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The Implication of International Disputes on the International Trade: Malaysia as a Case Study

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Abstract

The relationship between international disputes and international trade is a complex and crucial field of research. Conflicts at the international platform can cause geopolitical instability, thus it affects global trade. Comprehending the impact of political dynamics on trade contacts is essential for maintaining global economic stability. This study investigates the impact of political ties on the volume of bilateral trade, suggesting that positive political relationships increase trade, while negative ones decrease it. Using utility theory, we examine the common ideas held by customers and trade corporations. This theory examines the factors that influence the decision making of individuals which later can provide understanding and insights into the potential consequences of political conflicts on global trade. As a result, it has a big effect on how importers and exporters interact with each other. Our study utilises empirical analysis of monthly trade data to investigate the influence of oscillations in commerce on political ties between nations. Our research suggests that when political relationships deteriorate, it results in enduring alterations in trade patterns, but fluctuations in commerce have little long-term impacts on political relations. This research offers valuable insights into the correlation between political conflict resolution and the stabilisation and promotion of international trade.

Keywords: Bilateral Trade, Utility Theory, Political Relationships, Trade Pattern.

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1. Introduction

Trade wars, which occur when countries apply tariffs or quotas on one other's commodities, can limit trade volumes, raise consumer and company prices, and alter supply chains (Chen,n.d.). The recent U.S. - China trade conflict shows how tariffs raised consumer prices and forced firms to buy goods from other nations to avoid them. International conflicts can also cause geopolitical instability, which affects global trade. Consider territorial or natural resource disputes. Uncertainties discourage investment and disrupt trading channels (Rayi'atul and et al,2023). Since most global marine traffic runs via the South China Sea, the conflict affects numerous nations and international shipping routes (Dlewis,2021). Military conflicts from unresolved disputes can increase international commerce risks and costs. International disagreements can also change trade alliances. Trade alliances expand as nations seek to reduce their dependence on adversaries. This realignment might drastically change global trade patterns, as seen by the EU's proactive attempts to cut its energy imports from Russia during the Ukraine crisis. These changes can affect global trade and economic stability.

Policymakers, entrepreneurs, and economists must understand how political relationships affect commerce. Political interactions between countries affect trade policies and agreements, which can help or hinder commerce. Strong political ties often lead to free trade agreements (FTAs), which reduce tariffs, quotas, and other trade restrictions. These agreements could boost commerce, economic growth, and member country collaboration. For instance, NAFTA increased trade between the U.S., Canada, and Mexico, boosting regional economic growth (Consilium,n.d.). However, heated political relations can cause trade restrictions and economic sanctions. Sanctions can restrict international trade, financial markets, and foreign investment. Iran's commercial capacities have been severely hampered by sanctions, hurting its economy and worldwide trade. Businesses operating in sanctioned nations must negotiate complex legal and economic frameworks that can increase expenses and risks.

2 .Theoretical Framework

Utility in trade holds that nations trade to acquire commodities and services that are more satisfying than those produced domestically, taking advantage of comparative advantages. Utility trade prioritises resource allocation benefits. It is commonly recognised in international trade that countries specialise in producing and exporting items they can manufacture more

effectively (Feenstra,2016). However, they will import things that are more expensive to create domestically (Krugman,2018). This specialisation and interchange allow nations to access more things at lower prices, increasing their quality of life. Comparative advantage and opportunity cost are fundamental to utility trade and trade decisions. Nations weigh the pros and cons of domestic production vs imports. They may import things that can be produced more efficiently elsewhere to focus on their strengths. Utility theory and international trade tactics are linked since decision-making is based on economic benefit (Krugman,2018).

Utility trade theory has several uses for importers and exporters. Capitalising on assets like economies of scale, market access, and profitability can benefit exporters. To maximise trade utility, production costs, worldwide demand, and trade policies are considered. But importers employ utility trade theory to optimise their purchases (Kenton,n.d.). Importers seek higher-value goods at lower prices than domestically created ones. This can be due to reduced manufacturing costs in other nations, higher-quality imported items, or domestic production limits. Price, quality, availability, and contentment with imported items influence import decisions (Feenstra,2016). Importers boost economic efficiency and consumer satisfaction in their countries by optimising utility. International traders study market conditions, trade restrictions, and economic data before making practical decisions (Krugman,2018). They examine trading choices and choose tactics that maximise benefits and minimise downsides and uncertainty. This utility trade theory application improves global resource allocation, trade linkages, and economic growth.

Political links affect trading organisations' perceptions. Country politics can affect trust, cooperation, and trade deal stability. Political relationships typically foster goodwill, making trade simpler. Strong diplomatic links help countries negotiate economic deals, establish free trade agreements, and resolve disputes peacefully, which benefits both economies (Kaufmann, 2005). Diplomatic efforts, policy alignments, and international cooperation can affect people's minds. Countries with similar political or strategic aims are more likely to trade trustfully. This approach reduces trade risks and uncertainties, encouraging corporations to participate in overseas markets. However, hostile political connections can make people feel uncomfortable, making them more frightened of trade delays, sanctions, and policy changes

that affect the companies. This can halt trading. Politics also shape regulatory perceptions. Trade partners like stable, open governments. Stable governments with clear trade policies and legal systems attract businesses. Dependability and predictability are crucial for long-term trade and investment planning. Because of this, political linkages affect how trading partners view each other and their willingness to deal.

Cultural affinities, similar ideals, and faith in one other can influence trade decisions and outcomes. Sharing these perspectives makes it easier to negotiate trade deals and resolve disputes since people work together and feel like a team. Countries that share values are more likely to comprehend each other's marketplaces, regulations, and business practices. This simplifies trading between the nations. People with similar views can build strong commercial and economic coalitions. The EU's single market is based on democracy, human rights, and economic cooperation (Khalid, 2021). Due to these shared views, member states' economies cooperate, boosting trade, economic integration and growth .

Trust and collaboration between trading partners show how shared views affect trade. Businesses spend less on monitoring and enforcement when individuals trust each other because they share the same beliefs. Trade negotiations, implementation, and dispute resolution are easier when people trust one other. Similar beliefs can also improve trade terms since countries may be more ready to collaborate with culturally or ideologically similar partners. To conclude, utility theory in international commerce helps us understand how countries trade to maximise economic benefit. Utility trade helps trade planning since importers and exporters use it. Realising how political links and common beliefs affect trade results and perceptions reveals their importance. All of these theoretical models collectively show the complex forces that affect international trade.

3 .Research Methodology

This study is doctrinal in nature, as this method is particularly effective for examining state policies. (Althabhawi and et al,2023; Afzali and et al, 2023). This study will primarily rely on library-based sources, as doctrinal studies are designed to collect data from these resources (Althabhawi, 2022). Online databases such as HeinOnline, LexisNexis and Routledge will also be utilised to access comprehensive legal and policy documents in trade. This study will employ a qualitative approach, which is deemed appropriate for this type of research (Raihana Azmi and et al,2023). We will use

comparative methods to compare types of disputes between countries and their impact on international trade. This integrated approach will ensure a thorough understanding of the number of disputes and the underlying theories regarding international trade and political relationships (Ali Adil and et al,2023).

4. Result and Discussion

In the context of international trade, 'warm' and 'cold' political relationships relate to the degree of cooperation or disagreement that exists between nations and how it influences their trade transactions. Businesses and governments participating in international commerce must understand the political dynamics between nations since these dynamics have a direct impact on market access, investment decisions, and overall economic stability.

4-1.Warm Political Relationship

A warm political relationship in international trade is a diplomatic atmosphere that is constructive and cooperative and promotes easy and profitable trade dealings between two or more nations. It suggests a high degree of mutual respect, understanding, and cooperation between the governments of the participating countries, all of which make it easier to negotiate trade agreements, the reduction of trade barriers, and the promotion of economic cooperation. Governments are more likely to cooperate in such a situation to settle conflicts, correct trade imbalances, and foster an atmosphere that encourages the growth of trade and investment opportunities between their respective economies (Whitten and et al,2020). In international trade, cordial political ties are defined by open communication, common objectives, and a readiness to negotiate and make concessions in order to advance stability and economic growth (Kastner, 2007).

Characteristics of a warm political relationship in international trade include open communication, trust and mutual respect, cooperation and collaboration, diplomatic engagement, consistency and reliability, and conflict resolution mechanisms (Milewicz and et al,2018). Open communication is a regular and transparent communication between government officials of the involved countries, facilitating the exchange of information, concerns, and proposals related to trade matters. Trust and mutual respect is a foundation between nations, allowing for confidence in

each other's commitments and the ability to fulfil agreements made during trade negotiations.

The third characteristic is cooperation and collaboration which is a willingness for nations to collaborate on trade-related issues, such as harmonising regulations, standardising procedures, and jointly addressing challenges like market access barriers or unfair trade practices (Hoekman and Mavroidis,2015). Next is diplomatic engagement whereby with an active engagement in diplomatic channels to resolve disputes and prevent conflicts that could disrupt trade flows or negatively impact economic relations between countries (Samirul Ariff Othman,2024). Fourth, consistency and reliability which provide the consistent adherence to trade agreements and commitments, providing a predictable and reliable environment for businesses to operate and invest across borders (Mattoo and et al,2020). Lastly, it is a conflict resolution mechanism.

4-2.Effect of Warm Political Relationship

A warm political relationship between two countries can have a significant positive effect on bilateral trade volumes. The first effect is the increase of trust. A strong political relationship between nations built with trust, can lead to increased confidence among businesses and investors. This increased trust reduces the assumed risk of engaging in trade activities with the partner country, thus, encouraging firms to explore new market opportunities and expand their trade relations. Secondly, establishment of trade agreements. Countries with warm political relations are more likely to negotiate and increase bilateral trade volumes.

The third effect of a warm political relationship is the existence of a stable trade environment. Political stability is crucial for creating a favourable environment for trade. Countries with warm political relations are less likely to engage in disputes or conflicts that could disrupt trade flows (Whitten and et al,2020). This stability provides businesses the confidence to invest in long-term trade relationships, leading to sustained growth in bilateral trade volumes as the time goes. Next, the enhancement of cooperation. This effect leads to a collaboration of countries to improve transportation networks or streamline customs procedures, reducing trade costs and again boosting up bilateral trade volumes. Expanding bilateral trade volumes and promoting long-term economic growth for both countries are made possible by the trust, stability, and cooperation that cordial political relations promote through warm relationships (Whitten and et al,2020).

4-3.Cold Political Relationship

A state of diplomatic friction or strained relations between two or more countries is referred to as a "cold political relationship". Under such circumstances, there can be a lack of confidence, a breakdown in communication, or even outright animosity between the leaderships or governments of the participating nations. There are several ways in which this tense relationship can appear, such as disagreements over ideologies, trade restrictions, military wars, or diplomatic issues.

The characteristics of cold political relationships in international trade include limited diplomatic engagement. It reduced or minimal communication between governments, with fewer official meetings, diplomatic visits, or channels for dialogue (Shu,2023). Next, trade barriers. The characteristics of cold relationships will create an obvious imposition of tariffs, quotas, or other trade restrictions on goods and services exchanged between the countries (Bown and Crowley,2016). Therefore, hindering the flow of trade and investment.

The third characteristic is diplomatic standoffs. The cold relationship gives effect that will have occurrences on public disagreements, disputes, or conflicts over political, economic, or security issues, with little progress made towards resolution or compromise (Busse and Hefeker,2007). Lastly, propaganda and information warfare. Although it does not seem to be apparent, the cold relationship will one way establish the use of propaganda, disinformation, or cyberattacks to undermine the credibility or legitimacy of the opposing government or its leadership. Other characteristics include sanctions and isolation and strategic competition (Cai and et al,2023).

Cold political relationships frequently have a negative impact on diplomatic, economic, and security ties because they are marked by mistrust, hostility, and a lack of cooperation between nations. Attempts to strengthen or defrost these kinds of relationships usually call for diplomatic communication, steps to boost mutual trust, and compromises from both parties in order to resolve resentment and restore confidence (Cai and et al,2023).

4-4.Effect of Cold Political Relationship

In a cold political relationship, countries may impose higher tariffs, quotas, or other trade barriers on each other’s goods and services. Thus, increasing trade barriers. These barriers can make it more costly and difficult for

businesses to engage in cross-border trade, leading to a reduction in bilateral trade volumes (Kastner,2007). Next, decrease in investors' confidence. A reduction in foreign direct investment (FDI) between the countries might result from political conflicts undermining investor confidence in the stability of the business climate. Decreased investment may restrict trade and production potential, which may lead to a drop in the volume of bilateral commerce (Cai and et al,2023).

The third effect is deterioration of trade relations. Cooperation on trade-related issues and diplomatic contact frequently break out in the wake of a chilly political relationship (Folkert Graafsma and et al,2018). This can make it difficult to settle disputes or negotiate trade agreements, which further interfere with attempts to maintain or increase bilateral trade volumes. Lastly, the shift in trade patterns: In response to non-existence or declining trade relations, alternative trading partners or sources of goods and services may be sought by the countries. This may result in a reorientation of trade patterns, as enterprises seek to broaden their supply chains and reduce reliance on countries with which they have been at odds politically (Meng,2018).

In a nutshell, there can be a difficult environment for trade that is characterized by higher barriers, lower investment and uncertainties due to the cold policy relations of both countries. In order to mitigate these negative effects and support bilateral trade, efforts need to be made to improve diplomatic relations as well as address underlying political tensions.

5 .Analysis on the Implications of International Disputes on the International Trade in Malaysia

International trade contributes significantly to Malaysia's GDP. Malaysia is also leading in the regional trade of renewable and alternative energy in the ASEAN region (Masoud and et al,2024). Various laws and policies have been developed to support the energy transition endeavours (Abd. Aziz and et al,2024). However, the nature of international trade is inherently influenced by the political relationships between countries whereby disputes can occur between neighbouring countries (Khalid and et al,2020; Rozlinda and et al,2020). Disputes can disrupt trade flows, impact economic stability, and alter the competitive landscape. This part will discuss the implications of international disputes on Malaysia's international trade by examining the utility trade theory and the dynamics of cold and warm political relationships.

As mentioned in the previous section, utility trade theory posits that countries engage in trade to maximise their utility, which includes economic benefits such as GDP growth, employment, and consumer welfare (Krugman and Obstfeld,2009). Trade relationships are driven by comparative advantage, but disputes can disrupt these relationships and reduced economic welfare.

Among the impacts of international disputes on Malaysia's trade include economic sanctions and trade barriers. When involved in international disputes, countries may impose economic sanctions, and this could result in restricting Malaysia's access to certain markets. For instance, trade sanctions by major economies can lead to reduced exports and imports, affecting Malaysia's trade balance (Hufbauer and et al,2007). Disputes can also result in the imposition of non-tariff barriers such as quotas, import licenses, and stringent regulatory standards. These barriers increase the cost of trading, making Malaysian products less competitive in the global market (Baldwin,2016). To mitigate the risks, Malaysia may need to diversify its supply chains and invest in building more resilient trade networks (Sheffi, 2015).

Furthermore, the international disputes also have an impact on Malaysia's trade in regards to investor confidence and economic stability. In regards to Foreign Direct Investment (FDI), political disputes can erode investor confidence, leading to reduced FDI inflows. Investors seek stable and predictable environments, and disputes create uncertainty (Busse and Hefeker,2007). Prolonged disputes may also lead to economic instability, affecting exchange rates, inflation, and overall economic growth (Rose,2005).

The nature of political relationships significantly influences trade dynamics, either in the form of warm political relationships, or cold political relationships. Warm political relationships foster bilateral trade agreements, reducing tariffs and non-tariff barriers, and enhancing trade cooperation. For example, Malaysia's warm relations with countries like China have led to significant trade partnerships (Chong and Li,2013). Also, warm relationships facilitate trade through mutual recognition of standards, streamlined customs procedures, and reduced bureaucratic hurdles (Freund and Weinhold,2004). Meanwhile, cold political relationships can lead to trade retaliation measures, where countries impose reciprocal tariffs and barriers. This tit-for-tat escalation can significantly hamper trade flows (Bown and Crowley,2013).

In response to cold relationships, Malaysia might seek to diversify its trade partners to reduce dependency on any single country or bloc (Athukorala,2010).

The US-China Trade War had significant implications for Malaysia, a key player in the global electronics supply chain. Tariffs imposed on Chinese goods led to shifts in supply chains, with some manufacturers relocating to Malaysia to avoid tariffs. However, the overall uncertainty negatively impacted trade flows and investment decisions (Tan,2020). Whereas the dispute between Malaysia and the European Union over palm oil sustainability standards exemplifies how environmental and political issues can impact trade. The EU's restrictions on palm oil imports due to deforestation concerns led to reduced market access for Malaysian palm oil, prompting Malaysia to seek alternative markets and negotiate trade terms (Parveez and et al,2020).

Having analysed all the relevant facts, it is clear that international disputes have profound implications for Malaysia's international trade. By disrupting trade flows, imposing barriers, and creating economic uncertainty, disputes can negatively impact Malaysia's economic welfare. Understanding the utility trade theory and the nature of political relationships is crucial for devising strategies to mitigate these impacts. Malaysia must navigate these complex dynamics by diversifying trade partners, building resilient supply chains, and fostering stable political relationships to sustain its economic growth in the face of international disputes.

6 .International Trade and Unemployment: Implications from International Dispute

International disputes have a profound impact on international trade, influencing various economic facets, including unemployment rates. The complex interplay between international relations and economic activities highlights how conflicts between nations can disrupt the smooth flow of trade, which in turn affects job markets. This part will discuss these dynamics in detail, focusing on mechanisms such as trade barriers, economic sanctions, investor confidence, currency fluctuations, and supply chain disruptions. Additionally, it delves into the specific context of Malaysia to illustrate how these global phenomena manifest locally.

6-1.Trade Barriers and Unemployment

One of the most direct impacts of international disputes on trade and unemployment arises from the imposition of trade barriers. When countries

engage in conflicts, they often resort to tariffs, quotas, and other restrictions on imports and exports. These measures can significantly increase the cost of goods and services, disrupting the economic equilibrium. For example, during the U.S.-China trade war, both countries imposed substantial tariffs on each other's goods. According to Bown (2019), these tariffs not only increased production costs but also reduced the competitiveness of affected industries. Higher costs lead to reduced demand for products, which forces companies to cut back on production and lay off workers, thus increasing unemployment (Atif Awad and Ishak Yussof,2016).

In Malaysia, a country heavily reliant on exports, such trade barriers can be particularly detrimental. The electronics sector, a major contributor to Malaysia's GDP, was indirectly affected by the U.S.-China trade war. Malaysian companies that were part of the global supply chain faced increased costs and reduced orders as the trade dynamics shifted (Athukorala,2019). This led to job losses and heightened economic uncertainty.

6-2.Economic Sanctions and Employment

Economic sanctions are another tool often used in international disputes, with significant repercussions for trade and employment. Sanctions can restrict access to crucial markets, financial systems, and technologies, effectively crippling industries. For instance, the comprehensive sanctions imposed on Iran drastically curtailed its oil exports, leading to severe economic contraction and widespread job losses in the energy sector (Katzman,2020). The cascading effect of these sanctions affected ancillary industries, resulting in broader unemployment.

For Malaysia, sanctions imposed on trading partners can disrupt economic activities. If a major trading partner of Malaysia, such as China or the United States, were to face sanctions, the ripple effects would likely harm Malaysia's trade volumes and employment. The interconnectedness of global economies means that sanctions can lead to decreased demand for Malaysian exports, forcing businesses to reduce their workforce.

6-3.Investor Confidence and Job Creation

Investor confidence is crucial for economic growth and job creation. International disputes create an environment of uncertainty and instability, which can deter investment. Baker and et al. (2016) state that economic policy uncertainty can lead to reduced investment and hiring. Companies

may adopt a cautious approach, delaying or cancelling expansion plans due to the unpredictable economic landscape. This reduction in investment directly impacts job creation, as fewer new projects mean fewer employment opportunities.

Malaysia can be significantly affected by diminished investor confidence. During periods of international disputes, investors may seek safer, more stable markets, leading to reduced FDI inflows into Malaysia. This is particularly detrimental to sectors such as manufacturing and technology, which rely heavily on foreign investments for growth and development (Chia,2017). The resultant slowdown in industrial growth can lead to higher unemployment rates, as the anticipated jobs from new investments fail to materialize.

6-4.Currency Fluctuations and Employment

Currency fluctuations are another consequence of international disputes that can impact trade and employment. Disputes can lead to volatility in currency markets, while depreciating currency makes exports even competitive in the international market. However, it also makes imports more expensive, increasing costs for industries that rely on imported raw materials and components. This can squeeze profit margins and lead to job cuts in import-dependent sectors.

Bussière, Delle Chiaie, and Peltonen (2014) highlighted how exchange rate volatility can affect trade balances and economic stability. In Malaysia, the ringgit's value fluctuations can have significant implications for the economy. A weaker ringgit can boost the competitiveness of Malaysian exports but can also increase the costs for industries that depend on imported goods. This dual effect can lead to a mixed impact on employment, where export-driven sectors might see job growth while import-reliant sectors face job losses.

6-5.Supply Chain Disruptions

Modern global supply chains are highly interconnected, and any disruption can have significant economic repercussions (Dlewis,2021). International disputes can lead to such disruptions, halting the flow of components and raw materials needed for production. The COVID-19 pandemic, though not a typical international dispute, exemplifies how supply chain disruptions can lead to immediate job losses (Baldwin and Freeman,2020). Companies facing disrupted supplies may reduce their workforce as they struggle to

maintain operations.

For Malaysia, a critical player in global supply chains, such disruptions can be particularly damaging. The country's electronics and automotive industries are heavily integrated into international supply chains. Any disruption due to international disputes can lead to delays and increased costs, prompting companies to cut jobs. The 2011 Thailand floods, which affected the global supply chain for electronics, demonstrated how such disruptions can lead to significant job losses in Malaysia (Athukorala, 2019).

6-6.Shifts in Trade Relationships

International disputes can also lead to shifts in trade relationships as countries seek new partners to mitigate the effects of conflict. These shifts can impact employment in industries that were previously dependent on stable trade relationships. Workers in affected industries may face job losses if new markets are not as profitable or stable as the previous ones.

In Malaysia, shifts in trade relationships can have profound impacts. Malaysia benefits from ASEAN regional trade and this is prevalent with the development of the Halal industry and Islamic finance (Ruzian and Norilawati,2009) as well as the automotive sector (Jamaluddin and et al, 2022; Hasani and et al,2023). However, international disputes involving major trading partners can disrupt these agreements, affecting trade volumes and employment. For instance, tensions between China and the United States have prompted shifts in supply chains, with some companies relocating their manufacturing bases to Southeast Asia. While this can create new opportunities, it also poses risks as the region becomes a new battleground for trade disputes (Chia,2017).

6-7.Tourism and Employment

Malaysia tourism industry has been flourishing due to its natural and cultural heritage significance (Khalid and et al,2013). However, tourism can be significantly affected by international disputes. Political instability and travel restrictions resulting from disputes can reduce tourist arrivals, leading to job losses in the hospitality and service industries. Henderson (2003) noted how political factors can influence tourism flows, impacting employment in regions dependent on tourism.

Malaysia, known for its vibrant tourism industry, can suffer from reduced tourist arrivals during international disputes. Travel bans, advisories, or

general instability can deter tourists, leading to a downturn in the tourism sector. This impacts not only hotels and restaurants but also a wide range of associated businesses, from transportation to local artisans, ultimately leading to increased unemployment.

6-8.Trade War between the U.S. and China

This serves as a pertinent case study to illustrate the broader impacts of international disputes on trade and unemployment, particularly in Malaysia. The trade war led to significant tariffs on a wide range of goods, disrupting global supply chains and creating economic uncertainty. Malaysian companies, particularly those in the electronics sector, were caught in the crossfire, as they were part of the supply chains involving both U.S. and Chinese companies.

As Athukorala (2019) explained, the reconfiguration of supply chains affected Malaysian exporters. Companies faced increased costs and reduced orders, leading to job losses. Furthermore, the uncertainty surrounding the trade war led to reduced investment, as businesses adopted a cautious approach. This slowdown in investment further exacerbated unemployment, as fewer new projects were initiated.

International disputes have multifaceted impacts on international trade, with significant consequences for unemployment. Trade barriers, economic sanctions, investor confidence, currency fluctuations, supply chain disruptions, and shifts in trade relationships all play a role in shaping the employment landscape. For Malaysia, a country deeply integrated into the global economy, these impacts are particularly pronounced. The electronics, automotive, and tourism sectors are among those most affected, illustrating the broad and interconnected nature of the challenges posed by international disputes.

Policymakers in Malaysia and other affected countries must navigate these complexities by fostering resilient economic structures, diversifying trade relationships, and encouraging domestic investments to mitigate the adverse effects on employment. Atif and Ishak (2016) explain that by understanding and addressing the intricate links between international disputes and trade, nations can better prepare for and respond to the economic challenges that arise from global conflicts.

7 .Dispute Settlement Body that can be implemented to Address International Disputes.

7-1.Key International Dispute Settlement Mechanisms

International dispute settlement mechanisms are crucial for addressing issues related to international trade, providing a structured, rule-based approach to resolving disputes and maintaining stability in trade relations. For Malaysia, an export-driven economy heavily reliant on international markets, these mechanisms are vital for ensuring the smooth flow of trade, protecting investments, and fostering economic growth .

The World Trade Organization (WTO) Dispute Settlement Understanding (DSU) offers a comprehensive framework for resolving trade disputes between member countries. The DSU process involves consultations, panels, appeals, and the possibility of authorized retaliatory measures (World Trade Organization, n.d.). For Malaysia, participating in the WTO's dispute settlement mechanism ensures that any trade disputes with other member countries can be addressed through a structured and predictable legal framework. This predictability is crucial for maintaining investor confidence and ensuring the uninterrupted flow of Malaysian exports. For instance, in cases where Malaysia faces unfair trade practices or barriers, the WTO's dispute settlement mechanism allows the country to seek redress and ensure compliance with international trade rules, thereby protecting its economic interests and employment in key export sectors.

Investor-State Dispute Settlement (ISDS) provisions, included in many bilateral investment treaties (BITs) and free trade agreements (FTAs), allow investors to bring claims against host states for alleged breaches of investment protection standards (United Nations Conference on Trade and Development,2019). Malaysia has been a significant recipient of foreign direct investment (FDI), which has played a crucial role in job creation and economic growth. By providing a mechanism for resolving disputes between investors and states, ISDS enhances the stability of the investment climate in Malaysia. This stability is essential for attracting and retaining FDI, which in turn supports industrial development and employment. For example, ISDS mechanisms can protect Malaysian investors abroad from discriminatory practices and ensure that foreign investments in Malaysia are not subjected to unfair treatment, thereby fostering a favorable environment for economic growth.

Regional trade agreements, such as the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and the Regional

Comprehensive Economic Partnership (RCEP), include their own dispute resolution mechanisms (Petri and Plummer,2020). These mechanisms are designed to address trade disputes between member countries in a manner that is tailored to the specific provisions and objectives of the agreements. Malaysia's participation in these regional agreements provides additional avenues for resolving trade disputes and ensures that the country can benefit from enhanced market access and economic integration. For instance, the CPTPP and RCEP dispute resolution mechanisms facilitate the resolution of trade issues within a regional context, promoting economic cooperation and reducing the likelihood of trade disruptions that could negatively impact Malaysian exports and employment.

The importance of these international dispute settlement mechanisms for Malaysia cannot be overstated. They provide legal certainty and predictability, which are essential for maintaining a stable trading environment. By ensuring that disputes are resolved based on legal principles rather than power dynamics, these mechanisms foster trust and cooperation among trading partners (Matsushita and et al,2015). This is particularly important for Malaysia, where export-oriented industries rely on stable and predictable access to international markets. Furthermore, effective dispute resolution mechanisms prevent the escalation of disputes into trade wars, which can have severe economic and employment consequences. For example, the consultation phase in dispute resolution encourages dialogue and negotiation, promoting amicable settlements and preventing trade disruptions.

Moreover, these mechanisms enforce trade rules and ensure compliance with international trade obligations. This enforcement is crucial for maintaining the integrity of trade agreements and protecting Malaysia's economic interests (Nur Anith Nabilah Rusli and et al,2023). For instance, if a trading partner imposes unfair trade barriers on Malaysian exports, the WTO's dispute settlement mechanism can provide a legal avenue for seeking redress and ensuring that the partner complies with agreed-upon trade rules. This enforcement capability deters future violations and promotes a level playing field in international trade.

International dispute settlement mechanisms play a vital role in addressing trade issues in Malaysia. The WTO Dispute Settlement Understanding, Investor-State Dispute Settlement provisions, and regional trade agreement

mechanisms provide structured, rule-based approaches to resolving disputes, ensuring legal certainty, preventing escalation, and enforcing trade rules. These mechanisms are essential for maintaining a stable trading environment, attracting and retaining foreign investment, and fostering economic growth (Samya and et al,2024). For Malaysia, an export-driven economy, effective dispute resolution is crucial for protecting its economic interests, ensuring market access, and supporting job creation and industrial development.

7-2.The Importance of Dispute Settlement Mechanism

In a variety of settings, such as commercial agreements, international relations, and legal systems, dispute settlement mechanisms are essential. In many different contexts, dispute settlement mechanisms are essential for upholding law and order, encouraging collaboration, and advancing justice. These systems support stability, justice, and economic development locally, nationally, and globally by offering organised dispute resolution procedures. They are crucial instruments for efficiently resolving conflicts and creating a more peaceful and cohesive international community.

From the international relationship aspect, this mechanism plays a role in maintaining stability and predictability. In international relations, dispute settlement mechanisms, such as those found in international treaties or agreements, contribute to stability by providing structured processes for resolving conflicts between countries. This helps prevent escalation into larger disputes or conflicts. Meanwhile, in trade agreements like the WTO (World Trade Organization) or regional trade blocs, dispute settlement mechanisms ensure that member states abide by agreed-upon rules and commitments (World Trade Organization,n.d.). This fosters predictability and trust in international trade relations, encouraging investment and economic growth.

From the legal perspective, dispute settlement mechanisms within legal systems ensure that disputes are resolved according to established laws and regulations. This upholds the rule of law and reinforces public confidence in the justice system. In addition, in business and commercial law, effective dispute resolution mechanisms such as arbitration or mediation ensure that contractual obligations are enforced, reducing uncertainty and promoting fair business practices (ACCA, n.d.). The third importance can be viewed from the economic perspective. An effective dispute settlement mechanism will

enhance investor confidence by providing assurance that legal disputes can be resolved fairly and efficiently. The increase of investors in a country will lead to a stable financial market thus leading to the possibility of allocating resources more efficiently across sectors, promoting balanced economic growth and sustainability. Moreover, efficiency-seeking multinational corporations have been driven to invest in the East Asian region by favourable government policies, declining transportation, information, and communication costs, and the growth of China's economy in the 1990s. This has resulted in an acceleration of production sharing and intra-regional trade, especially in machinery and equipment (Pai Wei Choon and et al,2018).

In conclusion, the operation of international trade depends on dispute settlement mechanisms since they guarantee compliance with regulations, settle conflicts amicably, and foster economic expansion and stability. Their function goes beyond simple legal acts to include more significant ramifications for economic growth, and duties in the interdependent global economy. Because of this, preserving and enhancing these processes is crucial to creating an international trading environment that is predictable, governed by norms, and advantageous to all parties involved.

8 .Conclusion

This research validates the premise that the level of warmth or coldness in political ties has a substantial impact on international trade. The utility theory, which examines the factors that influence individuals' decision-making, can provide insights into the potential consequences of political conflicts on global trade. Political dynamics impact the shared emotional states of customers and trade companies, hence influencing the interactions between importers and exporters (Shu,2023).

Research grounded in the realist theory of international relations suggests that political interactions have an impact on the levels of trade. Positive diplomatic ties foster economic collaboration, but hostile political connections impede it. Improved diplomatic relations lead to increased profits or reduced losses in trade, whereas strained relations have the reverse impact (Whitten and et al,2020). Political conflicts can greatly hinder various aspects of economic integration, such as trade, investment, supply chains, and transportation logistics.

In contrast, the liberal view of international relations posits that international trade mitigates the unpredictability of international political relations. Trade links foster interdependence among nations, hence diminishing the likelihood

of political discord. When countries view international trade as a competition for limited resources, it can result in bilateral political problems, including trade wars and colonial expansion (Wang and Tao, 2024). Countries that have higher levels of international trade and greater economic interdependence are less prone to participating in international conflicts. This fosters a more peaceful and favorable atmosphere and diminishes the tendency to favor domestic products in purchase decisions, sometimes known as "home bias" (Whitten and et al,2020).

Scholars do not agree on the correlation between trade fluctuations and political relationships (Shu,2023). It is anticipated that greater economic integration will reduce international conflicts. Following the 1989 Tiananmen Square Incident, China's relations with Western countries worsened, leading to a decline in foreign trade and investment (Cai and et al,2023). President Bill Clinton thereafter held the belief that increased commercial activities may enhance Sino-US relations and China's connections with other nations (Whitten and et al,2020).

There is little doubt that there is a strong correlation between international disputes and international trade. Historical instances of international disputes illustrate that these wars have a detrimental effect on international trade, not only for the countries directly engaged but also for third-party countries like Australia, which experienced the repercussions of hostilities between China and the United States. In order to alleviate these undesirable circumstances, it is necessary to implement certain actions. The best examples of political tensions between countries can also be specified to force the government to change the policy, an attempt to overthrow the government, fueling secessionist movements, weakening and vulnerable the government against the movements of foreign states (Mohammad,2014). To maintain economic growth among international disagreements, it is crucial to effectively manage intricate dynamics, expand trade partnerships, establish robust supply networks, and cultivate solid political ties. Gaining a comprehensive understanding of international commerce and the associated challenges in resolving disputes is essential for fostering economic progress in Malaysia.

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