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BUSINESS | ASIA | ASIAN BUSINESS NEWS

## Company Stampede to Southeast Asia Seen on Trans-Pacific Partnership Trade Pact

Vietnam and Malaysia growth depends heavily on external trade



A Malaysian palm plantation in 2013. Malaysia, one of the world's largest exporters of palm oil, sent more than \$30 billion in goods and services to the U.S. last year. *PHOTO: SAMSUL SAID/REUTERS*

By **JAKE MAXWELL WATTS**, **KATHY CHU** and **CELINE FERNANDEZ**

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Even before the ink is dry on the Trans-Pacific Partnership trade deal, companies are

laying out plans to expand in Vietnam and Malaysia, both rapidly developing Asian nations whose growth depends heavily on external trade.

Manufacturers of apparel, rubber gloves and bikes are among those considering increasing production in the Southeast Asian countries to capitalize on export growth expected from the accord, which sweeps away tariffs to markets including the U.S., the world's biggest economy.

The mammoth trade agreement is seen as a game-changer for these national economies, according to an analysis by Washington, D.C.-based think tank Peterson Institute for International Economics. By 2025, membership of the TPP could boost exports from Vietnam by an additional 29% and from Malaysia by almost 12%, the institute predicts.

The final agreement looks likely to be “the best trade liberalization we've seen in 20 years,” said Deborah Elms, co-founder and executive director of the Asian Trade Centre. “I expect there to be quite a stampede” of foreign investment in Southeast Asia when the final text of the agreement is published, she said.

Although the TPP currently has 12 members, encompassing 40% of the world's economic output, the smaller members are likely to be standout performers.

Malaysia and Vietnam, for example, currently have no free-trade agreement with the U.S., a voracious consumer of both raw materials and manufactured products. Currently, exporters from these economies to the U.S. must pay taxes on every product that arrives on U.S. soil.

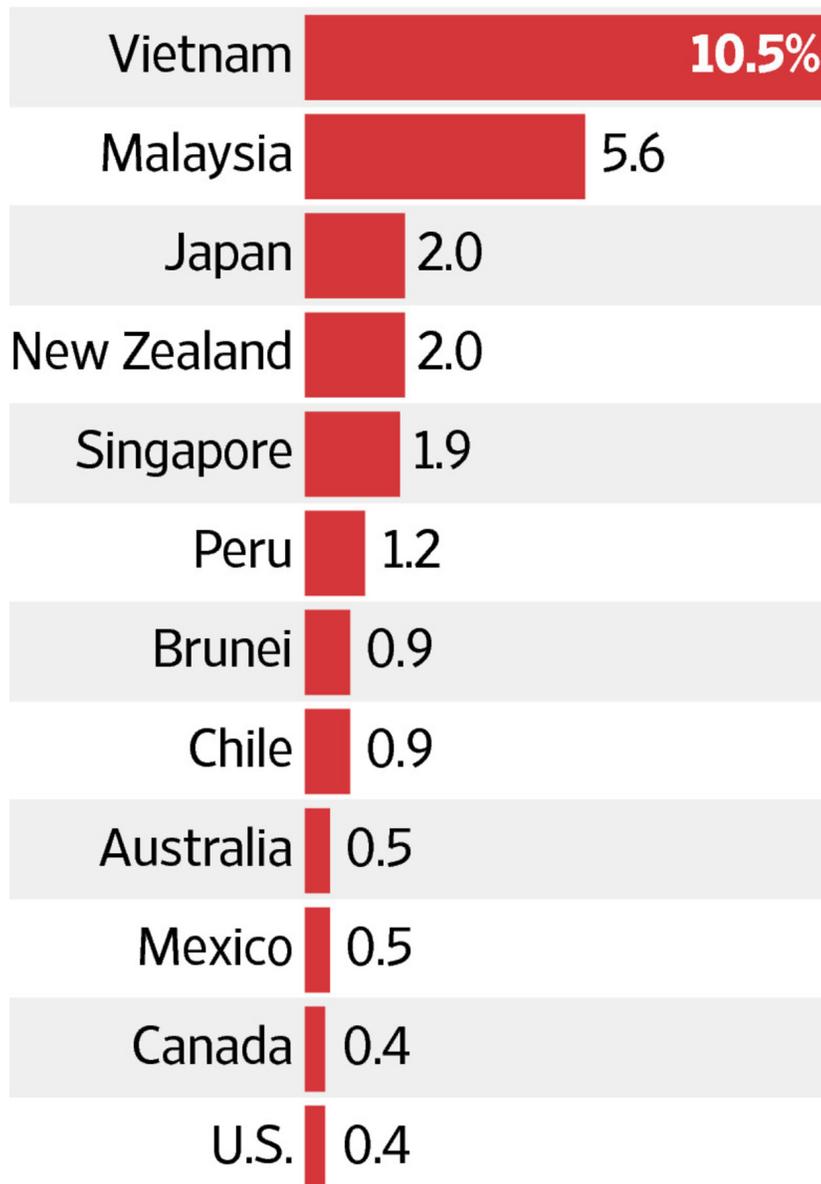
The TPP would give member economies preferential treatment, eliminating or reducing those tariffs across most industries, giving them a leg up over rivals such as China, Thailand and Indonesia that aren't part of the deal.

Tariffs on garment exports from Vietnam to the U.S. are expected by economists to eventually drop to near zero from the current 17%, although it may take years. In the year ending July 2015, the U.S. bought \$10.8 billion worth of apparel from Vietnam, according to U.S. statistics. Malaysia, one of the world's largest exporters of rubber and palm oil, which also manufactures auto and electronics parts, exported more than \$30 billion worth of goods and services to the U.S. in 2014.

“We have been long waiting for this,” said Tang Chong Chin, managing director of Malaysian apparel firm United Sweethearts Garment Bhd., which makes clothing including sportswear, children's and outdoor clothing. “Over a number of years I believe

# Trade Boost

Forecast increase in real income by 2025 attributable to the Trans-Pacific Partnership



Source: Peterson Institute for International Economics

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the whole landscape of sourcing will change.”

United Sweethearts is already planning a second factory in Vietnam, and TPP will accelerate its plans, according to Mr. Tang, also president of the Malaysian Knitting Manufacturers Association. The manufacturer, which exports more than two-thirds of the clothing it makes to the U.S., said revenue could double within five years if tariffs are removed.

Currently, countries without free trade agreements with the U.S. face tariffs that can be up to 10% or higher depending on the type of apparel.

Meanwhile, Supermax Corporation Bhd., Malaysia’s second-largest producer of rubber gloves by volume, is anticipating a surge in sales of its products to major new markets. Group managing director Dato Seri Stanley Thai said in an interview that he expects import duties of around 16% for its medical glove exports to Canada, another TPP member, to be eliminated.

Access to Canada and the U.S.

—which doesn't impose large tariffs on medical gloves, for example—is only part of the picture. Japan, the world's third-largest economy, is also party to the TPP, as is Australia, Brunei, Chile, Mexico, New Zealand, Peru and Singapore.

For the deal to take effect, each member must formally ratify the accord, a thorny path for some potential signatories including the U.S.

The finer details of the trade pact also have to be hammered out. On textiles and apparel, the full text is expected to include several conditions relating to the sourcing of raw materials for apparel products, which the U.S. has championed to protect its yarn and textile producers.

David Hon, CEO of Duarte, Calif.-based folding bike maker Dahon, said that he's waiting to see how much preferential treatment TPP countries will get before he considers slashing production in China and Europe in favor of Vietnam and Malaysia.

He must weigh the reduced tariffs that arise from TPP with other trade conditions. The supply chain in Malaysia and Vietnam isn't as developed for bicycles as in China, according to Mr. Hon.

Still, if the trade deal goes through, “we naturally will have to increase our tendency to buy from [TPP] countries and move our factories there,” said Mr. Hon.

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