

ISAS Brief

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Enhancing India-Malaysia Economic Ties

India and Malaysia signed 31 Memorandums of Understanding (MoUs) with a value of over USD 36 billion to expand cooperation between the two nations in various areas including skills development and capacity building. The MoUs were signed during the Prime Minister of Malaysia, Najib Razak's six-day State Visit to India, in commemoration of the 60th anniversary of India-Malaysia diplomatic relations.

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Relations between India and Malaysia are at a historic high, with over USD 36 billion worth of deals signed during the six-day State Visit by the Prime Minister of Malaysia Najib Razak to Chennai, India, in end-March to early April. The visit marked 60 years of bilateral cooperation between the two nations, a decade longer than India's ties with the Association of Southeast Asian Nations (ASEAN), of which Malaysia is a member. This follows Prime Minister of India Narendra Modi's landmark visit to Malaysia in November 2015, five years after the formation of a strategic partnership between the two nations.

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Over the past 60 years, relations between India and Malaysia have maintained at a stable equilibrium, where both Prime Ministers acknowledged the contributions made by the two countries in promoting regional security, economic growth and development in the Asia-Pacific region, “[hailing] the strong bonds of friendship forged” through the strength of the cultural ties between both countries.² The visit concluded with a number of bilateral talks between the Prime Ministers and the promise of revitalisation of the Malaysia-India Comprehensive Economic Cooperation Agreement (MICECA)³ and deeper engagement across a number of areas from security, investment, health, skills development to capacity building, with a significant bulk of the projects set to be implemented in Malaysia.

During the visit, 31 Memorandums of Understanding (MoUs) were signed between the two nations to expand the strategic partnership established in October 2010, with the overall aim to improve flagging bilateral trade, cooperate in the areas of defence and security, and further expand the development of socioeconomic sectors, particularly in health and education. The MoUs also aimed to focus on the expansion of the tourism sector as an integral part of the strong cross-cultural links between both countries.⁴

India as a Trade and Investment Partner in the ASEAN Region

Malaysia is currently India’s third largest trading partner within the ASEAN region, with bilateral trade between both countries at USD 12.8 billion in 2015-16, a 32.0% decrease compared to USD 16.9 billion during the previous year, due in part to the global economic downturn and the depreciation of the Malaysian ringgit over the recent years.⁵ The trade imbalance is in favour of Malaysia, with exports—consisting primarily of palm and crude oil—of USD 5.4 billion in the

² Joint Statement on 60th Anniversary of India-Malaysia Diplomatic Relations. (2017, April 1). Retrieved from Ministry of External Affairs, Government of India: <http://mea.gov.in/bilateral-documents.htm?dtl/28297/joint+statement+on+60th+anniversary+of+indiamalaysia+diplomatic+relations>

³ Strengthening Malaysia-India Bilateral Relations. (2017, April 10). Retrieved from Najib Razak: <https://www.najibrazak.com/en/blog/strengthening-malaysia-india-bilateral-relations/>

⁴ Ministry of External Affairs, Government of India. (2017, April 1). List of Agreements/MoUs exchanged during the State Visit of Prime Minister of Malaysia to India. Retrieved from Ministry of External Affairs, Government of India: <http://www.mea.gov.in/bilateral-cuments.htm?dtl/28296/List+of+AgreementsMoUs+exchanged+during+the+State+Visit+of+Prime+Minister+of+Malaysia+to+India>

⁵ Ministry of Commerce & Industry, Government of India. (2017, April 10). Retrieved from Ministry of Commerce & Industry, Government of India, Department of Commerce: <http://commerce.gov.in/>

2015-16 period. The Prime Ministers expressed their commitment to the Regional Comprehensive Economic Partnership (RCEP), and aspirations to increase bilateral trade to USD 15 billion in “the immediate future” with boosts to the private sector via increased business-to-business engagement.

The RCEP is a proposed free trade agreement (FTA) between the ten ASEAN member nations and the six partners it has existing FTAs with, of which India is the only South Asian state involved. In August 2016, India shifted its tariff reduction schedule from a three-tiered approach—guided largely in an attempt to restrict Chinese preferential access to the Indian market—to that of a one-tier structure applicable to all RCEP members.⁶ The importance of India’s engagement within RCEP is more relevant now, though negotiations are still at a deadlock despite the opportunity presented by the Trump administration having halted the Trans-Pacific Partnership (TPP) talks. The United States-led TPP was previously seen as the more feasible option as a potential pathway to deepen trade engagement in the Asia-Pacific region, with all of the parties involved being Asia-Pacific Economic Cooperation (APEC) members.

In terms of investment, there has been significant growth between the two nations in various sectors. Both leaders acknowledged their appreciation for both countries in enhancing the ease of doing business for investors. Again, Malaysia continues to invest more heavily in India than vice versa, with total investments from Malaysia which stand at more than USD 7 billion, close to triple the investment from India. Around 120 Indian companies are operating within Malaysia, primarily in the information technology, pharmaceuticals, automobiles, biotechnology, healthcare and education sectors. The possibility of a deeper investment partnership was broached, one which would leverage on the India-Malaysia strategic partnership and evolve projects from being purely bilateral initiatives to conducting joint-venture projects in third countries in the ASEAN region. Invest India and the Malaysian Investment Development Authority were assigned to potentially lead any public-private partnership initiatives.⁷

⁶ Palit, A. (2016). *India & RCEP: Will Flexibility on Tariffs Get Access in Services?* Singapore: Institute of South Asian Studies, National University of Singapore.

⁷ Joint Statement of the India – Malaysia CEO’s Forum, New Delhi (March 31, 2017). (2017, April 1). Retrieved from Ministry of External Affairs, Government of India: <http://mea.gov.in/bilateral-documents.htm?dtl/28294/joint+statement+of+the+india++malaysia+ceos+forum+new+delhi+march+31+2017>

Malaysia is the second-largest ASEAN foreign direct investment (FDI) giver to India, with USD 238 million of funds in 2012, over 1.2% of total FDI inflows into India.⁸ Infrastructure development continues to be one of the key linkages strength between both countries—however, it was acknowledged that more can be done by the private sector in Malaysia to engage in investment and business opportunities in India, which is largely private sector driven. The Malaysia private sector has been particular active in India’s infrastructure sector, with over 50 road connectivity projects worth USD 2.8 billion in India, and another 7 projects valued at USD 0.34 billion still under construction.

One of the more significant agreements involve major Malaysian logistical firms and the Special Economic Zone Limited (India) in the development of an integrated maritime city over a thirty-year period on Pulau Carey in Malaysia valued at USD 22.78 billion.⁹

Conclusion

The six-day State Visit was deemed to be a fruitful reengagement of the strategic partnership between the two nations. Both Prime Ministers have continuously restated their commitment to deeper engagement of India within the ASEAN region and in RCEP negotiations. The economic relationship between India and Malaysia is set to flourish over the next half decade, with both countries committed to deeper engagement within the other’s socioeconomic development framework.

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⁸ Bilateral FDI Statistics. (2017, April 10). Retrieved from the United Nations Conference on Trade and Development (UNCTAD): <http://unctad.org/en/Pages/DIAE/FDI%20Statistics/FDI-Statistics-Bilateral.aspx>

⁹ Malaysia-India Business Forum Held In Conjunction With The Official Visit Of YAB Prime Minister To Republic Of India 3 April 2017, Taj Palace Hotel, New Delhi. (2017, April 10). Retrieved from the Ministry of International Trade and Industry, Government of Malaysia: http://www.miti.gov.my/miti/resources/Media_Release_-_Malaysia-India_Business_Forum_Held_In_Conjunction_With_The_Official_Visit_Of_YAB_Prime_Minister_To_Republic_Of_India_3_April_2017,_Taj_Palace_Hotel,_New_Delhi.pdf