Clearing the Runway for Intra-Asia Trade

Summary of Insights: Malaysia

Malaysia can strengthen its position as one of Asia's largest manufacturing hubs and nearly double its trade with 11 other top Asian markets from USD283 billion in 2020 to USD555 billion in 2030

This market summary provides an overview of some of the main insights on intra-Asia trade for Malaysia as part of a larger study commissioned by UPS and developed by AlphaBeta entitled: "Clearing the Runway for Intra-Asia Trade: Key insights for unleashing the potential for intra-Asia trade by 2030." The 12 markets (i.e., "Asia-12") covered in this report are Australia, China, Hong Kong, Indonesia, Japan, Malaysia, Philippines, Singapore, South Korea, Taiwan, Thailand, and Vietnam. The purpose of this research is to offer key critical insights on the rise of intra-Asia trade and prospects for future growth through 2030, in the context of Asia's continuing economic growth and against the backdrop of increasing volatility in global trade relationships today. The findings from this research showcase the potential for intra-Asia trade to continue its rapid growth over the coming decade, and support governments and businesses in identifying key enablers for this opportunity and steps to capture the potential. This summary is without prejudice to the status of or sovereignty over any territory or boundary. In cases where China is referred, it predominantly refers to mainland China. For the full set of insights, including data sources and methodology, please refer to the full report at: https://about.ups.com/sg/en/home.html

Top 3 insights on intra-Asia trade prospects for Malaysia

1. **Malaysia is expected to strengthen its position as one of Asia's largest manufacturing hubs in the coming decade.** Its trade with 11 other major markets (together, the "Asia-12") could nearly double from USD283 billion in 2020 to USD555 billion by 2030.

2. **Trade in four key product segments is expected to drive this growth, particularly the high-tech segment.** These segments are retail, industrial manufacturing and automotive (IM&A), high-tech, and healthcare, and they account for 70% of Malaysia's trade with the rest of Asia. The high-tech segment, which constitutes 38% of its intra-Asia trade, is expected to drive future trade growth, building on the strength of Malaysia's electronics industry and riding the wave of digitalisation across the Asia-12.

3. **Businesses in Malaysia can capture the intra-Asia trade opportunity through three areas of multistakeholder action that could address major barriers to regional trade.** (1) Build resilience into supply chains; (2) Collaborate on harmonising product standards across the region; (3) Improve logistics serving intra-Asia trade lanes by developing investment and skills roadmaps.

Top 3 takeaways for businesses in Malaysia

1. **Plan for both headwinds and opportunities by diversifying supply chains.** This includes exploring resilient trade routes, such as with Australia, and targeting high-value and high-growth trade routes, such as with other ASEAN markets. Diversifying supply chains is critical to building resilience in trade flows.

2. **Digitalise operations end-to-end.** While the pandemic has accelerated adoption of digital technologies within Malaysia, firms could leverage new solutions to improve the efficiency of their operations and supply chains, including real-time logistics tracking and digital invoicing to better comply with paperless trade regimes in the future.

3. **Integrate micro-, small-, and medium-sized enterprises (MSMEs) into regional supply chains.** MSMEs face higher costs in navigating trade barriers and often face difficulty in generating scale and innovation, with 77% of Malaysian MSMEs achieving only basic levels of digitalisation. Larger firms can provide MSMEs a platform to participate further in trade by providing finance, consolidating supply chains, promoting e-commerce, and creating tools to help navigate customs requirements.

Malaysia could nearly double its trade with the Asia-12 over the coming decade, building off its strength as an important manufacturing hub

Asia is a critical component of global trade. Over the past half century, Asia has developed into the world's largest manufacturing hub, with Malaysia's ever-stronger manufacturing sector playing an important role in supplying both low and high-value electronics, machinery, and healthcare products to global markets. However, as Malaysia and other Asian markets become the global epicentre for new consumer demand, building off a sustained period of economic growth and improvements in standards of living, trade lanes within Asia are gaining importance. Already, intra-Asia trade accounts for two-thirds of the region's trade with the world.

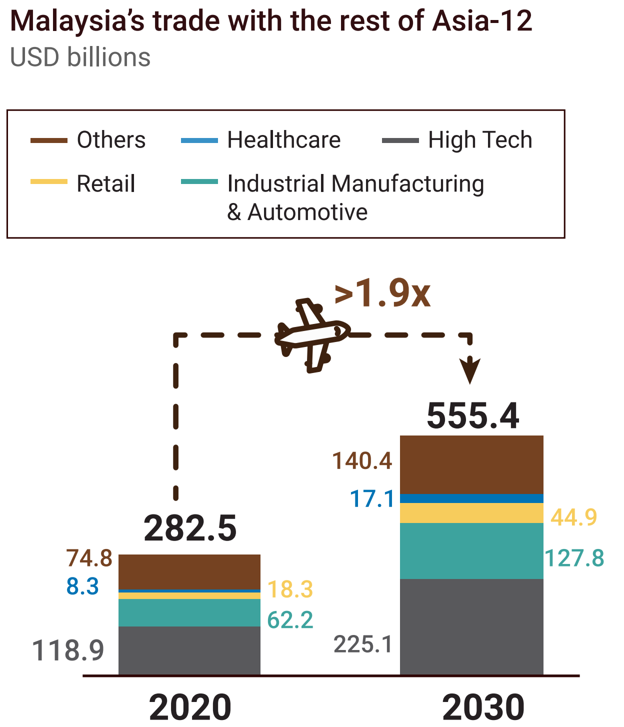
Malaysia could strengthen this position as one of Asia's largest manufacturing hubs in the coming decade. It enjoys a steady inflow of investments in export-oriented manufacturing sectors, ranking fourth in a global study on cost-effectiveness in manufacturing.[1] Underpinned by this status and buoyed by favourable economic trends throughout the region, Malaysia's trade with 11 other major markets in Asia (together, the "Asia-12") could almost double from USD283 billion in 2020 to USD555 billion by 2030 (Exhibit 1).

Malaysia's trade with the Asia-12 will rise due to strong consumer demand from the region's wealthier and more urbanised population, aided by ambitious trade deals. In just the Asia-12, 567 million new entrants will be added to the middle class between 2020 and 2030, with the region's consuming class touching 1.5 billion at the end of this period. Almost a fifth of Malaysia's population in 2020, or around 4.7 million people, is projected to join its urban population by 2030, positioning its burgeoning urban centres as key nodes across the Asian supply chain. Regional trade agreements within the region such as the Regional Comprehensive Economic Partnership (RCEP) and the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) will deepen economic integration within the region.

Trade in four product segments is expected to drive this growth: (1) retail; (2) industrial manufacturing and automotive (IM&A); (3) high-tech; (4) healthcare – which account for 70% of Malaysia's trade with the rest of Asia. Key trade lanes are expected to facilitate growth among all segments in the future. For instance, trade for all these segments between Malaysia and Vietnam grew in value at a rapid rate of 9.1% annually between 2011 to 2020, the highest compared to other trade lanes. Malaysia's high-tech trade also provides a strong platform for export growth, given rapid digitalisation across the Asia-12. This segment already contributes 38% of its intra-Asia trade in 2020 and is the largest among the four.[2] High-tech trade between Malaysia and other ASEAN markets covered in this study could support this growth – the segment outpaced growth out of all four segments, expanding rapidly by 3.4% annually between 2011 and 2020 (versus 0.3% overall growth for all segments).

Exhibit 1

Malaysia's trade with the Asia-12 could almost double by 2030



Note: The methodology for these estimates can be found in the Appendix of the main report.
SOURCE: ITC; AlphaBeta analysis

Increased investment in supply chain innovation and high-quality infrastructure will also contribute to long-term resilience. The Malaysian government is investing in deploying smart technologies across its logistics networks which will contribute to the efficiency of its supply chains. For instance, the Ministry of Transport's MyLogistik app provides digital mapping of all logistics-related location data, including depots, airports, and train stations, providing the industry with up-to-date information on transport accessibility.[3] The Malaysia Airports and Alibaba Group's joint investment in the Cainiao Aeropolis eWTP Hub, a delivery fulfilment hub to support the economy's cargo and logistics ecosystem, is also expected to solidify Malaysia's position as an e-commerce hub.[4]

Uneven development in infrastructure and intensifying geopolitical tensions could hinder Malaysia's trade growth

Despite the significant potential that intra-Asia trade holds for Malaysia, there exist a range of barriers to greater trade today that may intensify over the coming decade. Malaysian businesses surveyed for this study indicated tariffs and other punitive measures as the top barrier to trade, among five other barriers identified (Exhibit 2). These six barriers remain largely unaddressed by policy and business action due to trade tensions, supply chain shifts, and uneven investment and engagement of MSMEs in supply chains.

If these barriers intensify, Malaysia may not be able to capture its full trade potential with the Asia-12 by 2030. Trade could total USD333 billion in this "Deglobalisation" scenario – registering a lower annual growth rate of 1.7% between 2020 and 2030 as compared with 7% in the previous scenario.

Intensifying geopolitical tensions contribute significantly to these trade barriers. Geopolitical risks such as territorial, economic, and political disputes between other economies have proven detrimental to trade in the past, particularly in the high-tech and retail segments. ASEAN's consensus-building and decision-making norms further stymie economic progress and cooperation – despite deeper economic integration over the past few decades, trade remains hindered by ASEAN members' reluctance to harmonise their standards and practices. Such geopolitical tensions that create strict or restrictive trade policies in ASEAN and across Asia could damage Malaysia's long-term trade prospects.

Progress on developing logistics infrastructure remains uneven across the Asia-12, which could constrain Malaysia's ability to serve centres of demand in rapidly developing economies. Restrictive regulations in Malaysia's logistics infrastructure sector have hindered much-needed investment in upgrading and digitalising Malaysia's trade infrastructure. Transport-related costs take up 80% of cross-border trade costs, higher than the ASEAN average of 60%.[5] Outdated customs systems are also a key barrier to trade in Malaysia – for instance, the manual customs registration system for cargo deliveries constituted 40% of all issues faced by businesses in customs procedures in 2021.[6]

Finally, pressures caused by the COVID-19 pandemic, and rapid advances in robotics and automation limit the flow of trade. These trends could expose a shortage of labour, skills, and shorten supply chains due to shifting

Exhibit 2

Businesses in Malaysia face six barriers to regional trade

Top barriers to trade in Malaysia

Ranking based on respondents conducting trade in Malaysia

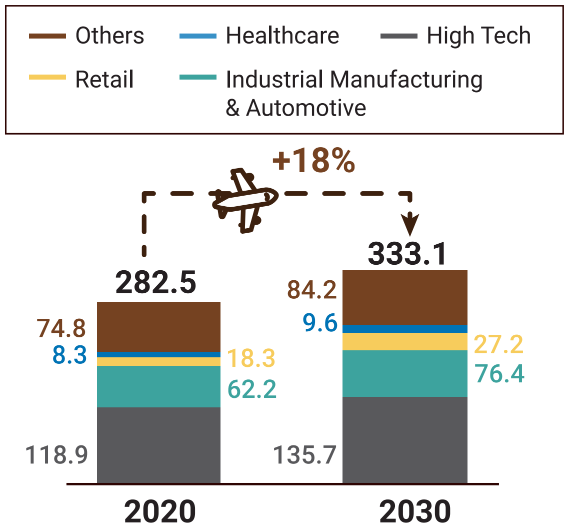
SOURCE: Industry survey of 198 businesses that conduct trade in the Asia-12 economies; AlphaBeta analysis

Exhibit 3

Headwinds could cause Malaysia's trade with the Asia-12 to slow down

Malaysia's trade with the rest of Asia-12

USD billions



Note: The methodology for these estimates can be found in the Appendix of the main report.
SOURCE: ITC; AlphaBeta analysis

cost competitiveness, preventing Malaysia from scaling up and lifting its trade potential. Two-thirds of Asian businesses surveyed by the Asian Development Bank (ADB) in 2021 stated that they planned to source more goods locally in the coming years – constraining the potential for Malaysia to trade more intensively with markets more distant from home.[7]

Governments and businesses must proactively mitigate these risks to capitalise on the intra-Asia trade opportunity

Multistakeholder action is required to reduce impediments to regional trade and harness the opportunities to steer intra-Asia trade towards take-off. Action by businesses or government alone is not enough to address the key barriers to trade – active involvement by all stakeholders in the region and across the supply chain is key. There are three main areas for multistakeholder action in Malaysia: (1) Build resilience into supply chains via supportive public-private investment; (2) Collaborate on harmonising product standards by creating meaningful partnerships between business leaders, trade associations, certification bodies, and regulators; (3) Improve logistics serving intra-Asia trade lanes by developing investment and skills roadmaps that support businesses and individuals to make investment and education decisions that match the economy's needs.

Businesses with trade interests in Malaysia and those in the logistics sector must proactively account for opportunities from intra-Asia trade and build resilience against potential headwinds. Three key actions that can be taken by businesses include diversifying supply chains, digitalising completely, and integrating MSMEs into regional supply chains.

01

Diversify supply chains

Plan for both headwinds and opportunities by diversifying supply chains into resilient trade routes and targeting high-value and high-growth trade routes. The COVID-19 pandemic has made diversifying supply chains an important strategy in building resilience in trade flows. Many trade routes offer opportunities for resilient growth (Exhibit 4). These include IM&A trade with Vietnam; in the healthcare segment with Indonesia; and in the retail and high-tech segments with markets such as Thailand and Singapore. Additionally, trade routes in the IM&A segment could prove particularly resilient, with 47% of trade value today potentially growing even in a "deglobalisation" scenario. On the other hand, in a scenario where trade nearly doubles, a range of high-value and high-growth trade routes are available for Malaysian businesses (Exhibit 5). Trade routes with China and Singapore will remain among the top five trade lanes by value for Malaysia in the coming decade, as they are today. Meanwhile, trade lanes with other ASEAN markets are expected to see rapid growth, including in IM&A with the Philippines, where Malaysia has deepening economic integration,[8] and the retail, IM&A, and high-tech segments with Indonesia. Trade between Malaysia and Indonesia is supported by large flows of mutual private investment in both markets – for instance, foreign direct investment between both economies exceeded USD13 billion in the second quarter of 2021 alone.[9] In particular, as ASEAN markets increasingly invest in e-commerce platforms and logistics capabilities that can facilitate trade, businesses in Malaysia can access an increasingly wider range of export destinations. With Malaysia being part of RCEP, businesses can use consultancy tools like UPS's Trade Assist™ to develop ways to pivot their supply chains while reaping benefits such free trade agreements offer.

02

Digitalise comprehensively

Digitalise operations end-to-end. While the COVID-19 pandemic accelerated adoption of digital technologies within Malaysia, progress has been uneven. For instance, only four of 10 businesses in Malaysia have adopted digital tools beyond basic ones such as web browsers.[10] Businesses should also position themselves to comply with paperless trade administration in the future. Steady progress toward digitalising operations could alleviate these challenges in the coming decade. For example, digital solutions can provide businesses with a modular digital system that caters to various needs such as a transport management system, customer portal, capacity planning, and remote warehouse ticketing management.[11] Such tools enable businesses to boost productivity by reducing paperwork and also oversee operations in real-time. Artificial intelligence (AI)-enabled tools that can analyse and identify tariff codes or automatically input customs data could also smoothen regulatory import-export procedures for businesses, making trade simpler and more efficient. Adopting digital tools that are compatible with international logistics networks allows efficient tracking and improved visibility of shipments – for example, UPS's My Choice® for Business allows MSMEs to centralise and control shipment data on a customised dashboard and reduces the need to manage different systems.[12] For businesses selling online, UPS's Digital Access Program works with e-commerce platforms to integrate shipping into the customer purchasing journey, enabling small businesses to focus more on selling while leveraging their logistics partners.

03

Partner with and integrate MSMEs

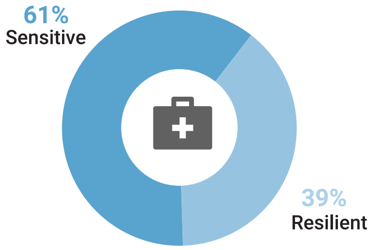
Integrate MSMEs into regional supply chains. MSMEs typically face higher costs in navigating trade barriers and often lack the scale of operations needed for trade profitability or knowledge of trade deals to support expansion into other markets.[13] In addition, 77% of MSMEs remain at a basic level of digitalisation, with only around half of them having a web presence.[14] Larger firms can provide MSMEs a platform to participate further in trade to unlock mutual benefits, including providing finance, consolidating supply chains, promoting e-commerce, and creating tools to help navigate customs and shipping requirements. Digital tools developed by logistics providers can also provide critical trade information to MSMEs. UPS's range of plug-and-play application programming interfaces (APIs) allow businesses to get estimated duties, taxes, and brokerage fees for cross-border shipments to prevent unforeseen delays in payments and processes or additional costs to business. These APIs also enable businesses to utilise AI to learn individual shipping patterns and behaviour, so as to simplify shipping processes for businesses.

Exhibit 4

Firms can invest in resilient trade routes within each segment to hedge against supply chain shocks

Share of Malaysia's trade with the Asia-12 sensitive to geopolitical shocks, by segments[1]
Share of each priority segment trade value in 2020 (%)

Top resilient trade partners by value today

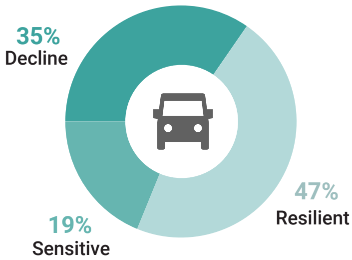


Singapore
Indonesia
Thailand
Vietnam
Hong Kong

Healthcare

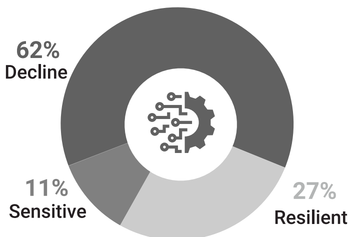
Singapore
Indonesia
South Korea
Taiwan
Thailand

Retail



Singapore
Thailand
Indonesia
Taiwan
Vietnam

Industrial manufacturing & automotive



Singapore
Thailand
Indonesia
Australia

High-tech

1. Each figure represents a share of trade value in 2020 that is forecasted to be under either the resilient, sensitive, or decline category in 2030. Resilient trade refers to trade routes that may expect positive growth in either worst-case or optimistic scenarios, while sensitive trade refers to trade routes that may see positive growth only within the optimistic scenario. Declining trade refers to trade routes that may see slight contractions regardless of either.

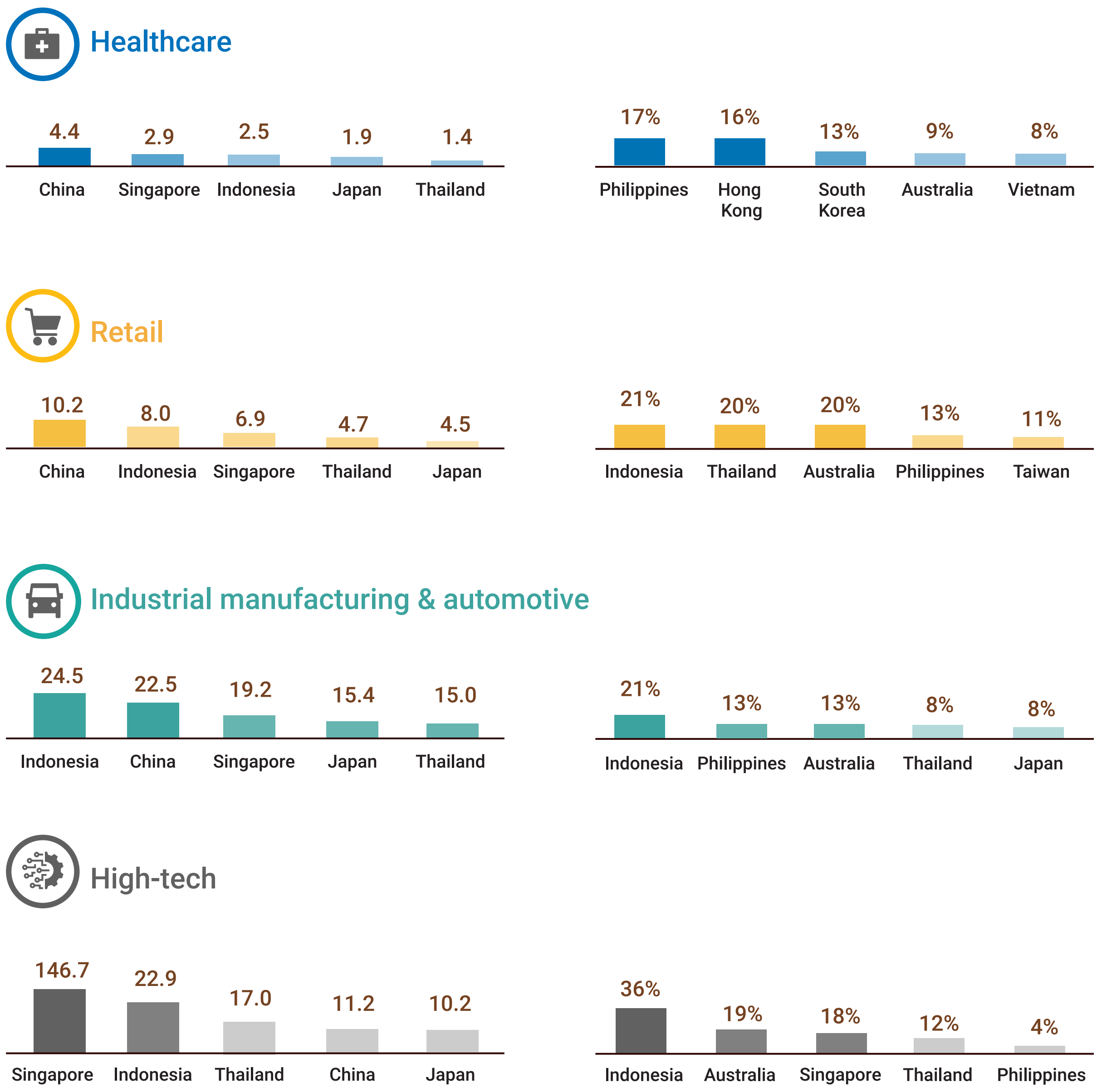
SOURCE: ITC; AlphaBeta analysis

Exhibit 5

China and Singapore will remain key trade partners across all segments, while ASEAN markets offer growth opportunities

Top 5 projected trade routes in 2030 by value, USD bn[1]

Top 5 projected trade route partners, by growth rate till 2030, %[1]



1. Projections are based on an optimistic scenario of Asia's trade environment, as outlined in Chapter 1 of the main report, where intra-Asia trade will take off and be driven by trends such as regional trade agreements, supply chain innovations, and a rise in digitalisation. These projections should be taken as an ideal outcome rather than guidance.

SOURCE: ITC; AlphaBeta analysis

Endnotes

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