



FMM Expresses Disappointment that Budget 2027 Falls Short of Meaningful Industrial Transformation

Kuala Lumpur, October 9, 2026 – The Federation of Malaysian Manufacturing (FMM) views Budget 2027 as broadly balanced in sustaining economic momentum while advancing fiscal consolidation amid geopolitical tensions, energy-market volatility and global trade uncertainties. GDP growth is projected at 4.2%–5.2% in 2027, compared with the revised projection of 4.8%–5.3% for 2026, underscoring the importance of sustaining domestic demand and translating investment into higher productivity and stronger domestic industrial capabilities. FMM supports the Government's fiscal deficit target of 3.3% of GDP in 2027, following the revised projection of 3.6% for 2026 amid higher fuel subsidy costs arising from the West Asia conflict. Fiscal consolidation must nevertheless preserve productive development spending and support private investment to sustain growth and competitiveness.

FMM acknowledges the measures in Budget 2027 to ease the cost of living for the rakyat, business costs, expand financing and strengthen talent development, but is disappointed with the lack of support to help the manufacturing sector overcome rising operating costs and barriers to technology adoption, innovation, green investments, etc. The central priority remains to leave more capital in the productive economy for businesses to reinvest, expand and create better-paying jobs. Effective implementation, accessible incentives and stronger domestic supply-chain linkages will be essential to translate the Budget's measures into tangible productivity gains and sustainable industrial growth.

FMM however wishes to comment on several of the initiatives announced in Budget 2027 and also highlight some of the under-addressed proposals by FMM:

Minimum Wage: Supporting Higher Incomes through Balanced Implementation

FMM welcomes the Government's decision to raise the monthly minimum wage from RM1,700 to RM2,000 from June 2027 and the exemption for SMEs with annual turnover of RM50 million and below. FMM also appreciates the advance notice to facilitate budgeting for higher employment costs. Clear implementation and exemption guidelines will be essential. However, On the proposed RM2,500 minimum wage for semi-skilled jobs and graduates, remuneration should be market-driven and reflect job requirements, demonstrated competencies and productivity. Existing skills mismatches mean employers may face both higher wage obligations and additional training costs to equip recruits with the capabilities required for their roles. FMM therefore calls for industry consultation on the proposed framework and stronger emphasis on industry-aligned education, skills development and productivity-linked wage systems to support sustainable higher incomes.

Strengthening Education, TVET, Innovation and Skills for Manufacturing

The allocations of nearly RM69 billion to the Ministry of Education and RM19.1 billion to the Ministry of Higher Education represent a significant investment in strengthening the foundations for a skilled and competitive workforce. These are complemented by RM8 billion for TVET and RM500 million through PTPK to finance skills trainees. Tax deductions for Bakat MADANI training, alongside advanced automotive, high-technology TVET and industrial automation programmes, will support job-ready talent.

However, education and TVET spending must extend to strengthen programme quality, curriculum innovation, trainers' capabilities and practical industry exposure. Greater funding

should be directed towards AI, digitalisation, robotics and smart manufacturing programmes. Stronger industry–academia collaboration and accessible training support for SMEs will be essential to deliver higher productivity, skilled employment and sustainable wage growth.

Supporting Investment, Talent Attraction and Reinvestment

FMM welcomes the measures to strengthen Malaysia's attractiveness as an investment and talent destination, including the extension of the DE Rantau Nomad Pass, permission for spouses of Category I Employment Pass holders to work subject to stipulated conditions, and facilitation of Employment Pass applications for listed MyABE companies with a target of five working days. These measures will help companies attract and retain talent and support regional expansion.

FMM also welcomes the review of the Reinvestment Allowance and looks forward to clearer eligibility criteria and a more accessible incentive that encourages existing manufacturers to reinvest in automation, advanced technology, modernisation and capacity expansion. Supporting both new investment and reinvestment will be essential to strengthen industrial competitiveness and create higher-value employment.

Easing Living Costs and Supporting Domestic Consumption

The reductions in individual income tax rates, increase in personal tax relief from RM9,000 to RM12,000 and expanded reliefs for medical expenses, care for parents and grandparents, education, skills training and lifestyle expenses will provide meaningful support to households. FMM views these measures as an important step towards increasing disposable income, helping individuals manage rising living costs, meet family needs and support domestic consumption.

Strengthening Regional Industrial Development

FMM welcomes the measures to strengthen regional and state industrial development, particularly the RM100 million Strategic Investment Fund for semiconductor and advanced manufacturing companies in Penang, the development of LuMIC and Automotive Hi-Tech Valley (AHTV) in Perak, and investments in high-technology TVET in Melaka, infrastructure supporting Malaysia Vision Valley 2.0 in Negeri Sembilan and industrial development along the ECRL corridor in Pahang. However, the AHTV relocation tax deduction for eligible expenditure of up to RM5 million between January 1, 2027 and December 31, 2030 may benefit only a limited pool of wholly locally owned automotive vendors and may be insufficient to offset substantial relocation costs and operational disruption. FMM calls for broader support for automotive supply-chain development, including existing vendors upgrading their operations, alongside a more attractive relocation package. Effective implementation of regional initiatives must ensure reliable infrastructure, sufficient skilled talent and meaningful opportunities for local SMEs to participate.

Strengthening SME Reinvestment Capacity and AI Capabilities

FMM welcomes the one percentage point reduction in SME income tax rates to 14% on the first RM150,000 of chargeable income and 16% on the next RM450,000, providing tax savings of up to RM6,000 per eligible enterprise. This somewhat supports FMM's call to leave more capital in the productive economy for reinvestment in productivity, technology and talent. Therefore, FMM reiterates its proposal to widen the preferential tax bands to 15% on the first RM1 million and 17% on the next RM1 million, with 24% thereafter, to give growing SMEs greater capacity to expand and create better-paying jobs. Eligibility should also be based solely on the national SME definition, removing the RM2.5 million paid-up capital criterion so that capital-intensive manufacturers can benefit.

Complementing these measures, FMM welcomes the RM15 million allocation to AI Malaysia Berhad to strengthen a safe and ethical AI ecosystem and the target of developing 200,000 skilled AI professionals. Given the rapid pace of technological change and growing industry demand, FMM urges the Government to double this allocation to expand industry-relevant training and certification, strengthen local AI capabilities and help SMEs translate technology adoption into higher productivity and competitiveness.

Expanding Financing Access for Business Growth

The increase in total loan facilities and financing guarantees to RM57 billion in 2027, including RM32 billion in guarantees through SJPP and CGC, will strengthen businesses' access to financing and support their investment needs. The extension of SJPP coverage to mid-tier companies across all sectors, the higher guarantee limit of RM50 million and the allocation of RM1 billion in guarantees for local companies' expansion through mergers and acquisitions will support investment, business growth and industrial consolidation. Affordable financing, clear eligibility criteria and timely approvals will be essential to enable SMEs and mid-tier manufacturers to translate these facilities into automation, technology adoption, capacity expansion and stronger competitiveness.

Strengthening Energy Infrastructure and Financing for Green Manufacturing

FMM welcomes the Government's continued commitment to strengthening the national energy infrastructure and enhancing tax incentives for green technology investments. These measures could benefit the manufacturing sector through improved electricity supply reliability, lower energy consumption and operating costs, and greater adoption of renewable energy and energy-efficient technologies. FMM calls for enhanced communication, education and public awareness (CEPA) initiatives to promote greater uptake of the available incentives, particularly among SMEs, and recommends that the Government consider reintroducing interest rebates under the Green Technology Financing Scheme (GTFS) to reduce financing costs and accelerate manufacturers' investments in green technology and industrial decarbonisation.

Strengthening Government Service Efficiency and Regulatory Reform

FMM welcomes the Government's continued commitment under Budget 2027 to improve public service efficiency, including the nearly RM25 million allocation to expedite government dealings with businesses and the rakyat. The progress by Pasukan STAR in reducing bureaucracy and compliance costs, together with the implementation of the ILTIZAM Act 2025, is aligned with industry's call for faster approvals, simpler processes and a more business-friendly regulatory environment.

To strengthen the effectiveness of the ILTIZAM Act, FMM proposes that Good Regulatory Practice, including mandatory Regulatory Impact Assessments and meaningful industry consultation, be incorporated into the legislative framework. This would ensure that efforts to reduce existing regulatory burdens are complemented by measures to prevent new regulations from introducing unnecessary costs and complexity for businesses.

Trade and Supply Chain Resilience

FMM welcomes the RM60 million allocation to MATRADE to strengthen the capacity of Malaysian companies to penetrate and diversify export markets, complemented by RM1 billion in Bank Pembangunan Malaysia Berhad financing to support SMEs venturing abroad. This is aligned with FMM's call for greater market diversification, stronger utilisation of FTAs and more support for Malaysian companies to access non-traditional and emerging markets.

FMM proposes that a portion of the RM60 million allocation be channelled towards high-impact market access initiatives, including targeted trade missions, international trade fairs, business matching and assistance in overcoming standards, certification and other non-tariff barriers. In this regard, support could be extended to efforts such as the Manufacturing Supply Chain Expo (MSCX) 2027, which FMM is developing as a Malaysia-based international platform connecting Malaysian and ASEAN manufacturers and suppliers with overseas buyers and supply chain partners. MSCX can complement outbound export promotion by bringing international buyers and business opportunities directly to Malaysia, while strengthening Malaysia's role as a gateway for ASEAN manufacturing and connecting companies to regional and global supply chains.

FMM strongly welcomes the Government's move to strengthen Pengerang Integrated Complex as a strategic national asset and expand its role in higher-value downstream production and supply security. This is closely aligned with FMM's longstanding call to strengthen domestic and regional capacity for critical industrial inputs and reduce dependence on long and vulnerable international supply chains.

Feedback obtained by FMM through surveys undertaken on the impact of the West Asia crisis on manufacturers highlighted raw-material shortages and difficulties in sourcing the required specifications and grades locally. The further development of Pengerang provides an important opportunity to address these gaps by attracting investment into critical chemicals, specialty materials and other higher-value industrial inputs required by manufacturers.

With the JS-SEZ Masterplan and Blueprint to be launched by year-end, Pengerang's role can be further strengthened as part of a more integrated Malaysia-Singapore industrial supply chain. FMM has proposed identifying critical inputs required by manufacturers in both countries, aggregating demand and attracting investments into products that can be manufactured or further processed within the JS-SEZ. The Government's Queen Bee approach could support this by attracting anchor investors and their supplier networks, alongside technology partnerships and long-term offtake arrangements. This would help build regional production capacity for critical industrial inputs and strengthen the resilience of manufacturing supply chains in both countries.

The Government's matching grant of up to RM5,000 for first-time halal certification and the additional RM25,000 grant for halal MSMEs are welcome measures to strengthen the industry. However, FMM members from the cosmetics industry recommend expanding the RM25,000 grant to cover international halal certification and market-entry requirements, particularly in ASEAN markets. While JAKIM certification is an important foundation, exporters often face additional certification, registration and compliance requirements, especially in Indonesia, where halal requirements for cosmetics are being implemented from October 2026. The grant should also support manufacturing facility upgrades, GMP and halal compliance improvements, product testing, and raw material verification, as these costs can exceed RM50,000 and remain a major barrier for SMEs.

Ensuring Fair Competition for Malaysian Manufacturers and SMEs

FMM strongly welcomes the Government's commitment to introduce the E-Commerce Bill to strengthen the accountability of foreign e-commerce platforms and protect local businesses from unfair competition. The increasing availability of extremely low-priced imported goods in the domestic market is a growing concern for Malaysian manufacturers and SMEs, which face rising production and compliance costs while competing with imported products.

FMM believes that the Government should take a broader approach beyond regulating e-commerce platforms to examine the impact of low-priced imports entering Malaysia through both online and conventional trade channels. This should include a review of the existing low-value goods import framework, product standards, certification requirements and enforcement mechanisms to ensure fair competition between imported and locally manufactured products.

The proposed E-Commerce Bill should therefore be complemented by a comprehensive review of existing trade and regulatory measures, with appropriate safeguards against unfair trade practices, underpriced imports and non-compliant products. The objective should be to ensure a level playing field for Malaysian manufacturers and SMEs without restricting legitimate trade or consumer choice.

Smart Manufacturing: Closing the Gap in Technology Adoption Support

FMM welcomes the NIMP Fund's inclusion in the combined RM2.1 billion allocation alongside KWAP's Dana Pamacu and Khazanah's MTC Fund to strengthen mid-tier companies, as well as the RM270 million to mobilise private capital through equity crowdfunding and peer-to-peer financing, complementing CoSIF's role in business growth and industrial transformation. The extension of tax incentives for individual ECF and angel investors until December 31, 2030 will further encourage private investment.

However, FMM is disappointed that its proposed RM1.5 billion Smart Manufacturing Support Package for 2027–2030 was not adopted, leaving a gap in dedicated grant support to help manufacturing SMEs meet upfront technology adoption costs.

FMM also calls for full subsidisation of the RM8,000 On-site Smart Factory Assessment fee under the Smart Tech-Up Programme, alongside interest-rate subsidies or soft financing at 2%–4% with longer repayment periods for SMEs undertaking Smart Tech-Up projects. Together with enhanced fiscal incentives and enabling infrastructure, these measures would help manufacturers overcome financial and technical barriers, accelerate smart factory adoption under NIMP 2030 and translate technology investment into stronger productivity and competitiveness.

Enabling Innovation in the Low-Altitude Economy

FMM welcomes the RM50 million allocation to CAAM to develop a digital airspace management system, national test sites and safety standards for the low-altitude economy. These measures will support the safe expansion of drone operations and advanced air mobility, creating opportunities for local manufacturers in aerospace components, electronics, sensors and related technologies. Clear regulatory requirements, accessible testing facilities and industry collaboration will be essential to accelerate commercialisation and strengthen Malaysia's participation in this emerging sector.

Strengthening Post-Quantum Cybersecurity and Industrial Resilience

FMM welcomes Malaysia's Tier 1 recognition for readiness to transition to post-quantum cryptography, alongside efforts by NACSA and MCMC to develop local data protection technologies and strengthen CSCDC Berhad's capabilities. As manufacturers increasingly adopt connected systems, cloud services and AI, stronger cybersecurity will be essential to protect intellectual property, operational data and supply-chain continuity. FMM calls for practical industry guidance, technical support and accessible solutions, particularly for SMEs, to help businesses prepare for emerging quantum-related threats and strengthen confidence in Malaysia's digital economy.

Conclusion

While Budget 2027 introduces several positive measures to support businesses, FMM notes that some longstanding structural issues affecting manufacturing competitiveness remain insufficiently addressed. These include the need for further SST reforms to incorporate the beneficial features of GST, particularly input tax credits or offsets to address tax cascading and reduce embedded production costs. FMM also reiterates the need for a more transparent, efficient and predictable foreign worker management framework, supported by the implementation of the Multi-Tier Levy Mechanism and the reinvestment of levy collections into workforce upskilling and automation.

Equally important is the need to strengthen domestic industrial linkages so that investments attracted into Malaysia translate into greater opportunities for local manufacturers and SMEs. This requires more deliberate supplier development, stronger procurement linkages between multinational corporations, government-linked companies and domestic industries, and support for local companies to meet the technical, quality and certification requirements of higher-value supply chains.

FMM looks forward to continued engagement with the Government to address these outstanding priorities and ensure that Budget 2027 delivers beyond immediate financial assistance to strengthen Malaysia's industrial transformation and long-term economic resilience.



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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 13,540 member companies (4,270 direct and 9,270 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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