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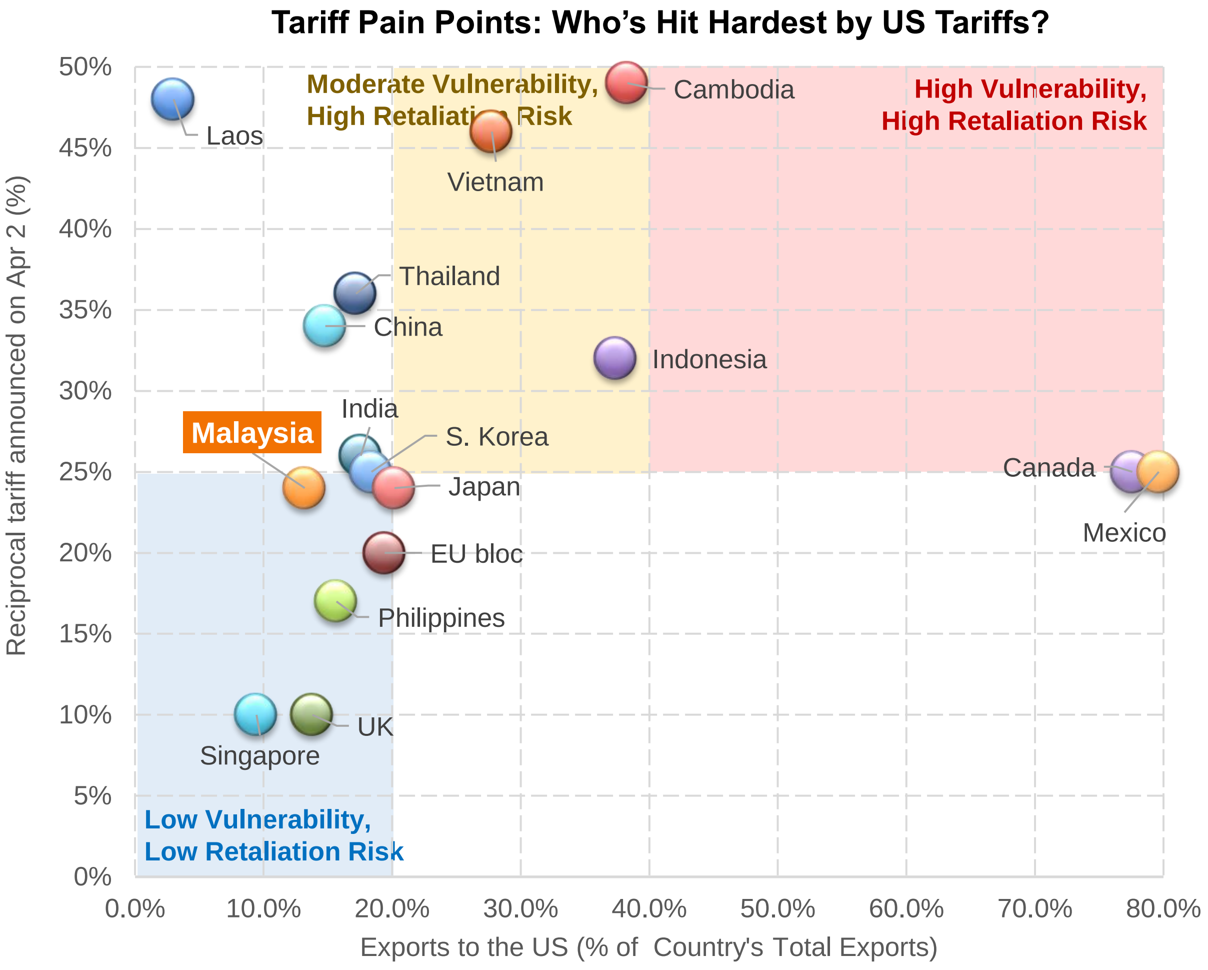
14 APRIL 2025

Targeted by Tariffs: Mapping Malaysia's Risk in the New Trade Order



Sources: CEIC, ADB Key Economic Indicators, UN Comtrade, BMMB Economics

The recent escalation in trade protectionism by the US – particularly the rollout of reciprocal tariffs targeting countries with persistent trade surpluses against the US – has rattled global markets. Under this policy shift**, tariff rates are being recalibrated based on the degree of trade imbalance**, placing countries like China, Cambodia, Laos, Vietnam and Mexico under the spotlight. While the goal is to rebalance trade and revive US domestic manufacturing, it risks **slowing global trade and disrupting supply chains**.

Malaysia's Position: Better Shielded, But Still Vulnerable

From a surface-level analysis, Malaysia appears less vulnerable than many of its regional peers. With 13.2% of exports destined for the US, Malaysia is spared from the harshest end of the tariff stick. Consequently, its reciprocal tariff rate of 24% is modest compared to Vietnam (46%) or Indonesia (32%). However, exposure is not just about volume—it's about **value chains and concentration risks**, among others.

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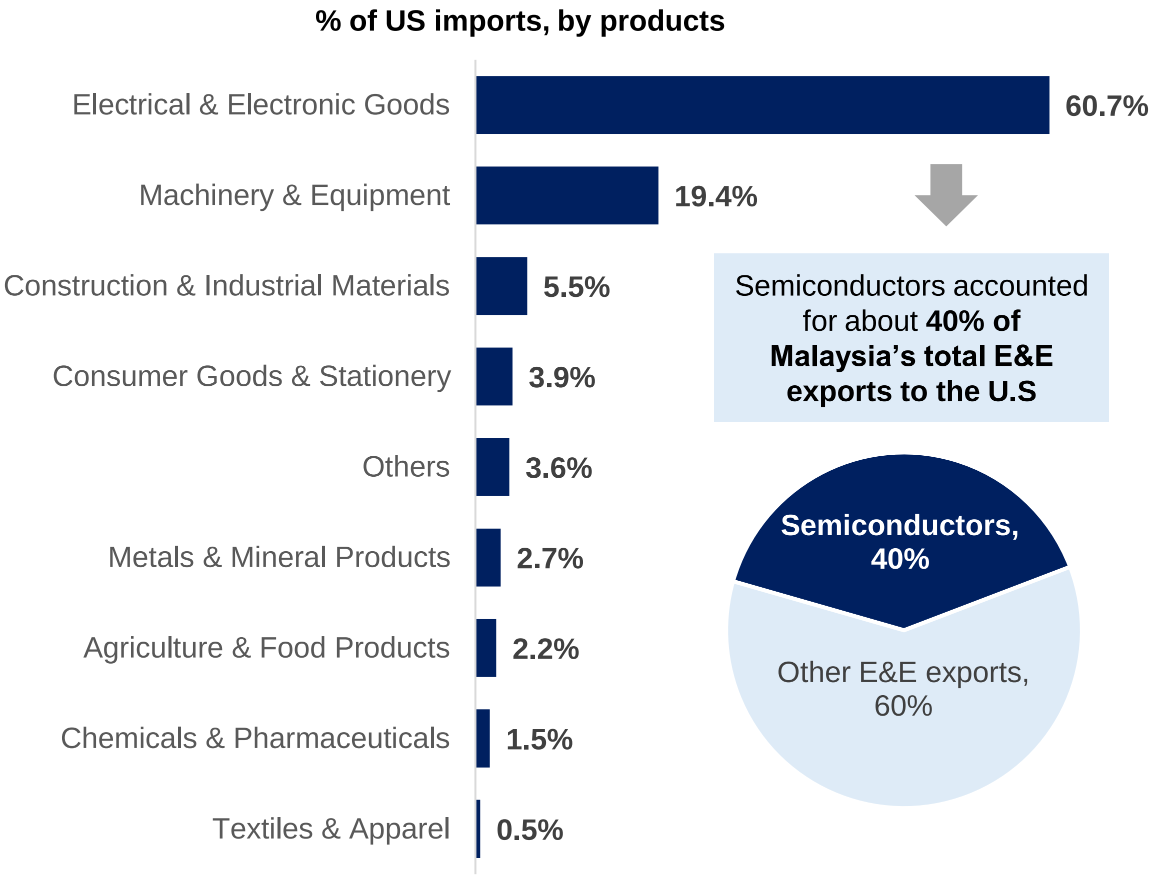
Vulnerable Sectors: Where Malaysia Feels the Tariff Pinch



Sources: UN Comtrade, BMMB Economics

Malaysia's export profile to the U.S. is heavily concentrated in E&E products, which accounted for **approximately 60.7% of total exports to the US** in 2023. Within this category, semiconductors alone made up about 40% of Malaysia's E&E exports. Key subcomponents include **integrated circuits, printed circuits, and diodes, which are largely manufactured by multinational corporations operating in Malaysia**. These figures underscore Malaysia's strategic role as a critical supplier in the US high-tech value chain and highlight its sensitivity to potential disruptions in global semiconductor demand or policy-driven supply chain shifts. Notably, these sectors share 3 main characteristics:

High global integration:
Part of distributed production networks, making them sensitive to upstream and downstream shocks.

Price sensitivity:
As intermediate goods, marginal price hikes due to tariffs or cost pass-through can lead buyers to seek substitutes.

FDI-driven production:
Much of Malaysia's high-tech output is anchored by multinational firms such as Intel and Broadcom. While these firms are unlikely to scale down abruptly due to short-term trade risks, their future investment decisions are sensitive to shifts in the global trade environment.

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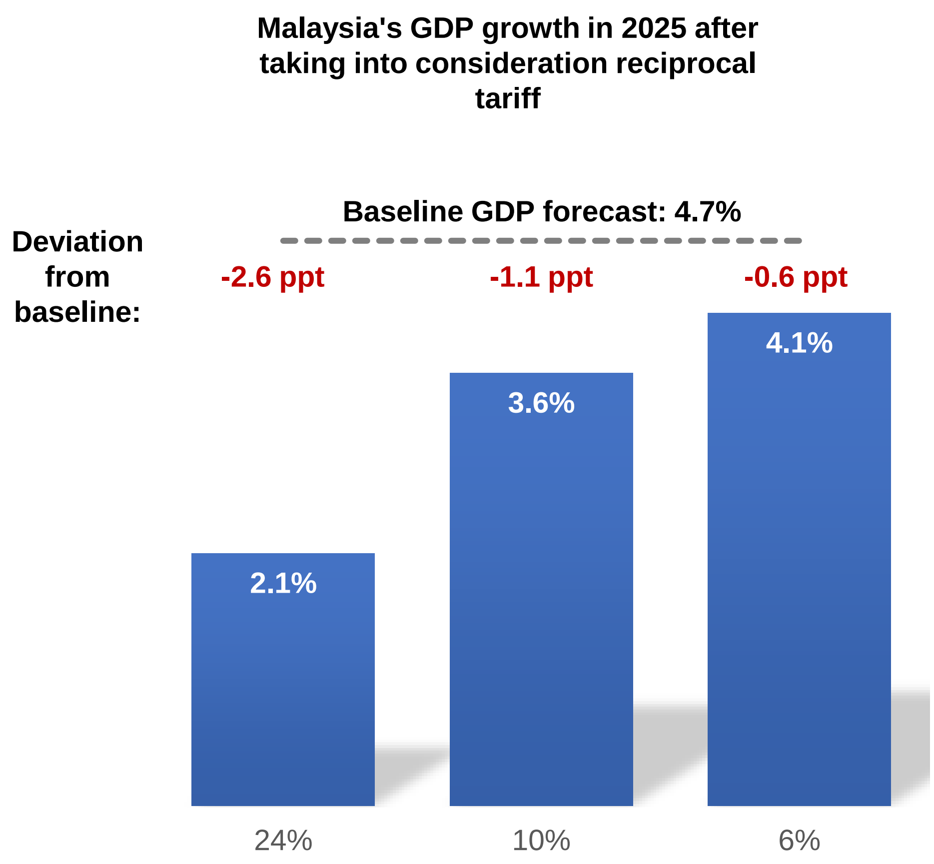
Quantifying the Hit: How Tariffs Could Derail Malaysia’s 2025 Growth



To quantify the potential macroeconomic fallout, we ran a sensitivity analysis based on stylized trade shocks under three scenarios based on varying tariff rates — 6%, 10%, and 24%. There are three main channels on how the reciprocal tariff will impact Malaysian economy:

Exports:	Mfg. Output:	Mfg. Employment:
13.2% of Malaysia exports are shipped to the US and it is second largest trading partner	70% of manufacturing output is export oriented	2.86 million people employed in Mfg. sector in the 4Q 2024

The results suggest that if Malaysia is subjected to a full-blown reciprocal tariff rate of 24%, **GDP growth could fall by as much as 2.6 percentage points from the previous baseline forecast of 4.7%**, a material deviation with serious policy implications. Even at the mid-range scenario (10% universal tariff), the GDP slowdown to 3.6% would mark a significant step down from Malaysia’s post-pandemic growth path, likely **affecting industrial production, exports, and labor demand**.

While the analysis captures the **direct trade channel effect**, the real-world outcomes could be further amplified by confidence effects, financial market reactions, and supply chain dislocations.

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Macroeconomic Variables (MEV): Revised Forecast as - April 2025

We have revised our 2025 macroeconomic projections to reflect the potential fallout from US reciprocal tariffs. The adjustments incorporate both direct trade impacts and broader spillover risks, such as dampened investment sentiment and weaker external demand.

	Baseline		Downside	
	2025	**2026**	**2025**	**2026**
GDP YoY (%)	4.1 [4.7]	4.5 [5.0]	3.6	3.8
CPI YoY (%)	2.7 [2.5]	2.5 [2.6]	3.2	2.9
OPR (%)	2.75 [3.0]	2.75 [3.0]	2.50	2.50
Unemployment Rate (%)	3.4 [3.3]	3.2 [3.3]	3.8	3.6
Private Consumption (%)	4.8 [6.2]	5.0 [6.5]	3.6	4.0
Exports (%)	1.0	2.5	-1.5	1.0
Gold Price (USD per ounce)	3,350 [2,550]	3,500 [2,600]	3,600	3,800
Brent Crude Oil (USD per barrel)	65 [73]	68 [70]	55	58

Note: Figures in parentheses reflect team's earlier forecasts

Key assumptions for baseline:
1. Trade tensions linger, but no major escalation.
2. Slower global demand weakens export;
3. BNM eases 25bps to support growth amid weak external conditions;
4. Fuel subsidy rationalisation lifts headline inflation slightly

Key assumptions for downside scenario:
1. US-China trade war escalates with new tariffs and restrictions.
2. Fed slashes rates and reintroduces QE amid financial volatility.
3. BNM eases 25bps to support growth amid weak external conditions;
4. BNM cuts OPR by 50bps as growth weakens.