



## Avoiding the FTA Trap

Free Trade Agreements are suddenly all the rage now. While there are benefits to be reaped, we must tread carefully, as much is at stake.

WHEN it comes to trade, Free Trade Agreements (FTAs) with the United States don't seem to be the most popular of deals in many countries, especially developing ones.

Up north, our Thai friends failed to seal an FTA deal with the US earlier this year following strong public protest.

In Latin America, several governments postponed the signing of FTAs with the US on fears of losing at the polls, while countries like Argentina, Bolivia, Brazil and Venezuela have aborted their US FTA talks.

A similar situation too in Africa where members of the Southern African Customs Union like South Africa and Namibia, have called off their FTA discussions with the US.

So, in light of all this, why would a developing country like Malaysia even think of an FTA with the US?

'We have done the arithmetic and it would be in the broad national interest,' declares International Trade and Industry Minister Datuk Seri Rafidah Aziz.

'The agreement will cause the country more harm than good,' retort a big group of NGOs.

Who is right?

Given that no details have been given of any cost-benefit analysis by the government, that's a difficult call. But you can hazard a guess.

Strangely, there have been no consultations with any trade groups or other industry bodies to seek their opinion or address their fears on the effects of such an FTA with the US. And going by Press reports, both sides are trying to wrap up a deal by the end of the year.

Given this cloud of secrecy and lack of transparency, it is not surprising that there is growing public discontent and fears that Malaysia will end up with the short end of the stick.

After all, our recent FTA with Japan has been dubbed as lopsided and there are fears that we have more to lose than to gain. For the record, Malaysia is also mulling FTAs with Australia, New Zealand and Pakistan.

So, why this sudden obsession with FTAs? To be sure, they are, on the surface, not a bad thing. There are mutual benefits if FTAs are negotiated on an equitable basis. A

win-win situation, so to speak, for both countries.

But in reality, it's often not that simple. More often than not, it's the more developed country or country with the larger economy that tends to gain more. And within the economy, some industries will benefit while others won't.

For example, in our FTA with Japan, rambutan, durian and papaya exporters are elated that Japan has removed all tariffs, but car manufacturers Proton and Perodua will see Japanese cars flooding into Malaysia duty-free.

But given that Malaysia's trade with the US is higher than with Japan, we have more to lose if the FTA is lopsided. Already, the US National Association of Manufacturers says manufactured exports to Malaysia could double to RM22 billion by 2010. That might affect our current trade surplus.

It must be remembered that the US has always been in favour of countries like Malaysia dismantling tariffs, giving concession for the finance sector and even opening up government procurement. It is also well known that the US protects its own strategic industries with import tariffs.

Nevertheless, US and Japan are among Malaysia's largest trading partners. Nearly 20% of Malaysia's exports are to the US, comprising mainly electrical, electronics, wood and rubber products.

The Federation of Malaysian Manufacturers (FMM) argues that a lowering of tariffs by the US would allow Malaysian companies to compete against China. It also feels the potential RM3 billion in textile exports to the US will increase market access further.

Whatever it is, Rafidah must shed more light on the matter. There is no need to resort to maintaining an 'elegant or eloquent silence' on this matter. Time is, after all, running out.

The US is pushing for the FTA to be completed before July 1 next year because that is when Congress will regain the right to amend any pact negotiated by the Bush administration.

But that should not be a reason for rushing things. If we don't tread carefully, our economy can be seriously undermined. **mb**