P-ISSN: 2709-6254	Journal of Development and Social Sciences	March-April 2026, Vol. 7, No. 2
O-ISSN:2709-6262	https://doi.org/10.47205/jdss.2026(7-II)27	[302-308]

Journal of Development and Social Sciences
www.jdss.org.pk

RESEARCH PAPER

Greening the Pact: An Assessment of the MPCEPA on Environmentally Friendly Trade Practices

[1]Ahtesham Dhariwal*, [2]Mian Tariq Javed and [3]Attiya Anees

1. PhD Candidate in Law, Assistant Professor, M A Raoof College of Law, The University of Lahore, Lahoree, Punjab, Pakistan, Punjab, Pakistan
2. Assistant Professor, M A Raoof College of Law, The University of Lahore, Lahoree, Punjab, Pakistan
3. Lecturer, M A Raoof College of Law, The University of Lahore, Punjab, Pakistan

Corresponding Author: ahteshamdhariwal@gmail.com

ABSTRACT

The research qualitatively analyses the impact of the Malaysia-Pakistan Closer Economic Partnership Agreement (MPCEPA) on the environment. The data is collected from the primary source, MPCEPA, and the secondary sources, which include scholarly written articles. The green impact of trade enhancement, investment strategies, and the service industry is explored; the purpose is to highlight the inadequate MPCEPA effects on the environment. The results show a positive impact of the Malaysia-Pakistan Agreement on trade: exports of Pakistan's textile and agricultural goods increase, while Malaysia's palm oil exports are boosted. Pakistan benefited from the privileged market access to Malaysia, but the trade in goods and services is asymmetric, and Malaysia gains more. The ignored part of the agreement is the environmental impact of economic growth. It is found that the agreements lack the clauses in its legal framework, to protect environment. In the agreement's environmental component is still in its infancy. While economic benefits have been significant, challenges related to carbon emissions, industrial pollution, resource management, and sustainable production practices continue to persist.

KEYWORDS Environment, Trade Practices, Environmental Regulations, Malaysia-Pakistan Closer Economic Partnership Agreement (MPCEPA)

Introduction

Over the past thirty years, nations and trading blocs worldwide have been primarily concerned about trade liberalization. As a result, multilateral negotiations and unilateral liberalization measures have been organized under the WTO platform. Furthermore, in the modern world, free trade agreements (FTAs) and the innovative idea of global value chains have given rise to bilateral and regional liberalization initiatives. Like, (Zeng & Li, 2021) studies indicated that global value chains (GVCs) grew between 2012 and 2017 and have mostly remained regional in nature. Due to China's and other Asian countries' significant participation, intra-regional commerce has increased among Asian nations (Satoshi & Daria, 2019). Furthermore, according to (Peng et al., 2020) the partner nations at the lower and medium ends of GVCs will gain more from the Chinese Trade Agreements than those wealthier countries at the upper end of GVCs.

Since gaining independence in the 1960s, Malaysia has had remarkable economic growth, exhibiting unparalleled affluence among East Asian nations. Malaysia's economy was initially dependent on its abundant natural resources, including minerals and agricultural products. Later on, nevertheless, the Malaysian government acted to promote the growth of the industrial sector. In 1968, the government implemented a number of trade reforms, including the Export Oriented Industry (EOI) program, and changed the structure of the economy. With the implementation of this plan, Malaysia's economy shifts from being dependent on basic goods to being dependent on industrial commodities based on cutting edge technology and expertise. In addition to the EOI plan, the government implemented import-alternative, an inward-looking program. Furthermore, at that same time period, the government built capital-intensive enterprises. Malaysia rated as the third largest economy in the East Asian area as a result of its EOI tactics. Malaysia's GDP per capita in 2014 was $10,803 (World Economic Outlook). According to the Central Bank of Malaysia, foreign direct investment (FDI) attracted roughly $10 billion in 2014. It has consistently enjoyed a trade surplus since 2004, reaching a high of $25 billion in 2014 (International Trade Center-Trade Map).

Given the above-highlighted debate, it is evident that Malaysia plays a vital role in the East Asian region. Pakistan and Malaysia first participated in the Early Harvest Program (EHP) in order to foster economic cooperation, advancement, and prosperity. Protecting the market for their export goods and fostering greater trade and economic ties with important regional players were the goals of this agreement. On November 8, 2007, following the successful completion of the EHP program, Pakistan and Malaysia inked their first free trade agreement. In order to liberalize trade and investment regimes and to improve cooperation in capacity building in areas like sanitary and phytosanitary measure and etc., Malaysia and Pakistan signed the Closer Economic Partnership Agreement (MPCEPA) on Nov. 8, 2007. Over time, there has been a persistent bias in favor of Malaysia in the bilateral commerce between the two nations. With $ 232 million in exports and $1.08 billion in imports, Pakistan has a massive trade imbalance of $852 million with Malaysia. This imbalance is expected to grow over time.

Currently ranked 27th among Pakistan's export clients with a $233 million value is Malaysia. While cotton exports have decreased by 7%, the yearly growth rate of textile goods has increased by 30% since 2010. Between 2010 and 2014, Malaysia's purchases of cotton rose by 6% globally, while Pakistan's exports fell by 7%, pointing to a declining trend for the country.

It is interesting to note that between 2010 and 2014, sugars and sugar confectionery grew by 291%. Exports were reported at $10.6, $10.7, and $5.2 million in 2012, 2013, and 2014, respectively. However, Malaysia's stated imports from Pakistan do not reflect this development. The reported value of trade in miscellaneous chemical products increased from $70,000 in 2010 to $1.6 million in 2014, a 174% increase. Insecticides accounted for 94% of the category's exports, with a $1.532 million export value. Pakistan began selling meat to Malaysia in 2011 with the goal of becoming known as a nation that exports halal meat and with zero percent tariffs on meat and edible oil exports to Malaysia. Pakistan's beef exports increased from $1000 in 2010 to a transaction value of $1.4 million in 2014, a reported 372% surge. The expansion of retail and food services is assumed to be the cause of the increase in demand for meat imports from Malaysia. For Malaysia, it was the first free trade agreement of its kind with any South Asian nation, and it was the first comprehensive free trade agreement (FTA) for Pakistan that combined investment, trade in services, and trade in goods. The improvement of bilateral trade between the two nations is the goal of this free trade agreement, which aims to remove import and export duties. Thus, the purpose of this study is to examine the 2008-enacted Free Trade Agreement between Pakistan and Malaysia in the line of environmentally friendly trade practices. Pakistan's Ministry of Commerce (Mahmood & Jongwanich, 2018).

Literature Review

Free Trade Agreement between Malaysia and Pakistan

The Malaysia Pakistan Free Trade Agreement (FTA), officially known as the Malaysia Pakistan Closer Economic Partnership Agreement (MPCEPA), was established in 2008 with the primary objective of fostering bilateral trade between Malaysia and Pakistan. This comprehensive agreement covered various facets of economic cooperation, including trade in goods, services, and investment (Anum & Amir, 2015). The agreement has included major aspects of trade which leads to high GDP growth, however GDP per capita has a significant positive effect on CO2 emissions, indicating a scale effect where increased economic activity leads to higher emissions (Salman et al., 2018). The trade enhances the demand for exportable products and develop industries which add in environmental degradation, if not strictly regulated by relevant laws. FTAs increase bilateral CO2 pollution, with high-income countries benefiting environmentally while lower-income countries do not due to lenient environmental standards (Yao et al., 2019). The imbalance between the environment and development results in unsustainable economic growth. The developing countries lax their rules to achieve economic growth. The Pakistan-China FTA led to increased emissions in the textile sector, particularly in spinning, but lower emissions for exports to non-China destinations; along with strict environmental laws, the shift in energy source can minimize the environmental effect. Renewable energy, like solar power can reduce environmental footprint (Chaudhry & Jamil, 2024). Malaysian BITs primarily protect foreign investments and lack specific provisions for environmental protection, with a recommendation to include such provisions in future agreements (Hossain et al., 2022). There is need to revisit or revise the FTAs to encompass environment protection provisions. The climate changes because of environmental degradation which ultimately hinder the economic growth.

Malaysia-Pakistan Closer Economic Partnership Agreement (MPCEPA)

The Malaysia-Pakistan Closer Economic Partnership Agreement (MPCEPA) stands as a milestone in the bilateral relations between Pakistan and Malaysia. Approved by the Cabinet on November 6, 2007, and formally signed on November 8, 2007, in Kuala Lumpur, Malaysia. The agreement marks the first comprehensive Free Trade Agreement (FTA) between two Muslim countries that are members of the Organization of Islamic Cooperation (OIC). MPCEPA is beneficial for both countries in the field of trade of goods, services, investment and economic betterment. This all-inclusive framework creates a strong basis for economic cooperation as it covers all aspects of bilateral trade and investment.

Malaysia and Pakistan have extended WTO plus market access to each other. The agreement includes sectors such as computer and IT-related services, Islamic Banking, and Islamic Insurance (Takaful). Pakistan secured 100% equity in Malaysia for computer and IT-related services. Mutual recognition arrangements further facilitate accreditation of educational institutions and academic programs, fostering efficient service delivery. The agreement includes operational details such as Rules of Origin, Modality of Tariff Reduction, and schedules of goods for both countries. Additionally, Mutual Recognition Arrangements (MRA) and non-conforming measures contribute to the operationalization of the MPCEPA. Several SROs (Statutory Regulatory Orders) provide the necessary legal framework for the implementation of the agreement.

Muhammad Aamir Khan et al., (2018), found that despite 9 years of implementation, “Pakistan’s volatile exports to Malaysia never achieved a sustainable period of growth” and “trade balance has not achieved significant changes.” Zada & Khan (2017) confirmed that Pakistan was “modestly affected due to Pakistan-Malaysia FTAs in all respects.” M. A. Khan et al. (2018)concluded there is a “win–win scenario for both Pakistan and Malaysia if both are able to renegotiate the current FTA to get the same tariff concession as awarded to each other’s trading partners.”

Enforcement Challenges on Environment-Friendly Trade Practices

Although Pakistan and Malaysia are common law countries, they differ in cultural aspects. Both countries face enforcement challenges, especially in corporate environmental crime. However, the compliance in Malaysia is comparatively better than in Pakistan. The increase in Palm oil production leads to environment degradation and this must be managed for sustainable development. The challenges attached are deforestation which is a global environmental concern. Both countries must develop effective enforcement strategies by inculcating a certain percentage of investment in green technology and shifting toward renewable energy sources.

The global issue of climate change, depletion of ozone layer, and global warming are of great importance. In compliance with the international treaties the trade practices must be aligned to reduce green house gases. Pakistan and Malaysia shall examine the environmental factors linked with their trade (Khan, 2022).

MCEPA has highlighted the need for green initiatives in the field of trade. The purpose is to prevent biodiversity loss and promote sustainable development, but due to certain factors, the enforcement is inadequate. Incorporation of environmental impact is a positive consideration, but there is an imbalance between the economic and environmental concerns.

MPCEPA envisions the development of a circular economy and collaboration in waste management techniques. Both countries pledge to cut waste, support recycling programs, and implement circular economy-promoting policies. This shows a common dedication to reducing the negative effects of trade-related activities on the environment.

MPCEPA includes procedures for compliance and enforcement to guarantee the efficacy of environmental concerns. In the pursuit of economic cooperation, Malaysia and Pakistan both pledge to uphold environmental laws and regulations and hold one another responsible for upholding strict environmental standards.

Material and Methods

The study is based on the primary sources such as relevant laws, agreements and secondary resources includes the scholarly articles. It employs qualitative methods to put light on Malaysia and Pakistan trade ties. The study analysis the benefits of Malaysia-Pakistan Closer Economic Partnership Agreement (MPCEPA) and review the trade impacts on environment. The data is collected from online articles, and government department websites along with the official statements available on print and electronic media.

Results and Discussion

The findings show that the Malaysia–Pakistan Closer Economic Partnership Agreement (MPCEPA) contributed positively to bilateral trade between Pakistan and Malaysia, but left an unfavorable impact on the environment. Trade volumes between the two nations grew after the agreement was put into effect in 2008, especially in industries like textiles, livestock, agricultural products, and chemicals. While Malaysia increased its exports of manufactured products and palm oil to Pakistan, Pakistan profited from privileged market access in Malaysia. The trading relationship is still asymmetrical, though. With Pakistan's imports from Malaysia continuously outpacing its exports, Malaysia maintained a sizable trade surplus. This implies that even if MPCEPA increased bilateral commerce, the two partner nations did not equally profit from it.

Literature witnesses that the increase in industrial and economic activities results in high carbon emissions. The MPCEPA increased the manufacturing and transport operations in order to fulfill the demand. This raised concerns about the environment. There is weak enforcement of environmental protection laws, particularly in developing countries. Malaysia's enforcement of corporate criminal liability seems much better than that of Pakistan. Apart from this, MPCEPA has very few environmental provisions. It seems the agreement lacks the legally binding environmental requirements and an efficient monitoring mechanism.

The results show that Malaysian Palm Oil exports have exponentially grow, even the production of palm oil has negative effects on the environment. There are international concerns regarding deforestation, biodiversity loss, and carbon emission caused by palm oil production. In a nutshell economic and trading relation of Malaysia and Pakistan fails to completely address the environmental effects, necessary for sustainable development.

Conclusion

Sustainable development means the balance between economic growth and the environment. The growth of different sectors is inevitable due to the rapid growth in population. But the development deteriorates the natural system and becomes the cause of environmental degradation. If the environmental factor is left unchecked, then the long-run benefit of development is of no use. The Malaysia-Pakistan Economic Agreement is an appreciable step taken by both countries, and it strengthens the bilateral relationship, but the lack of environmental concern in the legal framework weakens its overall effectiveness.

The Malaysia-Pakistan Economic Agreement is a milestone in developing long-lasting relationships between the two countries. The Pakistan exports of textiles, chemicals, and livestock increased, which added to the foreign reserves; similarly, the Malaysian oil industry grew drastically. The trade balance remains in favor of Malaysia. There is a need to address the environmental factor; future agreements shall include it to reap maximum benefit. Although both are Muslim countries, the culture is different. Some covenants may be effective in one country but not in others. The cultural aspect is also missing in the agreement.

In a nutshell, the MPCEPA is a good initiative taken to boost the bilateral relationship. As the environment is a global concern, the undesirable act in one country has dire results for the world. it is our duty to protect nature for our future generations. There is a need to revise the agreements and insert binding compliance conditions with environmental laws, especially the environmental impact assessment must be taken before proceeding further with economic activities. The trade agreements should focus on renewable energy projects along with customized products, and a certain percentage of investment must be spent in environment friendly projects to balance the negative effects of economic activities.

The Malaysia-Pakistan Free Trade Agreement has the potential to boost economic growth, but increased trade leads to environmental challenges. High consumption, increased transportation, and industrial activity result in environmental degradation. It is feasible to optimize economic benefits while minimizing ecological harm through integrating environmental considerations into commerce.

Recommendations

In consideration of the research results, it is recommended that

- The environmental issues arising from economic activity must be encompassed in the Agreement as the bilateral environmental protection can reduce the environment degradation risk.
- There must be stronger environmental regulations, and they shall be implemented with true spirit.
- Both countries must switch to eco-friendly manufacturing practices, especially in the textile and agricultural sectors.
- The handsome chunk will be devoted to investment in green technology.
- The environmental impact assessment should be effectively enforced.

- Set environmental performance standards for the industries that benefit from free trade agreements.
- Regularly releasing data on emissions, waste management, and resource usage it will increase stakeholder participation and transparency.
- Promote low-carbon shipping practices and increase energy efficiency in ports and logistics.
- Provide financial incentives for energy-efficient devices, renewable energy projects, circular economy initiatives, and rubbish recycling.
- Evaluate the cumulative environmental effects before raising production, and require EIAs for major industrial and infrastructure projects related to increased trade.
- Both countries shall work on environment friendly supply chain integration and investment pattern that supports a healthy environment.
- The socio-economic impacts, such as employment, income distribution, and people's welfare, of MPCEPA may vary in both countries; there is a need to identify these impacts and revise their agreements by incorporating them.
- Long-term prosperity and resilience depend on striking a balance between environmental preservation and economic growth. Therefore, environmental factors must be incorporated for sustainable trade practices.
- Encourage sustainable trading practices by aligning economic growth with environmental conservation objectives through capacity-building initiatives, awareness campaigns, and incentives.
- There must be close coordination and cooperation among relevant government agencies to streamline policy frameworks and smooth regulations.

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