



NEW ZEALAND
FOREIGN AFFAIRS & TRADE
Manatū Aorere

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Malaysia Economic update Quarter One 2024

MARKET INTELLIGENCE REPORT

Summary

- Malaysia is New Zealand's 9th largest trade partner and 3rd largest in ASEAN. It also features strongly in some key export sectors: international education (6th); dairy (7th); and primary products (9th).
- Malaysia's economy grew 3.8% in 2023, compared with a record 8.7% in 2022 (the highest in ASEAN). Forecasts for GDP growth in 2024 range from 4-5%. Growth in 2023 was driven mainly by the services sector.
- Exports decreased 8% in 2023 as a result of weak global demand and low commodity prices. However, trade is expected to recover in 2024, with exports and imports growing by 5.1% and 4.9% respectively. ASEAN, China, the US, the EU and Japan accounted for nearly 70% of Malaysia's total trade in 2023.
- Longer term, key areas of focus for the government include: the green economy; increasing foreign direct investment; increasing economic complexity; the digital economy; increasing regional linkages; enhancing public service delivery and subsidy rationalisation.
- These present opportunities for New Zealand businesses, particularly in fields like green technology (i.e. smart transport, renewable energy, smart farming, clean technology) public sector and digital technology expertise.

Report

Malaysia is New Zealand's 9th largest total trading partner

Malaysia is New Zealand's 9th largest trade partner and 3rd largest in the ASEAN region, behind Singapore and Indonesia. For year-end December 2023, total trade with Malaysia was valued at NZ\$4.8 billion. Exports were worth NZ\$1.52 billion while imports reached NZ\$3.29 billion.

Malaysia is New Zealand's 9th largest market for primary products and 7th largest market for dairy. As in previous years, dairy remains our top export (NZ\$794.44 million), followed by travel (NZ\$194.71million), milk preparations, pasta and baking products (NZ\$73.97 million) and meat (NZ\$64.89 million).

New Zealand's top imports from Malaysia were mineral fuels and oils (NZ\$1.68 billion), followed by electrical goods and machinery (NZ\$0.21 billion), mechanical machinery (NZ\$0.2 billion) and food wastes (NZ\$0.19 billion).

Malaysia is playing an important role in the post-Covid recovery of New Zealand's tourism and international education sectors. It is our 6th largest market for international education (mainly in the tertiary sector) and the 3rd largest source of tourists from ASEAN to New Zealand (year-end Sept 2023). Malaysia Airlines carries out 16-18 direct flights a week between Kuala Lumpur and Auckland.

Malaysia's economic outlook

Malaysia's economy grew 3.8% in 2023. This compared with a record 8.7% in 2022 (a post-Covid bounce, resulting in the fastest growth rate in ASEAN). Growth in 2023, was driven by strong domestic demand and the services sector (4.7%). Forecasts for GDP growth in 2024 range from 4-5%.

Unemployment levels have reduced to pre-pandemic levels of 3.3%, indicating that Malaysia's healthy labour market will fuel domestic consumption and support GDP growth. The central bank predicts inflation to average 2.5%-3% for the year. Analysts note that inflation will be influenced by the Government's fiscal consolidation efforts, including subsidy reforms as well as fluctuations in global commodity prices.

Malaysia's exports decreased by 8% in 2023, the result of weak global demand and low commodity prices. Major commodities such as petroleum and palm oil were particularly exposed to external shocks. ASEAN, China, the US, the EU and Japan account for 67.7% of Malaysia's total trade. Trade is expected to recover in 2024, with exports and imports estimated to increase by 5.1% and 4.9% respectively

Malaysia's economic priorities – key themes

Malaysia's current economic strategy is articulated in the MADANI Economic Framework. The framework has two objectives: to restructure the Malaysian economy to regain its status as a leading Asian economy or 'Asian Tiger', and to ensure the just and equitable distribution of wealth. It also encompasses a range of roadmaps and policies, including the National Energy Transition Roadmap (NETR), the New Industrial Master Plan 2030 (NIMP), the mid-term review of the Twelfth Malaysia Plan (12MP) and Budget 2024.

Some of the key themes identified in these documents include:

- **Green economy:** The aim is to transition from a fossil fuel based economy to a high value green economy, achieving net zero emissions by 2050. Particular focus areas in achieving this transition include energy efficiency, renewable energy, hydrogen, bioenergy, green mobility and carbon capture, utilisation and storage. There is also a strong focus on environmental sustainability, including through the increased adoption of Environmental, Social and Governance (ESG) principles (particularly for ESG sensitive export markets).
- **Foreign direct investment:** There is a clear emphasis on promoting foreign direct investment (FDI), particularly technology-linked investment in high growth high value industries (HGHV), including electrical & electronics, smart farming and renewable energy. In doing so, Malaysia is keen to capitalise on its strategic location, existing infrastructure as well as "plus one" strategies intended to provide economic security and supply chain resilience.
- **Increasing economic complexity:** Malaysia is focused on encouraging industry to innovate and produce more sophisticated goods, moving up the value chain. This is evident in Malaysia's desire to transform its existing manufacturing sector and capitalise on global trends (such as those highlighted above) with a focus on HGHV industries, like electronics and electrical products (including semiconductors), machinery and equipment, petroleum, chemicals and chemical products. The manufacturing sector is a major component of the Malaysian economy.
- **Digital economy:** Malaysia is keen to accelerate its digitalisation efforts to take advantage of the digital market. Malaysia has created a new Digital Ministry aimed at leading the Government's digital transformation efforts. The digital economy accounted for 23.2% of the Malaysian economy in 2022. Malaysia wants to grow the digital market to 25% of GDP by 2025.

- **Regional linkages:** Malaysia has expressed interest in stronger cooperation with its ASEAN neighbours to increase participation in the global supply chain and advance regional integration. One example of this is the Johor-Singapore Special Economic Zone (SSEZ) currently being considered by Malaysia and Singapore, which is intended to drive growth and strengthen connectivity and collaboration. Areas of consideration under the SSEZ include harmonising immigration and customs procedures to allow for better movement of people and goods.
 - **Enhancing public service delivery:** The government wants to enhance public service delivery to make it easier and more transparent for customers; in particular, providing businesses with efficient, fast and accurate services to enable them to be more competitive.
 - **Subsidy rationalisation:** Malaysia's Budget 2024 outlined a plan to move from blanket domestic subsidies on goods such as chicken, eggs, cooking oil and diesel to more targeted subsidies to reduce Malaysia's debt to GDP ratio.
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