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# 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"


**Analysts**

Suhaimi B Ilias
(603) 2297 8682
suhaimi_ilias@maybank-ib.com

Dr Zamros Dzulkafli
(603) 2082 6818
zamros.d@maybank-ib.com

Ramesh Lankanathan
(603) 2297 8685
ramesh@maybank-ib.com

William Poh Chee Keong
(603) 2297 8683
william.poh@maybank-ib.com


**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.

## 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-marginally 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' Minimum Standards of Housing & Amenities Act 1990.
- **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 byPwC 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 (BVDP).

**Globaly, 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**

| | Baseline | Gains | Cost of Not Joining | Opportunity Cost of Not Joining |
|---|---|---|---|---|
| USDb | 2014 Value | Cumulative Chg, 2018-2027 | Cumulative Chg, 2018-2027 | Cumulative Chg, 2018-2027 |
| Real GDP | 309 | 107-211 | (9)-(16) | (116)-(227) |
| Investment | 81 | 136-239 | (7)-(13) | (143)-(252) |
| Welfare | - | 13.5-28.8 | (1.0)-(1.7) | (14.5)-(30.5) |
| %/ppt | 2014 Growth | Chg in Growth, 2027 (ppt) | Chg in Growth, 2027 (ppt) | Chg in Growth, 2027 (ppt) |
| Real GDP | 6.0 | 0.60-1.15 | (0.02)-(0.03) | (0.62)-(1.18) |
| Real Exports of Goods & Services | 5.1 | 0.54-0.90 | (0.03)-(0.06) | (0.57)-(0.96) |
| Real Imports of Goods & Services | 4.2 | 0.65-1.17 | (0.03)-(0.06) | (0.68)-(1.23) |
| USDb | Value * | Value in 2027 | Value in 2027 | Value in 2027 |
| Trade Balance | 41.5 | 29.7-35.1 | 42.1-42.3 | - |
| *% of GDP* | *6.5* | *4.3-5.2* | *6.5-6.6* | - |

*Note: Analysis assumes tariff cuts and 25%-50% reduction in Non-Tariff Measures (NTMs) under TPP*
** Baseline trade balance value & % of GDP in 2027 if TPP does not exist*
*Source: PwC*

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

| Output Impact | Gains | Cost of Not Joining | Opportunity Cost of Not Joining |
|---|---|---|---|
| Sectors | ppt chg in 2027 | ppt chg in 2027 | ppt chg in 2027 |
| Textiles | 3.14-3.78 | (0.02) | (3.16)-(3.80) |
| E&E | 0.60-1.04 | (0.04) | (0.64)-(1.08) |
| Automotive | 0.47-0.86 | (0.07) | (0.54)-(0.93) |
| Plastics Products | 0.42-0.66 | (0.05) | (0.47)-(0.71) |
| Wood & Wood Products | 0.30-0.44 | 0.00 | (0.30)-(0.44) |
| Construction | 0.62-1.22 | (0.03) | (0.65)-(1.25) |
| Retail | 0.57-1.08 | (0.04) | (0.61)-(1.12) |
| Palm Oil | 0.00-0.01 | (0.05) | (0.05)-(0.06) |
| Pharmaceuticals | 0.42-0.66 | NA | (0.42)-(0.66) |
| Oil & Gas | 0.02-0.03 | (0.01) | (0.03)-(0.04) |
| **Exports Impact** | **Gains** | **Cost of Not Joining** | **Opportunity Cost of Not Joining** |
| Sectors | ppt chg in 2027 | ppt chg in 2027 | ppt chg in 2027 |
| Textiles | 4.09-4.87 | (0.02) | (4.11)-(4.89) |
| E&E | 0.73-1.28 | (0.04) | (0.77)-(1.32) |
| Automotive | 1.02-1.74 | (0.17) | (1.19)-(1.91) |
| Plastics Products | 0.69-1.17 | (0.06) | (0.75)-(1.23) |
| Wood & Wood Products | 0.30 | 0.02 | (0.28) |
| Construction | (0.11)-0.02 | 0.03 | 0.01-0.14 |
| Retail | 0.09-0.14 | 0.03 | (0.06)-(0.11) |
| Palm Oil | (0.11)-(0.17) | (0.06) | 0.05-0.11 |
| Pharmaceuticals | 0.66-1.17 | NA | (0.66)-(1.17) |
| Oil & Gas | (0.10)-(0.13) | (0.02) | 0.08-0.11 |

*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**

| Sectors | Benefits | Costs |
|---|---|---|
| Textiles | • 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. | • Downstream companies that rely on inputs from non-TPP countries may relocate. |
| E&E | • Lower or reduction in tariffs to benefit exports<br>• Access to and business opportunities from the US government procurement market<br>• Improve attractiveness to higher-tech E&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. | |
| Automotive | • TPP countries account for 24% of Malaysia's auto component exports, with Singapore, US and Japan contributing to 81% of such exports.<br>• TPP will expand market access to US, Canada and Mexico. | • Competition from the liberalization of imports of new motor vehicles especially from US and Canada is expected to be minimal. |
| Plastics Products | • 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. | |
| Wood & Wood Products | • 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. | |
| Construction | • Lower import tariffs on machinery & equipment (M&E) from TPP countries which account for 34% of Malaysia's imports of M&E.<br>• "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. | • Partial liberalization of government procurement of construction services above a given threshold value will increase competition on Malaysia's specialized contractors. |
| Retail | • Prevailing policies that encourage Bumiputera & SME participation in retail sector (e.g. 30% Bumiputera equity; hire Bumiputera directors; formulate Bumiputera participation plans;) are maintained. | • Accelerated regulatory transparency of existing guidelines on convenience stores may attract foreign participants. |
| Palm Oil | • Small benefits to exports as key markets are non-TPP countries, namely China, India & 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 & canola oils) as well as logistic costs.<br>• Integrated plantation companies in non-TPP countries may use Malaysia as logistical hub to export downstream products. | • Domestic downstream refineries expressed concerns that higher external demand will reduce domestic supplies in turn raising their costs and profit margins.<br>• Felda Global Ventures (FGV) will be subjected to SOE's obligations on non-discriminatory treatment, provisions of non-commercial assistance & transparency, but "safegurards" 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 assistances. |

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

**Figure 3: Summary of Benefits and Costs of TPP on Selected Sectors (Continued)**

| Sectors | Benefits | Costs |
|---|---|---|
| Oil & Gas | • Small benefits from lower tariff barriers as most tariffs on petroleum-related products are already at or close to zero, and 74% of Petronas exports are to non-TPP countries.<br>• "Safeguards" largely preserve Petronas' rights vested by the Petroleum Development Act 1974 to determine the selection on contact parties and the forms and conditions of contractual agreements for foreign participation (except in 12 goods & services), thus allowing Petronas to largely continue supporting the growth and development of domestic O&G industry including advancing the national agenda of building local capacity and capability. Consequently, 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. | • 12 O&G goods and services will be fully liberalised – seismic data acquisition; drilling services; cementing-related services; gas turbines & related maintenance & repair services; control valve services; oil country tubular goods; induction motor services; distributed control services; transformer service; structural steel; line pipes; process pipes. However, these goods & services are already dominated by foreign players and make up 10% of Petronas' & Petroleum Agreement Contractors' spending in 2014.<br>• The thresholds for Petronas purchases of goods & services from Malaysian companies – especially the gradual lowering of the threshold on purchases in upstream activities – will increase competition on domestic players and may result in industry's consolidation. |

*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**

| Issues | Issues / Costs | Mitigations / Benefits |
|---|---|---|
| Government policies and GLCs/SOEs roles on Bumiputera Agenda and SME developments | • Impact on Government Procurement & socio-economic roles of GLCs/SOEs<br>• TPP requirements on GLCs/SOEs i.e. non-discriminatory treatment in commercial activities; prohibition of non-commercial assistances; and transparency of information.<br>• 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.<br>• GLCs/SOEs 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/SOEs will be lowered from SDR500m in the first five years of TPP to SDR200m afterwards.<br>• 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.<br>• 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. |

*Sources: PwC, ISIS*

**Figure 4: National Interest Issues and Mitigations (Continued)**

| Issues | Issues / Costs | Mitigations / Benefits |
|---|---|---|
| Government policies and GLCs/SOEs roles on Bumiputera Agenda and SME developments (Continued) | | • Preservation of relevant policy space e.g. national & state unit trusts to support Bumiputera participation in equity holding; equity ownership by Bumiputera in real estate, O&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 & distributive trade).<br>• 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. |
| Intellectual Properties (IP) | • Access to affordable & essential medicines via generic drug & 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.<br>• 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)<br>• 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. | • 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.<br>• DE runs concurrently with - not adding to - patent protection, which is 20 years for Malaysia.<br>• 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.<br>• 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.<br>• 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.<br>• 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&D, innovation and knowledge. |

*Sources: PwC, ISIS*

**Figure 4: National Interest Issues and Mitigations (Continued)**

| Issues | Issues / Costs | Mitigations / Benefits |
|---|---|---|
| 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.<br>2) This necessitates revisions in nine domestic labour-related laws and acts, and these amendments will be fully enforceable and supported by trade sanctions.<br>3) Examples of changes in Malaysia's labour-related laws and acts commitments in areas relating to freedom of association include:<br>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.<br>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.<br>3) Passport Act 1966 (implementing regulations) to reinforce that the retaining of workers' passports by employers is illegal.<br>4) Workers' Minimum Standard of Housing and Amenities Act 1990 to ensure that the Act covers all sectors and not only plantations.<br>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.<br>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:<br>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<br>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)<br>3) Limiting the activities that dismissed, suspended or retired workers can participate in e.g. they are not allowed to go on strike<br>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.<br>• 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.<br>• 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. |

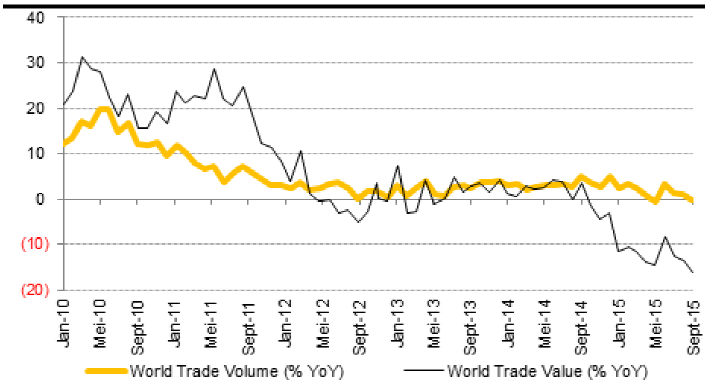
*Sources: PwC, ISIS*

**Figure 4: National Interest Issues and Mitigations (Continued)**

| Issues | Issues / Costs | Mitigations / Benefits |
|---|---|---|
| Investor-State Dispute Settlements (ISDS) | • "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. | • 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 & New Zealand, and ASEAN-China, ASEAN-South Korea, ASEAN-Australia-NZ, ASEAN-India).<br>• Importantly, there are safeguards under the TPP to mitigate the risk of frivolous suits by investors:<br>4) Resolution through consultation and negotiation prior to elevating to a formal dispute<br>5) Expedited review and dismissal of frivolous claims<br>6) Investors to pay attorney fees and costs for frivolous claims<br>7) Consolidation of claims for same events to avoid multiple claims<br>8) Time limit of 3 years and 6 months, after which claims cannot be made.<br>• 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).<br>• 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). |

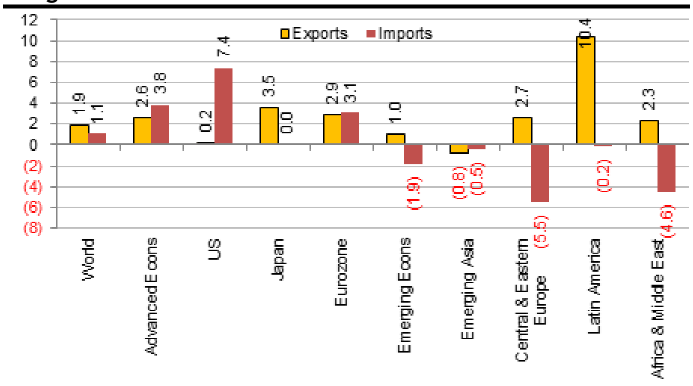
*Sources: PwC, ISIS*

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



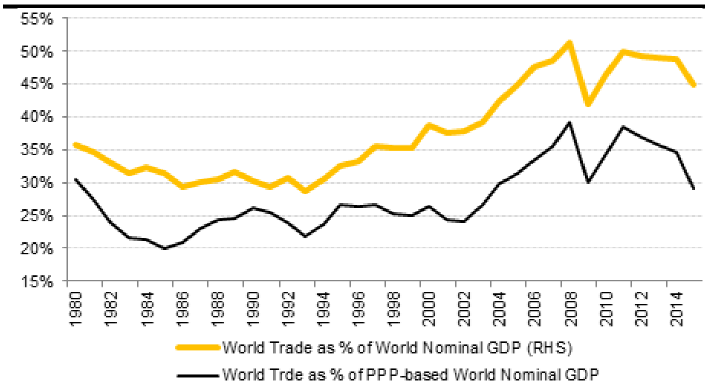

*Source: CEIC*

**Figure 6: World Trade Volume by Key Economies and Regions**



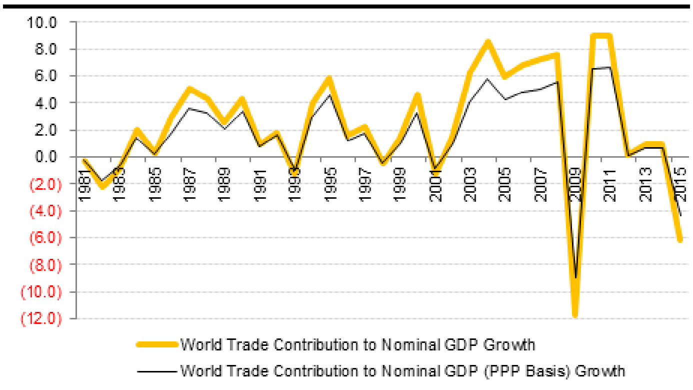

*Source: CEIC*

**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*

# Research Offices


## REGIONAL

**Sadiq CURRIMBHOY**
Regional Head, Research & Economics
(65) 6231 5836 sadiq@maybank-ke.com.sg

**WONG Chew Hann, CA**
Regional Head of Institutional Research
(603) 2297 8686 wchewh@maybank-ib.com

**ONG Seng Yeow**
Regional Head of Retail Research
(65) 6231 5839
ongsengyeow@maybank-ke.com.sg

**TAN Sin Mui**
Director of Research
(65) 6231 5849 sinmui@kimeng.com.hk

## ECONOMICS

**Suhaimi ILIAS**
Chief Economist
Singapore | Malaysia
(603) 2297 8682 suhaimi_ilias@maybank-ib.com

**Luz LORENZO**
Philippines
(63) 2 849 8836
luz_lorenzo@maybank-atrke.com

**Tim LEELAHAPHAN**
Thailand
(66) 2658 6300 ext 1420
tim.l@maybank-ke.co.th

**JUNIMAN**
Chief Economist, BII
Indonesia
(62) 21 29228888 ext 29682
Juniman@bankbii.com

## STRATEGY

**Sadiq CURRIMBHOY**
Global Strategist
(65) 6231 5836 sadiq@maybank-ke.com.sg

**Willie CHAN**
Hong Kong / Regional
(852) 2268 0631 williechan@kimeng.com.hk

## MALAYSIA

**WONG Chew Hann, CA** *Head of Research*
(603) 2297 8686 wchewh@maybank-ib.com
• Strategy

**Desmond CH'NG, ACA**
(603) 2297 8680
desmond.chng@maybank-ib.com
• Banking & Finance

**LIAW Thong Jung**
(603) 2297 8688 tjliaw@maybank-ib.com
• Oil & Gas Services- Regional

**ONG Chee Ting, CA**
(603) 2297 8678 ct.ong@maybank-ib.com
• Plantations - Regional

**Mohshin AZIZ**
(603) 2297 8692 mohshin.aziz@maybank-ib.com
• Aviation - Regional • Petrochem

**YIN Shao Yang, CPA**
(603) 2297 8916 samuel.y@maybank-ib.com
• Gaming – Regional • Media

**TAN Chi Wei, CFA**
(603) 2297 8690 chiwei.t@maybank-ib.com
• Power • Telcos

**WONG Wei Sum, CFA**
(603) 2297 8679 weisum@maybank-ib.com
• Property

**LEE Yen Ling**
(603) 2297 8691 lee.yl@maybank-ib.com
• Building Materials • Glove • Ports • Shipping

**CHAI Li Shin, CFA**
(603) 2297 8684 lishin.c@maybank-ib.com
• Plantation • Construction & Infrastructure

**Ivan YAP**
(603) 2297 8612 ivan.yap@maybank-ib.com
• Automotive • Semiconductor • Technology

**Kevin WONG**
(603) 2082 6824 kevin.wong@maybank-ib.com
• REITs • Consumer Discretionary

**LIEW Wei Han**
(603) 2297 8676 weihan.l@maybank-ib.com
• Consumer Staples

**LEE Cheng Hooi** *Regional Chartist*
(603) 2297 8694
chenghooi.lee@maybank-ib.com

**Tee Sze Chiah** *Head of Retail Research*
(603) 2297 6858 szechiah.t@maybank-ib.com

**Cheah Chong Ling**
(603) 2297 8767 chongling.c@maybank-ib.com

## HONG KONG / CHINA

**Howard WONG** *Head of Research*
(852) 2268 0648
howardwong@kimeng.com.hk
• Oil & Gas - *Regional*

**Benjamin HO**
(852) 2268 0632 benjaminho@kimeng.com.hk
• Consumer & Auto

**Jacqueline KO, CFA**
(852) 2268 0633 jacquelineko@kimeng.com.hk
• Consumer Staples & Durables

**Ka Leong LO, CFA**
(852) 2268 0630 kllo@kimeng.com.hk
• Consumer Discretionary & Auto

**Mitchell KIM**
(852) 2268 0634 mitchellkim@kimeng.com.hk
• Internet & Telcos

**Osbert TANG, CFA**
(86) 21 5096 8370
osberttang@kimeng.com.hk
• Transport & Industrials

**Stefan CHANG, CFA**
(852) 2268 0675
stefanchang@kimeng.com.hk
• Technology

**Steven ST CHAN**
(852) 2268 0645 stevenchan@kimeng.com.hk
• Banking & Financials - *Regional*

**Warren LAU**
(852) 2268 0644
warrenlau@kimeng.com.hk
• Technology – *Regional*

## INDIA

**Jigar SHAH** *Head of Research*
(91) 22 6623 2632 jigar@maybank-ke.co.in
• Oil & Gas • Automobile • Cement

**Anubhav GUPTA**
(91) 22 6623 2605 anubhav@maybank-ke.co.in
• Metal & Mining • Capital Goods • Property

**Vishal MODI**
(91) 22 6623 2607 vishal@maybank-ke.co.in
• Banking & Financials

**Abhijeet KUNDU**
(91) 22 6623 2628 abhijeet@maybank-ke.co.in
• Consumer

**Neerav DALAL**
(91) 22 6623 2606 neerav@maybank-ke.co.in
• Software Technology • Telcos

## SINGAPORE

**Gregory YAP**
(65) 6231 5848 gyap@maybank-ke.com.sg
• SMID Caps
• Technology & Manufacturing • Telcos

**YEAK Chee Keong, CFA**
(65) 6231 5842
yeakcheekeong@maybank-ke.com.sg
• Offshore & Marine

**Derrick HENG, CFA**
(65) 6231 5843 derrickheng@maybank-ke.com.sg
• Transport • Property • REITs (Office)

**Joshua TAN**
(65) 6231 5850 joshuatan@maybank-ke.com.sg
• REITs (Retail, Industrial)

**John CHEONG**
(65) 6231 5845 johncheong@maybank-ke.com.sg
• Small & Mid Caps • Healthcare

**TRUONG Thanh Hang**
(65) 6231 5847 hang.truong@maybank-ke.com.sg
• Small & Mid Caps

## INDONESIA

**Isnaputra ISKANDAR** *Head of Research*
(62) 21 2557 1129
isnaputra.iskandar@maybank-ke.co.id
• Strategy • Metals & Mining • Cement

**Rahmi MARINA**
(62) 21 2557 1128
rahmi.marina@maybank-ke.co.id
• Banking & Finance

**Aurellia SETIABUDI**
(62) 21 2953 0785
aurellia.setiabudi@maybank-ke.co.id
• Property

**Pandu ANUGRAH**
(62) 21 2557 1137
pandu.anugrah@maybank-ke.co.id
• Infra • Construction • Transport• Telcos

**Janni ASMAN**
(62) 21 2953 0784
janni.asman@maybank-ke.co.id
• Cigarette • Healthcare • Retail

**Adhi TASMIN**
(62) 21 2557 1209
adhi.tasmin@maybank-ke.co.id
• Plantations

## PHILIPPINES

**Luz LORENZO** *Head of Research*
(63) 2 849 8836
luz_lorenzo@maybank-atrke.com
• Strategy
• Utilities • Conglomerates • Telcos

**Lovell SARREAL**
(63) 2 849 8841
lovell_sarreal@maybank-atrke.com
• Consumer • Media • Cement

**Rommel RODRIGO**
(63) 2 849 8839
rommel_rodrigo@maybank-atrke.com
• Conglomerates • Property • Gaming
• Ports/ Logistics

**Katherine TAN**
(63) 2 849 8843
kat_tan@maybank-atrke.com
• Banks • Construction

**Michael BENGSON**
(63) 2 849 8840
michael_bengson@maybank-atrke.com
• Conglomerates

**Jaclyn JIMENEZ**
(63) 2 849 8842
jaclyn_jimenez@maybank-atrke.com
• Consumer

**Arabelle MAGHIRANG**
(63) 2 849 8838
arabelle_maghirang@maybank-atrke.com
• Banks

## THAILAND

**Maria LAPIZ** *Head of Institutional Research*
Dir (66) 2257 0250 | (66) 2658 6300 ext 1399
Maria.L@maybank-ke.co.th
• Consumer • Materials • Ind. Estates

**Sittichai DUANGRATTANACHAYA**
(66) 2658 6300 ext 1393
Sittichai.D@maybank-ke.co.th
• Services Sector • Transport

**Sukit UDOMSIRIKUL** *Head of Retail Research*
(66) 2658 6300 ext 5090
Sukit.u@maybank-ke.co.th

**Mayuree CHOWVIKRAN**
(66) 2658 6300 ext 1440
mayuree.c@maybank-ke.co.th
• Strategy

**Padon VANNARAT**
(66) 2658 6300 ext 1450
Padon.v@maybank-ke.co.th
• Strategy

**Surachai PRAMUALCHAROENKIT**
(66) 2658 6300 ext 1470
Surachai.p@maybank-ke.co.th
• Auto • Conmat • Contractor • Steel

**Suttatip PEERASUB**
(66) 2658 6300 ext 1430
suttatip.p@maybank-ke.co.th
• Media • Commerce

**Sutthichai KUMWORACHAI**
(66) 2658 6300 ext 1400
sutthichai.k@maybank-ke.co.th
• Energy • Petrochem

**Termporn TANTIVIVAT**
(66) 2658 6300 ext 1520
termporn.t@maybank-ke.co.th
• Property

**Jaroonpan WATTANAWONG**
(66) 2658 6300 ext 1404
jaroonpan.w@maybank-ke.co.th
• Transportation • Small cap

## VIETNAM

**LE Hong Lien, ACCA**
*Head of Institutional Research*
(84) 8 44 555 888 x 8181
lien.le@maybank-kimeng.com.vn
• Strategy • Consumer • Diversified • Utilities

**THAI Quang Trung, CFA,** Deputy Manager, Institutional Research
(84) 8 44 555 888 x 8180
trung.thai@maybank-kimeng.com.vn
• Real Estate • Construction • Materials

**Le Nguyen Nhat Chuyen**
(84) 8 44 555 888 x 8082
chuyen.le@maybank-kimeng.com.vn
• Oil & Gas

**NGUYEN Thi Ngan Tuyen,** *Head of Retail Research*
(84) 8 44 555 888 x 8081
tuyen.nguyen@maybank-kimeng.com.vn
• Food & Beverage • Oil&Gas • Banking

**TRINH Thi Ngoc Diep**
(84) 4 44 555 888 x 8208
diep.trinh@maybank-kimeng.com.vn
• Technology • Utilities • Construction

**PHAM Nhat Bich**
(84) 8 44 555 888 x 8083
bich.pham@maybank-kimeng.com.vn
• Consumer • Manufacturing • Fishery

**NGUYEN Thi Sony Tra Mi**
(84) 8 44 555 888 x 8084
mi.nguyen@maybank-kimeng.com.vn
• Port operation • Pharmaceutical
• Food & Beverage

**TRUONG Quang Binh**
(84) 4 44 555 888 x 8087
binh.truong@maybank-kimeng.com.vn
• Rubber plantation • Tyres and Tubes • Oil&Gas

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| | |
|---|---|
| **BUY** | Return is expected to be above 10% in the next 12 months (excluding dividends) |
| **HOLD** | Return is expected to be between - 10% to +10% in the next 12 months (excluding dividends) |
| **SELL** | Return is expected to be below -10% in the next 12 months (excluding dividends) |

## Applicability of Ratings

The respective analyst maintains a coverage universe of stocks, the list of which may be adjusted according to needs. Investment ratings are only applicable to the stocks which form part of the coverage universe. Reports on companies which are not part of the coverage do not carry investment ratings as we do not actively follow developments in these companies.

## Malaysia

**Maybank Investment Bank Berhad**
(A Participating Organisation of
Bursa Malaysia Securities Berhad)
33rd Floor, Menara Maybank,
100 Jalan Tun Perak,
50050 Kuala Lumpur
Tel: (603) 2059 1888;
Fax: (603) 2078 4194

Stockbroking Business:
Level 8, Tower C, Dataran Maybank,
No.1, Jalan Maarof
59000 Kuala Lumpur
Tel: (603) 2297 8888
Fax: (603) 2282 5136

## Singapore

**Maybank Kim Eng Securities Pte Ltd**
**Maybank Kim Eng Research Pte Ltd**
50 North Canal Road
Singapore 059304

Tel: (65) 6336 9090

## London

**Maybank Kim Eng Securities (London) Ltd**
5th Floor, Aldermary House
10-15 Queen Street
London EC4N 1TX, UK

Tel: (44) 20 7332 0221
Fax: (44) 20 7332 0302

## New York

**Maybank Kim Eng Securities USA Inc**
777 Third Avenue, 21st Floor
New York, NY 10017, U.S.A.

Tel: (212) 688 8886
Fax: (212) 688 3500

## Hong Kong

**Kim Eng Securities (HK) Ltd**
Level 30,
Three Pacific Place,
1 Queen's Road East,
Hong Kong

Tel: (852) 2268 0800
Fax: (852) 2877 0104

## Indonesia

**PT Maybank Kim Eng Securities**
Plaza Bapindo
Citibank Tower 17th Floor
Jl Jend. Sudirman Kav. 54-55
Jakarta 12190, Indonesia

Tel: (62) 21 2557 1188
Fax: (62) 21 2557 1189

## India

**Kim Eng Securities India Pvt Ltd**
2nd Floor, The International 16,
Maharishi Karve Road,
Churchgate Station,
Mumbai City - 400 020, India

Tel: (91) 22 6623 2600
Fax: (91) 22 6623 2604

## Philippines

**Maybank ATR Kim Eng Securities Inc.**
17/F, Tower One & Exchange Plaza
Ayala Triangle, Ayala Avenue
Makati City, Philippines 1200

Tel: (63) 2 849 8888
Fax: (63) 2 848 5738

## Thailand

**Maybank Kim Eng Securities (Thailand) Public Company Limited**
999/9 The Offices at Central World,
20th - 21st Floor,
Rama 1 Road Pathumwan,
Bangkok 10330, Thailand

Tel: (66) 2 658 6817 (sales)
Tel: (66) 2 658 6801 (research)

## Vietnam

**Maybank Kim Eng Securities Limited**
4A-15+16 Floor Vincom Center Dong
Khoi, 72 Le Thanh Ton St. District 1
Ho Chi Minh City, Vietnam

Tel : (84) 844 555 888
Fax : (84) 8 38 271 030

## Saudi Arabia

*In association with*
**Anfaal Capital**
Villa 47, Tujjar Jeddah
Prince Mohammed bin Abdulaziz
Street P.O. Box 126575
Jeddah 21352

Tel: (966) 2 6068686
Fax: (966) 26068787

## South Asia Sales Trading

Kevin Foy
Regional Head Sales Trading
kevinfoy@maybank-ke.com.sg
Tel: (65) 6336-5157
US Toll Free: 1-866-406-7447

### Malaysia

Rommel Jacob
rommeljacob@maybank-ib.com
Tel: (603) 2717 5152

### Indonesia

Harianto Liong
harianto.liong@maybank-ke.co.id
Tel: (62) 21 2557 1177

### New York

Andrew Dacey
adacey@maybank-keusa.com
Tel: (212) 688 2956

### Vietnam

Tien Nguyen
thuytien.nguyen@maybank-kimeng.com.vn
Tel: (84) 44 555 888 x8079

## North Asia Sales Trading

Andrew Lee
andrewlee@kimeng.com.hk
Tel: (852) 2268 0283
US Toll Free: 1 877 837 7635

### Thailand

Tanasak Krishnasreni
Tanasak.K@maybank-ke.co.th
Tel: (66)2 658 6820

### India

Manish Modi
manish@maybank-ke.co.in
Tel: (91)-22-6623-2601

### Philippines

Keith Roy
keith_roy@maybank-atrke.com
Tel: (63) 2 848-5288


www.maybank-ke.com | www.maybank-keresearch.com