

RATIFICATION OF THE RCEP & CPTPP

What Experts Say



ASEAN-BAC
Malaysia

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RATIFICATION OF THE RCEP & CPTPP: EXPERTS' VIEWS, PROJECTIONS AND OPPORTUNITIES

Malaysia became a signatory to the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and Regional Comprehensive Economic Partnership (RCEP) on March 8, 2018 and November 15, 2020 respectively. However, the country has yet to ratify both trade agreements.

The business community in Malaysia has expressed keen interest for the ratification of CPTPP and RCEP.

This booklet captures the views of experts expressed over three (3) programmes organised by ASEAN BAC MY.

(A) RCEP and CPTPP as Game-Changers in ASEAN's Post COVID-19 Economic Recovery

ASEAN-BAC Malaysia convened a panel of experts on 22 June 2021 to discuss the benefits that early ratification could bring to Malaysia and consider the ramifications should it miss the opportunity to do so.

In summary, they recommended that the country ratify the RCEP and CPTPP at the soonest to:

- **Accelerate Malaysia's post-pandemic recovery**, particularly since these trade agreements will go a long way in stabilizing and expanding the manufacturing and supply chain sectors.
- **Bolster Malaysia's reputation as a competitive and pro-business economy**; and
- **Harmonize regulatory frameworks** to ensure that highly regulated industries can also reap the benefits of these free trade agreements.

The event concluded with the presentation of a joint memorandum signed by 23 private sector bodies urging the government to ratify these trade agreements by the end of 2021 to allow the country to gain an early mover's advantage in positioning itself as a gateway to nearly a third of the world's population through the ASEAN, RCEP, and CPTPP markets.

The experts who participated in ASEAN-BAC Malaysia's "**RCEP and CPTPP as Game-Changers in ASEAN'S Post COVID-19 Economic Recovery**" webinar were:

- **Datuk Seri Hasnol Zam Zam Ahmad**, Secretary-General of the Ministry of Domestic Trade and Consumer Affairs (DTCA);
- **Datuk Seri Mohamed Iqbal**, Vice President of Malaysia-Japan Economic Association (MAJECA);
- **Tan Sri Dr Rebecca Fatima Sta Maria**, Executive Director of Asia-Pacific Economic Cooperation (APEC) Secretariat;
- **Tan Sri Dato' Soh Thian Lai**, President of Federation of Malaysian Manufacturers (FMM);
- **Datuk K. Surendran Kutty Krishnan**, Honorary Secretary of Malaysia India Business Council (MIBC);
- **Billy Urudra**, President of Malaysian Organisation of Pharmaceutical Industries (MOPI),
- **Christopher Leong**, Immediate Past President of The Law Association for Asia and the Pacific (LAWASIA) and Past President of the Bar Council Malaysia;
- **Lee Heng Guie**, Executive Director of Socio-Economic Research Centre (SERC) of ACCCIM;
- **Tan Sri Dato' Dr Munir Majid**, Chairman of ASEAN-BAC Malaysia;
- **Tan Sri Yong Poh Kon**, Council Member of ASEAN-BAC Malaysia;
- **Raja Singham**, Council Member of ASEAN-BAC Malaysia; and
- **Jukhee Hong**, Executive Director of CARI ASEAN Research and Advocacy.

The webinar was held on the back of a series of dialogues hosted by ASEAN-BAC Malaysia with 47 trade associations, chambers of commerce, professional bodies, foreign business associations, and business councils in Malaysia on 22 February 2021 which resulted in the publication of a report titled "Pathway for Malaysia 2021" containing 137 key recommendations that were highlighted by the many experts who participated in during the dialogues.

(B) RCEP & CPTPP 2021: Projections and Opportunities

On 28th May 2021, noting the interest in and emphasis on the importance for Malaysia to take early advantage of the RCEP and CPTPP that was raised during the series of dialogues, ASEAN-BAC Malaysia and CARI ASEAN Research & Advocacy then jointly published a report titled "[RCEP & CPTPP 2021: Projections and Opportunities](#)" capturing how these free trade agreements could benefit Malaysia.



(A)

**RCEP AND CPTPP AS GAME-
CHANGERS IN ASEAN'S POST
COVID-19 ECONOMIC RECOVERY**



RATIFICATION OF THE RCEP & CPTPP: EXPERTS' VIEWS, PROJECTIONS AND OPPORTUNITIES

ASEAN-BAC Malaysia Webinar 2021

RCEP and CPTPP as Game-Changers in ASEAN's Post COVID-19 Economic Recovery



ASEAN-BAC
Malaysia

ASEAN-BAC MALAYSIA WEBINAR 2021

22 June 2021

9.00 AM - 12.00 PM (GMT +8, MYT)

RCEP and CPTPP as Game-Changers in ASEAN's Post COVID-19 Economic Recovery



Kuala Lumpur, 22 June 2021 – A large group of private sector bodies led by the ASEAN Business Advisory Council (ASEAN-BAC) Malaysia released a joint memorandum urging the government to ratify the Regional Comprehensive Economic Partnership (RCEP) and Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) by the end of 2021 to allow Malaysia to gain an early mover's advantage in positioning itself as a gateway to nearly a third of the world's population through the ASEAN, RCEP, and CPTPP markets.

According to the memorandum, early ratification of the RCEP and CPTPP would enable Malaysian businesses to gain market access, to better source for raw materials and integrate their supply chains with other RCEP and CPTPP markets, derive greater certainty concerning intellectual property rights, as well as promote greater transparency, information sharing, trade facilitation, economic cooperation, and coherence in e-commerce regulations.

The memorandum of support was signed by representatives of Malaysian trade associations, chambers of commerce, professional bodies, and foreign business associations and business councils on the occasion of the ASEAN-BAC Malaysia webinar on 22 June 2021 titled "RCEP and CPTPP as Game-Changers in ASEAN's Post COVID-19 Economic Recovery."

1. MALAYSIA CAN LEVERAGE THE RCEP AND CPTPP FOR ITS POST-PANDEMIC ECONOMIC RECOVERY



Datuk Seri Hasnol Zam Zam Ahmad

In his opening address, Ministry of Domestic Trade and Consumer Affairs (DTCA) Secretary-General Datuk Seri Hasnol Zam Zam Ahmad spoke of the ripple effect the COVID-19 pandemic has had on Malaysia's economy and how these unprecedented challenges have led the ministry to focus on holistic measures as opposed to sectoral or agency-centric initiatives.

Malaysia has always been an open economy and the country has entered into trade pacts with many countries since the benefits of free trade agreements clearly outweigh the costs.

"The benefits of free trade agreements, such as lower tariffs, and better access to foreign markets, will be of assistance to businesses and must be utilized to pull ourselves out of this unfortunate situation.

While there is a need to safeguard some strategic sectors of the economy, total protectionism may result in the stifling of competition and market distortion. An efficient and healthy market is the key to ensuring that both domestic players and foreign investors flourish and complement each other for the interests of consumers and the economy," said the secretary-general.

For Malaysia to enjoy the benefits of the RCEP and CPTPP – which were signed in 2018 and 2020 respectively – the government has taken steps to amend relevant laws and regulations to comply with the obligations under the respective agreements, such as amendments to intellectual property laws which fall under the purview of the ministry.

Furthermore, the DTCA is also looking at ways to help local businesses embrace new modes of business as the world moves towards a borderless business environment. This includes eliminating barriers to international digital trade, creating programs to help small-and-medium enterprises (SMEs) advertise and promote themselves through digital channels, as well as strengthening the legal infrastructure needed to protect consumers.

Panel 1: Regional Comprehensive Economic Partnership (RCEP)



The first panel centred on the RCEP's role in ASEAN's post-pandemic recovery. The panel was moderated by ASEAN-BAC Malaysia Council Member Mr Raja Singham.

2. RATIFY THE RCEP SOONEST SO DOMESTIC AND FOREIGN BUSINESSES CAN ENJOY ITS BENEFITS



Mr Lee Heng Guie, Executive Director of the Socio-Economic Research Centre of ACCCIM, kicked off the panel by highlighting the many opportunities that the RCEP is likely to bring to Malaysia. For starters, he said, Malaysia's trade with RCEP member states made up roughly 58% of the country's total trade in 2020 and it is therefore imperative for us to ratify the agreement as soon as possible to send a strong signal to the international community that Malaysia is indeed open for business.

"Doing so would also reposition Malaysia as an attractive and competitive place of doing business in the region, and a preferred gateway to access ASEAN and RCEP markets. The sooner the RCEP comes into force, the sooner domestic and foreign businesses in Malaysia can enjoy its trade and investment liberalisation benefits as well as greater uniformity and clarity in terms of rules of origin classifications," said Mr Lee.

Mr Lee noted that companies in industries such as telecommunications, banking and finance, and consultancy are most well-positioned to benefit from the greater cooperation opportunities that the RCEP will bring. Furthermore, industries involving food and beverages, chemical products, rubber products, plastic products, machinery and equipment, and electronics and electrical products will also benefit.

Industries involving textiles and apparel as well as timber and timber products are also likely to benefit, he said, though these industries will face fierce competition from other ASEAN countries such as Vietnam and Indonesia who have positioned themselves as low-cost alternatives. As such, Malaysian companies must raise the game and be more competitive by innovating, increasing the quality of their brand and products, and adopting digital solutions.

Enhancing Malaysia's competitiveness in terms of trade – especially to appeal to manufacturers and other businesses – means reducing red tape and behind-the-border barriers, protecting data flows, and ensuring that all procedures and transactions involved are predictable, consistent, and transparent. Ultimately, he said, the government's work does not end at the ratification of the RCEP and continued facilitation will be needed.

3. FREE TRADE AGREEMENTS ARE INSUFFICIENT IF NOT PAIRED WITH BOLD ECONOMIC REFORMS



Datuk K. Surendran Kutty Krishnan, Honorary Secretary of the Malaysia-India Business Council said that Malaysia has benefited from the free trade agreements that it has entered thus far, evidenced by the many Malaysian companies who currently operate in and who have secured infrastructure development projects in other ASEAN countries. Not to mention that over 65% of Malaysia's trade is with countries with which it has signed free trade agreements.

However, Datuk Surendran noted that our ASEAN neighbours have been moving aggressively towards completing high-quality free trade agreements, making them increasingly attractive to investors. For example, Singapore and Vietnam have both ratified and implemented free trade agreements with the European Union and the United Kingdom – in addition to doing the same for the CPTPP.

“While the Malaysian Investment Development Authority (MIDA) is doing an excellent job in bringing investments to the country, these efforts will not be sufficient to entice new investors to Malaysia if they do not come with bold economic reforms, what with other countries in the region also becoming more competitive,” he said.

Datuk Surendran also noted MITI’s proposal to establish a National Investment Council under the National Investment Aspirations Framework which it announced on 21 April 2021. While the formation of such a council is overdue, he said, its effectiveness will depend on follow-through.

“Besides formulating overarching investment policies and resolving key implementation issues, the council must look at accelerating economic reforms and breaking down regulatory barriers that impede domestic and foreign investment. This could also be an opportunity for Malaysia to set up a digital investment office with MIDA’s involvement to enhance coordination and ease of doing business,” he said.

4. MALAYSIA NEEDS TO DEVELOP ITS PHYSICAL INFRASTRUCTURE, DIGITAL PREPAREDNESS, AND HUMAN CAPITAL TO ATTRACT INVESTMENTS



Datuk Seri Mohamed Iqbal, Vice President of the Malaysia-Japan Economic Association (MAJECA) concurred with his fellow panellists on the need for Malaysia to ratify the RCEP as soon as possible as it would greatly benefit the country – the same way that the free trade agreement between Malaysia and Japan has helped increase trade, investment, and partnerships between the two countries.

He notes that Malaysia appears to be lagging in the ratification of the RCEP and CPTPP due to political and procedural reasons, and contrasts the democratic processes that exist in Malaysia with those in Japan.

“While the democratic process is there in Japan, they are of one voice when it comes to matters of national interest and commercial applications of treaties that they have entered. The economic sectors in Japan strongly support the government because, without them, the country’s progress will be affected,” he said.

Datuk Seri Mohamed Iqbal also stressed the need for Malaysia to develop its infrastructure and human capital since foreign investors – such as high technology investors from Japan – have found these areas lacking, thus hindering their ability to invest in Malaysia.

5. THE RCEP WILL ONLY AFFECT MALAYSIA’S ECONOMIC RELATIONSHIP WITH CHINA AND INDIA POSITIVELY

A vibrant Q&A session followed the presentations by the three panellists. Among the key topics covered were how China and India would factor into Malaysia’s involvement in the RCEP.

According to Mr Lee Heng Guie, China and Malaysia’s bilateral trade and investment will only continue to grow. However, he urged Malaysia to look for ways to elevate its relationship with China beyond infrastructure-related projects, such as by learning from China’s expertise in developing high-value technological industries.

Datuk Surendran, for his part, said that India is not a market that Malaysia should ignore since India is projected to become the fourth largest global economy in the coming two decades. Both countries enjoy a robust trade and investment relationship as it is – through the Malaysia-India and ASEAN-India free trade agreements – and both sides should continue to build on these relationships, whether or not India decides to join the RCEP later on.

In closing the session, panel moderator Mr Raja Singham noted that much remains to be done to ensure that local businesses – especially SMEs – are primed and ready to take advantage of the trade agreements. This, he said, cannot be the sole responsibility of the government and will require the participation of MITI, MIDA, SME Corporation, as well as many other agencies, business associations, and chambers of commerce.

Panel 2: Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP)



The second panel centred on the CPTPP's role in ASEAN's post-pandemic recovery. The panel was moderated by ASEAN-BAC Malaysia Council Member Tan Sri Yong Poh Kon.

6. DELAYED RATIFICATION OF THE CPTPP AFFECTS EXTERNAL PERCEPTIONS OF THE COUNTRY'S COMPETITIVENESS AND GOVERNANCE



Dr Rebecca Fatima Sta Maria, Executive Director of the Asia Pacific Economic Cooperation (APEC) Secretariat, who is also the former Secretary-General of MITI, in her presentation as the first panellist said that the key components of the CPTPP can be categorized into two parts: market access, and the other rules and disciplines.

These parts and the requirements that come with them are not new to Malaysia since they have been in deliberation for as long as the country has had free trade agreements, she said, though there are newer considerations such as sustainability and environmental issues, digital technology, and data protection.

Nevertheless, Dr Rebecca stressed the need for Malaysia to ratify the CPTPP as soon as possible since an inability to commit raises questions around a country's governance, transparency, and predictability – and this affects external perceptions about the country's competitiveness.

She added that Singapore and Vietnam have already ratified the CPTPP and they have been reaping the benefits, especially during the COVID-19 pandemic. As such, Dr Rebecca urged Malaysia's policymakers to think about and act upon these trade agreements with a long term view for the country.

7. CPTPP WILL PROVIDE A STRUCTURED FRAMEWORK FOR GREATER COOPERATION WITH AND ACCESS TO GROWING MARKETS



Tan Sri Dato' Soh Thian Lai, President of the Federation of Malaysian Manufacturers (FMM), said that mega trade deals such as the CPTPP are tools that can be used to address the challenges resulting from the pandemic.

For instance, the CPTPP would eliminate tariffs on the vast majority of Malaysia's intra-regional trade products while providing a structured framework for cooperation that leverages on each partner country's strengths, thus complementing our local sectors rather than competing with them.

Furthermore, the CPTPP would also allow Malaysian exporters preferential access into growing markets across the Asia Pacific, increased imports of raw and base materials from Latin America and Canada, as well as facilitate greater trade in goods within the East Asian region.

"FMM commends MITI on its commitment to complete domestic procedures for the ratification of the RCEP by the first quarter of 2022. This is imperative to stabilize regulatory activities and supply chain connectivity in the region," he said.

8. HARMONIZED REGULATORY FRAMEWORKS NEEDED FOR FREE TRADE AGREEMENTS TO BE MEANINGFUL TO HIGHLY REGULATED INDUSTRIES



Mr Billy Urudra, President of the Malaysian Organisation of Pharmaceutical Industries (MOPI), said that the organization is generally supportive of the ratification of the CPTPP as it benefits the country on the whole and for the general industries.

However, while free trade agreements such as the CPTPP are beneficial for the country, they should be accompanied by harmonized regulatory frameworks—whether bilaterally or as a bloc—to ensure that highly regulated industries can enjoy the benefit of these mega trade deals.

Mr Urudra stressed that this must be done or regulated industries such as the pharmaceutical industry will not benefit from these trade agreements.

9. MALAYSIA'S RATIFICATION OF THE CPTPP SHOULD NOT BE DEPENDENT ON THE ISDS



Mr Christopher Leong, Immediate Past President of the Law Association for Asia and the Pacific (LAWASIA) and Past President of the Malaysian Bar Council, honed in on the Investor-State Dispute Settlement (ISDS) provisions provided in the CPTPP for his part on the panel.

Mr Leong laid out and dismantled the various concerns with regard to the ISDS as he stressed that Malaysia's ratification of the agreement need not and should not be dependent on the ISDS as it is only a supportive provision and there are various ways to deal with these concerns.

The seven main concerns that had been raised by policymakers and deconstructed by Mr Leong during the webinar involved: (i) transparency of proceedings, (ii) non-availability of proceedings, (iii) the decision or awards arising from such disputes are not precedent setting, (iv) the selection process of arbitrators, (v) excessive awards of damages, (vi) perceived encroachment on the sovereignty or regulatory powers of party states, and (vii) the dangers of having multiple proceedings.

"The main thrust and centrality of the CPTPP is to facilitate and promote regional economic integration, trade, and investment. So as long as the parties find that there is benefit in that primary purpose, the ISDS should not present an obstacle to signing it," he said.

10. RATIFICATION OF THE CPTPP IS THE ONLY WAY FORWARD



In closing the session, panel moderator Tan Sri Yong Poh Kon said that should Malaysia not ratify the CPTPP, it will have to go back to square one in negotiating the many concessions that it has made to bring discussions this far.

The potential of the CPTPP is clear, he said, and all we have to do is consider just three of its members with whom Malaysia does not have existing trade agreements – Canada, Mexico, and Peru – taken together, their collective GDP is worth 10 times that of Malaysia's.

The ASEAN-BAC Malaysia webinar on "RCEP and CPTPP as Game-Changers in ASEAN's Post COVID-19 Economic Recovery" then came to a close with remarks from Chairman Tan Sri Dato' Dr Munir Majid and the unveiling of the Memorandum of support signed by 21 business associations calling for the ratification of the RCEP and CPTPP by the end of 2021.



(B)

**RCEP & CPTPP 2021:
PROJECTIONS AND
OPPORTUNITIES REPORT**



RCEP & CPTPP 2021

Projections and
Opportunities



ASEAN-BAC
Malaysia



ASEAN
RESEARCH &
ADVOCACY

The ASEAN Business Advisory Council (ASEAN-BAC) Malaysia Chapter is an integral participant in the regional ASEAN-BAC with regular participation at all Council Meetings and Consultations with the leaders. For the 16 years that the ASEAN-BAC Malaysia Chapter has been in operation, various recommendations, feedback and input have been provided during the consultation with the ASEAN Economic Ministers and ASEAN Heads of State at the regular ASEAN Consultation and Business Summits. At the same time, various studies on the national and regional economic climate have been conducted to substantiate the recommendations, some of which have already been incorporated into the guidelines of the overall ASEAN Economic Community Agenda.

Supervisor, Research Editor: Jukhee Hong
Writer: Eleen Ooi Yi Ling
ABAC Malaysia Secretariat: Ungku Ilyia, Anis Yusof, Ainul Fatihah

For enquiries, contact:
ASEAN Business Advisory Council (ASEAN BAC) Malaysia
Unit 9-1, 9th Floor, West Wing, Menara MATRADE,
Jalan Sultan Haji Ahmad Shah,
50480 Wilayah Persekutuan Kuala Lumpur, Malaysia.
Phone : +603 6211 2511
Fax : +603 6211 4533

E-mail : secretariat@aseanbex.com

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ABOUT ASEAN BUSINESS ADVISORY COUNCIL (ASEAN-BAC)



A S E A N - B A C

The ASEAN Business Advisory Council (ASEAN-BAC) was established by the ASEAN Heads of State and Government (HOSGs) at the 7th ASEAN Summit in November 2001 in Bandar Seri Begawan, Brunei Darussalam. Launched in April 2003, ASEAN-BAC was set up with the mandate to provide private sector feedback and guidance to boost ASEAN's efforts towards economic integration. Aside from providing private sector feedback on the implementation of ASEAN economic cooperation, the Council also identifies priority areas for consideration of the ASEAN Leaders. Accordingly, ASEAN-BAC's activities are primarily focused on reviewing and identifying issues to facilitate and promote economic cooperation and integration.

For further information on ASEAN BAC, please visit asean-bac.org.

ABOUT ASEAN BUSINESS ADVISORY COUNCIL (ASEAN-BAC) MALAYSIA



The ASEAN Business Advisory Council (ASEAN-BAC) Malaysia Chapter is an integral participant in the regional ASEAN-BAC with regular participation at all Council Meetings and Consultations with the leaders. For the 16 years that the ASEAN-BAC Malaysia Chapter has been in operation, various recommendations, feedback and input have been provided during the consultation with the ASEAN Economic Ministers and ASEAN Heads of State at the regular ASEAN Consultation and Business Summits. At the same time, various studies on the national and regional economic climate have been conducted to substantiate the recommendations, some of which have already been incorporated into the guidelines of the overall ASEAN Economic Community Agenda.

Moving forward, ASEAN-BAC as a collective endeavour to venture into more operative initiatives such as business matchmaking and promotional activities between the private sector businesses within the region, with particular emphasis on SMEs, the main economic driver of the region. Every national council is responsible for the implementation of these initiatives at the national level with collaboration, support and connectivity with the various other national councils.

The initiatives are set in accordance with the guidelines and timeline of the implementation of the ASEAN Economic Community (AEC) formed in 2015 and during Malaysia's Chairmanship.

ASEAN-BAC Malaysia is represented by Tan Sri Dr Mohd Munir bin Abdul Majid (Chairman), Mr. Raja Singham (Council Member and ASEAN-BAC's Secretary) and Tan Sri Yong Poh Kon (Council Member).

For further information on ASEAN BAC Malaysia, please visit aseanbac.com.my.

RESEARCH PARTNER



CARI ASEAN Research and Advocacy is an independent think tank created to support ASEAN economic integration and development through policy research and advocacy. Since 2011, it has been at the forefront of ASEAN policy dialogues and consultations, mainstreaming the voices of business and the ASEAN integration agenda.

CARI's vision is to advocate for a greater policy liberalisation for ASEAN economic integration and the realisation of the ASEAN Economic Community through policy research and advocacy.

CARI pursues evidence-based research and promotes thought leadership in support of the ASEAN Economic Community. It houses a consortium of ASEAN expertise in areas related to trade and investment, sustainability, and digital technology. CARI conducts practical research and helps focus the private sector's interest in meaningful progress towards an integrated and competitive ASEAN economy. The think tank helps business leaders to develop perspectives, networks and tools to operate in a rapidly changing region.

CARI has a wide network of high-level partners and collaborators across ASEAN, Europe, East Asia, Northern America, Eastern Europe and the Asia Pacific.

For further information on CARI, please visit cariasean.org.

MESSAGE FROM THE COUNCIL MEMBERS



**Tan Sri Dato' Dr. Mohd Munir
Abdul Majid**
Chairman



Tan Sri Yong Poh Kon
Council Member



Raja Singham
Council Member

ASEAN BAC Malaysia held a series of dialogues with 47 Trade Associations, Chambers of Commerce, Professional Bodies, Foreign Business Associations and Business Councils in Malaysia on 22nd February 2021 and produced a report titled **Pathway for Malaysia 2021** highlighting 137 recommendations prioritised from the dialogues.

It has been noted that businesses in Malaysia are eager to deepen the understanding of the Regional Comprehensive Economic Partnership (RCEP) and the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) to take first movers advantage once the FTAs have been ratified and enter into force.

The ratification of RCEP and CPTPP could provide Malaysia with the advantage in the new trade and investment opportunities, especially in the post-pandemic environment. The following chapters capture the projected benefits of both free trade agreements.

A handwritten signature in black ink, appearing to be 'Munir' with a horizontal line underneath.

**Tan Sri Dato' Dr. Mohd Munir
Abdul Majid**
Chairman

A handwritten signature in black ink, appearing to be 'Yong Poh Kon'.

Tan Sri Yong Poh Kon
Council Member

A handwritten signature in black ink, appearing to be 'Raja Singham'.

Raja Singham
Council Member

1. COMPREHENSIVE AND PROGRESSIVE AGREEMENT FOR TRANS-PACIFIC PARTNERSHIP (CPTPP)

A) WHAT IS CPTPP

The CPTPP is a free-trade agreement (FTA) between 11 countries around the Pacific Rim: Canada, Mexico, Peru, Chile, New Zealand, Australia, Brunei, Singapore, Malaysia, Vietnam and Japan.¹ The *Comprehensive and Progressive Agreement for Trans-Pacific Partnership* was signed in March 2018. It came into force in December the same year. Six countries have so far ratified the CPTPP, namely Canada,² Australia,³ Japan,⁴ Mexico,⁵ New Zealand,⁶ Singapore⁷ and Vietnam.⁸

B) WHAT DOES CPTPP DO?

- The rights and obligations under the CPTPP fall into two categories:
 - **Rules:** How countries should make new food safety regulations or whether they can ban the transfer of data to other CPTPP members. These are the same for all CPTPP parties (including any new members that may join).
 - **Market access:** how far each CPTPP member will cut its tariffs, open up its services markets, liberalise visa conditions for business travellers, and so on. Each member has its schedules of commitments. In some cases, the commitments are offered to all other members, while in others they are restricted to specific negotiating partners.
- The CPTPP provides for 96% liberalisation of tariffs among the participants.⁹
- Tariffs are retained in only a few highly sensitive areas. For example, Japan keeps tariffs on rice, while Canada's dairy industry is also protected. It provides a single set of rules of origin, and allows content from all CPTPP countries to be 'cumulated'.
- If a good has to have at least 70% CPTPP content to qualify for preferential tariffs, for instance, that 70% can come from any combination of CPTPP countries.

¹ UK Institute for Government, [Comprehensive and Progressive Agreement for Trans-Pacific Partnership \(CPTPP\)](#), February 2021

² Government of Canada, [Overview and benefits of the CPTPP](#), February 2019.

³ Australian Department of Foreign Affairs and Trade, [CPTPP news | Australian Government Department of Foreign Affairs and Trade](#), 31 October 2018.

⁴ Japan Ministry of Foreign Affairs, [Notification of Completion of Domestic Procedures for the Comprehensive and Progressive Agreement for the Trans-Pacific Partnership \(TPP11 Agreement\)](#), 6 July 2018.

⁵ Reuters, [Mexico's senate ratifies sweeping Asia-Pacific trade deal](#), 25 April 2018.

⁶ New Zealand Government "BeeHive", [CPTPP law in the House as Mexico first to ratify](#), 28 June 2018.

⁷ Singapore Ministry of Trade and Industry, [Free Trade Agreements - CPTPP](#), 30 April 2021.

⁸ New Zealand Government BeeHive, [Viet Nam seventh nation to ratify CPTPP](#), 15 November 2018.

⁹ Peterson Institute for International Economics, [Working Paper 20-9 East Asia Decouples from the United States: Trade War, COVID-19, and East Asia's New Trade Blocs](#), 2020

C) WHY IS CPTPP IMPORTANT?

- The CPTPP accounts for a substantial share (about 13%) of world gross domestic product (GDP), representing 495 million people and a combined GDP of \$13.5 trillion.¹⁰
- If the United State (U.S.) decides to ratify the CPTPP, the benefits of the agreement could rise and help elevate the importance of CPTPP in global trade.
- President Biden hinted at support for such a move early on in his candidacy, but has since said that the US is not going to enter any new trade agreement until the US has made major investments in the home market and domestic workers”, so this seems unlikely in the short term.¹¹¹²
- In case the US joins the CPTPP, it would generate an additional US\$261 billion of overall GDP or a 0.7% GDP growth with respect to baseline conditions by 2030.¹³
- China’s President Xi Jin Ping also told the 27th APEC Economic Leaders' Meeting in November 2020 that China is actively considering joining the trade pact¹⁴¹⁵¹⁶.

The CPTPP provides crucial trade and investment liberalization and reforms, boosting productivity and business opportunities in member countries. The Peterson Institute for International Economics estimates that the CPTPP will add an estimated \$147 billion to global income.¹⁷

D) CPTPP VS Regional Comprehensive Economic Partnership (RCEP)

- CPTPP agreement consists of about 30 different chapters¹⁸ including chapters that aim to set a high-level standard on labour, the environment, state-owned enterprises, transparency and anti-corruption
- RCEP’s 20 chapters are heavily focused on harmonising barriers and procedures in regional trade, and setting “lowest common denominator” standards between member countries (see Table 1).

¹⁰ Government of Canada, [Overview and benefits of the CPTPP](#), November 2019.

¹¹ Nikkei, [Can Biden return the US to TPP? Does it matter? 2 experts explain](#), 1 April 2021.

¹² Council on Foreign Relations, [Biden’s First Foreign Policy Move: Reentering International Agreements](#), 21 January 2021.

¹³ World Bank Document, [Actual and Potential Trade Agreements in the Asia-Pacific: Estimated Effects](#), October 2019.

¹⁴ Nikkei, [Xi says China will consider joining TPP](#), November 2020

¹⁵ Nasdaq, [China will 'actively consider' joining CPTPP free-trade pact, Xi says](#), November 2020.

¹⁶ SCMP, [China 'needs' trade pact like CPTPP to force it into domestic reform, says former commerce minister](#), 11 March 2021.

¹⁷ Peterson Institute for International Economics, [Policy Brief 19-1: China Should Join the New Trans-Pacific Partnership](#), January 2019.

¹⁸ The official CPTPP text is available at NZ MFAT, [Comprehensive and Progressive Agreement for Trans-Pacific Partnership text and resources](#).

Table 1: Key issues in CPTPP not covered by RCEP

Source: [The Regional Comprehensive Economic Partnership \(RCEP\): What this means for ASEAN and Malaysia - ISIS](#), 17 November 2020

Key issue	CPTPP chapter	RCEP
Trade in Services	10,11,13	Limited coverage
Investment	9	Limited coverage
E-commerce	14	Limited coverage
Labour	19	Not covered
Environmental	20	Not covered
State-owned enterprises (SOEs)	17	Not covered
Transparency and anti-corruption	26	Not covered

E) CAN CPTPP AND RCEP CO-EXIST?

The CPTPP and RCEP are not mutually exclusive, as participating countries will benefit from the coexistence of two free trade agreements. Although there have been some concerns for the potential of the ‘Spaghetti-Noodle bowl’ effect¹⁹, where an increase of FTAs slows down trade relations between countries, research finds that CPTPP and RCEP actually work better together in enhancing the benefits for participating countries.²⁰

A modelling by RSIS found that countries joining both agreements will receive larger economic benefits, compared to their participation in either of these initiatives individually. Malaysia’s GDP is projected to increase by 3.15% if participating in both agreements, compared to an increase of 1.97% if it participates only in CPTPP and 2.59% if it participates only in RCEP.²¹

Malaysia’s larger economic gains from participating in both the CPTPP and RCEP apply to Singapore, Australia, Brunei, Japan, Malaysia, New Zealand, and Vietnam as well. A simple reason behind it is that countries joining these two agreements will be able to access both North American and Asian countries at the same time, from Canada and Mexico to China and Japan (see figure 1 below).²²

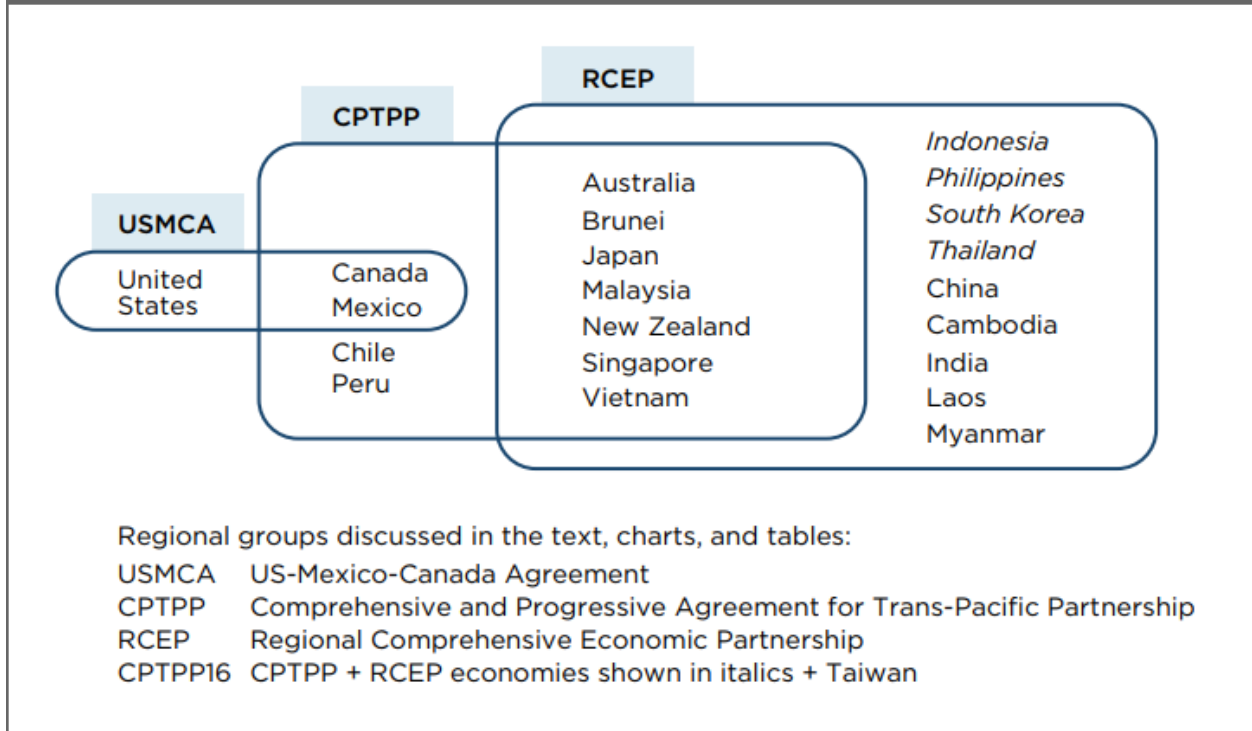
¹⁹ WorldBank Blogs, [Youth Voices: Effects of The Spaghetti Bowl on South Asia-East Asia Trade Relations](#), February 2015.

²⁰ RSIS, [Trade Policy Options For Asean Countries And Their Regional Dialogue Partners](#), March 2018.

²¹ Ibid, pg 17.

²² Ibid.

Figure 1: Asia-Pacific regional groups
 Source: [Peterson Institute for International Economics](#), January 2019



2. WHAT WOULD MALAYSIA GET OUT OF RATIFYING CPTPP AND RCEP?

- CPTPP will eliminate tariffs on 96% of products that enter intraregional trade and the RCEP will likely cover 90% of these products.²³
- CPTPP and RCEP are projected to replace some of the trade destroyed by the US-China trade war and suggest a more central role for East Asian connections in the future.²⁴

Even with the sustained trade war between the US and China, projections indicate that Malaysia will be one of the top gainers by 2030 if both RCEP and CPTPP are ratified and adopted²⁵ through the following benefits:

- Increase in GDP
- Increase in real income gain (see Real Income Gain)
- Increase in export (see Trade Flows)
- Access to larger market due to lowered NTMs and NTBs

²³ Peterson Institute for International Economics, [Working Paper 20-9 East Asia Decouples from the United States: Trade War, COVID-19, and East Asia's New Trade Blocs](#), June 2020.
²⁴ Ibid.
²⁵ Based on the computable general equilibrium (CGE) modelling by Petri and Plummer (2016) and Petri, Plummer, and Zhai (2012). Available from [Asia-Pacific Trade – Research reports, results and data](#).

A) INCREASE IN GDP

Extensive economic modelling using 2030 as a baseline year projected GDP increases under both CPTPP and RCEP for Malaysia. GDP expansion will be driven by significant tariff and NTMs reductions and improved market access to their main CPTPP trading partners. Although the projected GDP differs, with the WorldBank document projecting a conservative 1% and the RSIS report an optimistic 1.97% for CPTPP, both research indicated an upward increase in-country performance. The same trend is projected under RCEP, with a 0.8% increase in GDP under the WorldBank document and a whopping 2.56% increase under the RSIS report (see table 2 below).

Table 2: Estimated Malaysian GDP by 2030		
Extracted from Actual and Potential Trade Agreements in the Asia-Pacific: Estimated Effects , October 2019 and TRADE POLICY OPTIONS FOR ASEAN COUNTRIES AND THEIR REGIONAL DIALOGUE PARTNERS , March 2018.		
GDP modelling by	Projected GDP increase in % by 2030 under CPTPP	Projected GDP increase in % by 2030 under RCEP
Ferrantino, Maliszewska and Taran (2019) ²⁶ , WorldBank Document	1%	0.8%
Ji et al (2018) ²⁷ , RSIS	1.97%	2.56%

B) REAL INCOME GAIN

Malaysia to gain income of US\$21 billion under CPTPP compared to US\$4 billion by 2030 under RCEP

Malaysia is expected to experience a small income gain from the sustained US and China trade war (see table 3 below) reflecting trade that Malaysia would directly or indirectly capture from China. The adoption of RCEP will slightly increase the income gains to US\$4 billion (0.6%) by 2030.²⁸

The income benefit, however, is expected to be amplified to US\$21 billion if the CPTPP is to be adopted²⁹ as CPTPP members gain at the expense of nonmembers.

²⁶ World Bank Document, [Actual and Potential Trade Agreements in the Asia-Pacific: Estimated Effects](#), October 2019.

²⁷ RSIS, [TRADE POLICY OPTIONS FOR ASEAN COUNTRIES AND THEIR REGIONAL DIALOGUE PARTNERS](#), March 2018.

²⁸ Peterson Institute for International Economics, [Working Paper 20-9 East Asia Decouples from the United States: Trade War, COVID-19, and East Asia's New Trade Blocs](#), 2020.

²⁹ Ibid.

Table 3: Real income effects for Malaysia, incremental effects to year 2030 (US\$ billion)
 Extracted from Peterson Institute for International Economics, June 2020.

Expected 2030 income (billions of US\$)	Changes in billions of US\$			Incremental change in %		
	Trade war effect	CPTPP	RCEP	Trade war effect	CPTPP	RCEP
675	3	21	4	0.4	3.1	0.6

C) TRADE FLOWS

While global trade flow declines due to the US-China trade war, Malaysian exports are expected to grow, with CPTPP contributing an additional 8.5% and RCEP contributing 2.2% to 2030 incremental export value

- While the trade war will cause a majority of global trade flows to decline, Canada, Malaysia, Mexico, the Philippines, Thailand, and Vietnam (all are competitors of China in US markets) are expected to experience trade increase³⁰.
- According to Petri and Plummer, trade liberalisation from RCEP and CPTPP agreements are expected to further drive Malaysian exports to greater heights, increasing Malaysian exports by US\$42 billion (8.5%) by 2030 under CPTPP and US\$ 11 billion (2.2%) under the RCEP agreement, regardless of the trade war between US and China (see table 4 below).

Table 4: Export effects on Malaysia, incremental effects to year 2030 (US\$ billion)
 Extracted from Petri and Plummer, Peterson Institute for International Economics, June 2020, Appendix B1.

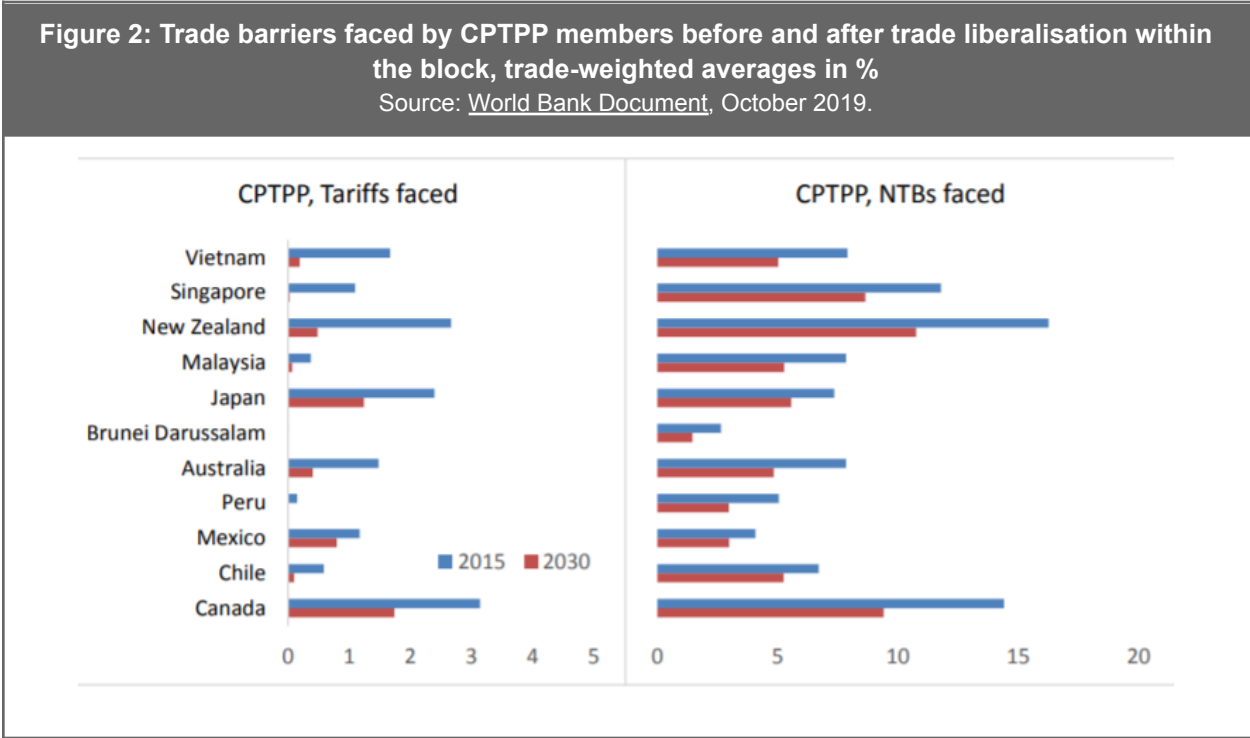
2030 Exports (billions of US\$)	Incremental effect of business as usual		Incremental effect of sustained trade war between US-China	
	CPTPP	RCEP	CPTPP	RCEP
491	42	11	42	11

³⁰ Peterson Institute for International Economics, [Working Paper 20-9 East Asia Decouples from the United States: Trade War, COVID-19, and East Asia's New Trade Blocs](#), June 2020.

D) NON-TARIFF-MEASURES (NTMS) AND NON-TARIFF-BARRIERS (NTBS)

Lowered non-tariff measures (NTMs) and non-tariff barriers (NTBs) expected as a result of CPTPP and RCEP

NTMs are greater obstacles to trade than tariffs across all FTAs.³¹ The implementation of FTA provisions on sanitary and phytosanitary measures, technical barriers to trade, investment, trade in services, custom administration, trade facilitation, and others are expected to align regulatory requirements and to reduce NTMs among members. Since CPTPP agreements have stronger commitments³² in these spheres, it is projected that CPTPP agreements will result in a greater reduction of NTMs and NTBs compared to the RCEP (see Figures 2 and 3)³³.

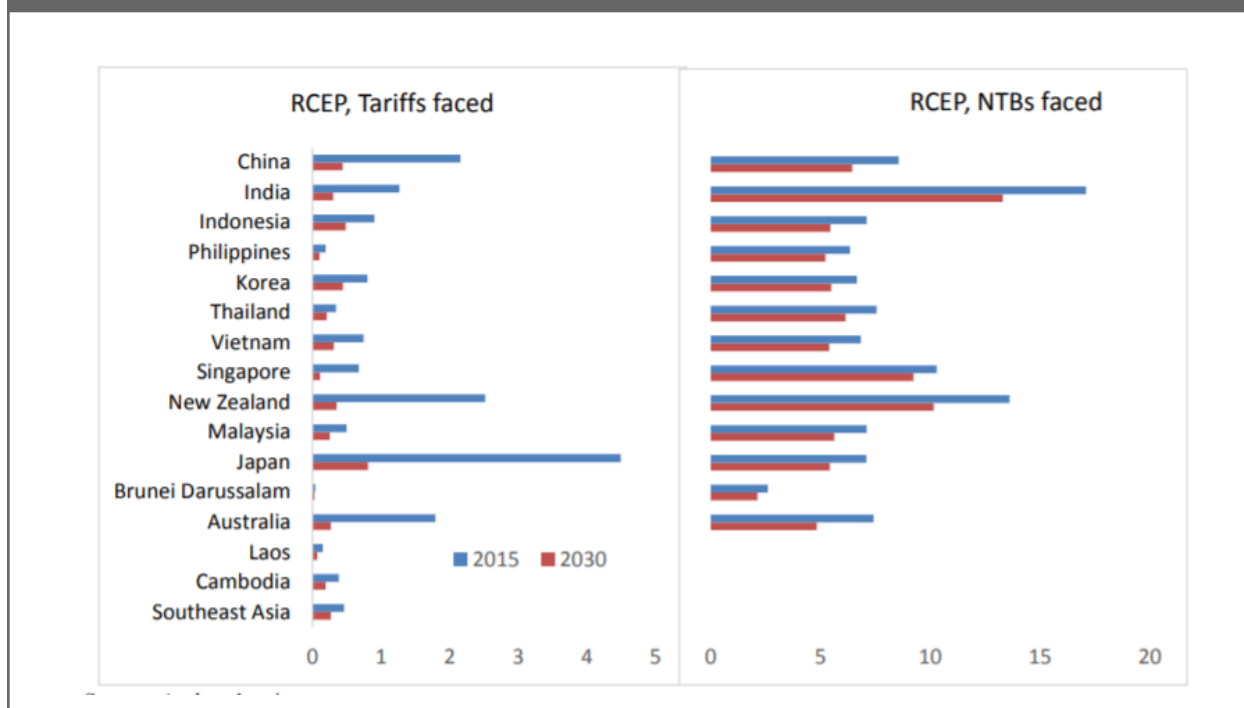


³¹ World Bank Document, [Actual and Potential Trade Agreements in the Asia-Pacific: Estimated Effects](#), October 2019.

³² World Bank Document, [Actual and Potential Trade Agreements in the Asia-Pacific: Estimated Effects](#), October 2019.

³³ Ibid.

Figure 3: Trade barriers faced by RCEP members before and after trade liberalisation within the block, trade-weighted averages in %
 Source: [World Bank Document](#), October 2019.

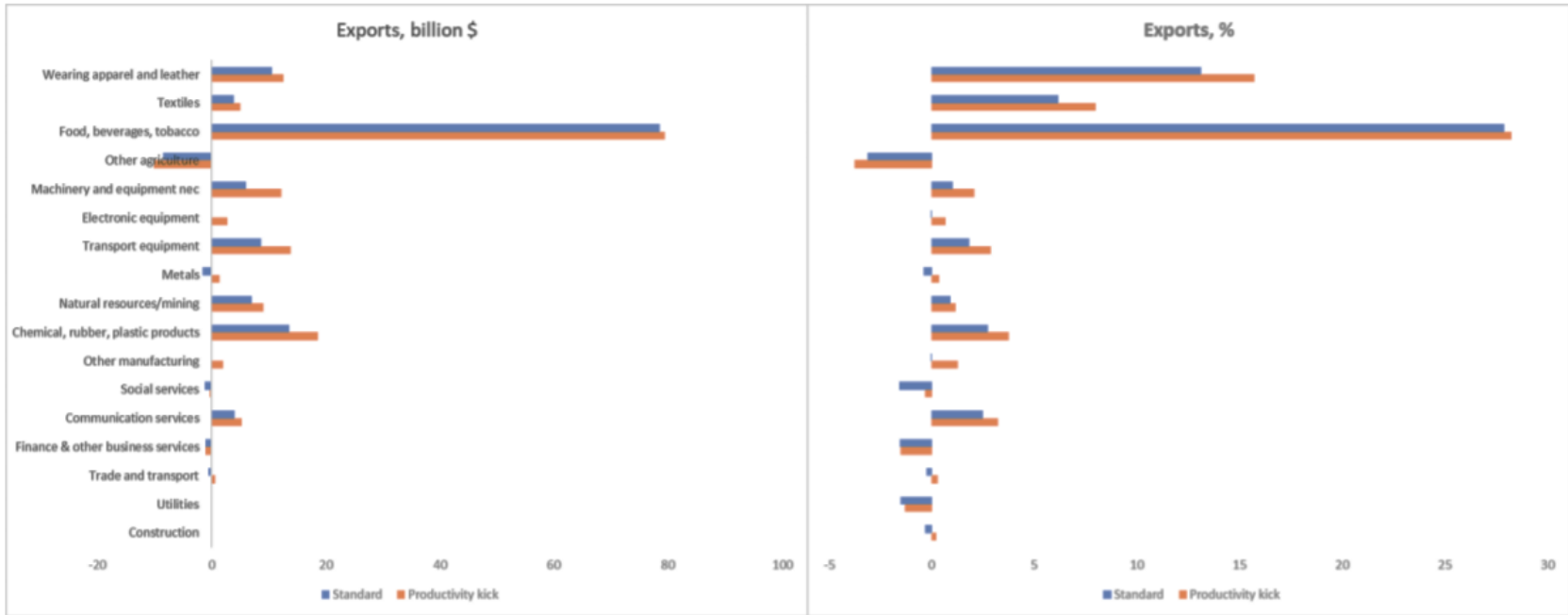


D) SECTORAL CHANGES

The highest growth of exports and output under the CPTPP is projected to occur in food and beverages, wearing apparel, and textiles. Due to a strong reduction in tariffs and NTMs, food and beverages will benefit the most in terms of growth rates and in absolute/dollar increases. Their collective exports will expand by 28% relative to baseline conditions in 2030, boosting production within the CPTPP by almost 5% (see Figure 4).

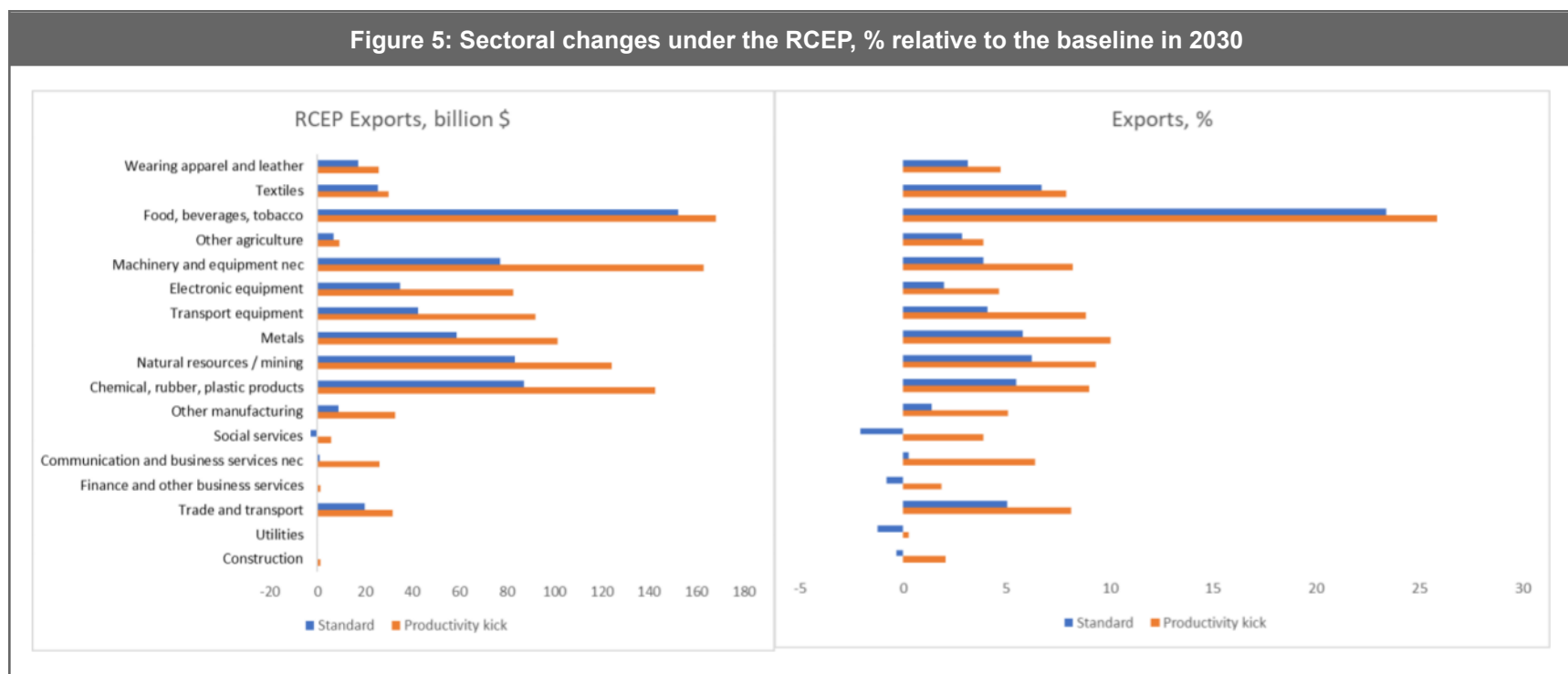
- **Exports of Wearing apparel and textiles** will expand by 13% and 6% in total, **originating mostly from Vietnam and Malaysia**. The reduction of barriers will further deepen Vietnam and Malaysia specialization in these sectors.
- Other sectors that will see a substantial output and export increase in dollar value include:
 - **Transport equipment** (largely from Japan)
 - **Chemical, rubber, plastic products** (from Malaysia and Singapore),
 - **Machinery and equipment** (from Malaysia and Singapore).

Figure 4: Sectoral changes under the CPTPP, % relative to the baseline in 2030



- Ferrentino, Maliszewska and Taran (2019)³⁴ suggested that due to better access to large RCEP markets the most dynamic export growth will be experienced by the following sectors (see Figure 5):
 - **Food and beverages:** Up by 23.4%, driven by increases in Korea, Australia, Malaysia, Indonesia, and China
 - **Textiles:** Up by 6.7%, driven by increases in Japan, China, and India
 - **Natural resources/mining:** Up by 6.2%, driven by increases in Japan, China, and India
 - **Metals:** Up by 5.8%, driven by China, India, and Australia
 - **Chemical, rubber, plastic products:** Up by 5.5% driven by China, Japan, India, and Malaysia
 - **Machinery and equipment:** Up by 4% or \$77 billion and will be largely captured by China (\$55 billion), followed by Japan, India, Malaysia as they will experience the greatest declines in the face of trade barriers on the RCEP markets.

Figure 5: Sectoral changes under the RCEP, % relative to the baseline in 2030



³⁴ World Bank Document, [Actual and Potential Trade Agreements in the Asia-Pacific: Estimated Effects](#), October 2019.

- **RCEP will reorient trade and economic ties away from global linkages toward regionally focused relationships in East Asia (see table 5).**
 - The benefits of RCEP are greater under the trade war scenario.
 - In effect, greater integration among East Asian economies will partly offset higher barriers between the United States and China.
 - RCEP will create strong production networks among China, Japan, and Korea. These trade patterns signal a more regionally focused, China-centered East Asian economy.
 - **In particular, RCEP will build deeper links among Northeast Asia's three largest economies, China, Japan, and South Korea, which already rank among each other's top trade partners.**

Table 5: Effects of RCEP15 on Global Trade Patterns, 2030

Source: Working Paper 20-9 East Asia Decouples from the United States: Trade War, COVID-19, and East Asia's New Trade Blocs, June 2020

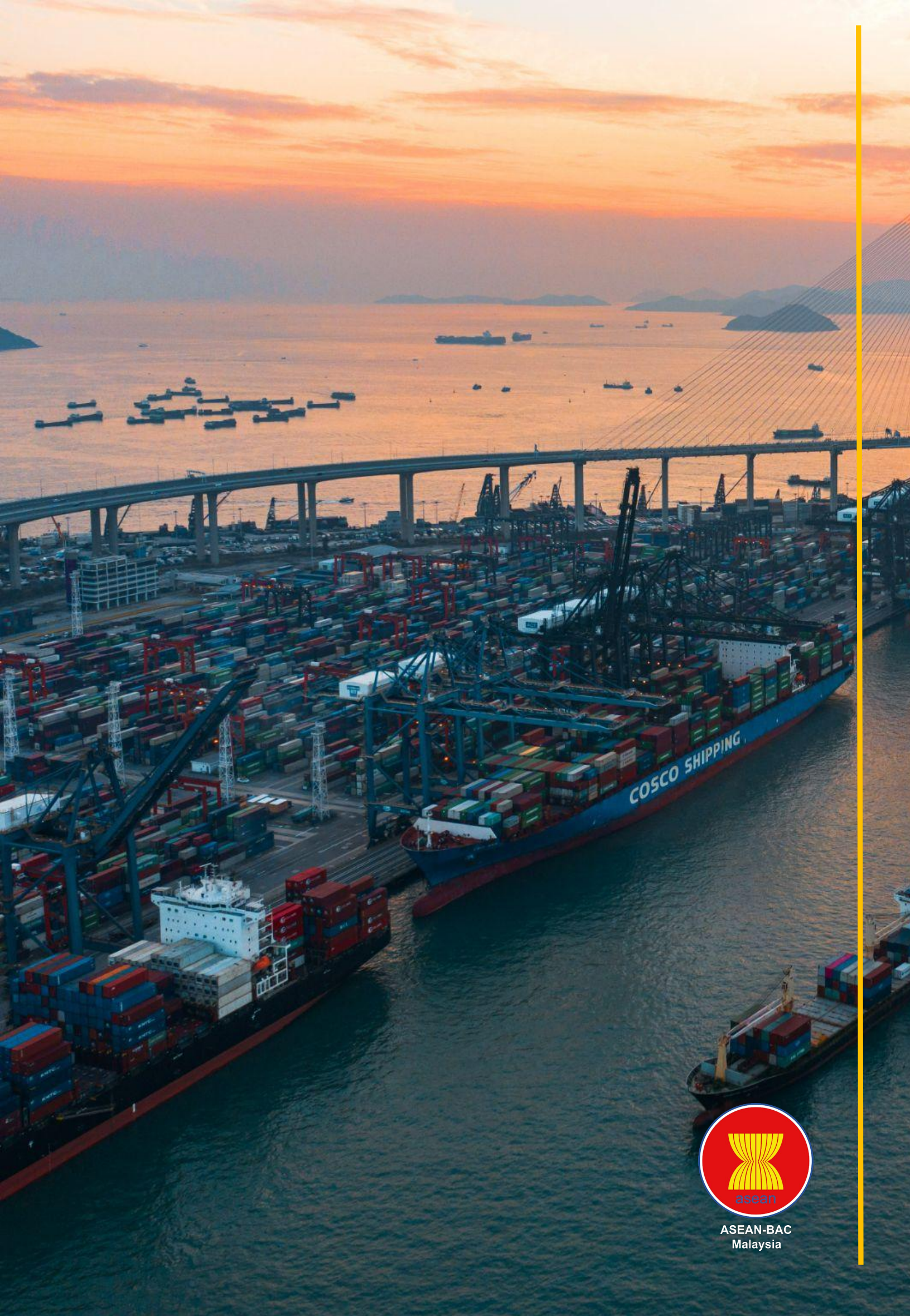
Exporter		Importer					
		United States	China	Japan, Korea	RCEP other	Rest of world	World
United States	Business as before	0	3	3	-3	-1	3
	Trade war	0	19	2	-3	-5	12
China	Business as before	19	0	97	54	74	244
	Trade war	31	0	96	53	68	248
Japan, Korea	Business as before	-10	191	51	1	-35	199
	Trade war	-10	178	51	2	-30	191
RCEP other	Business as before	1	31	14	6	6	59
	Trade war	2	30	13	5	7	57
Rest of world	Business as before	-7	11	28	-2	-31	0
	Trade war	-8	13	24	-3	-34	-8
World	Business as before	4	236	193	56	14	504
	Trade war	14	240	186	55	6	500

RCEP = Regional Comprehensive Economic Partnership
 Note: Results show incremental effects of RCEP15 given that CPTPP is also implemented. Shaded cells show increased trade flows.
 Source: Authors' simulations.

- Table 5 reports substantial increases in trade among RCEP economies as well as decreases in trade among other economies, in both the business-as-before and trade war environments.
- Trade among RCEP economies (the three table 5 regions: China; Japan and Korea; and RCEP other) would increase by US\$445 billion and US\$428 billion, depending on the environment, representing about three-quarters of the increase in global trade attributable to RCEP15.
- The remaining one-quarter increase in global trade would represent growing trade between RCEP and other economies. Interactions among other economies outside RCEP would fall by US\$39 billion to US\$48 billion, depending on the environment.

3. CONCLUSION

Despite the intricacies involved in ratifying the FTAs, the ratification of the Regional Comprehensive Economic Partnership (RCEP) and the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) will open up new export opportunities for Malaysian exporters and make Malaysia a more competitive marketplace and increase its attractiveness as a Foreign Direct Investment (FDI) destination.



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