

Malaysian Perspective to RCEP: A SWOT Analysis

Siti Darwinda Mohamed Pero* & Muhammad Ali Ridha Norman**

Malaysia's decision to join and rectify the agreement showed that the country is serious about business, trade liberalisation and its support for a fair and transparent trade regime. Moreover, Malaysia is expected to earn approximately USD 200 million in exports, while RCEP will provide immense opportunities for trade and investments, enhanced connectivity, and deepening regional economic integration. This study aims to analyse the extent to which Malaysia's participation in the RCEP can benefit the country's growth and development. For this goal, a SWOT analysis will be carried out to assess the strength, weaknesses, opportunities and threats of joining RCEP, from Malaysia's perspective. Findings suggest that Malaysia is indeed one of the main beneficiaries of the RCEP agreement in comparison to other ASEAN nations. However, much needs to be done by Malaysia to reap the benefits of the world's largest trading bloc, while maintaining its national interests amidst a more liberal and open market setting.

Keywords: RCEP, SWOT Analysis, ASEAN, Trade & Investments Agreement

* Senior Lecturer at School of International Studies of Universiti Utara Malaysia (UUM), Malaysia. MSc. (UUM), Ph.D. (Melbourne). ORCID: <http://orcid.org/0000-0001-9562-7460>. The author can be contacted at: darwinda@uum.edu.my/Address: School of International Studies (SoIS), Universiti Utara Malaysia, 06010 Sintok, Kedah, Malaysia.

** Senior Lecturer at School of International Studies of Universiti Utara Malaysia (UUM), Malaysia. M.A. (Peking), Ph.D. (China Foreign Affairs U.). The author can be contacted at aliridha@uum.edu.my. Address: School of International Studies (SoIS), Universiti Utara Malaysia, 06010 Sintok, Kedah, Malaysia.

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I. INTRODUCTION

The Regional Comprehensive Economic Partnership (RCEP) agreement became enforceable in Malaysia on March 18, 2022; making Malaysia the 12th member. RCEP is currently the world's largest free trade agreement involving 15 countries, in which 12 of them, including Malaysia, have ratified the agreement. Singapore, China, Japan, Brunei, Cambodia, Laos, Thailand, Vietnam, Australia, New Zealand and South Korea are the first eleven countries to join RCEP. Indonesia became the latest country to join the trading block when the Indonesian House of Representatives agreed to pass a legislation affirming the country's membership on August 30, 2022. The remaining two countries yet to officially join the trading block are the Philippines and Myanmar, mainly due to political and economic concerns at the domestic level. The RCEP, led by China, does not include the US, regardless of the US's active engagement in the Asia-Pacific region.

Joining the RCEP will not only create new trade and investment opportunities, but also advancement in human resources and infrastructure development through partnership amongst member countries. The agreement consists of 20 chapters related to trade in goods and services, movement of people, investment, intellectual property, e-commerce, government procurement, dispute settlement, competition etc. In general, RCEP covers elimination or reduction of import duties, promotion, facilitation, protection and investment liberalisation, protection of intellectual property rights, facilitation of e-commerce as well as economic and technical cooperation.¹ Furthermore, as the world's largest free-trade agreement, the deal covers nearly a third of the global population and approximately 30 percent of the global gross domestic product (GDP).²

This study examined the extent to which the benefits of joining RCEP outweigh the costs based on Malaysia's current economic performance and development. In so doing, and in keeping the focus of the study's theme and focus, this study will utilise Strengths, Weaknesses, Opportunities and Threats (SWOT) analysis tools. The analysis will highlight the strengths, weaknesses, opportunities and threats of joining the RCEP from a Malaysian perspective.

This article first presents a discussion on Malaysia's decision to voluntarily participate in the world's largest economic bloc in 2022. In particular, this part will examine the strengths and weaknesses from the internal forces and domestic factors

perspective that can either be a driver or an impediment to the implementation of RCEP and its ensuing effect on the Malaysian economy, in particular, and Malaysia's development in general. Meanwhile, the opportunities and threats sections involve the external factors that might help advance or hamper Malaysia's economic and overall development through its participation in the RCEP. The final part highlights the main findings of the analysis before proposing what's next for Malaysia in ensuring the objectives of joining RCEP are fulfilled.

II. MALAYSIA AND RCEP

Malaysia has always been a proponent of a more liberalised and fair global trading environment. Indeed, international trade has been an important contributor to Malaysia's economic growth and development. Regardless of the changes in the ruling party, Malaysia's economic policy, which prioritises international trade, remains the same. Mustapa Mohamad, the former minister of International Trade and Industry (MITI) said on March 10, 2018 that: "RCEP will serve as a building block for a more open and fairer trade and investment regime in the Asia Pacific region."³ Azmin Ali, who succeeded Mustapa Mohamad, but from a different political party, echoed Malaysia's continued commitment to RCEP when he said in November 2021 that it is imperative that Malaysia ratifies RCEP, as it would be a catalyst for economic recovery in light of adverse effects of the COVID-19 pandemic on the economy.⁴

The newly appointed International Trade and Industry Minister, Tengku Datuk Seri Zafrul Abdul Aziz stated: "... trade remains a robust key growth driver, to restore investors' confidence, and to look at the various bilateral and multilateral agreements..."⁵ Thus, it is not surprising that Malaysia has always been a supporter of the concept and establishment of RCEP and yearned to be part of the trading block as this demonstrated Malaysia's commitment towards an open and liberal trading system. Malaysia submitted its Instrument of Ratification "IOR" to the ASEAN Secretariat on January 17, 2022.⁶ Members must deposit their IOR with the ASEAN Secretariat, which acts as the depository for the pact. RCEP will only be enforced 60 days after a member submits their IOR to the depository.⁷ Hence, it is official that the RCEP agreement came into force in Malaysia's case on March

18, 2022.

A press release by Malaysia's Ministry of International Trade and Industry (MITI) in March 2022 mentioned that: "Malaysia is expected to be the largest beneficiary of the Agreement in terms of gains in exports in ASEAN, with a projected USD 200 million increase."⁸ The government of Malaysia also believed that the country's membership in RCEP is vital especially after the Covid-19 pandemic struck, in which Malaysia's economy suffered tremendously. Also, RCEP is expected to provide immense opportunities for trade and investments, enhance connectivity, and deepen regional economic integration, which will then further accelerate the region's economic recovery. Moreover, the involvement of a mega-trading block such as RCEP can offer Malaysia a promising prospect for economic growth and overall development. The subsequent sections present the Strength, Weaknesses, Opportunities and Threats (SWOT) analysis on Malaysia's decision to be part of RCEP, a mega trading block.

III. STRENGTHS

Drawing on the analysis, there are several factors that could provide an advantage for Malaysia, as the main beneficiaries, for its participation in the world's largest trading block, the RCEP.

A. Location

Situated strategically at the heart of Southeast Asia and next to one of the world's busiest shipping lanes, the Straits of Malacca, which provides access to the global supply chain via two key Malaysian ports, namely Port Klang and Port of Tanjung Pelepas; Malaysia's geographical location is one of the key factors for the country to be considered as the major beneficiary of RCEP. Over the years, Malaysia has developed into a prime location for investment, offshore production and service-based operations. Well-maintained sea and air connections give multinational companies the capability to produce goods in Malaysia and deliver it to other parts of the world. Furthermore, adequate road and rail links provide easy access to other parts of Southeast Asia.⁹

As a geographical link between ASEAN and the neighbouring countries,

Malaysia plays a central role that enables companies to expand into the RCEP market.¹⁰ It will later create opportunities for investment expansion and business opportunities through projects and partnership¹¹ with lower costs for businesses. Datuk Abdul Majid Ahmad Khan, former Malaysian Investment Development Authority (MIDA) chairman, stated: “It is expected that Malaysia can offer other 14 member countries its strategic location as a gateway to ASEAN and beyond since the country is located at the next of the world’s busiest shipping lanes and is competitive regional hub.”¹²

B. Political Will

Political will refers to “the determination of political leaders to act, and to embark on bold move(s), and take risks, as well as their will to sustain commitment to the regional community-building projects.”¹³ This article believes that the will of Malaysia’s political leaders, regardless of their political affiliation or party membership, plays an important role in Malaysia joining RCEP, and ensuring its success. This is especially true if the determination and courage demonstrated by the various ministers of international trade and industry are assessed, to determine whether the incumbent ministers of respective governments share the same vision regarding RCEP and continue to work toward the realisation of the agenda. RCEP has been the priority and major focus of the government since 2017 with the stalemate of the Trans-Pacific Partnership (TPP) Agreement when the US pulled out of the trade pact in January 2017. Since then, the Malaysian government has been committed to the realisation of RCEP, taking into consideration the benefits and opportunities the agreement has to offer.¹⁴

Continuous debates and deliberations on the cost-benefits of joining RCEP nevertheless keep on emerging. Members of the Dewan Rakyat, for example, questioned if Malaysia was adamant in maintaining its participation in the bloc, when India opted out from the agreement in November 2019.¹⁵ Debate on whether other stakeholders in the Malaysian economy, such as Small and Medium Enterprises (SME), are fully capable and ready to participate in agreement have taken place in parliament.¹⁶ Other concerns also cover the potential 6% of market loss due to the diversion of trade to more lucrative destinations among the RCEP members.¹⁷ Chong questioned whether RCEP is really about trade or more concerned with the world’s geopolitical climate that could eventually affect

Malaysia's geostrategic calculation and national interests.¹⁸

Malaysian political leaders have taken note of the aforementioned concerns and introduced and invested in numerous schemes and instruments to lessen the disadvantage of RCEP. Azmin Ali, former MITI Minister issued his officers and related ministries and agencies to continuously conduct engagements and dialogues with stakeholders, including SMEs and large companies in the country, so that they understand the obligations and rights as well as the benefits that accrue from the agreement.¹⁹ Amendments on certain legislation were also carried out by the Attorney General's office to ensure that the legislation was consistent with the country obligations under the RCEP agreement.²⁰ This included three amendments made under the jurisdiction of the Ministry of Domestic Trade and Living Costs.²¹ This demonstrates the level of commitment and dedication towards the successful implementation of RCEP.

C. BUSINESS READY ENVIRONMENT

The Malaysian government has been successfully conducting pro-business policies for many years, making it convenient for companies to setup operations in Malaysia. In fact, the World Bank ranked Malaysia 12th out of 190 economies for "ease of doing business" in its Doing Business 2020 report.²² Within the Asian region, the report ranked Malaysia 4th on the list for the Asian region after Singapore, Hong Kong SAR China, and South Korea,²³ which was one notch better compared to the 5th position in 2017.

A closer assessment on Malaysia's global standing demonstrates that the government's efforts to attract investments and drive productivity and innovation through economic and regulatory reforms have received worldwide recognition by various international institutions.²⁴ Malaysia was ranked at an outstanding position by these international institutions, such as Top Country in emerging Southeast Asia for Foreign Investment (Global Opportunity Index) and the Second Most Competitive Country in ASEAN (World Competitiveness Yearbook, 2021).²⁵ This shows exceptional achievement of Malaysia's economic and trade policies over the years. The large presence of foreign companies (more than 5,000) in Malaysia from more than 50 countries with a cumulative investment (FDI stock) of USD 182 billion (as of December 2021) is evidence of this.²⁶

The Malaysian government's friendly business policy is supported by

progressive infrastructure and excellent connectivity that helps to promptly and affordably manoeuvre people and goods around the country. This includes developing industrial parks, high-tech telecommunication, network of highways, international airports and efficient seaports.²⁷ Presently, Malaysia has over 500 dedicated industrial parks, specialised industrial parks and free-trade industrial zones to attract more local and foreign investors to do business there.

Each region in Malaysia is connected with a network of highways. In Peninsular Malaysia, the North-South Expressway links the North and South regions, while the East Coast Expressway connects the central region to the East coast. The Pan Borneo Highway (LPB) is still under construction and once completed, the LPB will connect Sarawak with Sabah via Brunei. To date, the physical progress of the LPB project is 91% and 73% in Sarawak and Sabah, respectively.²⁸

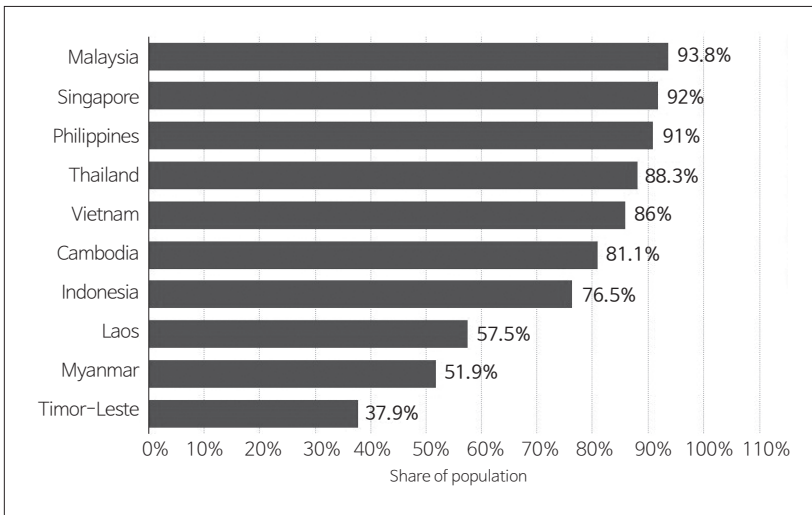
Malaysia also has efficient seaports. This is a very important logistic facility since more than 90% of Malaysia's trade is conducted via its seaports, especially through its two major ports, namely, Port Klang and Port of Tanjung Pelepas (PTP). The World Shipping Council ranks Port Klang and PTP among the top 12 and top 20 container ports in the world, respectively.²⁹

In a bid to facilitate major trade and to accommodate growing passenger demand, Malaysia has developed 6 international airports, 16 domestic and 18 aerodromes. Kuala Lumpur International Airport (KLIA) is one of the region's major aviation hubs that has an average capacity to handle approximately 1.2 million tonnes of cargo and 75 million passengers per year.³⁰ KLIA has retained its position as the world's best airports according to the Airport Service Quality (ASQ) survey carried out by the Airports Council International (ACI) in the third quarter of 2022.³¹ The Malaysian government pledges to continuously improve the country's transportation and logistics infrastructures. The 12th Malaysia Plan (2020-25) states that measures will be taken to improve last-mile connectivity through the integration of rail and road networks between airports, ports and industrial areas and cities.³² It is anticipated that being a member of RCEP and building partnerships with other RCEP members will boost the number of foreign direct investments (FDI) to Malaysia considering the existing infrastructure and connectivity in the country.

Malaysia also has high smartphone and mobile broadband penetration. Malaysia's 5G network rollout has achieved 50 per cent coverage of populated

areas (Copa) nationwide by December 2022, and the country is now focused on achieving target of 80 per cent Copa by end-2024, if not earlier.³³ As of July 2022, the country ranked top in the list of countries with the highest Internet penetration in Southeast Asia with a penetration rate of 93.8 percent over its total population (Figure 1).

Figure 1: Internet Penetration in Southeast Asia as of July 2022³⁴



This data in Figure 1 demonstrates Malaysia’s positive environment for digital transformation, especially with regard to e-commerce, where the country is ranked top among the RCEP member states in terms of the e-commerce market’s growth rate that has developed rapidly over recent years.³⁵ Malaysia’s Department of Statistics Malaysia (DOSM) reported that the total income generated by e-commerce transactions in 2021 was RM1.09 trillion, a 21.8% increase compared to RM896 billion in 2020, which for the first time saw the income from e-commerce transactions breaching the RM1 trillion mark.³⁶ RCEP membership has a tremendous effect on Malaysia’s e-commerce growth.

The RCEP agreement has a specific chapter (Chapter 12: Electronic Commerce) centred around e-commerce to enhance cooperation on e-commerce matters among the parties. The RCEP e-commerce chapter includes key provisions related

to domestic regulatory framework, paperless trading, transparency and electronic authentication. It also serves to create an environment of trust and confidence through online consumer protection and protection of personal information, and cooperation to combat cybersecurity issues. Malaysia being a party to RCEP, local businesses now have greater opportunities to trade in the largest trading bloc of the world, through reduced or total removal of trade barriers, as well as greater harmonisation of standards and regulatory approaches.³⁷ Furthermore, openness to trade by participating in an international trade regime, such as RCEP, creates opportunities for technology and knowledge diffusion or transfer from abroad.

IV. WEAKNESSES

This study has identified two major issues or factors that are considered as “weaknesses” from a Malaysian perspective that could hinder the country from reaping maximum benefits from the RCEP incentives. The two major issues are lack of human capital and comprehensive strategic plan on SMEs to ensure all economic sectors enjoy the benefits of RCEP.

A. Human Capital

Human capital refers to the skills the labour force possesses, which is considered as an asset.³⁸ It includes investments in people, especially in improving their education, training and health. This study argues that human capital is a necessary criterion for the successful implementation of the RCEP agreement in Malaysia. The availability of a skilled workforce is necessary to support the transition of all economic sectors to knowledge-intensive activities, drive labour productivity gains, and attract investment into Malaysia.

In general, Malaysia’s labour capital is generally well-trained, productive, open to new ideas and always willing to improve.³⁹ Since Malaysia comprises a multiracial population consisting of three major ethnic groups (Bumiputera/Malay, Chinese, and Indian), the labour force is multilingual and English is widely spoken by the workforce. Hence, the recognition from international associations, such as WEF’s Human Capital Index 2016 and Cornell University as well as INSEAD and WIPO’s Global Innovation Index 2016, has ranked Malaysia as Asia’s Top

10 in human development and innovation.⁴⁰ Among the ASEAN member states, Malaysia ranks second after Singapore in terms of Human Capital Index (HCI), determined by three indicators, namely, knowledge, skills and health.⁴¹ Malaysia, however, is yet to translate its good standing on the HCI rankings to reach a high-income benchmark.

One of the issues that has contributed to Malaysia's failure to reach the high-income benchmark is due to its human capital development. Policy makers, observers, and academics have urged the Malaysian government to initiate reform to its human capital and talent development policies. The request is not without basis. A World Bank report, entitled "Aiming High - Navigating the next stage of Malaysia's Development"⁴² published in March 2021 projected that Malaysia would be likely to make the transition from its current upper-middle-income economy to a high-income economy within the next five years, provided the country has a strong reform package that includes a reform to its human capital development policies.⁴³

Observations on the World Bank report finds that the report has echoed the key strategies outlined in the 12th Malaysia Plan (2021-25) can enhance human capital development to meet the needs of an advanced nation.⁴⁴ Among others, this Plan focuses on developing future talent by elevating the quality of education, leveraging emerging technologies, and improving the education and training system.⁴⁵ This strategy is designed to tackle inefficient labour market issues in Malaysia, mainly caused by weaknesses in the governance of educational institutions and limited access to quality education systems.⁴⁶ Focus will be on providing a strong technical and vocational education and training (TVET) ecosystem, and leveraging emerging technologies, such as virtual and augmented reality, and artificial intelligence to complement the existing hands-on teaching and learning activities.⁴⁷ Key strategies need to be urgently translated into actions if Malaysia is to remain competitive and attractive to domestic and foreign investors, particularly among the RCEP member countries.

B. Comprehensive Strategic Plan on SMEs

Previous studies have found that Malaysia currently lacks a comprehensive strategic plan that will enable all economic sectors to enjoy the benefits of RCEP, particularly the Small and Medium Enterprises (SMEs). SMEs should be the

government's focus as latest statistics show that SMEs account for more than 95% of total business establishments and contribute towards more than 65% of employment in Malaysia.⁴⁸ SMEs are the backbone and main catalyst of economic development in Malaysia.

It is anticipated that the inception of RCEP will see SMEs earning profits from reduced transaction costs and a more seamless digital experience for consumers,⁴⁹ provided "a more comprehensive strategic plan can be developed to overcome some of the key issues withholding SMEs from utilising the benefits of RCEP."⁵⁰ SMEs account for half of the manufacturing employment (48.4%), but it only makes up 17.9% of total exports. This indicates that there are persistent challenges and issues affecting Malaysia's SME industries.⁵¹

This study has found that limited skills and low digital adoption rates among SMEs are two main stumbling blocks that could negatively affect their ability to capitalise on information and business opportunities accruing from RCEP. Malaysian SMEs, in particular, lack online marketing and e-commerce skills, as well as innovation. The majority of SMEs were unable to reach out to their customers and consumers during the enforcement of the Full Movement Control Order (FMCO) in March 2020 due to Covid-19, which evidently limited business operations and consumer movement.⁵² This observation also reflects the low level of digital adoption rate among SMEs in Malaysia as they faced challenges when moving beyond computerisation to digitalisation of their business.⁵³

In addition, a recent study has found that Indonesia could be a strong competitor for Malaysia in terms of exporting Information and Communication Technology (ICT) content,⁵⁴ probably due to a more innovative and creative digital content produced by a pool of talented creative content creators. Malaysian SMEs, especially those in the ICT sector, have to work harder to attract more investment opportunities offered by the RCEP incentives, especially when there are other lower cost destinations, such as Indonesia and Vietnam.⁵⁵ Efforts by SMEs must also be supported by comprehensive government strategies that foster digital skills and greater technology adoption by SMEs, encapsulating various government agencies and the private sector.

In particular, the strategies should focus on capacity-building measures, such as training, seminars, and workshops in order to enable more SMEs to become active participants of the RCEP initiatives. The government should also continuously

communicate and engage with SMEs to educate them on the benefits of RCEP through seminars, exchange sessions regarding the RCEP issues and dissemination of information. These initiatives will encourage greater involvement of SMEs to reap the benefits of Malaysia's participation in RCEP.

V. OPPORTUNITIES

RCEP provides an avenue for the ASEAN countries to promote greater economic cooperation in the East Asia region. The goal is to create a FTA that would bring together all member countries to create a more integrated economic structure. An alternative to the RCEP was TPP, that was originally backed by the US. These two competing blocs represent two different pathways to regional integration. However, the recent withdrawal of the US from TPP alongside the growing trade tensions with China and other East Asia countries have compelled Malaysia to focus more on RCEP.⁵⁶ This is because, the strategic competition between the two Great Powers has not only led to a surge in the US protectionism, but also the surge in RCEP's economic and strategic importance, which is a FTA that incorporates China.

As for Malaysia, the importance of RCEP does not lie in its geostrategic gravity, but in providing possible pathways for the formation of FTA in the region.⁵⁷ This is crucial, especially in the wake of the 2008 GFC and a few other unfolding events in the world, which led to the global economic slowdown that includes among others, the Russia-Ukraine War and the Covid-19 pandemic. Various reports have shown that Malaysia stands to benefit from its participation in the RCEP as it facilitates greater economic integration between the ASEAN countries and their dialogue partners, namely China, Japan, South Korea, Australia, and New Zealand. They all makes up 30% of the world's population with a combined GDP of USD 29.7 trillion which underscores the relative significance of RCEP.⁵⁸ The following section underlines some of the opportunities generated by RCEP for Malaysia to capitalise.

A. Greater Market Access

RCEP provides Malaysia the opportunity to strengthen its economic ties with the non-ASEAN FTA, namely comprising China, Japan, South Korea, Australia, and New Zealand. As such, Malaysia would be able to increase exports, especially pertaining to goods for which it enjoys a comparative edge, such as electronics, machinery, textiles, agricultural products, and services. According to the MITI report, Malaysia is predicted to be the largest beneficiary of the agreement in terms of gains in exports with a projected USD 200 million increase (2021) and a growth rate of 24.4 percent over the medium- and long-term period.⁵⁹

RCEP also offers the opportunity for Malaysian companies to source raw materials within the region at competitive prices which is expected to increase Malaysia's FDI by 0.7% annually.⁶⁰ The creation of production networks among the RCEP members allows Malaysia to further integrate itself into the global production value chain, thereby promoting economic growth. In a more specific tone, RCEP will boost Malaysia's GDP by 0.8 to 1.7 percentage points.⁶¹ Further increasing exports to the RCEP market is predicted to create 32,000 jobs on average each year for Malaysia, particularly in the manufacturing and service as well as trade-oriented sectors.

B. Market Positioning

Over the last few decades, Malaysia's economic growth has been led by its vibrant export activities, supported by the presence of a formidable FDI. A growing consumer base and its strategic location with respect to East Asia markets, developed infrastructure, and low manufacturing costs have made the country an attractive destination for investors. Hence, greater access to the RCEP markets would render Malaysia an even more desirable location for foreign investors or companies seeking to tap into "regional supply chains, especially in the wake of global supply disruptions" brought about by the Covid-19 pandemic and the Russia-Ukraine war, which called for a re-evaluation of their "supply chain strategies."⁶² Therefore, Malaysia should take advantage of the current CPTPP that allows for greater market access beyond the RCEP so as to enhance its position as a regional hub in the broader Asia-Pacific region. In a similar vein, having access to both RCEP and CPTPP will provide Malaysia an edge over other countries or a unique position in the region.⁶³

C. Strategic Implication

That aside, RCEP also provides an opportunity for all countries to promote greater cooperation in the region: a goal desired by all of its members. This is because the opportunity cost of interdependence can reduce the chance of conflict. Cali and Oliver of the World Bank found that when trade leads to higher incomes, states are less likely to forgo them to engage in conflict.⁶⁴ RCEP can create a sense of economic interdependence among the member states and facilitate increased cooperation on political and security issues, as member countries may be more likely to work together to address common challenges and pursue shared goals.

For a start, it has brought together three regional powers that have had difficult histories and conflicts with each other under a single banner that should be regarded as an upside in the ASEAN-led RCEP. Malaysia and other ASEAN member countries can also take advantage of the positive development in the region to soothe relations in the South China Sea (SCS) by pressing ahead with negotiations on the code of conduct with China as the issue can undermine the

ASEAN centrality, which lies at the core of RCEP, a template of regional grouping favoured by Beijing.

VI. THREATS

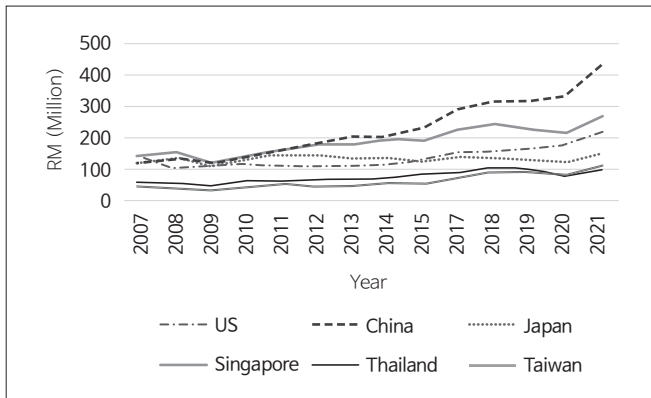
A. China's related concerns

The main concern within ASEAN in relation to the RCEP is the growing influence of China especially so in view of its assertive Foreign Policy (FP) behaviour. It is shown in China's increasing activities in the SCS and role in pushing for regional integration through its support for RCEP and the Belt and Road Initiative (BRI), designed partly to facilitate the greater connections in East Asia.

Yet, here it is noteworthy that while RCEP can increase regional trade and stimulate economic growth, the agreement is also expected to facilitate the emergence of more "China-centric trade" in the region.⁶⁵ It could increase Beijing's influence and thus pose a challenge to Malaysia's FP objective of preventing the rise of any predominant power that could exert undue influence in the region.⁶⁶ This is because RCEP will bring the region closer into China's orbit.⁶⁷

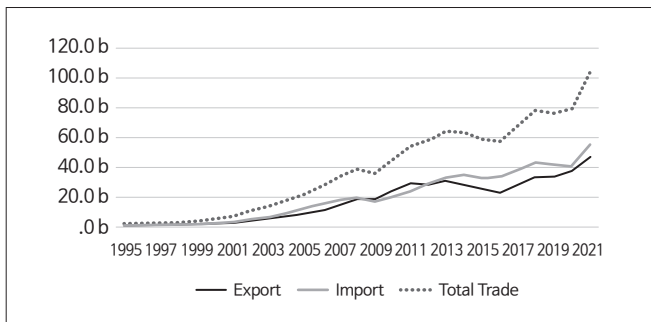
Here, it is worth noting that China has become the largest trading partner of and major investor in almost all ASEAN countries. The growth in bilateral trade between Malaysia and China has been remarkable (Figures 2 and 3), especially under the BRI. These datasets indicate not only the speed of growth in the two-way trade, but also the extent of China’s growing importance to Malaysia in the post-GFC. With the RCEP in place, Malaysia’s economy will become even more closely connected to that of China, thereby placing the country in a more vulnerable position.

Figure 2: Malaysia’s Top Trading Partners⁶⁸



Source: Compiled by the authors

Figure 3: Malaysia & China: Bilateral Trade⁶⁹



Source: Compiled by the authors

This is because asymmetrical “economic interdependence” provides a political resource to the less dependent state,⁷⁰ which in turn makes it difficult for Malaysia to negotiate favorable terms or resist Chinese pressure on issues of concern. A case in point is the SCS dispute which remains a source of tension not only between the Great Powers in the region, but also Malaysia’s main concern in the direction of China, especially in view of its assertive FP posture and growing activities within Malaysia’s Exclusive Economic Zones (EEZs) - a new trend since 2013. Since disputed territorial claims in the SCS are less likely to be resolved in the future, the previous instance in which China resorted to economic means to shape the preferences of others underlines the risk for Malaysia as it denotes Beijing’s readiness to utilize its economic power as a means of exerting influence.

As for Malaysia, the US’s withdrawal from the TPP agreement paved the way for China’s economic influence. TPP not only provided a route for Malaysia to diversify its trading partner but also decrease the country’s reliance on the Chinese market, resources, and capital for domestic development by enhancing trade and economic ties with the US. However, the absence of the US reduces the value of even CPTPP,⁷¹ making it difficult for Malaysia to implement effective trade and hedging strategies which have been the mainstay of its FP toward Great Power politics.

B. Growing Competition within the RCEP Blocs

Geopolitical concerns asides, RCEP is projected to bring significant economic benefits to the ASEAN member States, given the potential relocation of low-end production from China to other countries due to increasing operational costs and the ongoing trade war with the US, the extent to which Malaysia will reap the rewards is not clear. This is because Malaysia is not alone in competing for FDI and is likely to face intense competition from other ASEAN countries, much less in view of other lower-cost destinations such as Vietnam and Indonesia which provide a cheap alternative for Manufacturing.⁷²

Indeed, rising labor cost presents an obstacle for Malaysia. For instance, the average base pays for workers in Malaysia in 2021 was USD 492 a month, higher than Thailand (USD 433), Indonesia (USD 360), and Vietnam (USD 238).⁷³ Meanwhile, FDI in Malaysia’s manufacturing sector stood at USD 11.6 billion, behind Vietnam (USD 15.6 billion) and Indonesia (USD 20 billion).⁷⁴ Further, a

study also demonstrates that Malaysia is likely to suffer from a trade deficit post-RCEP, as its imports are expected to surpass exports with most imports coming from China (2021)⁷⁵. All in, these could pose a challenge for Malaysia’s economic interests, as it may have negative impact on the country’s domestic development.

VII. CONCLUSION

This study has analysed Malaysia’s economic and strategic interests with special reference to RCEP by way of SWOT. The authors’ findings in this analysis may be summarized in Table 1.

Table 1: A SWOT Analysis of RCEP: A Malaysian Perspective

Strength	Weaknesses
<ul style="list-style-type: none"> • Geographical location • Political will • Business ready environment 	<ul style="list-style-type: none"> • Human capital development • Lack a comprehensive strategic plan on SMEs
Opportunities	Threats
<ul style="list-style-type: none"> • Greater Market Access • Market Positioning • Strategic Implications 	<ul style="list-style-type: none"> • China's related concerns • Growing Competition Within RCEP Blocs

Source: Compiled by the authors.

Findings show that Malaysia can gain enormously from RCEP. Malaysia’s strategic location, strong manufacturing sector, and stable political environment would make the country an attractive destination for foreign investment. RCEP allows Malaysia to increase its exports, particularly in sectors where it has a comparative advantage and access to raw materials at a competitive price. More significantly, growing trade and investments are expected to boost Malaysia’s GDP by a consequential margin.

Moreover, RCEP allows Malaysia to consolidate its position as a regional hub, especially amid the rise of global economic uncertainty. However, for Malaysia

to reap the benefits of the world’s largest trading bloc, it needs to address some of its weaknesses, which include, among others, human capital development issues and the lack of a comprehensive strategic plan to bring all of its economic sectors on board to reap the reward from participating in RCEP. Meanwhile, Malaysia needs to forge ahead with the CPTPP agreement, which has received less attention following the ratification of RCEP.

This initiative not only enhances Malaysia’s strategic position in the region, but also as a part of its diversification strategy to mitigate the risk of being over-reliant on RCEP, especially China, the largest economy within the bloc. This will enable Malaysia to increase its strategic capacity to manoeuvre on a wide range of issues with the disputed claims over territorial waters in the SCS. Overall, RCEP presents a promising avenue for Malaysia to promote economic cooperation and integration in the East Asian region.

Appendix 1: Top Trading Partners

	US	China	Japan	Singapore	Thailand	Taiwan
2007	149.2	117.9	120.8	146.5	57	45.2
2008	105.9	130.1	136.9	155.1	61	41.3
2009	109.2	127.9	108.7	125.3	56.2	32.9
2010	120.4	146.5	133.3	145.6	67.1	44
2011	113.1	167.3	146.7	161.9	70.2	50.4
2012	109.9	180.7	145.8	176.1	73.3	47
2013	108.8	203.3	135.6	180.6	78.5	53.2
2014	116.8	207.8	137.3	194.6	79.8	59.3
2015	129	230.9	127.4	190.6	86.1	60.2
2017	154	290.4	139.2	228.3	98.6	78.8
2018	155.7	314.5	134.3	243.2	105.7	96.4
2019	164.5	315.2	128.8	226.4	100	93.9
2020	179	331	124	216	79	87
2021	217	421	149	267	98	112

Source : MITI’s Annual Report

Appendix 2: Malaysia-China Trade

	Export	Import	Total Trade
2000	3.028 b	3.242 b	6.271 b
2001	3.821 b	3.804 b	7.625 b
2002	5.254 b	6.229 b	11.483 b
2003	6.810 b	7.30 b	14.110 b
2004	8.496 b	10.335 b	18.832 b
2005	9.284 b	13.174 b	22.458 b
2006	11.638 b	15.884 b	27.522 b
2007	15.444 b	18.842 b	34.286 b
2008	19.013 b	20.047 b	39.059 b
2009	19.104 b	17.246 b	36.350 b
2010	25.057 b	20.680 b	45.737 b
2011	29.821 b	24.710 b	54.532 b
2012	28.743 b	29.723 b	58.466 b
2013	30.775 b	33.729 b	64.504 b
2014	28.223 b	35.322 b	63.545 b
2015	26.063 b	33.243 b	59.306 b
2016	23.753 b	34.306 b	58.060 b
2017	29.333 b	38.279 b	67.612 b
2018	34.484 b	43.468 b	77.952 b
2019	34.021 b	42.399 b	76.420 b
2020	37.879 b	40.965 b	78.844 b
2021	46.352 b	55.270 b	101.622 b

Source: UNCTADSTAT

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