Malaysia can ace trade war test

Policy & Profit

AMIR ISYAM ABDUL RAHIM
IM Possible Solutions
Sdn Bhd managing director
and Tunku scholar

MALAYSIA is caught in the global trade upheaval triggered by US tariffs unveiled on "Liberation Day" last month.

These tariffs have rattled Malaysia's trade networks, already burdened with a 10% baseline duty and facing a potential 24% levy targeting Malaysian goods, though negotiations have paused this until July 8.

As large economies like the UK, European Union (EU) and China respond with concessions or retaliation, Malaysia leads an Asean negotiation strategy to mitigate the impact.

This tariff war, rooted in a contest for global leadership between the United States and China, places small nations like Malaysia in a precarious position, as they strive to navigate the crossfire without compromising their economic stability.

New global trade order

The world was already rethinking supply chains after Covid-19 and amid mounting climate risks, and the tariff war has only sped up this restructuring. Companies are shifting from "just-in-time" to "just-in-case" supply chains, while countries are working to secure food and critical goods.

For Malaysia, a short-term effect could be a surge in cheap foreign goods from tariff-affected exporters looking for new markets.

While this benefits consumers, local industries may struggle to compete. When businesses close, we risk losing jobs, skills and domestic production, leaving us overly reliant on imports and less economically resilient.

However, simply protecting local firms isn't the solution, as it can lead to complacency and inefficiency.

In every crisis, there are great opportunities. As global supply chains shift, Malaysia has the chance to attract foreign investment from companies looking to avoid high-tariff countries like China, Vietnam and Cambodia.

This is possible thanks to our neutral stance, political stability and pro-business policies.

Sectors such as electrical and electronics, and semiconductors are already attracting interest, driven by our record-high exports to the United States, EU, and Asean – showcasing our strong manufacturing capabilities.

What we need now is a forward-thinking approach to create the right conditions that ensure these investors also support local industries.

> ■ At the heart of the US-China trade war is a deeper contest for global leadership

> ■ The US tariffs have accelerated the structuring of global trade and supply chains

Strategic priorities for Malaysia

China's success in technology and artificial intelligence is largely due to its strategic use of market size to encourage foreign firms to invest locally and build domestic production capacity. This is something Malaysia could learn from, while Singapore focuses on retaining high-value operations and outsourcing lower-value jobs, unlike Malaysia's emphasis on low-value foreign direct investment.

Let's pause and reflect on our rubber industry. It stagnated after the infamous dawn raid takeover, partly due to Malaysia's failure to invest enough in the research and dvelopment (R&D).

It was progressively abandoned for the more lucrative palm oil when synthetic rubber was introduced, despite having developed manufacturing capabilities here.

Today, both foreign and local rubber companies are considering relocating manufacturing to Thailand, where raw materials are more readily available.

Could a similar fate await the palm oil sector if we have no plans beyond certification improvements? More so, given that many countries are succeeding in planting palm oil themselves.

This is where the National Geo-Economic Command Centre (NGCC) must re-evaluate national priorities to protect industries that really matter, beyond mitigating the ongoing impact of the US tariffs for all.

Private sector input should be viewed cautiously, as they are likely to have a revenue-driven agenda rather than one that promotes national benefits.

Our priority should be leveraging our unique strengths, focusing on companies with a significant presence and economic contribution in Malaysia, and maximising the potential for greater domestic and international economic spillover.

This includes developing comprehensive ecosystems encompassing R&D, upstream/downstream activities, and supply chain strategies for these industries.

While opening new markets, as suggested by Prime Minister Datuk Seri Anwar Ibrahim, including the upcoming Asean-China free trade agreement, is important, Malaysia must also focus on producing quality goods for export and implementing trade safeguards to protect domestic production and consumers. Without these measures, the benefits of new markets may be limited.

This is where Malaysia needs a robust framework for real-time trade data analysis to identify opportunities – tracking not only tariff announcements but actual measures implemented and corporate responses.

This must happen at multiple levels of granularity, from a Malaysia level with deep dives into specific countries of interest, as well as specific country and regional responses.

The Investment, Trade and Industry Ministry, via the NGCC platform, should lead this effort, providing actionable insights to policymakers and industry leaders.

The global landscape is shifting fast, and the choices we make now will determine whether we merely survive the storm or emerge as a stronger, more resilient trading nation.

Civil servants and policymakers should look beyond short-term interests and seize the opportunities as global trade reshuffles.

Let's build a Malaysia that is not just a link in the global supply chain, but a driver of innovation, value and sustainable growth.