



MINISTRY OF
INTERNATIONAL TRADE AND INDUSTRY

Cost-Benefit Analysis on the Potential Impacts of the CPTPP on the Malaysian Economy and Key Economic Sectors

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The CPTPP presents **net economic benefits** to Malaysia - realising these opportunities and mitigating cost requires effective implementation of strategic initiatives

Key Findings

1

Impact modelling: Simulation projects net economic gains

Higher GDP by **USD56.5 billion** over the period 2021 to 2030

Additional investment of **USD112.3 billion** over 2021 to 2030

Continued trade surplus at **8.5% of GDP** in 2030

2

Impact on key economic sectors

- **Market access** - preferential access to new markets (Canada, Peru and Mexico) and additional access to the other CPTPP countries
- **Wider sourcing channels** for raw materials at competitive prices

- **Increased investment attractiveness** and local **capability development**
- **Technical assistance** and **capacity building** programmes
- **Lower costs** and **ease of exporting** due to harmonisation of customs and reduction of technical barriers

3

Thematic findings

- **ISDS:** Protecting investors while retaining policy space
- **IP:** Safeguarding public healthcare while fostering innovation among locals
- **Government Procurement:** Preserving flexibilities within the public procurement ecosystem while increasing access to CPTPP markets
- **SOEs:** SOEs will continue to assume a significant role in socio-economic and Bumiputera development

- **SMEs:** SMEs are provided with growth and development opportunities
- **Labour:** Improving workers' rights by aligning with international labour standards
- **E-commerce:** Reducing e-commerce barriers while ensuring access to source codes for critical infrastructure
- **Environment:** Enhancing environmental standards and addressing key environmental issues

Recommendations

Strategy 1
Strengthening Government policy implementation and regulation

Strategy 2
Development of sectoral capabilities

Strategy 3
Enhancing export promotion

The **CGE model projects net economic gains** from Malaysia's participation in the CPTPP



Impact on GDP

- Cumulative GDP gain of **USD56.5 billion** over the period of 2021 to 2030
- Increase in GDP by **1.9%** in **2030**
- Increase in GDP of up to **4.2%** in **2030** (with the accession of China and the UK)



Impact on Trade

- Malaysia's exports are projected to reach **USD354.7 billion** in **2030** (**2.7% increase** from the Baseline)
- Trade balance remains in strong **surplus at 8.5%** of GDP in **2030**



Impact on Investment

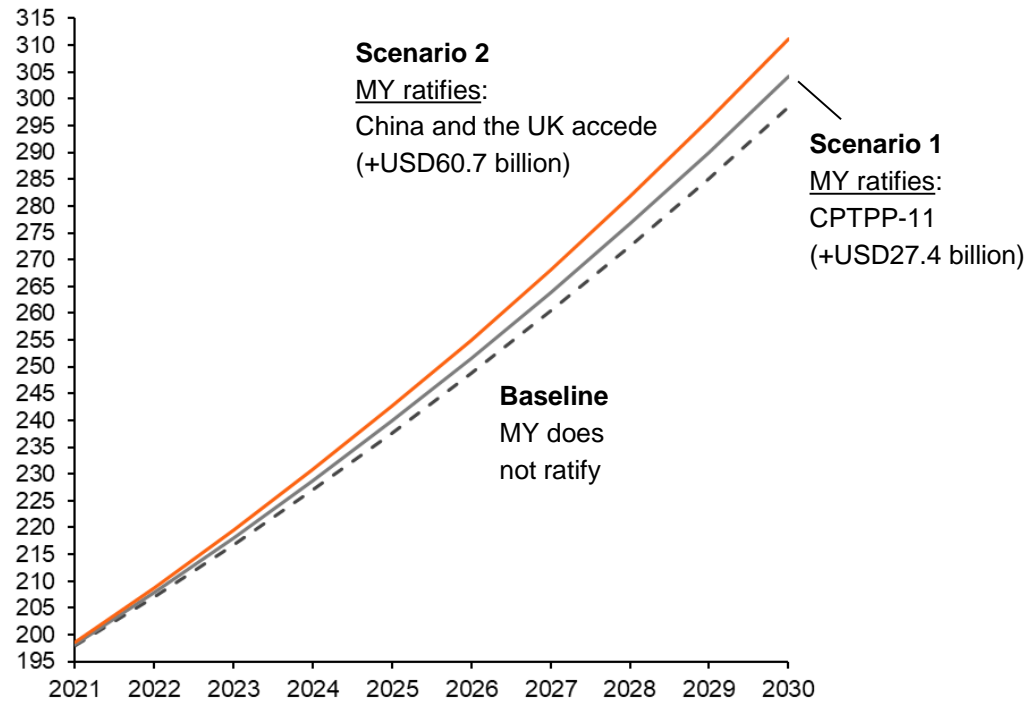
- **Additional** investment of **USD112.3 billion** over 2021 to 2030

The projected economic gains should lead to benefits for **households** and **businesses**



Household income is projected to **gain a cumulative increase of USD27.4 billion to USD60.7 billion (2021-2030)**

Projected increase in total household income (2021-2030)
USD billion



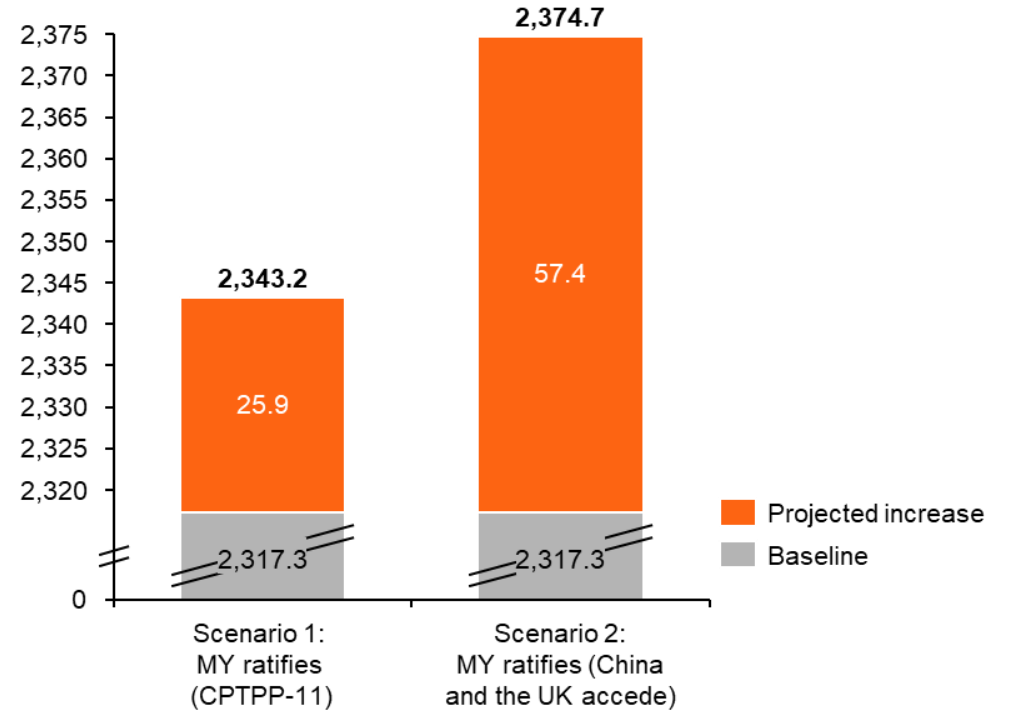
Source: DOSM, PwC analysis

- Bumiputera household income is projected to gain a **cumulative increase of between USD16.0 billion and USD35.5 billion (58.4% total household income in 2019)**



Malaysia's cumulative **tax revenue can increase by RM25.9 billion to RM57.4 billion (2021-2030)**

Cumulative tax revenue (2021-2030)
RM billion



Note: Projection is based on a tax-to-real GDP ratio of 13.3% (average for 2014-2020)
Source: PwC analysis

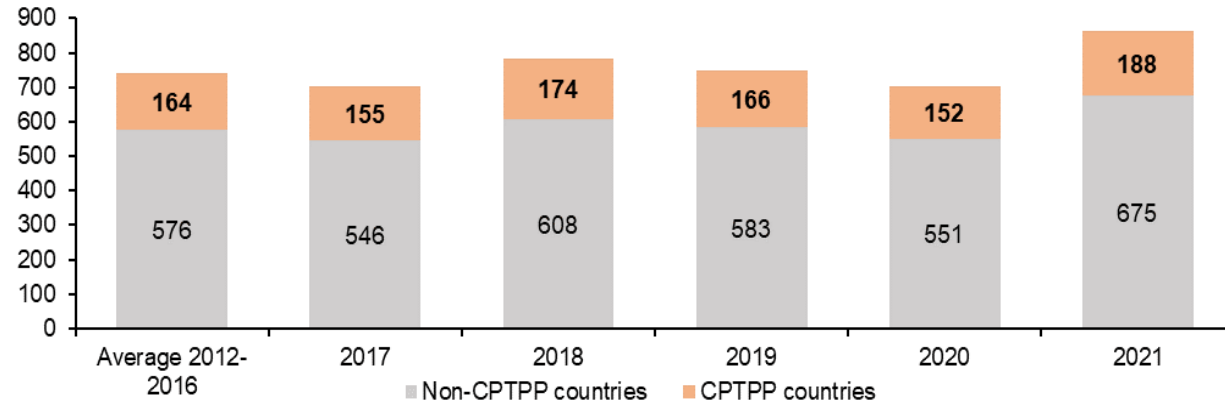
- Higher tax revenues can be utilised to **support existing or new Bumiputera programmes**

Impact of CPTPP on **Singapore** and **Vietnam**

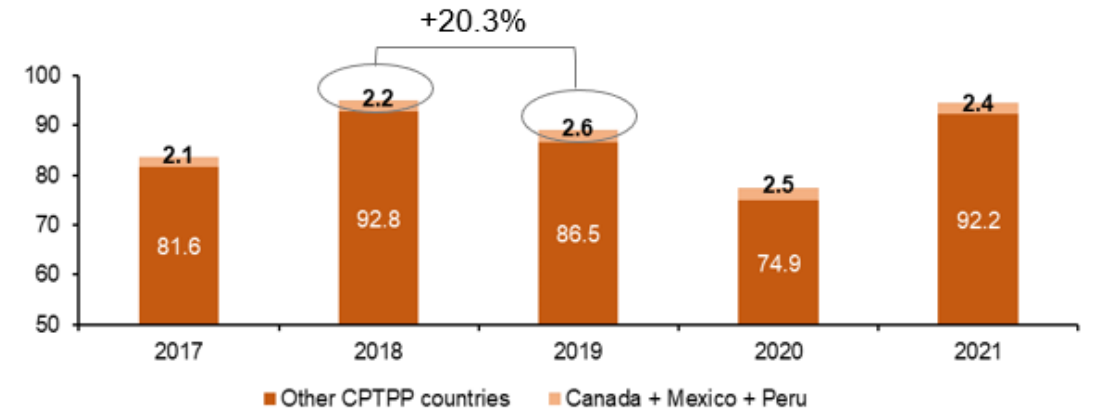
Singapore and Vietnam **recorded higher trade volume** to CPTPP countries in 2021, which is in line with their overall trade growth

There were **immediate positive impacts on exports** from Singapore and Vietnam to Canada, Mexico and Peru

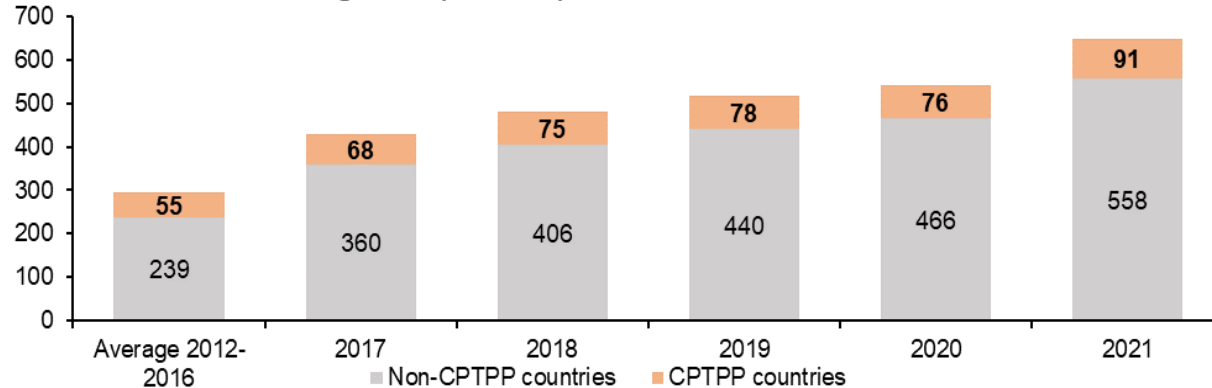
Singapore's total trade in goods (USD bil)



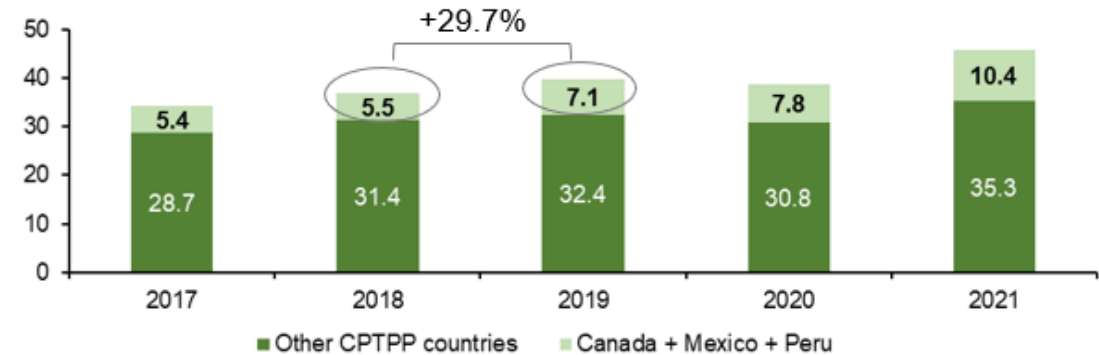
Singapore's exports to CPTPP countries (USD bil)



Vietnam's total trade in goods (USD bil)



Vietnam's exports to CPTPP countries (USD bil)



Malaysia enjoys **new and additional market access to CPTPP countries**



Preferential access to Canada, Mexico and Peru (countries with which Malaysia does not have FTA)

- Malaysia **exported USD3.2 billion (1.3% of Malaysia's total exports)** worth of goods to the three countries in 2019 (total imports from the three countries: USD1.3 billion, 0.6% of total overall imports)
- Malaysia is a competitive producer/ exporter and has **Revealed Comparative Advantage (RCA)** against the three countries in 5 sectors:
 - E&E
 - Palm Oil
 - Chemicals
 - Optical and Scientific Equipment
 - Plastics
- Malaysia has the potential to increase exports to the three countries in the above sectors, as **import duties are reduced and eliminated**
 - *E.g. Import duties for E&E products will reduce from a **maximum of 9% for Canada, 20% for Mexico and 9% for Peru to 0% by 2029***



Increased market access to Japan and Vietnam

- The reduction and elimination of import duties **increase price competitiveness**
 - Currently, Japan and Vietnam impose import duties on Malaysia's processed food and beverage products
 - In addition, Japan also imposes import duties (0 - 21.3%) on Malaysia's chemical products

Sector	MFN Import Duty	
	Japan	Vietnam
Processed Food and Beverage	0 - 50%	0 - 5%

RCA calculates the relative advantage or disadvantage of a certain country in a certain class of goods or services as evidenced by trade flows with a country(s). If $RCA > 1$, a country has a revealed comparative advantage in a certain sector compared to the partner trading country(s). This indicates that a country has an export strength in the particular sector.

Source: World Integrated Trade Solutions (WITS), CPTPP, World Bank, PwC analysis

CPTPP can **improve sourcing channels** for raw materials at competitive prices



CPTPP provides local companies with wider sourcing options at competitive prices

- Elimination of import duties will **reduce production costs** and increase the price competitiveness of Malaysia's exports
- **Local companies** are able to **source raw materials** from **CPTPP countries**
- This is particularly beneficial for sectors with **high reliance on imported inputs** such as:
 - E&E
 - Plastics
 - Machinery and Equipment
 - Optical and Scientific Equipment

Example (Plastics Sector)

- Elimination of import duties allow manufacturers to **source** primary plastics (raw materials for manufacturing of non-primary plastics products) **at competitive prices**

Import duties imposed by Malaysia on major primary plastics products

Product	MFN Import Duty
Polyacetals, other polyethers and epoxide resins	0 - 15%
Polymers of ethylene, in primary forms	0 - 10%
Polymers of propylene or of other olefins, in primary forms	0 - 10%
Polymers of styrene, in primary forms	0 - 10%

*Note: Import duty refers to base rate duties set out in Annex 2-D: Malaysia Tariff Elimination Schedule under the CPTPP. The base rate duties are Malaysia's MFN rates of duties.
Source: CPTPP*

CPTPP enhances Malaysia's **investment attractiveness** and strengthens **local capability development**



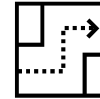
Increased FDI, driven by:

- New and additional market access
- Wider sourcing channels at competitive prices
- High-standards of investor protection
- Protection of intellectual property (IP) rights



CPTPP supports local capability development

- Promotes **technical assistance** and **capacity building** programmes to **strengthen local capability**
- Collaboration with more advanced CPTPP countries to produce **higher value added products**



Sectors which could benefit:

- **E&E:** Move up the value chain towards design and development activities
- **Chemicals:** Development of local capabilities in specialty chemicals
- **Optical and Scientific Equipment:** Increase in R&D activities to be conducted in Malaysia
- **Medical Devices:** Development of local capabilities and transfer of knowledge by collaborating with leading medical devices innovators in CPTPP countries

Harmonisation of customs rules to facilitate trade and reduce technical barriers



CPTPP will improve efficiency in trade processes

- **List of Sanitary and Phytosanitary (SPS) and Technical Barriers to Trade (TBT)** measures must be published
- SPS measures are **open to comments and risk assessments**
- Mechanisms such as **technical assistance** is encouraged for greater regulatory alignment for TBT
- Sectors likely to **benefit** include **Processed Food and Beverage** (SPS measures) and **Machinery and Equipment** (TBT)



Harmonisation and customs cooperation will increase ease of exporting and reduce costs

- **Information sharing** on compliance, adoption of **expedited customs procedures** for express shipments, and commitment to make **electronic systems** more accessible
- CPTPP provisions to facilitate trade could **reduce costs of exporting by up to USD121 million annually**

Trade facilitation measure	Estimated cost reduction (%)	Estimated cost reduction (USD)
Streamlining of trade procedures	3.9	45 million
Automation of border processes	3.5	41 million
Information availability	3.0	35 million
TOTAL	10.4	121 million

Source: OECD, World Bank's Doing Business 2020, PwC analysis

Bumiputera rights will **continue to be safeguarded** and **Bumiputera capabilities** will be **further enhanced** with the **ratification of the CPTPP**

CPTPP will **enhance** the **growth and development** of **Bumiputera capabilities**

Policy Space

The Government can **continue to develop** both **local and Bumiputera companies**

Investment, including Manufacturing and Services

Preferential treatment can **continue** to be accorded to **Bumiputera investors and services providers** under **Annex II Non-Conforming Measures**

Government Procurement

Malaysia is able to **set aside up to 30%** of the total annual value of construction contracts **above the threshold value**, for **Bumiputera**

State Owned Enterprises (SOEs)

Malaysia preserves **policy space** to implement the **socio-economic and development agenda**, particularly for **Bumiputera**

Small and Medium Enterprises (SMEs)

Malaysia has secured **concessions** which protect the **interests of Bumiputera companies and SMEs**

ISDS mechanism leads to better levels of **investor protection**, while allowing Malaysia to retain **policy space**

Safeguards

Investors will seek amicable resolutions prior to submitting an ISDS claim (i.e. ISDS is a last resort)

- ISDS is **not new** - Malaysia has **signed more than 70** IIAs and FTAs, most of which contain ISDS provisions
- To date, Malaysia has only **faced ISDS thrice**, **none** of which were **decided** in **favour** of the **investor**
- Malaysia is **protected against frivolous claims**
- Investors must exhaust the **consultation and negotiation** process before proceeding to ISDS



Benefits

- Investors are able to **pursue remedies** for breaches in CPTPP investment provisions
- Improves Malaysia's **attractiveness as an investment destination**
- Malaysian investors enjoy greater **protection, predictability and transparency** in CPTPP countries



Adjustments / costs

- *Cost of **potential ISDS claims**
 - **Party costs**
 - **Arbitration or tribunal costs**

**The successful party can recover some of the costs*

IP provisions safeguard **public healthcare** through reaffirmation of the Declaration on TRIPS Agreement and Public Health

Public healthcare is protected

- In line with WTO TRIPS and the Patent Act, the **period of protection** for patents will **remain at 20 years** under the CPTPP
- CPTPP guarantees Malaysia's **right to issue compulsory licenses**
- CPTPP guarantees the Government's right to **negotiate prices** of **medicines**

Accession into International Convention for the Protection of New Varieties of Plants (UPOV 1991) is not expected to have adverse effects

- Malaysia reserves the right to determine whether or not a **breeder** can be **granted rights**
- If an application for breeders' rights is **denied**, the applicant shall **not gain any monopoly** over the **agricultural produce**, for which the application was made
- The current Protection of New Plant Varieties Act 2004 (**PNPV Act**) has **similar provisions**

Benefits

- The IP Chapter provides a balance of benefits between **producers** and **users**
- High quality IP provisions in the CPTPP will increase Malaysia's attractiveness as an **investment destination**
- The enhanced IP ecosystem could facilitate and encourage **R&D among local players**

Adjustments / costs

- Establishment of a **system** which **notifies patent holders** when a person is seeking to market a product that is similar to their patented product (Malaysia has been given a transition period of 4.5 years to develop the system)

SOEs can continue to **support the Government's socio-economic agenda**, particularly Bumiputera development

Safeguards and flexibilities

Minimal impact is expected on SOEs, local and Bumiputera enterprises

- Preferential treatment, at maximum limit of **40% of SOE's annual budget for purchases** (the 40% does not include purchases from local and Bumiputera enterprises that were merit-based or made in a competitive manner)
- Additional preferences may be accorded by **PETRONAS and FGV**
- **NCA** is allowed for **Bumiputera enterprises** (NCA refers to direct transfers of funds or potential direct transfers of funds or liabilities such as grants or debt forgiveness)
- Only SOEs with an **annual revenue threshold** of **SDR 200 million and above** are **subjected** to Article 17.4 (Non-Discriminatory Treatment and Commercial Considerations) and Article 17.6 (Non-Commercial Assistance). Malaysia is granted a **higher threshold** of **SDR 500 million (annual revenue)** for the first **5 years**



Benefits

- Provisions drive SOEs and local enterprises to **increase competitiveness**
- Transparency obligations promote **better governance** of SOEs
- Obligations **boost confidence and participation of businesses and investors** in the Malaysian market



Adjustments / costs

- Review practices of giving NCA and procurement preferences
- Enhance legal framework of SOEs for better monitoring of compliance and governance

Local suppliers **continue to benefit** from Malaysian **Government Procurement**, and have greater **access to CPTPP markets**

Safeguards and flexibilities

- **Bumiputera policy** will be **maintained**
- **State Governments are exempted**
- Due to high thresholds, **only G7 category contractors may face increased competition**:
 - CPTPP threshold for construction services begin at SDR63 million (~RM370 million) and will be gradually reduced to SDR14 million (~RM82 million) by Year 21
 - **G7** category contractors are those that have tendering capacity **above RM10 million**
- **G1 to G6 category contractors will NOT be affected**:
 - **G1 to G6** contractors are those that have tendering capacity **below RM10 million**
- **Transitional measures** include gradual elimination of offsets within 12 years and exemption on economic stimulus package for 25 years



Benefits

- **Local suppliers continue to benefit** from Government Procurement
- **Better access** to procurement markets of CPTPP countries, market estimated at **USD1.5 trillion (particularly Australia, Canada and Japan)**
- Procurement **systems will be more efficient and transparent** through more predictable rules



Adjustments / costs

- Enhancements of Government procurement systems and processes including:
 - Publishing of Treasury Instructions and Circulars, as well as economic policies and initiatives
 - Development of IT system and a transparent supplier registration system

E-commerce provisions **reduce barriers to electronic trade**, while allowing Government to **ensure security** of critical infrastructure

Safeguards

The CPTPP aims to facilitate economic growth and trade opportunities through e-commerce

- The Government is allowed to demand access to software source code if it is used in **critical infrastructure**
- The **CPTPP does not define** critical infrastructure, it is up to the countries to determine what constitutes critical infrastructure
- The **Government retains the right** to require data localisation from e-commerce participants in pursuit of legitimate public policy objectives



Benefits

- **Easier access** to sell and purchase goods and services online with other CPTPP countries through:
 - Prohibition of customs duties on electronic transmissions
 - Non-discriminatory treatment for digital products
 - Allowing cross-border transfer of information by electronic means and internet interconnection charge sharing
- **Protection of consumer** information, verification of electronic transactions and cybersecurity measures
- Malaysia maintains existing cybersecurity measures

SMEs are provided with **growth and development opportunities**

Safeguards

The CPTPP provisions aim to facilitate SMEs in capturing CPTPP opportunities. Malaysia has secured **concessions** which **protect the interests of Bumiputera companies** and **SMEs**, including:

- **Oil and Gas:** PETRONAS can accord preferences to Bumiputera and SMEs
- **Construction:** Only certain Government contracts, at high thresholds, are open for participation from companies in CPTPP countries
- **Automotive:** Foreign equity cap of 49% on automotive investments
- **Retail:** No less than 30% Bumiputera equity in hypermarkets, convenience stores



Benefits

- Direct and indirect **trade opportunities** for businesses and SMEs
 - CPTPP complements the Twelfth Malaysia Plan and seeks to enable SMEs to export to **new markets**
- **Reduced tariff and cost of trade**
 - Increasing price competitiveness of SMEs' products
 - Source potentially cheaper and higher quality inputs
- **Capacity building** and technical assistance for SMEs



Adjustments / costs

- Domestic centric SMEs may face more competitive environment (can be mitigated through targeted programmes)

Alignment to international **labour standards** improves employee treatment, with concerns on impacts to business operations

Labour provisions

- Malaysia is required to adopt and maintain the **ILO 1998 Declaration**
- The CPTPP requires the adoption of regulations on minimum wages, work hours and occupational safety and health
- Provides an avenue for **cooperation between CPTPP countries in enhancing labour standards**



Benefits

- Strengthen employee protection and welfare
- Reduce risks of sanctions and forced labour allegations
- Enhance Malaysia's reputation for labour treatment
- **Ability to request for cooperative activities with CPTPP countries to address labour matters**



Adjustments / costs

- Potential **work disruption** due to labour disputes
 - But, the Government is able to adopt **domestic regulations to mitigate** such disruption
 - In **Canada**, provincial laws deny certain categories of workers the right to join a union, such as laws that apply to farming businesses in Quebec with less than 3 full-time employees
 - In **Singapore**, it is illegal for employees employed in water, gas and electricity services to go on strike
 - In **Vietnam**, employees are required to conduct a survey, and obtain agreement from at least 50% of surveyed employees, to do so

Malaysia is able to enhance **environmental standards** and capacity in key environmental issues

Environmental provisions

- Promote mutually supportive **trade** and environmental **policies**
- Promote high levels of **environmental protection** and effective enforcement of environmental laws
- Enhance the capacities of the CPTPP countries to address **trade-related environmental issues**, including through cooperation



Benefits

- Cooperation with CPTPP countries to **improve environmental measures in line with international standards**
- Supports Malaysia's National Investment Aspirations, which include the aim of **strengthening ESG initiatives**
- Enhanced environmental standards will improve Malaysia's attractiveness as an **investment destination**
- Higher environmental standards could **mitigate** impacts of **extreme weather events**

Measures needed to **capture opportunities** and address key challenges

Key challenges

Understanding requirements of CPTPP

Taking advantage of opportunities offered by CPTPP

Identifying measures for compliance and cost mitigation

Greater competition from imports and foreign entrants

Strategies

Strategy 1: Strengthening Government policy implementation and regulation



- **Initiative 1:** Stakeholder consultation to identify necessary programmes to assist businesses and improve regulations
- **Initiative 2:** Enhance support programmes to facilitate businesses
- **Initiative 3:** Enhance trade facilitation measures
- **Initiative 4:** Reassess the role of SOEs in nation-building agenda
- **Initiative 5:** Engage and collaborate with other CPTPP countries to ensure effective policy implementation

Strategy 2: Development of sectoral capabilities



- **Initiative 1:** Capability building programmes to develop robust sectoral ecosystems and increase competitiveness
- **Initiative 2:** Periodical review and assessment of capability building programmes

Strategy 3: Enhancing export promotion



- **Initiative 1:** Capacity building programmes to encourage export readiness
- **Initiative 2:** Sectoral consultation and knowledge sharing sessions on CPTPP benefits and requirements
- **Initiative 3:** Enhance the one-stop resource portal on trade information
- **Initiative 4:** Introduce flagship programme to promote exports to CPTPP countries

Conclusion

1. The **benefits** accruing from CPTPP far **outweighs** any **possible costs** that may arise from the implementation of this Agreement
2. CPTPP **presents new** and **additional market access opportunities** for Malaysian exports of goods and services
3. Malaysian **importers** will **benefit** from **wider sourcing channels** for inputs that are competitively priced
4. CPTPP **improves** Malaysia's **competitiveness** and **attractiveness** as an **investment destination**
5. CPTPP provides **extensive safeguards** and added advantages to **protect domestic interests**

Thank You

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