NEW ZEALAND
FOREIGN AFFAIRS & TRADE
Manatū Aorere

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Malaysia Trade and Economic Update Q1

MARKET INTELLIGENCE REPORT

Summary

- Malaysia's economy grew 4.4% in Q1 2025. The 2025 outlook remains cautious with Malaysia's Central Bank advising the economy is likely to grow at a slightly slower pace than the 4.5%-5.5% projected prior to the US reciprocal tariff announcements.

- The government continues to roll out fiscal reforms to increase its revenue base, including phasing out fuel and electricity subsidies and expanding their Sales and Services Tax (SST).

- Malaysia is New Zealand's 10th largest trading partner and 3rd largest in ASEAN, with total trade valued at NZ$3.96 billion in Malaysia's favour. New Zealand's trade deficit with Malaysia (NZ$0.49 billion) is largely driven by fuel imports.

- Malaysia is our 10th largest market for primary products, 5th largest market for dairy and 10th largest market for processed food and other products. It is also the 5th largest source country of international students for universities. Malaysia Airlines has announced it will operate 10 weekly flights to New Zealand from 28 October (up from 7).

- Malaysia’s global trade reached an all-time high in 2024 at RM2.88 trillion (NZ$1.04 trillion). On 7 July, the US advised Malaysia will receive a 25% reciprocal tariff effective 1 August (an increase from the 24% tariff issued in April). Malaysia has responded advising that it will continue to work together with the US to address outstanding issues and conclude bilateral negotiations.

- Economic and trade priorities for Malaysia include attracting foreign direct investment, moving up the semi-conductor value chain, becoming a regional electric vehicle hub, digitalisation, de-carbonisation of the economy, and trade diversification. ASEAN priorities include the upgrade of the ASEAN Trade in goods Agreement (ATIGA), advancing the Digital Economy Framework Agreement (DEFA) and the ASEAN power grid.

Report

Malaysia’s economy remains resilient but faces external headwinds

Malaysia’s economy expanded 4.4% in Q1 2025, easing from a revised 4.9% in Q4 2024. The decrease reflects softer performance across most industries, though the Services sector remained the key growth driver. The 2025 outlook remains cautious, with Malaysia’s Central Bank advising that the economy is likely to grow at a slightly slower pace than the 4.5%-5.5% projected prior to US reciprocal tariff announcements. Official growth forecasts are intended to be announced when there is greater visibility on the outcomes of US trade negotiations and there impacts on global trade.

Labour market conditions remain strong. The **unemployment rate fell to a 10-year low of 3.1%**, supported by reforms such as a 13% increase in the national minimum wage and a 20% boost in social security benefits.

The **ringgit appreciated 0.8% against the US dollar** during Q1 2025, largely due to dollar weakness amid uncertainty over US trade policy and slower US growth expectations. While the ringgit performed well in 2024, gains may be harder to sustain in 2025 amid market speculation that Malaysia’s Central Bank may cut rates to support growth. Nonetheless, the **Overnight Policy Rate (OPR) is expected to remain at 3.0%** for the year.

Fiscal reforms to expand government’s revenue base

Malaysia continues to roll out fiscal reforms intended to expand the governments revenue base. Malaysia’s Prime Minister Anwar Ibrahim has emphasised that fiscal reforms will be targeted, with those on higher incomes paying more and the revenue being put toward public services for those who need it most.

In 2024, the government began **phasing out blanket diesel subsidies**, with further adjustments set to take effect in mid-2025, including the removal of RON95 petrol subsidies for the top 15% of income earners. From 1 July, the government has also **reduced electricity subsidies** for middle and high-income earners. At the same time, the government expanded the existing **Sales and Service Tax (SST)**.

The expanded SST retains exemptions for “essential” goods such as flour, meat and sugar while a greater number of “discretionary” or “non-essential goods” are now subject to a 5 or 10% tax. The scope of the Service Tax has also been expanded to include new services such as leasing or rental, construction, financial services, private healthcare, education, and beauty services.

The combination of the expanded SST and reduced subsides has raised concerns by some around the cost of living. Despite these measures, **headline inflation is projected to remain moderate at between 2.0% – 3.5%**, supported by easing global cost pressures and weaker domestic demand.

Malaysia is New Zealand’s 10th largest trading partner

Malaysia currently ranks as **New Zealand’s 10th largest total trading partner** and 3rd largest in ASEAN for the year ending December 2024, behind Singapore and Indonesia. Total trade was valued at NZ$3.96 billion (2023: NZ$4.8 billion), heavily in Malaysia’s favour. New Zealand exported NZ$1.73 billion and imported NZ$2.22 billion, resulting in a NZ$0.49 billion trade deficit (2023: NZ$1.77 billion).

Malaysia is New Zealand’s 10th largest market for primary products, 5th largest market for dairy and 10th largest market for processed food and other products. Dairy continues to be our top performer (NZ$872.19 million), followed by travel (NZ$194.48million), milk preparations, pasta and baking products (NZ$93.51 million) and meat (NZ$63.53 million).

New Zealand's top imports from Malaysia were mineral fuels and oils (NZ$635.56 million), followed by food wastes – which includes palm kernel extract, a palm oil by-product used for agricultural feed (NZ$225.92 million), mechanical machinery (NZ$211.56 million) electrical machinery and equipment (NZ$166.27 million) and fats and oils (NZ$162.5 million).

Malaysia is a key market for New Zealand’s university sector. As of August 2024, Malaysia was the 5th largest source country of international students for universities. Between May 24 – Apr 25, 28,491 Malaysians visited New Zealand (indicating a 64.9% recovery in arrivals compared to 2019). Malaysia Airlines has also announced that from 28 October it will operate 10 weekly flights to New Zealand (up from 7).

Malaysia’s trade hits an all-time high in 2024

Malaysia’s global trade reached RM2.88 trillion (NZ$1.04 trillion) in 2024, an all-time high and the fourth consecutive year above RM2 trillion. However, export growth slowed due to weaker mining exports, partially offset by strong electrical and electronics (E&E) exports and recovering tourism. Import growth remained firm, underpinned by sustained demand for capital goods – reflecting continued investment activity.

In April, Malaysia received a 24% reciprocal tariff from the US. The government responded quickly to rule out retaliatory action, using the 90-day pause to negotiate bilaterally. The **US was Malaysia's third largest trading partner in 2024, with total exports soaring to a record RM 198.65 billion (NZ$ 71.72 billion)**. Key Malaysian exports to the US include E&E, rubber products, metal products, machinery, equipment and parts, and optical and scientific equipment. Trade with the US made up 11.3% of Malaysia's total trade in 2024.

Malaysia's Minister for Trade and Investment, Tengku Zafrul has advised that bilateral negotiations with the US have focused on four key areas: 1) reducing the trade deficit; 2) addressing non-tariff barriers; 3) strengthening technological safeguards and security; and 4) exploring a potential bilateral trade agreement.

Public commentary regarding bilateral negotiations has noted the significant investment of US companies in Malaysia (the US was Malaysia's largest source of foreign investment in 2024 at RM32.8 billion), the complementarity of Malaysian exports and US based industries like E&E, semiconductors, medical devices, machinery, equipment and parts and the integration of global supply chains. The government has also noted that bilateral trade has become increasingly balanced, with the US' trade deficit with Malaysia on a downward trend.

On 7 July, President Trump advised Prime Minister Anwar via letter that Malaysia will receive a 25% tariff effective 1 August. The Malaysian government responded by advising that it will continue to talk with the US to address outstanding issues, clarify the scope and impact of the announced tariffs and work towards concluding negotiations. Following a phone call between Malaysian Prime Minister Anwar and President Trump on 31 July, the US announced on 1 August that Malaysia would receive a 19% tariff, down from 25%. Details of the deal have yet to be released.

Malaysia's economic and trade priorities

Malaysia remains focused on **attracting foreign direct investment** and capitalising on "plus one strategies" particularly in high growth high value industries, including E&E, smart farming and renewable energy. To support this, Malaysia launched an Investor Pass in April 2025, allowing eligible foreign investors extended stays. In January, Malaysia and Singapore signed the Johor-Singapore Special Economic Zone (JS-SEEZ) agreement. The zone targets RM100 billion in investments and 100,000 jobs over the next decade, focusing on high-value sectors.

The government is also focused on implementing the National Semiconductor Strategy to **move up the semiconductor value chain and enhance Malaysia's attractiveness as a global semiconductor hub** attracting long-term investments from global players like Nvidia and Texas Instruments. Intel is expanding with a RM 30 billion (NZ$ 10.83 billion) plant in Penang, while Micron is building a RM 4.4 billion (NZ$ 1.59 billion) memory chip facility. Prime Minister Anwar is targeting RM 500 billion (NZ$ 180.50 billion) in semiconductor investments and is encouraging overseas talent, including from Taiwan, to return home. In March, Malaysia signed a RM 1.2 trillion (NZ$ 433.57 billion) deal with Arm Holdings to provide Malaysian firms access to advanced chip designs, aiming for homegrown chips within a decade.

Malaysia also aspires to be a **regional electric vehicle (EV) manufacturing hub**. China's INV opened a RM3.2 billion (NZ$ 1.16 billion) plant in Penang, and Fieldman EV (with China's Changan Automobile) is committing RM 1 billion (NZ$ 0.36 billion) in Malaysia's first EV assembly plant to cater to the ASEAN market. **Digitalisation** also remains key with the establishment of a National AI Office in December 2024, signalling a top-down commitment to integrating AI into industrial processes, supply chain management, and governance.

Like other countries, Malaysia faces the **dual challenge of driving economic growth while mitigating climate change**. The New Industrial Master Plan 2030, the National Energy Transition Roadmap and the Hydrogen Economy and Technology Roadmap lay the foundation toward a low-carbon economy. Among the key strategies highlighted in these plans is the deployment of carbon capture, utilisation and storage (CCUS) technology, which plays a crucial role in reducing greenhouse gas emissions, particularly in hard to abate sectors such as heavy industry, manufacturing and petrochemicals.

Malaysia remains engaged in RCEP and CPTPP. **Malaysia is actively diversifying its trading partners**. In 2025, Malaysia reinstated trade talks with the European Union, as well as the Gulf Cooperation Council countries, and South Korea. In January 2025, Malaysia signed the Malaysia-United Arab Emirates (UAE) Comprehensive Economic Partnership Agreement and the Malaysia-European Free Trade Association Economic Partnership Agreement in June. In 2024, Malaysia became a BRICS partner country, with Prime Minister Anwar leading a trade delegation to Russia in May 2025. In June, Prime Minister Anwar led a trade delegation to Italy, France and Brazil.

As 2025 ASEAN Chair, Malaysia is prioritising regional legal harmonisation to lift trade and investment flows through the upgrade of the of the **ASEAN Trade in goods Agreement (ATIGA)**, enhancing free trade agreements, and deepening economic resilience amid global uncertainties. Advancing the **Digital Economy Framework Agreement (DEFA)** is intended to accelerate digital transformation and unlock new growth opportunities. Malaysia has also prioritised support for the **ASEAN Power Grid** to promote regional energy security, drive investment and create jobs.

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