

The advantages of trans-pacific partnership agreement (TPPA) on Malaysian small, medium enterprises (SMEs)

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ABSTRACT

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The latest of the hot-button issue that arise in the market nowadays is the introducing of Trans-Pacific Partnership Agreement (TPPA) which become the talk of the town especially in Malaysia. TPP formed a diverse range of the countries namely Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, United States and Vietnam. The general discussion in this paper will be based on the advantages of TPP agreement on Small, Medium Enterprises (SMEs) in Malaysia. The so-called 21st century trade agreement with 30 chapters was finally approved by Malaysian Parliament on 27 January 2016. The decision shows Malaysia's aspiration to move forward to become a high-income economy. Undoubtedly, the local SMEs are expected to face stiff competition as the market become autonomous liberal. However, TPP is not the "bogeyman" to scare the SMEs but to drive them to become more resilient, versatile and adaptable to any changes in the domestic and also global markets.

Keywords:

Trans-Pacific partnership agreement, Advantages, SMEs, Malaysian government, Malaysia, ASEAN

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1. Introduction

"The Trans-Pacific Partnership is perhaps the most ambitious trade negotiation underway in the world. It will break new ground on important issues from the challenges of state-owned enterprises, to ensuring the free flow of data across borders, to enhancing regional supply chains, to ensuring transparency in cutting red tape. We're also working to strengthen protections for labour and the environment... Our goal is for high standards for the Trans-Pacific Partnership to enter the bloodstream of the global system and improve the rules and norms." *Vice President Joseph P. Biden* [1].

The Trans-Pacific Partnership (TPP) agreement is regarded as high standard and comprehensively regional free trade agreement (FTA) of the 21st century among Australia, Brunei Darussalam, Canada,

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Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, Vietnam and the United States [2,3]. The pact will become the largest trade zone in the world with 809 million population and US\$30 trillion of the cumulative gross domestic product (account about 30 per cent of global trade and 40 per cent of the world's economic output – the global gross domestic product-GDP) comes from the countries within its scope [4-6]. These 12 Pacific Rim countries signed the 30 chapters with 6,350 pages including annexes and side letters of the agreement that promoting the reduction and the elimination of the tariffs and other related barriers to most goods, services and agriculture [2,7]. Besides that, the agreement also further addresses several issues in World Trade Organization's multilateral trading system including direct investment, labour and environmental standards and state-owned enterprises [2]. As a new game changer to the participating nations, TPP highlights the importance to "promote economic growth; support the creation and retention of jobs; enhance innovation, productivity and competitiveness; raise living standards; reduce poverty in our countries; and promote transparency, good governance, and enhanced labour and environmental protections" [8]. How far the TPPA will affect the Malaysian SMEs? Does the local SMEs are ready to face the 21st century trade agreement? Thus, this paper is to discuss the SMEs' advantages in general if Malaysian Government signed the TPPA.

2. Literature review

2.1. *The trans-pacific partnership agreement*

The TPP's origins can be traced back to the formation of four-party free trade agreement (FTA) concluded in 2005 by Brunei Darussalam, Chile, New Zealand and Singapore [9]. Nicknamed as Pacific Four (P4), the little-known four-party free trade agreement was officially named as the Trans-Pacific Strategic Economic Partnership Agreement (TPSEP) which was announced in Jeju, Korea during the Asia-Pacific Economic Cooperation (APEC) Trade Ministers meeting in June 2005 [9,10] (Appendix 1). However, it was the U.S. participation during Bush's administration in 2008 to joined P4 and later in 2009, the newly-elected President Barack Obama took the lead and subsequently transformed the pact into broader allies by inviting other Asia Pacific countries to form a comprehensive new pact of agreement – the TPP [9,11]. After several meeting and negotiations held in various location, the TPP trade negotiations was concluded on 5 October 2015 by the Trade Ministers from the 12 participating countries [12]. Malaysia joined the TPP on 5 October 2010 [13] and confirmed the negotiation on 5 October 2015 in Atlanta, USA after series of five years negotiations [7].

Malaysian Government views the TPP as a crucial turning point for Malaysia to continuously expand their market access opportunities with competitive advantage, attracting more investors for foreign direct investment (FDI) and capacity building through FTA [14]. Currently, Malaysia undertaken six FTA through ASEAN including ASEAN Free Trade Agreement (AFTA) and seven bilateral FTA with Japan (2005), Pakistan (2007), New Zealand (2009), Chile (2010), India (2011), Australia (2012) and Turkey on 17 April 2014 [7]. As the 21st century mammoth of the trade agreement approved by Malaysian Parliament on 27 January 2016, TPP will create a comprehensive economic integration between Malaysia and the participating members within the Asia Pacific region. In addition, TPP is a key to Malaysia's aspirations to become a high-income economy and competitive in the world market especially to Small, Medium Enterprises (SMEs). SMEs play a vital role in development of local economic growth and contributes to the employment sector in Malaysia. Therefore, the TPP agreement recognises the significance of SMEs towards the development of local economy by setting a new standard for global trade under their five defining features [15] as in Fig. 1.

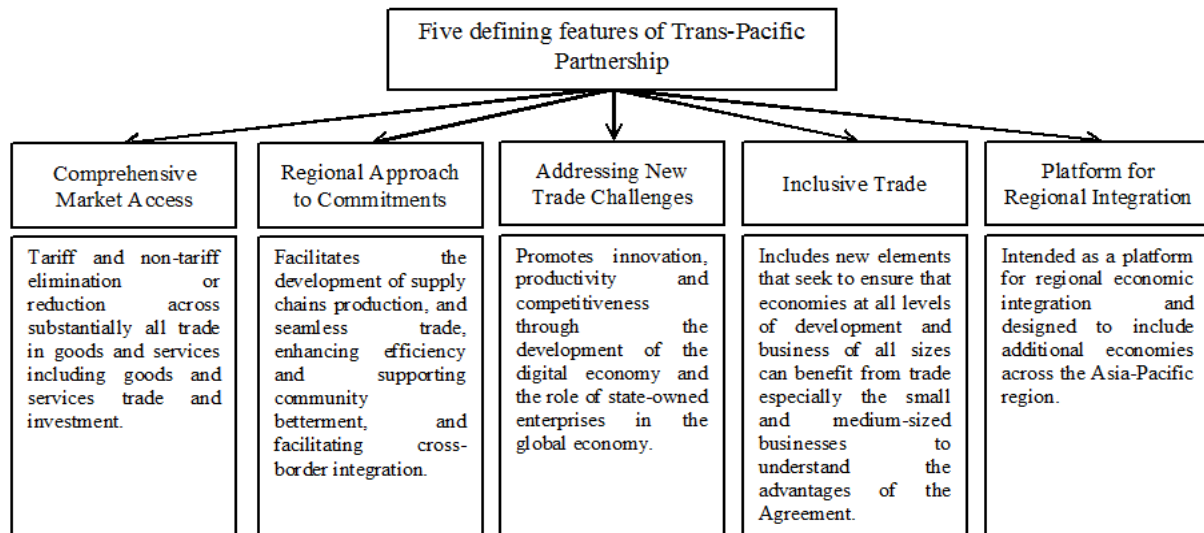


Fig. 1. The five defining features of TPP. *Source: Adapted from Office of the United States Trade Representatives, 2015.*

2.2. SMEs in Malaysia

Table 1

Definition of SMEs based on Annual Sales Turnover and Number of Full-Time Employees (Effective 1 January, 2014)

Category	Micro	Small	Medium
Manufacturing		Sales turnover from RM300,000 to less than RM15 million or full-time employees from 5 to less than 75	Sales turnover from RM15 million to not exceeding RM50 million or full-time employees from 75 to not exceeding 200
	Sales turnover not exceeding RM300,000 or full-time employees not exceeding 5	Sales turnover from RM300,000 to less than RM3 million or full-time employees from 5 to less than 30	Sales turnover from RM3 million to not exceeding RM20 million or full-time employees from 30 to not exceeding 75
Services & Other Sectors			

Notes: Manufacturing: Physical or chemical transformation of materials or components into new products. Services: Services including distributive trade; hotels and restaurants; business, professional and ICT services; private education and health; entertainment; financial inter-mediation; and manufacturing-related services such as research and development (R&D), logistics, warehouse, engineering. Others: Primary agriculture, construction, mining & quarrying. *Source: SME Bank, 2015*

Reference [16] stated that SMEs continue to draw much interest and attention in the world as these firms are considered to play a significant role in the economic development of both developed and developing countries. In addition, SMEs also contributes to the success of some advanced economies in the world as these firms form a fundamental part of the economy which comprising over 98 per cent of total establishments with contribution to over 65 per cent of total employment as well as over 50 per cent of the GDP [17]. Previous study by [18] stated that, SMEs is vital to the development of Malaysian economy. SMEs comprised of 97.3 per cent of the total number of businesses establishment in Malaysia and contribute 33.1 per cent to the nation’s GDP with 57.5 per cent on total employment and 19.0 per cent of total exports ranging from the services sector, manufacturing, construction and agriculture [19,20]. According to [21], Malaysian SMEs can be defined based from the annual sales turnover (total sales revenue) and numbers of full-employees for micro, small and medium enterprises as in Table 1.

There are a total of 645,136 SMEs in Malaysia which comprised of 496,458 for micro SMEs, 128,787 are the small SMEs while 19,891 belongs to medium-sized industry [22,23]. Most of Malaysian SMEs are dominated by the micro-sized segment mainly in the services sector (90.0%) which comprised of wholesale and retail trade, repair of motor vehicles and motorcycles, and food and beverage services [24,25]. Both manufacturing and construction contributes to 37,861 (5%) and 19,283 (3.0%) to total SMEs in Malaysia (Table 2). The agriculture, and mining and quarrying only contribute to the small portion of SMEs. The figures show the transition of Malaysian economy through a considerable transformation over the years from primary industry namely agriculture to services industry [25].

Table 2
Number of SMEs Business Establishments by Sector and Size

Sector	Micro	Small	Medium	Total SMEs	Total SMEs
	Number of Establishments			% Share	
Manufacturing	21,619	13,934	2,308	37,861	5.9
Services	462,420	106,061	12,504	580,985	90.0
Agriculture	3,775	1,941	992	6,708	1.0
Construction	8,587	6,725	3,971	19,283	3.0
Mining & Quarrying	57	126	116	299	0.1
Total	496,458	128,787	19,891	645,136	100.0

Source: Adapted from SME Corp Malaysia, 2015

Table 3
Number of SMEs Business Establishments by Ethnicity

Ethnicity	Micro	Small	Medium	Total
	Number of Establishments & Percentage			
Bumiputera	218,930 (44%)	26,034 (20%)	2,975 (15%)	247,939 (38%)
Non-bumiputera	277,528 (56%)	102,753 (80%)	16,916 (85%)	397,197 (62%)
Total	496,458	128,787	19,891	645,136 (100%)

Source: PwC Advisory Services Sdn Bhd, 2015

In terms of ethnicity, the non-bumiputera firms make up 62 per cent of all SMEs in Malaysia (397,197 firms) compare to 247,939 total of the firms for bumiputera (Table 3). Bumiputera is a term referring to Malays and indigenous peoples such as Kadazandusun, Murut, Bajau and Rungus in Sabah, Iban, Bidayuh, Melanau and Penan in Sarawak, and 'Orang Asli' (original people or aborigine – Senoi, Semang and Proto-Malay) in Peninsular Malaysia.

The SMEs establishments in Malaysia are mainly located in Selangor (19.5%), Kuala Lumpur (13.0%), Johor (10.7%), Perak (9.3) and Sarawak (6.8%) as in Table 4 [23]. Sabah and Sarawak are bubbling-up in terms of the development of SMEs as Sarawak and Sabah was remarkably positioned as the states with the fifth and sixth highest number of SMEs establishments in Malaysia respectively. The Sabah Development Corridor (SDC) projects and Sarawak Corridor of Renewable Energy (SCORE) economic corridors also facilitates the development of SMEs in Sabah and Sarawak towards the competitiveness and competency of local SMEs' particularly the Bumiputera SMEs in the manufacturing and services sectors [26-28]. According to [29], Sabah and Sarawak's SMEs faced the unique challenges due to inadequate infrastructure especially the road condition which resulting in issues relating to connectivity and basic facilities' quality. Therefore, the current development of Pan Borneo Highway (PBH), which connects the two Malaysian states, Sabah and Sarawak with the neighbouring country Brunei will become a catalyst for economic growth as well to further enhance the development of SMEs in the region [30-32].

Table 4
 Number of SME Business Establishments by State/Federal Territories

Regions	States/Federal Territories	Total SMEs	Percentage (%)
Northern	Perlis	5,053	0.8
	Kedah	37,092	5.7
	Penang	40,824	6.3
	Perak	60,028	9.3
Central	Selangor	125,904	19.5
	Federal Territory of Kuala Lumpur	84,261	13.0
	Federal Territory of Putrajaya	418	0.1
East Coast	Kelantan	37,823	5.9
	Terengganu	22,514	3.5
	Pahang	29,462	4.6
Southern	Melaka	21,675	3.4
	Negeri Sembilan	24,542	3.8
	Johor	68,874	10.7
East Malaysia	Sabah	40,884	6.3
	Sarawak	43,830	6.8
	Federal Territory of Labuan	1,952	0.3
Total		645,136	100.0

Source: Adapted from SME Corp Malaysia, 2015

3. Discussion

TPPA certainly made the headlines especially in Malaysia and received a tremendous criticism from the society [33]. The emotional arguments come from all around the corner especially the local politician. Some of them criticise TPPA in reasons that it will jeopardise national sovereignty, the rise in pharmaceutical products, the intellectual property (IP) protection, the labour issues (forced labour, child labour and freedom to unionise especially among foreign labours), employment loses and inequality, the increase of foreign acquisition towards Malaysian economy and concerns over SMEs development and performance [34-38]. In addition, most of Malaysian SMEs are not ready to face international challenges especially the TPP as most of them have been in the comfort zone for the past 20 years [22,39]. Besides that, only a small percentage of Malaysian SMEs (19%) or 123,000 are involved in exports while others (81%) are into domestic market [5]. However, every cloud has a silver lining and so to TPPA – it isn't a bad deal, after all [40]!

Chapter 24 under TPPA (Fig. 2) focused on favours towards SMEs and the government policy. According to [24], the agreement basically preserves the policy space on Bumiputera with SMEs continuously accelerate and improve their competitiveness in the market environment. The agreement also touched on 30 per cent of government contracts or procurement that mainly reserved for the bumiputera contractors. On the other hand, the state-owned enterprises (SOEs) will continuously prefer the SMEs and bumiputera companies for their business propositions (for up to 40 per cent) of SOEs budget's procurement [41]. In addition, the chapter also dedicated to facilitate SMEs' participation in the global supply chain, by enhancing transparency and online information sharing, as well as developing capacity building programmes to assist SMEs to become more efficient and creative in their business management.

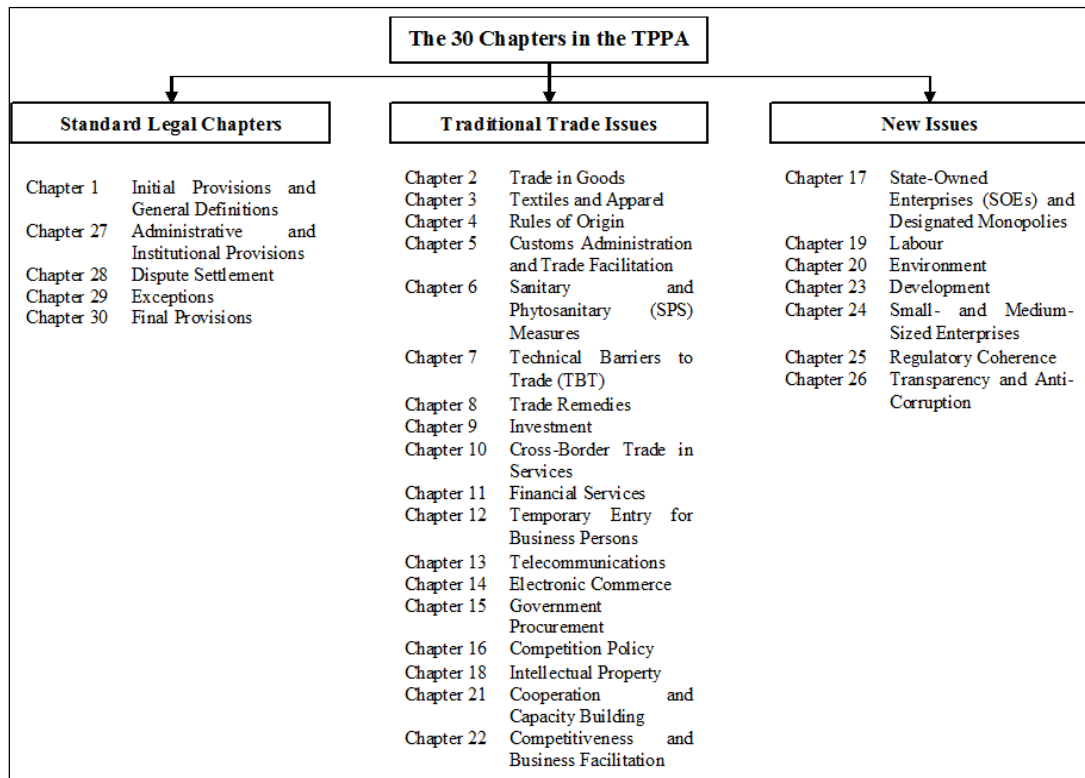


Fig. 2. The 30 Chapters in the TPPA including Chapter 24 for SMEs. *Source: Adapted from MITI Malaysia, 2016.*

The agreement also creates opportunities for the export-oriented SMEs to increase their market access in government procurement and global supply chain, reduced trade barriers as well as better IP protection by strengthen the level of protection on design, trademarks and patents across the boundaries [24,42]. Reference [7] outlined the SMEs’ advantages under TPPA since they have already competing with other nations under 13 existing FTAs namely the AFTA and seven bilateral FTA where more than 90 percent of import duty has been eliminated. Besides that, TPPA would greatly benefit local SMEs particularly to some 119,669 of the non-bumiputera SMEs as 42 per cent of them are involved with export business and participate in global supply chains [5,43,44]. TPPA also further expand the potential market for SMEs into broader scope and access to a more liberalised market for their exports, particularly the four new markets for Malaysia – US, Canada, Mexico and Peru. These countries do not currently have an FTA with Malaysia.

Reference [44] stated that globalisation offers internationalisation that creates an opening business for SMEs to increase their revenues and profits not only in the domestic market but also globally. Clearly, TPP is another important part of globalisation [45] which open up growth opportunity (in term of export) as well as challenges for SMEs to explore the possibility for the long term profitability. The elimination of the tariffs and other related barriers shows the effect of international trade under TPP towards SMEs in Malaysia. The reduction of 25 percent of the non-tariff measures will create competitive prices of both finished goods and intermediate inputs which in turn lower the pricing across the board for both consumers and producers [46]. In addition, [46,47] also stated that SMEs will get the benefit from the improved market access with lower tariff especially to those who in food and beverages, wood, textiles, automotive, electronics and electrical, and plastics product sectors.

4. Conclusion

Malaysian SMEs should explore new opportunities in the regional or global business platforms to promote their products and services in order to sustain their growth as local domestic market become stiff in competition when TPP come into realisation. They have to equip themselves with relevant competencies particularly on technology upgrade and innovation, access to financing, human capital development and market access to stay competent in the so-called red ocean market. Somehow, SMEs need the Malaysian Government to assist them negotiate the drawbacks possibilities and move up their competencies through capacity-building programmes. There will be a long journey for SMEs to come forward and face the reality of TPP as most of them are in micro SMEs and it is a continuous effort for the government to increase their competitiveness through several programs such as to encourage more SMEs especially the bumiputera businesses to adopt new ideas, processes and practices. TPP is not the “bogeyman” to scare the Malaysians under the TPP.

Surely, the Malaysian Government did their very best to preserve and protect National Constitution, sovereignty, and other important policies such as government procurement, the Bumiputera agenda and SOEs, particularly on SMEs - the Malaysian backbone economy. So far, Malaysia placed 18 spot for both competitiveness ranking and ease of doing business in the world (Appendix 1). This will enhance Malaysia’s capability in order to face TPP with other countries within its scope. SMEs have to keep an open mind on TPP by strengthen their effort to become more resilient, versatile and adaptable to any changes in the domestic market especially when TPP comes into realisation. TPP promotes an excellent platform for fair competition among its members. Thus, it will become a challenge for the domestic-oriented SMEs to further strengthen their own capabilities especially the export competitiveness. They need to stay away from their comfort zone (relying on domestic market onwards). Whether they are ready or not, it is a matter of to undertake fundamental reforms and preparation they made in their organisation level. As [33] mentioned that “every agreement is a double-sided sword and we must weigh the pros and cons. To Malaysians, whether TPP is good or evil depends on how prepared an individual is in facing future challenges.”

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Appendix 1

Table 5
 The TPPA Participating Countries

Country	P4 Members ¹	Competitiveness Rankings ²	Ease of Doing Business Rankings ³	Trading Partners (Export)
Australia	Non-party	21	13	China Japan South Korea India European Union countries
Brunei	Party	NA	84	Japan South Korea India Australia Vietnam
Canada	Non-party	13	14	United States China Mexico United Kingdom Japan
Chile	Party	35	48	China United States Japan South Korea Brazil
Japan	Non-party	6	34	United States China South Korea Hong Kong Thailand
Malaysia	Non-party	18	18	Singapore China Japan United States Thailand
Mexico	Non-party	57	38	United States Canada
New Zealand	Party	16	2	Australia European Union countries United States China Japan
Peru	Non-party	69	50	United States China Chile Canada
Singapore	Party	2	1	China Malaysia Hong Kong Indonesia European Union countries

United States	Non-party	3	7	Canada Mexico China Japan Germany
Vietnam	Non-party	56	90	United States Japan China South Korea Malaysia

Note: ¹Referring to Trans-Pacific Strategic Economic Partnership Agreement or also known as the Pacific Four – the first free trade agreement that link Asia, the Pacific and the Americas. ²Global Competitiveness Index 2015-2016 – the quantification of the impact of a number of key factors that contributed to the creation of the conditions for competitiveness focusing on the macroeconomic environment, the quality and state of the country's institutions and technology with the supporting infrastructure. ³Ease of Doing Business Rank – a high ease of doing business ranking refer to the conduciveness of regulatory environment to begin and operation of a local firm. *Sources: Adapted from Office of the United States Trade Representatives, 2015; Statista, 2016 [48]; Statistic Canada, 2015 [49]; Trading Economics, 2015 [50-59]; World Economic Forum, 2015 [60]; World Bank Group, 2015 [61].*