



FMM SURVEY CONFIRMS MALAYSIAN MANUFACTURING FACES ESCALATING RISKS FROM WEST ASIA CONFLICT

Kuala Lumpur, April 7, 2026 — The Federation of Malaysian Manufacturing (FMM) today releases the findings of an industry survey conducted in response to the West Asia conflict and prolonged disruption to the Strait of Hormuz and Red Sea shipping lanes. The findings confirm that nine in ten survey respondents are already affected or will be within four weeks. Raw material shortages, soaring logistics costs and tightening diesel supply are now threatening production continuity across sectors that manufacture the food, household goods, packaging, chemicals and consumer products that Malaysians purchase daily. This is not a situation that companies can manage through tighter margins or operational adjustments. Production lines are at risk of stoppage, export orders are being cancelled and the financial capacity of manufacturers to sustain operations is under direct and accelerating pressure.

Malaysian manufacturing operates within global supply chains, with 82.9% of companies sourcing more than 30% of their raw materials from overseas. When those supply chains are simultaneously disrupted across energy, freight, fuel and raw material availability, the impact does not stay within factory walls. It moves through domestic supply chains and onto retail shelves, affecting the availability and price of goods that Malaysian consumers depend on daily. Even if the conflict were to end today, the lagging effects on freight rates, raw material restocking cycles, insurance pricing and contract renegotiation would continue to weigh on manufacturing operations for months to come. Government intervention is required now, not when conditions deteriorate further.

Raw Material Shortages Are Already Threatening Production

The most immediate and serious risk arising from the current disruption is a production stoppage caused not by cost, but by the physical unavailability of critical inputs. 69.5% of companies report that they expect raw material shortages within four weeks, while 8.2% hold less than two weeks of stock for critical materials. These buffers are being depleted without replenishment, as extended lead times and disrupted shipping pipelines have broken normal restocking cycles.

The supply disruption is cutting across virtually every manufacturing sub-sector simultaneously. Naphtha, LPG and sulphur sourced through West Asian and European origins are tightening with direct consequences for plastics fabricators, chemical manufacturers, and industrial processors downstream. Specialty chemicals used in electronics manufacturing, surface treatment and industrial coatings are facing reduced availability and significantly longer lead times. Aluminium, steel intermediates, and copper-based materials transiting through affected routes are subject to shipment delays and spot price renegotiation. Food processing manufacturers are reporting supply stress on palm-based additives, dairy inputs, food-grade packaging materials and preservative chemicals, while the rubber sector including glove and tyre manufacturers is facing constrained supply of chemical accelerators, processing oils and compounding materials. Across these categories, the supply pipeline is thinning and in several cases it is already broken.

67.3% of companies expect production disruption within one month. This projection reflects the reality that material shortages will, within weeks, translate into reduced output, suspended product lines and unfulfilled domestic and export orders. Many of the manufacturers affected supply goods directly into the domestic consumer market, including food products, personal care items, household chemicals and packaging. A production stoppage in these sectors does not remain an industrial problem but becomes a consumer supply problem.

Companies are actively pursuing alternative sourcing from China, India, Thailand, Japan, South Korea and other ASEAN origins, but this transition is constrained by factors that cannot be resolved quickly. Customer qualification requirements, regulatory approvals for alternative-origin materials, quality validation processes and higher unit costs from non-contracted suppliers are all slowing the ability to switch. In industries such as food processing, pharmaceuticals and medical devices, alternative materials cannot be introduced without regulatory clearance and customer consent, processes that in normal circumstances take months.

Cost Increases in Energy and Logistics Are Severe and Being Absorbed Without Relief

Cost pressures across energy and logistics have intensified to levels that are placing serious strain on manufacturing operations. Energy cost increases are significant across sectors. 48.6% of companies reported energy cost increases of between 10% and 30%, while 21.8% reported increases of between 30% and 50% and 11.8% reported increases above 50%. The most severely affected sectors are those with high industrial diesel intensity in their production processes, including ceramics, quarrying, glass manufacturing, heat-intensive food processing and marine logistics, where energy forms a substantial share of total operating cost and cannot be substituted or deferred.

Logistics costs have risen to levels that manufacturers can no longer absorb within existing export contracts. 52.7% of companies reported freight and logistics cost increases of between 20% and 50%, while a further 17.7% reported increases exceeding 50%. These increases include general rate increases imposed by shipping lines, emergency bunker surcharges, war risk premiums, peak season levies and congestion surcharges, many of which are being imposed on short notice and outside the terms of contracted freight arrangements. For export-oriented manufacturers operating on fixed-price annual contracts with buyers, freight is a significant operational cost. At current levels, these increases are eliminating the margin on which those contracts were originally priced.

The disruption is not confined to imported inputs and international shipping. 54.1% of companies reported that domestic haulage operations are being affected by diesel subsidy quota exhaustion, resulting in higher transport costs, delays in cargo movement and reduced availability of hauliers.

Output Has Been Reduced and Export Commitments Are at Risk

The impact on production and trade is already measurable as 48.2% of companies have reduced output or suspended product lines in response to current conditions, representing a significant contraction in manufacturing activity that is not yet visible in official statistics but is being felt across supply chains. 51.8% have experienced export disruption in the form of shipment delays, buyer-initiated price renegotiations and outright order cancellations. For Malaysia, a trade-dependent economy where manufactured exports account for a substantial share of GDP, a disruption of this scale and duration carries implications well beyond the factory floor.

74.5% of companies are experiencing working capital pressure, with 18.2% reporting that this pressure is already affecting their ability to sustain operations. Working capital is the operational lifeblood of a manufacturing company. When it is exhausted, companies cannot pay suppliers, cannot draw down materials and cannot maintain payroll. At current levels of cost escalation, without targeted relief, the risk is that what began as a manageable cash flow challenge develops into a structural constraint on the sector's ability to trade and produce.

The cumulative effect is reflected in the finding that 74.5% of companies have reported production cost increases of at least 10% against their pre-crisis base. Malaysian small and medium enterprises in manufacturing typically operate on net margins of between 5% and 15%. A sustained across-the-board cost increase of 10% or more, compounded by energy cost escalation and with no mechanism to pass through crisis-driven expenditure within existing contracts, places the financial viability of these companies under direct and serious pressure. These costs are being absorbed silently, and the absorption cannot continue indefinitely.

FMM's Recommendations to the Government

The scale and breadth of disruption highlighted in this survey requires an immediate and coordinated Government response. The risk of production stoppage and export contraction is real and the window to prevent it is narrowing. FMM has identified twelve recommendations and calls on the Government to act on all of them without delay. They span fiscal and tax relief, energy and fuel supply, raw materials and supply chain security, and logistics, ports, shipping and crisis governance.

Fiscal and Tax Relief

1. Further Deduction for Crisis-Related Freight, Rerouting and Insurance Costs

A further deduction under the Income Tax Act 1967 should be introduced for documented freight surcharges, war risk insurance premiums, vessel rerouting charges, demurrage fees and extended storage costs directly attributable to the current disruption, available for the relevant basis periods without a separate application process. The mechanism for further deductions exists within the Act and can be operationalised through a Ministerial order.

2. Temporary Suspension of Import Duties and Sales Tax on Critical Inputs from Alternative Origins

Where manufacturers are compelled to source critical raw materials from alternative origins due to the disruption of Middle East supply chains, FMM requests that import duties and applicable taxes be temporarily suspended or exempted. This applies to petrochemical feedstocks, resins, polymers, specialty chemicals, metals, and food and agricultural inputs sourced from alternative origins including China, India, Japan, South Korea, Thailand, Vietnam and ASEAN countries

3. Sales Tax and Import Duty Relief for Reimported Export Cargo

Malaysian manufacturers whose exported goods have been turned back due to port inaccessibility, carrier diversion or buyer suspension are being charged both sales tax and import duty on reimportation. These goods were manufactured in Malaysia, exported and returned to the same production facility through no fault of the manufacturer. They are not sold, not consumed and not entering the domestic supply chain. FMM calls on the Ministry of Finance to exempt registered manufacturers from both sales tax and import duty on the reimportation of their own previously exported goods returned as a direct consequence of the current disruption. The administrative tools to act on this exist and FMM urges the Government to do so without delay.

Energy and Fuel Supply

4. Priority Diesel Allocation for Fuel-Intensive Industrial Sectors and Logistics Operators

FMM requests that Ministry of Domestic Trade and Cost of Living expand the Sistem Kawalan Diesel Bersubsidi (SKDS) to include fuel-intensive industrial users ceramics, quarrying and aggregates, glass manufacturing, heat-intensive food and beverage processing, and marine logistics operators serving domestic coastal routes. The mechanism should operate through an upward revision of SKDS quotas for registered industrial users in these sectors. Any further rationalisation of the diesel subsidy for the road transport and logistics sector should be frozen for the duration of the crisis.

5. Temporary Tariff Stabilisation for Industrial Electricity and Gas Pricing

The pass-through of global fuel price volatility into TNB electricity tariffs and Petronas Gas industrial pricing should be moderated through a temporary tariff stabilisation mechanism for a defined period of not less than six months. A tariff adjustment deferral or freeze, funded through an existing energy stabilisation facility, would provide manufacturers the cost predictability required to honour contracts entered into before the current crisis conditions emerged.

6. Accelerated Approval for Industrial Solar and Battery Storage Installations

Accelerate solar photovoltaic adoption and battery energy storage deployment among manufacturers. Standby charges under the Solar PV Self-Consumption (SelCo) programme should be reviewed, as the current structure discourages uptake. In addition, the approval-to-commissioning timeline for the Corporate Renewable Energy Supply Scheme (CRESS), which routinely exceeds twelve months, must be significantly shortened to reduce the sector's exposure to future energy disruption cycles.

Raw Materials and Supply Chain Security

7. Domestic Priority Allocation of Critical Petrochemical Feedstocks

PETRONAS should be directed to prioritise domestic allocation of naphtha, LPG and sulphur for downstream manufacturing users before fulfilling spot export commitments during the crisis period. A formal domestic priority allocation framework with a defined review period and a clear sunset provision should be established through a joint directive from Ministry of Investment, Trade and Industry (MITI) and the Ministry of Natural Resources and Environmental Sustainability.

8. Emergency Fast-Track Approval Channel for Alternative Raw Material Sources

A dedicated coordination desk within MITI, with direct working lines to customs, SIRIM and the relevant sectoral regulators, should be established immediately to process import approvals, duty exemption orders and regulatory clearances for critical alternative-origin inputs within days rather than weeks. The existing Ministerial discretion under the Customs Act and the Customs Duties (Exemption) Order can be invoked on an emergency basis without new legislation.

9. Price Surveillance on Critical Industrial Raw Materials

The Ministry of Domestic Trade and Cost of Living should activate its price monitoring mechanism for industrial inputs, with specific attention to petrochemical derivatives, specialty chemicals and food-grade materials, and should act against domestic resellers engaging in opportunistic pricing that exploits the uncertainty created by the global disruption.

Logistics, Ports, Shipping and Crisis Governance

10. Deferral of All Remaining Port Tariff Increases

All remaining port tariff increases at Malaysian ports should be deferred. Port Klang, Johor Port, Tanjung Pelepas and Penang Port have already implemented phased increases of up to 30%, with further increases scheduled through 2027, including Port Klang's 5% increase in January 2027, Johor Port's 15% phase in May 2027 and Penang Port's 10% increase in October 2026.

11. Freight Surcharge Oversight Mechanism

The Ministry of Transport (MOT) should establish a freight surcharge oversight mechanism, whether through the Malaysia Competition Commission or a dedicated shipping oversight desk within MOT, with the mandate to review and where warranted disallow surcharges that cannot be supported by documented cost justification. Free time at ports for import cargo must be maintained at pre-crisis levels and must not be reduced in response to container accumulation arising from disrupted shipping schedules. FMM calls on MOT to prioritise the enactment of a Malaysian Bills of Lading Act, incorporating the Hague-Visby Rules, to provide Malaysian cargo interests with statutory rights equivalent to those available in Singapore, the United Kingdom, Hong Kong and Australia. End of Voyage declarations and liberty clause invocations by carriers are currently leaving Malaysian shippers without legal recourse. Malaysian exporters deserve the same statutory protection that their counterparts in peer trading nations already have.

12. Export and Manufacturing Crisis Response Task Force

An Export and Manufacturing Crisis Response Task Force should be established immediately, co-chaired by MITI and the Ministry of Finance, with representation from the Ministry of Transport, the Ministry of Agriculture and Food Security, the Royal Malaysian Customs Department, Tenaga Nasional Berhad, PETRONAS, the relevant port authorities, and industry bodies including FMM. The Task Force should convene weekly, maintain a live tracker of industry-reported disruptions and Government decisions, and serve as the single escalation and resolution channel for manufacturers encountering supply, logistics or regulatory bottlenecks.

Malaysian manufacturing accounts for 23% of GDP and is deeply integrated into global supply chains across all major sub sectors. The survey findings indicate that the sector is approaching a critical threshold where cost absorption is no longer viable, raw material supply is tightening toward disruption, and export losses are already materialising. These are not isolated pressures but concurrent constraints affecting production, trade and financial capacity. If conditions persist, the impact will extend beyond manufacturers to availability of essential goods and price stability for consumers. The measures proposed are targeted, proportionate and can be implemented within existing legal and administrative frameworks. Acting now will stabilise operations and contain further disruption. Delay will result in production stoppages, sustained export losses and wider impact across the economy.



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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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