



Comparative Open Economic Resilience in Indonesia and Malaysia: Regional Integration Challenges and Global Spillover Effects

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Abstract

This study aims to comparatively analyze the resilience of the open economy of Indonesia and Malaysia in the face of external shocks and challenges of ASEAN regional integration in the 2020–2024 period. The focus of the analysis includes three main dimensions: the impact of global spillover on GDP growth, the effectiveness of fiscal policy responses in the face of external shocks, and export-import dynamics as a reflection of the trade resilience of the two countries. This study uses a qualitative descriptive comparative approach with a secondary data-based documentation study method from the IMF World Economic Outlook Database, UN Comtrade, and World Bank World Development Indicators for the observation period 2020–2024. The results of the analysis show that Indonesia excels in fiscal stability and discipline, while Malaysia excels in recovery capacity and export competitiveness. The two countries exhibit different but complementary response patterns, with implications for closer fiscal-monetary coordination within the framework of ASEAN integration.

Keywords: *Open Economic Resilience; Global Spillover Effect; Fiscal Policy; Export-Import; ASEAN Integration*

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Introduction

Global markets are currently in a situation of uncertainty triggered by geopolitical tensions and changes in international trade regulations. For developing countries with open economic systems such as Indonesia and Malaysia, this condition poses challenges in maintaining domestic macroeconomic stability while maintaining competitiveness in the global market. The trade openness of the two countries is reflected in the significant contribution of exports to GDP: Indonesia's exports contribute around 21–22% to GDP, while Malaysia recorded a much higher ratio, which is around 68–71% of GDP during the period 2023–2024 World Bank (2024). This difference in the level of openness has direct implications for each country's external shocks.

Economic growth in the ASEAN region has been supported by foreign investment flows and export expansion. However, this growth is often not accompanied by equitable distribution or optimal technology transfer to the

local sector. On the domestic side, supply chain inefficiencies and high national logistics costs are structural burdens that directly reduce the competitiveness of products in the international market. This condition is exacerbated by infrastructure inequality between regions that hinders the smooth distribution of export commodities from buffer areas to global trade gateways. On the other hand, Malaysia faces similar pressure to align its industrial and fiscal policy orientation with evolving international quality standards and regulations.

Although a number of studies have examined the resilience of the open economy in the ASEAN region, most previous studies have tended to analyze individual countries separately or limit studies to a single dimension of resilience. A study by Truong et al. (2025), has explored the impact of asymmetric geopolitical risks on exports, but the testing is still limited to one country separately. On the other hand, research on trade logistics by Vikaliana et al. (2024) and the readiness for international standardization by Swangsa et al. (2025), only evaluated domestic challenges in Indonesia without comparing them with the structural performance of neighboring countries such as Malaysia. Furthermore, there has not been a study that integratively combines the three dimensions as well as the effects of *global spillover*, fiscal and monetary policy responses, and export-import dynamics in a single comparative analysis framework between Indonesia and Malaysia.

Therefore, this study aims to analyze comparatively the resilience of the open economies of Indonesia and Malaysia in the face of external shocks and challenges of ASEAN integration in the 2020-2024 period. Specifically, this study examines how the effects of *global spillover* affect the macroeconomic stability of Indonesia and Malaysia, the extent to which the fiscal policies of the two countries are effective in mitigating the impact of external shocks, and how the patterns of export-import dynamics of the two countries reflect the level of resilience of the open economy in the context of ASEAN regional integration. This research uses a descriptive comparative qualitative approach with documentation study methods and policy analysis, sourced from secondary data in the form of official reports from the IMF, UN Comtrade, and the World Bank in the 2020–2024 period.

Literature Review

Open Economic Theory and Macroeconomics

An open economy is defined as a country's economic system that is actively involved in international trade transactions, either through the flow of goods, services, or capital Krugman (2018). In the era of globalization, almost all countries have adopted this system to expand market share and increase the competitiveness of domestic production. International trade is not only the driver

of the national economy, but also the main source of foreign exchange income for the country.

Theoretically, the foundation of free trade is rooted in the thought of Adam Smith (1776) through the concept of absolute advantage. Smith argues that global prosperity can be achieved if each country specializes in producing commodities that are more efficient compared to other countries, then imports commodities that suffer absolute losses. Through specialization and free trade, both sides transacting can benefit together, which in turn strengthens macroeconomic resilience at the regional and global levels.

The macroeconomic analysis of the modern open economy is the Mundell-Fleming Model (Fleming, 1962; Mundell, 1963), which explains the interaction between fiscal and monetary policies, as well as capital openness in determining a country's output and exchange rate. In the context of Indonesia and Malaysia as *small open economies*, this model is relevant because both countries have limitations in controlling external variables such as global commodity prices and foreign capital flows.

Furthermore, the Theory of *Economic Resilience* by Briguglio et al. (2009) distinguishes between the structural vulnerability and adaptive capacity of a country. Countries with small open economies are inherently vulnerable to external shocks, but their resilience is determined by the quality of macroeconomic policies, financial stability, and governance efficiency. Although this theoretical framework has been widely used in open economic studies, its application in the comparative context between two ASEAN countries with different levels of openness such as Indonesia and Malaysia is still rarely studied integratively within a single analytical framework.

ASEAN Regional Economic Integration and Structural Challenges

ASEAN regional economic integration is a process of policy convergence and regulatory harmonization among member countries that aims to create a competitive and inclusive single economic area. The main framework of this integration is realized through the ASEAN Economic Community (AEC) which was officially launched in 2015, with four main pillars: the single market and production base, a competitive economic zone, equitable economic development, and full integration into the global economy (*ASEAN Economic Community Blueprint, 2025*, 2015). For Indonesia and Malaysia, regional integration brings benefits as well as structural challenges that are asymmetrical. Indonesia faces difficulties in harmonizing regulations between regions, while Malaysia faces pressure to maintain competitiveness amid deepening liberalization Hew & Soesastro (2003). Strengthening financial and trade integration in the ASEAN region simultaneously increases the exposure of each country to the *spillover* effects of the global economy (Dungey & Gajurel, 2015).

A recent study by Moridian et al. (2024) confirms that ASEAN countries' policy responses to external shocks are heterogeneous, with certain countries showing stronger absorptive and adaptive capacities than others. These findings confirm that ASEAN integration does not automatically result in a convergence of economic resilience among member states. However, these studies have not analyzed in depth how the heterogeneity of these policy responses impacts the competitively open economic resilience between Indonesia and Malaysia within a single integrative analytical framework.

Global Spillover Effects and Transmission of External Shocks

The *spillover* effect refers to the mechanism of transmission of economic shocks from one country or region to another through trade, finance, and market confidence. Forbes & Rigobon (2002) distinguish between *interdependence* (long-term structural linkage) and *contagion* (the transmission of short-term shocks that exceed normal linkage), both of which are relevant to understanding the post-pandemic economic dynamics of ASEAN. Truong et al. (2025) found that geopolitical risks have an asymmetric impact on export performance, where negative shocks have a greater and more persistent effect compared to positive shocks.

Empirically, the IMF (2025) notes that tariff pressures and a slowdown in global demand have a significant impact on post-pandemic growth momentum in the ASEAN region. While active integration into global value chains enhances long-term export competitiveness, it simultaneously exposes economies to short-term transmission vulnerabilities during external demand shocks (Jangam et al., 2024; Purwono et al., 2022). However, empirical studies that specifically compare global *spillover* transmission to two ASEAN countries with different openness profiles such as Indonesia and Malaysia simultaneously within a single analytical framework are still very limited.

Fiscal Policy in an Open Economy

The effectiveness of fiscal policies in stabilizing an open economy depends on the exchange rate regime adhered to. In a *floating exchange rate regime* such as the one implemented by Indonesia, monetary policy tends to be more effective in stabilizing output. On the other hand, Malaysia, which implements a more managed exchange rate regime (*managed float*), has relatively larger fiscal space as a stabilization instrument (Fleming, 1962; Mundell, 1963). Blanchard & Perotti (2002) developed a structural approach to identify the impact of fiscal policy on output and consumption. Coordination between fiscal and monetary policies is key in maintaining macroeconomic stability amid ongoing external pressures (Bianchi & Melosi, 2022).

Empirically, Baharin & Noor (2023) show that government fiscal intervention played a significant role in economic stabilization during the COVID-19 pandemic, despite the divergence between theoretical predictions and empirical results in some countries. A World Bank study (2024) on Indonesia's post-pandemic fiscal policy noted that fiscal consolidation carried out earlier than originally planned with a deficit back below 3% of GDP in 2022 reflects relatively disciplined fiscal capacity amid global pressures. However, there has not been a study that specifically compares the effectiveness and *timing of* the fiscal responses of Indonesia and Malaysia simultaneously within a single comparative analysis framework in the post-pandemic period.

Logistical Barriers and International Standards, and Export Competitiveness

Economic resilience in an open system relies heavily on the quality of infrastructure and the efficiency of logistics management. Inefficiencies in national supply chains, such as slow port procedures or high transportation costs, not only hinder export distribution, but also trigger an increase in imported inflation that can disrupt domestic macroeconomic stability (Vikaliana et al., 2024). Swangsa et al. (2025) emphasized that adjustments to quality standards, environmental certification, and technical regulations in destination countries are absolute requirements for a country to be able to improve its bargaining position in the *global value chain*. However, the studies only evaluated each country's domestic challenges separately, without comparing how differences in logistics quality and readiness of international standards contributed to differences in trade resilience between Indonesia and Malaysia.

Conceptual Framework

Based on the above literature review, this study developed a conceptual framework that describes the relationship between the main variables of the analysis as shown in Figure 1. This framework illustrates that global external shocks are transmitted through *spillover mechanisms* to the Indonesian and Malaysian economies through two main channels: trade pathways that affect export-import dynamics, and fiscal pathways that drive government policy responses. These two pathways together form each country's open economic resilience, which is then compared to identify relative strengths and weaknesses in the context of ASEAN integration.

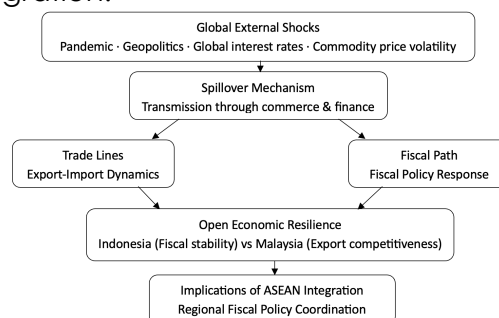


Figure 1 Research Conceptual Framework

Methods

This study uses a descriptive comparative qualitative approach with documentation study methods and policy analysis. This approach was chosen because the purpose of the study was not to test the relationship of statistical causality, but rather to identify similarities and differences in macroeconomic response patterns between the two countries in the context of external shocks and the same ASEAN integration. Indonesia and Malaysia were chosen as the units of analysis because they are both open economies in the ASEAN region with structurally different trade openness profiles, Indonesia's exports contribute about 21–22% to GDP, while Malaysia records a much higher ratio of around 68–71% World Bank (2024) so the comparison of the two results in a meaningful analytical contrast.

The units of analysis in this study are two developing countries with open economic systems in the ASEAN region, namely Indonesia and Malaysia, in the 2020–2024 period. Data were collected through a systematic documentation study from official sources: IMF World Economic Outlook Database (GDP growth data and fiscal position), UN Comtrade (export-import data), as well as official reports of Bank Indonesia and Bank Negara Malaysia for policy context. Comparisons are made on the three main dimensions as presented in Table 1.

Table 1 Dimensions and Indicators of Analysis Units

Yes	Dimensions of Analysis	Indicator	Proxies	Data Source
1	Resilience to global spillover	GDP Growth & Trade Openness	GDP growth rate (% per year); Exports/GDP ratio (%)	World Bank, IMF
2	Fiscal policy response	Budget deficit	Fiscal Balance (% of GDP)	BI, BNM, IMF
3	Export-import dynamics	Export-import value	Total exports & imports (USD Billion)	UN Comtrade, World Bank

Source: Processed by researcher, 2026

The data analysis technique is carried out through four steps: (1) tabulation of macroeconomic indicators of the two countries as of 2020–2024; (2) descriptive trend analysis to identify the patterns of the two countries' responses to external shocks, including the COVID-19 pandemic, rising global interest rates, and slowing demand of major trading partners; (3) a narrative comparison of fiscal policy based on official central bank documents and IMF reports; and (4) synthesis and interpretation of findings to answer the three formulations of research problems.

Result and Discussion

Resilience to Global Spillover: An Analysis of GDP Growth

Data on the GDP growth of Indonesia and Malaysia during the 2020–2024 period are presented in the following Table 2.

Table 2 GDP growth of Indonesia and Malaysia 2020–2024

Year	Indonesia (%)	Malaysia (%)
2020	- 2.07	- 5.46
2021	3.70	3.32
2022	5.31	8.86
2023	5.05	3.56
2024	4.96	4.80

Source: IMF World Economic Outlook Database, (International Monetary Fund, 2024)

The data in Table 2 shows that both countries experienced a significant economic contraction in 2020 as a direct impact of the COVID-19 pandemic World Economic Outlook, October 2024 (2024). Malaysia recorded a much deeper contraction of -5.46% compared to Indonesia which only contracted -2.07%. This difference in contraction intensity is not solely a reflection of Malaysia's structural weakness, but rather a logical consequence of its much higher level of trade openness. With an export-to-GDP ratio of around 68–71%, Malaysia has significantly greater exposure to external demand shocks than Indonesia, whose export ratio is only around 21–22% of GDP World Bank (2024). These findings are in line with the theoretical framework of Briguglio et al. (2009) which assert that countries with high economic openness are inherently more susceptible to external shocks although their adaptive capacities may differ.

The post-pandemic recovery pattern actually shows the opposite picture. Malaysia recorded explosive growth of 8.86% in 2022, far surpassing Indonesia's growth of 5.31% in the same year. The speed of Malaysia's recovery can be explained through two mechanisms. First, the stronger *rebound effect* on the manufacturing and electronics export sectors as the normalization of the global supply chain of the sector, which was the source of Malaysia's vulnerability in 2020, has now turned into a recovery engine. Second, Malaysia has a deeper level of integration in the *global value chain* so that the normalization of global trade has a greater and faster positive impact. In contrast, Indonesia's more moderate but consistent growth in the 5% range reflects a more stable domestic foundation, supported by strong household consumption and high primary commodity prices, rather than by an acceleration in exports.

Entering 2023, both countries experienced a slowdown that occurred simultaneously, Indonesia slowed down to 5.05% and Malaysia more drastically to 3.56%. This synchronous decline indicates a *spillover* effect from three external sources operating simultaneously: the slowdown in China's economy as the country's second-largest trading partner, global inflationary pressures due to the

aggressive interest rate hike cycle by the United States Fed, and geopolitical tensions disrupting supply chains and global investment confidence. The IMF (2025) noted that tariff pressures and a slowdown in global demand have a significant impact on post-pandemic growth momentum in the ASEAN region. This pattern of synchronous decline reinforces the argument of Dungey & Gajurel (2015) that ASEAN economic integration strengthens *spillover* transmission channels between member countries, so that the same external shocks can produce different impacts depending on each country's openness profile. Entering 2024, the two show convergence in the range of 4.8–5.0%, indicating stabilization even through a different recovery path.

Fiscal Policy Effectiveness: Budget Deficit Analysis

Comparison of the fiscal positions of Indonesia and Malaysia during 2020–2024 as measured through the ratio of net lending/borrowing to GDP.

Table 3 Indonesia and Malaysia's Budget Deficit 2020–2024 (% of GDP)

Year	Indonesia (% GDP)	Malaysia (% GDP)
2020	-6.08	-4.90
2021	-4.41	-6.03
2022	-2.19	-4.81
2023	-1.61	-4.55
2024	-2.66	-3.59

Source: IMF World Economic Outlook Database, October 2024

The data in Table 3 show an interesting pattern of fiscal response between the two countries. In 2020, Indonesia actually recorded a larger fiscal deficit (-6.08%) than Malaysia (-4.90%), different from the general expectations that often place Malaysia as a country with a larger spending capacity. Indonesia's aggressive fiscal expansion in 2020 was realized through the National Economic Recovery (PEN) program which includes health stimulus, social protection, and incentives for the business world. This step is consistent with the argument of Blanchard & Perotti (2002) that fiscal expansion is the main stabilization instrument in conditions of sudden shocks to aggregate demand, a trend supported by broader fiscal data in the ASEAN region (IMF, 2024).

In 2021, this pattern reversed, Malaysia's deficit widened to -6.03% while Indonesia began to consolidate with a deficit of -4.41%. This difference in the *timing* of fiscal consolidation can be explained through the framework of the Mundell-Fleming Model (Fleming, 1962; Mundell, 1963): Indonesia with a *floating exchange rate* regime has a greater incentive to carry out fiscal consolidation early to avoid rupiah depreciation pressures that can worsen import inflation.

Malaysia with a *managed float* regime has greater flexibility to maintain the deficit for longer without the same amount of exchange rate pressure. This reflects the differences in policy space that the Mundell-Fleming model theoretically predicts in the context of small open economies.

Indonesia's consistent fiscal consolidation trend from -6.08% (2020) to -1.61% (2023) back below the 3% limit of GDP since 2022 is a significant achievement and reflects stronger fiscal discipline. The World Bank (2024) noted that Indonesia's fiscal consolidation carried out earlier than originally planned reflects relatively disciplined fiscal capacity amid global pressures. In contrast, Malaysia maintained a deficit above 3% throughout the study period, although it managed to squeeze it to a low of -3.59% in 2024. The persistence of Malaysia's deficit does not merely reflect fiscal indiscipline, but rather reflects its strategic commitment to long-term infrastructure spending as a buffer for export competitiveness. Overall, this fiscal data supports the claim that Indonesia excels in fiscal discipline and stability, while Malaysia demonstrates greater fiscal flexibility as a long-term investment instrument.

Export-Import Dynamics and Trade Resilience

The export and import values of Indonesia and Malaysia based on UN Comtrade data for the period 2020–2024 are presented in Table 4 UN Comtrade (2024).

Table 4 Indonesia & Malaysia Export and Import Value 2020–2024 (USD Billion)

Year	Indonesia		Malaysia	
	Export	Imports	Export	Imports
2020	\$163.19	\$141.57	\$234.05	\$190.40
2021	\$231.71	\$196.22	\$299.23	\$238.25
2022	\$292.19	\$237.94	\$352.19	\$293.94
2023	\$259.53	\$223.11	\$312.61	\$265.64
2024	\$266.32	\$235.06	\$329.45	\$299.51

Source: UN Comtrade Database (2024)

This persistent trade gap is structurally driven by Malaysia's deeper integration into high-value-added Global Value Chains (GVCs), particularly within the manufacturing, electronics, and semiconductor trade networks across East and Southeast Asia (Narayan, 2025; Ou et al., 2024; Prabheesh & Vidya, 2025). Conversely, Indonesia's lower baseline trade values reflect a natural resource-based export reliance, where forward linkages and upstream intermediate goods remain less embedded in higher-value GVC production stages Dwi Ervinda & Ariutama (2022).

Entering 2024, the two countries show a recovery in trade with Indonesia's exports increasing to USD 266.32 billion and Malaysia to USD 329.45 billion. The trade balances of the two countries remained in surplus throughout the review

period, reflecting relative resilience in maintaining external trade positions amid various global shocks. However, Indonesia's thinner trade balance surplus than Malaysia indicates that export diversification to high-value-added manufactured products is still a structural agenda that needs to be prioritized. Overall, this export-import data supports the claim that Malaysia excels in competitiveness and export capacity, while Indonesia shows more stable resilience despite a more limited level of global integration.

Conclusion and Recommendations

This study comparatively examines the resilience of the open economies of Indonesia and Malaysia in responding to external shocks and the challenges of ASEAN regional integration during the 2020–2024 period. The analysis focuses on three dimensions: GDP growth as an indicator of resilience to global spillovers, fiscal policy as a macroeconomic response instrument, and export–import dynamics as an indicator of trade resilience.

First, the findings indicate that global spillovers affected the macroeconomic performance of both countries, although the magnitude and pattern of adjustment differed. Malaysia experienced a deeper economic contraction in 2020, with GDP declining by 5.46%, reflecting its relatively high exposure to international trade and external demand. However, Malaysia subsequently recorded a stronger rebound, with economic growth reaching 8.86% in 2022, supported by the recovery of manufacturing activity and export-oriented sectors, particularly electronics. Indonesia, by contrast, demonstrated a more stable recovery pattern, with post-pandemic growth remaining at approximately 4.9–5.0%, supported by a comparatively strong domestic demand base. The simultaneous decline in exports in 2023 and the subsequent recovery in 2024 further illustrate how regional and global shocks can be transmitted across highly interconnected ASEAN economies, while their ultimate effects remain dependent on each country's economic structure and degree of trade openness (IMF, 2024; World Bank, 2024).

Second, the two countries adopted different fiscal adjustment strategies. Indonesia implemented substantial fiscal expansion during the pandemic, with the fiscal deficit reaching approximately 6.08% of GDP in 2020, partly through the National Economic Recovery (*Pemulihan Ekonomi Nasional* or PEN) program. This expansion was followed by relatively rapid fiscal consolidation, with the deficit returning below the statutory threshold of 3% of GDP from 2022 and reaching approximately 1.61% in 2023. This pattern demonstrates Indonesia's ability to use fiscal expansion during a period of severe economic disruption while subsequently restoring fiscal discipline. Malaysia, meanwhile, maintained a relatively more persistent fiscal deficit but gradually reduced it to approximately

3.59% of GDP by 2024. The Malaysian approach reflects a more gradual consolidation strategy while continuing to support infrastructure and development expenditure.

These fiscal patterns can be interpreted in relation to the broader logic of the Mundell–Fleming framework, particularly regarding the interaction between fiscal policy, external conditions, capital mobility, and exchange-rate arrangements in open economies. However, because this study employs a descriptive comparative approach rather than an econometric test of the Mundell–Fleming model, the observed fiscal patterns should be regarded as broadly consistent with the framework rather than as direct empirical confirmation of its predictions.

Third, export–import dynamics reveal different but relatively resilient trade profiles. Malaysia consistently recorded a higher degree of export orientation, reflecting its deeper integration into global value chains, particularly in the electronics and semiconductor industries. Indonesia, in contrast, displayed relatively stable export performance, although its export structure remained more heavily concentrated in commodities and resource-based products. Despite differences in export composition and external exposure, both countries maintained trade surpluses throughout the observation period, suggesting that external trade continued to provide an important buffer during the post-pandemic adjustment process.

Overall, the findings suggest that Indonesia and Malaysia exhibit different forms of open-economy resilience. Indonesia demonstrates greater stability in its fiscal adjustment and post-pandemic growth trajectory, whereas Malaysia shows a stronger rebound capacity and deeper export integration. These differences are consistent with the resilience framework proposed by Briguglio et al. (2009), which emphasizes that economic openness can simultaneously increase exposure to external shocks and create opportunities for faster recovery. In this context, a highly open economy may experience a sharper initial contraction when global demand deteriorates but may also recover more rapidly when international trade rebounds. Conversely, an economy supported by stronger domestic demand may experience a more moderate contraction and a steadier, although potentially less pronounced, recovery path.

The findings also generate several policy implications. For Indonesia, an important priority is to deepen participation in global value chains by diversifying exports toward higher-value-added manufacturing and technology-intensive products. Continued dependence on primary commodities may expose export performance to fluctuations in global commodity prices and external demand.

At the same time, Indonesia should maintain fiscal discipline while strengthening fiscal buffers that can be mobilized during future external shocks.

For Malaysia, continued fiscal consolidation remains important for rebuilding fiscal space, but this process should be balanced against the need to sustain productive infrastructure and investment that support long-term export competitiveness. Given Malaysia's high degree of external openness, strengthening domestic economic buffers and further diversifying export markets may also help reduce vulnerability to global demand fluctuations.

At the regional level, Indonesia and Malaysia could benefit from stronger ASEAN economic policy coordination, particularly in areas related to crisis response, trade facilitation, regional supply chains, and financial stability. Greater regional coordination may help reduce the adverse effects of common external shocks while allowing member states to take greater advantage of the opportunities created by economic integration.

This study is subject to several limitations. First, the analysis is limited to three major dimensions of open-economy resilience and does not incorporate other potentially important variables, such as exchange-rate volatility, foreign direct investment, imported inflation, external debt, international reserves, or the trade openness ratio. Including these indicators could provide a more comprehensive assessment of macroeconomic resilience. Second, the observation period covers only 2020–2024, limiting the ability to compare post-pandemic adjustment with longer-term pre-pandemic patterns. Third, the comparative descriptive approach does not permit causal inference regarding the relationships among trade openness, fiscal policy, external shocks, and economic resilience.

Future research should therefore employ more advanced quantitative methods. A Vector Autoregression (VAR) framework could be used to examine the transmission of external shocks and spillovers across countries, while an Autoregressive Distributed Lag (ARDL) model could explore short- and long-run relationships between trade openness, fiscal conditions, and economic resilience. Panel-data analysis covering a broader set of ASEAN economies would also provide stronger evidence regarding whether the patterns observed in Indonesia and Malaysia are representative of the wider region. In addition, the development of an integrated Open Economy Resilience Index incorporating fiscal, trade, financial, and structural indicators could provide a useful methodological contribution for future comparative studies.



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