Malaysia–US Tariff Reset

Strategic win but modest gains: Selective concessions, a clearer path for exporters

SUMMARY

- The US reduction of reciprocal tariffs on Malaysian exports to 19.0% from 25.0%, following intense bilateral negotiations, is viewed as strategic and defensive trade outcome.
- Key exports such as semiconductors and pharmaceuticals remain exempted (0%), with Section 232 oversight still in place. Exporters in E&E and halal segments may see modest volume upside and improved regulatory predictability.
- Malaysia's 19.0% tariff outcome is both notable and regionally competitive. It aligns with peers on tariff rates, without major concessions.
- No concessions were made on core policies: excise duties, import licensing, and foreign equity caps were protected.
- FDI attractiveness may rise, particularly in strategic sectors such as semiconductors, agrifood, and minerals. Reinforces Malaysia's role in US-aligned critical mineral and rare earth supply chains.
- The headline tariff relief reduces downside risks to Malaysia's exports amid elevated US trade scrutiny but is unlikely to materially lift GDP or exports in the near term. Hence, our 2025 GDP forecast unchanged at 4.3%, as key export items (E&E and pharma) already enjoyed 0% tariff.
- Boeing order (USD19.0b) to add to capital imports and could widen the current account deficit in the short to medium term. However, gains in semiconductors, halal products, and food self-sufficiency will reduce import reliance.
- In the medium term, we maintain a neutral trade outlook, with global demand softness and external uncertainties likely capping gains. Exports forecast for 2025 is retained at 3.1% (2024: 5.7%), reflecting a weakness in commodity exports. The tariff reprieve reduces tail risks, but demand remains the limiting factor.
- Overall, the move improves market access certainty and reinforces Malaysia's position as a credible and resilient trading partner.

OVERVIEW

- The United States reduction of its reciprocal tariff on Malaysian exports to 19.0% from 25.0%, effective 7 August 2025, may not be ideal, but it sets a clearer and more stable path forward in the near term. The adjustment was formalised through an *Executive Order: Further Modifying the Reciprocal Tariff Rates,* following direct engagement between Prime Minister Datuk Seri Anwar Ibrahim and US President Donald Trump. In reality, however, it reflected the culmination of months of behind-the-scenes negotiations led by both US and Malaysian trade negotiating teams.
- While the headline tariff remains relatively high, this outcome was largely within expectations and reflects Malaysia's strategic use of bargaining chips, namely, its pivotal role in US semiconductor supply chains, its critical rare earth processing capabilities, growing healthcare export base, and ASEAN chairmanship in 2025.
- The tariff rollback represents a defensive success rather than a stimulus catalyst. In short, Malaysia managed to preserve its economic sovereignty, protect key policy domains (e.g., excise duties, import licensing, and foreign equity caps), and avoid deeper liberalisation or fiscal concessions.

Table 1: Recap of tariff timeline

Date	Key Event
2 April 2025	On Trump's Liberalisation Day, the US imposed a 24.0% reciprocal tariff on Malaysian imports, citing trade imbalances and protectionist measures.
9 April 2025	Trump switched its approach by suspending the specific country tariffs and implementing a 10.0% universal tariff with a 90-day consultation period.
6 May 2025	Formal negotiations commenced between MITI and US trade representatives.
7 July 2025	US threaten it would impose a 25.0% tariff on Malaysian exports from 1 August if Malaysia failed to conclude negotiations.
31 July 2025	Negotiations concluded with a revised tariff rate drop to 19.0%, effective 1 August 2025.

Source: Newsflow, Kenanga Research

Background: US Tariffs on Malaysian Exports (Pre 2025 to Post Deal)

- Before Trump's 2025 "reciprocal tariff" shock on 2 April 2025, Malaysia enjoyed very low US applied tariffs, often 0% on key export goods such as semiconductors, electronics, and pharmaceuticals. These preferential rates were a result of longstanding Most Favoured Nation (MFN) status and global trade norms.
- Only about 55.0% of Malaysia's US-bound exports were subject to ordinary tariffs. When the US announced a 24.0% flat tariff across non-exempt goods in April 2025, the trade-weighted average tariff spiked to about 14.0% - 15.0%. After months of negotiations, the US agreed to a rollback to 19.0%, effective this Thursday, 7 August.

Table 2: Summary Table – Tariff Evolution

Period	Average US Tariff Rate on Malaysian Exports
Pre-2025 baseline	Roughly 0.0%–5.0% (most sector rates at 0.0%)
Trade-weighted early 2025	~14.0-15.0% (reflecting ~55.0% of exports subject to tariffs)
Under Trump escalation	~24.0–25.0% nominal (flat across non-exempt categories)
Post deal (Aug 2025)	19.0% flat for non-exempt exports

Source: WTO, ISIS, Kenanga Research

How Malaysia Fare Regionally: A Relatively Better Deal Among ASEAN Peers

- Malaysia's 19.0% tariff outcome is both notable and regionally competitive. It aligns with peers on tariff rates, without major concessions. In contrast, Vietnam and Indonesia had to offer broader liberalisation to secure similar outcomes. Vietnam retained 20.0% tariff, slightly above the ASEAN norm, reflecting its higher initial exposure and slightly weaker bilateral leverage, in line with earlier expectations of a 46.0% escalation risk.
- Malaysia shares its 19.0% flat rate with Thailand, Cambodia, the Philippines, and Indonesia, largely a result of last-minute trade diplomacy. Malaysia's standout role in brokering peace between Thailand and Cambodia boosted its diplomatic standing and negotiating capital.
- The Philippines and Indonesia struck earlier deals, avoiding the full brunt of 25.0% – 36.0% tariffs. Meanwhile, Singapore remains at 10.0%, despite having bilateral FTA and trade deficit with the US but still affected by the Trump-era reciprocal tariff wave.
- Brunei, Laos, and Myanmar saw no tariff adjustments, an implicit sign of limited strategic leverage or trade exposure in US supply chains.

Table 3: Updated ASEAN Tariff Benchmarking

Country	New US Tariff Rate	Previous Threat Rate	Deal Timing & Comments
Malaysia	19%	25%	Struck eleventh-hour deal; leveraged ASEAN chairmanship and ceasefire role
Thailand	19%	36%	Also secured last-minute reduction tied to ceasefire with Cambodia
Cambodia	19%	36–49%	Negotiated post-conflict reduction; key export sectors saved
Philippines	19%	20%	Early agreement reached; moderate policy leverage
Indonesia	19%	32%	Earlier deal preserved GSP access while avoiding top-tier tariff
Vietnam	20%	46%	Significant cut through broader CPTPP alignment
Singapore	10%	10%	Maintained baseline FTA-protected rate amid reciprocal tariffs
Brunei / Laos / Myanmar	25%, 40%, 40%	Unchanged	No trade deal; rates remain high due to limited bargaining leverage

Source: WSJ, Reuters, CNA, Kenanga Research

The Devil Is in the Details: A Closer Look at Malaysia's Tariff Strategy

- Malaysia's final tariff deal with the US reflects a careful balancing act. It demonstrates openness to fair trade while drawing clear boundaries to protect strategic sectors. The result: a policy package that's pragmatic, measured, and investor-friendly without surrendering national interests.
- **Strategic Liberalisation, Not a Free-for-All :** Malaysia's final offer to the US covered 98.4% of tariff lines (Total=11,444), signalling a firm commitment to open trade. According to MITI's press briefing on Friday, 1 August, 6,911 (61.0%) tariff lines will be reduced to zero, but not without safeguards:
    - ➔ No elimination of excise duties, especially for autos and tobacco.

- No blanket exemptions for US import licensing—ensuring regulatory oversight remains intact.
- No full equity liberalisation in strategic sectors like energy, telecommunications, and infrastructure.

- This selective liberalisation strategy allowed Malaysia to appear flexible without compromising its industrial base. It sends a clear message: Malaysia won't dismantle critical policy tools for short-term gains. Looking ahead, the government may explore excise duty reforms in the automotive sector, a potential lever to improve consumer choice and reduce vehicle prices.
- **Easing the Doors, With Conditions Intact:** Malaysia also agreed to ease non-tariff barriers (NTBs) to improve US market access, without compromising its core standards:
  - Simplified halal and facility registration for US agri-food imports
  - JAKIM-recognised US halal certifiers
  - Lifting of bans on US sorghum and rice
  - Regionalised animal disease protocols
  - Reinforced labour and environmental commitments
- Critically, MITI reaffirmed that Malaysia's halal standards are non-negotiable, quelling public concern that religious or food safety norms were sacrificed. While increased US beef imports could weigh slightly on the trade balance, the impact is minimal, while they also offer greater consumer variety, especially beyond traditional suppliers like Australia and New Zealand.
- **Trade Governance: From Compliance to Credibility:** Malaysia has stepped up trade enforcement, shoring up its reputation in Washington and global supply chains:
  - Since May 2025, MITI is the sole issuer of Non-Preferential Certificates of Origin (NPCO) to curb transshipment and origin fraud, key US concerns.
  - AI chip exports are now monitored under the Strategic Trade Act's "catch-all" controls, aligning Malaysia with US expectations on tech security.
  - On rare earths and critical minerals, Malaysia confirmed no export restrictions on processed goods, cementing its position as a reliable supplier in the global mineral ecosystem.

Table 4: US Tariffs on Malaysian Exports: Sector-Level Snapshot / Product-Level US Tariff Exposure Table

HS Code / Product Category	Pre-2025 Tariff	Early-2025 Shock Tariff	Post-Deal Tariff (Aug 2025)	Share of US-bound Exports	US Export Value (estimate)
8541 - Semiconductors Devices	0.0%	0.0%	0.0%	~3.0%	USD3.0b
8542 - Electronic Integrated Circuits & Microassemblies	0.0%	0.0%	0.0%	~20.0-23.0%	USD7.0b
Pharmaceuticals - Finished & API Products	0.0%	0.0%	0.0%	~4.0%	USD1.6b
85 (non-IC) - Other Electronics & Electricals	0.0-2.0%	~24.0%	19.0%	~30.0-35.0%	USD13.0b
1511.10.10 - Crude Palm Oil	~3.0%	~24.0%	19.0%	~3.0-4.0%	USD1.46b
4011.10.10 - Rubber Tyres	~4.0%	~24.0%	19.0%	~1.0-2.0%	USD0.7b
9403.20.80 - Furniture (Wood/Metal Seating)	3.0-5.0%	~24.0%	19.0%	~1.0-2.0%	USD0.7b
8421.19.80 - Filters & Machinery Parts	2.0-5.0%	~24.0%	19.0%	~5.0-7.0%	USD2.5b
Agricultural Food (non-halal/JAKIM uncertified)	4.0-8.0%	~24.0%	19.0%	~2.0-3.0%	USD1.0b
Raw Materials & Intermediates	2.0-5.0%	~24.0%	19.0%	~5.0%	USD2.0b
Rare Earths & Critical Minerals	0.0-2.0%	~24.0%	19.0%	~1.0%	USD0.4b

Source: WTO, MATRADE, DOSM, USTR, USImportData.com, BNM, Kenanga Research

Note: Export values and shares are estimated based on aggregation of UN Comtrade flows and Malaysian export structure by HS; precise values may vary slightly per data version

- To address the US trade deficit narrative, Malaysia Aviation Group (MAG) has committed to a USD19.0b Boeing order, split across two phases of 30 jets each. MITI Minister Dato' Seri Tengku Zafrul clarified the deal will be privately financed, ensuring no burden on public finances.

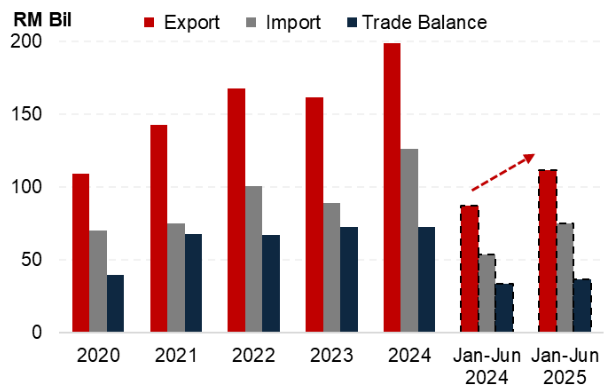
Macroeconomic Impact: Modest, Reputational Gain = Investor Confidence

- Macro impact is expected to be modest. While tail risks from the Trump-era tariff hike have been removed, the rollback is expected not provide a material economic uplift. The key takeaway is reputational: Malaysia avoided costly concessions while securing preferential access. That alone may reinforce investor confidence, especially in semiconductors, halal food logistics, and rare earths. Tariff relief offers sentiment support, but global headwinds keep outlook cautious.

- **The new tariff deal may attract FDI**, particularly in strategic sectors such as semiconductors, agrifood, and minerals. Reinforces Malaysia's role in US-aligned critical mineral and rare earth supply chains.

- **Trade Outlook: Strength in E&E, but softness in commodities keeps forecast conservative:** Despite easing trade tensions and the recent US tariff rollback, Malaysia's export outlook remains tempered by global policy uncertainty and a patchy US and China recovery. That said, Malaysia enters this phase from a position of relative strength:

Graph 1: US-Malaysia Foreign Trade



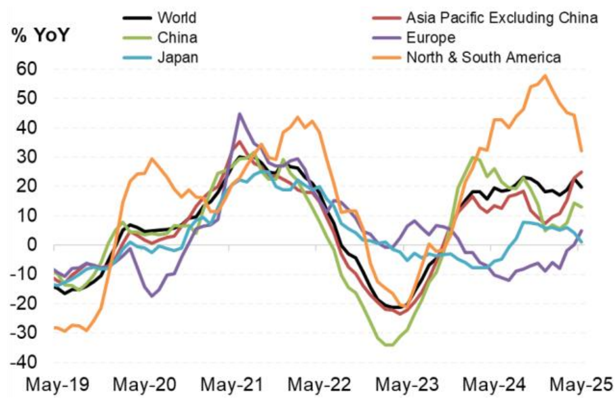
Source: Macrobond, Dept. of Statistics, Kenanga Research

  - ➔ Exports grew 3.8% YoY in 1H25, driven by firm demand for manufactured goods, particularly E&E, even as commodity-related exports remained weak. We retain our export growth forecast at 3.1% for 2025 (2024: 5.7%), reflecting a cautiously optimistic stance. A stronger ringgit could weigh on commodity exports in 2H25, but recent tariff relief and clearer US trade policies may improve sentiment.

  - ➔ The Manufacturing PMI rose to 49.7 in July (Jun: 49.3), its highest since June 2024, suggesting a better-than-expected start for manufacturing sector in 3Q25.

  - ➔ Global semiconductor sales, a leading indicator for Malaysia's E&E sector, remained resilient, growing 19.8% YoY in May (April: 22.7%). This strength is expected to sustain and support export momentum in the coming quarters.

Graph 2: SIA Global Semiconductor Sales



Source: Macrobond, Kenanga Research

  - ➔ Boeing order (USD19.0b) may widen near-term current account but offset by stronger semiconductor exports and measures under NIMP2030 and 13MP, halal gains, and reduced food import reliance.

- **GDP Outlook: No revision to baseline forecast, as domestic engines offset external risks:** Despite the improved optics from the US tariff deal, we maintain our 2025 GDP growth forecast at 4.3% (2024: 5.1%). This is within Bank Negara Malaysia's revised range of 4.0% – 4.8% (previously 4.5% – 5.5%). Our call reflects:

  - ➔ Persistent global trade recalibration, especially in supply chains tied to manufacturing and commodities.

  - ➔ Elevated risks of a US economic slowdown, as tariff costs may begin to pass through to consumers.

  - ➔ Still-tepid external demand despite easing trade restrictions.

- However, domestic demand remains a strong anchor, supported by:

  - ➔ Rising household incomes amid higher minimum wages, and low unemployment rate.

➔ Targeted fiscal support and a more accommodative policy rate environment

CONCLUSION: Strategic Diplomacy, Limited Macro Lift

- **The tariff reset is not a macro game-changer, but a well-executed geopolitical hedge**. Malaysia avoided high-cost liberalisation while securing fairer access, sending a clear message to investors: the country can defend its strategic interests without isolating itself from key markets.
- **Malaysia's response handling of the US tariff threat was calculated and composed.** It strategically leveraged its role in global tech supply chains, rare earth processing, and its ASEAN leadership to avoid deeper economic concessions.
- **Looking ahead to Budget 2026 and ongoing fiscal reforms, the deal marks a shift in Malaysia's economic diplomacy—more assertive, less reactive, and focused on long-term resilience over short-term relief.** Barring external shocks, the macroeconomic effects are expected to normalise by 2H26.
- **Importantly, Malaysia retains its regional competitiveness.** With a relatively lower average tariff structure—second only to Singapore—it strikes a credible balance between sovereignty and openness, reinforcing its image as a reliable and strategically resilient investment destination.

Appendix 1: MITI Announcement Takeaways on Revised Rate of the Reciprocal Tariff (1 August 2025)

1 **Strategic Win-Win Deal**:
The deal is positioned as mutually beneficial and avoids compromising core Malaysian policies, especially around halal standards and strategic sectors.

2 **Sectoral Protection Maintained**:
Malaysia **did not concede** to US demands to remove:
- Excise duties (e.g. on autos, tobacco),
- Import licensing for all US products,
- Equity limits in strategic sectors.

3 **Halal Certification Clarity**:
Malaysia agreed to facilitate halal imports from the US **without** lowering Shariah standards. Only US certifiers recognised by JAKIM are allowed.

4 **Commitments for Trade Facilitation**:
- Eased halal and facility registration processes,
- Lifted bans on US rice and sorghum,
- Strengthened animal disease controls via regionalisation.

4 **US-MY Trade Deficit Addressed**:
Malaysia Aviation Group to procure **60 Boeing aircraft worth USD19.0b**, which also acts as a commercial sweetener for tariff relief.

5 **National Security Safeguards**:
- Tightened controls on origin declarations (NPCO now only via MITI),
- Controlled re-exports of US AI chips (Strategic Trade Act),
- No restriction on Malaysia's rare earth exports (big green light to U.S. industry).

6 **Export Certainty**:
Industry players now have clarity on tariff rates and are urged to use Malaysia's **18 FTAs** to diversify export markets.

Source: MITI, Kenanga Research

Appendix 2: US-Malaysia Foreign Trade in RM billions, 2015-2024 (SITC 2 - Division)

Item	Trade	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Food & Live Animals	Exports	1.2	0.9	1.0	1.0	1.5	1.6	1.4	1.9	2.0	3.0
	Imports	2.4	2.6	3.1	2.8	3.3	3.2	3.4	3.6	2.7	3.1
	Trade Balance	-1.2	-1.6	-2.1	-1.8	-1.8	-1.6	-2.0	-1.7	-0.8	-0.1
Beverages & Tobacco	Exports	0.1	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	Imports	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.1	0.1	0.1
	Trade Balance	-0.0	-0.0	-0.0	-0.1	-0.0	-0.1	-0.1	-0.1	-0.0	-0.1
Crude Materials, Inedible, except Fuels	Exports	0.4	0.4	0.4	0.4	0.4	0.3	0.6	0.7	0.7	0.9
	Imports	1.6	1.9	2.7	4.6	6.5	6.5	9.2	6.4	4.8	5.9
	Trade Balance	-1.2	-1.6	-2.3	-4.2	-6.1	-6.2	-8.5	-5.7	-4.1	-5.0
Mineral Fuels, Lubricants & Related Materials	Exports	0.3	0.5	0.8	0.6	0.2	0.5	0.4	2.7	1.6	0.5
	Imports	1.5	0.9	1.1	1.7	0.8	1.9	0.2	1.2	4.2	6.9
	Trade Balance	-1.1	-0.4	-0.3	-1.1	-0.6	-1.4	0.2	1.5	-2.6	-6.4
Animal & Vegetable Oils, Fats & Waxes	Exports	2.3	2.2	2.3	1.8	1.5	1.9	1.6	1.7	1.2	2.6
	Imports	0.0	0.0	0.1	0.1	0.2	0.1	0.2	0.2	0.1	0.1
	Trade Balance	2.2	2.2	2.2	1.6	1.4	1.8	1.4	1.5	1.1	2.5
Chemicals & Related Products	Exports	2.4	2.7	3.4	3.4	3.0	2.7	4.1	5.1	3.8	4.4
	Imports	6.2	5.8	6.4	7.0	10.0	9.2	9.2	10.4	10.3	10.6
	Trade Balance	-3.7	-3.1	-3.0	-3.6	-6.9	-6.5	-5.1	-5.2	-6.5	-6.2
Manufactured Goods Classified Chiefly by Material	Exports	3.7	3.8	4.8	5.9	6.1	6.1	10.1	10.8	8.8	11.9
	Imports	2.7	2.8	3.0	2.5	2.8	2.7	3.0	6.6	8.5	9.2
	Trade Balance	1.0	1.0	1.8	3.3	3.3	3.4	7.1	4.2	0.3	2.7
Machinery & Transport Equipment	Exports	46.0	50.9	54.0	53.8	57.1	59.4	74.8	105.0	109.9	130.5
	Imports	35.1	35.6	42.5	39.6	38.4	40.0	42.8	64.0	50.7	82.3
	Trade Balance	10.9	15.3	11.4	14.2	18.7	19.4	32.0	41.0	59.2	48.2
Miscellaneous Manufactured Articles	Exports	17.1	18.6	21.7	23.6	26.4	36.4	49.1	39.1	33.1	44.6
	Imports	5.4	5.7	5.9	6.0	6.2	5.7	6.3	7.5	7.0	7.7
	Trade Balance	11.7	13.0	15.8	17.6	20.2	30.7	42.8	31.6	26.1	36.8
Commodities Not Classified	Exports	0.2	0.3	0.3	0.4	0.3	0.2	0.2	0.2	0.1	0.2
	Imports	0.5	0.4	0.4	0.4	0.4	0.3	0.4	0.6	0.3	0.3
	Trade Balance	-0.3	-0.1	-0.1	-0.1	-0.2	-0.1	-0.2	-0.3	-0.2	-0.2
Total	**Exports**	**73.7**	**80.2**	**88.7**	**90.8**	**96.5**	**109.1**	**142.2**	**167.2**	**161.3**	**198.6**
	Imports	**55.3**	**55.7**	**65.3**	**64.9**	**68.7**	**69.7**	**74.7**	**100.4**	**88.9**	**126.3**
	Trade Balance	**18.3**	**24.6**	**23.4**	**25.9**	**27.9**	**39.4**	**67.5**	**66.8**	**72.4**	**72.4**

Source: Macrobond, Kenanga Research

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