

Special Highlights

Opportunities and Benefits of Trans-Pacific Partnership Agreement (TPPA) for SMEs

As a developing country with a small domestic market, it is crucial for Malaysia to continue its current trading regime and open investment concept to encourage economic growth, job opportunities and development of technology and innovation. International trade, as a result, has become a key contributor in driving growth in the past and in realising Malaysia's vision of attaining a fully developed nation by 2020. Internationalisation and integrating local companies into the global value chains (GVCs) will enhance their overall competitiveness as they need to meet global standards, keep their unit cost low, scale up and enhance productivity.

Given the benefits, Malaysia has negotiated Free Trade Agreements (FTAs) with several trading partners to obtain greater market access. This includes FTAs with Japan, Pakistan, India, New Zealand, Chile, Australia and Turkey. At the regional level, Malaysia and other Association of Southeast Asian Nations (ASEAN) members have concluded FTAs with People's Republic of China, Japan, Republic of Korea and India, as well as Australia and New Zealand.

In addition to the above mentioned FTAs, Malaysia is currently also negotiating the following FTAs:

- Regional Comprehensive Economic Partnership (RCEP);
- Malaysia-European Union (EU) FTA;
- Malaysia-European Free Trade Association Economic Partnership Agreement (MEEPA); and
- ASEAN-Hong Kong FTA.

Another regional agreement is the recently concluded Trans-Pacific Partnership Agreement (TPPA). The 12 nations of Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, United States of America (USA) and Viet Nam have come together to form the TPPA, a comprehensive regional trade agreement with the purpose of promoting economic integration through liberalisation of trade and investment. These 12 countries together form about 40% of the global economy, with a cumulative gross domestic product (GDP) of roughly USD30 trillion and a population of more than 800 million, as of 2014. For 2015 itself, Malaysia's trade with the TPPA partners has accounted for more than 38% of its total trade.

The TPP is an important milestone towards achieving more open trade and regional integration at the Asia-Pacific region. Apart from offering new market access for goods and services producers exporting to and investing in TPP markets, the TPP also reinforces the region's commitment to a rules-based trading system by updating international rules that apply to cross-border trade and investment. The TPP also addresses emerging business challenges in a 21st century economy by establishing enforceable disciplines to help the digital economy, innovative industries, companies and workers to compete fairly in the global marketplace. The Agreement is viewed as a highly significant initiative to help Malaysia expand its market access opportunities, enhance its competitive advantage, improve investor confidence, and attract more foreign investments into the country.

After seven years of on-going negotiations, the TPPA was concluded on 5 October 2015. For the first time ever, an SME chapter was included at a regional or bilateral agreement. The TPPA comprises 30 chapters with 7 new chapters on State-owned Enterprises and Designated Monopolies, Labour, Environment, Development, Small and Medium Sized-Enterprises, Regulatory Coherence and Transparency and Anti-Corruption are brought on board. Following a long debate in the Malaysian Parliament, on 28 January 2016, a consensus was finally reached to vote in favour of its implementation. Which thereafter, the signing ceremony of the agreement was held in Auckland, New Zealand on 4 February 2016.

TPPA became the first largest FTA to date and heralded a new era of economic opportunities for Malaysia. As of today, the Agreement is currently being ratified by all 12 signatories. Details of how the deal will be implemented will be argued out in individual countries' legislatures. In the US, it comes before Congress in the midst of a presidential election in November, which is likely to turn it into a major political matter within both parties. However, Congress has granted President Obama 'fast-track' (Trade Promotion) authority over the deal, which only allows lawmakers to either reject it or ratify it. For TPPA to take effect, the deal has to be ratified by February 2018 by at least six countries that account for 85% of the group's economic output. This means that Japan and the US will need to be on board for the Agreement to take force.



In addition to providing market access to investments, goods and services, TPPA also standardises the laws for Government procurement, competition, intellectual property, digital economy, labour and environment. The four essential elements of the Agreement are:

- Collaboration between TPPA members;
- Good and transparent corporate governance;
- Harmonisation of standards; and
- Access to larger markets.

IMPACT OF TPPA ON MALAYSIAN SMEs

A notable attention is given to SME development through a chapter on SMEs. Chapter 24 of the TPPA is focused specifically on SMEs and emphasises the importance of developing SMEs in TPPA countries and ensuring that they are able to derive the full benefits of the Agreement. Two deliberate measures outlined are establishment of a:

- Publicly accessible website for SMEs to inform them of relevant provisions in the agreement, as well as provide information that is useful for SMEs interested in benefitting from the TPPA; and
- Committee of SMEs to assist SMEs in taking advantage of the commercial opportunities under the TPPA. The Committee will also facilitate the development of programmes to assist SMEs to participate and integrate effectively into the global supply chain.

In addition, some other chapters also outlines measures to facilitate SMEs such as in e-commerce whereby customs duties for electronic transactions will be abolished and the rules of origin to promote SMEs in the regional supply chain as well as provide opportunities for SMEs to be service providers.

TPPA brings new golden opportunities for SMEs with preferential tariff being awarded for finished and intermediate goods, apart from the reduction in non-tariff barriers that will also enhance exports and grow the economy. The Agreement will open up access to a wider market, thus promoting growth, creating jobs and improving economic well-being. By opening up market access to goods and services, investment, and free movement of skilled labour, it encourages innovation and enhance the competitiveness of SMEs in Malaysia. With TPPA, Malaysian SMEs are now able to penetrate into four new markets; Canada, Mexico, Peru and the US. It is anticipated that Malaysia would be able to increase exports to these countries following the removal of or reduction in tariff. This could transform member countries into a 'Single Market' for Malaysian products and services, thus taking the country's export potential to a much higher level.

SMEs will be able to leverage on the value brought about by TPP as it will help establish better recognition of their products and services as well as access new markets at a reduced cost, through elimination of trade barriers. This FTA will help increase their export margins and apart from providing opportunities for enterprise development between Malaysia and other TPP member nations, it will also strengthen the cooperation in brand building, organic growth in bilateral trade, regional productivity, and above all, global competitiveness.

The Government remains committed to the agenda of developing and promoting local companies through various developmental policies, and through TPPA, local companies including SMEs can participate in government procurement in all TPP member countries, expanding their trading prospects. At the same time, Malaysian firms have some certain flexibilities, including on government procurement, the purchase by State-Owned Enterprises (SOEs) and matters relating to Bumiputera policy. Waiver has also been given to state governments on government procurement commitments, SOEs as well as environmental and land-related matters.

The perception that SME businesses will be affected by the implementation of TPPA is speculative as local regulations will still prevail although TPPA is in force. In many cases, products of SMEs are unique and the services are niche as thus not offered by foreign players therefore preventing a takeover. The Government is committed to protect Malaysia's interest in this important negotiation. Hence SMEs also need to take cognisance of the fact that this Agreement will bring bigger opportunities and unleash the untapped potential of each business.

SUPPORT FOR MALAYSIAN SMEs

It is vital for SMEs to build a solid understanding of trade agreements so that they can capitalise on the opportunities presented by the Agreement. They need to be well-versed on topics such as the rules of origin, textiles, tariff reduction schedules, customs facilitation, customs regulations, as well as complaints that can be registered if the SMEs are facing problems. The main challenge for local SMEs in the context of the TPP is their level of competitiveness and efficiency. SMEs need to improve in these areas so that they can take advantage of the access to new markets provided by the TPPA. These markets present enormous prospects for business growth as their purchasing power is much higher. For example, under the current exchange rate, the United States has four times the purchasing power of the local currency.

The Government has developed a wide range of programmes and initiatives to increase capacity, competitiveness, prospects for export, productivity, innovation, branding, as well as compliance to international standards among SMEs so that they can compete at the global level. One of its latest initiatives introduced under the 11th Malaysia Plan, is the *Galakan Eksport Bumiputera* (GEB) programme, which will be jointly operated by SME Corp. Malaysia and Majlis Amanah Rakyat (MARA). With an allocation of RM200 million for the next five years, the programme aims to give Bumiputera companies a leg up to enter the export market, especially in the TPP and ASEAN countries.

Additionally, the Ministry of International Trade and Industry (MITI) has many ongoing programmes to boost the export capacity of SMEs. These programmes, managed by various agencies, include: the Going Export (GoEx) programme to provide guidance to SMEs that have high export potential; Women Exporters' Development Programme (WEDP) which is aimed at producing women exporters who are competitive and can run sustainable businesses; and the Business Accelerator Programme (BAP) that provides a comprehensive assistance package comprising business advice, technical support, and financial assistance.

These programmes offer technical advice, capacity building, assistance with technology implementation and integration, marketing support, as well as services such as monitoring and assessment



There are also programmes implemented by other Ministries and Agencies such as *Program Peningkatan Produk dan Kualiti*, managed by SIRIM to nurture, train, and elevate Bumiputera SMEs that are ready to export their product and services to the global market, as well as programmes by the Federal Agricultural Marketing Authority (FAMA) to support agro-product distributors and to equip entrepreneurs in the agricultural and agro-based industry with the skills and knowledge to improve their business professionalism. Financing assistance is also provided by agencies such as Malaysian Industrial Development Finance Berhad (MIDF) through its easy loan scheme for automation and modernisation, as well as by SME Bank which offers a Halal Development Fund to support entrepreneurs in the Halal market, which has huge potential in the global market.

Additionally, there are many initiatives to provide SME's with an advantage and increase their competitiveness. These programmes offer technical advice, capacity building, assistance with technology implementation and integration, marketing support, as well as services such as monitoring and assessment.

Going forward, efforts will be intensified to help SMEs face the TPPA. Three main strategies will be to increase the capacity to enhance the competitiveness of SMEs, increase export capacity of SMEs and encourage innovation to enable SMEs to adopt new ideas, processes and practices.