



Malaysia: The Potential Effects of FTAs and the Role of Domestic Consensus

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- What's New in the FTAs
- Malaysian Economic Structure
- Malaysian Trade Policy
- Malaysia's FTA Initiatives – Joining in the fray
- Role of Domestic Consensus
- Conclusion

What's New in the FTA

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Asia is on FTA bandwagon

- Since late 1990s, Asian countries have signed 15 FTAs.
- Singapore, India, Japan, Thailand and Korea are lead countries, with most number of FTAs
- FTAs can be formed with a group as well as with individual members, e.g.
 - Bilateral FTA: Japan- Singapore
 - Regional: ASEAN - China
- Many are under negotiation
- Asian countries forming FTAs with partners outside the region

Motives: To generate economic growth

- To fast track liberalisation. Slow progress in WTO (esp. failure of Cancun)
- To revive growth after the Asian crisis
- To maintain competitiveness in export markets and attract investment
 - Fear of exclusion
 - To reduce inputs costs for exports and make exports more competitive
- To drive domestic restructuring and open protected domestic sectors
- To look for new markets
- To improve market access, under pressure from business sector

But there are “political and strategic” agenda

- To respond to FTA initiatives in other regions
- To divide and rule
 - Luring members of Group 20 in WTO meetings to have FTAs with US, weakening G20 negotiation power
- To encourage competitive liberalisation
 - Setting precedent for areas of economic interest e.g. IPR, investment and trade in services.
- To address issues strongly opposed by developing countries at WTO
 - Govt procurement and investment rules.

Objectives and scope

■ Objectives

- Earlier FTAs promoted trade, new ones have larger goals
 - Generating growth
 - Facilitating investment
 - Creating enabling environment (IPR and competition policy)

■ Scope of agreements

- Earlier agreements focused on market access for goods
- New ones cover wider areas (include services, investment, government procurement, e-commerce etc).
- “New age economic partnership” that includes co-operation

Content of FTAs

- Each FTA is custom-made and a product of negotiation between the parties. However, the core elements are similar and include:
 - Goods
 - Core of free trade pacts
 - Tariff reduction
 - Rules of origin
 - Services
 - Demand for wider and deeper liberalisation
 - Investments
 - Wishing to set up rules for investment that do not exist in WTO framework

Targeted areas for liberalisation

- Trade in goods:
 - WTO plus market access
 - Faster timeline for tariff reduction
- Services:
 - GATS plus
 - Faster and more extensive opening of services industries which include new growth areas such as professional services and telecommunication
- Investment:
 - Relaxation of equity rules
 - Stand still commitments on existing rules and regulations
 - Give national treatment to foreign investors
 - Removal of performance requirements.

Concluded FTAs – Commitments beyond normal trade issues

- IPR: more demanding than WTO obligations e.g. AustUSFTA
- Government procurement: e.g. JSEPA
- E-commerce: e.g. JSEPA
- Competition policy: USSFTA
- Labour standard: US-Jordan FTA
- Environment issues: USSFTA
- Movement of natural persons – professionals (USSFTA) and non-professionals (AustThai FTA)
- Legal services and telecommunication (AustSFTA)

- What's New with FTA

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Context of Malaysia's FTA approach

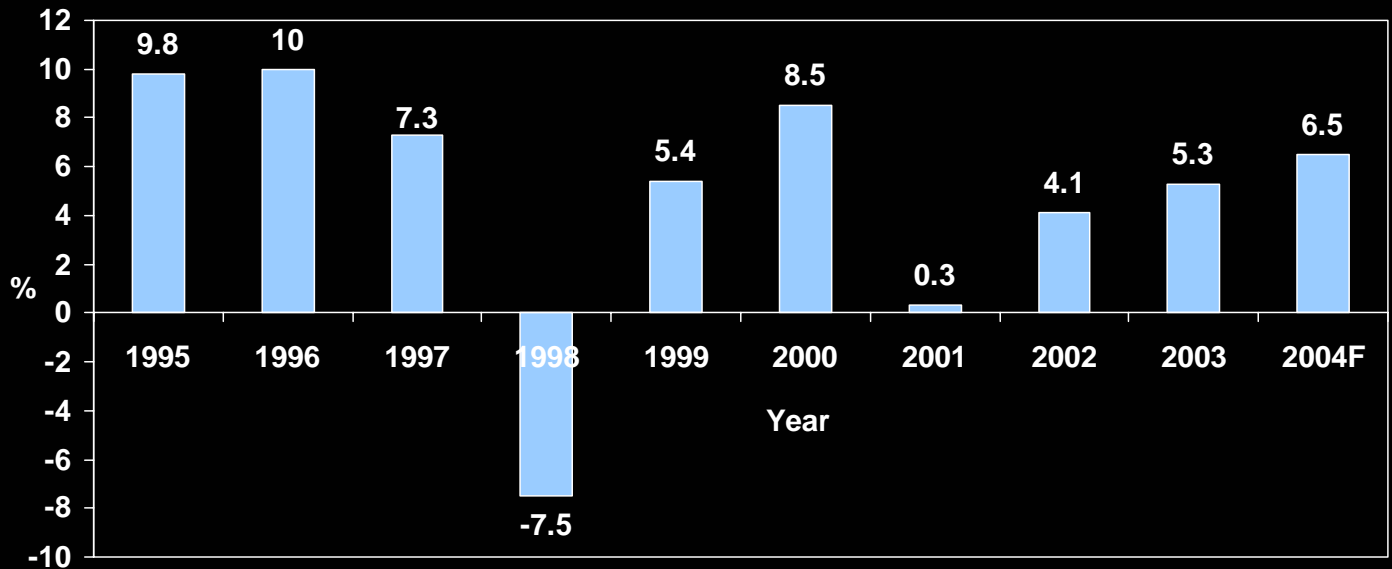
- Small economy, small market
- Reliance on trade, Trade=2 x GDP
- Scope of trade expanding
- More competitive global environment
- Looking for balanced and sustained growth
- Consistency and complement with other international commitments

Malaysian Economic Growth

Average 1970s : 7.5%

Average 1980s : 5.8%

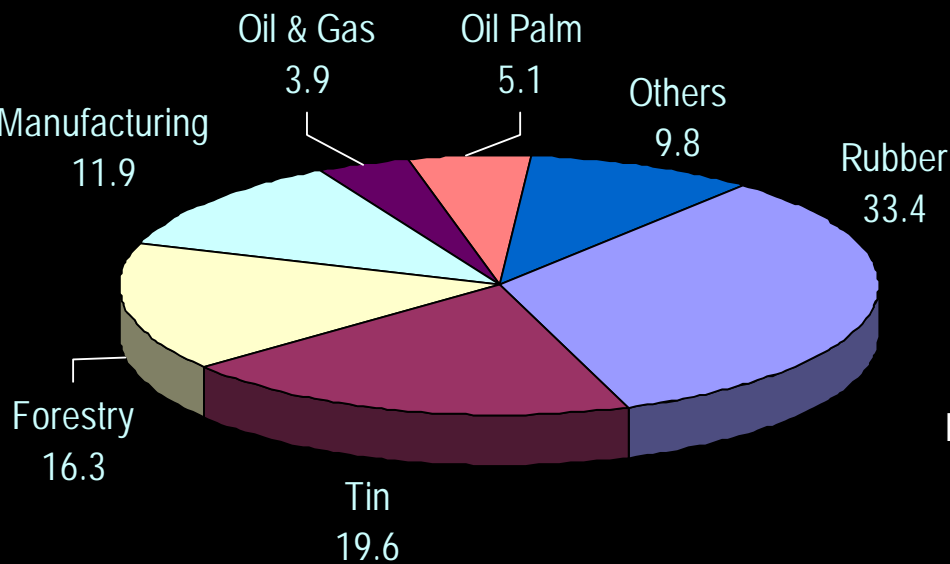
Average 1990s : 7.1%



Changing sectoral share of GDP (%)

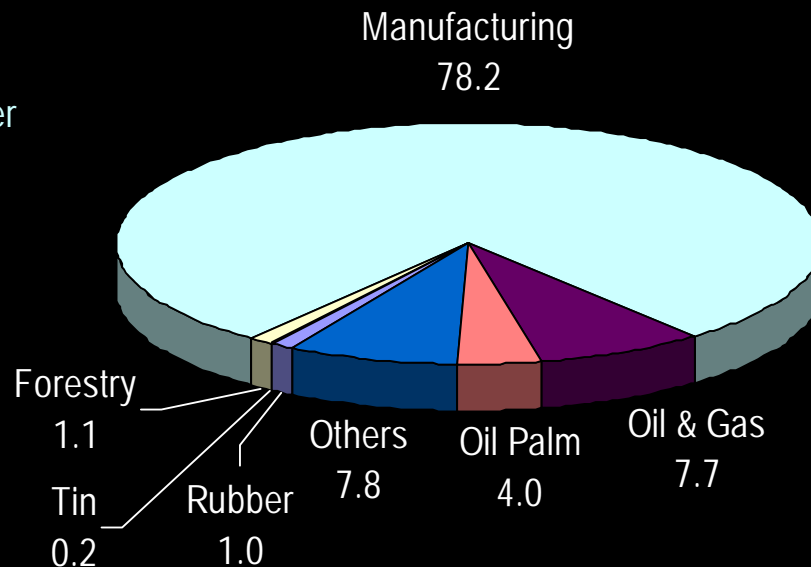
	1961	1980	1995	2000	2004
Agriculture	38.5	22.9	13.6	8.4	7.9
Mining	6.1	10.1	7.4	6.8	6.5
Manufacturing	8.5	19.6	33.1	33.3	29.5
Construction	4.6	6.0	6.7	3.3	2.7
Services	42.5	41.4	39.2	48.2	53.4

Export diversification (% of total exports)



1970

RM 5,163 million



2004

RM 499,514 million

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Malaysian trade policy

- Liberalisation through WTO & complemented by regional and bilateral agreements
- Continues to review tariff rates
- Average bound tariff is 14.9%, bound 65% of tariff lines
- Services – allow foreign participation subject to conditions e.g. up to 70% limit of foreign equity holdings, commercial presence through joint ventures and limitation on foreign personnel.
- Has introduced autonomous liberalisation e.g. in health and services sectors

Additional liberalisation

- ASEAN Free Trade Area (AFTA)
 - 60% of products in Inclusion List already at zero duties
 - Tariffs for automobiles have been reduced
- ASEAN Free Trade Agreement in Services (AFAS)
 - Into 4th package of liberalisation
 - Priority areas: air transport, tourism, e-commerce and healthcare
- APEC – had taken unilateral tariffs reductions

Malaysia's FTA initiatives

– Joining in the fray

Country	Status
Malaysia – Japan Malaysia – US	Started negotiation January 2004 Signed TIFA
Malaysia- Australia Malaysia – New Zealand	Conducting study Conducting study
Malaysia – Korea	To start study
ASEAN – Korea	To begin talks in 2005
ASEAN – Japan	To begin talks in April 2005
ASEAN – China	Negotiation at advanced stage
ASEAN – Australia & NZ East Asian FTA	To begin talks in 2005 Proposed by Malaysia

Potential Impact of FTAs for Malaysia

Factors to consider ...

- Trade and investment policies are relatively liberal, but wants to:
 - Move up the value chain for manufacturing
 - Further develop agriculture and services sectors
- Progressive liberalisation - to take into account national policies and sensitive areas e.g. equity policy
- Developing fundamentals for future growth: capacity building and development of SMEs and R&D
- External economic climate is much more competitive; policy differentials are narrower
- FTAs may create new production and trade network and regime in Asia

Concerns

- Uneven level of playing fields.
- Readiness of industries for liberalisation:
 - Capacity and information about industries
 - Adjustment problems e.g. unemployment and displacement of domestic producers.
- Enforcement mechanism issues.
- Encroachment into domestic policies.
- Sensitive sectors – economic efficiency versus development objectives
- Outcome depends on complementarity's of partners' economies, country specific asset and negotiating capacity

Potential economic impact ... the good news

- Liberalisation can bring:
 - Higher economic growth
 - Create employment
 - Increase income
- Maintain or improve export competitiveness through better market access
- Cheaper imported inputs will lower costs of production and
 - Make exports more competitive
 - Increase welfare of the public
- Increase competition in domestic economy
- Attract investment

Potential downside

- Serious structural adjustments for sensitive industries – unemployment, loss of productive capacity
- No significant expansion in agriculture exports if tariff is not reduced substantially and technical and health standards remain as barriers
- Rapid opening up of services sector may disadvantage domestic providers as:
 - They are less competitive and have less time to build capacity
 - Dominance of foreign firms can marginalize and crowd out local ones
- Movement of workers is not made easier – difficult to export professional services
- Surges in services imports due to liberalisation can enlarge services deficit – a need for safeguards

Social impact

- Balance between improved competitiveness and higher growth for some industries while others experience higher unemployment
- Marginalisation of economic activities and/or groups
- Advancing WTO plus issues may be detrimental to public interest e.g. IPR provisions that increase cost of medicine
- Prohibition of performance requirements will hamper efforts to build capacity and access to technology esp. for SMEs and local companies, and employment of locals at management or higher levels

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Role of Domestic Consensus: Ensuring a Balanced Outcome

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Who are the parties that form domestic consensus

Groups representing human interests and industries in formulation of trade policy at national and international levels:

- Industry groups
- Union of workers
- Civil societies – general public
- Environmental groups
- Legislators – want to ensure a sustained, balanced and high growth and development for their constituencies

Issues of concern for domestic consensus

- Growth and viability of industries and economic activities
- Employment
- Upgrading of skills to keep up with economic restructuring
- Costs of provision of services and public goods e.g medicine, telecommunication
- Environmental condition
- Ensuring that economic development is enjoyed by all - economic efficiency versus social responsibility

Developing domestic consensus

Consultation with domestic consensus groups:

- Industries to understand their concerns but at the same time explain the need to improve competitiveness
- Workers to design programmes to up grade skills and ability to move to other jobs
- Civil society and environmental groups to consider and address their concerns
- Legislators to have early awareness about trade agreements being negotiated and role in approving trade agreements
- SMEs to guarantee their continued participation and development and expansion of R&D capacity

Conclusion

- Positive outcome of FTAs - i.e. economic expansion - will overcome some of concerns of domestic interest groups
- Views and inputs from domestic interest groups should be part of the broad consensus approach for FTAs
- Outcome of trade agreements should be fair and can provide flexibility for Malaysia to continue its development policy
- Progressive liberalisation to provide adjustment period for domestic industries
- FTAs must take care interest of all parties, and produce a balanced outcome. Developing domestic consensus is an essential part of achieving this goal