Syllabus subtopic: India and its neighbourhood- relations.

Prelims and Mains focus: about the move to curb imports from Malaysia and its impact on trade relations between the two countries

News: Trade tensions between India and Malaysia have aggravated with the Narendra Modi government’s latest move to restrict palm oil imports from the latter.

Context:
India has a trade deficit of $4.4 billion with Malaysia in FY19. Malaysia’s palm oil exports to India grew 73% in January-November 2019.

What’s the backdrop for the stand-off?

- India-Malaysia ties turned bitter as the latter gave shelter in 2016 to radical Islamic preacher Zakir Naik, who is wanted by Indian counterterrorism agencies.

- On 4 September, India decided to raise customs duty on import of refined palm oil from Malaysia to 50% from 45% for six months.

- On 27 September, speaking at the UN, Malaysian prime minister Mahathir Mohamad alleged that India had “invaded and occupied” Kashmir and asked it to resolve the issue with Pakistan. On 20 December, he said that India’s Citizenship Amendment Act would deprive some Muslims of their citizenship.

What measures has India taken so far?

- In October, India’s top vegetable oil trade body, Solvent Extractors’ Association of India, told members to stop buying Malaysian palm oil at the behest of the government. Indian refiners resumed buying palm oil from Malaysia after a one-month suspension as it began offering a $5 a tonne
discount over supplies from Indonesia.

- India’s move on 8 January putting refined palm oil on the restricted list was a **tacit signal** to Malaysia. It means India will have more control on the source of import of the item as the importer will need a licence for the inbound shipment. Reports say the curbs could extend to import of electronic items from Malaysia.

**How do India’s import curbs impact Malaysia?**

Palm oil is crucial for the **Malaysian economy** as it accounts for 2.8% of gross domestic product and 4.5% of total exports. State-owned and private Malaysian refineries will likely have to scramble to find new buyers for their refined product. **Malaysia is the world’s second-largest producer of palm oil after Indonesia.**

**Where does Malaysia stand on trade ties?**

- India and Malaysia signed the **Comprehensive Economic Cooperation Agreement (CECA)** in 2011 building upon the **2009 India-ASEAN free trade pact**.

- **Malaysia is India’s third-largest trading partner in ASEAN.** India’s exports and imports with Malaysia stood at $6.4 billion and $10.8 billion, respectively in FY19.

- **Palm oil imports from Malaysia** jumped in recent months as it has a **duty advantage over Indonesia under CECA**. Malaysia has thus overtaken Indonesia as India’s biggest palm oil supplier in 2019.

**How has Malaysia reacted to the curbs?**

Mahathir has expressed concern over India’s move to restrict import of palm oil from his country, while insisting that he would continue to speak up. Meanwhile, Malaysian Trades Union Congress, members of which include palm workers, has urged the two countries to resolve the matter through talks.