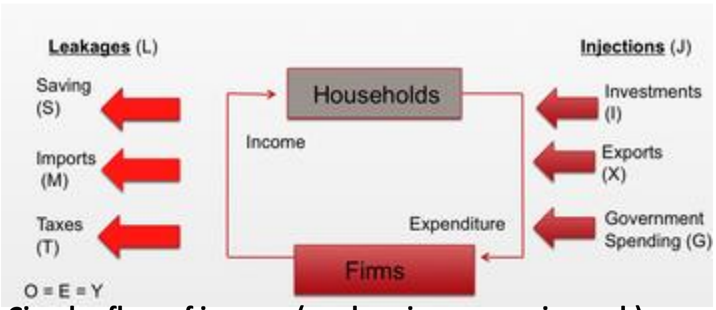
“Is Trans-Pacific Partnership Agreement Good for Malaysia? Evaluate the Case for and Against.”

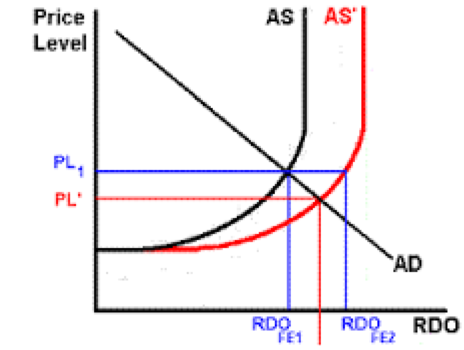
The implementation of the TPP will give Malaysia access to further develop in countries such as Canada, Mexico, Peru, due to the fact that Malaysia currently does not have any Free trade agreements with any of these countries. Firstly, this opens up numerous opportunities for local firms to expand their businesses abroad. A prime example for this would be the local textile industry. When you think about Malaysia, you wouldn't think it would be a textile producing powerhouse, but in 2014 "the industry was ranked 10th top export earner and accounted for 1.6% share of Malaysia's export of manufactured goods." (Malaysian Investment development authority (MIDA), n.d.) Moreover, the US is the largest importer of apparel in the world, and the Malaysian government's long term plan of reforming the textile and apparel industry by focusing "high-tech and high added value products" (Malaysian Investment development authority (MIDA), n.d.) are in sync with the TPP agreement, as this would open up countless opportunities for Malaysia to boost their exports. Secondly, this also encourages firms from other countries to relocate to Malaysia to enjoy the benefits of being a TPP member, as being Malaysia would have a FTA with all those countries who signed the TPP. A definite benefit of joining the TPP to Malaysia is exports would be boosted due to the trade agreement between the current 12 countries.

Exports play a huge part in a growing economy such as Malaysia, and it is undeniably the driving force behind the country's economic growth or bust in the 21st century. An increase in exports would have a direct positive multiplier effect in the economy, as exports is considered an injection into the circular flow of income. From a firm's point of view, as they get more profit from an increase in exports, they would pay their employees more and in turn the employees would spend more on goods and services in an economy, thus increasing the final income arising from the new injection of money into the economy.



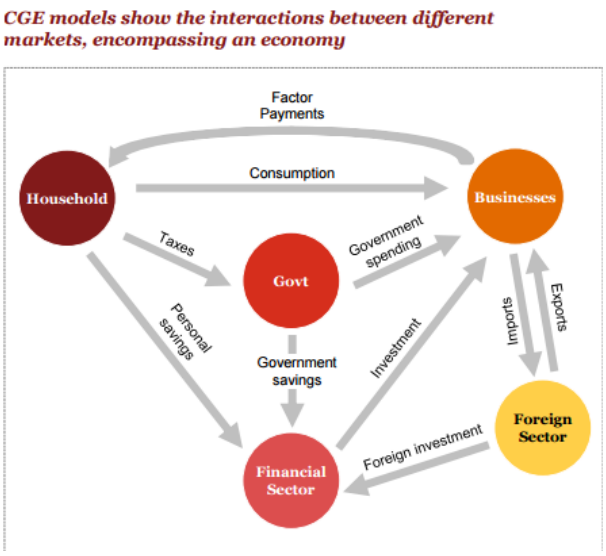
Circular flow of income (mrshearingeconomics, n.d.)

In addition, as the government get more corporate taxes and income taxes from the growth of companies and the relocation of new companies from abroad, they would be able to get more revenue, and thus would be able to spend it on public goods, education or healthcare. It is up to the decision of the Malaysian government on how to use taxpayer's money to properly increase the productive capacity of the economy by introducing various supply side policies, in hopes to create increase the capacity of the economy so that it can respond quickly to a change in AD. A good sign is that these few years proved that the Malaysian government is heading down the right path with the completion of the KLIA 2 and numerous expressways, and the soon-to-be completed Klang Valley MRT lines and Kuala Lumpur-Singapore HSR. This undoubtedly shows that the Malaysian government definitely has a long term plan to improve the country's infrastructure. This is because there would be an increase in government revenue and it would be able to fuel the Malaysian government's appetite of building better infrastructure that would improve the living standard of people and create external benefits which would benefit the society as a whole. Moreover, from a macroeconomic point of view, an increase in



Shift in AS curve(Harper college, n.d.)

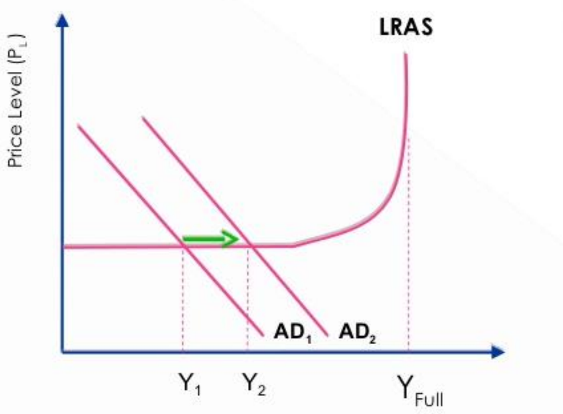
government revenue would create a balanced government deficit. In 2014, Malaysia recorded a "Government Budget deficit equal to 3.5% of the country's GDP in 2014" **(Trading economics, n.d.).** With a balanced budget, the government would be more reluctant to reduce direct and indirect taxes and it would reduce the burden on the people as they would be able to spend more, or save more, and maybe possibly increase the incentive to work.



GCE model (Ministry of international trade and industry, 2016)

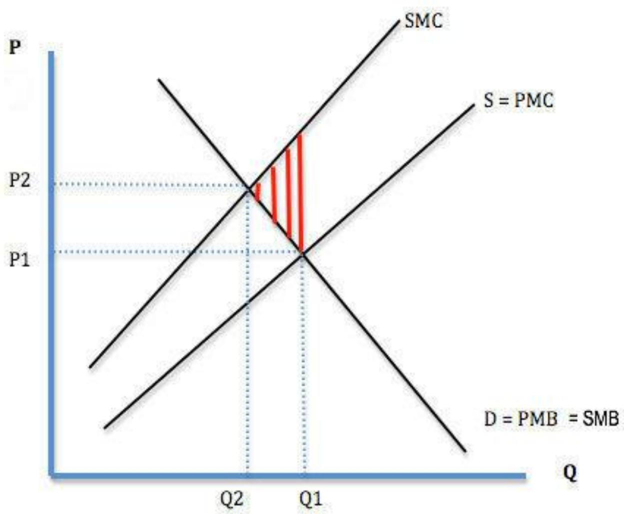
GCE models have been carried out to test the effects of Malaysia joining and not joining the TPP. modelling is an approach that numerically stimulate key macro and microeconomic interactions within an economy. It looks at interactions and economic feedbacks between government, households and firms. I will be using the 50% reduction in the NTM (non-tariff measures) as a measure fn the impact the TPP have on Malaysia. 50% ,which is slightly tilted towards an optimistic side, is considered relatively reasonable in view of the final provisions and concessions of the TPPA.

The GCE model predicts that if Malaysia joins the TPP, "investment is projected to rise by USD136 to 239 billion over 2018-2027, with higher investment growth in textiles, construction and distributive trade" (Ministry of international trade and industry, 2016) With the increase of investments, it would increase AD (aggregate demand, it is the total amount of goods demanded in the economy at a given overall price level at a given time). AD is composed of 4 components: **C**onsumption, **I**nvestments, **G**overnment spending and **(X-M)** net exports. Aggregate demand is a great indicator, alongside various indicators such as real GDP, on how the economy is performing, and an increase of AD means there is growth, and it is further justified with the CGE model projecting "net economic gains from Malaysia's participation in the TPPA; non-participation is projected to result in a decline in GDP" (Ministry of international trade and industry, 2016). Moreover, "wage growth for unskilled labour is projected to increase by 0.45~0.91 ppt and for skilled labour by 0.38~0.78 ppt" (Ministry of international trade and industry, 2016). This means government would get more revenues from direct and indirect taxes, thus they would be able to spend more and this would increase AD as well, as **G**overnment spending increases. Given that the full capacity of the Malaysian economy has not yet been reached, an increase in AD would be beneficial to Malaysia as it would increase Real GDP, and keep the price levels the same.



Increase in AD before economy reaches full capacity (Slide Share, 2009)

On the other hand, there are also downsides in joining the TPP. Firstly, exports and imports are projected to increase post-TPPA participation. However, the growth of export will outpace the growth of import (Ministry of international trade and industry, 2016). Exports are projected to rise by 0.54 to 0.90 ppt in 2027, and this is due to the fact that Malaysia remains today, as it did 25 years ago, a nation that heavily relies of trade and investment. Moreover, imports are projected to increase by 0.65 to 1.17 ppt by 2027. There are two reasons for an increase in imports: the removal of trade barriers due to TPP's vision of improving global trade would increase the volume of imports. Furthermore, with growing exports, Malaysia will import more raw materials or intermediate goods to keep up with soaring exports. In the long run, this would create a current account deficit. A current account deficit is defined by the value of imports being greater than the value of exports. Running a current account deficit means that you need to run a surplus on the financial account (as the balance of payment has to equal to 0 in the end) A possible disadvantage of Malaysia running a current account deficit for a prolong period of time is that foreign direct investments would increase, and this means foreigners would have an increasing claim over Malaysia's asset. In the long run, this would decrease the long term income of the economy as the best assets may be bought by foreign companies.



External cost diagram (Investopedia, n.d.)

In addition to that, external costs within the Malaysian economy will increase as a direct result of an increase in goods produced. External costs are costs borne by a third party, which is not reflected in the market equilibrium price. External costs in Malaysia may come in the form of increased air pollution, due to an increase in factory production of textile goods or electronics. Other factors that may contribute to the external costs are transportation of these goods as the mode of transport - trucks, will increase CO_2 production and also an increase in acid mine drainage due to the mining of coal for power plants. This will taint rivers and the livelihoods of people depending on the river for day-to-day activities might be affected. An example of this is recently this year, poor practices of a bauxite mine have exposed the people to various health issue. This is due to the fact that the people's drinking water have been contaminated by heavy metals, and this might incur a cost to the Malaysian government to deal with the problem, thus creating an opportunity cost where there is a tradeoffs in using the money to solve the river pollution, instead of using it to improve the infrastructure of the economy.

Finally, a thing to note that is with the implementation of the TPP, the ISDS (internal state dispute settlement) will come into action. What is the ISDS? The "ISDS is a neutral, international arbitration procedure." **(Office of the United State Representatives, n.d.)** It basically means firms and corporations are provided a channel to sue the government if any of their profit or revenue are affected. I firmly believe that in the next 10 or 20 years, Malaysia, which is currently a developing country, will see some drastic changes, from the infrastructures, to education system and many more. These factors might affect the sales of a company if they were in Malaysia. For example, a printing firm might have their revenue decreased as a demand for a certain book has decreased due to a change in the education system. They might sue the Malaysian government as a result. ISDS is a frivolous and expensive procedure, and I firmly believe that Malaysia would gain nothing out of it in the short run, as compared to a more advanced and stable country like the US, where it is already developed.

In my opinion, Malaysia, in its current state if the TPP is finalised and implemented within this few years, will not be able to take advantage of the wealth of export opportunities the TPP presents. Especially in the Electronics and equipments sector as they are directly up against the likes of Japan, and possibly South Korea in the near future, who displayed interest in joining the TPP. The budding textile industry may have a chance in securing Malaysia a steady source of revenue as US, which is one of the TPP members, is the world's largest apparel importer **(Malaysian Investment development authority (MIDA), n.d.)** , and with the TPP Malaysia would be able to boost their exports as they currently do not have a FTA with the US. Moreover, the implementation of the TPP would undoubtedly give corporations too much space to flex their muscles, as they have the backing of the ISDS , but undoubtedly their profits will increase due to a larger market. Inequality in Malaysia may widen as a result, and all the wealth in Malaysia may be concentrated in the top 1% of the income group.

For better or for worse, in the long run, the TPP does have its merits. Such as providing Malaysian startups to a wider market and also encouraging non-TPP members to set up companies in Malaysia. These are one of the examples that will possibly boost Malaysia's sluggish 1.5% increase in GDP for the past 3 years. However, Malaysia has to up its game in improving the quality of the workforce and improving infrastructures that would attract foreign investors to set up in Malaysia. These can be done in utilizing the tax gained by the recent implementation in GST to increase the quality of education and improving roads, buildings, public goods and many more, all of which requires a long term vision and hopefully ushers Malaysia into an era where they are a price giver, instead of a being in the wobbly seat of a price taker.

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