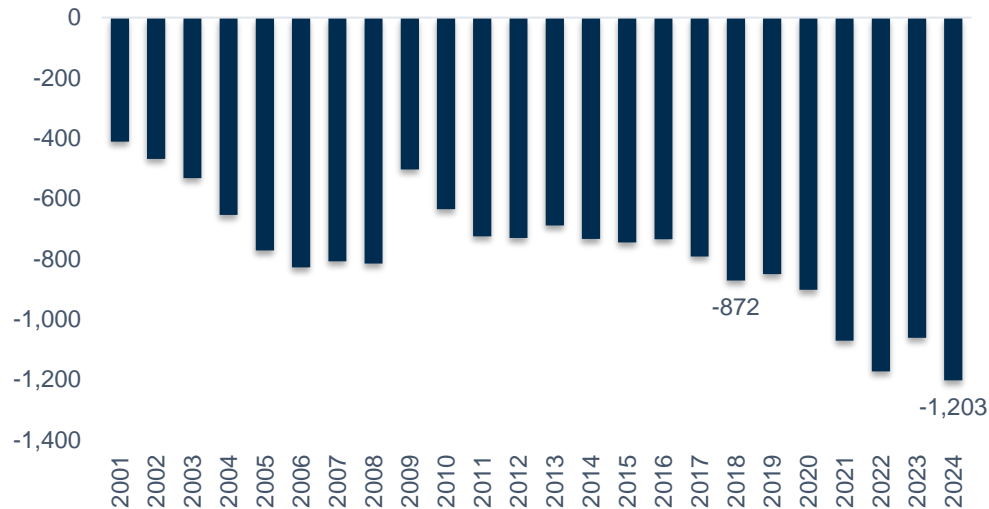


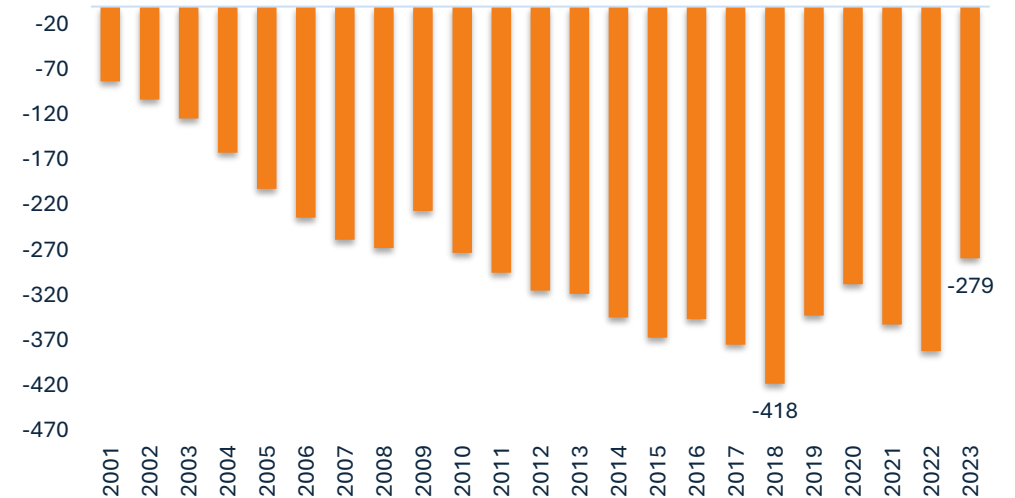
# The Implications of Trump's Tariff Hike

US Trade balance in USD billion



Sources: US Census Bureau, CEIC

US Trade balance with China (USD billion)



Sources: US Census Bureau, CEIC

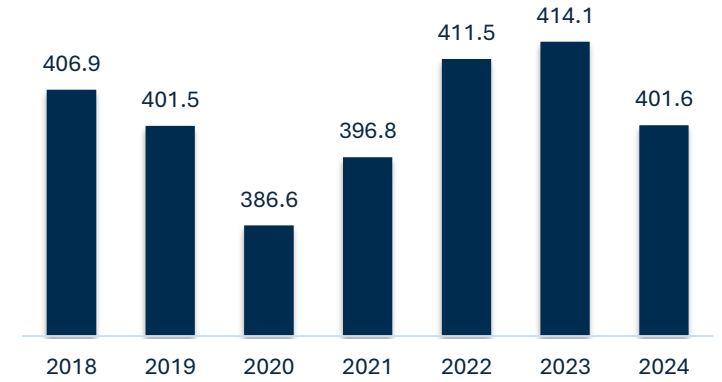
The recent announcement by the US President Donald Trump to impose a **25% import tariff on Canada and Mexico**, alongside a **10% tariff on China**, marks yet another protectionist move in the ongoing US trade policy shift. While such tariffs are often justified as measures to reduce the US trade deficit, historical data suggests that these policies have failed to achieve their intended objectives. Instead, they may further weaken US economic growth, lower potential growth rates, and lead to greater global economic realignments.

# Impact on US Trade and Economy

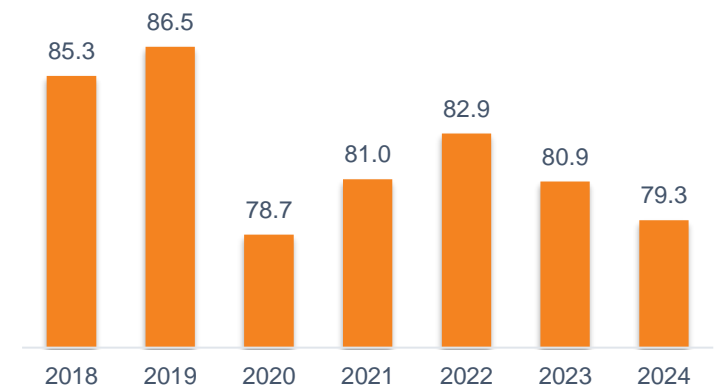
Since the initiation of the US-China trade war in 2018, tariffs have not succeeded in reducing the US trade deficit. In fact, the US trade deficit has ballooned from USD872 billion in 2018 to USD1.2 trillion in 2024. This suggests that tariffs have done little to curtail imports or boost domestic manufacturing competitiveness. Several key observations highlight why tariffs have largely failed to deliver economic benefits:

<p><b>Limited Reshoring of US Manufacturing</b></p>	<p>Contrary to expectations, tariffs have not incentivized major US corporations to relocate production back to American soil. Instead, businesses have sought alternative production hubs in Southeast Asia, India, and Mexico to mitigate tariff costs while maintaining supply chain efficiency.</p>
<p><b>Declining Employment in Key Sectors</b></p>	<p>Industries that were supposed to benefit from tariffs, such as steel, aluminum, and agriculture, have not seen job growth. Instead, these sectors continue to struggle due to higher input costs, reduced export demand, and retaliatory tariffs imposed by affected trade partners.</p>
<p><b>Weaker Economic Growth Outlook</b></p>	<p>Tariffs function as a tax on imports, raising costs for businesses and consumers. This, in turn, erodes purchasing power, dampens investment, and slows economic expansion. Should tariff hikes persist, the US economy could face lower growth potential; particularly as global supply chains adjust away from reliance on American markets.</p>

**Employment in Electrical Equipment & Appliances ('000)**









**Employment in Iron & Steel ('000)**



Sources: US Bureau Labor Statistics, CEIC

# Geopolitical Implications: China's Rising Prominence

## China's Contributions and Influence in Major Institutions

Institutions	China's role	Financial Contributions	Key Influence
 <b>(2001)</b>	Major member	Advocate for developing economies	Push for WTO reforms
 <b>(2015)</b>	Founder & largest shareholder	USD 50 billion initial capital	Infrastructure financing in Asia
 <b>(2016)</b> <i>SDR inclusion</i>	3rd largest quota holder	~6.41% of total quotas	RMB in global reserves
 <b>World Bank</b>	Major borrower & lender	USD2 billion annual contributions	Supports Belt and Road-linked projects
 <b>BRICS Bank</b>	Founding member	20% stake (~USD10 bn capital)	Financing emerging economies
 <b>REGIONAL COMPREHENSIVE ECONOMIC PARTNERSHIP</b>	Leading participant	Largest trade pact covering 30% of global GDP	Strengthening Asia's supply chains

While the US embraces protectionist policies, China has continued to position itself as a proponent of globalization and multilateralism. Through strategic initiatives such as the Belt and Road Initiative (BRI) and the Regional Comprehensive Economic Partnership (RCEP), China has deepened economic ties with both developed and developing nations. By maintaining a commitment to global trade, China is poised to strengthen its economic dominance, attracting investment flows and technological advancements that further cement its position in the global order.

Furthermore, US tariffs risk alienating long-standing allies such as Canada, Mexico, and the EU. As the US isolates itself through trade barriers, other economic blocs will accelerate efforts to create a more integrated and cooperative global trade framework, potentially diminishing the US' role in global economic leadership.

# What can be done to mitigate such risks?

Given the shifting global trade landscape, Malaysia must adopt a proactive approach to mitigate risks and capitalize on emerging opportunities. Key strategic measures include:

## Expanding Free Trade Agreements (FTAs)

Malaysia should pursue both unilateral and multilateral trade agreements to strengthen economic resilience. Engaging with trade blocs such as the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and RCEP will ensure continued access to diverse markets.

## Strengthening Domestic Capacity

Investments in human capital development, particularly in education, healthcare, and infrastructure, are crucial to improving Malaysia's competitiveness. A well-educated workforce and robust infrastructure will attract foreign investment and enhance economic diversification

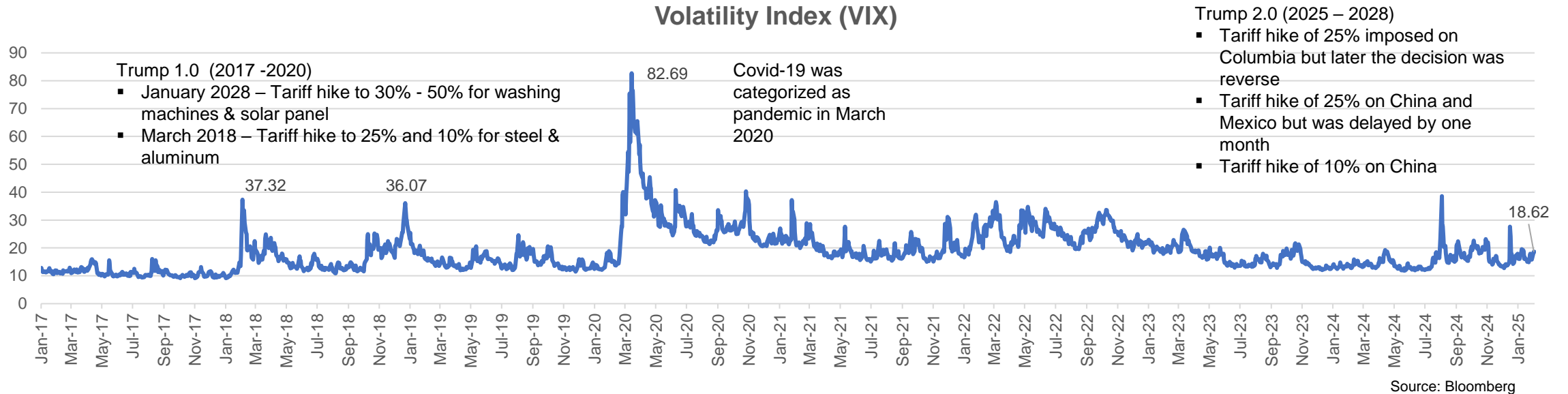
## Enhancing Trade Diversification

Malaysia should continue to expand its trade portfolio by engaging in value-added industries, digital economy initiatives, and green energy investments. This will reduce dependency on traditional manufacturing exports and create new growth avenues in high-tech and sustainable sectors.

Bilateral FTA	Date of Entry into Force (EIF)
Malaysia-Japan Economic Partnership Agreement (MJEPA)	13 Jul 2006
Malaysia-Pakistan Closer Economic Partnership Agreement (MPCEPA)	1 Jan 2008
Malaysia-New Zealand Free Trade Agreement (MNZFTA)	1 Aug 2010
Malaysia-India Comprehensive Economic Cooperation Agreement (MICECA)	1 Jul 2011
Malaysia-Chile Free Trade Agreement (MCFTA)	25 Feb 2012
Malaysia-Australia Free Trade Agreement (MAFTA)	1 Jan 2013
Malaysia-Turkey Free Trade Agreement (MTFTA)	1 Aug 2015
Regional FTA	Date of Entry into Force (EIF)
ASEAN Free Trade Area (AFTA)	1993
ASEAN-China Free Trade Agreement (ACFTA)	1 Jul 2003
ASEAN-Korea Free Trade Agreement (AKFTA)	1 Jul 2006
ASEAN-Japan Comprehensive Economic Partnership (AJCEP)	1 Feb 2009
ASEAN-Australia-New Zealand Free Trade Agreement (AANZFTA)	1 Jan 2010
ASEAN-India Free Trade Agreement (AIFTA)	1 Jan 2010
ASEAN-Hong Kong Free Trade Agreement (AHKFTA)	13 Oct 2019
Regional Comprehensive Economic Partnership (RCEP)	18 Mar 2022
Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP)	29 Nov 2022

Source: Ministry of Investment, Trade and Industry (MITI)

# In the meantime, expect financial market to remain volatile



While it is evident that excessive hikes in import tariffs will hurt the US economy, the global community may have to endure these challenges for the next four years (2025–2028). The Trump administration is expected to use tariffs as a primary policy tool to negotiate better terms with US trading partners. However, this strategy will complicate US monetary policy, as higher tariffs could drive up domestic prices. This policy shift comes at a time when the economy remains robust, with unemployment at historically low levels. As a result, market volatility is likely to persist. The CBOE Volatility Index (VIX), which measures market volatility based on S&P 500 option prices, has shown an uptick in January 2025. However, it remains lower than the peaks observed during Trump’s first term, particularly in 2018, when multiple tariff hikes were introduced. Given this backdrop, the USD/MYR exchange rate is expected to fluctuate between RM4.40 and RM4.50, with the immediate support and resistance levels at RM4.3661 and RM4.4500, respectively. A crucial event to monitor is the Federal Reserve’s response to these developments, as it will shape future monetary policy. The next Federal Open Market Committee (FOMC) meeting, scheduled for March 18–19, will provide fresh economic forecasts. Leading up to this meeting, markets are likely to experience heightened volatility.

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