COMMENT

Vietnam leads Malaysia in FTA game

BIG GAP: 5 reasons why we are miles behind Vietnam in the chase for trade investments

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THERE are five reasons why the Socialist Republic of Vietnam is miles ahead of Malaysia in the quest for global market share.

FIRST, and probably the most important of them all, Vietnam seems to have a clearer national consensus in negotiating trade deals. One of the main reasons why the negotiations between the European Union (EU) and individual Asean countries lack drive is that the EU was anticipating offers of countries who are also negotiating similar "21st century issues" in the Trans-Pacific Partnership (TPP).

Issues such as Geographical Indications, International Labour Organisation core labour standards, Government Procurement (GP) and State-Owned Enterprises (SOE) are comprehensively addressed in the recently concluded EU-Vietnam Free Trade Agreement. This suggests that Vietnam is ready to offer similar high-quality offers under the TPP.

SECOND, having a clear national stance also indicates that Vietnam has the required economic and political clout to secure a position with much larger economies, especially with the two largest buyers — the United States and the EU. It is often argued that developing economies stand to gain more in a deal with advanced economies from improved competitiveness and productivity of large multi-national corporations (MNCs) operating in smaller markets.

The signing of Vietnam-South Korea FTA in May this year paved the way for Samsung and LG to expand their electronic display businesses from Thailand to Vietnam. Investment diversion can be immediate in highly competitive industries such as the global smartphone market.

THIRD, Vietnam cannot make bricks without straws without employing a two-pronged approach: aligning itself with the global economy while injecting external pressure to structurally reform its domestic economy.

Bottom-up reforms to draw higher FDI inflow were no longer attractive because its fiscal initiatives have no complementary feature to improve investor confidence. In fact, its FDI to gross domestic product ratio recorded a downtrend post 2008 crisis according to the official statistics by the World Bank. Today, reforms can only be effective if they are broad and deep in coverage within the economic system they operate in.

FOURTH, Vietnam views the 21st century issues as the driver to boost investor confidence. Being a party to the TPP, Regional Comprehensive Economic Partnership (RCEP) and the Vietnam-EU FTA opens up a new reality that FTAs must go beyond traditional areas of trade liberalisation.

Besides, investment incentives can no longer complement trade deals because neighbouring countries are offering similar ones as well. The 21st century issues ensure that national treatment is accorded reciprocally to all areas of doing business. The liberalisation of highly sensitive issues under the government procurement and state-owned enterprise chapters, for example, simply means that the government must assume administrative/governing role only and has no business being in business.

The biggest conundrum facing negotiators in these issues is that the government is expected to lose control and influence over access to its own market. This in turn will lead to a higher cost of governing the nation, arguably.

And **FIFTH**, the opportunity cost of not aligning itself with the global economy is only going to get costlier over time. History has shown that there will always be another trade deal that carries a higher threshold. Furthermore, the quality of these FTAs will only go higher and never lower. In the case of Malaysia, negotiating a pluri-lateral deal with the US is no different, if not higher, than in the bilateral one. There is no amount of economic model we can formulate to address such cost. Even if there is one, by then, it will already be too late.

Gone were the days when Malaysia was benchmarking itself with present day high-income countries such as Singapore and South Korea. Instead of scaling-up its economy across global supply chains, Malaysia continues second guessing its peers' next move.

Let me be the first one to utter this: when Vietnam joins the big boys, Malaysia will find itself admiring the country as an (yet another) economic success story.

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