

07 January 2012

South Korea important in free trade nexus

By Firdaos Rosli

AFTER the deadlocks on the Asean-European Union and Malaysia-United States free trade agreements, Malaysia switched its earlier stance.



It is now negotiating bilaterally with the EU, and plurilaterally with the US via the Trans-Pacific Partnership (TPP).

These recent approaches implicitly suggest Malaysia's trade endgame that is to make its mark with the top two global buyers -- the European Union and the US.

In this respect, there are three reasons why South Korea should be a part of Malaysia's trade nexus. Firstly, Korea is the first country in Asia to ink trade deals with the EU and US after its National Assembly ratified the KORUS FTA two months ago. Since the 1960s, the country has effectively promoted external trade as its main driver for economic prosperity.

The Korean government established a clearly defined "FTA Promotion Roadmap" shortly after inking its first FTA with Chile in 2003 and has since boosted its position in world trade. Among the Northeast Asian countries, Korea offers the best access to the global trading nexus with more than double that of Japan or China.

The Korea-US FTA alone will allow its partners to trade with 61 per cent of the world's economy without tariffs.

Korea's trade pacts with the EU and US are expected to bring tangible benefits in automotive, electronics, textile and steel sectors. These sectors overlap Malaysia's key priority growth sectors set under the Third Industrial Master Plan (2006-2020).

Secondly, despite a tight deadline imposed on all nine members of the TPP, concluding this regional free trade agreement may not be as cushy as others.

Ambassador Clayton Yeutter, the former United States Trade Representative, predicted that the presidential and Congressional elections in the US were likely to result in the shelving of its trade initiatives, including TPP, in 2012.

The prospect for an early conclusion of TPP seems rather ambitious if other interested Apec-denominated economies were to hop on to the TPP bandwagon. Furthermore, the ratification process by the legislature of each TPP member countries will prove to be time-consuming and tedious.

As such, Malaysia's route to the US will most likely take a longer time frame than initially expected. However, with a bilateral FTA in hand, Malaysia can take advantage of Korea as a springboard to the US market in the event of a slowdown with TPP negotiations. And thirdly, Malaysia and Korea regard the automotive industry as the most important consideration in their FTA formulations. A greater partnership in the automotive industry can speed up Malaysia's continuous efforts to acquire higher value-added technical capabilities.

Complementary affiliation in specific niche areas such as in the electric vehicle sector, capacity building and technical assistance can be catalysts for a successful marriage in the automotive industry.

Besides, the Malaysian automotive vendors can also close their knowledge gap, particularly in cost-cutting as well as improving the quality of parts and components they produce locally. Technological capacity in the Malaysian automotive industry has to keep up with that of the Korean sleek-looking marques.

Securing a bilateral FTA with Korea is not utterly quixotic.

In 2004, Malaysia and Korea agreed to engage in a bilateral FTA, but the negotiations have yet to commence due to Korea's priority for a region-wide FTA with Asean.

The political push for a Malaysia-Korea FTA seems scant even after seven years since the initial nod, although both parties had recently agreed to jumpstart the negotiation in May.

The amalgamation of FTAs is growing with amazing clarity. This does not mean that Malaysia has to go back to the drawing board in the ever-entangled global trade web, but to devise a fallback position by anticipating global FTA developments faster than its peers.

Malaysia has to take the longer view of the implication to Asean of the proposed trilateral China-Korea-Japan FTA (CJKFTA) and assess accordingly.

A bilateral FTA with Korea and the possible realisation of CJKFTA will pave the way towards a direct access to the world's next economic centre of gravity much faster than any of its peers in the region. Korea will soon need to intensify its regional integration process and Vietnam seems to have moved up a gear relative to others in Asean.

Malaysia should start pulling its socks up and be more aggressive with Korea or risk losing out to its Asean partners.