

KINIGUIDE | What's in the US-M'sia trade deal that impacts China?

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KINIGUIDE | Prime Minister Anwar Ibrahim and US President Donald Trump signed a trade deal on Sunday that is supposed to boost economic activity between the two countries.

However, critics say this comes at the expense of Malaysia's trade with other countries - especially China.

Malaysiakini takes a deeper look at the agreement to explore these arguments.

Following US policy

The most clear terms outlined in the reciprocal trade agreement that could harm Malaysia-China trade are in Article 5.1.

The first clause under this article states that if the US imposes any tariffs, quotas, prohibitions, or other trade measures against another country to protect the US' economic and national security, Malaysia must take similar action or agree on a

timeline to do so.

Meanwhile, clause 2 of the article requires Malaysia to crack down on companies owned or controlled by other countries operating in Malaysia that export below-market price goods to the US, increase the exports of such goods to the US, or whose actions harm US exports to either Malaysia or other countries.

While non-specific, the wording of Article 5.1 seems primarily aimed at China, whose economic activities Trump claimed have hurt his country.

Other clauses in the agreement which restrict Malaysia's economic freedoms include Article 3.3, which requires Malaysia to consult with the US before entering into any new digital trade agreements with another country that jeopardises US interests.

Origin washing

"Origin washing" refers to the practice of altering the declared origin of products to evade trade restrictions, tariffs, or other legal obligations.

Again, this is something the US has accused China of practising to evade reciprocal tariffs.

The Malaysia-US deal contains several measures aimed at combating this.

Article 4 states that if the benefits of the agreement disproportionately flow to third countries or their nationals, either party may establish necessary rules of origin to ensure that the agreement's benefits primarily accrue to the two signatories.

Section 5.3 further requires Malaysia to adopt and enforce domestic measures to combat transshipment and other forms of tariff evasion, and to enter a duty evasion cooperation agreement with the US.

Rare earth

Meanwhile, another blow to China that the US struck through this deal is the export of Malaysian rare earth.

Annex III of the deal, which outlines specific commitments that Malaysia must undertake, stipulates that, as per Article 6.2, the export of critical minerals and rare earth to the US should not be restricted.

Malaysia is to also collaborate with US companies to accelerate the development of critical mineral and rare earth industries.

China is the biggest miner and processor of rare earths - minerals which are important for US automotive, defence, and hi-tech hardware manufacturers.

The rare earth deal - which the US also struck with Thailand - would reduce US dependence on rare earth from China.

But besides exports, Article 5.2 also requires Putrajaya to consult with Washington on investments in critical minerals and critical infrastructure, which may prove another hurdle for China-based companies.

How important is China to Malaysia?

China has consistently been Malaysia's biggest trading partner.

In 2024, total trade between Malaysia and China amounted to RM484 billion, of which Malaysian exports accounted for RM187.67 billion - or 11 percent of gross domestic product.

However, the US is also a major trading partner.

In 2024, the US overtook China as Malaysia's biggest export market, with a total value of RM198.65 billion.

Proponents of the Malaysia-US trade deal argue that it is necessary to protect Malaysia's export business from reciprocal tariffs, which are now locked in at 19 percent.

Meanwhile, key exports such as semiconductors and palm oil continue to be exempt from reciprocal tariffs under the trade deal.

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