“Is Trans-Pacific Partnership Agreement good for Malaysia? Evaluate the Case for and Against.”

The Trans-Pacific Partnership Agreement (TPPA) is a proposed trade agreement involving 12 countries - Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, United States and Vietnam.

The TPPA is a comprehensive FTA[1] which covers trade and trade-related issues with five prominent features - comprehensive market access, regional approach to commitments, addressing new challenges, inclusive trade and platform for regional integration. It aims to boost economic growth; create and preserve employment; enhance innovation, productivity and competitiveness; elevate living standards; diminish poverty; and promote transparency, good governance, and improved labour and environmental protection.

Now that the deal is sealed, there are certain impacts that TPPA brings to Malaysia. There are certain imminent drawbacks; nevertheless, it is still an indisputable fact that Malaysia will benefit from this agreement.

Malaysia’s participation in TPPA will inevitably make Malaysia an indispensable part of a greater economic integration within the Asia-Pacific region. Firstly, the most evident benefit is the growth of GDP[2]. Theoretically speaking, TPPA opens a door to a duty-free market of 800 million people with a combined GDP of US$27.5 trillion. Correspondingly, analysis based on the simulation of CGE[3] model by PWC in the graph below shows that our GDP is estimated to increase by USD107~211 billion over 2018-2027; this would raise GDP growth by 0.60~1.15 percentage point (ppt) in 2027. Contrastingly, Malaysia’s non-participation in the TPPA will cause a cumulative GDP loss of USD9~16 billion over 2018-2027. Significantly, the cumulative opportunity cost[3] of non-participation in the TPPA would be USD116~227 billion over a decade period. Hence, TPPA promotes growth in the overall GDP of Malaysia.

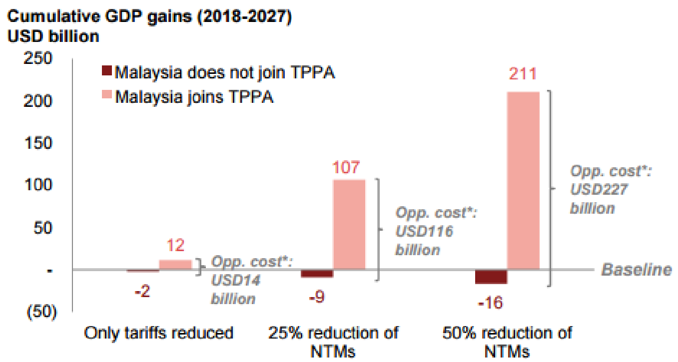

Diagram (1) shows scenarios of participation and non-participation of Malaysia in TPPA under various circumstances of different exemption and reduction of NTMs.

Source: http://fta.miti.gov.my/miti-fta/resources/TPPA_PwC_CBA_-_Final_Report_021215_FINAL_(corrected).pdf

1 FTA (Free Trade Agreement) is an international treaty that reduces barriers to trade and investment.

2 GDP (Gross Domestic Product) is the total value of national output or national income in an economy.

3 The CGE models assume that the inter-linkages amongst domestic economic sectors, the main domestic economic institutions (including households, firms, exporters, importers, investors and the Government) and trade partners remain unchanged over the simulation period.

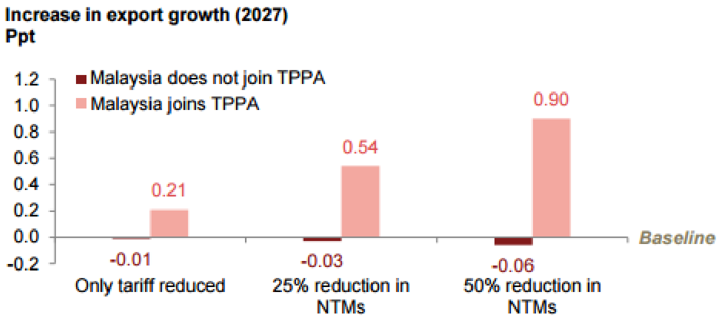

Diagram (2) shows the export growth of Malaysia under two different scenarios.

Source: http://fta.miti.gov.my/miti-fta/resources/TPPA_PwC_CBA_-_Final_Report_021215_FINAL_(corrected).pdf

Furthermore, according to the graph above, TPPA will boost export by 0.54~0.90 ppt in 2027, a priori to the manufacturing sector. For instance, TPPA allows Malaysia to attain market access to 4 countries that Malaysia currently has no FTAs with – Canada, Mexico, Peru and the U.S. However, Malaysia's non-participation in the TPPA will result in a marginal decline in export growth by 0.03~0.06 ppt in 2027. Moreover, the opportunity for local products to enter a bigger market will be lost. Consequently, Malaysia may lose its competitive edge to other countries such as China, Taiwan or Thailand if they decide to join the TPPA later and even rival neighbouring countries of Malaysia due to the exemption from accessible markets and negotiated tariffs.

Provided that the TPPA's objectives are trade liberalisation and tariffs reduction, statistics also suggest that sectors attributing approximately 20% of the nation's GDP in 2014 are expecting a higher growth output, sectors which include export-oriented firms and small-medium enterprises (SMEs), particularly in the textiles, automotive components and E&E sectors. By and large, domestic firms are able to expand their scale of production because a large market is widely accessible and they can operate across regions effectively under the implementation of TPPA.

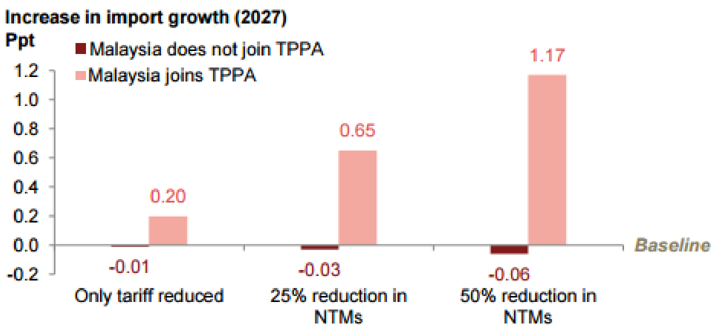

Diagram (3) illustrates the import growth of Malaysia under two different circumstances.

Source: http://fta.miti.gov.my/miti-fta/resources/TPPA_PwC_CBA_-_Final_Report_021215_FINAL_(corrected).pdf

By the same token, import growth is expected to increase by 0.65~1.17 ppt in 2027, driven dominantly by higher imports of intermediate and capital goods. Tariff elimination will encourage the increase in imports hence allowing consumers to choose from a larger range of high-quality and reasonably-priced imported goods and services. Local firms and manufacturers will also benefit greatly through TPPA. Owing to the trade liberalisation and reduction of import duties, imported raw materials and production costs will be cut down significantly. Moreover, the liberalisation of the service sector will allow Malaysian students to attend well-known internationally-recognised institutions based locally at a lower cost.

Nevertheless, this phenomenon will cause local SMEs to face increased competition because domestic products will have to compete with imported goods at competitive prices.

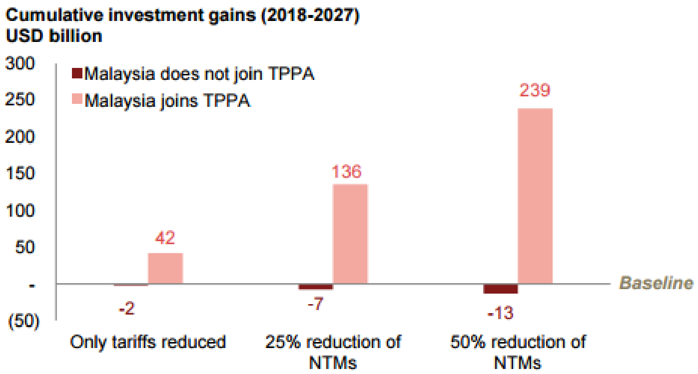

Diagram (4) shows the cumulative investment gains of Malaysia under two different scenarios.

Source: http://fta.miti.gov.my/miti-fta/resources/TPPA_PwC_CBA_-_Final_Report_021215_FINAL_(corrected).pdf

Presently, Malaysia is the third largest recipient of FDI in ASEAN and TPPA caters to a competitive advantage among ASEAN countries to spur further inflow of foreign investments henceforth driving the Malaysian economy. According to the International Trade and Industry Minister Mustapa Mohamed, Malaysia is projected to receive over US$100bil more FDI[4] via TPPA since the treaty helps to shape Malaysia into an optimum country worth investing in, thus attracting foreign investment, especially from countries exempted from TPPA. Notably, the textiles sector will register the biggest increase in investment growth in 2027, trailed by the construction and distributive trade sectors. While issues concerning the Intellectual Property Rights (IPR) are brought up in TPPA, I believe Malaysia will emerge as an appealing destination for R&D and high-technology manufacturing which will propel FDI in favour of TPPA. Malaysia is subject to increased investment from MNCs in the R&D sector, potentially encouraging the building of an extensive local industrial base and the entry of an array of innovative products to the local market. Likewise, the enforcement of tighter patent rights will also contribute to domestic investments as local companies are motivated to take part in avant-garde R&D in various fields while enabling intellectual talents to flourish in creative creation.

4 Foreign direct investment (FDI) is an investment made by a business enterprise based in one country into a business enterprise or entity based in another country.

In addition, TPPA is expected to raise wages for both skilled and unskilled labour and create employment in Malaysia. Similarly, an increase in wage growth can be interpreted as a total increase in employment rates. Based on the theory of marginal revenue productivity theory of wages (MRP_L), when the productivity of labour increases, therefore, generating more profit in terms of revenue under the circumstance which demand increases along the increment of production, thus motivating employers to capitalise more human resources to boost production. Eventually, this will lead to job creation and employment rate to rise.

Controversial issues have arisen from the IPR chapter in the TPPA. Generally, Intellectual property (IP) refers to creations of the intellect for which a monopoly is authorised to designated owners legally. Some common types of intellectual property rights (IPR) are trademarks, copyright, patents, industrial design rights, and in some jurisdictions trade secrets: ranging from music, literature, and other artistic works to discoveries and inventions; and words, phrases, symbols, and designs. As TPPA introduces a stricter enforcement of IPR, local firms are entitled to the protection of design, trademarks and patents on creative developments and innovative research.

From an opposite perspective, this inadvertently becomes a catalyst to a monopoly for pharmaceutical companies which currently hold patents for medicines. IPR concerns mainly revolve around higher medical costs and prolonged patent rights. The production of generic drugs will be delayed and it is alleged by the majority that the quality of healthcare services and medicines will be strongly impeded due to the implementation of tighter IPR. Besides that, IPR will also affect access to knowledge, entailing books, journals and even digital information thus limiting people’s rights to gain knowledge freely.

Investor-state dispute settlement (ISDS) is a mechanism in the public international law that permits an investor the right to use dispute settlement proceedings against a foreign government. That is to say, foreign investors or multi-national companies (MNCs) do not only find economic incentives appealing but also the security of profitability resulting from the enactment of ISDS in TPPA. This might lead to negligence of government policies that can affect the investors’ profitability as they are under no obligations to abide by local regulations when they reside in Malaysia. In fact, the Malaysian government might face higher administrative costs and legal issues if lawsuits were proposed by foreign investors affected negatively by government policies. To push this matter to the extreme, the government is also expected to not enact laws that might engender potential loss to MNCs. Although there is no certainty that such a problem will arise, it is still a necessary clause relating to a government’s sovereignty that should be taken into consideration.

On the bright side, ISDS benefits Malaysian investors when venturing into other TPPA countries. This goes both ways for local investors and foreign investors as Malaysian companies investing overseas will be ensured protection and assurances through the enactment of TPPA.

As an illustration, ISDS will indirectly pose a negative impact on our environment. For instance, fossil oil, mining and timber companies can sue the Malaysian government if the government tries to limit their exploitations of our natural environment. Not to mention other activities carried out by foreign companies that can wreck the environment such as air pollution, water pollution or worse, radioactive pollution.

Furthermore, the TPPA contains a chapter on State-owned Enterprises. State-owned enterprises are organisations created by the government to take part in commercial activities on the government's behalf. They can be owned partially or fully by the government. Basically, SOEs in Malaysia emphasise on public welfare instead of profit maximisation. This means the SOEs will continue to operate notwithstanding the absence of profit. Therefore, non-commercial assistance (NCA) is provided to SOEs to ensure business sustainability. However, TPPA prohibits the provision of non-commercial assistance to SOEs valued over SDR200 million because it is proclaimed to cause adverse competition effects, for example, price undercutting and the impediment of the production or import of goods manufactured by other TPPA countries. Consequently, this phenomenon will inevitably restrict the commercial viability of some SOEs in boosting national development plans such as enhancing the capabilities of the Bumiputeras and SMEs. In fact, the removal of NCA from relatively small-sized SOEs that surpass SDR200 million will potentially pose hardships in the expansion and regionalisation process of the SOEs. By adhering to the regulations in TPPA, SOEs following the commercial considerations similar to private sectors in the purchasing of goods and services will alter the main objectives of SOEs in supporting domestic SMEs. Hence, the TPPA will change the mechanisms for SOEs to assist in the national development agenda.

On the other hand, NCAs for SOEs operating domestically will be spared from elimination as they are not deemed to be capable of impacting the international economy among TPPA countries negatively.

Succinctly, Malaysia has undoubtedly benefited from the Trans-Pacific Partnership Agreement. The advantages of Malaysia's participation in TPPA veritably outweigh the disadvantages and non-participation in the TPPA. TPPA is paramount as it propels Malaysia to the direction of a better economic future. To ensure that Malaysia benefits tremendously from the TPPA, proper enactment of regulations in TPPA and safeguards should be carried out to achieve a 'win-win situation', in the meantime protecting the rights of Bumiputeras and local industries.

(1,839 words)

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