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2025 growth outlook holds steady as tariff risks loom

The Malaysian Reserve, Malaysia

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The economy is expected to maintain a steady growth path in 2025, with GDP forecast at 4.2% and upside potential to 4.4%

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Source: Media Mulia

MALAYSIA'S economy is set to weather the challenges of evolving US tariff policies with a steady growth trajectory next year, supported by improved policy clarity, easing US-China trade tensions and targetted domestic stimulus.

In its latest "Global Economics & Market Strategy" report, RHB Investment Bank Bhd (RHB Research) said it is maintaining its 2025 GDP growth forecast for Malaysia at 4.2%, with upside potential to 4.4%.

"We maintain our 2025 GDP growth forecast for Malaysia at 4.2%, with upside potential to 4.4%. Key catalysts include clearer guidance on US tariff rates, easing US-China trade tensions and domestic stimulus measures," the bank said.

It noted that the 19% US tariff rate places Malaysia on par with Indonesia, Thailand and the Philippines, while slightly outperforming Vietnam's 20%, a positioning that "underpins its comparative advantage in established industries like electrical and electronics (E&E)".

RHB Research said a reduction in reciprocal US tariffs on Malaysia to 19% from 25% "would be sentiment-positive", while US President Donald Trump's extension of the deadline for higher tariffs on China to Nov 10 offers "near-term relief from escalation risks".

During this 90-day truce, US tariffs on China remain at 30% and China's at 10%.

On the domestic front, the government's RM2 billion Merdeka cash handouts are expected to "provide a modest lift to consumption, adding an estimated 0.2 percentage points (ppt) to 2025 GDP" based on a marginal propensity to consume of 0.5ppt and sales and service tax rates of 5% to 10%.

Quantifying the GDP Impact

While improved policy clarity is aiding sentiment, RHB Research's updated quantitative assessment indicates that the latest US tariff structure could have "a potential impact on Malaysia's GDP of up to 0.43ppt" compared to its earlier GDP projection of 4.5%.

This estimate captures the combined effects of the direct tariff impact from the US, spillovers from US tariffs on China, slower demand growth in both economies, and softer global electrical and electronics demand as proxied by global semiconductor sales.

RHB Research said the total export contraction under the latest tariff scenario is estimated at 5.13%, with imports declining by 5.08%, resulting in "an estimated net real GDP reduction of around 0.43ppt under the latest tariff scenario".

The analysis shows a strong link between exports and imports, with a 1% drop in Malaysia's goods exports leading to a 0.99% decrease in goods imports, meaning that the GDP effect is ultimately determined by changes in net goods exports.

Commitments Under the US-Malaysia Trade Deal

The report also detailed the commitments under the US-Malaysia trade deal.

Malaysia has agreed to reduce tariffs on 98.4% of US products, covering 11,260 of the 11,444 tariff lines across both industrial and agricultural goods.

The country has committed to over US$240 billion (RM1.02 trillion) in purchases and investments with the US to help address the bilateral trade imbalance.

These commitments include US$150 billion over the next five years for equipment purchases from US multinationals in the semiconductor, aerospace and data centre sectors, US$70 billion in cross-border investments into the US over the same period, and a US$19 billion Boeing Co aircraft purchase by Malaysia Aviation Group (MAG) for fleet renewal, involving the acquisition of 30 aircraft in the first phase and an additional 30 in the second.

Other commitments include US$3.4 billion per year in liquefied natural gas (LNG) purchases by Petroliam Nasional Bhd (Petronas), US$42.6 million per year in coal purchases by Tenaga Nasional Bhd (TNB) and US$119 million in telecommunications product purchases by Telekom Malaysia Bhd.

On non-tariff measures, Malaysia has agreed to ease certain barriers such as streamlining halal certification and facility registration processes for US food imports.

However, it "rejected US requests to abolish excise duties on cars, tobacco and alcohol, and did not agree to liberalise foreign equity ownership in strategic sectors".

Semiconductor Tariff Risks

The report pointed out that US-centric sector-specific tariffs could have substantial implications for Malaysia's export-driven industries, particularly semiconductors.

Malaysia's semiconductors and integrated circuits (IC) exports to the US, valued at US$12.35 billion in 2024 or approximately 3% of GDP, face uncertainty from the proposed 100% tariff.

Trump has announced plans to impose such a tariff on foreign-made semiconductors, with exemptions expected for companies that have investments in the US.

RHB Research said: "The structural strengths in Malaysia's E&E sector suggest that downside risks may be contained."

It noted that 65% of Malaysia's semiconductor exports to the US come from American companies based locally.

"This strong integration into US supply chains — anchored by major players such as Intel Corp and Texas Instruments Inc — implies that significant disruption would run counter to US manufacturing objectives," it added.

The report further observed that these companies, which already maintain a manufacturing footprint in the US, "are likely to secure exemptions, further mitigating the potential impact of the proposed tariffs".

Uneven Sectoral Impact

The report stressed that not all sectors will be equally affected by tariff policies.

Sectors with a greater reliance on demand from the US and China, and those that are more export-oriented such as E&E, crude materials and machinery, are expected to bear the brunt of both direct US tariffs on Malaysia and spillover effects from broader trade tensions.

In contrast, industries driven mainly by domestic demand, such as retail trade and construction, are likely to remain relatively insulated.

Malaysia's export earnings are closely tied to the E&E sector, which accounts for nearly 40% of total exports.

Demand for these products is shaped by global economic conditions, with China taking 26.7% of Malaysia's E&E exports and the US accounting for another 16.3%.

RHB Research said US tariffs on Malaysian E&E products could raise costs for US buyers, potentially dampening demand for both consumer and industrial E&E goods from Malaysia.

Machinery exports, which include industrial equipment and parts, represent another important segment with significant markets in both China and the US.

With US tariffs extending to this category, Malaysian producers could face higher costs and reduced competitiveness.

The report also flagged that weaker demand from China, particularly in manufacturing and infrastructure investment, could directly curb Malaysia's machinery export volumes.

Crude materials such as plastics, gas, metals and chemicals, though forming a smaller share of total exports, remain exposed to demand shifts from both the US and China.

US-China Trade Spillovers

Aside from the direct impact of US tariffs on Malaysia, developments in US-China trade relations remain a key watchpoint.

The report said the impact of US tariffs on China could affect Malaysia's exports through a slowdown in China's economy, which may reduce the purchasing power of Chinese consumers and businesses, as well as through higher production costs in China that could weaken demand for Malaysian intermediate goods used in Chinese export manufacturing.

Secondary spillovers could arise as global value chains adjust in response to tariffs, prompting shifts in sourcing and production patterns.

While such changes may eventually present new opportunities, they could initially weigh on Malaysia's exports as supply chains reorganise and trade flows stabilise.

Longer-term Resilience Strategy

In the broader context, Malaysia's growth and export outlook remains subject to the trajectory of future tariff policies and the potential impact of global supply chain disruptions.

The global trend toward protectionism adds further downside risks, as measures taken by the US could trigger similar actions in other economies, including China, complicating trade conditions.

Nonetheless, Malaysia's neutral foreign policy stance and diversified trade partnerships provide some resilience, supported by regional integration and the capacity to adapt to shifting external conditions.

In the longer term, Malaysia is set to adapt and recalibrate its trade strategy to enhance economic resilience amid prevailing global uncertainties, including US tariff policies and escalating trade tensions.

This strategy includes the expansion and diversification of export markets, with emphasis on strengthening trade relations within ASEAN and emerging economies across the Middle East, Africa and South America.

Central to this approach is the negotiation and consolidation of free-trade agreements (FTAs), including the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and the Regional Comprehensive Economic Partnership, alongside deepening economic partnerships with key international trade partners.

The report said that despite external uncertainties, these ongoing efforts serve as strategic measures to reduce reliance on any single market and enhance cooperation with regional economies.

It added that Malaysia's neutral stance on trade and geopolitical matters helps it avoid direct repercussions from conflicts between major economies, positioning the country to benefit from diversified trade relationships.

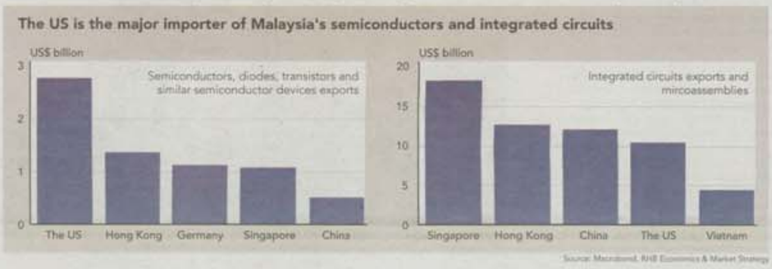
In conclusion, RHB Research reiterated, "Malaysia's 2025 GDP growth projection is maintained at 4.2%, with upside potential to 4.4%, supported by more clarity on US tariffs policies, easing US-China trade tensions and domestic stimulus measures".

It added that near-term risks from US semiconductor tariff proposals are cushioned by Malaysia's deep integration into US supply chains and the likelihood of exemptions for major US-based manufacturers operating locally.

Quantitative estimates suggest the latest US tariff structure could trim GDP by up to 0.43ppt, driven by direct tariff effects, spillovers from US-China trade, softer demand in both economies, and weaker global semiconductor sales.

However, RHB Research concluded that "strong structural fundamentals in the E&E sector and targeted domestic fiscal measures should cushion the overall impact, leaving Malaysia well-positioned to navigate external headwinds while sustaining moderate growth momentum in 2025." — *TMR*

The US is the major importer of Malaysia's semiconductors and integrated circuits



Source: Macrobond, RHB Economics & Market Strategy