US FTA fever may be overrated

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KUALA LUMPUR - The trade-pact fever seems to be in full swing around the world, and Asia is in the thick of it. Across Asia, regional and subregional free-trade agreements (FTAs), as well as bilateral ones, are proliferating as countries seem to be racing with one another to sign FTAs among themselves and with others outside the region, such as the United States and the European Union.

The US is aggressively striking simultaneous FTAs, or their precursors, trade and investment framework agreements (TIFAs), with countries in Latin and South America, the Middle East and Asia. Hot on the heels of its FTA with Singapore, the US is negotiating an FTA with Thailand, with an eye on clinching more agreements with other Asian countries such as Malaysia to follow the signing of a TIFA there in early June.

But before countries begin jumping on to the FTA bandwagon, some reports that have emerged recently deserve a bit of scrutiny, as they suggest that countries should look carefully before they leap.

While lowering trade tariffs is considered a good thing because it allows a greater flow of goods and products across borders, the FTAs that the United States are signing go beyond trade and enter into realms such as law and public policy, causing concern in some quarters that such pacts encroach on other nations' sovereignty. Many countries view access to the US market for their exports as the key to their development, but one study has found that the much-sought-after US market could remain a mirage, as it is questionable that such access will be of much significance in the coming years. Reports of this nature suggest that an FTA with the world's largest economy is not necessarily a good thing.

According to a report by the Center for Economic and Policy Research (CEPR), a Washington-based think-tank, "If countries enter into trade agreements with the US under the assumption that the import growth of the last dozen years will continue, then they will be seriously disappointed."

There is no doubt that the US market has expanded over the past dozen years, which is why developing countries sign trade pacts such as the Central American Free Trade Agreement (CAFTA) and the Free Trade Area of the Americas (FTAA). Annual imports to the United States during this period have increased by nearly US$780 billion, measured in terms of 2003 dollars. Since the real value of the US dollar has appreciated against other currencies over this period, the increase in the value of US imports measured in other currencies would be even larger, at more than 860 billion 2003 dollars.

But according to the CEPR report, it is questionable whether access to the US import market will turn out to be of much value in the coming years since it is not possible for the extraordinary growth seen over the past decade to continue. It pointed out that this exceptional growth - which has turned the United States into the world's biggest debtor nation, with a negative net asset position that is likely to exceed $3 trillion - cannot possibly be repeated, and hence the growth seen in the past decade will certainly shrink in the coming years.

The report added that the current level of the US trade deficit is highly unsustainable, and since there will be no opportunity to gain market access in the United States at the expense of domestic production, any adjustment will require a sharp drop in imports. Using a series of projections, it said increased access to the US import market is not likely to be of great value over the next decade and instead will decline, even given optimistic assumptions.

"This means that efforts by most developing countries to gain access to the US import market - if they involve important concessions in other areas (eg on intellectual property rights, investment or government procurement rules) - are likely to prove misguided," the report concluded, adding that except for the few countries that can increase their exports substantially to the United States by displacing other exporters, any significant concessions made to gain access to US markets would lead to a net loss for the countries that make them.

These findings are particularly pertinent as the United States embarks on its mission to engage countries around the world to sign on to trade agreements, not least in Asia, where the US government has declared its intention to pursue countries, particularly in the Association of Southeast Asian Nations under President George W Bush's Enterprise for ASEAN Initiative that was announced in 2002.

In a recently released report, GRAIN, a non-governmental organization based in Spain, pointed out that the rush by the United States to sign FTAs with countries across the globe - from Thailand to Bahrain to Ecuador - is an attempt to speed through liberalization measures via bilateral or subregional negotiations under the explicit strategy of "competitive liberalization", and not because of the slow progress in the World Trade Organization (WTO). By first targeting weaker countries to sign on, the United States hopes subsequently to rope in other countries that, to avoid being isolated, will agree to sign agreements with the US.

The group also dispelled a number of myths about US FTAs in its report. The United States has explicitly said the pattern it wants to follow in creating these agreements is that of the text signed with Chile, and it is expected that future negotiations will be based on this text with minor modifications. Based on past efforts and texts that have already been signed and published, GRAIN said it is a myth that the agreements are exclusively about economic matters. In the case of Thailand, for instance, the political intent is clear, as the United States presents the agreement as a method for reinforcing military ties and cooperation in the "war against terrorism". It is feared that this intent will put countries in a position of extreme political subordination whereby they will be subjected to mandatory conditions, requirements and sanctions that infringe on their sovereignty.

"Whether they like it or not, governments, parliaments and judiciary branches of the signatory nations cannot adopt and implement certain laws and legislative changes that criminalize many of our daily activities, to such an extent that even the supposed intent to commit certain offenses could be penalized," the GRAIN report said.

If a country or its citizens decide to act differently from what is stipulated, or contrary to what is considered correct by the United States, they risk serious penalties such as enormous fines, direct or indirect economic blockages or embargoes, or even political sanctions, the GRAIN report explained.

A number of clauses in the agreements also suggest that much power is given to US businesses and the US government at the expense of the people and the governments in the signatory countries.

In the name of "transparency", governments and legislature are obliged to consult with and take into consideration proposals from the business community and the government of the United States about any future changes - legal or political - that may affect their interests. This is tantamount to giving carte blanche to stamp on the sovereignty and rights of countries and their people, the report said.

But at the heart of the agreements are investment and the protection of US investments and their profits in other countries that at times goes beyond normal business practices. For instance, the expected earnings by US businesses must be guaranteed, and any shortfalls will have to be compensated. The United States also wants privileges such as "national treatment" for its companies, which means that US businesses should be given the same rights and privileges as local persons, and this includes the privileges that are extended to other countries.

Similar freedoms are also expected in services and intellectual property rights, areas that the United States has also pushed for hard in WTO negotiations but which have met much resistance from other countries. Definitions of terms are often so broad that they could include almost anything, as is the case in the privatization of "environmental services", which could possibly include privatizing the atmosphere or biodiversity.

In the case of intellectual property rights, there are concerns of what this could mean, ranging from worries that it might include the appropriation and monopolization of living beings to the monopolizing of the manufacturing and sale of medicines, including the power to block others from producing inexpensive drugs to prevent such illnesses as AIDS or tuberculosis.

It is clear that the "free trade" in these free-trade agreements is no longer just about lowering tariffs on goods and products. An FTA with the United States encompasses a whole gamut of issues that go beyond the traditional definition of trade and includes vast political, legal and social implications. While the attraction remains great, governments should be vigilant as to the downsides of these trade pacts and should even review some of the supposed benefits of trade agreements so they can make choices that will bring about a net gain rather than a net loss for their country and their people.