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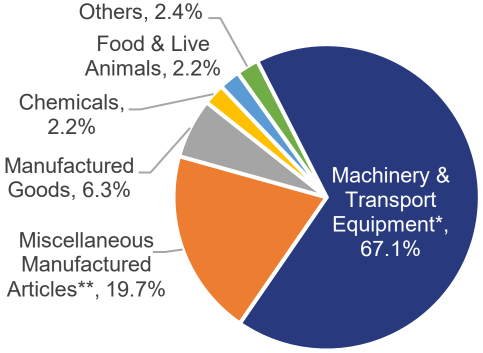
US–Malaysia Agreement: Secured Tariff Carve-Outs Under Trump's Trade Regime

Malaysia's key export markets: US ranks second

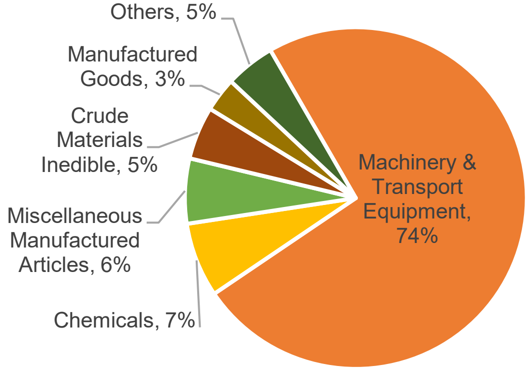
Markets	Jan-Sep 2025 (RM billion)	Share (%)
1. Singapore	187.0	16.0%
2. US	166.4	14.2%
3. China	136.3	11.7%
4. Hong Kong SAR	66.7	5.7%
5. Taiwan	62.0	5.3%
6. Japan	57.2	4.9%
7. Thailand	48.0	4.1%
8. Viet Nam	40.0	3.4%
9. Republic of Korea	38.4	3.3%
10. India	38.2	3.3%

Malaysia's exports to the US by product categories (SITC), Jan–Aug 2025, %



** Includes primarily semiconductors, ICs, and data-processing equipment*
*** Includes primarily rubber gloves, furniture, apparel, optical & medical instruments*

Malaysia's imports from the US by product categories (SITC), Jan–Aug 2025, %



President Donald Trump's visit to Malaysia forms the opening leg of his Asian tour and centres on the ASEAN summit in Kuala Lumpur. Against this regional backdrop, the visit culminated in the **formalisation of a Reciprocal Trade Agreement with Malaysia**. The deal builds on Executive Order 14257 (April 2025) and its amendatory framework, formalising what Malaysia had agreed in principle while securing enhanced access for its exports — effectively **no new concessions on Malaysia's part**, but a **broader carve-out from US tariffs**.

The terms now **grant zero tariffs on 1,711 Malaysian export products**, spanning both commodities and higher-value industries — palm oil, rubber, cocoa, aerospace parts, pharmaceuticals and selected electronics. These categories account for roughly USD5.2 billion, or around **12% of Malaysia's total exports to the US**. By locking in exemptions at this scale, Malaysia has effectively shielded a meaningful share of its exports from the 19% reciprocal tariff regime that remains in place elsewhere. This outcome helps preserve competitiveness in key sectors and **allows Malaysia to sustain its position in the US market** even as global supply chains continue to be reshaped by protectionist policies.

Source: MATRADE, CEIC, BMMB Economics

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Key Provisions: Beyond Tariffs, a Comprehensive Framework

Besides tariff carve-outs, the agreement codifies a wider set of rules spanning non-tariff measures, digital trade, strategic resources, and governance. These provisions reflect Washington's push for regulatory alignment and Malaysia's effort to preserve market access while managing new compliance obligations.

Tariffs and Market Access:

- **Zero Tariff Carve-Outs:** 1,711 Malaysian products exempted from the 19% reciprocal tariff under Annex III of EO 14346 (September 2025).
- **US Access:** Malaysia commits to accept US autos certified to *Federal Motor Vehicle Safety Standards (FMVSS)* and US emissions standards, and to ease entry for US dairy, poultry, ethanol, machinery, and chemicals.

Our take: *This locks in Malaysia's competitiveness in vulnerable sectors (E&E, palm oil) but opens the door for more US agricultural and automotive imports, which could pressure domestic producers. While US car volumes appears limited, regulatory recognition of US standards signals a dilution of long-standing protective barriers for Malaysia's auto sector.*

Non-Tariff Barriers (NTBs):

- Streamlined import licensing for US alloy steel and pipe products.
- Acceptance of US FDA clearance for medical devices/pharma as sufficient for Malaysian approval.
- Simplified halal/facility registration for cosmetics, pharmaceuticals, and food.

Our take: *Easing NTBs reduces costs for US exporters but narrows Malaysia's regulatory discretion. While this improves efficiency, it constrains Malaysia's ability to apply differentiated local standards.*

Source: Joint Statement on the US–Malaysia Agreement on Reciprocal Trade (The White House, October 26, 2025), BMMB Economics

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Key Provisions: Rules, Resources, and Deals

Digital Trade:

- Malaysia agrees not to impose discriminatory digital services taxes (DST) or revenue-sharing requirements on US tech firms.
- Commitments on free cross-border data flows and cybersecurity cooperation.
- Removal of local DNS traffic redirection and broadcast airtime quotas that disadvantaged US content.
- ***Our take:*** *This secures investor confidence in Malaysia's digital ecosystem but at the cost of fiscal space. It also reduces Malaysia's leverage in shaping digital sovereignty.*

Critical Minerals & Strategic Sectors:

- Malaysia shall not ban or restrict REE or rare earth magnet exports to the US.
- Commitment to extended US operating licenses and expedited JV development in critical minerals.

Our take: *This provides certainty for US supply chains while at the same time, encouraging a more downstream sector within the REE space. This will provide opportunity for local firms to participate and scale up their presence in the REE industries as there will be more FDIs from the US*

Commercial Deals & Investments:

- Immediate commercial side-deals: procurement of 30 aircraft (+30 options), LNG purchase (USD3.4bn/year), semiconductor & data-centre orders (USD150bn pipeline), and coal/telecoms (USD200m).
- Malaysia to facilitate USD70bn in investment in the US over the next decade.

Our take: *The purchases showcase near-term "win-win" optics and reinforce US–Malaysia economic ties. While the bulk of commercial gains accrue to US exporters, Malaysia benefits through secured market access, deeper financial integration, and potential support from US agencies in strategic sectors.*

Source: Joint Statement on the US–Malaysia Agreement on Reciprocal Trade (The White House, October 26, 2025), BMMB Economics

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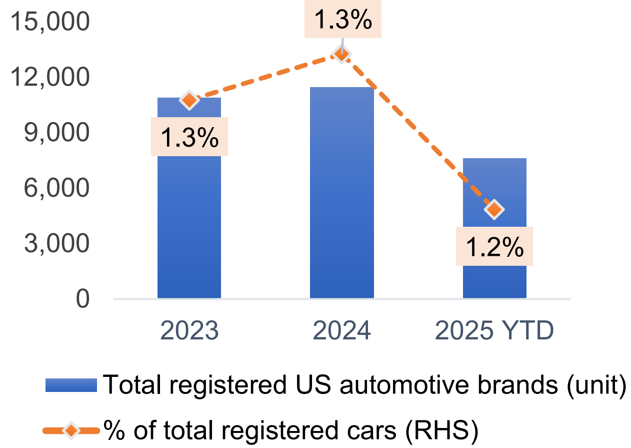
Our view: Market Access Secured, but Malaysian Firms Face Scale-Up Test

The latest announcement suggests that **Malaysia continues to be recognized as an important trading partner by the US**. The zero-tariff rate for 1,711 products line indicated that the effective import tariff on blended basis is far lower than the prescribed 19%. This would mean the Malaysia's product would be priced competitively in the US. In addition, the **commitment for rate earth minerals** exports which also involve the US companies investing in the country **would open more doors for capacity building among the local firms especially the Micro, Small and Medium Enterprises (MSME).** In a nutshell, we can anticipate a more competitive business landscape to emerge as Malaysia would gradually open up its domestic market. This is not merely to cater the US but other multilateral trade agreements such as the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and Regional Comprehensive Economic Partnership (RCEP) which would require our **local businesses to scale up and be able to compete effectively** in the global arena.

In this regard, **addressing the gap among our local firms are the strategic importance**. This would mean how the domestic companies would be able to leverage the preferential treatment accorded in each Free Trade Agreements (FTAs) signed with multiple countries and region. Apart from that, the capacity building program as well as tax incentives offered by various government agencies such as SME Corp, Malaysian Investment Development Authority (MIDA) as well as other Investment Promotion Agencies (IPA) at the state level. Thus far, **Malaysian government has approved a total of RM190.3 billion for investment** in the first six months of this year, representing an increase of 18.7% compared to the same period of last year. Bulk of it were emanated from the foreign source which accounted for RM106.8 billion or 56.1% of total investment. Between 2021 and June 2025, the National Committee on Investment has approved 3,883 manufacturing projects whereby 85.1% have been implemented which includes full-scale production, factory construction and machinery installation.

Sales of US Marques* in Malaysia: A Small Share of the Market



Source: Ministry of Transport Malaysia, BMMB Economics

*All in all, the deal secures Malaysia's foothold in the US market, **offering a buffer against softer external demand and policy uncertainty**. Carve-outs shield key exports and reinforce investor confidence, but execution remains critical. **Outlook: near-term resilience from secured access, with longer-term competitiveness hinging on how quickly local firms scale and adapt to global standards.***