

## Abstract

The purpose of this paper is to examine the likely implications of AFTA on trade and investment in Malaysia. The AFTA's primary objective was to make ASEAN a production base, which will facilitate the trade and investment growth in the region. The CEPT scheme is the main mechanism used to lower intra-regional tariffs to 0-5 percent within a specified period of time for each of the ASEAN countries. Malaysia was anticipated to take on the lead and benefit the most from AFTA. Within a decade since AFTA was established, Malaysia has gained to experience a positive growth in terms of its intra-ASEAN trade. ASEAN, as a group, is Malaysia's largest export destination. Exports to ASEAN went up by 2.3 times to RM 99 billion in 2003 from RM43 billion in 1994. AFTA strengthened Malaysia's participation in external trade with its ASEAN counterparts, providing further impetus for regional specializations. The rapidly expanding regional market under AFTA, coupled with the reduction in multilateral trade barriers, is paving way for FDI opportunities in Malaysia, in particular, 'efficiency-seeking' investments, which takes advantage of comparative advantage in the country.

It is envisaged that AFTA will further boost Malaysia's share in the intra-ASEAN trade. Malaysian firms must stay ahead with the competition arising from this.

This paper also takes a look at other FTAs and RTAs around the world and its implications on the respective member countries and their economies