

Macro Note

Malaysia: Risk scenarios under Trump's reciprocal tariffs

Thursday, 27 March 2025

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- Next week (2 Apr) is Trump's big tariff announcement as the reciprocal tariffs on America's trading partners will be unveiled. There is caution for Malaysia being among the "dirty 15" countries that will be targeted for trade imbalances. While some countries may receive some breaks from the tariffs pending negotiations, we think that not all tariffs can be negotiated away given its strategic purpose within Trump's economic agenda. As such, uncertainties are likely to linger post the reciprocal tariff announcement as Trump could expand his tariff list or widen the tariff rates whenever necessary to expedite his reshoring and fair-trade goals through his second presidential term.
- Given the risks, we have painted three potential tariff scenarios for Malaysia (tariffs <10%, tariffs between 10%-30%, and tariffs >30%). This is guided by Malaysia's trade balances and tariff gaps of key export items with the US. We also refer to the tariffs that have been announced thus far, non-tariff barriers and unfair policies that were highlighted by Trump. Our findings suggest that Malaysia's export sectors like electrical & electronics (E&E), rubber products, furniture, and optical & scientific equipment carry the highest risk of grappling with reciprocal tariffs.
- The final tariff outcome and implication will still hinge on the negotiation outcomes between Malaysia and the US, as well as proactive strategies by both Malaysian government and businesses to navigate the trade restrictions. Malaysia continues to emphasize its "centrality stand" in the tariff war, along with plans to expand its trading markets, enhance supply chain resiliency and promote localization. Agility and flexibility in cost structure and business operating models are equally important for firms to sail through the risks.

Trump's big tariff announcement

The big tariff day is next week (2 Apr) when the reciprocal tariffs on America's trading partners will be announced. Countries at risk are presumed to be the "dirty 15" which refers to the top 15 countries or regions with significant trade deficits with the US. Based on 2024 US goods trade statistics, the "dirty 15" include:

1. China (USD295.4bn trade deficit with the US)
2. European Union (EU, -USD235.6bn)
3. Mexico (-USD171.8bn)
4. Vietnam (-USD123.5bn)
5. Ireland (-USD86.7bn)
6. Germany (-USD84.8bn)
7. Taiwan (-USD73.9bn)
8. Japan (-USD68.5bn)
9. South Korea (-USD66.0bn)
10. Canada (-USD63.3bn)
11. India (-USD45.7bn)

12. Thailand (-USD45.6bn)
13. Italy (-USD44.0bn)
14. Switzerland (-USD38.5bn)
15. Malaysia (-USD24.8bn)

While Trump has teased that some countries will receive tariff breaks, he has four years through 2028 to achieve his economic agenda. In other words, the uncertainty surrounding the global trade and tariff policies will prolong as Trump could expand the tariff list or widen the tariff rates whenever necessary to expedite his reshoring and fair-trade goals.

What's different in Trump 2.0? Firstly, the speed, scale and scope of duties that Trump approaches this time round is much faster, higher and broader than during Trump 1.0, with fewer exemptions at this juncture. Secondly, the risk of escalation and retaliation is also higher as the prime targets are more prepared with larger tool kits of retaliatory measures.

For instance, China retaliated by imposing 10%-15% of tariffs on USD14bn-20bn worth of American products in the first round. After the additional 10% tariff was imposed on China, a second wave of additional 10%-15% tariff was imposed on US food and agriculture products. China also added 15 more American companies on its "unreliable entity list" and expanded export restrictions on critical minerals used across defense, clean energy and other industries. A new development observed is also other countries independently matching US tariffs on China such as Canada imposing import tariffs on China made EVs, steel and aluminium products citing concerns over unfair competition. These actions are seen as further escalation of trade restrictions. It raises the stakes of a broader, heated trade war with significant economic implications. At this juncture, the escalation is still seen as manageable with scope for negotiations and dealability. However, as tariffs are at front and center of Trump's economic agenda for strategic reasons to raise tariff revenue and reshore and revitalize US manufacturing, we do not think all tariffs can be negotiated away.

Which sectors in Malaysia are at risk?

As the reciprocal tariff investigation results are still up in the air, we delved into Malaysia's trade sectors using the guiding principal stipulated in the America First Trade Policy Memorandum and "Fair And Reciprocal Plan".

- The **America First Trade Policy** executive order ([link](#)), which was signed by Trump on 20 Jan 2025, initiated a series of trade investigations based on all countries or regions' trade deficits with the US, trade relations with China, US economic security measures, and US federal authority for trade policy enforcement.
- The presidential memorandum introducing "**Fair And Reciprocal Plan**" ([link](#)) on 13 Feb 2025 is aimed at all countries or regions' tariffs imposed on US products and also non-tariff barriers and unfair policies such as:
 - (i) Taxes imposed on US businesses, workers and consumers, including value-added taxes;
 - (ii) Subsidies and burdensome regulatory requirements on US businesses operating overseas in other countries;
 - (iii) Policies and practices that cause exchange rates to deviate from their market value; and

- (iv) Any other practice that limits market access or any structural impediment to fair competition with the US.

Guided by the above-mentioned criteria coupled with Trump's tariff announcement thus far and current average import duties of ~20% faced by developing countries under Most Favoured Nation (MFN) treatment, we paint three potential tariff scenarios for Malaysia:

- **Optimistic scenario:** The US imposes tariffs of less than 10% on targeted sectors or Malaysia's goods exports to the US. There will be limited or milder retaliatory measures from major economies with room for negotiations, while Malaysia stays outside of the retaliation group. The global economy is on soft landing alongside a strong US economic growth momentum and stable global financial conditions amid volatility. Under this scenario, Malaysia's export to the US is expected to slow down and the secondary effects are expected to be manageable with limited supply dumping and healthy price competition from regional economies due to economies of scale.
- **Possible scenario:** The US levies most sectors or export goods of Malaysia with a rate of 10%-30%. This also covers the product specific tariffs that have been mentioned on autos, metals, semiconductors, and pharmaceuticals. There are tit-for-tat retaliations from major economies with room for negotiations. Malaysia still holds the stance of neutrality in trade war without retaliatory measures. The global economy is on soft landing but the US economy is set to soften (with a possibility of technical recession at some point). Global financial conditions remain stable amid higher volatility. Under this scenario, Malaysia's exports to the US dwindle while the secondary effects are significant with increased supply dumping and price competition from regional economies particularly China, affecting domestic businesses to some extent.
- **Pessimistic scenario:** The US imposes more than 30% tariffs on all products imported from Malaysia. There is a full-blown global trade war with limited room for negotiations. Both global and US economy falls into recession while financial contagion effects are felt across the world. Under this scenario, Malaysia's exports contract along with broad declines in global trade. The secondary effects on domestic sectors are worsened due to strong supply dumping and stiff price competition from around the world.

Another critical factor in the supply chain to consider are the intermediate imports sourced from China which are used to assemble final goods shipped to the US. This has been a sticking point for US (under Trump 2.0) that China has averted tariffs by diverting flows and production to other countries under its "China Plus One" strategy. Similarly, the leakage of advanced technologies and AI chips to China and how US export restrictions were circumvented via regional trade channels. This week, the Trump administration added more than 50 Chinese organisations to an export restriction list that curtails access to advanced American chips. US officials will continue to step up tracking and tracing operations aimed at the smuggling of advanced semiconductors made by two American companies. It was also reported that Malaysia plans to tighten regulations on semiconductors and closely track the movement of high-end chips that enter the country.

Based on the trade position with US, average tariff gap, and extent of imports sourced from China under various product categories, we found **that key products at risk for Malaysia are electrical & electronics (E&E), rubber products, furniture, and optical & scientific equipment.** These carry the highest risk of grappling with

reciprocal tariffs (see charts for details). Presently, E&E exports make up about 40% of Malaysia's total exports (semiconductors: 25.7%, non-semiconductors: 14.2%), and Malaysia is the third largest source of electrical machinery, apparatus & appliances for US within Asia. Rubber products accounted for 2.9% of Malaysia's total exports to the US while furniture comprises 3.5%. Optical & scientific equipment made up 9.0% of Malaysia's total exports to the US.

Coping with tariff uncertainties

The final tariff outcome and implication will still hinge on the negotiation results between Malaysia and the US, as well as proactive strategies by both Malaysian government and businesses to navigate the trade restrictions.

Malaysia is scheduled to seek talks with US officials in May 2025 while continuing to emphasize its "centrality stand" in the tariff war, along with plans to expand its trading markets, enhance supply chain resiliency and promote localization. On that note, Minister of Investment, Trade and Industry Tengku Datuk Seri Zafrul Abdul Aziz said (on 24 Mar) that the government is drafting a robust national strategy to face any eventualities, including the establishment of the National Geoeconomic Command Centre (NGCC) to monitor tariffs, sanctions, and supply chain risks, while coordinating responses across ministries and sectors.

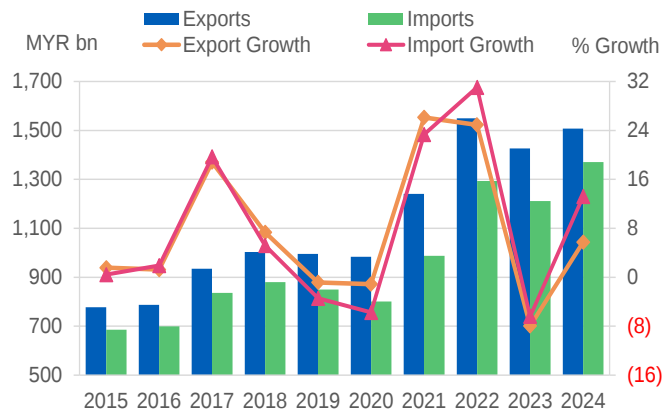
While leveraging on the benefits of wider market access through Regional Comprehensive Economic Partnership (RCEP) and Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), the Malaysian government continues to actively negotiate several new free trade agreements (FTAs). These include the Malaysia-United Arab Emirates Comprehensive Economic Partnership Agreement, the ASEAN-Canada FTA, Malaysia-European Free Trade Association Economic Partnership Agreement, as well as upgrading of the ASEAN Trade in Goods Agreement (ATIGA) and the ASEAN-China FTA.

For businesses, agility and flexibility in cost structure and business operating models are equally important for firms to navigate the risks. Companies should explore more supply sources and invest in local manufacturing to mitigate the supply disruptions and cost impact. Scenario planning and contingency plans will also help businesses embrace and adapt the changes at a faster pace.

What are the upside risks? As countries are better prepared with expanded supply chains and stronger regionalisation, this may help ASEAN better cope with any trade fallout. Tariff exclusions for some countries also paves the way for further trade diversification. Successful negotiations between US and its major trading partners alongside supply chain diversification and expansions could raise economic activity in the region and Malaysia. The resolution of various geopolitical conflicts as Trump pushes for a ceasefire deal together with country-specific initiatives such as pro-growth policies in the US and China, could also provide a fillip to global growth and trade amid accommodative monetary policy conditions. This can benefit Malaysia's trade and investments over the short to medium term.

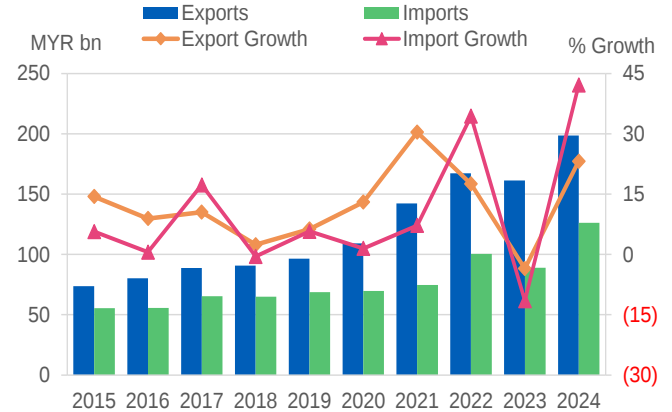
Malaysia's overall external trade performance since 2015

Source: CEIC, UOB Global Economics & Markets Research



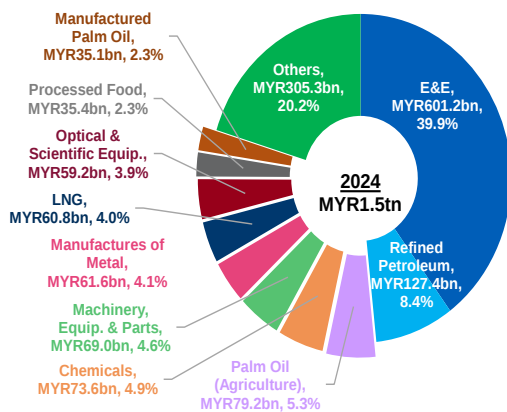
Malaysia's trade performance with US since 2015

Source: CEIC, UOB Global Economics & Markets Research



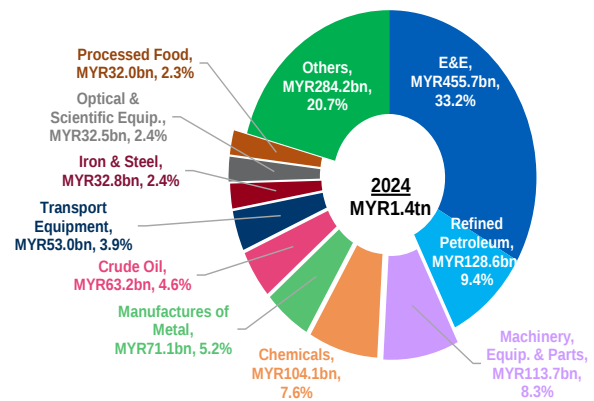
Malaysia's top 10 major export products in 2024

Source: CEIC, UOB Global Economics & Markets Research



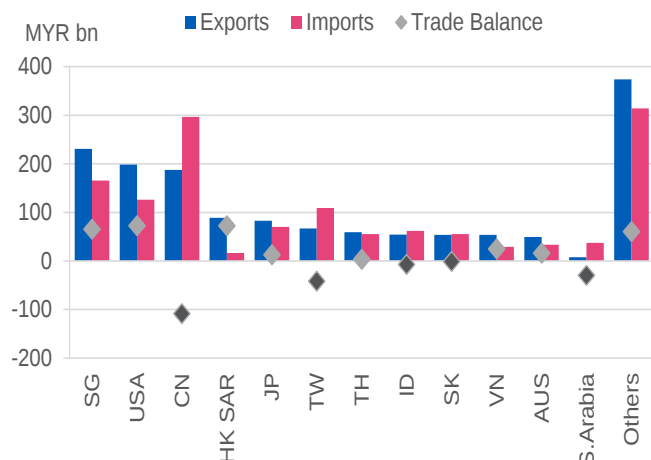
Malaysia's top 10 major import products in 2024

Source: CEIC, UOB Global Economics & Markets Research



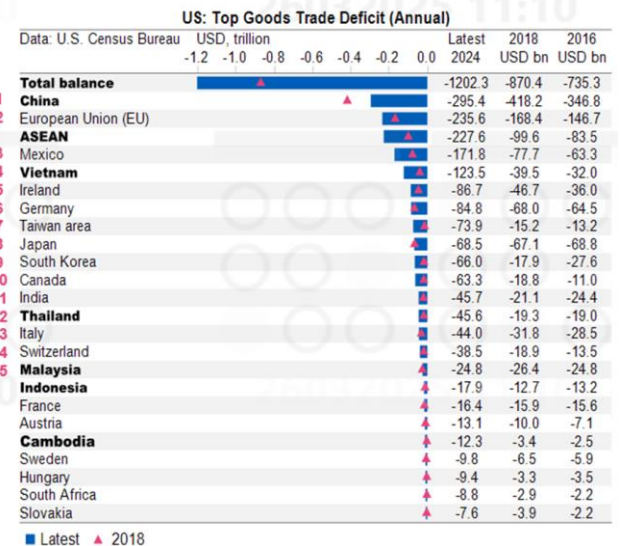
Malaysia's top export and import destinations in 2024

Source: CEIC, UOB Global Economics & Markets Research



Who are the 'dirty 15' countries?

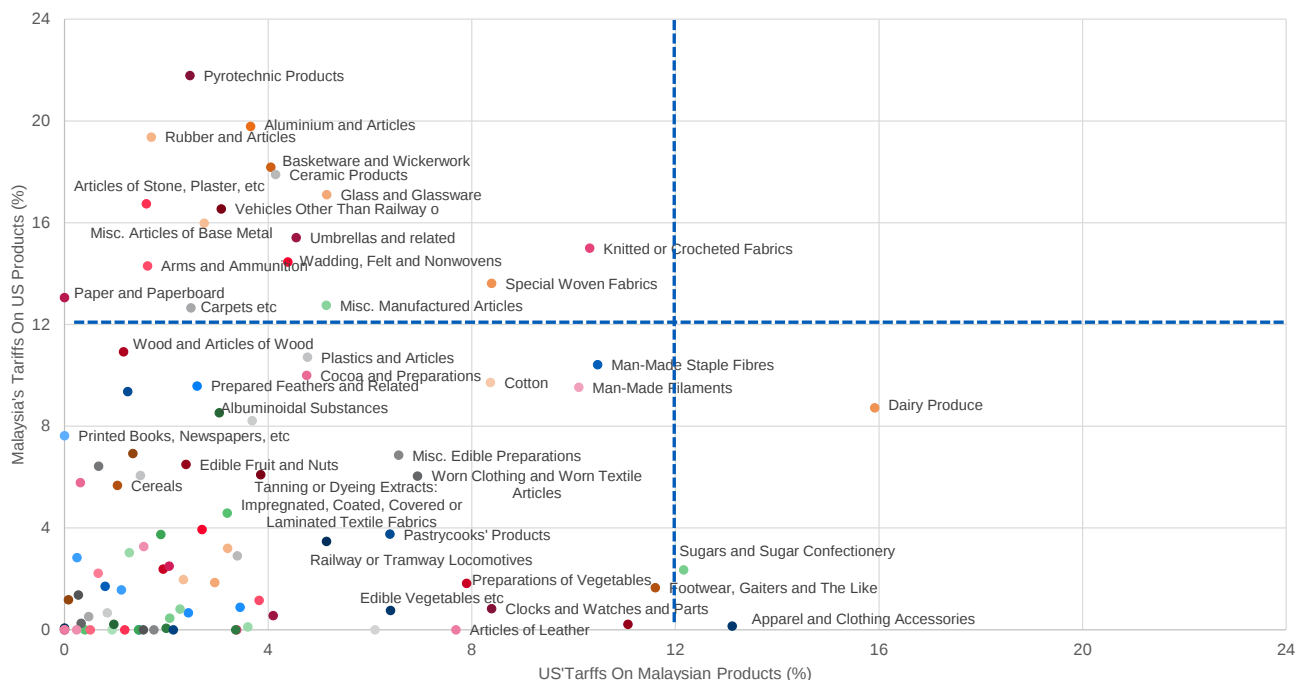
Source: Macrobond, Newswire, UOB Global Economics & Markets Research



Tariff differentials between US and Malaysia on respective country's export products

Note: Data is based on simple average applied tariffs of HS 2-digit codes. Excluding Tobacco & Manufactured Tobacco Substitutes and Beverages, Spirits and Vinegar due to Malaysia charged more than 100%.

Source: WITS, UOB Global Economics & Markets Research



Non-tariff barriers that could put Malaysia on US' radar

Source: Newswire, USTR, UOB Global Economics & Markets Research

No	Non-Tariff Barrier	Details	Risk	
			Yes	No
1	Excise duties	Beverages, alcohol, cigarettes, motor vehicles, and selected agriculture products	✓	
2	Sales and service tax (SST)	6%-10%	✓	
3	Digital tax	6%	✓	
4	Currency manipulation	Malaysia was removed from the US list of currency monitoring list (in Nov 2024) as it met only one criteria.		✓
5	Unfair funding	Areas that are subsidized are mainly food & agriculture, fuel, electricity and areas that help to ease cost of living.		✓
6	Labour suppression	- There are cases of forced labour reported in palm oil and manufacturing sectors which has higher foreign workers. - US has occasionally placed Malaysia on list of countries with labor related issues, and used labor rights concerns as leverage in trade negotiations e.g. ban on palm oil products from local plantation company (in 2020), ban on medical gloves from local glove company (in 2020) due to concerns over forced labor practices. - Malaysia has a national action plan to combat forced labor particularly concerning migrant workers. - Efforts are made to equalize the cost between low level foreign and local labor i.e. raising minimum wages, 2% EPF contribution for foreign workers, multi-levy for foreign workers.	✓	
7	Foreign ownership	Limits to majority foreign ownership in certain sectors although Malaysia has taken steps to liberalise foreign investment policies.	✓	
8	Government procurement	USTR claims Malaysia's government procurement system lacks transparency and competitive bidding. US government will continue to raise concerns about the nontransparent nature of the procurement process in Malaysia. Malaysia is not a signatory to the WTO agreement on government procurement.	✓	
9	Import restrictions	On motor vehicles, the approved permits (AP) system limits the number of imported vehicles. USTR claims that Malaysia uses high tariffs and non-tariff trade barriers to protect its automobile manufacturing industry from foreign companies. But with Malaysia's Global BEV AP Scheme, it allows foreign EV companies to sell vehicles in Malaysia without going through the existing permit system.	✓	
10	Intellectual property (IP) protection	USTR highlighted sales of counterfeit and pirated goods in Malaysia.	✓	

Three potential tariff scenarios for Malaysia

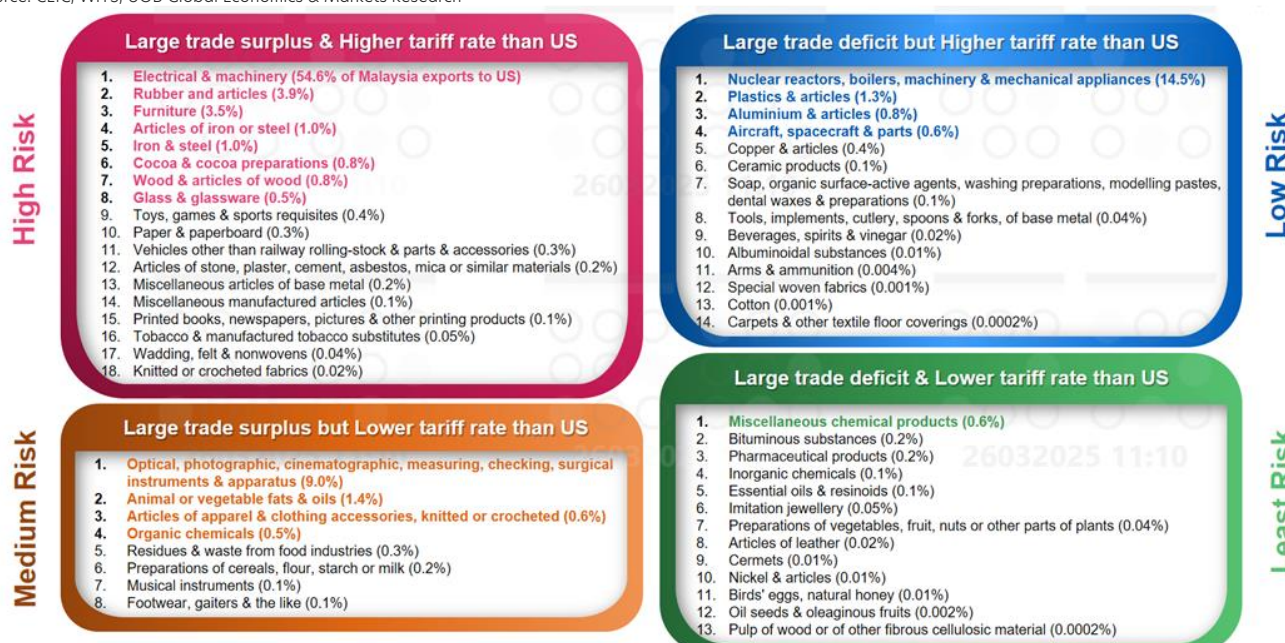
Source: UOB Global Economics & Markets Research

Criteria	Optimistic Scenario	Possible Scenario	Pessimistic Scenario
Scale of tariffs	<10%	10%-30%	>30%
Scope of tariffs	Targeted sectors or goods	Most sectors or goods	Broad-based
Response from trading partners to US reciprocal tariffs	Limited/milder retaliatory measures from major economies with room for negotiations	Tit-for-tat retaliations with room for negotiations	Full-blown trade war with limited room for negotiations
Broad economic context	Global soft landing, strong US economy, stable financial conditions amid volatility	Global soft landing, subdued US economy (or technical recession), stable financial conditions amid higher volatility	Global and US recession, financial contagion effects
Effects on Malaysia's trade	➤ Primary effects: Slower exports to US ➤ Secondary effects: Limited supply dumping and healthy price competition from regional economies (economic scale)	➤ Primary effects: Slower exports to US ➤ Secondary effects: Increased supply dumping and price competition from regional economies (particularly China)	➤ Primary effects: Declining global trade ➤ Secondary effects: Strong supply dumping and stiff price competition

Sectoral impact from US tariffs based on Malaysia's trade balance and tariff gap with US

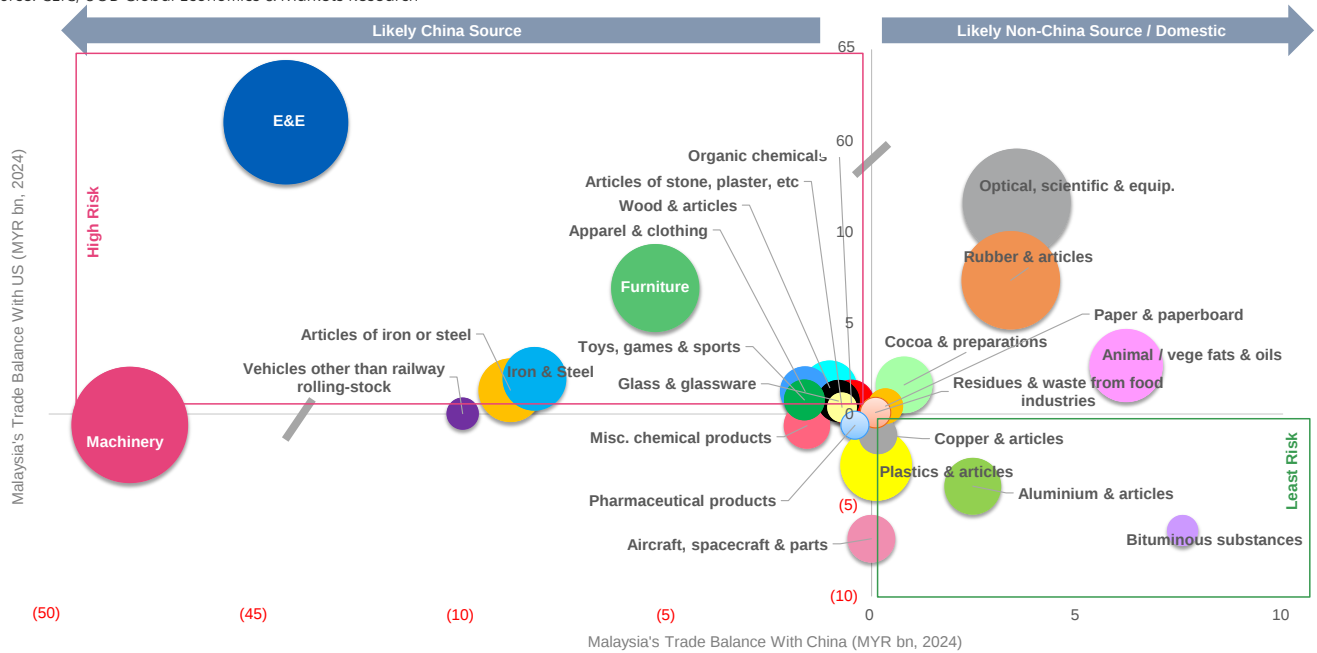
Note: Covers 85 HS 2-digit products out of total 97 HS 2-digit products

Source: CEIC, WITS, UOB Global Economics & Markets Research



What are the products that are potentially sourced from China?

Note: Take Malaysia's trade balance with China by product as a proxy. The top 25 HS 2-digit products accounted for 97.7% of Malaysia's total exports to US in 2024.
Source: CEIC, UOB Global Economics & Markets Research



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