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30 JUN, 2025

Strait of Hormuz crisis raises red flags for economy, energy security

The Malaysian Reserve, Malaysia

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The strait carries 20% of global oil, and its instability threatens higher oil prices, inflation and slower GDP growth

by HIDAYATH HISHAM

ANY disruption to the Strait of Hormuz, a vital oil artery, could weigh heavily on Malaysia's trade, energy security and investor sentiment, although it may not be directly reliant on the strait.

Tensions escalated on June 21 when the US launched airstrikes on Iranian nuclear sites in Fordow, Natanz and Isfahan — marking its direct entry into the Iran-Israel conflict.

Less than a day later, Iran's Parliament voted to close the strait, triggering renewed fears of global supply chain shocks. The waterway channels around 20% of global oil shipments.

On June 23, research houses issued coordinated warnings of potential economic fallout if the situation deteriorates further.

Public Investment Bank Bhd (PublicInvest), in its "Strategy-Market Outlook", cautioned that Iran's move could spike oil prices, stoke fresh inflationary pressures and spark a wave of investor risk aversion.

MIDF Amanah Investment Bank Bhd's (MIDF Investment) "Storms of Fire Incoming?",

SEE PAGE 4

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projected that a full blockade could lift Brent crude oil to between US$150 and US$250 (RM1,093) per barrel — potentially dragging Malaysia's GDP growth down to between 1.2% and -0.2%.

Meanwhile, UOB Global Markets and Economics Research's "Markets Overview", flagged rising investor caution and said energy-dependent economies like Malaysia could face cost pressures alongside weaker external demand.

Ports Brace for Strait of Hormuz Fallout

Malaysia's largest port is already confronting the operational risks that come with growing Gulf instability.

The Port Klang Authority (PKA) said any ripple effects on Malaysian trade are more likely to bring operational pressure than commercial opportunities.

While Malaysia does not rely directly on Gulf oil imports, PKA GM Captain Subramaniam Karuppiah said the bigger concern lies in broader disruption to shipping routes serving Gulf ports such as Dubai, Abu Dhabi, Dammam and Kuwait.

Port Klang currently maintains about 15 services to Dubai, handling goods ranging from palm oil machinery and electronics to foodstuff.

"Dubai is a hub for the Middle East and a lot of goods are coming in from Central Asia," he told *The Malaysian Reserve (TMR)*.

If shipping lanes become unstable, Port Klang could see cargo temporarily diverted — similar to what happened during the Suez Canal blockade, when a container ship ran aground and became stuck sideways, or the attack by Yemeni group Houthi at the Bab al-Mandab Strait.

Subramaniam said the port is prepared to assist but warned that such diversions would place added strain on yard space and operations.

"We don't know how long these containers are going to stay. I don't think it will be an advantage for us. If anything happens in the Middle East, it's only going to be a problem for us," he added.

So far, there have been no rerouting requests, but the port remains open to supporting shipping lines on a case-by-case basis.

Subramaniam clarified that Port Klang does not have extensive spare capacity, despite assumptions that it could absorb diverted cargo from the Gulf.

He believed that Malaysia is unlikely to benefit from any rerouted trade, given its geographic position and the nature of Gulf logistics.

Overland alternatives via Jeddah, Saudi Arabia, he added, are expensive and logistically complex, making it unlikely for major trade flows to shift through Malaysia.

"This is a very dicey situation for everyone," he said.

Currently, Port Klang is dealing with overflow from recent disruptions in Chinese shipping routes.

Subramaniam predicted the situation to get more hectic with the arrival of the third-quarter typhoon season, which typically affects maritime traffic in Japan, Korea, China and Vietnam.

"Once China's services are disrupted, there's a spillover effect to all the ports in the region and we had that as well over the last month," he said.

Subramaniam called for regional de-escalation, warning that ports are already under pressure from other external shocks, including US tariff hikes and broader trade volatility.

Higher petroleum and LNG revenues may boost income but could be offset by subsidies and inflation

Bloomberg

Bracing for Ripple Effects

A prolonged closure of the Strait of Hormuz could weigh heavily on Malaysia's energy-intensive and export-driven sectors, even if its direct shipping routes pass primarily through the Strait of Melaka.

Universiti Utara Malaysia's (UUM) School of International Studies Assoc Prof Dr Asmat Nizam Abdul Talib said the automotive industry would be among the first to feel the strain, given its dependence on imported components from Asia, Europe and the Middle East.

"Disruptions to shipping routes (including port congestion due to rerouting of oil tankers/cargos) would delay assembly operations, raise production costs and potentially halt manufacturing lines, especially under just-in-time inventory systems," he told *TMR*.

Electronics and semiconductors, another pillar of Malaysia's economy, would face indirect shocks.

Asmat said a disruption could trigger a sharp spike in global crude oil prices — potentially by 30% to 50%. This would directly impact electricity and fuel costs, which are significant operational expenses for energy-intensive semiconductor fabrication and testing facilities.

Palm oil exports could also come under pressure.

"Supply chain disruptions could delay shipments, increase insurance and freight costs and reduce the profitability and market share of Malaysian palm oil exporters," he added.

Although Malaysia produces its own oil, its refineries still rely on specific imported crude grades. Disruptions to these sea routes could significantly raise input costs for refineries, reduce processing efficiency and increase reliance on alternative, costlier sources.

Subsidy Strain and Investor Risks

Asmat said Malaysia may benefit from higher global oil prices in the short term, as it is a net energy exporter.

"Increased petroleum and liquefied natural gas (LNG) revenues — especially from exports to North-East Asia — could boost national income. However, gains may be offset by domestic fuel subsidies and inflationary pressures.

"This places the government in a difficult position: While rising fuel prices may necessitate higher subsidies to cushion public impact, Malaysia is concurrently undergoing petrol subsidy rationalisation to reduce fiscal burdens," he said.

He also mentioned that utility firms like Tenaga Nasional Bhd (TNB) would not be spared. Despite sourcing most of its natural gas domestically, TNB remains exposed to global LNG pricing.

"TNB's fuel and generation costs would rise, particularly for gas-fired power plants. This would increase electricity production costs and place pressure on the Imbalance Cost Pass-through (ICPT) mechanism used to adjust consumer tariffs.

"With the recent restructuring of electricity tariffs, any political constraints or limitations on subsidies that prevent full cost pass-through could compress TNB's operating margins," he said.

This could lead to delays in capital expenditure (capex), reduced dividends or lower industrial electricity demand.

Sectors still recovering from economic shocks, such as aviation, may also be hit.

Acting Quickly

To cushion the blow from any prolonged disruption, Malaysia must act quickly through regional cooperation, domestic planning and strategic diplomacy.

Asmat proposed an ASEAN Energy Security Pact to diversify import sources and build joint reserves, establish joint fuel reserves and diversify energy imports through increased LNG purchases from alternative suppliers like Australia and Qatar.

He urged the Investment, Trade and Industry Ministry (MITI) to activate a Trade Continuity Plan prioritising critical imports and streamlining clearance through the ASEAN Single Window.

He also recommended capacity upgrades at Port Klang, deploying artificial intelligence (AI)-driven logistics at Penang Port, and building a Penang-Butterworth land bridge to reduce maritime bottlenecks.

"Leading an ASEAN Crisis Response Task Force would help coordinate regional supply chain resilience, while facilitating talks between Gulf and Asian nations on securing alternative shipping routes," he added.

While short-term risks may dent investor sentiment, Malaysia's geographic advantage, stable politics and advanced port infrastructure still offer long-term appeal.

Asmat said by proactively addressing systemic vulnerabilities and demonstrating institutional adaptability, Malaysia can transform global geopolitical risks into a strategic advantage.

Energy diversification will also be key. Asmat stressed that Malaysia's own oil and gas (O&G) production does not shield it from international price swings, making broader energy strategy reforms essential.

Greater investment in renewable energy (RE) and regional energy cooperation could reduce this dependence.

Asmat recommended pursuing new procurement deals and strategic partnerships with alternative suppliers, including the US, Nigeria and Australia.

On the export side, Malaysia should expand its footprint in emerging markets like Vietnam, Bangladesh and the Philippines.

Trade diversification efforts should also include fast-tracking agreements with Indo-Pacific partners such as India and South Korea, and building regional routes that bypass chokepoints like Strait of Hormuz.

To back this up, Asmat called for a national supply chain contingency framework that incorporates scenario planning, strategic reserves and strong public-private collaboration.

Ports Ready for Boxes, Not Barrels

Although Malaysia's major ports are globally ranked and well-equipped for container handling, UUM maritime logistics and supply chain management researcher Dr Alisha Ismail said they are less prepared for a sudden surge in O&G traffic.

"O&G shipments in Malaysia are typically managed by specialised ports such as the Port of Tanjung Langsat in Johor, Kuantan Port (Pahang), Lumut Port (Perak) and Bintulu Port (Sarawak)," she told *TMR*.

These facilities, she explained, are relatively smaller and may not be able to accommodate very large crude carriers (VLCCs) due to berth depth and terminal limitations.

This shortfall raises questions about whether Malaysia is operationally ready to handle rerouted energy shipments in a crisis scenario.

Alisha said this makes it all the more important for not only port and maritime authorities, but also merchant shipping companies and flag states of the vessels to strengthen their risk preparedness and conduct readiness drills.

Following Israel's recent attacks on Iran, Greece and the UK issued fresh advisories to their merchant fleets, warning them to avoid the Gulf of Aden and to implement enhanced transit protocols for Strait of Hormuz.

"Greek shipowners, who control the world's largest tanker fleet, were urged to report vessel movements through the Strait of Hormuz to Greece's maritime ministry as a precautionary measure," she added.

UK-flagged vessels were also instructed to steer clear of the southern Red Sea, even if it meant longer and costlier voyages.

According to Alisha, the Baltic and International Maritime Council (Bimco) has observed a growing trend of shipowners avoiding the Red Sea and Persian Gulf entirely.

To strengthen Malaysia's preparedness, she proposed that port authorities simulate emergency scenarios involving redirected tankers or maritime incidents in nearby waters.

Instability May Open Doors for the Agile

Despite the immediate risks, Alisha believed the ongoing geopolitical volatility could open new strategic space for Malaysia — especially if countries begin rethinking their reliance on Middle Eastern oil routes.

"Malaysia's geographic proximity to key energy-importing countries in Asia, combined with its political stability, positions it as a potential alternative for countries seeking to diversify their oil routes," she said.

However, capitalising on this opportunity would require proactive action. Alisha said Malaysia must bolster its energy logistics infrastructure and manpower to build credibility as a long-term alternative.

"I believe Malaysia should proactively strengthen its infrastructure, storage capacity and manpower to position itself not only as a leading containerisation hub but also as a reliable oil and energy logistics hub for ASEAN and the wider Asia region," she said.

She added that supply chain disruptions — whether caused by conflict or climate — will continue to affect the movement of goods and services, often by raising operational costs.

"Ultimately, these effects cascade down to all layers of the consumer base, who feel the pressure through rising prices and delays," she added.

These developments, she said, highlights the importance of organisational agility and resilience. Companies that fail to adjust quickly may lose their competitive edge in future crises.

One key strategy is supply diversification. Alisha urged businesses to avoid over-reliance on any single supplier or geography.

She also stressed the importance of inventory management — not just in stockpiling raw materials, but in striking a balance between buffer stock and operational efficiency, which can be the difference between maintaining a competitive advantage and falling behind during times of crisis.

Firms that take these lessons seriously, she said, will be better positioned to navigate future shocks, no matter the source.

While not depending on the Strait of Hormuz for its maritime trade routes, how Malaysia responds to the shockwaves of the waterway's destabilisation — through diplomacy, infrastructure and private sector resilience — may shape its role in the next probable era of global supply chains.