wage rate and adjustments to civil servants' salaries will further contribute to the rise in workers' income. Moreover, ongoing efforts to restructure the economy by promoting automation and advanced technologies, improving productivity through retraining and upskilling, and reducing reliance on low-skilled foreign labour are poised to drive additional income growth. Consequently, the **CE** share of GDP is projected to increase to 33.5%. However, this remains relatively low compared to advanced economies and falls short of the 40% CE target. In this regard, accelerating labour market reforms, encompassing institutions and legislations, is pertinent to enhance the wage structure, thus ensuring workers attain more equitable benefits from better earning prospect and economic progress. Additionally, employers should also recognise that higher wages can serve as a catalyst for business expansion following the enhanced productivity among workers.

The **GOS** is projected to grow by 6.2%, contributing 63.2% of GDP in 2025, mainly supported by robust domestic economic activities and strong external demand. Meanwhile, mixed-income for the self-employed or independent entrepreneurs is expected to improve by 8.4% and contribute 15.8% to GDP, bolstered by the growing demand for gig work, which will provide more earning opportunities for this group. Initiatives to establish a more structured mechanism in enhancing social protection for the self-employed, including those in the informal sector, may encourage more participation in self-employment as a viable income source.

Income from indirect tax and non-tax revenue on production and imports is anticipated to expand by 7.8% in 2025, attributed to ongoing efforts to enhance revenue collection and form a broader tax base. On the other hand, expenditure on subsidies and incentives is expected to decline by 3.4% as the Government continues to implement more targeted assistance and subsidy programmes to improve inclusion and minimise exclusion. Thus, income from **net taxes on production and imports** is projected to contribute 3.3% to GDP in 2025.

External Sector

External sector remains favourable

In 2025, **gross exports** are anticipated to expand by 3.9% across all sectors, supported by improved performance in global trade as well as acceleration in the demand for E&E products driven by the global technology upcycle. The growth is also attributed to Malaysia's position as among the major players in the global semiconductor supply chain as well as higher exports for non-E&E products.

Exports of manufactured goods are projected to increase by 4%, resulting from rising demand for both E&E and non-E&E products, constituting shares of 46.3% and 53.7%, respectively. The E&E products are poised to increase by 4.4% contributed by a steady demand for semiconductor, in tandem with the anticipated growth of 12.5% in the global semiconductor market. This projected expansion also aligns with the aspirations under the NSS, which aims to position Malaysia as a leading international hub for semiconductor manufacturing and innovation, with a particular focus on chip design. Concurrently, exports of non-E&E products are estimated to grow by 3.7% contributed by higher demand, particularly for petroleum products; other manufactures; chemicals and chemical products as well as machinery, equipment and parts.

Exports of agriculture goods are forecast to expand by 3.3%, led by steady global demand for palm oil and palm oil based agriculture products; as well as natural rubber. Likewise, exports of mining goods are projected to moderate by 2.1%, following softer demand for LNG and crude petroleum from major markets.

Gross imports are envisaged to increase by 4.1% in 2025, supported by expansion in all components, including a rebound in re-export activity. Imports of intermediate goods are anticipated to grow by 3.6%, particularly in industrial supplies for manufacturing activities. In addition, imports of capital goods are projected to expand by 3.8%, in line with private investment activities driven by data centre development. Subsequently, imports of consumption goods are estimated to rise by 3.4%, in tandem with increasing demand from households, following optimistic consumer sentiments.

The **current account of the balance of payments** is forecast to register a higher surplus of RM49.1 billion or 2.4% of GNI in 2025, on the back of continuous improvement across all economic sectors. The goods account is projected to record a larger surplus of RM125.6 billion, following better growth prospects among major trading partners. Furthermore, the services account is expected to post a smaller net outflow of RM16.8 billion, attributed to higher earnings in the travel, transport and other services accounts. Receipts in the travel account are expected to expand to RM101.9 billion, supported by vigorous tourism activities following higher tourist arrivals, particularly from Malaysia's 2025 ASEAN Chairmanship and preparations for the VM 2026. Nonetheless, payments in the travel account are anticipated to increase to RM65.2 billion, owing to residents spending abroad for business, education and pilgrimage travelling activities.

Incomes from the transport account are projected to reach RM39.8 billion, bolstered by higher earnings from air travel and cargo handling services provided by domestic companies. However, continuous dependency on foreign transport services is expected to increase payments in the transport account to RM71.4 billion, amid robust trade activities. Meanwhile, under the other services account, steady investment and the ongoing implementation of strategic projects abroad are expected to further increase earnings, leading to a narrowing deficit of RM21.9 billion.

The primary income account is expected to record a wider net outflow of RM56.5 billion, owing to higher payments by foreign investors, which include profits repatriation in tandem with the ramping up of investment activities. Additionally, compensation for foreign professionals is anticipated to edge up following the uptick of technological advancements and continuous adoption of industrial revolution, including AI, cloud computing, digitalisation and automation, leading to a higher deficit in the account. Similarly, the secondary income account is anticipated to register a wider deficit of RM3.1 billion, mainly due to higher remittances by foreign workers.

Prices

Expected to remain manageable

Headline inflation is projected to remain manageable with the easing of global supply constraints and the moderation of global commodity prices. However, some upward inflation pressure could emerge from anticipated domestic policy measures. Headline inflation is expected to range between 2% to 3.5% in 2025. Meanwhile, the **PPI** is expected to moderate following the stable production activities.

Labour Market

The labour market remains resilient

The labour market is projected to remain stable in 2025, in tandem with better economic growth prospects anticipated in both domestic and external fronts. Strategies to address structural issues in the labour market, particularly related to wages and productivity, are expected to enhance business efficiency and boost labour demand. Hence, the **unemployment rate** is forecast to improve further to 3.1% in 2025. Total **employment** is projected to record a growth of 2.1% to 16.6 million persons, with more than 80% of employment opportunities concentrated in the services and manufacturing sectors.

The number of low-skilled **foreign workers** is expected to hover around 2.5 million persons to accommodate the needs of economic activities, particularly in labour-intensive industries. Nevertheless, the Government will continue to monitor the approval of new hiring of low-skilled foreign workers to align with the threshold of 15% from total employment. Furthermore, the implementation of the multi-tiered levy system as well as the adoption of automation and advanced technology are also anticipated to support policies towards reducing reliance on low-skilled foreign workers. Meanwhile, **expatriates** hiring is expected to increase marginally to fit the demand of skilled talent in critical jobs. As outlined in the NIMP 2030, the Government will also facilitate the hiring process for skilled talent by introducing a green lane for the highest tier of Employment Pass applications to support growth in strategic industries.

Labour productivity is projected to rise by 2.7% to RM101,700 in 2025, spearheaded by wider adoption of advanced technologies, digitalisation and modern management practices across enterprises to enhance value chains, particularly in HGHV industries. The ongoing implementation of upskilling initiatives such as the Academy in Industry programme reflects the Government's continuous efforts to address talent supply-demand mismatches. Likewise, programmes such as the e-shared prosperity organisation, productivity grants and good regulatory practices, will further enhance business efficiency and productivity across sectors.

Conclusion

The recent implementation of strategic policies has significantly contributed to Malaysia's economic growth, surpassing market expectations for the first half of 2024. This upward trajectory is expected to continue for the rest of the year, reflecting the effectiveness of the measures adopted and underscores the resilience of economic fundamentals. Looking ahead, the targeted growth rate between 4.8% and 5.3% for 2024 is achievable, anchored by the Ekonomi MADANI framework and strategies under the Budget 2024. By maintaining focus on sustainable development and continuous improvement, the economy will remain resilient amid global challenges, ultimately strengthening economic growth and elevating the rakyat's standards of living.

The global economy is expected to grow steadily in 2025. This positive outlook is also anticipated to indirectly help boost trade and local demand for goods and services. Malaysia's inbound tourists are expected to surpass pre-COVID-19 levels, supported by various regional and international programmes as well as in preparation for Visit Malaysia 2026. Additionally, domestic economic development is expected to be more vigorous with robust domestic private investment, particularly the implementation of GEAR-uP, to support ongoing projects and programmes under the NETR, NIMP 2030 and NSS. Therefore, Malaysia's economy is poised to expand between 4.5% and 5.5% in 2025, anchored by the implementation of the outlined strategic initiatives.

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