

Macro Note

Malaysia: Weighing economic effects from US reciprocal tariffs

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- The reciprocal tariffs was finally unveiled on Wed (2 Apr), which brings the US effective tariff rates above 20%, something not seen since 1900's. The baseline 10% tariff will take effect this Sat (5 Apr) and other reciprocal tariffs on the countries with the highest bilateral trade deficits with the US will take effect next Wed (9 Apr). Goods that are exempted from this reciprocal tariff order include copper, lumber, pharmaceuticals, semiconductors, gold, certain critical minerals, energy and energy products, as well as steel, aluminium, autos and auto parts that already subject to Section 232 tariffs (at 25%). The modification authority provides scope for a higher or lower tariff depending on the actions taken by countries to remedy the trade imbalances.
- Although the US' 24% reciprocal tariffs on Malaysian products are within our expectations, stiffer levies were announced on other countries/regions particularly in Asia and major trading partners. Malaysia's tariff is the second lowest in the region and there is scope for negotiations as Malaysia issued an official statement that it is not considering retaliation. However, the risks of escalation and retaliation by other countries have risen. This would impede global trade, growth, and investments more than previously anticipated though not to the extent of an outright recession just yet.
- We estimated that the direct impact from US' reciprocal tariffs on Malaysia and secondary effects from tariffs on major trading partners could subtract 0.7% pts from our baseline forecast. As such, we are lowering our GDP growth projection for Malaysia to 4.0% in 2025 (from 4.7% previously). We imputed a slower gross export projection of 3.8% for Malaysia in 2025 (vs 4.5% previously). The implication on Malaysia's consumer price inflation is expected to be small with supply-driven factors and potential excess supply dumping activities neutralizing the effects. Given the fluid global conditions and pending details of the fuel subsidy rationalization mechanism, we expect Bank Negara Malaysia (BNM) to maintain the overnight policy rate (OPR) at 3.00% for now.

Inclusion and exclusion of Trump's reciprocal tariffs on 2 Apr

The reciprocal tariffs was finally unveiled by US President Trump on Wed (2 Apr), which brings the US effective tariff rates above 20%, something not seen since 1900's. The baseline 10% tariff will take effect this Sat (5 Apr) and other country specific reciprocal tariffs on countries with the highest bilateral trade deficits with the US will take effect next Wed (9 Apr).

Although the US' 24% reciprocal tariffs on Malaysian products are within our expectations (details in [link](#)), stiffer levies were announced on other countries/regions particularly in Asia. The reciprocal tariff on China is 34% (on top of earlier 20% levied, brings total tariff to 54%), European Union (EU, 20%), Japan (24%), South Korea (25%), Taiwan (32%), Indonesia (32%), Thailand (36%), and Vietnam (46%). Full list in appendix below.

Some goods are exempted from these new reciprocal tariffs. They include copper, lumber, pharmaceuticals, semiconductors, gold, certain critical minerals, energy and energy products, as well as steel, aluminium, autos and auto products that already subject to Section 232 tariffs (at 25%). For semiconductor, pharmaceuticals, and lumber, Trump indicated that he will announce the levies on them separately, suggesting that uncertainties remain.

Trump also signed an executive order to eliminate duty-free de minimis treatment for low-value imports from China, effective 2 May. To reduce the risk of transshipment and evasion, all ad valorem rates of duty imposed by this order or any successor orders with respect to articles of China shall apply equally to articles of both the Hong Kong Special Administrative Region and the Macau Special Administrative Region.

For Canada and Mexico, Trump said the existing fentanyl/migration International Emergency Economic Powers Act of 1977 (IEEPA) orders remain in effect and are unaffected by this order. This means USMCA (US-Mexico-Canada Agreement) compliant goods will continue to see a 0% tariff, non-USMCA compliant goods will see a 25% tariff, and non-USMCA compliant energy and potash will have a 10% tariff. In the event the existing fentanyl/migration IEEPA orders are terminated, USMCA compliant goods would continue to receive preferential treatment, while non-USMCA compliant goods would be subject to a 12% reciprocal tariff.

The newly unveiled reciprocal/country-specific tariffs will apply only to the non-US content of a subject article, provided at least 20% of the value of the subject article is US originating. "US content" refers to the value of an article attributable to the components produced entirely, or substantially transformed in, the US.

Still up in the air

Both the 10% baseline and country-specific reciprocal tariffs will remain in effect until the underlying conditions are deemed satisfied, resolved or mitigated. Otherwise, modification of the authority or additional actions will be taken by the US. This will be assessed through:

- The increase or decrease in overall trade deficit of respective economy with the US or non-reciprocal trade arrangements.
- Any retaliation from trading partners against the US.
- Any significant steps by trading partners to remedy non-reciprocal trade arrangements and align sufficiently with the US on economic and national security matters.
- A further deterioration in US manufacturing capacity and output.

We think Trump will likely execute his plans to announce levies on the exempted items, particularly semiconductor, pharmaceuticals and lumber, in due course. We think the prolonged uncertainty and significance of Malaysia's exposure to the semiconductor segment will impact trade and growth prospects. We have highlighted this in our previous note (details in [link](#)) that Malaysia's exports of electrical & electronics (E&E), rubber products, furniture, and optical & scientific equipment carry the highest risk of grappling with reciprocal tariffs. This is because 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.

Weighing the effects on Malaysia

Although the US' 24% reciprocal tariffs on Malaysian products are within our expectation, stiffer levies were announced for Asia and Malaysia's major trading partners such as China, EU, and Japan. Malaysia's reciprocal tariff is the second lowest in the region and there is scope for negotiations as Malaysia issued an [official statement](#) that it is not considering retaliation. However, the risks of escalation and retaliation by other countries have risen.

It was reported that Canada will put a 25% retaliatory tariff on US-made vehicles, which will apply to autos that are not compliant with the USMCA. France's President Macron urged EU companies to pause US investments. EU Chief Ursula von der Leyen said the bloc has a solid strategy for retaliation if the US imposes sweeping tariffs on it. However, she has stressed that a "negotiated solution" to avoid a trade war is preferable. China's Commerce Ministry said it would take "necessary measures to resolutely safeguard legitimate rights and interests" without specifying its next action. As retaliation threats spiral, this would impede global trade, growth, and investments more than previously anticipated though not to the extent of an outright recession just yet. In recent channel checks, we noted signs of holdbacks on purchases and investments amid caution due to prolonged uncertainties.

Based on our sensitivity analysis which imputes trade elasticities, exports and investment multiplier effects, we estimated that the direct impact from US' reciprocal tariffs on Malaysia and secondary effects from tariffs on major trading partners could subtract 0.7% pts from our baseline forecast. As such, we are lowering our GDP growth projection for Malaysia to 4.0% in 2025 (from 4.7% previously). We imputed a slower gross export projection of 3.8% for Malaysia in 2025 (vs 4.5% previously). The implication on Malaysia's consumer price inflation is expected to be small with supply-driven factors and potential excess supply dumping activities neutralizing the effects.

Given the fluid global conditions and pending details of the fuel subsidy rationalization mechanism, we expect Bank Negara Malaysia (BNM) to maintain the overnight policy rate (OPR) at 3.00% for now. However, we see increasing odds for an interest rate cut in 2H25, should global risks intensify. The coming BNM monetary policy committee meetings are on 8 May, 9 Jul, 4 Sep and 6 Nov.

We think the government's preparedness to monitor the tariffs, sanctions and supply chain risks will help to mitigate some of the negative effects. This is in addition to the country's resilience and strengths that include (i) wider market access through bilateral and multilateral free trade agreements; (ii) the federal government's intension of keeping a centrality stance without retaliating; (iii) ongoing implementation of numerous national master plans to strengthen the country's fundamentals; and (iv) continued supply chain diversification to Malaysia. As countries are better prepared with expanded supply chains and stronger regionalisation, this may help ASEAN better cope with any trade fallout.

Other upside factors to consider are successful negotiations between US and its major trading partners alongside supply chain diversification and expansions that can help buffer economic activity in the region and Malaysia. The resolution of various geopolitical conflicts as well as growth supportive policies both in the US and China, could also provide a fillip to global growth and trade amid accommodative monetary policy conditions which can support Malaysia's trade and investments over the short to medium term.

List of countries and territories that are slapped with US discounted reciprocal tariffs effective 9 Apr 2025

Note: Other countries and territories out of this list are slapped with 10% universal tariffs, effective 5 Apr 2025, except for countries like Russia, Cuba, and North Korea due to existing sanctions and restrictions, as well as Canada and Mexico due to USMCA.

*Including currency manipulation and trade barriers

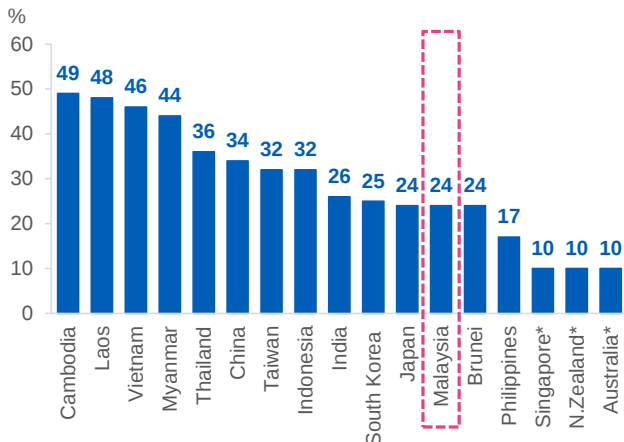
Source: White House, USTR, UOB Global Economics & Markets Research

No.	Country and Territories	Tariffs Charged to US* (%)	US Discounted Reciprocal Tariffs (%)	No.	Country and Territories	Tariffs Charged to US* (%)	US Discounted Reciprocal Tariffs (%)	No.	Country and Territories	Tariffs Charged to US* (%)	US Discounted Reciprocal Tariffs (%)
1	Algeria	59	30	20	Iraq	78	39	39	Nigeria	27	14
2	Angola	63	32	21	Israel	33	17	40	North Macedonia	65	33
3	Bangladesh	74	37	22	Japan	46	24	41	Norway	30	15
4	Bosnia and Herzegovina	70	35	23	Jordan	40	20	42	Pakistan	58	29
5	Botswana	74	37	24	Kazakhstan	54	27	43	Philippines	34	17
6	Brunei	47	24	25	Laos	95	48	44	Serbia	74	37
7	Cambodia	97	49	26	Lesotho	99	50	45	South Africa	60	30
8	Cameroon	22	11	27	Libya	61	31	46	South Korea	50	25
9	Chad	26	13	28	Liechtenstein	73	37	47	Sri Lanka	88	44
10	China	67	34	29	Madagascar	93	47	48	Switzerland	61	31
11	Cote d'Ivoire	41	21	30	Malawi	34	17	49	Syria	81	41
12	Democratic Republic of the Congo	22	11	31	Malaysia	47	24	50	Taiwan	64	32
13	Equatorial Guinea	25	13	32	Mauritius	80	40	51	Thailand	72	36
14	European Union	39	20	33	Moldova	61	31	52	Tunisia	55	28
15	Falkland Islands	82	41	34	Mozambique	31	16	53	Vanuatu	44	22
16	Fiji	63	32	35	Myanmar	88	44	54	Venezuela	29	15
17	Guyana	76	38	36	Namibia	42	21	55	Vietnam	90	46
18	India	52	26	37	Nauru	59	30	56	Zambia	33	17
19	Indonesia	64	32	38	Nicaragua	36	18	57	Zimbabwe	35	18

Malaysia's reciprocal tariffs is the second lowest in ASEAN-10 and lower than ASEAN-10's average rate of 33%

*Universal tariffs

Source: USTR, UOB Global Economics & Markets Research



Estimation of direct impact from 24% reciprocal tariffs on Malaysia's economy in 2025

Source: DOSM, BNM, CEIC, UOB Global Economics & Markets Research

Macro Indicator	Unit	Existing Forecast For 2025	Direct impact from 24% reciprocal tariffs	New Forecast For 2025
Real GDP	%	4.7	about -0.7ppts	4.0
Gross Exports	%	4.5	about -0.7ppts	3.8
Net FDI Flows	MYR bn	47.4	about -MYR850mn	46.6
Headline Inflation	%	2.3	about +0.4ppts	2.3*
OPR	%	3.00	-	3.00

*Pending the government's announcement of fuel subsidy rationalization and expecting the import price impact to be somewhat net off by domestic substitution and potential supply dumping effects

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