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Prosper thyself in Asean?

COUNTRIES do not choose companies. It is the companies who decide where to invest and set up base, in one degree or another after studying the comparative advantages of competing countries' individual economic and investment policies. During good times, there would likely be sufficient projects to go round meaning prospective hosts do not really have to go out of their way to attract investors. When the circumstances are challenging, however, the former will find a greater need to differentiate themselves from each other, by sharpening their respective comparative edge and introducing ever more attractive incentives to vie for capital. And of late, in the face of accelerating liberalisation of trade and investment, and deregulation and structural reforms, one instrument has emerged as the weapon of choice among an increasing number of countries - free trade agreements (FTAs).

As a result, there has been a wave of new FTAs - for now mostly bilateral, but which can easily turn regional and multilateral. Initiators say these alliances are necessary in the face of the twin-process of liberalisation and globalisation. In the case of established free trade areas, there are currently more than 130 around the world. Close to home, there is the Asean Free Trade Area or Afta, but the mother of them all remains the European Common Market. The US has of course also formed the North American Free Trade Agreement with Canada and Mexico, and then there are South America's Mercusor, the Gulf Cooperation Council, and one among Andean countries. A Free Trade Area of the Americas has been initiated as well, which is aimed at uniting North and South America into a Lord of the Blocs.

The World Trade Organisation recognises the logic and functionality of trade pacts, given their efficacy in facilitating cross-border trade and investment. But its provisions still stipulate that the duties and other regulations of commerce for non-FTA members in each of the constituent territories should not be higher or more restrictive than those existing prior to the formation of the FTA; and that the duties and other restrictive regulations are to be eliminated with respect to substantially all the trade between the constituent territories in products originating in such territories. This is to prevent abuse of the agreements, principally the threat of them becoming mere tools of protectionism and exclusivity. When managed well, FTAs can indeed create a more conducive business environment and an expanded market for all, as synergies are generated and duplication of efforts minimised. They also promote structural reforms, not least through the harmonisation of trading systems and procedures, with a less developed partner getting a chance to learn from the advanced one, for instance.

Bilateral FTAs and those comprising a limited number of signatories are naturally also much easier and quicker to enter into, and they have the added advantage of being more flexible, compared to multilateral agreements which can take years to negotiate or renegotiate. But they are also possible threats to the integrity of established trading blocs, especially when a member pursues its own agenda through a bilateral trade pact in possible contravention of that of the grouping. For this reason, both Prime Minister Datuk Seri Dr Mahathir Mohamad and International Trade and Industry Minister Datuk Seri Rafidah Aziz have expressed reservations about Singapore's pursuit of pacts separately with a number of non-Asean

countries, particularly when such partners can well use the republic as a backdoor into the region's market. Singapore on the other hand argues that its FTAs will not hurt Asean, but instead benefit the grouping because of the extra potential for growth in overall trade. Then again it is understandable that Singapore should opt for this approach now. Its economy is facing difficult times as exports plunge. But there are unfortunately also signs that Thailand and the Philippines might be following Singapore's example, in which case it will be another step into an era of prosper thyself in Asean.

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