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Abstract	During the drawn-out FTA talks with Malaysia, US trade officials often remarked in private at the absence of domestic support for open markets and economic reform. With the March 8 elections, it appears that such support may have materialised. This could bode well for Malaysia's FTA talks with its trading partners, including the US.

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Another Winner in Malaysia's Elections: Open Markets?

Sim



The shock of March 8's general election in Malaysia continues to rock the markets. Investors worried about political instability drove shares and the Ringgit downward, with many questioning whether the government's policies on trade and investment would be at risk. Yet by strengthening the opposition tremendously, the Malaysian electorate may have actually laid the groundwork for even greater economic liberalisation and more open markets.

Malaysia has traditionally been a trading nation. The East Malaysian states of Sabah and Sarawak have strong agricultural and natural resource exports, whereas Penang, Johor and Selangor in West Malaysia have highly developed industrial exports, such as electronics. Price competition from imports, from China for example, was not a major issue in the 2008 campaign. Thus, protectionism in markets for goods, a major issue in the US and EU, is not a divisive issue in Malaysia.

The more pressing trade and investment issues in Malaysia relate to market access. The Malaysian government promotes procurement and other policies in favor of ethnic Malays. Business interests in Malaysia, both Malay and non-Malay, have long sought protection from domestic and international competition in automobiles, financial services and other sectors. The Malaysia-US free trade agreement (FTA) talks, in hindsight, were an early indicator of this internal resistance against opening Malaysia's markets. The US sought increased market access for goods, services, intellectual property, government procurement and other sectors. These goals were quite ambitious.

Often, countries use FTA talks both to secure gains from the trading partner and to lock in reforms and other changes in their own markets into international treaties that cannot be reversed politically. Malaysia was willing to secure gains from the US but not at the price of changing the policies favoring domestic interests. As a result, the talks could not meet the 2007 deadline set by the US Congress for completing the FTA talks under special trade negotiating authority known as Trade Promotion Authority (TPA).

The Bush Administration's subsequent loss of the Congress to the opposition Democrats did not bode well for immediate passage of any FTA. The March 8 elections represent a similar political change in Malaysia. But how will they affect Malaysian government policies on trade and investment? Are the markets justified in their worries?

Fortunately, the Malaysian government did take some steps to bind itself to open markets. Just before the March 8 elections, Malaysia ratified the ASEAN Charter, which is a major step towards creating an ASEAN Economic Community that unites the region economically.

Furthermore, Malaysia remains engaged in FTA talks. The Malaysia-US FTA talks continue, awaiting the time when the US Congress reinstates TPA for the next US president. Malaysia also participates in ASEAN FTA talks with China, India, Japan and the EU. The results of those FTA talks will bind Malaysia to improving market access, particularly the ASEAN-EU FTA, in which the EU is likely to raise many of the same issues raised by the US in its FTA talks.

The opposition parties in Malaysia do not seem to oppose further open markets. The opposition plans to end the pro-Malay government policies in Selangor and Penang. Those states also account for most of Malaysia's industrial exports, so their new state governments will favour policies that ensure continued access in international markets. The ruling coalition is now quite dependent on support from East Malaysia to maintain a working parliamentary majority, so it can be argued that it must continue to support open markets for agricultural exports from Sabah and Sarawak.

The key will be how the ruling coalition reacts to the March 8 electoral setback. The poor performance of the ethnic Chinese and Indian coalition parties in the ruling *Barisan Nasional* will reduce the influence of business interests linked to those parties. More importantly, if the United Malays National Organisation (UMNO) becomes even more strident in protecting ethnic Malay rights, the resulting entrenchment could drag or stall further opening of the markets.

Yet the strengthened opposition now provides an internal counter pressure in favour of further open markets. A strong opposition at the national level and opposition control of key states could counter or prevent UMNO from taking a harder line, as would the potential threat of East Malaysian political parties defecting to the opposition.

During the drawn-out FTA talks with Malaysia, US trade officials often remarked in private at the absence of domestic support for open markets and economic reform. With the March 8 elections, it appears that such support may have materialised. This could bode well for Malaysia's FTA talks with its trading partners, including the US. More importantly, it could bode well for the continued economic development of Malaysia.

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