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Malaysia's Recent Economic Trends and Future Opportunities

The US Federal Reserve recently raised interest rates by 0.75% . Inflation and interest rate hikes are a hot topic around the world, and even the possibility of an economic recession is being mentioned. In this regard, we would like to examine the recent economic situation in Malaysia by examining some economic indicators.

For the past seven months, Malaysia's Consumer Price Index (CPI) has been in control at 2.0-3.0%. This contrasts with inflation in major countries such as the United States and the United Kingdom. The reason Malaysia's CPI index was able to be controlled was also due to management such as government subsidies for key items such as gasoline, cooking oil, poultry and chicken.

The Central Bank of Malaysia lowered the key interest rate in July 2020 to the lowest level of 1.75%. Then, in May last year, the base rate was increased by 0.25%p, followed by an additional 0 . It raised the base rate to 2.25 % by raising the base rate by 25 percentage points . There is speculation that there will be further rate hikes to help the ringgit/dollar (MYR/USD) maintain a stable exchange rate.

Nevertheless, production in Malaysia is still positive. Since the MCO was lifted in 4Q, it is recovering at a gradual pace. As of April, the unemployment rate in Malaysia was 3.9%, which is a decrease from October last year (4.3%) .

International Trade and Currencies

The continued strength of the US dollar is affecting international trade. Typically, manufacturers have to pay higher costs than before to purchase goods from abroad to produce goods in Malaysia. An increase in import prices causes inflation and is passed on to customers as a final price burden. The construction industry and real estate are being hit hard as they are procured for metal products, and the pharmaceutical industry is also being directly affected.

Regarding supply chain bottlenecks

The food and commodity crisis now poses a major challenge for Malaysia as well. The increase in the international price of crude oil and palm oil, the main raw material products, is contributing to Malaysia's income and GDP growth. Producers are trying to balance domestic demand to meet social responsibility while meeting international demand for short-term profits.

Malaysia remains open to international trade with no export restrictions on crude oil and palm oil. However, unlike before after Corona 19, foreign labor is still restricted by the government, which leads to a decrease in productivity. In addition, as the commodity factories are operated only through local workers, production costs are being pressured.

Food Supply Chaos

In Malaysia, chicken, eggs and edible palm oil are the main foodstuffs. However, recently, supply has started to suffer, and as a result, consumer prices have soared. In order to meet domestic demand, the government has imposed restrictions on exports of only 3.6 million per month.

On June 21, the government tried to allow market price fluctuations without government intervention by abolishing the upper limit on chicken and egg prices and the abolition of subsidies for 2kg, 3kg, and 5kg cooking oil from July 1. Many citizens protested vigorously, and the related system is being reviewed.

Opportunity Factor

In the short term, several factors can be implemented to ensure a smooth food supply to the Malaysian market and infrastructure. A representative method is to utilize and upgrade refrigeration facilities, and it is possible to prevent a supply shortage in advance by introducing a technology that can monitor productivity in real time at the slaughterhouse. Also, in the case of chicken, it is currently only dependent on corn for feed, so replacing it with Palm Kernel Pellet (PKC) can be considered (50% cheaper than corn, which reduces feed cost). Finally, there is also a plan to provide land for long-term rental business through linkage with a government-linked company (GLC).

As a long-term policy, reducing production costs through energy efficiency can be considered. Currently, Malaysia is making significant efforts to reduce its carbon footprint . According to the recent APAC Energy Conversation 2022 , Petronas, a leader in Malaysia's oil and gas industry, plans to expand investments in potential new energy sectors such as blue hydrogen and solar power, and has also established a new division, Petronas Hydrogen. In Tenaga Nasional Berhad (Malay Peninsula) and Sarawak Energy (Sarawak Region) there is a development trend in the solar and wind energy sector, and the government is stepping up to support the growth of solar panel companies.

The agricultural industry mainly consists of cash crops such as palm oil, rubber, and cocoa, but edible crops such as vegetables and fruits are not commonly grown. In the case of rice production, 70% of rice production is satisfied by its own production, and 30% is dependent on imports. Malaysian agriculture will also reduce dependence on foreign workers and increase efficiency in crop management through the use of cutting-edge technology to establish long-term stable production. In addition, efficient technology in soil, pest, and water quality management will be introduced to maintain productivity at low cost.

Implication

The world is struggling with inflation and a food crisis. Fortunately, Malaysia has been less affected by its strategic product management and nature of an oil-producing country. Nevertheless, there is an argument that Malaysia needs a quick policy and response as Malaysia may suffer a serious economic crisis if global inflation and exchange rate rise continue as it is now. In the short term, government support is needed to solve problems such as supply chain shortages, and in the long term, the development of sustainable new energy technology is necessary. In particular, the development of energy management and technology is expected to change the market as it not only changes the energy supply but has an absolute impact on other industries. Accordingly, the government has recently been actively allowing foreign companies to attract investment, so it is thought that it will serve as a good reward if domestic companies seek opportunities to advance through active cooperation with local companies.

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