Economic Beat
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29 October 2014

MALAYSIA

More considerations will show a better perspective of TPPA impact on Malaysia's domestic value-add

- **A research paper by an UNCTAD staff on the implications of Trans Pacific Partnership Agreement (TPPA) on Malaysia using domestic value-added (DVA) exports analysis contends that Malaysia will experience a deterioration in its balance of trade with TPPA partner countries.**
- **However, other studies on TPPA making use of computable general equilibrium (CGE) models have shown that while there will be losers post-TPPA, Malaysia has always been cited as one of those standing to gain.**
- **It is worth noting that the study used dated dataset which may have distorted the findings. The study could have been expanded to include an obverse scenario of the repercussions if Malaysia chose not to sign the TPPA, which in our opinion *would lead to a bigger net loss to the nation*.**
- **We would balance the DVA study by highlighting the positive impact of the TPPA on the growth potential of services export, which by nature, has high DVA. Malaysia's ICT industry for example is regionally competitive, as reflected by the recent listing on Nasdaq of MOL Global, the biggest payment service provider in South East Asia.**
- **That the DVA study be updated in due course to reflect different assumptions and changing structure of the economy. It should evolve over time, much like CGE models have.**
- **MIDF Research's view is that amid the secrecy surrounding the negotiations and the fact that discussions are still on-going, it is hard to make a complete and fair impact assessment of the TPPA.**

STUDY ON TPPA

Contentious view, misleading in terms of authority. In a working paper by a staff of UNCTAD titled "Trans Pacific Partnership Agreement: Implications for Malaysia's Domestic Value-Added (DVA) Trade", the author Rashmi Banga raises pertinent issues pertaining to the implications of joining the TPPA. The conclusion is rather contentious, with the author arguing that Malaysia will experience a decline in its DVA exports of USD17b on average per annum, and that this will lead to deterioration in its balance of trade with TPPA partner countries.

However, it is the personal view of the author and does not reflect the view of UNCTAD or its member states. Indeed, the paper was actually authored under the aegis of the Centre for WTO Studies, which is based at the Indian Institute of Foreign Trade and has no affiliation whatsoever with the WTO. It certainly does not reflect the view of the WTO.

DVA analysis proclaims smaller value added contribution. The study by Ms Banga highlighted that Malaysia's DVA has been declining against all major TPPA members, with the maximum decline recorded with the US. The study suggests that post tariff liberalization, Malaysia's exports will increase from US$93.7 billion to US$95.2 billion but imports will rise much faster from US$73.8 billion to US$76.8 billion, causing the balance of trade (BOT) to remain in surplus but deteriorate by about US$1.4 billion per annum. In DVA terms the decline is expected to be more severe, with DVA exports falling US$17b p.a and potentially swinging BOT with TPPA partners into deficit. Nonetheless, the study made a point that Malaysia is not the only losing partner from the DVA angle. It appears that only the U.S, Japan and New Zealand stand to gain under this analysis (the study excluded Peru and Brunei due to significant data gaps).

Table 1: Potential Domestic Value Added Trade in TPPA12 members as estimated in Banga (2014)

	Exports to TPPA countries in 2013 (USD'm)	Imports 2013 (USD'm)	Balance of Trade in 2013 (USD'm)	DVA Exports in 2013 (USD'm)	DVA Exports as a % of Total Export in 2013	Predicted DVA Exports (USD'm)	% Change in Predicted DVA exports Post TPPA	DVA exports minus Imports in 2013 (DVA BOT) (USD'm)	Predicted DVA BOT (USD'm)	Change in DVA BOT (USD'm)
USA	588.02	866.46	-278.43	297.59	51	453.36	52	-568.86	-413.10	155.77
Australia	59.18	79.28	-20.09	50.69	86	43.74	(14)	-28.59	-35.54	-6.95
Canada	366.91	290.60	76.31	312.74	85	231.26	(26)	22.14	-59.34	-81.48
Chile	23.67	25.17	-1.50	18.84	80	16.67	(12)	-6.33	-8.50	-2.17
Japan	208.72	221.69	-12.97	178.53	86	265.79	49	-43.16	44.10	87.26
Mexico	318.41	225.92	92.49	249.93	78	179.67	(28)	24.01	-46.25	-70.26
Malaysia	93.73	73.89	19.84	54.45	58	36.82	(32)	-19.44	-37.07	-17.63
NZealand	15.14	10.90	4.24	12.13	80	12.57	4	1.23	1.67	0.44
Singapore	124.90	111.97	12.93	60.66	49	55.11	(9)	-51.30	-56.86	-5.56
Vietnam	57.32	34.26	23.07	42.75	75	34.93	(18)	8.49	0.67	-7.82

Source: Banga (2014), UNCTAD

Departure from the common CGE models: Ms Banga's DVA analysis is a departure from the CGE-based analysis commonly employed in the studies of trade agreements. Most CGE-based analysis converge on the idea that smaller countries like Vietnam, Peru and Malaysia stand to benefit the most from the TPPA [see Petri et al (2011), Petri and Plummer (2012) and Cheong (2013)].

Petri and Plummer (2012) of Peterson Institute for International Economics, using CGE modelling in their study, show that the TPP (at that time involved only 9 countries) can generate annual global income gains of $295 billion, with Vietnam projected to enjoy the largest percentage gains at around 14% as it would likely expand as a manufacturing hub. By 2025, if fully realized, the TPP could mean a 0.53% increase in global GDP with that of Malaysia expected to rise by 4.7%.

Meanwhile, a study by Cheong (2013) published by the Asian Development Bank (ADB) has estimated the impact of the TPPA on gross domestic product and found that most member countries would experience moderate economic gains from joining the free-trade bloc. New Zealand, Mexico and Malaysia would likely benefit the most from a successful agreement involving all 12 members, with GDP projected to rise by 0.97%, 0.9% and 0.7% respectively.

Banga argues that CGE modelling overlook the impact of Global Value Chains (GVCs) and the resultant effect on intermediate goods imports. Ms Banga has argued that the CGE-based studies overlook the fact that with greater trade integration, more so under the TPPA, exports of one member country may be part of the whole supply chain involving exports of another, Hence, the rise in exports estimated by a typical CGE model under trade liberalization may not be fully translated into rise in output and employment but may actually be smaller due to greater "leakages" i.e. imports from partner countries. A rise in DVA exports is important for a country in order to get the commensurate production-linked gains of exports on sectoral, employment and in turn, GDP.

WIDENING THE PERSPECTIVE OF THE DVA ANALYSIS

Ratio of imported to total intermediate input in the I-O table declining: We note that Ms Banga's analysis made use of data up to 2009 to simulate the 2013 results, which she used as the main finding based on the coefficients and multipliers derived from the Input-Output (I-O) table for the year 2000 extracted from Beckhet (2011). However, the Department of Statistics has already made available the I-O table for year 2005. The 2005 I-O table shows that the ratio of imported intermediate inputs to total inputs for the overall economy had actually fallen from 50.5 in 2000 to 32.65 in 2005. Indeed, the ratio for Manufacturing had indeed declined significantly from 55.8% in 2000 to 39.6% in 2005. On this note, we believe Ms Banga may derive a different conclusion in her analysis had she used the I-O table for 2005.

Table 2: Intermediate Inputs, Input-Output Table 2005 - Imports contribution now smaller

	2000				2005			
	Total value	Domestic	Import	Imports - % of total	Total value	Domestic	Import	Imports - % of total
	RM million				RM million			
Agriculture, Fishery & Forestry	15,463	12,046	3,417	22.1	22,908	18,373	4,536	19.8
Mining & Quarrying	8,442	3,690	4,752	56.3	22,097	17,446	4,651	21.0
Manufacturing	384,777	169,905	214,873	55.8	738,156	445,254	292,901	39.7
Electricity, Gas & Water	6,905	5,272	1,634	23.7	21,122	18,183	2,940	13.9
Construction	29,937	19,615	10,321	34.5	44,905	29,594	15,311	34.1
Wholesale & Retail trade	13,322	8,226	5,096	38.3	24,204	20,477	3,728	15.4
Hotels & Restaurants	13,608	9,493	4,114	30.2	16,761	15,626	1,135	6.8
Transport & Communication	29,929	17,537	12,392	41.4	78,567	69,561	9,005	11.5
Finance & Insurance	9,324	6,564	2,760	29.6	36,383	35,752	631	1.7
Real Estate & Ownership of Dwellings	3,401	3,269	132	3.9	11,395	10,608	788	6.9
Business & Private Services	13,797	8,032	5,765	41.8	30,892	21,597	9,295	30.1
Government Services	14,247	8,051	6,196	43.5	35,083	27,113	7,970	22.7
Total	543,152	271,700	271,452	50.0	1,082,473	729,584	352,891	32.6

Source: Department of Statistics

Latest trade statistics also show further decline in intermediate imports: The latest Malaysian trade data shows that imports for intermediate goods as a percentage of total exports of goods and services had declined from 50.8% in 2007 to 47.1% in 2013 (see table).

	Imports of Intermediate Goods (A)	Total Exports of Goods & Services (B)	A/B (%)
2005	309,667	613,694	50.5
2006	335,532	669,505	50.1
2007	358,756	706,382	50.8
2008	379,136	766,096	49.5
2009	297,340	651,671	45.6
2010	365,682	744,034	49.1
2011	376,428	810,221	46.5
2012	363,714	803,042	45.3
2013	379,306	805,962	47.1

DVA analysis on the impact of trade liberalization is not new, and will evolve in time. Although Ms Banga claimed that her paper is the first to use the Trade in Value-Added Gravity model, the concept of separating the DVA from total exports is not new. An earlier study done by Gonzalez (2012) with the Swiss National Centre of Competence in Research had employed this approach in his analysis of intermediate imports. The important point to appreciate is that the availability of updated data, different assumptions and changing structure of the economy may yield different result using the same model. That has been the case with CGE model-based analysis over the years, which have differed greatly in assumptions, estimates and findings. Thus, we can expect more studies in the future using the same DVA-based approach as that in Banga (2014), but with different views and findings.

TPPA should expand the growth potential of services export: Export of services, by nature, has high DVA content. Although the services account in Malaysia's balance of payment is still in the deficit, the growth of services export has been strong and is outpacing services import. Services export grew 8.4% in 2013 compared with 7.8% growth for services import. In 1H14, the corresponding growth was 5.5%yoy vs 2.8%yoy respectively. We believe that services export can continue to grow, driven by for example the ICT industry. Malaysia's ICT players are regionally competitive. Technology IPOs in South East Asia are dominated by companies from Malaysia and Singapore. In October, a Malaysian company, MOL Global, one of the biggest internet companies in South East Asia was listed on Nasdaq in October. Malaysia is recognized as having an established technology ecosystem which owes its growth to the Multimedia Super Corridor introduced in 1996. There is a vibrant start-up scene in Malaysia with generous government incentives for tech entrepreneurs. Much of this is due to the fact that mobile penetration rate is very high in Malaysia. In 2013, it was the third highest in East Asia, behind only the city states of Hong Kong and Singapore, and was even higher than that in the U.S, U.K and Japan (Source: World Bank World Development Indicators 2014).

What is the impact of Malaysia being a non-party to TPPA? It would be interesting if Ms Banga were to extend her DVA analysis to address the obverse scenario. This would be an analysis of the impact on Malaysia's trade and production if it decided NOT to participate in the TPPA. According to Petri et al (2012), "preference erosion" and "trade diversion" are likely side effects of deals like these on non-participating countries. They have estimated that by 2025, the TPP could mean losses of US$46.8 billion for China, and roughly $4 billion for India, Indonesia, and Thailand. Cheong (2013) argued that the non-TPP ASEAN, namely Cambodia, Lao PDR, Myanmar, Indonesia, Thailand and Philippines are likely to face increased competition with non-ASEAN TPP members and may face losses from implementation of the TPP.

The reality is that the impact of TPPA on trade and in turn, growth on specific countries is actually hard to predict as acknowledged by the EU Directorate-General for External Policies and many others when they attempted to derive the findings from their analysis. TPPA negotiators are governed by confidentiality; as such, estimating the full potential impact on member countries is rather difficult as negotiations are still ongoing.

We believe policymakers are taking heed of both positive and negative findings to assist them in making a more informed decisions. As the negotiations are still ongoing and there will be more and more studies on the impact of TPPA is likely to emerge (although not necessarily focusing on Malaysia), we believe that the government is treading carefully and weighing the risks from every possible angle when negotiating the terms. Prime Minister Datuk Seri Najib Tun Razak last month reiterated the government's stance on the TPPA issue that ".. Malaysia wants to be part of it, provided our concerns can be accommodated in the final outcome"

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