MALAYSIAN INSTITUTE OF ECONOMIC RESEARCH

MIER MEDIA RELEASE ON

US-IRAN CONFLICT: CONSULTATIONS WITH INDUSTRY AND BUSINESSES

The Malaysian Institute of Economic Research (MIER) conducted consultations with industry players and businesses, as well as government-related enabling agencies, the financial sector, chambers of commerce and business councils, and civil society organisations, to gather views on the implications of the US–Iran conflict for the Malaysian economy.

There was a consensus that, although the direct impact of the conflict has not yet materialised, its effects are likely to emerge in the near term. A key expectation is that logistics costs and input prices will inevitably rise, which will, in turn, be quickly reflected in the cost of living. These pressures are expected to affect business performance over the next two to three months, particularly among SMEs.

Participants in the dialogue reported isolated instances of fuel shortages at petrol stations and the closure of some construction companies, highlighting the broader repercussions across the economy. Sectors such as agriculture, printing, food services, and small-scale enterprises are expected to be particularly affected, with some businesses already beginning to feel the impact.

Implications were also highlighted in relation to food security, including concerns over fertiliser shortages, rising diesel prices for agricultural machinery, and recent drought conditions in Kedah. These factors may contribute to disruptions in the food supply chain and affect national food self-sufficiency.

MIER notes that the conflict has disrupted a key trade route for Russian fertiliser exports, while China has initiated a fertiliser export ban, raising concerns over the outlook for fertiliser costs. Russia and China are the two largest exporters of fertiliser to Malaysia, together accounting for more than 45% of imports in 2024.

In this context, there is a need to strengthen domestic food production, particularly in light of declining yields, prolonged dry weather conditions, and constrained fertiliser supply.

Participants generally agreed that prolonged conflict could increase the likelihood of insolvencies, bankruptcies, and business failures across vulnerable sectors. It was also suggested that the government adopt a more pre-emptive approach to managing these risks should economic conditions deteriorate further.

This awareness of potential challenges has prompted trade associations, the financial sector, and enabling agencies to stand ready to support their members and clients, particularly SMEs.

With regard to financing, it was noted that microfinancing schemes and assistance for SMEs are available. The banking system has also introduced targeted repayment assistance programmes to support viable businesses facing temporary financial difficulties. Furthermore, enabling agencies and the financial sector indicated that they are actively monitoring signs of portfolio distress, drawing on experience from past crises, including COVID-19.

However, access to information and support programmes remains fragmented and limited. Drawing on examples from past crisis-related funding interventions, it was noted that significant allocations have not always effectively reached certain categories of SMEs. It was therefore suggested that relevant information could be better disseminated through business bodies and associations to improve accessibility for affected enterprises.

The fiscal space is considered relatively constrained; therefore, any fiscal assistance should be temporary in nature, such as targeted reductions in taxes and fees. In addition, with respect to relief measures, it was proposed that adjustments to the BUDI95 subsidy mechanism could allow savings to be redirected towards reducing diesel prices for SMEs and businesses.

Furthermore, streamlining and temporarily reducing Sales and Service Tax (SST) rate to 5% over the next two years, with exceptions for liquor, cigarettes, and gaming, could help ease cost pressures for consumers and businesses. Another proposed fiscal balancing measure involves the gradual reduction of RON95 subsidies, with savings reallocated to subsidise diesel consumption for businesses. This would help ease the cost of doing business, particularly for SMEs reliant on diesel fuel for machinery and logistics.

The government may also consider reducing stamp duties for business restructuring and repayment to a standardised rate to assist businesses and reduce the cost of doing business in the country.

As Malaysia looks to ASEAN to bolster its trade ecosystem, it would not hurt to look at ASEAN-adjacent trading partners such as Australia for enhanced trading ties. In 2024, total trade with Australia was valued at 7.3 billion US dollar with Malaysia enjoying a surplus of about 3.5 billion US dollar.

In light of ongoing geopolitical turbulence in the Middle East, technology firms are seeking to relocate operations to Asia, and Malaysia is well positioned to capitalise on this development. This trend could be further leveraged through recent investments in technology infrastructure and the development of high-value industries in the Johor–Singapore Special Economic Zone (JS-SEZ).

To support exporters, a more active role in strengthening export-oriented industries is an important priority for enhancing Malaysia's export earnings. The banking system and institutions such as the Export-Import Bank of Malaysia (EXIM Bank) will need to remain nimble in supporting the economy especially with uncertainty surrounding global trade terms, commitments to long-term infrastructure development and security of the population, and increasing competition as countries pivot and diversify. A crisis, or an impending crisis, also presents an opportunity to review current practices and evolve in response to the changing demands of business.

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MIER is an independent, non-profit organisation devoted to economic, finance and business research that serves as a think-tank for the government and the private sectors. Our trustees hail from various background to ensure the institute functions as a national economic research and policy hub. We undertake independent and problem-oriented economic and policy analysis on the country's economic challenges as well as providing advice on macroeconomic management, development and future economic perspectives.

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