



Policy brief

# Making the Malaysia-India Comprehensive Strategic Partnership work

By Yanitha Meena Louis and Jaideep Singh

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## ISIS Malaysia

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## Contributors

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## Foreword

The year 2024 has been momentous for Malaysia-India bilateral relations. In August, at the apex of a historic summit in New Delhi, Prime Minister Dato' Seri Anwar Ibrahim and Prime Minister Narendra Modi announced the elevation of ties between the two nations to a Comprehensive Strategic Partnership (CSP). In a joint statement, Malaysia and India expressed their commitment to deepening political, economic and social relations in the years ahead.

Embodying the fore vision and ambition of the two nations, CSP is a testament to the utmost value that Malaysia places on the resilience and conscious sophistication of its longstanding friendship with India. India, in turn, appreciates and recognises the value in rapidly reviving and further developing institutional arrangements with Malaysia, reinforced by the active role that the two countries play in shaping the dynamic and resurgent Global South.

At the same time, it is self-evident that state visits and official statements, while crucial for charting the course of bilateral relations, are just a start. As Rabindranath Tagore aptly remarked, "You cannot cross the sea merely by standing and staring at the water". Beyond mere platitudes and rhetoric, we recognise that this new era of strengthened bilateral relations will require new means of cooperation and a critical consideration of the current state of play.

Accordingly, this policy brief provides insight into a practical path forward for CSP, focusing on the political and economic dimensions of the partnership. Examining how to make CSP work for Malaysia and India, the brief offers informed, evidence-based and data-driven perspectives on the ongoing bilateral challenges and opportunities. It also presents actionable recommendations to maximise CSP's impact and longevity, ensuring that Malaysia-India relations not only survive but continue to thrive for generations to come.

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## Executive summary

### Background and overview

- Malaysia-India ties were elevated to Comprehensive Strategic Partnership (CSP) during Prime Minister Dato' Seri Anwar Ibrahim's maiden state visit to India in August 2024. The terms of CSP, which is the structural and functional manifestation of India's Act East Policy (AEP) to Malaysia, are currently being finalised. CSP must adequately shape bilateral terms of engagement and the trajectory of strong Malaysia-India ties, as its strength will ultimately determine AEP's value to Malaysia.
- Malaysia-India ties in the last decade have been marked by highs and lows. After the Najib-Modi era upgrading of relations, the relationship turned sour after a diplomatic row in 2019 before experiencing a pandemic-induced reset. The Anwar-Modi summit in New Delhi marked the dawn of a new era in ties despite existing irritants while CSP can be seen as the culmination of the reset of ties since 2020.
- This policy brief explores the challenges and opportunities marking the ongoing bilateral relationship from the political and economic perspectives. It also offers recommendations to make CSP fit for purpose in the new era.

### Political relations

- Bilateral political relations are shaped by (1) semantics and perception; (2) high-level visits and bilateral institutional mechanisms; and (3) multilateralism and inter-regionalism.
- AEP has grown into a central component of India's Indo-Pacific strategy, though its impact on Malaysia remains limited by differing priorities and perceptions. High-level engagements have strengthened bilateral ties but irregularities in mechanisms like the joint commission meeting (JCM) and Foreign Office consultation (FOC) impede progress. Shared membership in multilateral frameworks, such as the Indian Ocean Rim Association (IORA), Indo-Pacific Economic Framework (IPEF) and BRICS+ offers opportunities for collaboration, with Malaysia valuing India's balancing role, though overlapping initiatives and bureaucratic delays hinder deeper engagement in Indian-led mechanisms like the International Solar Alliance (ISA) and Coalition of Disaster Resilient Infrastructure (CDRI).
- CSP should highlight Malaysia's key role in India's AEP and regularise FOCs and JCMs to ensure cohesive updates. CSP should also prioritise cooperation mechanisms focused on the Global South, aligning with India's initiatives to strengthen bilateral ties and advance shared goals. Additionally, CSP should propose establishing a Malaysia-India Bilateral Coordination Council to facilitate idea exchanges, support multilateral cooperation and enhance regional collaborations.

## Economic relations

- Economic relations are described as the cornerstone of Malaysia-India ties but efforts to develop trade, investment and commercial linkages have been largely piecemeal at best and inertial at worst. The implementation of existing institutional arrangements, such as forums, committees and a bilateral free trade agreement, remains inadequate.
- Bilateral trade stands at almost US\$17 billion in 2023, a five-fold increase since 2003, but the relative contribution of India to Malaysia's total trade (and vice versa) has declined in the last decade. At the sectoral level, the products traded between the two countries have increased in sophistication towards manufactured goods but commodities, such as mineral fuels and palm oil, continue to contribute substantially to trade flows. In investment, despite growth in the value of approved projects in the last year, Malaysia remains a small source of and destination for FDI with India, particularly in the often talked about semiconductor industry.
- CSP should enhance bilateral trade and investments by strengthening investment and trade promotion in line with the countries' respective comparative advantages, updating the Malaysia-India Comprehensive Economic Cooperation Agreement (MICECA) to reflect contemporary realities and effectively operationalising existing initiatives, such as provisions calling for the mutual recognition of professional qualifications. It should also encourage economic cooperation through regular government and business engagement, taking the form of a ministry-to-ministry technical working group and business forums respectively.
- Finally, CSP needs to advance collaboration in science and technology through a memorandum of understanding on semiconductor cooperation, which should identify opportunities not only for the outsourcing of Malaysia's back-end processes but also for equal partnership in the design of microchips in line with Indian capabilities.

# 1 Background and introduction

In August 2024, during Anwar's maiden state visit to India, Malaysia-India ties were elevated to Comprehensive Strategic Partnership (CSP).<sup>1</sup> This marks a significant milestone in relations, building upon the 2010 Strategic Partnership (SP)<sup>2</sup> and 2015 Enhanced Strategic Partnership (ESP).<sup>3,4</sup> The upgrading of ties to CSP can be seen as a culmination of the conscious reset in ties<sup>5</sup> since the brief diplomatic row in 2019.<sup>6</sup> CSP, which can also be seen as the structural and functional manifestation of India's Act East Policy (AEP)<sup>7</sup>, is currently being finalised by both sides.

It must be noted that CSP's predecessor, ESP, left much to be desired. Considering that it came into effect in 2015, ESP in 2024 no longer took account of geopolitical and geoeconomic realities, more so the complex nature of ties after the brief 2019 impasse. There is hence a crucial need for CSP, which is being drafted, to be cognisant of geopolitical and national contexts of both countries, unique nature of ties and existing cooperation mechanisms indigenous to the bilateral relationship.<sup>8</sup>

This policy brief aims to provide in-depth analysis of the key policy instruments that have thus far shaped the Malaysia-India relationship – its scope will be limited to political and economic relations. It will also provide recommendations to sustain CSP's relevance and utility.

## 1.1 India's Act East Policy

The year 2024 marks the 10th anniversary of AEP. Previously known as the Look East Policy (LEP) when launched in the early 1990s, the redesignation by Modi in 2014 sought to reinvigorate and accelerate India's eastward engagement.<sup>9,10</sup> AEP has been a distinct Modi-era game-changer – it remains one of those notable decisions in Indian foreign policy that will go down in history as a key example of “semantics-driven value add”. And while optics and vocabulary have their own unique value in international relations, in AEP's case, there was more proclivity to view this change in nomenclature as mere rhetoric, seeing how the “active” was lacking in the “Act” East. In this context, Bajpae<sup>11</sup> wrote that when benchmarked against other major powers in the region, such as China, Japan and South Korea, India is still regarded as a relatively peripheral player – on the economic front and for the most part, perceptually as well.

Bajpae contends that New Delhi's regional engagement has gained substance and momentum over the course of its Look East/Act East efforts. New Delhi's eastward engagement has evolved, matured and deepened over the course of the policy, and while it may not be the most significant major power in the region, when judged on its own merits, India's regional engagement has gained substance and momentum over the LEP's course. India is firmly positioned in the region with its presence and participation granting credibility and legitimacy to the regional architecture.

Renaming the policy “Act East” signalled a shift towards a more pragmatic, action-oriented approach in India's regional interactions. Initially focused on Southeast Asia, AEP expanded to East Asia and eventually the broader Indo-Pacific region. This expansion also involved deepening relationships through institutionalised engagement across three key areas: political-security, economic and socio-cultural interactions, often summarised as the “3 Cs” – connectivity, commerce and cultural commonalities.<sup>12</sup>

## 1.2 Malaysia and India's AEP

There is a serious lack of literature specifically on the impact of India's Look East/Act East on Malaysia. In one of the few rare papers on the topic written in 2014 just before AEP was announced, Chandran wrote that Malaysia perceives India's LEP as lacking in "robustness". India may claim its success of LEP by engagement with countries in Southeast Asia but the success of LEP towards each individual country varies. Chandran does not attribute the "lukewarm-ness" solely to India. She writes that Malaysia was committed to be engaged with India with or without India's LEP and was only paying lip service to LEP. Malaysia simply "followed through" relations that were established in the past without any major structural change. The Malaysia-India strategic partnership at that point was the only framework that could bring Malaysia-India relations to a greater height.<sup>13</sup>

Each version of the bilateral arrangement – i.e., SP announced in 2010, ESP (2015) and finally CSP (2024) – is the structural and functional manifestation of India's AEP to Malaysia.<sup>14</sup> It becomes crucial then that CSP shapes bilateral terms of engagement and the trajectory of strong Malaysia-India ties. The strength of CSP will ultimately determine the value of the AEP to Malaysia.

## 1.3 Malaysia-India ties in the last decade

Malaysia-India ties in the last decade have been marked by highs and lows<sup>15</sup> – it is perhaps the first decade in a long time where a conscious rebuilding of the relationship had to take place after a brief diplomatic row in 2019.<sup>16</sup> After the Najib-Modi era upgrading of relations to ESP and a bilateral summit-level visit, relations turned sour in 2019<sup>17</sup> before experiencing a pandemic-induced reset from 2020-2024. The Anwar-Modi summit<sup>18</sup> in New Delhi marked the dawn of a new era in ties despite existing irritants.<sup>19</sup>

Similarly, economic relations reached a crescendo with the signing of the Malaysia-India Comprehensive Economic Cooperation Agreement (MICECA) in 2011 but since then, efforts to develop trade, investment and commercial linkages have been largely piecemeal at best and inertial at worst. Business forums, such as the Malaysia-India CEO forum, got off to a promising start in the early 2010s but soon lost momentum before being revived only in the past year.<sup>20</sup> A more recent high-profile development is an agreement to settle bilateral trade in rupees,<sup>21</sup> but its practical impact on trade volumes remains to be seen. There has also been inadequate follow up on the impact of the many memoranda of understanding (MoU) signed between the two countries in the past decade, including in IT services, public service delivery<sup>22</sup> and entrepreneurship training.<sup>23</sup> Ultimately, these fragmented efforts underscore the need for more comprehensive, high-impact initiatives under the ambit of the new CSP.



## 2 State of relations: challenges and opportunities

### 2.1 Political relations

#### 2.1.1 Semantics and perception

For Malaysia, a Southeast Asian nation with its own longstanding look east policy engaging Japan, South Korea and more recently, China, “Act East” is not typically associated with India. This mismatch in perceptions between India and Malaysia could be why it is challenging to quantify the impact of India’s policy on Malaysia after a decade.<sup>24</sup>

At the 10th-year mark, India’s eastward engagement has expanded significantly under AEP, with a growing focus on the Indo-Pacific as its strategic geography. In its 2019-2020 annual report,<sup>25</sup> the Indian Ministry of External Affairs emphasised that “Acting East” is now central to its Indo-Pacific Outlook.<sup>26</sup> India hence sees the Indo-Pacific as a key strategic region, with ASEAN linking the two oceans – expanding its Indo-Pacific focus to include the Western Indian Ocean and Arabian Sea, incorporating Gulf neighbours and African island nations. Recognising the importance of both eastern and western regions, India aimed to balance its “Act East” and “Act West” policies within its Indo-Pacific strategy, hence launching the Indo-Pacific Oceans’ Initiative (IPOI) in 2019.<sup>27</sup>

AEP has hence demonstrated remarkable flexibility and adaptability. Starting with LEP in the 1990s, evolving into AEP in 2014, and now positioning it as the cornerstone of its Indo-Pacific strategy, India has shown how malleable and responsive its policy framework can be. This, however, does not mean that it has worked consistently throughout for engagement with Southeast Asia.<sup>28</sup>

#### **Box 1: Indo-Pacific semantics in Southeast Asia**

AEP is said to be the core of India’s IPOI, yet Southeast Asia has not been too forthcoming on endorsing and working with India within this framework. To date, only Vietnam, the Philippines and Indonesia have endorsed the IPOI bilaterally.<sup>29</sup>

The reasons for this stem from Southeast Asia’s reluctant or lukewarm “recognition” and “embrace” of the Indo-Pacific concept/construct itself. Ha<sup>30</sup> opines that the ambivalence among Southeast Asian countries towards the Indo-Pacific is largely because of the concept’s flexibility and ambiguity. In addition, for many, the Indo-Pacific is still seen as a US-led, anti-China coalition, further reinforced by the Trump administration’s confrontational stance towards Beijing after the pandemic. China’s heightened sensitivity towards the term has made Southeast Asian countries hesitant to endorse fully “Indo-Pacific”.

It must be acknowledged, however, that this hesitancy has gradually diminished over the years as it becomes clear that the “Indo-Pacific order” is here to stay. Take the case of Malaysia, as a “least likely to” example. Malaysia for the longest time, did not use the requisite Indo-Pacific semantics, inadvertently staying out of strategic discourse centred around a concept that was growing in significance.<sup>31,32,33,34</sup> This has gradually changed,

with Anwar growing more inclined with using the term in his speeches and statements in the last year.<sup>35,36</sup>

In relation to Southeast Asia, the challenge of cooperating within the Indo-Pacific or even coalescing around the construct remains a potent challenge for partners in the region – more so for India. While IPOI could well be a useful platform for cooperation with Southeast Asia, the jarring fact that it may take time and “soft convincing” to be on the same page about the baselines, optics and messaging raises concerns that perhaps this current “face”, “phase” and “manifestation” of AEP might not be the best approach for Southeast Asia.<sup>37</sup>

Against the backdrop of AEP being anchored to India’s approach to the Indo-Pacific, Sathian and Govindasamy<sup>38</sup> argue that Malaysia’s case should be viewed vis-à-vis China and US rivalry as well as Modi’s global outreach. They opine that one of AEP’s main features is to rival and contain the influence of China in the Asia-Pacific regional construct through intent focus on IPOI. This is a flawed perspective that does not give credit to the conscious maturing of bilateral ties.<sup>39</sup> In fact, the CSP joint statement made no mention of the Indo-Pacific or IPOI. This points to India’s active acknowledgement of Malaysia’s reservations, baselines of cooperation and priorities and internalisation of the value of AEP beyond India’s supposed binary equations and geopolitical considerations.

## Box 2: AEP and the Global South

Anwar, speaking at the Indian Council of World Affairs, emphasised the rising influence of the Global South in shaping its agenda amid geopolitical uncertainties. He called for collective efforts to ensure fairness and address global challenges like climate change, supply chain resilience, food security and AI governance.<sup>40</sup>

India’s prominent use of the term “Global South” began with the Voice of the Global South Summit (VOGSS) in January 2023. At the summit, Modi highlighted India’s commitment to being the voice of the Global South, which represents three-quarters of the world’s population. India’s use of “Global South” brings North-South disparities to the forefront in multilateral discussions like G7 and G20 and keeps the term’s definition deliberately vague, potentially encompassing all non-developed countries.<sup>41</sup> India’s role as a champion of the Global South extends beyond development and governance, reflecting its ambition to act as a bridge between Western partners and the developing world.<sup>42</sup>

India’s approach to the Global South and Southeast Asia’s framing of the discourse reveals two central inferences. First, it is relatively easier and more effective for India to engage Southeast Asia within the Global South narrative – it is less contentious than coalescing solely around the Indo-Pacific concept since all Southeast Asian countries identify with Global South semantics in one way or other.<sup>43</sup> This is especially true for Malaysia. Second, India’s Global South cooperation pitch is challenge based,<sup>44</sup> sensitive to the general disposition of Global South countries and more importantly, starts at the same baseline that resonates with all Global South countries i.e., invokes Sustainable Development Goals and emphasises on addressing climate change through climate justice and developing countries’ demand for climate finance, technology transfer and capacity building.<sup>45</sup>

India's long-standing AEP hence should have naturally facilitated deeper engagement with ASEAN within a Global South agenda, but this has not taken place. Similar to how India's recent structured engagement with Africa has enabled New Delhi to cooperate closely with the region through its Global South push,<sup>46</sup> India must recalibrate its AEP to make Southeast Asia the core of its Global South ambitions.<sup>47</sup>

An important takeaway from a closer look at India's foreign policy outlook and global positioning in recent years and findings from the past few ISEAS-Yusof Ishak State of Southeast Asia survey reports is that there is a mismatch between how India views itself, how Southeast Asia views India and how India *wants* to be viewed by Southeast Asia.<sup>48</sup> Discussions with the diplomatic corps have also revealed that India's perception building in the region and in Malaysia has faced considerable challenges.<sup>49</sup>

In the latest survey report,<sup>50</sup> India ranked ninth among ASEAN's 11 dialogue partners in order of strategic relevance. Malaysian respondents ranked India seventh ahead only of the United Kingdom, Russia, Canada and New Zealand. While the survey is not the most reliable account<sup>51</sup> of how India is perceived in the region, it is taken seriously by the leadership and diplomatic corps,<sup>52</sup> alluding to it contributing to India's future engagement with ASEAN and member states.

A better and stronger account of how Malaysia has grown to view India over the years is through the Joint Statement on India-Malaysia Comprehensive Strategic Partnership.<sup>53</sup> The explicit mention of India's initiative in hosting the VOGSS as a "platform by which countries of the Global South can deliberate and address their concerns, interests and priorities" indicates that Malaysia appreciates India's role as a key Global South mobiliser.<sup>54</sup> The Global South "agenda" has also been a priority for Malaysia in recent years with Anwar articulating our active stance in connecting and mobilising the Global South to address shared global challenges.<sup>55</sup> It is clear that India and Malaysia have a common self-perception as leading voices of the "Global South" and will find common ground in strengthening their influence within a more diverse and multipolar global order.<sup>56</sup>

Malaysia has also expressed "support for India's permanent membership in a reformed United Nations Security Council (UNSC)" in the statement, indicating acknowledgement of India's rising status in international mechanisms and role as a responsible stakeholder and normative power.<sup>57</sup> It is hence important that CSP reflects the changing nature, image and role of both India and Malaysia in the region and the bilateral relationship to ensure its long-term relevance.

### **2.1.2 Political dialogue: High-level visits and bilateral institutional mechanisms**

There have been several high-level engagements between Malaysia and India in the last decade (Appendix A). These have been especially important for the bilateral relationship in terms of optics and messaging. High-level visits (prime minister/foreign minister level) help with diffusing misperceptions about both countries as the Malaysia-India relationship are known to percolate to societal and individual levels, which then affect bilateral ties. These engagements reiterate that there is a shared strategic future with scope for tangible cooperation despite existing ideological divergences and contentions.<sup>58,59</sup>

Mechanisms that structure and shape political dialogue with a focus on the bilateral relationship and other regional and global issues are JCM and FOC at the secretary level. JCM was established in 1992 but only six meetings (1992, 2000, 2002, 2007 and May 2011)<sup>60</sup> have been held, with the latest in December 2023.<sup>61</sup> FOC, on the other hand, resumed in 2022 with its fifth edition, indicating that it is held even less regularly than JCM. FOC reviews the progress of the implementation of the partnership (now, CSP) and outcomes of the FOCs appear to guide the agenda of JCM.<sup>62</sup>

FOCs hence play an important working-level role and, in principle, function to feedback prevalent issues and challenges, analyses and recommendations for consideration in JCM. It is well documented<sup>63</sup> that the FOC mechanism does not possess an exhaustive account of ongoing Track 1.5 and Track 2 engagement outcomes or of all relevant research analyses related to pertinent aspects of the bilateral relationship. These are, therefore, lost to the JCM process, resulting in sluggish implementation of the structures that should govern relations. Worse, it perpetuates outdated cooperation mechanisms that do not reflect current challenges and realities. It is pivotal that CSP clearly determines and illustrates the regularity, value and flow of the FOC and JCM processes along with how outcomes of multi-tracked discussions are ultimately fed back to JCM.

### 2.1.3 ‘Bilateral value’ in multilateralism and inter-regionalism

Malaysia and India share membership in a number of multilateral mechanisms – IORA, IPEF and more recently BRICS+, with Malaysia gaining partner country status.<sup>64</sup> During his special lecture at Sapru House in the Indian Council of World Affairs, Anwar, while speaking about Malaysia’s intention to join BRICS+, stressed that “India’s distinct and influential role within BRICS is of particular importance, as we recognise that our strong bilateral ties will add significant value to the dynamics of the grouping”. To Malaysia, India’s presence in BRICS+ brings balance to the grouping, helping shed the perception that it is “anti-West” or solely China and Russia driven. India has also openly endorsed Malaysia’s bid to join BRICS+.<sup>65</sup>

These developments create the space and opportunity to initiate bilateral discussions on the progress, relevance and unique value of Malaysia and India to multilateral mechanisms that both share membership. This, of course, is not a natural course of action to multilateralism but there is merit in this approach, keeping in mind the nature of IORA, IPEF and BRICS+.<sup>66</sup>

IORA has always served as a “safe space” for India and regional countries seeking to avoid major-power rivalries.<sup>67</sup> As the lead country developing and finalising the IORA Vision document on the Indo-Pacific, India holds a significant position in the organisation.<sup>68</sup> Four out of 10 ASEAN countries have membership in IORA, making it a crucial multilateral framework for closer cooperation between diverse regions. To strengthen its role in IORA and to maximise benefits from the framework, Malaysia could leverage on its relations with India to first, align with the IORA outlook on the Indo-Pacific and to lead efforts on greater IORA-ASEAN cooperation. This supports Malaysia’s vision of being a facilitator of inter-regionalism to connect the Global South. The same can be said for BIMSTEC<sup>69</sup>-ASEAN engagement where both India and Malaysia could take the lead.<sup>70</sup>

Targeted and frank discussions on the utility and disposition of IPEF and BRICS+ can also feature in the bilateral relationship. These frameworks, which are actively shaped by geopolitical

competition and “exclusivist” undertones, mean different things to different member states, so a mechanism to exchange national perspectives, concerns, stances and approaches could be valuable to both countries. There is value in Malaysia understanding India’s “multi-aligned” approach, which prioritises compartmentalisation of interests, strategic competition and geopolitical dynamics<sup>71</sup> in Putrajaya’s efforts to maintain its own balance as mini/multilateralism evolves as a tool to manage great-power competition.

The value of the “bilateral” should hold true and feature in Malaysia considering membership within Indian-led mechanisms, such as International Solar Alliance (ISA) and the Coalition for Disaster Resilient Infrastructure (CDRI). Despite being mentioned in the joint statement, Malaysia is not a member of either framework, pointing to either with Malaysia’s assessment that some initiatives and aspects of these mechanisms overlap with existing national efforts or time-consuming processes linked with Indian bureaucracy and related agencies.<sup>72,73</sup>

As it stands, ISA has identified Malaysia as a key potential member with discussions progressing through the ISA’s close cooperation with the Indian Ministry of External Affairs, which is in contact with Wisma Putra.<sup>74</sup> This indicates that high-level discussions on membership in these mechanisms still depend on ministry-to-ministry contact.

## 2.2 Economic relations

Economic relations are often described as the cornerstone of ties between Malaysia and India,<sup>75</sup> with the recent joint statement on CSP highlighting trade as an “important fulcrum” of the partnership.<sup>76</sup> This emphasis is motivated by India’s economic size and geographical proximity to Malaysia, which, according to the standard gravity model of trade (Appendix B), should result in substantial bilateral trade flows. However, in practice, trade ties between the two countries have been “sub-optimal”.<sup>77</sup> Despite significant long-term growth, bilateral trade still underperforms relative to its potential as might be predicted by a standard gravity model.<sup>78</sup>

### 2.2.1 Trade: growing but still modest

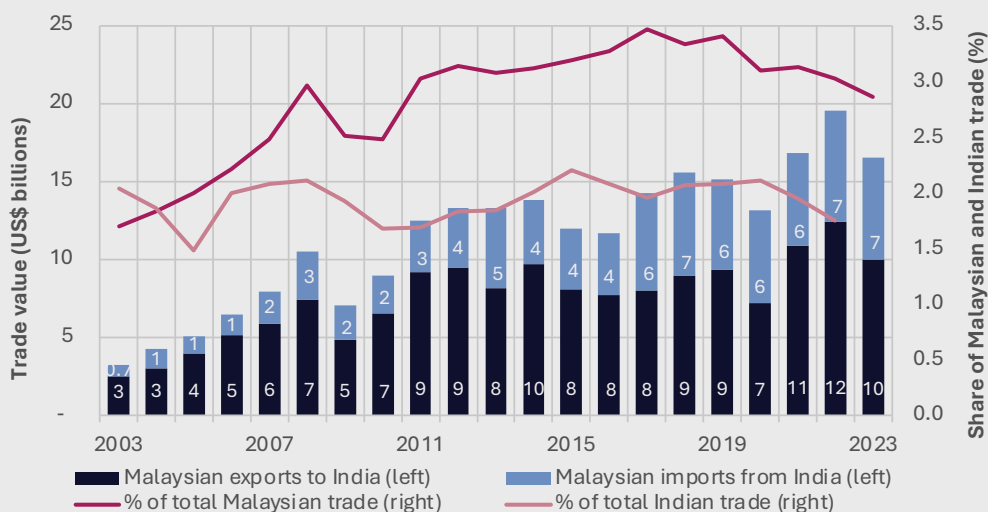
In absolute terms, Malaysia-India trade stands at US\$16.5 billion as of 2023, comprising US\$10 billion in Malaysian exports to India and US\$6.5 billion imports (Fig. 1).<sup>79</sup> While this represents a 16% decline from the peak trade value of US\$19.6 billion a year earlier, bilateral trade in a broader sense has increased five-fold in the last two decades. Indeed, since 2003, trade between Malaysia and India has grown at an average of 11.4% per year, outpacing the average annual growth in Malaysia’s total trade of 6.6%.

Meanwhile, in relative terms, bilateral trade performance has been more modest. India’s contribution to Malaysia’s trade has been steadily declining since the late 2010s. The share of bilateral trade to total Malaysian trade is 2.9% in 2023, down from a peak of 3.5% in 2017. Over the same period, Malaysia has strengthened its relative trade flows with other major trading partners, including ASEAN, China and the United States. From the Indian perspective, the trend is largely similar, with Malaysia’s relative share of Indian trade falling to 1.7% in 2022 from its peak of 2.2% in 2015. By contrast, India’s bilateral trade with China, Indonesia, Russia, Singapore and the US has strengthened in relative terms in the past decade. This indicates that despite the growth in bilateral trade, both Malaysia and India have largely prioritised expanding trade with other major partners. These trends underscore India’s lack of centrality to Malaysian

trade and vice versa, contrary to India's attempted pivot to Southeast Asia under AEP.

**Fig. 1. Malaysia-India trade grown 11% annually in last two decades but remains low in relative terms**

Bilateral trade (US\$ billions) and share of Malaysian and Indian trade (%), 2003-2023



Source: Authors' calculations based on UN Comtrade (2024)

Note: Data on the share of bilateral trade to India's total trade only goes up to 2022.

India's current ranking among Malaysia's trading partners is 12th, the largest in South Asia but lagging several major economies that are similarly close to Malaysia in geographical terms, including China (first), Japan (fourth), South Korea (eighth) and Australia (10th). While this is an improvement compared with the 2000s, India has slipped from its peak ranking of 10th across the second half of the 2010s (Fig. 2). Meanwhile, from India's point of view, Malaysia is its third largest Southeast Asian trading partner after Singapore and Indonesia, ranking 15th overall, four rungs lower than its peak in the mid-2010s and roughly comparable with its position two decades ago.

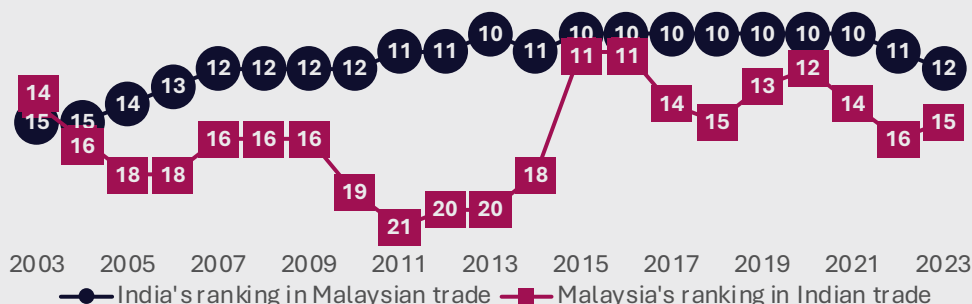
The underwhelming volume of trade between Malaysia and India, particularly in comparison to that of Malaysia and other Asia-Pacific countries, is likely partly driven by India's relative lack of trade openness by regional standards.<sup>80</sup> For one, imports into the Indian market remain subject to considerable direct trade barriers, with a weighted average applied tariff of 12%, placing India among the top 20 most restrictive economies in the world by this measure.<sup>81</sup> At the same time, India's trade-to-GDP ratio in 2023 stood at about 46% while the average for East Asia and the Pacific is 61%.<sup>82</sup>

In addition, exporters in Southeast Asia have highlighted the prevalence of non-tariff barriers in India as a potential obstacle. This includes India's introduction of the Customs (Administration of Rules of Origin under Trade Agreements) Rules in 2020, which subject imported goods to more stringent documentary requirements than baseline international standards to qualify for

FTA-linked tariff concessions.<sup>83</sup> While the intention is to address the alleged circumvention of rules-of-origin criteria in FTAs through third-party imports, the regulations have created an additional administrative barrier that could impede the flow of goods between countries like Malaysia and India.<sup>84</sup>

**Fig. 2. India and Malaysia’s declining relative importance to each other’s trade**

India’s ranking among Malaysia’s trading partners and vice versa, 2003-2023



Source: Authors' calculations based on UN Comtrade (2024)

## 2.2.2 Sectoral decomposition: more diversified but still commodity-dependent

*“[...] India has imported from Malaysia certain goods, the most important of which have been our primary commodities, palm oil and rubber.” – Tun Dr Mahathir Mohamad, 1980.*

Malaysia’s trade with India has been largely characterised by a dependence on the export of primary commodities, consistent with the aforementioned excerpt from a speech delivered by then deputy prime minister Tun Dr Mahathir Mohamad during a state visit to India in January 1980 – though Malaysia’s most important commodity exports in the 21st century are palm oil and petroleum rather than rubber.<sup>85</sup> Indeed, in the mid-2000s, India’s Economic Times highlighted that two-way trade was marked by “wide fluctuations” as well as being limited to a “narrow range of products”.<sup>86</sup>

Over four decades later, however, Malaysia’s export profile to India has become increasingly diversified (Table 1). Malaysia’s five largest export products to India now account for two-thirds of its total exports to India, down from 84% in the mid-2000s, suggesting reduced trade concentration amid a growing basket of tradable goods.

The contribution of Malaysia’s commodity exports to bilateral trade has also decreased, particularly in the last two decades. The two largest commodity sectors by trade value – fats and oils (mainly palm oil) and mineral fuels (mostly crude petroleum) – constitute about one-third of Malaysia’s total exports destined for India today. This is a substantial reduction

compared with the mid-2000s, during which the same product categories accounted for 62% of exports, suggesting that Malaysia's goods exports to India are increasingly shifting towards the secondary sector.

At the same time, electrical machinery and equipment – including integrated circuits, electronic components and appliances – has risen to become the second largest sector by export value. Its contribution to Malaysia's India-bound exports has more than doubled over the last 20 years, from 8% in 2003 to 19% today, reflecting the growing role of semiconductors to Malaysia's overall trade outcomes.

**Table 1. Increasingly diversified portfolio of exports from Malaysia to India**

Top 5 export product groups to India by share of total Malaysian exports to India, 2003-2023

2003		2013		2023	
Mineral fuels	33	Mineral fuels	26	Fats and oils	27
Fats and oils	29	Fats and oils	23	Electrical equipment	19
Machinery and mech	8	Electrical equipment	14	Machinery and mech	8
Electrical equipment	8	Machinery and mech	7	Mineral fuels	6
Wood	6	Organic chemicals	6	Plastics	6

Source: Authors' calculations based on UN Comtrade (2024)

Note: 'Product group' here refers to chapters in the Harmonised System of trade classification, whose names may have been shortened for brevity. For instance, 'machinery and mech' refers to "machinery and mechanical appliances".

Malaysia's import profile from India, on the contrary, has become more concentrated in mineral fuels (chiefly refined petroleum), which now tops the list at more than a fifth of its total imports from India. Imports of intermediate goods, such as aluminium products, are also growing in importance as India's manufacturing sector and industrial processing capabilities gain prominence.

Finally, agricultural commodities have a smaller contribution to India's export revenues from Malaysia today than two decades ago. Meat, including buffalo meat, continues to feature in the top five, but its share of total Malaysian imports from India has almost halved to 8% since 2003 while cereal products, such as rice and wheat, have dropped out of the top five altogether. This sectoral decomposition reveals greater sophistication in the structure of Malaysia-India trade but commodities continue to be the driving force behind economic relations, which CSP must aim to address (Section 3.2.1).



**Table 2. More concentrated, complex portfolio of Malaysian imports from India**

Top 5 import groups from India by share of total Malaysian imports, 2003-2023

2003		2013		2023	
Meat	13	Mineral fuels	26	Mineral fuels	22
Organic chemicals	10	Organic chemicals	12	Aluminium	15
Cereals	8	Meat	8	Meat	8
Machinery and mech	8	Copper	6	Organic chemicals	6
Aluminium	6	Cereals	5	Machinery and mech	5

Source: Authors’ calculations based on UN Comtrade (2024). Note as per Table 1.

### 2.2.3 MICECA: comprehensive on paper but underutilised

Prior to the elevation of ties to CSP, the most significant development in Malaysia-India economic ties was the signing of MICECA in 2011. As Malaysia’s fourth and India’s seventh bilateral free trade agreement (FTAs), MICECA came on the heels of the regional ASEAN-India Trade in Goods Agreement (AITIGA), as Box 3 explains.

#### Box 3. MICECA at a glance

MICECA is a bilateral FTA that covers 16 chapters, including trade in goods, rules of origin, customs cooperation, remedies, trade in services, investment and economic cooperation. Entering into force in July 2011, MICECA offers “AITIGA Plus” tariff reductions, meaning it builds on AITIGA’s tariff concessions and extends or fast tracks them slightly. For example, MICECA has 6-8% fewer products exempted from any form of tariff liberalisation as well as lower Indian tariffs on three palm oil products compared with AITIGA.<sup>87</sup> MICECA’s most notable tariff cuts are in palm oil products on India’s part while most of the other heavily traded imports were already subject to low or zero tariffs in 2011 (see Appendix C for a decomposition).

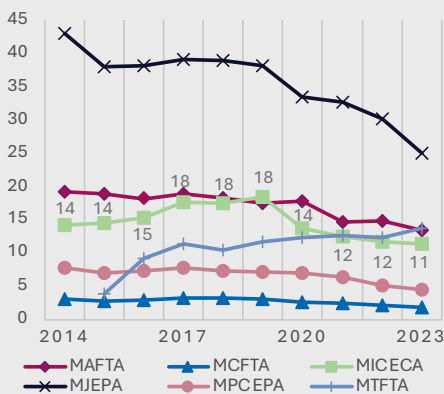
Beyond trade in goods, MICECA liberalised the rules on foreign equity shareholding in both India and Malaysia. India now permits Malaysian foreign equity shareholding in 84 sub-sectors of the services industry while Malaysia allows Indian foreign equity shareholding in 91 such sub-sectors, including in business, communication, construction, distribution, educational, environmental, health-related, tourism and transport services.<sup>88</sup> This is meant to stimulate business and investment linkages between the two countries by incentivising partnerships. In addition, MICECA also calls for the mutual recognition of professional qualifications across the two countries in accounting and auditing, architecture, medical, dental and nursing.<sup>89</sup>

Early studies on MICECA’s impact, based on a joint study group report between the trade ministries of Malaysia and India launched in August 2007, predicted that the reduction in tariffs would boost two-way trade to US\$16 billion by 2012.<sup>90</sup> In reality, it was not until 2021 that this target was finally achieved, nine years later than initial estimates. In addition, the utilisation of MICECA among exporters has declined from its pre-pandemic peak (Fig. 3 and 4).

MICECA currently ranks fourth among Malaysia’s seven bilateral FTAs in terms of the number of preferential certificates of origin issued to exporters (Fig. 3) annually at 11,500, dropping from its second-place record of more than 18,000 in 2019. By this measure, the agreement even ranks behind Malaysia’s FTA with Türkiye, a country whose trade volume with Malaysia is only about a quarter of India’s. Based on the total free on board (FOB) value of exported products, MICECA raked in RM3 billion as of 2023, just one-third of its nearly RM10 billion peak in 2019, coming in third among Malaysia’s bilateral FTAs (Fig. 4). This is only about 15% higher than the FOB value of exports utilising Malaysia’s FTAs with Pakistan and Chile, nations whose combined trade with Malaysia is about a tenth of Malaysia-India trade.

**Fig. 3. MICECA is less utilised than Malaysia’s FTA with Türkiye**

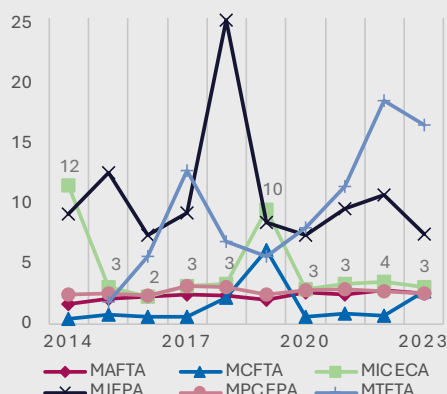
Number of certificates of origin issued to exporters using Malaysia’s bilateral FTAs, 2014-2023 (thousands)



Source: Authors’ calculations based on MITI data  
 Note: MAFTA = Malaysia-Australia Free Trade Agreement, MCFTA = Malaysia-Chile Free Trade Agreement, MJEPA = Malaysia-Japan Economic Partnership Agreement, MPCEPA = Malaysia-Pakistan Closer Economic Partnership Agreement, MTFTA = Malaysia-Türkiye Free Trade Agreement. One other FTA (Malaysia-New Zealand) has been omitted due to substantially lower utilisation rates.

**Fig. 4. MICECA’s trade value has fallen by more than two-thirds since 2019**

Free-on-board value of products exported using Malaysia’s bilateral FTAs, 2014-2023 (RM billions)



Source: Authors’ calculations based on MITI data  
 Note: MAFTA = Malaysia-Australia Free Trade Agreement, MCFTA = Malaysia-Chile Free Trade Agreement, MJEPA = Malaysia-Japan Economic Partnership Agreement, MPCEPA = Malaysia-Pakistan Closer Economic Partnership Agreement, MTFTA = Malaysia-Türkiye Free Trade Agreement. One other FTA (Malaysia-New Zealand) has been omitted due to substantially lower utilisation rates.

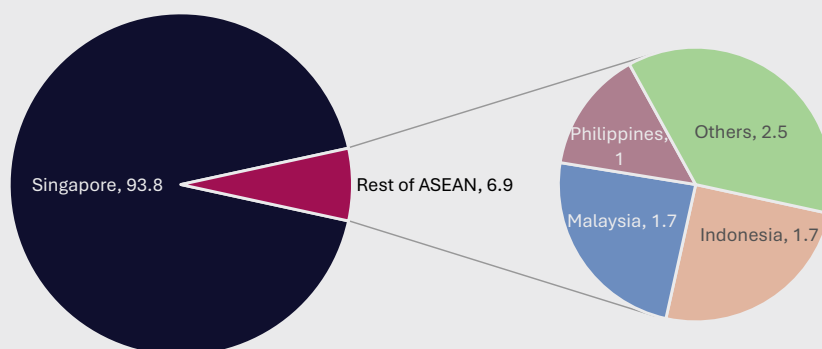
With the possible review of MICECA on the cards, the need to make the agreement more effective and utilisable should form part of the discussion process on the new and improved FTA (Section 3.2.1).

## 2.2.4 Investment: new commitments but still small

Beyond trade, Malaysia's investment links with India remain largely piecemeal in nature, both as a source and destination for FDI, but growth is picking up. Total approved investments from India into Malaysia totalled RM399 million across 39 projects in 2023, a 38% increase compared with 2022, making India the 20th largest source of approved FDI.<sup>91</sup> The main sectors of interest are biotechnology, pharmaceuticals and textiles, areas in which India has a comparative advantage (Section 3.2.1).<sup>92</sup> This figure is likely to have risen in 2024 following Anwar's official visit in August, during which Malaysia was said to have secured RM4.5 billion in new investment commitments, though the sectoral decomposition of this potential FDI remains unclear.<sup>93</sup>

**Fig. 5. Malaysia is a relatively minor destination for ASEAN-bound Indian FDI**

Cumulative FDI inflows into ASEAN countries from India, 1996-2023 (US\$ billions)



Source: Export-Import Bank of India (2024)

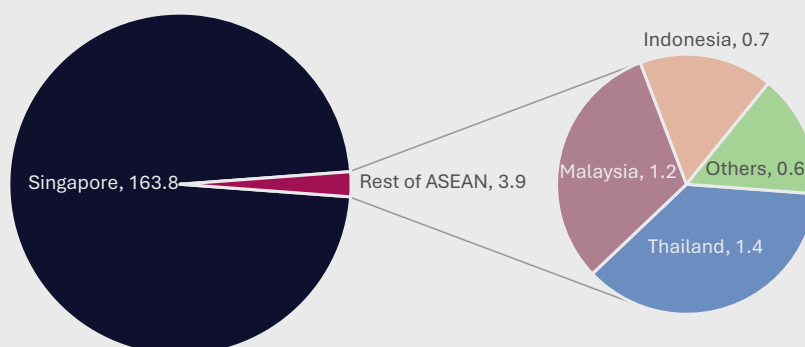
In terms of realised FDI, the available data indicate that the cumulative inflows of investment into Malaysia from India stand at US\$1.7 billion since 1996. This is less than 2% of the total Indian FDI bound for Southeast Asia over the same period, over 93% of which has gone to Singapore (Fig. 5), driven by the latter's role as a regional financial centre.

In the other direction, the story is similar. Cumulative Malaysian FDI into India stands at US\$1.2 billion, less than 1% of total India-bound FDI from Southeast Asia, mainly in telecommunications and infrastructure.<sup>94</sup> Singapore, meanwhile, is responsible for more than 97% of the region's FDI into India (Fig. 6) and counting, judging by recent announcements indicating an aggressive expansion on collaborations with India in technology. This includes investment commitments exceeding \$5 billion in Tamil Nadu as of January 2024,<sup>95</sup> as well as talks to develop a partnership between the Singaporean government and Tata Group in semiconductor development.<sup>96</sup>

While Malaysia has announced a host of planned investments in emerging areas, such as green ammonia and green hydrogen within the ambit of renewable energy,<sup>97</sup> FDI in the new era of relations under CSP needs to be more strategic, particularly in terms of harnessing Malaysia's capabilities in the semiconductor industry (Section 3.2.3).

### Fig. 6. Malaysia is an even smaller source of FDI into India compared to Singapore

Cumulative FDI inflows into India from ASEAN, 2000-2024 (US\$ billions)



Source: Indian Ministry of Commerce and Industry (2024)

## 3 Policy recommendations: Considerations for CSP

The joint statement on CSP has emphasised the need to strengthen ties between Malaysia and India, with the primary areas of focus in political and economic relations summarised in Box 4. The full text of CSP and, by extension, the way forward for renewed bilateral relations, remains under discussion. Therefore, this section provides more concrete policy recommendations in terms of achieving the priorities under CSP as well as addressing the challenges discussed in Section 2.

### Box 4. Summary of key priorities for Malaysia-India relations under CSP

#### **Political relations**

- hold regular exchanges and dialogues on bilateral, plurilateral and multilateral issues of mutual interest, including regular convening of JCM and FCO;
- ensure continued engagement between countries of the Global South where the VOGSS could be a platform to deliberate and address concerns, interests and priorities as well as exchange ideas and solutions;
- strengthen cooperation and coordination at multilateral fora.

### ***Economic relations***

- further enhance bilateral trade and investments in a sustainable manner;
- encourage cooperation across multiple sectors;
- advance collaboration in science and technology, including semiconductors and other identified areas.

Note: Non-exhaustive list adapted from the joint statement on CSP

## **3.1 Political relations**

### **3.1.1 Enhance role and value of bilateral institutional mechanisms**

#### **Focus on semantics and perception building through multi-tracked forums and discussions**

CSP must explicitly state that it is a product of India's AEP, reflecting Modi's words in 2015 that "Malaysia is at the core of the Act East Policy".<sup>98</sup> This is crucial in re-familiarising Malaysian policymakers to India's core policies that engage Southeast Asia in particular. It also aids in assessing and measuring the impact of AEP on Malaysia in the coming decades.

Existing forums that focus on Indian foreign policy, India-Malaysia or India-ASEAN relations, such as the ASEAN-India Network of Think-Tanks (AINTT) Roundtable, ASEAN-India Youth Summit (AIYS), Delhi Dialogue (DD), Asia-Pacific Roundtable (APR) and Raisina Dialogue must highlight India's role in the region amid geopolitical complexities and cover discussions that focus on how Southeast Asia fits in India's strategic future. The outcomes of these discussions must be fed to FOCs regularly.

#### **Streamline and regularise FOC and JCM processes**

Seeing how the FOC and JCM processes are the institutional backbone of Malaysia-India political dialogue, both must be revitalised and robust to aid in the conscious enhancing of bilateral cooperation. Before the outcomes of FOC are fed to JCM, working-level members of FOC in both countries should gather and collate information on all relevant Track 1.5 and Track 2 outcomes, analyses and perspectives from think-tanks, academic institutions, mechanisms like the Malaysia-India Business Council (MIBC), ASEAN-India Business Council (AIBC), Malaysia-India CEO Forum, and forums like AINTT, AIYS, DD and APR for first-level discussions at FOC. Discussion outcomes from FOC must guide JCMs, which should ideally result in an update to the terms of cooperation laid down in CSP.

It is also ideal if FOCs and JCMs coincide with each other either annually or biennially, with the FOC preceding JCM each time. As of 2024, five FOCs and six JCMs have taken place. The sixth FOC and seventh JCM should take place in 2026 after Malaysia's ASEAN chairmanship to take stock of both the Malaysia-India and ASEAN-India CSP and related structures.

### 3.1.2 Encourage and actively pursue Global South cooperation

The Malaysia-India CSP should contain provisions that highlight cooperation mechanisms to address challenges unique and common to the Global South. Semantics-wise there must be wilful and deliberate mention of these Global South cooperation mechanisms amenable to both sides as a means for enhanced ties.

For example, during its G20 presidency, India announced five major initiatives to advance its development partnership with the Global South: (i) establishment of a “Global-South Centre of Excellence”; (ii) launch of a “Global-South Science & Technology Initiative”; (iii) launch of a new “Aarogya Maitri (Health Friendship) Project”; (iv) creation of a “Global-South Young Diplomats Forum”; and (v) instituting “Global South Scholarships” for students to pursue higher education in India.<sup>99</sup> Such a move projects and symbolises the active shift of AEP as becoming the core thrust of India’s Global South ambitions – an approach more palatable and relatable to Malaysia. The initiatives, while low-hanging fruits, reiterate the value of bilateral cooperation in shaping the Global South agenda.

As regular participants of VOGSS, Malaysian representatives could utilise the platform to engage fellow participants and introduce Malaysia’s approach to Global South cooperation, emphasising on national initiatives and membership and collaboration within the International Big Cat Alliance (IBCA) of which Malaysia is a founding member.<sup>100</sup>

### 3.1.3 Strengthen bilateral coordination in multilateral frameworks

CSP should encourage the establishment of a Malaysia-India “bilateral coordination council” (MIBCC) independent of, but with a supportive role to, the FOC and JCM processes. MIBCC should be a Track 1.5 process with a mix of Malaysian and Indian government officials, military officials, think-tankers,<sup>101</sup> academics and representatives from business and investment groups and environmental and biodiversity and conservation organisations.

The council should actively encourage exchange of ideas and perspectives and determine how the bilateral relationship can be of value to Malaysia and India in common multilateral frameworks, such as IORA, IPEF and BRICS+. This is also an opportunity to create enabling structures that contribute to the sustained utility and relevance of multilateral mechanisms to both countries. For example, Malaysia and India can work on sustainable management of marine fishery resources by determining appropriate baselines of cooperation which could support IORA member states working on a key priority area.<sup>102,103</sup>

MIBCC can also provide recommendations and propose blueprints for Malaysia and India-led inter-regional cooperation, be it IORA-ASEAN or BIMSTEC-ASEAN. MIBCC should also be the key entity to hold high-level discussions on the utility and disposition of IPEF and BRICS+ in addition to playing a supportive role in Malaysia’s assessment of membership in Indian-led mechanisms, such as ISA and CDRI. Important findings from MIBCC-initiated discussions must be fed to FOCs which should ideally reach JCMs.

Finally, MIBCC should be the focal point for discussions on how Malaysia and India can contribute to discussions and meaningful action on UN reforms, including making UNSC more representative in both the permanent and non-permanent categories.

## 3.2 Economic relations

### 3.2.1 Enhance bilateral trade and investments

The joint statement clearly puts forward the deepening of trade and investment links between the two nations as a central feature of Putrajaya and New Delhi's elevated partnership (Box 4). To date, however, Malaysian and Indian authorities have not agreed on an explicit target for Malaysia-India trade flows in the years to come. Indian stakeholders – High Commissioner to Malaysia B Nagabhushana Reddy and Minister of State for External Affairs Kirti Vardhan Singh – have alluded to a goal of US\$25 billion in trade by 2026.<sup>104</sup> Treating this target as a reference, two-way trade must achieve a compounded annual growth rate of at least 14.8% between 2023 and 2026, doubling the corresponding rate in the early 2020s.

This means that the existing piecemeal approach to economic cooperation will not be sufficient to promote ties, indicating that CSP should significantly move the needle through the initiatives highlighted below.

#### **Strengthen investment and trade promotion**

Malaysia and India should focus first and foremost on strengthening cross-border investments and trade promotions. One way to achieve this objective is through the establishment of a technical council focused on investment and trade promotion and facilitation, similar to the institutional arrangement between India and the United Arab Emirates.<sup>105</sup> Such a council could be a tangible manifestation of the existing MoU between Invest India,<sup>106</sup> India's national investment promotion agency, and Malaysia-India Business Council signed in 2019,<sup>107</sup> which should ideally bring the Malaysian Investment Development Authority (MIDA) into the fold. Accordingly, the council should consist of key stakeholders from ministries, agencies, chambers of commerce and private sector players.

The technical council should identify business opportunities to increase FDI links between Malaysia and India, particularly raising investors' awareness of incentives and licensing procedures. This could provide Malaysian exporters and investors with a more nuanced understanding of the differing institutional and industrial policy arrangements in different regions of India, particularly in heavily industrialising states like Karnataka and Gujarat,<sup>108</sup> addressing the existing "knowledge deficit" on available opportunities.<sup>109</sup>

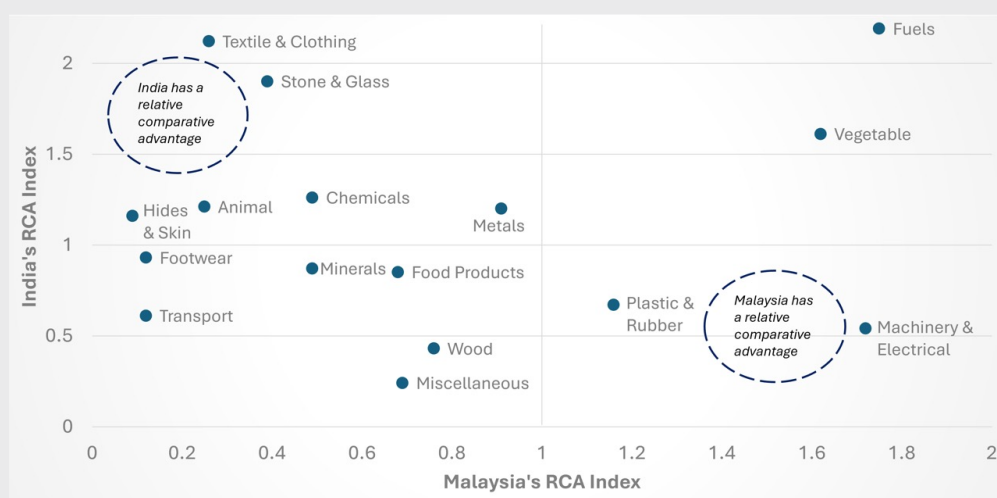
The council could also support the opening of an Invest India office in Kuala Lumpur to serve potential investors, building on the momentum gained from the establishment of its first overseas office in Singapore in October 2024.<sup>110</sup> Direct, on-the-clock Indian presence in Malaysia would be instrumental in helping investors address bureaucratic hurdles and navigate India's taxation system, which have been cited as the largest barriers to doing business in India. It would also put a spotlight on the specific efforts that the Indian government has taken to improve the ease of doing business: its ranking on the World Bank's namesake index rose from 142nd in 2014 to 63rd in 2019.<sup>112</sup>

Initiatives around trade promotion should endeavour to increase the export and import of sophisticated, manufactured goods with high potential for value addition, thereby further reducing dependence on volatile, low-value trade in primary commodities. This entails

a strategic consideration of the complete spectrum of Malaysia and India's respective comparative advantages in exports, including machinery and electrical equipment for the former, and chemicals and metals for the latter (Fig. 7), moving beyond a narrow focus on palm oil, crude petroleum and food products. Put simply, comparative advantage should play a more central role in informing trade-promotion strategies, which need to capture emerging or potential growth areas rather than relying on existing trends.

### Fig. 7. Trade promotion should consider Malaysia and India's comparative advantages beyond commodities, including electrical equipment and chemicals

Indices of revealed comparative advantage (RCA) by product group, 2023



Source: Authors' calculations based on UN Comtrade (2024)

Note: RCA is calculated by dividing the share of a country's total exports in a particular product/sector by the global share of exports in the same sector, serving as a proxy for its international competitiveness in the industry. A value above 1 indicates that the country has a comparative advantage in the sector's exports while a value below 1 indicates a comparative disadvantage. 'Product group' reflects 'sections' in the HS nomenclature, namely the broadest category of goods in the classification system.

There is scope for Malaysia and India's national trade promotion agencies, namely the Malaysia External Development Corporation (MATRADE) and India Trade Promotion Organisation (ITPO), to engage in joint trade promotions and conduct reciprocal trade fairs and related missions. ITPO could become a strategic partner of MATRADE, joining the ranks of Malaysia's Japanese, Singaporean, South Korean and Taiwanese counterparts. Trade-related events, including the New Delhi-coordinated India Investment and Trade Promotion Roadshow 2024, should be more targeted to sectors of interest aligned with comparative advantage or regional demands, as is the case with Singapore, which hosted not only to a financial sector roadshow targeting Indian players but also an investment one promoting the state of Odisha.<sup>113,114</sup>

Further, customs facilitation could receive a boost through a mutual recognition agreement with



authorised economic operators, which are designated customs entities, such as importers, exporters, port operators or warehouses, responsible for cargo movement. India already has similar arrangements with Australia,<sup>115</sup> Hong Kong and South Korea,<sup>116</sup> which comply with international standards set by the World Customs Organisation. Malaysia meanwhile has implemented the mutual recognition of customs operations with ASEAN member states<sup>117</sup> and Japan,<sup>118</sup> while also streamlining its customs declaration procedures with China through a joint working group on single window cooperation.<sup>119</sup> Extending such recognition to Malaysia-India trade, subject to global principles, could reduce cargo release times and transaction costs, easing administrative barriers in the movement of goods. This could also lay the groundwork for greater ASEAN-India connectivity, setting the stage for links between the ASEAN Customs Transit System and India's Single Window Interface for Facilitating Trade, which would enable "seamless transit" across the Indian Ocean.<sup>120</sup>

### **Update and upgrade MICECA**

As part of the joint statement, India and Malaysia acknowledged the need to "support and expedite" the review of AITIGA by 2025 but stopped short of calling for a similar update to MICECA.<sup>121</sup> The two countries should conduct a comprehensive review of MICECA in tandem with AITIGA as soon as possible. This is because MICECA has been in force for 13 years without an update – by contrast, India's equivalent FTA with Singapore has been reviewed twice since 2005, with a third review launched in 2018.<sup>122</sup>

The improved MICECA should reflect the standards of current FTAs, incorporating provisions on digital trade, empowerment of small and medium enterprises (SMEs) and government procurement. Amendments to MICECA should aim to reduce trade-restricting non-tariff measures and promote better market access through more flexible rules of origin and expanded tariff concessions, which remain modest relative to India and Malaysia's other FTAs.<sup>123</sup>

A suitable case study is India's recent comprehensive partnership economic agreement with the UAE, through which India has excluded 9.7% of products from tariff concessions,<sup>124</sup> compared with 10.1% under MICECA.<sup>125</sup> This FTA also provides clarity on the legitimacy of paperless trading, online consumer and personal data protection, electronic invoices, digital payments, cross-border information flows and cybersecurity – areas that are becoming part and parcel of commerce but not included in MICECA.

The review of MICECA must include consultations with key stakeholders, such as businesses, chambers of commerce and civil servants across ministries, so that the agreement reflects contemporary priorities. This should take place in tandem with negotiations to finalise the review of AITIGA to ensure they complement each other and avoid creating a "noodle bowl" of overlapping FTAs with poor utilisation. Ultimately, both MICECA and AITIGA should endeavour to encourage Indian integration into regional value chains through standards consistent with ASEAN's other multilateral FTAs where possible, such as in terms of rules of origin criteria.<sup>126</sup>

### **Implement existing arrangements**

Strengthening economic ties between Malaysia and India does not necessarily require the two countries to start from scratch. There are opportunities to capture low-hanging fruits by focusing on operationalising existing initiatives that have fallen by the wayside, particularly

provisions within MICECA's ambit.

For one, Putrajaya and New Delhi should make better use of the joint-committee mechanism within MICECA, which serves to “review the implementation and operation” of the agreement.<sup>127</sup> Operating at the level of ministers by default, the committee has only convened twice, the first at its launch in 2011 and the second in August 2024 during the elevation of ties, representing many missed opportunities to maximise government-to-government linkages. This committee provides a concrete platform for Malaysia's Ministry of Investment, Trade and Industry (MITI) and India's Ministry of Commerce and Industry (MCI) to address trade challenges associated with MICECA, such as low FTA utilisation and promote cooperation with the ethos of the agreement. This could take the form of ministry led capacity building and outreach programmes targeting civil servants and businesses.

Malaysia and India need to also walk the talk in terms of implementing mutual recognition agreements (MRAs), which provide for cross-border recognition of qualifications, licensing requirements and related procedures in specific sectors. MICECA encourages the two nations to “negotiate and conclude” MRAs in five professions – accounting, architecture, medicine, dentistry and nursing, “within 12 months or a reasonable period of time” following the FTA's entry into force in July 2011.<sup>128</sup> To date, however, a formal MRA has been signed only in accounting.<sup>129</sup> Aside from finalising the four remaining MRAs, Malaysia and India should extend the MRA process to other important fields, such as engineering, to facilitate more fruitful exchanges of information, diffusion of knowledge and talent acquisition. This could also form the basis of future ASEAN-India people-to-people exchange, which remains limited to date.

### 3.2.2 Encourage economic cooperation

#### Government-to-government engagement

It is necessary for Malaysia and India's ministers and civil servants under the trade portfolio to meet regularly to develop a productive, proactive and dynamic working relationship, a reality that was acknowledged as early as 2015 in the previous joint statement on the now defunct ESP.<sup>130</sup> Therefore, MITI and MCI should set up a joint working group (JWG) to resolve broader trade-related challenges, which may operate with MICECA's joint committee. Issues, such as the growing use of non-tariff barriers,<sup>131</sup> Indian industry's initiation of anti-dumping investigations against Malaysia and vice versa<sup>132</sup> and allegations surrounding the rerouting of Chinese goods into India via Malaysia<sup>133</sup>, could be dealt with through this consultative platform before unilateral action is taken.

The JWG could go a step further by mapping compatible and complementary industrial policy incentives on either side, thereby setting the stage for deeper collaboration. For instance, Malaysia's New Industrial Master Plan (NIMP) 2030<sup>134</sup> and the Make in India<sup>135</sup> have 13 overlapping priority sectors, including electrical and electronics (E&E), medical devices and aerospace, which could be suitable areas for future MoU or business exchanges (Fig. 8).

#### Business-to-business engagement

Exchanges between Malaysian and Indian businesses should also take place regularly at relevant forums as a convening platform to facilitate the sharing of knowledge and the

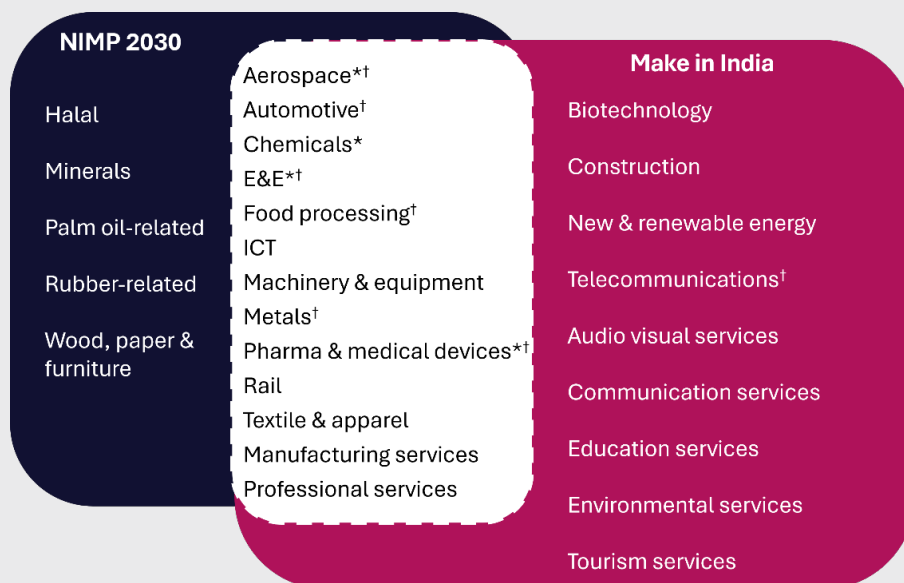
expansion of partnerships. There has been a resurgence in such forums since 2023 but the momentum must be maintained to boost business-to-business ties.

The Malaysia-India CEO Forum, introduced in 2010, was supposed to meet twice a year to promote cross-border business cooperation,<sup>136</sup> but it only resumed in 2024 after a hiatus in the mid-2010s. The Consortium of Indian Industries in Malaysia has proposed the addition of a forum dedicated to the CEOs of SMEs, which could beef up the effectiveness of the CEO Forum by zeroing in on the distinct challenges and opportunities of smaller companies involved in Malaysia-India trade.<sup>137</sup> SME input can also be gathered more formally at the committee level in an improved MICECA.

The India-ASEAN Start-up Summit, which convened for the first time in December 2023 in Kuala Lumpur, has potential to link Indian digital start-ups with the Malaysian market, but it should not be treated as a one-off event – to date, it is not clear if a follow-up event is planned.<sup>138</sup>

**Fig. 8. Malaysia and India could strengthen collaboration in 13 sectors that overlap across their industrial policy documents**

Sectors under Malaysia’s NIMP 2030 and Make in India



Source: Authors’ compilation based on MITI (2024) and Ministry of Commerce and Industry, India (2024)  
 Note: \* indicates high priority sectors under NIMP 2030, † indicates sectors eligible for India’s production-linked incentive schemes. Sector coverage may differ between the two countries, but attempts have been made to identify commonalities and simplify sector names for brevity. For instance, ‘textile & apparel’ covers jewellery in Malaysia, which is classified under a distinct sector name called ‘gems & jewellery’ in India.

### 3.2.3 Advance collaboration in science and technology

In science and technology, the sector that stands out by virtue of its prospects for value addition and economic resilience is semiconductors – and E&E more broadly. Relevantly, the joint statement outlines the industry as an explicit example of possible collaboration between Malaysia and India in science and technology.<sup>139</sup>

There are potential synergies between the two countries in this space, given the complementarities between Malaysia's National Semiconductor Strategy (NSS) and the India Semiconductor Mission (ISM). Malaysia is setting its sights on moving up the value chain into front-end circuit design and fabrication, building on its back-end capabilities in assembly, testing and packaging (ATP). At the same time, India is rapidly emerging as a centre for electronic manufacturing and design, thanks to substantial subsidies and a large pool of skilled labour, with the country projected to account for 10% of global semiconductor demand by 2030.<sup>140</sup> Rather than developing their capabilities in isolation, the two countries could partner up by leveraging each other's competitive advantages, which are broadly hardware in the case of Malaysia and software in the case of India.

#### MoU in semiconductor cooperation

This can materialise through an all-encompassing MoU in semiconductors in the spirit of the ongoing arrangement between India and Singapore (Box 5).<sup>141</sup> The MoU should spell out collaboration at the governmental and business levels to maximise impact.

At the governmental level, there needs to be greater cross-ministerial policy dialogue between line ministries with a stake in the industry, from science and technology to higher education and trade. Government-to-government discussions should encompass ways to effectively promote technology transfer, knowledge exchange and mutually beneficial training, including the possibility of hiring more Indian engineers and qualified technicians to fill the talent gap in Malaysia's semiconductor industry.

India's strength as a net exporter of talent should be leveraged. Accounting for about one-fifth of the global supply of engineers involved in the design of microchips,<sup>142</sup> India is projected to create a further 300,000 jobs in chip fabrication and 200,000 jobs in the ATP segment by 2030.<sup>143</sup> At the same time, Malaysia requires 60,000 new engineers in the immediate future to fulfil its industrial ambitions and its mature semiconductor ecosystem is a pull factor for foreign talent. Educational institutions on both sides of the Indian Ocean should be more closely integrated, particularly in engineering through cross-border internship schemes and student exchanges to encourage exposure and learning from experts, borrowing a page from Singapore's India Ready Talent Programme.<sup>144</sup> Exchanges should go both ways, with ample opportunities for experienced Malaysian companies to provide on-the-ground advisory services to emerging Indian businesses.

Further, at the business-to-business level, the MoU should encourage greater interaction between the India Electronics and Semiconductor Association (IESA) and Malaysia Semiconductor Industry Association to exchange ideas, best practices and explore areas for investment, collaboration and joint ventures. One such collaboration that has materialised in recent months is a technology provision agreement in technical services and training between

Globetronics, a Penang-based E&E company, and Kaynes Semicon from India.<sup>145</sup> The flagship regional semiconductor forum, SEMICON Southeast Asia, usually held in Penang, should encourage the participation of Indian players in exchange for greater Malaysian participation in SEMICON India.

### **Box 5: Key actions under MoU on India-Singapore semiconductor partnership**

- establish policy dialogue between Ministry of Trade and Industry and India's Ministry of Electronics and Information Technology for discussions on ecosystem development, supply chain resilience and workforce development;
- establish cooperation forum between Enterprise Singapore and ISM for businesses;
- plan Singapore Semiconductor Industry Association's business mission to India, supported by IESA;
- feature Singapore Pavilion at SEMICON India business event to promote Singaporean companies in India.

Note: Adapted from press release on MoU, Singaporean Ministry of Trade and Industry

### **Direct investment abroad and equal partnership**

Malaysian investment policy has implicitly placed heavy emphasis on attracting inward FDI into the country. However, there must be more focus on promoting direct investment abroad into places like India, which could generate repatriable income and dividends, indirectly promote domestic productivity and job creation<sup>146</sup> and strengthen Malaysia's soft power in the Global South.

As Malaysia builds the front-end of its value chain, opportunities exist in expanding or outsourcing segments of its back-end processes to India in line with the latter's schemes for production-linked incentives. Currently, there is only one Malaysian E&E player with a notable presence in India – Infinecs in Bengaluru. By contrast, Singapore has set up a semiconductor high-tech park in Tamil Nadu,<sup>147</sup> is a major partner in Bengaluru's tech infrastructure<sup>148</sup> and has supported the creation of skills centres across India.<sup>149</sup> It is no surprise then that Singapore is a tried and tested – and by extension trusted – partner for India in the science and technology space while Malaysia has to catch up.

Finally, it is important to remember that India should also be an equal partner for cross-country collaboration in advanced packaging and circuit design, tapping into Indian expertise in the technology sphere. The recent partnership between the Indian Institute of Technology Madras and SilTerra Malaysia to develop silicon photonic processor chips and engage in R&D on computing solutions is a step forward and similar institutional collaborations should be encouraged.<sup>150</sup>

## 4 Conclusion

CSP is a promising step towards sustained strong ties between Malaysia and India. The accompanying joint statement acknowledges, both directly and implicitly, the potential to optimise Malaysia's partnership with India in the political and economic domains. To translate this potential into reality, however, the trajectory of bilateral and multilateral engagement must not repeat the past mistakes of losing momentum or taking the long-standing ties for granted. In short, the devil is in the details.

This policy brief provides recommendations to operationalise the new era of Malaysia-India ties, focusing on the "how" in response to the high-level aspirations in the joint statement. In political relations, the authors describe how to enhance the role and value of bilateral institutional mechanisms, encourage and actively pursue Global South cooperation and strengthen bilateral coordination in multilateral frameworks. In economic relations, the authors explain how to enhance bilateral trade and investments, encourage economic cooperation and advance collaboration in science and technology.

The policy brief stresses the need for CSP to be fit for purpose in the contemporary geopolitical and geoeconomic landscape. Ultimately, achieving this vision hinges on the political will of both nations to address challenges, achieve compromise and attain consensus. With strategic intent and sustained commitment, Malaysia and India could build a comprehensive strategic partnership that not only endures but thrives in the face of evolving global realities.

## Appendices

### Appendix A: high-level bilateral visits (2014-2024)

**Table A1. Six high-level visits took place in 2023-2024**

List of high-level bilateral visits in the last 10 years in reverse chronological order

Minister	Date	Location
Minister of State of External Affairs Kirti Vardhan Singh	Sep 2024	Kuala Lumpur
Prime Minister Anwar Ibrahim	Aug 2024	New Delhi
External Affairs Minister S Jaishankar	Mar 2024	Kuala Lumpur
Minister of State of External Affairs Rajkumar Ranjan Singh	Nov 2023	Kuala Lumpur
Foreign Minister Zambry Abdul Kadir	Nov 2023	New Delhi
Minister of State of External Affairs V Muraleedharan	May 2023	Kuala Lumpur
Foreign Minister Saifuddin Abdullah	Jun 2022	New Delhi
Prime Minister Narendra Modi	May 2018	Kuala Lumpur
Prime Minister Najib Razak	Mar 2017	New Delhi, Chennai & Jaipur
Prime Minister Narendra Modi	Nov 2015	Kuala Lumpur

Source: Authors' tabulations based on sources listed <sup>151,152,153,154,156</sup>

Note: This table only includes visits undertaken by the prime minister and foreign minister/external affairs ministers (includes Indian ministers of state of external affairs)

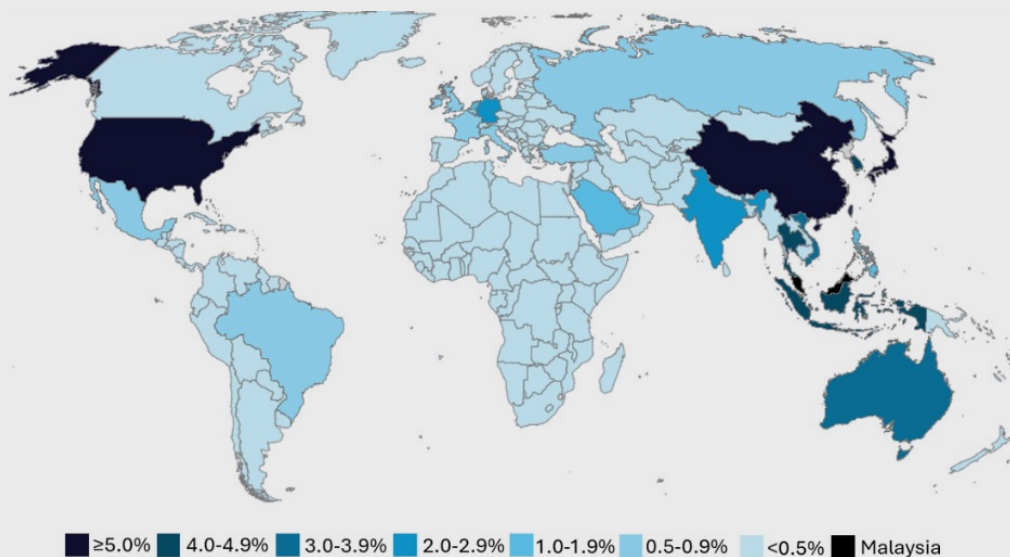
## Appendix B: gravity model of trade

The gravity model of trade is the observation that trade flows increase with economic size and decrease with geographical distance, all else being equal.

This applies to Malaysia, which generally trades more intensely with countries in its immediate neighbourhood, including much of East Asia, Southeast Asia and Australia. Nine of Malaysia's 10 largest trading partners in 2023 were in Asia-Pacific, the exception being the United States in third place, the world's biggest economy (Fig. A1). India is in 12th place between Vietnam and Germany. Collectively, these countries make up more than two-thirds of Malaysia's total trade.

**Fig. A1. Malaysia trades more intensely with large nearby economies**

Bilateral trade as a share of Malaysia's total trade by country (%), 2023



Source: Authors' calculations based on UN Comtrade (2024)



## Appendix C: tariff reductions under MICECA

The table below provides a breakdown of Malaysia and India's average tariffs on their main imports from each other at the six-digit HS code level, both before and after the introduction of MICECA. For this decomposition, India's top 10 imported products from Malaysia in 2023 and vice versa are cross-referenced against the two countries' schedules of tariff commitments under MICECA.

### Table A2. MICECA mainly led to big tariff cuts on Malaysia's palm oil products

Average tariffs on top 10 imports from Malaysia and vice versa, before and after MICECA (%) in 2023

Tariffs on India's imports from Malaysia			Tariffs on Malaysia's imports from India		
Product (% import share)	Pre-MICECA tariff	MICECA tariff	Product (% import share)	Pre-MICECA tariff	MICECA tariff
151110 (21%)	72%	37.5%	271019 (16%)	<0.5%	0%
270900 (5%)	5%	5%	760110 (14%)	0%	0%
854142 (4%)	0%	0%	020230 (8%)	0%	0%
854231 (4%)	0%	0%	271012 (6%)	0%	0%
847150 (3%)	0%	0%	290243 (3%)	0%	0%
151190 (2%)	82%	45%	790111 (2%)	0%	0%
851672 (2%)	0%	0%	711319 (2%)	5%	0%
854143 (2%)	0%	0%	100630 (2%)	30%	20%
760120 (2%)	3%	0%	150290 (2%)	28%	12.5%
740819 (2%)	4%	0%	070310 (2%)	0%	0%

Source: Authors' calculations based on the MICECA tariff schedule and UN Comtrade (2024)

Note: 'Product' here refers to the six-digit code in the Harmonised System (HS) of trade classification. 'Pre-MICECA tariff' refers to the tariff level of the given product on 1 July 2011, while 'MICECA tariff' refers to the final tariff level from 31 December 2019 onwards according to the MICECA tariff schedule. Every attempt has been made to match the six-digit HS codes of the top imported goods in 2023 (according to the UN Comtrade database) to the corresponding codes in the tariff schedule, but in instances of changes or other inconsistencies in tariff nomenclature, the nearest relevant HS code is used. Due to the lack of granular import data at the eight-digit level, if the tariff schedule for a six-digit product includes multiple eight-digit tariff lines, a simple average across all tariff lines is taken to represent the tariff at the six-digit level.

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extracted from the UN Comtrade database with Malaysia as the reporting country, which is consistent with trade figures recorded in the Department of Statistics Malaysia's external statistics database (factoring in USD-MYR conversion). However, when the same export and import flows are examined from the Indian perspective, total bilateral trade appears to rise to US\$19.2 billion, consisting of US\$6.7 billion in Indian exports to Malaysia and US\$12.6 billion in Indian imports from Malaysia. The value of Indian imports from Malaysia is found to be 24% or US\$2.6 billion higher than the value of Malaysian exports to India, driving the discrepancy in trade figures. In other words, the total official value of India-bound Malaysian goods when they leave Malaysia's ports is significantly lower than the corresponding official value of Malaysian goods arriving at Indian ports. This difference is too significant to be attributed solely to the usual methodological differences in measuring the flow of exports and imports, and may be suggestive of misreporting or possible smuggling, which should be investigated further.

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