# International Business Report: Singapore–Malaysia Trade Relations

Executive Summary  
This paper examines trade between Singapore and Malaysia over the past ten years. The findings reveal strong mutual economic ties and complementary strengths. This report considers economic structures; balance of payments; trade policies; currencies; and ethics. Integration is further supported by Asean, CPTPP, and Johor-Special Economic Zone - Singapore. There are significant opportunities in manufacturing, logistics, and services, but risks remain based on currency volatility, complying with regulation, and non-tariff measures. Recommendations are provided throughout for firms operating in this corridor of dynamic bilateral trade.

# 1. Introduction

Malaysia and Singapore are geographically adjacent, and relatively intertwined economies. Each country counts the other as a key trading partner, and their economies mutually benefit from significant cross-border flows of goods, services, and investment. Their bilateral trade is predominantly in electronics, petrochemicals, palm oil, energy, and logistics services. Across the last ten years, the regulatory landscape governing trade has developed, with both Malaysia and Singapore negotiating to eliminate tariffs on goods imported on a largely unilateral basis in ASEAN, and subsequently, modernizing existing trade agreements through CPTPP. The planned Johor–Singapore Special Economic Zone is also expected to enhance integration. To assist businesses in making well-informed decisions, this report analyses bilateral trade patterns.

# 2. Economic and Financial Overview

## Singapore

Singapore is a high-income, services-driven economy with one of the highest trade-to-GDP ratios globally. Over the last decade, it has achieved moderate annual GDP growth of around 2–3%, although it faced a temporary contraction due to COVID-19. Inflation has been low and well-managed, primarily due to the Monetary Authority of Singapore's exchange-rate-based monetary policy based on the nominal effective exchange rate (NEER) of the Singapore dollar.

## Strengths:

Strong and well-regulated financial markets, which make Singapore a global finance hub

Excellent port and airport connections that ensure global connections

Important international re-export hub linking Asia to Europe and North America

## Weaknesses:

Heavy reliance on external demand, which exposes the economy to trade disruptions

Exposes to global financial volatility associated with being a financial hub status.

## Malaysia

Malaysia is a resource-rich, middle-income economy with a diverse foundation. GDP growth is dependant on the manufacturing sector (notably electronic and electrical products), palm oil and petroleum. Economic growth has been steady for decades (average GDP growth of 4–5%, outperforming Singapore); nonetheless, it contracted in 2020. Inflation is moderate, albeit variable, by regional standards.

Strengths:

Strong domestic resource base.

Competitive manufacturing costs attracting FDI.

Emerging middle-class providing increased domestic consumption.

## weaknesses:

Reliance on commodity cycles.

Occasional political instability undermining investor confidence.

Volatile ringgit raises cross-border trading risk.

## Implications for Bilateral Trade

The two economies are mutually complementary: Singapore provides logistics and service-oriented capabilities while Malaysia provides the requisite industrial capacity and resources. Together, they continue to support robust bilateral trade and provide the opportunity to develop integrated value chains that help create resilience.

# 3. Balance of Payments

Singapore

Singapore enjoys a healthy current account surplus due to an open and export-driven economy. The surplus will come from various areas:

Goods: The goods trade is complicated, but Singapore will import a massive amount of raw materials and intermediate goods. Due to Singapore’s position as a re-exporter of goods, Singapore will have significant levels of export values.

Services: Major contributors to the current account surplus include financial services, logistics, shipping, and tourism.

Primary income: Current account surplus is affected by primary income that comes from Singapore's offshore investments and reflects Singapore's governmental investment fund and international investment assets.

In the capital and financial account, Singapore receives a high amount of foreign direct investments (FDI) due to its stable political environment, transparent laws and regulations, and advanced physical infrastructure. Another form of capital inflows is portfolio inflows, as investors often target "safe" and "liquid" markets. Collectively, all those components offer a picture of resilience. Consequently, the central bank’s management of foreign reserves in relation to GDP is one of the highest globally. This is largely because high reserves support the bank’s credibility as a financial hub.

Malaysia

Malaysia typically experiences a surplus in its current account, but not as consistently as Singapore. The key determinants are:

Commodity exports: Palm oil, petroleum and natural gas are important sources of income, but commodity prices are volatile, and some years will see surpluses / deficits driven by commodity cycles.

Manufacturing exports: The country is active in exporting electronics and electrical goods. These are less volatile and provide steady income sources that help constitute value chains for traders.

Services and income balances: These can swing and end the year in either surplus or deficit, particularly if local demand is weaker, or capital flows slow.On its capital and financial account, Malaysia is a key destination for foreign direct investment into manufacturing, plantations, and energy among other sectors, whilst its own multinational firms undertake outward investment as they pursue expansion in the region. Short-term portfolio inflows are quite volatile. When adverse global conditions arrive and investors are risk-off, the capital outflows seen from Malaysia place downward pressure on the ringgit making its currency more unstable than the Singapore dollar.

Implications for Bilateral Trade

Businesses that trade back and forth between Singapore and Malaysia have very different implications of the balance of payments profiles:

Singapore's stability means that payments flowing through its financial system can be relied upon with low risk. Companies transacting in Singapore dollars will be backed by strong reserves and would not expect significant trade payment disruption.

Malaysia's fluctuations lend it to greater exposure to commodity driven cycles and currency fluctuation. Companies transacting on Malaysia's ringgit, may wish to consider hedging strategies including forward contracts or natural hedges to avoid any possible losses from an expected depreciation of the ringgit.

The complementarity is apparent here. Singapore delivers financial strength and resiliency, while Malaysia delivers production capacity. Together, these compliment each other while sustaining their strong bilateral trade relationships, while ensuring risk is managed, especially on the Malaysian side.

# 4. Trade Policies and Agreements

Both Singapore and Malaysia have active and substantial elements of regional and bilateral trade agreements, both of which have reduced trade barriers, facilitated trade integration and increased trade flows. Together, this is a pro-trade environment, lowering costs for firms while creating opportunities for goods, services and ultimately in digital trade.

## ASEAN Trade in Goods Agreement (ATIGA)

. Removed tariffs on most goods traded among ASEAN regional economies, enabling seamless trade flows.

. 98% of tariff lines are duty-free, enhancing intra-regional supply chains.

. Currently, the only challenge left to address are non-tariff measures (NTMs) and some rules-of-origin (ROO) documentation, which adds some administrative cost.

## Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP)

. Ratified by Singapore in early 2018 and by Malaysia in 2022.

. CPTPP is not limited to tariff removal, but covers:

Services and investment.

Intellectual property protections.

Digital trade and e-commerce.

In terms of bilateral trade, CPTPP aims to harmonize standards as a further simplification to encourage businesses to trade beyond their borders (including modern services and e-commerce).

## Bilateral Projects

. Johor–Singapore Special Economic Zone (JS-SEZ): This initiative was launched at the start of 2023 focused on decreasing barriers for goods, investment and talent movement, and hence achieve greater cross-border integration.

. Johor Bahru–Singapore Rapid Transit System (RTS) Link: To be operational by 2026, and will work to increase labour movement and logistics efficiencies, improving travel time and supply chain responsiveness.

## Considerations for Business

. The policy parameters are very pro-integration and for business will mean:

. Lower landed costs as a result of tariffs being eliminated.

. Opportunities in the digital and services space via the CPTPP.

. Time on transactions and improved tradeshowing mobility due to bilateral initiatives.

A cautious approach to exploiting the benefits will still need to take note of Non-Tariff Measures (NTMs) and Rules of Origin (ROO) compliance.

## 5. Currencies, Interest Rates, and Parity Conditions

The monetary frameworks of Singapore and Malaysia are fundamentally different in ways that shape the behavior of their unique currencies and affect bilateral trade. Understanding these monetary frameworks is important for companies engaging in cross-border trade and investment activities as the impact of exchange rate fluctuations and interest rate policies will affect cost, pricing, and profitability.

## Monetary Policy Frameworks

Singapore

Singapore's central bank, the Monetary Authority of Singapore (MAS), does not conduct monetary policy through altering interest rates; rather, it conducts monetary policy through the Singapore dollar (SGD) exchange rate. The framework is referred to as the Singapore Dollar Nominal Effective Exchange Rate (S$NEER) system.

The MAS manages the value of the SGD against a basket of currencies from its most important trading partners.

The goal is to keep competitive prices and stability and manage imported inflation.

When MAS appreciates or depreciates the policy band, it provides indirect changes in the cost of imports and exports.

This framework provides confidence to investors and firms that buy or sell products and services denominated in SGD, while ensuring low and stable rates of inflation.

Malaysia

Malaysia, on the other hand, takes a more traditional approach. The monetary policy is defined by Bank Negara Malaysia's (BNM) Overnight Policy Rate (OPR), which is the rate that governs borrowing costs and liquidity.

In July 2025, the OPR was cut to 2.75% to spur economic activity.

The OPR is the conduit through which domestic consumption, investment and capital flows are affected.

Unlike Singapore's system, Malaysia's is much more linked (directly) to interest rate changes and can create volatility in the exchange rate.

Important Point: This divergence results in Singapore dollar stability and predictability, while the Malaysian ringgit is more susceptible to capital flows, interest rate changes, and commodity prices.

## Exchange Rate Movements

The currencies of the two nations have moved in different directions over the past decade.

Singapore Dollar (SGD):

\* Has remained relatively stable against major currencies: USD and EUR.

\* The MAS's careful management (and Singapore's considerable reserves) have reduced sharp fluctuations.

\* The Singapore dollar has consistently appreciated to the Malaysian ringgit over time, but it has been gradual.

Malaysian Ringgit (MYR):

\* More volatile given the reliance on commodity exports (palm oil, petroleum, gas).

\* Episodes of global risk aversion or falling oil prices tend to spur depreciation.

\* Portfolio outflows create further pressure under the uncertain global conditions.

SGD vs MYR: Over the past 10 years the Singapore dollar has slowly increased against the Malaysian ringgit. This trend reflects differences in countries inflation, productivity and the state of their capital flows. This means businesses that import from Malaysia will find that imports are becoming increasingly cheaper as the SGD appreciates, however, Malaysian exporters will struggle to maintain profit margins on exports to Singapore.

PPP and IRP

Purchasing Power Parity (PPP).

PPP suggests that countries' currencies will adjust to equalise prices (levels) between countries.

Higher inflation in Malaysia suggests that the ringgit should depreciate to the SGD and correlate with PPP over time.

The history shown in Figure 4 supports this observation by showing the MYR depreciated in line with MYR differential.

Interest Rate Parity (IRP).

Interest rate parity relates differences in interest rates to forward exchange rates.

Malaysia has a higher OPR to Singapore's close to zero rates resulting in forward contracts pricing in MYR depreciation.

This means that:

- Firms that invoice in SGD will be able to hedge properly using forwards.

- Malaysian exporters that invoice in MYR faces forward discount, therefore cannot compete ultimately.

Implications for Firms

According to those involved in bilateral trade, any currency and interest rate relationship will have opportunities and risks associated with it.

Benefits of Invoicing in SGD:

Stable, predictable currency.

Less risk of sudden depreciation, or, for that matter inflation shocks.

Attractive to international partners who would like dependability.

Drawbacks of Invoicing in MYR:

Potential depreciation lower the exporter revenues in real terms.

The need to manage risk more often because of volatility.

Managing Currency and Interest Rate Risks:

Forward contracts. Future transaction exchange rates are guaranteed, protecting firms from volatility.

Natural hedging. Balance revenues and expenses in the same currency to mitigate risk.

Diversification. Sourcing comparisons depending on the counter-party's currency preference.

Operational flexibility. Depending on prevailing currency valuations, firms can change their supply chain sourcing or shippers between Singapore and Malaysia.

## 6. Ethical and Competitive (Dis)Advantages

Ethical issues

Malaysia has been facing international scrutiny of its practices in various industries including palm oil and electronics manufacturing. Allegations include having poor working standards, unsafe work environments and using migrant workers many of which can be exploited. There are also economic reputational issues regarding the environmental concerns and deforestation linked to palm oil, particularly the reputational risks for firms that are linked to a supply chain that may pose a negative impact on sustainability.

In comparison, Singapore is recognized as having sophisticated environmental, social and governance (ESG) frameworks. Companies operating are able to utilize transparent reporting arrangements and regulatory certainty. However, companies in Singapore that source from Malaysia must ensure their suppliers are compliant with global ESG standards for credibility with their international clients and stakeholders. In addition to ESG and labor standards, there are generally higher levels of corruption in Malaysia which requires foreign investors to conduct additional due diligence and compliance procedures.

Competitive Advantages

Singapore:

Modern and comprehensive infrastructure and logistics.

Good international connectivity via sea and air.

Established reputation as a regional financial center.

Malaysia:

Competitive labor and manufacturing costs.

Large and diverse industrial base.

Commodities - palm oil, gas, petroleum and other raw materials.

Competitive Disadvantages

Singapore: Land utilization issues, higher costs structures, and dependence on external demand for growth.

Malaysia: Policy inconsistency, political changes, unstable currency, uptake regulatory risk, and weaknesses in ESG processes relative to Singapore.

Implications for Firms

Singapore's strengths in servicing and finance in combination with Malaysia's industrial, manufacturing, and commodities sector advantages can allow firms to develop cost-effective cross-border value chains. However, firms need to conduct ESG audits, implement supplier codes of conduct, and monitor compliance systems to limit ethical and governance risks.

## 7. Recommendations

For companies entering the Singapore–Malaysia corridor should utilize Singapore as a hub for financial and logistics, and benefit from cost-efficient production in Malaysia. With invoicing in Singapore dollars you have currency stability, and you can hedge your exposure to the ringgit, decreasing currency risk. Ensure strong compliance surrounding supply chain, colonial alignment with the ATIGA/CPTPP, and plan for the RTS Link coming in 2026.

## 8. Conclusion

The bilateral trade between Singapore and Malaysia represents significant regional integration by linking Singapore's strengths in the services and logistics sectors, and Malaysia's strengths in manufacturing and resources. In addition to maintaining current account surpluses, they also take advantage of agreements like ATIGA and the CPTPP, as well as investments in the JS-SEZ and RTS Link projects. While there are currency volatility and ethical compliance risks, firms adopting a hedging strategy, along with effective governance structures, can transform this dynamic and complementary trade relationship into one of the most interesting trade partnerships in Southeast Asia.