Socio-Economic Research Centre
SERC 社会经济研究中心

Quarterly Economy Tracker (Jan-Mar 2025)

Decoding the Impact of Trump's Liberation Day Tariffs

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17 April 2025

Agenda

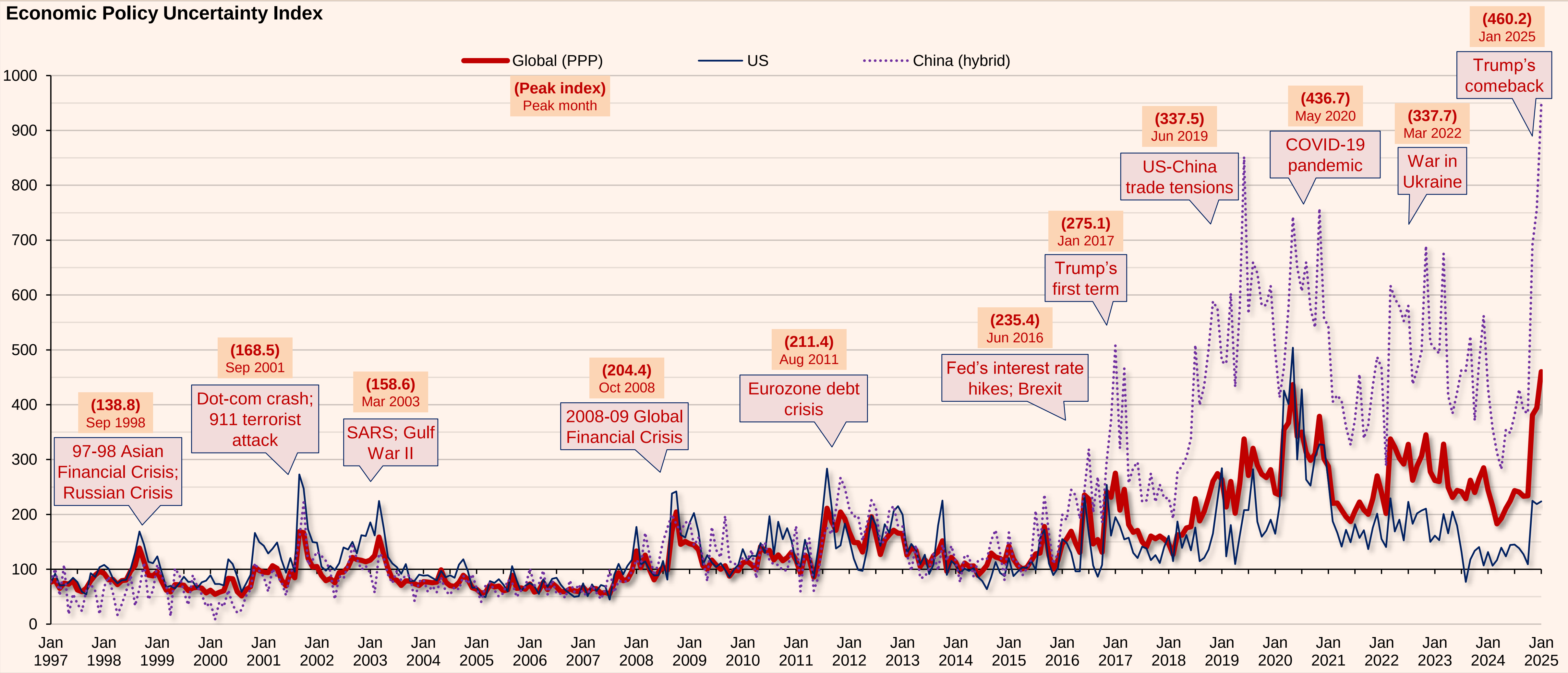
1. The Global Economic Path Ahead is “Rough and Foggy”
2. Navigating Tariffs Tension-induced Disruptions on Malaysia
3. Decoding the Trump’s “Armageddon” Tariffs: What’s the economic impact on Malaysia?

Global Economic Outlook

The Global Economic Path Ahead is “Rough and Foggy”

- *Trump’s “Liberation Day” tariffs spark the risk of a full-blown trade war*
- *High frequency indicators suggest that global growth continued in Q1 2025, albeit highly cautious about its near-term direction*
- *Upside risks to global inflation expectations and monetary policy path*

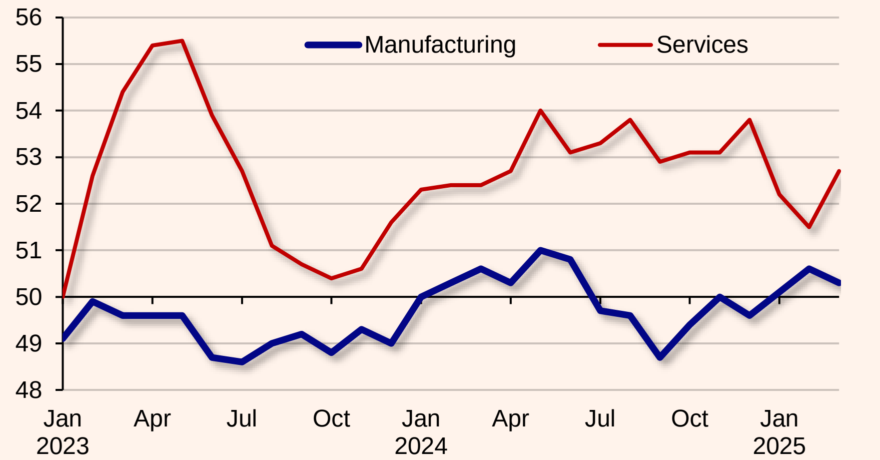
Trump tariffs stoke high uncertainty



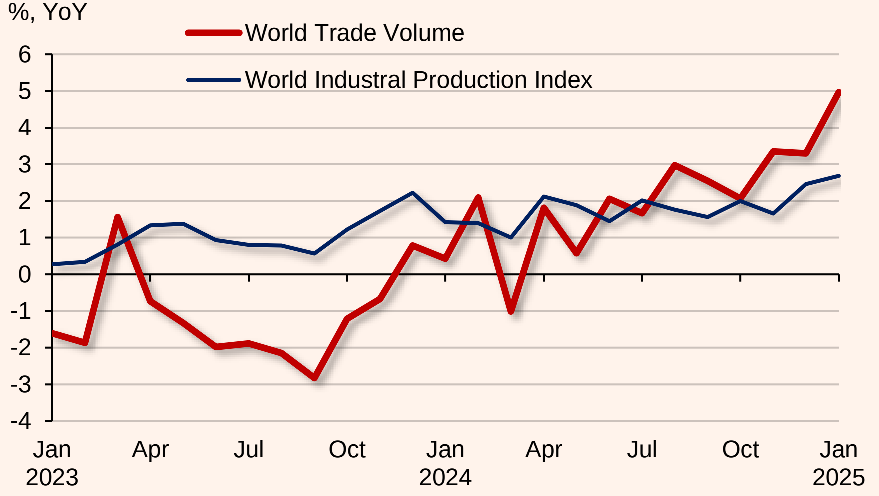
Source: Global: Davis (2016); United States: Baker, Bloom and Davis (2016); China (hybrid): Baker, Bloom, Davis and Wang (2013) & Davis, Liu, and Shang (2019)

Global current and forward indicators show mixed trends

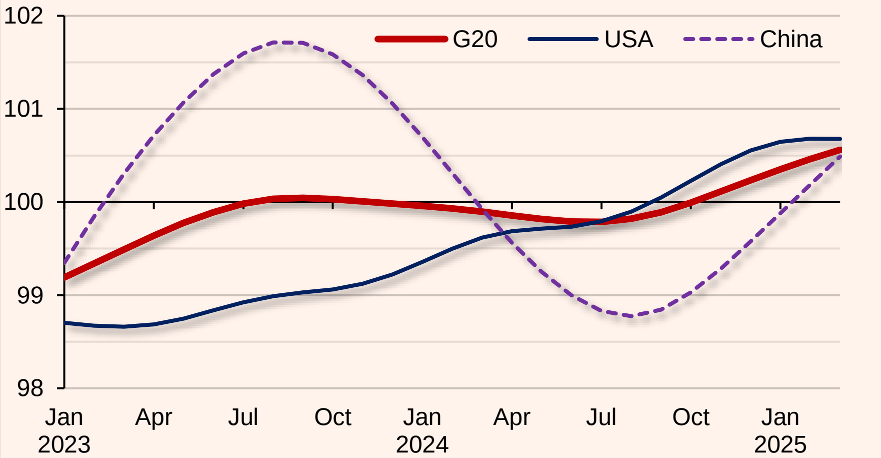
Global PMI for manufacturing & services
50=Threshold



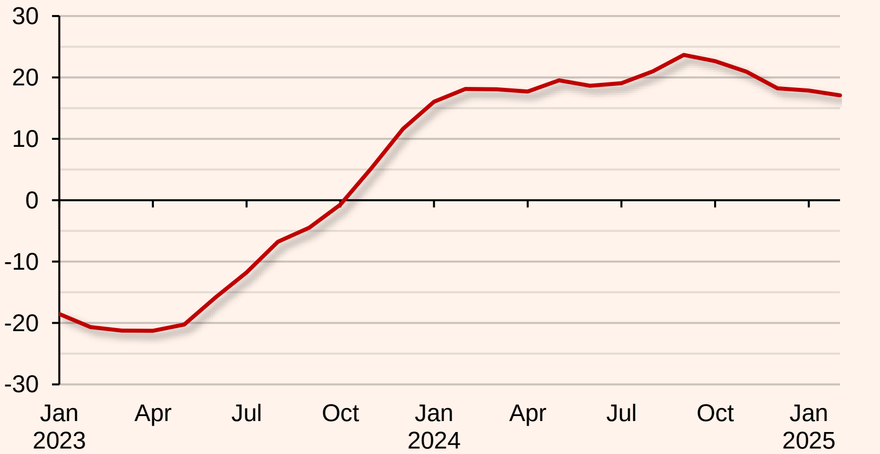
World trade volume and industrial production
%, YoY



OECD Composite Leading Indicators (CLI)
100=Long-term average



Global semiconductor sales
%, YoY



- Global manufacturing PMI stayed above 50-pt for three months in a row in Q1; global services PMI signals expansionary track ahead.
- The OECD composite leading indicators signal steady global growth outlook, with a potential turning in the US economy.
- Global trade volume growth accelerated, likely driven by front-loaded shipments.
- Global semiconductor sales continued to deliver double-digit growth. However, downside risks arise from the outcome of the Section 232 investigation by the US.

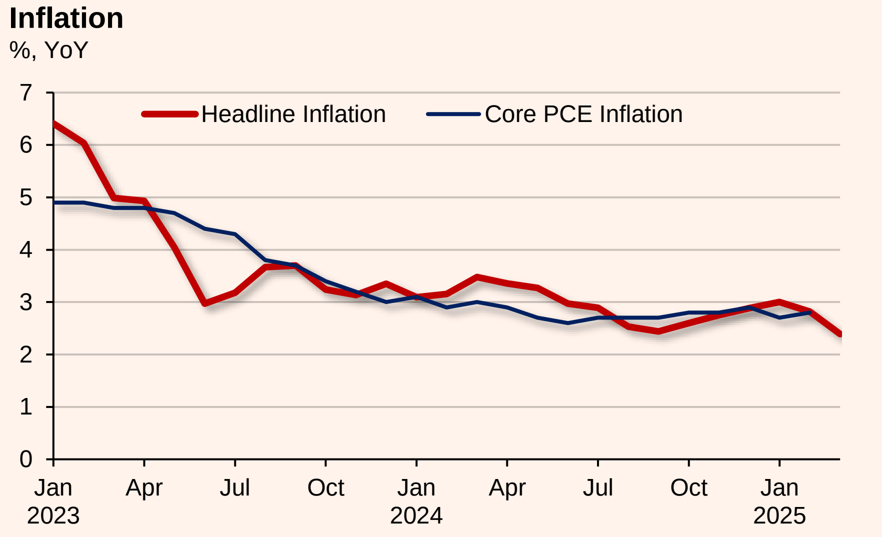
Source: S&P Global; Organisation for Economic Co-operation and Development (OECD); CPB Netherlands; Semiconductor Industry Association (SIA)

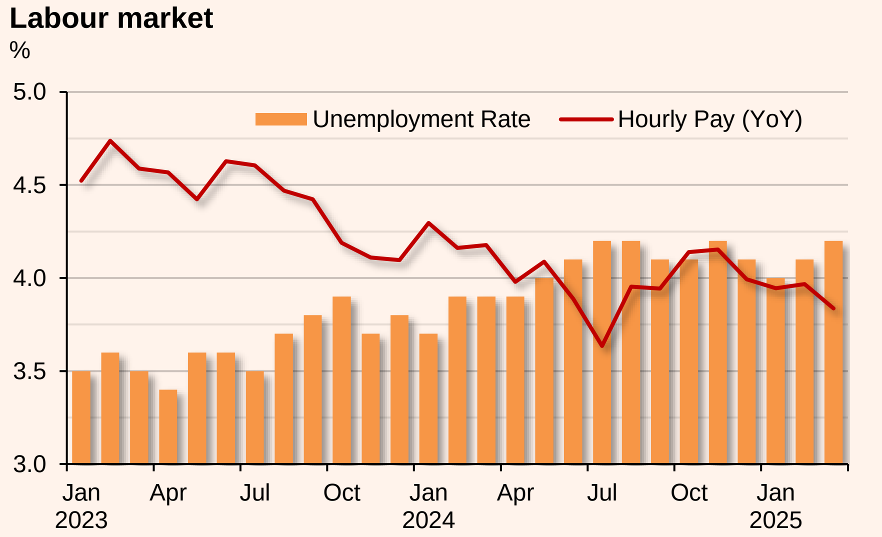
High frequency indicators in the US and Eurozone

The United States

All eyes on tariff negotiations

- Inflationary risks intensify as Trump's tariffs take effect, affecting consumption and investment.
- Labour market remains intact amid a small uptick in unemployment rate.

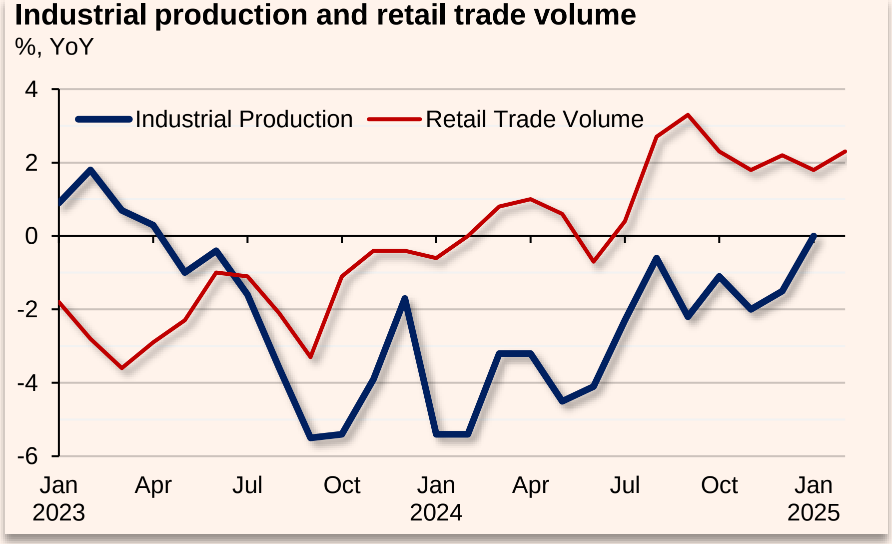


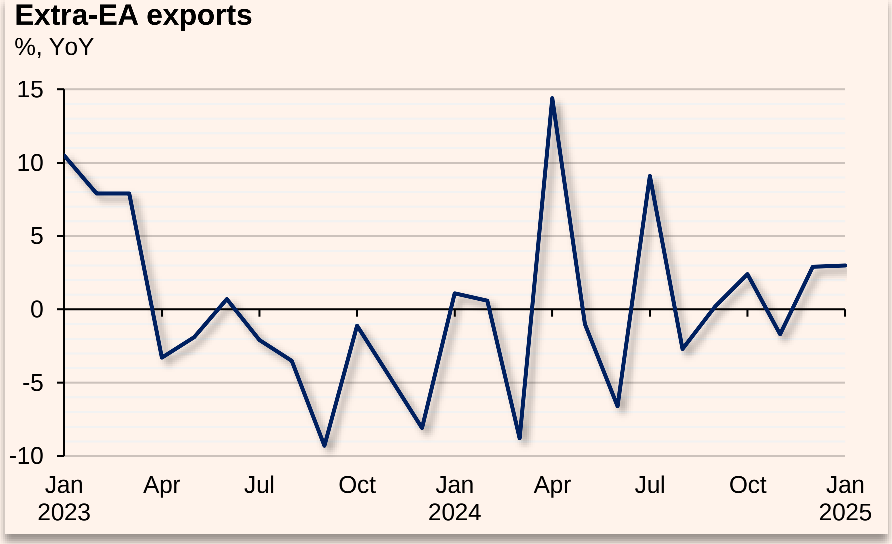


Euro Area

Tariff tensions dim growth outlook

- Industrial production showed some recovery amid steady retail sales growth.
- Export outlook dims
- Jobless rate at new record low of 6.1% in Feb 2025.





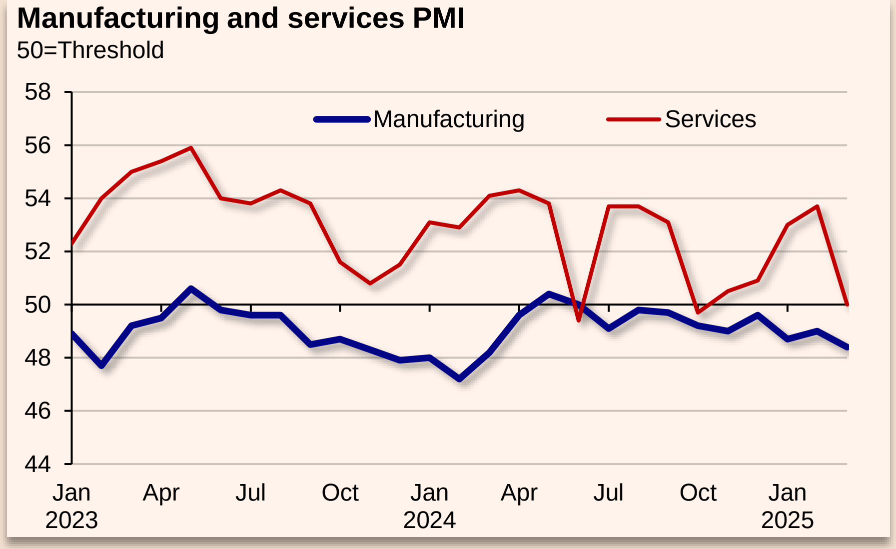
Source: Institute for Supply Management (ISM); US Bureau of Labor Statistics; US Bureau of Economic Analysis (BEA); S&P Global; Eurostat

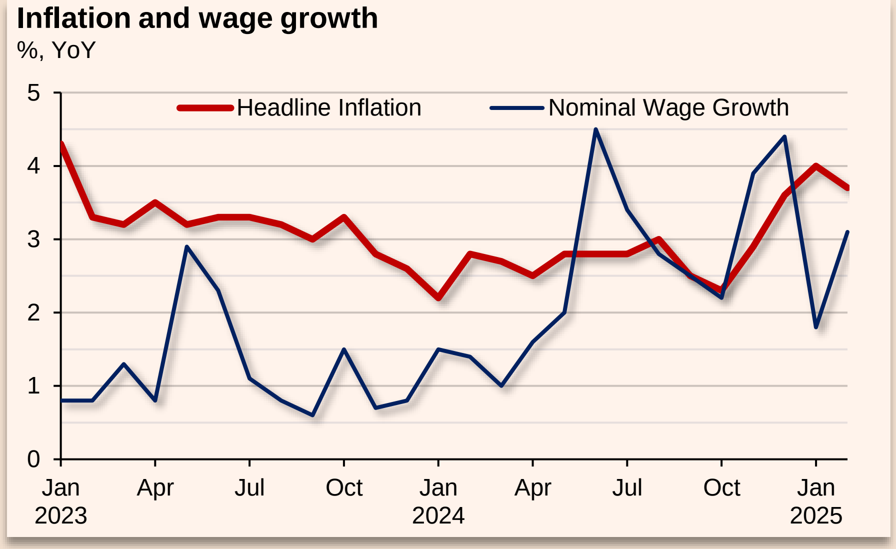
High frequency indicators in Japan and China

Japan

Balancing between growth and inflation

- TANKAN survey signals first deterioration since Q1 2024.
- Retail sales contracted sharply in Jan-Feb.
- Tariffs set to weaken yen, driving inflation higher.

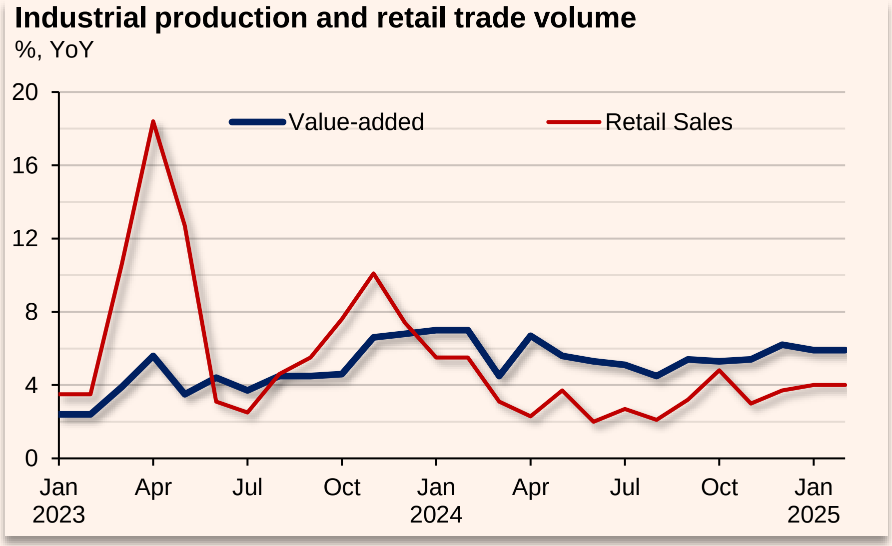


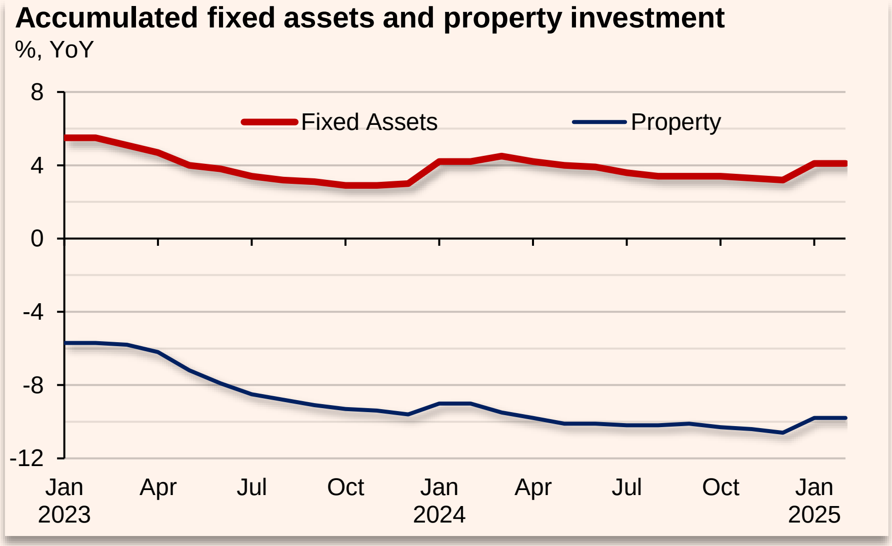


China

Full-blown trade war with the US

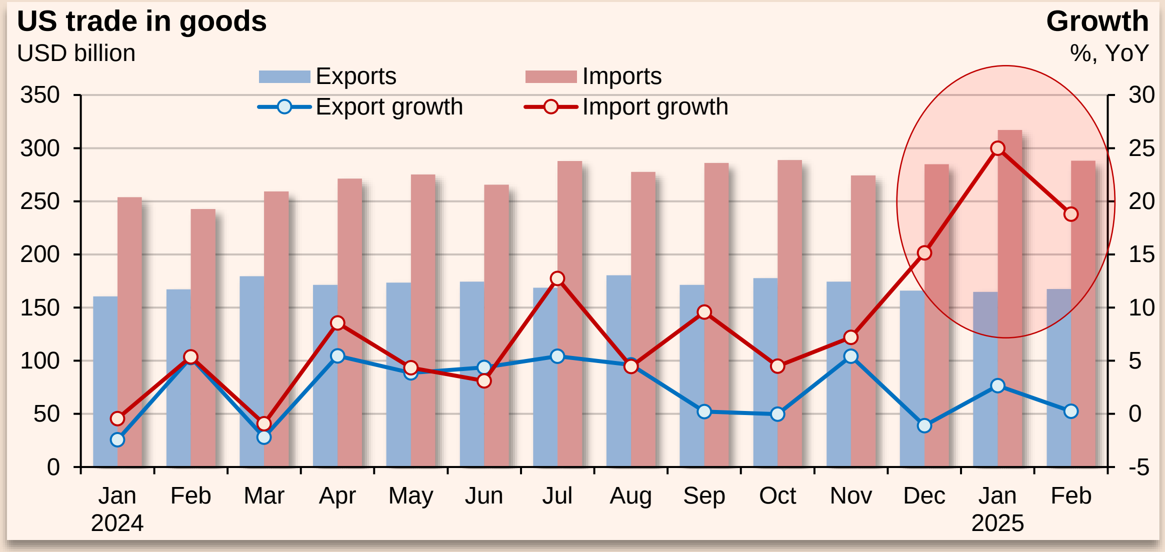
- Better than expected GDP growth (5.4% in Q1 2025).
- Export sector to be hit hard.
- Roll out stimulus and support for industries to mitigate the impact of tariffs.

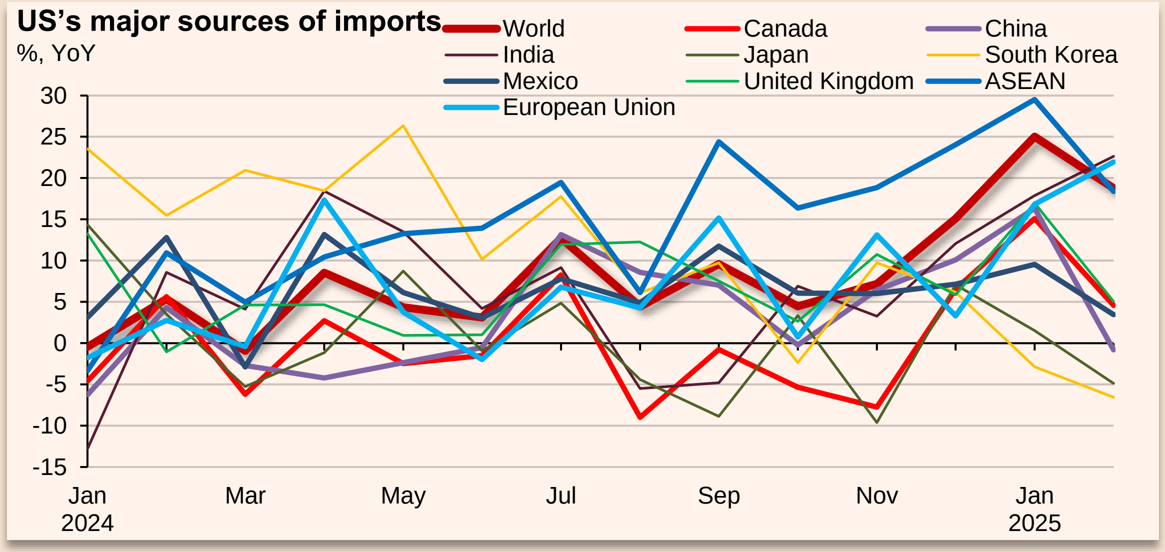


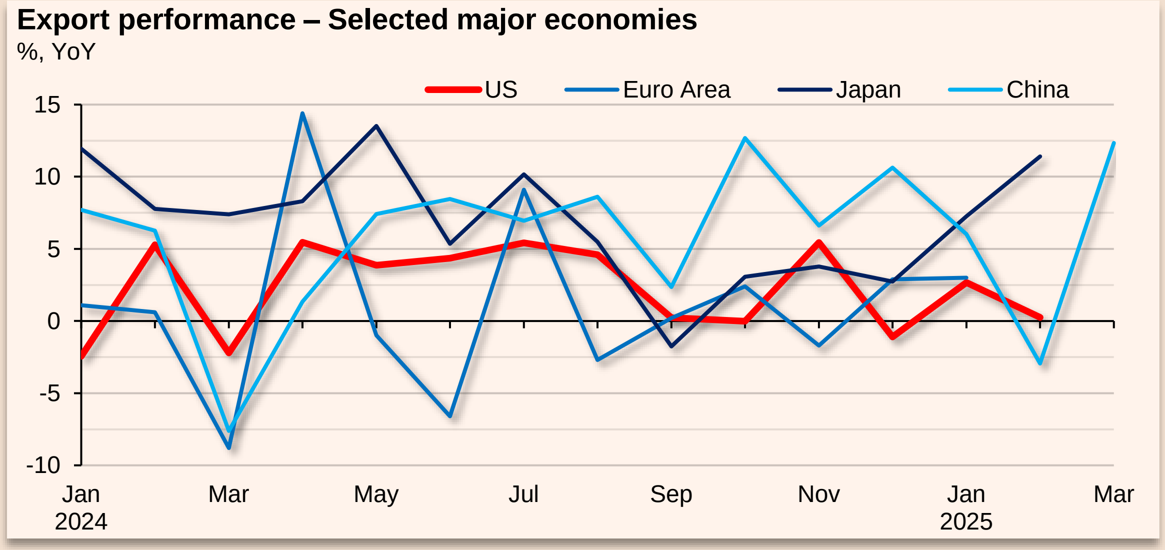


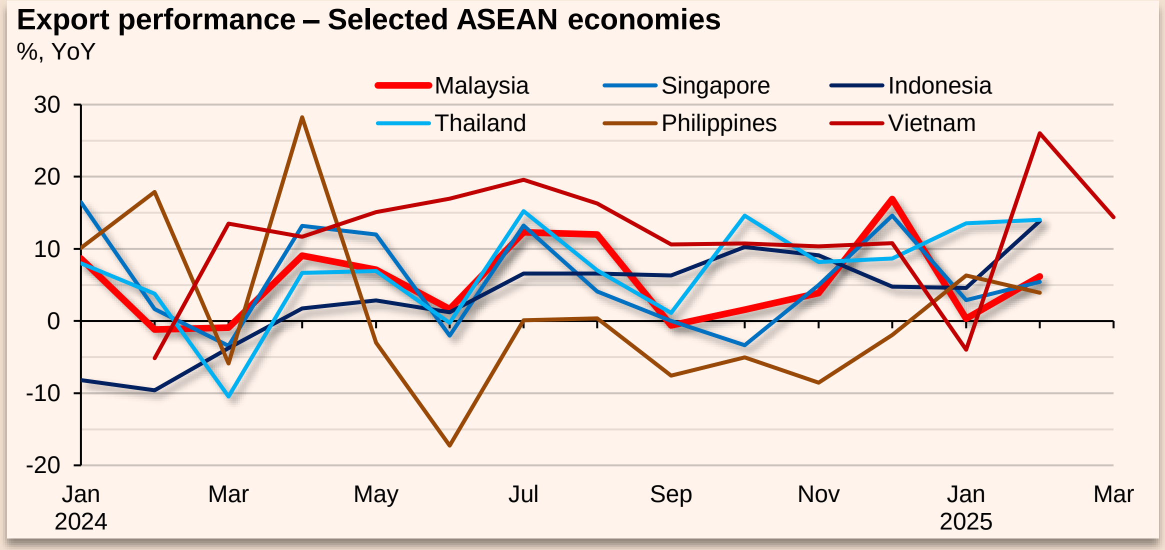
Source: S&P Global; Statistics Bureau, Japan; Ministry of Health, Labour and Welfare (MHLW), Japan; National Bureau of Statistics of China (NBS China)

Front-loaded shipments ahead of the tariffs' implementation









Source: Various officials

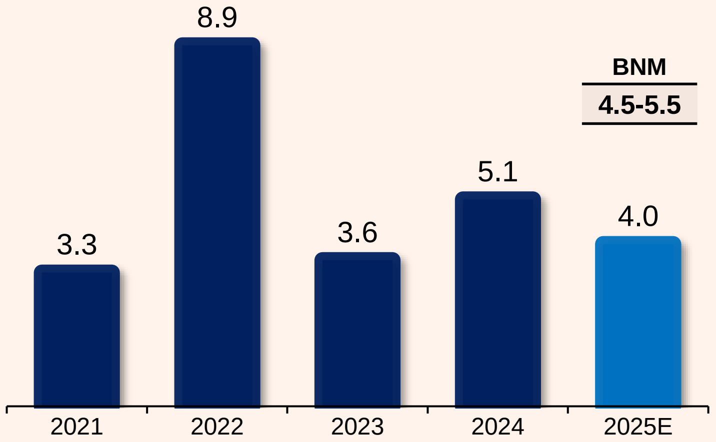
Malaysia’s Economic Outlook

Navigating Tariffs Tension-induced Disruptions on Malaysia

- *Positive momentum continues, albeit slower in Q1 2025 amid strong headwinds ahead*
- *Festive demand and expanded cash aids hold up consumer spending*
- *Labour market conditions remained healthy*
- *Exports at risk due to the trade tensions*
- *Risks to inflation are tilted to the upside*

The Malaysian economy to stay on course amid strong headwinds

Annual GDP growth (%)



Drivers of growth:

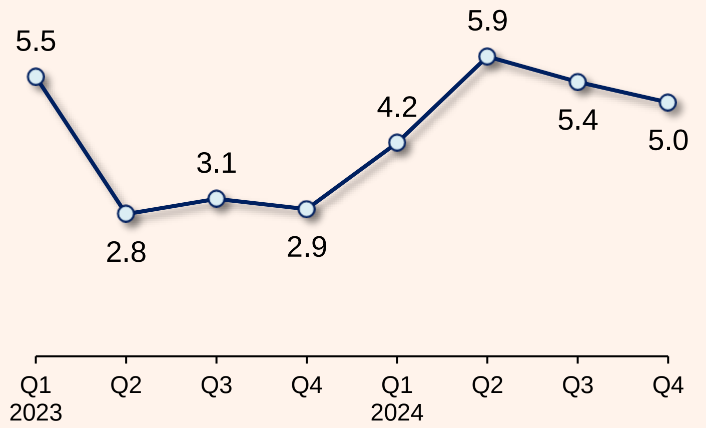
#1 Firm labour market conditions and continued discretionary consumer spending: Higher minimum wage, salary hikes for public servants, higher cash aids, and the EPF Flexible Account

#2 On-going public infrastructure projects; multi-year private investment expansion

#3 Sustained tourism activities

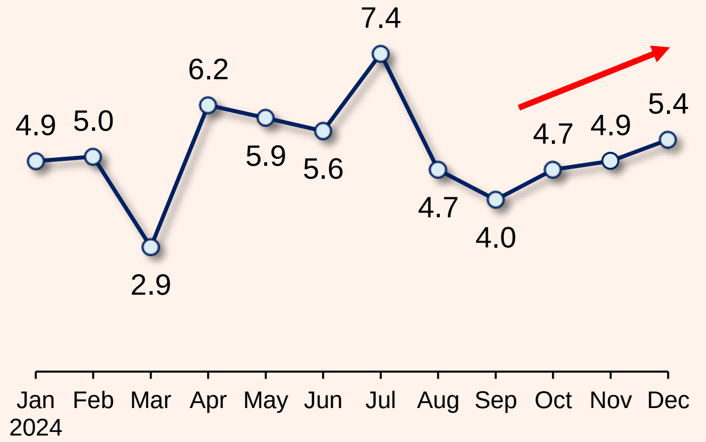
Quarterly

%, YoY



Monthly

%, YoY



Risks for 2025: Largely external-driven

#1 A wide scale tariffs war impacts global growth and trade as well as supply chains disruption

#2 Further escalation of geopolitical conflicts

#3 Weaker-than-expected global growth, particularly the US and China

#4 Lower commodity and energy prices

#5 Faster-than-expected inflation

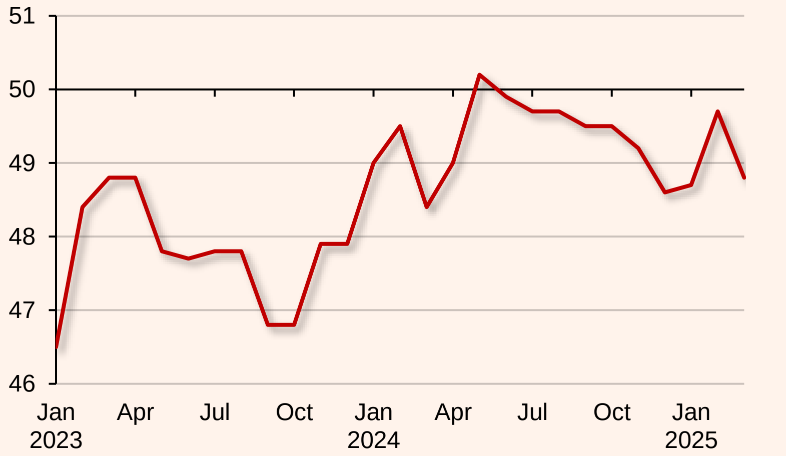
(wage increases, petrol subsidy rationalisation, SST scope expansion, and inputs cost inflation)

Source: DOSM; MOF; SERC's forecast

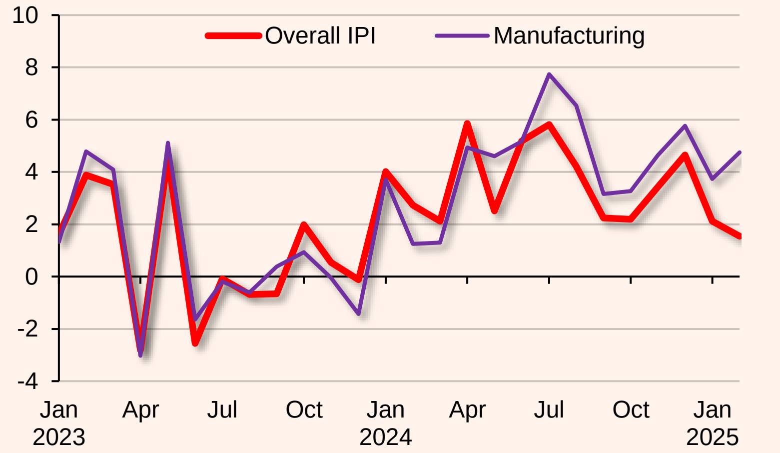
Tracking Malaysia’s economic indicators

Leading indicators
%, YoY

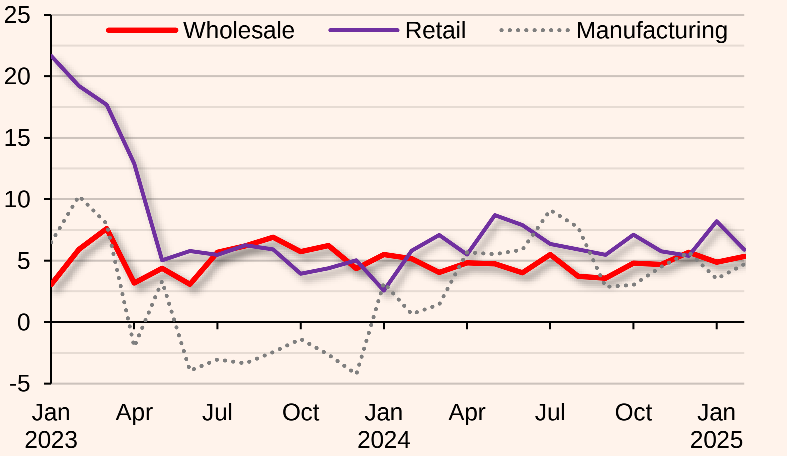
Purchasing Managers’ Index (PMI)
50=Threshold



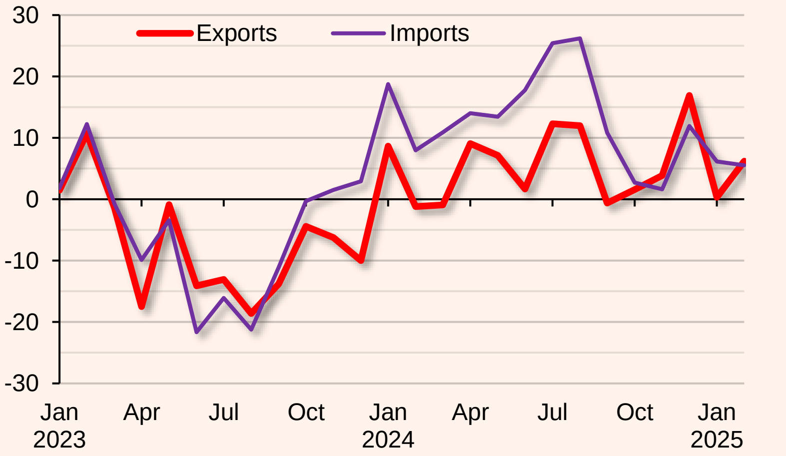
Industrial production index (IPI)
%, YoY



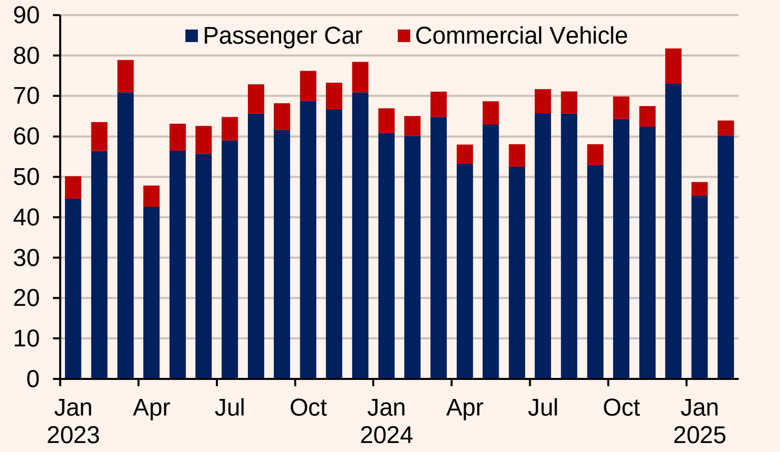
Wholesale, retail & manufacturing sales
%, YoY



External trade
%, YoY



Sales of passenger & commercial vehicles
Thousand units

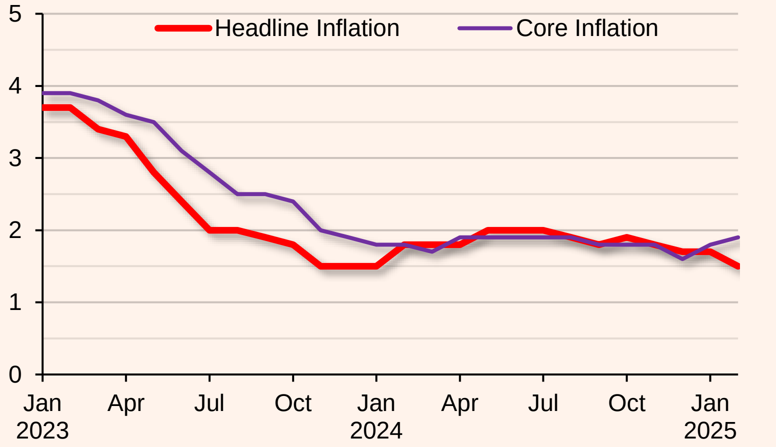


Source: DOSM; S&P Global; Malaysian Automotive Association (MAA)

Tracking Malaysia’s economic indicators (cont.)

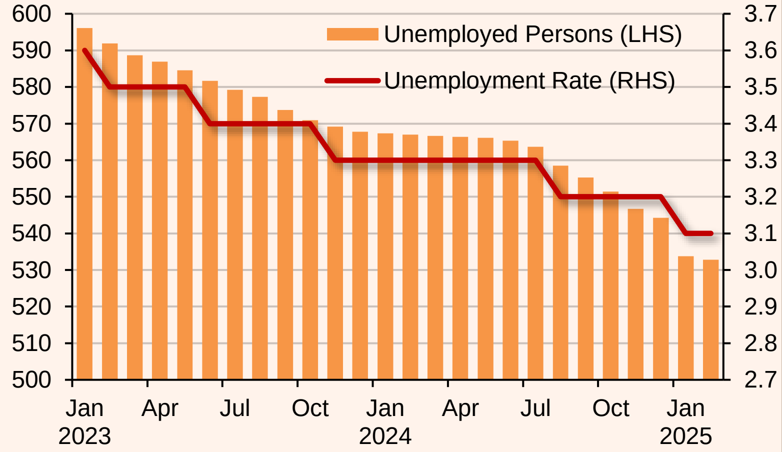
Inflation

%, YoY



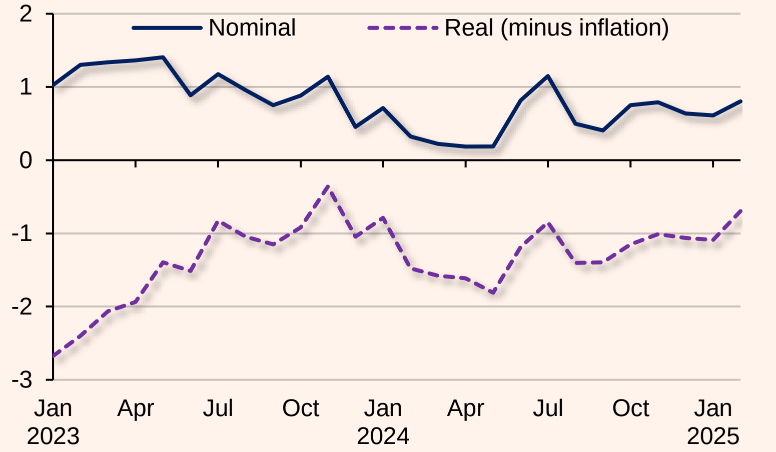
Unemployment

(‘000) %



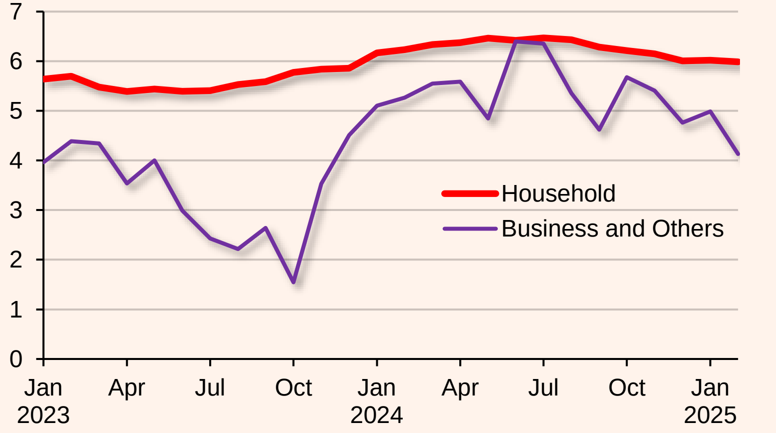
Manufacturing wages (per employee) growth

%, YoY



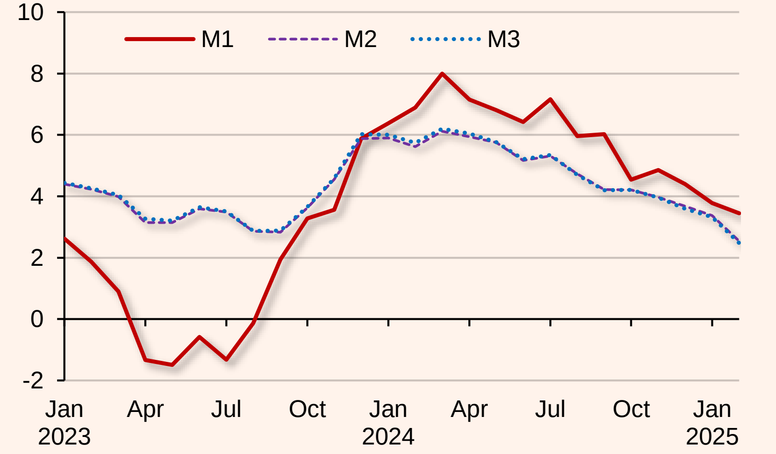
Outstanding banking loan growth

%, YoY



Money supply

%, YoY



Foreign exchange reserves

USD billion

Source: DOSM; BNM; MIDA

Note: For unemployment data starting Jan 2025, estimation based on latest population estimates.

Rising costs are key concern for businesses, especially SMEs

1 E-invoicing implementation

- Effective 1 Jan 2025 for businesses with an annual turnover or revenue of more than RM25 million and up to RM100 million *(Started 1 Aug 2024 for those >RM100 million, with 8,036 companies used e-invoice system [source]).*
- **Effective 1 Jul 2025** for businesses with an annual turnover or revenue of more than RM500,000 and up to RM25 million.
- **Effective 1 Jan 2026** for businesses with an annual turnover or revenue of more than RM150,000 and up to RM500,000.

2 Minimum wage

- **Effective 1 Feb 2025**, monthly minimum wage will increase from RM1,500 to RM1,700 (+13.3%) for employers hired at least 5 employees.
- **Effective 1 Aug 2025** for other employers who hired less than 5 employees.

3 Mandatory EPF contribution for non-citizen workers

- The rate for employer and employee contributions will start with 2% each and subject to further review in the future.
- The Employees Provident Fund (Amendment) Bill 2025 which will mandate the 2% contribution rate was passed in Parliament.
- Note: EPF contribution is mandatory for PR since 2001. [source]
- Effective date: Government proposed to be effective in Q4 2025.

4 Subsidy rationalisation for RON95 petrol

- The estimated actual price is around RM2.60/litre in Mar, i.e. subsidy of 55 sen/litre vs. current retail price at RM2.05/litre.
- Effective date: To be confirmed, it was proposed to roll out in mid-2025.

5 Multi-tiered foreign worker (FW) levy

- Multi-tiered FW levy for all sectors, except plantation and agriculture sectors to remain single-tiered. Part of the total levy collection will be channelled to businesses to transform from labour-intensive to technology-intensive. [source]
- Prior to the implementation of a multi-tiered foreign worker levy, the 80:20 local-to-foreign worker ratio for the manufacturing license continued to be exempted.
- Effective date: To be confirmed.

6 Potential electricity tariff hike

- **Potential increase of electricity tariff in 2H 2025** following an increase of 14.2% in base tariff under the Regulatory Period 4 (RP4).

Decoding the Trump’s “Armageddon” Tariffs:

What’s the economic impact on Malaysia?

Key messages

01 Trump announced reciprocal tariff actions globally, ranging from 10% to 50%, sparking the risk of a full-blown trade war

02 Malaysia faces a reciprocal tariff of 24% on imported goods into the US (reduced to 10% for 90 days starting from 10 April), with exceptions on some goods that could be a temporary relief

03 Malaysia rules out retaliatory tariffs and explores measures to mitigate the tariff impact

04 The tariffs tension will impact Malaysia via trade, income and investment / financial channels

Trump 2.0: Tariff actions and implementation timeline

Country-specific   Sector-specific

United States

1 Feb (+10-25%)
Tariffs on Canada, Mexico, and China

3 Feb
Tariffs on Canada and Mexico on hold

10 Feb (+25%)
Tariffs on steel and aluminium

3 Mar (+10%)
Higher tariffs on China

6 Mar
US exempts imports from Mexico and Canada that are satisfying the USMCA

26 Mar (+25%)
Tariffs on automobiles and automobile parts

2 Apr (+10-50%)
Reciprocal tariffs on nearly all countries

8 Apr (+50%)
Additional tariffs on China for retaliating

9 Apr
Differential tariffs to be paused for 90 days; additional tariff increase for China (+41%)

11 Apr
Smartphones and other consume electronics containing semiconductors are exempted from reciprocal tariffs

Feb   Mar   Apr

Other Countries

1 Feb (+25%)
Canada announces retaliation

4 Feb (+10-15%)
China retaliates

4 Mar
China retaliates (+10-15%), and Canada continues retaliation

12 Mar
Canada (25%) and the EU retaliate against US steel and aluminium tariffs

3 Apr
Canada announces new countermeasures in response to US tariffs on autos

4 Apr (+34%)
China retaliates

9 Apr
EU confirms retaliation, and China (+50%) retaliates

10 Apr
EU pauses retaliation

11 Apr (+41%)
China retaliates

Note: The parenthesis indicates the tariff increase announced. The date is based on the announced date.
Source: Various official sources

Spotlight on Malaysia-United States' bilateral trade and investment

External Trade

In 2024:

3rd **largest trading partner ~ RM324.9 billion** (**11.3%** of total Malaysia's trade value)

Jan-Feb 2025: RM55.9 billion or 12.0% of total

Exports to the US

2nd **largest export destination ~ RM198.6 billion** (**13.2%** of total Malaysia's export value)

Jan-Feb 2025: RM34.8 billion or 14.4% of total

Imports from the US

3rd **largest source of imports ~ RM126.3 billion** (**9.2%** of total Malaysia's import value)

Jan-Feb 2025: RM21.1 billion or 9.4% of total

Trade surplus with the US

RM72.4 billion @ USD15.8 billion

Lower than USD24.8 billion reported by the US

Jan-Feb 2025: RM16.3 billion

Exports product by category (HS code*) in 2024	Value RM mil	Share %
85 Electrical & electronic (E&E) products	108,373	54.6
84 Machinery & equipment	28,826	14.5
90 Optical & scientific equipment	17,782	9.0
40 Rubber & rubber products	7,705	3.9
94 Furniture products	7,038	3.5
15 Palm oil & palm oil products	2,743	1.4
39 Plastics & plastic products	2,613	1.3
73 Iron & steel products	2,074	1.0
72 Iron & steel	2,062	1.0
76 Aluminium & products	1,643	0.8
Others	17,789	8.8
Total	**198,647**	**100.0**
Top 5 categories	169,724	85.4
Top 10 categories	180,858	91.0

* *The description is a general approximation, and not an exact representation of the product category.*

Investment

In 2024:

Foreign direct investment (FDI)

2nd **largest gross FDI ~ RM55.7 billion** (**16.9%** of total)

3rd **largest FDI stock ~ RM105.9 billion** (**10.8%** of total)

Approved foreign direct investment (FDI)

1st in various sectors (ultimate source)

RM32.8 billion

3rd in terms of immediate source

3rd in the manufacturing sector (ultimate source)

RM30.8 billion

4th in terms of immediate source

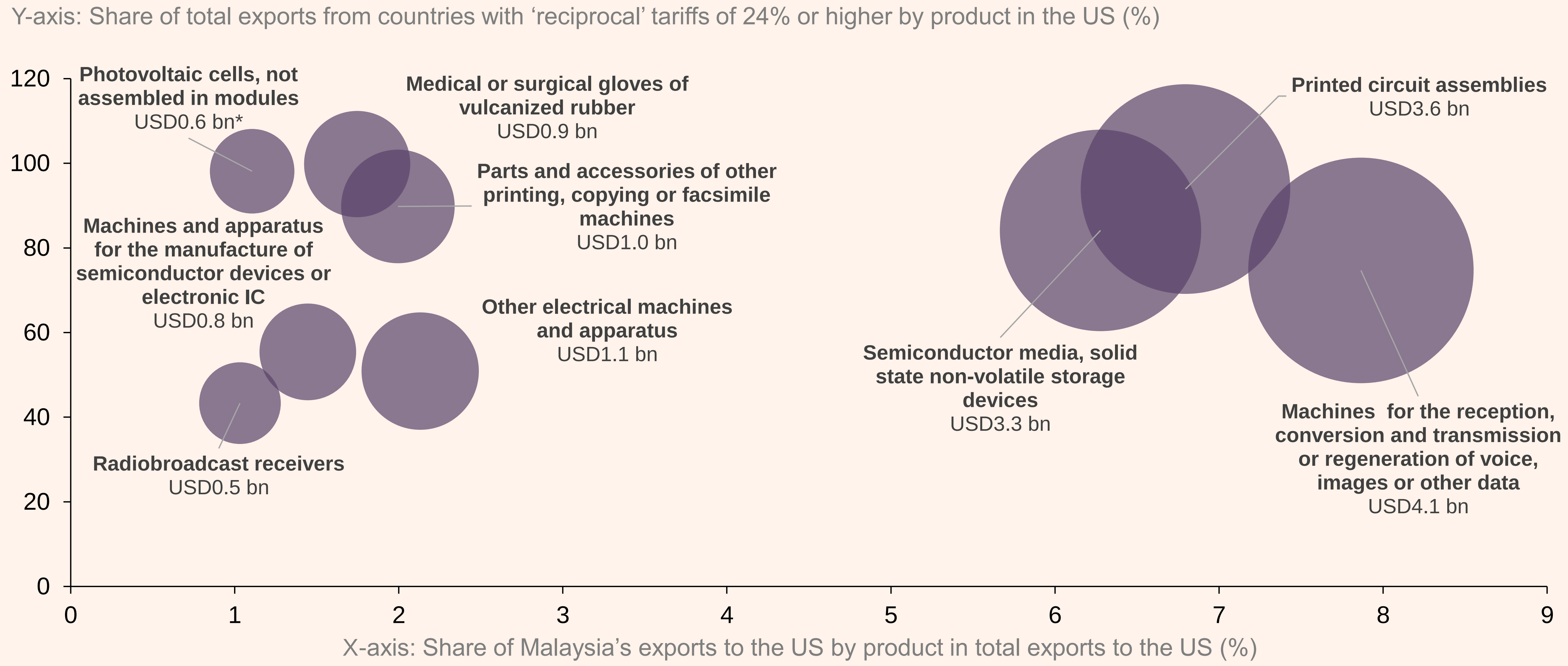
Source: DOSM; BNM; MIDA

Malaysia's total trade with major trading partners and blocs

% share (changes from previous) ** Value is taken by taking a simple average of two years.*	Global Financial Crisis 2008-2009*	Pre-COVID-19 2018-2019*	COVID-19 2020-2021*	2024
ASEAN	25.3% RM274.5 billion	26.9% (+1.6%-pt) RM501.6 billion	25.5% (-1.4%-pt) RM512.0 billion	26.6% (+1.1%-pt) RM765.0 billion
China	11.9% RM129.3 billion	16.9% (+5.0%-pt) RM315.6 billion	18.8% (+1.8%-pt) RM376.5 billion	16.8% (-1.9%-pt) RM484.1 billion
Singapore	12.9% RM140.2 billion	12.6% (-0.3%-pt) RM234.9 billion	12.0% (-0.6%-pt) RM241.7 billion	13.8% (+1.7%-pt) RM396.2 billion
United States	11.5% RM124.2 billion	8.6% (-2.8%-pt) RM160.5 billion	9.9% (+1.3%-pt) RM197.9 billion	11.3% (+1.4%-pt) RM324.9 billion
European Union	10.4% RM112.3 billion	8.9% (-1.5%-pt) RM165.1 billion	8.1% (-0.8%-pt) RM162.4 billion	7.6% (-0.5%-pt) RM218.8 billion
Japan	11.2% RM121.6 billion	7.1% (-4.1%-pt) RM131.9 billion	6.8% (-0.3%-pt) RM137.0 billion	5.3% (-1.5%-pt) RM152.8 billion
Middle East & North Africa	4.5% RM49.0 billion	3.8% (-0.7%-pt) RM70.7 billion	3.2% (-0.6%-pt) RM64.9 billion	4.2% (+0.9%-pt) RM120.1 billion
South Korea	4.2% RM45.8 billion	3.9% (-0.3%-pt) RM73.3 billion	4.2% (+0.3%-pt) RM84.6 billion	3.8% (-0.4%-pt) RM109.3 billion

Note: European Union excludes United Kingdom. Middle East & North Africa follows International Monetary Fund (IMF) definition that includes Algeria, Bahrain, Djibouti, Egypt, Iran, Iraq, Jordan, Kuwait, Lebanon, Libya, Mauritania, Morocco, Oman, Palestinian Territory Occupied, Qatar, Saudi Arabia, Somalia, Sudan, Syrian Arab Emirates, Tunisia, United Arab Emirates, and Yemen. *Source: BNM; DOSM*

Malaysia is one of the key sources of advanced and important manufacturing products for the US



** Malaysia’s export value for a particular product. Value is taken from the US’s import perspective.*

Source: World Bank

Decoding the direct and indirect impact of tariffs via trade, investment and income channels

▼ **Exports** (higher tariffs)

First order positive impact due to Malaysia's relative lower tariff advantage over competitors

The United States

▼ **Exports** (higher prices from tariffs)

▲ **Cost of imports** from the US, especially intermediate goods

▼ **Investment** from US firms due to reshoring activities

Malaysia

Other Countries

▼ **Global demand** for Malaysian products will reduce if global economic growth slows, especially in the US, China, and the EU

▲ **Cost of inputs increases** due to the supply chains disruption and the increase cost of production

— **(Neutral to negative) Cautious investment approach;** tariffs differential could attract redirection of investment to Malaysia

#1 Export-Oriented Industries

▼ Sales Volume, ▼ Revenue

#2 Domestic Supply Chain SMEs

▼ Orders, ▲ Cost of Production

#3 Spillover Effects

"Reduced profit margins"

"Layoffs or hiring freezes"

"Delayed expansion or investment plans"

"Difficulty servicing debt or securing new financing"

"Business closures for highly exposed SMEs"

▼ Production

+▼ Exports

+▲ Unemployment

+▼ Income & Consumer Spending

+▲ Business Cost & Inflation

= ▼ GDP

A sharp slowdown in total exports can be a big drag on GDP growth

	Asian Financial Crisis		Global Financial Crisis		COVID-19 Pandemic		Post-COVID-19	
	1997	**1998**	**2008**	**2009**	**2019**	**2020**	**2023**	**2024**
Real GDP growth (%)	7.3	-0.1	4.8	-1.5	4.4	-5.5	3.6	5.1
Attributed to (% point) *[share to GDP]*								
Domestic demand	7.1 [106.8%] 🏋	-0.3 [86.3%] 💥	5.4 [82.6%] 🏋	0.2 [84.1%] 🏋	4.1 [93.9%] 🏋	-5.1 [93.9%] 💥	4.3 [93.9%] 🏋	6.1 [95.2%] 🏋
Real exports	**5.3** [94.8%]	**0.0** [102.8%]	**1.8** [107.9%]	**-11.7** [97.6%]	**-0.7** [63.8%]	**-5.5** [61.7%]	**-6.0** [66.1%]	**5.6** [68.2%]
Real imports	6.0 [101.5%]	-0.2 [89.0%]	2.2 [90.6%]	-11.5 [80.3%]	-1.4 [56.7%]	-4.5 [55.2%]	-5.1 [61.7%]	5.5 [63.9%]
Net exports	-0.7 [-6.7%]	0.2 [13.8%] 🏋	-0.4 [17.3%]	-0.2 [17.3%] 💥	0.7 [7.1%]	-1.0 [6.5%] 💥	-0.9 [4.4%] 💥	0.1 [4.3%]
Changes in stock	0.9 [-0.1%]	0.0 [-0.1%]	-0.1 [0.2%]	-1.5 [-1.4%]	-0.4 [-1.0%]	0.7 [-0.3%]	0.1 [1.7%]	-1.1 [0.5%]

Source: Ministry of Economy; DOSM *Note: Figure in parenthesis [ ] indicates % of real GDP.*

Blanket tariffs on all products, with exclusions that risk being subject to sector-specific tariff actions

Some goods will not be subject to the Reciprocal Tariff:

- All articles that are encompassed by 50 U.S.C. 1702(b)
- All articles and derivatives of **steel and aluminium**
- All **automobiles and automotive parts**
- Other products enumerated in Annex II (Source), including **copper, pharmaceuticals, semiconductors, lumber articles, certain critical minerals, and energy and energy products**
- All articles from a trading partner (*i.e. Belarus, Cuba, North Korea, and Russia*) are subject to the rates set forth in Column 2 of the Harmonized Tariff Schedule of the United States (HTSUS)
- All articles that may become subject to duties pursuant to future actions under section 232 of the Trade Expansion Act of 1962

Steel and aluminium:

- Taxed by the US globally under section 232, effective 12 March.
- Proxy: HS72 (iron and steel), HS73 (iron and steel products), and HS76 (aluminium products) (**collectively ~RM5.8 billion or 2.9% of Malaysia's exports to the US**).

Automobiles and automotive parts:

- Taxed by the US globally under section 232, effective 3 April (automotive) and 3 May (automotive parts).
- Proxy: HS87 (automotive and parts) (**~RM0.5 billion or 0.02%**) .

Annex II products:

- **A temporary exclusion for RM78.5 billion or 39.5% of Malaysian products (with expanded scope in Annex II) exporting to the US:**
  - **Selected smartphones, laptops, semiconductors and other electronics *(RM72.9 billion or 36.7%)*,** which are the primary export products.
  - **Other products under Annex II *(RM5.6 billion or 2.8%)*.**
- **A balance of RM120.1 billion or 60.5% of exports are facing higher tariffs** in the US.

Future section 232 actions:

- The **Section 232 investigations were initiated on copper and lumber imports in March 2025** and **semiconductor and pharmaceuticals in April 2025**.
- Hence, **such exclusions may be a temporary measure**, paving the way for other trade actions down the line.

Source: White House; DOSM

Note:Discrepancies may arise as the export values are aggregated based on HS-6 digit codes, whereas the tariff exemption list in Annex II is specified at the HS-8 digit level.

New tariffs on Malaysia's major products exporting to the US, pending the negotiation outcome

Product category by HS code Year 2024	**Exports value** RM million (% share of total exports to the US)	**Current tariff rate based on HTSUS**	**New tariff rate: Additional 24.0%**
85 Electrical and electronic (E&E) products^	39,224 (19.7%)	Up to 15.0%	Up to 39.0%
84 Machinery and equipment^	25,053 (12.6%)	Up to 9.9%	Up to 33.9%
90 Optical & scientific equipment	17,782 (9.0%)	Up to 16.0%	Up to 40.0%
40 Rubber and rubber products^	7,438 (3.7%)	Up to 14.0%	Up to 38.0%
94 Furniture products	7,038 (3.5%)	Up to 12.8%	Up to 36.8%
15 Palm oil and palm oil products	2,743 (1.4%)	Up to 19.1% or 12.3¢/kg	Up to 43.1%#
39 Plastics and plastic products^	2,159 (1.1%)	Up to 6.5%	Up to 30.5%

Note:
HTSUS = The Harmonized Tariff Schedule of the United States
^ Export value for HS Code 85, 84, 40, and 39 have excluded the exempted products under Annex II (including the expansion) of Trump's Executive Order. Please note that discrepancies may arise as the export values are aggregated based on HS-6 digit codes, whereas the tariff exemption list in Annex II is specified at the HS-8 digit level.
 # There is a list of tariff lines charged by volume; hence, the new tariff rate is unknown.
Source: DOSM; HTSUS

Decoding the tariffs' impact by major sectors

#1 Electrical and electronic (E&E) products

- A substantial exports of **E&E products** (about RM39.2 billion or 36.2% of total E&E exports (under HS85) to the US) are not excluded and faces with +24% tariff should the reciprocal tariff remains.
- Although temporary exclusions on selected electronic (largely semiconductors) exports under E&E products (RM69.1 billion) are in place, there will be **disruptions in the supply chains**. The benefits from the tech upcycle and National Semiconductor Strategy (NSS) have become uncertain..

#2 Machinery and equipment & Optical and scientific equipment

- RM3.8 billion (1.9% of total exports) exports in machinery and equipment (HS84) will be exempted under the expanded scope of exclusion in Annex II.
- Nevertheless, remaining RM25.1 billion (12.6% of total exports) worth of HS-84 exports will still be affected.
- A total of RM17.8 billion (9.0% share) in exports of optical and scientific equipment (HS90) is directly hit.

#3 Rubber and rubber products

- **Rubber glove** exports (under HS401512 & HS401519) totalled RM6.1 billion are impacted.
- Malaysia's competitiveness is better off compared to +32% to +49% tariffs among other key glove-producing countries, especially China, which has faced an additional 145% tariffs.

#4 Furniture products

- A total of RM7.0 billion in exports of broad furniture products (HS94) (3.5% share of total exports to the US) is directly affected.
- Furniture shipments to the US have been delayed or reduced due to market uncertainty and clients' requests following the new tariff.
- Buyers have requested for price reduction due to the tariffs. Both manufacturers and customers negotiate to co-sharing the tariffs; and hence, compressing profit margin.
- Moving production abroad is not straightforward, as adapting styles and designs takes considerable time.

Decoding the tariffs' impact by major sectors (cont.)

#5 Palm oil and palm oil products

- US imported 191,000 tonnes of palm oil (only 1.1% of Malaysia's total palm oil exports) from Malaysia in 2024. Although the reciprocal tariff for Malaysia (+24%) is lower than Indonesia (+32%), the US may substitute more palm oil imports with soybean oil.

#6 Banking and financial sector

- Direct impact from reduced export activity on **banking sector** loan growth is likely to be limited in the near term.
- Indirect impact as GDP slows over the long run, uncertainties dampen overall loan growth momentum, and the risk of rising credit stress may emerge.
- Tariffs rout has shaken investors' confidence across global markets. In the US, the Fear & Greed Index has surged to 17(on 9 April 2025), indicating extreme fear in the stock market. This negative sentiment spilled over into the Asia-Pacific region, where the US sweeping tariffs has sparked the risk of global recession, resulting in market panic selling, with major stock indices worldwide plunging to lows last seen in decades. Malaysia's FBM KLCI also tumbled sharply.
- Investors were concerns over the impact of a full-blown trade war on the global economy, having knock-on effects on domestic economy and business growth. The sharp market declines and volatilities have accentuated risk aversion, directly affecting the banking and financial sector through falling asset valuations, reduced capital flows, and growing uncertainty in business lending and investment activities.

Malaysia's action plans to cope with the tariffs impact

The Government categorically denies the claim of imposing a 47% tariff on US imports into Malaysia, and we're committed to securing a favourable resolution. **For now, Malaysia will not take any retaliatory action.**

#1 Establish National Geo-economic Command Centre (NGCC)

Conduct an in-depth study on the impact of tariffs on several export sectors to the US. The NGCC will consider the findings of the study at its next meeting in the near future.

#2 Establish a Task Force on Managing US Tariffs

Collect feedback from various stakeholders to minimise the effects of tariffs on Malaysia's exports and investment.

#3 Meeting of ASEAN economic ministers

The meeting, chaired by the Minister of Investment, Trade and Industry (MITI), will be conducted on 10 April 2025 to discuss the implications of President Trump's radical tariff policy on ASEAN's trade and investment flow, macroeconomic stability and the region's response.

#4 Strategic high-level engagement with the US

Leverage on the Malaysia-US Trade & Investment Framework Agreement (TIFA) and consider the establishment of a Technology Safeguard Agreement with the US to facilitate high-tech cooperation in semiconductors, aerospace and digital economy sectors.

#5.1 Diversify Malaysia's export market

Diversify and broaden Malaysia's export markets, targeting regions such as the Middle East (including through MIHAS), Africa, and South America.

#5.2 Increase usage of other Free Trade Agreements (FTA)

Other FTA alternatives include (1) Comprehensive Economic Partnership Agreement (CEPA) with the United Arab Emirates (UAE); (2) Resumption of FTA negotiations with the European Union (EU) and South Korea, respective; (3) Upgrading the ASEAN Trade in Goods Agreement (ATIGA); and (4) Malaysia-European Free Trade Association (EFTA) negotiations.

Source: MITI

ACCCIM Quick-Take Survey (QTS)

The US Reciprocal Tariffs

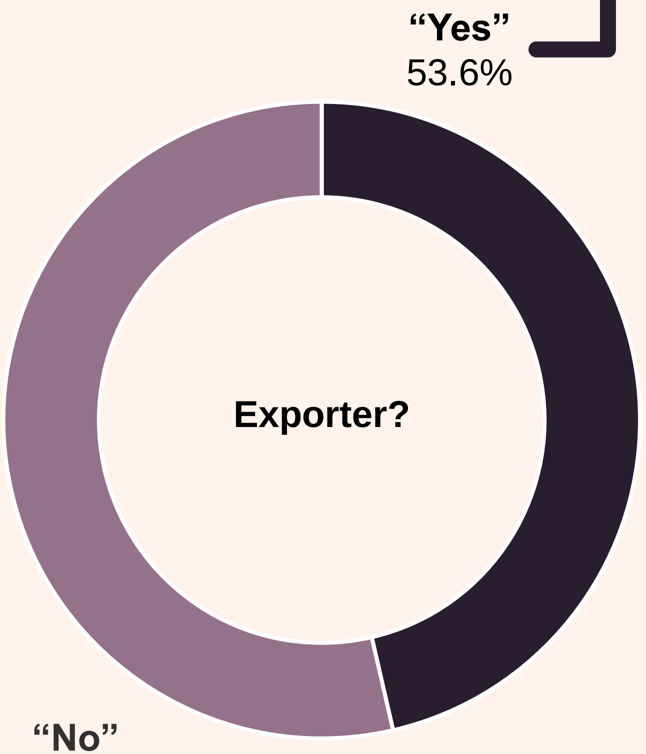
Survey period: 7 April – 10 April

Total respondents: 192

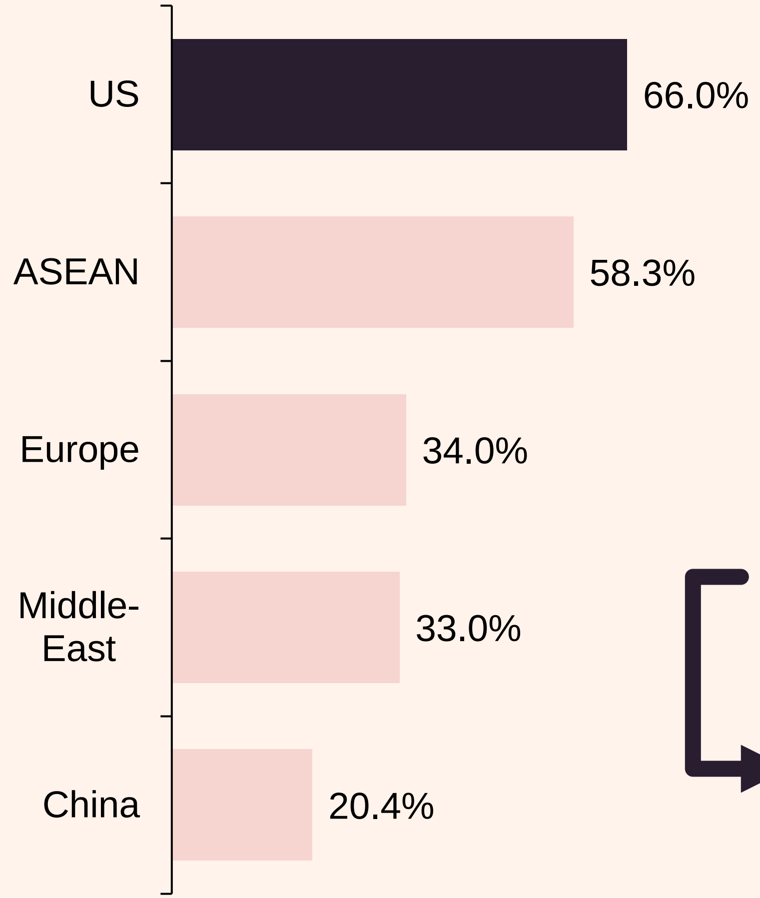
Quick-take survey: Export profile

Respondents' major export market: 66% reported their businesses export to the US

Overall (n=192)



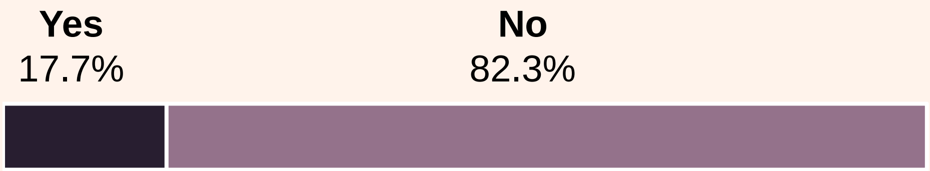
Top five export destinations



Sales generated from the US market

Less than 5%	19.1%
6% - 10%	7.4%
11% - 20%	10.3%
Above 20%	63.2%

Reliance on the US imports in the supply chain



- Technology and software
- Food and beverages
- Manufacturing components
- Consumer goods
- Electrical machinery and equipment

Quick-take survey: Tariffs impact

55.2% of total respondents are impacted by the tariffs

Yes 55.2% (n=106)

No 44.8%

	Direct impact	**Indirect impact**
Very high impact	30.2%	25.5%
High impact	19.8%	21.7%
Moderate impact	20.8%	32.1%
Low impact	17.0%	14.2%
N/A or No impact	12.3%	6.6%

Affected products listed by the respondents:

% of respondents facing direct or indirect impact (n=106)

61.3% of businesses indicated that their sales will be impacted should the tariff increase more than 10%

Above 20%	**34.9%**
11% - 20%	**26.4%**
6% - 10%	**25.5%**
1% - 5%	**8.5%**
Not significant	**4.7%**

60.4% of respondents were pessimistic about business's future

Optimistic	**5.7%**
Neutral	**34.0%**
Pessimistic	**60.4%**

46.2% of businesses indicated their customers request for price reduction

PRICE

"Yes"	"No"	"Unsure"
46.2%	14.2%	39.6%

Only 14.2% of businesses indicated their products still competitive

"Yes"	"No"	"Unsure"
14.2%	31.1%	54.7%

Quick-take survey: Businesses’ measures and strategies

Measures and strategic business actions under consideration

91.5% of businesses have plans to mitigate the impact

VS

No plan or N/A
8.5%

Top five (5) business actions

(n=97)

1	**Reducing operational costs**	**59.8%**
2	**Sourcing alternative markets**	**56.7%**
3	**Deferring or cancelling investment plans**	**42.3%**
4	Passing on increased costs to consumers	38.1%
5	Diversifying supplier base	35.1%

“Too early to specify”

“Considering Relocation”

“Shut down if no longer competitive”

What are the supports businesses require from the Government in navigating the impact of tariffs?

Government grants and subsidies

#1 **66.0%**

Provide clear guidance on how to cope with tariffs

#2 **59.4%**

Real-time, accurate updates on tariff regulations

#3 **49.1%**

Strengthen regional trade alliances

#4 **47.2%**

Government-backed trade programs to help expand into new markets

#5 **47.2%**

Tax breaks for exporters

#6 **47.2%**

Forge new FTA

#7 **41.5%**

Financial incentives to encourage domestic trade and production

#8 **38.7%**

- Financial support
- Informational support
- Market facilitation

What’s Next?

Non-Tariff Barriers (NTBs) - What can Malaysia offer and what should each stakeholder undertake?

What can Malaysia offer in the negotiation?

Proposal	Rationale	Feasibility
Automobile Import Policy Adjustment	Revise the national approved permits system to better balance domestic protection with enhanced market access for US vehicles.	**Medium - High** *As stated in the National Automotive Policy (NAP), Malaysia is committed to gradually remove or reduce its import duty.*
Halal Certification Process Reform	Streamline halal certification to reduce costs and delays for US meat and poultry exports.	**Medium - High** *Remain committed to strengthening management of the halal certification for the benefit and welfare of the nation.*
Streamlined Facility Registration for the Department of Veterinary Services (DVS)	Digitise and streamline the registration process for meat, poultry, and dairy facilities to cut delays and paperwork mismatches.	**Medium - High** *With the on-going public delivery service reforms, digital transformation is both timely and achievable.*
Amendment of Alcoholic Beverage Definitions	Malaysia's Food Regulations of 1985 narrowly defines alcoholic beverages in a manner does not provide for the sale of new products that do not fit neatly within certain defined product categories. Adjust definitions to allow US malt-based and spirit-based ready-to-drink beverages while ensuring safety.	**Medium** *Require consensus but are feasible if supported by transparent review processes.*

What can Malaysia offer in the negotiation? (cont.)

Proposal	Rationale	Feasibility
Live Poultry Trade Regionalisation Framework	Propose a regionalisation arrangement to allow limit suspension of poultry trade to those areas affected by highly pathogenic avian influenza (HPAI).	**Medium** *Depending on inter-agency coordination and regional public health data.*
Government Procurement Policy Reforms	Foreign companies are required by law to take on a local, Bumiputera (indigenous ethnic Malay) – qualified partner before their tenders will be considered.	**Low - Medium** *There were flexibility and carve outs in RCEP and CPTPP. Procurement reforms aim to strike a balance between achieving the best value for government spending and ensuring national interests are protected.*
Pharmaceutical Procurement Fairness	Ensure transparent procurement that offers US pharmaceuticals equal opportunity in a competitive process.	**Low - Medium** *Changes can be integrated within ongoing Government Procurement reforms.*
Enhanced Intellectual Property Enforcement	Strengthen IP laws and enforcement to protect US innovations and deter piracy and counterfeiting.	**High** *Actively enhancing IP enforcement and strengthening its legal framework.*
Financial Services Regulatory Adjustments	Relax certain restrictions on foreign banks to facilitate greater US financial participation and competition.	**Low - Medium** *High presence of foreign financial services and does not have strict restrictions on their presence.*

What can Malaysia offer in the negotiation? (cont.)

Proposal	Rationale	Feasibility
Long-Term Cable Repair Exemption Stability Framework	Establish a legally binding framework for the submarine cable repair exemption that offers predictability while retaining enough regulatory flexibility to adjust to future needs.	**Medium - High** *Requires inter-agency coordination and possible legislative updates to provide a long-term policy certainty.*
Pilot Program for Flexible Foreign Content Integration	Test a controlled pilot scheme that allows limited foreign programming during non-prime hours to enhance cultural exchange while safeguarding domestic content objectives.	**Medium** *Need stakeholder engagement and phased implementation.*
Open Internet Commitment	Enshrine policies for an open and secure internet that benefits US digital trade, using a joint oversight commission.	**Low - Medium** *Given the global emphasis on a free and open internet.*
Foreign Investment Ownership Flexibility	Ease local participation rules in select sectors to allow higher US equity stakes without compromising local interests.	**Low - Medium** *Require a careful balance of strategic domestic economic priorities with investor interests.*
Transparent Export Subsidy Practices	Enhance reporting of export subsidies to meet WTO guidelines and ensure fair competition.	**High** *Transparency reforms are readily achievable through enhanced reporting, aligning with global best practices.*

What should the Government do?

01 **Enhance domestic industries by increasing local value addition** through enhanced public–private collaboration, investment in research and development (R&D), and the implementation of proactive crisis contingency frameworks designed to manage trade disruptions effectively.

02 While the current ASEAN Chairmanship is being utilised to foster regional collaboration, **an additional focus should be placed on developing strategic, high-level economic initiatives within ASEAN.** This includes further refining and expanding free trade agreements (FTAs) with external partners to enhance the region's collective bargaining power and ensure that economic integration yields mutual benefits. Moreover, ASEAN can serve as a unified platform to engage in dialogue with the US, leveraging its collective voice to advocate for more balanced and equitable trade arrangements.

03 Improve the competitiveness of domestic small and medium-sized enterprises (SMEs) by **providing targeted export credit schemes, rationalising import duties on critical raw materials, and assisting firms in exploring and entering new international markets** to diversify their revenue streams.

04 Improve the investment climate by **streamlining regulatory processes and transparently reviewing investment incentives.** The Government should also assess Malaysia's competitive strengths and unique value propositions under the new norm to bolster its appeal as a premier investment destination. These measures will provide a strong impetus for attracting high-quality foreign direct investment, particularly in digital transformation, advanced manufacturing, and sustainable industries.

05 **Continuously prioritise the development of high-value, low-elasticity products (less trade elasticity to tariff imposition)** that remain resilient even under high tariff conditions. Encouraging innovation and progressing up the value chain will help to sustain demand and ensure stable revenue streams irrespective of external tariff pressures.

06 In addition to diversifying export markets across regions such as the Middle East, Africa, and South America, **there should be a strategic focus on forging balanced agreements that utilise and protect Malaysia's competitive strengths**, including a measured approach towards a US Free Trade Agreement for reciprocal advantages.

What should the companies do?

Adaptability to Shifting Global Trade Dynamics

Strengthen the ability to monitor and respond to shifts in global trade flows, tariff regimes, and geopolitical developments by investing in market intelligence tools and scenario planning exercises to anticipate possible disruptions.

Regular risk assessments and data-driven insights will enable faster, more informed decision-making in times of uncertainty and help firms maintain business continuity.

Modernising and Diversifying Supply Chains

Diversify suppliers' base, even if it involves higher short-term costs.

Exploring regional or local sourcing options can help mitigate tariff exposure and logistics challenges. In parallel, supply chain digitalisation – through technologies like IoT, blockchain, or AI – can enhance visibility and agility. Flexible contracting with suppliers can also provide room to adapt swiftly to volatile trade environments.

Diversifying and Expanding into New Markets

Actively reduce overreliance on any single sector or geographic market. Diversifying product and service portfolios – especially into sectors less sensitive to trade conflicts – helps build resilience.

Expanding into emerging and underserved markets offers growth potential while minimising exposure to concentrated risk. Strategic localisation and partnerships with local firms can smooth entry into new regions and improve adaptability.

Technology Adoption and Human Capital Development

Leveraging emerging technologies such as automation, artificial intelligence, and robotics, as well as human capital development, improves productivity and reduces reliance on labour-intensive processes. Beyond efficiency gains, technology adoption equips businesses for future growth, enabling faster responses to market shifts and supporting the transition to high-value, tech-driven business models.

What can buffer Malaysia against external shocks?

Malaysia is in a position of strength to face headwinds. Still-sound economic and financial fundamentals supported by facilitative policies and accommodative monetary policy.

A well-diversified trade, economic sectors and sources of foreign direct investments. This helps to reduce vulnerability and risks inflicted by a particular sector and industry as well as a country.

Gradual fiscal consolidation path is appropriate while continuing to strengthen domestic resilience, protect the vulnerable group.

The financial sector is well-capitalised to cope with most shocks. As at end-2024, banks' liquidity buffers exceeded regulatory levels with strong loan quality (aggregate non-performing loans (NPLs) at 1.4% of gross loans) and sizeable provisions (91.4% of total impaired loans). Liquidity coverage ratio (LCR) is well-above the required level (100% starting 2019) at 160%.

Flexible exchange rate is essential continue to play the role of shock absorber and remains the first line of defence against external shocks in the context of protracted uncertainty in global economic and financial conditions. This is backed by **adequate international reserves and sustained current account surplus**.

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