Policy brief

Trump, trade and tariffs: impact on Malaysia

By Jaideep Singh and Calvin Cheng

With contributions from Arividya Arimuthu, Qarrem Kassim and Fahad Ijlal Nizam

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Institute of Strategic & International Studies (ISIS) Malaysia

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Contributors

Jaideep Singh is an analyst in the Economics, Trade and Regional Integration programme. His work focuses on industrial and trade policies, including their interplay in geoeconomics. His work has been featured in Brookings, The Diplomat, *South China Morning Post,* Lowy Institute's The Interpreter and *The Edge*. He is a former Overseas Development Institute fellow in Zanzibar, Tanzania, and special officer to the deputy investment, trade and industry minister.

Calvin Cheng heads the Economics, Trade and Regional Integration programme. His research interests span issues in applied economics, centring on jobs, social protection, economic development and the design of social-transfer programmes.

Arividya Arimuthu is a senior fellow in the Chairman's Office. She specialises in WTO and EU laws and has more than 20 years' experience in trade negotiations. She is a former senior director for strategic negotiations at MITI and chief negotiator for numerous high-stakes free trade agreement negotiations, including the CPTPP, for which she led the ratification and implementation for Malaysia.

Qarrem Kassim is an analyst in the Economics, Trade and Regional Integration programme. His research focuses on economic security, global political economy and development of MSMEs. His recent work examines the growing geoeconomic impact of critical mineral industrial policies, emergence of BRICS, long-term food security and Malaysia's strategic engagement with Central Asia. He has been featured in *Nikkei Asia*, the *East Asian Policy Journal*, FIDE Forum, *The Edge* and Bernama.

Fahad Ijlal Nizam is a researcher in the Economics, Trade, and Regional Integration programme. His research focuses on econometrics and causal inference, with past work examining the lasting effects of colonialism on modern brain drain in developing nations. Driven by a deep passion for human behaviour and its impact, Fahad attempts to integrate behavioural economics principles into the development policy landscape.

Foreword

Less than half a year into Donald Trump's second presidency, the multilateral, rules-based order that has sustained global trade for decades is coming under immense and unprecedented pressure. The spectre of protectionism and isolationism threatens to upend the predictable pursuit of free and open trade that Washington itself once upheld.

At the core of this increasingly unpredictable geoeconomic landscape is Trump's trigger-happy tariff agenda, which reached a crescendo on 2 April during the so-called "Liberation Day" announcement. Sweeping tariffs on almost every nation are expected to come into effect on 9 July while a 10% universal tariff is in force. In doing so, the White House has unsettled markets and weakened global growth prospects, purely based on flawed economic reasoning and dubious mathematics.

It is often said that when America sneezes, the world catches a cold, except on this occasion the illness is self-inflicted and avoidable. As Shakespeare reminds us, "the fault is not in our stars but in ourselves" – or rather, in the White House's self-defeating rhetoric. World economic growth, having only recently recovered after the Covid-19 pandemic, is now headed for a slowdown according to forecasts. International trade flows, meanwhile, are expected to shrink because of diminished demand and heightened volatility.

As a small open economy, Malaysia is far from immune to these shocks. Facing a 24% tariff, Putrajaya is negotiating with Washington to bring down the tariff rate and maintain its growing economic relationship with the US while doubling down on efforts to diversify trading partners and products. Yet as 9 July nears, it is important to understand why we are in this situation and what is truly at stake.

Accordingly, this policy brief examines the Trump administration's economic arguments for tariffs, as well as their short-term and medium-term impact on Malaysia's trade flows. The analysis covers Malaysia's immediate export exposure to the US and explores how tariff-induced trade diversion could both benefit and harm Malaysian exporters. It concludes with policy recommendations to safeguard Malaysia's economic interests in the face of uncertainty.

Datuk Prof Dr Mohd Faiz Abdullah
Chairman
Institute of Strategic & International Studies (ISIS) Malaysia

Executive summary

- In April 2025, US President Donald Trump announced country-specific "reciprocal" tariffs on imports from most countries, including a 24% tariff rate on Malaysia (Section 1). The tariffs are expected to come into effect on 9 July, barring any successful negotiation to reduce, postpone or cancel them (Section 6).
- To justify the tariffs, Trump invoked unprecedented emergency executive powers on the back of the trade deficit in goods, disproportionately blaming foreign partners' trade policies for the supposed loss of American economic competitiveness (Section 1.2).
- In the short and medium run, Trump's tariffs could have an impact on Malaysia through three channels: direct price exposure, trade diversion and macro-financial spillovers (Sections 2 and 5).
- Malaysia's export exposure to the US market is substantial and growing, with the US accounting for 13% of total exports, surpassing China in 2024. However, much of this trade is in electronic products, including semiconductors, many of which are currently exempted from Trump's tariffs. These targeted carve-outs soften the immediate blow: only about 55% of Malaysia's US exports bear the full duty, resulting in a trade-weighted average tariff of roughly 14% (Section 3).
- Diversion dynamics will decide the medium-term outcome. The US' effective tariff on China remains the highest of any country, so competing trading partners with similar export profiles to the US at lower tariff rates are best placed to benefit from positive trade diversion out of China. India and Mexico are the biggest potential beneficiaries but Malaysia can still gain if US buyers shift from Chinese goods (Section 4.1).
- Trade diversion can also manifest as negative out-diversion from Malaysia to lower-tariff rivals in similar product segments, such as Mexico or the Philippines. Malaysia could lose market share of US imports to these competitors, particularly in product segments where it is not an indispensable import source, such as tariff-exposed camera parts (Section 4.2).
- There is a risk that Malaysia could become a dumping ground for China's excess capacity, primarily in product segments where China currently relies heavily on US import demand, including machinery and plastics (Section 4.3).
- Policymakers should lock in existing exemptions through trade talks, streamline origin-verification to seize positive diversion, bolster cost competitiveness to deter out-diversion, and keep safeguard instruments ready to counter import dumping (Section 7).

1 Background

1.1 Timeline of events

As of 5 April 2025, imports from most countries into the United States are subject to a 10% tariff. The Trump administration also threatened to impose higher additional tariffs on countries that run "large and persistent" bilateral trade surpluses with the US (see Section 1.3 for details on tariff rate calculations). These so-called "reciprocal" tariffs, which were initially scheduled to come into force on 9 April, have since been postponed for 90 days.[1]

Malaysia was among those singled out for contributing to the US trade deficit, hit with a "reciprocal" tariff rate of 24%, though certain goods have been granted temporary exemptions. Products from key industries – including copper, pharmaceuticals, semi-conductors and selected electronics – are exempted but Trump has signalled the possibility of separate, sector-specific duties in the near future.[2] The tariff rate is motivated by Washington's crude accusations that Malaysia pursues trade policies that undermine American competitiveness (see Section 1.2 on US rationales).[3]

These unprecedented and sweeping measures, invoked dubiously as a "national emergency", come on top of those that the White House imposed in the first quarter of 2025. The list includes tariffs on many products from Canada, Mexico and China as well as on steel, aluminium and automobiles (Diagram 1). Accordingly, the average American tariff on imported goods has risen from its past 25-year average of 1.8% to more than 11% as of mid-April 2025, a level of protection not seen since World War II.[4]

Diagram 1. Key US tariff actions and international responses, February-May 2025

Feb — March — April — May

❶ **4 Feb** 10% tariff on China (then 20%); China retaliates on selected US imports

❷ **4-6 March** 25% tariffs on Canada, Mexico; USMCA goods exempt

❸ **12 March** 25% (then 50%) tariffs on steel, aluminium; EU, Canada retaliate

❹ **2-9 April** Reciprocal tariffs announced (then paused for 90 days)

❺ **3 April** 25% tariff on automobiles (then auto parts); Canada retaliates

❻ **12 April** China tariff rises to 145%; China retaliates with tariff of 125%

❼ **12 May** China tariff lowered to 30% for 90 days; China cuts US tariff to 10%

Source: Adapted from Bown (2025)
Note: Timeline is accurate as of late May 2025. Related events occurring within days, e.g. tariff escalation or exemptions, have been combined for brevity.

1.2 US rationales for imposing tariffs

To impose these sweeping tariffs, US President Donald Trump invoked executive powers under the International Emergency Economic Powers Act. The White House claims that the country's "large and persistent" trade deficit amounted to a "national emergency". This broad, unilateral move stands in contrast to the narrower legal levers used to introduce his first round of tariffs in 2018-20, including Section 232 of the Trade Expansion Act and Section 301 of the Trade Act.[5] It also departs from historical precedents like the Smoot-Hawley Tariff Act of 1930, which was enacted through Congress rather than executive authority. At print time, Trump's trade policy is under increasing legal scrutiny in the US federal court system, following a 28 May ruling against the "reciprocal" tariffs and an ongoing appeal process (see Section 6).[6]

The Trump administration's rationales for imposing extensive "reciprocal" tariffs rely on three main grounds: reducing the US trade deficit, bringing back American manufacturing and leveraging on tariffs to extract "deals". The White House views the American trade deficit in goods, which stands at US$1.2 trillion or 4.1% of GDP in 2024,[7] as indicative of economic weakness stemming from "unfair trade practices" by other countries.[8] It assumes that American trade deficits result from "a combination of tariff and non-tariff" barriers, which need to be corrected through US-imposed country-specific tariffs.[9]

For Malaysia, the US highlights both the bilateral trade surplus and certain trade practices as key points of contention. The US Trade Representative's (USTR) 2025 National Trade Estimate Report on Foreign Trade Barriers identifies Malaysia's import licensing system, particularly affecting the automotive and agriculture sectors, as a significant non-tariff barrier disadvantaging American exporters.[10] Other perceived barriers listed in the report include certain trade measures surrounding halal certification, foreign ownership requirements and concerns regarding insufficient enforcement of intellectual property rights. In response, Malaysia has sought to clarify certain misconceptions around these perceived trade barriers while simultaneously signalling openness to negotiation and potential reforms to address legitimate US concerns.

Nonetheless, the White House's attempts to link bilateral deficits to "unfair trade" rest on faulty logic. The balance of trade is inherently value-neutral: a deficit can be beneficial for investment or symptomatic of structural issues depending on broader macroeconomic factors.[11] There is no meaningful relationship between trade balances and key macroeconomic indicators, such as GDP growth, inflation and unemployment.[12] Narrowly treating the goods trade balance as a zero-sum scorecard for a country's economic success also overlooks structural and developmental differences between countries, which tariffs alone cannot fix.[13] Bilateral trade flows are shaped more by economic structures, reflecting comparative advantage and resource endowments, than by barriers.[14] Tariffs alone might do little to affect this dynamic – indeed they did not meaningfully affect the US trade balance during Trump's first term.[15]

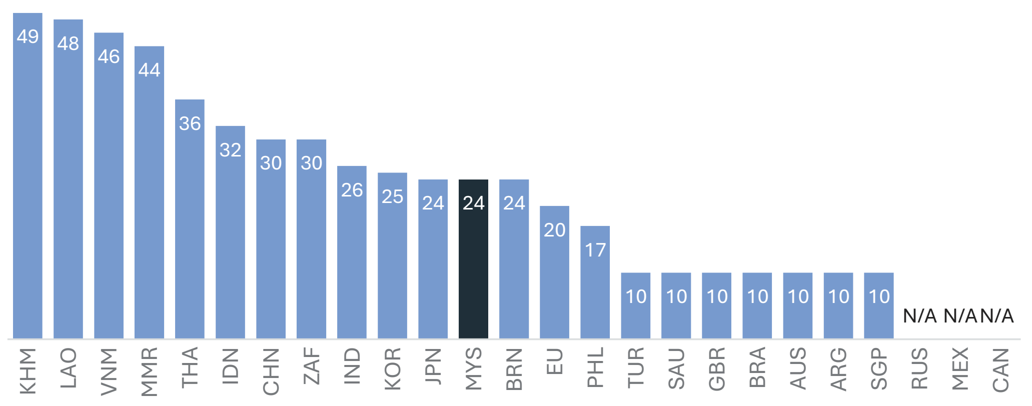
The administration also blames the trade deficit for American deindustrialisation but this oversimplifies deeper economic phenomena.[16] It is a macroeconomic fact that since the late 1990s, manufacturing's share of American GDP and employment has fallen by five and four percentage points respectively.[17] Much of this decline stems from productivity and technology gains[18] but evidence suggests that international trade and globalisation have a smaller but non-negligible part to play. Research indicates that China's entry into the World Trade Organisation (WTO) in 2001 causally induced the displacement of low-skilled US manufacturing workers in import-competing sectors in the ensuing decades, validating real concerns that unmanaged globalisation could produce clear losers not compensated by gains from trade.[19] Yet, the imposition of sweeping tariffs without domestic redistributive or pre-distributive policies represents an effort that is both insincere and ineffective. By themselves, tariff threats fail to tackle the myriad complex issues surrounding economic inequalities widened by trade, merely deflecting responsibility of these problems to external actors.[20]

The tariff threats also likely serve as a bargaining chip to extract concessions from trading partners. Even as the Trump administration's geoeconomic objectives prove inconsistent,[21] a recurring theme is the view that US military and economic support and access to the US market are privileges that others must pay for. As the world's largest economy and importer, the US is using the threat of tariffs to push smaller countries, particularly those that rely on access to the American market and hold substantial US debt, to the negotiating table.[22]

1.3 How 'reciprocal' tariff rates are calculated

The "reciprocal" tariffs do not reflect foreign trade barriers and are instead a deficit surcharge. Trump had initially suggested that the tariffs would reflect a possible composite of ongoing tariff and non-tariff measures that American products face abroad.[23] In practice, however, the country-specific duties are not reciprocal by any reasonable measure. The USTR formula instead simply sets each country's tariff increment at half of its 2024 US goods-trade deficit divided by US imports from that country, with additional arbitrary assumptions (see Appendix A for an in-depth discussion on the formula and rationales). For countries with which the US runs a trade surplus, a flat 10% tariff was applied instead (Fig. 1).

Fig. 1. Malaysia's tariff of 24% is 40th highest in the world and 3rd lowest in ASEAN
American country-specific tariff rates (%) on ASEAN and G20 nations, late May 2025



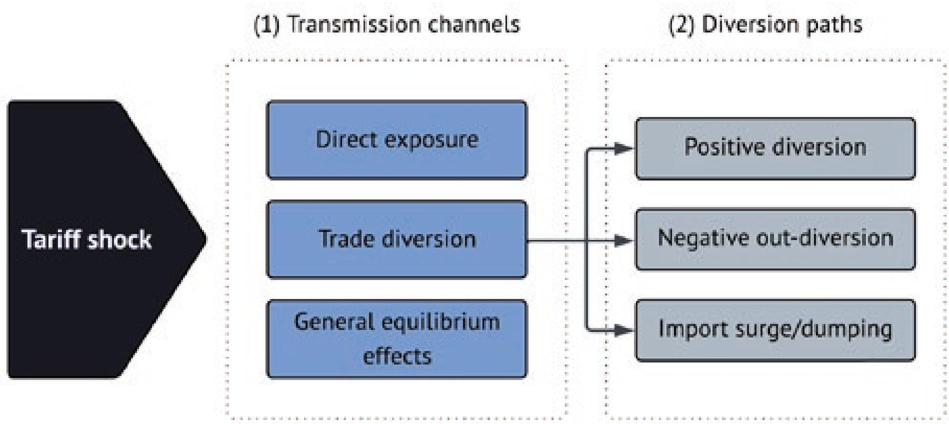
Source: The White House (2025)
Note: Country codes reflect ISO 3-digit conventions where applicable. Figure for China considers the de-escalation between Washington and Beijing on 12 May 2025, independent of the initial formula-driven 34% "reciprocal" rate announced on April 2 and the subsequent escalation of US tariffs on China to 145% on 12 April. Figure for the EU does not consider Trump's social media threat on 23 May to raise the US tariff on the bloc from 20% to 50% effective 1 June, which was followed two days later by a pause until 9 July. Figures do not include other tariffs imposed between January and April 2025 (Appendix B).

This formula is disconnected from genuine market access conditions. The tariff calculations ignore nuances like multi-year averages, services trade (in which the US typically enjoys a large surplus), and each partner's tariff and non-tariff measures. In effect, low-tariff exporters like Malaysia are penalised alongside more protected markets, while some high-tariff surplus countries face only the 10% floor rate. Malaysia's average tariff on US goods, for instance, is only 5.6%, about one-eighth of the claimed rate.[24] This disconnect is similarly stark in other ASEAN member states, including Washington's free trade agreement (FTA) partners like Singapore (Fig. A1 in Appendix A). The label "reciprocal", thus, obscures a politically expedient surcharge under the guise of responding to genuine trade barriers confronting US firms.

2 How tariff shocks affect Malaysia's trade and investment

In our framework, tariff shocks affect Malaysia's trade and investment through three distinct channels: direct exposure, trade diversion and broader equilibrium effects (Diagram 2). Direct exposure is the immediate price impact of higher duties on Malaysian goods landing in the US. Trade diversion illustrates second-order effects on how buyers substitute across sources when relative tariffs change, potentially steering demand towards or away from Malaysia and opening the door to import surges from third-country excess capacity. General equilibrium effects consist of higher-order impacts from slower global economic and trade growth, tighter financial conditions, and heightened policy uncertainty.

Diagram 2. Tariff shocks impact on Malaysia through direct price effects, trade-diversion paths and broader equilibrium shifts



Source: Authors' illustrations

Our analysis focuses on the first two channels, which are the most tangible and policy-relevant in the short run. Direct exposure can be measured with conventional trade statistics, while trade diversion can be assessed using tariff-adjusted market-share data. By contrast, general equilibrium effects operate through multiple, overlapping mechanisms that are difficult to isolate and attribute, particularly given the rapidly changing situation. Due to data constraints, the analysis also does not consider the indirect path of trade diversion through value chain effects, such as the potential reduction in demand for Malaysian inputs embedded in Chinese final exports to the US.

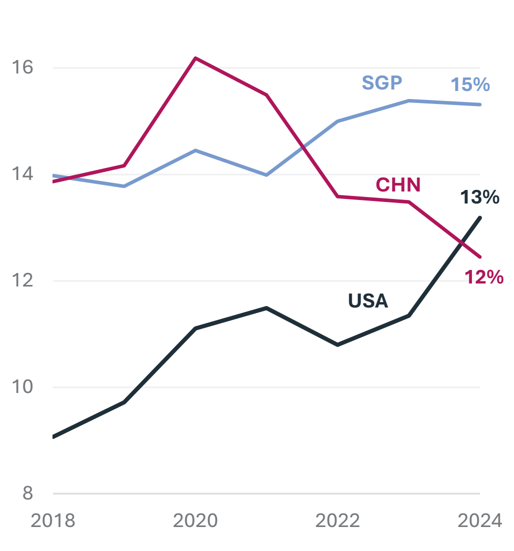
The remainder of this brief investigates each priority channel and flags the policy levers available to tilt outcomes in Malaysia's favour. Section 3 quantifies Malaysia's direct exposure, showing how reliance on the US market has risen to 13% of total exports. Section 4 maps potential gains and losses from trade diversion, identifying product lines at greatest risk or with the greatest upside. Section 5 briefly discusses macro-financial spillovers and outlines monitoring indicators but does not model them in detail.

3 Direct-exposure channel

Direct exposure captures the mechanical price shock that tariffs impose on Malaysian exports. A higher ad valorem duty at the US border raises the landed cost of Malaysian goods (though relative price changes depend on tariff differentials). This first-round effect is simply a tax wedge that lowers quantity demanded in proportion to the price elasticity of the affected products. This channel operates immediately, giving us the best early indications of Malaysia's near-term exposure to the "reciprocal" tariffs.

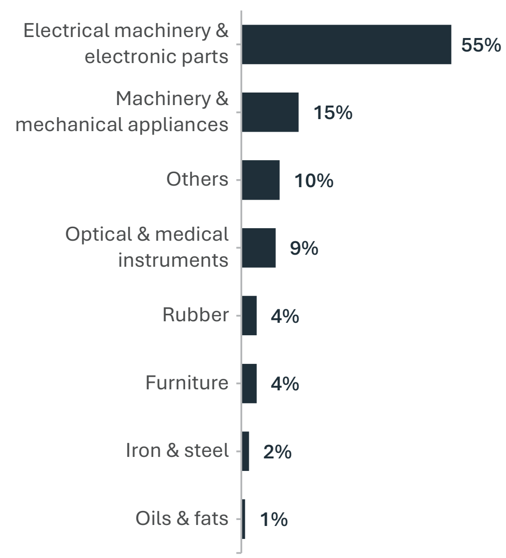
Headline export exposure to the US is large and growing but temporary exemptions temper the immediate hit. The US has become an increasingly important destination for Malaysia's exports since the late 2010s, with the share of US-bound exports to total Malaysian exports rising from 9% in 2018 to 13% in 2024. Last year, the US surpassed mainland China to become Malaysia's second largest export market after Singapore, totalling more than US$43 billion, owing to relatively stronger American consumer demand for imported goods in the pre-tariff environment (Fig. 2). This demand has been concentrated in electrical machinery and electronic parts (55% of bilateral exports) and machinery and mechanical appliances (15%), which dominate Malaysia's export profile to the US (Fig. 3).

Fig. 2. US surpasses China as Malaysia's 2nd largest export market in 2024
Malaysia's top export markets by share of exports (%)



Source: Authors' calculations based on UN COMTRADE (2025)

Fig. 3. Electrical and electronic products make up over half of US-bound exports
Malaysia's exports to the US by product line (%), 2024

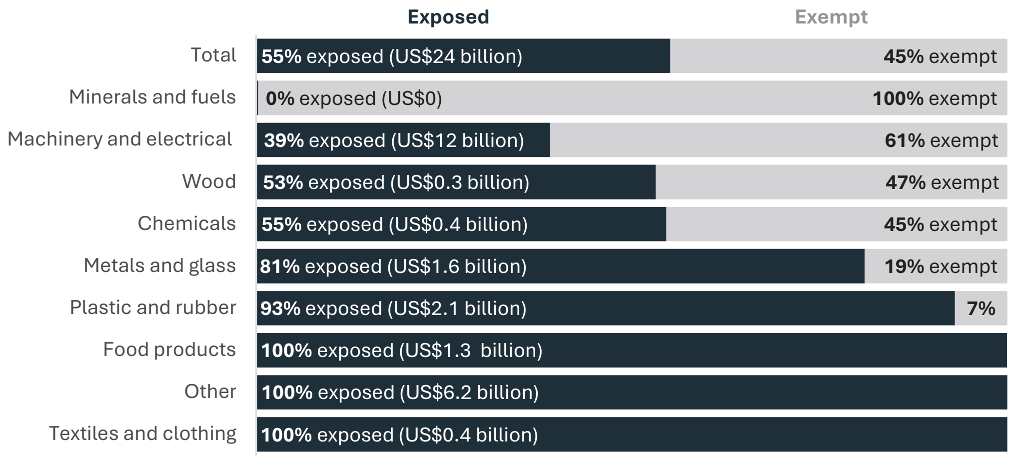


Source: Authors' calculations based on UN COMTRADE (2025)

Temporary tariff exemptions on semiconductors and other products currently apply to about 45% or US$19 billion of Malaysia's shipments to the US. Two temporary exemption rounds (2 and 12 April) have spared almost a third of all machinery and electrical products valued at US$18 billion or 94% of Malaysia's total exempted exports by value (Fig. 4).[25] The remainder of the temporary exemptions is spread across lower-volume sectors, such as metals and glass, chemicals, wood products, plastic and rubber, and minerals and fuels, which account for just over 16% of US-bound exports. Finally, three sectors have received no exemptions at all: textiles and clothing, food products and other miscellaneous manufactured goods. Taking these exemptions and the volume of bilateral trade into consideration, the US trade-weighted average tariff on Malaysia will rise from less than 1% in the pre-tariff environment to about 14% once the country-specific tariff policy goes into effect.[26]

Fig. 4. Tariffs affect 55% of Malaysia's exports to the US, with almost 94% of total exemptions being in machinery and electrical products by value

Share and value of Malaysia's US-bound exports that are tariff exposed by sector, 2024



Source: Authors' calculations based on UN COMTRADE (2025)

Note: List of exempted HS codes is taken from USTR (2025). Sectors are based on first-level categorisation in UN COMTRADE's database, some of which have been combined for brevity. "Other" covers transportation, scientific instruments and apparatus, furniture, ammunition and miscellaneous manufactured articles.

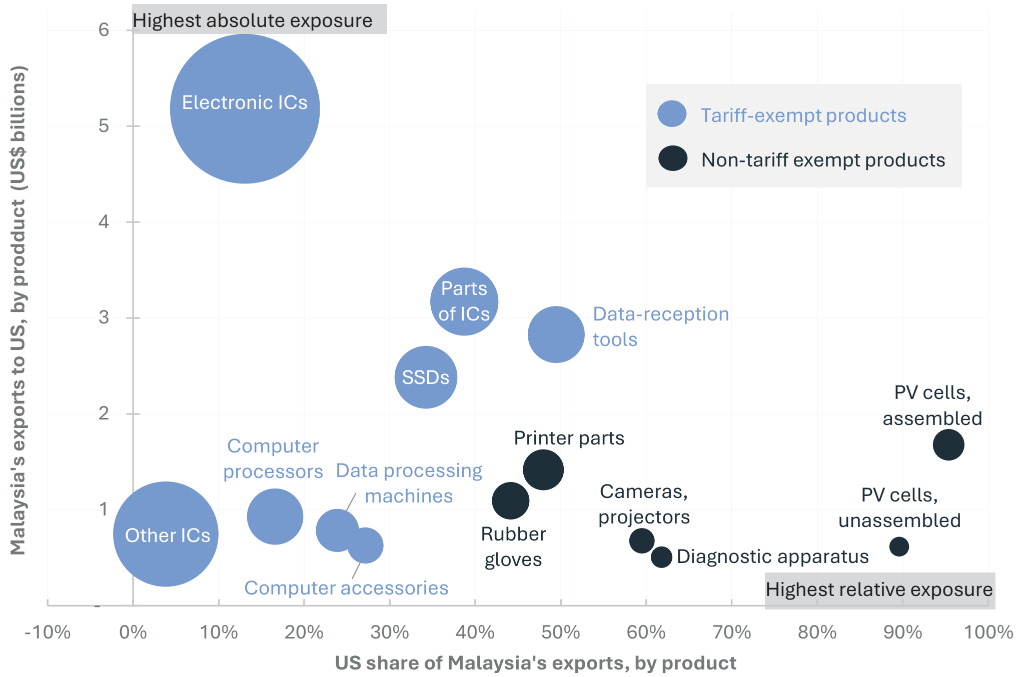
At the product level, immediate risk is concentrated in a handful of products that are both US dependent and non-tariff exempt.[27] Fig. 5 shows the relationship between the absolute value of Malaysia's exports to the US and the American share of Malaysian exports for its 14 largest US-bound export products. Together, these products make up more than half of Malaysia's exports to the US and 7% of total exports in 2024, highlighting their importance to bilateral trade flows. The x-axis represents each product's relative exposure to the US while the y-axis shows absolute exposure. Therefore, the closer a product is to the top right corner of the chart, the higher the overall exposure and associated risk, particularly if they lack tariff exemptions.

Assembled solar photovoltaic (PV) cells face the greatest risk of tariff-related disruption because of the very high relative exposure, notable absolute exposure and absence of exemptions. The US absorbs 95% of Malaysian exports of the product, leaving almost no room for short-term market diversification. These PV cells are also Malaysia's fifth largest export to the US, valued at US$1.6 billion. However, this good represents only 0.5% of Malaysia's global exports, potentially muting the overall impact. After assembled PVs, the five most exposed non-exempt products are unassembled PV cells (90% relative exposure, US$600 million in US-bound exports); electro-diagnostic apparatus (62%, US$500 million); cameras and projectors (59%, US$700 million); printer parts (48%, US$1.4 billion); and medical rubber gloves (44%, US$1 billion).

The greater macroeconomic risk lies in whether key semiconductor and data-processing items remain exempt. The remaining eight products are tariff exempt but more critical to Malaysia's export profile, including electronic integrated circuits (ICs, US$5 billion in US-bound exports); parts of ICs (US$3.1 billion); data reception and transmission equipment (US$2.8 billion); and solid-state drives (SSDs, US$2.3 billion). ICs contribute 12% to Malaysia's global exports while each of the other three accounts for around 2%. Except for ICs, these exports have moderately high relative exposure, ranging from one-third to half. The risk to Malaysia ultimately rests on whether these and similar products remain exempted and for how long.

Fig.5. Malaysia's exports of solar PV cells face the highest risk of tariff-related disruption because of high relative exposure to the US and absence of exemptions

Malaysia's top exports to the US by absolute and relative exposure at the 6-digit level, 2024



Source: Authors' calculations based on UN COMTRADE (2025)

Note: Bubble sizes reflect each product's contribution to total Malaysian exports, as a measure of criticality. Analysis is limited to export products exceeding US$500 million. Product names are shortened for brevity. See Appendix C for a tabular exposition of their risks.

4 Trade diversion and supply chain relocation channels

Trade diversion occurs when tariff differentials re-route demand, creating three shifts: positive trade diversion, negative out-diversion and import diversion/dumping. In our framework (Diagram 2), these are second-order effects that could manifest in greater demand for Malaysian substitutes for higher-tariff countries (positive diversion); demand re-routing to lower-tariff competitors, such as Mexico or India (negative out-diversion); and surplus output from third countries could also be redirected into Malaysia (import diversion or dumping). The net impacts depend on how indispensable Malaysian inputs remain to American supply chains and how easily importers can source elsewhere or relocate assembly. In the short run, higher tariffs on close export rivals can soften the blow but sustained uncertainty encourages supply chain redesign, amplifying both upside and downside risks.

4.1 Positive trade diversion

As US buyers find ways to cut cost in an increasingly uncertain business environment, trade diversion from China to lower-tariffed sources of imports like Malaysia continues to be a viable option. The official US tariff on China stands at 30% until mid-August, consisting of a 10% baseline tariff and 20% fentanyl-related tariff imposed in March.[28] To be sure, this represents a substantial decline from the US-China tariff escalation in mid-April, during which bilateral tariff rates exceeded 100%. However, regional competitors still have opportunities to gain ground by leveraging on tariff differentials between China and other countries exporting to the US.

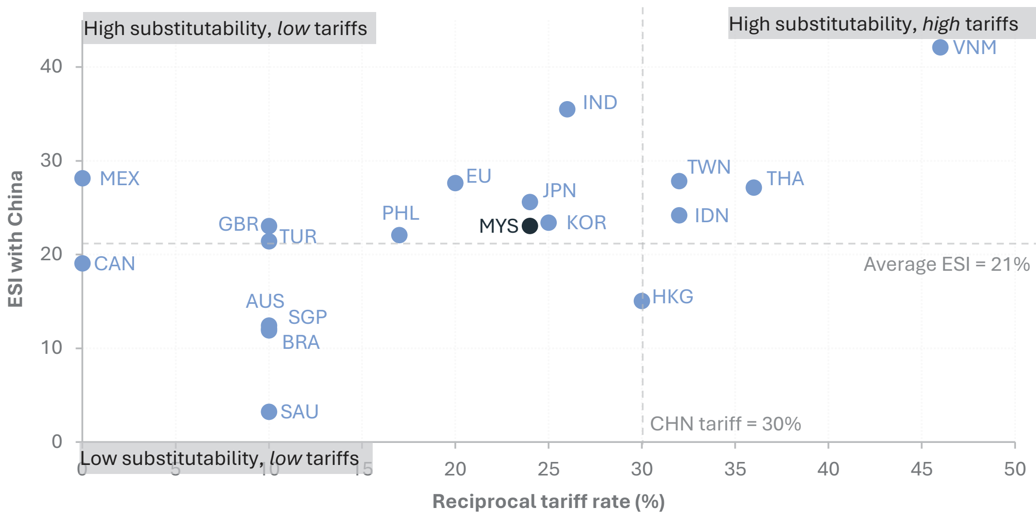
Washington's effective tariff on China, once all existing duties are accounted for, remains the highest in the world.[29] On 13 August, this will rise by a further 24% points under the original "reciprocal" tariff targeting China, assuming the status quo. Despite the temporary relief on offer following the apparent détente in the US-China tariff tussle, anecdotal evidence suggests that the "China Plus One" strategy of diversifying operations beyond China remains relevant for manufacturers. For instance, Chinese factories are reportedly cutting or halting shipments to the US[30] while India's export orders have reached a 15-year high.[31]

To quantify the prospects for short-term positive trade diversion from China, the Export Similarity Index (ESI) offers a useful benchmark. It measures the similarity of two countries' exports to a common market on a scale of 0 to 100, helping identify possible tariff-driven substitution effects.[32] Fig. 6 maps major economies' ESI with China for US-bound exports against their "reciprocal" tariff rates. The x-axis tracks tariff rates relative to China's 30% while the y-axis shows each country's US export profile similarity with China relative to the sample average of 21. Countries in the top-left quadrant are likely to be in a better position to benefit from short-run trade diversion because of their relatively high export similarity to China and lower tariffs than China.

Mexico, the EU and India are expected to be the biggest beneficiaries of positive trade diversion by this measure, with Malaysia slightly behind. Malaysia lies in the lower end of the top-left quadrant because of its moderate ESI of 23, meaning less than a quarter of their US-bound exports overlap in profile. This is lower than China's ESI with potential regional competitors for US demand, such as Vietnam (42), India (36), Taiwan (28) and Thailand (27). However, Malaysia maintains some competitiveness because of a more favourable tariff profile than these regional players. Therefore, US buyers may still find it beneficial to shift selected orders to Malaysian suppliers where overlaps exist on a case-by-case basis, provided the semiconductor and related exemptions remain.

Fig. 6. Mexico, the EU and India likely to be top gainers from short-run trade diversion out of China but Malaysia can still tap into existing tariff differentials

Export Similarity Index (ESI) with China for US-bound exports, plotted against reciprocal tariff rates, 2024



Source: Authors' calculations based on UN COMTRADE (2025)

Note: For consistency and because of data availability, ESIs are calculated using 2024 US import data at the HS 6-digit level from the countries in question. See endnote 31 for details on ESI derivation. Countries are included if they fulfil at least two of the following three criteria: nominal exports to the US exceeding US$10 billion in 2023-24, proximity to China (<5,000 km), and/or G20 membership.

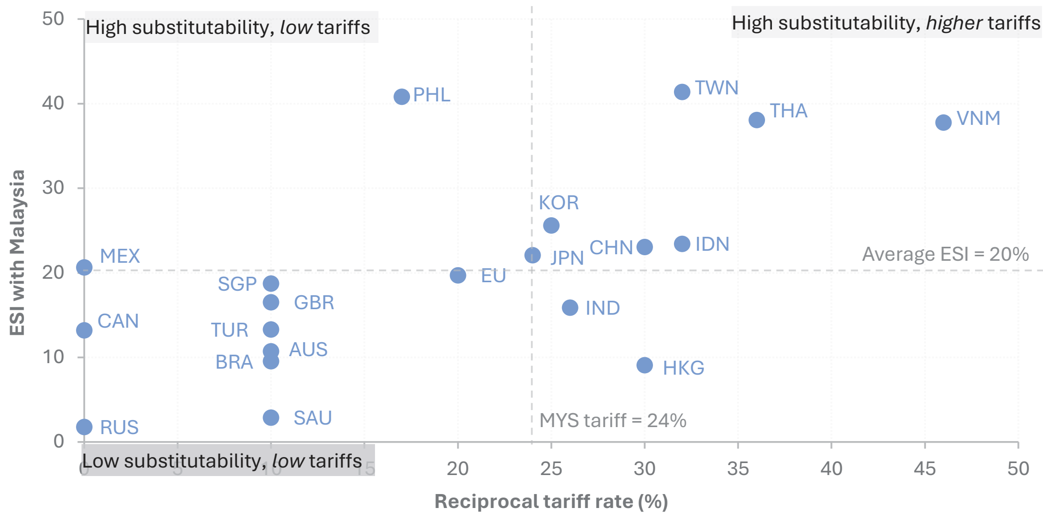
Short-term tariff differentials might give rise to positive trade diversion but sustaining these gains depends on deeper structural factors. It is important to note that this analysis is purely a static, short-run consideration of possible tariff-induced trade shifts out of China. In the longer term, positive trade diversion is likely to be influenced by a more complex interaction of factors, including macroeconomic and geopolitical stability, investment climate and ease of doing business. For countries with longstanding ties to American multinational corporations and a strong base of existing foreign investment, including Malaysia, the China Plus One strategy could still be feasible in the years to come.[33] However, if the US proceeds with its "reciprocal" tariffs on partners beyond just China, future gains might be smaller in scale than in previous years.

4.2 Negative out-diversion

Tariff-induced trade diversion could also manifest as out-diversion of US demand from Malaysia to third countries with lower tariffs. Fig. 7 plots countries' ESI with Malaysia for US-bound exports against their "reciprocal" tariff rates, using the same methodology in Fig. 6. In this case, the sample average of ESIs with Malaysia is 20.

The Philippines and Mexico are the only major economies likely to offer out-diversion opportunities for US importers looking to exploit tariff differentials with Malaysia. After Taiwan, the Philippines has the highest ESI with Malaysia at 41 because of overlaps in exports of electrical equipment to the US, in addition to a 7%-point lower tariff rate than Malaysia. Therefore, without considering structural factors that affect trade and investment, US buyers of non-exempt electronic products might prefer to source from the Philippines rather than Malaysia in segments with high substitutability, at least in the short run. Meanwhile, Mexico lies near the border of the top left quadrant because of a lower ESI of 21 close to the sample average but may pose a threat to Malaysian exporters in non-exempt segments because of lower tariffs and proximity to the US. [34]

Fig. 7. The Philippines and Mexico are biggest potential beneficiaries of short-term out-diversion from Malaysia because of above-average substitutability and lower tariffs
Export Similarity Index (ESI) with Malaysia for US-bound exports, plotted against reciprocal tariff rates, 2024



Source: Authors' calculations based on UN COMTRADE (2025)
Note: For consistency and because of data availability, ESIs are calculated using 2024 US import data at the HS 6-digit level from the countries in question. See endnote 31 for details on ESI's derivation.

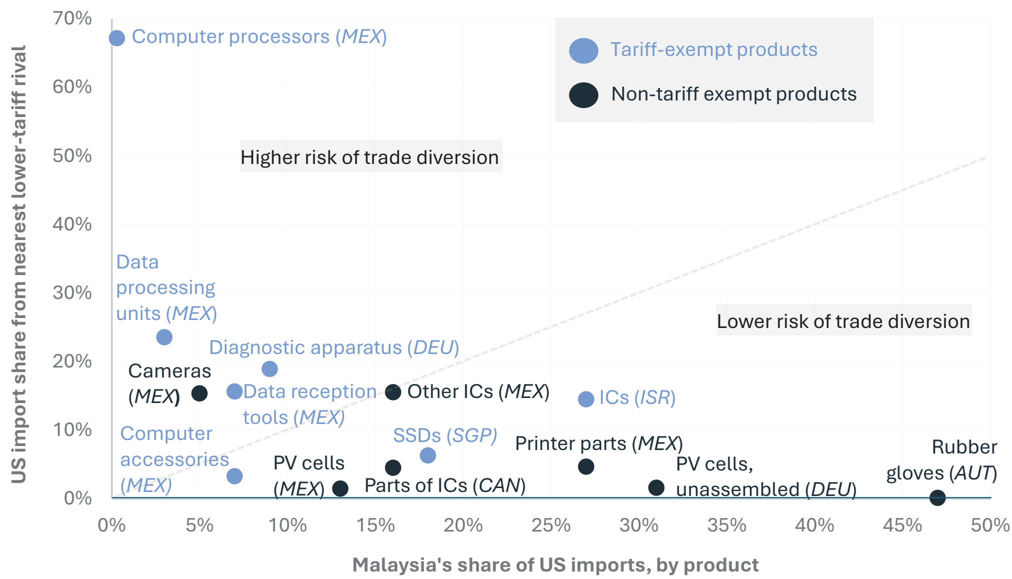
At the product level, the out-diversion risk is highest where Malaysia holds a modest share of the US market and faces close competition for market share from countries with lower tariffs. Fig. 8 assesses this risk by plotting the relationship between Malaysia's market share of American imports against that of Malaysia's closest lower-tariff rival for its 14 largest exports to the US (Fig. 5). The x-axis shows the share of US imports of each product originating in Malaysia while the y-axis shows the corresponding share of the same product sourced from the US' largest import partner with a lower tariff than Malaysia. Therefore, products that lie above the 45° line are more prone to out-diversion, as Malaysia holds a smaller market share in the US than its lower-tariff competitor.

The product in which US importers can most readily shift to lower-tariff sources is cameras and projectors, notably to Mexico. Malaysia is the fifth largest exporter of such equipment to the US, commanding 5% of the market. While China is currently the largest import source at 23%, Mexico is not far behind at 15%. Neither Malaysia nor China has earned tariff exemptions in this product segment while Mexico could benefit from duty-free access to the US market under the US-Mexico-Canada FTA. This makes Mexico the closest competitor of Malaysia for this good, given Malaysia's lack of indispensability and Mexico's preexisting strength in the market.

There are four other products in which Malaysia's market share in the US is below its lower-tariff rival but they do not face out-diversion pressures as they are tariff exempted. These are computer processors (where Malaysia's import share is 0.3% while its nearest competitor is Mexico at 67%); data-processing units (Malaysia: 3%; Mexico: 24%); electro-diagnostic apparatus (Malaysia: 9%; Germany: 19%) and data-reception tools (Malaysia: 7%; Mexico: 16%). Provided the exemptions remain or if future tariffs are applied universally, these goods will not face diversion pressures. By contrast, the remaining nine products face low- or medium-diversion risk because of Malaysia's substantial share of US imports and/or limited substitutability. For example, in medical rubber gloves, Malaysia is by far the largest source of US imports (47%) and the nearest lower-tariff rival is Austria (20% tariff), which only has a product market share of 0.1% in the US.

Fig. 8. For Malaysia, out-diversion risk is highest where US importers can shift readily to lower-tariff sources, such as in non-exempt cameras and projectors (notably to Mexico)

Trade diversion risk towards lower-tariff countries (in parentheses) for top US imports from Malaysia, by product, 2024



Source: Authors' calculations based on UN COMTRADE (2025)

Note: "US import share from nearest lower-tariff rival" refers to the US' nearest import partner facing a lower country-specific tariff than Malaysia, along with its market share of the product among American importers. Countries in parentheses refer to Malaysia's nearest lower-tariff rival in the product market. See Appendix D for more detail.

4.3 Import diversions from dumping

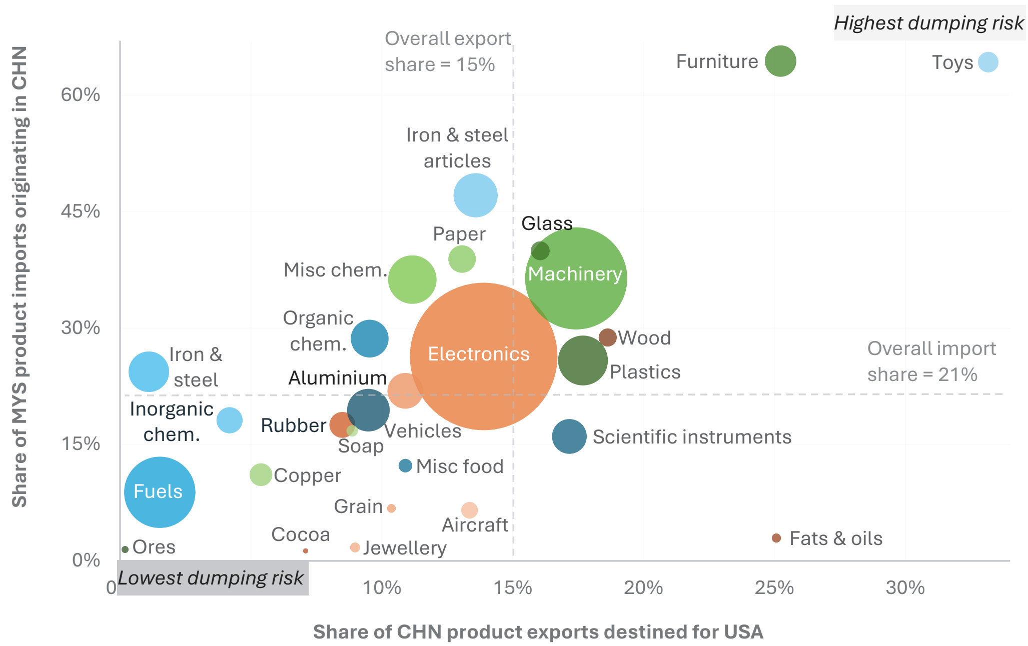
Diversion could also materialise through the dumping of excess supply from countries with higher tariffs, such as China, into other countries. As a result of the US tariffs, economies that depend on US import demand in exposed product segments might be forced to reroute their exports to nations with fewer or lower import restrictions.

The most likely instigator of such dumping is China, which allegedly suffers from overcapacity in several sectors, including steel and solar panels.[35] Fig. 9 assesses this risk for Malaysia in 2023 across more than 20 key product groups. The x-axis shows the share of Chinese exports of each product bound for the US, representing China's pre-tariff export exposure to the US, relative to the overall export share of 15%. The y-axis shows China's share of Malaysian product imports, indicating Malaysian dependence on Chinese inputs, relative to the overall import share of 21%. Sectors in the top right quadrant face the highest risk of Chinese dumping because they export heavily to the increasingly inaccessible American market and might divert these products to the Malaysian market, which is already dependent on Chinese sourcing.

For Malaysia, the risk of import diversion from Chinese dumping is highest in furniture, toys, machinery and plastics. In furniture and toys, the US absorbed more than a quarter of Chinese exports while about two-thirds of Malaysian imports came from China. However, the aggregate impact on Malaysia's competitiveness is likely to be moderated by their minor collective contribution to Malaysian exports (less than 1.5%) and total imports from China (around 2%). By contrast, Chinese machinery and plastics pose the largest threat to Malaysia in terms of dumping, with above average pre-tariff export exposure to the US (almost one-fifth of total Chinese exports) and substantial import volumes (16% and 4% of total Malaysian imports from China respectively).

Fig. 9. Malaysia faces elevated risks of Chinese dumping of machinery and plastics because of their high pre-tariff export exposure to the US and large import volumes

Risk of Chinese dumping by product category, based on selected export and import shares, 2023



Source: Authors' calculations based on UN COMTRADE (2025)

Note: Bubble sizes reflect the absolute value of Malaysia's product imports from China in 2023 (lack of Chinese export data for 2024). Product categories, which may have been shortened for brevity, correspond to chapters at the HS 2-digit level. Only product categories where Malaysia's total exports to the world exceed US$1 billion as of 2023 have been included in this analysis.

5 General equilibrium channels

Beyond trade, the tariffs, if implemented in full, will have direct effects on the US economy and knock-on effects on tariffed countries. Tariffs raise the cost of imported goods, meaning American consumers and businesses will face higher prices for tariffed products. This is intended to shift demand towards duty-free domestic goods but the reality is more complicated because of the incorporation of imported inputs into local production.

The inflationary impact on US consumer prices depends on the availability of alternative suppliers. During Trump 1.0's tariffs, American importers largely bore the added costs and the pass-through to consumers was muted because retailers could stockpile and source from alternative markets.[36] This time, substitutability may be harder, as the new tariffs cover nearly seven times more goods worldwide.[37] On 22 April, the International Monetary Fund (IMF) raised its 2025 US inflation forecast to 3%.[38]

As US consumer demand slows down, Malaysian exports in non-exempt segments may soften. Medium-term risks include weaker global demand, compounded by US-China trade frictions and policy uncertainty. On 16 April, WTO forecast a 0.2% annual decline in global trade, including 13% in North American imports and 2% contraction in Asian exports,[39] creating headwinds for trade-dependent economies like Malaysia.

On the growth front, higher tariffs and greater uncertainty could dampen external demand and weigh on Malaysia's broader economic outlook. As a small open economy[40] with significant integration into global value chains both in exports and manufacturing employment,[41] Malaysia is vulnerable to any global decline in trade and investment flows. To this end, weaker consumer demand and reduced appetite for long-term investment planning could lead to job losses in US-exposed sectors across Malaysia, estimated at up to 50,000 by the Malaysian International Chamber of Commerce and Industry.[42] Left unabated, this could perpetuate a vicious cycle of depressed consumption and investment, potentially threatening economic growth and complicating the government's modest fiscal consolidation efforts.[43]

A further concern is China's economic fallout, which might undermine regional markets. IMF downgraded China's GDP forecast for 2025 by 0.6% points because of tariffs, reinforcing prevailing narratives of a slowdown and sluggish consumer demand. If real Chinese incomes decline, Malaysian exports could suffer disproportionately, given their high income elasticity among Chinese consumers.[44] Meanwhile, Chinese exporters shut out of the US might try to dump excess goods in tariff-free countries like Malaysia (Section 4.3). Without adequate remedies, this could erode the competitiveness of local firms in similar industries, compounding the external risks to the Malaysian economy.

6 Outlook for Malaysia

Overall, the "reciprocal" tariffs are likely to disrupt at least some of Malaysia's growing trade with the US but the net impact is muted by the ongoing exemptions on electronic products. Based on our analysis in Section 3, Malaysia has substantial and growing exposure to the US market but US demand is concentrated in machinery and electronic products, the majority of which are currently exempt from the country-specific tariffs. According to Fitch Ratings, with the exemptions in place, the American effective tariff rate on Malaysia is only 5.8%, almost 1% point below the global average.[45] At the product level, non-exempt goods that form a sizeable share of Malaysia's US exports, such as PV cells and printer parts, are the most vulnerable to disruption.

Should the "reciprocal" tariffs come into effect on 9 July as scheduled, Malaysia could lose some market share in non-exempt product lines to lower-tariff competitors like Mexico and the Philippines. This is expected to be more pronounced in segments where Malaysia is not the US' primary import partner, such as cameras and projectors. However, there will continue to be opportunities for positive trade diversion out of China, given that Malaysia's effective tariff rate will remain lower than China's assuming the status quo.

6.1 Ongoing developments to monitor

The longer-term outlook for Malaysia depends on what happens after the 90-day tariff pause ends. It will be difficult to predict the course of events beyond 9 July, given the Trump administration's unpredictable trade policy and increasing global geoeconomic uncertainty. Nevertheless, there are four factors that could influence the tariff trajectory in the coming weeks, which Putrajaya should monitor closely.

First, Washington will probably assess the extent of the economic fallout associated with Trump's existing tariffs and threats by the July deadline. If there is substantial deterioration in economic performance in the second quarter, building on ongoing anxieties of American manufacturers and large companies,[46] the White House may rethink its punitive tariffs on countries besides China. According to the latest US macroeconomic data, American GDP contracted by 0.3% in the first quarter of 2025 for the first time in almost three years amid weakened consumer spending[47] while consumer price inflation rose 0.2% as of April.[48]

Second, shifting sentiments in Trump's inner circle might affect the evolution of trade policy. While they all appear to be publicly supportive of the administration's agenda on trade, advisers differ in their enthusiasm on the scale of the tariff. Senior counsellor Peter Navarro, whose gung-ho ultra-protectionist ideology influenced the White House's tariff announcements,[49] appears to be losing ground to Treasury Secretary Scott Bessent. Bessent, who expressed scepticism over the effectiveness of tariffs in 2024, persuaded Trump to pause the "reciprocal tariffs" and begin trade talks with friendly nations.[50]

Third, the outcome of ongoing bilateral trade discussions could also shape any carve-out to the proposed tariffs come 9 July. In late April, USTR reported receiving trade proposals from 18 countries, outlining a framework to negotiate with six nations at a time weekly.[51] Bessent has suggested that tariffs might not "ratchet back to the maximum level" for countries willing to strike a trade deal.[52] Washington has not revealed the full list of countries but as of late May, news reports indicate that the US is in the midst of talks with India,[53] Japan,[54] Malaysia,[55] Singapore,[56] South Korea[57] and Vietnam,[58] among others. A preliminary economic deal has also been signed with the UK.[59]

Fourth, **US federal court action may invalidate the "reciprocal" tariffs if Trump's appeals fail.** On 28 May, the US Court of International Trade ruled that Trump's invocation of a national emergency violated federal law, blocking the tariffs' application. The decision was soon paused pending appeal and the Trump administration can seek recourse through the US Court of Appeals and Supreme Court.[60] If the higher courts uphold the ruling, the White House could be legally obligated to repeal the tariffs.[61]

6.2 Possible scenarios after pause

There are three plausible scenarios that Malaysia should prepare for.

A. Optimistic scenario: White House backtracks on some 'reciprocal' tariffs

The most optimistic scenario is where the US rescinds or reduces the country-specific tariffs on at least some countries, if not all. The list could include strategic allies, FTA partners and/or countries with which it would have achieved a trade deal. At the same time, it could hike up or maintain tariffs with identified adversaries, including a subset of BRICS nations or governments seen as being too cosy with Beijing – ideologically or strategically.

For Malaysia, there is a chance that the US might reduce the current proposed tariff rate of 24%, moderating possible trade destruction and diversion. This is because Putrajaya has earned a seat at the negotiating table with Washington as of 6 May.[62] However, success of the negotiations will depend on Malaysia's ability to address the trade deficit and non-tariff barriers in its bilateral relationship with the country. The US may also require some sort of commitment from Malaysia to trade less with China, although such a request might be impractical to implement.[63]

A variant of this scenario is an extension to the tariff pause, which could occur for one of two reasons. The first is if the legal battle between the US federal courts and the Trump administration drags on, which might also prompt smaller, stop-gap tariffs under other pieces of American trade legislation.[64] The second is if no successful negotiations conclude by 9 July. Consistent with Trump's transactional thinking, the White House might seek high-profile concessions through a trade deal and deem them a "victory". However, trade deals often take time to materialise, and several weeks may not be enough to iron out the terms. The US could then call for another pause to finalise negotiations.

As of late May, the US appears to have reached a non-binding agreement on market access with only one country – the UK. However, even this "deal" failed to bring about the removal of the universal 10% baseline tariff, which remains in effect for the UK.[65] Statements from Washington suggest it is unlikely any trade deal will result in the complete removal of baseline tariffs, although the "reciprocal" tariffs might be reduced, cancelled or further paused.[66]

B. Baseline scenario: 'reciprocal' tariffs come into effect as scheduled

The baseline scenario is where country-specific tariff rates proceed as planned on 9 July, with exemptions for selected semiconductors and related products because of lobbying from large tech companies or industry associations.[67] Trump could frame this outcome as the result of failed negotiations, having supposedly given partners a fair chance to respond. If trade talks stall or sour, the US might opt to press ahead with tariffs to project strength.

Further, if China retaliates against countries that strike a trade deal with the US in line with its warning in late April,[68] governments may reconsider the deal's payoffs. Given the de-escalation in tariffs by Beijing and Washington in mid-May, however, it is increasingly less likely that China will retaliate against third nations. In any case, China is unlikely to target Malaysia with retaliatory tariffs, given its continued policy on nonalignment and renewed cooperation between the two countries on the back of President Xi Jinping's visit to Kuala Lumpur in mid-April.[69]

C. Pessimistic scenario: 'reciprocal' tariffs plus an end to exemptions

The pessimistic scenario is where the country-specific tariffs go ahead as planned in addition to new product-specific tariffs on most or all goods that are currently exempted, after the US Department of Commerce concludes its ongoing Section 232 investigations into semiconductors and pharmaceuticals, among others.[70]

The product-specific tariffs, which Trump has threatened to impose on semiconductors, could come in one of two forms. They might be applied universally on all imports, as with the current 25% tariff on steel, aluminium and foreign-made automobile parts. Alternatively, they might be tiered for different countries based on the outcome of negotiations.

The removal of semiconductor exemptions would be the worst-case scenario for Malaysia, particularly if the US opts for a tiered approach that places the country in a high-tariff group, as it would intensify the risk of US-bound trade diverting from Malaysia to other markets.

7 Policy directions

The current 90-day pause on country-specific tariffs since 9 April has created an opportunity for Malaysia to rethink its broader trade and industrial strategies. While Malaysia arguably benefitted from the first round of tariffs against China in 2018-20, owing to its position as a non-aligned "bystander economy",[71] there is limited relief available today as Washington's new proposed country-specific tariffs spare almost no nation. Consequently, the importance of dialogue between Malaysian and American officials to achieve concessions and maintain bilateral economic relations remains paramount, given that Malaysia is a small open economy with limited recourse for self-sufficiency or retaliation.

Short term

7.1 Pursue dialogue with the US to address trade policy concerns

Malaysia's official position since April 2025 has been to prioritise dialogue rather than retaliation against the US through counter-tariffs. Since Malaysia is a small open economy whose trade interests revolve around high-technology products with high exposure to the American market, this is the optimal response in the current scenario. Retaliation could provoke further US measures, including a removal of critical sectoral exemptions, and undermine Malaysia's FDI appeal in key sectors.

To this end, the Minister of Investment, Trade and Industry (MITI) travelled to Washington in late April for tariff-related talks with USTR and other relevant members of the Trump administration.[72] It is important for this and any ensuing engagement between Malaysian and American authorities to cover two key areas.

First, discussions with the US should include the prospect of safeguarding semiconductor tariff exemptions. Malaysia accounts for nearly one-fifth of all US semiconductor imports because of the strong presence of US high-tech multinational companies, such as Intel and Micron, within its borders.[73] This provides Malaysia with leverage to negotiate for preferential tariff treatment for semiconductor exports. Opportunities to strengthen bilateral semiconductor cooperation in a mutually beneficial manner under the existing US-Malaysia Memorandum of Cooperation on Semiconductor Supply Chain Resilience should also be explored.

Second, to make negotiations more palatable for Washington, Putrajaya should address ongoing American concerns over Malaysia's non-tariff measures. In March 2025, USTR released its National Trade Estimate report, outlining trade barriers that American exporters face in different countries. In the case of Malaysia, it highlighted licensing requirements, sanitary and phytosanitary regulations and intellectual property policy as among areas in need of improvement.[74] However, not all these measures amount to unfair trade against the US, particularly when compared with many other economies. Indeed, Malaysia ranks 17th among 34 economies in the Trade Imbalance Index, ahead of lower-tariffed countries like Norway, the UK and Brazil.[75] Through bilateral dialogue, MITI and other relevant authorities should clarify these concerns and identify feasible opportunities to simplify onerous regulations.

7.2 Reduce exposure to China while pursuing broader regional integration

Malaysia should maintain a balanced and multi-market approach to trade, avoiding overreliance on any single market. Given the substantial trade tariffs on China, it is likely that trade diversion might lead to higher Chinese imports (Section 4.3) and redirect Malaysian exports to China, as the world's second largest consumer market. However, overdependence could expose Malaysia to greater future economic coercion and strategic trade vulnerabilities.

Malaysia must continue to pursue a diversification agenda that widens its market reach. To this end, Putrajaya has a range of partners across the developmental spectrum with whom it could leverage on cooperation. The list includes "high-standard" trade partners in the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and the EU as well as "lower-standard" partners in ASEAN and the Regional Comprehensive Economic Partnership (RCEP). Beyond these FTA partners, Malaysia could avoid excessive dependence by doubling down on efforts to participate in other Global South regional groupings, such as BRICS, ASEAN-India[76] and ASEAN-GCC.

As Section 3 suggests, export diversification might not be possible in every single product segment, but there are sufficient opportunities to spread risk even in critical sectors, such as electrical and electronic products. Efforts to strengthen overseas trade promotion through targeted trade fairs and roadshows must continue, supported by strategic partnerships between the Malaysia External Trade Development Corporation and foreign counterparts.

Malaysia should also continue to pursue nonalignment to maximise opportunities with both the Global North and South while minimising risk and tension with any individual party.

7.3 Continue to support multilateral trade systems and WTO

A rules-based global trading environment, even one as dysfunctional as WTO, remains an important safeguard for smaller, export-oriented economies like Malaysia. Constructive engagement in ongoing WTO reform efforts, combined with greater focus on regional and bilateral engagements, could help Malaysia maintain predictability in trade relations as protectionist pressures rise.

One such mechanism is the WTO-endorsed Multi-Party Interim Appeal Arbitration Arrangement (MPIA), a plurilateral body established to resolve WTO disputes as an alternative to the defunct Appellate Body.[77] One-third of WTO members have signed on to MPIA, including China, the EU, Japan and Singapore but not Malaysia. By becoming party to MPIA, Malaysia could signal its continued commitment to global trading rules even without US involvement.

Additionally, like-minded countries should work to advance an agenda at WTO aimed at clarifying the scope, application and limitations of national security exceptions. While Article XXI of GATT and similar provisions in other WTO agreements recognise a member's right to take measures it considers necessary for the protection of its essential security interests, the absence of precise parameters has created space for unilateral and protectionist interpretations. This legal ambiguity risks undermining the integrity of the multilateral trading system by allowing members to invoke security justifications in a manner that is inconsistent with the original intent of the WTO law. Clarifications through structured discussions and interpretative guidelines could ensure that the flexibilities contained within WTO law remain credible, are exercised judiciously and not exploited as a pretext for disguised trade restrictions. By doing so, WTO can reinforce its relevance as a balancing factor between national prerogatives and the guardian of a rules-based order that underpins global trade.

At this point, the US is the exception in its isolationism and increasing rejection of multilateralism rather than the rule, and Malaysia and the rest of the world should continue to uphold the principles of free trade even without sufficient American buy-in. A future post-Trump administration might be more interested to re-embrace the multilateral system.

7.4 Deepen existing agreements and institutional commitments

Malaysia should expedite the operationalisation and effective utilisation of FTAs, such as CPTPP and RCEP. As it stands, these mega-regional FTAs suffer from low utilisation, particularly among small and medium enterprises, because of a lack of awareness, compliance burdens and limited perception of their value-add relative to existing FTAs.[78] In terms of RCEP, for example, Malaysia as ASEAN chair should ensure that the recently established RCEP Support Unit Office has adequate capacity and resources to monitor its implementation.[79]

Ongoing upgrades to ASEAN's existing FTAs, including the ASEAN[80] and ASEAN-India[81] Trade in Goods Agreements, should be expedited under Malaysia's chairmanship. At the same time, negotiations on the Malaysia-EU[82] and Malaysia-South Korea FTAs,[83] which resumed recently, must proceed in a timely manner. Beyond trade liberalisation, these FTAs also call for greater economic cooperation, capacity building and knowledge exchange. Strengthening these frameworks could, therefore, help insulate key industries from external shocks, foster supply chain resilience and position Malaysia advantageously amid evolving global trade dynamics.

7.5 Continue engaging with American companies on a G2B basis

The US is Malaysia's fourth largest source of foreign direct investment as of 2023, totalling RM96 billion.[84] It is, therefore, important to reassure American investors that the trade war does not change Malaysia's position as a nation that welcomes investments consistent with its developmental priorities. The government should maintain regular engagement with the American Malaysian Chamber of Commerce to address investors' concerns and ensure that they are up to date on initiatives, legislations and incentives to promote investment, including the Industrial Development Bill 2025 and New Investment Incentive Framework.

Longer term

7.6 In the longer term, identify avenues for retaliation as a last resort

While immediate retaliation poses significant risks, Malaysia should nonetheless map out potential measures across both goods and services to safeguard its interests if discussions with the US break down. These could include restricting exports of key semiconductor components, barriers to US services imports, limiting access to non-traditional sectors, such as digital services or data hosting, or imposing targeted rules affecting US firms operating locally. Any form of retaliation must remain a last-ditch option and will require extensive knowledge of supply chain linkages, given the potential implications for broader market access.

7.7 Minimise potential points of friction to reduce future tariff risks

Actions, such as transhipping Iranian oil or engaging in sensitive trade with China, could draw unwanted scrutiny from the US, resulting in higher tariffs or expanded sanctions. The ongoing US-China trade war has also led to an expansion in firms' attempts to circumvent tariffs through third-party rerouting of goods or the falsification of certificates of origin (COOs).[85] As of May 2025, reports have emerged of "origin washing" by Chinese suppliers who tranship products through Malaysia and relabel them without facing consequences.[86]

By proactively addressing these issues, whether through greater transparency, regulatory compliance or strategic shifts in procurement, Malaysia could lower the probability of trade frictions, thereby protecting its competitiveness and maintaining a stable investment climate. One practical step would be for MITI to require exporters to the US to submit verified COOs proving that their products were manufactured or substantially transformed in Malaysia. Fines for noncompliance should be hefty, drawing on Taiwan's new ruling beginning on 7 May.[87]

7.8 Accelerate domestic efforts to promote equitable growth

The Malaysian government has an arsenal of plans and strategies – from the New Industrial Master Plan 2030 to the Madani Economy framework – to move up the manufacturing value chain, strengthen human capital development, implement anti-corruption reforms and improve socio-economic outcomes. Malaysia should not lose sight of the importance of these policy objectives in the wake of the tariffs. Ultimately, addressing these structural challenges remains necessary and relevant regardless of the situation unfolding in the White House and elsewhere.

Appendices

Appendix A: derivation and explanation of 'reciprocal' tariff formula

On 2 April 2025, USTR published the formula used to calculate the "reciprocal" tariff rates against almost every country worldwide:[88]

$$\Delta T_i = \frac{x_i - m_i}{\varepsilon . \varphi . m_i}$$

ΔT_i refers to the change in the tariff rate levied by the US on country i. The Trump administration claims incorrectly that this value reflects each import partner's existing tariff "charged to the US, including currency manipulation and trade barriers". At the same time, the White House's stated goal with the tariffs is to reduce, if not eradicate, all bilateral trade deficits.

ε is the elasticity of imports with respect to import prices. It is a constant that indicates the proportional change in the quantity of imports demanded when their prices change. The USTR model assumes that ε is -4, meaning for every 1% increase in import prices, the quantity of imports is said to fall by 4%. In practice, empirical studies suggest that the value of ε can vary significantly from -0.01 to -4.54, depending on the estimation method, exporting and importing country, sector and time horizon.[89]

φ is the pass-through from tariffs to import prices. It is a constant that quantifies the proportional response in the price of imported goods to a change in tariffs. The USTR model assumes φ is 0.25, meaning a 1% increase in tariffs is associated with a 0.25% rise in import prices. Empirical studies, including the research cited in the USTR explanatory note, suggest that the true value of φ is far higher. Research covering the 2018-20 round of American tariffs on Chinese imports found φ to be 0.945, implying almost complete pass through of tariffs to import prices.[90]

x_i and m_i refer to total US exports to and imports of goods from country i respectively. Therefore, $x_i - m_i$ reflects the American trade balance with country i, where $x_i - m_i < 0$ indicates a trade deficit on the part of the US. USTR bases these trade figures solely on its official merchandise export and import data for 2024, which fail to capture trade in services as well as seasonality or other fluctuations in product flows that may be better represented by a three- or five-year average.[91] It is unclear if future tariffs will be updated based on changes in annual trade numbers.

With ε = -4 and φ = 0.25 set by USTR, the equation simplifies to:

$$\Delta T_i = \frac{x_i - m_i}{(-4)\,(0.25) m_i}$$

Given that this calculation applies only to countries that have a trade surplus with the US, with a blanket 10% tariff applied on almost all other countries (Appendix B), the negative signs in the numerator and denominator cancel out, reducing the equation to:

$$\Delta T_i = \left| \frac{x_i - m_i}{m_i} \right|$$

Ultimately, this figure represents nothing more than the US' relative trade deficit with country i, which is unrelated to the level of trade protection in place against the US. Nevertheless, to justify the new tariffs, the Trump administration attempted to pass this calculation off as the current level of tariff and other trade barriers imposed by each country on the US. The figure was then arbitrarily halved to arrive at the final "reciprocal" tariff rate. In Trump's words, these are "discounted reciprocal tariffs" because "whatever they charge us, we charge them, but we're being nicer than they were".[92] In the case of Malaysia, for example, USTR data suggest that the country imported US$27.7 billion from the US and exported US$52.5 billion to the US in 2024.[93] The "reciprocal" tariff for Malaysia is then determined as follows:

$$Tariff_{MYS} = \left(\frac{1}{2}\right)\frac{27.7 - 52.5}{-52.5}$$

$$Tariff_{MYS} = \left(\frac{1}{2}\right)(47.2)$$

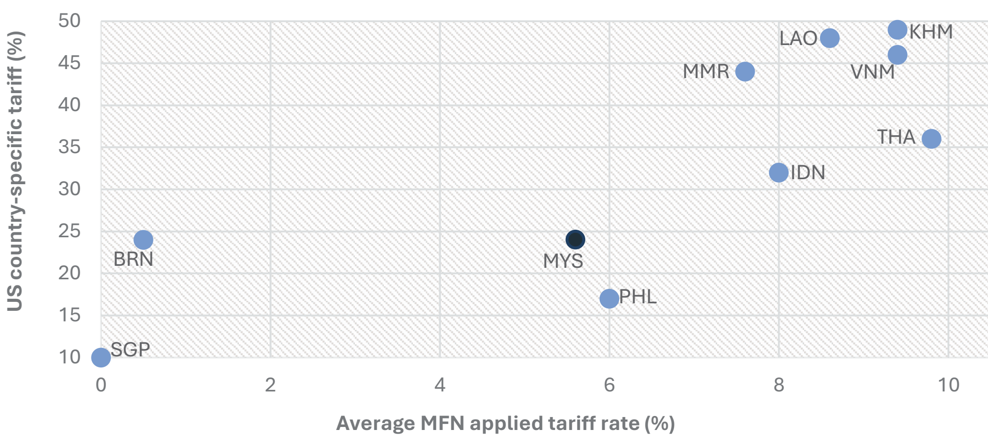
$$Tariff_{MYS} = 23.6\%$$

The figure was eventually rounded up to arrive at the 24% "reciprocal" tariff that the US threatened to impose on Malaysia.

It is important to note that this tariff rate is far from "reciprocal", based on an examination of existing tariff data. There is no meaningful relationship between the American formula based on relative trade deficits and the true application of quantifiable trade barriers. Malaysia's average applied tariff on American products, proxied by its most favoured nation rate,[94] was 5.6% in 2023,[95] about one-eighth of the claimed rate. This disparity is similarly stark in other ASEAN member states, including those that have an FTA with US like Singapore (Fig. A1).

Fig. A1. Nothing 'reciprocal' about Trump's tariffs

Discrepancy between US country-specific tariffs and average most favoured nation applied tariffs in ASEAN



Source: World Trade Organisation (2024)

Note: MFN applied tariff rates refer to the simple average for each country based on 2023 data. Trade-weighted MFN tariff rates are generally even lower.

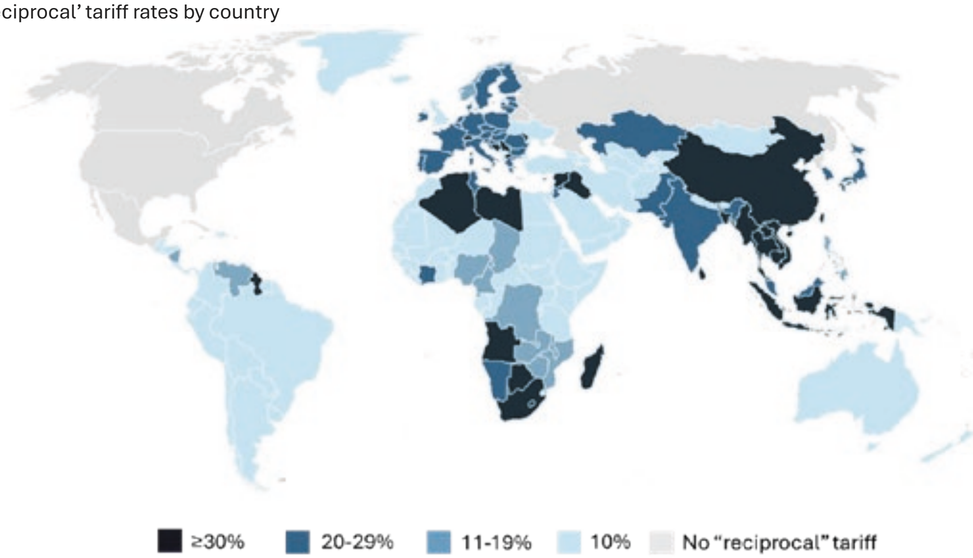
Further, despite Washington's claims that trade liberalisation has been unfair, the American market remains relatively closed to Malaysian exporters. By design, due to the absence of a US-Malaysia FTA, fewer than half of Malaysia's non-agricultural products enter the US duty-free, compared to 100% entry in ASEAN and more than 95% in China.[96]

Appendix B: tariff rates by country

The map below shows the "reciprocal" tariff rates by country based on the "Liberation Day" announcement on 2 April and supporting executive orders.[97]

Fig. A2. US tariff rates range from 50% on Lesotho to none against Canada, Mexico and Russia

'Reciprocal' tariff rates by country



Trump's supporting executive order dated 2 April explicitly exempts the following countries from any and all ad valorem duties associated with this measure:

- goods from Canada and Mexico that qualify for preferential access under the US-Mexico-Canada agreement or are already subject to 10% or 25% ad valorem tariffs; and,
- all goods from countries with which the US officially does not have "normal trade relations", namely Belarus, Cuba, North Korea and Russia.[98]

However, four other countries were mysteriously omitted from White House charts highlighting the tariff list at the 2 April "Liberation Day" event – Burkina Faso, Palau, Seychelles and Somalia.[99] It is assumed that only the blanket 10% tariff in effect since 5 April applies to these nations.

Appendix C: Malaysia's export exposure to the US in detail

Building on the analysis in Section 3 and Fig. 5, Table A1 provides a more detailed look at the exposure of Malaysia's largest export products to the US.

Table A1. Three of Malaysia's 10 largest export products to the US are not exempt from the 24% tariff, including the highly exposed solar PV cells, printer parts and rubber gloves

Malaysia's largest exports to the US by degree of exposure at the 6-digit level, 2024

HS code and product description	USA share of MYS exports	Share of MYS exports to USA	Product share of total MYS exports
854231 ICs	13% (6th)	12% (1st)	12% (1st)
854290 Parts of electronic ICs	39% (1st)	7% (2nd)	2% (6th)
851762 Data reception tools	49% (1st)	7% (3rd)	2% (9th)
852351 Solid-state drives	34% (1st)	5% (4th)	2% (7th)
854143 PV cells, assembled	95% (1st)	4% (5th)	1% (22nd)
844399 Printer parts	48% (1st)	3% (6th)	1% (13th)
401512 Medical rubber gloves	44% (1st)	3% (7th)	1% (15th)
847150 Computer processors	17% (2nd)	2% (8th)	2% (10th)
847180 Data-processing units	24% (1st)	2% (9th)	1% (11th)
854239 Other electronic ICs	4% (6th)	2% (10th)	6% (2nd)
852990 Cameras, projectors	59% (1st)	1% (11th)	0.3% (37th)
847330 Computer accessories	27% (1st)	1% (12th)	1% (17th)
854142 PV cells, unassembled	90% (1st)	1% (13th)	0.2% (67th)
901819 Diagnostic apparatus	62% (1st)	1% (14th)	0.2% (53rd)

Legend: Green = products exempted from country-specific tariffs. Red = products in which the US is Malaysia's largest export partner. Dark blue = Malaysia's top 10 global exports.

Source: Authors' calculations based on UN COMTRADE (2025)

Note: "USA share of MYS exports" refers to the share of Malaysia's exports of each product bound for the US and the US' corresponding rank among export partners. "Share of MYS exports to USA" is the product's share and rank among Malaysia's total exports to the US. "Product share of total MYS exports" indicates the product's share and rank among Malaysia's total global exports. Product descriptions are shortened and percentages rounded for brevity.

Appendix D: Malaysia's out-diversion risks in detail

Building on the analysis in Section 4 and Fig. 8, Table A2 provides a more detailed look at Malaysia's negative trade diversion risks at the product level.

Table A2. For Malaysia, trade diversion risk is highest where US importers can readily shift to lower-tariff sources, such as in non-exempt cameras and projectors

The US' largest imports from Malaysia by risk of trade diversion towards lower-tariffed countries, 2024

HS code and product description	MYS share of USA imports	MYS rank	Nearest lower-tariff rival	Market share of lower-tariff rival
854231 ICs	27%	2nd	ISR	14%
854290 Parts of electronic ICs	16%	2nd	CAN	5%
851762 Data reception tools	7%	6th	MEX	16%
852351 Solid-state drives	18%	3rd	SGP	6%
854143 PV cells, assembled	13%	3rd	MEX	1%
844399 Printer parts	27%	2nd	MEX	5%
401512 Medical rubber gloves	47%	1st	AUT	0.1%
847150 Computer processors	0.3%	11th	MEX	67%
847180 Data-processing units	3%	4th	MEX	24%
854239 Other electronic ICs	16%	2nd	MEX	16%
852990 Cameras, projectors	5%	5th	MEX	15%
847330 Computer accessories	7%	5th	MEX	3%
854142 PV cells, unassembled	31%	1st	DEU	2%
901819 Diagnostic apparatus	9%	5th	DEU	19%

Source: Authors' calculations based on UN COMTRADE (2025)

Note: Green highlights refer to products exempted from country-specific tariffs. "MYS share of USA imports" refers to the share of US product imports that come from Malaysia. "MYS rank" indicates Malaysia's rank among US import partners for each product. "Nearest lower-tariff rival" indicates the US' largest import partner that faces a lower "reciprocal" tariff than Malaysia. "Market share of lower-tariff rival" refers to the share of the nearest lower-tariff competitor in the US import market for each product. Product descriptions are shortened and percentages rounded for brevity. Products are arranged in decreasing order of Malaysia's export value to the US.

Notes and references

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[3] Trump's emergency declaration to justify "reciprocal" tariffs cites Malaysia's 40% rice tariff (versus the US's 2.7%) as an example of an "unfair" trade practice meant to "take advantage" of the US. This mercantilist claim overlooks the negligible rice trade between the two countries – Malaysia barely exports rice – rendering the tariff irrelevant to US farmers. Even duty-free access would not shift the playing field due to structural factors like distance, transport costs and consumer preferences. The selective criticism also ignores the large subsidies the US provides to its rice and grain farmers. See The White House, Government of the United States of America (2025a). *Fact Sheet: President Donald J. Trump Declares National Emergency to Increase our Competitive Edge, Protect our Sovereignty, and Strengthen our National and Economic Security.* [online] Available at: https://www.whitehouse.gov/fact-sheets/2025/04/fact-sheet-president-donald-j-trump-declares-national-emergency-to-increase-our-competitive-edge-protect-our-sovereignty-and-strengthen-our-national-and-economic-security/

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[5] Section 232 of the Trade Expansion Act of 1962 permits the American president to impose tariffs on the advice of the Secretary of Commerce, through due process, if an article is "imported [...] in such quantities and under such circumstances as to threaten to impair the national security" of the US. In 2018, Trump dubiously invoked this legislation to impose tariffs on steel and aluminium imports, which came into effect after a review of these sectors by the Department of Commerce. For more information, see Mercer, S. T. and Kahn, M. (2018). *America Trades Down: The Legal Consequences of President Trump's Tariffs*. Washington, D. C.: Lawfare. [online] Available at: https://www.lawfaremedia.org/article/america-trades-down-legal-consequences-president-trumps-tariffs.

Section 301 of the Trade Act of 1974 authorises the US president to take "all appropriate and feasible" action, including import duties or restrictions, on countries whose policies or trade practices are "unreasonable or discriminatory" and "burdens or restricts" US commerce. In 2018-19, Trump invoked this legislation to impose tariffs on China following an investigation by the USTR. See Lamp, N. (2025). *What President Trump's "Reciprocal" Tariffs Mean for International (Trade) Law*. EJIL: Talk! [online] Available at: https://www.ejiltalk.org/what-president-trumps-reciprocal-tariffs-mean-for-international-trade-law/

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[8] The White House, Government of the United States of America (2025a).

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[11] The trade deficit ultimately reflects an economy's aggregate preference for consumption and investment over saving, given by the national accounting identity. For most countries, this can be either productive or unsustainable in the long run depending on fiscal policy management and demographic trends. But the US occupies a unique position as the issuer of the world's primary reserve currency and an attractive source of capital. In effect, US dollars spent on imports often return as capital inflows, whether through foreign direct investment or the acquisition of assets like US Treasury bonds. Continued global trust in American assets allows the US to run a trade deficit to suit its propensity for higher consumption without triggering a current account crisis.

For further reading, see Obstfeld, M. (2024). *Misconceptions about US trade deficits muddy the economic policy debate*. [online] Washington, D. C.: Peterson Institute for International Economics. Available at: https://www.piie.com/publications/policy-briefs/2024/misconceptions-about-us-trade-deficits-muddy-economic-policy-debate, and Lincicome, S. (2025). *Things Everyone Should Know about Trade Deficits*. Washington, D. C.: Cato Institute. [online] Available at: https://www.cato.org/commentary/things-everyone-should-know-about-trade-deficits#

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To further illustrate by way of example, Germany runs consistent trade surpluses, but this did not preclude it from experiencing recession in 2023 and 2024 amid weakening industrial output and rising unemployment. Statistisches Bundesamt (2025). *Gross domestic product in the 4th quarter of 2024 down 0.2% on the previous quarter*. [online] Available at: https://www.destatis.de/EN/Press/2025/01/PE25_039_811.html#:~:text=After%20a%20year%20marked%20by,decline%20also%20amounted%20to%200.2%25

The White House's mercantilist reasoning also ignores the role of imports as inputs for value-added production, which can promote productivity and efficiency gains at home. See, for example, Wong, P. Y and Amin, M. (2014). *Should we be thinking more about imports?* Washington, D. C.: Let's Talk Development, World Bank. [online] Available at: https://blogs.worldbank.org/en/developmenttalk/should-we-be-thinking-more-about-imports.

[13] The White House's focus on merchandise trade also ignores the US's growing surplus in services trade of almost $300 billion, reducing the deficit to GDP ratio by 1% point. See Bureau of Economic Analysis, United States Department of Commerce (2025). *U.S. International Trade in Goods and Services, December and Annual 2024*. [online] Available at: https://www.bea.gov/news/2025/us-international-trade-goods-and-services-december-and-annual-2024

The American surplus in services extends to its bilateral trade with Malaysia, which amounted to RM39.5 billion (US$8.7 billion) in 2023, representing 32% of Malaysia's total service imports for the year. Malaysia imported more services from the US than from any other country, primarily in tourism, business services, transport and information technology. Department of Statistics Malaysia (2024). *Statistics of International Trade in Services 2023*. [online] Available at: http://www.dosm.gov.my/portal-main/release-content/statistics-of-international-trade-in-services-2023

[14] To illustrate by way of example, Cambodia was hit with a 49% tariff due to its trade surplus with the US, though it mainly exports low-value goods like textiles and footwear. As a least developed country, it imports little from the US because few can afford American goods. International Trade Centre (2025). *Bilateral trade between Cambodia and United States of America*. [online] Available at: https://www.trademap.org/Bilateral_TS.aspx?nvpm=1%7c116%7c%7c842%7c%7cTOTAL%7c%7c%7c2%7c1%7c1%7c2%7c2%7c1%7c1%7c1%7c1%7c1

For further reading, see Washington International Trade Association (c. 2020). *The U.S. Trade Deficit*. [online] Available at: https://www.wita.org/ustrade/us-trade-trends/the-us-trade-deficit/, and National Board of Trade Sweden (2025). *Tariffs do not Improve the Trade Balance*. [online] Available at: https://www.kommerskollegium.se/globalassets/publikationer/rapporter/2025/tariffs-do-not-improve-the-trade-balance.pdf

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In addition, even international trade theory does not presuppose that trade benefits every worker equally. Examples include the Hecksher-Ohlin model, which states that trading countries should specialise in the export of resources using the factor of production (whether labour or capital) in which it enjoys a relative abundance. The model acknowledges that trade could have distortionary effects on particular groups, namely the domestic sector with a relatively scarce production factor (i.e. labour-intensive activities for developed countries like the US), but any negative welfare effects may be mitigated through compensation.

[20] In particular, the US had a Trade Adjustment Assistance programme to provide compensation, in the form of benefits, services and wage replacement, to workers displaced by trade. The targeting of the programme was inadequate, but workers who did receive assistance were found to have gained re-employment more easily. However, the scheme expired in 2022 and was not renewed. See Oeschger, A. (2022). *How to Recalibrate Trade Adjustment Assistance to Help Workers Hurt by Trade Liberalization*. Winnipeg: International Institute for Sustainable Development. [online] Available at: https://www.iisd.org/articles/policy-analysis/trade-adjustment-assistance-help-workers

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[22] Stephen Miran, chair of Trump's Council of Economic Advisors, released a blueprint in 2024 in which he proposed a restructuring of global trade system. Citing a 1950s theory in international economics called the "Triffin dilemma", he claims that the US current account (including trade) deficit is an inevitable consequence of the US dollar's status as a global reserve currency, which creates permanently high demand for US Treasury bonds that the US receives as foreign currency to be spent on imports. He adds that this results in an overvalued dollar and a weakened manufacturing sector. Miran suggests the use of tariffs and the removal of security guarantees for allies as threats to coerce foreign central banks to allow the US dollar to depreciate. Miran, S. (2024). A User's Guide to Restructuring the Global Trading System. Greenwich, CT: Hudson Bay Capital. [online] Available at: https://www.hudsonbaycapital.com/documents/FG/hudsonbay/research/638199_A_Users_Guide_to_Restructuring_the_Global_Trading_System.pdf

According to economists Paul Obstfeld and Raghuram Rajan, this perception of the world trading order is inaccurate, misleading and archaic. The US current account deficit rose even when the US dollar depreciated in the mid-2000s largely due to factors within American control, including low interest rates and expansionary fiscal policy, which promoted consumption and discouraged saving. Miran's account pins the blame primarily on external forces whilst downplaying domestic factors, particularly the relationship between the fiscal deficit and the current account deficit. If a reduction in the trade deficit is a policy objective of the US government, efforts to reduce the fiscal deficit through higher taxes or reduced spending, which would then promote net exports, would be a more effective policy lever. See Obstfeld, M. (2025) and Rajan, R. (2025). *Trumponomics' Exorbitant Burden*. New York: Project Syndicate. [online] Available at: https://www.project-syndicate.org/commentary/stephen-miran-trump-adviser-bad-argument-for-restructuring-global-trade-by-raghuram-g-rajan-2025-03

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[25] The first set of exemptions largely covers the following sectors: (i) sectors already subject to product-specific tariffs announced before April 2, including steel, aluminium and selected automobile parts, (ii) sectors likely to be subject to separate product-specific tariffs in future, including copper, pharmaceuticals, semiconductors and lumber, and (iii) energy and minerals not available in the US. See The White House, Government of the United States of America (2025a).

The second set of exemptions extends to selected electronic goods, including smartphones, integrated circuits and computers. See The White House, Government of the United States of America (2025b). *Clarification of Exceptions Under Executive Order 14257 of April 2, 2025, as Amended*. [online] Available at: https://www.whitehouse.gov/presidential-actions/2025/04/clarification-of-exceptions-under-executive-order-14257-of-april-2-2025-as-amended/

[26] ISIS Malaysia's calculations based on tariff and trade data at the HS 6-digit level from WITS (2025).

[27] In this analysis, "product" refers to 6-digit codes in the Harmonized System, which is an internationally recognised system of classifying all tradable goods by placing them in over 5,000 subheadings.

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[32] The ESI is calculated as follows: $ESI\ (ab,\ c) = 100 \times \sum_i \min \left[\frac{X_i(a,c)}{X(a,c)}, \frac{X_i(b,c)}{X(b,c)}\right]$, where $\frac{X_i(a,c)}{X(a,c)}$ refers to share of product in country *a*’s total exports to country *c*, and similarly for country *b*. By taking the sum of the minimum of the export shares for a specified range of products across two countries, the index tracks the overlap in these nations’ exports to a common third country, which can serve as a proxy for substitutability between markets. The ESI is normalised on a scale of 0 to 100, where 0 indicates no overlap between country *a* and *b*’s export profiles to country *c* while 100 indicates that the export profiles are identical in distribution.

For this policy brief, the ESI between selected markets to the US is computed by calculating the aforementioned export shares at the HS 6-digit level based on trade data from UN COMTRADE.

See Riad, N., Errico, L., Henn, C., Saborowski, C., Saito, M. and Turunen, J. (2012). *Changing Patterns of Global Trade*. Washington, D. C.: International Monetary Fund. [online] Available at: https://www.elibrary.imf.org/downloadpdf/journals/087/2012/001/087.2012.issue-001-en.pdf and Joseph. F. and Kreinin, M. E. (1979). “A Measure of ‘Export Similarity’ and Its Possible Uses”. *The Economic Journal*, 89 (356): 905–12

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[41] 58% of Malaysia’s exports are tied to GVCs, the highest in ASEAN after Singapore. Moreover, some 37% of Malaysia’s employment is tied both directly and indirectly to GVC integration, the fourth highest in ASEAN after Singapore, Vietnam and Thailand. Asian Development Bank (2023). *ASEAN and Global Value* Chains. [online] Available at: https://www.adb.org/sites/default/files/publication/871976/asean-global-value-chains-resilience-sustainability.pdf

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INSTITUTE OF STRATEGIC &
INTERNATIONAL STUDIES
(ISIS) MALAYSIA

Address 1, Persiaran Sultan Salahuddin,
50480 Kuala Lumpur, Malaysia
Phone 603 2693 9366
E-mail info@isis.org.my

www.isis.org.my | ISIS_MY

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