

**Remarks by Ambassador Karan K. Bhatia
Deputy U.S. Trade Representative
Press Conference on the U.S. – Malaysia Free Trade Agreement
Regent Hotel
Kuala Lumpur, Malaysia
March 17, 2006**

Ambassador Bhatia: Thank you all for coming today. This is a very exciting time in U.S.-Malaysia relations. We had a successful launch of the Free Trade Agreement last week in Washington D.C. on Capitol Hill, where we had an unprecedented number of members of Congress from both sides of the aisle – both Democrats and Republicans – attend the launch and join in support for the negotiations. President Bush has issued a statement noting the mutual and wide-ranging benefits of a Free Trade Agreement to the United States and Malaysia, and many companies have issued strong statements of support as well. It's appropriate that this relationship get this kind of attention, and that the launch of the FTA be met with such fanfare. The U.S. and Malaysia have a very strong partnership already in a wide range of areas – counter-terrorism, defense, counter-narcotics, education. I think the economic side of our relationship is one that has not received sufficient attention. It's a very strong relationship. Right now, the United States is the largest destination for Malaysian goods. We are Malaysia's second largest source of imports. U.S. imports to Malaysia were USD \$10.5 billion last year. The United States is also the largest investor in Malaysia with foreign direct investment of USD \$8.7 billion in 2004, which is almost 20 percent more than the previous year. So with all of this trade and investment, some might ask, "Why are we doing an FTA? What is the benefit to be derived from it?"

Let me point to the seven things that will be derived mutually from an FTA with Malaysia. These benefits are important to Malaysia, to the Malaysian economy and to the Malaysian people.

First of all, the FTA is going to cement a vibrant U.S.-Malaysia economic relationship. As I've said, Malaysia is the 10th largest trading partner of the United States with USD 44 billion in two-way trade. The U.S. is Malaysia's largest export market and largest investor, but we believe it can be stronger – and it should be stronger. Our National Association of Manufacturers has estimated that with an FTA between the United States and Malaysia, two-way trade could double by 2010 – in just 5 years. The growth in trade would be important to the United States, but I think it could be extremely important to Malaysia. There would be a substantial growth in Malaysian exports.

The second benefit is precisely that – it will lead to an increase in exports. That has been our experience in other countries. When you lower tariffs, when you eliminate non-tariff barriers and create the greater familiarity between two countries that derives from an FTA, you see an increase in exports. So that will be the second benefit.

Third, we believe that FTAs result in a diversification of exports. Right now, electronic goods and items account for roughly three quarters of Malaysia's exports to the United

States. It's a good trade; it's a healthy trade, it's a growing trade – but it is focused in one area. We would like to see that relationship broadened out to encompass other areas. Particularly, we are interested in seeing potential new growth in the area of high technology, high-tech items that we believe Malaysia can compete effectively in in the global market.

Fourth, we believe that an FTA is going to lead to increased investment. U.S. firms are already strong investors in the Malaysian economy. Companies like General Electric, like Intel, Motorola, AIG, Cargill, Citigroup, Discovery Communications, FedEx, and Oracle all see Malaysia as a hub of their Asian activities. And that's great. That's important not only for the United States; it's valuable for Malaysia. Our evidence shows that FTAs will result in even greater investment, creating jobs, creating a more competitive environment. We would like to see investment flow both ways – Malaysian companies investing more heavily in the United States as they become globally competitive, and U.S. companies investing to a greater extent here. One of the features of our Free Trade Agreement is that it not only reduces tariffs and non-tariff barriers, but it also does things like establish regimes for investment, encouraging a stable climate that would allow greater investment. It establishes rules governing intellectual property rights, and in areas like government procurement, and market access as well. All this builds confidence on the part of U.S. companies to grow their investments in the Malaysian economy. That is the fourth benefit.

Fifth, we believe that the FTA is going to lead to increased sharing of knowledge and know-how between American companies and Malaysian companies. I had the pleasure of meeting this morning with Minister Effendi, who spoke about some of the goals that Malaysia has for its own economic growth, including the expansion of its knowledge-based economy. FTAs do precisely that. They encourage investment, and in that investment process, encourage sharing of information, acknowledging high technology that we believe would be to the benefit of both United States companies and also Malaysia.

Sixth, we believe it will lead to economic growth and job creation here in Malaysia. It's a well-known fact that trade growth and exports leads to not only more jobs, but often better paying jobs. By our calculation, export-related jobs are higher-paying jobs, somewhere between 13 and 18 percent higher paying. We believe that the increase in exports and increase in investment are going to lead to economic growth and job creation.

The last thing I would point to, the final benefit that, I believe, is going to be derived from the US-Malaysia FTA are: lower costs and more competitive companies here in Malaysia. The experience is, worldwide, that when you increase trade, you increase options for consumers and you increase the competition that exists – competition here in Malaysia to the benefit of Malaysian consumers, and competition in the United States to the benefit of U.S. consumers. And this has the effect of not only offering consumers new choices, but also of lowering the cost that they would otherwise pay. In a competitive economy, you're going to be driving down prices, keeping check on inflation, and growing consumer choice.

Let me sum up to say that we are delighted to have launched the FTA with Malaysia. It is going to solidify a partnership with a very important trading and strategic partner that we in the United States have: The government of Malaysia. It's going to grow trade between our two countries. It's going to grow people-to-people relations between our two countries.

We know that we have got some significant work to do in the time ahead of us. These agreements do take time, they take a lot of effort. The time is short for us to conclude this by virtue of the expiration of authority that we have in the U.S., but we are very confident that this is going to be realized and are very excited about the future of the U.S.-Malaysia relationship as a result.

So with that, I'll stop and take any questions that you might have.

Question: My name is Chai, from Jiji Press. You said with the signing of the FTA, the trade volume between the U.S and Malaysia can be expected to double by 2010. Could you brief us? What merchandise do you expect to have volume uplifted with the FTA in place? Thank you.

Ambassador Bhatia: Thank you for the question. Our National Association of Manufacturers has estimated that the two-way trade volume could double by 2010. One of the great things about FTA is that it will not specify that trade can only grow so much in certain areas. It is across the board. It will lower tariffs and it will eliminate non-tariff barriers. So, the potential benefits really go across the spectrum. It could be in many different areas. But to just single out a few of them. I think Malaysia could potentially be very competitive in a variety of manufacturing sectors. That could lead to increased exports. In the services area, Malaysia is growing increasing competitive services providers. Those are areas that potentially could be a source of greater exports. And even in the agricultural area – and I know that Malaysia is not a major agricultural producer in many areas – but there some areas there that could potentially grow. So we see it as potentially being across the board. Likewise, for the United States, there is the potential for greater export opportunities here in Malaysia. We have agricultural products, and we have got an array of industrial products that we would like to be able to export into the Malaysian economy. And again, we think this is a real win-win solution.

The last thing I would point to is, not only will this lead to a growth in bilateral trade, but we believe that by virtue of the greater investment that will result in the Malaysian economy, it could stimulate Malaysia's competitiveness and grow Malaysia's role within the ASEAN region and within the Asian economy. As you have more investment here, you will have more competitive industries being developed in Malaysia – higher value-added industries being developed here in Malaysia – that will be able export within the region. And in fact, within the world. So these are agreements that not only benefit and grow the trade between the two countries, but they will grow Malaysia's ability to trade within an increasingly competitive global environment.

Question: What are the areas that the United States would give priority in your negotiations on bringing down the trade barriers from Malaysia?

Ambassador Bhatia: Yes, that's a good question. First of all, what we try to do in our FTA negotiations is to lower the tariffs to zero. So, we would look to see those tariffs lowered in that way. We also have non-tariff barriers that we would be looking to address. This is a general rule with all of our FTAs. These can include regulatory restrictions; they can include investment restrictions; they can include other regulatory barriers that preclude trade or discourage trade.

And then they are areas where frankly what we need to do is just harmonize the regulations. Just to take an example: Sometimes in agricultural trade, there will be what are called sanitary and phyto-sanitary restrictions. These are regulations that govern to make sure that commodities, agricultural produce is healthy. So we need to make sure that those kinds of restrictions don't function as a barrier to trade in a way that is not related to science or that is arbitrary. We need to make sure that those kinds of regulations function in a way that is logical and science-based. That's just one example of some of the restrictions.

Question: How about the priority in terms of the sectors. Is it manufacturing or the ...

Ambassador Bhatia: It would be across the board. There are 23 chapters altogether – manufacturing would be one, agriculture would be one. We would be looking at telecommunications services, financial services. All of these are areas where we would like to be able to see greater investment by U.S. companies here in Malaysia and greater opportunities for Malaysian companies to compete also in the United States. So really it is across the board – all of those different sectors.

Question: Elisia Yeo from AFP. What's your expectation for negotiations in Malaysia's more sensitive sectors such as financial services and the auto industry, which is still quite protected in Malaysia?

Ambassador Bhatia: We haven't started negotiating yet; I need to make that clear. We've launched negotiations. There's a period of ninety days where we consult with our Congress, so formal negotiations can only get started in ninety days. The expectation is that our FTAs tend to be comprehensive agreements. They tend to be very rigorous agreements. And we approach our FTA with Malaysia as we have approached all of our FTAs, with the expectation that they are going to result in meaningfully greater market access for Malaysian companies into the United States and for U.S. companies into Malaysia.

Sensitive sectors are always present in every FTA that we do, regardless of what that country is, everybody has sensitive sectors. We recognize that. We tend to try and find ways to deal with those. But at the same stage, if an economy is simply going to protect its sensitive sectors, the FTA has less value. And so we try and find ways to work through those issues, so that ultimately there is meaningful trade and competition in those

areas. We have our own sensitive sectors. But we also have the expectation that FTAs will result in greater access in those areas. You mentioned the area of automobiles. Right now, there really is almost no trade in bilateral automobiles. In the U.S., it's practically zero cars to Malaysia; and Malaysia, likewise to the United States. We'd like to see a greater degree of cooperation and a greater degree of integration of those markets in a way that will benefit both Malaysia and the United States.

There are areas that we have that are sensitive as well; we're going to have work our way through those issues. But we're confident that we are going to be able to do so.

Question: If we can just move away from the U.S.–Malaysia FTA for a minute. We're sort of approaching the April deadline for discussions on agricultural tariffs, what is your assessment of how things are going at the moment with that?

Ambassador Bhatia: You've heard about the Doha round?

Question: Yes, that's right.

Ambassador Bhatia: I should clarify: The Doha WTO negotiations are not my particular portfolio within USTR, but I can tell you that there's a lot of work being put in by trade negotiators, not only from the United States but also from other countries around the world. There were meetings last week in Geneva. I think the position that we have taken all along is that agricultural market access is key to seeing the Doha round succeed. There need to be ambitious proposals put on the table by other major trading partners. That said, we can't lose sight of the fact that there are at least three major problems to these negotiations. There's also the services sector, there's industrial products, and we're looking for ambitious proposals and offers in those areas as well. So we remain, I would say, dedicated to the effort of trying to bring forward a successful agreement on modalities, as they say in Doha, in Geneva... [inaudible]

I'm happy to take any other questions.

Question: My name is Eileen, from Associated Press. The U.S. is seeking more engagement with Asia. Here you have FTAs now going on with Thailand and South Korea – will you be seeking more FTAs with Asian countries before the expiration next year of your timeline?

Ambassador Bhatia: That's a good question. You're right, we are vigorously engaged in Asia. We are working throughout the region. To some extent it's through FTAs, to some extent, it's through other types of arrangements: Agreements that result in the removal of particular barriers to trade or investment; agreements that stimulate dialog and promote trade and investment in other areas.

I gave a speech yesterday in Manila, where I ticked off almost every single country in the region to demonstrate what we are doing. And I also said that right now there is no region in the world where the United States is more economically focused than Asia. We

believe that this is an incredibly important, growing and dynamic region, and one in which the United States needs to be active on not just a monthly basis, not just a weekly basis but every day. We need to be working to grow our trade and investment with Asia, and particularly the countries of East Asia. We're going to keep doing that.

The question about FTAs. At the moment you are right. We have got negotiations ongoing with Thailand. We have launched negotiations with Korea, now recently launched with Malaysia. Our view is that we want to bring these agreements to closure before end of our trade promotion authority – effectively by the beginning of next year – and get them passed by the Congress. Beyond that, I think what we'd be willing to do is start creating the building blocks for FTAs with other countries in the region as well.

The president has announced, for instance, his Enterprise for ASEAN initiative, which says that any country in ASEAN that is willing to make that commitment to undertake a bilateral FTA negotiation – which is a substantial commitment – we are willing to pursue an FTA with it. So, my own hope is that in the future we will have many FTAs. We will have a web of FTAs with the ASEAN region and throughout East Asia. It's a very ambitious agenda, I know. But I think it's one that's very, very important for the United States' own economic future. And in the interim, we are going to be working on a day-to-day basis, not only to close up these FTAs, but to continue to grow our economic relationship in other areas as well.

Moderator: Okay. Thank you very much ladies and gentlemen. That will conclude the press conference.

Ambassador Bhatia: Thank you.

###