EXPLORING BOTH SIDES: IS TRANS-PACIFIC PARTNERSHIP AGREEMENT GOOD FOR MALAYSIA?

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On 4th February 2016, Malaysia, and eleven other pacific-rim nations came together in Auckland to sign the Trans-Pacific Partnership Agreement (TPP). As the head of states pen down their signatures on the controversial partnership deal, the world looks anxiously upon the foreshadowing of the birth of a new economic superpower. This new economic superpower with a combined Gross Domestic Product (GDP) of US$28 Trillion, approximately 36.2% of the world GDP, and a population base of 806 million consumers, about 11.2 % of the world population, is set to spark an earthquake that would change the status quo of the international trade. Many new opportunities and possibilities would be open for consumers and firms in both TPP and non-TPP states alike (DFAT, n.d.); however, in the uncharted waters of the TPP lurks the darkness of its downsides too.

The very first, and arguably the most significant benefit that the TPP would bring to Malaysia is economic growth. When the TPP is eventually ratified into the legislature of the respective member states, Malaysia would gain access to the foreign markets with eliminated trade barriers. As a result, the cost for Malaysian firms to export their goods abroad to other TPP would be substantially reduced. This enables Malaysian producers to market their goods at more competitive prices, and this elevates Malaysian products' standing amongst other foreign goods. Foreign demand would increase due to attractive export prices and this would bring injections into the Malaysian economy. In fact, Malaysia is predicted by a World Bank study to be the 2nd largest benefactor from TPP, behind Vietnam in terms of economic growth as it has a projected 20% increment in exports and 8% growth in GDP[1] (World Bank, 2016). The economic boost would catalyse Malaysia's progress in realizing Wawasan 2020[2], which is for Malaysia to transform into a high income nation.

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[1] With reference to Fig 1.
[2] Vision 2020 in the Malay Language.

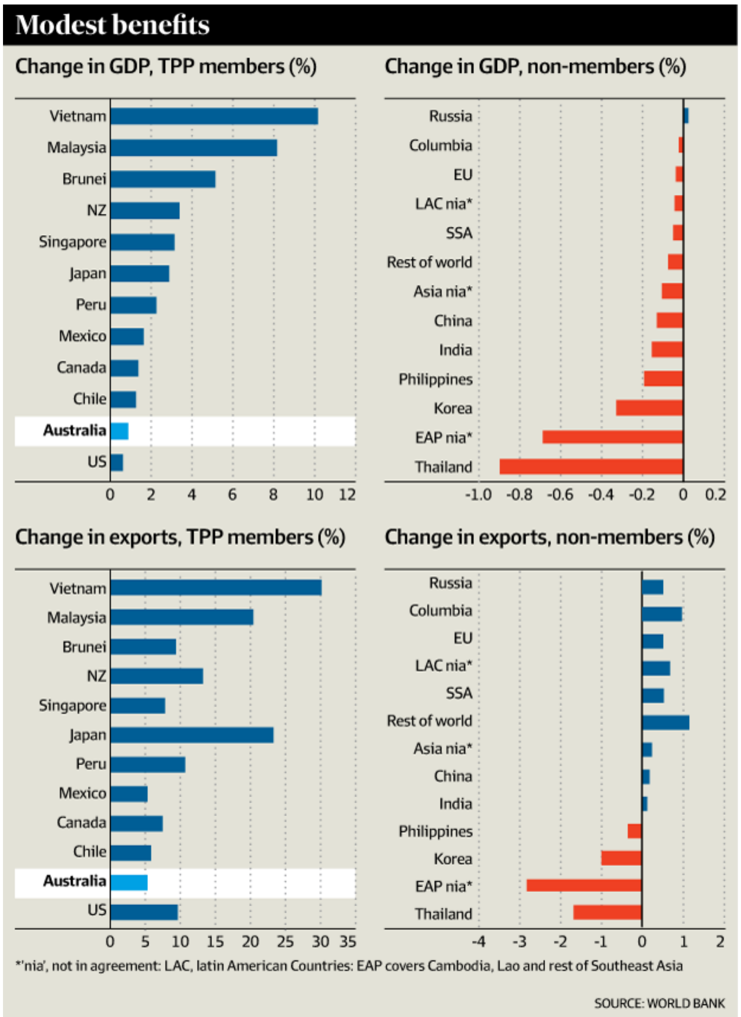

Fig 1: Modest benefits of TPP

Malaysian consumers and investors would also benefit from the TPP deal's removal of trade obstacles. As mentioned above, the agreement would enable firms from the TPP states to export their goods and services at a cheaper rate as protectionist measures between TPP states are virtually removed. As such, Malaysian consumers could enjoy cheaper goods with more variety as foreign suppliers are encouraged to export more by the low exporting cost. This also applies to domestic goods that utilizes imported raw materials. For example, a local confectionary producer can produce and offer his chocolate candies at a lower rate as ingredients such as milk, from New Zealand, and cocoa powder, from Mexico, could be imported at a cheaper rate. This lowers the producer's cost of production, and he would be able to produce more goods and sell them at a cheaper price. Hence, consumers would be able to enjoy more chocolate candies at an affordable price.

Besides economic growth, the TPP would also increase Malaysia's workforce productivity and efficiency as the country is propelled to specialise in niche industries which it has comparative advantage over other nations. Comparative advantage refers to a situation whereby a country is able to produce a good at a lower opportunity cost than that of its trading partners. When states specialise in their niche fields, their productivity goes up as they have the ability to produce more goods while forgoing lesser alternatives. They then utilize this particular advantage to acquire goods from other countries with different specialisations via trading, and this increases their efficiency as they are able to obtain various goods with lesser inputs.

Malaysia, a country endorsed with rich natural resources together with a vibrant manufacturing industry, could choose to allocate more resources to its major exports such as electronic gadgets, petroleum, palm oil and other niche goods as shown in Fig 2. Then, it could trade with other TPP states for their respective niche products. For instance, trading with Thailand for rice. Since trade barriers between the TPP states are removed, the time and cost taken to conduct international trade would drastically decrease, and this leads to heightened overall productivity and efficiency in the economy in long term.

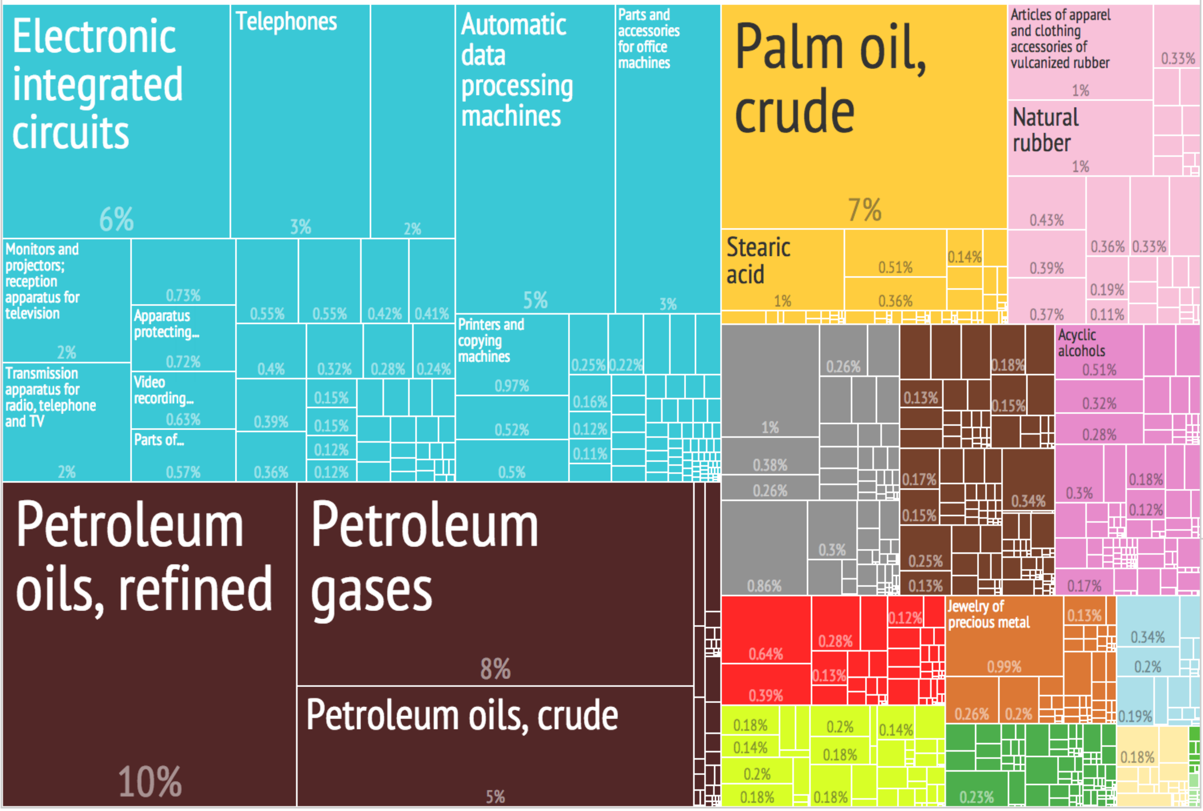

Fig 2: Composition of Malaysia's Exports (Simoes, 2014)

Employment opportunities is another fruit that the Malaysian working class can look forward to reap from the TPP agreement. As the agreement expanded the horizons of free trade regions, many multinational corporations (MNC) are exploring among TPP states to establish local headquarters in order to sow the benefits of the partnership deal. The minimum hourly wage in Peninsular Malaysia in Rm 4.33 (Ministry of Human Resource, 2013), approximately US$ 1.08, which is much lower than that in developed countries such as US and Japan. Naturally, this already gives Malaysia an upper hand in attracting investments from these MNCs. On top of that, Malaysia also has a ranking of 18^{th} on World Bank's Ease of doing business index (World Bank, Ease of doing business index, 2015), the highest amongst the developing TPP states. This makes Malaysia the ideal destination for MNCs to invest their resources in, and Malaysians would benefit greatly as more jobs would be made available to them.

In addition, the TPP agreement could also give Malaysia political advantages in the international community. The agreement could become a stepping stone for Malaysia to establish future economic co-operations and strengthen diplomatic ties with other TPP member states—especially on the negotiation for a bilateral trade agreement with the United States (US). Malaysia and US halted their negotiations on a free trade agreement in 2009 (FTA Malaysia, 2009), and TPP could serve as a golden opportunity for Malaysia to thaw its progress on the negotiations or to initiate another trade treaty that is deemed more appropriate by both parties.

Like the cliché 'there is always both sides to everything', the TPP is not a perfect agreement too. Despite the various ways which Malaysia could benefit from the TPP, the agreement carries its own flaws and opportunity costs too. In exchange for access to the markets of the other TPP states, Malaysia would, unavoidably, open up its own gates to foreign businesses too. While proponents in favour of the deal would argue that this brings injection into the economy, the fact that the presence of foreign firms would generate fierce competition against local businesses, especially infant businesses, should not be overlooked too. The issue exacerbates when it comes to MNCs such as Sony. Naturally, foreign firms would export more to Malaysia as TPP has removed the tariffs previously imposed on their products, and MNCs, being more established, would have more brand loyalty than local firms. The influx of MNCs would result in a harsh competitive scenario where Malaysian consumers are tempted to opt for foreign goods over local products, thus diminishing domestic demand for local goods. This would defeat the purpose of Malaysia's ratification of the TPP which was to make Malaysian products more competitive in both domestic and international markets.

Malaysia could also suffer from a loss in government revenue from the TPP agreement and the repercussions of it. As Malaysia has promised to remove its tariff on the goods and services exported from the other TPP member states, it will definitely lose a significant portion of its tariff revenue. As shown in Fig 3 and Fig 4, the Malaysian government has been operating on a budget deficit for the past decade, and it has been leveraging on debt to make ends meet. Under this context, Malaysia's total external debt rose steadily for the past decade. A loss in government revenue in this case would create a larger budget deficit, and the government would have to deploy other methods to close the gap. If the void created by the loss in tariff revenue is not addressed by other means besides imposing greater debt, Malaysia, like Greece, is at risk of plummeting into a severe debt crisis when its debt defaults[3].

[3] Default refers to a situation when a party fails to meet its liability on time.

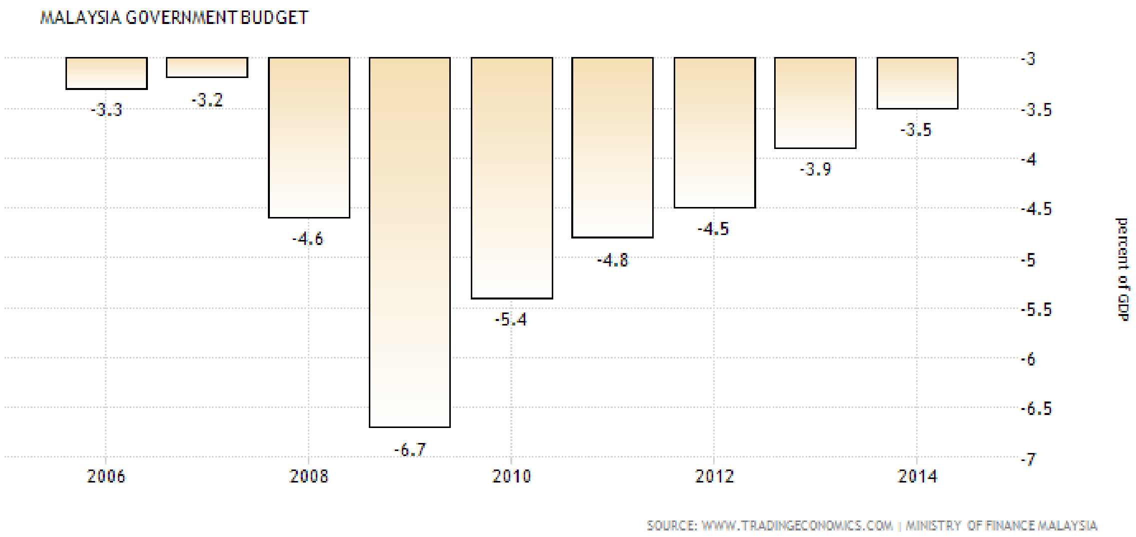

Fig 3: Malaysian Government Budget (Ministry of Finance Malaysia, 2014)

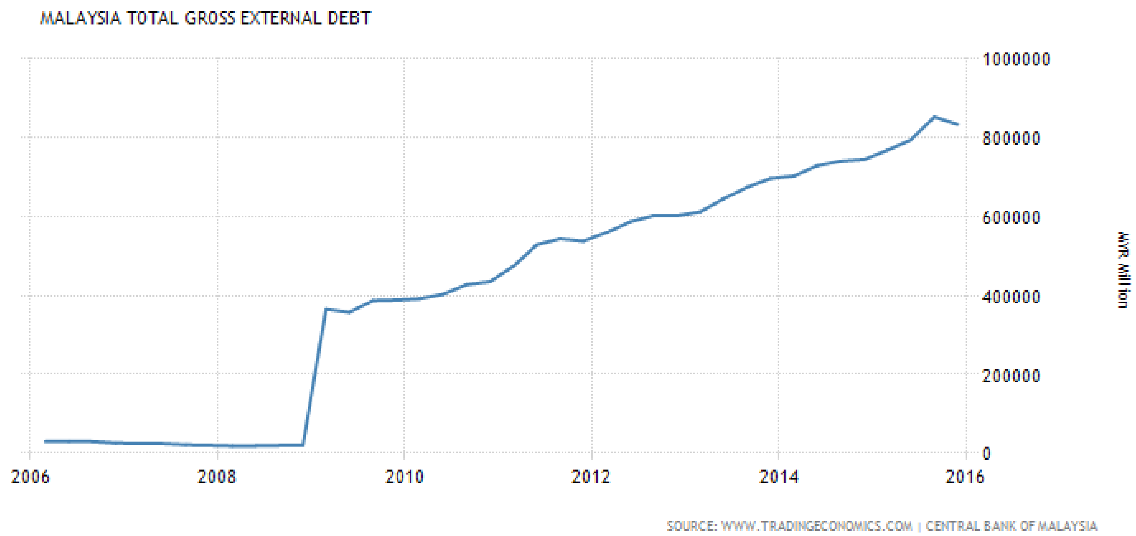

Fig 4 Malaysia Total Gross External Debt (Central Bank of Malaysia, 2016)

As the TPP agreement opens up procurement opportunities for Malaysian firms and investors, Malaysia, in return, would also have to open up procurement opportunities in fields such as IT, construction, and consultancy, which were previously exclusive for local investors (Chia, 2015). While this may seem like a win-win scenario to some, it could upset some Malaysians—particularly the Bumiputera people[4]—who feel that the TPP has infringed their rights and compromised their welfare as Malaysians. One possible ramification of this situation is that the affected Malaysians would see this as a disincentive for them to bid for future governmental projects, and hence allowing foreign bidders to occupy the majority landscape of these critical public industries. Depending on the degree of dominance of foreign businesses in the field, this could further drive the negative sentiments of some Malaysians amidst a weak demand for ringgit and several government scandals.

Another area of concern pertaining to the trade agreement lies in affordable healthcare. Under the deal, pharmaceutical firms are granted with greater intellectual property rights which blocks rivals from producing copies of their products (Naidu-Ghelani, 2015). This restricts the supply of medicine in the market, and, together with high demand for healthcare products, it places upward pressure on the market price of medicine. People with lower income would then be deprived from their healthcare necessities as they cannot keep up with the rising price. The Malaysian government would have to devote more inputs from its budget to healthcare expenses, and this would put further strain on its national budget.

[4] Bumiputera refers to the indigenous people of Malaysia. The Malaysian government has crafted its government procurement policies to support Bumiputera entrepreneurs, and therefore they would be the most affected group by the open procurement stipulation.

In order to overcome the issues mentioned above, Malaysia needs to devise and adopt a comprehensive plan on negating the potential negative impacts that could come with the TPP trade agreement. When it comes to the loss of tariff revenue and the anticipated increment in healthcare expenditure, Malaysia needs to balance its budget by searching for avenues to increase its income and reduce its spending. This can be attained through a number of means such as: reducing subsidies on merit goods that are over consumed, and increasing taxes on economically undesirable goods etc. With regards to government procurement, the government can try to restore the people's confidence by stipulating that a certain percentage of projects is to be reserved for the locals. Not only does this safeguards Malaysians' economic interest and their welfare, but it also provides them an incentive to compete with foreign firms and investors, and this is extremely beneficial to the Malaysia as it increases its competitiveness in the global playfield. The government could also assist the SMEs by upgrading its current support scheme to one which is more relevant at the time of the TPP ratification. As SMEs obtain technical guidance from the government in crucial aspects such as branding and outreach, they are better equipped in their race with foreign MNCs, and the threat from the MNCs against domestic products would be exponentially reduced.

Overall, the TPP trade agreement can be condensed into one word—bittersweet. It is one that encompasses tremendous benefits, which makes the deal to attractive to reject, but, at the same time, bitter risks and drawbacks are creating doubts. Despite that, the TPP is not something that Malaysia should, or could, shy itself away from; especially in a world where countries are becoming increasingly interconnected and interdependent on one another. The trade deal would entirely redefine the frontiers of international trade, and Malaysia would enjoy privileges that it never had before. Malaysia should embrace this opportunity while reaffirming its stance on its national interest and its people's welfare status. The ratification of the deal would open up a brand new chapter in Malaysia’s history, and it is up to us Malaysians to seize this opportunity and pen down history ourselves.

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