

Kesan Tarif AS terhadap Sektor Pertanian Malaysia

M Nasir Shamsudin

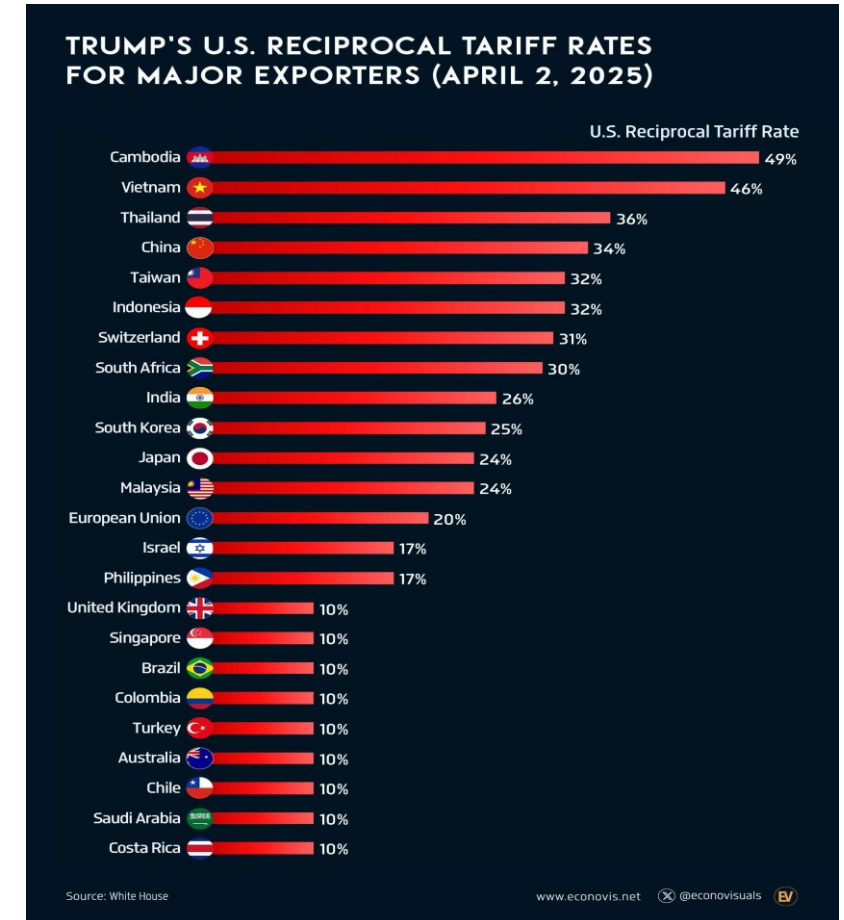
Professor Emeritus, Fakulti Pertanian/
Professor, Putra Business School

Pembentangan di Persidangan Keterjaminan Makanan Kebangsaan 2025
Universiti Putra Malaysia

11 June 2025

Why do reciprocal tariffs raise concern?

- The US “reciprocal tariffs” announced on April 2, 2025 = 24%, from approximately 2.2%.
- To address trade imbalances. The formula of the Reciprocal Tariff Rate =
$$(\text{Trade deficit with Country } i) / (\text{Total imports from Country } i) * 0.5$$

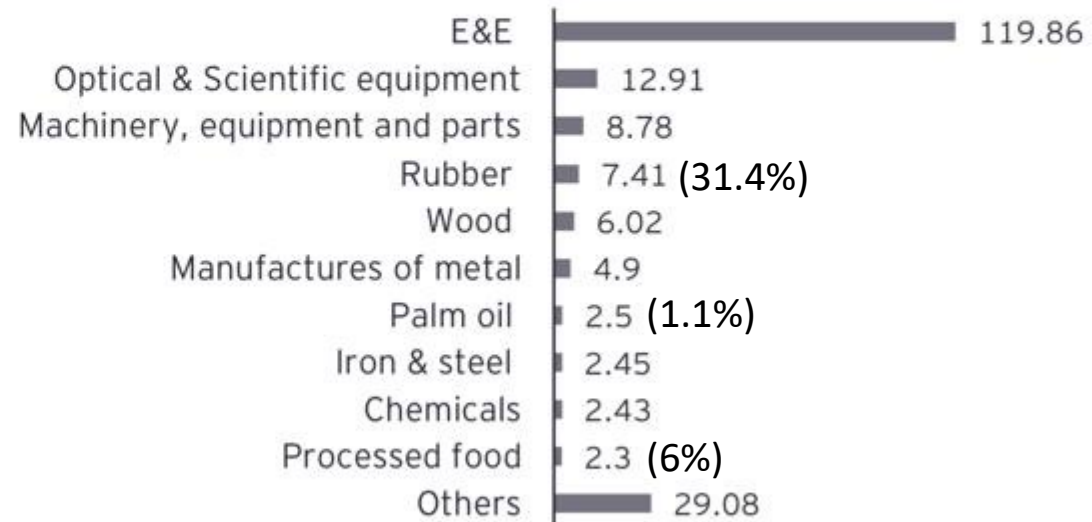


Why do reciprocal tariffs raise concern?

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**

Processed food includes condiments, instant spices, ready-to-eat meals, noodles, cookies, and biscuits.

- **Strategies for Resilience**

What motivates governments to impose tariffs?"

- **Protect domestic industries** – tariffs shelter domestic industries from foreign competition and discourage consumption of imported goods.
- **Raise government revenue** – tariffs serve as a source of income for governments.
- **Political tool for negotiations**– tariffs can be used to apply pressure on the foreign government they are imposed on, as part of a trade negotiation or a political tool.



Tariffs 101 – Effects on importing countries

- Domestic industries are protected
- Higher imported inflation
- Increased consumption of local goods

⇒ To summarise, increased import tariffs can have a positive impact on GDP and employment in the short term by protecting domestic industries from competition and increasing import revenues.

⇒ At the same time, the economy is negatively affected by higher consumer and/or input prices, reduced productivity, increased uncertainty and reduced trade.

Tariffs 101 – Effects on exporting countries

- Reduced exports
 - Decreased trade
 - Weaker currency
- ⇒ To summarise, higher import tariffs can have negative effects on the economy, including lower exports, fewer jobs and increased uncertainty.
- ⇒ The extent of the negative effects depends, among other things, on the dependency of the exporting country on the country that raised tariffs, its ability to find alternative export markets and its ability to adapt its economy to the new conditions.

What is the effect on the Malaysian agriculture?

Effects on Malaysian agriculture

The potential effects are:

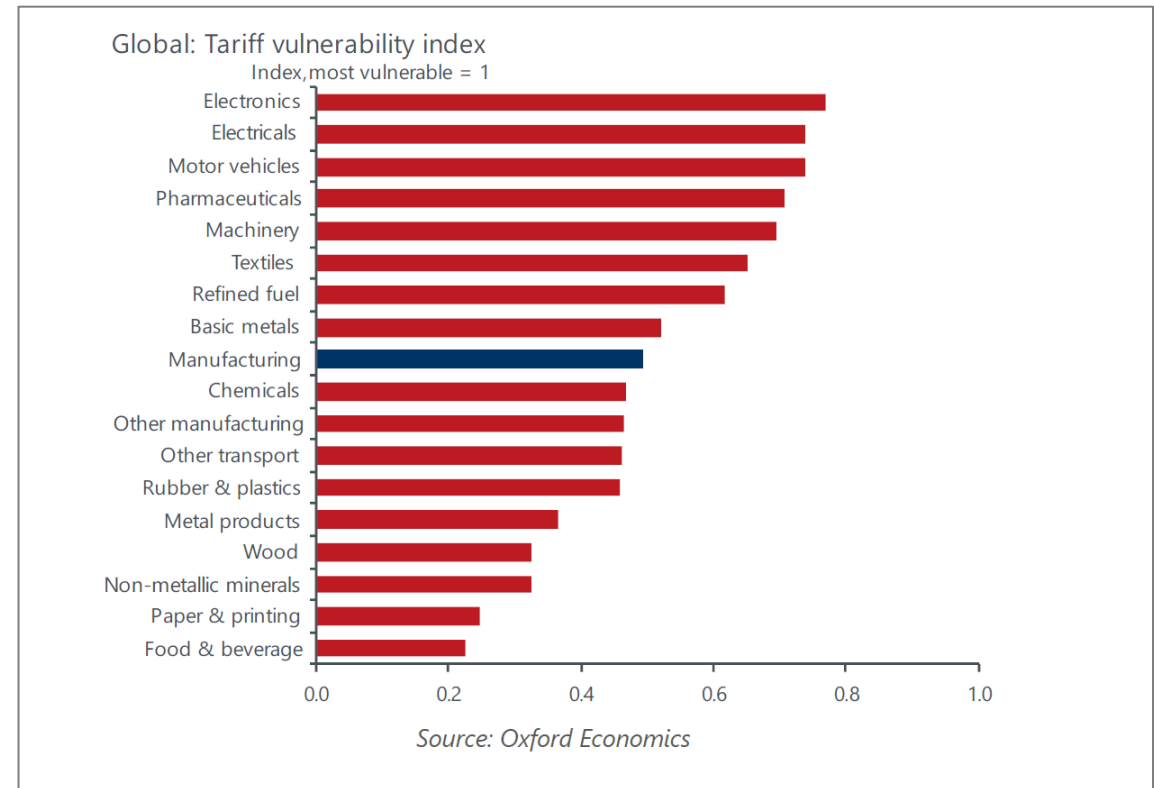
- Diminishing our competitiveness and hence declining export volumes, therefore slowing economic growth.
- However, Malaysia's relatively lower tariff rate offers a slight advantage over Indonesia (32%), Thailand (36%), and Vietnam (46%).



The effect, however, depend on 1 – Tariffs Vulnerability Index

The global tariff vulnerability index – consists of factors:

- Export intensity to the US
- Overall export intensity
- US's share of global manufacturing output
- Import-intensity of US inputs



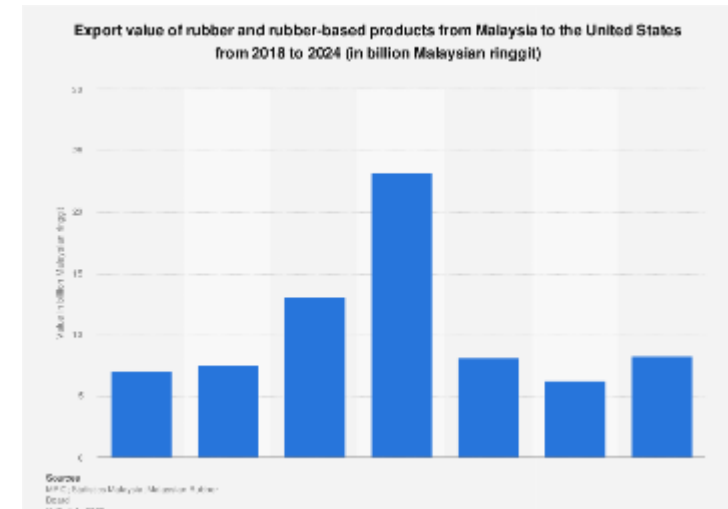
Globally, electronics, electricals, and motor vehicles are most vulnerable to tariffs.

The effect, however, depend on 2 – Incidence of import tariffs

- The more elastic the demand in the importing country, the greater the potential negative impact on the exporting country's trade volume when tariffs are imposed.
- If the demand for the exported goods is elastic, exporters might reduce their prices to maintain competitiveness, thereby absorbing part of the tariff's cost.

Effects on rubber industry

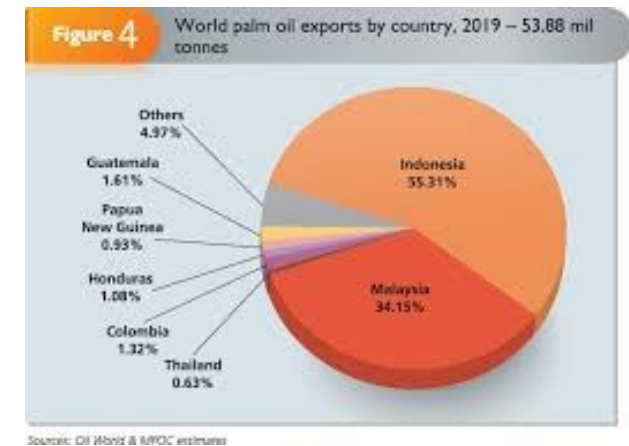
- For rubber products, the US continued to be the largest export markets. It accounted for 31.4% of the total rubber products exports.
- The products are used for apparels and clothing, surgical gloves, tubes and pipes made of vulcanised rubber among others.
- Studies have shown that the **demand for natural rubber is inelastic**, meaning that price increases have a minimal effect on export volumes.



Tariffs – Malaysia (24%), Indonesia (32%), Thailand (36%), and Vietnam (46%).

Effects on palm oil industry

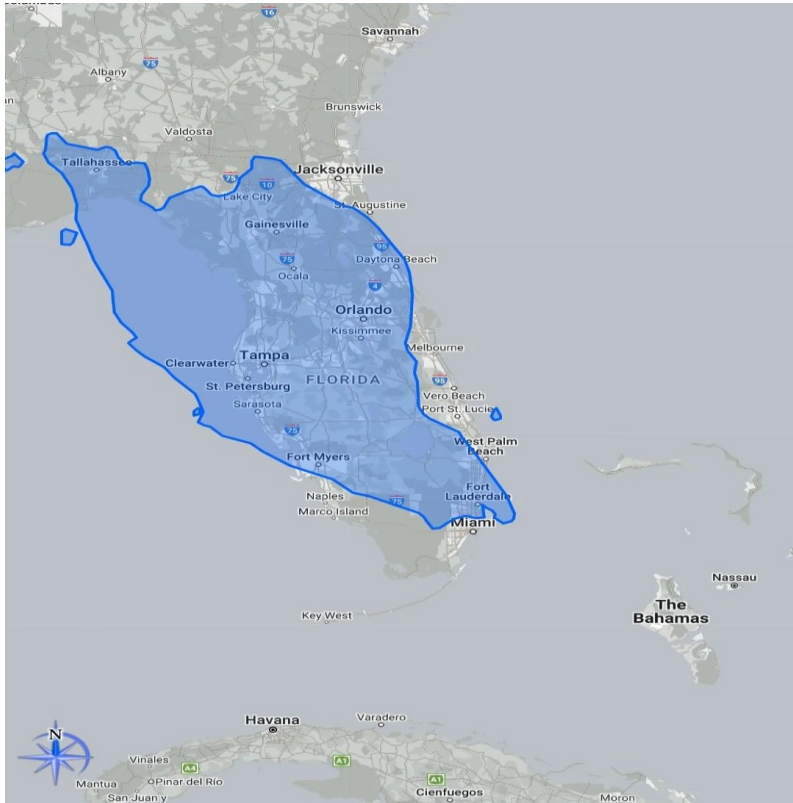
- For palm oil products, the US palm oil market is relatively small for Malaysia. In 2024, Malaysia exported 191,000 tonnes of palm oil to the US, representing 1.1% of Malaysia's total palm oil exports.
- Although the market is insignificant, the tariffs will raise the cost of palm oil for US end-users and the tariff-induced price increase is likely to drive US food manufacturers and consumers to substitute palm oil with more competitively priced domestic alternatives, such as soybean oil and other types of vegetable oils, as the **demand for palm oil is elastic.**



Tariffs – Malaysia (24%), Indonesia (32%), Thailand (36%), and Vietnam (46%).

What are the Strategies for resilience?

Comparing Malaysia and the US



Country	Nominal GDP (USD), 2024
USA	US \$30.51 trillion
China	US \$18.69 trillion
Malaysia	US \$444 billion

Not like China, Malaysia is a small country. Our GDP is about the same as the GDP of Florida.

Strategies for resilience

- **Diversify Export Markets** – Reducing reliance on the U.S. market by expanding trade relationships with other countries can help offset the loss. Strengthening ties with existing partners and exploring new markets will be crucial.
- **Enhance Product Competitiveness** – As rubber and palm oil exports in general is facing challenging market conditions, Malaysia has to improve its competitive advantage in the global markets. To date, there is still a wide disparity between estates and smallholders' yield. The poor performance of the smallholder sector is attributed to non-optimum production and financial constraints. Farm management practices are still much below the recommended ones. Thus agronomic management to improve the smallholder farming system must be emphasized to improve yield. An inventory to determine technology transfer and adoption among smallholders and factors that influence technology adoption should also be undertaken.
- **Leverage existing FTAs** – Utilising frameworks like the ASEAN Free Trade Area (AFTA) and the Regional Comprehensive Economic Partnership (RCEP), and ASEAN-China FTA can facilitate access to alternative markets with reduced tariffs and trade barriers.

China is the world's largest buyer of soybeans, importing 60 per cent of the traded crop, which it uses primarily for animal feed and vegetable oil. The recent implementation of reciprocal tariffs and potential retaliatory measures by China present an opportunity for Malaysia to expand its palm oil exports to the Chinese market. Additionally, China's imposition of higher tariffs on U.S. pork products, amounting to \$3 billion, creates a favourable environment for alternative suppliers, such as Malaysia, to increase their market share.

Strategies for resilience

- **Strengthen Domestic Supply Chains** – Building robust local supply chains can reduce production costs and enhance resilience against external trade disruptions. This involves supporting local industries and reducing dependency on imported inputs.

Countries with large populations have the advantage of a huge domestic market to support their growth and expansion. As a small economy, Malaysia does not have this luxury and must take full advantage of international trade. It is therefore very important for policymakers to monitor the data on external trade, which is a key economic driver for Malaysia.

- **Fiscal & monetary policies** – Monetary Policy: The Central Bank of Malaysia (Bank Negara Malaysia) could consider adjusting interest rates or implementing other monetary policies to stabilize the economy. Fiscal Policy: The Malaysian government might increase stimulus measures to support affected sectors, like offering tax breaks or subsidies to industries hit hardest by the tariff.
- **Engage in Diplomatic Negotiations** – Pursuing diplomatic channels to negotiate tariff reductions or exemptions with the U.S. can be beneficial. Emphasising mutual interests and the potential for collaborative economic growth may aid in reaching favourable agreements.

In summary

- For agriculture, the effect will be on rubber exports, but not on palm oil.
- Significant effects on electrical and electronics products.
- This could lead to slower GDP growth, reduced export earnings, and a weaker currency.
- Malaysia's relatively lower tariff rate (24%) offers a slight advantage over Indonesia (32%), Thailand (36%), and Vietnam (46%).
- The government's fiscal and monetary responses, as well as diplomatic efforts to resolve the issue with the US, will be critical in mitigating long-term consequences.



TERIMA KASIH/*THANK YOU*

Effect of the U.S. Reciprocal Tariffs on Malaysia's Agriculture and Strategies for Resilience

M Nasir Shamsudin

Professor Emeritus, Faculty of Agriculture/
Professor, Putra Business School

Presented at Persidangan Keterjaminan Makanan Kebangsaan 2025
Universiti Putra Malaysia

11 June 2025

Tariffs 101 – Effects on import countries

- **Higher imported inflation** – Higher import tariffs lead to higher prices for imported goods, which hampers private consumption, dampen employment and companies' willingness to invest. The rise in imported prices may be smaller in large countries as they are more able to influence the world price of goods.
- **Increased consumption of other goods** – Higher imported prices can lead to consumers and companies increasingly buying cheaper domestic goods.
- **Domestic industries are protected** – Increased import tariffs improve the competitive position of domestic companies. However, companies that rely on imported goods and exports are negatively affected, with potentially negative effects on production and employment.
- **Stronger exchange rate** – The initial shift in demand from foreign to domestic production tends to result in a countervailing exchange rate appreciation. One reason is that higher inflation often leads to higher interest rates relative to other countries. The nominal exchange rate may appreciate if imports decline significantly and demand for foreign currency falls. An appreciation of the exchange rate hampers exports but makes imports cheaper.
- **Global value chains** – Higher tariffs can lead to disruptions in global value chains by making imported inputs from abroad more expensive. If companies are part of global value chains, higher costs for companies facing higher import costs may also lead to higher costs for domestic companies further down the production chain.
- To summarise, increased import tariffs can have a positive impact on GDP and employment in the short term by protecting domestic industries from competition and increasing import revenues. At the same time, the economy is negatively affected by higher consumer and/or input prices, reduced productivity, increased uncertainty and reduced trade.

Tariffs 101 – Effects on exporting countries

- **Reduced exports** – Goods more expensive, reducing demand for these goods, can lead to a reduction in exports. Countries that are heavily dependent on exports to the country that raised tariffs can have a negative impact on production, exports and employment, especially in the industries most affected by higher tariffs.
- **Decreased trade** – Higher tariffs can hamper productivity due to a reduced knowledge transfer between countries in the form of less direct investment, reduced technology transfer and reduced access to skilled labour.
- **Weaker currency** – If demand for the country's exports falls significantly, this could lead to a weaker currency. A weaker currency can at least partially counteract the deterioration in the terms of trade caused by higher import tariffs.
- **Global value chains** – Exporting countries participating in global value chains are negatively affected if increased import tariffs affect their ability to export inputs. This in turn can lead to higher input prices for both domestic and foreign companies further down the production chain. Companies in the exporting country may want to move their production to another country to avoid the higher import tariffs, which can dampen both production and employment.
- To summarise, higher import tariffs can have negative effects on the economy, including lower exports, fewer jobs and increased uncertainty. The extent of the negative effects depends, among other things, on the dependency of the exporting country on the country that raised tariffs, its ability to find alternative export markets and its ability to adapt its economy to the new conditions.

Effects on Malaysian Economy

- Malaysian economy will be negatively affected by increased US import tariffs as a result of lower exports to the US, weaker global demand and disruptions in global value chains.
- If Malaysian companies were to move production to the US in order to avoid the higher import tariffs, this would also have negative effects on production and employment. Increased uncertainty and pessimism could hold back both household consumption and corporate investment.
- China's exports to the US would likely decrease significantly. China may then want to export more to ASEAN and Europe and to achieve this, their export prices may be lowered and give rise to lower inflationary pressures in Malaysia and elsewhere.