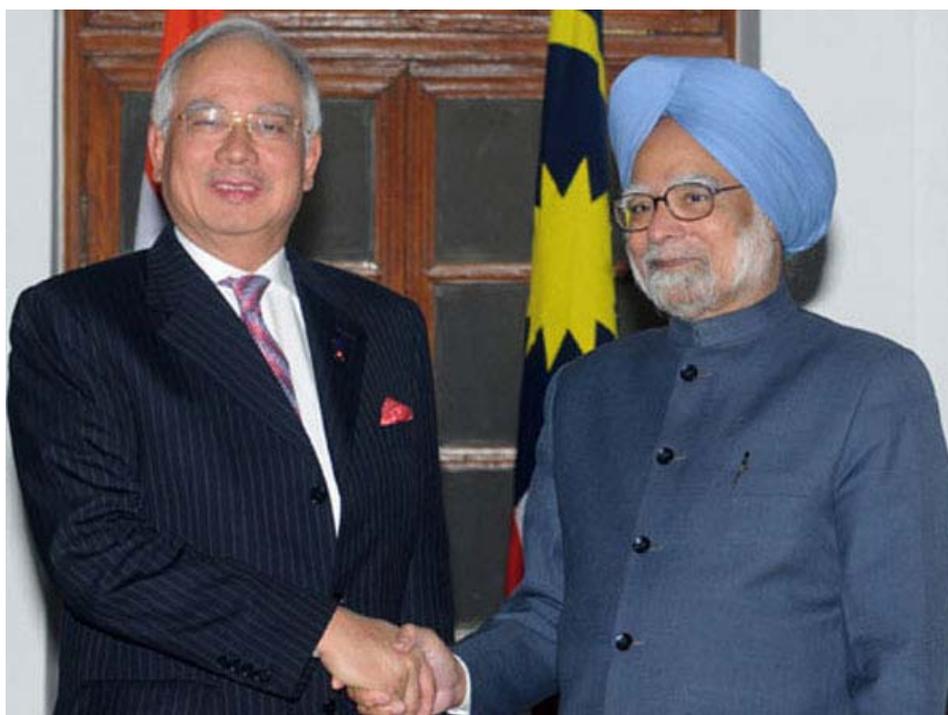


# ISIS FOCUS



• PP 5054/06/2011 (028668) • Issue No. 7/2010



## **The Second India-Malaysia Strategic Dialogue** *27-29 January 2010, Kuala Lumpur, Malaysia*

- ◆ *Global Views on India and Malaysia ..... 1*
- ◆ *Regional Security Outlook:  
Indian and Malaysian Perspectives ..... 5*
- ◆ *Maritime Security in South and East Asia:  
Developments and Challenges ..... 17*
- ◆ *Domestic Developments in India and Malaysia ..... 21*
- ◆ *Doing Business in India and Malaysia:  
Opportunities and Prospects ..... 25*



INSTITUTE OF STRATEGIC AND INTERNATIONAL STUDIES (ISIS) MALAYSIA  
[www.isis.org.my](http://www.isis.org.my)

*Limited Circulation*



## About ISIS

The Institute of Strategic and International Studies (ISIS), Malaysia's premier think-tank was established on April 8, 1983. As an autonomous and non-profit organisation, ISIS is engaged in objective and independent policy research. It also fosters dialogue and debate among the public sector, the private sector and academia.

ISIS has been at the forefront of some of the most significant nation-building initiatives in Malaysia's history, such as contributing to the Vision 2020 concept and as the consultant to the Knowledge-Based Economy Master Plan initiative. The Institute has also played a role in fostering closer regional integration and international cooperation through forums such as the Asia-Pacific Roundtable, the East Asia Congress and the Network of East Asian Think-Tanks (NEAT).

## ISIS Malaysia's core areas of research include:

- Economics;
- Foreign Policy and Security Studies;
- Social Policy; and
- Technology, Innovation, Environment and Sustainability.

## Its objectives are:

- To undertake research in various and specific fields and conduct long-term analysis of public policies on national and international issues;
- To contribute towards efforts in promoting general and professional discussions on important national and international issues through the organization of seminars, conferences and other activities;
- To provide an avenue and a forum for individuals, experts and intellectuals from various fields to exchange views and opinions and to conduct research in a free and conducive atmosphere;
- To disseminate information on research findings and other pertinent activities undertaken by or on behalf of the Institute;
- To provide library facilities on subjects pertaining to national and international issues;
- To collaborate and co-operate with other bodies, within or outside Malaysia, in the furtherance of its objectives.

### Editorial Team

Mahani Zainal Abidin  
Steven Wong  
Susan Teoh  
Thangam K Ramnath

### Design

Mohamad Hanafi  
Razak Ismail  
Jefri Hambali

### Photography

Jefri Hambali  
Halil Musa

Published by  
Institute of Strategic and International Studies (ISIS) Malaysia  
No. 1, Persiaran Sultan Salahuddin  
P.O. Box 12424, 50778 Kuala Lumpur, Malaysia

Tel: +603 2693 9366

Fax: +603 2691 5435

Email: [info@isis.org.my](mailto:info@isis.org.my)

Website: [www.isis.org.my](http://www.isis.org.my)

## Global Views on India and Malaysia

**S**ession One of the Dialogue discussed, among other things, how India and Malaysia assess key strategic and political and economic developments at the international level. The lead speakers were **Amb Sudhir T Devare**, Director General, Indian Council of World Affairs (ICWA) India, and **Dr Stephen Leong**, Director, Centre for International Studies, Universiti Tunku Abdul Rahman and Visiting Fellow, ISIS Malaysia. The session was moderated by **Tan Sri Mohamed Jawhar Hassan**, Chairman of ISIS Malaysia. Former ISIS Analyst **Tengku Iskandar** reports.



(From left) Stephen Leong, Mohamed Jawhar and Sudhir T Devare

**Amb Sudhir T Devare** brought into focus three main issues from 2009. These were:

- (1) The new approach in international affairs affecting developments in the region around India with Obama as US president.
- (2) India's recent general elections in May 2009 returned the same political party to power, therefore continuing the same Indian foreign policy, namely, independence of action, commitment to the principle of close relations with neighbours, and reaching out and engaging with major powers.
- (3) The AfPak (Afghanistan-Pakistan) policy in combating extremism, fundamentalism, the Taliban and Al-Qaeda in the two

countries. India is of the view that the international community should address the real causes of terrorism in those areas.

India is consulted closely by the US on AfPak policies though it does not decide on these policies, said Devare. India is working towards peace and stability in Afghanistan because it has been a victim of terrorism from that region for a long time. India has also been in dialogue with Pakistan for a long period of time and wants all mutual issues to be addressed. It wants Pakistan to act against terrorist groups attacking India from locations within Pakistan (the latest was the Mumbai attack). India wants Afghanistan's affairs to be decided by its people and not by the Taliban or its proxies; its current government must be given an opportunity to prove itself.

## The Second India-Malaysia Strategic Dialogue

India is giving Afghanistan US\$1.3 billion worth of aid to help it acquire stability and peace.

India is closely associated with its northern neighbour, Nepal, and the latter's political parties, including the Maoists. With Nepal's new constitution, India is hoping for stability in that nation. As for Sri Lanka, while the defeat and elimination of the Liberation Tigers of Tamil Eelam (LTTE), which is also banned in India, is a positive development, the country must address the humanitarian concerns of the Tamil minority. In the past, there was a risk of the latter's exodus to India.

Finally, the recent visit to India by the Bangladesh Prime Minister, as well as the handing over to India of a number of Bangladesh-based anti-India 'insurgents,' were positive signs of improving relations between the two nations said Devare.

India has offered Bangladesh a loan of US\$1 billion, and the two nations have signed a number of agreements, heralding an era of close relations between them.

### China

Though China's assertiveness has been of concern to India, political dialogue between them has been ongoing for the past seven years. India believes that its complex border issues with China should only be resolved through dialogue. However, said Devare, bilateral trade has exceeded US\$50 billion and China is soon to become India's largest trading partner. They consult each other extensively in international forums.

Devare said that China remains engaged with the Asia-Pacific with its Look East Policy and

it wishes to see peace and stability in the region not only maintained but enhanced. It also wants its engagement with Asean, which is fairly strong, to expand further. China regards the East Asia Forum as particularly promising and hopes that an Asian Economic Community would be realised one day. China recently signed FTAs with Asean and South Korea.

During the current economic crisis, India has introduced two economic stimulus packages, simultaneously with economic reforms. The nation has not been as significantly affected by the crisis as the more open economies, and expects to return to nine per cent growth in 2011.

*China regards the East Asia Forum as particularly promising and hopes that an Asian Economic Community would be realised one day*

India has been called upon to take an active role in climate change issues. Although there was no legally-binding agreement in Copenhagen, positive factors to be hopeful about were that dialogue has continued, the Kyoto Protocol has been saved, the United Nations Framework Convention on Climate Change (UNFCCC) will remain, and that the principle of differentiated responsibilities between the developed and non-developed countries was upheld.

Malaysia and India have continued to consult each other very closely on all the above issues said Devare and the need also for the two to work closely for their security and social well-being cannot be over-emphasised.

**Dr Stephen Leong** in his presentation said that while the following views may not be official Malaysian government views regarding China, Japan, and the US, they are close to it.

### China

Of the three countries, China with its stupendous economic growth is perhaps the most important to Malaysia.

During the Mao Tse Tung period and the export of China's communist struggle to Malaysia, Malaysia saw China as a threat. However, in 1974, after Mao, Malaysia and China began diplomatic relations, and Malaysia (together with the US and others) voted for China to be in the UN. From then onwards, other than disputes over islands in the South China Sea, Malaysia-China relations developed well.

In 2003, China signed a Treaty of Amity and Cooperation, and a treaty of strategic partnership with Asean. China's evolutionary development in its ongoing opening-up process, viewing as its top priority economic development, before the political reforms that the West has insisted upon, was something Malaysia has understood. China in turn appreciated Malaysia's non-censure over the Tiananmen Square incident.

Since 1949, China has made great progress, even in political aspects. Though many are concerned about China's military modernisation, Malaysia does not view China as a military threat. Malaysia has observed China engaging with Asean, joining the Asean Regional Forum, and moving more towards multilateralism recognising that it is good for China.

Malaysia sees the development and economic growth of China as very positive, and has seized opportunities in China in the areas of tourism, education, palm oil, and in selling to markets in China. And China, as part of Asean+3, is involved in building the East Asian Community.

### Japan

Relations with Japan have always been very positive. Malaysia has sought to learn how a relatively small country like Japan has risen from the ashes of defeat in World War Two to become the most economically successful Asian country that holds a great deal of wealth and technological know-how.

While some doubts about Japan, such as the quality of its products (Toyota), falling population figures, and a high suicide rate, are beginning to emerge, Malaysia continues to believe in Japan. Although Japan will face very strong competition from China and India in the future, historically, Japan was able to rise to its many challenges. Japan has also proven to be a true friend of Malaysia, particularly during the 1997-98 economic crisis.

*Malaysia has observed China engaging with Asean, joining the Asean Regional Forum, and moving more towards multilateralism recognising that it is good for China*

## The Second India-Malaysia Strategic Dialogue

Japan's relationship with China is very critical to Asia. The two nations are aware they have to work together for mutual benefit and in this aspect, Korea and Asean hope to be able to mediate between them.

### USA

Malaysia values its relationship with the United States which, in terms of investors and trade, is one of the top three most important countries for Malaysia. Although under Bush the US image fell greatly, Malaysia looks to the US for global leadership in positive ways. There are hopes for a better US role under Obama.

Leong ended by saying that the root causes for the extreme violence in nations such as Iraq, Africa, Afghanistan, Thailand, Philippines, Indonesia, needed looking into.

*Malaysia sees the development and economic growth of China as very positive, and has seized opportunities in China ...*

# Regional Security Outlook: Indian and Malaysian Perspectives

**S**ession Two discussed what each country perceived as the ideal regional architecture to underpin security and stability in their immediate regions as well as the Asia Pacific. The lead Speakers were **Mr Mahendra Ved**, Journalist, Commonwealth Journalists Association of India, India and **Mr Rajayah Devudu**, Deputy Undersecretary (Policy), Ministry of Defence, Malaysia. The session was moderated by **Tan Sri Hasmy Agam**, Executive Chairman, Institute of Diplomacy and Foreign Relations (IDFR) Malaysia. ISIS Researcher **Woo Hon Weng** reports.



(From left) Mahendra Ved, Hasmy Agam and Rajayah Devudu

## Regional Security Outlook from Indian Perspectives

What are the long-term sources of stability in Southeast Asia/South Asia and the Asia Pacific? Conversely, what are the major threats to stability in these regions? How is Malaysia/India responding to such threats?

**Mr Mahendra Ved** gave a brief review of India's interactions with its immediate and extended neighbourhood and the security implications of these interactions. In geographical and geopolitical terms, India is in a unique position, being surrounded by seven neighbours, varying in sizes from tiny Bhutan to Pakistan and China. These countries have a common border with India

but none among themselves, making India, with its size, population and resources, the centre of the South Asian region.

This also however, carries with it a myriad of issues, problems, and disputes, big and small, and some long pending and defied solutions; India therefore has a difficult neighbourhood. As its former External Affairs Minister, Jaswant Singh said, 'friends can be chosen but not neighbours.'

Despite many constraints, in the last decade India sought to reach out to its neighbours big and small, friendly or otherwise in a constructive and cooperative manner. This was despite developments that have had a serious impact on security, such as the December 2001

attack on the Indian Parliament, and the November 2008 attacks on several establishments in Mumbai, where over two dozen foreigners were killed, including a Malaysian woman.

After the attack on the Indian Parliament, India moved a large number of troops to the India-Pakistan border but no bullets were fired. While there have been no tangible direct gains or losses, what followed was an absence of cross-border movements of terrorists in Jammu and Kashmir for five years.

### India-Pakistan Relations

Relations are tense due to the perception that Pakistan is exporting terrorism to India said Ved. In the second half of 2009, cross-border movements of militants had resumed in the Jammu-Kashmir front. Pakistan is facing numerous internal upheavals such as political instability and the military campaign against the tribal areas are spilling over to the rest of the country, with innocent civilians becoming victims of organised violence daily (the last count was 3,000 people). The reopening of the border to cross-border movements in Jammu-Kashmir is seen as a way of diverting public opinion from domestic issues.

India acted with great restraint after the Mumbai attacks. Even the positioning of troops at the border that was done in 2001 was not resorted to this time; it concentrated its efforts on the diplomatic front, receiving worldwide support. The sole surviving attacker admitted to being a Pakistani national, but Pakistan took several months to accept his identity.

Since then Pakistan has shifted its

position from one of total denial to claiming that the attack was carried out by non-state actors. Dossiers submitted by the Pakistani investigators to India made it clear that they have been unable to establish the identity of the men who controlled the assault team using satellite phones, Voice Over Internet Protocols (VoIP), and other communications. Key suspects including Lashkar-e-Taiba commanders are still at large.

It was felt that dialogue between India and Pakistan should not be held hostage to the fate of the Mumbai investigations. However, unless India is duly persuaded that Pakistan is serious about acting against terror groups targeting it from Pakistani soil, any dialogue will be scarred by suspicion as the prospect of future terror attacks hangs over the whole process.

India believes the Lashkar-e-Taiba camps are operational again in Pakistan, and suspects such jihadi groups, as non-state actors, enjoy the support of not just the rogue elements in the state, but also the institution of Pakistan's armed forces, particularly the Inter-Service Intelligence (ISI).

India must do all it can to initiate meaningful dialogue, to strengthen democratic forces in Pakistan. However, any peace process will be fragile unless Pakistan, that has acted so far under US and international pressure, finds the will and resolve to prevent enemies of peace from repeating another operation against India from their soil.

While confidence-building measures are unproductive at the government level, they are making progress at the level of the media and in people-to-people relations. Currently, there are media campaigns promoting peace through

popular culture such as sufi music and dance, familiar to the people of both sides due to common cultural linkages, and performed by artistes from both countries, in major cities such as New Delhi.

These performances are under the auspices of the two largest media groups in India and Pakistan: the Times of India and the Jang Group of Pakistan respectively. People-to-people relations must be promoted as the ordinary people, particularly divided families on both sides of the India-Pakistan border, suffer the most whenever there are tensions and hostility.

Religious extremists of all types on both sides will also feel emboldened when relations are strained, which is detrimental to both societies.

*However, any peace process will be fragile unless Pakistan, that has acted so far under US and international pressure, finds the will and resolve to prevent enemies of peace from repeating another operation against India from their soil*

### India-China Relations

Relations have been good despite unresolved border disputes. The last decade has seen summit level talks and acknowledgement of each other's positions without necessarily agreeing on them. Both nations talk of cooperation, while there is

also a strong element of competition in the race for energy, oil and gas or influence in South Asia.

The race persists in other areas as well but in these China has been far ahead.

Many Indian analysts believe the 'String of Pearls' theory — that of China surrounding India by building bases and developing influence in South Asia. Whether or not it is true, the fact remains that China has strong economic and military ties with all the South Asian neighbours of India. Pakistan's military and strategic ties with China are well known while others such as Sri Lanka and Bangladesh find it prudent to deal with China if only to pacify the anti-India factions in their respective domestic spheres.

As leading nations of the Asian century, with fast rising economies and purchasing power, both India and China are cautious of the risks from competition. The last five years have witnessed a growing debate comparing the two Asian giants, within and outside India. India invariably emerges second on many scores. However, its leadership has not shied away from comparisons.

In his address to the Eighth Annual Indian Diaspora Conclave in January 2010, Prime Minister Manmohan Singh pointed out that India, like a slow moving juggernaut, was progressing in its own way, through a democratic approach, and while the process is slow the nation believes the democratic road is worth taking.

However, India views with concern China's growing stridency, that surfaces in the form of frequent border face-offs and behind-the-scenes diplomatic moves. There is a belief amongst some in India that China played a significant role in the election of the present UN

## The Second India-Malaysia Strategic Dialogue

Secretary-General, Ban Ki-moon. However, China did not succeed in blocking the Nuclear Suppliers Group (NSG) waiver for nuclear fuel and equipment for India, in the face of a concerted campaign by the US Bush administration and a high measure of sympathy among the Europeans.

### Afghanistan-Pakistan (AfPak)

AfPak refers to the US Obama administration policy of military surges to combat the cross-border insurgency movement in both countries. US Secretary of State, Robert Gates warned of a terror syndicate operating at the AfPak border with the intention of provoking conflict between India and Pakistan and destabilising the region. In the event another attack like the Mumbai terror attack is repeated, India may not display the restraint and statesmanship it did earlier.

Gates said the terror syndicate is composed of Al-Qaeda, which primarily operates at the safe haven of the AfPak border, the Taliban which is active in Afghanistan, Tehrik-e-Taliban which targets Pakistan, and Lashkar e-Taiba which focuses on both India and Pakistan. Gates' warning which indirectly hinted at Pakistan's complicity in the Mumbai terror attacks angered the Pakistani government, leading it to announce that it would not launch any more attacks on the tribal areas for a period of from six months to a year.

This halt in attacks by Pakistan would seriously impact the US and Nato plan in the region. History has shown that safe havens on either sides of the border in the long run have led to more lethal and brazen attacks on both sides. Pakistan's announcement came as a disappointment to the US which was pushing Pakistan to expand its military operations against

milantants staging cross-border attacks. The US believes such action is critical to success in Afghanistan as it prepares to send an additional 30,000 troops to the country. However, the Obama administration, together with China, which is Pakistan's key ally in the region, are likely to call on Pakistan to stop its intransigence.

India, while wanting political reconciliation in Afghanistan, does not look at the Taliban as either good or bad. It wants foreign forces to continue their presence in Afghanistan to help that nation stabilise and achieve self-governance. Whether the US military surge would prompt other Nato countries to emulate it is still a matter of doubt. Britain is working actively on plans to bring about some kind of a Nato victory in the next few years and then leave Afghanistan to the care of the region to which it belongs, which really translates to Pakistan.

*The region ... contains key arteries of maritime trade, chokepoints, and harbours deep-seated distrust due to historical animosities*

### Regional Security Outlook from the Malaysian Perspective

**Rajayah Devudu** said that there are both forces of stability and instability in regional security that together represent a complex environment. The region is home to the some of the world's largest standing armies, and three key flashpoints. It contains key arteries of maritime trade, chokepoints, and harbours deep-seated distrust due to historical animosities. The global financial-

economic downturn further complicated the situation; the longer the downturn, the more strategic the consequences will be he said.

### ***Traditional Security threats***

There are three flashpoints in the region: Taiwan, the Korean Peninsula, and the overlapping claims over the Spratly Islands in the South China Sea. These issues are unlikely to be resolved in the near or distant future, and will continue to pose key security concerns in the region.

#### *Taiwan*

As long as the US backs Taiwan, Chinese attempts reunification will not be possible. The US is happy to keep it that way. From the US point of view, the issue of Taiwanese independence will keep Chinese resources preoccupied, thus diluting their capability to compete with US strategic predominance. The US is reviewing a plan to sell missile defence systems worth US\$2 billion to Taiwan, a plan which has caused China to protest strongly.

#### *Korean Peninsula*

While the Six-Party Talks are promising, they tend to fizzle out intermittently. The problem is that the parties involved have diverse interests. China is not prepared to impose sanctions on North Korea while the US is not prepared to withdraw its forces. It is unlikely that there will be peace and denuclearisation in the Korean Peninsula in the near future. Nevertheless, the Six-Party Talks provide an avenue for engaging North Korea in dialogue and this is very important.

### ***South China Sea: Unresolved Maritime Territorial Disputes***

At least two maritime disputes have been settled through the International Court of Justice (ICJ): one involving Malaysia and Indonesia over the Sipadan-Ligitan islands and the other between Malaysia-Singapore over Pulau Batu Putih. However, one of the most complex overlapping claims is the dispute over the Spratly Islands in the South China Sea. There are six claimants, including Malaysia; China is the biggest claimant. In 2002, the Asean-China Declaration on the Code of Conduct was signed but there has not been any concrete progress in the eight years after the treaty other than the parties involved being deterred from entering into open conflict.

Over the years, China has fortified its position by putting up a military structure on the islands, breaching the code of conduct, but Asean has only reacted by putting up a diplomatic protest.

### ***Non-Traditional Security (NTS) Threats***

The term may not be appropriate because some of these threats have existed for a long time. Perhaps it is a convenient label to denote that these threats affect human life and challenge the authorities, although they do not undermine the existence of the state.

#### *Terrorism*

In today's context the focus is more on the Afpak border where the US has gone on pre-emptive strikes. In Southeast Asia, although there has been a concerted regional effort against counter-terrorism, and a total decimation of the Jemaah Islamiyah, especially after the killing of Noordin Mat Top and the arrest of Mas Selamat Kastari,

capable groups remain still at large. They continue to draw inspiration from the global jihadi ideology and seek to exploit local conflicts. There is also the rising phenomenon of urban terrorism.

Whatever the developments taking place in Afghanistan and the AfPak border, should the Taliban succeed, it will inspire groups in this region. In Malaysia, the government is taking pre-emptive measures such as the preventive detention of people suspected of involvement in terrorism. Furthermore, Malaysia has had long experience in fighting terrorism. The threat at that time however, was different; the communist terrorist insurgents waging war to undermine the authority of the government was a known entity. In today's context, it is difficult to identify the terrorist.

***Some countries have even engaged private security personnel, which Malaysia objects to, because it is difficult to distinguish between security personnel and terrorists or pirates***

### *Maritime Security*

This is an area where there has been an increased focus due to the fear of pirates colluding with terrorists and endangering shipping routes. However, so far, there has been no clear nexus between piracy and terrorism. There has been an enhanced level of security in regional waters following endeavours such as coordinated patrols and innovative concepts such as the 'Eye in the Sky' maritime security programme by littoral states.

Affected countries such as the US and India have offered to patrol, to a certain extent, the Strait of Malacca and even the Singapore Strait. But littoral states such as Malaysia have taken the position that while other countries can come for capacity-building, they cannot usurp the authority that comes with enforcement duties. Some countries have even engaged private security personnel, which Malaysia objects to, because it is difficult to distinguish between security personnel and terrorists or pirates.

The focus of piracy today has shifted to other areas such as the Gulf of Aden, while in Southeast Asia, new piracy activities have emerged in the South China Sea and also the Sulu Sea. The problems in those areas basically originated on land but subsequently spilled over to affect the sea lanes. Therefore the solution used for the Strait of Malacca cannot necessarily be applied to these areas. Altogether different solutions have to be sought.

### *Internal Instability*

Countries in the region are still grappling with nation-building issues. Although some have achieved independence a few decades ago, others have never been colonised. As with India, Malaysia shares land and maritime borders with almost all countries in the region, with the exception of land-locked Laos. Therefore, problems that occur in its neighbourhood affect it too.

Malaysia therefore practices good neighbourliness with its neighbours, offering assistance such as peace-building support for Southern Thailand. Malaysia has followed a strictly non-interventionist policy in its neighbourhood despite the fact that it has occasionally been accused of harbouring people

fleeing from there who later strike back and create havoc.

Malaysia sent a peacekeeping force to Mindanao, Southern Philippines from 2004-2008 under the ambit of the International Monitoring Team (IMT). Though real progress was beginning to be made, the team was forced to leave after the Philippines Supreme Court's decision that the agreement reached by the warring parties was unlawful.

Recently, upon the request of the Philippine government, the Malaysian government has been considering re-sending the IMT. It is in Malaysia's interest to ensure Mindanao is peaceful as events occurring there also affect Malaysia's maritime border in the eastern state of Sabah.

### *Natural Disasters*

While it is not uncommon for the region to experience natural disasters, the magnitude and frequency of the events of late has been worrying, especially the 2004 tsunami in Aceh, the 2008 Cyclone Nargis in Myanmar, and the 2009 Padang, Sumatra earthquake. Malaysia and India could work closely within the ARF framework to come up with an ARF Guideline on Disaster Relief.

### **Climate Change**

This is another potential area for collaboration but due to the complexity of the scientific and technical aspects involved, it would be difficult to measure progress or success. However, it is something for the two nations to consider.

### **Energy Security**

The supply of oil as well as new sources of oil have become very critical today due to the global energy crisis. Therefore, keeping open the Sea Lines of Communications (SLOCs) for freedom of navigation is very important, especially in preventing major power conflict over the right of passage.

### **The Role of Major Powers**

The US and Japan are the traditional players in this region with new players such as the regional economic powerhouses of China and India joining in. For some time before the Sept 11, 2001 attacks on US soil, the US had almost lost interest in the region but it has now come back with renewed interest. Malaysia welcomes this, especially the new Obama administration's call not to handle matters unilaterally, and its pledge to work closely through diplomatic channels.

The US will now engage with Myanmar instead of confronting it. It has signed the Treaty of Amity and Cooperation (TAC), and has agreed to send a permanent Ambassador to the Asean Secretariat. The US will also now leave it to Asean to handle the Myanmar issue, which is a positive development. All these are indications of closer US-Asean engagement with a different focus.

***Malaysia welcomes ... the new Obama administration's call not to handle matters unilaterally, and its pledge to work closely through diplomatic channels***

Japan has over the years been increasingly assuming an independent role and the new government of Prime Minister Hatoyama is expected to take a more independent stand. The interests of Japan are more focused on maritime issues such as Sea Lines of Communications (SLOCs) and also energy security. Meanwhile, India has had good relations as well as strong bilateral ties with countries in the region such as Malaysia, Singapore, Vietnam, and Thailand.

India needs to be engaged as a stakeholder because it has more to contribute to the region, and over the years, it has shown how it can work closely with the other countries. India has been a dialogue partner of Asean for some time and is also a strong supporter of the ARF.

China is another key player and all this while, there has been talk of a triangular relationship between China, Japan and the US. Now with India coming in, it should be reconfigured as a quadrangular relationship between US-Japan-China-India.

However, the region cannot forget Russia which is coming back with a renewed focus. Russia possesses large reserves of energy resources, which is important at a time of energy crisis.

It also plays an important role in the strategic equation where its influence cannot be ignored.

### Regional Security Architecture

How have institutions such as Asean/SAARC and the Asean Regional Forum contributed to regional security? What can be done to improve the effectiveness of these institutions?

Devedu said that there is an increasing trend towards multilateral security dialogue in the Asia Pacific, where multi-layered and composite security cooperation mechanisms are already in place. Apec, which traditionally focuses on economics is now also focusing on security matters.

The IISS Shangrila-Dialogue is another mechanism for defence ministers and senior defence officials to congregate annually and give prepared statements on confidence-building measures. Asean+3, East Asian Summit and Asean+6 are basically leaders' strategic forums that give guidance on cooperation among East Asian countries.

### Asean

Since its inception in 1967, Asean has grown by leaps and bounds. There has been no major conflict in the region with the brief exception of the Vietnamese military intervention in Cambodia, in 1978, for humanitarian reasons — an earlier version of the current concept of the Responsibility to Protect (RtoP).

Asean itself played a key role in bringing an end to the Cambodian conflict. Growing instances of intra and extra Asean activities have strengthened Asean solidarity considerably in a number of areas. One of them is Asean integration, which is a process and not a product; it is moving very well incrementally and is expected to achieve its target fully by 2015.

The Asean Charter which came into force in 2008 is an important step towards the creation of a rules-based organisation and a strengthened community. It reinforced Asean's central role as the driving force of the ARF.

However, it is acknowledged that the Charter has some flaws, including the absence of non-consensus and decision-making mechanisms, as well as being vague on stipulated sanctions for non-compliance. The Charter is also accused of being state-centric and not people-friendly, which Devudu said is more of a perception than a reality. Notwithstanding all these, the Charter still provided some basis for Asean to move ahead, and it can be reviewed in due course.

Asean's leadership could be seen during the height of Cyclone Nargis in 2008. The Myanmar military junta refused to accept the help of outsiders but Asean was able to persuade them to let other countries participate in disaster relief operations.

The inclusion of the Asean Defence Ministers' Meeting (ADMM) shows the maturity of Asean on defence issues since in the past, discussion used to be taboo. The ADMM is now working on getting dialogue partners from countries outside Asean involved. The expanded forum will be known as ADMM Plus; India is among the potential dialogue partners to be invited.

### ***Asean Challenges***

The non-intervention principle is increasingly being questioned. There are some members who do not want this principle to deviate from its conservatism. Meanwhile, the Asean Charter promises to protect the citizens' human rights. But given the fact that Asean countries have had no proper track record on human rights preservation, this could be a key challenge.

### ***Asean Regional Forum (ARF)***

The Asean-driven ARF is another successful institution that has locked major powers which have an interest in the region in constant dialogue and cooperation. The ARF has moved into many areas of security cooperation such as disaster relief, peacekeeping, terrorism and so on. It has undertaken more than 90 Confidence-Building Measures (CBMs) which vary according to different security contexts. These measures have contributed to confidence-building and transparency, and also provide some semblance of community-building.

### ***ARF Challenges***

The ARF could play a much more effective role provided its members refrain from taking sides on some major issues, and making strong comments, as well as avoid strengthening military alliances. There is also the criticism that Asean/ARF have not delved into the resolution of interstate conflicts such as the often-cited case of the Korean Peninsula. However this will not be an easy matter as Asean will be sidelined in that context.

***A strong and united Asean will play a better role as the fulcrum of regional security architecture ...***

Despite this, there could be many other opportunities for Asean. The ARF should review its three-stage evolution (confidence-building, preventive diplomacy, and conflict-resolution) which is too state-centric. The core security issues





affecting the region in today's context are non-traditional security issues which require different and more innovative approaches.

The ARF should look into the real implementation of its work plan and plan of action, in which there has been some progress, but more can be done. It should continue to remain relevant in areas where it can add value to regional security and stability, such as enhancing and deepening confidence-building, non-traditional security and transnational security.

For Asean to remain in the driver's seat of the ARF, it should come up with new ideas and new thinking so as to lead institution-building. India could assist Asean in this case because India works very well with Malaysia in promoting some of these Asean-related activities. Asean should not let bilateral issues such as the recent dispute between Thailand and Cambodia over the Preah Vihear temple site, and that between Malaysia and Indonesia over the Ambalat issue, affect its solidarity.

A strong and united Asean will play a better role as the fulcrum of regional security architecture, which will help enhance peace and stability in Southeast Asia.

### **How do Malaysia and India Assess the Political Situation in Myanmar?**

#### ***India's Assessment***

Myanmar is India's land gateway to Southeast Asia and as geopolitical compassion dictates it, India maintains good ties with the present government, thus earning the opprobrium of the West. India is convinced that sanctions have not

worked in Myanmar and that they have only further isolated the country.

Sanctions also have not prevented Western MNCs from doing business in Myanmar. Therefore, India has engaged the Yangon government to help it in the development of Myanmar's roads, ports and infrastructure. It also sought and received Myanmar's cooperation in dealing with militancy on both sides of the border. Human rights issues are also pursued persistently with Myanmar.

#### ***Malaysia's Assessment***

It is important for Asean to ensure the stability of Myanmar during the latter's transitional phase as there are many issues that require careful management. Countries such as China and India do not take a critical stance on Myanmar in their own interests. However, China and India could seek ways to gently nudge Myanmar to move forward.

Asean, despite its principle of non-intervention, made a strong statement in Singapore in 2008, when Singapore was the Chair of Asean, that Myanmar must change, otherwise it would be seen as rejecting cooperation with the region.

## Maritime Security in South and East Asia: Developments and Challenges

**T**he speakers at Session Three of the Dialogue were **Colonel Ramli Hj Nik (Rtd)**, Research Fellow, Centre for Maritime Security and Environment, Maritime Institute of Malaysia (MIMA) and **Dr Vijay Sakhuja**, Director (Research), Indian Council of World Affairs (ICWA). The session was moderated by **Amb Sudhir T Devare**, Director-General, Indian Council of World Affairs (ICWA), India. **Susan Teoh**, Director of ISIS Information Services, reports.



(From left) Ramli Hj Nik, Sudhir T Devare and Vijay Sakhuja

**Colonel Ramli Hj Nik** focused his presentation on the common security challenges faced by both India and Malaysia, and the different types of existing maritime security cooperation as well as the modalities for promoting capacity-building.

Maritime security is an important issue as 90 per cent of global trade today uses the maritime domain. Both India and Malaysia have played important security roles at the international level. In 2009, India deployed 8,757 personnel in the United Nations Peacekeeping Operations while Malaysia sent 1,067. In short, about 10 per cent of the peacekeepers are from India and Malaysia.

A second common security challenge is that of piracy and armed robbery in the seas. With the adoption of the United Nations Security Resolution 1816 (2008), authorised members can assist in combating piracy off the coast of Somalia. India and Malaysia contributed by sending their Naval Task Forces to the Gulf of Aden.

The International Maritime Bureau defines piracy as 'the act of boarding and attempt to board any vessel with the intent to commit theft or any other crime, and with an intent or capacity to use force in furtherance of that act.' Under this definition, 100-170 piracy attempts were recorded in the Malacca Straits.

## The Second India-Malaysia Strategic Dialogue

The third security challenge is the threat of terrorism. There are three fundamental elements of terrorism:

- Creating fear to draw support towards the terrorists' political ideology;
- Strengthening revolutionary warfare against the ruling regime; and
- Publicising the terrorists' cause to the international community so as to solicit support.

In its efforts to counter terrorism, Malaysia set up the Southeast Asia Regional Centre for Counter-terrorism (SEARCCT) in Kuala Lumpur, in November 2003.

It has also provided effective counter-terrorism training to law enforcement officers in the region, and organised seminars and training courses on the interdicting of terrorist organisations.

Ramli highlighted some examples of maritime security cooperation, such as the participation of India and Malaysia in multilateral exercises in the Indian Ocean since 2007.

Ensuring international peace and security is of paramount importance in sustaining economic development. Cooperation is needed to deal with root causes in order to combat land or maritime terrorism. Maritime security is not only important to the economic growth of India and Malaysia but also to that of other Asean member countries and other regional powers like Australia, China and the US.

Ramli suggested some areas to promote capacity-building within the region. Since 1992,

India has had a Look East Policy to enhance bilateral security agreements. It has made a number of agreements within the region. It signed the Treaty of Amity and Cooperation (TAC) in 2003.

*Asian navies acquired 83 submarines at a cost of US\$55 billion in 2007, and in 2009, about 80 to 100 submarines were projected to be added*

India has had vast experience in responding to disasters, thus aiding in the development of cooperative maritime humanitarian responses. It is important for both countries to expand cooperation further so that they can assist quickly in neighbouring countries, such as Sumatra, Philippines and Indonesia, where disasters have occurred.

Finally, India and Malaysia are equally committed towards international peace and security as stipulated in the United Nations Charter. Both are involved in Maritime Peacekeeping Operations in areas of conflict, including the Gulf of Aden.

India has vast naval assets and experience, and therefore it would be good to have a dynamic strategic partnership between India and Malaysia when promoting maritime capacity-building.

The second speaker, **Dr Vijay Sakhuja**, focused his comments on maritime security in South Asia but also covered the broad trends of naval build-up in Southeast Asia. He noted that

there seemed to be a naval arms race in the Asia Pacific region. Naval acquisitions are projected to increase from US\$60 billion during 2010-2015, to US\$108 billion from 2016-2020 and to US\$ 173 billion by 2020-2030.

Asian navies acquired 83 submarines at a cost of US\$55 billion in 2007, and in 2009, about 80 to 100 submarines were projected to be added. Sakhuja questioned the rationale for the naval build-up in the region, especially of submarines. Each nation was acquiring submarines independently and there was no mechanism or institution to govern the region in this aspect.

He listed a few reasons for Asian naval acquisitions. These were:

- To serve as a deterrent to littoral dominance by external powers;
- In Asia, colonial dominance came by sea to the littorals or coastal areas and into the heartland;
- Ripple effects as nations are comparing themselves with others;
- Naval transformation sweeping the region;
- Impact of globalisation and economic growth;
- The exercising of jurisdiction in respective Exclusive Economic Zones (EEZ);
- Protection of maritime and energy supply chains;
- Threats of terrorism and piracy;
- Strategic necessity of protecting economic hubs in the littorals. Much of the development in Asia is along the littorals.

Sakhuja explained the term 'littorals' to mean the space of a few miles on either side of the coastline. This is where the bulk of the world's population and economic hubs are located. The littorals are also the breeding grounds for activities such as armed robbery, smuggling, hijacking and sea piracy emerging variously as liberation armies, insurgents, terrorists and cartels.

Groups with maritime attack capability that have emerged in South Asia include the Al Qaeda, LTTE (Liberation Tigers of Tamil Eelam), LeT (Lashkar-e-Taiba) and HuJI (Harkat-ul-Jihad al-Islami). South Asia is also sandwiched between the Golden Crescent<sup>1</sup> and the Golden Triangle<sup>2</sup> explaining perhaps the large number of terrorist activities in the region.

India's Look East Policy has a fair amount of maritime component. India is a partner of the Treaty of Amity and Cooperation (TAC), the Council for Security and Cooperation in Asia and the Pacific (CSCAP), and is a member of the Asean Regional Forum (ARF).

India's trade with Asean has increased. In August 2009, the Asean-India Trade in Goods (TIG) Agreement was signed in Bangkok, paving the way for a market of 1.8 billion people, with a combined GDP of US\$ 2.75 trillion. The volume of trade and cargo using the sea lanes will increase.

<sup>1</sup>The name given to one of Asia's two principal areas of illicit opium production, located at the crossroads of Central, South, and Western Asia, a space that overlaps three nations, Afghanistan, Iran, and Pakistan

<sup>2</sup>An area that overlaps the mountains of four countries of Southeast Asia, namely Myanmar (Burma), Vietnam, Laos, and Thailand and one of Asia's two main illicit opium-producing areas

## The Second India-Malaysia Strategic Dialogue

Today, 55 per cent of Indian trade transits through the Strait of Malacca. There is also the shipping of energy from Russia's Far East.

The Strait of Malacca has become a dense area with the increase in shipping through it and the South China Sea is a cause of security concern for India, which considers itself an important stakeholder in the security environment of the South China Sea.

The centre of piracy has moved from the Strait of Malacca to Somalia's Gulf of Aden. Sakhuja commended Malaysia for being the first Asian country to send its naval vessels in response to piracy in the Gulf of Aden. While India's response has been slower because of domestic problems, it however has responded to formal requests for EEZ surveillance from the Mauritius and Seychelles governments.

And while India responds to requests for maritime patrol aid in Southeast Asia only when requested, it has contributed US\$1.3 million to the Strait of Malacca fund. In terms of technological support, India is conducting hydrographic surveys in the Strait of Malacca. Other aspects of India-Asean maritime cooperation include training, joint exercises and high-level visits between some Asean countries.

Some possible avenues of maritime cooperation between India and Malaysia pointed out by Sakhuja include joint naval exercises, joint counter-piracy operations off Somalia, and naval exercises in the South China Sea. There is also the possibility of exploring joint defence-technological enterprises such as maritime platforms, the building of naval hardware and aviation platforms.

In the area of climate change, cooperation in the development and sharing of naval technology and hardware which are climate change adaptable is important for both countries.

Finally, as Malaysia has the MSSI (Malacca Straits Security Initiative), Sakhuja suggested the possibility of integrating this initiative with the present IMSL (India Maldives Sri Lanka) initiative which will create a seamless maritime domain from the Arabian Sea through the Straits of Malacca.

*In terms of technological support, India is conducting hydrographic surveys in the Straits of Malacca. Other aspects of India-Asean maritime cooperation include training, joint exercises and high-level visits between some Asean countries*

## Domestic Developments in India and Malaysia

**T**he 4th Session of the Second India-Malaysia Dialogue focused on both the political and economic scenarios of the two countries. The session was moderated by **Mr Mahendra Ved**, an Indian journalist and a member of the Commonwealth Journalists Association of India. Presentations on the topic were delivered by **Dato' Dr Mahani Zainal Abidin**, Chief Executive of ISIS Malaysia, **Ms Rita Sim**, Executive Director of the Sin Chew Media Corporation, and **Professor Y Yagamma Reddy**, Director of the Centre for Southeast Asian and Pacific Studies of the Sri Venkateswara University, India. **Keith Leong**, Researcher at ISIS reports.



(From left) Y Yagamma Reddy, Mahendra Ved, Mahani Zainal Abidin and Rita Sim

**Mr Mahendra Ved** touched on the many similarities between India and Malaysia, not least of which are the long-held domestic ties between them. Both nations are also former British colonies, resulting in them being multiparty parliamentary democracies, as well as multiracial and multi-religious entities.

Both have had momentous elections recently, namely the 2009 General Elections in India, and the March 8th 2008 General Elections in Malaysia. Both elections underscored the importance of coalition governance, and the need for political players to understand each other as well as to cooperate in order to administer their nations.

This is especially important given the great ethnic diversity in both nations, particularly

India, whose Constitution allows political expression and space to even the country's smallest ethnic groups.

**Dr Mahani Zainal Abidin** spoke of the recent developments in Malaysia's economy and the challenges the economy faced. While Malaysia shares many similarities with India economically, it needs to take stock of how it can achieve higher growth, a path that India is already on. On the other hand, it cannot be denied that Malaysia has thus far recorded good growth and has made significant strides towards development. It is an upper middle-income country that has scored great success in eradicating poverty. Malaysia is also a leading exporter of electrical and electronic goods plus commodities and enjoys sound physical infrastructure.

On the other hand, it has also suffered its share of setbacks, culminating in the economic crises of 1985 and 1998. The former was caused by drop in commodity prices and Malaysia's large fiscal deficit, which in turn led to the economic liberalisation that spurred growth in the 90s. However the Asian Financial Crisis of 1998, from which the nation has since recovered, saw Malaysia's economic growth slow down. Indeed its fiscal position has been negative since then. The '98 crisis also revealed that Malaysia was caught in a middle-income trap which it is still struggling to escape from.

Mahani then turned to how Malaysia is faring in the current post-global financial and economic crisis scenario. The country's position is especially tricky given that the United States, once its engine for growth, has become the cause of the present crisis! While the Government undertook rapid counter-cyclical measures to shield the country from the fallout, these have had the effect of pushing the country's fiscal debt even higher. Malaysia has in fact one of the highest fiscal debts as a percentage of GDP amongst the Asean nations.

Nevertheless, Malaysia's response to the global crisis in the form of two stimulus packages and lower interest rates has succeeded in maintaining liquidity. The nation's exports still exceed its domestic demand, and its financial system is still strong, a result of a greater caution after the Asian Financial Crisis. Malaysia's financial institutions avoided the complex financial instruments that caused the current crisis.

### Challenges

Mahani went on to describe the additional policy

measures the government undertook, namely the liberalisation of the service sector and bumiputera equity requirements, initiatives to attract human capital, and the abolishing of the Foreign Investment Committee guidelines. As a result, the global financial crisis has had little impact on Malaysia's economy, but this does not detract from the need for a deeper restructuring of the economy to help it move past the middle income trap.

Mahani then concluded by highlighting the challenges facing Malaysia's economy today. Chief amongst them is the formulating of a New Economic Model that will guarantee new areas for growth, and transform the country into a high-income, advanced economy, which is especially important given that oil now contributes almost 35 per cent to government revenues. Mahani felt that the focus should be on developing the services sector and reducing the fiscal deficit.

*... the global financial crisis has had little impact on Malaysia's economy, but this does not detract from the need for a deeper restructuring of the economy to help it move past the middle income trap*

Other challenges include the problem of acquiring technology, intensifying research and development, accelerating the country's human capital development, and expanding the talent base. There was also a need to revive private investments so as to create a more flexible labour market and to ensure the success of the regional corridors.

**Ms Rita Sim** delivered an update on political trends in Malaysia. She characterised Malaysia as a parliamentary democracy, comprising a lower house of Parliament with 222 seats, and various state assemblies. The country has been governed since 1969 by the Barisan Nasional (BN) coalition led by Umno, although its dominance has since been challenged by the historic 12th General Elections of 2008.

Sixteen parties contested that election, namely the 13 parties of the BN and the three main Opposition parties, the Parti Keadilan Rakyat (PKR), Democratic Action Party (DAP) and Parti Islam Semalaysia (PAS), which eventually became the Pakatan Rakyat (PR) alliance. The 2008 elections saw the BN lose its two-thirds majority in Parliament, falling eight seats short of this 'psychological barrier' as Sim described it.

The PR combination also managed to form governments in five states, although one, Perak, later fell and was taken over by the BN. The elections were followed by a series of unprecedented by-elections, of which BN has only won two. This has led to intense speculation as to what the results of the next general elections would be.

### **Changing Profile of the Malaysian Voter**

The 2008 elections also demonstrated the changing profile of the Malaysian voter. While young voters were decisive in determining the elections, voter registration and participation has remained low. Sim claimed that four out of ten Malaysians who were eligible to vote have not registered to do so, and some 2.8 million Bumiputeras have not registered. This means that seven out of ten eligible Malays are registered voters, compared to nine out of ten Chinese.

These figures are significant given that small changes in voting trends can make big differences in election outcomes in Malaysia, as per 2008. For instance, a 13 per cent vote swing in Kedah saw the BN government of the state fall!

Sim then turned to the two political coalitions, which many hope will herald a two-party system for Malaysia. While Umno attempts to consolidate its Malay base, it still faces considerable obstacles in winning back non-Malay support and its BN allies have been weakened considerably. Prime Minister Najib Tun Razak will face the multiple challenges of transforming Umno into a more multilateral party, and of winning back non-Malay as well as young voters. His '1Malaysia' slogan has resonated with ordinary Malaysians, but more needs to be done to solidify its appeal.

The PR, on the other hand must deal with internal disputes, not only between its component parties but also dissent within the parties themselves. Sim felt that the rise of conservatives in the Islamist PAS party would prove especially problematic to PR's attempt to win power on a broad-based, multiracial platform. On the other hand, PAS' electoral machinery often proves to be Pakatan's main means to connect with the Malay grassroots. Malaysian politics is therefore very much at the crossroads and it will be very interesting to see where it goes from here.

### **Differing Perceptions and Policies**

**Professor Yagamma Reddy** focused on the need for symbiotic approaches in India-Malaysia relations. He described the historical, cultural and geographical commonalities between India and Malaysia, as well as watershed events such as

## The Second India-Malaysia Strategic Dialogue

Malaysia's support of India during the Sino-India War of 1962.

While India has embarked on a Southeast Asian (and hence Malaysia) friendly 'Look East Policy' in its foreign relations, Reddy felt that there was still a need for greater understanding between the nations. While officials from the two countries regularly exchange visits, engage in joint training and sign MOUs frequently, India-Malaysia relations, in his words remain a 'mixed bag.'

He felt that the relationship has not been consistently smooth and has not accrued the benefits to both sides that it ought to have. For instance, Malaysia continues to refrain from supporting India's membership in Apec and opposes the latter's entry into the proposed East Asian Community (EAC). This is due primarily to differing perceptions and policies.

Reddy therefore feels that it is time for India and Malaysia to embark on an enhanced partnership. Strong areas of cooperation, such as the integral defence relationship between the two countries, already exist. He also spoke of the constructive diplomacy that was used to handle sensitive issues between the countries such as the Hindraf (Hindu Rights Action Force) protests and the ban on Indian workers in Malaysia.

While bilateral trade between India and Malaysia is flourishing, it remains at best an unequal trading partnership. Investments are impressive but mutual cooperation and the lack of political will means that bilateral investments remain wanting. This, according to Reddy is unfortunate given the geographical and historical linkages between the two countries.

India and Malaysia, are after all geographically similar, and even share the same tropical, monsoon-based, weather patterns. Trade between the two countries has flourished since the 1400s and indeed a significant ethnic Indian community has become an integral part of Malaysian society.

Potential complementary activities between India and Malaysia, suggested Reddy, could include economic strategies to boost the coastal plains of each country, which will in turn support intra-regional trade. Both countries, after all, enjoy an export-based economy thanks to the British, and cooperation is appropriate, especially in the agricultural sector.

Reddy concluded by reaffirming the need for a symbiotic approach to India-Malaysia relations. He said it is in Malaysia's interest to engage with India, given the latter's economic, scientific and strategic importance in international affairs. Ved brought the session to a close by stressing the need for soft diplomacy in bringing the countries closer together.

*... it is in Malaysia's interest to engage with India, given the latter's economic, scientific and strategic importance in international affairs*

## Doing Business in India and Malaysia: Opportunities and Prospects

**A**t the 5th Session, presentations were made by **Dr Ram Upendra Das**, Senior Fellow, Research and Information System for Developing Countries (RIS) India, **Mr Umang Sharma**, Chairman, Consortium of Indian Industries Malaysia (CIIM), Malaysia, Chairman and **Datuk Bhupat Rai M Premji**, Deputy President, Malaysia-India Business Council, Malaysia. The session was moderated by **Tan Sri Dr Ramon Navaratnam**, Corporate Advisor, The Sunway Group, Malaysia. **Dr Jorah Ramlan**, Senior Analyst, ISIS Malaysia, reports.



(From left) Ram Upendra Das, Ramon Navaratnam, Umang Sharma and Bhupat Rai M Premji

In his introductory remarks, the moderator emphasised three main points: the thriving relationship between India and Malaysia that has advanced steadily over recent years; the desirability of exploiting further opportunities; and the need to identify new ways forward. He explained that the session was designed to explore how the two nations have sought to remain competitive in the global economy.

**Dr Ram Upendra Das** in his presentation entitled 'India and Malaysia Economic Relations: Opportunities and Way Forward,' dealt with five major topics: the context; the conceptual basis, liberalisation and the need for safeguard

mechanisms, empirical evidence, and India-Malaysia economic co-operation. In particular, Das discussed the opportunities and challenges in conducting business in both India and Malaysia. He also examined the implications of preferential trade agreements between India and Asean and, more specifically, between India and Malaysia.

In discussing the context, Ram talked about trade development relationships, regional economic cooperation, and rules of origin as a developmental tool. He discussed the growth in the number of regional trade agreements (RTAs), the intra-regional trade of major RTAs, and types of regional trade agreements. In 2009, the

## The Second India-Malaysia Strategic Dialogue

number of RTAs for the EU, Nafta, Afta, CEFTA, MERCOSUR, and ANDEAN were 15, 3, 10, 7, 4, and 5, respectively, while the percentages of their exports to total exports were 65 per cent, 58 per cent, 25 per cent, 14 per cent, 12 per cent, and 12 per cent, respectively.

In considering the conceptual basis of the relations, the speaker emphasised economic security, which has three dimensions: development, conflict and a value system. He analysed the nature of trade and development relationships, including rules of origin, trade-investment linkages, static and dynamic gains and the need for safeguards. On this last point he elaborated on the types of safeguard and how they can be developed through different mechanisms, including tariff liberalisation, tariff rate quotas, trade remedial measures, and state trading.

Das provided empirical evidence of global growth asymmetries and regional integration, and statistics on the trade in goods and services that indicate the urgent need for investment co-operation agreements to be concluded. The opportunity to expand trade facilitating mechanisms and technology co-operation should be seized. It would also be advantageous to increase co-operation in human resources. He suggested that the way forward should include addressing constraints on trade transactions and optimizing the benefits of increased business.

The moderator expressed concern that the proposed FTA had not yet materialised, and he said there should be an inquiry as to who had defaulted in this regard.

The second speaker, **Datuk Bhupat Rai M Premji** said that while in Singapore, there are

some 3,000 Indian companies, in Malaysia, there are only approximately 200.

In listing the challenges facing potential Malaysian investors in India, he referred to the intimidating procedures confronting them. He described the situation there as inefficient and dilatory, and characterised by a slow-moving bureaucracy. The tax rates lacked uniformity, differing between states, and were exceedingly high in general.

This was a significant deterrent to business. There were also problems relating to caste, and the number of official languages. It was pointed out that there are 17 official languages in India. He highlighted the low productivity of Indian workers, and referred to the lack of infrastructure, which could do with modernisation.

*... one of the best ways to identify business opportunities in India was to visit the country*

In acknowledging the competitive market among Asian countries, Premji spoke on the importance of identifying an appropriate and reliable partner in India prior to investing.

He outlined a number of areas where there are opportunities for expanding business between India and Malaysia. Over the next five years, India intends to spend 50 billion rupees on roads, 50 billion on property development, and 15 billion on airports and power plants. He referred to a case study on IJN Corp. in Hyderabad which reflects a long-term commitment with strong top management. Among the

commitments was to train Indians in Malaysia before taking them back to India to be employed in development projects. This is a success story for a Malaysian company in the India-Malaysia business co-operation and an example to other Malaysian companies interested in investing in India.

The next speaker, **Mr Umang Sharma**, noted that India's economy is both domestic-driven and services-driven. By contrast, Malaysia's economy is dependent on the manufacturing sector.

In line with this, Sharma listed several areas of opportunity for increased mutual trade between the two countries. India excels in human capital development. It has an expanding infrastructure, needs greater power supplies, and needs to educate an ever-increasing population.

The country is placing considerable emphasis on the biotechnology and service industries. Small and medium enterprises provide an engine of growth; India has an estimated 26 million SMEs and 60 million employers who generate 40 per cent of the nation's gross domestic product (GDP). In addition, India's central location within Asia is an advantage to both the East and the West.

He pointed out that India faces many challenges in doing business in Malaysia. Despite acknowledging that Malaysia has a large population, he felt that the country suffers from an acute shortage of human resources in certain critical areas, such as for example in the supply of engineers. He further pointed out that in Malaysia certain types of projects are restricted to locals.

There are also concerns regarding immigration laws, such as difficulty in obtaining information in general, and issues such as employment for spouses in particular. He categorised Malaysia as being not investor-friendly. Problems include difficulty in obtaining business visas. Applicants are often granted only social visit visas. This usually creates unwarranted situations in the course of conducting business. There are also language barriers with difficulties encountered in areas such as road signs and tax forms.

*In conclusion, a lack of information regarding Malaysia and its business opportunities appears to be hindering Indian investors from further investing in Malaysia*

Sharma suggested that one of the best ways to identify business opportunities in India was to visit the country. He recommended disregarding the Chennai district and looking at other areas. It would be wise to study particular segments in relation to a particular industry focus. He spoke favourably of Malaysia's regional development plans, such as the Iskandar project but extensive information is required to be disseminated as most Indian investors are still in the dark regarding this project.

He also referred to the Malaysia My Second Home (MM2H) programme, which he believed might be of interest to Indian investors but which is also not well known in India. In conclusion, a lack of information regarding

## The Second India-Malaysia Strategic Dialogue

Malaysia and its business opportunities appears to be hindering Indian investors from further investing in Malaysia.

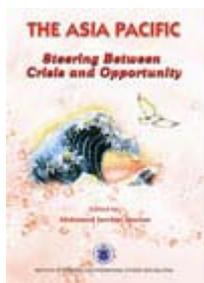
In his closing remarks, the moderator commented that the speakers had addressed many practical aspects of doing business in the two countries. The new Indian High Commissioner to Malaysia could assist in developing new business strategies, he said. He added that when new lessons are learned they should be put into practice to enhance the India-Malaysia business co-operation.

There was a question and answer session in conclusion, with recommendations that included:

- Introducing a centre for India studies in Malaysian universities;
- Establishing a University Chair;
- Promoting the Malaysian Indian Business Co-operative (MIBC) as an information centre in collaboration with the Ministry of Trade and Industry (MITI) Malaysia;
- Expediting identified measures such as visits by MITI to India in order to capitalise on business potential;
- Establishing a Malaysia-India Council to provide information about Malaysia to the Indian general public and academics for investment, tourism, and education purposes, and
- Identifying MIBC as the vehicle to lead in the effort to further strengthen the Malaysia-India relationship.

These recommendations would require reciprocal efforts, and thus should be implemented correspondingly, to achieve the desired results.

## LATEST ISIS PUBLICATIONS



### **The Asia Pacific: Steering Between Crisis and Opportunity**

Edited by Mohamed Jawhar Hassan

138 pp (2010). RM 50.00

ISBN – 967-947-307-0

This publication carries some of the thought-provoking papers presented at the 23rd Asia Pacific Roundtable, held in June 2009, in Kuala Lumpur. The topics range from the prospects for peace arising from the changes in leadership in Washington, Tokyo and Taipei, to the building of a people-oriented community in Asean.

## THE ASIA-PACIFIC ROUNDTABLE SERIES

### **THE ASEAN REGIONAL FORUM: The Road Ahead**

By Ralph A. Cossa and Takeshi Yuzawa

34 pages (2009) / ISBN 967-947-301-8 / RM 10.00

### **SECURITY AND STABILITY IN THE SOUTH PACIFIC: Issues and Responses**

By Stewart Firth

16 pages (2009) / ISBN 967-947-302-5 / RM 8.00

### **RE-EMERGENCE OF RUSSIA: Implications for the Asia Pacific**

By Raghavendra G Gidadhubli, Vitally Naumkin and Xu Hongfeng

52 pages (2009) / ISBN 967-947-303-2 / RM 10.00

### **TERRORISM VS POLITICAL VIOLENCE IN SOUTHEAST ASIA: Trends, Threats and Responses**

By Natasha Hamilton-Hart

17 pages (2009) / ISBN 967-947-306-3 / RM 8.00

### **HAS JAPAN LOST ITS REVELANCE?**

By Eiichi Katahara

12 pages (2009) / ISBN 967-947-305-6 / RM 8.00

### **THE STRATEGIC IMPACT OF A RISING INDIA: Prospects and Challenges**

By Kishan S Rana

17 pages (2009) / ISBN 967-947-304-9 / RM 8.00



**Institute of Strategic and International Studies (ISIS) Malaysia**

No. 1, Persiaran Sultan Salahuddin  
PO Box 12424, 50778 Kuala Lumpur  
Malaysia

Tel : +603 2693 9366

Fax : +603 2691 5435

Email : [info@isis.org.my](mailto:info@isis.org.my)

Website : [www.isis.org.my](http://www.isis.org.my)