



**WEST ASIA CRISIS THREATENS MALAYSIA'S MANUFACTURING
COMPETITIVENESS AS DISRUPTIONS ENTER A
PROLONGED PHASE**

Kuala Lumpur, June 11, 2026 - The Federation of Malaysian Manufacturing (FMM) today released the findings of its *Third Survey on the Impact of the West Asia Conflict on Malaysian Manufacturing, Trade and Supply Chains*. The survey drew responses from 196 companies across a broad cross-section of industries between May 25 and June 10, 2026, and is the third consecutive monthly assessment since disruptions first emerged in February 2026.

The three surveys trace a clear progression. The first captured the freight and energy cost shock. The second showed the spread into raw materials, cash flow and investment. The third shows these pressures persisting alongside a more serious development. Manufacturers are now losing orders, abandoning product lines and losing customers. The prolonged crisis has moved beyond a cost problem and is inflicting lasting commercial damage.

Operating conditions remain under severe pressure

Despite various mitigation measures, conditions across the manufacturing sector remain under significant strain. 87% of respondents reported that conditions had either deteriorated further or remained unchanged, with existing pressures showing little sign of easing since early May 2026. In addition, 65% saw no improvement in any area of their operations. Cost burdens remain elevated, with 74% reporting production costs that are still between 10% and 50% above pre-conflict levels. Freight and logistics continue to be the dominant cost driver, affecting 86% of respondents, followed by raw material shortages (64%), higher energy and fuel costs (60%) and increasing customer resistance to price adjustments, which is constraining manufacturers' ability to pass through rising costs (56%).

Cost pressures have turned into commercial losses

The most serious finding is that these costs are no longer being absorbed as a passing challenge. They have become real commercial losses. Only 6% of manufacturers can pass on higher costs while holding their margins. 58% are operating at or below break-even on affected product lines. 39% have already lost orders to competitors in less affected markets and 19% have discontinued products that are no longer viable. 9% have lost at least one major customer or contract, and a further 19% expect to lose customers if conditions continue. Once buyers move to alternative suppliers those relationships rarely return, which means the damage may outlast the conflict itself and erode Malaysia's export competitiveness well beyond its resolution.

Freight and logistics remain the primary constraint

Freight remains the dominant pressure. 54% reported further cost increases since early May and 86% remain at or above the peak levels recorded in the second survey. Sea freight is the only commercially viable option for 51% of manufacturers. Among those forced onto air or land transport, nearly half paid premiums of 50% to 100% above pre-conflict sea rates and 12% paid more than 200%. For most manufacturers there is no commercial substitute for sea freight.

Investment and employment decisions are being affected

The prolonged disruption is now shaping investment and workforce decisions. 42% have made workforce adjustments since May 2026, including hiring freezes (21%) and reduced working hours (20%), while 5% continue to implement or have announced retrenchment plans. 41% have deferred or cancelled investment, automation or expansion projects. Prolonged delays in industrial investment and technology upgrading carry lasting risks for Malaysia's productivity, industrial transformation agenda and future competitiveness.

Domestic sourcing can help, but capacity gaps must be closed

For the first time the survey examined domestic sourcing. 46% have sourced or attempted to source from Malaysian suppliers. 36% found the required specifications or grades unavailable locally and 31% found local pricing uncompetitive against imports. Greater localisation can strengthen supply chain resilience, but targeted measures are needed to address cost competitiveness and product availability.

Government support is welcomed, but relief gaps remain

FMM welcomes the Government's response following the presentation of the second survey findings to the Majlis Tindakan Ekonomi Negara (MTEN) on May 19, 2026. The facilitation of alternative raw material sourcing, the introduction of Bank Negara Malaysia's (BNM) SME Stabilisation Relief Facility and the consideration of tax relief for returned export cargo are positive and timely steps, and the Government's willingness to engage industry directly is appreciated.

The survey findings indicate that relief measures have yet to reach a significant proportion of affected manufacturers. Only 11% of respondents have applied for the SME Special Relief Facility (SRF). The single largest structural barrier is eligibility, with 25% of respondents reporting that they do not qualify because they fall outside the SME definition. These mid-tier manufacturers, typically with annual turnover between RM50 million and RM500 million, occupy a financing gap where they are too large to access SME-focused assistance schemes but do not possess the financial resilience, balance sheet strength or credit headroom of large multinational corporations. As a result, many continue to face significant working capital challenges arising from higher inventory holdings, freight costs and supply chain disruptions. Respondents also highlighted that the RM750,000 financing ceiling may be insufficient for qualifying firms operating at larger scales. The findings point to a financing gap affecting a segment of manufacturers that

falls outside existing support frameworks despite continuing to experience significant cost and cash flow pressures.

FMM's key recommendations

The pattern across three surveys shows a disruption that is becoming structural. Without targeted intervention the cumulative impact on costs, competitiveness, investment and employment will intensify. On this basis FMM urges the Government to consider six measures.

1. **Duty and tax relief for alternative-origin raw materials.** This is the highest priority for 57% of respondents. FMM urges adoption of its targeted, licence-based mechanism limited to specified tariff codes and a defined period, or a partial rebate, refund or drawback scheme where a full exemption is not feasible.
2. **Double tax deduction for crisis-related freight and insurance costs.** Sought by 44% of respondents, this would cover crisis-related freight, shipping surcharges and insurance, and should be approved for the Year of Assessment 2026.
3. **Industrial fuel cost relief.** 44% of respondents use industrial fuel directly in production and fall outside the Subsidised Diesel Control System (SKDS). FMM proposes a dedicated, time-bound rebate administered through existing manufacturing licence frameworks.
4. **Dedicated financing for mid-tier manufacturers.** A complementary financing facility by MOF and BNM for mid-tier manufacturers (annual turnover of RM50 million to RM500 million) that fall outside SME eligibility criteria, with financing limits aligned to their operating scale.
5. **Deferral of remaining port tariff increases.** Identified by 35% of respondents, FMM urges the Ministry of Transport (MOT) to defer all remaining scheduled increases for a defined period and to communicate this clearly to port operators and industry.
6. **Government-facilitated domestic supplier matching.** A structured programme led by the Ministry of Investment, Trade and Industry (MITI) and the Malaysian Investment Development Authority (MIDA) to map industry requirements to local capability, identify investment gaps and speed up qualification of domestic suppliers.

Manufacturing competitiveness must be protected

The findings of the third survey underscore the importance of timely and targeted intervention to prevent temporary disruptions from becoming longer-term structural disadvantages for Malaysian manufacturers. While many companies have demonstrated resilience through inventory management, supplier diversification and operational adjustments, these measures are increasingly reaching their limits as the crisis enters a prolonged phase.

Manufacturing remains a key pillar of the Malaysian economy, contributing significantly to exports, employment, investment and industrial development. Sustaining the sector's competitiveness during this period is therefore a national economic priority. Measures that help manufacturers manage rising costs, secure critical inputs, maintain liquidity and

preserve market competitiveness will be essential to protecting industrial capacity and investor confidence.

FMM will submit the findings of this third survey to the relevant authorities and continue to engage stakeholders as the situation evolves. The survey points to a narrowing window to prevent current disruptions from translating into longer-term losses in competitiveness, market share and industrial capacity. Timely and targeted intervention will be essential to protect jobs, sustain investor confidence and ensure that Malaysian manufacturers emerge from this prolonged crisis in a position to recover and compete effectively when global supply chain conditions stabilise.



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FMM Advocates Transparency, Integrity, Accountability and No Corruption

About FMM

The Federation of Malaysian Manufacturing (FMM) (formerly known as Federation of Malaysian Manufacturers) has been the voice of the Malaysian manufacturing sector since 1968, advocating policies and initiatives that drive industrial growth, competitiveness and workforce development. Representing over 13,300 member companies (4,200 direct and 9,100 indirect) from the manufacturing supply chain, FMM is actively engaged with government and its key agencies at Federal, State and local levels. FMM is also well-linked with international organisations, Malaysian businesses and civil society. Apart from benefitting from FMM's advocacy, FMM members enjoy value-added services including training, business networking and trade opportunities as well as regular information updates.

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