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The US-Malaysia FTA – A Cautious Approach Necessary.

"The Malaysian government must take a cautious approach when negotiating the USMFTA. Furthermore, the government must consult all relevant parties, especially Parliament and the workers before making any decisions."

The Malaysian government is undertaking a series of bilateral negotiations with the United States (U.S.) to conclude what would be a preferential free trade agreement (FTA) with the world's only superpower. From the U.S. perspective, the U.S. – Malaysia FTA (USMFTA) makes good business sense, as Malaysia is the 10th largest trading partner of the United States and its largest trading partner in ASEAN. The FTA would facilitate further U.S. trade and investment in Malaysia. From the Malaysian government's perspective, the USMFTA is key in ensuring continued foreign direct investment (FDI), especially from the U.S. and to keep pace with other ASEAN members. The main challenge Malaysia faces is that its comparative advantage as an FDI destination has eroded over the years.

In negotiating the USMFTA and weighing the options between attracting FDI and achieving development goals, the Malaysian government must note one important point. An FTA between a developed and developing country exacerbates existing inequalities between and within the two countries as the FTA "levels the playing field" among unequal partners. The developing country tends to suffer disproportionately. The U.S. economy dwarfs the Malaysian economy, as do U.S. corporations. As an analogy, the Fortune 500 is filled with U.S. multinationals while Petronas is the only Malaysian multinational that has been consistently placed in the Fortune 500. These inequalities are likely to worsen, as FTAs seldom include protection for the losers.

Malaysia must be cognisant of the impact that U.S. FTAs has caused on its partners. In Mexico, 2 million farmers have lost their jobs due to the North American Free Trade Agreement (NAFTA) as subsidised agriculture products from the U.S. flooded the

Mexican markets. Similarly, the U.S. Peru FTA has allowed subsidised U.S. agricultural products to flood the Andean Common Market through Peru, causing further hardship in a country where over half of its 27 million citizens live below US\$1 a day.

The U.S. – Jordan FTA and the Central American Free Trade Agreement (CAFTA) have made Jordan and the Central American economies locations for producing labour – intensive goods for the U.S. market. Singapore, a close ally of the U.S. saw its trade deficit with the U.S. increase by 200%, a rise of US\$2.9 billion in the first year upon signing the FTA. The same effect occurred to Australia too as its trade deficit increased by US\$1.7 billion in the first year of its FTA with the U.S.

U.S. trade surplus with Singapore tripled after the first year of the FTA reaching US\$4.3 billion. The U.S. experienced phenomenal export growth in certain sectors. Exports in IT equipment grew by 62%, exports in machinery and parts by 24%, accompanied by 86% increase in minerals and fuels, 99% jump in furniture and 84% hike in vehicle and parts. U.S. exports to Chile grew by 33.5% from US\$1 billion to US\$3.6 billion. U.S. trade surplus with Australia grew by 31.7% and exports to Australia increased by 11.7% in the first quarter of 2005. The CAFTA is expected to reduce the U.S. trade deficit with the region by US\$756 million. U.S. farm exports to the region are expected to expand by US\$1.5 billion a year while U.S. manufacture exports to the region are expected to increase by US\$1 billion.

The U.S. is very keen on the USMFTA. The U.S. government, the U.S. Chamber of Commerce – the world largest business federation with over 3 million members, and its partner, the American – Malaysian Chamber of Commerce (AMCHAM) has continually affirmed the need for the USMFTA. The U.S. Chamber of Commerce and AMCHAM know exactly what they want. They have made a 98 page public submission on the USMFTA to the U.S. government. They influence the United States Trade Representative (USTR) to pursue certain key issues that are in direct contention with development objectives and policies that the Malaysian government declares it will not trade away.

The Malaysia government must stand firm. Take for example the protection of workers. Workers will likely suffer the most should the government not include specific reference to implementing International Labour Organisation (ILO) Core Labour Standards in the USMFTA. It would be wise for the Malaysian government to discuss the USMFTA with the Malaysian Trade Union Congress (MTUC), the legitimate representative of the worker movements in Malaysia, to ensure that Malaysian and guest workers in Malaysia benefit from the USMFTA.

In Thailand, South Korea, Central and South America, thousands of citizens have been demonstrating against the FTAs with the U.S. These citizens are against FTAs as they see the FTAs as only meeting the interests of corporate America. The Malaysian government therefore must rally public support including that of the worker movements in favour of the USMFTA, as this will be in the interest of the nation. To achieve this, the Malaysian government should “show the numbers” on how Malaysia and Malaysians will benefit from the USMFTA.

Business groupings such as the Federation of Malaysian Manufactures (FMM) and Government Linked Companies (GLCs) must come out in support of the USMFTA and demonstrate how they will benefit and thrive through with it. The Malaysian government ultimately must also explain its strategy to the Malaysian public on how the so called “spaghetti” of FTAs that Malaysia is getting involved in will benefit Malaysia in the long run.

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