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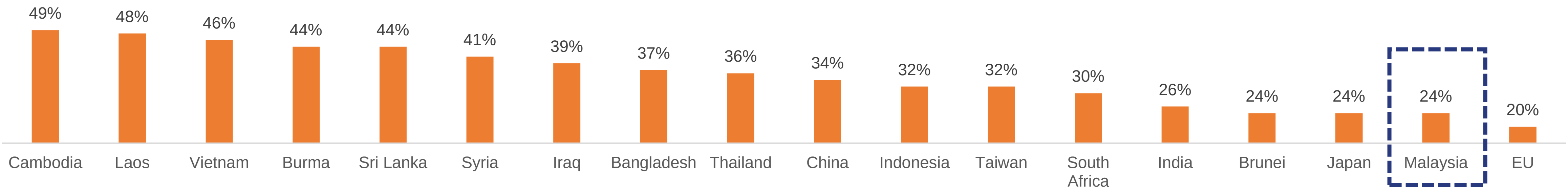
# Trump's Reciprocal Tariff Announcement: Implications for Global Trade and Malaysia

US reciprocal tariffs on selected countries




On 2 April 2025, President Donald Trump unveiled a sweeping set of "reciprocal" import tariffs, marking a significant shift in the US trade policy. The new framework imposes a **universal 10% tariff** on virtually all imported goods, alongside steep country-specific duties on dozens of nations — **including Malaysia** — that run trade surpluses with the US. Key elements of the announcement include:

**Across-the-Board Tariff:** A **baseline 10% import tax applies to all countries and products**, effective within days. This marks a dramatic increase from the ~2.5% average US tariff rate last year to roughly 22% now.

**Targeted Country Rates:** In addition to the universal 10% tariff, the US has imposed steep country-specific duties on nations with significant trade surpluses. **Malaysia faces a 24% tariff**, while others hit hard include China (34%), the European Union (20%), Taiwan (32%), and Myanmar (44%). Trump also ended duty-free import exemptions under $800 for goods from China, targeting a common e-commerce loophole.

**Scope and Implementation:** The tariffs apply to virtually all imported goods, with exemptions for items already under separate trade measures (e.g. steel, aluminum, automobiles) to avoid double-taxation. The **10% baseline tariff takes effect within 3 days, while higher country-specific rates will be enforced by April 9**.

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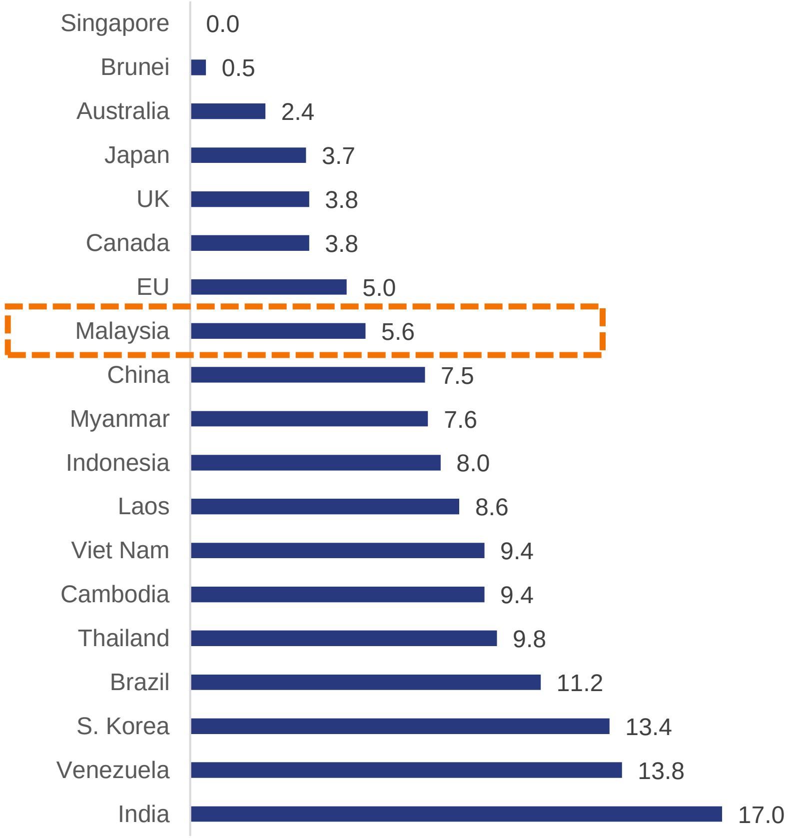
# Trump’s revised tariff framework aims to correct longstanding trade imbalances and promote fairer, more reciprocal terms in global trade

President Trump argued that despite the new tariff measures, the US still maintains one of the lowest average tariff rates on a most-favored-nation (MFN) basis—at just 3.0%. This compares favorably to Brazil (11.2%), China (7.5%), the European Union (5.0%), India (17.0%), and Vietnam (9.4%). The statement further highlighted specific sectoral disparities, noting that the US imposes a modest 2.5% tariff on imports of internal combustion passenger vehicles, whereas the EU, India, and China apply significantly higher tariffs of 10%, 70%, and 15%, respectively.

Beyond tariffs, the statement pointed to a **wide range of non-tariff barriers that continue to hinder fair trade**. These include licensing restrictions, burdensome customs procedures, and poor trade facilitation. Other cited obstacles involve technical barriers to trade—such as unnecessarily restrictive standards, duplicative conformity assessments, and opaque regulations—as well as sanitary and phytosanitary measures that may lack scientific justification. Investment barriers, state subsidies, anticompetitive behavior, and favoritism toward domestic state-owned enterprises were also flagged.

**In essence, the administration contends that the new tariff regime seeks to redress longstanding asymmetries and enforce genuine reciprocity in global trade.**

**Simple average – MFN applied tariff (%)**



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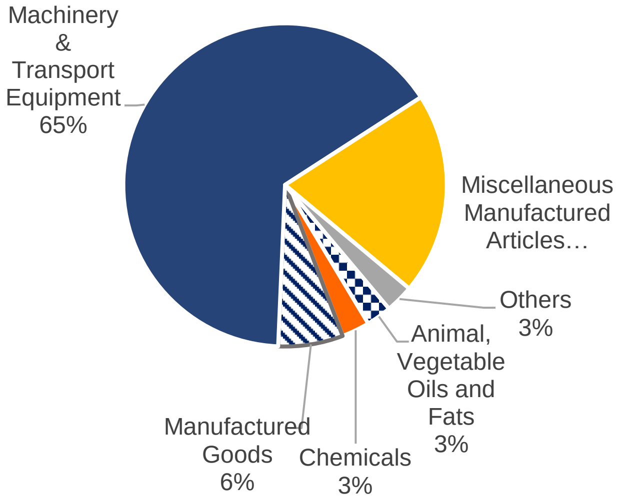
# With downside risk to growth intensifies, likelihood of OPR cut is gaining traction

While Annex II outlines certain exemptions, initial assessments suggest that Malaysia may not be a major beneficiary—apart from limited relief granted to the oil and gas sector, semiconductors, and select niche exports such as high-purity silicon, refined copper wire, specialty chemicals, and marine-based animal products. As we continue to assess the full implications of the recent announcement, early indications point to **broad exposure for Malaysian exports**. Malaysia is a key supplier of semiconductors to the US, accounting for nearly 20% of total American imports in that category. Other notable exports include rubber products (2.9% of Malaysia's total exports to the US), furniture (3.5%), and optical and scientific equipment (9%). Although there may be economic justifications behind the tariff structure, the sweeping and unilateral manner of implementation **risks disrupting established trade flows and undermining global economic momentum**. A more **constructive approach would be to address trade imbalances through the World Trade Organization (WTO),** which remains the most appropriate platform for resolving such disputes under a transparent, rules-based multilateral system.

**Malaysia's major exports to the US by products, RM billion**




Sources: DOSM, CEIC

### What does it mean to Malaysia?

**Downside risks to growth have clearly intensified**, particularly in light of potential retaliatory actions by affected trading partners. At this stage, a **sub-5% GDP growth appears to be the baseline scenario**, with 4.5% emerging as a plausible lower bound. That said, Malaysia's domestic economic engine remains resilient. Bank Negara Malaysia (BNM) retains sufficient monetary policy space to implement accommodative measures should global headwinds become more pronounced. As such, the **likelihood of an Overnight Policy Rate (OPR) cut is gaining traction.** Greater clarity is expected following the Monetary Policy Committee (MPC) meeting on 8 May 2025.

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# Ringgit to remain under pressure but will regain traction in 2H2025

In the immediate term, the **ringgit is expected to remain under pressure against the US dollar**, in line with broader risk-off sentiment triggered by the escalating trade tensions. Trump's sweeping reciprocal tariffs have amplified uncertainty over global trade flows, prompting investors to **seek refuge in safe haven assets**—with the **US dollar, US Treasuries, and gold seeing renewed inflows**.

From a technical perspective, the USDMYR is currently testing its resistance zone, with key levels identified at RM4.4390 (support) and RM4.5790 (resistance). Technical charts indicate the ringgit is nearing oversold territory, suggesting limited room for further immediate depreciation, although short-term fluctuations could persist. Given prevailing sentiment and capital outflows from emerging markets, the pair may hover around RM4.50 through 2Q2025, especially as clarity over tariff exemptions and potential retaliatory measures remain limited.

However, as the dust settles and more granular details on tariff exemptions and bilateral negotiations emerge, market volatility may ease. There is growing expectation that the reciprocal tariff policy will evolve into targeted negotiations, with exemptions potentially carved out for select partners. This could rebuild confidence in regional currencies and reduce pressure on capital markets in the second half of the year.

On this basis, we expect the ringgit to gradually stabilise and **regain traction in 2H2025**, supported by improving external clarity, possible resumption of portfolio inflows, and the recovery of regional trade flows. While some near-term downside remains**, we maintain our end-2025 forecast for USDMYR at RM4.30**, assuming a de-escalation in trade tensions and a softening in US dollar strength amid possible shifts in Fed policy expectations.

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# Appendix: Media statement by MITI - 3rd April 2025

MINISTRY OF INVESTMENT, TRADE AND INDUSTRY

MEDIA STATEMENT

**MALAYSIA EXPLORING APPROPRIATE MEASURES TO MITIGATE IMPACT ON MALAYSIAN EXPORTS; WILL CONTINUE ENGAGING WITH US AUTHORITIES ON FAIR TRADE RELATIONS**

Pursuant to the recent 10% tariffs hikes and reciprocal tariff announced by the United State of America ("the US") on Malaysian exports to the US, **the Ministry of Investment, Trade & Industry (MITI) views these tariffs seriously and is actively engaging with the US authorities to seek solutions that will uphold the spirit of free and fair trade.** In upholding such spirit, **Malaysia is not considering retaliatory tariffs.**

The US tariffs affect many countries with potentially significant implications for global trade and growth. The **National Geoeconomic Command Centre (NGCC) – recently approved by Cabinet** – will evaluate the impact of this recent US announcement and will consider **a comprehensive and multi-pronged strategy to mitigate the effects of these tariffs on our economy and industries.** The NGCC – **to be chaired by the Prime Minister** with **MITI as the Secretariat** – features high-level representatives from key ministries and agencies. The **NGCC's key focus** is to **ensure the Malaysian economy remains competitive amidst these volatile times.** At the ASEAN level, the first meeting of the **ASEAN Geoeconomic Task Force** – established at the ASEAN Economic Ministers' Retreat in February 2025 – will also commence soon.

Malaysia will utilise the **Trade and Investment Framework Agreement (TIFA) to seek reciprocal trade gains** and **pursue a Technology Safeguards Agreement with the US** to facilitate high-tech cooperation in semiconductors, aerospace, and digital economy sectors. According to the US Bureau of Economic Analysis, Malaysia ranks 15th on the US list with a trade surplus of USD24.8 billion in 2024. **Despite the trade deficit in goods, the US enjoys a trade surplus in services with Malaysia,** reflecting strong bilateral economic ties that support jobs and economic growth for both nations. It must be highlighted that the trade deficit with the US is also due to many US firms that have been operating in Malaysia for decades, on account of Malaysia's well-established industrial ecosystem, especially in the E&E sector.

We acknowledge that President Trump's tariff hike poses a significant challenge to global trade dynamics. While respecting such sovereign decisions, **Malaysia strongly believes in constructive engagement for mutually beneficial economic relations. MITI is committed to safeguarding Malaysia's economic interests and maintaining strong trade relations with the US.**

To mitigate tariff impact, Malaysia is **expanding our export markets by prioritising high-growth regions** and **leveraging existing Free Trade Agreements (FTAs)** including the **Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP),** and the **Regional Comprehensive Economic Partnership (RCEP).** Malaysia will also **foster new partnerships within ASEAN and enhance Malaysia's supply chain resilience by accelerating the implementation of key industrial policies** like the New Industrial Master Plan 2030 **(NIMP 2030)** and the National Energy Transition Roadmap **(NETR).**

The **Government is engaging with the affected industries, while exploring support programmes to help businesses adapt.** MITI remains committed to **open dialogue and collaboration to resolve trade disputes** and promote mutual prosperity.

**Malaysia is facing this challenge from a position of strength and preparedness.** The **fundamentals of our economy remain robust.** In the immediate future, while the external environment may be challenging, our **diversified markets and products, along with strong demand for our produce, will provide us with some buffers.** Furthermore, **domestic demand,** which is our main driver of growth, **remains robust.** MITI believes **the Malaysian economy will continue to be resilient amidst these challenges.**

**MINISTRY OF INVESTMENT, TRADE AND INDUSTRY**
**3 APRIL 2025**

About MITI:
MITI is the key driver in making Malaysia the preferred destination for quality investments and in enhancing the nation's rising status as a globally competitive trading nation. Its objectives and roles are oriented towards ensuring Malaysia's rapid economic development and helping to achieve the country's stated goal of becoming a developed nation.

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THIS IS WHERE GLOBAL STARTS