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New Dimensions to Malaysia-Pakistan Relations

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Summary

Malaysian Prime Minister Mahathir Mohammad, was the Guest-of-Honour at the Pakistan Day celebrations in Islamabad on 23 March 2019. His state visit could set the stage for a new economic and strategic engagement between the two countries.

Malaysian Prime Minister Mahathir Mohammad was the Guest-of-Honour at the Pakistan Day celebrations in Islamabad on 23 March 2019 and conferred Pakistan's highest civilian award, the Nishan-e-Pakistan. Malaysia and Pakistan have generally enjoyed good diplomatic relations. The high personal regard that Mahathir and Imran Khan, Prime Minister of Pakistan, have for each other has added a new dimension to the relationship.

Both leaders have expressed admiration for each other. Khan has openly expressed his respect for his Malaysian counterpart who he credits for steering Malaysia through the 1997 Asian financial crisis. Pakistan, he stresses, needs to learn from Malaysia's handling of the crisis and its experience of developing the tourism sector.

Mahathir's three-day state visit could set the stage for renewed economic and strategic engagement between the two countries. The two leaders signed a series of Memorandums of Understanding worth an estimated US$900 million (S$1.22 billion) pertaining to the telecommunication, information technology, power, halal food and agriculture sectors. Mahathir also laid the foundation stone for Proton's first South Asian manufacturing assembly plant, located near Karachi, which is expected to begin operations in June 2020 and produce 20,000 cars a year. Apart from hoping to make inroads into the Pakistani market, Proton also aims to use Pakistan as a base from which to sell its cars in Central and West Asia. On its part, Pakistan hopes that Proton's entry bolsters Pakistan Automotive Development Policy, through which Pakistan hopes to generate employment by incentivising foreign automobile manufacturers to build vehicles in Pakistan.

While the promised investments are no doubt welcomed by Pakistan, they are insufficient to help the country confront its crippling current account deficit. Pakistan needs to boost its exports to Malaysia and Southeast Asia. Malaysia could also provide an alternative to Pakistan's (over)reliance on the Middle East and China for financial assistance and foreign policy agendas. On its part, Malaysia could benefit from penetrating the Pakistani automobile and power market, and use it as a point of entry to markets in Western and Central Asia.

In 2007, the two countries had inked a free trade agreement known as The Malaysia Pakistan Closer Economic Partnership Agreement (MPCEPA). The MPCEPA covered trade in goods and services, investments and economic cooperation. This was the first free trade agreement between Malaysia and a South Asian country, and remains one of the most comprehensive agreements that Pakistan has signed.

Business groups in Pakistan have, however, complained that the agreement does not serve to boost Pakistan's exports to Malaysia. The Pakistan Business Council, a business advocacy group consisting of 14 of Pakistan's largest businesses, laments that Pakistan had focused too heavily on agricultural exports and neglected manufactured goods. Moreover, items that have the highest potential for exports are either not part of Malaysia's concession list or Malaysia has subsequently given better terms to other countries on these goods. Business groups in Pakistan have long been arguing that Malaysia is not only a potential market for Pakistani manufactured goods but also an avenue towards reaching markets in Southeast Asia. It is worth noting here that Malaysia has been a strong supporter of Pakistan's bid to be a full dialogue partner of the Association of Southeast Asian Nations. Of course, this is contingent upon Pakistan developing its manufacturing sector and diversifying its exports.

In line with the MPCEPA, Pakistan eliminated or reduced tariffs on a number of imports from Malaysia. Chief amongst this is palm oil which constitutes more than 50 per cent of imports from Malaysia. The introduction of the MPCEPA saw a 10 per cent decrease in tariffs on palm oil. Malaysia's dominance in this sector was, however, reduced in 2013 when Pakistan offered the same tariff reduction to Indonesia. Indonesia quickly emerged as the largest supplier of palm oil to Pakistan.

Given the shrinking demand for palm oil and threats from the European Union that it may ban the use of palm oil, both Malaysia and Indonesia are competing for markets. It is no surprise that palm oil was an important point of discussion during Mahathir's visit. A joint statement issued by the leaders of Malaysia and Pakistan cited the trade in palm oil as an issue that both leaders sought to develop.

During his visit, Mahathir also inspected the JF-17 Thunder combat jets that are jointly manufactured by Pakistan and China. Asad Umar, the Finance Minister of Pakistan, told reporters that the Malaysian leader had expressed an interest in purchasing the JF-17. Mahathir himself threatened to respond to any impending European Union boycott of palm oil by scrapping plans to purchase French made combat planes. Malaysia has already committed to buying anti-tank missiles from Pakistan and the purchase of the JF-17 may have implications on its strategic relationship with Pakistan, and potentially China too.

Overall, Mahathir's visit may have opened the door for greater economic and strategic engagement between Malaysia and Pakistan. Recognizing this, both leaders stressed the need to urgently convene a meeting to discuss the MPCEPA. It remains to be seen how the two countries will go forward given internal challenges, regional imperatives and the changing geopolitical arena.

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