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8 JULY 2025

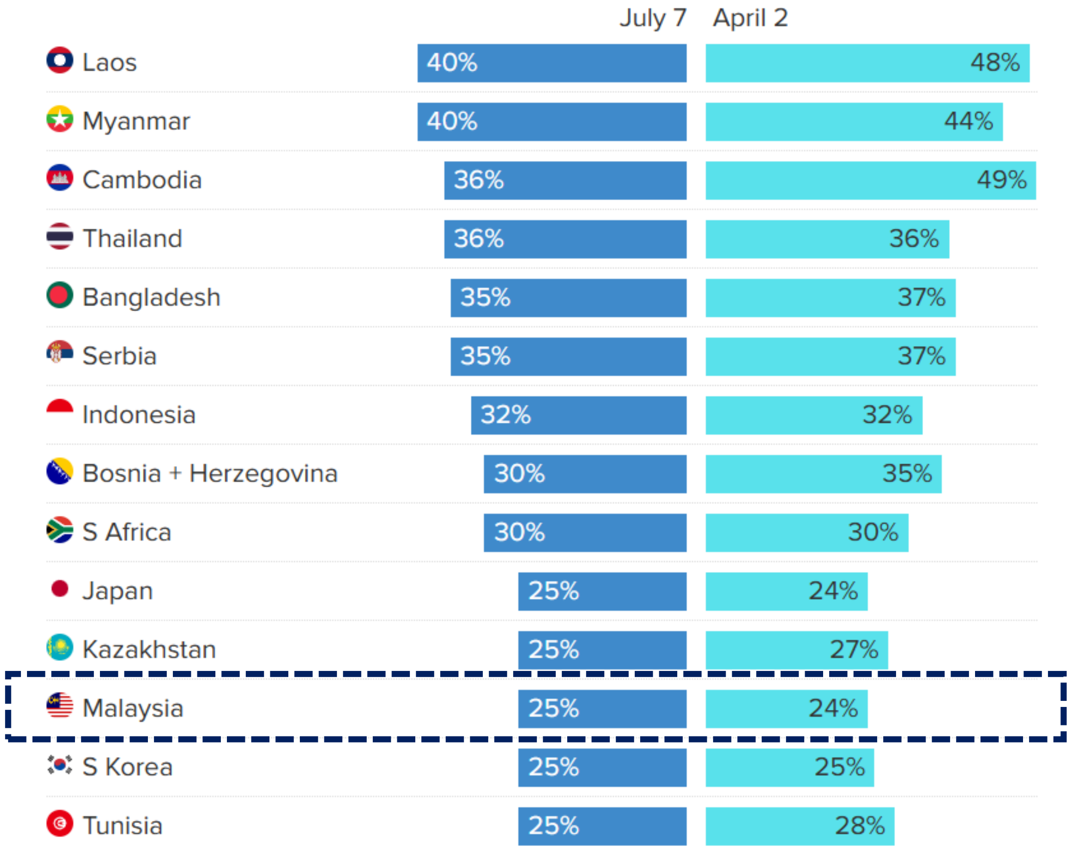
US Tariff Verdict Out: Malaysia Faces 25% Duty Under Revised Trade Rules

On **7 July 2025**, US President Donald Trump issued a formal letter to our Prime Minister, confirming that *“starting on August 1, 2025, we will charge Malaysia a tariff of only **25% on any and all Malaysian products sent into the United States**, separate from all Sectoral Tariffs.” (see Appendix I: Letter to PM)*

The US administration continues to frame these measures as part of a broader effort to **“recalibrate trade imbalances,”** address what it deems **asymmetrical market access**, and protect domestic industries under a declared national economic emergency. Both the April and July communications consistently stress the goal of strengthening US manufacturing and supply-chain resilience by targeting countries with sizeable trade surpluses against the US.

Importantly, the **25% tariff places Malaysia in the lower-to-mid tier** among targeted economies. Regional peers such as Thailand and Indonesia have been slapped with steeper tariffs — 36% and 32% respectively — while Vietnam secured a partial agreement that limits its general tariff to 20%, with a higher 40% rate applied to transshipped goods. Malaysia’s rate is on par with Japan and South Korea, which are also subject to 25% duties.

Tariff rates by announcement date



Source: The White House, CNBC: https://www.cnbc.com/2025/07/07/trump-tariffs-trade-letters-japan.html accessed on 8th July 2025

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Tracking the Tariffs: A Timeline of US Actions on Malaysia

2 Apr	5 Apr	9 Apr	11 Apr	9 Apr – 8 Jul	7 Jul
"Liberation Day" • 10% baseline tariff on most trade partners (excludes Canada & Mexico), effective 5 Apr • Country-specific tariffs announced *(Malaysia set at 24%, effective 9 Apr)*	• 10% baseline tariff takes effect on non-preferred partners	• Malaysia's 24% tariff scheduled—but **immediately paused** • A 90-day pause begins, during which baseline 10% continues	• Product exemptions issued: • Semiconductors, smartphones, laptops, TVs shielded from both 10% and 24% tariffs	• 90-day pause period in effect, Country-specific tariff implementation deferred	• Trump sends letter to PM Anwar: Updates reciprocal tariff to 25%, effective 1 August • Confirms tariff is separate from any sectoral levies

Source: Official statements, Presidential Memos, CBP guidance, media reports (Apr–Jul 2025)

The **July 7 letter** specifies that the **25% tariff is applied separately from any future sectoral tariffs**, signalling that additional product-specific duties may still be imposed, particularly for goods currently under Section 232 investigation. As of now, no outcome has been announced from the ongoing probe into semiconductors and strategic electronics.

However, under Executive Order 14257 (signed on 2 April) and CBP guidance issued on 11 April, several categories of goods were explicitly exempted from both the **baseline 10% tariff and country-specific reciprocal tariffs**. These include:

- ✓ Semiconductors, including integrated circuits, diodes, and packaging-related equipment
- ✓ Smartphones, laptops, televisions, and related consumer electronics

The semiconductor exemption was further formalised in the April 11 Presidential Memorandum, which cited coverage under HTS Chapters 84 and 85. To date, **no executive order or proclamation has revoked or superseded these exemptions**, which remain in effect pending the conclusion of the Section 232 review.

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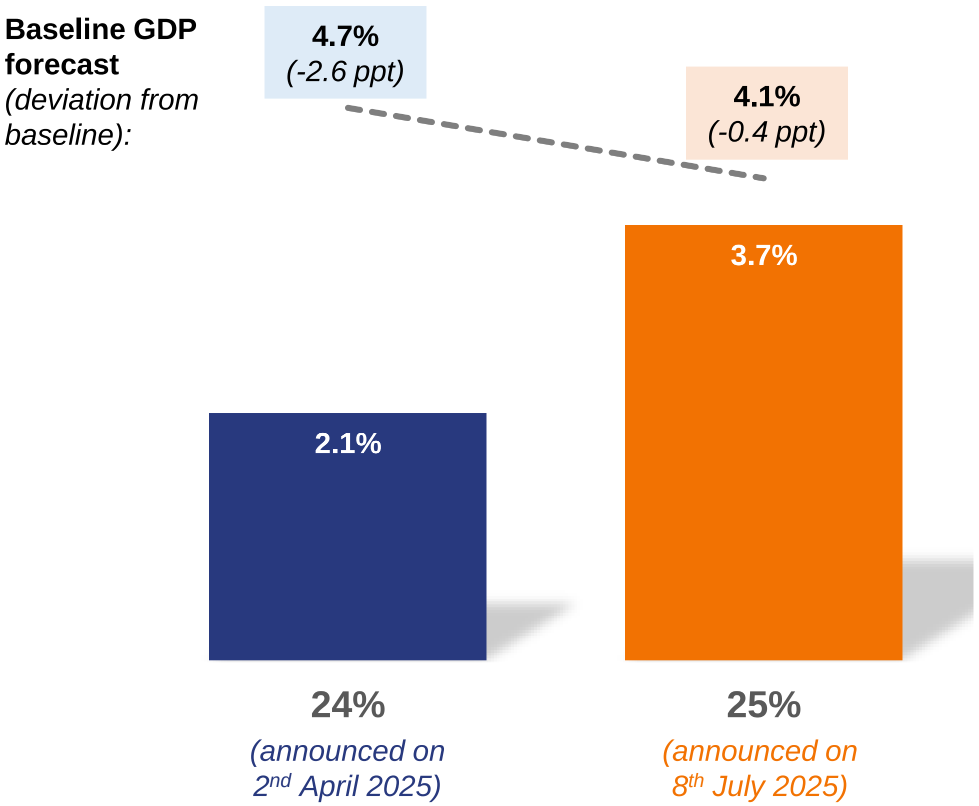
8 JULY 2025

Tariffs Take Effect, but Impact More Contained Than Initially Feared

Malaysia's GDP growth in 2025 under two different tariff announcements



Source: BMMB estimates

While the headline rate is marginally higher than the 24% initially announced on 2 April, our **latest sensitivity analysis** suggests that the **overall drag on Malaysia's 2025 GDP will be smaller** than previously estimated. Under this latest scenario, Malaysia's GDP growth is expected to slow to **3.7% in 2025** — a 0.4 percentage point deviation from the newly revised baseline forecast of 4.1%. This compares with the earlier estimated growth of just 2.1%, based on the more front-loaded 24% tariff scenario outlined in April.

Why is the impact smaller this time?

- **Delayed implementation**: Tariff kicks in on 1 August, reducing full-year exposure compared to April start.
- **Strong frontloading in 5M 2025:** Strong shipments in the first 5 months (Jan-May 2025: 33.6%; Jan-May 2024: 11.6%) cushioned potential export losses in 2H.
- **Key electronics exempt**: Semiconductors and major E&E goods remain excluded from tariff scope.
- **Regional and new market support**: Stronger intra-Asia trade and growing non-US market demand are helping offset the hit.

Baseline GDP forecast remains at 4.1%

We are maintaining our 2025 baseline GDP forecast at 4.1%, despite the estimated tariff-induced slowdown to 3.7%, as **upcoming fiscal support and pro-growth measures in 2H are expected to cushion the impact** and keep growth broadly on track.

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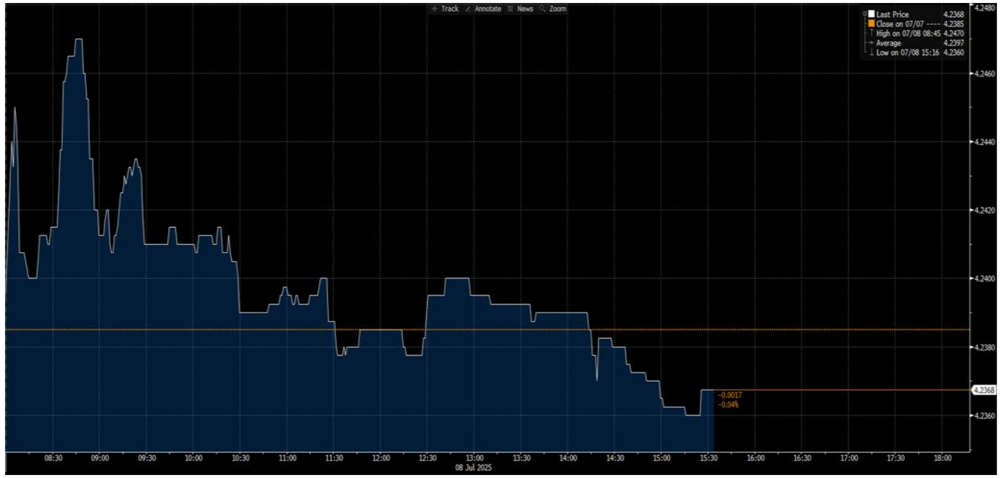
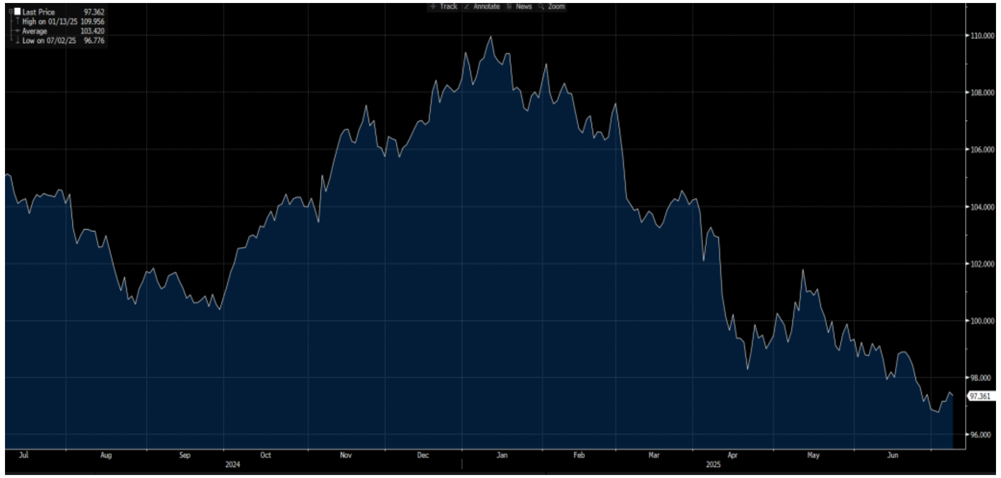
Markets Hold Steady Ahead of Key Policy Decisions

USD/MYR Intraday Performance – 8 July 2025



Source: Bloomberg

US Dollar Index (DXY)



Source: Bloomberg

Despite the escalation in tariff measures, financial markets have so far responded in a relatively measured manner. The US Dollar Index (DXY) continues to hover below the 100 mark, staying in a 97–98 range, reflecting a lack of broad-based flight to safety. Meanwhile, the ringgit traded with mild weakness in early trading but reversed losses by mid-day to settle around 4.237 — marginally stronger than the previous close of 4.2385. The relatively calm market tone may reflect growing investor confidence in Malaysia's domestic buffers, including the **anticipated policy support in 2H 2025**. As highlighted in our outlook, we continue to expect USD/MYR to end the year in the 4.15–4.20 range.

We are closely watching **Bank Negara Malaysia's MPC meeting tomorrow** — where we expect **a 25bps rate cut** — while keeping a lookout for potential sectoral tariffs, particularly any outcomes from the ongoing Section 232 investigation, which remains unresolved and could broaden the scope of US trade measures later this year.

Dr Mohd Afzanizam Abdul Rashid – Chief Economist
Raja Zarina Raja Mohammad - Economist

8 JULY 2025

Appendix I: Letter to PM from White House

THE WHITE HOUSE

WASHINGTON

July 7, 2025

His Excellency
Dato' Seri Anwar bin Ibrahim
Prime Minister of Malaysia
Kuala Lumpur

Dear Mr. Prime Minister:

It is a Great Honor for me to send you this letter in that it demonstrates the strength and commitment of our Trading Relationship, and the fact that the United States of America has agreed to continue working with Malaysia, despite having a significant Trade Deficit with your great Country. Nevertheless, we have decided to move forward with you, but only with more balanced, and fair, TRADE. Therefore, we invite you to participate in the extraordinary Economy of the United States, the Number One Market in the World, by far. We have had years to discuss our Trading Relationship with Malaysia, and have concluded that we must move away from these longterm, and very persistent, Trade Deficits engendered by Malaysia's Tariff, and Non Tariff, Policies and Trade Barriers. Our relationship has been, unfortunately, far from Reciprocal. Starting on August 1, 2025, we will charge Malaysia a Tariff of only 25% on any and all Malaysian products sent into the United States, separate from all Sectoral Tariffs. Goods transshipped to evade a higher Tariff will be subject to that higher Tariff. Please understand that the 25% number is far less than what is needed to eliminate the Trade Deficit disparity we have with your Country. As you are aware, there will be no Tariff if Malaysia, or companies within your Country, decide to build or manufacture product within the United States and, in fact, we will do everything possible to get approvals quickly, professionally, and routinely — In other words, in a matter of weeks.

If for any reason you decide to raise your Tariffs, then, whatever the number you choose to raise them by, will be added onto the 25% that we charge. Please understand that these Tariffs are necessary to correct the many years of Malaysia's Tariff, and Non Tariff, Policies and Trade Barriers, causing these unsustainable Trade Deficits against the United States. This Deficit is a major threat to our Economy and, indeed, our National Security!

2

We look forward to working with you as your Trading Partner for many years to come. If you wish to open your heretofore closed Trading Markets to the United States, and eliminate your Tariff, and Non Tariff, Policies and Trade Barriers, we will, perhaps, consider an adjustment to this letter. These Tariffs may be modified, upward or downward, depending on our relationship with your Country. You will never be disappointed with The United States of America.

Thank you for your attention to this matter!

With best wishes, I am,

Sincerely,

DONALD J. TRUMP
PRESIDENT OF THE UNITED STATES OF AMERICA

Dr Mohd Afzanizam Abdul Rashid – Chief Economist
Raja Zarina Raja Mohammad - Economist

8 JULY 2025

Appendix II: Media Statement by MITI

MINISTRY OF INVESTMENT, TRADE AND INDUSTRY

MEDIA STATEMENT

MALAYSIA WILL CONTINUE CONSTRUCTIVE ENGAGEMENT AND DIALOGUE WITH THE U.S. TOWARDS A BALANCED, MUTUALLY BENEFICIAL TRADE AGREEMENT OUTCOME

The Government of Malaysia takes note of the recent announcement by the United States (U.S.) Government regarding the imposition of a reciprocal tariff rate of 25% on Malaysian exports to the U.S., effective 1 August 2025.

Malaysia values its longstanding economic and trade relationship with the United States and recognises the important role of open and fair trade in supporting jobs and growth in both our countries. To that end, **Malaysia is committed to continuing engagement with the U.S. towards a balanced, mutually beneficial, and comprehensive trade agreement.**

Specifically, MITI will continue discussions with its U.S. counterparts in good faith to **address outstanding issues, clarify the scope and impact of the announced tariffs, and pursue avenues for the timely conclusion of our negotiations.**

These **efforts are still ongoing and reflect Malaysia's willingness to reach a fair and sustainable outcome for both parties.** While we acknowledge the concerns raised by the U.S. regarding trade imbalances and market access, **we believe that constructive engagement and dialogue remain the best path forward.**

The U.S. is Malaysia's second largest trading partner and largest export destination, with total trade in 2024 rising nearly 30% to RM324.9 billion (USD71.4 billion). Exports to the U.S. reached RM198.7 billion (USD43.7 billion), while imports rose to RM126.3 billion (USD27.7 billion).

Malaysia views unilateral measures as potentially disruptive to business operations, supply chains, and investment flows that benefit both countries. **Malaysia strongly believes that together, we can find mutually acceptable solutions that safeguard the interests of both our countries and our peoples, while ensuring that bilateral trade and investment remain a positive force for sustainable economic development.**

The Government of Malaysia remains committed to protecting the interests of Malaysian businesses, workers, and consumers, and will take all necessary steps to mitigate the impact of these new measures. We thank all stakeholders for their continued support and cooperation.

Ministry of Investment, Trade and Industry
8 July 2025

About MITI: MITI is the primary driver in positioning Malaysia as a preferred destination for quality investments and enhancing the nation's global trade competitiveness. Its objectives and roles are geared towards ensuring robust economic development and helping Malaysia achieve its goal of becoming a high-income and developed nation.

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MITI MALAYSIA MALAYSIA MADANI

THIS IS WHERE GLOBAL STARTS