

Supply Chain Resilience in Southeast Asia: The Case of Malaysia

Cassey Lee

Introduction

- Supply chains – vertical production networks – has become a key feature of the global economy
- The complex nature of supply chain networks – featuring extensive economic dependencies between countries with varying degrees - raises the issues about its stability and resilience
- A key source of instability for global production networks is actions by states that lead to shocks that disrupt supply chains e.g. economic coercion, tariffs, trade restrictions
- GPNs are vulnerable to such shocks – vertical networks with many components stretching across many countries

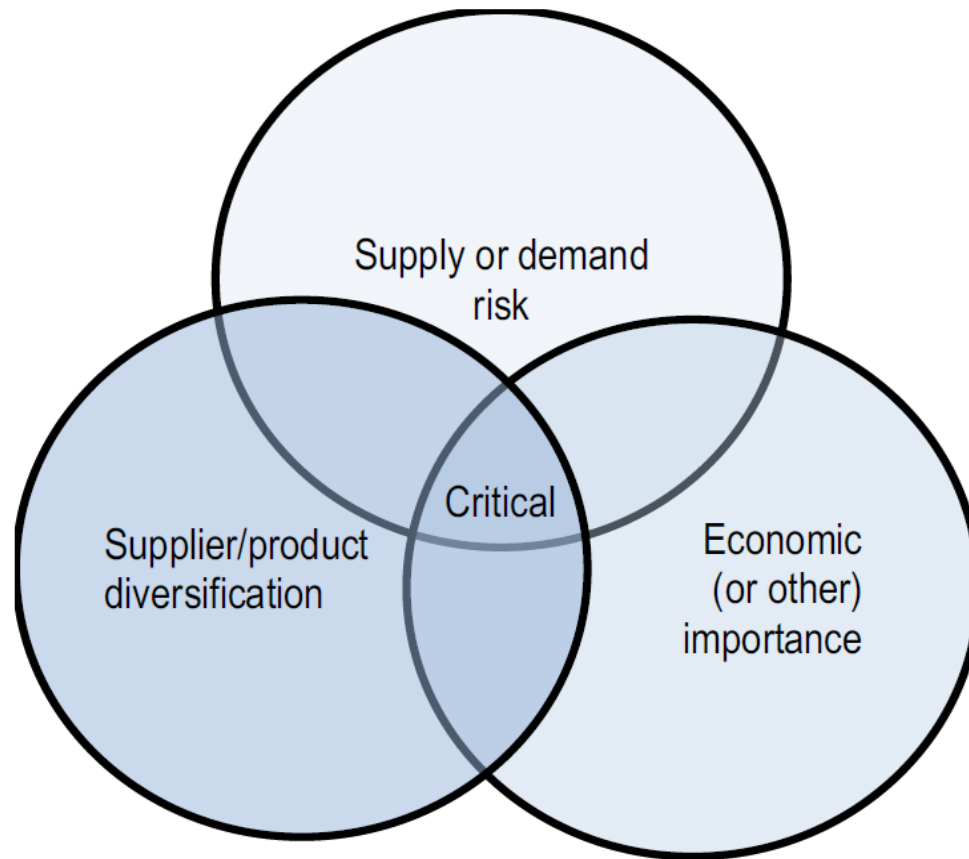
Introduction

- This raises the issue of resilience – how to make supply chains more robust against such shocks
- Several questions:
 - How vulnerable are supply chains to state-driven shocks?
 - What can governments do to enhance the resilience of the segments of supply chains operating within its borders?
- This presentation examines these questions from a country-level perspective: Malaysia

Sources of State-Driven Shocks

- It is important to understand the nature of state-driven shocks
- Complex strategic interactions at multiple-level of hierarchies:
 - States (competition, conflict, cooperation, coalition)
 - Institutions (executive, legislative, judiciary)
 - Firms (heterogenous – domestic/MNE, small/large, industries, sectors)
 - Consumers/Households/Voters
- Interactions involving economic feedbacks (e.g. globalization, GPNs, employment) and political feedbacks (elections) over time, at different speeds (Williamson)
- States seeking to secure national interests – economic security & national security
- Policies & Tools – geoeconomics, economic statecraft
- Economic and Non-(economic) logical outcomes

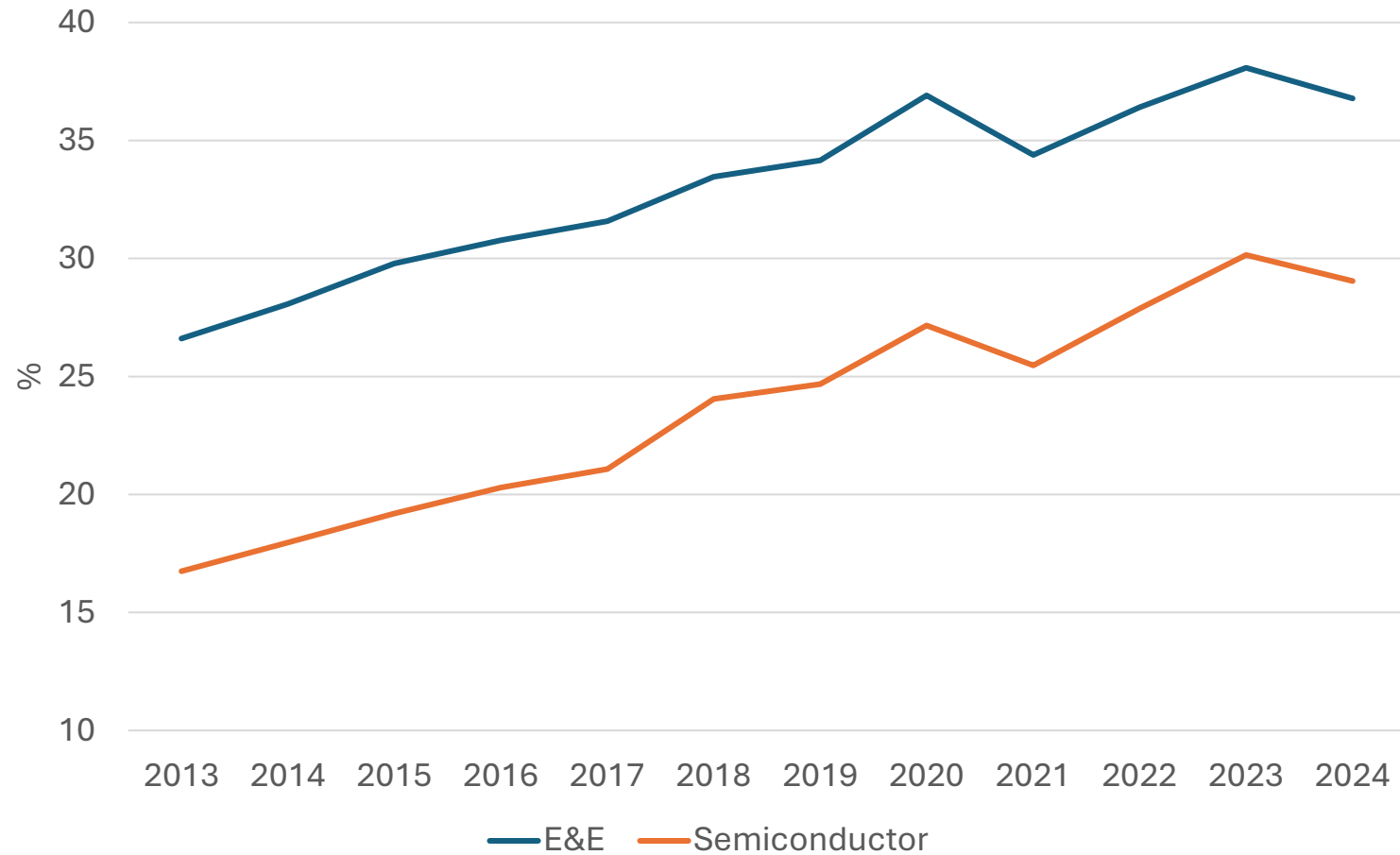
Economic Vulnerability to Shocks: Arriola et al (2024)



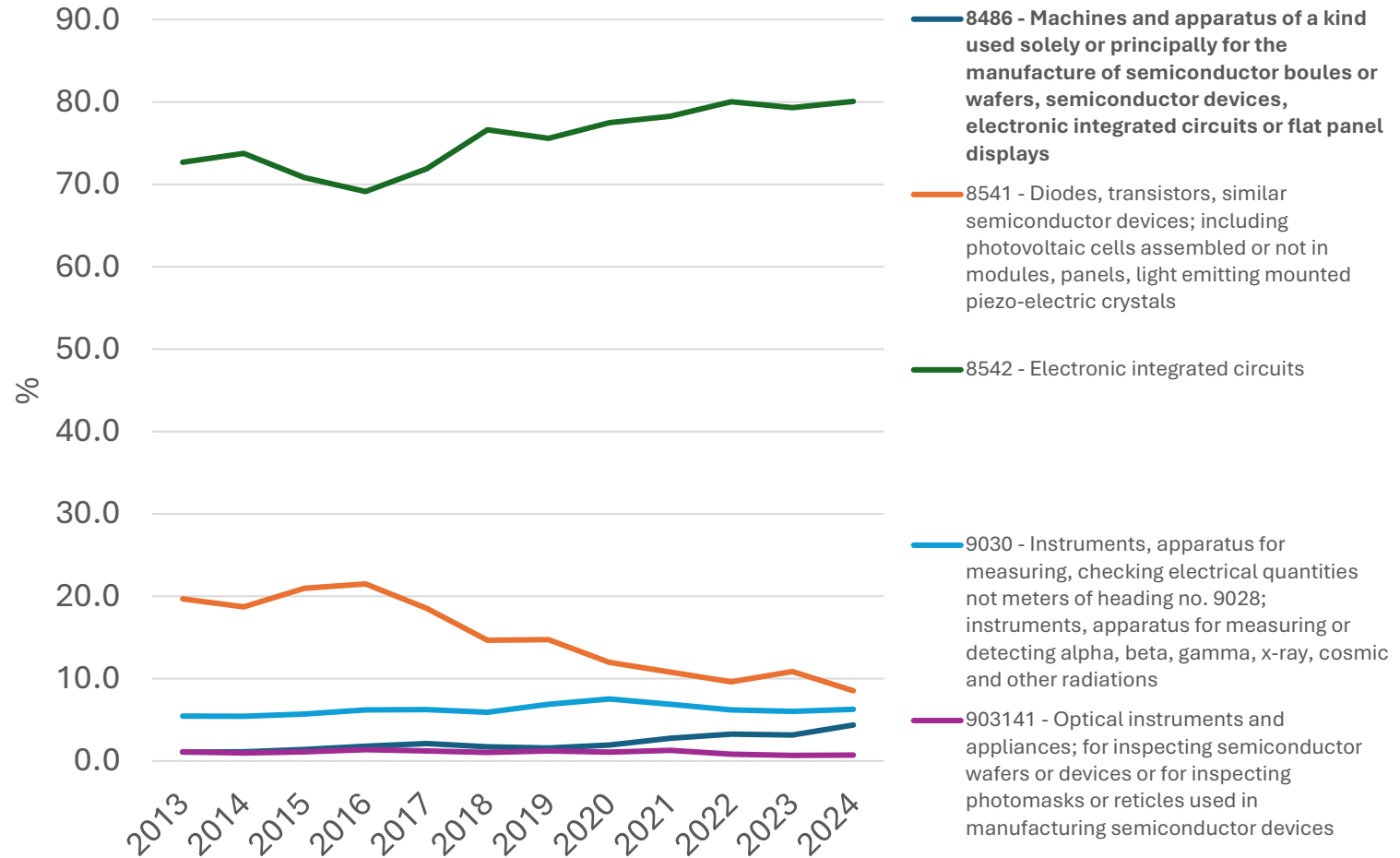
Malaysia's Supply Chains' Vulnerability to Shocks

- Small & open economy
- Heavily dependent on E&E exports esp. semiconductor
- Semiconductor industry – mostly focused on assembly, testing & packaging (small legacy fabs, emerging IC design)
- E&E / semiconductor supply chains are deeply intertwined and concentrated in a few major countries – that are directly impacted by geopolitical rivalries

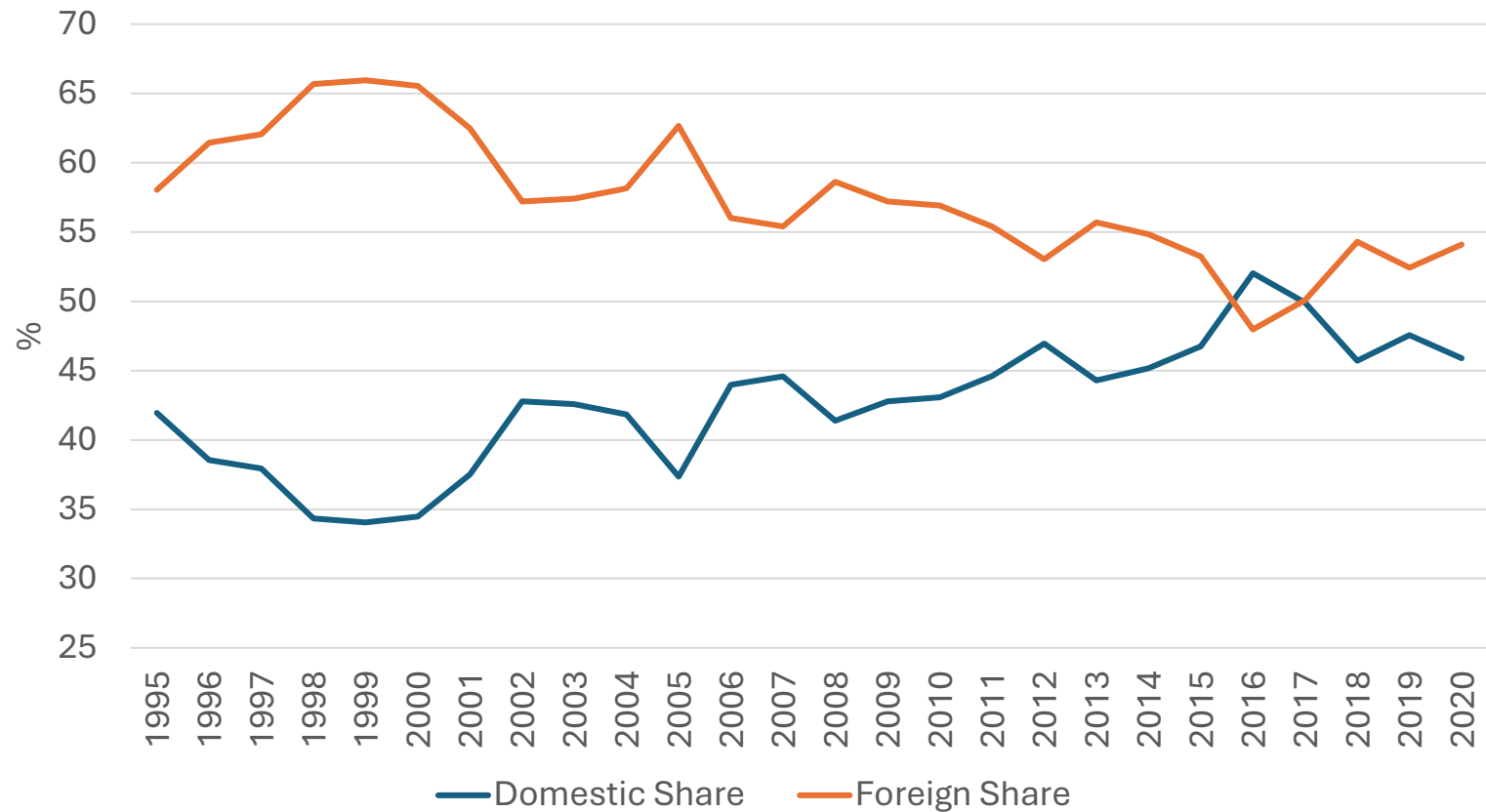
E & E and Semiconductor Share of Total Exports



Composition of Semiconductor Exports



Sources of Value-Added in Exports of Computer, Electronic and Optical Products (%)



E&E Exports (2023)

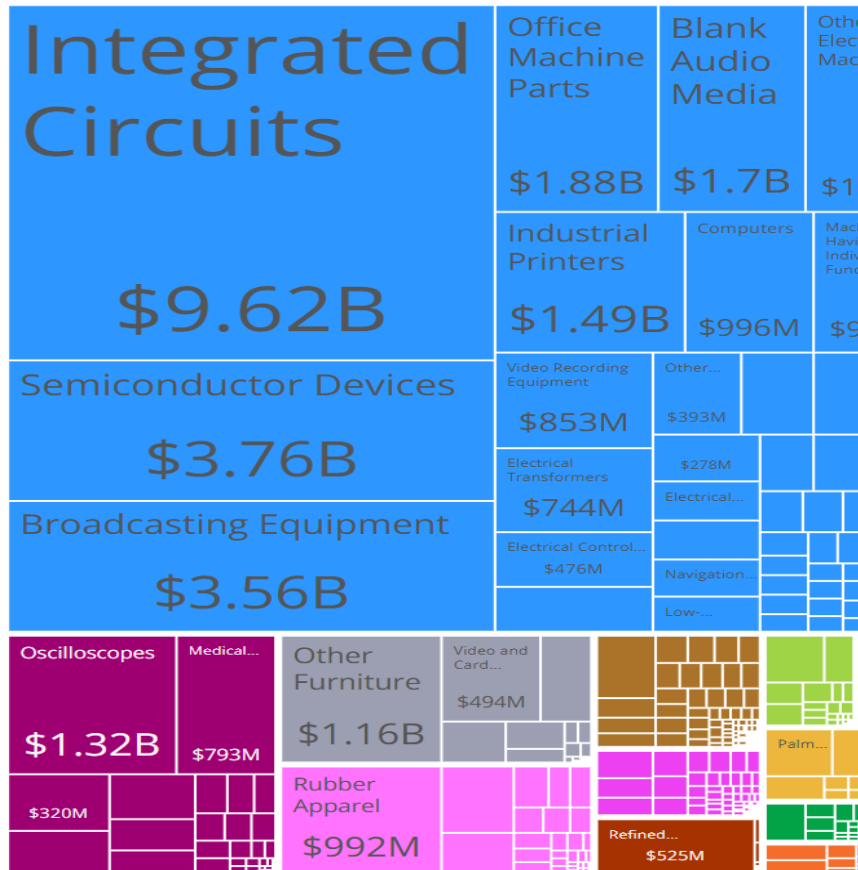
Country	Export	Share (%)
Singapore	22,200,915,821	18.6
USA	19,433,379,904	16.3
China	18,132,312,686	15.2
China, Hong Kong SAR	15,598,069,196	13.1
Viet Nam	5,257,986,256	4.4
Taiwan	4,777,217,159	4.0
Japan	4,708,801,247	4.0
Rep. of Korea	3,805,386,061	3.2
Germany	3,756,655,897	3.2
Netherlands	3,441,122,054	2.9
Thailand	3,359,062,650	2.8
Mexico	2,564,835,810	2.2
India	1,920,812,417	1.6
Philippines	1,188,424,094	1.0

E&E Imports (2023)

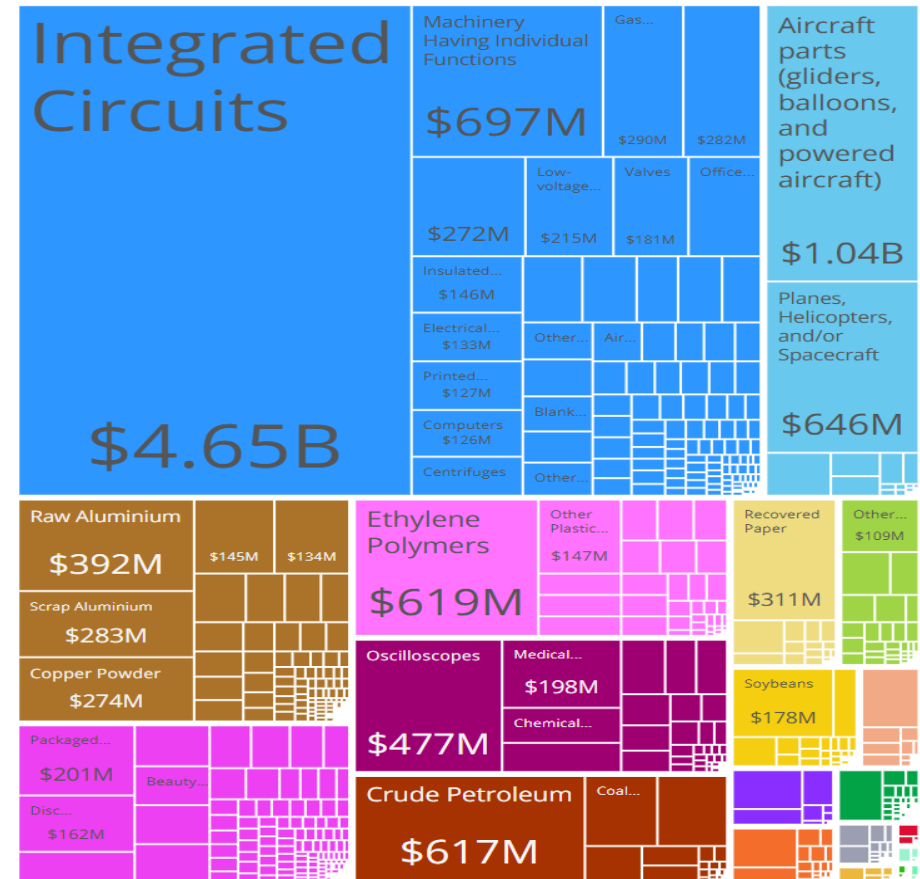
Country	Import	Share (%)
China	19,169,443,095	26.3
Taiwan	9,978,381,787	13.7
Singapore	9,834,285,946	13.5
USA	6,578,224,074	9.0
Japan	5,266,173,614	7.2
Rep. of Korea	3,411,049,319	4.7
Ireland	2,962,479,331	4.1
Thailand	2,043,109,309	2.8
Viet Nam	1,919,279,299	2.6
Germany	1,897,321,430	2.6
China, Hong Kong SAR	1,732,128,059	2.4
Philippines	1,308,513,955	1.8
Indonesia	474,268,581	0.7
Austria	421,482,585	0.6

Malaysia's Exports to the US & Imports from the US (2023)

Total: \$44.9B

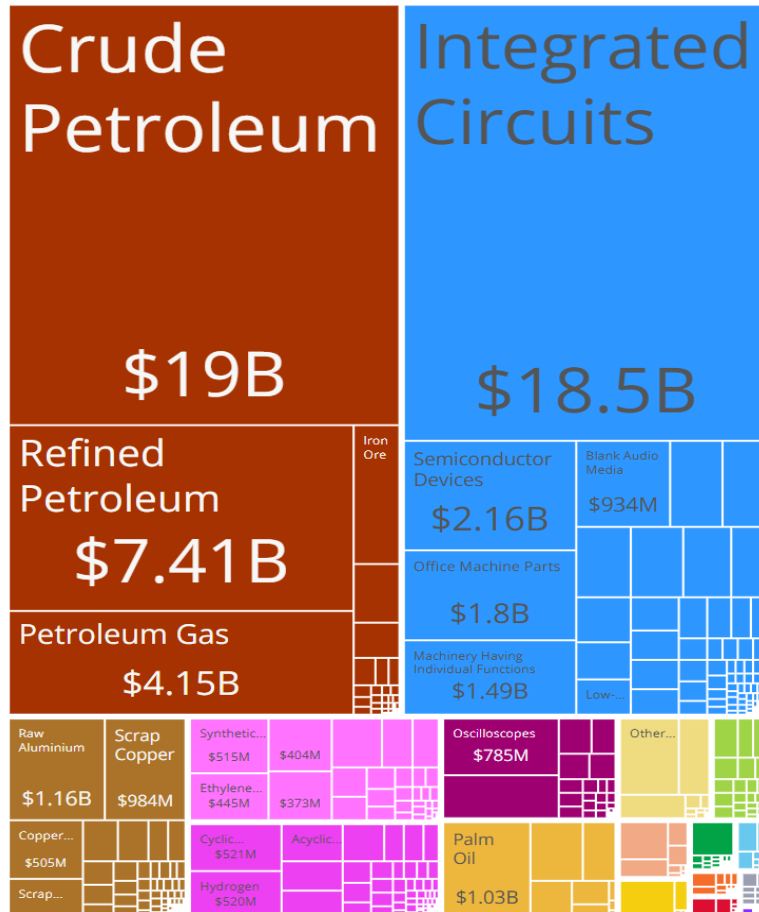


Total: \$18.9B

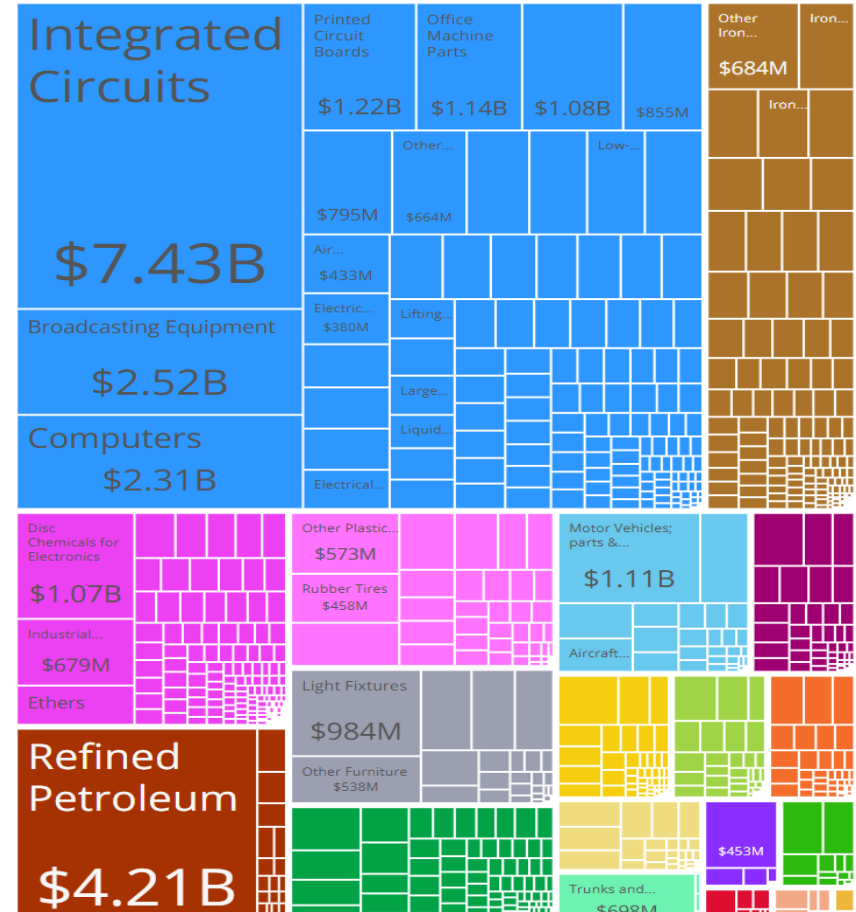


Malaysia's Exports to China & Imports from China (2023)

Total: \$79.8B



Total: \$65.5B



Policy Responses 1

- Broad-level: Hedging - maintaining a neutral stance in the US – China geopolitical rivalry
- Strengthening bilateral ties esp. with China (meetings + MOUs, concessions)
- Malaysia's engagement with the US constrained by Gaza War (strong domestic pressures)
- Formation of National Geoeconomic Coordination Council (NGCC) – policy responses to tariffs etc.
- Continuing negotiations to reduce tariffs on key sectors e.g. cocoa, palm oil, furniture, automotive and aerospace
- As chair-country, spearhead ASEAN activities toward regional responses and engagement e.g. AFISS, ASEAN Summit

Policy Responses 2

- Semiconductor tariffs (300%?) - Engagement with key exporters (semiconductor) to address potential solutions - company-specific investments (based on investments in the US)
- Explore market diversification via new bilateral trade agreements & economic partnerships
- Government rollout of financial support for exporters to seek new markets esp. SMEs
- Greater enforcement activities in areas affecting US sanctions e.g. transshipment activities and AI chips diversions