

# 1. Introduction

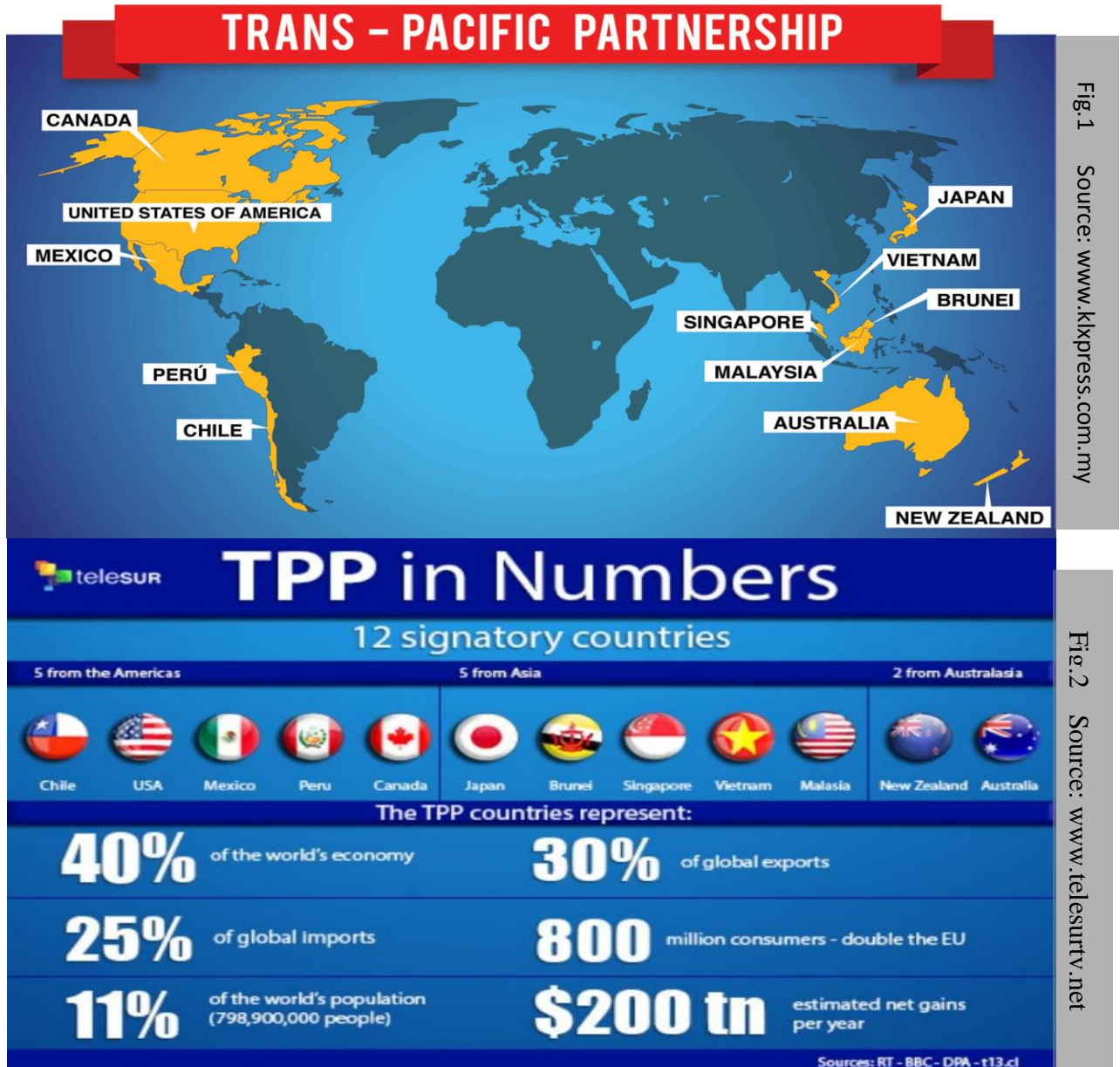


Fig. 1 Source: www.kkxpress.com.my

Fig. 2 Source: www.telesur.tv.net

Trans-Pacific Partnership (TPP) was originally founded as the Trans-Pacific Strategic Economic Partnership Agreement (TPSEP or P4) signed by New Zealand, Chile, Singapore and Brunei in 2005. Its main feature is eliminating taxes and trade barriers among member countries thus forming a free trade market. In 2008, the United States (U.S.) joined in the negotiation, followed by Australia, Peru, Vietnam, Malaysia, Mexico, Canada and Japan, bringing an expansion of the members to 12 countries.

The countries involved contribute 40% of the world's total GDP of US\$27.5 trillion, 30% of its global export, and 800 million of its consumers. It aims at building a global trading system to open up trade in goods and service, enhance labour standard, preserve the environment, ensure food safety, promote information transparency, help SMEs, ensure fair competition with state-owned enterprise and to improve regional economic integration. It is the largest trade deal in history and expected to boost economic growth among the members of the Asia-Pacific Region.

## 2. The effects of TPP to America

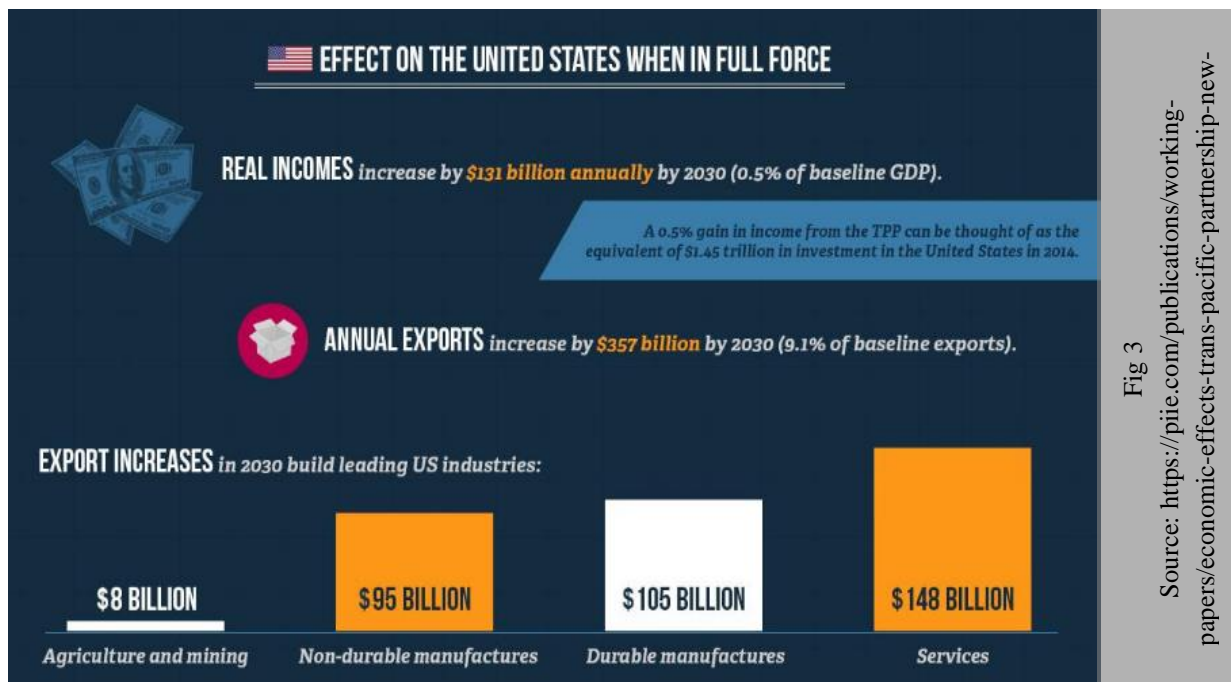


Fig 3  
 Source: <https://piie.com/publications/working-papers/economic-effects-trans-pacific-partnership-new->

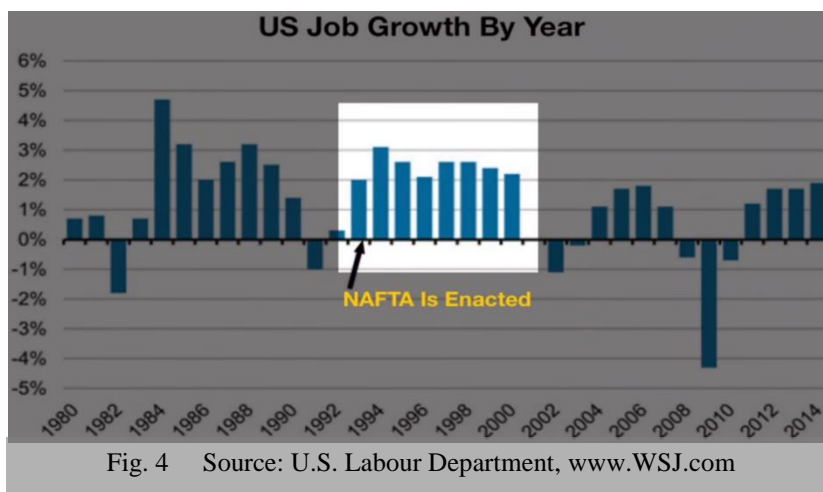


Fig. 4 Source: U.S. Labour Department, www.WSJ.com

**\*\*The North American Free Trade Agreement (NAFTA)** is a treaty signed by the United States, Canada and Mexico, becoming the used to be biggest free trade market in the world; it went into effect on January 1, 1994. However, it has led to some disappointments regarding labor and environmental issues. Thus, TPP can improve those shortcomings since all NAFTA members are included.

The U.S. could be said to be the founder of TPP and has the primary role in drafting its agenda settings. It was said her motives are to increase made-in-America exports, making new more high-paying jobs like **NAFTA\*\***(Fig. 4), upgrading NAFTA,help SMEs and American middle class, avoid East Asia’s trade being dominated by China and strengthen U.S.’s national security.According to the Peterson Institute, the U.S. annual real incomes would rise by \$131 billion (0.5% of GDP) by 2030, and will continue to increase at the same rate annually.

As the international police, the U.S. also has an unprecedented opportunity to strengthen good governanceand expand influences across the Asia-Pacific through TPP. TPP has enforced stricter and effective anti-corruption laws. Besides, TPP has eliminated more than 18,000 taxes and trade barriers, creating a more free market. This means foreign enterprises have less chances and motives to bribe officers. Better governance means stronger economies and a more conducive environment not only for U.S. but for Malaysia and other countries trade and investments growth.



Fig. 5 Source: <https://piie.com/publications/working-papers/economic-effects-trans-pacific-partnership-new-estimates>

As we know, U.S. doesn't get quite well with China and South Korea, TPP will make China and South Korea to suffer great economic losses while boosting the economy of European Union and Hong Kong which are on good terms with U.S. President Obama had once said, "The TPP would let America, not China, lead the way on global trade."

With the participation of the United States, China will be prevented from gradually becoming the monopolist of the East Asia Market. With this, Malaysia consumers will be able to buy goods at a more competitive prizes with more choices and making the elasticity demand of a certain product more sensitive. Thus, manufacturers will try to satisfy consumers' wants by increasing the quality and add on values of their products, this is beneficial for Malaysian. Besides, TPP will eliminate more than 18,000 taxes on American products, increase the U.S. exports while letting Malaysian to buy cheaper electronic applications and machinery to be invested in production. However, there is a risk that cheaper imported goods will flood the local market.

TPP excludes China, however, considering many big U.S. companies high investments in China (approximately 65.77 billion U.S.D. in 2014, source from [www.statista.com](http://www.statista.com)), the economics of China will be indirectly boosted as sales of U.S. products increase means more products to be manufacture in China factory. As Positive Externalities, Malaysia will also be benefited as China is Malaysia's largest trading partner and more foreign capital will flow into local market. For example, in November 2015, China declared to buy more Malaysian government bonds and give Malaysia a 50 billion yuan (7.69 billion USD) quota in the Renminbi Qualified Foreign Institutional Investors plan (source: South China Morning Post). This shows China and U.S.'s eagerness to strengthen ties with Southeast Asia and TPP will force them to make more profitable offers to gain more allies.

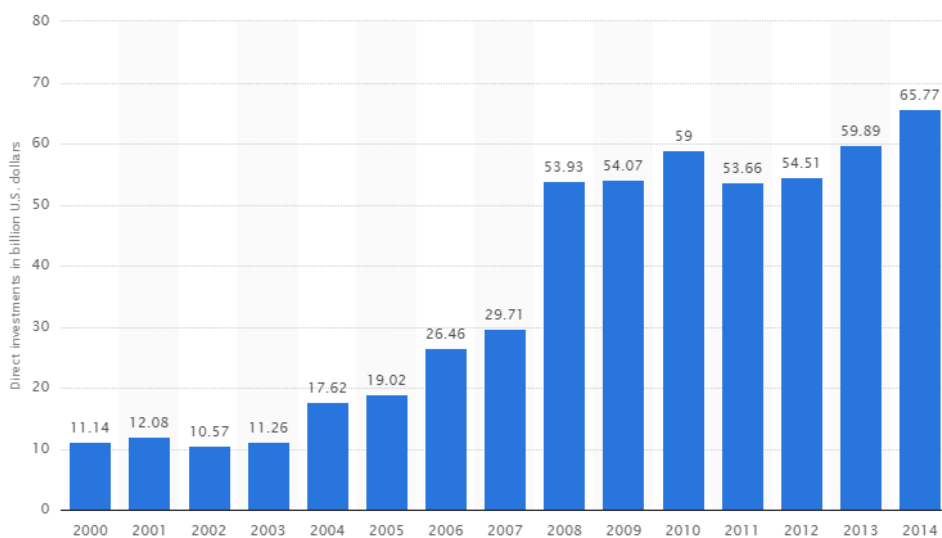
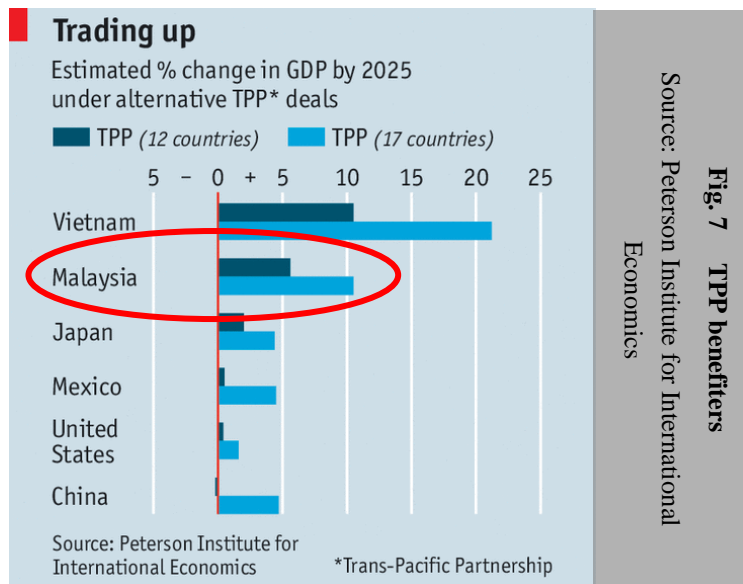


Fig. 6: Direct investments of U.S. in China  
Source: <http://www.statista.com/statistics/188629/united-states-direct-investments-in-china-since-2000/>

© Statista 2016

## Malaysia's expectation on TPPA – Why did Malaysia take part?

Malaysia government is optimistic about TPP, to expand market accessibility, enhance our competitive advantage, attract foreign investment and others. Since, Malaysia will gain access to the largest duty-free market of 800 million people (GDP of US\$27.5 trillion). With TPP being implemented by 2018, Malaysia will be the second largest benefiter, US\$41.7 billion (RM133.9 billion) increase in exports and US\$26.3 billion in income gains by 2025 (source: Peterson Institute of International Economics). Thus, achieving to become a high income and developed nation by 2020.



Malaysia is expected to increase its export (which contributed to 80% of GDP) by 11.9% by year 2025. As Malaysia is an open economy that heavily relies on international trade, TPP will allow new rising local SMEs and multinational company to venture new markets, like U.S., Canada, Mexico and Peru which have yet have trade deals with Malaysia. The biggest benefiter of industry might be oil palm products, rubber products, furniture, electronics and especially textiles which are mainly exported to U.S.

Besides, TPP promotes Malaysia's integration in regional supply chain and thus building investor confidence to draw in more foreign capital, particularly those non-TPP countries that wish to indirectly enjoy the benefits of TPP. Investments are estimated to rise by US\$136bil (RM565bil) to US\$239bil (RM993bil) over 2018-2027.

Next, TPP is the first national trade agreement that recognised Bumiputera rights. Malaysia has also a total carve-out of tobacco and specific rights for government to regulate within the country. However, the government will be limited to protect the public welfare of Malaysia and protected industries will have to stand on their own feet.

## The benefits of TPP for Malaysia

TPP will allow new rising Small and Medium Enterprises (SMEs) to venture new market and compete fairly with bigger firms. Besides, companies will be able to increase sales and import cheaper raw materials, decreasing the variable cost, as TPP decreases import duties. With that, producers will be able to enjoy more economies of scale through mass production. As positive externalities, cheaper goods will be able to provide to consumers who have limited incomes.

- **SMEs account for large proportion of businesses in Malaysia:**
  - 98.5% of establishments
  - Size wise 77% microenterprises, with < 5 workers



**Fig.8** SMEs contribution to Malaysia economy  
Source: Economic/SME Census 2011, Malaysia

Next, TPP decreases tariffs up to 93% and promotes faster logistics among TPP countries. It also lessens paper work for complex customs and border procedures. This will increase Malaysia exports and foreign investments. This enhances capital liquidity and producers can import cheaper modern machinery inputs to invest in production. In addition with the sales boosted, firms can engage mass production to enjoy the benefits of economies of scale. More investments from foreign multinational company could bring higher paying jobs for Malaysians.

TPP's State-Owned Enterprises rules will avoid unfair competition with other private businesses. This will promote efficiency and motivation in SOEs to produce higher quality goods to be sustainable. This breaks some monopoly or oligopoly markets and making the full use of factors of production while deducing the deadweight loss. The government can also use the money saved from not managing SOEs to improve other public welfares.

Besides, TPP allows human resources of the insurance, banking and finance sector to be transfer freely through TPP countries. Malaysians can use this chance to earn higher incomes in a more developed countries, increasing the GNP. Then, they can use their overseas experiences to improve our country economy when return.

Other than that, the TPP fights against child labour and forced ones that are hidden from public eyes. This will decrease the limitations of GDP while letting the estimation of GDP to be more accurate and reliable.

Lastly, TPP liberalisation of education sector allows Malaysians to be able to be educated locally in private foreign institutions with lower school fees. It saves up Malaysians limited incomes to satisfy their needs for higher education and providing Malaysia more local higher educated labour.

## The Disadvantages of TTP

As the TPP introduces stricter intellectual properties regulations, some pharmaceutical companies that hold drug patents could monopolize the market. This causes medicines to be more expensive as cheaper generic versions of it are blocked from entering the market. It increases medical cost for severe illness like AIDS, HIV, cancer and others. However, this could also mean a change in demand for local cheaper traditional herbal medical industries.

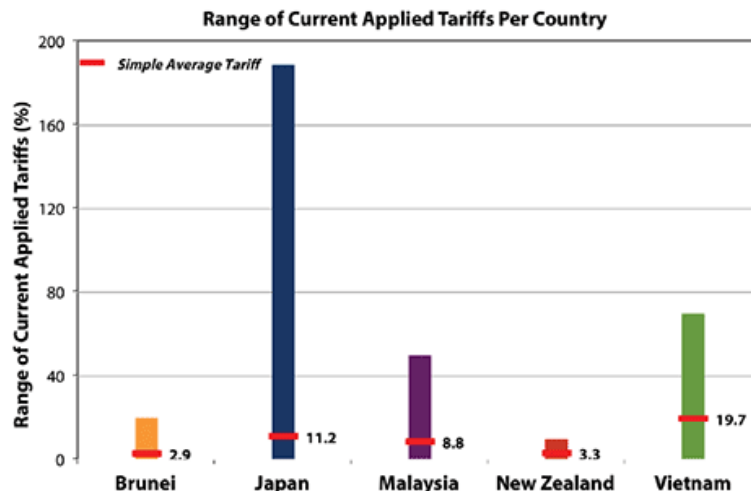


Fig. 8 Source: <http://trade.gov/fta/tpp/industries/consumer.asp>

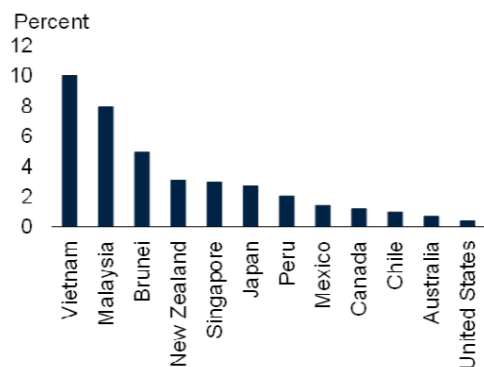
Malaysia is one of the countries with the highest import duties (Fig. 8). If TPP is enacted, it means measures to protect local industry will be eliminated, mainly local automotive industry and agriculture are affected. The market will be flowing with cheaper and higher quality imported products, causing the change in demand for local products. It might affect the income sources and living standards for those who are involved.

The TPP Investor-State Dispute Settlement Mechanism allows foreign investor to sue the government for potential loss when new or edited regulations and policies are implemented, with interest. Hence, the Malaysia government might be sued and ended up having to pay penalties even up to billions USD, increasing the government consumption. For example, if the Malaysia government decided to band some certain items for the health of her people, the companies affected could ask for compensation for potential profit loss through court.

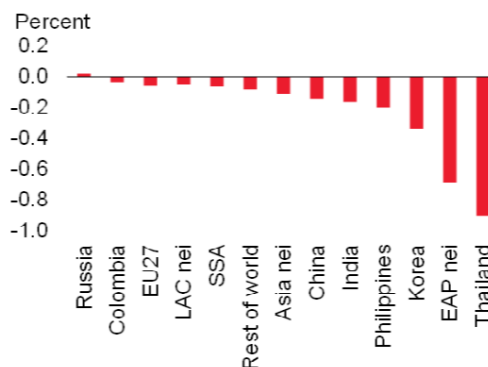
As pre-mention, the free circulation of Human Resources also brings more competition for the labour market. Foreign labours from developed countries could affect the unemployment rate of Malaysia.

## The Reaction of Non-TPP Countries and Conclusion

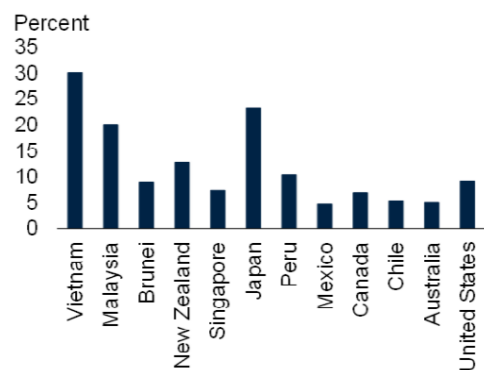
**A. Change in GDP: TPP members**



**B. Change in GDP: Non-members**



**C. Change in exports: TPP members**



**D. Change in exports: Non-members**

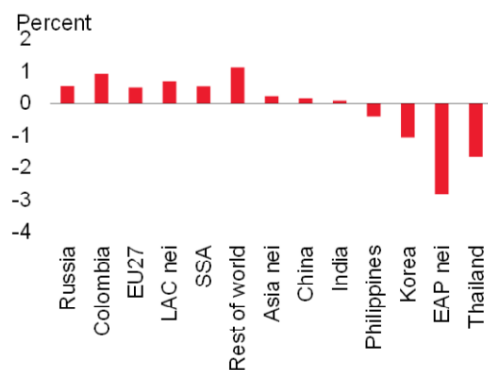


Fig. 8

Source: <https://www.worldbank.org/content/dam/Worldbank/GEP/GEP2016a/Global-Economic-Prospect-2016-Implications-Trans-Pacific-Partnership-Agreement.pdf>

According to studies, TPP countries can enjoy many positive externalities, while non-TPP countries suffer some negative externalities. Thus, Colombia, Philippines, Thailand, Taiwan and South Korea gradually show interests to join the agreement while Indonesia has declared to join TPP in October 2015. Other **APEC\*\*** members also might participate in this ambitious trade deal.

**\*\*Asia-Pacific Economic Cooperation (APEC)** is a forum for 21 Pacific Rim member economies that promotes free trade throughout the Asia-Pacific region.

Some say TPP will get better results if included China, while for Malaysia, it would be the worst scenario if China and India would ever participate TPP, as their goods are already cheap with taxes. If they join TPP, their cheap goods might over flood the local markets of TPP members, affecting local industries. It would make no difference between TPP or not TPP than now.

The U.S. have made some concession to the disadvantages mentioned earlier. It agreed that pharmaceutical companies can hold shorter-term patents, especially for biologic drugs, having to keep their formulas secret for 5 to 7 years instead of 12 years. This is to cope with the quantity of demand for medicine from lower income classes, maintaining global welfare. However, the global welfare will still be more or less affected as deadweight losses increases.

Besides, for the implementation of Investor-State Dispute Settlement Mechanism, the U.S. agreed to restrictions on the trading of tobacco, including restriction of cigarette advertising and marketing. Tobacco companies won't have the rights to sue the government for potential profit loss. This benefits Malaysia to regulate the supply and influences of cigarette for the public health, as what the government has been doing.

In conclusion, we believe that TPP is advantageous to Malaysia, although there are some negative externalities, which is the opportunity cost that we have to pay. After all, it is quite impossible that 12 countries leaders to have lose their mind all at the same time. Hence, why don't we use the benefits that TPP brings us to boost our sales and economy growth rather than kinking on those disadvantages.



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