

# CASH FROM TRASH: RECYCLING AS AN ECONOMIC ACTIVITY IN PENANG (Part 1)

August 2008  
Volume 10, Issue 8

PP14554/4/2009 (021387)



## In This Issue

<b>Cash From Trash: Recycling As An Economic Activity In Penang (Part 1)</b>	<b>1</b>
<b>Bilateral FTAs with the United States: Are Post-FTA Trade Figures a Reliable Indicator in Theoretical 'Gains-Loss' Analyses for Predicting Longer-term Outcomes?</b>	<b>8</b>
<b>International Headlines</b>	<b>15</b>

## Socio-economic & Environmental Research Institute

10 Brown Road,  
10350 Penang, Malaysia  
Phone: 604-2283306  
Fax: 604-2267042  
Email: seripg@tm.net.my  
Website: <http://www.seril.com.my>

Recycling has always been good business in Penang for many decades. Where there is money to be made, trust the thrifty Penangites to cash in on their thrash. The existence of recycling businesses along Armenian Street and Victoria Street, some of which have been in operation for 30-40 years bears evidence to this fact. Penangites will think of ingenious ways to make a ringgit or two by selling their old newspapers, cardboards, tin cans and other discards to the "karung guni" shops or even to flea market traders at Lorong Kulit. The older generation has built into their lifestyles the habit of reusing old bottles, newspapers, tin cans and other discards until the modern 'throw away' culture influenced the younger generations. However, in recent years, this thrifty habit among Penangites has demonstrated that the lifestyle is all but gone. This is demonstrated in the recycling rates that have been recorded in recent years.

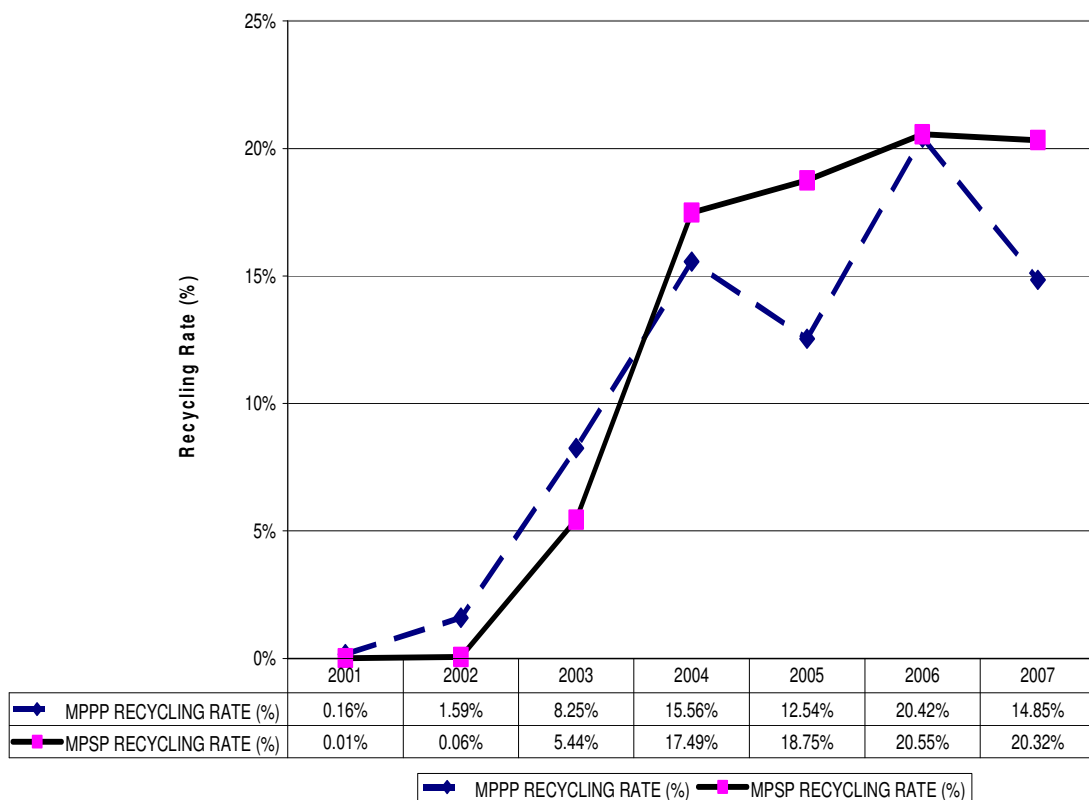
The vibrant recycling businesses that have been operating in Penang for the last few decades attest to the fact that this is indeed a lucrative and profitable business with new players constantly coming into the scene. The business spectrum ranges from the neighbourhood old newspaper collectors, some people that rummage through garbage bins, garbage pickers at the landfill, secondhand good dealers at Lorong Kulit and the "karung guni" shops in the inner city to big time recyclers with more sophisticated operations set up in Juru and Bukit Minyak. These players, big and small, make Penang an active hive of resource recovery activities that has been cashing in on trash through the years. All these stakeholders form an informal network that makes Penang one of the most active recycling centers in the country.

Chart 1 shows that the recycling rates recorded by both the Penang Island Municipal Council (MPPP) and the Seberang Perai Municipal Council (MPSP) are on the rise from 2001 to 2007. In the year 2007, the MPSP and MPPP achieved over 20% and 14% recycling rates respectively. The slight dip in the recycling dates of the MPPP are not because of less recyclables being traded but is caused by a problem in capturing accurate data. It is noted that some bigger recycling businesses have stopped submitting their data. On the other hand, figures submitted by such businesses may also be lower than the actual transactions of material being recycled and traded.

These recycling figures may actually be higher but for the present, they are underestimated as data is obtained from the records of recycling agents who provide the information on a voluntary monthly basis to both councils. Moreover, there are many itinerant recycling businesses that are not on the councils' lists and do not provide their data. Until such a time when regulatory measures require recycling businesses to submit monthly data to the authorities, such figures will remain largely as estimates.

This upward trend is, however, most encouraging and comes as no surprise that such figures are easily much higher than the national recycling rates of 4-5% annually. Penang in fact has among the highest, if not the highest recycling rates in Malaysia.

Chart 1: MPPP & MPSP RECYCLING RATES 2001-2007



A quick survey of commodity prices among the bigger recycling businesses by SERI estimated the total value transacted to be over RM66.5 mil for 2007. Average prices were used in estimating the total value (Please refer Table below). Albeit the estimated value may not be entirely accurate, it does give an indication that recycling businesses are definitely cashing in on our trash in a big way!

The commodities that are often recycled include carton boxes /cardboard, paper (all types), plastic, glass, aluminum, ferrous & non-ferrous metals, copper, zinc, wood, old clothes, e-waste, etc. This shows that there is inherent value in discards which we normally consign to the landfill.

Although there has always been an active recycling community in Penang, it is rather difficult nowadays to find recyclable items at the Marine Transfer station at Batu Maung. It is a common sight to see the workers of garbage collection trucks separating recyclable items into different bags as these are collected on a daily basis from households. Even when the garbage is in the process of being disposed at the Pulau Burung Sanitary Landfill, licensed pickers scavenge the piles of garbage to retrieve recyclables before they are packed up. Some pickers claim that they can actually rake in over RM1,000 a month. There is indeed getting “gold” from garbage!

**Table 1: Estimated Value of Recyclable Items In MPSP & MPPP Areas (2007)**

TYPE	LOCAL AUTHORITY		TOTAL (kg)	2007 VALUE (RM)	Est. Average Price/kg (RM)
	MPSP	MPPP			
<b>CARTON BOX / CARD-BOARD</b>	40,102.00	18,399,697.53	18,439,799.53	5,163,144	0.28
<b>PAPER</b>	109,343,061.00	10,825,163.79	120,168,224.79	32,445,421	0.27
<b>PLASTIC</b>	3,286,345.00	4,336,589.41	7,622,934.41	3,354,091	0.44
<b>GLASS</b>	247,660.00	25,712,813.99	25,960,473.99	519,209	0.02
<b>ALUMINUM</b>	727,587.00	113,006.99	840,593.99	3,446,435	4.10
<b>FERROUS METAL</b>	10,319,478.00	38,28,312.55	14,147,790.55	6,366,506	0.45
<b>NON FERROUS METAL</b>	-	1,529,852.73	1,529,852.73	611,941	0.40
<b>COPPER</b>	951,859.00	-	951,859.00	14,277,885	15.00
<b>ZINC</b>	565,334.00	-	565,334.00	282,667	0.50
<b>WOOD</b>	-	61,888.60	61,888.60	12,378	0.20
<b>CLOTHES</b>	-	52,978.20	52,978.20	26,489	0.50
<b>e-Waste</b>	3,943.00	163,677.39	167,620.39	83,810	0.50
<b>TOTAL</b>	<b>125,485,369.00</b>	<b>65,023,981.18</b>	<b>190,509,350.18</b>	<b>66,589,976.40</b>	



Source: SERI estimates in consultation with recycling agents (2008)

Table 2 below shows that the per capita generation of waste has been increasing steadily over the years. It has jumped from 0.57 kg per capita per day in 2005 to 1.91 kg in 2007 for the average Penangite.

**Table 2: Per Capita Waste Generation Per Day (2004-2007)**

Year	Waste Generation per day (kg)	Waste Generation per capita per day (kg)	Population (Estimated)
2004	819,618.17	0.57	1,442,800
2005	832,984.98	0.57	1,468,800
2006	2,588,007.97	1.70	1,492,400
2007	2,894,627.40	1.91	1,518,500

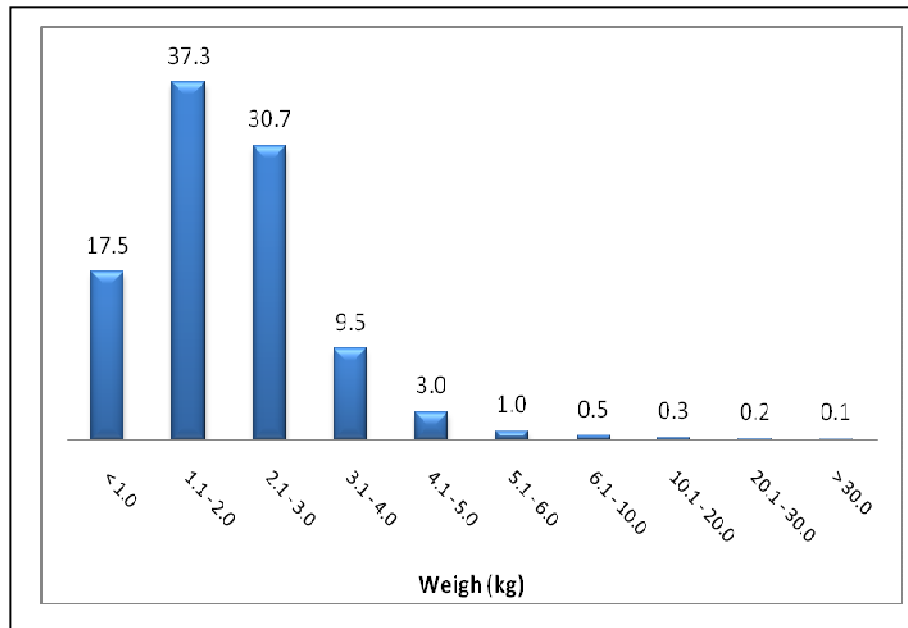
At the end of 2007, SERI conducted a Consumer Survey & Sensitization on Waste Separation at Source in Penang, covering both MPPP and MPSP areas.

Based on the survey of a total of **2160** households, it was found that the average amount of waste generated by each household in Penang (Island and Seberang Perai) is between 1.1 kg – 3.0 kg. This constitutes up to 68.0% from the total respondents from 2160 households representing Penang Island and Seberang Perai.

However, the amount of waste generated fluctuates daily depending on household activities. 57.9% respondents agreed that they generate more waste during the weekends while the others think that they do not generate any extra waste at all.

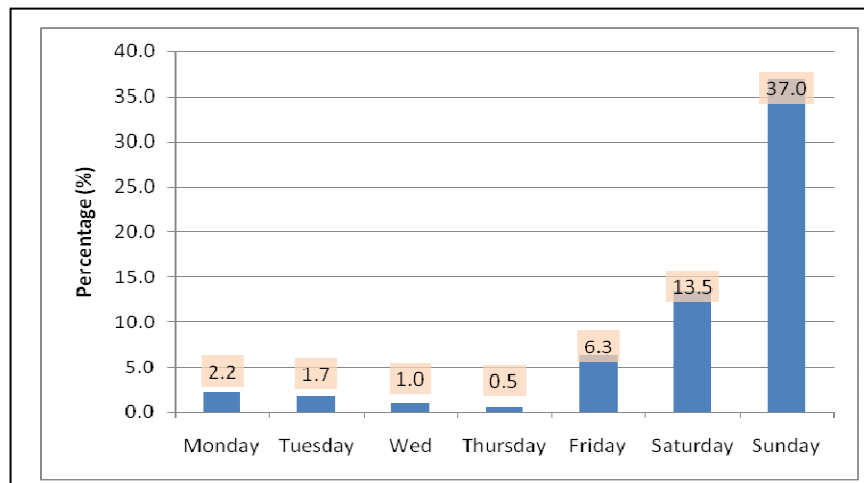


**Average Waste Generation per Household**



The results also show that households generate more waste on weekends i.e. Saturdays (13.5%) and Sundays (37.0%).

**Average of Waste Generation per Household by Days of the Week**



Most of these wastes were generated from the kitchen (88.8%) while some waste came from the living room (2.7%), bedroom (2.9%) and the garden (4.4%).

Usually, the wife/housewife disposes the waste (38.7%) followed by individuals (21.0%), the husband (19.7%), children and maid (9.0% & 7.1%) and others (2.1%).

Analysis was done on the type of recyclable materials generated by each household (as listed below), to determine the trend of recycling activities in Penang Island and Seberang Perai.

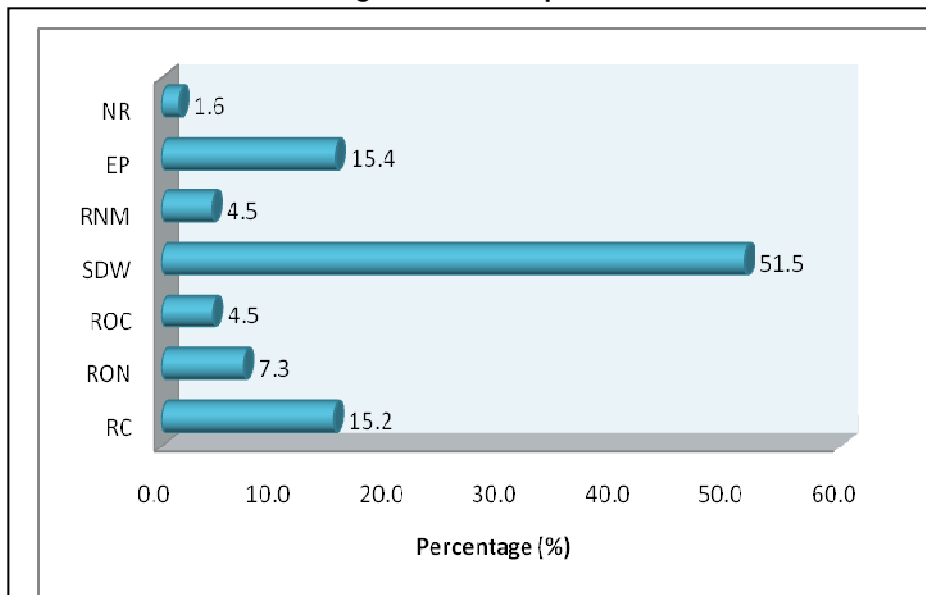
- Newspaper
- Magazines and Comics
- Aluminum Cans
- Glass Bottles
- Plastics



The result shows that the majority of respondents (75.4%) know how to separate their waste while 23.9% say they do not know how or why they should separate their household waste.

Respondents were also asked their opinion of waste separation. The result shows that most of them **know how** to separate dry and wet waste (51.5%). They do understand that environmental protection is very important (15.4%) and that one way of helping Mother Nature is to recycle everything (15.2%). Others, however, have less knowledge on the details of the recycling process.

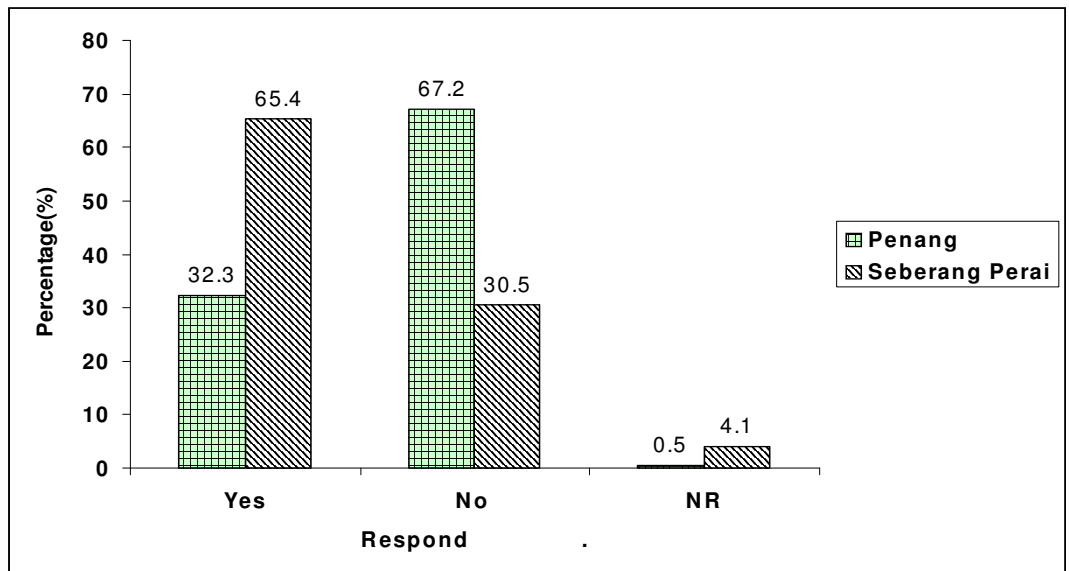
**Knowledge of Waste Separation**



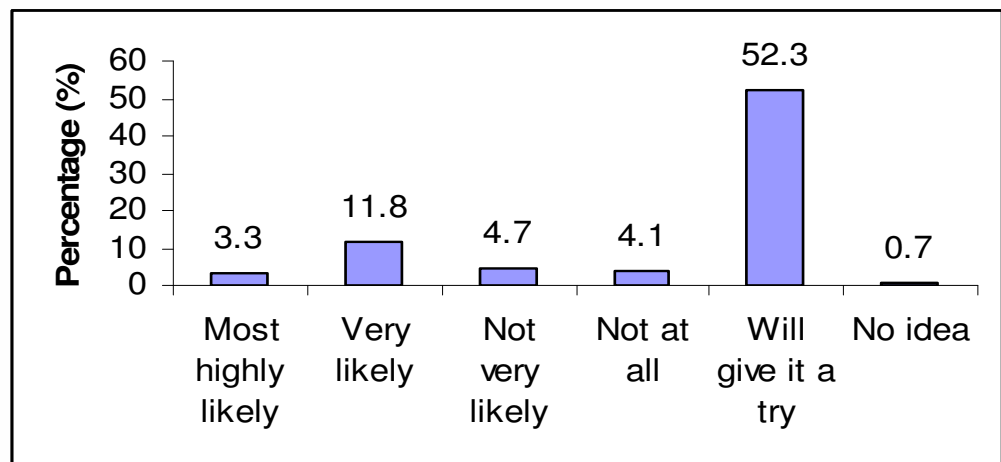
NR=no response; EP=Environmental Protection; RNM=reduction of new material use; SDW=separate dry from wet items; ROC=recycle old cloths; RON=recycle old newspapers; RC=recycle everything

It was observed that since most of them know how to separate their waste, they were asked if they practiced it. 53.1% of the respondents confirmed that they practiced waste separation, while the other 44.2% indicated that they did not practice waste separation at all. There is a significant difference between the people who live in the island than those who live in the mainland. The profile of island and mainland residents differed significantly, with people from the island practicing less waste separation (32.3%) than those from the mainland (65.4%).

Percentage (%) Practicing Waste Separation & Recycling



Respondents that do not presently separate their waste indicated that they were “willing to give it a try” (52.3%), and some have even committed themselves to separating their household waste in the future.



Respondents were asked questions on the importance of recycling and their understanding of the process based on the type of recycling materials. The results show that most respondents believe that it is very important to recycle old newspaper (69.4%), tins, including aluminum cans (62.5%) and glass (32.1%). They also think it is somewhat important to recycle metals (34.4%). The respondents, however, believe that it is not less important to recycle batteries (42.6%), kitchen waste (30.5%), garden waste (45.5%) and other type of materials (64.6%).

These results reflect the awareness and knowledge of the people towards recycling processes and activities, and the recycling campaign as a whole. Generally, the public are exposed to the concept of recycling but the scope is confined to the more common household materials.

Recycling activities are further influenced by the availability of storage space in the home, the presence of recycling agents and the proximity of collection centres to households.

With such an existing scenario, it is evident that the high level of consciousness of recycling in the community has played a very important role in boosting Penang's recycling activities on the whole. **§ Khor Hung Teik**

*Part 2 of this article is scheduled to appear in the September 2008 issue of the Penang Economic Monthly, and focuses more specifically on the recycling sector and its related activities in the state of Penang*



# Bilateral FTAs with the United States: Are Post-FTA Trade Figures a Reliable Indicator in Theoretical ‘Gains-Loss’ Analyses for Predicting Longer-term Outcomes?



## Overview

Even as the USA and Malaysia move beyond the 7<sup>th</sup> round of talks/negotiations to bring the proposed US-Malaysia FTA a few steps closer to possible ratification, the debate rages on with regard to the likely impact of such an agreement on the various sectors, facets and aspects of not just the Malaysian economy per se, but the ramifications on the socio-political institutions of the country.

This question indeed points to an area that is fraught with difficulties even at the outset, starting with the vast theoretical assumptions and heavily opinion-loaded perspectives that surround the nature of this category of free trade agreements. To begin with, the proposed US-Malaysia is an agreement of a bilateral nature, a fundamentally different working arrangement from the multilateral agreements that have been negotiated previously under the auspices of the larger WTO network.

An example of how powerfully theoretical perspectives can influence the sentiments accompanying a proposed FTA is demonstrated by the preponderance of economists who firmly denounce bilateral deals between unequal parties as inherently lopsided, ultimately benefiting the superior partner at the long-term expense and exploitation of the weaker.

This analysis is brought to bear on the impending US-Malaysia FTA as another example of a bilateral trade agreement that will grossly favour and serve the interests of the United States at the expense of the Malaysian side, the deeper implications of which will only be progressively known and revealed years after the trade pact goes into effect.

This perspective views with deeply ingrained suspicion, bilateral pacts that promise ‘equal treatment’ on paper, arguing that even in the eventual implementation in good faith, equality in trade outcomes and their accompanying impact will be proven to be an elusive prospect. Put simply, equal treatment of unequal players in the international trade game will inevitably bring about unequal outcomes, leading to long-term and possibly unrecoverable net losses to the weaker partner.

This clarion call provides a base of support for the voices of dissent against Malaysia’s proposed FTA with the US, in the hope of influencing circumstances that will act to forestall the speedy ratification of the trade deal with the world’s leading economy.

The detractors of the proposed US-Malaysia trade pact highlight the many issues and far-reaching consequences of signing on to the agreement that go beyond the simple anticipated windfall of more open markets and greater export volume of Malaysian products to the USA. It would be untenable to argue against the validity of many of these concerns that may not be linked directly to hard-and-fast bilateral trade figures, but that nonetheless accompany the proposed agreement as key conditions in the trade pact package.

Most significantly, these include, but are not confined to, the US demands for equal and open access to Malaysian government procurement projects in particular. This sector is traditionally considered as offering political tools that could be used to maneuver through the sphere of 'sensitive' local macro-policy space that has been largely closed off to the forces of open competition. And then, there is also the expected push on the US side for greater enforcement and protection of Intellectual Property Rights (IPR) in Malaysia, an area generally viewed as having abysmally low levels of actual compliance by global standards.

Spin-off issues that have metamorphosed into major concerns include the question of the generic drugs industry, which for the meantime survives on licensing clauses that sidestep the WTO's TRIPS condition, of which Malaysia is a signatory. The eventual implementation of the US-Malaysia FTA could see the generic drugs industry severely curtailed as TRIPS Plus conditions and Data Exclusivity clauses come into effect, bringing in expensive patented medicines that will replace the cheap generics previously available in the local market.



On the other side of the fence, the supporters and proponents of the FTA argue that free trade agreements bring down barriers to trade that will nurture a more vibrant, open economic environment that is mutually beneficial. Thus in extrapolation, it will be in the interest of both the USA and Malaysia if trade is further liberalized between these two countries that have in fact enjoyed strong business and economic links for decades, beginning in the 1970s.

The key FTA proponents in this case are undoubtedly also the prime movers of the agreement – the key government representatives on both sides that are keen to see the negotiations through to a successful conclusion. The survival of negotiations to the seventh round, slated for April/May 2008 show a fundamental commitment of BOTH the Malaysian and US governments to the process, hinting at a genuine underlying persuasion on both sides that a bilateral free trade agreement must be genuinely and mutually beneficial.

This brings us to the consideration of the question that frames the focus of this article – does a good method or analytical tool exist that can be used to gauge the likely impact of a US-Malaysia FTA, especially in relation to quantifiable projected gains or losses to the Malaysian side?

This is a particularly important question for a country in the midst of negotiating a historic agreement, given the rationale that no country would willingly enter into a trade pact that will ultimately entrap the home economy in a package of stilted deals favouring the 'other side.'

### **Trade Figures and Other Data – The Potentially Flawed Indicators for Policy and Projected Outcome Assessment**

In attempts to source for pre-ratification assessment, a favourite method adopted by global critics of an impending FTA is to refer to the unfolding real-life trade scenario linked to other FTAs that have already been put into effect. Often, anti-FTA groups seize on particular figures or angles, or even data that appear to bolster their argument that free trade pacts, particularly those created between developed and developing economies are in fact dangerous liaisons that subject the weaker parties to binding and disadvantageous conditions.

A common angle is the quotation of on-paper trade figures in the immediate few years following the implementation of a trade pact, usually encompassing trade balance figures that point to 'troubling' indicators of emerging losses, like surplus reversals or widening deficits.

Take for example the review of trade pacts already signed by some leading Asia-Pacific economies with the US, like Singapore and Australia. The US-Singapore FTA, which has been in effect since 1st January 2004 has sometimes been used to exemplify a trade pact that benefits the US more substantially than the other bilateral signatory. Despite an overall growth in total bilateral trade volume, analysts point to specific data that show an actual widening of the trade deficit that Singapore has experienced since signing on to the trade agreement, with deficit amounts of \$4.3 billion (2004), \$5.5 billion (2005) and \$6.9 billion (2006) recorded in favour of the United States.

Likewise, FTA critics have sounded the siren with regard to Australia's trade pact with the US, inked and subsequently implemented in May 2004 and January 2005 respectively. Trade figures published by the Australian Bureau of Statistics reveal that in the first ten months after the US-Australia FTA came into effect, Australia's trade deficit with the US had increased by \$1.3 billion. Furthermore, within that time frame, Australia's exports to the US fell by 4.7%, while US exports to Australia rose by 5.7%. The deficit on the Australian side continued into 2007, with total Australian exports to the US for 2005-06 valued at only \$15.1 billion in comparison with total imports from the US costing \$29.8 billion.

But are these aggregate trade figures a sound basis for reviewing and assessing the impact of a trade agreement? Do such figures conceal and obscure other sectoral data under blanket aggregates that sometimes distort the perception of the larger trade and economic trends that may be observed in a certain post-FTA environment?

Let us consider this by returning to the Singapore case-study. In the Singapore case, there is in fact sectoral data that indicate tangible post-FTA economic benefits to the home economy that are very likely linked to the trade agreement's implementation. In the age of greater competition for global Foreign Direct Investment, the US-Singapore FTA is believed to have stimulated an ever higher flow of investment funds into the already prosperous economy of the Southeast Asian city-state. US FDI in Singapore grew by 10.5%, from S\$37.59 billion at end 2003 to \$41.5 billion at end 2005. Singapore was in fact the second biggest recipient of US FDI in Asia in the year 2005. This may be construed as a statistical indicator that records a general gain on the part of the Singapore economy by analysts who view increased FDI as a positive development.

The liberalized post-agreement environment characterized by greater predictability and efficiency could have been instrumental in attracting Motorola to set up its state-of-the-art 3G R&D center in Singapore in 2004, its first global facility to have a full value-chain of 3G activities in a single location. As protectionist barriers crumbled, drill bit maker Reed Hycalog invested in a new Singapore-based manufacturing facility to the tune of S\$22 million, to capitalize on tariff savings and lower production costs made possible by the implementation of the USS-TFA.

And while Australia failed to secure a tariff-free entry for its sugar into the US (a much publicized and lamented setback for the Australian camp), there are positive indications that a good range of other Australian exports are enjoying increasing returns as a result of the Australia-US FTA. The FTA has boosted the export prospects of Murray Goulburn Co-operative, Australia's largest dairy processor, besides expanding the country's quota of exported cheese by more than a 100 percent. By 2008, the FTA is expected to phase out the 25 percent tariff on processed macadamias; Suncoast Gold Macadamias says this will make it affordable to relocate US processing back home to Australia, a positive turn of events for the home economy. South Australia's Riversun recorded savings of up to \$600,000 in 2005 when the US import duty on oranges was abolished, representing a more open field of competition and profits for Australian oranges in the US market.

The question we return to then is: can recent post-FTA trade figures, whether they be aggregate surplus/deficit numbers or sectoral import/export data be used as reliable indicators when assessing the impact of a comprehensive and binding bilateral FTA?

Generally speaking, if the main intention is to estimate possible long-term scenarios or to project long-term net 'winners' and 'losers' among the trade pact signatories, then the answer is likely to be no.

From one angle, this is simply because in reality, the majority of bilateral FTAs between the US and selected countries have been put into effect only within the last few years. As such, the associated trade figures and other economic data collected from this limited timeframe cannot rationally be controlled to exclude the influence of existing pre-FTA factors. It is a reasonable assumption that in the real world of bilateral trade, the interplay of these other long-standing factors bears down powerfully on statistics emerging in the immediate and medium-term post-FTA period.

A case in point will be the Australian economy's performance vis-à-vis the United States in the medium-term pre and post-FTA periods. While anti-FTA voices stridently condemn the players that have brought Australia to what they view is a long-term losing venture (given the growing post-FTA Australian trade deficit with the US), it must not be neglected that Australia had in fact brought a *long-running trade deficit* to the negotiating table of the FTA.



A quick survey of the state of Australia's total balance of international trade between 1994 and 2003 shows volatility and deficits occurring with its main trading partners in practically every year except 1997 and 2001. The year-on-year deficit continuum was punctuated only by modest surpluses in 1997 (\$0.8 bil) and 2001 (\$4.3 bil). This general pattern also reflects the substantial *annual deficits* recorded in the sub-component of Australia's bilateral trade with the USA, deficits which consistently exceeded the sum of \$10 bil per year between 1998 and 2003.

Thus, it would appear that a carry-over of the trade deficit situation into the immediate post-FTA era is to be expected (at least in the short-term), and the recently concluded Australia-US FTA should not be unreasonably blamed for deadlocking the terms of bilateral trade in the US's favour. The overriding influence of pre-FTA factors operating within the domestic economy has been acknowledged as a means to explain the less optimistic trends noted for Australia by trade analysts.

Austrade's chief economist Tim Harcourt explains the 'lag effect' generated by externalities and events during the half-decade before the FTA's implementation. These factors, including the US dotcom crash and a strengthening Australian dollar together with other factors that affect core Australian exports like beef, oil and motor vehicles have had a combined effect that slowed down the Australian export sector substantially. Harcourt argues that the immediate post-FTA years bear the imprint or 'lag effect' of these spillover macro economic conditions, and the poor performance of Australian exports *cannot* and *should not* be attributed heavily to the FTA. And if these externalities and factors, as mentioned, in fact underpin and influence Australia's trade deficit figures with the US, then expectations for an FTA to quickly or single-handedly reverse Australia's chronic trade balance woes may be unjustified and unfounded.

### **The Value of Trade-Related Figures and Data as an Assessment Tool – A Second Look at Lessons from the Singapore and Australian examples.**

Based on the general arguments in this article, and in view of insights from the Singapore and Australian statistics, it may be concluded that short-term post-FTA balance of trade figures do not necessarily provide a good basis for judging the impact of a free trade agreement on a country's economy in terms of long-term gains and losses.

Trade surpluses or deficits are in essence, aggregated outcomes determined by a complex combination of macro and micro-factors that frame and influence bilateral trade activities. As explained in the Australian case, these factors generate longer-term 'lag effects' and economic circumstances (be they surpluses or deficits) which may coincide with, but should not be solely or even largely attributed to the implementation of a trade pact between countries.

Long term gains and losses accruing to the partners in an FTA agreement are difficult, if not impossible to quantify and compare. To do so would require a comprehensive identification of *all* FTA-affected factors at the outset, and credible quantification of all affected performance indicators in the post-FTA period, to be used as a comparison benchmark with equivalent indicators in the 'other' economy in a defined period of time. This, I think, will be generally regarded as a monumental task bordering on the realm of the impossible.

What then, if anything, are post-FTA figures and data good for, if they are not really a good predictor of longer term gains and losses for FTA signatories?

It may be argued that trade figures and balances are fairly good indicators of other definable and discrete variables, like overall trade volume, the rate of export/import growth and the flow of FDI; statistics pertaining to these variables could be taken to reflect the state of health and standing of a particular post-FTA economy. This is of course based on the assumption and acceptance that an expanded trading network (with increased export/import growth on both sides) and other related effects, like an increased volume of FDIs for example, generally bode well for economies partnered and linked by an FTA. This assumption is defended in spite of short-term statistics indicating rapid and aggressive (and thus perhaps worrying) post-FTA gains recorded in certain sectors of a partner country's economy.

This scenario is exemplified in the US-Singapore FTA, with trade balance statistics showing the US 'gaining' more against Singapore in terms of pure trade numbers and overall tally. In Table 3 below (compiled from the *US Census Bureau, Foreign Trade Statistics*), it is noted that the US surplus (or Singapore deficit) in fact tripled in 2004, the very year the US-Singapore FTA came into effect.

**Table 3: USA Trade Balance with Singapore (1985-2007)**

YEAR	Trade Balance (million US\$)
1985	-784.3
1986	-1,344.8
1987	-2,148.3
1988	-2,205.9
1989	-1,658.1
1990	-1,778.0
1991	-1,152.9
1992	-1,686.8
1993	-1,120.2
1994	-2,337.8
1995	-3,227.4
1996	-3,623.1
1997	-2,378.4
1998	-2,662.1
1999	-1,944.0
2000	-1,372.0
2001	2,651.8
2002	1,415.5
2003	1,422.4
2004	4,238.1
2005	5,532.2
2006	6,915.6
2007	7,890.5

This contrasts sharply with the trend of a former US deficit recorded for long periods (in the 1980s and 1990s) in its trading relationship with Singapore. However, it is also fair to note that the first signs of a US deficit reversal seem to have appeared in the late 1990s, leading eventually to a surplus reading in 2001. As such, this trade reversal is discerned a good number of years *before* an FTA could have influenced the turn of events against the interests of Singapore.

It must be acknowledged that shorter term deficits, surpluses, gains and losses are generated in a dynamic continuum of a trade relationship that will continue to develop and unfold, simultaneously influenced, stimulated and confounded by a *mélange* of FTA and non-FTA related factors. And as time goes by, trade figures are subject to further change, and it is theoretically possible that later statistics (gleaned a decade or two down the road) may even show a reversal of earlier trends, with the so-called 'weaker' or 'loser' economy gaining ground against the earlier 'favoured' or 'stronger' FTA partner.



This is, of course, a theoretical discourse and must concede that the economic eventuality will be dictated by a future outcome that remains unknown at the present time, and is difficult to decipher within the context of the shorter term post-FTA period.

It is also interesting to note that while the proponents of FTAs have often claimed a *mutually-beneficial* platform, few if any at all have argued that bilateral trade pacts benefit both parties EQUALLY in clearly quantifiable terms or in similar and equivalent economic/social sectors. This implies that even under the best possible scenario where trading partners of generally equal size, dynamism, strengths and capacities come together in a free trade pact, their inherent material differences would lead to each partner benefiting (or conversely, losing out) differently.

Given that, when economic players of different capacities and developmental levels come together in bilateral pacts, it is definitely possible for one party, particularly the stronger and economically superior partner to benefit more and concede less in the short and longer term after a free trade agreement is put into effect.

### **Conclusion: Trade Figures as General Indicators of Economic Vibrancy**

This article was written to consider the value of recorded trade figures as a predictive indicator of possible post-FTA scenarios. As discussed in the preceding section, certain post-FTA economic statistics may be deciphered as a 'general indicator' of sorts for target variables, and may potentially be utilized as theoretical guidelines for the consideration of countries contemplating FTAs with the US.

Along these lines, bilateral trade volumes and FDIs flowing into a more liberalized, rules-orientated environment are likely to be stimulated by an FTA, but it is acknowledged that these factors will not always be perceived as universally beneficial or even fundamentally equitable for the partner economies involved when the scorecards get filled.

To recapitulate in brief, some FTA advocates argue on the grounds that a freer trading relationship and an expanded bilateral trade volume are in themselves sufficient justification for agreement ratification; others vehemently oppose such a rationale, pointing out that the observable benefits of freer trade and growing trade volumes are almost always lopsided, favouring the stronger economic partner and placing the burden of a widening deficit on to the weaker economy.

In this regard, countries such as Malaysia and other key US partners that are contemplating a trade agreement with the US may also wish to consider and define clearly the core areas of their socio-economy polity that will be tangibly affected by an FTA.

Whilst it should be possible as a guideline measure to glean 'case-study' insights from other countries that have implemented an FTA with the US, this exercise should be approached with caution, as every successfully negotiated FTA brings with it unique factor configurations and different outcomes from case to case. The section of Malaysian trade analysts who are attempting to mount an anti-FTA campaign based largely on pure trade figures could very well be barking up the wrong tree, so to speak. For a more balanced, rational assessment of an FTA, they would probably do better to evaluate the broad spectrum of main economic areas that will be impacted. Besides looking at trade indicators, issues to consider in the Malaysian context include the anticipated loss of policy space with the adoption of new government procurement and intellectual property rights legislation, as well as the socio-economic effects of restructured sectors that will bring about possible loss of employment or higher prices in the local agricultural and pharmaceutical industries.



In the event that a country decides to proceed with an FTA ratification, confident in the calculation and assessment of advantages to be obtained for the home team, there is still a substantial risk of misjudging actual post-FTA outcomes. This is simply because assessing the 'home factors', even if undertaken rationally and intelligently, is merely taking stock of one side of the coin, charting the waters of the familiar 'home domain'. Gauging the potential influence and after effect of flip-side factors originating in the unfamiliar 'other' (i.e. the FTA partner economy) would often prove to be a lot more complicated, unpredictable and difficult. **§ Richard Ho**

*References:*

Denning, D. (2007, August 31). *Australian trade deficit grows: It's bad to owe more than you own*. Retrieved from <http://www.dailyreckoning.com.au/trade-deficit-4/2007/08/31/>

*How Singapore benefited from the FTA with the US*. (n.d). Retrieved from [http://www.mfa.gov.sg/seoul/pdf/USSFTA\\_final.pdf](http://www.mfa.gov.sg/seoul/pdf/USSFTA_final.pdf)

*Workshop on "Malaysia-US Free Trade Agreement: Issues, Implications and Challenges" – Summary Report*. (2006, November 15). Retrieved from <http://www.ftamalaysia.org/article.php?aid=108>

S.M. Mohamed Idris. (2007, March 21). *Get realistic with USFTA*. *The Star Online*. Retrieved from <http://thestar.com.my>

Sutherland, T. *USFTA begins to reap results*. (2007, January 15). Retrieved from <http://www.tradewatchoz.org/AUSFTA/Article43.html>

*Trade in goods (imports, exports and trade balance) with Singapore*. (2008, July 11). Retrieved from <http://www.census.gov/foreign-trade/balance/c5590.html>

*US-Australia*. (2006). Retrieved from [http://www.bilaterals.org/rubrique.php3?id\\_rubrique=21](http://www.bilaterals.org/rubrique.php3?id_rubrique=21)

# International Headlines

## OIL PRICES FALL

Source: Excerpt of AFP article found in Asiaone.com, 19th August 2008

World oil prices fell further on Tuesday, dragged down by worries that weaker US oil demand could spread to Europe and Japan, analysts said.

New York's main contract, light sweet crude for September delivery, dropped 48 cents to US\$112.39 (S\$158.90) a barrel.

That came on top of a 90-cent drop in New York trade Monday, when the price closed at US\$112.87 at the end of floor trading.

Brent North Sea crude for October delivery fell 58 cents to US\$111.36 after settling 61 cents lower at US\$111.94 a barrel on Monday in London.

World oil prices have fallen heavily from record highs above US\$147 in early July but are still well above levels of a year ago. Oil broke through US\$100 for the first time at the start of this year.



## JOBLESS TOTAL UP AS UK ECONOMY SLOWS

Source: Excerpt of article in BBC News, 13th August 2008

The number of people out of work rose by 60,000 in the three months to June, taking the official unemployment rate to 5.4%, official figures showed.

The Office for National Statistics (ONS) said unemployment increased to 1.67 million between April and June. The data suggests that a slowing economy is taking its toll on the labour market.

The ONS also said the number of people claiming jobless benefits in July rose by 20,100 to 864,700. This was sixth consecutive rise in the claimant count and the biggest jump since 1992.

Average earnings in the three-month period grew at an annual pace of 3.4%, down from 3.8% in the previous period and the weakest rise since August 2003.

## US INFLATION FASTEST SINCE 1991

Source: Excerpt of article in BBC News, 14th August 2008

US prices rose by 5.6% in the year to July, the fastest inflation rate for more than 17 years, figures show.

The rate of inflation was much greater than economists had predicted, driven higher by the 30% increase in energy prices during the period. Food costs were 6% higher than a year earlier, the figures showed. The price rises are squeezing consumers further. Inflation-adjusted average weekly earnings fell by 3.1% in July compared with a year earlier.

Despite the high inflation figure, economists predict the rate will begin to slow from next month as a result of recent falls in the oil price. Oil reached a record high of \$147 a barrel in July but has fallen significantly since.

## SHINE OFF INDIA'S ECONOMY AS GLOOMY DATA PILES UP

Source: Excerpt of article in Businessweek.com, 18th August 2008

High commodity prices are fueling double-digit inflation, slowing the nation's expansion and prompting some foreign investors to leave.

Until a few months ago, the most popular buzz phrase for India was 'economic miracle', with the nation appearing impervious to the financial turmoil engulfing the developed world.

But now the "India story" is losing traction, with inflation at 13-year highs and economic expansion slowing, prompting an exit by foreign investors as gloomy warnings pile up.

Inflation, currently at 12.44 percent, will "remain in double digits through 2008" as a result of the surge in oil and other commodity prices, said Goldman Sachs economist Tushar Poddar, who sees more monetary tightening to tame prices, which will brake domestic growth further.

Some economists forecast inflation, which has nearly tripled from a year ago, could hit at least 15 percent.



### SERI RESEARCH TEAM

YBhg Dato' Dr. Toh Kin Woon	Chief Executive Officer
Dr. Chan Huan Chiang	Economic Advisory Panel
Dr. Goh Ban Lee	Economic Advisory Panel
Professor Muhamad Jantan	Economic Advisory Panel
Professor Cheah Kooi Guan	Economic Advisory Panel
Professor Suresh Narayanan	Economic Advisory Panel
Professor Lai Yew Wah	Economic Advisory Panel
Dr. Michael Lim Mah Hui	Economic Advisory Panel
Mr. Khor Hung Teik	Head, Environmental Section
Mr. Lim Wei Seong	Head, Economic Section
Cik Fatimah Hassan	Senior Programme Coordinator
Mr. Richard Ho Weng Keong	Senior Research Analyst
Mr. Parthiban Gopal	Research Analyst
Mr. Ooi Ying Chieh	Research Officer
Cik Athirah Azhar	Research Officer

Printed, Published and Distributed by Socio-Economic & Environmental Research Institute (SERI), No.10, Brown Road, 10350 Penang