

การเปิดเสรีทางการค้า และความร่วมมือทางเศรษฐกิจ ระหว่างประเทศไทยกับประเทศมาเลเซียภายใต้ องค์การค้าโลกและเขตการค้าเสรี

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บทคัดย่อ

บทความนี้มีวัตถุประสงค์ที่จะสะท้อนให้เห็นถึงความสำคัญของการเปิดเสรีทางการค้าและการร่วมมือทางด้านเศรษฐกิจของกลุ่มประเทศที่อยู่ใกล้เคียงกันในระดับอนุภูมิภาคและภูมิภาค โดยพึ่งพาทองคกรต่าง ๆ อาทิ องค์การค้าโลก (WTO) และเขตการค้าเสรี (FTAs) ระเบียบวิธีวิจัยสำคัญที่ใช้ในการวิจัย คือ การวิเคราะห์เชิงเนื้อหาโดยการอ้างอิง การวิเคราะห์ สรุปเนื้อหาสำคัญ และพิจารณาผลประโยชน์ของการเปิดเสรีทางการค้าและการร่วมมือทางเศรษฐกิจระหว่างประเทศไทยและประเทศมาเลเซีย การวิจัยนี้ค้นพบความจริงที่ว่า ภายใต้สนธิสัญญาการค้าแบบทวิภาคีและเขตการค้าเสรี กิจกรรมทางเศรษฐกิจของกลุ่มประเทศดำเนินการได้ช้า ๆ และยังคงอยู่ภายใต้อิทธิพลของกลุ่มประเทศพัฒนาแล้ว และองค์การการค้าโลก ดังนั้น ประเทศกำลังพัฒนาจำเป็นต้องร่วมมือกันอย่างแน่นแฟ้นในรูปแบบเขตการค้าเสรี เพื่อผลประโยชน์สูงสุดของทุกฝ่าย เขตการค้าเสรีจะช่วยเสริมสร้างภาพลักษณ์ และสภาพแวดล้อมทางเศรษฐกิจที่ดีและเหมาะสมสำหรับองค์กรธุรกิจของประเทศไทยและประเทศมาเลเซียในอนาคต

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The Trade Liberalization and Economic Integration between Thailand and Malaysia under WTO and FTAs

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Abstract

The objective of this paper is to highlight the importance of trade liberalization and economic integration of neighboring developing countries at both regional and sub-regional levels. The research methodology of this paper is mainly conducted on the basis of Content Analysis. I quoted, analyzed, highlighted and examined the benefits of trade liberalization and economic integration between Thailand and Malaysia under World Trade Organization (WTO) and Free Trade Areas (FTAs). The findings of this paper have been showing the importance of bilateral trade agreements and FTAs. This study has indicated that under multilateral free trade agreements, free trade among nations takes place slowly and under the influence of the developed countries and the WTO. Therefore, it is important for developing countries to act jointly, and actively liberalize their markets with the help of FTAs' to achieve the optimum benefits of free trade. In addition, FTAs will improve the overall image of Thailand and Malaysia and will create a more favorable business environment for Thai-Malaysian companies.

Keywords: economic integration, Free Trade Areas (FTAs), Malaysia, Thailand, trade liberalization

Preface

International trade among countries takes place as each country may have a comparative advantage (relative cost advantage) for a product or number of products that they wish to export as a raw material or as manufactured products to other countries. Natural endowments of a country play an important role in the relative cost advantage of its products. The theory of comparative advantage is perhaps the most important concept in international trade theory. Smith (1776) has noted that the principle of comparative advantage in trade is counter-intuitive:

If a foreign country can supply us with a commodity cheaper than we ourselves can make it, better buy it of them with some part of the produce of our own industry, employed in a way in which we have some advantage.

However, the theory of comparative advantage explains trade in a perfect trade conditions and only its logic can be carried over to the complex real world (It does not tell us what will happen but it tells us some things that can happen). For comparative advantage theory to exist, factors of production (capital, technology, machines, skills, labors) should not be internationally mobile and should not leave from one country to the other. If factors are internationally mobile, they will flow to countries that have the greatest absolute advantage where their productivity is highest and the countries with greatest absolute advantage will capture the trade gains. In economics, the theory of comparative advantage explains why it can be beneficial for two countries to trade, even though one of them may be able to produce every kind of item more cheaply than the other. What matters is not the

absolute cost of production, but rather the ratio between how easily the two countries can produce different kinds of things.

A part from these two theories that explain international trade among countries, there are also two strategies for international trade and world economic integration: the inward-looking strategies of development and the outward-looking strategies of development. The inward-looking strategies of development stress the need for developing countries to evolve their own styles of development and to control their own destiny where as the outward-looking strategies of development encourage free trade and free movement of capital, workers, enterprises and students. Such strategies enhance the function of multinational enterprise and the open system of communication. Todaro (2002, 498) says:

According to proponents of inward-looking trade policies, greater self-reliance can be accomplished only if you restrict trade, the movement of people and communications, and if you keep out the multinational enterprise, with its wrong products and wrong want-stimulation and hence its wrong technology.

Introduction

But The hopes of the developing countries to integrate their economies with the world economy pose an inevitable question to them and that's whether;

(a) To focus more on producing goods that substitute for international trade and that is called "inward-looking development policy". This approach is also called "import substitution strategy" which requires the developing countries to protect their

industries, especially infant industries by attempting to replace products that are imported from industrialized countries with products produced at home. As Todaro (2002, 503) mentions:

Unfortunately, the reality of the East Asian cases does not support this view of how their export success was achieved. In South Korea, Taiwan, and Singapore (as in Japan earlier), the production and composition of exports was not left to the market but resulted as much from carefully planned intervention by the government.

Opponents of international trade claim that it has the following disadvantages for developing countries:

- Primary product export orientation results in a decline in developing countries' terms of trade (low income elasticity, substitution of synthetics, protectionism),
- The causal link between trade and growth is questionable,
- Rich gain, poor lose.

However, many economists and thinkers suggest that advanced industrial countries have built their economies by wisely and selectively protecting some of their industries until they are strong enough to compete with foreign companies and not by free trade and liberalization of their capital markets. Some argue that developing countries need to benefit from their own raw materials, minerals, oil and other natural endowments to become independent on themselves. This implies that the growth opportunities of the developing countries are in:

- self-reliance,
- development of own technologies appropriate

to their resource endowments,

- evolve their own style of development,
- export their own manufactured products to increase their foreign-exchange earnings.

However, it is important to remember that north economies protected their small industries fiercely during their key development phases against international competition and favored free trade only once they had already got into a dominant position. Professor Joseph Stiglitz (2002,16) who is a Professor of Finance and Economics at Columbia University and was the Chief Economist at the World Bank and that Chairman of President Clinton's Council of Economics says:

To take just a few examples, most of the advanced industrial countries – including the United States and Japan – had built up their economies by wisely and selectively protecting some of their industries until they were strong enough to compete with foreign companies.

(b) developing countries should integrate their trade with the trade of developed countries with minimum government intervention as being suggested to them by the International Monetary Fund (IMF), World Trade Organization (WTO) and The World Bank (WB), and this is called "outward-looking development policy" or "export promotion strategy". Under this strategy, the governments of developing countries should encourage international trade by expanding exports and reducing governments' interventions: growth occurs through the manufacture and sale of products to other countries. The aim of export-led growth is to increase trade rather than reduce trade. Promoters

of international trade (outward-looking development strategy) claim that it has the following advantages for developing countries:

- Increases efficiency,
- Increases consumption possibilities,
- Increases access to scarce resources,
- Increases equality,
- Use of economies of scale,
- Generates foreign exchange,
- “Engine to economic growth”.

Statement of the problem

For the first time in history almost the entire world population lives in a global capitalist system with the aim of free trade and movement of goods and services by removing of all restrictions and regulation on trade. However, although free trade has benefits, there are a number of arguments put forward by many developing countries, lobby groups and protestors who oppose free trade and trade liberalization and call for “Fair Trade”. Stiglitz (2002, 3) says:

Virtually every major meeting of the International Monetary Fund, the World Bank, and the World Trade Organization is now the scene of conflict and turmoil. Riots and protests against the policies of and actions by institutions of globalization are hardly new. For decades, people in the developing world have rioted when the austerity programs imposed on their countries proved to be too harsh, but their protests were largely unheard in the West. What is new is the wave of protests in the developing countries.

Where as Draper, W. H. III (1992) says:

It is ironic that while national [LDC] markets are opening, global markets remain restricted. Where can developing nations sell their products unless global markets are also freed of protectionist restraints?

Here listed some of the arguments against free trade:

- with the removal of trade barriers structural unemployment may occur in the short and long term,
- the increase of domestic economic instability from international trade cycles as economies became dependent on global markets,
- international markets are not a level playing field,
- developing or new industries may find it difficult to become established in a competitive environment with no short-term protection policies by governments,
- free trade can lead to pollution and environmental problems as companies fail to include these costs in the price of goods.

However, within the last decade and a half, the processes of economic privatization, globalization, trade liberalization and deregulation have been imposed through different mechanisms and institutions. For instance, the World Trade Organization (WTO) is one of these institutions which have been the most powerful institution to carry out these processes. It is made up of its member countries, currently most of the world, to create and enforce global trade rules, in order to facilitate free trade. It is supposed to create an international economic regime to promote stability and orderly economic growth. However, many civil

society and many governments from developing countries consider the WTO to be “one of the least transparent organizations”, which excludes developing countries from its negotiations in order to favor the interests of wealthy countries. On account of this reason, the WTO is one of the organizations whose work is more closely monitored by non-governmental organizations. At the same time, its ministerial meetings, the organization’s highest decision-making body, have been turned into events for mass protest by civil society movements. Consequently, many developing countries demonstrate that the WTO controls their prosperity by allowing some countries to develop and prevent some others from development. Some developing countries feel that they are not allowed to grow if they obstruct WTO trade agreements. In other words, if WTO does not want specific countries to lose their title as Less Developed Countries (LDCs), it does not really matter for these countries whether they favor inward-looking development policies, outward-looking development policies or a mixture of both for their growth and economic integration. Many developing countries believe that the WTO allows some countries to grow while put ceiling on the growth of some others or may block them even from the minimum levels of growth depending on the direct and indirect benefits of the most powerful industrial nations. Smith., J.W. (2005, 60) highlights that:

To obtain funding from any bank, developing countries government must adjust their policies (called structural adjustments) to the dictates of the “corporate utopian” IMF/ World Bank/ NAFTA/ GATT/ WTO/ MAI/ military colossus.

Moreover, many developing countries conceive globalization as becoming the mirror image of the expansion and consolidation of IMF, WB, WTO and multinational corporations who are the main advocators of today’s globalization. This expansion and consolidation is based on free market mechanism which favors the rich and the technologically advanced. For that the great banks and the giant corporations are merging and acquiring each other to become even bigger and more influential in competing with developing countries under free trade and open borders conditions. Once, all borders are down and economic integration is taking place with developing countries, these great banks and giant corporations move in developing countries to compete freely with local businesses. In addition, whenever these great banks and giant corporations cannot compete with local businesses, they change the rules and regulations of developing countries in their favor. Consequently, become the winners in every country they work regardless the national interests and national security of these developing countries they operate in as long as they make money. When worst comes to worst and they want to pull out of a country, they do it without compunction even if they precipitate economic turmoil, massive unemployment and bankruptcies (Mahathir Mohamad, 2003).

In the same context Stiglitz (2002, XIV-XV) says:

The backlash against globalization draws its force not only from the perceived damage done to developing countries by policies driven by ideology but also from the inequities in the global

trading system. Today, few-apart from those with vested interests who benefit from keeping out the goods produced by the poor countries defend the hypocrisy of pretending to help developing countries by forcing them to open up their markets to the goods of the advanced industrial countries while keeping their own markets protected, policies that make the rich richer and the poor more impoverished – and increasingly angry.

Due to this force exercised by the developed countries on developing countries to open up their borders and markets to the products of developed countries add to that the limited financial and human resources of the developing countries, the developing countries feel that globalization and liberalization of trade are irreversible. Their needs for growth and economic integration pose the following inevitable question: how can they advance the economic, political and social interests of people when these great banks, institutions and giant corporations enact laws and legislate rules to strengthen themselves along with the superpower economies while weaken developing countries? Bearing in mind that many international trade strategies proposed by the WTO have not worked for developing countries, this question becomes very vital. In this world of globalization and free trade, what only works for LDCs is to be an alliance with the superpower industrial countries and do what they are told to do and the refusal or objection of developing countries to any proposal made by such great banks, institutions, giant corporations and superpowers means exclusion, poverty and depravity of their political and socio-economic rights.

The Green Peace Organization writes online the following:

Although the majority of other WTO members are developing countries from Africa, Asia/Pacific and Latin America, many of them have little to say in decisions that are taken at WTO meetings. Smaller countries are blocked from entering meetings and don't have enough to offer from an economic standpoint to have any real power.

The WTO is a tool of the rich and powerful. By placing trade above all other goals, it threatens our health and the environment. Its more powerful members use arm-twisting tactics to push developing countries into making bad deals. And it's being used by corporate interests and the US to force-feed the world genetically engineered food.

A new investment agreement tabled for discussion at the WTO will extend both the power of the WTO and the corporations that drive it. These corporations will not be held accountable for their actions. (*What is the WTO?*, n.d.).

Where as the Friends of the Earth Australia (FOE) mentions the following online:

Pakistan, which is usually vocally critical of the WTO, was notably quiet. Apparently, this had something to do with the US's granting Pakistan a massive aid package of grants, loans, and debt reduction owing to its special status in the US war against terrorism.

Nigeria issued an official communique denouncing the draft declaration of Doha decisions before the meeting, but then came

out loudly supporting it, "a flip-flop that is difficult to separate from the US's coming up with the promise of a big economic and military aid package in the interim.

The US threatened to cancel preferential trade arrangements with Haiti and the Dominican Republic if they didn't stop opposing the US's position on government procurement. (*World Trade Organization*, n.d.).

However, the developing countries have little choice but to accept the unfair decisions of WTO otherwise they can be excluded from finance, trade, markets, IT and crucial resources for their development which lead them to become most vulnerable to poverty, illness, illiteracy and shocks in the global economy.

Trade Liberalization and Economic Integration under WTO

The WTO governs international trade relations not by setting rules itself to apply them on all country members equally in order to raise their standards of living, to ensure full employment and to increase their volume of real income but by providing a forum where trade negotiations take place among trading countries. Stiglitz (2002,16) says:

It (WTO) does not set rules itself; rather, it provides a forum in which trade negotiations go on and it ensures that its agreements are lived up to.

Not only that but the WTO also has the power to ensure that the outcome agreements of its negotiations are implemented and brought into effect through the WTO's Dispute Settlement System (DSS) even such agreements are unfair

or unjust. Unlike the General Agreement on Tariffs and Trade (GATT) which had focused mostly on nonagricultural goods mainly because the powerful industrial countries wanted to protect their farmers, the WTO focuses on agreements covering agricultural and nonagricultural goods and services such as agriculture, telecommunication, finance, information, technology, intellectual property rights etc.

Moreover, trade negotiations in the WTO are based on the principal of "reciprocity" or "trade offs" which gives more negotiating power to large and diversified economies because of their ability to get more by giving more. Eventually developing countries become more and more dependent on rich industrialized countries in terms of imports, exports, aids, grants, security, finance and information technology. Bearing in mind that the decision making process in the WTO is based on reaching a "consensus" among nations and not by voting, the obstruction of a consensus at the WTO might threaten the overall well-being and security of dissenting developing countries. The WTO is a share driven institution and the votes of the most powerful industrial countries have more weight than the developing countries, and naturally the poor. The Polaris Institute of Canada writes online the following:

The WTO is increasingly becoming a chair driven rather than a member driven organization with an increased reliance on chairpersons to draft "in their own responsibility" and thus in their own opinions, texts of high importance such as the agriculture modalities, draft ministerial texts etc. It gives unprecedented powers to individuals. The use of chairs' texts and his/her understanding of undocumented consultations results

in biased outcomes, usually in favor of developed country governments. (*Civil Society call to WTO Members for the 5th WTO Ministerial in Cancun, n.d.*).

The WTO makes trade agreements at its Ministerial Conferences, which are attended by trade ministers and their advisors from member countries. Member countries must then abide by these agreements, or they risk being taken to the WTO's Dispute Settlement Body. This consists of three unelected bureaucrats, who examine the case in closed meetings. The decision can then be appealed, but if this fails the decision is final. A country which is found to be breaking a WTO agreement can be punished with trade sanctions from the country who complained - making WTO agreements more powerful than most international environmental or human rights agreements. The Friends of the Earth Australia (FOE) mentions the following online:

The Dispute Settlement Body often awards countries lodging complaints with the right to carry out trade sanctions against countries found to be breaking the rules. This is a tool which is useful to powerful countries, and virtually useless to less powerful countries. If a small Caribbean country were to put sanctions on the US, the US would barely notice. Yet if the sanctions were to go the other way and US stopped buying Caribbean bananas, this could cause financial ruin. (*World Trade Organization, n.d.*).

Consequently, the developing countries feel that decision making system in the WTO puts developing countries at the mercy of powerful industrial trading countries: increasingly, industry

lobby groups are shaping the negotiations and coming up with proposals for agreements. Even when powerful trading countries such US, Europe and Japan band together and negotiate policies which they then impose on developing countries; the developing countries do not have the adequate human, financial and technical resources to seek recourse in the DSS. It is just too expensive and too complicated for them. Such situations disable the developing countries to exert immense leverage worldwide to face the power of the most powerful trading countries and that is how they become discriminated under this current unfair free trade. Developing countries know that something is wrong in their growth and economic integration when they see their financial crises and the number of the poor in their countries is increasing. Although the majority of other WTO members are developing countries from Africa, Asia/Pacific and Latin America, many of them have little to say in decisions that are taken at WTO meetings. Smaller countries are blocked from entering meetings and do not have enough to offer from an economic standpoint to have any real power.

Moreover, the developing countries have failed to develop a regional trade integration tools and instruments (FTAs for example) to protect their economies from the unfair hidden agendas of WTO in terms of deregulating the developing countries economies and liberalizing their capital markets. Currently, the South-South trade is limited comparing to South-North or North-North trade. The trade liberalization and economic integration differs among neighboring countries from one region to another depending mainly on the information

available about their economic structure, size of markets, trade opportunities and markets accessibility. Due to such conditions, the South-South trade is negligible and the developing countries' markets have failed to exert immense leverage worldwide. Colonel Barnett, J.R. (1994, 51-65), USAF, who was the Senior Military Assistant to the Director of Net Assessment, Office of the Secretary of Defense, wrote:

Regardless of the mechanism, the American goal has been to unify Western actions in pursuit of Western security. By working together, the United States and the other capitalist democracies can exert immense leverage worldwide.

Such inefficiency and deficiency in South-South markets could be due to the protection of the WTO to the most powerful country members who tend to have more bias competition towards the developing countries. James Enyart of Monsanto¹ had said that:

Besides selling our concepts at home, we went to Geneva where (we) presented (our) document to the staff at the GATT Secretariat. We also took the opportunity to present it to the Geneva based representatives of a large number of countries...What I have described to you is absolutely unprecedented in GATT. Industry has identified a major problem for international trade. It crafted a solution, reduced it to a concrete proposal and sold it to our own and other governments... The industries and traders of world commerce have played simultaneously the

role of patients, the diagnosticians and the prescribing physicians. (Shiva, 2003).

Globalization vs. FTA

Many developing countries believe that the term "globalization" as WTO perceives and practices decreases the power of their governments by not allowing them to enforce their own rules and laws to protect the socio-economic welfare of their citizens which leads to a loss of control over domestic resources and economic development. The far-reaching nature of globalization gives it the ability to undermine the role and accountability of governments, however, governments should ensure that globalization benefits all people and not just the corporate sector. In other words, governments should specifically condition globalization on the collective good of people by originating number of policies or designing set of rules or using new tools and instruments to rational globalization and to ensure that socio-economic welfare of people is protected. One of these policies that governments may like to encourage is the FTAs policy with neighboring countries within their region. Unsurprisingly, trading partners have their rules of trade embodied through a complex web of international and regional trade agreements, for example, the North American Free Trade Agreement (NAFTA) and the Free Trade Agreement of the Americas (FTAA). Such trading agreements, especially among the developed economies will have a negative impact on developing countries and the world. For example, the Australian trade

¹ Monsanto is a multinational corporation which provides integrated, technology-based agricultural solutions for growers and downstream customers in agricultural markets. The company's corporate headquarters are located in St. Louis.

interests have been damaged somewhat by trade diversion within the North American Free Trade Agreement, in the 1990s (Garnaut, R. 2002,123–141).

Countries would have been better off if their governments would have planned their trade according to their own and their trading partners' benefits: "Fair Trade". This implies that any trade liberalization commitments are made in line with those of trading partners and that developing countries are not unduly disadvantaged as a result of any trade deals. It also means recognizing the global impact of trade. The "national interest" of developing countries should be considered carefully and not conditioned mainly on the bases of economic considerations, but also on their social and labor standards, the preservation and improvement of their environment and national cultural identity. In this regard, developed countries should advocate also for the bilateral regional approach to trade negotiations while pursuing their multilateral approach which deals with a wider range of globalization and liberalization of trade and markets. Trade agreements among developed economies facilitate trade among them and all the other caused damages to smaller economies are secondary. As a result, little if any attention has been paid by the developed countries to the effect of FTAs on the trade in the developing countries to ensure that developing countries are treated fairly. A traditional free trade area such as that proposed by Australia for the United States is not free trade even if the partners remove virtually all barriers to trade between themselves. It is preferential trade, removing barriers to imports from member countries

but retaining barriers against outsiders (Garnaut, R. 2002, 123–141).

This makes it highly necessary for the developing countries' policy makers to protect their national economies from such trade discrimination. In the same article Garnaut mentions Whether or not a traditional free trade area is second best to global free trade is an empirical matter. It is more likely to be second best the wider the range of goods and services within which one or other of the member economies has global comparative advantage. It is more likely the lower the transport and transactions costs among member economies, and therefore the more the members are 'natural' trading partners. This introduces a tendency towards larger net gains from integration between neighboring economies. More generally, it is more likely to be second best if the members of the area would, in the absence of preferential trade, represent a high proportion of each other's trade (Garnaut, R. 2002, 123–141).

In this article, Professor Garnaut is in favor of "natural" trade and not "preferential" trade. According to him trading partners are more likely to capitalize on FTAs if they trade a wide range of goods and services in which both countries have a global comparative advantage. Given the fact that trading partners are also neighboring countries, Thailand/Malaysia for example, the lower transport and transaction cost means cheaper production cost (absolute advantage) which eventually attracts capital investment. This in fact, gives the green light for Thailand and Malaysia to think seriously about originating FTAs if Thailand imports what Malaysia exports and if Malaysia imports what

Thailand exports. Bearing in mind the fact that both countries are neighbors and in the same time are members of ASEAN and AFTA, this statement becomes even truer.

Thailand/Malaysia and the Promotion of Bilateral Free Trade

The Association of South-East Nations (ASEAN) was formed in 1967 with the initial aim of producing peace and stability in South-East Asia through the promotion of free trade. The ASEAN Industrial Complementation (AIC) scheme was launched in 1981 with the aim of promoting intra-regional trade through the development of local industry. Increasing importance of trade and investment for the future prosperity of the economies of the South-East Asian Countries, however, makes it necessary for them to think deeply about initiating FTAs among themselves, especially the neighboring countries who are members ASEAN and its Child ASEAN Free Trade Area (AFTA). The Prime Minister of Thailand Dr. Thaksin Shinawatra (2003) highlighted the importance of the FTAs in one of his speeches by saying:

AFTA or the ASEAN Free Trade Area, creating a market of 500 million people, must be driven ahead at full speed to intensify ASEAN economic integration in the key areas of investment and trade. (*Forward Engagement: The New Era of Thailand's Foreign Policy*).

In the same way the Former Prime Minister of Malaysia Dr. Mahathir Mohamad when he was in office said:

The challenge for Asia is not how to manage the present concept of globalization but to make it work and to benefit from it. The challenge for Asia is to influence the thinking on globalization, to reshaped it, to reduce the chances of it going awry and in the process destroying economies and countries. (Hashim Makaruddin, 2003, 15-16).

Nevertheless, Thailand and Malaysia are among the founding members of ASEAN and both are neighboring countries. Their citizens, who live at their borders have to a great extent the same languages (Malayo, Thai, Chinese), same religions (Islam, Buddhism) and same cultures. Both countries maintain a safe boarder and citizens of both countries cross the boarder without any delays or difficulties. There is no military presence or appearance at the border, and governments' officials and business persons of both countries are invited at a regular basis between the two countries. In addition to that there is a huge volume of import-export transaction through the boarder everyday. These similarities in cultural, religions, racial and languages at the border of these neighboring countries, Thailand and Malaysia, imply that FTAs between them are very successful policy especially that both countries are among the founders of ASEAN and their economies are not radically different. Therefore such FTAs are more likely not only to improve local trade but also to increase the international trading growth and development of both countries as a result of setting up FTAs. Monash University's APEC Study Centre Report 3 mentions that Freeing up trade between countries with similar economic profiles often

produces benefits without some of the disruption that sometimes accompanies agreements between countries with radically different economies. Where firms face increased competition from rivals producing similar goods and services, they usually lift their performance to the benefit of consumers in all participating countries.

In addition to that, Thailand opens into three ASEAN country members: Laos, Cambodia and Myanmar (eventually Vietnam) at the north, north-east and north-west where investment, capital, transportation, telecommunication services, know-how and technology are needed the most for these three countries' development and prosperity to be able to interact them with their raw materials, human and mineral resources. As figure 1 on the other hand shows that Malaysia opens to Singapore (eventually Brunei and Indonesia) from the south which is again a founding member of ASEAN and also needs to find new markets to export its production, investment, capital, telecommunication services, know-how and technology while import raw materials, human and mineral resources. This is shown by figure 2. Therefore, the availability of FTAs between Thailand and Malaysia will formally act as a meeting point for the raw materials and human resources coming from the north and the capital and technology coming from the south. However, FTAs where goods and services may be landed, handled, manufactured or reconfigured, and re-exported without the intervention of the customs authorities will encourage the flow of investment, capital, goods and services of these six ASEAN neighboring members to use Thailand and Malaysian territories. This usage by itself will

generate a tremendous amount of profits to Thailand and Malaysia. In addition, the fact that the Southeast Asian leaders plan to transform their region to a giant free trade zone by 2020 is by itself an incentive for both countries, Thailand and Malaysia, to begin talks from now to initiate FTAs before other ASEAN members do that, depriving Thailand and Malaysia from capitalizing on the benefits of having FTAs.

Furthermore, the fact that the world markets specially in the West are moving towards an open market economies but only when suits their National Security and National Interest makes it even more crucial for Thailand and Malaysia to initiate FTAs to face the challenges of the North free trade. For example, Americans traditionally view international relations as a voluntary effort. They believe no one has a right to American markets, products, or cooperation without American consent. When their interests are challenged, they have few compunctions about disrupting commercial and cooperative agreements with the challenger. Whether the other party agrees is considered irrelevant (Barnett, J.R 1994). This shows that while all countries are supposedly equal at WTO meetings, the reality is that developing countries (who are usually desperate for foreign aid and investment to pay their debts) find themselves squeezed between offers of aid and favorable treatment, if only they will agree with the developed countries, and threats of losing both if they do not.

And because of the fact that the competitiveness of markets is the key driver of economic efficiency, innovation, wealth creation and consumer welfare, Thailand and Malaysia should

also move collectively towards open, transparent and competitive markets especially among themselves to face this huge wave of unfair and unjust globalization and liberalization of trade. Stiglitz (2002,8) puts his argument as:

Not only in trade liberalization but in every other aspect of globalization even seemingly well-intentioned efforts have often backfired. When projects, whether agriculture or infrastructure, recommended by the West,



Figure 1 Thailand Political Map



Figure 2 Malaysia Political Map

designed with the advice of Western advisors, and financed by the World Bank or others have failed, unless there is some form of debt forgiveness, the poor people in the developing world still must repay the loans.

The above two statements show the real need for Thailand and Malaysia to promote alternative approaches to minimize economic damage caused by free markets and undesirable competitiveness which is changing rapidly at the world markets in terms of quality as well; the crises are of a new nature and require new policy responses. Kim Hak-Su (2001) says:

The future economy will require policies and actions to get the best out of the emerging technological revolution and innovations. We need new forms of creative and scientific skills to harness the potential offered by the new economy. (*Statement of Welcome*).

Therefore, Thai-Malaysian policy makers should consider FTAs among themselves as a new policy response to face the “changing in nature” unfair trade. They should promote the flow of capital for economic activity and development within themselves to expand the economic relations between them, particularly with respect to investment by Thai-Malaysian investors in Thai-Malaysian territory. This highlights the huge trade gains which are coming from the trade advantages between Thailand and Malaysia if they initiate FTAs between them. Bearing in mind that both countries are among the founders of ASEAN, they are also neighboring countries that open to many other countries which some are members in ASEAN. Malaysia opens to Singapore and eventually to

Indonesia whereas Thailand opens to Myanmar, Cambodia, Laos and eventually to China, Brunei, Indonesia and Vietnam. Such FTAs between these two countries bring together the investment capital of Malaysia, Singapore, Brunei, Indonesia and Thailand to interact with the cheap labor of Myanmar, Cambodia, Laos and Vietnam. The goods and services of such interaction in the FTAs between the two countries will lead to a huge market in all the above mentioned participating countries. In fact, such FTAs improve the potential for trade expansion between Thailand and Malaysia and also among developing countries at the regional level. The Prime Minister of Thailand Dr. Thaksin Shinawatra (2003) says:

A free trade regime does not merely create new market opportunities between the partners but can bring about closer cultural ties and understanding between peoples of respective partners through trade exchange. (*Forward Engagement: The New Era of Thailand's Foreign Policy*).

The need for FTAs between Thailand and Malaysia

FTAs would significantly strengthen Thai-Malaysia's bilateral economic relationship which is more likely to become more diverse than with any other major trading partners even among ASEAN. FTAs are likely to strengthen the trade and investment relationship between the two countries and lead to a steady growth of trade and investment. Both countries might become the largest import export markets for one another. Successful FTAs shall boost the production in both countries and

their manufacturing sector become globally competitive and able to start exporting world wide. Monash University's APEC Study Centre Report 3 (2001) mentions that bilateral trade liberalization can be thought of as bringing changes to the participants in two ways: through diverting goods and services from countries that become disadvantaged in relative terms from the liberalization, and by displacing higher cost goods and services.

This is by itself is a significant remark for the economy of both countries as the expand of their exports may lead them to broaden their trade policies and highlight the need for economic reform that is widely accepted as necessary in both countries if economic growth is to be restored and the patterns of trade and investment to be integrated. The opening of Thai-Malaysian trade shall result in the increase of the flow of trade and investment between the two countries and secure the full benefits of a fully liberalized economy. Monash University's APEC Study Centre Report 3 (2001) says the principal point of Free Trade Agreements is to secure trade liberalization. While the traditional debate about FTAs is the danger that they can divert rather than create trade, the record to date suggests there has been little diversion and that FTAs and regional agreements have been effective in encouraging wider trade liberalization.

Furthermore, the trade collaboration between the two countries shall give both countries a good protection against the negative impacts of unfair trade and create a stronger platform for joint trade and economic linkages. Both countries will acquire trade rights under FTAs and enjoy a closer

relationship on trade issues. This implies that while both countries rely on free trade, still both governments have taken an active role in creating, shaping and guiding their trade and also created a favorable regional trade environment in which the social welfare of people is considered, the workers' rights are protected from world trade exploitation, the world trading system is benefiting the poor in both countries and public education and health services are kept free from WTO rules (cheaper educational fees and affordable medicines to fight diseases like HIV-AIDS).

In addition, for economic recovery to be sustainable in the globalized and inter-dependent environment, Thailand and Malaysia require a progressive foreign trade policy that firmly supports their multilateral trade. They need to formulate a trade policy that looks ahead and forward to the future to avoid global market shocks. Thai-Malaysian FTAs, however, will not be of a defensive nature for either country. On the contrary, it will be a forward-looking strategic instrument from which both countries will mutually benefit. In fact, both countries need to initiate trade policies that respond effectively to the economic rapid changes by strengthening their trade policies. For example, initiating FTAs can strengthen their existing trade cooperation while further expand their trade to encompass new dimensions of cooperation with new partners. For this, both countries need to seek new international trade opportunities to strengthen their special multilateral trade relationship. Shinawatra, T. (2003) says:

"AFTA or the ASEAN Free Trade Area, creating a market of 500 million people, must be driven

ahead at full speed to intensify ASEAN economic integration in the key areas of investment and trade. We must strengthen also other ASEAN frameworks of cooperation such as the free trade in services, the Initiative for ASEAN Integration and ASEAN Investment Area, as well as cooperation in finance, tourism, transportation, information and communication technology, all of which are essential steps towards an ASEAN Economic Community or AEC". (*Forward Engagement: The New Era of Thailand's Foreign Policy*).

Liberalization of Trade; WTO vs FTAs

However, Thai-Malaysian acceptance of FTAs does not mean that they discard the multilateral trade with other nations. On the contrary, the importance of the multilateral trade for both countries remains important. But what this means is that both countries adjust their policy in accordance with the emerging realities. FTAs are not substitutes for Thailand-Malaysia multilateral trade with other countries. But bearing in mind that negotiations at the WTO have become increasingly difficult and slow moving as membership of the WTO has significantly expanded to 150 nations and the scope of negotiations has also expanded to cover a number of new areas as a result of the Uruguay Round of negotiations, the FTAs could respond faster and more flexibly to Thai-Malaysian new emerging needs and realities that will arise in a rapidly changing economic environment. Akira (2003) who is from Graduate School of Arts and Sciences, University of Tokyo says:

It is often said that negotiations under a bilateral or regional framework can be more easily

brought to a conclusion because participating members - limited in number - tend to have more common interests than in talks under a multilateral framework where conflicting interests among a number of countries must be reconciled. (*Accurate Understanding of FTAs is Essential*).

Accordingly, I believe that FTAs could achieve a higher level of liberalization than may be possible at the WTO, and that FTAs could establish rules where such rules do not yet exist within the WTO. In fact, FTAs can be complimentary to the WTO in terms of building better bilateral economic relationships between the two countries. FTAs will certainly become a major additional option for Thailand and Malaysia to enhance their economic relationships with strategically important economic partners. FTAs between Thailand and Malaysia would be the first step towards building a more comprehensive economic structure between both countries as FTAs are not an FTAs in the strict sense of the term, but is much broader in scope particularly when they provides for the elimination of customs duties on trade in goods and also cover a wide range of other areas including trade in services, liberalization and promotion of investment, mutual recognition and standards, competition policy, and intellectual property.

The Thai-Malaysian FTAs will help both countries to expand their markets which are not sufficiently enough to ensure continuing future growth of their industries as both of them pursue economies of scale. FTAs will link both countries directly to Singapore, Myanmar, Cambodia and Laos and eventually to Indonesia, Brunei, China

and Vietnam allowing both countries to expand their potential markets. This implies that Thailand and Malaysia will become more deeply integrated with the world economy, world trade, world investment and many other world dimensions than ever before. I believe that building a Thai-Malaysian network of FTAs should be a central policy objective for Thailand and Malaysia. Consequently, both countries will become an advantageous location for enterprises interested in the markets of these economies, specially Chinese markets.

Conclusion

In the real complex world, the advocators of free trade "outward-looking development policy", who are mainly the industrial countries, practice what they do not preach. Basically under globalization and free trade markets, trade among nations takes place in such a planned manner to block some developing countries from industrial development and economic integration and all what comes with in terms of finance, capital flow, foreign exchange, technology, skills, know-how etc while allow other developing countries to grow and integrate. Such bias by developed countries makes it important for developing countries, especially neighbors, to act jointly and actively liberate their markets with the help of Free Trade Areas (FTAs) to get the optimum benefits of free trade. Keidanren. (2000) says:

Through the greater liberalization of trade and investment under the FTA and through the domestic structural reform associated with this, the industries of both countries will be exposed to fiercer

competition. This will inevitably force the industries to strengthen their competitiveness. (Expectations for the Japan-Singapore Free Trade Agreement).

Finally, FTAs would allow companies in both countries, Thailand and Malaysia, to export products free of custom duties with regard to countries that have yet to sign the WTO Government Procurement Agreement. FTAs would ensure that Thai-Malaysian companies produce products with lower cost (absolute advantage) which leads to a better chance of competences in the world markets. Furthermore, the scope of sectors subjected to investment restrictions may be reduced. Although some people voice expectation of FTAs as a vehicle for accelerating rulemaking, for instance, reinforcement of antidumping laws and regulations, many others believe that countries achieve many benefits including an increase in the number of zero-tariff items, mutual recognition of standards, and prevent backpedaling in liberalization efforts. In addition, FTAs often result in a substantial improvement in political relations with the partner country which is highly needed for Thailand and Malaysia. They are form of trade partnership agreement that the two countries enter into a quasi-alliance with each other. Consequently, FTAs will improve their overall image in both countries and help create a more favorable business environment for Thai-Malaysian companies. Such an effect is unique to FTAs and this is the reason why I believe that both countries should strive to initiate FTAs. This becomes very essential if we take the successful experience of Australia and New Zealand FTA as a model. Monash University's APEC Study Centre's Report

3 (2001) mentions that for Australia, the Closer Economic Relations agreements with New Zealand have made important contributions in allowing Australia and New Zealand to become, in substance, a single economy.

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