

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

On the 26th to the 28th of April 2014, the President of the United States (POTUS), President Barack Obama made a historical visit to Malaysia. It was the first visit by a President of the superpower in more than 50 years. On the 20th to the 22nd of November 2015, President Barack Obama made yet another visit to Malaysia. His visits were welcomed by many though at the same time, protests concerning the Trans-Pacific Partnership Agreement (TPPA) were held across Kuala Lumpur.

TPPA, a trade agreement that aims to create a trade bloc between 12 Pacific Rim countries, will influence more than 40% of world trade. It started from an agreement between 4 countries (P4) and since then more countries including Malaysia have joined. Negotiations and discussions were held secretly until recent months. This controversial agreement covers various aspects from trade restrictions, intellectual property rights to investor-state dispute settlements.

The agreement was approved by the Parliament of Malaysia in January earlier this year and was signed by all 12 nations in February. The question remains, what is all about and is it really beneficial to our country?

Protectionism¹

Imagine living in a world with zero trade restriction, living in a world where everyone in every nation gets to enjoy the benefits of comparative advantage². The idea certainly does not sound too bad but in reality, we are far from being able to live in such an ideal world.

One of the main objectives of the TPPA is to eliminate or to reduce trade restrictions such as tariffs³. This will result in an increase of the total output of the member countries in the trade bloc including Malaysia. The reduction in tariff and other non-tariff barriers will increase competition in the domestic and international markets as there will be no more protectionism and in the long run, only producers that are truly efficient will survive. This will inevitably reduce the prices of goods and services as there are more competitions and producers are striving to be more productively efficient⁴. On the other hand, consumers will be able to enjoy higher quality of goods and services at lower prices.

¹ Actions of a government to help its country's trade or industry by taxing goods bought from other countries.

² The advantage a country has over another country because it can produce a particular type of product more efficiently.

³ Charge or list of charges either for services or on goods entering a country.

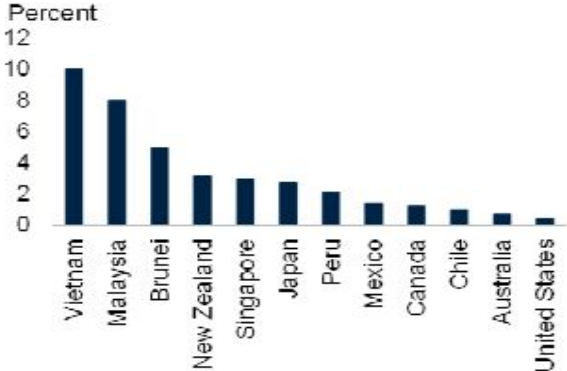
⁴ Concerned with producing goods and services with the optimal combination of inputs to produce maximum output for the minimum cost.

This will also lead to trade creation⁵ and an increase in consumer surplus⁶ as consumers are now able to switch to low-cost producers. Although some may argue that some industries especially the automobile industry in Malaysia needs to be protected as they currently do not possess the technology and skills required to compete with multinational corporations, it is about time to reduce the dependency of these industries on the government because as our country progresses in the direction of achieving Vision 2020, we cannot afford to protect industries which are incompetent and dependent.

Besides the reduction in tariffs and other non-tariff barriers, TPPA also aims to improve, encourage and necessitate international trade among member nations. According to Ministry of International Trade and Industry Malaysia (MITI), Malaysia's trade policy is to pursue efforts towards creating a more liberalised and fair global trading environment. By engaging actively in international trades, Malaysia gains the opportunity to improve as technologies, skills and factors of production⁷ are shared among member nations.

In the long run, it is believed that international trade will stimulate economic growth and increase gross domestic product⁸ (GDP) of our economy as shown in Figure 1. The World Bank also predicts that the TPPA could raise GDP in member countries by an average of 1.1 percent by 2030 while raising trade by 11 percent by 2030.

Figure 1. Change in GDP: TPP Members

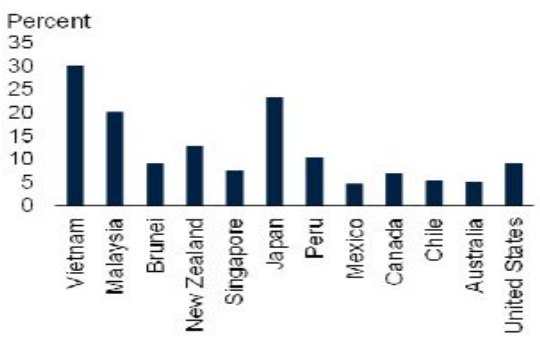


(World Bank Global Economic Prospects, January 2016)

⁵ Increase in economic welfare from joining a free trade area, such as a customs union.
⁶ The difference between the actual price of an item and the price that a buyer would be willing to pay.
⁷ Something that is needed in order to make a particular product, for example labour, land, or materials.
⁸ Total value of goods and services produced by a country in a year.

By reducing tariffs in all member nations, Malaysia's exports are also expected to grow after the agreement is ratified as shown in Figure 2. This will undoubtedly improve our trade balance⁹ though it is likely to create an upward pressure on the price level due to the increase in the aggregate demand¹⁰ and cause demand-pull inflation¹¹.

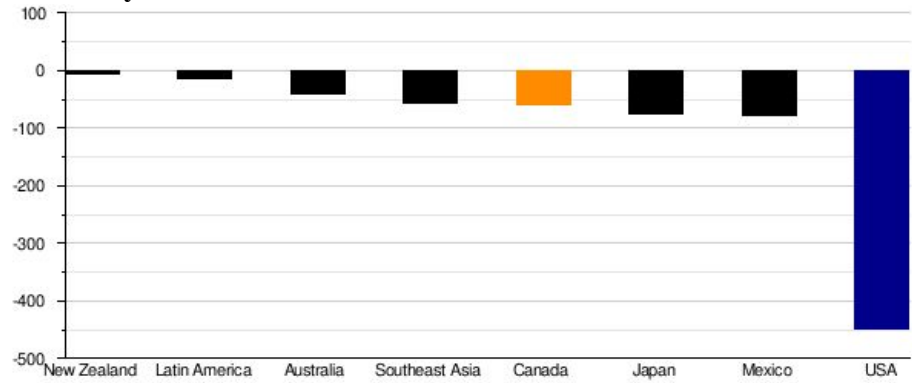
Figure 2. Change in Exports: TPP Members



(World Bank Global Economic Prospects, January 2016)

On the other hand, to a certain extent, protectionism is still needed in our country. If tariffs were to be removed immediately, local producers especially small and medium-sized enterprises (SME) might not be able to cope with the immense competition in the international market as larger multinational corporations are able to enjoy the benefits of economies of scale¹² and produce goods at lower prices. This will lead to massive losses and as a result, unemployment rate¹³ will increase as local producers are forced to lay off workers. According to analysis from Tufts University in Figure 3, TPPA is projected to increase unemployment rate in member nations including Malaysia.

Figure 3. The effect of the TPP on employment (thousands, 2015-2025) according to the Tufts analysis.



⁹ A country's balance of trade.
¹⁰ The total demand for goods and services within an economy.
¹¹ The increase in prices that is caused by people wanting to buy or use more goods and services than are available during a particular period of time.
¹² Reduction of production costs that is a result of making and selling goods in large quantities.
¹³ Number or percentage of people in a country or area who do not have jobs.

Large MNC will also carry out unfair and unjust activities such as dumping¹⁴ that will cause local producers to lose out heavily and create more unemployment. Alongside rising unemployment rates, our economy may not be able to produce on our production possibility frontier¹⁵ (PPF) and produce output at full potential.

On top of that, with the imminent reduction or elimination of tariffs, Malaysia's government's revenue will also experience a drastic fall. According to World Bank, from 2001-2005, tariffs and import duties were accounted for 1.5% of Malaysia's tax revenue. Without these revenues, our government may experience worse budget deficits even after all these years of deficits.

Everything aside, the effects of the removal of trade restrictions also depend heavily on the price elasticity of demand¹⁶ (PED) of exports and imports. If the PED of imports is highly inelastic, the reduction in the prices of imports after the removal of trade restrictions will most probably have little effect on the volume of imports.

Intellectual Property (IP) Rights

Possibility of price hike of medicines has always been one of the major concerns regarding TPPA. If the TPPA is ratified and comes into force, huge pharmaceutical firms will gain the rights to extend their drug patents. As a result, generic drug producers will not be able to get approval for the production of generic drugs. Prices of drugs will be controlled by huge pharmaceutical companies. There will be 2 major impacts on Malaysia. Firstly, the prices of drugs will be higher than ever and this will limit the accessibility of affordable healthcare for everyone especially for the low income earners. Secondly, small pharmaceutical firms in Malaysia will not be able to survive and as a result, unemployment rate will increase.

On the other hand, media companies will gain from the stricter copyright laws as stated in the agreement. Internet Service Providers (ISP) will be required to cooperate with copyright owners to counter online copyright infringements. This will have a big impact on online piracy and benefit one party, which is the media companies.

¹⁴ The practice of selling goods in another country so cheaply that companies in that country cannot compete fairly.

¹⁵ Shows how much an economy can produce given existing resources.

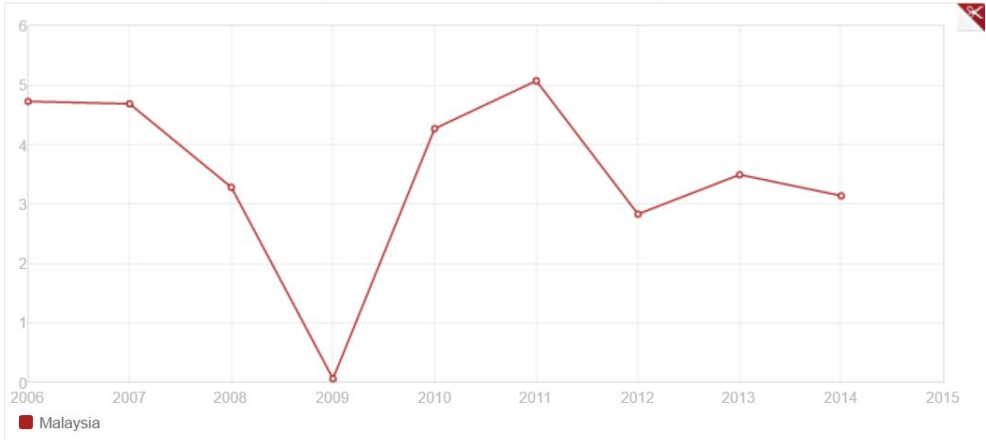
¹⁶ The degree to which the number of products sold changes when the product's price changes.

Investor-State Dispute Settlement (ISDS)

Another issue that stands out in the TPPA is the ISDS mechanism. Many believe that it gives foreign corporations and investors the right to challenge governments in international courts and not domestic courts when they believe that their profits are diminished due to the actions of governments. This may affect Malaysia's sovereignty as we are obliged to follow the laws in the agreement and not our own laws.

On the contrary, the ISDS mechanism can increase foreign investors' confidence in our country as their interests are more well protected in our country. This will result in huge increase in inward investments such as foreign direct investments¹⁷ (FDI) and foreign portfolio investments¹⁸ (FPI). This will furthermore improve Malaysia's financial account¹⁹ and generate employment simultaneously. The diagram below shows Malaysia's FDI inflows as percentages of our GDP.

Figure. 4 Malaysia's FDI Inflows As Percentages of GDP



According to MITI, ISDS is not new to Malaysia as over the years, our country has signed and ratified over 64 Investment Guarantee Agreements (IGAs) which also include the provision of ISDS. Only 2 cases have been taken against Malaysia's government and one was in favour of our country while the other was annulled.

¹⁷ Money that is invested in companies, property, or other assets by people or organisations from other countries.

¹⁸ Securities and other financial assets passively held by foreign investors.

¹⁹ Record of all transactions for financial investment.

Conclusion

Some think that this is the most significant trade agreement in decades while some think that this is a form of neo-colonialism by the United States and big corporations. The fact is, it is undeniable that TPPA will change everyone's life in this country be it for the better or for the worse. Negotiations should have been more transparent to the public and not secretly done. Malaysia's government should take extra precaution in making sure that the country's interests and sovereignty is not affected by the agreement in any way. Prices of goods and services especially medicines should also be monitored at all times to ensure that affordable and quality healthcare is available to all citizens.

References

1. NAIDU, S. (2015) Dozens in KL protest Obama visit, US influence on TPP. *Channel NewsAsia*. 21st November 2015. [Accessed: 30th May 2016]
<http://www.channelnewsasia.com/news/asiapacific/dozens-in-kl-protest/2281916.html>
2. Unknown Author (2016) TPP: What is it and why does it matter? *BBC*. 3rd February 2016. [Accessed: 30th May 2016]
<http://www.bbc.com/news/business-32498715>
3. Capaldo, J., Izurieta, A. and Sundaram, J.K. (2016) Trading Down: Unemployment, Inequality and Other Risks of the Trans-Pacific Partnership Agreement. *GLOBAL DEVELOPMENT AND ENVIRONMENT INSTITUTE WORKING PAPER NO. 16-01*. January 2016. [Accessed: 30th May 2016]
<http://www.ase.tufts.edu/gdae/Pubs/wp/16-01Capaldo-IzurietaTPP.pdf>
4. Unknown Author (2016) TOPICAL ISSUE: Potential Macroeconomic Implications of the Trans-Pacific Partnership. *Global Economic Prospects January 2016*. [Accessed 30th May 2016]
<https://www.worldbank.org/content/dam/Worldbank/GEP/GEP2016a/Global-Economic-Prospects-January-2016-Implications-Trans-Pacific-Partnership-Agreement.pdf>
5. World Bank FDI Data [Accessed 30th May 2016]
<http://data.worldbank.org/indicator/GC.TAX.IMPT.ZS>
6. Ministry of International Trade and Industry. (2016) BRIEF ON THE TRANS-PACIFIC PARTNERSHIP (TPP) [Accessed 30th May 2016]
[http://www.miti.gov.my/miti/resources/fileupload/TPP%20-%20Briefing%20Notes%20-%20Website%20\(FINALrev1\).pdf](http://www.miti.gov.my/miti/resources/fileupload/TPP%20-%20Briefing%20Notes%20-%20Website%20(FINALrev1).pdf)
7. INSTITUTE OF STRATEGIC AND INTERNATIONAL STUDIES (2015) National Interest Analysis of Malaysia's Participation in the Trans-Pacific Partnership. [Accessed 30th May 2016]
http://fta.miti.gov.my/miti-fta/resources/ISIS_The_Grand_Finale.pdf
8. All definitions are from
Cambridge Dictionaries Online
<http://dictionary.cambridge.org/>
and
Economics Help
<http://www.economicshelp.org/>