

# **Malaysia and Bilateral Free Trade Agreements**

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**by**

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# Malaysia's Trade Regime

- **Open Economy**
- **Commitments to rule-based multilateral trading system**
- **Major player in AFTA**
- **Actively pursuing BFTAs**

# Policy concerns over BFTAs

- **Breaking ranks with the rest of ASEAN**
- **Weakening of ASEAN**
- **Complexity in trade relations**
- **Rules-of-origin complications**
- **Lesser ASEAN members not in the picture**
- **Weak bargaining power**
- **Opportunity cost of being left out**

# Issues

- **Going beyond trade**
- **Market fragmentation**
- **Trade distortions**
- **Transaction costs**
- **Loss of sovereignty**

# Malaysia's Key BFTA Objectives

- **Better market access**
- **Trade and investment facilities and promotion**
- **Greater competitiveness for exports**
- **Capacity building through technical cooperation and collaboration**

# Malaysia's BFTA Involvements

- **Japan-Malaysia Economic Partnership Agreement**
- **US-Malaysia Free Trade Agreement**
- **Australia-Malaysia Free Trade Agreement**
- **New Zealand-Malaysia Free Trade Agreement**
- **India-Malaysia Comprehensive Economic Partnership Agreement**
- **Korea-Malaysia Free Trade Agreement**
- **Pakistan-Malaysia Free Trade Agreement**
- **Chile-Malaysia Free Trade Agreement**
- **Efta-Malaysia Free Trade Agreement**

# Progress of Malaysia's Bilateral FTAs

Japan	Agreement signed Dec 2005, implementation July 2006
US	2 rounds thus far, 3 more to go; deadline Dec 2006
Australia	4 meetings thus far
New Zealand	suspended after 6 meetings
India	3 meetings so far; still on track
South Korea	negotiations yet to start; priority to RTA
Pakistan	to be completed in 2006 for implementation in 2007
Chile	Joint study group set up in Jan 2006 feasibility study underway
Efta	Negotiations likely at end-2006

# **Japan-Malaysia Economic Partnership Agreement**

- **Proposal in December 2002**
- **Initial discussion starting from February 2003**
- **Completion of negotiations in October 2005**
- **Agreement signed on 13 December 2005**
- **Implementation on 13 July 2006**
- **FTA Component : trade in goods and services, investment, IP, competition policy, etc**
- **Cooperation segment: S&T, ICT, HRD, Agriculture**

# Japan-Malaysia EPA Highlights

- **Tariff elimination on nearly 97% of trade in goods, which include in agricultural, forestry, fishery and industrial products**
- **Implementation of tariff concessions over 10 years with flexibility for selected sensitive products**
- **Improved market access for Japanese products, such as rubber products, food products, plastics, paper and downstream iron products, where import duties will be eliminated over 6-8 years; and for chemicals and petrochemicals, iron and steel, paper products and automobiles and automotive parts and components with tariff elimination over a period of 10 years**

Con'td.....

# Japan-Malaysia EPA Highlights

- Japan to immediately eliminate import duty on textiles and clothing, fruits and wood products from Malaysia upon the implementation of the Agreement
- However market access for agriculture products like bananas and margarine are subject to conditions while domestic market remains closed to pineapples and milk products from Malaysia
- As for forestry products, tariffs remain on plywood, Malaysia's biggest export to Japan

Con'td.....

## **Japan-Malaysia EPA Highlights ...con'td..**

- **Sensitive products such as rice, wheat, barley, dairy, beef, pork, starches and fishery items under import quota are excluded from liberalisation**
- **Malaysian local industries to gain from Japan's capacity building programs such as the acceptance of 1,000 trainees from relevant Malaysian institutions**
- **JMEPA also covers on intellectual property, competition policy, enhancing business environment and bilateral cooperation in agriculture, forestry, fisheries and commodities, education, HRD, ICT, S&T, SMEs, tourism and environment**

# US-Malaysia FTA

- TIFA (framework Agreement) signed in May 2004
- Joint Trade and Investment Council (TIC) meeting in February 2006
- First round in Penang in June 2006
- Second round in Washington DC in July 2006
- 3 more rounds: September 17, October 30 and December 11
- Fast-track to conclude end-December 2006 and pass the deal before 1 July 2007

# **US-Malaysia FTA talks : 18 Working Groups**

**Industrial goods**

**Textiles and clothing**

**Custom procedures**

**Technical barriers to trade**

**Intellectual property rights**

**Government procurement**

**Telecommunications**

**Competition policy**

**Legal matters**

**Sanitary and phytosanitary  
measures**

**Agriculture**

**Rules of origin**

**Trade remedies**

**Services**

**Financial services**

**Investment**

**Environment**

**E-commerce**

# US Tariff rates of concern to Malaysia

Items	%
Footwear	20- 48
Textiles/fabric (av)	10
Apparel	1.1 and 29.9
Leather goods	Up to 20
Cocoa and cocoa products	10 and 52.8 + 8.5
Ceramic tiles	6 to 26
Tableware & kitchenware	0.7 and 28

# **US NTBs of concern to Malaysia**

- **Mobility of business persons into the US**
- **Complicated shipping documents**
- **Tedious certifications**
- **Delays in clearing containers in US ports**

# Malaysia's concerns in FTA with the US

- Short time frame to beat the US Congress deadline
- Longer time frame needed on sensitive items
- Adequate safeguards
- Implications for socio-economic goods in development agenda
- Liberalisation of professional services
- IP for pharmaceuticals
- Government procurement
- Labour
- Environment

# Likely impacts of FTAs on Malaysia

- Some shut downs and job losses likely
- Net impact on GDP growth and employment will be positive
- Increased trade and investment flows
- Consumers the main beneficiary, with some exceptions
- Services sector particularly vulnerable, but niche areas are promising
- Impact in agriculture somewhat mixed, but generally favourable
- Adjustment problems: government assistance warranted
- Peer pressure and best practices
- Overall a positive-sum game

# Policy Considerations

- ASEAN/AFTA not sufficient
- Lack of progress in Doha Round
- Opportunity costs of not joining the bandwagon
- Pitfalls - lopsidedness, risk of being shortchanged
- Multilateralising BFTA concessions
- Reining in BFTAs by subjecting them to discipline

**THANK YOU**