TPPA and Southeast Asian Labour

Economic gains for Malaysia

The Trans-Pacific Partnership Agreement (TPPA) is a trade, investment and economic integration that involves 12 Asia-Pacific countries, including Vietnam and Malaysia. The concluded agreement is around 6000 pages long, comprising 30 chapters, multiple annexes, appendixes general notes and side agreements. Trade unions, environmental, development and public health campaigners have all raised issues with various parts of the TPPA, and large-scale protests have animated much of the public discourse in other parts of the world. The deal's proponents have pointed to the economic gains, while arguing that the safeguards negotiated into the agreement will protect the public interest.

The technical legalistic jargon of the Agreement make it largely impenetrable for working class people to engage with it on a meaningful level. This project aims to address that issue, presenting information based on text, secondary analyses. The project has been funded by Friedrich Ebert Stiftung's Singapore Office, research has been undertaken by the Building and Wood Workers' International Asia-Pacific Regional Office, and consultation has taken place with union leaders through the ASETUC network.

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Economic Gains for Malaysia

TPPA's democratic deficiency was made worse by a series of highly problematic economic analyses, some of them released years before texts were even available. Drawing conclusions about the impact of trade and investment agreements, even once the specifics of those agreements become public, is notoriously difficult. Sound bite-driven media exacerbates those issues where singular statistics, no matter how difficult they are to prove or otherwise, are repeated over and over again, to the point where they appear as objective facts.

This section will look at some of the economic analyses presented so far about TPPA's proposed economic benefits for Malaysia, as well as engaging with criticisms of these studies to develop a fuller understanding of the likelihood of these benefits. It will look first at one of the "early" analyses published by the US Peterson Institute and address some of the critiques of that study. Next it will look at studies that have been undertaken by both the Institute of Strategic Studies (ISIS) Malaysia and then the PriceWaterhouse Coopers (PWC) study that was commissioned by the Malaysian Government. Finally, it will address some of the broader critiques that have been proposed by other organisations to put those predictions in perspective.

The Peterson Institute study

In 2011 Petri, Plummer and Zhai published a working paper for the East-West Center, at a time when the political ambition of liberalisation was still high, leading to a series of overtly rosy predictions regarding TPP and the so-called 'Asian track' (which we now know as the RCEP).[1] These were reworked in 2012 in a study published by the Peterson Institute for International Economics, a right-wing thinktank and a vigorous supporter of the TPPA. They have been widely quoted by governments and industry leaders in support of the TPPA. In 2016 they published another analysis based on the text itself, which presented a much more sobering picture of the benefits that were actually achieved, although they still sit at the more optimistic end of the scale.

Initially in the 2011 working paper they predicted global welfare gains of US$104 billion by 2025, with US$40.8 billion of those accruing to TPP countries (a 0.15% increase in GDP). Malaysia registers a US$9.4 billion welfare gain (2.24%), including a 16.4% increase in exports. In the 2012 rework of the research this figure was grew to income gains of US$26.3 billion from TPP alone, a 6.1% increase, including a US$41.7 billion increase of exports (12.4%).[2] In its 2016 iteration the real income gains said to accrue to Malaysia had reached US$28 billion by 2025, a 5% increase.

In a response published by the Sustainability Council of New Zealand, Bertram and Terry reviewed the Peterson Institute's economic modelling. They argue that the study not only misses crucial costs for states in terms of national sovereignty and regulatory autonomy, but that the projected trade benefits have been "seriously overstated". This perceived one- sidedness in its analysis should be factored into our assessment of the authors findings. Considering these new costs, Bertram and Terry conclude that, [in] its quest to penetrate 'behind the border' the TPP intrudes far further into how governments operate than is necessary to facilitate trade."[4]

1. https://www.usitc.gov/research_and_analysis/documents/petri-plummer-zhai%20EWC%20TPP%20WP%20oct11.pdf
2. Page 6 http://www.relooney.com/NS3040/0_New_14070.pdf
3. https://piie.com/publications/wp/wp16-2.pdf, page 20.
4. Geoff Bertram and Simon Terry Economic Costs and Benefits of the TPPA (2014), page 3. http://www.sustainabilitynz.org/wp-content/uploads/2014/02/EconomicGainsandCostsfromtheTPP_2014.pdf

The UNCTAD Study

Bertram and Terry's study is not the only study to critique the modelling for TPPA's economic costs and benefits. In a January 2015 report written for the United Nations Conference on Trade and Development (UNCTAD), Senior UN economist Rashmi Banga takes a critical view on studies that, like the Peterson Institute analysis, rely on CGE modelling.[5] These studies rely too heavily on unrealistic assumptions. Banga looks instead to the rising importance of global value chains (GVCs), whose constituent parts that make up 70% of trade. Many countries have experienced declining domestic value-added content by linking into GVCs. While under a CGE model this would imply that an estimated rise in exports would translate into a "rise in output and employment but may actually be fed by imports from partner countries, declining the existing domestic value added content of exports of some countries."[6]

Banga notes that like many other developing economies, Malaysian has experienced a fall in domestic value added content in its exports to the world. For example, the domestic value-added of Malaysian exports to the US have fallen from 65% in 1995 to 42% in 2009, meaning that for every $100 that Malaysian exports to the US increase only $42 will be retained in the Malaysian economy, to contribute to domestic production and job creation. With her more sophisticated economic modelling, she argues that the impact of liberalisation will be limited due to the existing FTAs among TPPA member countries, however she argues that, "Malaysia's balance of trade will worsen by around USD 1.5 billion per annum with imports rising by around USD 3 billion and exports by around USD 1.5 billion.[7]

The PWC Study

The Malaysian Government commissioned the international financial services firm Price Waterhouse Coopers (PWC) to undertake an analysis of the published text and its impact on the Malaysian businesses. It is the most detailed sectoral study that exists, and does make some attempt to weigh up the economic benefits of other chapters as well. PWC are well-established in most TPPA countries, and have a vested interest in seeing increased liberalisation for financial services, as well as other parts of the agreement as well.

According to their analysis (which is based on the CGE modelling that the UNCTAD study critiqued), over the period 2018-2027 Malaysia can expect a cumulative rise in GDP of USD 107-211 billion.[8] This is an increase of only 0.6-1.15%, meaning that within a month or so Malaysia would reach the same GDP increases regardless. It should be noted that only a relatively small proportion of this figure – USD 12 billion – is projected to come from tariff reductions. This modelling is often quite flawed, since it assumes that Malaysian producers (and by extension workers) are able to capture the majority of the benefit of this. This may be true in certain supply chains, but it depends on which actors in that supply chain exercise the most bargaining power. For instances, in sectors were commodities are purchased by large traders, processors or retailers with stronger bargaining power than the exporters themselves, their ability to capture that benefit is less. In other words, it is unlikely that Malaysian firms (and by extension workers) will be able to capture all of this benefit.

The remaining USD 95-199 billion of economic benefit is projects to come

5. Banga also notes a number of other studies critiquing CGE modelling: Cheong (2013), Xin (2014), Litkara (2014) Kenichi K. (2011).
6. Rashmi Banga, Trans-Pacific Partnership Agreement (TPPA): Implications for Malaysia's Domestic Value-Added Trade, January 2015, UNCTAD Background Paper No RVC-12. Available at: http://unctad.org/en/PublicationsLibrary/ecidc2014misc1_bp12.pdf
7. Ibid., p12.
8. Price Waterhouse Coopers, Study on Potential Impact of TPPA on the Malaysian Economy and Selected Key Sectors, December 2015, Final Report, Page 11. Available at: http://fta.miti.gov.my/miti-fta/resources/TPPA_PwC_CBA_-_Final_Report_021215_FINAL_(corrected).pdf

from the reduction of so-called 'Non-tariff measures', expressed as a 25-50% scenario. The study is 300 pages long, yet there is hardly any discussion on what these NTMs are in the Malaysian context, whether they play other social-valuable roles, and the extent to which TPPA will remove them. Given that NTMs make up the largest part of the trade benefits Malaysia is supposed to obtain from the TPPA, there is scant discussion on this.

The question of wealth distribution

The question of wealth distribution as a result of the TPPA is a critical one to trade unions. It is posed in a Working Paper from Tufts University from January 2016 which, like the UNCTAD study, finds problems with assumptions core of full employment and constant income distribution at the CGE modelling.[9] The authors, including Malaysian economist Jomo Kwame Sundaram, instead derive alternative macroeconomic projections using the UN Global Policy Model.

While their study does not provide specific statistics for Malaysia, they predict that for the East Asian region as a whole the rate of GDP growth will be only 0.24%. At the same time they argue that the region will endure an employment loss of 55,000 workers over the period of 2015-2025, at the same time as suffering an average loss in the labour share of income by 0.99% by 2025. This would be a significant shift in the fortunes of working people.

The report from the Institute of Strategic and International Studies (ISIS) Malaysia, which does not make specific predictions of GDP gains, is also more cautious with regards to the benefits of liberalisation assumed from the TPPA. It also notes that there is a significant body of empirical research that suggests that trade liberalisation does not increase developing country incomes, and in many instances income distribution has worsened. On whether TPPA can reduce poverty, it notes that

> [T]here are potential job losses for low-skilled workers who may not be able to compete in industries with demands for skilled and semi-skilled workers. For the public at large, economic development and continued state support are needed to prevent even more Malaysians from falling between the cracks … The impact of wealth and job creation under the TPP on poverty eradication is therefore, indeterminate [original emphasis].[10]

Conclusion

Predicting the benefits of trade liberalisation is a difficult task, and all predictions should be taken with a grain of salt. The findings of the abovementioned reports, and the various economic critiques thereof, indicate that most of the potential gains will not come from tariff removal, but rather through the removal of a set of poorly-defined "non-tariff barriers". This paltry analysis is not good enough.

There is now a growing chorus of very credible voices arguing that the likely trade benefits of this agreement are not worth what we risk in other areas. A group of prominent New Zealand economists have argued that in many instances economic gains are assumed and the influence of bargaining power in global supply chains is forgotten, which could seriously limit the extent to which trade benefits can be captured by workers.[11] Nobel economics laureate

9. Jeronim Capablo, Alex Izureita and Jomo Kawme Sundaram, 'Trading Down: Unemployment, Inequality and Other Risks of the Trans-Pacific Partnership Agreement', Global Development and Environmental Institute Working Paper 16-01, January 2016, and Timothy Wise and Jomo Kwame Sundaram, 'Assuming away unemployment and trade benefits from the TPP', Global Development and Environmental Institute, Tufts University, 20 March 2016, http://www.ase.tufts.edu/gdae/policy_research/TPP_simulations.html
10. Institute of Strategic and International Studies Malaysia, National Interest Analysis of Malaysia's Participation in the Trans-Pacific Partnership (2015), page 88. Available at: http://fta.miti.gov.my/miti-fta/resources/ISIS_The_Grand_Finale.pdf
11. Barry Coates, Rod Oram, Dr Geoff Bertram, and Professor Tim Hazledine, 'The Economics of the TPPA', TPPA Expert Paper No. 5, January 2016, and Ian Harrison, 'Garbage In, Garbage Out. A review of the modelling of the benefits of the TPPA', TailRisk Economics, February 2016.

Paul Krugman argues that most of the potential economic benefits from trade agreements have already been realised through the host of other already existing agreements.[12] Former US Secretary of Labor Robert Reich continues this argument noting that while the trade agreements of the 1960s and 1970s helped increase demand and raise wages, "[t]he new-style global corporate agreements mainly enhance corporate and financial profits, and push down wages."[13] For his part, Nobel economics laureate Joseph Stiglitz has labelled the TPPA "the worst trade agreement in decades", arguing that President "Obama has sought to perpetuate business as usual, whereby the rules governing trade and investment are written by US corporation for US corporations. This should be unacceptable to anyone committed to democratic principles."[14]

It is clear that we need more and better tools for assessing the benefits of trade agreements for the labour movement, and that put workers first in that analysis. There is not much value, for example, in GDP increases that are coupled with a diminishing labour share of income. There are many things that the Malaysian Government can do today to lift working peoples incomes that do not involve the same kind of risks, including raising the minimum wage, strengthening the collective bargaining framework and regulating hours of work. It is hard to see how the TPPA could achieve those goals, and therefore we are projecting there will negligible economic benefits for Malaysian workers that do not warrant the risk involved in other chapters of the agreement.

12. Paul Krugman, 'Trade and Trust', New York Times, 22 May 2015, http://www.nytimes.com/2015/05/22/opinion/paul-krugman-trade-and-trust.html
13. 'Robert Reich: This very bad deal with make Wall Street Richer and Bust the Rest of America', 17 February 2015, http://www.alternet.org/robert-reich-very-bad-deal-will-make-wall-street-richer-and-bust-restamerica?akid=12801.38156.
14. Joseph Stiglitz, 'In 2016, let's hope for better trade agreements and the death of the TPP', The Guardian, 10 January 2016, https://www.theguardian.com/business/2016/jan/10/in-2016-better-trade-agreements-trans-pacific-partnership