

# **The Political Economy of Free Trade Agreements (FTA)**

by

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In recent years there has been a tremendous increase in the number of Free Trade Agreements (FTAs), in which two or more nations agree to reduce trade barriers substantially.

Currently, much of the world is caught in an occasional frenzied effort to negotiate such agreements or join powerful regional trade blocs, or at least try to avoid being left out of such blocs as they coalesce in many regions around the globe.

FTAs are regarded as an efficient means of promoting growth in trade, opening markets and reducing trade barriers. China's 2004 FTA with ASEAN can be cited as a benchmark. In four years, China-ASEAN trade had risen by at least 20% annually.

Similarly, the United States and the European Union were showing steady interest in forming FTAs with countries throughout the region. For any nation relying on trade, free trade, economic integration and market access are of utmost importance. And it goes without saying that the most desired markets to access are the largest ones.

While FTAs are generally viewed as economic pacts, their political significance is great. For example looking back, with the United States reducing its military presence in South Korea, and having to confront both rising anti-US nationalism and aggressive Chinese diplomatic efforts, it countered by offering South Korea an FTA, a pact more strategic than economic.

The same was true for many FTAs throughout the region. FTAs throughout Asia were becoming increasingly political as nations jockeyed for position.

Between 1997 and 2007, the number of FTAs rose from seven to 38, continually adding complexity to an already complicated system of international trade.

In the book *History of Western Philosophy*, Bertrand Russell predicted that western culture would eventually engulf and absorb all foreign cultures.

Whereas David Hanson in his book *Why The West Has Won* claims further that the 20th century has seen an erosion of the cultural differences that impeded the adoption of a western outlook stressing efficiency through capitalist property rights and the legal protection of capital accumulation.

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<sup>1</sup> The views and opinions expressed herein are those of the author and do not necessarily reflect the views of MIER.

By adopting a Western approach, Japan, and later Singapore, Hong Kong, Taiwan, and South Korea had moved from being among the poorest countries in the world to being among the wealthiest.

Capitalism offers inducements sufficiently attractive to such a wide range of people that it appears to be a powerful weapon against extremism. Along those lines, former US Ambassador Christopher J. LaFleur praised Malaysia as “a predominantly Muslim country which advocates a moderate version of Islam, plays a very important role in maintaining security in South-East Asia and promoting a vision of the future of the Islamic world, one that emphasises co-operation, emphasises economic development, that emphasises political rights and freedoms.”

On March 8, 2006, US President George Bush announced that negotiations had begun with Malaysia for a free trade agreement. He noted that Malaysia is the 10th largest trading partner of the US, while the US is Malaysia’s largest source of imports and looked to a beneficial relationship for both parties.

America’s status as Malaysia’s largest foreign market and its primary source of investment for many years were incentives for a pact. An FTA would increase and diversify Malaysia’s exports, and stimulate investment in Malaysia. It is for this reason the US aims to fast-track trade talks with Malaysia.

The United States hoped to bolster a moderate Muslim ally. An FTA with Malaysia appeared to have strong bipartisan congressional support because of Malaysia’s dependability in the fight against terrorism, and its tolerance and multiculturalism, and officials praised Malaysia as “a country that has been at the forefront of the economic dynamism that has transformed Asia in recent years.”

In short, this trade pact can be viewed as strategic in supporting a Muslim country known for its tolerance.

The use of FTAs reflects political and economic wants. The prevailing current belief is that freer trade amongst countries brings economic benefits.

The United States, in particular, stresses free trade as an effort to shape the world into a rational, western image. Capitalism is seen as a key to countering Islamic extremism. As such, it can be argued that FTAs can at times be a tool (the metaphorical/proverbial carrot) of foreign policy.

In the final analysis, a small trading country like Malaysia should plug into the International System and play according to the rules and reap the maximum amount of economic benefits. Like a mousedeer (*kancil*), we should dance along with the giants and not get trampled by them and neither should we rock the boat.