

## **CPTPP as Malaysia's opportunity for post-Covid growth**

IN a webinar held by the Institute for Democracy and Economic Affairs (IDEAS) recently concerning a progress update on the Regional Comprehensive Economic Partnership (RCEP) and the Comprehensive and Progressive Trans-Pacific Partnership (CPTPP), the lead negotiator from the Ministry of International Trade and Industry (Miti) shared that their target for tabling the CPTPP to the cabinet is end-2021. The CPTPP could be a major catalyst to rejuvenating global trade and economies following the Covid-19 pandemic. Unlike other free trade agreements (FTAs) that solely focus on tariffs, the CPTPP extends its coverage to non-tariff measures, movement between member countries and many other provisions that further ease trade between members.

In such global conditions where many countries are hesitant to open their borders due to discrepancies of Covid-19 SOP, the CPTPP with its blanket coverage of quality standards could be a mitigating measure. With its current 11 members equivalent to 13.5% of total global trade, the CPTPP also further integrates the markets of its members with reduced trade barriers.

Market integration is key, because integrated markets ease production for the global value chains (GVC) that are vital to the manufacturing sectors of each member's economy – a golden opportunity for recovery. IDEAS calculates that ratifying the CPTPP would boost our GDP by over RM14 billion (a 1% increase) and create 140,000 new jobs. Post-pandemic, this is a much-needed low-hanging fruit that Malaysia can immediately benefit from.

## **New market opportunities await**

In fact, as more countries join the CPTPP, the amount of markets, trade networks and supply chains will increase. What started out as a more exclusive club among select countries is rapidly becoming more inclusive as more have applied for accession. With the United Kingdom, China, South Korea and Taiwan formally applying for accession, the potential gains increase even further.

While Malaysia has welcomed China's bid to join the CPTPP, stating that it is confident that bilateral trade and investment ties between the two would grow, only member countries are able to make decisions over new applicants. Not having ratified means Malaysia's opinion does not carry much weight. Yet, member countries such as Australia have signalled that China must convince its members of its track record of complying with existing trade agreements, and hence fully implement its commitments under the CPTPP's high standards.

As well, the benefits to Malaysia for Taiwan joining the fray are also very apparent given the existing GVC integration between both economies. Malaysia and Taiwan already share a strong

trade and investment relationship – Taiwan is Malaysia’s fifth-largest trading partner – and deep underlying industrial collaboration. Taiwan’s participation in the CPTPP would further liberalise trade in electronics, machinery and chemicals, in turn encouraging Malaysia’s efforts to upgrade and innovate in its Fourth Industrial Revolution (4IR) adoption. IDEAS’ research also found that Taiwan’s membership of the CPTPP would further increase Malaysia’s GDP by over RM2 billion and create 20,000 additional jobs. Taiwan has revised several domestic laws and regulations to meet the agreement’s high standards over the past five years, which would make accession smoother.

### **How SMEs can derive benefits from the agreement**

**For Malaysia, examining how the CPTPP would create value for manufacturing SMEs is crucial since manufacturing contributes to almost 20% of SME activity, registering a share of 34.6% of SME GDP, and representing 16.3% of SME total employment (Department of Statistics, 2019).**

The CPTPP with its trade diversification measures has the potential to reach new markets, thereby extending export opportunities for local SMEs. With the standardised trade measures put in place, SMEs will be able to export at a higher rate without complications of certification or quality control. Given Malaysia’s existing strengths in manufacturing and electronics, this may bring about added potential. In addition, Malaysian SMEs would be enabled to source cost-effective raw materials, parts and components.

A 2021 Center for Strategic and International Studies report shows that firms in existing CPTPP member countries have already experienced gains. After two years of the agreement being in force, 45% of medium and larger firms report that the CPTPP has helped them gain new customers, 39% have scored new sales and 36% have diversified into new markets. Even micro and small exporters have experienced similar gains, with 31% able to diversify markets and 29% reaching foreign customers. More impressively, small online sellers on e-commerce platforms such as Shopee and Lazada also reported gains in diversifying markets (51%) and reaching foreign customers (36%).

Finally, there is a dedicated SME chapter in the CPTPP, which is designed to support the growth and development of micro and other SMEs. For example, the Cooperation and Capacity Building chapter addresses SMEs’ specific needs, which would allow participating members to learn from each other. Other economies like Australia, New Zealand and even new applicants such as Taiwan and the UK that have transitioned rapidly into high-value economies, can provide valuable lessons for Malaysia. Taiwan’s SMEs at the same time have an inclination for overseas investment, which will benefit Malaysia’s overall FDI condition and improve the competitiveness of Malaysia’s SMEs.

Taken collectively, these reforms would strengthen our production capabilities as we work towards a more healthy and competitive environment. CPTPP or not, SMEs will require these reforms to prepare our domestic economy for the challenges that lie ahead. The ratification presents us a valuable opportunity to make these reforms happen now.

### **Potential pitfalls to avoid and mitigate for**

That said, Malaysia must prepare for potential pitfalls as well. For instance, ratification might mean that although both imports and exports will be boosted, Malaysia is expected to experience a trade imbalance, resulting in more imports than exports, to the amount of US\$2.4 billion per annum (Banga, 2019). Ultimately, if there are benefits to both consumers who can access a wider selection of goods, as well as to local exporters who can access more markets for export, this should not be considered a devastating loss.

Second, there may be some concern over the liberalisation of technology digitalisation and e-commerce, where for instance some provisions call on non-discriminatory treatment for digital products and a ban on data localisation. However, upon deeper analysis the CPTPP actually includes robust digital regulations, provides for deep market access and can help shape firms already using data in their operations. Firms operating within existing CPTPP member countries in fact report that the e-commerce provisions are “very or somewhat beneficial” for their businesses (Center for Strategic and International Studies, 2021).

Malaysia has in the past already successfully achieved significant carve-outs for matters of national interest, including Bumiputera procurement and on SOEs. On the balance of things, while there may be winners and losers as a result of ratification, what is more important is for Malaysian economic policymakers to plan well, and to place the agreement within a more broad-based and long-term economic policy for the nation.

This would send a strong signal to the international community that Malaysia is ready to be a competitive player in the region and the world, comply by international standards, and more importantly, prepared to provide a robust institutional framework and system to accommodate these intentions. As Malaysia plans for the structural economic changes ahead, it is clear we cannot isolate our economy from global reach. As long as transparency, good governance and strong communication is provided for by the government with industry players, Malaysia can once again be an open economy – and invest and reap the benefits of multilateralism with other member countries, as well as be open to welcoming new economies on board, especially those we already have strong economic ties with. – October 6, 2021.

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