

CAP: Analysis shows TPPA Costs Outweigh Benefits

The Consumers' Association of Penang's analysis shows that the costs of the Trans Pacific Partnership Agreement (TPPA) will far outweigh the benefits and thus we urge the Malaysian government not to sign the TPPA.

We presume that the Malaysian government when considering whether to sign the TPPA currently being negotiated by Malaysia with 11 other countries¹ will consider the tariffs avoided by Malaysian companies when exporting to other countries under the TPPA and whether these benefits will outweigh any costs to Malaysia.

New research based on past US free trade agreements (FTAs) (since the USA has a strong template and so does not permit much variation in its FTAs) and news reports indicates that Malaysian exporters will benefit from very few additional tariff cuts under the TPPA and that the lost tariff revenue alone is more than 6.5 times greater than any such benefits under the TPPA.

This is because:

1. Of the TPPA countries, the main new large market of interest to Malaysia is presumably the USA.
2. Malaysia is already a member of the World Trade Organization (WTO), as are all the other TPPA countries, and under WTO rules:
 - a. other TPPA countries already have maximum tariffs they can impose on Malaysian exports and
 - b. the USA already has low average final bound tariffs: 3.5% (i.e. they cannot be raised above this)ⁱ. 3% is often quoted by industry as the cost of complying with the rule of origin required to get 0% tariffs under a free trade agreement (FTA) such as the TPPA, so current tariffs of 3% or lower will not significantly benefit Malaysian exporters if they are lowered to 0% under the TPPA.
3. In addition, Malaysia already has FTAs with seven of the other TPPA countriesⁱⁱ which reduces or removes their tariffs on Malaysian exports even further.
 - a. The only TPPA countries that Malaysia does not already have an FTA with are Canada, Mexico, Peru and the USA.
 - b. If Malaysia really thinks that Mexico and Peru are significant untapped export markets where Malaysian exports currently face tariff barriers, it can sign separate FTAs with them. Since these would not have the USA (which has a template for its FTAs, requiring opening of government procurement (GP), stronger intellectual property (IP) protection, no capital controls etc.) in them, they could be goods-only FTAs where each side just removed tariffs, without the other 23 chapters of the TPPA which are based on the US model (designed to benefit US companies and which developing countries have rejected at the WTO as not suiting them) which open GP, open the procurement of government-linked companies (GLCs), strengthen IP, remove capital controls etc.

¹ Australia, Brunei, Canada, Chile, Japan, Mexico, New Zealand, Peru, Singapore, USA, Vietnam

- c. Canada and the USA are significant markets, however
- i. Canada (6.9%)ⁱⁱⁱ and the USA already have low average tariffs and
 - ii. given the US insistence in past USFTAs and in the TPPA on the yarn forward rule which (based on the experience of other countries signing USFTAs and Vietnamese predictions in the TPPA) will negate the benefits of any lower tariffs, the main Malaysian exporter to benefit from the lower tariffs in the TPPA will be ceramics manufacturers who will save US\$1.03million/year in tariffs
 - iii. even when Malaysia loses its current preferential lower tariffs into Canada (without the TPPA), it will only cost Malaysian exporters about US\$10.6million/year in additional tariffs, of which US\$6.2million is on exports from Malaysian industries which depend on export tariffs to survive (which, based on past USFTAs, will be effectively eliminated in the TPPA).^{iv}

In summary, under the TPPA, the goods chapter alone:

Likely TPPA provision based on past USFTAs	Costs to Malaysia	Benefits to Malaysia
Removing all tariffs on trade between Malaysia and the USA	US\$720million in lost tariff revenue/year to the Malaysian Government on US products alone (not counting those lost on Canadian etc. products). This is 3.5 times more tariff revenue than the USA will lose under the TPPA. Generally, International Monetary Fund economists note that middle income countries like Malaysia are only likely to recover 45-60% of lost tariff revenue from other taxation sources. ^v They note that a value-added tax is not proven to make up for the lost revenue from lowering tariffs.	At most Malaysian exporters to the US would save S\$207million/year (assuming the USA removed all tariffs without rules of origin such as the yarn forward rule it has insisted on in all its past USFTAs which has generally negated any lower tariffs).
Removing export taxes ²	In 2007 (the latest year for which data were made available), Malaysia's revenue from export duties amounted to RM 2,296 billion ^{vi} (or US\$689million)	The USA already has no export taxes as its Constitution prohibits them ^{vii}
Removing all tariffs on trade between Malaysia and Canada		At most Malaysian exporters would save US\$10.6million/year on tariffs to Canada

² USFTAs have required all export taxes to be removed (except perhaps on 3 products) in past USFTAs. While this only on trade between the FTA countries, in practice since Singapore could re-export Malaysian timber, rubber, scrap metal, unprocessed palm oil etc., the ban on export taxes to other TPPA countries only could effectively mean a ban on export taxes to all countries as Malaysia's raw materials go export tax free to Singapore and are then re-exported to the rest of the world.

Total	US\$1.41billion/year (+ lost revenue due to removal of Malaysian tariffs on Canadian products) in lost revenue to the Malaysian Government	US\$218million/year in saved tariff revenue which goes to Malaysian exporters, not to the Malaysian Government
--------------	---	---

In conclusion, the costs outweigh the benefits of the TPPA by more than 6.5 times from the goods chapter alone of the TPPA. In addition, the other TPPA chapters are known to be detrimental to developing countries such as Malaysia. For example the:

- Leaked US proposal in the IP chapter^{viii} proposes stronger and longer IP protection which will benefit the USA as a net IP exporter, but harm Malaysian consumers, farmers and patients as it is a net IP importer and already cannot afford to subsidise all the medicines Malaysian patients need, let alone at the high prices for longer if the USA's requirement in all its FTAs for stronger IP are agreed to in the TPPA.
- Leaked TPPA investment chapter^{ix} is designed to protect US investors (as a capital exporting country) in Malaysia while banning key policies Malaysia has used for financial stability in the past such as capital controls (a requirement in all past USFTAs).
- Past USFTAs have required the opening of GP and purchasing by GLCs (either in the GP chapter or the competition chapter's state owned enterprise (SOE) section)

This does not even consider the additional requirements the US Congress will impose (with or without fast track authority) such as disciplines on 'currency manipulators'.³ This is likely to include Malaysia as a 'currency manipulator' since it has carefully built up foreign exchange reserves to cover more than 6 months of imports and has a current account surplus and would result in the USA raising tariffs on Malaysian exports or intervening in currency markets to force the Malaysian Ringgit up, making Malaysian exports to all countries less competitive.⁴

Therefore we believe the costs of the TPPA will far outweigh the benefits and we urge the Malaysian government not to sign the TPPA.

S.M. Mohamed Idris,
President,
Consumers Association of Penang
10 Jalan Masjid Negeri
11600 PENANG, Malaysia
Tel: 604-8299511

ⁱ http://www.wto.org/english/res_e/booksp_e/trade_profiles13_e.pdf

ⁱⁱ http://www.miti.gov.my/cms/content.jsp?id=com.tms.cms.section.Section_8ab55693-7f000010-72f772f7-46d4f042

ⁱⁱⁱ http://www.wto.org/english/res_e/booksp_e/trade_profiles13_e.pdf

^{iv} Annex 2

^v 'Tax Revenue and (or?) Trade Liberalization', Baunsgaard and Keen, June 2005, IMF Working Paper, WP/05/112, <http://www.imf.org/external/pubs/ft/wp/2005/wp05112.pdf>.

^{vi} WTO document WT/TPR/S/225/Rev.1.

^{vii} WTO document WT/TPR/S/275/Rev.2.

^{viii} <http://keionline.org/sites/default/files/Wikileaks-secret-TPP-treaty-IP-chapter.pdf>

^{ix} <http://www.citizenstrade.org/ctc/wp-content/uploads/2012/06/tppinvestment.pdf>

³ A clear majority of both houses of the US Congress are insisting on this in the TPPA.

⁴ This is the proposal from House Ways and Means Ranking Member Sander Levin, Inside U.S. Trade – 15 November 2013