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The Rise of Trump and Its Global Implications

TPP and Malaysia: New Reality, Missed Opportunity

By Rashaad Ali

Synopsis

The effect of the end of the TPP on Malaysia goes beyond the immediate economic loss of increased benefits of free trade. It shifts the balance of power further towards China, while losing out on the chance for an external trade agreement to enforce better standards of business and governance practice.

Commentary

THROUGHOUT HIS campaign, President-elect Donald Trump has promised to repeal the Trans-Pacific Partnership agreement (TPP), and has in fact reaffirmed his commitment to withdraw from the landmark trade deal. Described as the “gold standard” for free trade agreements for its tariff-cutting measures and standards of compliance, it features 11 other countries, namely Malaysia, Singapore, Brunei, Vietnam, Japan, Australia, New Zealand, Canada, Mexico, Peru and Chile. These countries stand to benefit economically by reducing or removing tariffs, while the United States is able to gain a strategic foothold in Asia.

All this is set to change with the current Obama administration suspending efforts to win congressional approval for the TPP, preferring to leave it to the incoming president and predominantly Republican lawmakers to handle. Prior to Trump’s latest announcement, Japanese Prime Minister Shinzo Abe declared the TPP useless without US participation.

Malaysia and its Hedging Strategy

From a Malaysian perspective, the threat of the end of the TPP has a number of repercussions that will affect both economic and political aspects of the country. When managing its relations with the US and China, Malaysia has practised a strategy of hedging itself against the two major powers.

While it accommodated the American pivot to Southeast Asia and negotiated on the TPP, Malaysia also courted China, opting to participate in the Asian Infrastructure Investment Bank (AIIB) while similarly expressing a strong desire for involvement in China's "One Belt One Road" initiative. China is Malaysia's largest trading partner with an estimated total trade of US\$100 billion, and on Prime Minister Najib Razak's recent visit to Beijing, also signed bilateral deals worth US\$34 billion.

Despite fears of Chinese encroachment, these deals appear to be strategy consistent with Malaysia's foreign policy. However, the results of the US presidential election throw this into doubt. The new administration's inward approach causes Malaysia to lose its leverage over the two countries, and whatever bargaining power it may have had may well be rescinded, strengthening China's hand. The potential end of the TPP signals a strong withdrawal from Malaysia on the part of the US, leaving the way open for China. In light of these developments, Malaysia's agreements with China should be re-examined considering the change in the status quo.

RCEP: The Remaining Option

The remaining option to the TPP is China's Regional Comprehensive Economic Partnership (RCEP), inclusive of Brunei, Cambodia, Indonesia, Laos, the Philippines and Singapore as well as Australia, India, Japan, Myanmar, New Zealand, South Korea and Thailand. Much like the TPP, it offers to reduce and remove various trade tariffs but without regulatory caveats.

For Malaysia's developing economy, signing on to a trade deal would have given its economy a much needed injection. 2016 was an especially bad year, with a dependency on oil revenue exposing the economy's weakness, slowing exports, a currency that continues to weaken and domestic issues such as 1MDB sorely affecting consumer confidence. What RCEP offers that the TPP does not however, is much less oversight and regulation on various aspects of economic freedom and liberalisation.

Easing Pressure for Compliance

This is another loss for Malaysia suffered due to the withdrawal of the TPP. Attached to the signing of the document were various other measures that signatory countries had to adhere to, such as stricter environmental laws, labour practices, and rules that govern state procurement of contracts. In the first two examples, countries are expected to abide by the new guidelines; Malaysia has in fact taken steps, albeit small, towards improving its labour laws. In the example of state procurement, a more transparent form of bidding would have drastically reduced the potential for collusion and corruption in the process of bidding for state contracts.

Signing the TPP would have required states to accede to the United Nations Convention Against Corruption (UNCAC), theoretically reigning in the ability for state extraction. Despite exemptions in the agreement for *bumiputera* laws and the carving out of public-private partnerships, the TPP would have represented an opportunity to force institutional change in Malaysia's governance.

By signing on to the trade deal, Malaysia would have had to adhere to its various standards and regulations, making government and business dealings more transparent and less vulnerable to corruption, while reducing or removing labour and environmental exploitation. The alternative in RCEP does not provide the same pressure.

Tilt Towards China?

A forced tilt towards China due to a new dawn in American politics seems a likely reality for Malaysia in the coming future. Indeed there are signs that the Malaysian government are cognisant of this fact. Deputy Prime Minister Zahid Hamidi recently stated that the country is willing to deepen its cooperation with China, including in areas of military. This followed statements by Prime Minister Najib Razak before the US election, where he spoke of pushing ties between Malaysia and China to new heights, as well as the benefits of the deals for the people of both countries for "decades to come".

Malaysia will soldier on without the TPP. The real damage of its potential withdrawal is the loss of improvement in areas of governance. Economic freedom demands institutional change, and it was hoped that economic liberalisation could lead to greater democratisation in Malaysian politics. Despite a centralised government, a disjointed opposition and scandal-ridden administration, there is still room for progressive policy-making. With the imminent withdrawal of the TPP comes the removal of any external pressure to revamp and reform key institutions of governance in the country.

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