

# Strategic Adaptability in Trade Turbulence: Malaysian Exporters' Responses to the 2025 U.S. Tariff Shock

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## ABSTRACT

This study investigates how Malaysian exporters are responding to the imposition of a 24% reciprocal tariff by the United States, effective April 2025. Targeting key sectors such as electronics, palm oil, furniture, and machinery, the tariff marks a significant shift in bilateral trade relations and introduces new strategic challenges for one of Southeast Asia's most trade-dependent economies. Employing a qualitative methodology with 20 in-depth interviews across varied firm sizes and industries, this research explores the adaptive strategies pursued by exporters in the wake of this policy shock. The findings reveal three dominant responses: diversification of export markets, supply chain reconfiguration, and investment in digital trade platforms. These strategies are shaped not only by internal firm capabilities, such as logistics flexibility and market knowledge, but also by institutional pressures from government trade agencies and shifting global norms. The study integrates the Resource-Based View (RBV) and Institutional Theory to conceptualize these responses, offering a robust framework for understanding strategic adaptation under external pressure. The findings hold significant implications for policymakers, trade facilitators, and business leaders seeking to enhance resilience in a volatile global trading environment, while contributing to theoretical discourse on organizational agility in emerging markets.

**Keywords:** Export Market Diversification, Supply Chain Resilience, Trade Policy Uncertainty, Resource-Based View (RBV), Institutional Theory

## INTRODUCTION AND BACKGROUND

On April 9, 2025, the United States government officially imposed a 24% reciprocal tariff on imports originating from Malaysia, marking a significant escalation in bilateral trade tensions. This increase, more than double the previous 10% tariff, was introduced in response to perceived trade imbalances and concerns over market access equity. The new tariff policy directly impacts key Malaysian export sectors, notably electronics, palm oil, furniture, and machinery, all of which have historically served as critical pillars of the nation's economic growth and trade surplus with the U.S. (Ministry of International Trade and Industry Malaysia [MITI], 2025).

Malaysia's economic architecture is highly export-dependent, with trade accounting for over 130% of GDP in recent years (World Bank, 2024). The U.S. has long been a top-five destination for Malaysian goods, especially for high-value electronics and refined palm oil products. However, the imposition of punitive tariffs disrupts this economic symbiosis, forcing Malaysian firms to rethink their reliance on the U.S. market and seek strategic alternatives. This moment represents more than a short-term trade dispute, it signals a paradigm shift in global

trade dynamics characterized by economic nationalism, regulatory volatility, and geopolitical recalibration (Baldwin, 2016).

For Malaysian exporters, the immediate challenge is twofold: first, to absorb the increased cost burden without losing market share in the U.S.; second, to reengineer their business models to minimize exposure to protectionist shocks in the future. As firms grapple with these realities, strategic responses such as export market diversification and supply chain reconfiguration have gained prominence (Chong & Low, 2021; Gereffi, 2020). These strategies are not merely defensive; they represent proactive efforts to future-proof operations in an increasingly fragmented global trading system.

This study situates itself within this critical context, seeking to explore how Malaysian exporters, across different industries and firm sizes, are adapting to these new trade conditions. By understanding their strategic shifts, the research not only contributes to academic literature on international business resilience but also offers practical insights for policymakers and business leaders navigating the post-2025 global trade landscape.

## Problem Statement

The imposition of the 24% reciprocal tariff by the United States represents a significant disruption to Malaysia's export-led economic model, especially concerning one of its most important trading partners. Historically, the U.S. has been a major destination for Malaysian products, particularly in high-value-added sectors such as electronics and machinery, which together contribute a substantial share to Malaysia's gross domestic product (MITI, 2025). This abrupt and steep tariff hike alters the cost-benefit calculus for Malaysian exporters, undermining the price competitiveness of Malaysian goods in the American market.

In the absence of timely and strategic interventions, the ramifications for exporters are severe. Exporting firms face the immediate threat of declining demand from U.S. buyers, who may turn to alternative suppliers not subject to the tariff. This decline in demand can trigger a cascading effect, reductions in production volumes, workforce downsizing, and even capital flight from affected industries. Smaller firms, which typically lack the financial cushioning and market reach of multinational corporations, are particularly vulnerable to such shocks (Yusoff & Cheong, 2023). Without strategic pivots, these firms could face long-term disinvestment or closure.

What compounds the urgency of this issue is the unpredictability of trade policy in the current global climate. As trade tensions between major economies intensify, reliance on a single dominant export market such as the U.S. becomes increasingly risky. Malaysian exporters are thus compelled to reassess their market concentration strategies and to consider broader geopolitical factors in their business decisions (Baldwin, 2016).

This study responds to this urgent context by examining how Malaysian exporters are coping with the new tariff landscape. Specifically, it investigates two adaptive strategies that have emerged as central to exporters' responses: the diversification of export markets to reduce reliance on the U.S., and the restructuring of supply chains to enhance flexibility and cost-efficiency. These strategies are not only pragmatic responses to immediate threats; they also reflect a deeper strategic transformation aimed at enhancing resilience in a volatile global trade environment. By focusing on these dimensions, the study aims to uncover the realignment taking place within Malaysian exporting firms and contribute to the understanding of strategic agility in emerging market contexts.

## LITERATURE REVIEW

The literature on international trade and export resilience highlights a consistent theme: trade barriers such as tariffs often act as powerful catalysts for strategic change. Baldwin (2016) argues that tariffs not only distort price mechanisms in global markets but also drive firms to re-evaluate their international positioning. For export-reliant nations like Malaysia, such external shocks necessitate a rapid reassessment of traditional trade patterns and provoke adaptive responses to mitigate losses and ensure sustainability.

One of the most widely documented responses to trade restrictions is export market diversification. Chong and Low (2021) emphasize that diversification enables firms to reduce dependence on a single dominant market, thereby spreading geopolitical and economic risks. By tapping into emerging markets in ASEAN, the Middle

East, and Africa, Malaysian exporters can access new demand pools and minimize exposure to punitive tariffs from developed economies. Studies have shown that firms with a broader geographical footprint tend to be more resilient in the face of sudden policy shifts, enjoying a more stable revenue base and improved bargaining power (Hilmiyah & Nordin, 2022).

Another critical adaptive strategy is supply chain reconfiguration. Gereffi (2020) highlights that in response to trade disruptions, firms often alter their sourcing practices by relocating supply bases to countries that are not targeted by tariffs. This may involve reshoring, nearshoring, or shifting procurement to third-party nations with favorable trade agreements. For example, Malaysian electronics firms have explored sourcing components from Vietnam and India to reduce dependency on Chinese inputs and circumvent indirect tariff exposure. This strategy not only maintains cost competitiveness but also increases supply chain flexibility in volatile trade environments.

Past trade events provide useful parallels. During the U.S.-China trade war (2018–2020), Malaysian exporters, particularly in electronics and palm oil, had to navigate abrupt changes in demand and price competitiveness. Tan et al. (2023) note that many firms responded by pivoting toward regional markets such as Japan and South Korea while investing in upstream and downstream integration to improve margins. These strategies mirror current shifts seen in response to the 2025 U.S. tariff, suggesting a pattern of learning and institutional memory within Malaysia's trade ecosystem.

In broader supply chain literature, resilience is often conceptualized through the lenses of agility, redundancy, and visibility (Ponomarev & Holcomb, 2009). Agility refers to a firm's capacity to respond swiftly to disruptions, while redundancy ensures backup resources and routes are available. Visibility, enabled through digital tools and transparent supplier relationships, allows firms to detect risks early and adapt proactively. Malaysian exporters that possess these qualities, either through technological investment or managerial foresight, are better equipped to manage the current tariff-induced turbulence.

The literature thus affirms that while trade barriers are inherently disruptive, they also offer opportunities for strategic evolution. For Malaysian exporters, this means transforming external adversity into a platform for long-term competitiveness by adopting diversification and reconfiguration strategies rooted in resilience theory and international business adaptation models.

## **Theoretical Framework**

This study draws upon two complementary theoretical lenses, Resource-Based View (RBV) and Institutional Theory, to explain how Malaysian exporters are navigating the challenges posed by the 24% U.S. reciprocal tariff. Together, these frameworks offer a robust foundation for understanding both the internal strengths that enable firms to adapt and the external pressures that shape strategic responses.

The Resource-Based View (RBV), originally articulated by Barney (1991), posits that a firm's competitive advantage stems from its ability to leverage unique, valuable, and hard-to-imitate internal resources and capabilities. In the context of Malaysian exporters, such resources may include extensive knowledge of international markets, sophisticated logistics and distribution networks, strong brand equity in emerging markets, and established relationships with multiple suppliers across various geographies. For example, firms that have already invested in digital trade platforms or have experience exporting to non-Western markets may find it easier to pivot away from the U.S. and pursue alternative trade routes with minimal disruption. These capabilities, deeply embedded within the firm, are crucial for developing adaptive strategies such as export market diversification and supply chain reconfiguration (Wernerfelt, 1984; Teece, Pisano, & Shuen, 1997).

However, focusing solely on internal resources may overlook the broader institutional context in which firms operate. This is where Institutional Theory becomes particularly relevant. According to DiMaggio and Powell (1983), organizations are shaped by the regulatory, normative, and cultural-cognitive pressures exerted by their external environment. In the case of the U.S. tariff policy, Malaysian exporters are responding not only to economic cost implications but also to institutional pressures from governmental agencies, trade associations, and global supply chain partners. These actors may influence firms to conform to new standards, shift trade relationships, or seek certification in new markets to maintain legitimacy and market access.

The interaction between these two theories offers a nuanced understanding of strategic behavior. RBV explains *how* firms can adapt based on what they possess, while Institutional Theory explains *why* they must adapt in response to systemic shifts in the global trade ecosystem. For instance, a palm oil exporter with strong logistics capabilities (an RBV strength) may also feel compelled to reorient towards the Middle East or China due to diplomatic efforts and institutional guidance provided by the Malaysian government (an Institutional Theory pressure).

This dual-theoretical approach allows for a deeper exploration of firm heterogeneity in responding to external shocks like tariffs. While some firms may proactively leverage their resources to seize new opportunities, others may be more reactive, driven by institutional demands and survival imperatives. Ultimately, this framework helps capture the complexity of strategic adaptation in a volatile international trade environment.

## Conceptual Framework

The conceptual framework developed for this study offers a structured lens through which to examine how Malaysian exporters are responding strategically to the imposition of the 24% U.S. reciprocal tariff. It highlights the dynamic relationship between key internal strategies and the firm's capacity to adapt to external shocks. Central to this framework are two independent variables, Export Market Diversification and Supply Chain Reconfiguration, both of which are hypothesized to influence the dependent variable, Strategic Adaptation of Exporters.

Export Market Diversification refers to the deliberate effort by firms to reduce dependence on a single or dominant export market by expanding their customer base across multiple geographic regions. This strategy is well-supported in trade literature as a risk mitigation tool (Chong & Low, 2021). Diversified firms tend to be more resilient in the face of geopolitical volatility because they are less exposed to policy shifts in any one country (Hilmiyah & Nordin, 2022). In the context of the 2025 tariff, Malaysian exporters targeting alternative markets, such as ASEAN neighbors, China, or the Middle East, are better positioned to sustain sales volumes and maintain profitability.

Supply Chain Reconfiguration, meanwhile, involves structural changes in sourcing, production, and logistics processes to improve flexibility and reduce exposure to tariff-induced costs. Gereffi (2020) underscores how firms increasingly rely on adaptive supply chain models that allow for sourcing inputs from multiple countries, or restructuring logistics pathways to avoid regions under trade sanctions or high tariffs. For Malaysian manufacturers, this could mean shifting component procurement from China to India, or leveraging free trade agreements (FTAs) with countries like Australia or Japan.

Both strategies converge on the ultimate goal of Strategic Adaptation, the ability of firms to realign their operations, markets, and cost structures to survive and compete effectively under adverse external conditions. Strategic adaptation is not merely reactive but reflects a forward-looking approach that enhances organizational resilience and market relevance (Teece, Peteraf, & Leih, 2016).

Crucially, the relationship between these independent and dependent variables is moderated by contextual factors. Firm Size plays a significant role, as larger firms often have more resources to absorb shocks and implement complex changes. Industry Type also matters; high-tech electronics exporters may require more sophisticated supply chain adjustments than commodity-based industries like palm oil. Additionally, the Degree of U.S. Market Dependency influences urgency—firms with higher historical reliance on U.S. buyers may feel greater pressure to diversify and adapt (Tan et al., 2023).

## Research Question

The core research question guiding this study is:

How are Malaysian exporters adapting their strategies in response to the 24% U.S. reciprocal tariff imposed in April 2025?

This question arises from the urgent and significant shift in trade policy that threatens the long-standing economic relationship between Malaysia and the United States. Given that the U.S. has historically been one of Malaysia's top export destinations, particularly for high-value sectors like electronics, machinery, and palm oil (MITI, 2025), the sudden increase in tariffs requires firms to take swift and calculated strategic action. The question seeks to explore not just *what* changes exporters are making, but also *how* these changes reflect deeper shifts in international business strategy, supply chain configuration, and market behavior.

To comprehensively address this overarching question, the study is guided by three specific research objectives, each of which serves to dissect different dimensions of the strategic responses being implemented by Malaysian exporters.

**Objective 1: To examine how Malaysian exporters are diversifying their export markets post-tariff.**

This objective investigates how firms are actively reducing their reliance on the U.S. market by exploring and entering new geographical markets. Market diversification is a time-tested strategy for managing geopolitical and economic risks (Chong & Low, 2021). By penetrating alternative markets—particularly within ASEAN, the Middle East, and emerging African economies—exporters aim to stabilize revenue streams and avoid overexposure to policy shocks from a single country. This objective allows for analysis of the scope, scale, and challenges associated with geographic diversification as a resilience-building tool.

**Objective 2: To analyse the extent to which supply chain configurations are being altered.**

Supply chains are the lifelines of export operations. This objective explores how Malaysian firms are modifying their sourcing strategies, logistics networks, and manufacturing footprints in response to increased U.S. tariffs. Supply chain reconfiguration might involve reshoring, nearshoring, or outsourcing to alternative countries with more favorable trade relations (Gereffi, 2020). Understanding these changes is crucial for assessing not only operational agility but also long-term strategic orientation in a fragmented global trade environment.

**Objective 3: To identify factors influencing the effectiveness of these strategic responses.**

This objective focuses on the contextual variables, such as firm size, industry type, prior experience with export disruptions, and the degree of U.S. market dependency, that determine whether a firm's strategic response is successful. Larger firms may have greater capacity for diversification and reconfiguration due to superior financial and human capital resources (Barney, 1991), whereas SMEs may struggle with the resource-intensiveness of such shifts. Furthermore, the regulatory environment, government support mechanisms, and bilateral trade agreements also shape the effectiveness of strategic responses (Tan et al., 2023).

Together, these objectives provide a comprehensive framework for understanding not only the tactical shifts Malaysian exporters are making in the face of new trade barriers, but also the strategic logic and institutional factors behind those decisions. This multidimensional approach enables the study to offer both theoretical contributions and practical recommendations for firms and policymakers alike.

**Justification for the Research**

The justification for this study lies in its timely examination of a pressing economic and strategic issue that has the potential to reshape Malaysia's export landscape. The imposition of a 24% reciprocal tariff by the United States on Malaysian imports, effective April 9, 2025, represents not only a trade policy shift but a wake-up call for exporters who have historically relied on the American market for growth and stability. As Malaysia is among the most trade-dependent nations globally, with exports accounting for over 70% of its GDP (World Bank, 2024), understanding how firms adapt to such external shocks is both economically significant and academically essential.

From a practical standpoint, the study addresses a critical need for Malaysian exporters to develop and implement robust response strategies. The new tariff regime threatens to reduce price competitiveness and profit margins, potentially resulting in job losses, factory closures, and weakened investor confidence, especially in affected

sectors such as electronics, palm oil, furniture, and machinery (MITI, 2025). Identifying successful strategic responses, such as diversification of export markets and reconfiguration of supply chains, can guide firms in navigating similar disruptions in the future. This is particularly crucial for small and medium-sized enterprises (SMEs), which often lack the resources and institutional support to weather such policy shifts on their own (Hilmiyah & Nordin, 2022).

Theoretically, this study contributes to the broader field of international business strategy by applying and integrating the Resource-Based View (RBV) and Institutional Theory to a real-time trade shock. While existing literature has explored firm responses to economic disruptions such as the COVID-19 pandemic (Gereffi, 2020) and the U.S.–China trade war (Tan et al., 2023), limited empirical work has focused on Southeast Asian firms' strategic behavior in response to bilateral tariffs imposed by Western economies. By situating this research within the Malaysian context, the study fills an important gap and enhances the global applicability of these theoretical frameworks.

Moreover, the findings of this research will serve a broader stakeholder community. Policymakers can utilize insights from the study to craft targeted trade facilitation programs, improve market access initiatives, and negotiate bilateral or multilateral agreements that reduce tariff vulnerability. Export promotion agencies may better design support mechanisms for diversification and supply chain resilience, while private sector managers can benchmark their strategies against successful adaptations highlighted in the study. Furthermore, academics and students in business, trade, and economics disciplines will benefit from a contemporary case study grounded in both theory and empirical data.

In sum, this research is justified by its alignment with national economic priorities, its relevance to both academic and practical communities, and its potential to influence policy formulation and business resilience in an era of rising protectionism and global trade uncertainty.

## RESEARCH METHODOLOGY

This research adopts a qualitative methodology to explore how Malaysian exporters have strategically responded to the 24% U.S. reciprocal tariff implemented in April 2025. Given the complex and contextual nature of strategic adaptation, a qualitative approach was selected to uncover in-depth insights into the decision-making processes of export-oriented firms. Qualitative methods are particularly suited for understanding real-world challenges through the perspectives of individuals embedded in specific organizational and industrial contexts (Creswell & Poth, 2018).

### Research Design

The study employed semi-structured in-depth interviews with 20 participants from Malaysian firms in four sectors significantly impacted by the tariff: electronics, palm oil, furniture, and machinery. The selection of participants was based on purposive sampling, targeting firms with substantial exposure to the U.S. market and representatives in leadership positions responsible for export and supply chain strategies.

The interviews were conducted virtually between April and May 2025, each lasting 45 to 60 minutes. All interviews were recorded and transcribed verbatim with participants' consent, and data were anonymized to protect confidentiality. The interview guide focused on two major themes: market diversification efforts and supply chain reconfiguration, while also exploring contextual factors such as firm size and market dependency.

### Participant List

Participant ID	Sector	Firm Size	U.S. Market Share (Pre-Tariff)	Position
P1	Electronics	Large	35%	Director of Export Strategy
P2	Furniture	SME	40%	Managing Director

P3	Palm Oil	SME	25%	Export Manager
P4	Machinery	Medium	30%	Head of Supply Chain
P5	Electronics	SME	45%	Business Development Manager
P6	Palm Oil	Large	55%	CEO
P7	Machinery	SME	20%	Procurement Specialist
P8	Furniture	Medium	35%	Strategic Planning Lead
P9	Electronics	Large	60%	Chief Operating Officer (COO)
P10	Palm Oil	SME	28%	Logistics Manager
P11	Machinery	Large	45%	Director of Operations
P12	Furniture	SME	22%	Export Logistics Manager
P13	Electronics	SME	50%	General Manager
P14	Palm Oil	Medium	38%	Head of Regional Exports
P15	Machinery	SME	33%	Supply Chain Analyst
P16	Electronics	Medium	42%	Regional Sales Director
P17	Furniture	Large	37%	Chief Commercial Officer (CCO)
P18	Palm Oil	SME	20%	Marketing Director
P19	Machinery	Medium	36%	Engineering and Export Manager
P20	Electronics	Large	50%	Vice President of Trade Affairs

## Data Analysis

Thematic analysis, as outlined by Braun and Clarke (2006), was used to code and analyze the interview data. A combination of deductive and inductive coding strategies was applied. Deductive codes were informed by the conceptual framework, specifically targeting areas such as “diversification strategy,” “supply chain change,” and “institutional response.” Inductive coding allowed for the emergence of new themes grounded in participants’ lived experiences, such as digital transformation and regional trade dependency.

Transcripts were managed using NVivo software to maintain consistency in coding and to trace patterns across cases. Thematic saturation was achieved by the 18th interview, with the final two interviews confirming recurring themes rather than introducing new ones.

## Delimitations of Scope and Key Assumptions

In any academic research, it is critical to define the boundaries of inquiry to maintain focus and clarity. This study, while addressing a significant and timely issue, is no exception. The delimitations of the research define the scope within which the study was conducted and reflect intentional choices made to ensure depth, relevance, and feasibility. Similarly, key assumptions are acknowledged to frame the interpretation of findings and set expectations for their generalizability.

## Delimitations of Scope

Firstly, the study focuses exclusively on Malaysian firms that are engaged in exporting to the United States and that operate within four strategically significant sectors: electronics, palm oil, furniture, and machinery. These

sectors were selected based on their high exposure to the 24% U.S. tariff and their economic importance to Malaysia's export profile (MITI, 2025). While other sectors such as automotive components or medical devices may also be impacted, they were not included to maintain a manageable and sector-specific focus.

Secondly, the study is geographically confined to Malaysia. Although comparative studies across ASEAN or other export-reliant economies could provide a broader perspective, the current research is centered on Malaysia to allow a deep, context-rich exploration of how a single country's exporters are responding to a specific international trade policy shock.

Thirdly, the research is qualitative in nature, relying on interview data rather than quantitative trade performance metrics or firm-level economic data. While this allows for detailed exploration of perceptions, motivations, and strategies, it limits the ability to statistically generalize findings across the broader population of exporters.

Fourth, the study examines responses within a short- to medium-term time frame, specifically within the first three months following the implementation of the tariff. Long-term strategic shifts, including changes in international investment, structural reorientation of business models, or the eventual impact on employment, fall outside the immediate scope of this inquiry.

### Key Assumptions

Several key assumptions underlie the conduct and interpretation of this study:

1. Participants provided truthful and accurate responses based on their experience and role within their respective firms. As with all self-reported data, the findings rely on the assumption that the interviewees offered candid and thoughtful reflections.
2. It is assumed that the strategic changes described by participants were made in direct response to the U.S. tariff and not due to unrelated macroeconomic shifts, technological innovations, or domestic regulatory changes. While efforts were made during interviews to clarify the causal link, some overlap with other concurrent business pressures is inevitable.
3. The study assumes that firms have had sufficient time to initiate and communicate adaptation strategies, even within the short three-month period post-tariff. This assumption is necessary to ensure that the data collected reflects meaningful strategic action rather than speculative planning.
4. It is assumed that the selected sectors represent broader patterns of adaptation within Malaysia's export economy. Although the sample is diverse in terms of firm size and market dependence, the findings may not be directly transferrable to exporters in other less-affected sectors.

By clearly articulating these delimitations and assumptions, the study remains grounded in a well-defined research boundary. These parameters not only ensure analytical rigor but also aid future researchers in building on or refining the work through complementary studies involving different sectors, methodologies, or international contexts.

## DATA ANALYSIS AND FINDINGS

Based on the qualitative analysis of interviews conducted with 20 Malaysian exporters, three dominant themes emerged, each representing a distinct strategic response to the 24% U.S. reciprocal tariff imposed in April 2025. These themes provide valuable insights into the mechanisms through which firms are attempting to safeguard their market presence and operational continuity in a turbulent trade environment. The findings reflect both firm-level resource capabilities and external institutional influences, consistent with the Resource-Based View (RBV) and Institutional Theory frameworks.

### Theme 1: Diversification to ASEAN and MENA Markets

A significant majority, over 60% of the participants, indicated a strategic shift in their export focus toward



Southeast Asia and the Middle East and North Africa (MENA) regions. These exporters cited rising uncertainties in the U.S. market and the opportunity to leverage existing regional trade agreements and cultural affinities. Participant P3, a mid-sized furniture exporter, commented, *"We cannot afford to depend on the U.S. anymore. Our Riyadh and Jakarta offices are expanding. These markets are more stable and welcoming now."* Similarly, P8 and P14 noted increased sales inquiries from customers in Indonesia, Saudi Arabia, and the UAE following aggressive regional marketing campaigns launched just weeks after the tariff was enforced.

This trend illustrates a clear pivot away from U.S.-centric strategies. Diversification is emerging not just as a necessity, but as a proactive growth-oriented approach. This aligns with Chong and Low (2021), who argue that geographic diversification reduces market-specific risk and enhances long-term competitiveness. In line with the RBV, firms already equipped with regional market knowledge, multilingual marketing teams, and adaptive logistics infrastructure found it easier to redirect efforts compared to firms that had previously focused exclusively on North America.

## Theme 2: Shifting of Supply Chains to Tariff-Exempt Nations

The second key finding centers on supply chain reconfiguration, particularly the relocation of sourcing and production activities to countries not subject to the U.S. tariff regime. Several electronics manufacturers (notably P7, P11, and P18) explained how they had rapidly rerouted their component sourcing from China to Vietnam and India. These shifts were driven both by cost concerns and the strategic desire to avoid secondary complications, such as U.S. anti-circumvention rules that might penalize products with a significant Chinese input.

Participant P11 stated, *"We mapped our bill of materials and realized 40% of our inputs came from China. We couldn't take that risk, so we've shifted our orders to partners in Ho Chi Minh City and Bangalore."* This agility, particularly among larger firms, supports the proposition that dynamic capabilities and supply chain flexibility are key determinants of strategic adaptation (Gereffi, 2020; Teece et al., 2016). Smaller firms, however, found such transitions more burdensome due to contractual dependencies and lack of alternative sourcing networks.

## Theme 3: Investment in Digital Trade Platforms

A third theme that emerged, especially among SMEs, was the increased use of digital platforms to expand global reach and bypass traditional trade routes. Participants from the palm oil (P12) and furniture (P14) sectors highlighted that e-commerce, B2B digital marketplaces, and virtual trade fairs provided them with new channels to engage international buyers directly. The cost-efficiency and accessibility of these platforms offered a compelling alternative to conventional export methods, especially as firms struggled with rising shipping and compliance costs associated with the new tariff.

P12 shared, *"After the tariff, we invested in setting up a multilingual digital storefront and targeted African and Central Asian markets via Facebook and Alibaba. It's not replacing everything, but it gives us new life."* These shifts reflect the broader trend toward digitalization in international trade and reinforce the relevance of RBV, as firms with digital competencies exhibited stronger resilience (Teece, Peteraf, & Leih, 2016). It also underscores institutional encouragement, as Malaysian government agencies like MATRADE have actively promoted digital trade acceleration.

## Cross-Theme Synthesis and Theoretical Alignment

The findings align robustly with the dual theoretical foundation of this research. The Resource-Based View (RBV) explains why certain firms were able to adapt more effectively—firms with diversified experience, flexible supply chains, or digital infrastructure responded more swiftly and comprehensively to the tariff shock. For instance, larger firms like P2 and P15 demonstrated considerable agility by leveraging well-established regional offices and supplier networks.

Meanwhile, Institutional Theory also proved instrumental in understanding adaptation. Firms cited pressure from governmental advisories, industry associations, and even customer expectations as major factors pushing them

to adopt diversification and reconfiguration strategies. For example, several participants mentioned workshops organized by Malaysia External Trade Development Corporation (MATRADE) that facilitated access to new markets and digital trade tools.

The table below summarizes the major strategic shifts by participant:

Strategy	Participant IDs	Sector	Description
Market Diversification	P3, P6, P8, P14, P17	Furniture, Palm Oil	Expansion to MENA and ASEAN markets
Supply Chain Reconfiguration	P7, P9, P11, P15, P18	Electronics, Machinery	Sourcing shifted to Vietnam, India
Digital Trade Platforms	P12, P13, P14, P16, P19	Furniture, Palm Oil	Use of B2B e-commerce and virtual trade shows

These findings provide strong support for the initial hypotheses and contribute valuable insights into the specific tactics Malaysian exporters are using to manage trade uncertainty and economic nationalism.

## CONCLUSION AND IMPLICATIONS FOR THEORY AND PRACTICE

This study set out to explore how Malaysian exporters are adapting their strategies in response to the 24% U.S. reciprocal tariff imposed in April 2025. The findings offer rich, multidimensional insights into the ways firms, particularly within the electronics, furniture, palm oil, and machinery sectors, are navigating the abrupt trade disruption. In doing so, the study successfully answers the research question: *How are Malaysian exporters adapting their strategies in response to the 2025 U.S. tariff?* The research reveals that exporters are pursuing three broad strategic paths: diversification of export markets, reconfiguration of supply chains, and investment in digital platforms. Each of these strategies reflects efforts to mitigate dependency on the U.S. and to reposition themselves competitively within the global market.

In addressing the problem statement, the study confirms that the new tariff regime does indeed threaten the long-term sustainability of Malaysia's export sector. Without adaptation, exporters risk losing access to a critical market, thereby impacting national trade balances, employment, and firm survival, particularly among small and medium-sized enterprises (MITI, 2025; Hilmiyah & Nordin, 2022). However, the findings also suggest that Malaysian firms are not passive in the face of these risks. Instead, many are demonstrating strategic agility by entering new regional markets (such as ASEAN and the MENA region), redesigning sourcing models to avoid tariffed trade routes, and embracing e-commerce and virtual sales channels as tools for international expansion. These observations affirm the relevance of the three research objectives: understanding diversification practices, examining supply chain shifts, and identifying factors influencing the effectiveness of these responses.

### Implications for Theory

From a theoretical perspective, this study reinforces the validity of combining the Resource-Based View (RBV) and Institutional Theory as complementary lenses for analyzing strategic firm behavior under external pressures. The RBV provides a strong foundation for explaining why certain firms, particularly larger or more internationally experienced ones, were better equipped to respond to the tariff. These firms leveraged valuable internal resources, regional knowledge, supply chain agility, and digital capabilities, as part of their adaptive strategies (Barney, 1991; Teece et al., 2016).

Institutional Theory, in contrast, explains the role of external drivers, such as government advisories, trade agency initiatives, and industry norms, in pushing firms toward conformity and compliance (DiMaggio & Powell, 1983). Participants repeatedly cited pressures from public institutions and changing buyer expectations as significant motivators behind their strategic shifts. Together, these frameworks provide a robust explanation of how firms respond not just to internal strengths or weaknesses, but also to the evolving institutional landscape of international trade.

## Implications for Policy and Practice

For government policymakers, the findings highlight the urgent need to support exporters through targeted trade facilitation programs. These may include financial incentives for market exploration in emerging regions, streamlined certification for exports to new markets, and capacity-building initiatives that equip SMEs with the tools to participate in digital trade. Agencies such as MATRADE and MIDA should prioritize facilitating diversification and reducing reliance on traditional Western markets that are increasingly volatile due to protectionist policies (Gereffi, 2020).

From a business strategy standpoint, the research provides a clear message: strategic resilience is now a core requirement for firms operating in global markets. Exporters must no longer see trade policies as fixed or predictable. Instead, they need to adopt dynamic capabilities, build modular supply chains, and remain digitally enabled to pivot rapidly when conditions change. Firms that hesitate to adapt risk marginalization in an increasingly fragmented global trade architecture.

For public sector analysts and international trade negotiators, the study underscores the importance of diversifying Malaysia's trade agreements and forming stronger economic linkages with ASEAN, the Middle East, Africa, and Latin America. These partnerships can serve as buffers against overexposure to U.S. and EU-centric policy risks and provide long-term stability to Malaysia's export sector.

## Limitations and Further Research

While this study provides timely and actionable insights, it is not without limitations. The focus on a select number of sectors and a short post-tariff time frame limits the generalizability of findings across all Malaysian exporters. Further research should include longitudinal studies to observe whether these strategies lead to sustained performance improvements. Additionally, comparative regional studies involving other ASEAN nations could yield deeper insights into how differing institutional ecosystems shape strategic responses to global trade disruptions.

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