

RCEP requires changes to Malaysian biz models

This is because local businesses have been cost focused, economist says

THE ratification of the Regional Comprehensive Partnership Agreement (RCEP) by the Malaysian government is one of the initiatives needed to change the various business models in the country especially after Malaysia's per capita income saw a slight decline since the Covid-19 pandemic struck.

The RCEP consolidates the various free trade agreements (FTAs) Asean economies have with regional trading partners like China, South Korea, Japan and others under a single block trade deal and make it easier to do business in.

"Joining the RCEP was more about what Malaysia would lose if we were not part of the FTA. The deal emphasises the need for Malaysia to compete and find a niche because we will need to be profit driven rather than cost driven as the country might not be able to compete on cost structure against producers in Indonesia or Vietnam," MARC Ratings Bhd chief economist Firdaos Rosli said.

He added that local businesses have been cost focused for some time now and RCEP will gradually require them to seek growth by spending and innovation of products and services.

The Ministry of International Trade and Industry (MITI) announced last Friday that Malaysia will become the 12th member state of the agreement on March 18, 2022.



RCEP will make Malaysia compete with other Asean countries to attract more FDIs while at the same time pressure local companies in all sectors to compete more, Aimi Zulhazmi says

This follows the successful submission of Malaysia's Instrument of Ratification (IOR) to the Asean Secretariat on Jan 17.

As provided under Article 20.6 of the RCEP Agreement, the agreement will enter into force 60 days after the IOR has been submitted to the Asean Secretariat.

Malaysia will join eleven other signatory countries, namely, Singapore, China, Japan, Brunei, Cambodia, Laos, Thailand, Vietnam, Australia, New Zealand and South Korea, that have completed the ratification process.

The RCEP is an economic cooperation deal that includes 15 dynamic economies with 2.2 billion people or nearly one third of the world's

population, representing US\$25.8 trillion (RM108.1 trillion) or 29.4% of the world's GDP based on the World Bank's 2019 data.

Studies show Malaysia is expected to benefit from the agreement which will push exports to the region worth US\$200 billion.

The Federation of Malaysian Manufacturers (FMM) lauded the upcoming implementation of the agreement which it said is very timely for Malaysian businesses to leverage on as a recovery tool post Covid-19 to boost trade in goods and services

FMM President Tan Sri Soh Thian Lai said the federation has launched a series of webinars on RCEP to assist companies to iden-

tify opportunities and gaps in new areas that come with the FTAs.

It also called for the government to expedite the ratification of the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) to further enhance business opportunities for local industry players.

The government had previously stated its plans to ratify the CPTPP by mid of this year after it finalise the cost benefit analysis (CBA) for the partnership.

MITI Minister Datuk Seri Mohamed Azmin Ali said another round of the CBA needed to be done after the previous process was disrupted by the pandemic.

University Kuala Lumpur Busi-

ness School economic analyst Assoc Prof Dr Aimi Zulhazmi Abdul Rashid said RCEP would make Malaysia compete with other Asean countries to attract foreign direct investments (FDIs), after declining in the past few years.

"The recovery of the world economy which coincided with Malaysia's participation in the RCEP had a very positive impact on the economy.

"We do not want Malaysia to be in a 'middle-income trap' with per capita income unchanged for several years, even slightly declining since the Covid-19 pandemic struck.

"With the government's target in the 12th Malaysia Plan, which is that the income of each family reaches RM10,000 per month by 2025, something drastic needs to be done, and the participation in RCEP is one of the first steps in changing the various business models here," he told *The Malaysian Reserve* recently.

He believes Malaysia could attract more FDIs as it has an important role in the global supply chains for products like semiconductors and rubber gloves.

It is also possible that the entry of foreign companies, especially from RCEP members, will pressure local companies in all sectors to compete more.

"This may affect local businesses that have dominated certain sectors of the national economy. National policies such as foreign ownership and local participation may also come under pressure in the future, including Bumiputera equity," he added.