Free Trade Agreement: U.S. and Malaysia

Economic and Strategic Benefits

Office the United States Trade Representative

March 8, 2006
Malaysia is the United States’ Largest Trading Partner in Southeast Asia

10th largest U.S. trading partner in 2005:
• Fifth largest in Asia after China, Japan, Korea and Taiwan
• $44 billion in two-way trade
• Trade grew significantly over last decade:
  – U.S. goods exports up 50 percent (to $10 billion)
  – U.S. services exports up 31 percent (to $1.2 billion)

A strong, growing economy:
• Upper middle income economy with GDP of $248 billion in 2005
• Average of 5 percent real annual growth over last decade, despite Asian financial crisis
• 3rd highest per capita income in ASEAN ($10,400)
• 27 million people

The United States is Malaysia’s Largest Trading Partner

- Malaysia imports more from the United States than any other country except Japan.
- The United States is Malaysia’s largest export market, accounting for nearly one-fifth of Malaysia exports.
- The United States is the largest foreign investor in Malaysia.

U.S. Exporters Have Much to Gain From FTA with Malaysia

- One-third of Malaysia’s industrial goods tariffs have no legally bound ceiling
- Malaysia’s non-tariff barriers include import licensing and certification requirements.

Source: WTO
Opportunities for U.S. Manufacturers

Sector by sector, Malaysia’s industrial goods tariffs exceed those of the United States

<table>
<thead>
<tr>
<th>Industrial Goods Applied Tariffs</th>
<th>Malaysia</th>
<th>U.S.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wood, pulp, paper, and furniture</td>
<td>10.9%</td>
<td>0.7%</td>
</tr>
<tr>
<td>Textiles and clothing</td>
<td>13.5%</td>
<td>9.6%</td>
</tr>
<tr>
<td>Leather, rubber, footwear, and travel goods</td>
<td>14.0%</td>
<td>4.3%</td>
</tr>
<tr>
<td>Metals</td>
<td>9.3%</td>
<td>2.1%</td>
</tr>
<tr>
<td>Chemicals and photographic supplies</td>
<td>3.6%</td>
<td>3.4%</td>
</tr>
<tr>
<td>Transport equipment</td>
<td>18.5%</td>
<td>3.2%</td>
</tr>
<tr>
<td>Non-electric machinery</td>
<td>3.7%</td>
<td>1.2%</td>
</tr>
<tr>
<td>Electric machinery</td>
<td>6.7%</td>
<td>1.9%</td>
</tr>
<tr>
<td>Mineral products and precious stones</td>
<td>8.8%</td>
<td>2.0%</td>
</tr>
<tr>
<td>Manufactured articles not specified</td>
<td>5.1%</td>
<td>2.5%</td>
</tr>
<tr>
<td>Fish and fish products</td>
<td>2.4%</td>
<td>1.1%</td>
</tr>
</tbody>
</table>

NAM estimates that US manufacturing exports to Malaysia could double by 2010 under an FTA

Sources: Potential export growth estimate by National Association of Manufacturers. Tariff data from WTO.
Opportunities for U.S. Agricultural Exporters

- $400 million market for U.S. agricultural exporters in 2005
- Producers of high value products, including U.S. growers of fruit, vegetables, nuts, and processed horticultural and other food producers benefit

<table>
<thead>
<tr>
<th>Product</th>
<th>Malaysian Applied Tariff</th>
<th>Product</th>
<th>Malaysian Applied Tariff</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yogurt</td>
<td>25%</td>
<td>Pineapple Juice</td>
<td>30%</td>
</tr>
<tr>
<td>Processed Cheese</td>
<td>10%</td>
<td>Soups and Broths</td>
<td>20%</td>
</tr>
<tr>
<td>Kiwifruit</td>
<td>25%</td>
<td>Baby Food</td>
<td>20%</td>
</tr>
<tr>
<td>Rice</td>
<td>40%</td>
<td>Protein Concentrates</td>
<td>20%</td>
</tr>
<tr>
<td>Confectionery</td>
<td>15%</td>
<td>Yeasts and Other Food Preparations</td>
<td>20-25%</td>
</tr>
<tr>
<td>Chocolate and Cocoa Products</td>
<td>10-25%</td>
<td>Sauces, including Ketchup, Tomato Sauce, and Soy Sauce</td>
<td>20%</td>
</tr>
<tr>
<td>Canned Fruit Mixtures</td>
<td>10-20%</td>
<td>Mineral Waters and Other Nonalcoholic Beverages</td>
<td>20%</td>
</tr>
</tbody>
</table>
Opportunities for U.S. Service Providers

Benefits expected in range of service sectors, where market access is limited and U.S. companies are highly competitive:

– High-tech and computer
– Telecommunications
– Financial services
– Energy
– Distribution
– Healthcare
– Audio visual

Source: U.S. Department of Commerce Best Prospects
Malaysia – A strong strategic partner

• Important partner in regional and multilateral fora (APEC, WTO Doha negotiations)

• Moderate leader in developing and Muslim worlds

• Constructive partner on counterterrorism and other security issues
US-Malaysia FTA – Supports US Engagement in Southeast Asia

- Southeast Asia among most vibrant, rapidly-growing regions of world and key U.S. market

- The 10 ASEAN economies:
  - GDP of $2.7 trillion.
  - Population of 570 million
  - U.S.’s 4th largest export market ($50 billion)
  - U.S.’s 5th largest source of imports ($99 billion)

- US-Malaysia FTA supports President Bush’s Enterprise for ASEAN Initiative, aimed at intensified engagement with region and creation of a network of FTAs

US-Malaysia FTA -- Part of Active U.S. Engagement in Asia

• Opening most dynamic Asian markets to U.S. business:
  – Singapore FTA in force since January 2004
  – Thailand FTA under negotiation
  – Korea FTA launched January 2006
  – Malaysia FTA launched March 2006

• 4 FTA partners gives U.S. companies increased access to:
  – $1.9 trillion market
  – 6th largest world market

• Will give U.S. business a competitive edge in Asia:
  – By strengthening U.S. supply chains
  – By providing U.S. companies with same access as firms in other countries negotiating preferential trade agreements

• Encourages economic liberalization in the region

Sources: 2005 Estimates from the World Factbook