



Beyond boundaries

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CONSIDER this: Singapore and Vietnam launched separate free trade agreement (FTA) negotiations with the European Union (EU) in 2009 and 2010 respectively. Singapore's FTA with the EU entered into force 10 years later, after negotiations concluded. It is the first FTA between the EU and an Asean country.

Singapore is the EU's largest trade and investment partner in Asean, accounting for slightly under one-third of EU-Asean trade in goods and services, and roughly two-thirds of investments between the two regions.

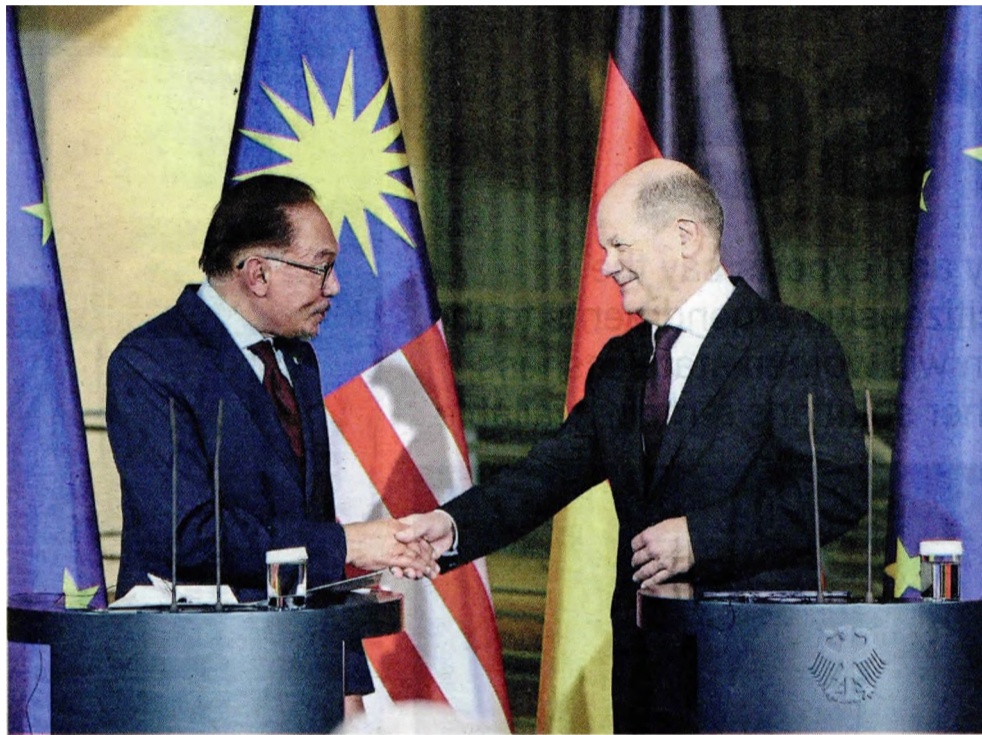
According to the European Commission website in 2022, the bilateral foreign direct investment stock between the EU and Singapore was roughly €434bil (RM2.2 trillion at today's exchange rates), having expanded rapidly in the preceding years.

After four years, the EU and Singapore have launched negotiations for a digital trade agreement to address digital and ecommerce trade, and unlock new opportunities in this fast-growing sector.

The EU and Vietnam concluded negotiations after five years but due to a delayed ratification process, the FTA only came into force in August 2020. According to *Vietnam Briefing*, which provides investment news, by June 2022, Vietnam's export value to the EU was US\$23.6bil while imports were worth US\$8.1bil, a significant trade surplus of US\$15.5bil, up nearly 40% year on year (exports RM136bil,

Making up for lost years

The Prime Minister's call for a resumption of a Malaysia-European Union free trade agreement is timely if we don't want to lose out to our neighbours in investment and trade.



Hopeful visit:

German Chancellor Olaf Scholz (right) and Anwar shaking hands before their joint press conference in Berlin on March 11.
- Reuters

imports RM41bil, a surplus of RM79bil).

Why do countries have FTAs? Such agreements allow goods and services to be bought and sold across international borders with little or no government tariffs, quotas, subsidies, or prohibitions to inhibit their exchange. To put it simply, consumers will get certain imported things cheaper (let's pray the ringgit will stabilise) and businesses can grow with access to markets in other countries.

For the record, Malaysia launched its own negotiations with the EU about the same time but reached an impasse in 2012 after two years and several rounds of negotiations.

It was also during this time that Malaysia, along with 11 other countries, was negotiating the massive Trans-Pacific Partnership Agreement (TPPA), later known as the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) after the United States bailed out when president Donald Trump took office.

So why did negotiations with the EU stop then?

"We were focusing our energy on the TPPA. The government needed to prioritise its resources [read: money and a shortage of negotiators]."

"The EU's demands in some of the chapters were different from the US demands in the TPPA. It was almost impossible to consider both at the same time.

"Neither negotiating party wanted to explore maximum flexibility at that time, so it was mutually agreed that it will not be productive to continue negotiations," said a senior official familiar with the matter.

Over the years, the EU continued to "court" Malaysia to resume negotiations on the bilateral FTA because its officials were aware that Malaysia has a lot of potential to offer.

But EU officials demanded that its FTA with Malaysia be "CPTPP-plus standard", meaning the EU expected Malaysia's CPTPP commitment to be the starting point for the EU's bilateral FTA, and they would not accept anything less.

Prime Minister Datuk Seri Anwar Ibrahim's recent visit to Germany is timely as he raised Malaysia's profile not just politically but also within the business community.

He must have realised that Malaysia has a lot to lose due to stiff competition from countries like Indonesia, Thailand and Philippines which have been aggressive recently in looking for new markets and foreign investments. Indonesia, by the way, is still negotiating an FTA with the EU.

Malaysia's advantage is that it is generally viewed as a hidden champion and a good place to invest in, and Anwar's interactions with the political leaders and business community in Germany seems to have left a positive impression.

It is only a matter of time before the Prime Minister announces the revival of an FTA with the EU, and what better place to do so than in Germany, with which Malaysia enjoys good bilateral trade.

The EU is the world's largest single market with over 500 mil-

lion consumers. Malaysia is the EU's second largest trade partner in the South-East Asian region following Singapore, while the EU is Malaysia's fourth largest trading partner. In 2022, the EU imported €35.6bil (RM182bil) from Malaysia and exported €14.7bil (RM75bil) to Malaysia.

Amid the euphoria of a successful visit to a European country, one important issue cannot be ignored: the EU's campaign against palm oil. If negotiations on an FTA resume, can the elephant in the room be ignored?

Malaysia and Indonesia, the world's major exporters of palm oil, have for years been at loggerheads with the EU over curbs on imports of palm oil. Both countries have said that such moves are trade barriers and protectionist measures for the bloc's domestic oilseed industry.

Palm oil is a very important export commodity for the country and Malaysia needs to push its interests in the bilateral FTA. For the EU, palm oil is linked to deforestation.

FTAs should continue to be the best platform to strengthen the trade agenda. Learning from the TPPA and CPTPP experience, it is fair to assume that an FTA with developed countries will be demanding and quite controversial too. A developing partner country like Malaysia may need to bear some costs and make some domestic adjustments.

More importantly, the end result should be a win-win for both parties.

Nevertheless, Malaysia needs to act fast to secure economic and trade cooperation with other countries that can potentially guarantee us foreign direct investments and new markets for Malaysian products.

While any new FTAs or expansions of existing FTAs is welcome, the absence of a bilateral one with a very dominant actor in global trade such as the EU would be a clear disadvantage for Malaysia.

And now, after a very promising trip to Europe, the announcement of the resumption of the Malaysia-EU FTA negotiations is being eagerly awaited by industry players.

The race is on.