

## **Malaysia's Regional Trade Agreements: The Law, Geopolitics, and Impact on the Multilateral Trading System**

**Arif Husaini Mohammad Rohimi** - Faculty of Law, Universiti Kebangsaan Malaysia, Malaysia.

**Muhammad Faiq Afifi Norulhelmi** - Faculty of Law, Universiti Kebangsaan Malaysia, Malaysia.

**Nurhannah Mahyudin** - Faculty of Law, Universiti Kebangsaan Malaysia, Malaysia.

**Ravineesh Apurushothaman** - Faculty of Law, Universiti Kebangsaan Malaysia, Malaysia.

**Rozlinda Mohamed Fadzil** - Faculty of Law, Universiti Kebangsaan Malaysia, Malaysia.

**Mohd Izzat Amsyar Mohd Arif\*** - Faculty of Law, Universiti Kebangsaan Malaysia, Malaysia.

**Ammar Abbas Kadhim** – Al-Mustaqbal University, Iraq.

Received: 01/09/2024

Accepted: 02/12/2024

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### **Abstract**

As a developing Southeast Asian state, Malaysia actively engages in Regional Trade Agreements (RTAs), such as ASEAN Free Trade Area (AFTA), Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), and ASEAN-China Free Trade Area (ACFTA), to pursue economic and geopolitical goals. However, these agreements present challenges due to legal complexities, geopolitical dynamics, and economic consequences. This research explores Malaysia's strategic involvement in RTAs, focusing on their development, legal frameworks, geopolitical implications, and economic impacts. This study utilizes a doctrinal legal research methodology to analyze primary and secondary sources, including legal documents, treaties, and scholarly publications, with the goal of uncovering significant themes, recurring patterns, and deeper insights. The findings indicate that although Malaysia participates in regional trade agreements (RTAs) to bolster economic resilience and foster regional integration, their effective management is challenged by constantly evolving geopolitical dynamics and uncertainties. This study contributes to ongoing discussions on regionalism and multilateralism within the global trade system.

**Keywords:** Malaysia, Regional Trade Agreements, International Trade Law, Geopolitics, Multilateral Trading System.

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\* E-mail: izzatamsyar@ukm.edu.my

## 1. Introduction

The major question of the interaction between regionalism and multilateralism has emerged as one of the significant issues in the dynamically changing field of international trade laws, thus, it remains a constant concern and affects the strategies of the countries participating in the worldwide trade. There exists a general impression that RTAs have since the early 1990s been on the increase. The RTAs are pro hoc preferences that give advantage to a half dozen countries or so and, questions are raised about their compatibility with the WTO system of trading globally (Wang, 2004). While RTAs offer potential benefits such as increased trade and investment flows, they also raise concerns about trade diversion, discrimination against non-members, and the fragmentation of global trade rules. In the Asia-Pacific region, nations such as Malaysia have actively focused on enhancing economic connections with their neighbours and key trade partners, leading to a noticeable increase in the number of RTAs. Malaysia as a middle income economy in Southeast Asia has thus assumed an active role in this changing environment while engaging on RTAs (MIDA, n.d.). Malaysia has been a signatory for many regional trade agreements.... .. aayia' aciee cmmnttttt tt rrr ggggga aaareccc appaaach to trade liberalization and integration are proved through signing and implementing a number of 16 RTAs as of 2024 including significant partnerships like the ASEAN Free Trade Area (AFTA), the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), and the Regional Comprehensive Economic Partnership (RCEP) (ITA, 2024; MATRADE, n.d.). These agreements include both agreements made between two countries and agreements made between multiple countries. Participating in RTAs shows Malaysia's dedication to increasing market entry, luring foreign direct investment, reducing trade costs and boosting its competitiveness in the global economy (Woei and et al,2018).

However, the motivations behind Malaysia's pursuit of RTAs are not purely economic. Geopolitical factors, including regional security concerns, strategic alliances, and the desire to enhance its influence in international trade negotiations, have also played a significant role in shaping Malaysia's RTA strategy (Whalley,1998). For instance, Malaysia's participation in the RCEP can be seen to balance its economic relationships with major powers like China and the United States, as well as to counter the growing influence of China in the region (Pero and Norman,2023; Tobing and Aristama,2023).

Additionally, Malaysia's involvement in AFTA strengthens its ties with Southeast Asian neighbours and promotes regional stability, which is crucial for Malaysia's own security and prosperity (Imada and Naya,1992). This study adopts a legal research approach, which is typically utilized for analyzing legal frameworks and their interpretations (McConville and Chui, 2017). It relies on a qualitative, library-based methodology (Adil Kashef Al-Ghetaa and et al,2023; Romainoor and et al,2023), using both primary and secondary legal sources as its foundation (Khalid and et al,2023). A qualitative approach will be used for data analysis, as it is effective for interpreting legal texts and capturing their nuances (Hassan and et al,2022; Khalid and et al,2020). Content analysis will serve as the primary analytical method, proven effective for examining legal frameworks and policy documents (Afzali and et al,2023; Sukumaran and et al,2023). This method will systematically evaluate the data to uncover key themes, legal arguments, and patterns related to the law, geopolitics, and economic implications of Malaysia's regional trade agreements. By integrating multifaceted approaches to RTAs by analysing their legal personalities, geopolitical rationalisations and economic implications. Moreover, this study would try to give comprehensive account of the multifaceted role of RAAs in the context of WTO. The further research on the possible implications of these agreements as to homegrown businesses, employment, and income distribution. Policymakers then would have better visuals and be in a better position to make better decisions concerning the future of Malaysia in terms of trade policy guarantee that the FTA in question will help in the development of an inclusive and sustainable economy after the end of the 21st century.

## **2. Methodology**

This study adopts a legal research approach, which is typically utilized for analyzing legal frameworks and their interpretations (McConville and Chui, 2017). It relies on a qualitative, library-based methodology (Adil Kashef Al-Ghetaa and et al,2023; Romainoor and et al,2023), using both primary and secondary legal sources as its foundation (Khalid and et al,2023). A qualitative approach will be used for data analysis, as it is effective for interpreting legal texts and capturing their nuances (Hassan and et al,2022; Khalid and et al,2020). Content analysis will serve as the primary analytical method, proven effective for examining legal frameworks and policy documents (Afzali and et al,2023; Sukumaran and et al,2023). This method will systematically evaluate the data to uncover key themes, legal arguments, and patterns related to the law, geopolitics, and economic implications of Malaysia's regional trade agreements. By integrating

doctrinal legal research with a qualitative approach and content analysis, this study seeks to offer a thorough and nuanced examination of Malaysia's RTAs, focusing on their alignment with international trade law, their geopolitical drivers, and their economic impacts.

### 3. Research Results

#### 3-1. Historical Evolution of Malaysia's RTAs

Malaysia's RTA strategy has been influenced by both domestic and international factors, reflecting its commitment to trade liberalization and regional integration. This began with the Association of South-East Asia (ASA) in 1961, which later became the Association of Southeast Asian Nations (ASEAN) in 1967 (Karupiah, 2022). In 1992, the establishment of the ASEAN Free Trade Area (AFTA) aimed to reduce tariffs and non-tariff barriers among member countries (Choong and et al, 2018). Since then, Malaysia has actively pursued free trade agreements (FTAs) to further lower tariffs within the region (Choong and et al, 2018).

Malaysia has expanded its participation in RRTAs beyond ASEAN, forming key agreements with other countries and regional blocs. These include the Malaysia-Japan Economic Partnership Agreement (MJEPA) in 2005, which enhanced trade and investment flows between both nations (Hamsaruddin, 2010), and the Malaysia-Australia Free Trade Agreement (MAFTA) in 2012, aimed at liberalizing trade in goods and services between Malaysia and Australia (ISIS, 2012). The 2020 signing of the Regional Comprehensive Economic Partnership (RCEP) marked a new phase, establishing a comprehensive economic partnership across 15 Asia-Pacific countries, covering trade, investment, intellectual property, and dispute resolution (Chong, 2021).

Malaysia's RTA strategy has evolved through transformative stages, starting with AFTA in 1992. While earlier efforts focused on regional unity, subsequent agreements emphasized bilateral economic collaboration (Rahman and et al, 2018). Domestically, trade liberalization and competitiveness drives its RTA involvement, while internationally, global trends in RTAs shape its policies (Verico, 2016; Whalley, 1998). This dynamic strategy has broadened Malaysia's opportunities, strengthened regional ties, and responded to global trade trends.

### **3-2. Legal Frameworks of Malaysia's RTAs**

Malaysia, like many other nations, is deeply engaged in the global trading system's expansion of trade agreements. Its active participation in Regional Trade Agreements (RTAs) reflects a strong commitment to economic integration and trade liberalization within specific regions (Rasiah and Thangiah, 2017). Within ASEAN region, Malaysia is also leading in the regional transition towards renewable and alternative energy (Abd. Aziz and et al, 2024).

Malaysia's involvement in trade agreements has undergone a transformation over the years, with a transition from multilateral to more regional agreements. Malaysia's trade policy was initially significantly influenced by its membership in the World Trade Organisation (WTO) and the General Agreement on Tariffs and Trade (GATT) (Masron and et al, 2014). Nevertheless, Malaysia, along with numerous other nations, pursued RTAs as an alternative approach to attaining increased market access and economic benefits due to the sluggish progress of the Doha Round negotiations. Malaysia had signed numerous significant RTAs with a variety of trading partners as of 2014, primarily as a result of its membership in the Association of Southeast Asian Nations (ASEAN) (Pangestu and Ing, 2016). These agreements are intended to facilitate trade and investment flows within the region, eradicate non-tariff barriers, and reduce tariffs. The legal basis for these agreements is rooted in Malaysia's dedication to a variety of international trade law principles and its strategic economic interests.

The legal framework for Malaysia's RTAs is founded on a number of fundamental principles of international trade law. Initially, the WTO's Most-Favoured Nation (MFN) principal mandates that any trade advantage conferred to one member must be extended to all members in accordance with the principle of non-discrimination. Nevertheless, Article XXIV of the GATT establishes exceptions for regional trade agreements, which enable countries to establish RTAs, such as free trade agreements (FTAs) and customs unions, that provide preferential treatment among the members (Chase, 2006). Secondly, Malaysia's regional trade agreements (RTAs) are designed to facilitate trade liberalisation by minimising tariffs and other trade barriers within the region. This is consistent with the overarching objectives of the World Trade Organisation (WTO), which is to promote global trade that is both free and open. Third, in order to improve the

efficacy of RTAs, Malaysia implements regulatory harmonisation, which guarantees that its standards, technical regulations, and conformance assessment procedures are consistent with those of its trading partners. The enforcement of trade agreements is contingent upon the implementation of effective dispute resolution mechanisms (Said and Ismail, 2018). The principles enumerated in the WTO Dispute Settlement Understanding (DSU) are typically reflected in Malaysia's agreements, which include provisions for the resolution of disputes through consultations, mediation, and arbitration.

A complex interplay of domestic and international legal processes is involved in the implementation of Malaysia's RTAs. These agreements must be ratified by Malaysia's Parliament on a domestic level, which entails a thorough examination of the agreements to ensure that they are in accordance with national laws and interests (Azrae, 2020; Seman and Bahari, 2020). The Ministry of International Trade and Industry (MITI) is instrumental in the negotiation, implementation, and monitoring of these agreements (Remali and Harun, 2018). Malaysia frequently implements legal and regulatory reforms to fulfil its obligations under these agreements. These reforms involve the modification of existing laws and regulations to ensure that they are consistent with the terms of the agreements. For instance, in order to satisfy the obligations of a trade agreement, modifications to standards regulations, intellectual property laws, and customs procedures may be required. An example of Malaysia enacting legal and regulatory reforms to meet its obligations under the Regional Comprehensive Economic Partnership (RCEP) is the amendment of the Intellectual Property Corporation of Malaysia Act 2002. This reform enhanced protections for geographical indications and patents, ensuring that the country's laws align with RCEP standards to promote innovation and investment.

The structure and operation of Malaysia's Regional Trade Agreements (RTAs) are influenced by various international and domestic laws and frameworks, particularly the primary WTO agreements, including the GATT 1994, the General Agreement on Trade in Services (GATS), and the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS). Notably, the formation of customs unions and RTAs is specifically addressed in Article XXIV of the GATT 1994, which permits deviations from the Most Favored Nation (MFN) principle under certain conditions,

thereby providing a legal foundation for Malaysia to structure its agreements in a manner consistent with its international obligations.

Malaysia, as a member of ASEAN, is a signatory to the ASEAN Free Trade Area (AFTA) agreement and various ASEAN economic integration initiatives. The primary goal of these regional agreements is to create a unified market and production base, facilitating the free flow of skilled labor, investment, services, and goods, particularly in the automotive sector (Stubbs, 2000, Jamaluddin and et al, 2022, Hasani and et al, 2023). However, the extent to which the flows of goods, services, capital, and labor are genuinely "free" varies significantly across the multitude of ASEAN free trade agreements. While AFTA aims to eliminate tariffs and reduce non-tariff barriers to trade, member countries may impose certain restrictions or qualifications on specific sectors. Similarly, the liberalization of services and capital flows can be inconsistent, with varying degrees of market access and regulatory requirements. Labor mobility is also subject to limitations, as different countries have distinct regulations governing the employment of foreign workers, resulting in uneven levels of accessibility for skilled labor across the region. Thus, while ASEAN's agreements strive for greater economic integration, the actual implementation and effectiveness of free flows can differ widely among member states. Additionally, Malaysia's domestic legal framework, including the International Trade and Industry (MITI) Act, Customs Act, and related legislation, ensures adherence to international trade agreements, tariff schedules, and trade practices.

The comprehension and execution of trade agreements, including those pertinent to Malaysia, have been significantly influenced by numerous international trade law cases. The Turkey – Textiles (WT/DS34) case addressed the compatibility of Turkey's customs union with the European Union under Article XXIV of the GATT 1994. Despite the customs union, the Dispute Settlement Body determined that Turkey's imposition of quantitative restrictions on imports was in violation of its WTO obligations (Mathis, 2000). This case emphasises the significance of guaranteeing that trade agreements adhere to the more comprehensive WTO regulations. Indonesia's import licencing requirements were scrutinised by the WTO Panel and Appellate Body in the Indonesia – Import Licencing Regimes (WT/DS477, WT/DS478) cases, in which the United States and New Zealand challenged them. Providing a precedent for how trade agreement

provisions must align with WTO rules, the rulings clarified that trade restrictions must not contravene WTO obligations (Ahn and Gnutzmann-Mkrtchyan, 2019). Thus, the decisions from these WTO cases underscore the necessity for Malaysia to carefully structure its trade agreements to ensure compliance with WTO regulations, thereby facilitating smoother trade relations both regionally and globally. These precedents guide Malaysia in navigating its commitments under various regional trade agreements, such as those within ASEAN, while maintaining adherence to international trade law.

The trade and economic policy of Malaysia have been significantly influenced by its RTAs. The agreements have facilitated the diversification of Malaysia's export markets and the allure of foreign direct investment (FDI). These agreements have improved Malaysia's competitiveness and further integrated its economy into regional and global value chains by granting preferential access to key markets. These agreements have a substantial impact on trade patterns. In Malaysia, the majority of RTAs have resulted in an increase in commerce in extant products (intensive margin) rather than new products (extensive margin). When Regional Trade Agreements (RTAs) came into effect in Malaysia, there was a significant shift in trade patterns, showing a 41.6% increase in trade of existing products (intensive margin), while simultaneously experiencing a 4.0% decrease in trade of new products (extensive margin) (Said & Ismail, 2018). This implies that, although RTAs increase the volume of commerce, they may not necessarily result in the diversification of the product base. Nevertheless, regional trade agreements have been particularly effective in fostering trade among member countries, underscoring the significance of regional economic integration.

Malaysia's RTAs, despite their advantages, also pose obstacles. The administrative and regulatory capacities can be strained by the intricacy of adhering to multiple commitments. Careful legal and policy coordination is necessary to ensure coherence among various agreements and prevent conflicts between bilateral and regional commitments (Baena et al., 2023). Malaysia's strategy must evolve in response to the challenges and trends of global trade that are emerging in the future. This encompasses the resolution of concerns such as environmental sustainability, digital commerce, and labour standards. Enhancing the capacity for effective compliance and enforcement and fortifying the legal and institutional framework for the



implementation of trade agreements will be indispensable for optimising the advantages of these agreements.

The legal framework for Malaysia's RTAs is a dynamic and essential element of its international trade policy. These agreements, which are founded on the principles of international trade law, have facilitated Malaysia's economic integration and trade liberalisation endeavours (Qtaishat,2017). The legal framework is built upon WTO provisions that provide flexibility in rule formation and compliance while maintaining consistency with global trading norms. This structure allows Malaysia to pursue regional integration while adhering to international trade law principles. The legal and regulatory infrastructure must be continuously improved and adapted in response to the ongoing challenges, despite the substantial benefits. Malaysia's RTAs will continue to be a fundamental component of its strategy for sustainable economic growth and development as it navigates the intricacies of the global trading system. Malaysia guarantees that its trade agreements are not only advantageous but also in accordance with international trade regulations by establishing them on the foundation of strong legal principles and frameworks. Malaysia's capacity to capitalise on global economic opportunities is improved by this strategic approach, which also ensures that Malaysia adheres to fair and open trade practices.

#### **4. Analysis and Discussion**

##### **4-1. Geopolitical Implications of Malaysia's RTAs: Balancing Power Dynamics and Strengthening Regional Integration**

Malaysia's engagement in Regional Trade Agreements (RTAs) serves both geopolitical and economic purposes, playing a crucial role in shaping foreign policy, enhancing regional influence, and balancing global relations. Its diverse economy and strategic Southeast Asian location make Malaysia a key player in regional trade dynamics. Through RTAs, such as the ASEAN Free Trade Area (AFTA) and the Regional Comprehensive Economic Partnership (RCEP), Malaysia bolsters its economic resilience, diversifies trade partnerships, and asserts its influence in regional and global affairs (Kaukab,2014). These agreements aim to foster economic integration, reduce trade barriers, and enhance cooperation among member states, grounded in international trade law principles, particularly those concerning trade liberalization and non-discrimination.

Understanding the geopolitical implications of Malaysia's RTAs requires examining legal principles, including exceptions under Article XXIV of the General Agreement on Tariffs and Trade (GATT) and the Most-Favored Nation (MFN) principle under the WTO framework (Bowles, 2015). Malaysia's participation in ASEAN-centric RTAs strengthens regional stability and economic integration, contributing to ASEAN's collective resilience and reducing the likelihood of conflicts through increased economic interdependence. Malaysia's involvement in ASEAN-centric Regional Trade Agreements (RTAs), such as the ASEAN Free Trade Area (AFTA), illustrates the relevance of exceptions under Article XXIV of the General Agreement on Tariffs and Trade (GATT). Through these RTAs, Malaysia can eliminate tariffs and enhance trade among ASEAN member states, leading to greater economic integration and regional stability while fulfilling its World Trade Organization (WTO) obligations. The exceptions allow Malaysia to balance its economic interests by prioritizing trade with ASEAN partners without unduly disadvantaging non-member countries. By strengthening economic ties, Malaysia contributes to ASEAN's collective resilience, reducing the likelihood of conflicts as countries become more interdependent. Furthermore, aligning its trade policies with ASEAN's objectives helps promote geopolitical stability, as the legal framework established by these agreements supports Malaysia's efforts to maintain balanced economic relationships and reinforce ASEAN as a unified bloc, enhancing its collective bargaining power on the global stage. In summary, the exceptions under Article XXIV enable Malaysia to strategically engage in regional trade agreements that not only enhance its economic position but also foster regional stability and resilience while complying with WTO obligations.

By participating in RTAs, Malaysia effectively manages the complex geopolitics of major power rivalries, particularly between the United States and China. Through the Regional Comprehensive Economic Partnership (RCEP), which includes ASEAN nations and key partners like China, Japan, and Australia, Malaysia is part of a significant economic alliance that counters U.S. influence in the Asia-Pacific region (Ayub and Jalil, 2018). Simultaneously, Malaysia's involvement in the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) aligns it with economies more closely reflecting U.S. economic policies. This dual engagement enhances Malaysia's bargaining power and geopolitical

flexibility, allowing it to balance relations with both major powers effectively.

Malaysia's strategic objectives and regional aspirations are evident in the geopolitical implications of the RTAs it joins. The ASEAN Free Trade Area (AFTA) is a core pillar of ASEAN's economic integration efforts, benefiting Malaysia by reducing tariffs and eliminating non-tariff barriers, which fosters intra-regional trade. Through AFTA, Malaysia strengthens its influence within ASEAN, shaping the economic policies and integration efforts of its Southeast Asian neighbours.

The Regional Comprehensive Economic Partnership (RCEP), one of the world's largest trade agreements, involves ASEAN members and key partners like China, Japan, South Korea, Australia, and New Zealand. RCEP offers Malaysia access to a vast market and solidifies economic ties with East Asia's major economies (La,2017). Geopolitically, RCEP enhances Malaysia's strategic autonomy, mitigating dependence on any single economic power and balancing US-led trade initiatives. Following the United States' withdrawal from the Trans-Pacific Partnership (TPP), the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) was established (Hsieh,2012). This agreement encompasses countries from the Americas and the Asia-Pacific region. Malaysia's involvement in the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) is indicative of its dedication to trade agreements that meet the highest standards, including tariff reductions, comprehensive labour regulations, environmental standards, and intellectual property rules. In terms of geopolitics, the CPTPP enhances Malaysia's economic engagement with Pacific Rim countries and maintains a strategic equilibrium between China and the US-led economic blocs by balancing its participation in the RCEP.

Malaysia's interactions with regional and global powers are substantially influenced by its RTAs, which also shape its foreign policy and strategic interests. One of them is the improvement of economic resilience. Malaysia mitigates its economic susceptibility to global economic fluctuations and external disruptions by diversifying its trade relationships through RTAs (Ali and et al,2023). The economic resilience of Malaysia enables it to pursue an independent foreign policy without excessive reliance on any single trading partner, thereby fostering greater geopolitical stability.

Additionally, Malaysia's leadership position in Southeast Asia is further bolstered by its active involvement in ASEAN and its participation in regional RTAs. By fostering regional economic integration and cooperation, Malaysia enhances its influence over regional economic policies and initiatives, thereby contributing to the collective strategic autonomy of ASEAN. In addition, RTAs equip Malaysia with the necessary resources to effectively navigate the intricate dynamics of the US-China competition (Wang, 2004). Malaysia maintains strategic flexibility and avoids being compelled to make a binary decision between the two major powers by participating in both RCEP and CPTPP. This balanced approach enables Malaysia to optimise the benefits and mitigate the risks associated with geopolitical tensions by utilising its economic relationships.

The management of Malaysia's Regional Trade Agreements (RTAs) necessitates a meticulous approach to address both the opportunities and challenges that arise. The intricate nature of the commitments that result from the proliferation of RTAs necessitates meticulous coordination to guarantee adherence to overlapping obligations. This complexity can place a strain on administrative capabilities, requiring ongoing modifications to legal and policy frameworks. Additionally, the increasing complexity is exacerbated by the changing geopolitical landscape, which is characterised by trade conflicts, protectionism, and shifting alliances. Malaysia must skilfully adjust its trade strategy to these dynamics, ensuring that economic interests are in harmony with geopolitical realities. In order to preserve Malaysia's resilience and influence in the face of these obstacles, it will be essential to fortify regional cooperation through ASEAN and enhance engagement with strategic partners.

In summary, Malaysia's regional trade agreements (RTAs) are essential components of its geopolitical strategy, as they improve its economic resilience, strategic adaptability, and regional leadership. These agreements, which are founded on the principles of international trade law, enable Malaysia to navigate intricate geopolitical landscapes and facilitate economic integration and trade liberalisation. Malaysia utilises its RTAs to accomplish more extensive strategic objectives by maintaining equilibrium with major powers and fortifying regional relationships. Malaysia's economic and geopolitical success will be contingent upon its capacity to strategically manage and adapt its RTAs as global trade dynamics continue to change.

#### **4-2. The Role of Malaysia's RTAs in Shaping Economic Growth, Trade Patterns, and Sectoral Development**

Malaysia's RTAs have played a crucial role in shaping its economic landscape. These agreements, which include both bilateral and multilateral treaties, have facilitated trade liberalization, enhanced market access, and attracted foreign direct investment (FDI). This section delves into the economic impact of Malaysia's RTAs, examining how they have influenced the country's trade patterns, economic growth, and integration into the global economy.

Malaysia's participation in RTAs has significantly boosted its economic growth. The Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and the Regional Comprehensive Economic Partnership (RCEP) are two notable examples. The CPTPP, which Malaysia ratified in 2022, provides access to untapped markets such as Canada, Mexico, and Peru, thereby expanding Malaysia's export opportunities and diversifying its trade portfolio (MIDA, n.d.). Similarly, the RCEP, which came into force for Malaysia in March 2022, is the largest FTA in the world, covering 29% of global trade. It aims to create a more comprehensive regional economic integration, simplifying and harmonizing the member countries' respective bilateral FTAs (ITA,2024; MITI, n.d.-b).

RTAs have also been instrumental in attracting FDI to Malaysia (Doan, 2024). The liberalization of trade policies and the reduction of trade barriers have made Malaysia an attractive destination for foreign investors. For instance, the Malaysia-Japan Economic Partnership Agreement (MJEPA) and the Malaysia-Australia Free Trade Agreement (MAFTA) have facilitated significant FDI inflows, particularly in the manufacturing and services sectors (MITI,n.d.-a). The enhanced investment environment created by these agreements has led to increased productivity, technological advancements, and job creation in Malaysia (ITA,2024).

The impact of RTAs on specific sectors of the Malaysian economy is also noteworthy. The electrical and electronics (E&E) sector, for example, has benefited immensely from Malaysia's integration into global value chains (GVCs) (Lee,2022). The country's strategic location and participation in RTAs have enabled it to become a key player in the E&E industry, with significant backward linkages to multinational enterprises. Additionally, the agricultural sector has seen changes in production, export, and import patterns due to trade liberalization within the ASEAN region. The ASEAN

Free Trade Area (AFTA) has allowed Malaysia to outsource its food supply, reducing the cost of importing food products and ensuring food security (MIDA, n.d.).

While RTAs offer numerous benefits, they also present challenges. The exposure to international competition can impact unskilled workers and less competitive businesses, particularly small and medium enterprises (SMEs). To mitigate these challenges, it is crucial to implement programs that support labor mobility, promote innovation, and enhance the capabilities of SMEs. Moreover, the dynamic nature of global trade requires continuous adaptation and reform to maximize the benefits of RTAs and address emerging issues such as digital trade and environmental sustainability (MIDA,n.d.).

#### **4-3. Malaysia's RTAs: Balancing Regionalism and Multilateralism in Shaping the Global Trading System**

Malaysia's engagement in RTAs has significant implications for the multilateral trading system. This section explores how Malaysia's RTAs influence the broader multilateral framework, examining the interplay between regionalism and multilateralism, and the potential for RTAs to complement or challenge the World Trade Organization (WTO) system (Daniel,2023; Park and et al,2021). The impact of twelve Malaysian Free Trade Agreements (FTAs) on trade adjustments was examined, revealing that most FTAs lead to increased trade in existing products (intensive margin), especially for regional FTAs. This finding challenges the prevailing view that bilateral FTAs are preferable due to their deeper market access compared to regional FTAs. The results suggest that regional FTAs can be highly effective in enhancing trade. By highlighting the success of regional FTAs, this study underscores their potential to significantly influence the multilateral trading system, encouraging countries to consider broader, regional trade agreements to maximize trade benefits (Said and Ismail, 2018).

RTAs can both complement and compete with the multilateral trading system. On one hand, they can serve as building blocks for broader trade liberalization by addressing issues that are difficult to negotiate at the multilateral level. For instance, the CPTPP and RCEP include provisions on intellectual property rights, labour standards, and environmental protection that go beyond the WTO agreements. These "WTO-plus" and "WTO-extra" commitments can set higher standards and create a more predictable trading

environment, potentially paving the way for future multilateral agreements (MITI,2015; Said and Ismail,2018).

On the other hand, the proliferation of RTAs can undermine the multilateral trading system by creating a complex web of overlapping agreements, often referred to as the "spaghetti bowl" effect. This can lead to trade diversion, where trade is shifted from more efficient global producers to less efficient regional partners due to preferential treatment. This complexity poses challenges for Malaysian businesses, as they must navigate various tariffs, rules of origin, and trade regulations, leading to confusion and compliance difficulties. Furthermore, preferential treatment for regional partners under these agreements may result in trade diversion, shifting imports from more efficient global producers to less efficient regional ones, which could increase costs for Malaysian consumers and businesses. Additionally, the strict rules of origin (ROOs) in RTAs can complicate trade and increase compliance costs for businesses, potentially eroding the benefits of multilateral trade liberalization (Cimino-Isaacs and et al,2022; Shield,n.d.).

Geopolitical factors also play a crucial role in shaping Malaysia's trade policy and its influence on the multilateral trading system. Malaysia's strategic location along the Straits of Malacca, a major shipping channel, underscores its importance in global trade routes. The country's participation in RTAs such as the CPTPP and RCEP reflects its strategic intent to strengthen economic ties with key trading partners and enhance its geopolitical influence in the Asia-Pacific region. By aligning with major economic powers through RTAs, Malaysia can leverage its position to advocate for more inclusive and equitable trade policies at the multilateral level (Daniel,2023; Radhi and et al,2018).

Malaysia's experience with RTAs offers valuable lessons for the multilateral trading system. The successful implementation of high-standard RTAs can demonstrate the feasibility of ambitious trade reforms and encourage other countries to adopt similar measures. For example, the CPTPP's provisions on government procurement and state-owned enterprises (SOEs) can serve as a model for future WTO negotiations. Furthermore, the integration of digital trade and e-commerce provisions in RTAs highlights the need for the multilateral trading system to adapt to the evolving digital economy (MITI, n.d.-a; Wu,2017).

In conclusion, Malaysia's regional trade agreements have a profound impact on both its domestic economy and the multilateral trading system. These agreements allow Malaysia to access larger markets, reduce tariffs, and attract foreign direct investment, which in turn stimulates domestic industries and creates jobs. Additionally, by increasing economic interdependence within the ASEAN region, Malaysia can bolster its bargaining power in global trade negotiations. However, the complexities arising from overlapping agreements may challenge businesses with compliance issues and lead to trade diversion from more efficient global producers to less efficient regional partners. Thus, while RTAs provide significant advantages for Malaysia's economic development, they also necessitate careful navigation to ensure alignment with the principles of the free trade economy. While RTAs offer significant economic benefits and opportunities for reform, they also pose challenges to the coherence and inclusiveness of the global trading framework. Balancing regionalism and multilateralism require careful consideration of the complementarities and potential conflicts between the two approaches. By leveraging its experience with RTAs, Malaysia can play a pivotal role in shaping a more integrated and resilient multilateral trading system.

#### **Malaysia's Role in RTAs: A Case Study Analysis of AFTA, CPTPP, and ACFTA and Their Impact on Trade, Investment, and Geopolitical Strategy**

Malaysia's participation in the ASEAN Free Trade Area (AFTA) serves as a compelling case study regarding regional trade agreements and their impact on intra-ASEAN trade and investment flows, aligning with the broader theme of Malaysia's regional trade agreements and their implications for the multilateral trading system. Under AFTA, Malaysia, along with other ASEAN member states, has committed to progressively reduce and eliminate tariffs on goods traded within the region (Okabe and Urata, 2014). This initiative aims to promote economic integration among ASEAN countries and enhance regional trade competitiveness.

From a legal perspective, Malaysia's participation in AFTA involves the implementation of trade agreements and associated legal frameworks to facilitate the movement of goods and services across borders within ASEAN. This includes the adoption of tariff reduction schedules, rules of origin, and dispute settlement mechanisms outlined in AFTA agreements. Geopolitically, Malaysia's involvement in AFTA reflects its strategic



positioning within ASEAN and its commitment to regional cooperation and economic development. By participating in AFTA, Malaysia strengthens its diplomatic ties with other ASEAN member states and reinforces its role as a key player in Southeast Asian affairs.

The impact of Malaysia's participation in AFTA on intra-ASEAN trade and investment flows is significant. Reduced tariffs and trade barriers facilitate greater market access for Malaysian businesses to other ASEAN markets, leading to increased trade volumes and diversification of export destinations. Furthermore, enhanced trade integration within ASEAN fosters a conducive environment for foreign direct investment (FDI) inflows into Malaysia and promotes regional supply chain linkages. In the broader context of Malaysia's regional trade agreements and their implications for the multilateral trading system, AFTA serves as a building block for broader regional economic integration initiatives. Malaysia's active engagement in AFTA demonstrates its commitment to multilateralism and regional cooperation while navigating the complexities of global trade dynamics. Overall, Malaysia's participation in AFTA exemplifies the intricate interplay between regional trade agreements, legal frameworks, geopolitics, and their impact on intra-ASEAN trade and investment flows, underscoring the importance of regional cooperation in shaping the multilateral trading system.

On another note, the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) serves as a pertinent case study concerning Malaysia's accession to the agreement and its implications for Malaysia's trade policies and economic integration with other member countries, aligning with the broader theme of Malaysia's regional trade agreements and their impact on the multilateral trading system. Malaysia's accession to the CPTPP signifies its commitment to enhancing trade liberalization and economic cooperation with other Pacific Rim countries. As a member of the CPTPP, Malaysia gains access to a larger market and benefits from reduced tariffs and trade barriers, fostering greater export opportunities for Malaysian businesses.

From a legal perspective, Malaysia's participation in the CPTPP involves the adoption and implementation of provisions outlined in the agreement, including tariff reductions, intellectual property rights protection, and dispute settlement mechanisms. This necessitates adjustments to Malaysia's

domestic trade policies and regulatory frameworks to align with CPTPP standards and obligations (Haron, 2023). Geopolitically, Malaysia's accession to the CPTPP reinforces its strategic positioning within the Asia-Pacific region and strengthens its diplomatic ties with member countries (Chong, 2021). By actively engaging in regional trade agreements like the CPTPP, Malaysia asserts its commitment to multilateralism and regional economic integration, while also mitigating risks associated with over-reliance on bilateral trade agreements.

The implications of Malaysia's accession to the CPTPP for economic integration with other member countries are multifaceted. Increased market access and trade liberalization promote intra-regional trade and investment flows, leading to economic diversification and growth (Lobanova, 2024). Furthermore, participation in the CPTPP facilitates the integration of Malaysian businesses into global value chains, enhancing competitiveness and productivity. In the broader context of Malaysia's regional trade agreements and their impact on the multilateral trading system, the CPTPP represents a pivotal step towards promoting free and open trade in the Asia-Pacific region. Malaysia's active involvement in the CPTPP underscores its commitment to trade liberalization and economic reform, while also addressing the challenges posed by evolving global trade dynamics. Overall, Malaysia's accession to the CPTPP exemplifies the complex interplay between regional trade agreements, legal frameworks, geopolitics, and their implications for Malaysia's trade policies and economic integration with other member countries, highlighting the importance of regional cooperation in shaping the multilateral trading system.

Next, the ASEAN-China Free Trade Agreement (ACFTA) stands as a significant case study in the realm of regional trade agreements, particularly for Malaysia, within the broader context of Malaysia's regional trade agreements and their impact on the multilateral trading system. ASEAN-China Free Trade Agreement (ACFTA), established in 2010, aims to promote trade liberalization and economic cooperation between ASEAN member states and China. It encompasses various provisions aimed at reducing tariffs, eliminating trade barriers, and facilitating greater market access for goods, services, and investments between the participating countries.

For Malaysia, ACFTA represents a strategic opportunity to deepen economic ties with China, one of its largest trading partners. Through ACFTA, Malaysia gains preferential access to the vast Chinese market, enabling its exporters to benefit from reduced tariffs and enhanced trade facilitation measures. This increased market access can bolster Malaysia's export-oriented industries, such as electronics, palm oil, and manufactured goods, contributing to economic growth and job creation. Moreover, ACFTA fosters closer economic integration within the ASEAN region, strengthening Malaysia's position as a key player in Southeast Asia's economic landscape. By aligning its trade policies with those of its ASEAN counterparts and China, Malaysia enhances regional cooperation and solidarity, paving the way for shared prosperity and development across the region.

From a legal perspective, Malaysia's participation in ACFTA necessitates compliance with the agreement's provisions and obligations. This entails domestic legal reforms and adjustments to align Malaysia's laws and regulations with ACFTA standards. By adhering to ACFTA's legal framework, Malaysia ensures its businesses and investors can fully capitalize on the benefits of the agreement while upholding international trade rules and norms. Geopolitically, ACFTA reinforces Malaysia's diplomatic and economic ties with China and other ASEAN member states. As a founding member of ASEAN, Malaysia plays a pivotal role in facilitating dialogue and cooperation between ASEAN and China, thereby promoting regional stability and prosperity (Greenwald, 2006). By actively engaging in ACFTA negotiations and implementation, Malaysia strengthens its position as a proactive participant in regional economic initiatives, shaping the geopolitical landscape of Southeast Asia.

Overall, the ASEAN-China Free Trade Agreement (ACFTA) serves as a critical case study for Malaysia's regional trade agreements, highlighting the intertwined dynamics of legal frameworks, geopolitics, and economic integration within the multilateral trading system. ACFTA presents Malaysia with opportunities to expand its trade relations, enhance regional cooperation, and contribute to the broader goal of fostering sustainable economic development and prosperity in Southeast Asia.

In conclusion, Malaysia's participation in regional trade agreements such as AFTA, CPTPP, and ACFTA has significantly impacted its trade policies, legal frameworks, and geopolitical strategies. Malaysia gains from lower

tariffs within ASEAN under AFTA, improving market access and increasing trade volumes. Access to wider markets in the Pacific Rim is made possible by the CPTPP, which encourages trade liberalization and economic expansion but also requires Malaysia to harmonize its national policies with international norms. Through preferential market access and the support of export industries, the ACFTA fortifies Malaysia's economic links with China, its principal trade partner. These accords highlight the significance of regional collaboration in shaping Malaysia's position within the international trade framework, cultivating enduring economic growth, and promoting stability within the region.

### **5. Policy Recommendations**

Several key policy recommendations are essential for strengthening Malaysia's position within regional trade agreements (RTAs) such as the ASEAN Free Trade Area (AFTA), Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), and ASEAN-China Free Trade Area (ACFTA). These recommendations aim to maximize benefits, ensure compliance with international standards, and promote equitable growth across industries.

First, Malaysia's domestic legal frameworks must align with the provisions and obligations of RTAs like AFTA, CPTPP, and ACFTA. When aligning Malaysia's domestic legal frameworks with the provisions and obligations of Regional Trade Agreements (RTAs) like AFTA, CPTPP, and ACFTA, certain qualifications or exceptions should be considered. Malaysia retains the right to prioritize its national interests, allowing for flexibility in areas such as public health, environmental protection, and national security. As a developing economy, Malaysia may require a gradual alignment process to support economic growth while protecting local industries, particularly in sensitive sectors like agriculture and small and medium-sized enterprises. First, Malaysia's domestic legal frameworks must align with the provisions and obligations of RTAs like AFTA, CPTPP, and ACFTA. When aligning Malaysia's domestic legal frameworks with the provisions and obligations of Regional Trade Agreements (RTAs) like AFTA, CPTPP, and ACFTA, certain qualifications or exceptions should be considered. Malaysia retains the right to prioritize its national interests, allowing for flexibility in areas such as public health, environmental protection, and national security. As a developing economy, Malaysia may require a gradual alignment process to support economic growth while protecting local industries, particularly in sensitive sectors like agriculture and small and medium-sized enterprises. First, Malaysia's domestic legal frameworks must align with the provisions and obligations of RTAs like AFTA, CPTPP, and ACFTA. When aligning Malaysia's domestic legal frameworks with the provisions and obligations of Regional Trade Agreements (RTAs) like AFTA, CPTPP, and ACFTA, certain qualifications or exceptions should be considered. Malaysia retains the right to prioritize its national interests, allowing for flexibility in areas such as public health, environmental protection, and national security. As a developing economy, Malaysia may require a gradual alignment process to support economic growth while protecting local industries, particularly in sensitive sectors like agriculture and small and medium-sized enterprises.

investment, and intellectual property, to meet RTA commitments. Legal harmonization not only maximizes the advantages of these agreements but also enhances Malaysia's credibility as a trading partner. A strong legal framework fosters efficient dispute resolution and provides better security for investors (ITA,2024). Regular reviews are needed to stay competitive, ensuring Malaysia conforms to evolving international norms while fostering fair trade practices and economic stability.

Second, improving Malaysia's legal infrastructure is crucial for streamlining trade processes and reducing bureaucratic barriers. Simplifying customs operations through standardized electronic documentation and automation can reduce delays and costs. Upgrading port infrastructure and logistics networks will facilitate faster, more efficient trade (Sauvé and Institute,2018). Technologies like blockchain and AI can enhance supply chain transparency and predictive analytics, benefiting small and medium-sized enterprises (SMEs) by lowering entry barriers. These improvements also attract foreign investment by creating a business-friendly environment, increasing Malaysia's global competitiveness (Brooks and Hummels,2009). A seamless trading environment ensures local businesses can thrive in the global market.

Promoting inclusive economic growth is a vital aspect of maximizing the benefits of regional trade agreements (RTAs). Ensuring that the advantages of RTAs are distributed across various sectors, particularly small and medium-sized enterprises (SMEs), is key to fostering equitable economic growth (Nixon and et al,2017). This involves not only addressing barriers that disproportionately affect smaller firms but also implementing targeted support initiatives. Specialized financing programs and incentives can help SMEs invest in new technologies and enhance their capabilities. Additionally, comprehensive training programs aimed at improving the skills of SME owners and employees would empower them to better navigate and capitalize on emerging market opportunities. Access to market insights and advisory services would further enable SMEs to make informed strategic decisions (UNDP, n.d.).

By fostering an inclusive growth environment, Malaysia can ensure that the benefits of trade liberalization extend to a larger portion of the population. This approach not only mitigates income inequality but also promotes sustainable development by creating a more diverse and resilient economic

foundation. Inclusive growth policies can drive economic innovation and productivity by enabling a broader range of businesses and industries to contribute to national progress, thereby amplifying the overall gains from regional trade agreements (Bank, n.d.).

Finally, increasing public awareness and stakeholder engagement is crucial for the successful implementation of trade policy. Comprehensive outreach and education campaigns can enhance public understanding of the benefits and opportunities presented by regional trade agreements (RTAs), leading to greater support and comprehension (Mohamad, 2023). This effort should leverage various channels, including seminars, workshops, media campaigns, and online tools, to educate individuals and businesses on the economic advantages of RTAs. Engaging stakeholders—such as businesses, industry groups, and civil society—in the formulation and execution of trade policies ensures that diverse perspectives are incorporated, resulting in more comprehensive and effective policies. This engagement can be fostered through regular consultations, public forums, and collaborative platforms where feedback is encouraged and valued. Such involvement not only addresses the specific needs and concerns of different sectors but also fosters a sense of ownership and commitment to the policies. Additionally, this participatory approach enhances transparency and accountability, allowing stakeholders to monitor progress and hold officials accountable, thereby building greater trust in the government's trade policies. By promoting inclusive dialogue and ensuring all relevant stakeholders are informed and involved, Malaysia can create a robust support system for its trade policies, leading to more successful and sustainable economic outcomes. In summary, by strengthening domestic legal frameworks, enhancing legal infrastructure, promoting inclusive economic growth, and increasing public awareness and stakeholder participation, Malaysia can fully realize the potential benefits of regional trade agreements such as AFTA, CPTPP, and ACFTA. These measures will not only boost Malaysia's global competitiveness but also ensure that the economic gains from trade are broadly shared, contributing to a more inclusive and sustainable economic future.

## **6. Conclusion**

In summary, Malaysia's active participation in regional trade agreements (RTAs) has significantly impacted its trade environment and economic growth. Agreements such as the ACFTA, CPTPP, and AFTA have boosted

Malaysia's trade volumes, expanded market access, and strengthened its geopolitical influence both regionally and globally. These RTAs have complex effects on Malaysia's legal systems, economic development, and integration into the global trade network.

As a key component of ASEAN economic integration, AFTA has positively influenced intra-ASEAN trade by reducing tariffs and improving market access. The CPTPP has introduced high-standard provisions, accelerating Malaysia's trade liberalization and deepening its economic ties with Pacific Rim nations. The ACFTA, meanwhile, has strengthened Malaysia's relations with China, its largest trading partner, through increased trade volumes and export diversification.

However, fully realizing the benefits of these RTAs requires a comprehensive approach. Domestic legal compliance with international standards, streamlined trade structures, inclusiveness, and public awareness are essential steps for maximizing RTA potential. These areas are explored in subsequent sections to demonstrate how Malaysia can optimize its participation in RTAs to achieve sustainable economic growth, strengthen regional cooperation, and navigate the complexities of the global trading system.

The analysis of AFTA, CPTPP, and ACFTA also highlights the interplay between regionalism and multilateralism in Malaysia's trade strategy. These agreements, while promoting regionalism, must be balanced with multilateral trade goals to ensure they complement rather than compete with multilateral trade negotiations (MTNs).

Thus, Malaysia's engagement in RTAs reflects its commitment to embracing change within international trade, economic integration, and multilateral relations. Its experience serves as a model for other nations seeking to navigate the evolving landscape of global trade while maintaining adherence to international trade rules. By adopting a long-term, holistic strategy, Malaysia can further solidify its role as a critical supply chain node in the regional and global economy, contributing to both domestic structural development and broader international progress.

## **7. Acknowledgment**

The authors would like to express their appreciation to the National University of Malaysia, Al-Mustaqbal University, Iraq and the respected editors and reviewers of this article.

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