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The Edge, Malaysia

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Malaysia has entered 2026 on a stronger momentum than many had expected a year ago, in what was meant to be a year of tariff-induced weakness. The rapid escalation of US tariffs had set a bleak tone for 2025, yet the slowdown most feared did not really materialise, as I discussed in my article last month titled "The real story of 2025 wasn't the tariff shock" (Issue 1605). Firms front-loaded shipments to pre-empt higher tariff costs while the semiconductor up cycle driven by demand from artificial intelligence (AI) infrastructure, electric vehicle (EV) penetration and data-centre investments lifted manufacturing activity. Domestic consumption held up amid steady employment and targeted assistance, and inflation remained benign. That said, as promising as 2025 proved to be, it cannot be the blueprint for 2026 as the very factors that cushioned last year's headwinds will not automatically carry over into the new year.

The global outlook paints a challenging backdrop for 2026 despite the encouraging performance in 2025. The International Monetary Fund (IMF) projects world gross domestic product (GDP) growth to hover near 3.1% in 2026 (2025F:3.2%), still below the pre-pandemic (2000-2019) average of 3.7%. Some cracks in the resilience of the US economy have begun to show. Consumer price inflation has crept up steadily while the labour market weakened through 2025, raising concerns about the sustainability of the current consumption momentum. China's structural slowdown continues, with persistent weakness in the property sector and private investments dampening business activity and consumer spending.

Meanwhile, global trade is foreseen to lose steam, barely growing at 0.5% in 2026 after an estimated 2.4% expansion in 2025, according to the World Trade

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Organization's projections. This combination of weaker trade momentum and slower global output narrows the space for export-driven economies like Malaysia.

Layered atop this is the reality that the global trade architecture is fundamentally different from just two years ago. Even with Malaysia's reciprocal tariff arrangement with the US, uncertainty is now baked into global supply chains. At the same time, geopolitical tensions have sharpened at an uncomfortable pace recently, with increasingly tense Japan-China relations and the US's intervention in Venezuela introducing fresh volatility to global markets.

Crucially, the front-loading boost that bumped up Malaysia's trade growth in 2025 will fade this year. The resilience of 2025 was real, but it was also front-loaded. As shipments normalise and inventories settle, tariff-related frictions will become more visible through the middle of 2026.

Yet, for all the risks, 2026 offers real opportunities, if Malaysia executes domestic policy well and plays to its structural strengths.

The energy transition will be one of the most defining trends and Malaysia has positioned itself early. The National Energy Transition Roadmap (NETR), large-scale solar programmes, domestic grid-modernisation commitments and the regional push for an Asean power grid form the foundation of a multi-year investment wave. If regulatory clarity is maintained and approval processes streamlined, these initiatives could catalyse significant private capital into renewable energy, storage technologies and green industrial clusters.

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The semiconductor and data-centre infrastructure cycle similarly presents a multi-year runway of growth that goes well beyond the front-loading manoeuvres of 2025. Malaysia remains deeply embedded in the global chip value chain, especially in niche segments such as advanced packaging and testing. The rise of AI infrastructure, EV penetration and hyperscale data-centre expansion is not a one-year story but a structural realignment. However, simply being "in the ecosystem" is no longer sufficient. Competing jurisdictions are moving aggressively to capture the same value chains. Malaysia's response must be equally assertive, be it scaling talent pipelines, encouraging automation or promoting forays into new under-developed portions of the value chain.

Supply-chain realignment also continues to play in Malaysia's favour. With firms diversifying beyond China, Malaysia's comparative advantages — in the form of political neutrality, manufacturing experience and market reach and access — remain compelling. One of the strengths that Malaysia can leverage even more is its extensive network of bilateral, regional and multilateral free trade agreements (FTAs), including the Asean Trade in Goods Agreement (ATIGA), the Regional Comprehensive Economic Partnership (RCEP) and the Comprehensive and Progressive Agreement for the Trans-Pacific Partnership (CPTPP).

That said, these high-quality trade agreements are often said to be underutilised, particularly the newly negotiated ones. One of the reasons is the complexity of the FTAs and the capability required to fully utilise them. Many firms still wrestle with rules of origin, certificates of origin and product-specific duty schedules, defaulting instead to older FTAs. This leaves margin on the table when firms can ill afford it. In 2026, it is worth making FTA utilisation a competitiveness priority in an increasingly tariff-heavy world. This can be through a one-stop FTA navigator offering Harmonised System (HS) code-level guidance, simpler digital certificate of origin and continued targeted training for SMEs on rules of origin compliance.

None of this diminishes the encouraging tailwinds coming out of 2025, but the risks materialising in 2026 are real. The year ahead will be defined not by whether Malaysia encounters headwinds, but by how effectively it executes the policies needed to navigate them. The playbook is straightforward: invest in the engines that raise productivity, double down on the country's inherent strength and utilise FTAs actively to preserve margins in a tariff-heavy world. The window to turn resilience into advantage is there, but it will not stay open by itself. ■

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