Trans-Pacific Partnership (TPP)

Cost-Benefit Impact Analysis

- Officially-sanctioned cost benefit analysis is supportive of Malaysia joining TPP
- Net gains for the economy with national interests safeguarded
- The ball is now in the “political court”

TPP Cost-Benefit Analysis by the Government-appointed PwC Advisory Services (PwC) and Institute of Strategic & International Studies Malaysia (ISIS) respectively looked at the national economic impact and the sector-specific impact (i.e. covering 10 industries - automotive & automotive components; construction; E&E; oil & gas; palm oil; pharmaceuticals; plastics & plastic products; retail; textiles; and woods & wood products) and undertook the National Interest Analysis (NIA) covering the areas of national security, social impact and economy impact.

Overall, supportive of joining TPP due to net gain for the economy via increases in GDP, investment, welfare and wages which offset narrower trade surplus. By sectors, positive for textiles, E&E, automotive, plastics products & wood products; neutral for construction, palm oil, retail & pharmaceuticals; negative for O&G. The issues of national interests like Bumiputera agenda, SME development, Government-Linked Companies (GLCs)/State-Owned Enterprises (SOEs), Investor-State Dispute Settlement (ISDS), intellectual property (IP) and labour standards are addressed via exclusions, exemptions, carve outs and concessions as “safeguards” in these controversial non-tariff but trade-related issues.

The ball is in the “political court” now as the Government will table TPP at the Parliament in Jan 2016 amid the target for the TPP-12 countries to sign the ratification of the TPP agreement on 4 Feb 2016 in New Zealand, to be followed by with between 18 months to 2 years for TPP full implementation.

Domestically, TPP is a catalyst for broader economic reforms and restructurings as the “safeguards” - especially on opening up market access for Government and GLCs/SOEs procurement that impact Bumiputera agenda and SME developments - are not permanent but will be subjected to gradual and phased reductions in the thresholds for access by TPP countries after some transition periods.

Globally, TPP is a potential catalyst for reviving world trade growth in view of the current lackluster global economic growth amid the disappointing world trade performance. To note, the last big event on world trade was China’s entry into the World Trade Organisation (WTO) in 11 Dec 2001 that integrated China with the world economy and boost global trade and investment flows.
Malaysia: TPP – Cost-Benefit Impact Analysis

Key highlights and takeaways

TPP is “net positive” for the economy (Figure 1). On the basis of tariff cuts and 25%-50% reduction in non-tariff measures (NTMs), PwC estimated that:

- **Real GDP and investment values would increase over 2018-2027** by USD107b-USD211b (2014: USD309b) and USD136b-USD239b (2014: USD81b) respectively.

- **Real GDP growth will be higher** by 0.60-1.15 percentage points in 2027 (2014: 6.0%; Maybank KE’s average 2015E-2016E: 4.7%; 11th Malaysia Plan’s average 2016E-2020E: 5.0%-6.0%).

- **These will offset the narrower trade surplus** of 4.3%-5.2% of GDP in 2027 (2014: 7.5% of GDP; Maybank KE’s average 2015-2016E: 7% of GDP) as imports of goods & services rises by 0.65-1.17 percentage point (2014: 5.1%; Maybank KE’s average 2015E-2016E: 2.9%) relative to the 0.54-0.90 percentage point rise in exports of goods & services (2014: 4.2%; Maybank KE’s average 2015E-2016E: 1.9%).

- **More than 90% of the economic gains are derived from reduction in Non-Tariff Measures (NTMs).**

Welfare gains from improved efficiencies, especially in factor productivity and allocative efficiency, which are valued at USD13.5b-USD28.8b in 2018-2027 (Figure 1).

For selected sectors, TPP is “positive” for textiles, E&E, automotive, plastics products and wood products; “neutral” for construction, palm oil, retail and pharmaceuticals; and “negative” for O&G.

- In terms of the benefit of increased market access on combined output and export growth (Figure 2), the key beneficiaries are textiles, automotive, E&E, pharmaceuticals and plastic products, while the major loser is palm oil.

- There are no benefits in terms of export growth for oil & gas and construction sectors.

- In terms of increases in investment growth, major beneficiaries are textiles (2027: 3.42-4.29 percentage points), construction (2027: 1.31-2.45 percentage points), retail (2027: 1.09-1.99 percentage points), E&E (2027: 0.88-1.54 percentage points) and automotive (2027: 0.82-1.49 percentage points) sectors.

Broadly in line with our Equity Research Team earlier issued notes on TPP impact on palm oil and construction.

- On plantation, TPP is “neutral-to-marginal positive” from the trade perspective with downstream players to benefit the most via reductions of US, Canada’s, Mexico’s and Peru’s import duties on oleo chemicals and finished palm oil products over 10-15 years.

- On construction, TPP is “positive”, despite Chapter 15 on Government Procurement requiring federal ministries to open up construction job tenders, thanks to the “concessions”, namely 1) gradual liberalization via two key transition mandates i.e. construction value thresholds that will be reduced over a 20-year period and local content requirement that will be reduced over a 12-year period; 2) exclusions for construction projects under PPP, affordable housing, rural development, poverty eradication and involving “subordinates” of
federal ministries with separate legal status e.g. corporatized
government entities such as MRT Corp, Prasarana and PAAB, and 3) 
continued 30% allocation of the total value of the construction services
to Bumiputera contractors.

Cost-benefit impact on labour market includes higher wages for workers 
and conforming to higher labour standards.

- Wage growth for unskilled and skilled workers will be up by 0.45- 
0.91 percentage point and 0.38-0.78 percentage point respectively in 
2027.

- TPP also imposes higher labour standards to conform to the 
International Labour Organisation’s (ILO) Declaration of Fundamental 
Principles and Rights at Work 1998 on the rights for freedom of 
associations and elimination of forced labour, child labour and 
employment discrimination. Consequently, nine laws and acts have to 
be amended i.e. Employment Act 1955; Trade Union Act 1959; Child & 
Young Persons (Employment) Act 1966; Passport Act 1966; Industrial 
Relations Act 1967; Sabah Labour Ordinance (Cap. 67); Sarawak Labour 
Ordinance (cap. 76); Private Employment Agencies Act 1981; Workers’ 

- Most sectors, except E&E and O&G, expressed concerns over the 
broader costs of complying with the higher labour standards, 
especially on the prospect of workers (including foreign workers) 
forming multiple unions across firms, occupations and 
industries/sectors, and increases in strikes, union-employers disputes 
and other forms of industrial actions, raising the costs and losses out of 
production and business disruptions e.g. a 1-week production 
disruption arising from a workers’ strike in the palm oil sector could 
reduce annual revenue by 2%; a 10-day disruption in the automotive 
production could result in USD300m revenue loss. In contrast, most 
key E&E companies in Malaysia indicate that they already conform to 
international labour rights standards, including the ILO conventions.

- However, Malaysia can implement measures and additional domestic 
regulations to limit the risk of costly disruptions from more 
unionized workers (Figure 4).

TPP is not against national interests according to ISIS, especially since 
Malaysia secured exclusions, exemptions, carve outs and concessions as 
“safeguards” in controversial non-tariff but trade-related issues like 
Bumiputera agenda and SME development, Government-Linked 
Companies (GLCs)/State-Owned Enterprises (SOEs), Investor-State 
Dispute Settlement (ISDS), intellectual property (IP) and labour 
standards (see Figure 4 for details). This was made possible by Malaysia 
being an early participant in TPP negotiations i.e. since Oct 2010 prior to 
the agreement reached on 5 Oct 2015.

TPP participation is also not detrimental to Malaysia’s security. 
Fundamentally and essentially, Malaysia’s security is built on and around 
the basis of close and friendly relations with countries, which include 
multiple and diversified diplomatic relations and institutional 
arrangements with main economic partners. TPP is a manifestation of 
this. Further, TPP provisions and safeguards won by Malaysia are net 
positives in terms of food security (e.g. Bernas remains sole entity to 
import rice until 10 Jan 2021 thus protecting local paddy farmers; no need 
to open Malaysian waters to foreign fishing vessels); energy security (e.g.
Petronas retains exclusivity as owner of Malaysia’s petroleum resources and autonomy in O&G activities, especially with regards to the development of domestic O&G industry and foreign participations, and the Government retains control over matters like public health, technology (e.g. retain the rights to license and regulate foreign telco players), internal safety and national security.

The costs of not participating in TPP were also looked into, which include:

- **Losses in GDP, investment and welfare** of between USD9b-USD16b, USD7b-USD13b and USD1.0b-USD1.7b respectively during 2018-2027, in turn trimming 2027 real GDP growth by 0.02-0.03 percentage point. **Wage growth of unskilled and skilled workers will fall** by -0.02 percentage point and -0.03 percentage point respectively in 2027. **However, the trade balance impact is less** as the surplus in 2027 will be 6.5%-6.6% of GDP vs 4.3%-5.2% of GDP (2014: 7.2% of GDP; 2027 baseline of no TPP: 6.5%) of GDP.

- **Extensive “safeguards” secured will be forfeited**, and should Malaysia decide to join TPP later, the exemptions, exclusions, carve outs and concessions secured under current deal - especially for Bumiputera, SMEs and SOEs - may not be allowed in future negotiations for entry into TPP.

- **Forgoing a major opportunity to diversify economic relationships and gain market access** as TPP includes US, Canada, Mexico and Peru with whom Malaysia currently does not have bilateral or multilateral free trade agreements (FTAs). There will also be losses in greater market access, improved competitiveness and efficiency gains by not being able to benefit from the reductions and removals in NTMs. In addition, these losses would be at the expense of gains for the regional peers in TPP, namely Singapore and Vietnam, and especially in sectors like textiles and E&E. Further, other regional economies that are currently not in TPP like South Korea, Indonesia, Thailand and the Philippines have expressed interests in joining and concerns of not being part of TPP.

**Our thoughts and views...**

Cost-benefit analyses are supportive of joining TPP, but the ball is in the “political court” now. The Government will present TPP at the Parliament in Jan 2016 and the target is for the TPP-12 countries to sign the ratification of the TPP agreement on 4 Feb 2016 in New Zealand, followed by up to between 18 months to 2 years to fully implement. On balance, the cost-benefit analyses are supportive of Malaysia joining TPP. The economic losses of not joining appear “small” in terms of the above-mentioned declines in the values of real GDP, investment and welfare as well as in the growth of real GDP and wages, on top of the smaller narrowing of trade surplus. However, the “opportunity costs” is huge when the forgone increases in real GDP value and growth, investment, welfare and wages are taken into account as well.
Domestically, TPP is a catalyst for broader economic reforms and restructurings. This is in view of aforementioned analysis that over 90% of the economic gains are from the reductions in NTMs. Malaysia exceeded expectations and defied skeptics on its commitment to fiscal reforms despite the challenging economic and socio-political environments, made worse by the plunge in crude oil price which affect the Government budget as the Government sticks to annual budget deficit reduction target, implement the Goods & Services Tax (GST) and remove subsidies.

The next and bigger challenge is broader economic reforms and restructurings as the “safeguards” in terms of exemptions, exclusions, carved outs and concessions - especially on opening up market access for Government and GLCs/SOEs procurement that impact Bumiputera agenda and SME developments - are not permanent but will be subjected to gradual and phased reductions in the thresholds for access for TPP countries after some transition periods.

Consequently, both studies by PwC and ISIS called for the transition period being used to undertake capacity and capability building measures to enhance the competitiveness of Bumiputera companies and SMEs. Among the recommendations are:

- Renew emphasis on producing competitive export-based Bumiputera businesses and SMEs via measures like trade adjustment assistance; increase presence of SMEs in global supply chain through government-linked companies, large companies and multinational corporations; facilitate scaling-up of SMEs; and enhance end-to-end export promotion and outward investment services.

- Encourage more Bumiputera businesses and SMEs to undertake process innovation by adopting new ideas, processes and practices.

- Review government procurement frameworks to accelerate the development of Bumiputera vendors and facilitate their transition towards the more liberalised government procurement process in the medium term e.g. improve development of vendors in Bumiputera Vendor Development Programme (BVDG).

Globally, TPP is a potential catalyst for reviving world trade growth, hence contribution of net external demand to GDP growth, in view of the current lackluster global economic growth amid the disappointing world trade performance (Figures 5-8). To note, the last big event on world trade was China’s entry into the World Trade Organisation (WTO) in 11 Dec 2001 that integrated China with the world economy and boost global trade and investment flows. TPP can be a catalyst to revive world trade and boost global economic growth.
## APPENDIX TABLES & CHARTS

### Figure 1: Projected TPP Impact on the Malaysian Economy

<table>
<thead>
<tr>
<th>Sectors</th>
<th>Baseline Real GDP</th>
<th>Baseline Investment</th>
<th>Baseline Welfare</th>
<th>Cost of Not Joining Real GDP</th>
<th>Opportunity Cost of Not Joining Real GDP</th>
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<tbody>
<tr>
<td>Real GDP</td>
<td>309</td>
<td>107-211</td>
<td>(9)-(16)</td>
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<td>Investment</td>
<td>81</td>
<td>136-239</td>
<td>(7)-(13)</td>
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</tr>
<tr>
<td>Welfare</td>
<td>13.5</td>
<td>28.8</td>
<td>(1.0)-(1.7)</td>
<td>(14.5)-(30.5)</td>
<td></td>
</tr>
</tbody>
</table>

### Figure 2: Projected TPP Impact on Selected Sectors

<table>
<thead>
<tr>
<th>Sectors</th>
<th>Gains 2014 Value</th>
<th>Gains Chg in Growth, 2027 (ppt)</th>
<th>Cost of Not Joining Chg in Growth, 2027 (ppt)</th>
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<tbody>
<tr>
<td>Textiles</td>
<td>3.14-3.78</td>
<td>0.60-1.15</td>
<td>(0.02)-(0.03)</td>
<td>(0.62)-(1.18)</td>
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<td>E&amp;E</td>
<td>0.60-1.04</td>
<td>(0.04)</td>
<td>(0.64)-(1.08)</td>
<td>(0.93)</td>
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<tr>
<td>Automotive</td>
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<td>(0.54)-(0.93)</td>
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<td>Wood &amp; Wood Products</td>
<td>0.30-0.44</td>
<td>0.00</td>
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<td></td>
</tr>
<tr>
<td>Construction</td>
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<td>Palm Oil</td>
<td>0.00-0.01</td>
<td>(0.05)</td>
<td>(0.05)-(0.06)</td>
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<tr>
<td>Pharmaceuticals</td>
<td>0.42-0.66</td>
<td>NA</td>
<td>(0.42)-(0.66)</td>
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Note: Analysis assumes tariff cuts and 25%-50% reduction in Non-Tariff Measures (NTMs) under TPP

Source: PwC

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Note: Analysis assumes tariff cuts and 25%-50% reduction in Non-Tariff Measures (NTMs) under TPP

Source: PwC
Figure 3: Summary of Benefits and Costs of TPP on Selected Sectors

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<tr>
<th>Sectors</th>
<th>Benefits</th>
<th>Costs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Textiles</td>
<td>• Yarn-forward rule of origin which requires TPP countries to use yarn produced from a TPP country to qualify for duty free access will boost export competitiveness of downstream products and spur investment in higher value added upstream activities as 59% of Malaysia's garment exports are to TPP countries, with 34% to US, coupled with the removal of non-tariff barriers in Mexico and Peru.</td>
<td>• Downstream companies that rely on inputs from non-TPP countries may relocate.</td>
</tr>
<tr>
<td>E&amp;E</td>
<td>• 'Lower or reduction in tariffs to benefit exports' • Access to and business opportunities from the US government procurement market • Improve attractiveness to higher-tech E&amp;E activities as a more liberalized cross-border data flows and strengthening of Malaysia's legal protection and effectiveness of trade secret protection can help promote Malaysia as data centre hub and expansion and investment in higher-technology manufacturing and research.</td>
<td></td>
</tr>
<tr>
<td>Automotive</td>
<td>• TPP countries account for 24% of Malaysia's auto component exports, with Singapore, US and Japan contributing to 81% of such exports. • TPP will expand market access to US, Canada and Mexico.</td>
<td>• Competition from the liberalization of imports of new motor vehicles especially from US and Canada is expected to be minimal.</td>
</tr>
<tr>
<td>Plastics Products</td>
<td>• Reduction in import and export tariffs on plastic products in the TPP countries will benefit Malaysia via lower the cost of imported primary plastic products (ethylene, propylene, polyacetals) and boost export competitiveness and market access non-primary and downstream plastic products.</td>
<td></td>
</tr>
<tr>
<td>Wood &amp; Wood Products</td>
<td>• 46% of Malaysia's exports to wood-related products are to TPP countries, with 33% to Japan and US where there are still tariffs of 9% and up to 36% respectively. Reduction in tariffs will lower trade barriers and boost export potentials.</td>
<td></td>
</tr>
<tr>
<td>Construction</td>
<td>• Lower import tariffs on machinery &amp; equipment (M&amp;E) from TPP countries which account for 34% of Malaysia's imports of M&amp;E. • “Safeguards” secured in the form of higher threshold values upon TPP’s entry into force (at SDR63m or MYR315m, where only 0.7% of government contracts were above MYR300m as of 2014); longer transition period (lower threshold of SDR14m or MYR100m after 20 years, where only 2.8% of government contracts were above MYR100m as of 2014); and flexibility accorded to the preference for Bumiputera contractors to up to 30% of contract value.</td>
<td>• Partial liberalization of government procurement of construction services above a given threshold value will increase competition on Malaysia’s specialized contractors.</td>
</tr>
<tr>
<td>Retail</td>
<td>• Prevailing policies that encourage Bumiputera &amp; SME participation in retail sector (e.g. 30% Bumiputera equity; hire Bumiputera directors; formulate Bumiputera participation plans;) are maintained.</td>
<td>• Accelerated regulatory transparency of existing guidelines on convenience stores may attract foreign participants.</td>
</tr>
<tr>
<td>Palm Oil</td>
<td>• Small benefits to exports as key markets are non-TPP countries, namely China, India &amp; EU (48% of total exports). Export growth potentials to TPP countries where Malaysia does not have FTAs i.e. US, Canada, Mexico and Peru will have to face competition from other edible oils (soybean, corn &amp; canola oils) as well as logistic costs. • Integrated plantation companies in non-TPP countries may use Malaysia as logistical hub to export downstream products.</td>
<td>• Domestic downstream refineries expressed concerns that higher external demand will reduce domestic supplies in turn raising their costs and profit margins. Felda Global Ventures (FGV) will be subjected to SOE’s obligations on non-discriminatory treatment, provisions of non-commercial assistance &amp; transparency, but “safeguards” will mitigate impact, especially on FGV’s preferential treatment in its purchases of goods produced by its members/settlers in FELDA schemes as well as on its policies and programmes relating to non-commercial assistance.</td>
</tr>
</tbody>
</table>

Note: Analysis assumes tariff cuts and 25%-50% reduction in Non-Tariff Measures (NTMs) under TPP.

Sources: PwC, ISIS
**Figure 4: National Interest Issues and Mitigations**

<table>
<thead>
<tr>
<th>Issues</th>
<th>Issues / Costs</th>
<th>Mitigations / Benefits</th>
</tr>
</thead>
</table>
| Government policies and GLCs/SEOs roles on Bumiputera Agenda and SME developments | - Impact on Government Procurement & socio-economic roles of GLCs/SEOs  
- TPP requirements on GLCs/SEOs i.e. non-discriminatory treatment in commercial activities; prohibition of non-commercial assistances; and transparency of information.  
- Increase in competition via liberalization as most Bumiputera businesses and SMEs are domestically-focused, with less than 10% of their revenues generated from exports. | - Government Procurement market to be opened up in phases and subject to thresholds. For goods, the threshold is SDR1.5m and to be reduced to SDR130,000 (USD) over 8 years. For services, the threshold is SDR2m (USD) to be reduced to SDR130,000 (USD) over 10 years.  
- GLCs/SEOs will have the flexibility to give preferences to Bumiputera and SME suppliers up to 40% of their annual budgeted purchases, although the threshold for qualifying GLCs/SEOs will be lowered from SDR500m in the first five years of TPP to SDR200m afterwards.  
- Construction: Gradual liberalization via two key transition mandates i.e. construction value thresholds that will be reduced from SDR63m to SDR14m over a 20-year period and local content requirement that will be reduced from 60% to 0% over a 12-year period; Government maintains the flexibility to set aside up to 30% for Bumiputera contractors in construction services that is open to TPPA members; exclusions for construction projects under PPP (e.g. build-operate-transfer; concessions), affordable housing, rural development (for areas with population of less than 10,000), poverty eradication (for households earning below Malaysia’s Poverty Line Income) and involving “subordinates” of federal ministries with separate legal status e.g. corporatized government entities such as MRT Corp, Prasarana and PAAB.  
- Oil & Gas: Petronas is allowed to accord preferences to Malaysian firms in its purchase of goods and services (except 12 goods & services) subject to the following thresholds: 1) for downstream activities, not more than 40% of total value of annual budget for purchases of goods & services upon TPP entry into force; and 2) for upstream activities, not more than 70% of total value of annual budget for purchases of goods & services upon TPP signing of TPP to be gradually lowered to 40% by the sixth year of TPP signing. |
### Figure 4: National Interest Issues and Mitigations (Continued)

<table>
<thead>
<tr>
<th>Issues / Costs</th>
<th>Mitigations / Benefits</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government policies and GLCs/SEs roles on Bumiputera Agenda and SME developments (Continued)</td>
<td>• Preservation of relevant policy space e.g. national &amp; state unit trusts to support Bumiputera participation in equity holding; equity ownership by Bumiputera in real estate, O&amp;G and privatised government-owned assets; direct assistance through licensing and permits to Bumiputera for the purpose of increasing the community’s participation in the local economy (e.g. approved permits for automobiles &amp; distributive trade).</td>
</tr>
<tr>
<td>• Around 42% of SMEs are already in fully liberalised sectors, such as manufacturing, food services and personal services. These SMEs are likely to be positively impacted by the market access for goods, investment and cross-border trade in services.</td>
<td></td>
</tr>
<tr>
<td>Intellectual Properties (IP)</td>
<td>• DE is not new to Malaysia as it was introduced in Feb 2011, applicable to new pharmaceutical products for a period of 3-5 years. Under Malaysia’s commitment to TPP on IP, DE is extended to include biologic medicines for up to 5-8 years.</td>
</tr>
<tr>
<td>• Patent term extension and adjustment provisions that prolong expiry of a patent in the event of unnecessary delays in the patent approval and product marketing approval process (i.e. total effective patent term = 20 years + extension period + adjustment period)</td>
<td>• DE runs concurrently with - not adding to - patent protection, which is 20 years for Malaysia.</td>
</tr>
<tr>
<td>• Increased costs to users / consumers from additional royalty payments to foreign content creators due to copyright extension from 50 years to 70 years for books, music and films.</td>
<td>• Any pharmaceutical companies that file for DE and marketing approval must complete their applications with Biro Pengawalan Farmaseutikal Kebangsaan (BPFK) within 18 months from the date the product is first registered or granted marketing authorisation in its original country, otherwise protection of data is forfeited. This safeguard effectively limits the time lag of marketing approval between Malaysia and other countries to a maximum of 18 months. Moreover, protection of exclusivity starts from the date of DE filling in the country of origin, rather than from the date of obtaining approval in Malaysia (except for biologics). These two conditions prevent extended market exclusivity of patented medicine in Malaysia by ensuring that DE expires in a timely manner, allowing generics to be introduced in Malaysia as soon as they available elsewhere.</td>
</tr>
<tr>
<td>• Access to affordable &amp; essential medicines via generic drug &amp; biosimilars, especially with Data Exclusivity (DE) provision in TPP that protect investors’/innovators’ clinical trials data, on top of existing patent protection i.e. health authorities are not allowed to approve generics based on investors’/innovators’ clinical trials data.</td>
<td>• Patent term extension only applies to patents filed after TPP with a transition period of 4½ years. To avoid unnecessary delays in the patent approval and product marketing approval process, MyIPO has taken steps to improve the patent registration process and BPFK has reported that they are already efficient at processing medicine applications e.g. in 2014, all applications for the marketing approval of new drugs and biologics were processed within 245 days.</td>
</tr>
<tr>
<td>• Strengthening IP laws makes Malaysia more competitive in attracting high quality foreign direct investment (FDI), creating jobs in high-value and technologically advanced sectors such as the biotechnology and pharmaceutical industry driven by R&amp;D, innovation and knowledge.</td>
<td>• The ability for the Government to carry out compulsory licensing to protect public health and during health emergencies (e.g. epidemic outbreak) to allow for purchases and importation of critical patented drugs/medicines at lower prices are not compromised.</td>
</tr>
</tbody>
</table>

Sources: PwC, ISIS
Labour

1) Adopt and maintain in laws and practices the fundamental labour rights as stated the International Labour Organisation’s (ILO) Declaration of Fundamental Principles and Rights at Work 1998, namely the rights for freedom of associations and the elimination of forced labour, child labour and employment discrimination.

2) This necessitates revisions in nine domestic labour-related laws and acts, and these amendments will be fully enforceable and supported by trade sanctions.

3) Examples of changes in Malaysia’s labour-related laws and acts commitments in areas relating to freedom of association include:

1) Trade Union Act 1959 to allow the formation of trade unions across establishment, trade, occupation or industry; to remove broad restrictions relating to the registration and cancellation of union registrations; to remove restrictions relating to the election of representatives and leadership of unions to provide more freedom on provisions relating to strikes; and to provide more freedom for affiliation with international bodies.

2) Industrial Relations Act 1967 to remove broad restrictions on the scope of collective bargaining and strikes; and to streamline the list of Essential Services alongside international standards. Currently, Malaysia’s has a list of 15 Essential Services that range from banking, postal and airport services, to those provided by the Government (such as customs and immigration) and those related to Malaysia’s defence and security. ILO’s Essential Services list is restricted to 9 i.e. hospital sector; electricity services; water supply services; telephone services; police and armed forces; fire-fighting services; public or private prison services; provision of food to pupils of school age and the cleaning of schools; and air traffic control.

3) Passport Act 1966 (implementing regulations) to reinforce that the retaining of workers’ passports by employers is illegal.

4) Workers’ Minimum Standard of Housing and Amenities Act 1990 to ensure that the Act covers all sectors and not only plantations.

5) Private Employment Agencies Act 1981 to ensure that all entities that recruit a foreign worker (both direct employers and recruitment agencies) are covered by the Act, including provisions on the limitations of recruitment fees charged to foreign workers.

6) Children and Young Persons (Employment) Act 1966 to ascertain occupations that are considered hazardous for children and young persons under 18 years of age; and to ensure that a minimum age of 13 years is established for admission to light work.

Adoption of the ILO rights under the TPPA would not preclude Malaysia from implementing additional domestic regulations to limit the risk of costly disruptions from more unionized workers, which is practiced in advanced economies such as the EU and regional economies such as Singapore. Mitigating measures secured or being considered include:

1) Maintaining some control over the formation of unions e.g. the Government retains the power to deny the registration of unions if a name could potentially inflame sensitivities such as race, religion or politics

2) Providing for a quorum requirement of in-house strikes to two-thirds of members with a simple majority consent of members (i.e. 50%+1)

3) Limiting the activities that dismissed, suspended or retired workers can participate in e.g. they are not allowed to go on strike

4) All strikes must also be borne out of a trade or labour dispute, which prevents sympathy strikes and wildcat strikes. The former is a strike to support another cause or body of workers, the latter is an authorised strike that is not supported by a union’s leadership.

In exchange for streamlining the Essential Services List, the Government is allowed to formulate a Minimum Services Requirement list to enable the services removed from the Essential Services list to operate at a minimum level in the event of a strike e.g. no total shutdown of banks if employees in banking services are on strike.

Malaysia’s adoption of the ILO rights to be a positive development, as it could improve public perception of Malaysia’s labour standards, working conditions and related issues like human trafficking.

Sources: PwC, ISIS
## Figure 4: National Interest Issues and Mitigations (Continued)

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<thead>
<tr>
<th>Issues</th>
<th>Issues / Costs</th>
<th>Mitigations / Benefits</th>
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<tr>
<td>Investor-State Dispute Settlements (ISDS)</td>
<td>“Sovereignty” issue as ISDS provides investors from TPP countries the right to pursue international arbitration in the event of a dispute between the investor and the Government of another TPP country over a violation of the obligations under the investment chapter of the TPP.</td>
<td>ISDS is not new to Malaysia as provisions are already present in Malaysia’s existing 74 Bilateral Investment Treaties and 8 Free Trade Agreements (i.e. FTAs with Japan, India, Pakistan &amp; New Zealand, and ASEAN-China, ASEAN-South Korea, ASEAN-Australia-NZ, ASEAN-India).</td>
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</tbody>
</table>

- Importantly, there are safeguards under the TPP to mitigate the risk of frivolous suits by investors:
  1. Resolution through consultation and negotiation prior to elevating to a formal dispute
  2. Expedited review and dismissal of frivolous claims
  3. Investors to pay attorney fees and costs for frivolous claims
  4. Consolidation of claims for same events to avoid multiple claims
  5. Time limit of 3 years and 6 months, after which claims cannot be made.

- In addition, decisions by the Government to renew or maintain subsidy and on matters pertaining to lands are excluded from claims under ISDS, and there are carve-outs for government to introduce rules, regulation and policies to protect legitimate public welfare objectives such as public health, safety and the environment. Bank Negara Malaysia (BNM) retains complete autonomy in managing the Ringgit, foreign exchange reserves and capital controls (in the event of balance of payments crisis).

- ISDS also protect Malaysian companies investing abroad, and among the main beneficiaries are Petronas (who has foreign operational presence in 5 of the 12 TPP countries) and Malaysian O&G companies (investments in Mexico, Vietnam and Australia recently).

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Sources: PwC, ISIS
Malaysia: TPP – Cost-Benefit Impact Analysis

Figure 5: World Trade Volume & Value (% YoY)

Source: CEIC

Figure 6: World Trade Volume by Key Economies and Regions

Source: CEIC

Figure 7: World Trade as % of Global GDP

Sources: CEIC, IMF, Maybank KE

Figure 8: World Trade’s Contribution to Global GDP Growth

Sources: CEIC, IMF, Maybank KE
Malaysia: TPP – Cost-Benefit Impact Analysis

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December 7, 2015

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