# Take5 for business

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## US tariffs: Navigating the implications of US-imposed tariffs

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The recent imposition of tariffs by the United States (US) presents a significant challenge to Malaysia’s economic landscape.

As one of ASEAN’s leading trading nations, Malaysia’s substantial exports to the US are integral to our economic growth.

These tariffs could potentially disrupt key industries and supply chains, necessitating a comprehensive evaluation of our trade strategies.

It’s imperative for Malaysia to engage in proactive dialogue with international partners and explore avenues to diversify and strengthen our economic resilience in response to these evolving global trade dynamics.

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The introduction of the US tariffs marks a significant turning point for global trade and ASEAN economies will inevitably feel the ripple effects.

For a region deeply embedded in international supply chains, this isn’t just about responding to tariffs, it’s about rethinking how we remain competitive and resilient in a changing landscape.

It’s crucial for ASEAN to stay coordinated so we can turn challenges into opportunities to strengthen our role in global trade.

# Getting grounded: What are tariffs?

A tariff or duty (the words are used interchangeably) is a tax levied by governments on the value of imported products.

Tariffs drive up the landed cost of imported goods, which can squeeze profit margins for importers. In many cases, these additional costs are passed on to end consumers through higher retail prices, potentially affecting market competitiveness.

## How tariffs are calculated - Ad valorem calculation

Classification (impacts rate)

Valuation (base for duty calculations)

**Tariff rate x Tax base = Customs tariff**

**(5% x US$20,000 = US$1,000)**

Origin (impacts rate)

- Local governments set the tariff rate on specific goods or categories of goods based on their tariff classification.
  - This rate can be a percentage of the value of the goods (ad valorem).
  - Or a fixed amount per unit (specific).
- Most products carry an ad valorem duty, meaning customs value is a driver of duties owed.

### Direct impact

**Higher landed costs**
- Tariffs on Malaysian goods drive up the landed cost for US importers.

**Squeezed profit margins**
- Increased costs may lead to lower profit margins for businesses importing Malaysian products.
- However, these costs are often passed on to end consumers through higher retail prices, potentially reducing market competitiveness.

### Indirect impact

**Embedded tariff costs**
- Tariffs indirectly raise Malaysian import costs because of suppliers absorbing losses and adjusting prices globally.

**Higher prices for consumers**
- US goods imported into Malaysia may include tariff costs within their pricing structure.
- As a result, Malaysian buyers could face elevated costs when purchasing US products, affecting overall market pricing.

Source: EY analysis

# Chronology of events

**US actions**

**14-17 Apr** — China President Xi Jinping's three-day state visit to Malaysia, with both nations signing a raft of economic cooperation deals.

**14 Apr** — Exemption for sectorial goods, which includes but not limited to, certain commodities and critical energy products as well as certain goods from the technology and health sectors.

**10 Apr** — US announces a 90-day suspension (until 9 July 2025) of US tariffs for all except China. Baseline 10% tariff remains.

**9 Apr** — 11-50% US tariffs begin for 57 targeted countries. US tariff on China includes an additional 50% tariff as counter-retaliation for China's retaliation announcement

**3 Apr** — US starts collecting pre-announced auto tariffs.

**2 Apr**

- The US announces:
  - A baseline 10% tariff on nearly all imports (effective 5 April 2025).
  - US tariffs on 57 countries with trade surpluses (effective 9 April 2025).
  - China-specific: Adds 34% on top of existing tariffs, raising the effective rate to 54%.

**Malaysia's response**

**14 Apr** — Malaysia announces that it will not impose retaliatory tariffs on imports from the US.

**9 Apr** — Putrajaya outlines follow-up actions on US tariffs during a National Geoeconomic Action Centre (NGCC) meeting.

**8 Apr** — Malaysia to lead ASEAN's unified response against US tariffs.

**26 Mar** — Malaysia establishes the National Geoeconomic Command Centre (NGCC) for monitoring and coordinating between ministries and sectors.

**Major escalation**

**12 Mar** — US reimposes 25% global tariff on steel and aluminum.

**Mar 2025**

- Grace period ends for Canada and Mexico for all goods with certain exceptions.
- An additional 10% tariff announced on Chinese imports.

**Initial implementation and retaliation**

**4 Feb** — 10% tariff on Chinese import takes effect.

**3 Feb** — US grants a 30-day grace period for Canada and Mexico.

**Policy shifts begin**

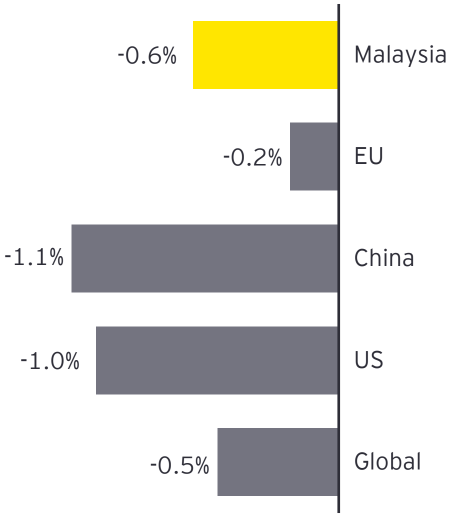
**Jan 2025** — US President Donald Trump issues a memorandum promoting an "America First" trade policy, signaling an aggressive trade stance with announced import tariffs on China, Canada and Mexico.

Source: EY analysis

# Economic impact of US tariffs

## Short-term impact

### Short-term impact of US tariffs on real GDP (% change)




**Global impact**

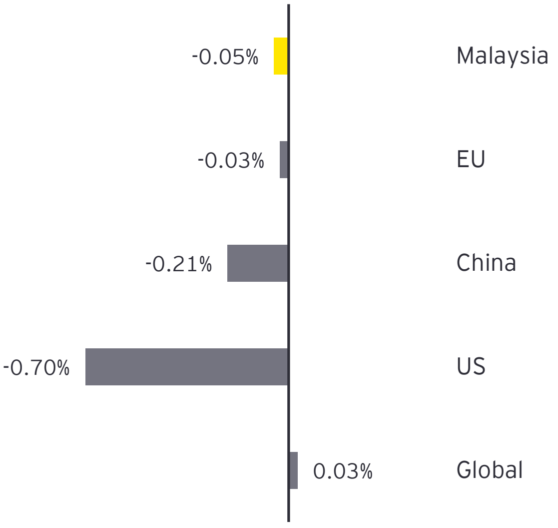
- Steep and permanent tariff increases will create a "stagflationary" shock – a negative economic hit combined with elevated inflation – as well as financial market volatility.
- Economic modeling indicates hindered GDP growth across various economies.
- Some of the hardest hit economies include the Eurozone (EU) and China.
- The World Trade Organization (WTO) forecasts that severe downside risks, such as US tariffs, could reduce global goods trade in 2025 by 1.5%.

**Malaysian impact**

- Increased global tariffs is projected to have discernible negative impact on Malaysia's short-term economic growth.
- Moody expects a 0.6% reduction in GDP growth.

## Long-term impact (5–10 years)

### Long-term impact of US tariffs on real GDP (% change)




**Global impact**

- EY anticipates that the US economy will be among the economies most adversely affected by US tariffs.
- The long-term impact on real GDP for the US economy is expected to be negative 0.7% annually – worth about US$200 billion each year.
- The EU may see modest long-term effect from trade redirection to different export destinations.

**Malaysian impact**

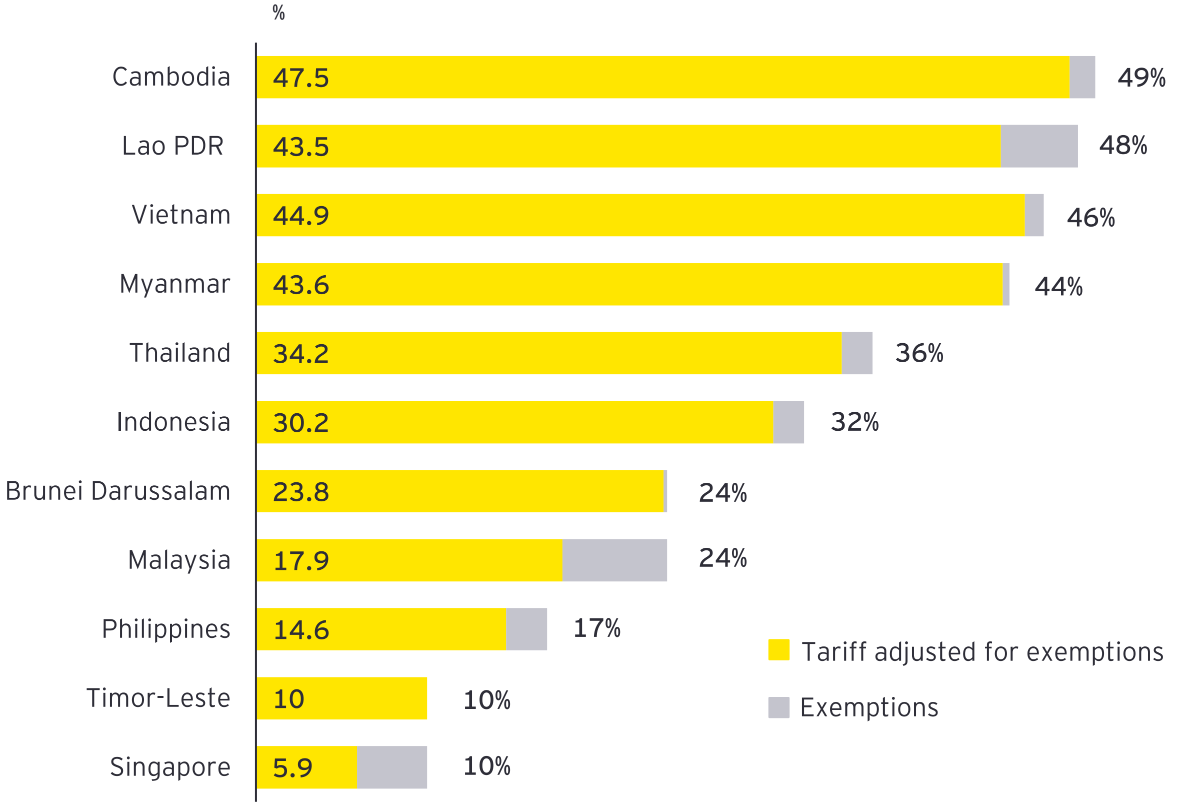
- Malaysia is anticipated to face greater uncertainty.
- Export headwinds may intensify beyond 2025 as the slowdown in global trade becomes more pronounced and the full impact of new trade policies takes hold.

Sources: U.S. Census Bureau; Moody's Analytics; WTO Trade Forecasts; EY-Parthenon analysis

# Overview of the 2025 US tariffs

ASEAN economies face some of the highest US tariff rates under the new US tariff structure, as reflected in the chart below. Malaysia faces a moderate 24% US tariff impact on key exports (17.9% after adjusting for exemptions), placing it in the lower half compared to its Southeast Asian peers.

### US tariff hikes on ASEAN economies, adjusted for exemptions




**Notes: The US has suspended its country-specific tariffs for 90 days starting 10 April 2025, applying a uniform 10% ad valorem duty during this period. Some products are subject to exemptions including copper, pharmaceutical, semiconductors, lumber articles, certain critical minerals and energy products. Exemptions are correct as of 2 April 2025.**

### Malaysia's foreign trade barriers

According to the Ministry of Investment, Trade and Industry (MITI), the average tariff applied to US imports into Malaysia is 5.6%, based on the simple average most favored nation (MFN) applied rate.

Meanwhile, the 2025 US National Trade Estimate Report on Foreign Trade Barriers (NTE) identifies several key trade barriers on tariff and non-tariff measures in Malaysia, including import duties on US agricultural products and import licensing requirements for motor vehicles, government procurement and investment restrictions, challenges in visa and work permit processes, with additional barriers, such as data localization requirements.

Source: *Asian Development Outlook*, Asian Development Bank, April 2025; MITI

# Impact analysis on Malaysia's trade

## Our view

The US is one of Malaysia's key export destinations, with significant volumes of electronic goods, machinery, medical apparatus, rubber and furniture shipped annually. The new tariffs are expected to increase the cost of Malaysian products to US purchasers, potentially impacting competitiveness in the US market.

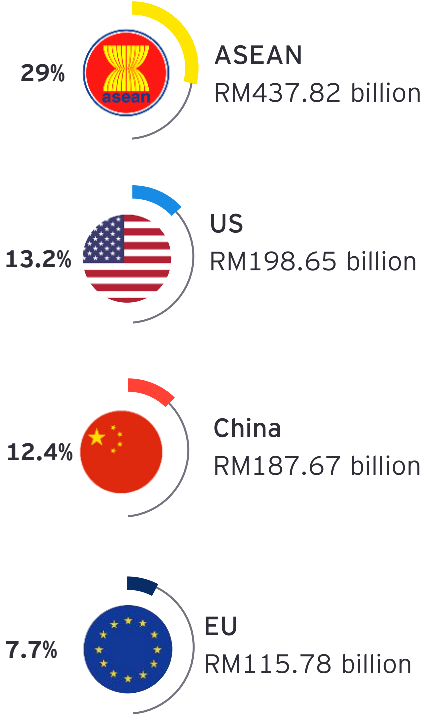
Industries with high reliance on US trade, such as electrical and electronic (E&E) manufacturers, machineries and rubber product producers, may experience margin pressure and supply chain implications.

The tariff hike may lead to shifts in trade flows, with businesses exploring alternative markets or reconsidering supply chain strategies to mitigate cost impact.

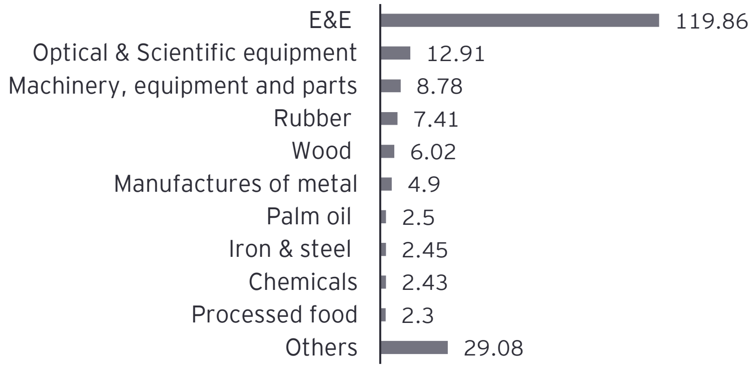
Further, the increased cost to supply the US market may encourage businesses to review existing contractual arrangements and evaluate market priorities, including exploring opportunities in regions which may provide more favorable trade conditions.

Malaysia has a strong, export-oriented economy and counts ASEAN, US, China and EU as major trading partners. It has established itself as a global hub for E&E exports.

### Malaysia's major export markets (62.3% of exports)




### Malaysia's top 10 export products to the US in 2024 (in RM billion)




Total value export to US: **RM198.65 billion**

E&E consists of:

- Semiconductors (RM56.17 billion)
- Non-semiconductors (RM63.69 billion)

Source: EY analysis

# Realignment opportunities for ASEAN against US tariffs

The new wave of US tariffs is broadly credit negative for Asia-Pacific (APAC) economies, according to Moody's Ratings. The escalation is expected to disrupt trade flows, dampen global demand and complicate existing supply chain strategies.

Despite the overall negative tone, selective short-term opportunities for lower-tariffed ASEAN economies have been identified as follows:

**Potential beneficiaries via trade rerouting**

- Malaysia and the Philippines, countries in the mid-tier US tariff band (17–24%), may benefit marginally from trade diversion and rerouting strategies.
- These nations could become alternative production place of goods destined for the US, offering firms a cost-effective workaround to avoid higher-tariff jurisdictions.

**Malaysia's relative advantage**

- Malaysia's tariff of 24% is amongst the lowest compared to ASEAN peers, such as Vietnam (46%) or Cambodia (49%). This relative positioning may offer Malaysian exporters a modest competitive edge in accessing the US market, despite the broader disruption.

**Opportunities for ASEAN collaboration and regional integration**

- While economies, such as Singapore and Australia are sensitive to global trade cycles, ASEAN countries can turn these challenges into opportunities by deepening intra-ASEAN trade and enhancing regional supply chain resilience.
- Meanwhile, frontier markets, such as Sri Lanka, Pakistan and Bangladesh could benefit from stronger ASEAN-led frameworks that support trade facilitation and reduce exposure to rising global trade costs.

**Conclusion**

The US tariffs create significant disruption across APAC but countries like Malaysia and the Philippines, which fall under the lower tariff band, can pursue immediate export opportunities through several key strategies. These include taking advantage of trade rerouting, strengthening intra-ASEAN and regional trade integration and developing high value industries with tax advantages. These steps offer short-term gains. Meanwhile, long-term structural benefits are expected to take years of sustained effort.

Source: EY analysis

# Next steps

By mapping out immediate, mid-term and long-term measures, both importers and exporters can proactively manage rising costs and compliance challenges. Key impact areas include supply chain and transaction flows; the classification, valuation and origin of goods; as well as financial and trade dynamics.

**NOW – Rapid assessment to understand tariff impact and enhance trade transaction compliance**

- Monitor ongoing policy responses from Malaysia, such as trade facilitation measures or other regulatory changes that may influence business operations with the US.
- Map out the supply chain and transaction processes to pinpoint vulnerable areas, implement prompt adjustments and proactive stakeholder management to reduce risk.
- Undertake a comprehensive review of product classification and declared values, rules of origin and transfer pricing methodologies.
- Ensure consistency between transfer pricing figures and customs values to safeguard against compliance issues and reduce exposure to adverse tax adjustments.
- Conduct a rapid cost-benefit analysis to decide if short-term adjustments are required to mitigate any additional costs.

**NEXT – Determine short-term opportunities to mitigate cost increases**

- Enhance internal customs and compliance processes by fine-tuning product declarations, reviewing Harmonized System (HS) codes and ensuring classification accuracy.
- Consider integrating transfer pricing assessments to confirm that customs values reflect the true commercial value, thereby maximizing eligibility for available duty relief measures.
- Analyze broader commercial impact, such as contractual terms, pricing strategies and the implications of International Commercial Terms (Incoterms).
- Determine whether contract amendments or renegotiations are necessary to manage increased tariff costs effectively.
- Review existing supplier contracts and explore alternative sourcing options to minimize tariff exposure.
- Analyze and understand key drivers of revenue streams and cost structures, to identify strategic options.
- Implement effective cost management and cost take-out to extend the cash flow runway.

**BEYOND – Optimize supply chain for a resilient network capacity**

- Develop long-term strategies that diversify export markets and broaden product portfolios.
- Diversify market engagement to build resilience and open new revenue streams in a changing global trade environment.
- Identify a strategic shift to an optimal manufacturing and distribution footprint to minimize total landed cost.
- Prioritize research and development initiatives to enhance the value of offerings.
- Consider technology to improve productivity and operational excellence.

Source: EY analysis

# What should you do today

We would suggest businesses to consider a holistic approach to global trade challenges that integrates supply chain, trade and tax to identify and implement short- and medium-term solutions.

**Rapid assessment**

Rapid assessment to understand current state, tariff impact and operational flexibility.

**Scenario modeling**

Evaluate **supply chain and tax options to mitigate duty impact** (short-term adjustments vs. strategic footprint changes).

**Shorter-term changes (Quick hits)**

1. Supplier or product substitution analysis
2. Product flow analytics
3. Review key drivers of revenue and costs, and optimize working capital management
4. Tariff cost modeling
5. Demand modeling and pricing implication
6. Perform assessment realign risks through intercompany relationships and agreements

**Medium-to-long term (Strategic changes)**

1. Operational efficiency product reengineering assessment
2. Strategic footprint changes (with scenario modeling)
3. Operating model transformation via tariff scenario modeling
4. Strategic partner relationships based on tariff competitive advantage modeling

**Global trade analytics**

US Customs and Border Protection Automated Commercial Environment (ACE) portal

- Establish comprehensive baseline cost model
- Analyze the potential impact of various tariff scenarios
- Identify and evaluate risks associated
- Develop mitigation and recovery scenario modeling

EY-proprietary trade intelligent solution, enriched through external content and global master data repository

Source: EY analysis

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