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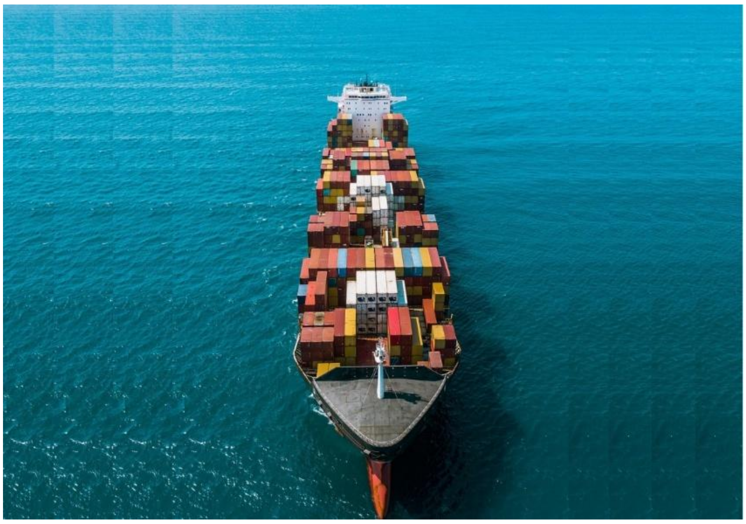
Malaysia’s Trump Tariff Deal

Part I – Tariffs and implications for Malaysia’s industrial policy

Yin Shao Loong



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This view was prepared by Yin Shao Loong, Deputy Director of Research from the Khazanah Research Institute (KRI). The author is grateful for research assistance from Sew Shu En and Sharifah Nurina Syed Malek Faisal.

Author’s email address:
yin.shaoloong@krinstitute.org

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This View is Part 1 of a three-part analysis of the US-Malaysia trade deal. Part 2 looks at non-tariff measures, while Part 3 looks at the interaction between foreign policy and industrial policy.

A Deal is Reached

Almost seven months after Donald Trump announced his 2 April, “Liberation Day” tariffs to redress the US trade deficit, Malaysia and the US have concluded an agreement on “reciprocal tariffs” (USMART)[1]. The reigning economic philosophy in the Trump White House holds that the US’ chronic trade deficit is an unjust affront and requires corrective “reciprocal tariffs” on all trading partners – even those who have a trade deficit with the US.

[1] This paper offers USMART as the acronym for the Agreement Between the United States of America and Malaysia on Reciprocal Tariffs 2025 as opposed to ART since the US in the process of signing ARTs with multiple countries and the terminology is not exclusive to Malaysia.

At first glance, the USMART reduces an earlier punitive Trump tariff on Malaysian exports from 25% to 19%, granting Malaysia one of the lowest rates in Southeast Asia (Table 1). The punishingly high rate of 40% applied to Myanmar and Laos, both of whom are poor Least Developed Countries, allegedly reflects a lack of alignment with US trade and security policies[2]. Malaysia, Cambodia and Thailand may have secured a 19% rate due to their cooperation in the peace process shared with the US.

A 25% tariff rate is popularly perceived to be a level at which trade would grind to a halt, all other things being equal. Malaysia, along with Thailand and Cambodia, were able to secure 0% Trump tariffs on a range of exports of interest. The zero rate goods include agricultural commodities and a wide range of industrial chemicals with pharmaceutical applications, as well as aircraft parts[3].

Table 1: US "Reciprocal tariffs" on ASEAN countries, as of 31 July 2025

Rank	ASEAN Countries	Tariff Rate (%)
1	Myanmar	40
2	Laos	40
3	Brunei	25
4	Vietnam	20
5	Cambodia	19
6	Indonesia	19
7	Malaysia	19
8	Philippines	19
9	Thailand	19
10	Timor-Leste	10
11	Singapore	10

Source: White House 2025[4]

Until the ASEAN Summit, only the EU had managed to secure 0% rates on a similar set of goods[5]. Otherwise, the minimum level of a Trump tariff was considered to be 10%, even for countries with a trade deficit with the US, such as Singapore and the United Kingdom.

In Malaysia's case, the zero rate on a basket of 1,711 goods worth RM22 billion – roughly equivalent to one month's exports to the US[6] - was in addition to the 0% tariff on semiconductors currently in effect.

[2] Visapra (2025)

[3] "Executive Order 14346 of September 5, 2025, Modifying the Scope of Reciprocal Tariffs and Establishing Procedures for Implementing Trade and Security Agreements" (2025)

[4] The White House (2025)

[5] European Commission (2025a)

[6] For comparison, Malaysia's exports to the US for the month of September 2025 amounted to RM20 billion, whereas its exports to Singapore for that month amounted to RM23 billion (MITI 2025).

Semiconductor Semi-deal

Semiconductors are Malaysia's largest export to the US, and electrical and electronic (E&E) goods are its largest export to the world. But this is a rate subject to potential change in the future if the US applies additional tariffs following investigations under Section 232 of its Trade Expansion Act due towards the end of 2025[7].

Section 232 is the mechanism by which the Trump administration has chosen to tackle products of alleged national security interest to the US, such as aluminium, steel, automobiles and semiconductors. Notably, it also includes lumber and furniture, which affects Malaysian exporters beyond the scope of the USMART.

There is no official confirmation if the level of concessions made by Malaysia in the USMART were tied to the fact that semiconductor tariffs are still 'held hostage' by ongoing Section 232 investigations. It is also unclear if goodwill generated by the USMART, hospitality extended at the ASEAN Summit, and the facilitation of the Cambodia-Thailand peace deal will translate into a continued zero rate on semiconductors or a reduced Section 232 rate.

The EU was able to secure a concession from the US to cap Section 232 tariffs on pharmaceuticals, semiconductors and lumber to 15%[8]. Of course, the EU is more closely allied with and dependent upon the US.

Beyond trade, the US is the largest foreign investor in Malaysia. Due to industrial policy setbacks since the 1980s, Malaysia remains highly dependent on foreign direct investment (FDI) to drive its manufacturing sector since it lacks large local firms able to compete at scale. High tariff levels relative to other manufacturing countries could induce multinational companies (MNCs) or their local suppliers to arbitrage tariffs by relocating or downsizing their operations.

Trump's 2 April "Liberation Day" announcement generated considerable business uncertainty and Malaysian policymakers have been keen to put an end to speculation on tariff abitrage and curb potentially footloose capital.

Malaysia and US tariff obligations

It should be noted that the Trump tariffs are *in addition to* the US' applied Most-Favoured Nation (MFN) tariff rate[9]. These average 3.3%, though most pre-Trump tariffs on Malaysian goods were 0%.

For example, a given product exported by Malaysia to the US, which prior to Liberation Day had an applied US tariff of 3%, would now have an effective rate of 22% (3%+19%). If that product

[7] The 2 April "reciprocal tariffs" are imposed under a separate legislation, the International Emergency Economic Powers Act (IEEPA).
[8] European Commission (2025b)
[9] Ministry of Investment, Trade, and Industry (2025)

falls into the exempted category, then the effective tariff rate would be 3% (3%+0%). Semiconductors and other products were already at 0% prior to 2 April and remain so, for now.

The effective tariff rates applied to US importers of Malaysian goods remain a complex interplay of Trump tariffs, MFN rates and Section 232 tariffs.

The US' tariff obligations under the USMART could be characterised as MFN-plus (MFN+). Malaysia's obligations go the other way, as reductions from Malaysia's MFN rates, i.e. MFN-minus (MFN-). Structurally, this serves to widen the gap between US and Malaysian tariff levels. This supports the Trump administration's intentions to shift the balance of bilateral trade in favour of the US. However, this is at the expense of US consumers who would be expected to absorb the increased prices of imports in the short-term.

Prior to the USMART, Malaysia's tariffs applied to the US were low, with an average most-favoured nation applied tariff rate of 7.4% for agricultural products and 5.3% for non-agricultural products in 2023, although the rate could vary higher for individual products (USTR 2024).

Malaysia has agreed to reduce a range of tariffs on US goods, ranging from outright elimination to staged phase downs (USMART, Annex I Schedule 1). Many of Malaysia's tariffs listed in the USMART are already at zero and Malaysia has agreed to keep them so. It can be expected that cheaper access for US imports will result in a decline in tariff revenue for the Malaysian government alongside increased competition for existing product suppliers, both local and foreign. While this can in theory lead to lower prices for some Malaysian consumers, it can also lead to lower revenues for some Malaysian producers. It remains unclear what policy measures the government will take to cushion Malaysian producers from import surges.

Agriculture

While the US sought overall tariff reductions from Malaysia, they were particularly focused on agricultural products. This may reflect catering to the interests of the Republican party in the agricultural industry.

Cheeses and meats with geographical indications are a long-standing issue between the US and the EU. The USMART effectively ensures that US versions of camembert, feta, parmesan and the like will not be impeded by any agreement that Malaysia comes to with the EU in their ongoing free trade agreement (FTA) discussions.

Malaysia has also agreed that:

> Malaysia shall not enter into agreements or understandings with third countries that include non-scientific, discriminatory, or preferential technical standards or third-country SPS measures that are incompatible with U.S. or international standards; or otherwise disadvantage U.S. exports. (USMART Art 2.3(b))

While this may introduce a firewall against European regulatory imperialism, it does so by tying Malaysia more closely with US standards.

Malaysia also agreed to exclude US exports of agricultural and seafood products from its Sales and Services Tax (SST). This rolls back early attempts by the Madani government to extend SST coverage to certain food products.

Tariff Complexity and Stability, For Now

Prior to the signing of the USMART, the tariff structure facing Malaysian exports was:

1. **Semiconductors:** 0% (pending a Section 232 investigation)
2. **Section 232 goods:** US MFN rates + varying rates of 15% to 50%
3. **All other goods:** US MFN rates + a Trump tariff of 25%

Now, tariffs on Malaysian exports resulting from the USMART take a quadruple structure:

1. **Semiconductors:** 0% (pending a Section 232 investigation)
2. **Section 232 goods:** US MFN rates + varying rates of 15% to 50%
3. **Goods specified in Schedule 2:** US MFN rates + 0%
4. **All other goods:** US MFN rates + a Trump tariff no higher than 19%

While items 3 and 4 are settled for now by the USMART, semiconductors and Section 232 goods remain moving parts. Additions to 232 could affect items 3 and 4. As analysis will later reveal, legal challenges in the US may disrupt the USMART.

US exports to Malaysia conversely will range from MFN rates to zero following a range of phased reductions (USMART, Annex I, Schedule I).

Conclusion

Aside from the obvious difference in tariff rate levels, there is an asymmetry in the complexity facing exporters from Malaysia as opposed to those exporting to Malaysia from the US.

In a world where the US is unilaterally imposing higher tariffs on all its trade partners, what matters for commerce is *relative* tariff rates as opposed to *absolute* tariff rates. If Malaysia was tariffed at 19% while most of its competitors were tariffed at 25% then Malaysia exports would enjoy a relative price advantage, other things being equal. There may even be trade diversion and investment diversion towards Malaysia as a result. If Malaysia had a higher tariff than its competitors then its goods would be relatively more expensive to US customers. This would make it less attractive and could result in trade diversion away from Malaysia and corresponding disinvestment.

It is evident from Table 1 that Malaysia has an equal or lower tariff to most of its competitors within ASEAN. It is also lower than that imposed on India (25%). While China has recently managed to counter the US to lower its tariffs, there is considerable uncertainty attached to the outcomes of US-China trade relations. From the perspective of tariffs and US trade Malaysia could be expected to retain a degree of attractiveness as well as export stability.

In order to maintain this relative tariff advantage Malaysia will need to monitor and take action against third parties attempting to use Malaysia’s tariffs for transshipment to the US. Provisions to discipline this are covered in Part 2 and they have significant implications for Malaysia's investment policy.

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