

CPTPP: The Case for Ratification

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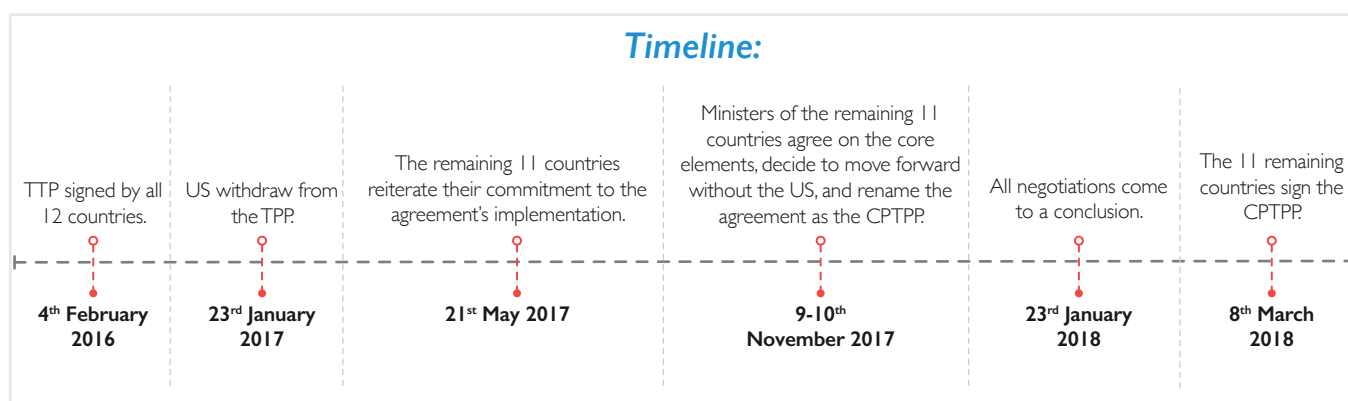
I. What is the CPTPP?



The Comprehensive and Progressive Agreement for Trans-Pacific Partnership, or the CPTPP, is a free trade agreement between 11 countries in the Asia-Pacific region. The signatories of the agreement, as of March 2018, are Australia, Brunei, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore and Vietnam.¹

The CPTPP is the successor to the Trans-Pacific Partnership (TPP), which was the original free trade agreement (FTA) between the United States and the 11 members of the CPTPP. The TPP was an ambitious FTA that had been negotiated for almost a decade under US leadership during the time of the Obama administration. Not only was the agreement broad, covering two-fifths of the world economy, it was also comprised of 30 chapters that covered areas from tariff reductions to labour standards and intellectual property rights. The concluded TPP Agreement was signed in New Zealand in February 2016 by all 12 countries.

However, on 23 January 2017, the US government decided to withdraw from the TPPA. Because the US accounted for 60% of the combined GDP of the 12 TPP members, the agreement could not enter into force without its participation.² Nevertheless, in light of US withdrawal, the governments of the remaining 11 countries affirmed the economic and strategic importance of the TPP and met on several rounds to find ways to implement the agreement. On 8 March 2018, the 11 countries signed the CPTPP, essentially agreeing, on principle, to enable the ratification of the Agreement in order to bring it into force.³



¹ "Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP)." Foreign Affairs Trade and Development Canada. December 13, 2018.

² "Trans-Pacific Partnership Agreement (TPP) & Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP)." MITI FTA.

³ "Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP)." Foreign Affairs Trade and Development Canada. December 13, 2018.





Thus the CPTPP is a separate treaty that incorporates the provisions of the original TPP Agreement. In the CPTPP, most of the original TPP text remains intact, and two-thirds of the CPTPP's 30 chapters are identical to TPP. However, as a result of the latest round of negotiations, many elements of the CPTPP remain significantly different. For instance, a total of 22 provisions from the original TPP agreement have been suspended or otherwise changed in the new CPTPP, setting aside issues that were particularly priorities for the US but lacked similar support from other signatories.⁴

2. Malaysia and the CPTPP

Malaysia signed the CPTPP along with the other signatories, however following the General Election in May 2018 the Pakatan Harapan government expressed scepticism over the benefits of the CPTPP and to date have not ratified the deal. The government has indicated that the ratification of the CPTPP remains possible but as of the time of writing they have not provided a timescale or the conditions under which they would proceed with ratification. In the remainder of this Brief, we consider the case for Malaysia's ratification of the CPTPP.

3. What are the benefits of the CPTPP?

The benefits of the CPTPP primarily relate to the enhancement of trade among countries in the Asia-Pacific, resulting in more seamless and cheaper flow of goods, services, and investment. If fully implemented, the 11 CPTPP countries will become a consolidated economy that represents 495 million consumers and 13.5% of global GDP. It is estimated that the CPTPP will generate global income benefits worth US \$147 billion.

-  An integrated market of 495 million people with a combined output of US\$10 trillion, representing 13.5% of the world economy.⁵
-  Malaysia will prove to be the biggest winner of the CPTPP as the agreement would provide export access to markets that benefit palm oil, rubber, and electronics.⁶
-  USD\$147 billion in global income gains.⁷
-  Hailed as the 21st century trade agreement, CPTPP incorporates progressive elements that promote the importance of corporate social responsibility, cultural identity and diversity, environmental protection and conservation, gender equality, indigenous rights, labour rights, inclusive trade, sustainable development and traditional knowledge.⁸

⁴ Goodman, Matthew. "From TPP to CPTPP". Center for Strategic and International Studies. October 03, 2018.

⁵ "The CPTPP Offers a Beacon in the Age of Protectionism." ACCA Global. June 2018.

⁶ "Moody's: Revised Trans-Pacific Partnership Benefits All Members, but Less without the US." Moody's Investors Service. March 08, 2018.

⁷ Petri et al. Going It Alone in the Asia Pacific: Regional Trade Agreements without the United States. Publication no. 17-10. October 2017.

⁸ Maria, Rebecca Fatima Sta. "Malaysia Should Ratify the CPTPP" Business News | The Star Online. August 17, 2018.

Even without the participation of the US, the CPTPP will give Malaysia market access to Canada, Mexico and Peru- three countries with whom Malaysia has no free trade agreement and representing a combined market size 10 times bigger than the Malaysian economy. This market access will include reductions of duties – which can appear small, but are equivalent to a large proportion of the profit margin for companies. In other words, overnight these new markets become viable for Malaysian exporters. According to a study by Moody's, Malaysia will prove to be the biggest winner from the revised CPTPP agreement. That is because the deal will provide export access to markets that will benefit palm oil, rubber, and electronics exporters.⁹

The CPTPP is called “progressive” because it goes beyond the exchange of goods and services. The Agreement, as once envisioned to “write the rules of global trade”, includes commitments to safeguard high governance, labour and environmental standards across the Asia-Pacific region. It must be noted that despite the withdrawal of the US, the Agreement is still one of the largest free trade agreements in the world that sets a new standard for global trade.¹⁰

Figure 1: Trade Map

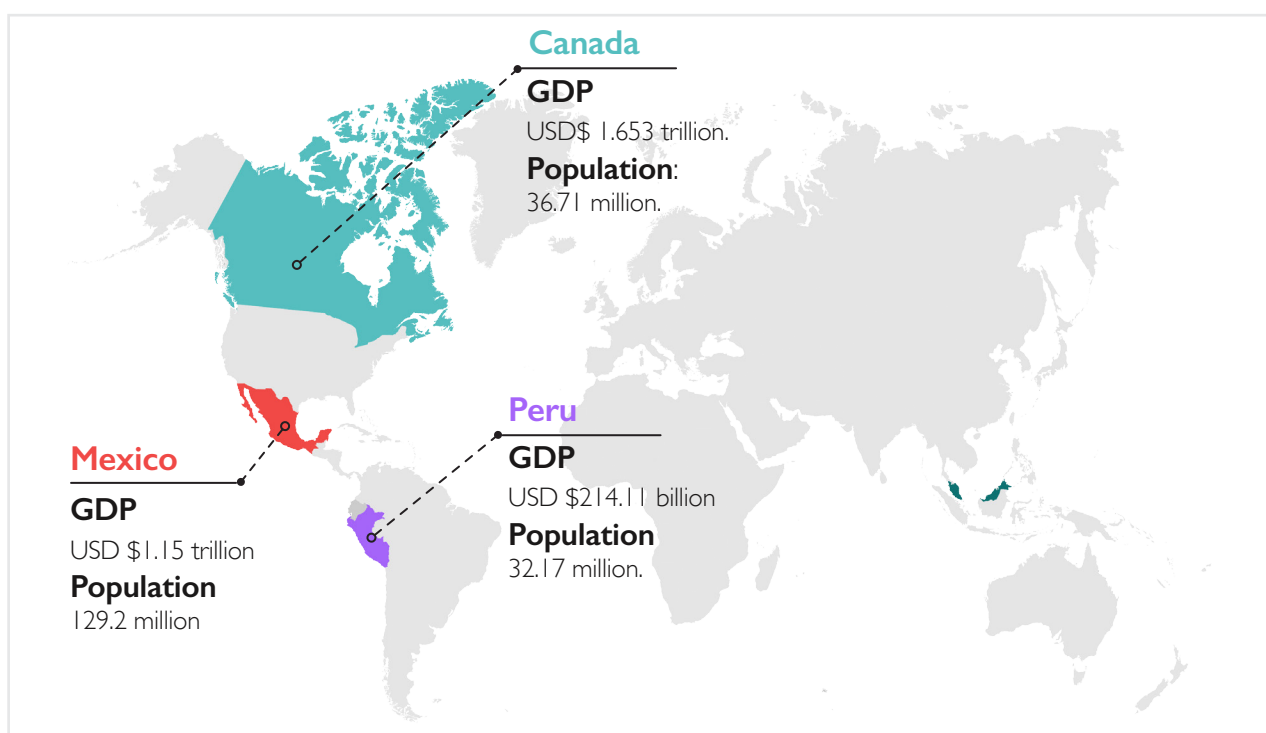


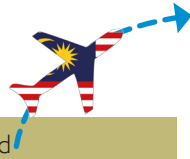
Figure 1 above illustrates the significant economic benefit for Malaysia of acquiring access to significant new markets in Canada, Mexico and Peru. The tables below illustrate the significant synergies between Malaysia's main exports and the imports of Canada, Mexico, and Peru suggesting that there is significant potential for Malaysian exporters to benefit from increased market access.

⁹ "Moody's: Revised Trans-Pacific Partnership Benefits All Members, but Less without the US." Moody's Investors Service. March 08, 2018.

¹⁰ "Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP)." New Zealand Ministry of Foreign Affairs and Trade.

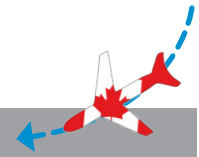
Trade Matches Table

Malaysia's Top Exports



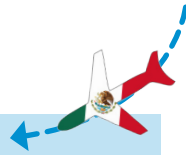
- Electrical machinery and equipment and parts thereof; sound recorders and reproducers; television image and sound recorders and reproducers, parts and accessories of such articles
- Mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral waxes
- Nuclear reactors, boilers, machinery and mechanical appliances; parts thereof
- Animal or vegetable fats and oils and their cleavage products; prepared edible fats; animal or vegetable waxes
- Optical, photographic, cinematographic, measuring, checking, medical or surgical instruments and apparatus; parts and accessories
- Plastics and articles thereof

Canada's Top Imports



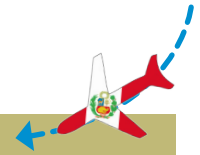
- Vehicles; other than railway or tramway rolling stock, and parts and accessories thereof
- Nuclear reactors, boilers, machinery and mechanical appliances; parts thereof
- Electrical machinery and equipment and parts thereof; sound recorders and reproducers; television image and sound recorders and reproducers, parts and accessories of such articles
- Mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral waxes
- Plastics and articles thereof
- Optical, photographic, cinematographic, measuring, checking, medical or surgical instruments and apparatus; parts and accessories

Peru's Top Imports



- Mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral waxes
- Nuclear reactors, boilers, machinery and mechanical appliances; parts thereof
- Electrical machinery and equipment and parts thereof; sound recorders and reproducers; television image and sound recorders and reproducers, parts and accessories of such articles
- Vehicles other than railway or tramway rolling stock, and parts and accessories thereof
- Plastics and articles thereof
- Cereals

Mexico's Top Imports



- Electrical machinery and equipment and parts thereof; sound recorders and reproducers; television image and sound recorders and reproducers, parts and accessories of such articles
- Nuclear reactors, boilers, machinery and mechanical appliances; parts thereof
- Vehicles other than railway or tramway rolling stock, and parts and accessories thereof
- Mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral waxes
- Plastics and articles thereof
- Optical, photographic, cinematographic, measuring, checking, medical or surgical instruments and apparatus; parts and accessories

4. What are the concerns?

A. Negative Adjustment Cost.

In general, FTAs will increase the trade of goods and services between countries who are party to the agreement. While increased economic growth, improved business climate, the transfer of technology, and foreign direct investment are some of the benefits of FTAs, there can also be some disadvantages. For instance, some of the criticisms that FTAs face, especially in the Malaysian context, are that they result in the crowding out of domestic industries. In other words, businesses that are unable to compete at an international level are often forced to close down. It has also been suggested that economic liberalization through FTAs only benefits a minority elite while the common majority lose out.

In 2015, the Ministry of International Trade and Investment (MITI) of Malaysia commissioned two studies on the cost-benefit analyses of the TPP. The study by PwC Services, for instance, included sectoral analyses of the impact of the TPP on the output and exports of 10 selected key economic sectors, and as well as on existing firms in those respective sectors. According to the study, all the 10 sectors studied were expected to register higher output and export growth if the TPP had come into force. Of the 10, the textile, construction, automotive components and the E&E sectors were expected to be among the top to register the largest gains in output and export growth.¹¹

However, the study also suggested the impact for the businesses and firms within these sectors to be understandably more complex. Export oriented firms in the textiles, E&E, and automotive component sectors would benefit from greater market access, while some firms in retail, construction, and oil and gas would face increased competition from foreign firms. The report concluded that out of the 10 sectors studied, five sectors were likely to have an overall positive impact, while four would have a neutral impact, and one would have a negative impact (oil and gas).¹²

Therefore, it is evident that, even with the changes and new developments within the CPTPP in contrast to the TPP, any negative impacts that are likely to result of the CPTPP will be concentrated within a few economic sectors, while the positive impacts are widely dispersed. As such, the net welfare from the CPTPP Agreement will be positive for Malaysia, despite adjustment in some sectors. The positive benefits are further strengthened when considering the improvements to consumer welfare through lower prices and greater choice arising as a result of increased competition.

It would be perverse to suggest that the adjustment costs suffered by certain segments of the economy, while the net-impact on welfare from trade liberalization is positive across the whole population, alone justifies not ratifying the CPTPP. This is, however, not to say that the costs of trade potentially incurred by a number of businesses and their workers, who are likely to suffer from unemployment or lower wages, are problems that Malaysia can or should ignore.

¹¹ "Cost-Benefit Analysis Studies." MITI FTA | Ministry of International Trade and Industry. December 3, 2015.

¹² Study on Potential Economic Impact of TPPA on the Malaysian Economy and Selected Key Economic Sectors. Report. Ministry of International Trade and Industry. PwC Advisory Services, 2015.

The need for Trade Adjustment Policies:

In order to benefit from trade and trade liberalization, economies have to go through structural changes that bring with them costs of adjustment as outlined above. That is because gains from trade occur through a “natural selection” mechanism that allows high-productivity firms to thrive and forces low-productivity firms to withdraw from the market. This cost is felt mostly by groups of workers in specific economic areas who face temporary unemployment and lower income when their jobs are lost as a result of international competition. For instance, in the US context, as global trade shifted the US economy from one primarily focused on goods production to one focused on innovation, knowledge, and services, metropolitan areas with high levels of human capital (e.g. Washington D.C., Silicon Valley) benefitted from the shift while those focused on manufacturing (e.g. Birmingham, Detroit) did not.¹³

Thus, when trade causes an industry to decline, the adjustment costs often tend to be imposed on particular places and people in the short and medium term while the benefits are enjoyed more widely across the economy.

As such, trade adjustment policies might be needed to reduce the negative impact of the adjustment. For instance, in the US, the reality of trade adjustment costs had led to the creation of the Trade Adjustment Assistance (TAA) Program as early as in 1974. The TAA provides support to workers or firms or regions adversely affected by trade reforms or changes in trade flows. Its benefits include job training and job-searching assistance, wage subsidy for older workers, and can even comprise of technical assistance for companies for guided economic recovery.¹⁴

On the other hand, the EU’s European Global Adjustment Funds (EGF) is a significantly more recent program that provides individual support to workers who have suffered redundancies as a result of globalization. When a large enterprise shuts down or a factory is relocated to a country outside the EU, or a whole sector loses many jobs in a region, EU member states can design active labour market policies for redundant workers such as job search, occupational guidance, training, and entrepreneurship promotion, and apply for EGF support for up to 65 percent of the total costs.¹⁵ Knowledge and details of adjustment costs are important for policy makers to identify priorities and trade-offs between likely long-term gains and short term costs from trade liberalization, and are also crucial to decide whether to provide adjustment assistance and of what kind.

As such, for Malaysia to benefit from the CPTPP, both in the short and long-term, trade adjustment measures should be considered. These policies should focus on improving education, promoting entrepreneurship and maximising flexibility within the labour market, rather than subsidising or protecting specific industries. In the long term market driven innovation and productivity growth is the best method to ensure the Malaysian economy can adapt and thrive in the global economy, and trade adjustments policies should reflect that.

¹³ Berube, A. Metro Cities Return to Their Roots in the Global Economy, Report. Metropolitan Policy Program. Brookings Institution, 2012

¹⁴ Ibid

¹⁵ Ibid

B. Concern: Industry Development.

Concerns over the crowding out of domestic industries are particularly pronounced when the sectors involved are considered crucial for strategic industrial development. For example, in the case of Malaysia, ratification of CPTPP might expose Malaysia to high levels of competition in industries it considers to be strategically significant, stifling their development. However, while it may be true that trade liberalization can harm infant industries or inefficient industries subject to prolonged protection, there also exists sufficient evidence that it is in fact effective in making an industry competitive when it is near the stage of maturity.

For instance, between 1989 and 2000, trade liberalization policies saw Brazil's rapid expansion of exports of vehicles and machinery, particularly non-electric, and aircraft. These industries were near the stage of maturity and trade liberalization helped them to become more efficient. The extraordinary performance of Brazil's aerospace industry is in fact an example of the success of "targeting" and "selectivity". The aerospace industry is a high technology and skills intensive industry. Although it had faced a crisis of competitiveness after the shock of liberalization and privatization, it soon became the most important exporter of Brazil's manufactured goods. The value of the exports of Brazilian aircrafts increased from \$182 million in 1995 to \$2.7 billion in 2000. In 1998, the Brazilian manufacturer Embraer had become the world leader in commuter and regional jet market.¹⁶

Brazil's aerospace industry had received government support from 1945 until the 1990s, during which time the government's policy and the company's strategy were coherent, continuous and targeted. After facing liberalization in the mid-1990s, the company went through restructuring and innovation in its organizational and institutional strategy to consolidate its technical knowledge. In addition, the government continued its support of the industry through export financing, and the Programme for the Expansion of Brazilian Aerospace Industry.¹⁷

It is therefore evident that trade liberalization can in fact be the necessary "push" that edges an industry towards success, provided the industry enjoys dynamic industrial and trade policies. In the Malaysian context, it's important that industrial development be guided according to market realities. Malaysia has a relatively small domestic market and it is therefore essential for Malaysian firms to have access of wider overseas markets to develop more competitive products and services. For Malaysia to reject trade liberalization in the name of protecting a handful of underperforming industries would essentially mean denying other highly performing industries the necessary opportunities and therefore, lowering the interests of the whole population in the interests of the few.

C. Concern: Policy Freedom.

In the arguments against the ratification of the CPTPP, concerns have been expressed with regards to Malaysia's policy freedom. It has been suggested that, if ratified, the new agreement would essentially oblige Malaysia to abide by certain rules that would intrude into the freedom and space of the country to formulate and implement policies, laws, and regulations according to its interests. Specific reference to such rules have to do with the investor-state dispute settlement mechanism (ISDS), intellectual property rights, and constrained policy space on capital controls and government procurement. While the agreement does employ certain standards aimed at restricting government intervention or discriminatory policies, certain clauses within the CPTPP text, and significant carve-outs and side letters will nevertheless allow Malaysia to sufficiently retain its policy freedom.

¹⁶ S, Shafaeddin. Trade Liberalization and Economic Reform in Developing Countries: Structural Change or De-Industrialization? United Nations Conference on Trade and Development (UNCTAD). April 2005.

¹⁷ Ibid.



Arguments against the CPTPP

▶ Investor-State Dispute Settlement Mechanism (ISDS) will undermine national judicial sovereignty and put governments with limited legal resources at a disadvantage. (Khor, M., 2018)¹⁸



Counter-arguments

ISDS will not affect Malaysia's sovereignty because the mechanism has safeguards that prevent frivolous claims by investors. The process itself allows for fairness and as stated in Article 9.22, each party appoints its own arbitrator with both parties having to agree on the third arbitrator.¹⁹ In fact, Malaysia has already signed treaties that include similar provisions and has benefited from dispute settlement mechanisms in the past. (IDEAS, 2016)²⁰

Moreover, under the CPTPP, it is now considerably harder for a foreign investor to invoke a lawsuit under the ISDS against any host government without exhausting various procedures than it was under the TPP. For instance, Article 9.18 of the agreement obliges disputant parties to engage in consultation and negotiation to resolve the matter for a minimum duration of six months before submitting a claim for arbitration. Article 9.23 and 9.24 lay out the mechanisms to ensure appropriate conduct and transparency of the arbitration procedures.

Whole areas, including healthcare, have been excluded. For instance, as per Article 29.5 of Exceptions and General Provisions, Big Tobacco is removed from ISDS so that countries can persevere with tobacco control measures without the fear of Tobacco companies launching financially crippling legal challenges.²¹

¹⁸ Khor, Martin. "CPTPP Deal – to Ratify or Not?" Global Trends | The Star Online. August 12, 2018.

¹⁹ Comprehensive and Progressive Agreement for Trans-Pacific Partnership Text. New Zealand Foreign Affairs and Trade. February 2018.

²⁰ "TPPA Catalysing Reforms in Governance" | IDEAS. Special Report. January 2016.

²¹ Comprehensive and Progressive Agreement for Trans-Pacific Partnership Text. New Zealand Foreign Affairs and Trade. February 2018.



Arguments against the CPTPP

- Strengthened Intellectual Property Rights (IPRs) will raise price of medicines. (S. Jomo K., 2018)²²

- Constrained 'policy space': health policy. (Khor, M., 2018)²⁵

- Constrained 'policy space': capital controls



Counter-arguments

Article 18.6 of the CPTPP on Intellectual Property affirms the agreement's commitment to the Declaration of TRIPS and allows all parties to take necessary measures to protect public health.²³ As such, the agreement continues to allow Malaysia as a developing country to utilise TRIPS rules to use compulsory licensing of generic medicines for public health. Although whether this is beneficial in the long run for the cost of medicines can certainly be questioned. Pharmaceutical prices in Malaysia are driven by procurement policies which create monopolies and not IPR alone. CPTPP does not affect Malaysia's right to negotiate best prices for medicines.²⁴

As stated in Article 29.1 of Exceptions and General Provisions, the CPTPP protects the rights of participating nations to adopt necessary measures with regards to health and environment.

Article 29.1 also ensures a country's ability to impose measures necessary to maintain an orderly foreign exchange regime. Article 11.11 of the Financial Services chapter grants special exceptions to public entities "in pursuit of monetary and related credit policies or exchange rate policies".²⁶ As such, Malaysia can introduce policy measures to act against unbridled speculative currency flows. The particular chapter in CPTPP pertaining to this issue (Chapter 11) was primarily drafted by Bank Negara itself. (Kon, Y. P., 2018)²⁷

²² S. Jomo K. "Malaysia Urged to Withdraw" Business News | The Star Online. August 13, 2018.

²³ Comprehensive and Progressive Agreement for Trans-Pacific Partnership Text. New Zealand Foreign Affairs and Trade. February 2018.

²⁴ Maria, Rebecca Fatima Sta. "Malaysia Should Ratify the CPTPP" Business News | The Star Online. August 17, 2018. <https://www.thestar.com.my/business/business-news/2018/08/17/malaysia-should-ratify-the-cptpp/>.

²⁵ Khor, Martin. "CPTPP Deal – to Ratify or Not?" Global Trends | The Star Online. August 12, 2018.

²⁶ Comprehensive and Progressive Agreement for Trans-Pacific Partnership Text. New Zealand Foreign Affairs and Trade. February 2018.

²⁷ Kon, Yong Poh. "Go Ahead and Ratify the CPTPP" Business News | The Star Online. August 29, 2018.



Arguments against the CPTPP

▶ Constrained 'policy space': procurement



Counter-arguments

On government procurement, MITI also successfully negotiated significant carve outs. For instance, negotiated thresholds stated in Annex 15-A, Schedule of Malaysia, of the CPTPP allow domestic contractors in Malaysia to still get first attempt at the majority of government contracts. For example, the agreed threshold for government construction contracts is RM 315 million, which means foreign contractors are not able to tender for jobs below those levels. This gives sufficient headroom for Malaysia's local contractors to compete amongst themselves before foreign contractors can come in.²⁸

It is therefore clear that Malaysia would retain significant policy freedom in these areas following ratification of the CPTPP. However, it can also be argued that in many of these areas Malaysia has historically suffered from weak governance, which has contributed to poor outcomes for the economy and society more generally. For example, Malaysia's policy of pursuing procurement through direct negotiation has resulted in a number of high-profile cases of corruption. In the case of Government Linked Companies (GLCs) and State Owned Enterprises (SOEs).

In this respect, the CPTPP provides welcome pressure for reform. Some of Malaysia's CPTPP commitments, such as those on the non-discriminatory treatment and the prohibition of non-commercial assistance with regards to SOEs, would essentially restrain Malaysia from carrying out certain policies it would have otherwise freely implemented. However, such commitments provide the right mechanisms for Malaysia to transition into a more competitive, open and accountable state. The agreement will push Malaysia to address its governance problems such as corruption and its opaque procurement system. It will complement trade liberalization and transformation programmes Malaysia is currently undertaking and push for economic freedom. This is specifically true in the case of how the government functions.²⁹

²⁸ Comprehensive and Progressive Agreement for Trans-Pacific Partnership Text. New Zealand Foreign Affairs and Trade. February 2018.

²⁹ "TPPA Catalysing Reforms in Governance" | IDEAS. Special Report. January 2016.

Changes in governance

Strengthened transparency and anti-corruption measures.

The CPTPP outlines measures and disciplines for member countries to adopt to strengthen anti-corruption regimes. Other member countries of the agreement can resort to dispute settlements if Malaysia's corruption measures are found "inconsistent with its obligations to trade or investment between parties". As such, if a ratified signatory, Malaysia would have to address specific areas of governance and transparency, such as non-pecuniary advantages, conflict of interests, and other issues that are not comprehensive under current governance measures. This is likely to strengthen Malaysia's anti-corruption measures.



Improved governance of Government Linked Companies (GLCs).



To ensure a level-playing field in the market, the CPTPP obligates all GLCs (except some) to follow non-discriminatory treatment and commercial consideration principles when procuring goods and services, providing loans, grants, and other forms of assistance. It further requires GLCs to adopt comprehensive transparency mechanisms. These requirements will encourage Malaysia to adopt positive practices and widen the scope of the GLC transformation programme.

Increased accountability for the government.

The ISDS system encourages countries to commit to the obligations of the CPTPP through the provision of a dispute settlement mechanism. The measures as well as the safeguards of the system would not only serve investor confidence and prevent companies from making frivolous claims, but would also prevent the government from abusing its powers.



A more transparent and accountable procurement system.



The CPTPP requires government procurement processes to be non-discriminatory, standardized, and transparent through an open and competitive tender method. Although Malaysia unfortunately has managed to secure substantial exemptions for selective tendering, which means that the much needed reforms in government procurement will not fully be realised, its procurement system will nevertheless be more transparent and accountable.



5. Future Development of CPTPP

The conditions for the CPTPP's entry into force is simpler than the original TPP. According to the new conditions, the CPTPP will enter into force 60 days after six signatories, or at least 50% of the signatories, have ratified the agreement. On November 12, Vietnam's law-making body, the National Assembly, unanimously ratified the landmark CPTPP Agreement, making it the seventh country to do so. For the remaining signatories, it will only become legally binding 60 days after they ratify.³⁰

As of the 30 December 2018, the deal has entered into force for those countries that have ratified, putting Malaysia at an immediate disadvantage. Improved market access and greater quality of investor protection amongst those members that have ratified will make them relatively more attractive vis-à-vis Malaysia. Vietnam in particular will be in stronger position to compete for Foreign Direct Investment (FDI) that might otherwise be directed towards Malaysia. As a result, Malaysia is more likely to experience diversion of both trade and investment. This diversion will be further exacerbated as additional members ratify the deal and as new members join, widening the market access associated with CPTPP membership. Accession talks for new members are already scheduled for 2019 and some of the possible entrants include Taiwan, Thailand, Indonesia, Colombia and South Korea. Although the prospects of the US re-entering the CPTPP are low in the short term, if the US and other countries do choose to enter, Malaysia would be at a disadvantage if it is one of the few countries in isolation.³¹ If Malaysia remains on the outside it will have limited influence on the terms for these new members or the further direction of the CPTPP.

Since the deal is already in force the risk of diversion could materialise over the coming month and even should Malaysia decided to ratify, it will still take sometime as ratification would require the parliament to amend 19 different laws separately, rather than as a single bill as was in Australia, Canada, and New Zealand.³²

³⁰ Vu, Khanh. "Vietnam Becomes Seventh Country to Ratify Trans-Pacific Trade Pact." Reuters. November 12, 2018.

³¹ Ibid.

³² CPTPP's Entry into Force - Sooner than You Think. Asia Business Trade Association. July 2018.



6. Conclusions

With Malaysia poised to be the biggest winner of the CPTPP among all other signatories, the losses that may be incurred if it fails to ratify will be significant. It has been estimated that by withdrawing from the agreement, the US is set to expect the largest single net loss. Not only did it forgo a potential annual increase of US \$131 billion, it would also be losing an additional \$2 billion in income because US firms will be disadvantaged in the CPTPP markets.³³ In the scenario that Malaysia does not ratify the CPTPP, it is expected that Malaysia's negotiating space in future multilateral agreements will be reduced and fragmented. This is because trading blocs and countries aligned to the CPTPP are likely to use it to form the core framework for future trade agreements.

Historically, Malaysia's economic growth has been largely driven by its openness to trade. Being part of the global value and supply chains and being party to various international trade agreements have made it possible for Malaysian firms to be a part of the global production system. While the economic benefits may alone justify ratification, the agreement will also push the Malaysian government to make necessary reforms and be more open and transparent, providing Malaysia with a more competitive and innovative environment. To ensure sustainable economic development and good governance, it would thus be in Malaysia's national interest to ratify the CPTPP.

³³ Petri et al. *Going It Alone in the Asia Pacific: Regional Trade Agreements without the United States*. Publication no. 17-10. October 2017.

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