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Malaysia and other Pacific Rim nations join forces to boost trade

The signing in Chile last week of a new trade pact between 11 Pacific Rim Nations marks the culmination of 10 years of negotiations, and is welcomed by individuals and the business community, within member countries and beyond.

The Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) is a big, ambitious deal and is expected to bring sizeable economic gains to its members: Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore and Vietnam. It also has the potential to expand to new members, with countries and geographies such as Taiwan, Thailand and South Korea having expressed interest in joining¹.

Across the 11 economies involved, recent estimates from the Peterson Institute for International Economics (PIIE) suggest trade flows will be boosted by 6 per cent to 2030, with members enjoying total real income gains of US\$157 billion every year - for Malaysia alone, the CPTPP is projected to boost Malaysia's exports by 8.6 per cent come 2030².

These gains could be even bigger. The rallying of Indonesia, South Korea, the Philippines, Taiwan and Thailand would generate US\$486 billion in total income gains for member economies³. These gains are bigger than those the original TPP, which included the US, would have delivered.

Perhaps the biggest benefit, the deal will eliminate most tariffs between member countries, and where tariffs are maintained, cuts will be significant. For instance, the tariff on New Zealand beef exports to Japan will fall from 38.5 per cent today to 9 per cent when the deal enters into force⁴. In addition to raising labour and environmental standards, the CPTPP also provides efficient and transparent custom procedures to make it easier to move goods in and out of member markets. Finally, it has dedicated chapters to set rules around data movement and to facilitate the exchange of services.

¹https://static1.squarespace.com/static/5393d501e4b0643446abd228/t/5a6548c971c10b2e8a585f37/1516587225236/TPP11_benefits_Final_11Jan18.pdf

² <https://piie.com/system/files/documents/wp17-10.pdf>

³ <https://piie.com/system/files/documents/wp17-10.pdf>

⁴ <https://www.mfat.govt.nz/en/trade/free-trade-agreements/free-trade-agreements-concluded-but-not-in-force/cptpp/cptpp-overview/>

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“Collectively, these improvements mean that around 500 million people across 11 nations will have access to a greater and cheaper choice of goods and services. Combining over US\$10 trillion of economic output - about 13.5 per cent of the world’s GDP⁵, these nations offer bright prospects to the business community too,” said Andrew Sill, Head of Commercial Banking, HSBC Malaysia.

“Whether it is firms already doing business in the region, or globally-minded companies looking to tap into new markets, many recognise the potential benefits the CPTPP could bring them. New data from a global survey of businesses commissioned by HSBC revealed that nearly half (46%) of firms based in one of the six CPTPP countries surveyed expect the deal will have a positive impact on their business. In Malaysia, 63% of firms share this opinion,” added Andrew.

Andrew also shared that more than half 60% of Malaysian business also feel that the CPTPP will be relevant for their business. As such, to make the most of these opportunities, companies should start developing strategies to reap the benefits unlocked by the new agreement, before it enters into force at the turn of this year.

First, businesses can review their current trade relationships to identify the gaps and understand where is the greatest potential to create new ties and tap into some of the fastest growing consumer markets.

Second, they must look at how their current supply chains – regional or global – map against the CPTPP links. Those who work now to understand how the deal could impact their business model will reap the greatest benefits in the future. This is not only important to companies based in one of the member countries, but also to any firms doing business in the region.

Finally, an in-depth understanding of the CPTPP and its impact on tariffs for each group of goods and services will be critical for firms to reassess their pricing strategies and maintain their competitive advantage.

“The CPTPP agreement is also a remarkable piece of diplomacy. This single pact, which ushers in higher standards and economic benefits, covers emerging and advanced economies, spanning four regions. It is a big step for multilateralism and international collaboration, and can serve as an example for further pacts,” explained Andrew.

“So while the path towards ratification could still be bumpy, the signing of the CPTPP tells us that trade liberalisation is alive and kicking, something all of us who believe in trade as a force for good should celebrate.”

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⁵ HSBC Global Research, *Reviving the TPP*, November 2017

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