

INDIA – MALAYSIA

Bilateral Relations in the 21st Century

Editors

Dr. I. Parvin Banu

Dr. R. Sivaramakrishnan



Associate Editors

Mr. P. Keerthivasan

Mrs. S. Shajitha Banu



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Chief Editors

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**STRENGTHENING TIES: A COMPREHENSIVE STUDY OF ECONOMIC
RELATIONS BETWEEN MALAYSIA AND INDIA**

Dr. B. Indira Priyadharshini

Assistant Professor,
Department of Commerce (CA)
NGM College Pollachi.
kdharshana13@gmail.com

Abstract---India and Malaysia share long-standing cultural and historical ties that have evolved into robust economic relations in the 21st century. This paper examines the trajectory of India-Malaysia economic relations, focusing on trade, investment, and cooperation in sectors such as palm oil, energy, technology, infrastructure, and education. It explores bilateral agreements, trade dynamics, and investment flows while evaluating the role of regional and global geopolitics. The paper concludes with policy suggestions for deepening economic cooperation and addressing challenges in a post-pandemic, multipolar world economy.

1. Introduction

The bilateral relationship between India and Malaysia is rooted in centuries of cultural exchange and maritime trade. In the modern era, these ties have matured into a dynamic partnership encompassing trade, investment, education, and strategic collaboration. Malaysia holds a strategic position in India's Act East Policy, which aims to strengthen economic and strategic relations with Southeast Asian nations. Conversely, India represents a large and growing market for Malaysian exports and investments. This paper explores the evolution, current status, and future of economic relations between the two countries.

2. Historical Context of Economic Relations

India and Malaysia established formal diplomatic relations in 1957. Economic engagement was modest in the early decades but grew substantially in the post-liberalization era of the 1990s. India's Look East Policy, launched in 1991, marked a strategic shift toward deeper engagement with Southeast Asia. Bilateral relations were elevated with the signing of various trade and cooperation agreements, culminating in the

Comprehensive Economic Cooperation Agreement (CECA) in 2010 (High Commission of India, Kuala Lumpur, 2022).

3. Trade Relations

3.1 Bilateral Trade Growth According to India's Ministry of Commerce and Industry, bilateral trade between India and Malaysia reached USD 19.4 billion in 2022-23, recovering from the COVID-19 pandemic slump. Malaysia is India's third-largest trading partner in ASEAN, while India ranks among Malaysia's top ten global trade partners (Ministry of Commerce, India, 2023).

3.2 Major Commodities Traded India imports significant quantities of palm oil, petroleum products, electrical goods, and chemicals from Malaysia. In contrast, India exports pharmaceuticals, machinery, iron and steel, and textiles to Malaysia (MITI Malaysia, 2023). Palm oil dominates the trade basket, with India being one of the largest importers of Malaysian palm oil.

3.3 Trade Agreements The India-Malaysia CECA, implemented in 2011, provides a framework for liberalized trade in goods and services and improved investment protection (ASEAN-India Centre, 2020). This agreement complements the ASEAN-India Free Trade Agreement (AIFTA) and strengthens economic linkages between India and Malaysia.

4. Investment Relations

4.1 Malaysian Investment in India Malaysian firms have invested in infrastructure, highways, energy, and urban development in India. Major players include IJM Corporation, Gamuda, and Scomi Engineering. Petronas, Malaysia's state oil company, has made strategic investments in India's petroleum refining and LNG sectors (UNCTAD, 2022).

4.2 Indian Investment in Malaysia Indian companies have invested in IT, pharmaceuticals, automotive, and education in Malaysia. Notable names include Infosys, TCS, Wipro, and Ranbaxy. India-Malaysia CEOs Forum and Malaysia-India Business Council facilitate bilateral investments and joint ventures (Invest India, 2023).

5. Sectoral Cooperation

5.1 Agriculture and Palm Oil India is the largest consumer of Malaysian palm oil. Though the trade has faced policy challenges such as import restrictions, diplomatic

efforts have kept the supply chain intact. Agricultural cooperation can be expanded to include rice, spices, and processed foods (Economic Times, 2023).

5.2 Infrastructure and Urban Development Malaysian expertise in construction and urban transport systems has contributed to Indian infrastructure projects, including metro rail systems and smart city initiatives. India's National Infrastructure Pipeline (NIP) offers new investment opportunities (NITI Aayog, 2022).

5.3 Energy and Petroleum India's energy demands have fostered cooperation with Petronas in refining and LNG supply. Renewable energy is an emerging area for collaboration, aligned with Malaysia's Green Technology Master Plan and India's solar mission (IEA, 2021).

5.4 Education and Human Capital Educational exchanges include joint academic programs, student scholarships, and professional training. Indian professionals in IT, engineering, and healthcare sectors contribute significantly to Malaysia's skilled workforce (Ministry of Education, Malaysia, 2023).

6. Challenges and Constraints

While the economic ties between India and Malaysia have grown steadily, several challenges constrain the full potential of this partnership:

- **Non-Tariff Barriers (NTBs):** Although both countries have committed to liberalized trade under the ASEAN-India Free Trade Area (AIFTA), NTBs such as cumbersome customs procedures, quality standards, and regulatory approvals continue to hinder the free flow of goods and services. These often disproportionately affect small and medium-sized enterprises (SMEs), limiting trade diversification.
- **Tariff Volatility on Palm Oil:** India, being one of the largest importers of Malaysian palm oil, has periodically revised tariffs and imposed restrictions, sometimes as a geopolitical or domestic agricultural protectionist measure. Such policy unpredictability affects Malaysian exporters and undermines investor confidence in trade predictability.
- **Geopolitical Sensitivities:** Political divergences, particularly regarding issues like Kashmir and India's internal policy decisions (such as CAA-NRC), have occasionally strained diplomatic relations. Statements from Malaysian leadership in the past have led to temporary trade tensions, highlighting how political narratives can impact economic cooperation.

- **Competition from China and ASEAN Members:** Malaysia's deep economic integration with China and other ASEAN countries creates competitive pressure on India. China's Belt and Road Initiative (BRI) investments, coupled with logistical and financial incentives, attract Malaysian partners, reducing the relative strategic economic space available for India.

Addressing these constraints requires proactive **economic diplomacy**, regular **bilateral dialogues**, and participation in regional forums to foster **transparency, trust, and alignment** in trade and investment goals (Observer Research Foundation, 2023).

7. Regional and Multilateral Frameworks

India and Malaysia engage actively through several regional and multilateral platforms, enhancing their economic diplomacy:

- **ASEAN–India Strategic Partnership:** India's relationship with ASEAN forms the backbone of its Act East Policy. Malaysia, being a core ASEAN member, benefits from frameworks such as the ASEAN-India Free Trade Agreement, which facilitates goods and services trade.

- **BIMSTEC (Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation):** Although Malaysia is not a BIMSTEC member, the initiative has spillover benefits for regional connectivity and maritime cooperation, indirectly benefiting Malaysian interests through broader Indo-Pacific engagements.

- **Indo-Pacific Cooperation Initiatives:** The shared vision for a **Free, Open, Inclusive, and Rules-Based Indo-Pacific** supports maritime security and economic collaboration. Malaysia's interest in the Indo-Pacific aligns with India's strategic initiatives, fostering opportunities in infrastructure, digital commerce, and sustainable development.

- **RCEP and Beyond:** India's decision to exit the **Regional Comprehensive Economic Partnership (RCEP)** in 2019 was due to concerns over trade imbalances and domestic industry protection. However, India's ongoing engagement with ASEAN through bilateral arrangements ensures that economic ties with Malaysia continue to be reinforced through **sectoral partnerships and capacity-building** programs (RIS, 2022).

8. Post-COVID-19 Recovery and Future Prospects

The COVID-19 pandemic posed significant economic disruptions, but also created **opportunities for transformation** in the India-Malaysia economic relationship:

- **Digital Acceleration:** Both countries leveraged digital technologies to maintain economic functions. India's *Digital India* initiative and Malaysia's *MyDIGITAL* blueprint signal a national push towards digital infrastructure, cybersecurity, cloud services, and e-governance.
- **New Growth Areas:** Digital trade, healthtech, fintech, and e-commerce are emerging as new pillars of bilateral cooperation. The pandemic exposed the need for resilient supply chains and robust healthcare infrastructure, offering India and Malaysia common ground for innovation and investment.
- **MSME and Startup Ecosystem:** Both nations are nurturing their micro, small, and medium enterprises (MSMEs) and start-up ecosystems. Collaborative incubation, skill development, and technology transfer can enhance productivity and innovation-led trade.
- **Climate and Green Economy Cooperation:** The post-pandemic recovery has underscored the importance of sustainable growth. Malaysia's renewable energy targets and India's ambitious solar and green hydrogen initiatives open avenues for clean tech cooperation and green investments (World Bank, 2022)

10. Conclusion

India and Malaysia have built a strong economic partnership underpinned by historical ties and modern economic imperatives. Despite some challenges, there are immense opportunities for expanding cooperation in trade, investment, technology, and education. A proactive and balanced approach, supported by diplomatic engagement and strategic alignment, will ensure that the economic relationship continues to flourish in the coming decades.

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