

A Trade Shock with Human Consequences

Storm at the Gates: How US Tariffs Could Reshape Malaysian SMEs? A Trade Shock with Human Consequences! What HR Must Do to Stay Ahead

Introduction:

In today's interconnected economy, the recent **24% US tariffs** on Malaysian exports can send shockwaves through factories in Penang, design studios in Kuala Lumpur, and logistics hubs in Johor. The announcement—or even anticipation—of US tariffs on Malaysian exports represents not just a business concern, but a deeply human one.

For Malaysia's small and medium-sized enterprises (SMEs), which make up **97% of all registered businesses** and employ over **7 million people**, the stakes are high. These businesses power everything from electronics and rubber to furniture and textiles—sectors that often have direct or indirect exposure to the US market.

While financial modelling and supply chain restructuring will dominate boardroom conversations, one critical area demands equal attention: **people**. The real impact of trade tariffs will be felt in the livelihoods, careers, and well-being of employees. And this is where **HR and business leaders** must rise to the occasion—not as bystanders, but as strategic navigators.

Understanding the Potential Impact of US Tariffs on Malaysian SMEs

Tariffs raise costs for importers in the US, often leading them to reduce purchases, demand price discounts, or switch to suppliers in untariffed countries. For Malaysian SMEs, especially those in export-heavy industries like electronics, rubber gloves, palm oil derivatives, or light manufacturing, this can lead to:

- **Sudden drops in orders**
- **Cash flow interruptions**
- **Increased inventory carrying costs**
- **Lower margins or forced price undercutting**

For businesses already operating on tight margins, even a **10–15% drop in US demand** could be disruptive. And this disruption can rapidly bleed into workforce stability.

Employment Under Pressure: Early Warning Signs:

Here's how these economic tremors typically manifest in the workforce:

a) Hiring Freezes & Slowed Recruitment

HR departments may be directed to pause recruitment to preserve cash. This affects workforce planning and succession strategies, leading to **gaps in key roles** or **over-reliance on existing staff**, risking burnout.

b) Stalled Compensation Growth

Merit increases, bonuses, or performance incentives may be delayed or cut altogether. While a short-term fix, this can damage **employee morale** and lead to **higher turnover among top talent**.

c) Layoffs or Reduced Hours

If the situation persists, businesses may move toward workforce reduction—either through **retrenchments**, **shortened workweeks**, or **unpaid leave rotations**.

d) Decline in L&D Investment

Training budgets are often the first to go during belt-tightening, threatening **long-term competitiveness** and **employee engagement**.

e) Reduced Benefits and Wellness Programs

In efforts to reduce operating costs, SMEs might scale back on healthcare other soft benefits that, ironically, are most needed during times of stress.

3. What Business Owners and HR Leaders Should Be Doing—Right Now

The tariff threat requires a **cohesive, forward-looking HR response**—not reactive firefighting. Here's some thoughts on how leaders can prepare:

Scenario Planning with HR at the Table

Too often, HR is looped in *after* financial decisions are made. This time, bring HR into the **financial forecasting** and **scenario planning** stages. HR can model workforce impacts under different revenue decline scenarios and recommend **contingency workforce strategies**.

Talent and Market Diversification

If your products face reduced competitiveness in the US, look to other trade partners or develop new product lines. But market diversification demands **skills diversification**—can your current workforce support new market demands? HR can audit and plan necessary reskilling/upskilling programs.

Transparent and Timely Communication

During uncertainty, rumours spread fast. HR should **own the internal narrative**—communicate changes early, explain the rationale, and outline what the business is doing to protect jobs. Even when the news isn't good, **transparency builds trust**.

Agile Workforce Models

Prepare now for flexible deployment:

- Cross-train employees in multiple roles
- Explore part-time/flexible options before layoffs
- Consider temporary redeployments across departments
- Build a pool of freelancers or gig workers for variable-demand tasks

Moving Forward, Beyond Survival: HR's Strategic Role in Future-Proofing

Forward-looking SMEs can use this moment to build not just resilience, but a **future-ready workforce**. HR is key to that transformation. Here's how:

Upskill for the Future

Digitization, automation, ESG compliance, and new trade ecosystems (e.g., ASEAN, RCEP) are rising trends. Use this downcycle to **reskill your team** for future-ready roles in digital supply chains, data analytics, sustainable practices, or regional business development.

Retain and Redeploy Top Talent

Don't let a short-term challenge trigger long-term talent loss. Identify critical performers and create **personalized retention plans**, such as flexible work arrangement

Optimize Culture for Adaptability

Tariffs are a symptom of a volatile world. Use this period to build a **culture of agility**—one that rewards curiosity, risk-taking, and cross-functional collaboration. HR can lead this cultural evolution through storytelling, recognition programs, and values realignment.

Reimagine Organizational Structures

Rethink traditional hierarchies and siloed departments. Build **cross-functional squads** or project-based teams that can react faster to market changes. This flattening improves speed, innovation, and employee engagement.

Conclusion: Tariffs Are a Wake-Up Call, Not a Death Sentence

While the US tariffs may pose a significant challenge to Malaysian SMEs, they also offer a clear signal: **the world is shifting, and we must shift with it.**

For business heads, this is a time to lead with clarity. For HR, this is a time to lead with courage. Together, they can balance financial survival with human sustainability. With foresight, agility, and empathy, SMEs can weather the trade storm—not just by protecting jobs, but by redefining what work, value, and resilience look like in a new era of global business.