

Bilateral Relations

Trade • Potential Sectors • Investment • Bilateral Treaties and Agreements • ASEAN-India FTA

INTRODUCTION

India and Malaysia have enjoyed commercial links and cultural exchanges dating back to the pre-Christian era. In modern times, bilateral relations have been close and friendly. In recent years, India-Malaysia relations have diversified and developed in an all-round manner, involving frequent high-level exchanges, burgeoning economic engagement, growing cultural, educational and people-to-people links, rapid expansion of tourism, and increasing defence exchanges and cooperation. The Government of India has accorded a high priority to relations with Malaysia in the context of its Look East Policy. Likewise, the Malaysian Government has been increasingly proactive in nurturing closer ties with India.

The first Indian joint venture, Godrej commenced operations in 1968, and in the seventies and early eighties Malaysia hosted the largest number of Indian joint ventures in any country. The present involvement of Indian companies in Malaysia is extensive in many sectors, while Malaysian companies are increasingly active in India.

The impressive progress of the Malaysian economy since the late eighties, the new self-confidence of Malaysian entrepreneurs, and the liberalization of the Indian economy since 1991 have triggered new dimensions in bilateral commercial and economic relations.

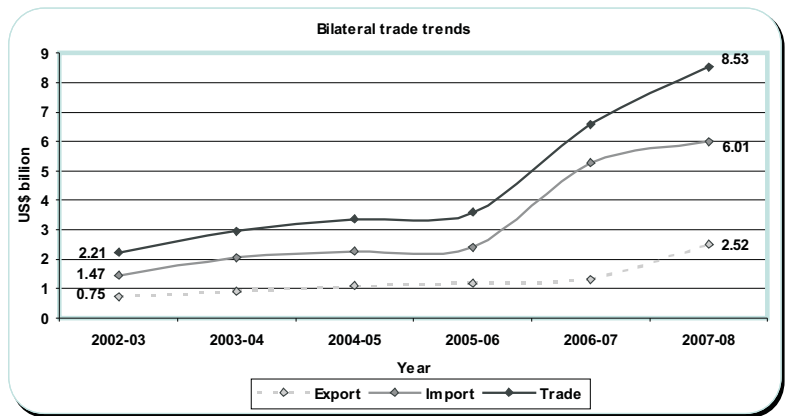
BILATERAL TRADE

Malaysia is India's second most important trading partner amongst the ASEAN countries and also India's gateway to ASEAN and China. India is the largest trading partner for Malaysia in South Asia and the 12th largest among Malaysia's foreign partners

In 2007-08, Malaysia moved up as India's second largest export partner in ASEAN, as well as its second largest source of imports from ASEAN. For Malaysia, India is the 8th largest export destination, but does not rank as a top ten source of imports.

Bilateral trade in 2007-08 reached a record level of US\$ 8.5 billion. India's export growth to Malaysia nearly doubled from \$ 1.3 billion in 2006-07 to \$ 2.5 billion in 2007-08; however, the growth of imports has been more spectacular, expanding to \$ 6 billion in 2007-08.

According to Malaysian statistics, bilateral trade crossed \$10 billion in 2008, with exports to Malaysia at \$3.1 billion and imports from Malaysia at \$7.4 billion.



Source: Directorate General of Foreign Trade, Government of India

Malaysian Exports to India

(Million US\$)

	Commodity Group	2002	2003	2004	2005	2006	2007	2008
1	Food Items	8.13	11.57	18.98	37.12	27.38	30.07	29.36
2	Beverage & Tobacco	0.29	1.00	1.23	1.57	3.24	4.84	4.61
3	Crude Materials	118.17	179.05	183.10	223.03	219.73	263.24	1094.38
4	Mineral Fuels	448.92	818.37	1061.29	1800.55	2765.28	2698.24	3559.54
5	Animal & Veg. Oils	607.91	720.63	460.43	288.03	261.35	372.07	754.19
6	Chemicals	131.16	225.82	286.88	380.52	460.07	545.98	635.61
7	Manufactured Goods	86.25	95.88	160.21	229.72	298.04	466.50	483.9
8	Machinery & Trans. Equipment	315.09	394.30	750.58	885.60	1003.34	1436.23	1388.7
9	Misc. Manufactures	34.19	50.63	58.97	94.10	142.48	170.03	192.96
10	Other Misc.						36.86	35.04

Source: High Commission of India

According to Malaysian figures, Malaysia's exports to India in 2008 stood at \$7421.6 million, an expansion of more than four times since 2002.

About half of aggregate was contributed by mineral fuels, followed by machinery and transport equipment and crude materials. This reflects India's dependence on Malaysia for vital items such as crude palm oil and crude petroleum. The high proportion of machinery and transport equipment in India's import profile indicates Malaysia's significance as a source of manufactured items for India as well.



Indian Exports to Malaysia

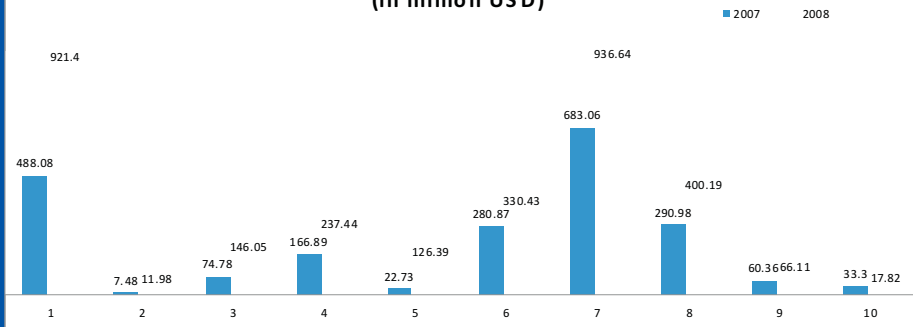
(Million US\$)

	Commodity Group	2002	2003	2004	2005	2006	2007	2008
1	Food Items	199.13	219.46	436.39	307.83	336.76	488.08	921.4
2	Beverage & Tobacco	0.60	0.99	1.38	2.81	7.58	7.48	11.98
3.	Crude Materials	36.72	39.95	50.07	47.78	67.23	74.78	146.05
4	Mineral Fuels	1.84	3.44	54.95	12.26	30.85	166.89	237.44
5	Animal & Veg. Oils	3.86	2.35	7.05	7.58	11.63	22.73	126.39
6	Chemicals	82.89	102.26	163.35	201.00	258.12	280.87	330.43
7	Manufactured Goods	145.78	168.71	255.0	287.90	364.17	683.06	936.64
8	Machinery &Trans. Equipment	119.76	89.61	253.35	165.57	205.72	290.98	400.19
9	Misc. Manufactures	30.5	25.6	42.56	46.81	46.12	60.36	66.11
10	Other Misc.	22.21	19.91	24.67	24.92	28.51	33.30	17.82
	Total:	643.4	672.5	1288.8	1104.5	1356.7	2108.5	3105.9

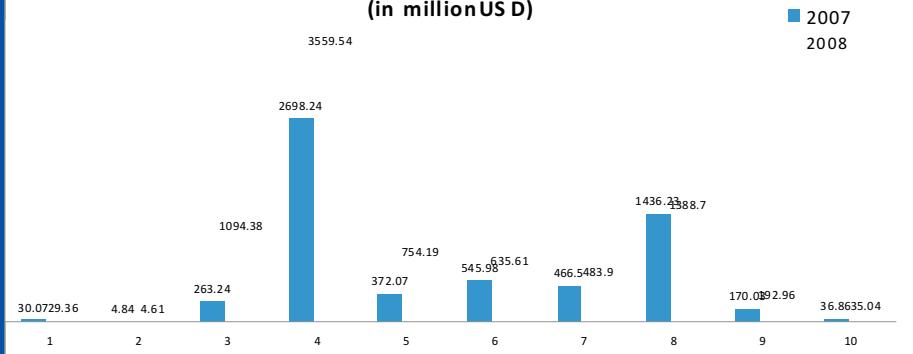
Source: High Commission of India

India's exports to Malaysia have grown by almost five times from 2002 to 2008. Manufactured items and food are the largest components of exports, while machinery and transport equipment and chemicals are also prominent exports.

INDIA'S EXPORTS TO MALAYSIA : PRODUCT-WISE (in million USD)



INDIA'S IMPORTS FROM MALAYSIA: PRODUCT-WISE (in million USD)



S.No.	Commodity Group	S.No.	Commodity Group
1	Food Items	6	Chemicals
2	Beverage & Tobacco	7	Manufactured Goods
3	Crude Materials	8	Machinery & Trans. Equipment
4	Mineral Fuels	9	Misc. Manufactures
5	Animal & Veg. Oils	10	Other Misc.

Going by HS Codes data available from Directorate General Foreign Trade, India, the ten top items of exports to Malaysia in April-December 2008-09 are given in table below.

Top Ten Exports of India to Malaysia (with HS Code)

\$ million

HS Code	Item	2007-08	2008-09 April-Dec
74	Copper and articles - Of which - 74031100 Cathodes - 74081190 Wires	300.44	230.14 205.22 14.13
10	Cereals - Of which Corn	281.12	229.03 218.49
29	Organic chemicals - Of which - 29012400 Isoprene - 29024300 P-xylene	158.07	165.99 74.08 15.30
27	Mineral fuels, etc - Of which - 27101950 fuel oils	454.38	119.42 51.72
76	Aluminium and articles	83.42	91.19
84	Boilers, machinery, and mechanical appliances	125.15	88.73
02	Meat and edible meat offal	96.17	83.39
73	Articles of iron and steel	58.55	72.33
79	Zinc articles	9.10	61.74
23	Prepared animal fodder	31.9	55.51
	Total exports	2568.84	2027.95

POTENTIAL EXPORT PRODUCTS

\$ million

HS Code	Item	Malaysia's Total Imports 2006	India's Total Exports 2006
85	Electrical and electronics		
8536	Fuses and switches, etc	1399	233
8541	Diodes, semiconductor devices, etc	2817	178
8529	TV parts	1656	155
84	Boilers, machinery and parts		
8414	Air, vacuum pumps	503	289
8471	Automatic data processing machines	2855	205
8473	Parts of computer & office machinery	7138	198
39	Plastics and articles		
3902	Polymers of propylene	145	568
3907	Polyacetal, etc	717	427
3901	Polymers of ethylene	644	379
3920	Sheets, film etc.	77	359
87	Vehicles and parts		
8703	Cars	1365	1133
8708	Vehicle parts	986	1257
8704	Trucks	299	192
71	Pearls, precious stones, etc	1930	16059
72	Iron and steel		
7219	Flat rolled products of stainless steel	524	395
7210	Flat rolled products of iron clad	502	1687
7208	Flat rolled products of iron not clad	471	1012
74	Copper and articles	2574	3035
73	Articles of Iron and steel		
7305	Tubes and pipes nes	497	641
7304	Tubes and pipes	465	263
7318	Screws and bolts	230	196
29	Organic chemicals	2387	
2905	Acyclic alcohols	282	132
2902	Cyclic hydrocarbons	539	1321

Source: Intracen

Indian exports to Malaysia are highly diversified and consist mostly of manufactured exports.

However, India is not a significant supplier to Malaysia in the commodities which figure high in India's export profile such as gems and jewellery, organic chemicals, machinery and mechanical appliances, apparel and automotives.

India is also not a significant supplier in commodities which are high in Malaysia's list of imported goods, such as electrical goods, plastics, iron and steel, optical and medical equipment, etc.

An analysis of Malaysia's top import items and India's exports in these items reveals that the above products can be exported by India to Malaysia.

INVESTMENTS

Malaysian Investments in India

Malaysia has become a significant investor in India in the last few years. According to official figures, FDI from Malaysia from April 2000 to March 2009 was US\$ 214.77 million, placing it at 24th position. However, this figure is understated as the majority of investments are routed through third countries, and actual and pipeline FDI is worth several billion dollars.

Malaysian foreign direct investment in India is primarily focused on roads and highways, telecommunications, oil and gas, power plants, tourism and human resources. The highest investment proposals have been in the Fuels (power and oil refinery) sector, followed by Telecommunications and Roads & Highways.

According to the High Commission of India, Kuala Lumpur, recently, there has been a surge in Malaysian private sector initiatives in project-related investments into India. Notable among these are the following:

- Ranhill Bhd.'s US\$ 900 million contract for construction and commission of a 2x350 MW thermal power plant in Chhattisgarh;
- Mudajaya Group Berhad's US\$ 150 million E&P power project related contract in Chhattisgarh;

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- Asian Gateways Construction Sdn Bhd's US\$ 1.4 billion mega thermal power project (1600 MW) in Andhra Pradesh, Power Purchase Agreement (PPA) for which was signed with PTC India Ltd. in July 2007;
 - 9.87% stake acquired by Khazanah Nasional Berhad, the investment arm of the Malaysian Government, in Infrastructure Development Finance Company (IDFC) making them the second largest share holder in IDFC after the Government of India, which holds a 23% stake. It also has 12.85% stake in Apollo Hospitals and 4.71% stake in Yes Bank.
 - Sunway Group's joint venture in June 2007 with the Hyderabad based Opus Developers & Builders to develop a 35-acre township, SunCity in Andhra Pradesh, with around 3,400 units of high quality condominiums & their another JV with MAK Projects Private Ltd to develop an RM 380 million (US\$ 113.43) condominium project in Hyderabad;
 - UMW Holdings Bhd's acquiring 14.9% stake in BSE-listed Oil Country Tubular Ltd (OCTL) for RM 41.96 million (US\$ 12.16 million) through its Indian arm UMW India Ltd.;
 - IJM Corp. Bhd and IDFC's joint venture to develop a southern road project at a cost of Rs. 6.75 billion;
 - Petronas has raised its stake in Cairn India to 12.7% from 9.93% with acquisition of more shares, thus increasing value to US\$ 625 million (Rs. 2,534 crores) in March 2008;
 - Malaysia Airports Holdings Bhd (MAHB) has 11% and 10% stake respectively in Rajiv Gandhi International Airport (RGIA) in Hyderabad that went into operation in March 2008 and the Indira Gandhi International Airport (IGIA).
 - India's largest mobile phone service provider Bharti Airtel Ltd. and Malaysia's Global Transit Limited are part of a six member consortium to build a high bandwidth undersea fibre-optic cable linking Asia and the USA at a total estimated cost of US\$ 300 million.

- UMW Corporation Sdn Bhd, a subsidiary of UMW Holdings Bhd has entered into two separate share sale agreements in 2008 for acquiring a 51% stake in MK Auto components Ltd for US\$ 22.52 million and 50% in MK Automotive Industries Ltd for US\$ 1 million approximately.
- Malaysian construction firm, UEM Builders Bhd, have set up an equally owned joint venture company in partnership with India's Ansal Group, called UEM Builders-Ansal API Contracts Pvt. Ltd., with the objective of working jointly on several upcoming construction projects in India, particularly those related to real estates and township development.
- Sime Darby Plantation Sdn Bhd, a wholly owned subsidiary (WOS) of the Sime Darby Berhad, signed a Memorandum of Understanding (MoU) with the State Trading Corporation (STC) of India on 26 August 2008 to cooperate in the field of edible oils. Under the agreement, both sides would explore the possibility of setting up a joint venture to set up an edible oil refining facility and market the end products in India.
- IJM Steel Products Private Ltd, an Indian subsidiary of IJM Group has commissioned an RM 16 million (US\$ 4.9 million) welded wire mesh(WWM) manufacturing facility at Isnapur, near Hyderabad.
- Tune Hotels Regional Services Sdn Bhd entered into a strategic partnership with Apodis Hospitality Corporation of India to invest in, develop and operate 20 Tune Hotels across India by 2012. It has plans to develop 70 hotels in India within seven years.

Malaysian Projects in India

According to the Construction Industry Development Board (CIDB) of Malaysia, Malaysian companies have so far completed 52 construction projects worth US\$ 2.34 billion in India, while 22 projects valued at US\$ 2.3 billion are currently under various stages of implementation. Other notable projects in construction as well as other sectors underway include:

- Scomi Engineering Bhd is part of a consortium led by India's Larsen & Toubro Ltd that has been awarded the RM 2 billion monorail project in Mumbai.
- Ranhill Utilities Bhd (RUB) will partner with India's Jusco Group and Infrastructure Development Finance Co (IDFC) to lease and build water treatment plants in West Bengal.

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- IJM Corp. Bhd, through its special purpose vehicle Vijayawada Tollway Pvt Ltd, has embarked on a major highway project worth nearly RM 500 million (US\$ 156.7 million) in Andhra Pradesh.
 - An MOU was concluded between the Government of Kerala and Construction Industries Development Board (CIDB) of Malaysia in September 2008 for development of an 'Integrated Medical City' at Kenalur, Kozhikode by a Malaysian consortium and is expected to cost US\$ 120 million. It will consist of a medical university, hospital, nursing school, dental college and health services.

Indian Investments in Malaysia

According to the High Commission of India, over 100 Indian companies including 61 Indian joint ventures are operating in Malaysia. Cumulative Indian investment in Malaysia (from 1980 to 2007) is estimated to be over US\$ 1.58 billion. During this period, India was the 7th largest investor in Malaysia. Indian investments in Malaysia in 2007 alone are in excess of US\$ 1 billion. The acquisition by Reliance Industries Limited of the assets of Hualon Corporation in September 2007, take-over of Sabah Forest Industries by Ballarpur Industries Limited of the Thapar Group in March 2007 and the Larsen & Toubro buy-out of the switchgear business of Tamco Corporate Holdings Bhd is likely to set the tone for other Indian corporate entities looking for investment opportunities in Malaysia.

Since 1996, a new dimension in the India-Malaysia relationship is the co-operation in Information Technology and human resource development. There are 67 Indian companies operating in Malaysia's prestigious Multimedia Super Corridor.

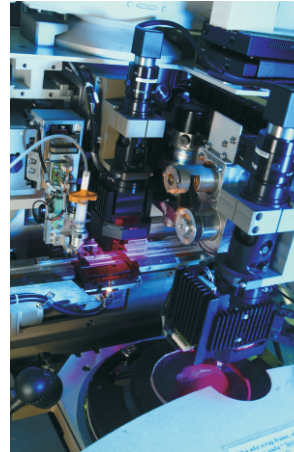
In September 2007, Satyam (now 'Mahindra Satyam') unveiled its new state-of-the-art 500-seat Global Solutions Centre (GSC) in Cyberjaya as part of the Company's ambitious plans to expand its Malaysian operations into developing its largest software development hub outside India.

Areas of operation for Indian companies are information technology, biotechnology, manufacture of textiles and yarn, palm oil refining,

manufacture of drugs and pharmaceuticals, automobile associated activities, specialty chemicals, steel furniture and rubber products.

Some of the other notable investments/JVs as well as Malaysian projects awarded to Indian companies during 2008 include:

- India's Punj Lloyd Ltd is part of a consortium awarded the job of building a 512 km natural gas pipeline from the proposed Sabah Oil and Gas Terminal in Kimanis to Petronas' liquefied natural gas complex in Bintulu (East Malaysia).
- Wipro has expanded its Malaysian operations by launching a Global Service Management Centre (GSMC) in Cyberjaya in February 2008.
- Hyderabad-based Vivo Bio Tech Ltd is to invest RM 450 million (US\$ 140.6 million) in the setting up of an integrated biotechnology facility in Malacca to commercialize bi-therapeutics in Malaysia.
- Malladi Group has announced in October 2008 its plans to invest US\$300 million over the next 3 to 5 years to create a global one-stop shop encompassing entire value chain in contract manufacturing facility in bio-technology in Malaysia;
- India's Reliance Capital Asset received an Islamic fund management license from Malaysian Government in November 2008.
- Hextar Chemicals Sdn Bhd, Kuala Lumpur and Unitop Chemicals Pvt. Ltd, Mumbai entered into a joint venture in January 2008 to make specialty chemicals for the agriculture, oil and gas, textile and personal care products industries. The Plant, known as Hextar Unitop Chemicals Sdn Bhd, will be built in two years' time at a cost of RM 10 million (US\$ 2.99 million).
- Malaysia's MNC Wireless Berhad and India's Cellebrum.Com Ltd, a subsidiary of Spice Corp Ltd, established a strategic partnership that entails marketing Cellebrum.Com's mobile platforms, distribution rights, marketing in collaborative areas and co-development in the areas of research & development.
- Hyderabad-based Goldstone Technologies Ltd. launched its Internet Protocol Television (IPTV) service in Malaysia to take advantage of the growing audience market. Partnering with MOL Access Portal Bhd., Goldstone's focus will be on South Indian content, particularly movies.
- Reliance Anil Dhirubhai Ambani Group's Adlabs Films Ltd has expanded into Malaysia with the acquisition of a majority stake in the Lotus Five Star Cinemas. With the Adlabs acquisition, Lotus has emerged as the third largest chain in Malaysia, operating 51 cinema halls spread all over Malaysia.



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- Aban Offshore Ltd, Mumbai has been awarded two contracts worth US\$ 55 million in all to drill nine oil wells in Malaysia.
 - The Embassy Group of India in partnership with the Emkay Group of Companies of Malaysia have officially opened the Block A of their MKN Embassy TechZone project worth RM 350 million (US\$ 109.7 million) in Malaysia.

Indian public sector undertakings have an impressive track record in Malaysia, with HMT, EIL, BHEL, IRCON and IOC having been actively engaged with the Malaysian industrial sector since the 1970s. A few highlights are as follows:

- IRCON International Ltd. (a company under the Ministry of Railways, GOI) has been actively engaged in the development of railways in Malaysia since 1988. It has successfully undertaken track rehabilitation, track and bridge work, refurbishment of KTMB's 22 class locomotives. It has completed and commissioned 11 major railway projects valued about RM 694.7 million. IRCON is supplying locomotives on hire and maintenance basis to KTM Berhad (Malaysian Railway) since July 1993. IRCON was recently awarded the Seremban – Gemas Railway Double Tracking Project worth over US\$ 1 billion. This is its largest project overseas.
- BEML Limited, Bangalore set up its International Warehouse-cum-Branch Office in Malaysia in October 2007.

BILATERAL TREATIES AND AGREEMENTS

The legal framework governing bilateral trade and economic cooperation includes a Trade Agreement signed in October 2000 and a Double Taxation Avoidance Agreement signed in May 2001. Other economic agreements signed include Bilateral Investment Promotion and Protection Agreement, Air Services Agreement, Agreement for Cooperation in the field of Science & Technology and Memorandum of Understanding on Cooperation in Information Technologies and Services.

India-Malaysia Joint Commission, chaired by the respective Foreign Ministers reviews overall bilateral cooperation, including trade and economic cooperation. The fourth session of the Malaysia-India Joint Commission Meeting was held in New Delhi in February 2007.

Report of the Joint Study Group

The India-Malaysia Joint Study Group on the Feasibility of Establishing a Comprehensive Economic Cooperation Agreement between India and Malaysia brought out its report (commerce.nic.in) in August 2007. It recommended that the CECA cover trade in goods, trade in services, investments and measures for promoting other areas of bilateral cooperation.

The JSG suggested that India's exports to Malaysia could go up to \$5 billion by 2012, while exports from Malaysia to India could touch \$11 billion. The overall welfare gains could range from \$662 million to \$2.24 billion. The study highlighted that the prospects for bilateral trade were good due to the comparative advantages, trade complementarities, possibilities of intra-industry trade and economic capacities of the two countries, and stressed that the range of products traded must be expanded.

For the services sector, given the dynamism in the sectors of both economies, the JSG included the areas of medical, healthcare and diagnostic services, advertising, audiovisual services, education services, computer, IT and telecommunications, financial services, tourism and travel, transport, architectural, construction and engineering services, distribution services, and accounting and taxation services.

The JSG also highlighted the opportunities in investments.

CECA TNC Meetings

India and Malaysia are engaged in finalizing a Comprehensive Economic Cooperation Agreement (CECA) encompassing trade in goods, trade in services, investment and other areas of bilateral cooperation. Discussions are going on simultaneously on all the areas mentioned above. Two meetings of the CECA Trade Negotiating Committee (TNC) were held in February and June/July 2008 in Kuala Lumpur. There have also been discussions through video-conferencing. The next formal meeting of the TNC will take place in November 2009.

India-Malaysia bilateral cooperation has particularly intensified in the defense cooperation field following high-level visits. Additionally, a Memorandum of Understanding (MoU) between India and Malaysia on Employment of Workers was signed in January 2009 and discussions are underway on labour issues, while cultural interaction has benefited from increased exchanges.

INDIA-ASEAN FTA

India and ASEAN Free Trade Agreement for Goods was signed on 13 August 2009 and will be implemented from January 1, 2010. As per the agreement, tariffs will be progressively lowered to a maximum of 4% over the next three to nine years on most products, excluding sensitive items. The FTA will integrate a market of 1.7 billion people, and allow Indians to access a potential market of \$1.1 trillion in South East Asia.

As part of the Comprehensive Economic Cooperation Agreement, the Trade in Goods Agreement will integrate the two globally important economic blocks for mutually beneficial economic gains. ASEAN is a major trading partner for India and accounts for about 10% of its global trade. In the last financial year, bilateral trade between India and ASEAN was more than US \$40 billion. India and ASEAN have set an ambitious target of achieving bilateral trade of US \$ 50 billion by 2010.

The Trade in Goods agreement focuses on tariff liberalization on mutually agreed tariff lines from both the sides and is targeted to eliminate tariffs on 80% of the tariff lines accounting for 75% of the trade in a gradual manner starting from 1st January, 2010. The Agreement has provided flexibilities to India and ASEAN countries to exclude some of the products from the tariff concessions or eliminations to address their respective domestic sensitivity. India on its part has excluded 489 items from the list of tariff concessions and 590 items from the list of tariff elimination to address sensitivities in agriculture, textiles, auto, chemicals, crude and refined palm oil, coffee, tea, pepper etc. ASEAN countries have also maintained similar exclusion list from the proposed tariff concessions or eliminations.

The exchange of tariff concessions between India and the ASEAN member countries would lead to growth in bilateral trade and investment resulting in economic benefits to both sides. Indian exporters of machinery and machine parts, steel and steel products, agriculture products such as oilcake, wheat and buffalo meat, auto components, chemicals and synthetic textiles would gain additional market access as a result of tariff liberalisation by ASEAN. Indian

manufacturers would also be able to source products at competitive prices from the ASEAN countries.

The Agreement also provides for bilateral safeguard mechanisms to address sudden surge in imports after the Agreement comes into force. In such an eventuality if it hurts a domestic industry, safeguard measures including imposition of safeguard duties may be put in place for a period up to 4 years. The flexibility to invoke the safeguard measures will remain available for both the sides for a period of 7 years to 15 years from the date the Agreement comes into force. The signing of the Agreement signals India's firm commitment to its 'Look East' policy of building upon its historical links with the countries of the Southeast Asian region and further deepening and widening this partnership.

Malaysia, under the ASEAN-India FTA Agreement, will eliminate import duties on 6,792 tariff lines or products in the normal track (1) beginning Jan 1, 2010, and ending on Dec 31, 2013, as well as 1,266 tariff lines in the normal track (2) beginning Jan 1, 2010 and ending Dec 31, 2016. The import duties on 1,336 tariff lines placed in the sensitive track by Malaysia will be reduced to five percent by Dec 31, 2016.

India, which is Malaysia's 12th largest trading partner, will eliminate duties on 7,767 tariff lines or products in the normal track (1) by Dec 31, 2013 and 1,260 tariff lines in the normal track (2) by Dec 31, 2016. The import duties on 1,810 tariff lines placed in the sensitive track by India will be reduced to five percent by Dec 31, 2016.

The sectors that are expected to be the most benefited by the FTA are automotive components, telecommunications, electrical appliances and aluminium products.

With Malaysia as a significant part of the ASEAN economy, the FTA will open up new avenues of economic collaboration, both for bilateral trade and for multilateral trade in the region.

www.miti.gov.my/cms/index.jsp

India's trade with ASEAN

USD Billions

	2007-08	% Share	2008-09	% Share (Apr-Dec)
India's Exports to ASEAN	16.40	10.05	13.80	10.51
India's Imports from ASEAN	22.70	9.01	20.20	8.60
Total Trade	39.10		34.00	

Source: www.commerce.nic.in