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Thematic: ASEAN

Pushing for greater integration among regional countries

Strategy Report

KEY INVESTMENT HIGHLIGHTS

- Malaysia's chairmanship theme focuses on promoting inclusive growth and sustainable development.
- Both ASEAN and BRICS are major players in the Global South, and their cooperation can significantly boost South-South trade, moderating the prevailing trade tensions environment.
- Intra-ASEAN made up more than 20% of total trade, and ASEAN remains one of Malaysia's main trading partners – ASEAN-Malaysia trade totalling RM765.1b, representing 26.6% of Malaysia's overall trade.
- The ASEAN region has become one of the fastest-growing hubs for data centre development, and the construction sector stands to benefit. Malaysia's chairing ASEAN in 2025 seems well-positioned to drive regional cooperation in DC expansion.
- Malaysia's chairmanship of ASEAN in 2025—emphasising inclusivity and sustainability—will likely create further opportunities for consumer sector expansion, while the tourism sector is set to be a pivotal driver.
- With ASEAN's continued push for regional economic integration, Malaysian port and logistics players stand at a critical crossroads. The industry might have to adapt to shifting trade patterns, digital transformation, and regulatory pressures.

ASEAN & MALAYSIA'S CHAIRMANSHIP

Overview of ASEAN

The Association of Southeast Asian Nations (ASEAN) was established on 8 August 1967, with the signing of the Bangkok Declaration by Indonesia, Malaysia, the Philippines, Singapore, and Thailand. Over the years, it has expanded to include Brunei, Vietnam, Laos, Myanmar, and Cambodia. ASEAN aims to promote political and economic cooperation and regional stability among its members. The ASEAN Summit is the highest policy-making body in ASEAN, comprising the heads of state or government of member states. It meets twice a year to discuss and provide policy direction on key issues affecting the region.

Objectives of ASEAN

The primary objectives of ASEAN are to:

- Accelerate economic growth, social progress, and cultural development in the region.
- Promote regional peace and stability through respect for justice and the rule of law.
- Enhance collaboration and mutual assistance on matters of common interest.
- Help each other in the form of training and research facilities.
- Collaborate more effectively to achieve greater utilisation of agriculture and industry.
- Promote Southeast Asian studies.
- Maintain close and beneficial cooperation with existing international organisations.

Key achievements of ASEAN in terms of economy and trade

ASEAN has made significant progress in economic integration, with the establishment of the ASEAN Free Trade Area (AFTA) and the ASEAN Economic Community (AEC). These initiatives have boosted intra-ASEAN trade and investment, contributing to the region's economic growth. Also, ASEAN has played a crucial role in promoting regional peace and stability. The ASEAN Political-Security Community (APSC) aims to ensure that countries in the region live in peace with one another and with the world in a just, democratic, and harmonious environment.

ASEAN integration and partnership with other countries as a bloc

The Regional Comprehensive Economic Partnership (RCEP) was signed in 2020 and is the world's largest trade agreement, encompassing approximately 30% of the global population and GDP. It is a free trade agreement among 15 Asia-Pacific countries, including China, Japan, South Korea, Australia, New Zealand, and the 10 ASEAN member states. It aims to lower tariffs, reduce non-tariff barriers, and streamline trade rules, promoting the efficient flow of goods, services, and investment throughout the region. The RCEP is expected to boost regional value chains, benefiting small and medium-sized enterprises (SMEs) and creating new jobs. Other free trade agreements (FTAs) which ASEAN is a part of are as follows:

- ASEAN-China Free Trade Area (ACFTA)
- ASEAN-India Free Trade Area (AIFTA)
- ASEAN-Japan Comprehensive Economic Partnership (AJCEP)
- ASEAN-Korea Free Trade Area (AKFTA) - with South Korea.
- ASEAN-Australia-New Zealand Free Trade Area (AANZFTA)
- ASEAN-Hong Kong, China Free Trade Agreement (AHKFTA) - with Hong Kong

Malaysia’s Chairmanship in 2025 – with the theme of Inclusivity and Sustainability

Malaysia's chairmanship theme focuses on promoting inclusive growth and sustainable development. We opine that this aligns with the broader ASEAN Community Vision 2045, which outlines a shared future for the next two decades. Some of the main initiatives and programs Malaysia plans to bring to its chairmanship are as follows:

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Initiatives	Note
Economic	**Digital economy:** Malaysia aims to promote the digital economy within ASEAN by enhancing e-commerce, digital payments, and cross-border data flows. This includes initiatives to support digital transformation and innovation among member states. **Trade and investment**: Efforts will be made to further reduce trade barriers and enhance trade facilitation. Malaysia will focus on promoting intra-ASEAN trade and attracting foreign direct investment (FDI) to the region. **Sustainable development**: Malaysia will drive cross-border collaboration in developing the regional carbon market and other climate initiatives. This includes promoting renewable energy, green technologies, and sustainable infrastructure, such as smart cities and green transportation systems. Malaysia will focus on projects that reduce carbon emissions and enhance urban resilience.
Political-Security	**Regional security:** Strengthening regional security frameworks will be a priority. Malaysia will focus on issues such as counterterrorism, maritime security, and conflict resolution. Enhancing cooperation through mechanisms like the ASEAN Defence Ministers' Meeting (ADMM) and the ASEAN Regional Forum (ARF) will be key. **Conflict resolution:** Facilitating dialogue and mediation to resolve regional conflicts and promote peace and stability. Malaysia will support mechanisms like the ASEAN Institute for Peace and Reconciliation (AIPR) and the ASEAN Regional Forum (ARF) **Geopolitical neutrality:** Maintaining ASEAN's centrality and neutrality amid global geopolitical tensions, particularly the US-China rivalry, will be crucial. Malaysia will work to navigate these dynamics and ensure ASEAN's role in regional and global diplomacy. Balancing relations with major powers like the US and China to safeguard ASEAN's interests and stability. Malaysia will facilitate constructive engagement through platforms like the East Asia Summit (EAS) and the ASEAN Plus Three (APT).
Socio-Cultural	**Promoting ASEAN identity:** Malaysia will foster a shared ASEAN identity through cultural exchanges, joint educational programs, and initiatives like the ASEAN Cultural Heritage Digital Archive. These efforts aim to promote mutual understanding and a sense of belonging among ASEAN citizens. **Social welfare and development:** Enhancing social welfare and development will be a focus, including health, labour, and social protection initiatives. Malaysia will support programs like the ASEAN Health Development Agenda and the ASEAN Declaration on the Protection and Promotion of the Rights of Migrant Workers. **Environmental sustainability:** Joint efforts on climate change, disaster management, and sustainable development will remain critical. Malaysia will continue to promote initiatives under the ASEAN Agreement on Disaster Management and Emergency Response (AADMER).
Major Events and Summits	**ASEAN- Gulf Cooperation Council (GCC) Plus China Summit:** Scheduled for mid-2025, this summit aims to enhance cooperation between ASEAN, the Gulf countries, and China in various sectors, including trade, investment, and technology. **Other key meetings** Malaysia will host over 300 ASEAN-related meetings throughout the year, including the ASEAN Foreign Ministers' Retreat, the ASEAN Economic Ministers Retreat, and the ASEAN Senior Officials Meeting. These events will focus on various aspects of regional cooperation and integration.
Grassroots Engagement	**Community Programs:** Malaysia plans to engage communities at the grassroots level through various programs designed to benefit rural communities, micro, small, and medium enterprises (MSMEs), youth, women, people with disabilities, senior citizens, and children. Initiatives include promoting Malaysian-made goods, empowering rural women, and organizing the ASEAN Youth Summit.

Source: Various sources, MIDFR

Future prospects for ASEAN integration

ASEAN integration has made significant strides, and we believe that the future holds more potential for deepening cooperation and addressing emerging challenges. Initiatives like the ASEAN Digital Integration Framework Action Plan aim to create a seamless digital ecosystem, promoting e-commerce, digital payments, and cross-border data flows, which we opine will help ASEAN economies stay competitive in the global market. Meanwhile, plans for infrastructure development, such as the ASEAN Connectivity Master Plan 2025, aim to enhance connectivity such as key projects including the ASEAN Highway Network, the Singapore-Kunming Rail Link, and various energy and ICT infrastructure projects. We believe that these initiatives will improve regional connectivity and support economic growth. Another potential integration initiative is the ASEAN Power Grid (APG), which aims to enhance energy security and sustainability by connecting the power grids of ASEAN member states, which will allow for the sharing of electricity resources and the optimisation of energy use across the region.

Benefitting from ASEAN amid the current geopolitical landscape

In our opinion, ASEAN's geopolitical neutrality policy and Malaysia's membership in ASEAN will help Malaysia to navigate the current global geopolitical situation amid tensions between global great powers. ASEAN's ability to navigate these dynamics will determine its role in regional and global diplomacy. ASEAN's strategic location, bridging major global trade routes between the Pacific and Indian Oceans, makes it a crucial hub for international trade. Meanwhile, ASEAN as a trade bloc may moderate the impact of trade wars that are presently threatening to erupt. By promoting trade facilitation and reducing barriers, Malaysia can boost its exports and imports within the ASEAN region, leading to increased market access for Malaysian products and services.

BRICS+ and ASEAN

Both ASEAN and BRICS are major players in the Global South, and their cooperation can significantly boost South-South trade, moderating the prevailing trade tensions environment. The reorientation of trade and investment flows towards the South-South axis is a key driver of this relationship. In addition, ASEAN countries have the potential to join the BRICS New Development Bank (NDB), which can provide funding for infrastructure projects, digital economy initiatives, and human capital development. Note that Indonesia has recently joined BRICS+, and three countries (namely Malaysia, Vietnam and Thailand) are partner countries of BRICS.

Unique opportunity

We believe that Malaysia's chairmanship of ASEAN in 2025 offers a unique opportunity to drive regional cooperation and integration while reaping significant economic, political, and sociocultural benefits. By focusing on inclusivity and sustainability, Malaysia can enhance its regional influence, attract investment, promote cultural exchange, and improve social welfare, positioning itself as a key player in ASEAN's future.

ECONOMICS & POLICY

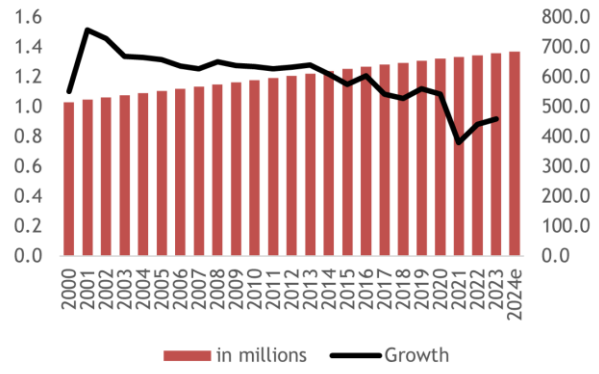
ASEAN is home to 685m people

In 2024, the IMF estimated that ASEAN's population had increased to 685m, or +32% more than the 516.3m registered back in 2000. During the 25-year period, the region's population grew by approximately +1.2% a year, with an average increase of +7.1m people annually. While the pace is similar to the world population, which grew +1.2%p.a., like other regions, there are growing concerns about the ageing population because elderly individuals now account for a larger share of ASEAN's population at 7.5% in 2022 (2000: 5.3%). On the one hand, this reflects the prosperity of the economic growth in the region, but the old-age dependency ratio increased to 13.2% in 2022 (2000: 10.4%). As of 2024, Indonesia remained the most populous country in ASEAN, with an estimated population of 281.6m vis-à-vis Brunei, having the smallest population of 0.45m.

Labour force participation is comparable to most other economies

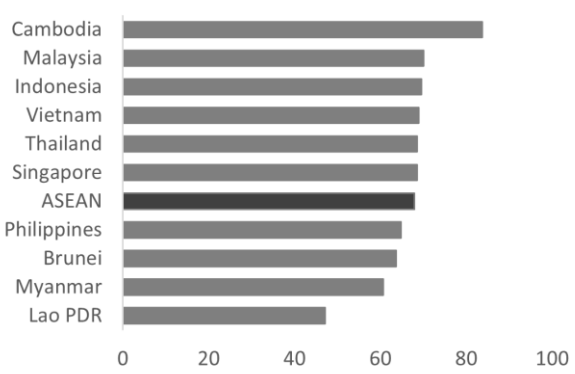
With the rate of labour force participation in ASEAN estimated at around 68%, this means the size of the ASEAN labour force was approximately 312m people in 2023. In other words, there were more people who participated in the job market compared to the US (end-2023: 62.5%) and Japan (end-2023: 62.8%); but still lower than the euro area (4QCY23: 75.2%). The breakdown of employment by sector showed a different employment trend across ASEAN countries, given the difference in economic structure. In Brunei and Singapore, for example, hiring in the services sector covered 78.2% and 82.3%, respectively, of total employment in 2023. In Malaysia, nearly two-thirds of employment was accounted for by those in the tertiary industry. Indonesia and Thailand almost had similar employment breakdowns in the same year, where around 48-49% employment in the services sector, 22% in the industrial sector and the rest in the agriculture sector. Meanwhile, the employment in Cambodia and Vietnam was nearly equally divided in the 3 major sectors. Lao PDR and Myanmar, on the other hand, had a larger share of employment in the agriculture sector and one-third of employment in the services industry.

Chart 1: ASEAN Population Size (m) & Growth (%)



Source: IMF, MIDFR

Chart 2: ASEAN: Labour Force Participation Rate in 2023



Source: ASEANstats, MIDFR

ASEAN economy accounted for 6.2% of world GDP

The size of ASEAN's nominal GDP was at USD3.8t as of 2023, according to the IMF's estimate. This was 5.9 times more than USD640b in 2000, equivalent to a CAGR of +8.1 % p.a. Adjusting to the purchasing power parity, the size of ASEAN's GDP covered approximately 6.2% of the world economy. Looking at the real GDP growth, ASEAN's real GDP grew by an average of +4.4% in 2021-2023, a moderation from the average growth of +5.2% in 2011-2019. In the medium term, the IMF forecasted the ASEAN economy will grow slightly stronger at an average of +4.6% in 2025-2029. In terms of major industries, the services sector accounted for more than half (i.e. 53.9%) of ASEAN GDP in 2023, and the secondary and primary industries covered the balance of 30.3% and 15.8%, respectively.

Indonesia continues to hold the biggest market share of ASEAN

Back in 2000, Indonesia held the biggest market share of ASEAN GDP, which was 27.7%, and still holds the biggest market in 2023 at 36.1%, as Indonesia has the largest population among ASEAN members. Interestingly, Indonesia grew by +663.9% from 2000 to 2023. On the other hand, Malaysia's market share of total ASEAN GDP stood at 15.8% back in 2000, being the third biggest share, but has shrunk to 10.5% in 2023 and dropped to the fifth spot as Singapore and Vietnam overtook Malaysia. Malaysia grew by +291.3% since 2000. Vietnam's market share has increased from 6.1% to 11.43% within this period, while Thailand's market share declined to 13.6% from 19.5%.

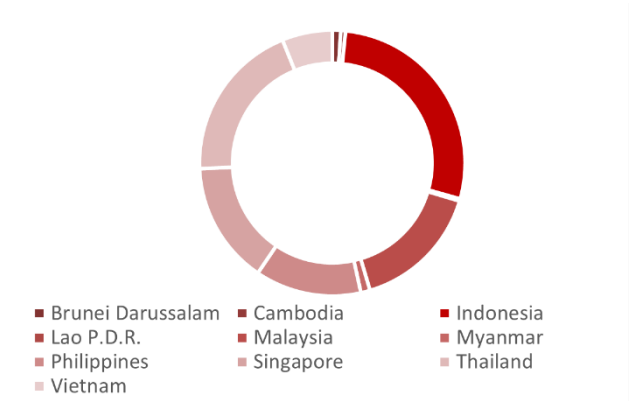
Malaysia is the 4th largest ASEAN economy on a PPP basis

Recovering further from the global pandemic, Malaysia's GDP expanded to USD399.7b following the economic reopening in 2023. This makes Malaysia the 6th largest economy in ASEAN, contributing 10.6% of the region's nominal GDP. However, after adjusting the GDP to purchasing power parity, Malaysia was ranked 4th by nominal GDP after Indonesia, Thailand and Vietnam. In terms of real GDP, Malaysia's real economic growth averaged +5.2% in 2021-2023, placing Malaysia as among the fastest growing in the region after the Philippines (average real GDP growth: +6.3%) during the 3-year period, more or less back to the same pace recorded during the pre-pandemic period.

GDP per capita at USD5,588 in 2023

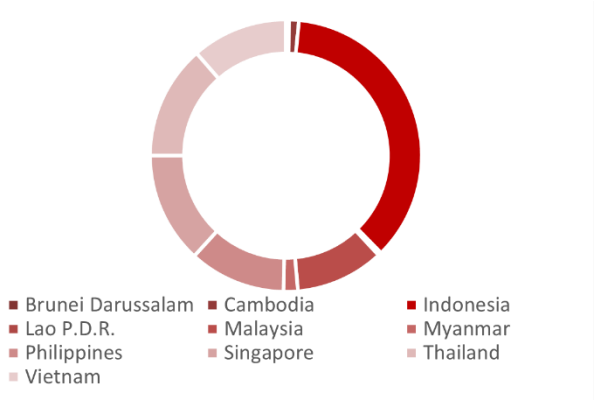
Based on the level of GDP per capita, most of the ASEAN members are developing economies, except for Singapore and Brunei. As a bloc, ASEAN's GDP per capita rose to USD5,588 as of 2023 (2000: USD1,253). Singapore and Brunei, on the other hand, recorded significantly higher GDP per capita at USD84,734 and USD33,577, respectively. Although Malaysia aspires to reach around USD15,000 with the target to become a developed economy in the next few years, the level of GDP per capita in 2023 was at USD12,091 (2000: USD4,348). In comparison, Myanmar and Lao PDR recorded the smallest GDP per capita, despite climbing to USD1,144 and USD1,880, respectively, in 2023. Based on the IMF's projection, ASEAN's GDP per capita could potentially increase to USD7,772 by 2029, growing at +5.6%p.a. from 2023 based on CAGR.

Chart 3: ASEAN 2020 GDP by Market Share



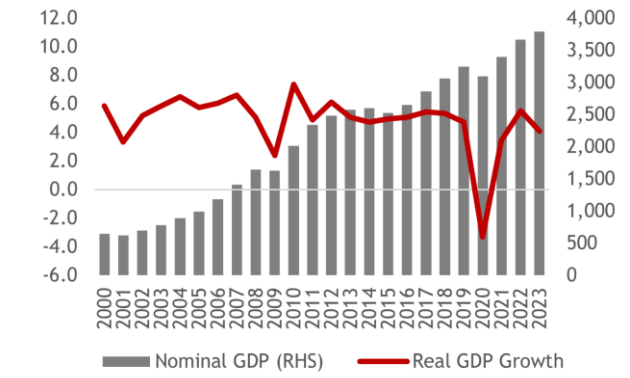
Source: IMF, MIDFR

Chart 4: ASEAN 2023 GDP by Market Share



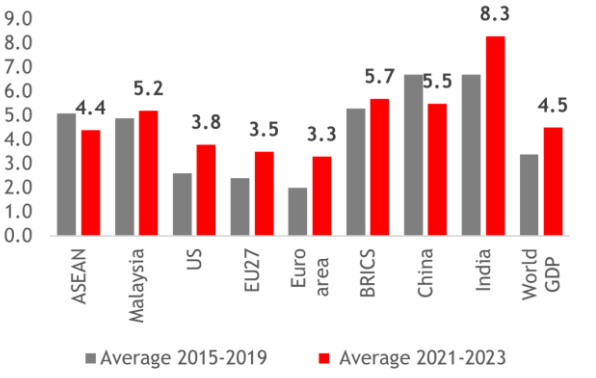
Source: IMF, MIDFR

Chart 5: ASEAN: Nominal GDP (USD'b) vs. Real GDP Growth (%)



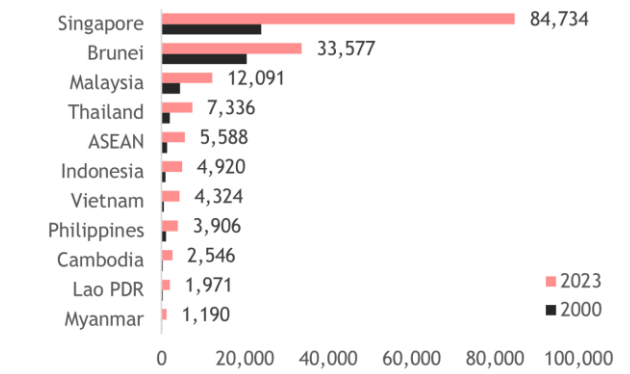
Source: IMF, MIDFR

Chart 6: Real GDP Growth: ASEAN vs. Other Regions and Economies (%)



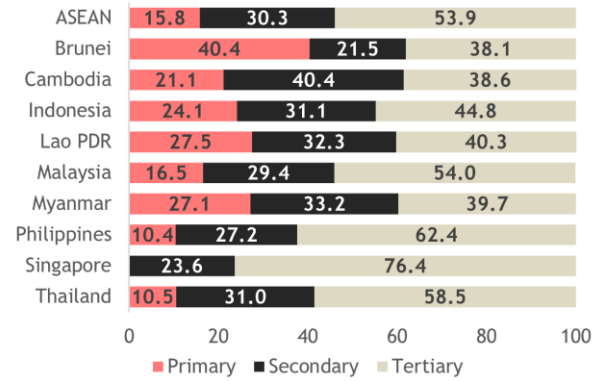
Source: IMF, MIDFR

Chart 7: ASEAN: GDP Per Capita (USD)



Source: IMF, MIDFR

Chart 8: ASEAN Economy by Major Economic Sectors (% of GDP) in 2023



Source: ASEANstats, MIDFR

Intra-ASEAN made up more than 20% of total trade

Intra-ASEAN made up more than 20% of total trade. In 2023, ASEAN trade totaled at RM3525.7b, declining at -8.3%, reversing from double digit growth recorded in the past two years. Intra-ASEAN trade accounted for 22% of total trade, while extra-ASEAN trade comprised the remaining 78%. This distribution has exhibited steady growth and remained relatively consistent from 2017 to 2023, encompassing both exports and imports. For exports in 2023, the growth for extra-ASEAN shipments declined by -7% (2022: +12%), whereas intra-ASEAN shipments dropped to -11% (2022: +21%). Likewise, for imports during the year, the growth rate for extra-ASEAN imports decreased by -8% (2022: +15%), whereas intra-ASEAN imports declined to -12% (2022: +20%). The extra-ASEAN trade, exports valued at USD1.4t (2022: USD1.5t). Looking at the market breakdown, China (share: 21.5%), the US (17.1%), EU (9%) and Japan (6%) contributed more than half of ASEAN total exports. Meanwhile, for imports, extra-ASEAN trade, valued at USD1.4t (2022: USD15.t), where 49% were sourced from China (share: 31%), Taiwan (6%), Japan (6%), and the US (6%).

ASEAN remains one of Malaysia's main trading partners

In 2024, ASEAN emerged as a key trading partner for Malaysia, with trade totalling RM765.1b, representing 26.6% of the country's overall trade. This marked a +6.1% increase, rebounding from a decline experienced in 2023. ASEAN exports make up 29% of Malaysia's total exports, followed by the US (13.2%), China (12.4%) and the EU (7.7%). Malaysia's exports to ASEAN countries increased by +4% during the year, reversing from the decline of -7% in 2023, driven by higher shipments of machinery, equipment and parts, metal products, and petroleum products. By country breakdown, exports to ASEAN are the largest for Singapore (52.8%), followed by Thailand (13.5%), Indonesia (12.4%) and Vietnam (12.3%). During the year, exports to Singapore increased by +5% (2023: -6%), whereas shipments to Thailand were relatively unchanged. Growth in exports was also seen for Indonesia and Vietnam by +7% (2023: -9%) and +4% (2023: -3%), respectively. Meanwhile, for imports in 2024, ASEAN imports comprised 24% of Malaysia's total imports. Other main trading partners that make up the overall import include China (22%), the US (9%), and Taiwan (8%). Imports from ASEAN during the year increased by 9% (2023: -6%), whereas shipments from China, the US and Taiwan surged to double digits, reversing from declines recorded in the previous year. By ASEAN country breakdown, Malaysia's imports from ASEAN are the largest for Singapore (51%), followed by Indonesia (19%), Thailand (17%), and Vietnam (9%). In 2024, imports from Singapore surged by double digits at +15% (2023: +6%). Meanwhile, shipments from Indonesia and Thailand rebounded by 3% and 2%, respectively and recovered from the previous year's declines.

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Table 1: Growth in Malaysia Exports to ASEAN Countries (%)

	2017	2018	2019	2020	2021	2022	2023	2024	Average 2011-2024	Average 2021-2024
ASEAN	18.0	4.8	(0.1)	(4.3)	25.8	31.8	(7.2)	4.2	6.2	13.7
Singapore	18.5	3.4	(2.3)	3.7	22.4	33.6	(5.7)	5.3	5.0	13.9
Thailand	14.6	13.0	(1.3)	(19.5)	15.0	26.1	(10.4)	0.1	7.2	7.7
Indonesia	20.3	(5.1)	(1.8)	(5.6)	32.4	42.3	(8.7)	6.9	0.0	18.2
Vietnam	16.1	24.4	3.1	(12.7)	47.6	17.5	(3.0)	3.6	20.3	16.4
Philippines	21.1	2.6	9.7	(5.4)	28.5	24.8	(6.3)	5.2	9.3	13.1
Brunei	8.7	(4.1)	3.4	21.3	87.8	46.7	(16.3)	(11.1)	(3.5)	26.8
Myanmar	5.3	(32.0)	0.7	8.3	(11.6)	120.1	(32.9)	(20.9)	3.7	13.7
Cambodia	5.4	24.3	67.5	(42.4)	26.7	22.0	1.6	30.3	28.3	20.2
Laos	(19.1)	(34.3)	(18.2)	67.8	101.4	735.6	(85.7)	(49.7)	(13.6)	175.4
China	28.0	10.5	1.3	13.0	20.9	9.4	(8.9)	(2.2)	9.4	4.8
US	10.5	2.4	6.3	13.0	30.4	17.6	(3.5)	23.2	8.5	16.9
Taiwan	11.3	36.9	12.9	(8.5)	19.9	27.4	(16.2)	54.4	9.9	21.4
EU	19.4	3.5	(6.6)	(8.4)	22.8	21.7	(10.5)	2.6	5.2	9.2

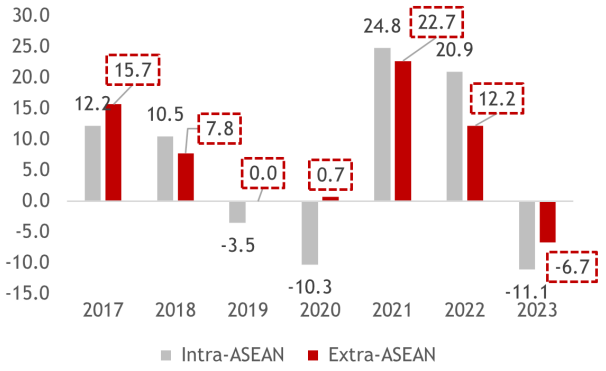
Source: Macrobond, MATRADE, MIDFR

Table 2: Growth in Malaysia Imports from ASEAN Countries and Main Trading Partners (%)

	2017	2018	2019	2020	2021	2022	2023	2024	Average 2011-2024	Average 2021-2024
ASEAN	25.0	4.2	(15.8)	(7.4)	33.3	37.3	(6.0)	8.9	2.3	18.4
Singapore	28.1	11.2	(13.2)	(17.7)	27.1	44.2	6.4	15.1	2.0	23.2
Thailand	13.7	1.0	(8.9)	(22.5)	32.3	23.8	(3.1)	2.0	2.6	13.8
Indonesia	28.5	6.9	(3.9)	(5.7)	53.0	31.8	(18.5)	2.6	7.7	17.2
Vietnam	42.2	(85.0)	0.7	(8.1)	32.0	33.6	(13.7)	6.7	(3.8)	14.7
Philippines	36.1	2.5	(1.8)	(2.8)	13.0	31.3	(25.8)	6.8	12.9	6.3
Brunei	298.3	(32.7)	11.0	(0.2)	10.0	171.9	(48.7)	(17.0)	52.2	29.1
Myanmar	17.4	27.5	(11.6)	(14.0)	24.8	20.7	(25.2)	33.0	15.8	13.3
Cambodia	21.4	(0.3)	(3.0)	(30.2)	(5.1)	52.8	(2.6)	29.4	3.1	18.6
Laos	(53.9)	23.3	42.3	14.7	87.5	102.7	(58.3)	(57.2)	108.0	18.7
China	15.5	6.4	0.4	(2.3)	33.5	20.4	(6.2)	14.6	8.9	15.6
US	24.5	(0.5)	5.7	1.5	7.2	34.4	(11.5)	42.1	7.2	18.1
Taiwan	30.9	16.1	(10.3)	1.7	29.6	41.0	(21.0)	30.2	11.4	20.0
EU	15.3	6.5	(7.0)	(4.3)	30.1	17.7	(10.5)	9.8	2.4	11.8

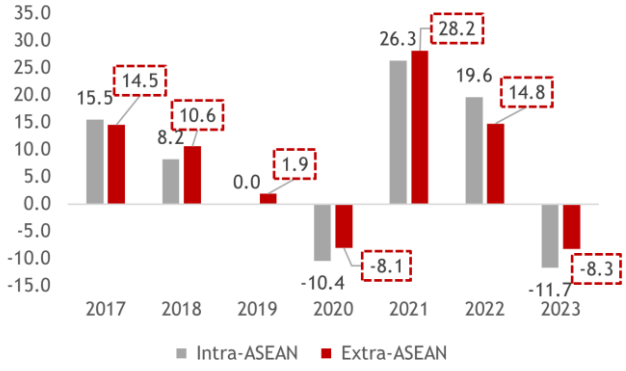
Source: Macrobond, MATRADE, MIDFR

Chart 9: ASEAN Export Growth: Intra & Extra-ASEAN (%)



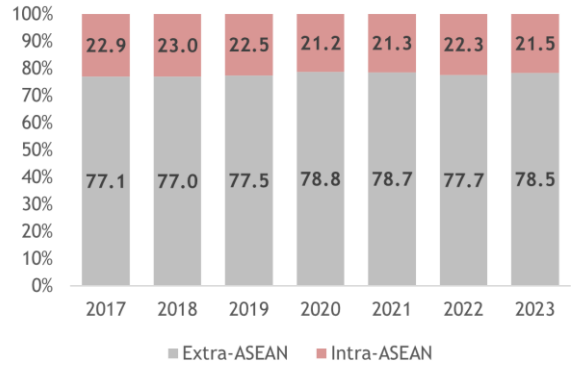
Source: ASEANstats, MIDFR

Chart 10: ASEAN Import Growth: Intra & Extra-ASEAN (%)



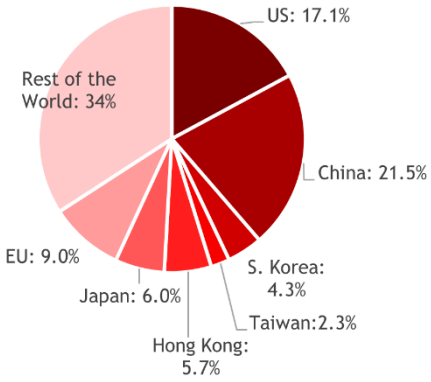
Source: ASEANstats, MIDFR

Chart 11: Intra & Extra-ASEAN Trade as % of ASEAN Total Trade



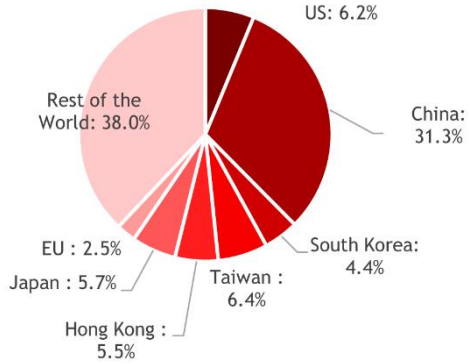
Source: Macrobond, ASEANstats, MIDFR

Chart 12: Breakdown by Markets as % of ASEAN Total Exports in 2023



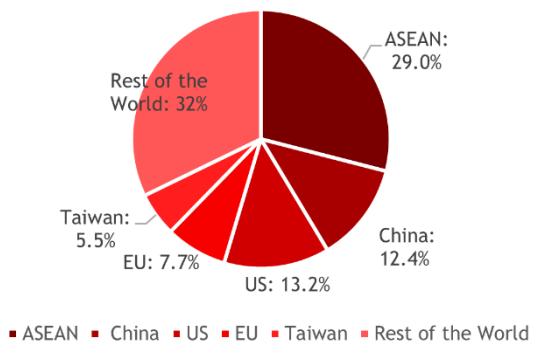
Source: Macrobond, MIDFR

Chart 13: Breakdown by Markets as % of ASEAN Total Imports in 2023



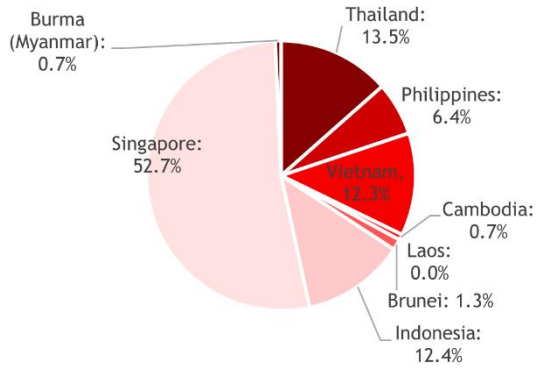
Source: Macrobond, MIDFR

Chart 14: Breakdown by Major Trading Partners as % of Malaysia's Total Exports in 2024 (%)



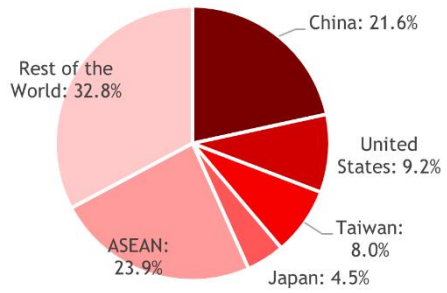
Source: Macrobond, MIDFR

Chart 15: Share of Malaysia Exports to ASEAN Region by Countries in 2024 (%)



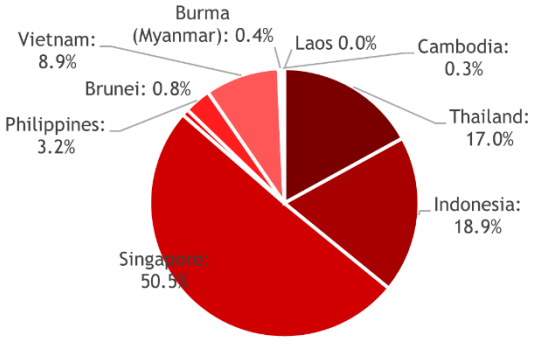
Source: ASEANstats, MIDFR

Chart 16: Share of Malaysia Imports from Main Trading Partners in 2024



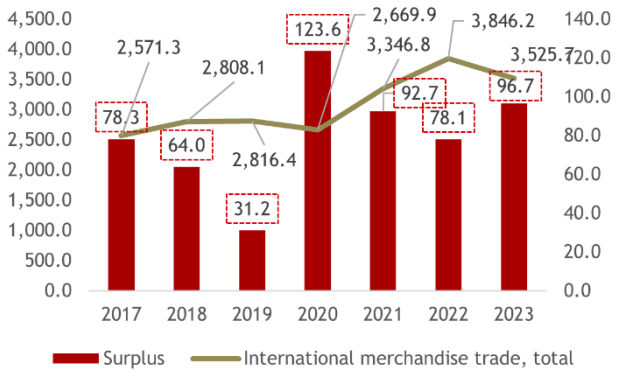
Source: Macrobond, MIDFR

Chart 17: Share of Malaysia Imports from ASEAN Countries in 2024 (%)



Source: Macrobond, MIDFR

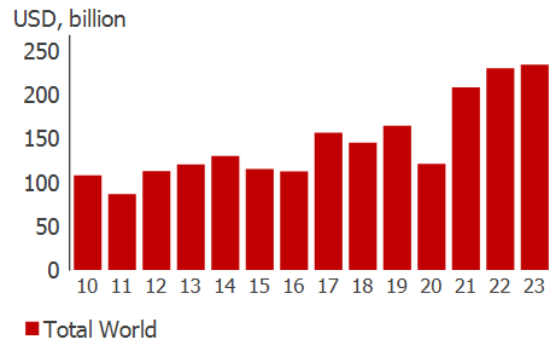
Chart 18: ASEAN Trade Surplus Against Total Trade Pattern 2017-2023 (USD'b)



Source: ASEANstats, MIDFR

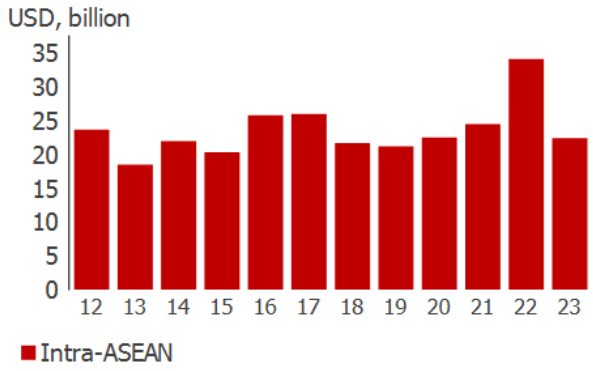
FDI Flows into ASEAN from World and Intra ASEAN FDI Movements

Chart 19: Total World FDI into ASEAN



Source: Macrobond, MIDFR

Chart 20: Total Intra-ASEAN FDI into ASEAN



Source: Macrobond, MIDFR

Table 3: FDI Flows into ASEAN by Sector Breakdown

USD/b	World			intra ASEAN		
	2021	2022	2023	2021	2022	2023
Agriculture, Forestry & Fishing	0.57	-0.03	0.36	0.23	-0.29	0.22
Mining & Quarrying	3.91	0.51	2.23	2.53	1.27	0.88
Manufacturing	58.09	73.73	50.99	7.01	11.15	7.26
Electricity, Gas, Steam & Air Conditioning Supply	6.40	2.31	2.94	3.82	0.73	0.27
Water Supply, Sewerage, Waste Management & Remediation	0.36	0.27	0.20	0.12	0.10	0.05
Construction	0.97	0.94	0.73	0.07	0.15	-0.06
Wholesale & Retail Trade & Repair of Motor Vehicles & Motorcycles	32.00	36.78	20.72	1.39	0.92	1.75
Transportation & Storage	25.51	25.22	15.29	0.78	2.74	0.91
Accommodation & Food Services	0.36	0.93	0.53	0.17	0.03	0.01
Information & Communication	2.58	11.49	2.03	0.07	5.58	0.23
Financial & Insurance Activities	57.84	60.51	92.61	4.41	9.87	2.81
Real Estate Activities	9.30	8.76	12.48	2.37	1.59	3.47
Professional, Scientific & Technical Services	-2.58	-1.23	20.18	0.63	0.37	2.21
Administrative & Support Service Activities	0.01	0.42	0.49	0.05	0.12	0.05
Public Administration & Defense & Compulsory Social Security	-0.03	-0.22	-0.12	0.00	0.00	0.00
Education	0.25	0.19	-0.02	0.09	0.08	0.03
Health & Social Work	0.68	0.15	1.79	0.51	0.05	1.60
Arts, Entertainment & Recreation	-0.04	0.01	0.01	-0.01	0.00	-0.01
Other Services	3.17	1.49	2.74	0.15	-0.49	0.67
Not Specified Sector	8.61	7.54	7.83	0.00	0.00	0.00
Total	207.96	229.78	234.01	24.39	33.97	22.36

Source: Macrobond, MIDFR

FDI inflows into ASEAN reached a record of USD234b in 2023

FDI inflows into ASEAN reached a record of USD234b in 2023, while the increase was less than 1%, but it occurred as global FDI flows were also on a decline at a double-digit pace, therefore indicating ASEAN were less impacted by the slower global FDI flows. The three years of higher FDI solidified ASEAN's position as a region that continues to attract foreign investors. Generally, there are shifting patterns and priorities in the global FDI movement, especially the growing focus on digital and green technologies, which are also manifesting in the region. This is apparent from the recent rising interest by investors in these sectors as well as robust investments in renewable energy (RE), electric vehicles (EV), and the digital economy. Another transformative trend is the growth in investment in the renewable energy supply chain, which includes all the upstream, midstream and downstream. Within the period of 2020-2023, renewable energy energy-related industries attracted an average of more than USD27b. Scoping down to Malaysia, FDI in Malaysia halved in 2023, to USD8.8b, as there were significant declines in investment in manufacturing, from USD11.5b in 2022 to USD1.2b in 2023. Investors from Hong Kong and Singapore were the two largest investor groups which increased their investments, as FDI from Singapore increased by +92% to USD4.9bn and from Hong Kong firms by +156% to USD3.8bn, but not sufficient to prevent an overall drop.

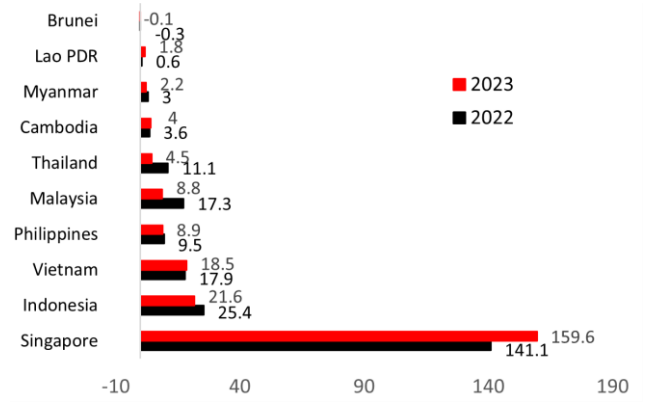
FDI in financial & insurance activities increased from USD60.5bn to USD92.6bn, increasing by +53.1%. On the other hand, investment in manufacturing and wholesale & retail trade & repair of motor vehicles & motorcycles declined to USD50.9b (USD73.73b) and USD20.7b (USD36.8bn). However, despite the decline of the manufacturing sector, it continues to remain vital with inflows above USD50b and accounting for 22.0% of total inflows. According to ASEAN, the number of new greenfield investment projects announced in manufacturing more than doubled in 2023.

In 2023, the top five industries accounted for 85% of inflows.

The share of intra-ASEAN investment fell lower in 2023, as most of the member states received lower intra-ASEAN investment. Intra-ASEAN investment accounts for a minor portion of the total FDI in ASEAN. In 2023, intra-ASEAN investment only accounted for 9.5% of the total world FDI flow compared to the previous year's 14.8%. This would relate to the success of the ASEAN member states attracting FDI from outside the region. However, this would also indicate that ASEAN members could also increase the contribution of FDI towards a more regional opportunity. Intra-ASEAN investment remained concentrated, with about 90% of the FDI going to Indonesia, Malaysia, Singapore, and Vietnam. Other than Malaysia and Lao PDR, other countries received less intra-ASEAN investments in 2023. Malaysia recorded a strong intra-ASEAN investment of USD4964m compared to 2022 of USD3276mn.

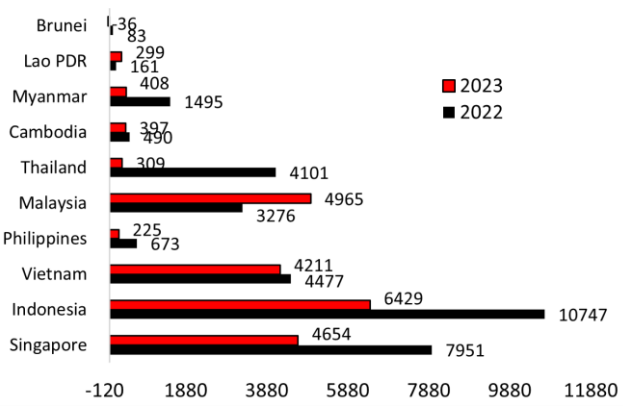
Intra-ASEAN investment fell -34.1% to USD22.4b in 2023

Chart 21: FDI Flows into ASEAN by Country (USD/b)



Source: ASEAN Secretariat, MIDFR

Chart 22: Intra-ASEAN Investment (USD/m)



Source: ASEAN Secretariat, MIDFR

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Table 5: Existing Policy Documents and Agreements Among ASEAN Members

Policy Document	Objective	Key Features
ASEAN Free Trade Area (AFTA)	AFTA aims to reduce tariffs and non-tariff barriers to trade between ASEAN members to promote intraregional trade and investment.	• Reduction of import duties on goods traded between ASEAN members. • The Common Effective Preferential Tariff (CEPT) scheme applies to most goods traded between ASEAN countries. • The goal is to establish a free trade area by achieving a more competitive and integrated ASEAN economy.
ASEAN Economic Community (AEC) Blueprint	The AEC aims to create a single market and production base, enhancing ASEAN's competitiveness globally.	• Free flow of goods, services, investment, skilled labour, and a more equitable distribution of the benefits of economic integration. • Harmonisation of standards and regulations to ease intra-regional trade and investment. • Encourages economic cooperation among member states in various sectors, such as infrastructure, agriculture, and manufacturing.
ASEAN Comprehensive Investment Agreement (ACIA)	ACIA seeks to enhance investment flows into the ASEAN region by providing a more transparent, predictable, and competitive investment climate	• Investments can be protected by ensuring non-discriminatory treatment and protection from expropriation. • Liberalization of the investment environment by allowing easier access for foreign investors. • Promotes regional cooperation on investment-related matters.
ASEAN Trade in Goods Agreement (ATIGA)	ATIGA facilitates the free flow of goods among ASEAN member states by lowering trade barriers and harmonising customs procedures.	• Elimination of tariffs on most goods traded within ASEAN. • Simplification of customs procedures and regulatory frameworks. • Reduction of technical barriers to trade and improvements in standards.
ASEAN Framework Agreement on Services (AFAS)	The AFAS aims to liberalise trade in services between ASEAN countries	• Reduction of restrictions in the services sector, such as in finance, telecommunications, and transport. • Gradual opening of service sectors to allow cross-border trade and investment. • Efforts to harmonize regulations and standards in services.
Regional Comprehensive Economic Partnership (RCEP)	RCEP is a free trade agreement between ASEAN and its six FTA partners (China, Japan, South Korea, Australia, New Zealand, and India), aiming to further enhance regional trade and investment.	• A comprehensive agreement covering trade in goods, services, investment, intellectual property, and dispute resolution. • Streamlining of customs procedures and harmonisation of regulations. • Expansion of market access for ASEAN businesses to key economies outside the region.

Policy Document	Objective	Key Features
ASEAN Customs Transit System (ACTS)	ACTS aims to facilitate the seamless movement of goods across ASEAN borders by reducing delays and administrative burdens.	• Establish a common customs transit procedure for goods passing through multiple ASEAN countries. • Simplifies and streamlines logistics and customs clearance processes.
ASEAN-Members Bilateral Investment Treaties (BITs)	These treaties ensure the protection of investments between individual ASEAN countries.	• Provisions that promote fair treatment, protection against expropriation, and dispute settlement mechanisms. • Enhanced confidence among investors in terms of investment security.
ASEAN Business Advisory Council (ASEAN-BAC)	ASEAN-BAC serves as a platform for the private sector to provide input and recommendations to governments regarding policies related to trade, investment, and economic integration.	• Encourages public-private sector dialogue to enhance the business environment in ASEAN. • Promotes policy reforms and initiatives aimed at improving intra-regional trade and investment.
ASEAN Single Window (ASW)	ASW aims to streamline the customs clearance process in ASEAN by creating a regional platform for exchanging trade-related information.	• Facilitates the digital exchange of customs data and documents among ASEAN countries. • Reduces delays in customs procedures and promotes more efficient trade flows.
ASEAN Economic Ministers (AEM) Meetings	These meetings provide a platform for ASEAN economic ministers to discuss and negotiate policies and initiatives aimed at enhancing economic cooperation and integration.	• Regular consultations and negotiations to advance the ASEAN economic agenda. • Coordination of efforts in the implementation of trade and investment agreements.

Source: Various sources, MIDFR

SECTORAL VIEWS

CONSTRUCTION……Maintain BUY

A growing opportunity for ASEAN construction players. The ASEAN region has become one of the fastest-growing hubs for data centre development, attracting hyper-scalers and multinational technology firms looking for cost-effective and strategically positioned alternatives to Western markets. Several factors contribute to this trend, including lower land and operational costs, an abundant skilled workforce, and strong government incentives. While Malaysia, Singapore, Thailand, and Vietnam have taken the lead in this sector, Indonesia and the Philippines are also emerging destinations.

Malaysia has particularly stood out, with major projects such as the 500 MW YTL Green Data Centre Park in Johor, GDS Nusajaya Tech Park Data Centre, and Microsoft's Malaysian Cloud Region, reinforcing its position as a key regional player. Thailand has also witnessed significant growth in data centre infrastructure, with large-scale investments in Bangkok, including One Bangkok Data Centre, SuperNAP Thailand Expansion, and True IDC North Muangthong. Meanwhile, Vietnam has continued to attract major cloud providers, with developments from Alibaba Cloud, Viettel IDC, and Gaw Capital Partners. Indonesia, the Philippines, and other ASEAN nations are still in the early stages of their data centre expansion but show significant potential as demand for digital infrastructure grows.

Why the construction sector stands to benefit. The construction sector stands to benefit greatly from the expansion of data centres, as these projects offer rapid turnaround times and strong revenue visibility. With completion cycles typically ranging from 11 to 13 months, construction firms can take on multiple projects in a short timeframe, ensuring continuous project flow. The growth in data centres also benefits the broader construction ecosystem, involving MEP contractors, power substation developers, cabling specialists, and cooling system providers. As ASEAN countries continue to ramp up their digital infrastructure, construction companies will play a crucial role in meeting this growing demand, securing long-term revenue streams and maintaining a strong order book replenishment cycle.

Malaysia's role as ASEAN Chair: strengthening regional partnerships. With Malaysia chairing ASEAN in 2025, the country is well-positioned to drive regional cooperation in data centre expansion. Strengthening ASEAN's integrated digital infrastructure is a key initiative, ensuring smooth cross-border data connectivity between major data centre hubs such as Malaysia, Singapore, Thailand, and Vietnam. The ASEAN Connect. One Alliance, which aims to simplify data centre services across borders, has laid the groundwork for better integration, but further collaboration is required to facilitate data flow, unify processes, and make services more accessible for businesses.

Additionally, ongoing initiatives like the ASEAN Digital Economy Framework Agreement (DEFA) and the ASEAN Digital Integration Framework Action Plan (DIFAP) provide essential policies for advancing digital connectivity, cybersecurity, and regulatory alignment. However, additional efforts will be needed to optimize these frameworks for the specific needs of the data centre industry.

Developing a skilled workforce is another area where Malaysia can lead, particularly by expanding DIFAP's digital talent initiatives. A proposed ASEAN Data Centre Engineering Certification could create a standardized qualification for professionals working in data centre development, MEP engineering, and cloud infrastructure. Furthermore, increasing regional funding mechanisms—such as sovereign wealth fund investments and public-private partnerships—could help accelerate large-scale data centre projects, particularly in Cambodia, Laos, and Indonesia. Malaysia's leadership in fostering these collaborations will be key to ensuring ASEAN's continued competitiveness in the global data centre market

Addressing market concerns: why data centre growth will not slow down and mitigate geopolitical risks through ASEAN collaboration. There have been concerns that U.S. AI chip export restrictions may dampen the growth of ASEAN's data centre sector. However, we believe that these concerns are overstated, and data centre expansion is set to continue. One major factor

is the increasing ability to train AI models with fewer high-performance GPUs, as demonstrated by the DeepSeek AI breakthrough in China. This reduces the region's reliance on restricted U.S. chips.

Moreover, hyper-scalers such as Amazon, Google, Microsoft, and Alibaba Cloud have reaffirmed their commitment to ASEAN due to the region's cost advantages, infrastructure readiness, and growing digital economy. ASEAN countries also benefit from fundamental strengths, including competitive labour and land costs, which continue to make them attractive for data centre investment. Despite the U.S. AI chip restrictions, Malaysia, Thailand, and Vietnam—classified as Tier 2 countries—can mitigate risks by strengthening their semiconductor supply chains and diversifying sourcing strategies. Establishing stronger partnerships with China, Taiwan, and South Korea for AI chip production can reduce dependency on Western suppliers. Additionally, ASEAN nations can encourage the development of chip-neutral data centre models that are less reliant on high-end GPUs, further ensuring stability in the region's digital infrastructure. With Malaysia's leadership in ASEAN for 2025, there is an opportunity to fast-track these initiatives, reinforcing ASEAN's role in the global data centre market.

A unified ASEAN approach for long-term sustainability. Expanding ASEAN's digital collaboration will be essential to ensuring long-term sustainability for the region's data centre industry. The DEFA initiative, which aims to establish regulatory consistency for data governance, cybersecurity, and digital trade, serves as a strong foundation for further policy alignment. A new initiative, the ASEAN Data Centre Alliance, could further harmonize investment policies, standardize operational frameworks, and attract additional global players to the region.

Beyond policy alignment, ASEAN nations should also encourage collaborative AI research and development, bringing together governments, tech firms, and academic institutions to explore alternative AI chip solutions. Given the constraints imposed by U.S. AI chip restrictions, working with leading semiconductor producers in China, Taiwan, and South Korea will be essential in reducing reliance on Western suppliers and ensuring long-term technological self-sufficiency. By fostering greater regional cooperation, strengthening cross-border digital infrastructure, and aligning policies with existing ASEAN frameworks, Malaysia can help solidify ASEAN's position as a leading global data centre hub. These coordinated efforts will ensure that the sector remains resilient, competitive, and well-positioned to drive economic growth in the years ahead. Malaysia's ASEAN Chairmanship in 2025 presents a unique opportunity to shape this future, ensuring that ASEAN construction firms, infrastructure providers, and supporting industries all benefit from the rapid expansion of data centres across Southeast Asia.

Maintain POSITIVE. With ASEAN's continued focus on regional cooperation and digital infrastructure development, Malaysia's construction sector stands at the forefront of significant opportunities. The rapid expansion of data centres, coupled with the nation's leadership in ASEAN for 2025, positions Malaysia as a key player in shaping the region's digital and construction landscape. Ongoing investments in cross-border connectivity, regulatory alignment, and infrastructure growth will provide tailwinds for the sector. However, companies must also navigate evolving geopolitical risks, supply chain constraints, and regulatory shifts to remain competitive. As Malaysia leads ASEAN's integration efforts, the construction sector is expected to benefit from increased regional partnerships and investment flows, reinforcing its long-term growth trajectory. Our top picks are **Gamuda (BUY, TP: RM5.42), IJM Corp (BUY, TP: RM3.89), Sunway Construction (BUY, TP: RM4.82) and Malayan Cement (BUY, TP: RM7.10)**

CONSUMER……..Maintain POSITIVE

Limited direct impact but promising regional growth. The ongoing economic integration efforts within ASEAN, including the ASEAN Free Trade Area (AFTA) and the ASEAN Economic Community (AEC), are unlikely to have an immediate material impact on Malaysia's consumer sector. However, the long-term outlook remains compelling. The region's burgeoning middle class, rapid urbanization, and rising disposable incomes are poised to fuel demand for consumer goods and services, offering significant expansion opportunities for Malaysian businesses. Furthermore, ASEAN's strong push towards digital transformation—particularly in e-commerce facilitation, digital payments, and cross-border trade efficiency—could provide an avenue for Malaysian consumer companies to solidify their presence in the regional market.

Expanding the footprint of Malaysian consumer companies in ASEAN. The economic dynamism of ASEAN presents a lucrative landscape for consumer-focused businesses. By fostering regional partnerships and tailoring their offerings to align with local consumer preferences, Malaysian companies are well-positioned to tap into ASEAN's expanding consumer base. Several Malaysian-listed consumer companies have successfully established a robust footprint across the region, leveraging favourable trade agreements and rising consumption trends.

Leong Hup International (BUY, TP: RM0.90) is one of Southeast Asia's largest integrated poultry operators. With a presence in Malaysia, Indonesia, Vietnam, the Philippines, and Singapore, the company operates five feed mills in Malaysia, Indonesia, and Vietnam, along with a facility in the Philippines. Market conditions in Indonesia, Vietnam, and the Philippines remain supportive, driven by a balanced demand-supply dynamic and easing input costs following a decline in global commodity prices. Similarly, QL Resources has expanded its Integrated Livestock Farming operations across Malaysia, Indonesia, and Vietnam. As one of the region's leading egg producers, QL Resources maintains a vertically integrated value chain covering animal feed raw material trading, commercial feed milling, layer farming, and broiler integration. In Vietnam, the company operates two farms in Ho Chi Minh City and is on track to increase egg production from 1.6 million eggs per day (epd) to 2.2 million epd by FY2028, reinforcing its commitment to meeting ASEAN's rising protein demand.

Beyond poultry and livestock, other Malaysian consumer companies have carved out strong positions in ASEAN**. Fraser & Neave Holdings (F&N) (BUY, TP: RM36.77)** enjoys a significant presence in Thailand, particularly in the beverage and dairy segments, supported by well-established production facilities. **Nestlé Malaysia (SELL, TP: RM77.90)** serves as a regional production hub, exporting a diverse portfolio of food and beverage products across ASEAN markets. Meanwhile, Padini Holdings is actively expanding its fashion retail presence in Indonesia, capitalizing on the country's expanding middle class and evolving consumer trends. **Spritzer (BUY, TP: RM1.75)**, Malaysia's leading bottled water brand, continues to scale up its distribution networks across ASEAN, tapping into growing health-conscious consumption patterns.

Tourism as a catalyst for consumer demand. Beyond corporate expansions, the tourism sector is set to be a pivotal driver of ASEAN's consumer economy. As disposable incomes rise in key Asian markets, international travel is projected to surge, boosting footfall to ASEAN destinations. Countries where tourism plays a crucial role in GDP—particularly Thailand and the Philippines—are expected to benefit the most, driving increased demand in retail, food & beverage, and hospitality segments. This trend will indirectly uplift Malaysian consumer companies with regional exposure, as heightened tourism spending fuels consumption across various consumer categories.

Outlook: Stability with regional expansion potential. Looking ahead, ASEAN's sustained economic growth and Malaysia's chairmanship of ASEAN in 2025—emphasizing inclusivity and sustainability—will likely create further opportunities for consumer sector expansion. While sector-wide impacts may remain moderate in the immediate term, companies with established ASEAN operations stand to benefit from rising consumption, improving trade facilitation, and deepening regional integration.

HEALTHCARE.....Maintain POSITIVE

Promoting regional medical tourism. Malaysia is known as one of the major hubs for medical tourism, with 76% of total medical tourists coming from within ASEAN. As of CY24, Indonesia contributed the most, about 70-80% of total medical tourists, followed by Singapore and Thailand. This reputation provides Malaysia with leverage to promote regional healthcare integration, which involves standardising medical practices and certifications across ASEAN, subsequently promoting high-quality care for medical tourists at competitive prices. To note, key treatments sought in medical tourism are (i) cardiology, (ii) fertility treatments, (iii) oncology, (iv) orthopaedics, and (v) gastroenterology.

Enhancing healthcare innovations and medtech. Despite Singapore being recognised as the most advanced ASEAN country in terms of medical technology and digital health infrastructure, Malaysia is also making strides, primarily in: (i) telemedicine, (ii) AI and diagnostics, (iii) digital health records, (iv) pharmaceuticals, and (v) health tech innovation hub. Malaysia's efforts ultimately have the potential to lead the region in driving innovation in medical devices and pharmaceuticals, supporting research and development initiatives and collaborating to develop new treatments. These initiatives are crucial to address the growing ageing population in ASEAN, which has risen to 7.5% of the total ASEAN population from CY20 and is expected to grow at a rate of 3.5% per year.

In tandem with rising NCD prevalence. With the increase in the ageing population, the prevalence of non-communicable diseases is also expected to grow. To note, ASEAN's major NCDs include: (i) cardiovascular diseases (35% prevalence), (ii) cancer (20%), (iii) mental health (15%), (iv) diabetes (10%) and (v) chronic respiratory diseases (10%). These NCDs are in tandem with risk factors, namely: (i) smoking (Indonesia has the highest rate at 38.2% or 105m of its population), (ii) obesity (Malaysia has the highest rate at 15% or 5m of its population), and (iii) stress (Myanmar has the highest rate at 48% or 26m of its population). With the right regional collaboration in pharmaceuticals, medical devices and healthcare service providers, Malaysia can lead these regional public health challenges.

Next major move: Healthcare for all. Overall, we remain positive for this sector, with **IHH (BUY, TP: RM8.18) and KPJ (BUY, TP: RM2.78)** as our top picks. As the ASEAN Chair, Malaysia has a significant opportunity to contribute to the healthcare sector across the region. Taking note that the poverty rate across ASEAN countries ranges from less than 1% in Singapore and Brunei to around 24% in Myanmar, we opine that the approach for inclusive healthcare can be promoted through equitable access and Universal Healthcare Coverage (UHC). Malaysia has been a strong advocate in ensuring that low- and middle-income countries receive access to essential health services, with a focus on (i) sustainable development practices, (ii) capacity-building and upskilling of medical personnel, and (iii) long-term poverty reduction. We opine that regional partnerships and sustainable global health financing mechanisms are needed among ASEAN countries to ensure the systems are adequately funded, subsequently ensuring the coordination of regional health policies and initiatives – notably in medical tourism, medical innovation, digital health and pharmaceuticals.

OIL & GAS.....Maintain POSITIVE

Malaysia is an all-around oil and gas hub. Through PETRONAS, Malaysia is expected to spearhead the collaborations among ASEAN countries to ensure a stable energy supply across the region, via: (i) developing energy infrastructure (vessels, pipelines, storage farms, petrochemical plants and LNG terminals), (ii) facilitating energy trades, and (iii) reducing dependency on external sources. Malaysia has several oil and gas processing hubs, including:

(i) Pengerang Integrated Petroleum Complex (PIPC), which is a major hub for the Refinery and Petrochemical Integrated Development (RAPID) project,
(ii) Bintulu LNG Complex, which is the 5th largest LNG facility in the world, with approximately 29.3mTpa capacity, and
(iii) Sipitang Oil and Gas Industrial Park (SOGIP), which constitutes RM9b worth of development of a port to support energy transportation and trade.

We believe these hubs could offer significant benefits to ASEAN, primarily in the regional initiative Trans-ASEAN Gas Pipeline (TAGP) – a project to ensure a stable and secure supply of natural gas across ASEAN through over 3,000km pipeline networks and regasification terminals with 39mTpa capacity. This initiative is overseen by the ASEAN Council on Petroleum (ASCOPE). These hubs are also expected to be a stepping stone for more collaborations among ASEAN countries in the oil and gas industry, largely benefiting OGSE companies in the exploration, development and transportation of energy across the region. With oil prices hovering in a steady rangebound of USD70-80pb, and LNG prices remaining elevated over USD14pMMBtu due to high demand, we opine that the industry will be improved further with the collaborations, trades and innovations within ASEAN.

Pioneering regional energy security. Malaysia has been proactive in enhancing energy security and promoting a balance between conventional energy and clean energy, through various initiatives, including the National Energy Transition Roadmap (NETR), which explores renewables, natural gas and clean fuel as an alternative to conventional fuels, in a bid to secure energy sustainability, locally and regionally. This initiative resonated with many other regional initiatives, including Indonesia's geothermal energy project and Thailand's Alternative Energy Development Plan (AEDP). ASEAN has come up with an ASEAN Plan of Action for Energy Cooperation (APAEC) 2021-2025, which highlighted the development of not only the oil and gas industry but also the utilities (under ASEAN Power Grid (APG)) and renewable energy sectors.

Leading sustainability practices within the sector. As ASEAN's chair, we believe Malaysia can forefront existing, ongoing and future regional efforts to adopt similar sustainability practices, promoting a low-carbon economy through regional cooperation and trade. Malaysia can promote the adoption of cleaner technologies and practices within the oil and gas sector, including carbon capture and storage (CCS), through the ASEAN CCS Deployment Framework. However, the downside risks are (i) regulation and policy barriers, (ii) financial constraints, (iii) infrastructure and technology challenges, (iv) market and economic uncertainties, and (v) social and environmental concerns.

Next major move: Integration and Coordination. All in all, we are positive about the sector. Coming into CY25, APAEC had pinpointed the need to enhance the connectivity, coordination and integration of the projects between the ASEAN countries. The success of the Malaysia-Thailand Joint Development Area (MTJDA) in resource exploitation and revenue sharing is a testament to such collaboration among ASEAN countries, which we believe could be replicated on a wider scale with bigger connectivity across the industry. Malaysia is anticipated to be the main advocate for better corporate governance and transparency whilst strengthening the partnerships among the regional energy players. By fostering innovation, Malaysia can lead the development of advanced technologies in exploration and production, enhancing efficiency and reducing environmental impact.

PORT & LOGISTICS……..……..Maintain NEUTRAL

Trade expansion and increased cargo flow. The ongoing deepening of trade relations within ASEAN, coupled with Malaysia's active participation in RCEP, would likely drive higher trade volumes across the region. For Malaysia, ASEAN remains a critical trading partner, contributing 26.6% of the nation's total trade. As trade volumes increase, major ports such as **Westports (NEUTRAL, TP: RM4.43)**, Northport, and Port of Tanjung Pelepas (PTP) stand to benefit from greater transhipment and gateway cargo. Logistics players might also see higher demand for freight forwarding, warehousing, and distribution services. However, increased trade volumes might also intensify competition from regional ports such as Singapore and Thailand. Malaysian port operators might have to enhance operational efficiency, reduce turnaround times, and improve hinterland connectivity to maintain their competitive edge in the region.

Infrastructure development and digitalisation. Under the ASEAN Connectivity Master Plan CY25, several large-scale infrastructure projects, including the Singapore-Kunming Rail Link and ASEAN Highway Network, aim to improve regional logistics efficiency. These initiatives would provide better intermodal connectivity, enabling seamless cargo movement between ports, rail, and roads, particularly for cross-border trade between Malaysia, Thailand, and Vietnam. In addition, the adoption of digital trade facilitation initiatives, such as the ASEAN Single Window (ASW) and the expansion of paperless customs clearance systems, would accelerate efficiency and reduce costs. Port operators and logistics providers would have to invest in automation, AI-driven tracking systems, and data integration platforms to remain relevant. Companies like **Tasco (BUY, TP: RM0.92)** and **Swift Haulage (NEUTRAL, TP: RM0.40),** which handle a significant portion of customs clearance services, might need to adapt their operations to support e-documentation and digital payment platforms.

Supply chain shifts. ASEAN's strategy to diversify supply chains amid geopolitical risks, such as US-China tensions, might lead to greater nearshoring and alternative trade routes. Malaysian ports, given their strategic location, could serve as a hub for rerouted supply chains, especially for goods moving between China, India, and the broader Asia-Pacific region. Transshipment ports in particular might need to enhance their service offerings to accommodate potential shifts in global shipping routes, with shipping alliances potentially restructuring their networks to optimise costs and efficiency.

Sustainability and regulatory pressures. With Malaysia spearheading ASEAN's agenda on inclusivity and sustainability, port and logistics players would need to align with carbon reduction targets and green logistics initiatives. Several key developments might change the industry, including green port initiatives and sustainable transport solutions. Given these regulatory shifts, industry players might be encouraged to integrate ESG principles into their operations to remain competitive in securing new contracts, particularly with multinational corporations.

Maintain NEUTRAL. With ASEAN's continued push for regional economic integration, Malaysian port and logistics players stand at a critical crossroads. The strengthening of trade agreements, infrastructure developments, evolving supply chain dynamics, and sustainability measures present both opportunities and challenges for the sector. As Malaysia assumes ASEAN's chairmanship in CY25, the nation's role as a logistics hub is expected to be further solidified, but the industry might have to adapt to shifting trade patterns, digital transformation, and regulatory pressures to remain competitive.

TECHNOLOGY……..Maintain NEUTRAL

Part of a growing pie. ASEAN continue to play a growing role in the global semiconductor industry, especially since the onset of the geopolitical tension between the U.S. and China. The latter has created opportunities for ASEAN member states, especially in the case of Malaysia and Singapore. Should there be further shake-ups involving other countries, we view that this will present a good opportunity for ASEAN member states to further entrench their presence in the industry. According to SNS Insider, the ASEAN semiconductor market was valued USD31.3b in 2023. This is expected to increase further to USD52.9b by 2032, which translates into a CAGR of 5.98% between 2024 and 2032. The expansion was mainly driven by the development of electronics, favourable policies, strategic locations, and competitive labour costs.

A key player in the industry among the ASEAN member states. Notably, each country in ASEAN has their own forte to support the growth of the semiconductor industry. In this regard, Malaysia, with its well-established ecosystem, has positioned itself as a global leader in packaging, assembly and testing (OSAT). Globally, Malaysia is the sixth largest exporter of semiconductors, commanding 13% of the global market for OSAT. This will provide a good track record and, hence, a foundation to redefine its trajectory and strengthen its position in the supply chain. Various initiatives have also been put in place for Malaysia to move up the value chain.

Partnership is the way to go. Semiconductor is touted as one of the most complex industries, given the immense processing steps and wide product reach. Thus, partnership is one of the ways to leverage the various expertise that each of the member states possesses. On the flip side, the partnership would also help to overcome the numerous and evolving challenges that will continue to plague the industry. Some of these challenges include supply chain disruptions, increasing miniaturisation process, higher production requirements due to new applications such as AI, sustainability concerns, and cybersecurity.

Towards a more broad-based and sustainable upcycle. At this juncture, we see that the recovery in the semiconductor industry remains uneven, with AI being the clear catalyst. Nonetheless, this would also give time for industry players to reassess their portfolio and offerings as well as forge new partnerships to be better equipped for the eventual upcycle.

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MIDF AMANAH INVESTMENT BANK: GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	The stock price is expected to rise by >10% within 3 months after a Trading Buy rating has been assigned due to positive news flow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <-10% over the next 12 months.
TRADING SELL	The stock price is expected to fall by >10% within 3 months after a Trading Sell rating has been assigned due to negative news flow.

SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.

ESG RECOMMENDATIONS* - source Bursa Malaysia and FTSE Russell

☆☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology