

IMPACT ASSESSMENT BASED ON FOUR (4) SCENARIOS BY UNDP STUDY ON TPP

Malaysia's policy objectives aim at achieving developing country status by the year 2020. An active engagement in the emerging bilateral and plurilateral trading arrangements will contribute to these objectives. Malaysia's participation in the TPP+ negotiations is examined as to identify how the outcome could be shaped so as to contribute to these objectives.

A quantitative analysis of a TPP+ tariff liberalization using a CGE model reveals that there would be a significant incremental gain in welfare and GDP. This scenario would involve a shift in employment from agriculture to other sectors and an incremental increase in trade with the USA, with a greater relative increase in imports than exports. Analyses of alternative scenarios i.e. that of an FTA with the EU or both TPP and EU generally indicate the same pattern, but with different figures, what is notable is that in a FTA with the EU the proportion of growth in welfare and GDP attributable to tariff liberalization in the EU is higher. The maximum benefit would be achieved through participation in both.

Impact Assessment Based on 4 Scenarios

A quantitative analysis using a CGE model was applied to assess the impact, in terms of welfare, GDP, employment and trade, of an agreement for mutual tariff elimination among Malaysia and the seven other participating countries, exploring the impact of tariff liberalization in four scenarios as follows:

- (i) Malaysia joins the TPP;
- (ii) Malaysia does not join the TPP;
- (iii) Malaysia negotiates a FTA with the EU as an alternative to TPP; and
- (iv) Malaysia negotiates a FTA with the EU as a complement to TPP.

Scenario 1: Malaysia accepts TPP+ Agreement to Remove Tariffs.

The implementation of the TPP+ would generate a welfare gain of 1.46 percentage points in 2020 for the Malaysian economy (figure 1) compared with the referenced scenario. From the 1.46 per cent welfare gain, only 18 per cent are expected to result from an additional access to the TPP+ markets while 82 per cent are derived from the Malaysian unilateral trade liberalization towards the members of the TPP+ (figure 2).

However, the contribution of the additional access to the TPP+ markets to GDP gains will be higher than the case in welfare gains. Accordingly, 25 per

cent of the 1.02 percentage points of increase in GDP in 2020 compared with the baseline are explained by the additional access to the TPP+ market while the Malaysian unilateral trade liberalization explains the remaining 75 per cent (figures 2 and 3).

Figure 1: Effects of scenario 1 on welfare and GDP

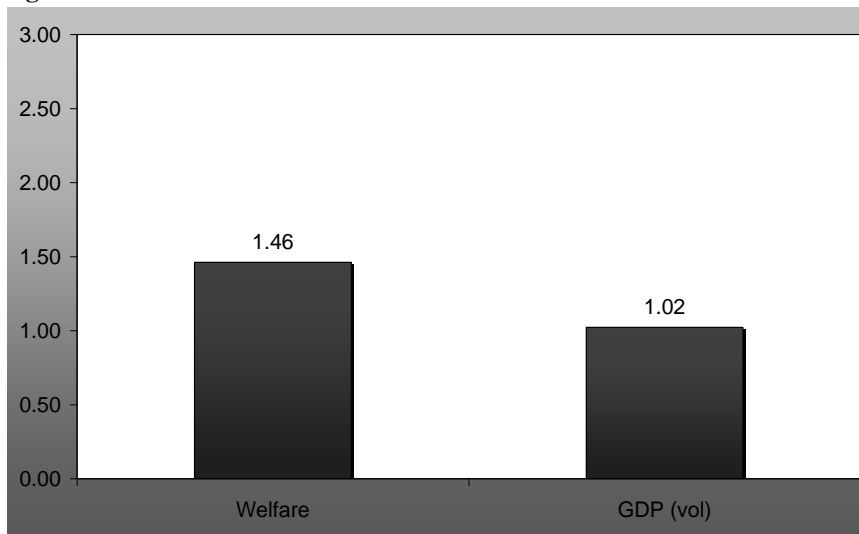


Figure 2: Decomposition of the welfare gain from scenario 1

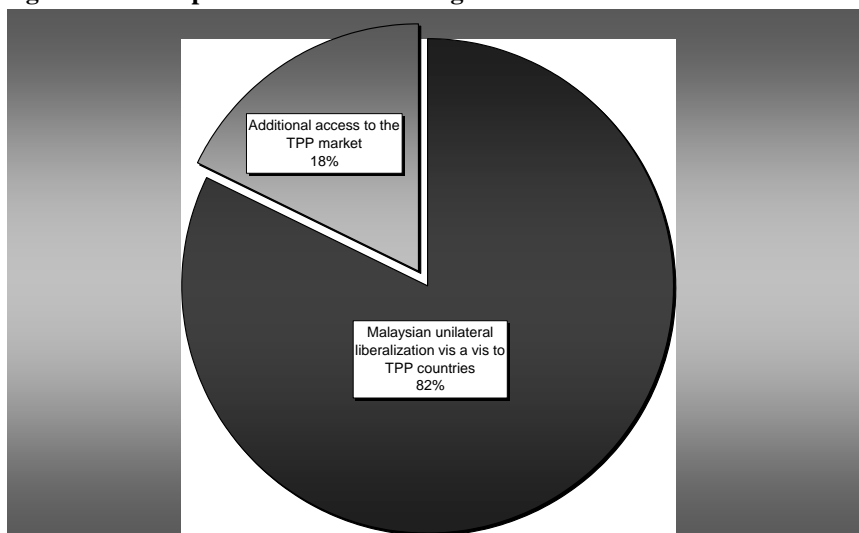


Figure 3: Decomposition of the GDP gain from scenario 1

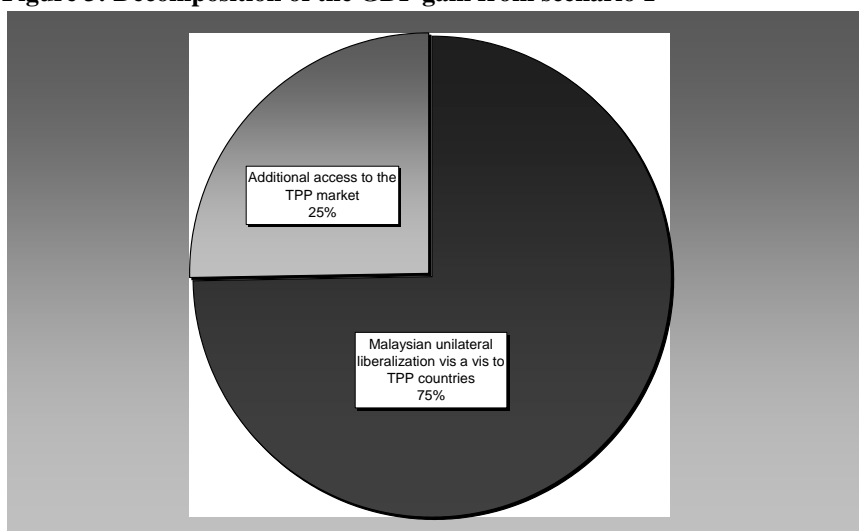


Figure 4 shows that the TPP+ will generate salary increase for both skilled and unskilled labour (resp. 1.2 and 1.11 percentage points) in 2020 compared with the baseline scenario. Giving the fact that the model supposes full employment hypothesis this result could be interpreted as a reduction in unemployment rates for both categories of labour. Figure 4 shows also that employment in agriculture sector will be reduced by 0.65 percentage points while it will increase by 0.07 percentage point in non-agriculture sector in 2020 compared with the baseline scenario. This should not be interpreted as an absolute decrease of agriculture labour. The full employment hypothesis implies indeed that at the global level employment is fixed and when labour increases in non-agricultural sectors this implies automatically a decrease in the agriculture ones. Finally, the implementation of the TPP+ is expected to generate an increase in total exports by 0.82 percentage points in 2020 compared with the baseline scenario and an increase in total imports by 1.06 percentage points.

Figure 4: Effects of scenario 1 on labour market

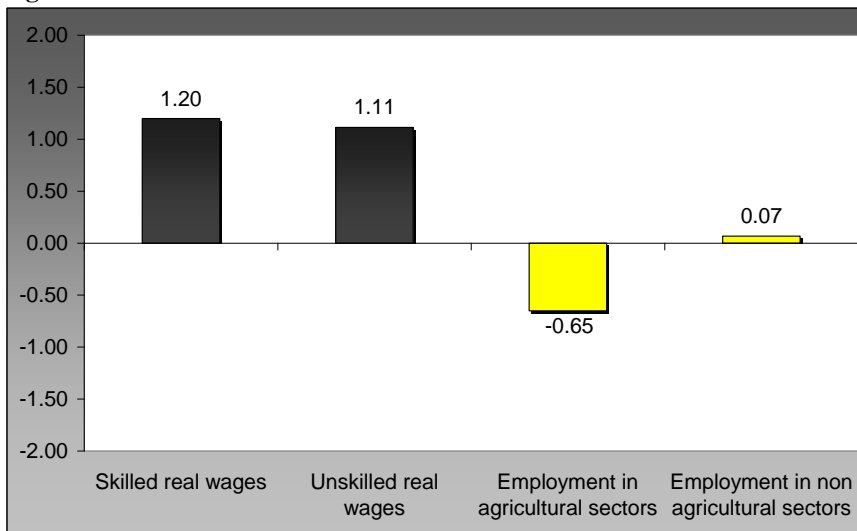
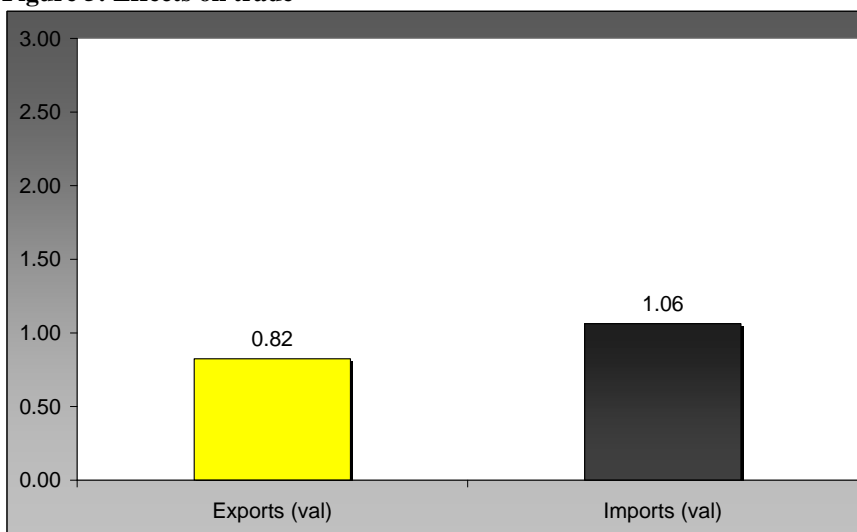


Figure 5: Effects on trade



Scenario 2: Malaysia remains outside a TPP+ Agreement

The impact of this scenario suggests that Malaysia is likely to achieve a small positive impact on its welfare and GDP in 2020. These benefits, despite their low levels, are directly achieved from higher economic growth in the TPP+ member countries which will result in a slight increase in Malaysian exports to these markets (figure 6).

However, the positive impact on GDP is too small to improve the level of labour remuneration. In contrary, real wages for both skilled and unskilled workers decreased compared to their levels in 2020 in the baseline scenario. This decline is the result of a slightly higher absorption of new investments by capital-intensive activities instead of labour-intensive activities (figure 7).

Trade balance is negatively affected given that imports increased more than exports (figure 8). The increase of imports is mostly originated from the TPP+ member countries which show their international competitiveness improved as result of lower domestic prices, more efficient competition, and lower production costs.

Figure 6: Welfare and GDP effects

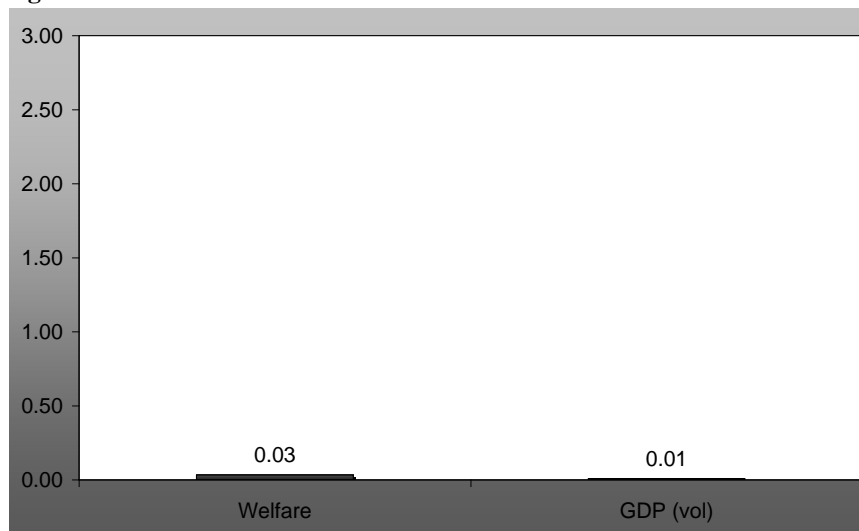


Figure 7: Effects on labour market

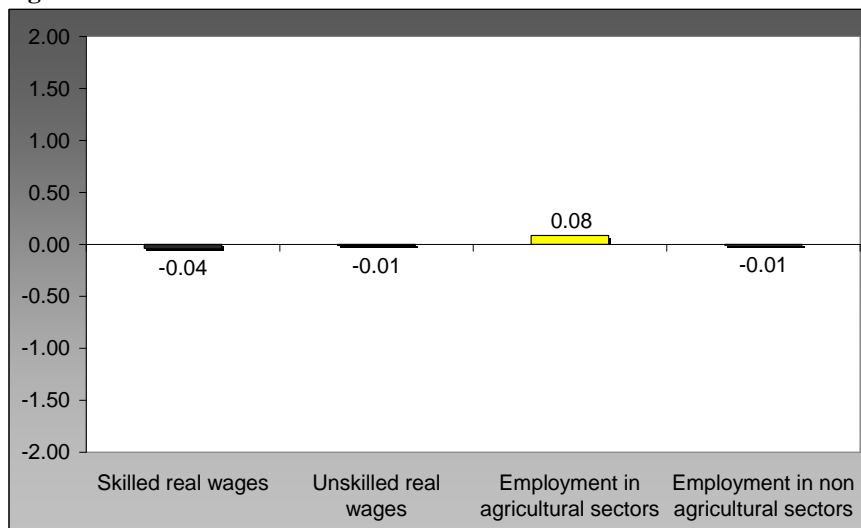
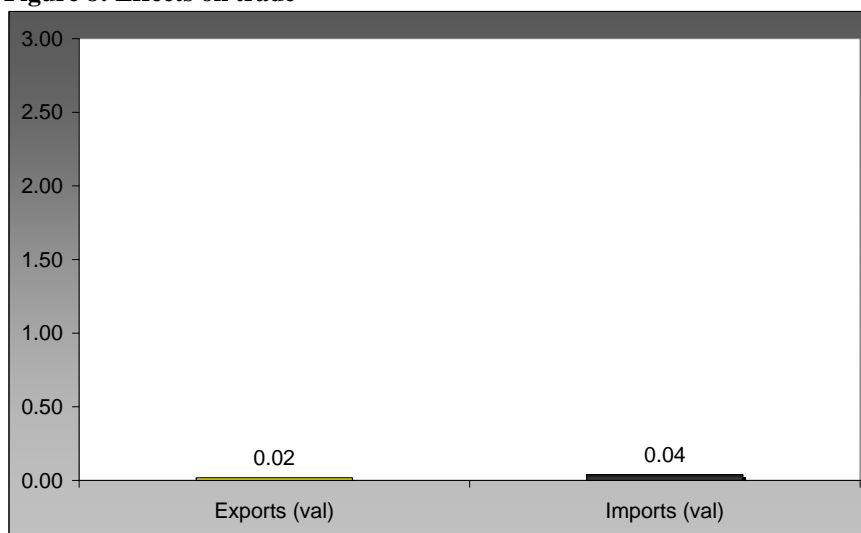


Figure 8: Effects on trade



Scenario 3: Malaysia enters in FTA with the EU, remains outside TPP+.

The welfare and GDP impact on Malaysia of mutual tariff elimination between Malaysia and the EU is strikingly different from that arising from Malaysia's participation in an eventual TPP+ Agreement. The impact on both welfare and GDP is positive, but less than in the TPP scenario, however, but to a very large extent (80 per cent in the case of welfare and 75 per cent in the case of GDP) this arises from increased market access to the EU market- that would be achieved in the negotiations - rather than Malaysia's own tariff liberalization.

Figure 9: Welfare and GDP effects

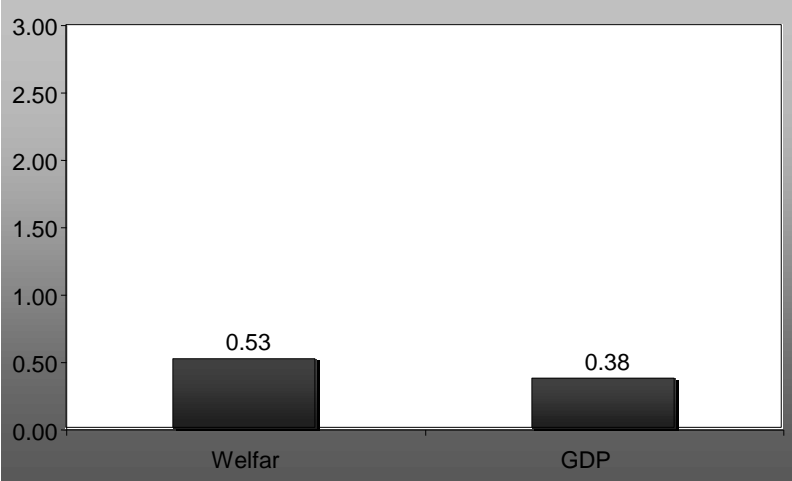


Figure 10: Decomposition of the welfare effect

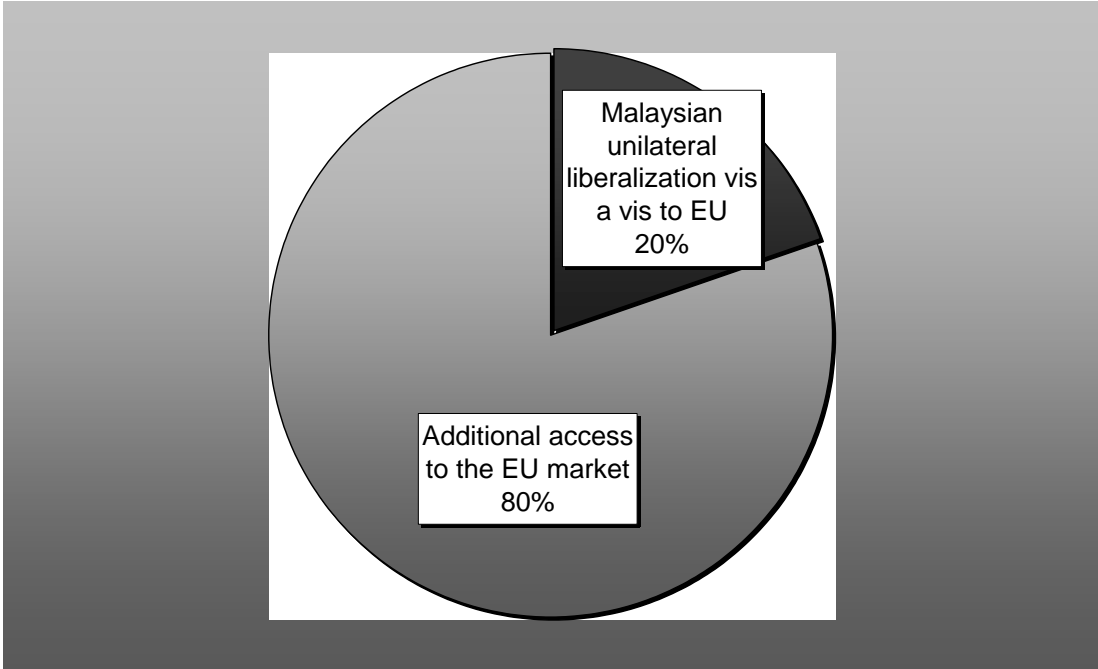


Figure 11: Decomposition the GDP gain¹

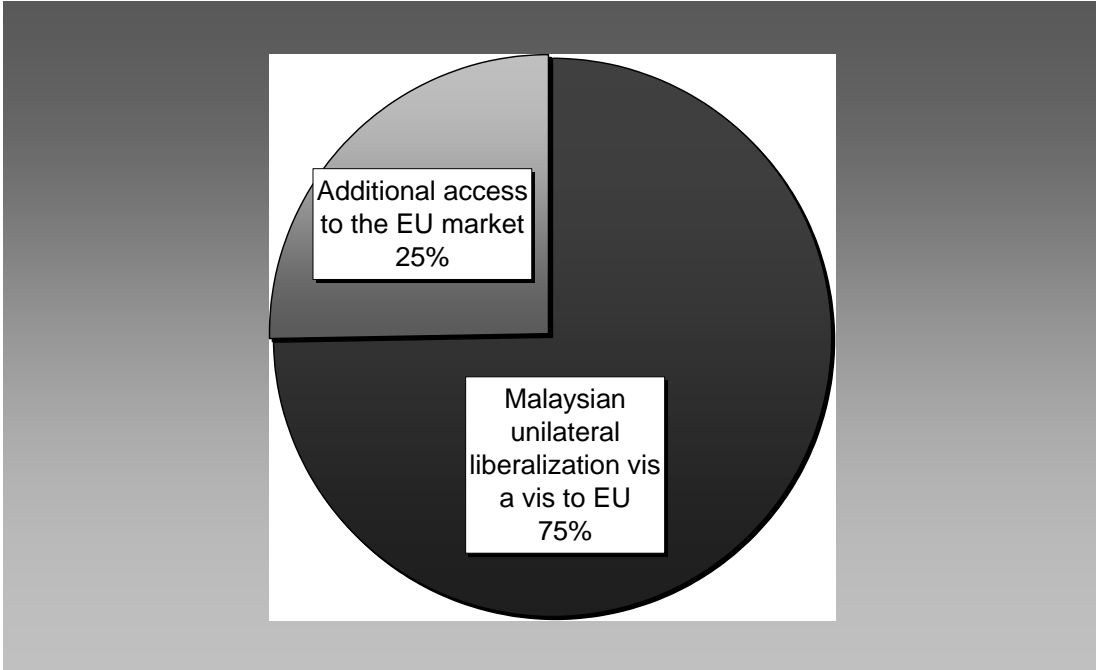
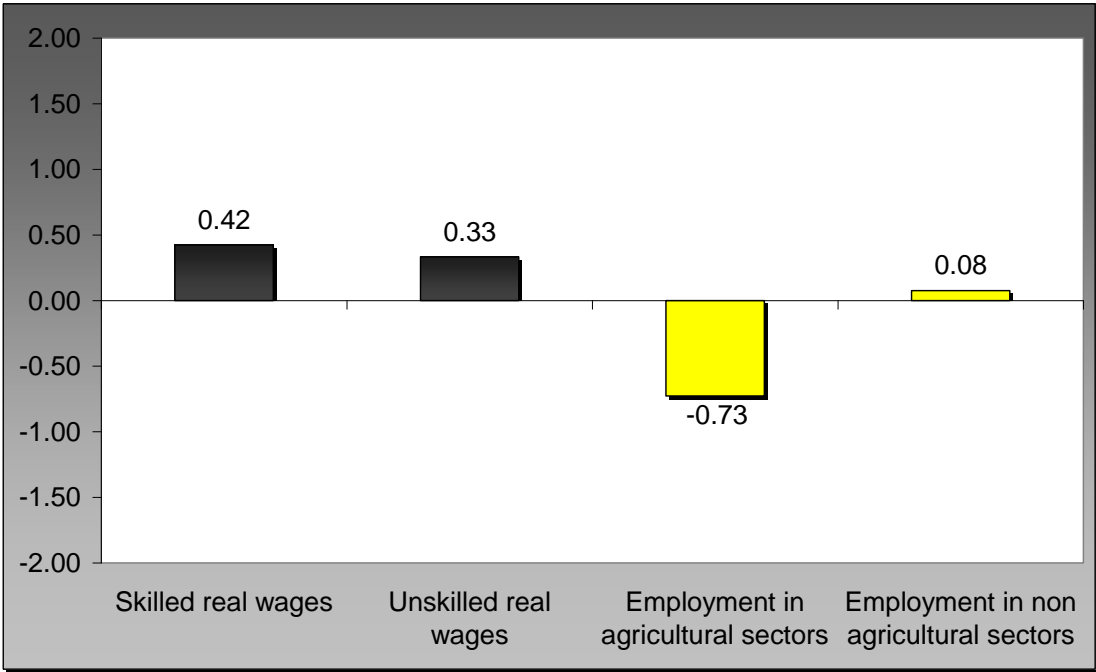


Figure 12 shows that the effects on the labour market are also much smaller than in the case of the TPP+ on both skilled and unskilled real wages. However, the negative impact on employment in the agricultural sector is slightly more pronounced.

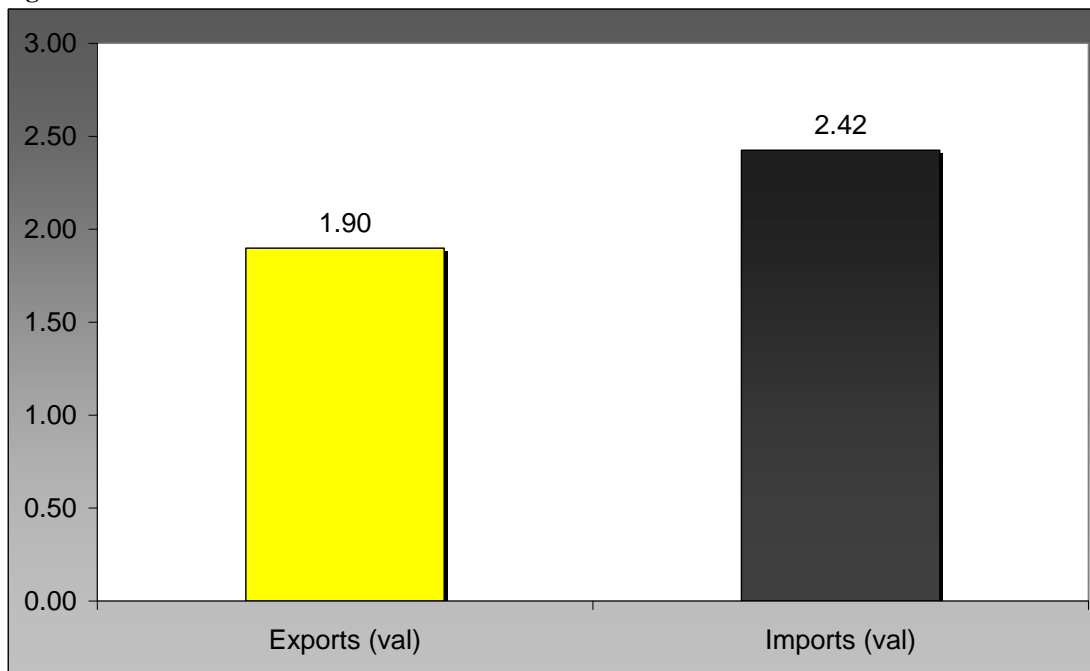
Figure 12: Labour market effects



¹ This result is explained by the fact that Malaysia has a negative trade balance with Europe. The growth in production does not translate into major salary increase and by consequence to high welfare effect. On the contrary with USA the trade balance is initially positive and most of the effect translates into factor remuneration effect and by consequence to a welfare effect.

Finally, figure 13 shows that the trade impact of the EU FTA is greater than the TPP+ membership, as with the TPP+ scenario, imports increase more than exports.

Figure 13: Effects on trade



Scenario 4: Malaysia joins TPP+ and enters into FTA with EU.

The impact on welfare and GDP is greater when Malaysia enters into both Agreements. Again, most of the welfare and GDP gain can be attributed to Malaysia's own liberalization.

Figure 14: Welfare and GDP effects

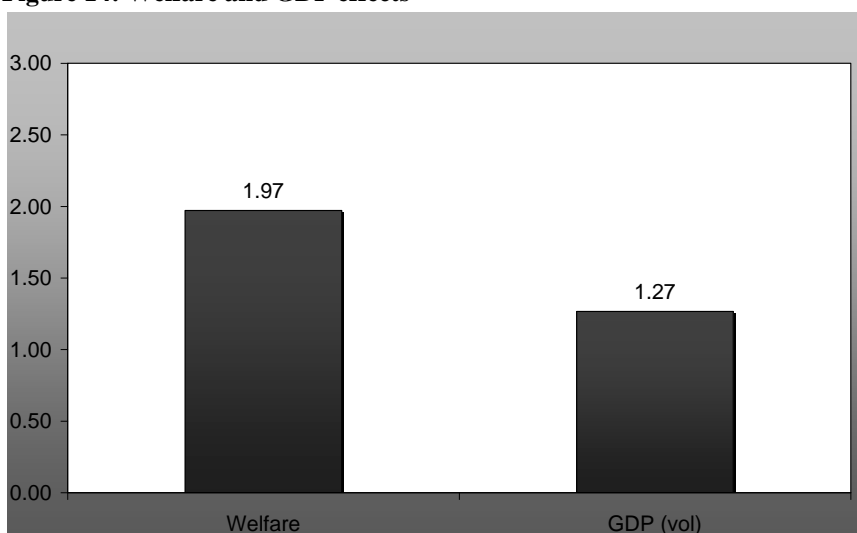


Figure 15: Decomposition of the welfare gain

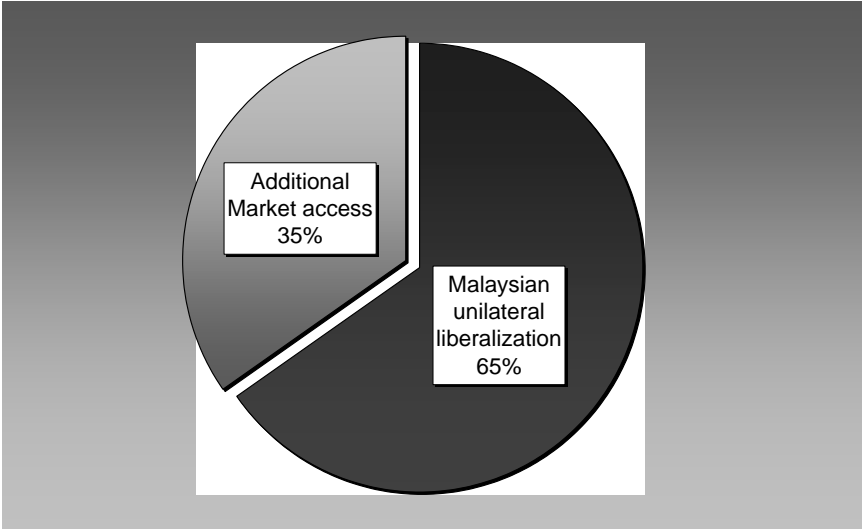


Figure 16: Decomposition of the GDP gain

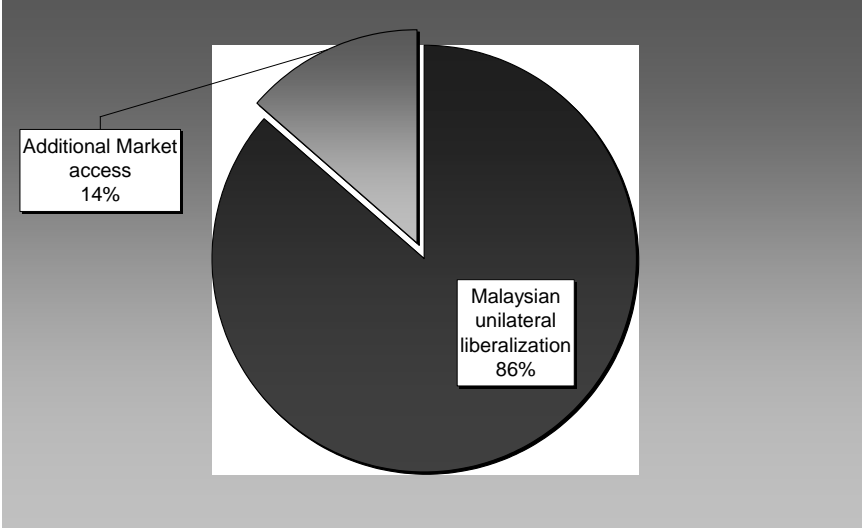


Figure 17 shows that the impact on employment is more pronounced), i.e. the relative decline in the agricultural increment is greater. Finally, the overall trade impact is again more pronounced with imports growing faster than exports (figure 18).

Figure 17: Labour market effects

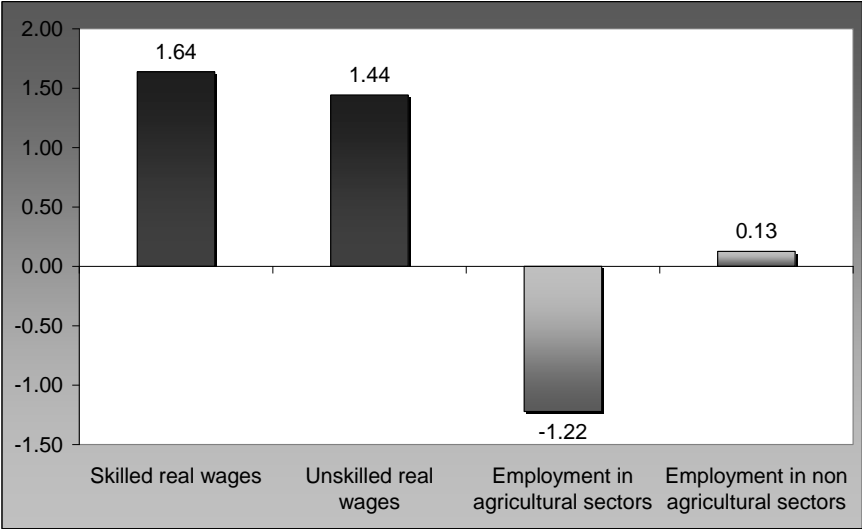


Figure 18: Trade effects

