INDO - MALAYSIA TRADE RELATIONS - COMMERCIAL AND FOREIGN TRADE POLICIES REVIEW

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ABSTRACT

The study presents the background and reason for bilateral relation between India and Malaysia. It further marches presenting trade policies of both India and Malaysia and points out complementariness which both the nations can use to enhance trade. The relevance of the study is marked by the fact that there is a strategic shift in the global trade relations and the Asian region stands out as one of the most important trading blocs for India in the years to come. Malaysia being a Multi-Sector export driven economy can provide much that India can gain from. The Trade policies of both the nations have been analysed in context to the scope of the study.

Keywords: Bilateral, Trade, Export, Import and Policy

INTRODUCTION AND BACKGROUND

The complementary nature of Malaysia and Indian economy indicates a scope of greater link between their economies. Trade flow between both these countries is the result of, ability and willingness to export on one hand and the intensity of demand for the exported commodity on the other hand. There are other factors viz. close political relations, interest in the economic development of each other etc. which have influenced the trade trends between the two countries. To have a better understanding of trade between the two nations, the Malaysian trade policy shall be discussed first.

Malaysian Trade Policy

Malaysia is widely held as a great development success story in the developing world. Notwithstanding the massive economic contraction experienced during the 1997-98 financial crisis, Malaysia's economic performance has been impressive throughout the post-independence period. This economic performance and dramatic economic transformation has been underpinned by a long-standing commitment to maintaining a remarkably open trade policy regime.

Historically, trade and investment barriers in Malaysia have been low in relation to other countries in the region. This policy stand enabled the Malaysian economy to respond successfully to opportunities arising from increasing internationalization of production and world trade expansion.

Malaysian Policy Trends

In the 1950s and 1960s, Malaysia's policy thrust was to continue with the colonial open-door policy stance relating to trade and industry. As in many other developing countries, industrialization through import substitution was a key emphasis of the Malaysian development strategy during this period. However, Malaysian policy-makers, unlike their counterparts in other countries, "forced" industrialization through direct import restrictions and the establishment of state-owned industrial enterprises. Moderate tariff protection was by and large the key instrument used in encouraging new investment in manufacturing.

Moving ahead in the journey, subsequent to the communal riots of May 13, 1969, the Malaysian government embarked on an affirmative action-based policy package. The New Economic Policy (NEP) later modified and renamed National Development Policy, (or NDP in 1990) worked for maintaining national unity through the pursuance of two objectives: eradication of poverty among the entire population, and restructuring of the Malaysian society so that the identification of race with economic function and geographical location is reduced.

Later in 1985-87 there was an economic crisis caused by, heavy industrialization move and adverse trends in prices in Malaysia's major export products. Reforms in this decade involved gradual privatization, restructuring state owned enterprises, significant tariff reductions and removal of quantitative import restrictions.

In the early 1990s, Prime Minister Mahathir came up with a policy blueprint, the Vision 2020 Statement for transforming Malaysia to a developed country status by the year 2020. Malaysia's policy response to the recent (1997-98) financial crisis involved some notable departure from persistent trade liberalization over the previous decade. This included increase in import duties on automobiles, vans, motorcycles and construction equipment. In addition, a number of heavy and construction equipments were brought under non-automatic import licensing. This was done to bring down the current account deficit.[1] Current, 'Trade Policy Framework' reveals that tariffs have continued to be the main measure affecting Malaysia's import trade throughout the post-independence period.

Malaysian Import Policy

The import policy of a country reflects her ideology and foreign policy. Import affects and aids the developmental process in a country. Imports are dependent on the prevailing trends and planned objectives of a country. They also reflect the daily consumption needs of the society and the qualitative changes occurring to it because of the state policy. Thus imports are directly correlated or rather wholly subsidiary to the needs and structure of the national economy.

These factors in turn determine the import pattern of the state and the extent of its response to the requirements of economic development, in addition to the exploration of the capacity of the national economy to meet the local needs and the export requirements of the national industry and its development which in turn necessitates imports.[2] In this light the various aspects of the Malaysian import policy shall be studied.

Import Duties

Malaysia has adopted the harmonized commodity description and coding system of classification of goods. All goods dutiable on import are subject to custom duty in accordance with the Customs Duties Order of 1996. The types of duties are as follows:

1. **Import Duty**

   The rate of import duty varies according to the type of goods imported. The rate applicable to each category of goods is indicated in Columns (4) and (5) of the "First Schedule to the Customs Duties Order of 1996" of Malaysia.

2. **Sales Tax**

   Sales Tax which is currently enforced, is a single stage tax levied on certain imported and locally manufactured goods, either at the time of importation or at the time the goods are sold or otherwise disposed off by the manufacturer. It is not imposed on personal or professional services, sales of real property, or sales of intangible property. It is an ad valorem tax and current rates are as follows: [3]

   a. General rate on all goods (10%)

   b. Rate on cigarette, liquor and alcoholic drink (15%)

   c. Rate on fruits, certain food stuff and building materials (5%)

Goods exempted from sales tax are being listed in the Sales Tax (Exemption) Order 1988 of Malaysia.

Rates of Duty and Payment of Duties

The rates of duty vary according to the type of goods imported/exported. Payment of duties can be made at the prescribed offices of the Royal Customs Excise Malaysia (RCEM) during office hours after import/export declaration of goods has been approved by Customs. Duties can be paid in cash or by cheque guaranteed by banks.

Tariffs and Tariff Structure

Tariffs are the main instrument used to regulate the importation of goods in Malaysia. Currently Malaysia has two tariff classification systems, one for intra-ASEAN trade and the other is the Harmonized System for trade with other countries common up to the 6-digit level. The maintenance of two systems appears to add a certain complexity to import transactions at a time when regional and global trading patterns are becoming increasingly integrated. Malaysia's intention is to eventually operate one classification system at the 8-digit level.

Malaysia extends MFN (Most Favoured Nations) treatment to all of its trading partners while providing tariff preferences to ASEAN countries. The simple average applied MFN tariff rate was approximately 8.1% in 2005 compared with 9.2% in 2001. According to the authorities, Malaysia will continue to review and reduce tariff rates in line with its objective of achieving a more open and liberal economy, and enhancing the competitive environment for domestic industries. The table below shows the MFN tariff rates of Malaysia for a period of 5 years from 1988 to 2005.

Table 1. Showing MFN Tariff Structure of Malaysia

Tariff Structure of Malaysia (MFN Tariff)	1988	1993	1997	2001	2005
Number of tariff lines	12,183	11,875	10,372	10,368	10368
Bound tariff lines1 (%)	0.8	0.8	63.7	63.5	63.5
Duty-free tariff lines1 (%)	10.3	13.4	58.6	58.3	-
Specific and mixed tariffs1(%)	22.2	12.0	4.5	0.7	0.5
Tariffs with no ad valorem equivalent (%)	7.4	5.9	4.5	0.7	0.7
Simple average applied rate (%)	17.5	15.2	8.1	9.2	8.1
Agriculture (HS 01-24)	7.7	7.3	4.8	3.5	3.2
Industrial products (HS 25-93)	14.8	14.7	8.5	9.9	8.7
Tariff range (%)	0-207.5	0-140	0-200	0-300	NA
Import weighted average (%)	15.5	11.9	9.9	NA	NA
Domestic tariff peaks2 (%)	0.8	2.2	15.8	9.6	13.9
International tariff peaks3 (%)	51.3	49.1	25.9	23.8	23.4
Coefficient of variation (%)	91	86	170	210	215
Simple average tariff by stage of processing (%)					
Raw materials	14.6	14.3	1.0	0.9	0.6
Agricultural products	16.9	16.5	0.6	0.5	0.5
Mining products	3.6	3.8	1.0	1.0	1.0
Semi-processed products	18.3	15.3	7.0	7.7	7.2
Fully processed products	18.1	15.4	11.9	13.6	12.5

Source: WTO (1998), Tables III.1 and III.4; and WTO (2002), Tables III.1 and III.2. WTO 2006 (Compiled).

Notes:

1. As a percentage of total tariff lines
2. Domestic tariff peaks are defined as those exceeding three times the overall simple average MFN rate.
3. International tariff peaks are defines as those exceeding 15%.

On analyzing the coefficient of variation in the table, the degree of dispersion tariff rates measured by the coefficient of variation increased from 91% in 1988 to 170% in 1997, 210% in 2001, and 215 in 2005 reflecting the increase in the number of tariff lines with rates less than 10% and higher than 20% . By contrast, domestic tariff peaks have declined. The number of bound tariff lines has also increased substantially with 63.5% of the tariff lines being bound in pursuance of the WTO requirements.

Import Restrictions and Non-Tariff Barriers (NTBS)

Malaysia's import policy encourages free trade. To regulate trade there are some tariffs imposed as said in the above section .There are few restraints and most imports are admitted under open general license. Another means of regulating trade is the use of Non-Tariff Barriers. Considering the Non- Tariff Barriers, there are no import quotas in Malaysia and the existing import prohibitions are limited only to those measures that are implemented for national security reasons. To give a clear view of the Non-Tariff Barriers the Customs Order of Malaysia is highlighted below.

The Customs (Prohibition of Imports) Order 1998 of Malaysia contains four schedules of items that are subject to various levels of restriction.

The first schedule includes 14 prohibited items banned for religious, security, health, and environmental reasons.

The second schedule lists products requiring licenses, mainly for health, sanitary, security, environmental protection or intellectual property reasons. Products include, poultry and beef (which must come from facilities that have been approved as halal, or acceptable to Muslim consumers), eggs, rice, sugar, cement clinker, fireworks, magnetic tapes for video and audio recording, explosives, wood, safety helmets, diamonds, rice-milling machinery, colour copying machines, some telecommunications equipment, arms and ammunition, and saccharin.[4]

An import license requirement on construction equipment and the agricultural, mineral, and motor vehicle sectors is designed to protect strategic and infant industries from import competition. For example, all imports of heavy machinery for construction need approval from MITI, which will be given only if this machinery is not available locally. Other industrial products subject to discretionary import licensing include a range of telecommunication and chemical products; agricultural products include rice and rice products.

The third schedule, covering items subject to temporary import restrictions to protect a domestic industry, includes milk, coffee, cereal flours, certain wire and cables, and some iron and steel products. [4]

The fourth schedule contains items that may be imported only after meeting specific criteria; these include animals, animal products, plants, plant products, cigarettes, soils, fertilizers of animal origin, bullet-proof vests, electrical apparatus, safety belts, and imitation weapons. [4]

Licenses are required or quotas applied when the government wishes to protect the local industries or restrict the amount of imports. A few items are prohibited entirely.

Malaysia's import policy is generally directed towards encouraging free trade. There are few restraints and most imports are admitted under open general license. Generally importers should apply for import license to the Domestic Trade Division, Minister of Trade and Industry Block 10, Jalan Duta, 50480 Kuala Lumpur.

According to data provided by the Malaysian authorities, approximately 27% of Malaysia's tariff lines (principally with regard to animal and vegetable products, wood, machinery, vehicles and transport equipment, and arms) are still subject to import licensing. It is not clear how much of this is non-automatic import licensing, designed to protect importsensitive or strategic industries. The list of products subject to import licensing requirements remains unchanged since Malaysia's previous policy review.[5]

A comprehensive study of the Malaysian policy and its various schedules makes it clear that most of the goods can be imported from Malaysia after complying by the suggested norms. It may be pointed out that the guidelines of importation are clear and also implemented effectively in the country, thus systematizing the imports in the country. The imports in the country are further organized by well laid out customs and storage procedures which are mentioned below.

Malaysia's Export Policy

With the view of having a comprehensive understanding of external trade it is imperative to be aware with the provision regarding exports in Malaysia. The Malaysian government exercises certain amount of control over the export of goods from Malaysia by means of an export licensing system. The aim is to regulate the movement of scarce commodities and materials of strategic importance. An effective instrument to regulate exports is the Export Policy followed by Malaysia which shall be mentioned in this section of the chapter.

The Malaysian export policy states that, goods for export can be sent abroad by road, rail, sea or pipeline. Whether dutiable or not, goods must be presented at the place of export or another place as determined by Customs. An export declaration has to be lodged before export is permitted. Declaration of export goods can be done by the owner, exporter, consignor or an agent authorized by the owner or exporter and approved by Customs. The declarant has to take responsibility for the submission of the Export Declaration Form (customs form no. 2) as well as for the accuracy and the completeness of its supporting documents.

Exports from Malaysia

(The Customs (Prohibition of Exports) Order 1998

The provisions relating to export from Malaysia are contained in THE CUSTOMS (PROHIBITION OF EXPORTS) ORDER 1998 - P.U. (A) 211/98 [9] .It consists of three schedules and each schedule contains the list of goods with the specific manner of export that the goods are subject to :-

1. Exported goods specified in Schedule 1 of this order are strictly prohibited.
2. Export of goods specified in Schedule 2 of this order is prohibited, unless under and according to the export license.
3. Export of goods specified in Schedule 3 of this order is prohibited, unless specified in column 4 of the Schedule.
4. Allocations under Schedule 2 and 3 to the customs order (Prohibited Export Items) 1988 does not apply for the followings:

Exported goods for or on behalf of the Federal or State Governments.

- Goods packaged as stored airplane or ships goods as approved by rightful qualified customs officer.
- Transit goods other than those specified in Schedule 1 of this order.

- Exported goods for servicing, calibrate or to be replaced that is to be returned to the federal states.
- Unwanted gifts that contains textile through posted packaged exported foods of which the value does not exceed RM200.00 for each package.
- Exported goods for the purpose of exhibitions or tests.
- Exported goods from the Free Trade Zones.

Exported goods specified in Schedule 1 of The Customs (Prohibition of Exports) Order 1998 are strictly prohibited from export. Such goods are enlisted below

Table 2. List of Goods that are Absolutely Prohibited from Export

• Turtle eggs
• Rattan from West Malaysia only
• Petroleum and petroleum products, arms and related materials of all types including weapons and ammunition, military vehicles and equipments, police equipment and spare parts for the above mentioned.

Source: Schedule 1 of the Customs (Prohibition of Exports) Order 1998

Appendix II gives a list of goods which may not be exported expect under and by virtue of an export license.

Appendix III gives the list of goods which can be exported from Malaysia under specific special manner.

Goods Exported without K2 (Customs Form No.2)

In the Budget 1998, Finance Minister had announced additional facility to exporter, where they are allowed to export goods without forwarding Customs Form No.2.[9]

All export goods are eligible to use this facility except:

- Goods subjected to withdrawal claim under Section 93 and 99 Customs Act 1967.
- Goods subjected to Customs Act (Prohibition on Export) 1998.

Free Trade Zone (FTZ)

Malaysia has set up FTZs at different centers to facilitate establishment of manufacturing units for producing or assembling products for export. FTZ facilities are provided to export oriented units to enable them to have minimum Customs control and formalities in their import of raw materials, parts, machinery and equipment. The companies eligible to be set up in FTZ include companies whose products are meant for export and whose raw materials, components etc are to be imported. Under exceptional circumstances companies exporting not less than 80% of their products can also be considered for location in FTZ. The government also encourages the companies to use local raw materials and components. They are given the option to choose their best sources of supply of raw materials and components.[11]

ISSN – 2320-0073 Volume II, January'13

Products exported from FTZ are not liable to Custom Duty. If these goods are allowed to be imported into the principal customs area (PCA) for domestic consumption these are subject to the normal customs duty as applicable to foreign imports. The FTZ units are however permitted to apply to the treasury for exemption of import duty for products they wish to sell in the domestic market. If goods are imported from FTZ into the principal customs area, used as raw material or components by the manufacturers in PCA , the importing company may apply for duty exemption in the same manner as if the goods are imported from abroad.

Licensed Manufacturing Warehouses

At places where establishment of FTZ is neither practicable nor desirable, the government of Malaysia has allowed the LMW, which are accorded similar facilities and incentives available to FTZ.The purpose of establishing LMW is to encourage dispersal of industries and to establish units to manufacture products for exports. Companies eligible and approved for LMW are those –

a. Whose products are meant for exports, companies exporting not less than 80% of their products are also considered for approval and

b. Whose raw materials and components are imported as these are not available locally.

Export In-Situ

Export In-Situ is a facility allowing express passage in exporting finished goods produced by export oriented factories. It offers a more efficient export service to customers made up of manufacturers. It allows manufacturers to submit their documents for exported goods to the nearest Customs Station that controls it.

Goods inspection can be done at the manufacturers' own premises which will expedite export matters because in a normal situation, it does not need to be inspected at the export station, thus avoiding damage to the goods as a result of being opened for Customs inspection at the export station. [11]Amongst others, this facility provides many benefits including:

1. Simplifying export procedure and time saving;
2. Reducing work load and overcrowding at exit points;
3. Saving handling cost, warehousing and agent's payment;
4. Creating a competitive export price; and
5. Bringing the port closer to the exporter.

The policy emphasis has been on import substitution and export oriented industrial growth. The growth of manufacturing and small scale sectors has been accorded priority. Foreign investment in the form of capital and technology import has been given greater importance. Some initiatives have been undertaken to liberalise the investment regime, particularly in the industrial sector, and facilitate investments.

Export & Import Incentives Provided by Malaysia

The Malaysian government has provided many incentives to promote trade in the country. These have been provided to various sectors particularly which have export potential. Two categories of incentives shall be discussed considering there relevance to the scope of study.

Tariff Related Incentives pertaining to import of commodities and incentives for export shall be highlighted and their significance in promoting bilateral trade between India and Malaysia, pointed out.

A) Tariff Related Incentives

i. Exemption from Import Duty on Raw Materials/Components

Full exemption from import duty can be considered for raw materials/components, regardless of whether the finished products are meant for the export or domestic market. Hotel and tourism projects qualify for full exemption of import duty and sales tax on identified imported materials**.**

ii. Exemption from Import Duty on Imported Medical Devices for Purpose of Kitting

To encourage local manufacturers of medical devices to kit their products to add value as well as to enhance their competitiveness, full import duty exemption is given on medical devices that are imported for the purpose of kitting or producing complete procedural sets, provided these medical devices are not manufactured locally. This import incentive can be advantageous since India has good potential to export its medical equipments and devices. This will thus help to promote trade.

iii. Exemption from Import Duty and Sales Tax on Machinery, Equipment, spare parts and consumables

It is the policy of the government not to impose taxes on machinery and equipment used directly in the manufacturing process and not produced locally. Most categories of machinery and equipment are therefore, not subject to import duties. Thus both the nations can benefit from this exemption.

iv. Exemption from Import Duty and Sales Tax for Maintenance, Repair and Overhaul (MRO) Activities

Aerospace companies undertaking maintenance, repair and overhaul activities, qualify for import duty and sales tax exemption on raw materials, components, machinery, and equipments, spares and consumables. This incentive will enable technological up gradation in Malaysia.

v. Exemption from Import Duty and Sales Tax on Energy Efficiency Equipment

To widen the usage of energy efficiency equipment, import duty and sales tax exemption is given on energy efficiency (EE) equipment such as high efficiency motors and insulation materials to importers including authorized agents approved by the Energy Commission. Sales tax exemption is also given on the purchase of locally manufactured EE consumer goods such as refrigerator, air conditioner, lightings, fan and television. [13]. This is an incentive which the Indian policy can also provide as it would be instrumental in solving the problem of energy crisis in the country.

vi. Exemption from Import Duty and Excise Duty on Hybrid Cars

Generally, the importation of completely built-up (CBU) cars including hybrid cars below 2000cc is subject to import duty, excise duty and sales tax that range from 10% to 80%. However, to promote Malaysia as a regional hub for hybrid cars and as an incentive for local car manufacturers and assemblers to prepare for assembly of such cars domestically, franchise holders of hybrid cars are given 100% exemption on import duty and 50% exemption of excise duty on new CBU hybrid cars subject to the following criteria and conditions:

vii. Sales Tax Exemption

Certain categories of goods are exempted from sales tax at both the input and output stages. These include all goods (inclusive of packaging materials) used in the manufacture of controlled articles, pharmaceutical products, milk products, batik fabrics, perfumes, beauty or make-up preparations, photographic cameras, wrist-watches, pens, computers and computer peripherals, parts and accessories, carton boxes/cases, products in the printing industry, agricultural or horticultural sprayers, plywood, re-treaded tyres, uninterruptible power systems, machinery, and manufactured goods for export.

B) Incentives for Export

i. Single Deduction for the Promotion of Exports

Certain expenses incurred by resident companies in looking for opportunities to export Malaysian manufactured and agricultural products and services qualify for single deduction. The eligible expenses are those incurred in:

a. Registration of patents, trademarks and product licensing overseas.

b. Hotel accommodation for a maximum of three nights in providing hospitality to potential importers invited to Malaysia.

ii. Double Deduction for the Promotion of Exports

Certain expenses incurred by resident companies in seeking opportunities to export Malaysian manufactured and agricultural products and services, qualify for double deduction. This has helped many companies in regulating their export oriented activities, thereby promoting exports in the country.

iii. Double Deduction on Export Credit Insurance Premiums

Premium payments on export credit insurance qualify for double deduction.

iv. Double Deduction for the Promotion of Malaysian Brand Names

To promote Malaysian brand names, a company who is a registered proprietor of a Malaysian brand, or a company within the same group is eligible for double deduction on expenditure incurred in advertising the brand.

v. Special Industrial Building Allowance for Warehouses

An annual allowance of 10% of qualifying capital expenditure is given for buildings used as warehouses for storing goods for export and re-export.

vi. Incentive for the Implementation of RosettaNet

RosettaNet is an open Internet-based common business messaging standard for supply chain management link-ups with global suppliers. To encourage local small and medium-scale companies to adopt RosettaNet in order to become more

ISSN – 2320-0073 Volume II, January'13

competitive in the global market, the expenditure and contributions incurred by companies in the management and operation of RosettaNet Malaysia and in assisting local small and medium-scale companies to adopt RosettaNet are eligible for income tax deduction.

Export Import Policy of India (EXIM Policy)

With a view to have an integrated view of the commercial relations, it is essential to discuss salient features of India's foreign trade policy. India's trade policy has under gone many modifications and changes since independence. Restricted export import policy was followed during the first plan period.

India was then faced with depleted foreign exchange reserves which were also scarce during the second plan period. This led to grave foreign exchange crisis which necessitated adoption of effective measures for promoting country's exports. It was noted in the third plan that the export programme had not formed the integral part of development efforts under the country's five year plans. In the year 1962 Mudaliar Committee had recommended that an annual export policy should be drawn up with industry wise commodity wise targets. Many other steps were taken by the government under the export promotion programme such as setting up of Board of Trade, Directorate of Export Promotion, Export credit and Guarantee Corporation and Indian Standards Institute etc.

In the middle of 1970 the Government of India adopted a comprehensive export policy resolution envisaging appropriate action designed to promote investment in the country. From 1985 to 1988 a three year export policy was formulated. The policy was bold and pragmatic and promoted exports.

At this point the Indian economy had reached a stage where it would have perished if it did not export. The export policy from 1988 to 1991 was simple and easy to operate. A sincere effort was made to reduce the controls on exports to the minimum both in their coverage and nature of restrictions.

In order to liberalize imports and boost exports, the Government of India for the first time introduced the Indian Exim Policy on April 1, 1992. In order to bring stability and continuity, the Export Import Policy was made for the duration of 5 years. The Foreign Trade Policy of India is guided by the Export Import also known as EXIM Policy of the Indian Government and is regulated by the Foreign Trade Development and Regulation Act, 1992.[14]

The Central Government reserves the right in public interest to make any amendments to the Trade Policy in exercise of the powers conferred by Section-5 of the Act. Such amendment shall be made by means of a Notification published in the Gazette of India.

Thus it may be remarked that the phases through which the Indian Foreign Policy (EXIM) has traversed has helped India to integrate with the world. For the past few years India has been following a well defined Export Import policy which has shown its mark in the growing trade of the country. Now the highlights of India's Foreign Trade Policy 2009 policy have been presented. Only those sectors have been highlighted which are of relevance to the study.

Sector Specific Strategies for Some Key Sectors in the FTP

1. Package for Agriculture

The Special Focus Initiative for Agriculture includes:

a. A new scheme called Vishesh Krishi Upaj Yojana has been introduced to boost exports of fruits, vegetables, flowers, minor forest produce and their value added products.

b. Duty free import of capital goods under EPCG scheme.

c. Capital goods imported under EPCG for agriculture permitted to be installed anywhere in the Agro Export Zone.

d. Import of seeds, bulbs, tubers and planting material has been liberalized.

e. Export of plant portions, derivatives and extracts has been liberalized with a view to promote export of medicinal plants and herbal products.

2. Gems & Jewellery

a. Duty free import of consumables for metals other than gold and platinum allowed up to 2% of FOB value of exports.

b. Duty free re-import entitlement for rejected jewellery allowed up to 2% of FOB value of exports.

c. Duty free import of commercial samples of jewellery increased to Rs. 1 lakh.

d. Import of gold of 18 carat and above shall be allowed under the replenishment scheme.

3. Leather & Footwear

a. Duty free entitlements of import trimmings, embellishments and footwear components for leather industry increased to 3% of FOB value of exports.

b. Duty free import of specified items for leather sector increased to 5% of FOB value of exports.

c. Machinery and equipment for 'Effluent Treatment Plants' for leather industry shall be exempt from Customs Duty.

The above mentioned sectors have been highlighted and discussed since these are areas which have significant potential in promoting bilateral trade between India and Malaysia.

An analysis of these Sectoral Strategies indicates that the incentives granted in these sectors have liberalized trade in these areas. This can be advantageously used by India in two ways. Firstly it will help India to increase the quantum of trade with Malaysia and other Asian nations. Secondly the export promotion initiative in these sectors can help India to correct its Balance of Payment and Balance of Trade situations.

It can be said that while the policy initiatives are designed with good intention and are steps in the right direction, the pace of success of FTPs (Foreign Trade Policies) in India will depend on the quality of implementation.

Restrictive Exports and Imports from India

Exports from India

Export of goods is allowed freely, except for a few items in the Negative List of Exports. There are entries in the Prohibited List, export of which is not permitted on religious and environmental considerations.

There are certain prohibited items which cannot be exported from India. The list of such items is shown in appendix -IV A

Canalised items are those items the export of which is done only after permission from the designated Canalising agencies. There were 6 entries and 18 sub-entries in this category of Canalised Items (Exports). Following the amendments to the EXIM policy announced on 31st March 1995, this category now consists of six entries and 17 sub-entries. The list of such items is shown in appendix- IV B

The items which are subject to restrictions while exporting are contained in Appendix - IV C

Importing from India

Quantitative restrictions on imports of capital goods and intermediates have been almost completely removed. The import of second hand capital goods is also allowed.

Import of all items, except those included in the Prohibited List, is permissible. Appendix V A, B & C consists of: prohibited list, canalised items, restricted list for importing from India.

Bilateral Trade Benefits from Foreign Trade Policies

The commercial and foreign trade policies of both India and Malaysia and various aspects related to them have been enumerated in detail. An analysis shall now be made of the trade benefit that both the nations can derive in light of their trade policies.

India has been engaging more intensively in recent times with her trade and economic partners under various institutional frameworks. The recent economic reforms in India have concentrated on external sector reforms with greater degree of openness, and trade and investment liberalisation.[27] Some of the highlights of the policy reforms which can give positive impetus in enhancing India's trade with Malaysia have been highlighted .

- Elimination of quantitative restrictions, licensing and discretionary controls over imports since 1991 and elimination of import licenses for imports of capital goods, raw materials and components shall enable easy import to India by its trading partners.
- Liberalisation of policy regimes for foreign direct investment and introduction of major FDI initiatives will enable increased inflow of capital from the Asian region with Malaysia being one of the major contributors in the region.
- Rupee made convertible on the current account of the balance of payments in August 1994. There has been further relaxation of restrictions on current transactions in later years including remittance of foreign exchange for a wide range of purposes.
- Rupee not fully convertible on the capital account but convertibility exists in respect of certain constituent elements of the capital account. Indian investment abroad up to a limit is eligible for automatic approval by the RBI subject to certain conditions.

- Adoption of a market-based exchange rate system and simplification of procedures to reduce transaction costs and thrust to export of services from 2003 will attract and encourage trade both in areas of goods and financial and technical services. This will largely benefit trade as service sector is one of the core sectors that shall drive trade in the times to come.

The recent policy initiatives by India have made the Indian economy more conducive for intensive trade and economic interactions with other countries and this is an enabling factor for the India-Malaysia CECA (Comprehensive Economic Cooperation Agreement). Highlights of the economic measures undertaken by Malaysia in order to remain resilient to global economic changes and maintain competitiveness include:

- Liberalisation of the equity policy for the manufacturing sector- foreign investors are allowed to hold 100% equity for all investments in new as well as expansion/diversification projects, irrespective of the level of exports, except for some limited sectors.
- Implementation of the Financial Sector Master plan (FSMP), launched in 2001, to facilitate the development of a more competitive, resilient and dynamic financial services environment with best practices to support the transformation of the economy into one that is more competitive and resilient; This initiative has lead to the opening up of branches of some Indian banks in Malaysia and has paved the way for many more.
- Introduction of National Vision Policy (NVP) focusing on the development of a knowledge-based society, generating indigenously-driven growth, and achieving at least 30 percent Bumiputera participation by 2010. This initiative shall also be of significance to the expertise that the educated Indians can contribute to Malaysia and the development of its knowledge society.

Enhancing Closer Trade Relations Through Various Trade Facilitation Measures

Trade linkages between the two countries could be intensified not only through tariff liberalisation but also by adopting various trade facilitation measures. These measures could, include entering into mutual recognition agreements (MRAs), to deal with issues of technical barriers to trade (TBT) and sanitary and phytosanitary measures (SPS); Customs cooperation; harmonisation of standards and conformity assessment; and enhancing business to business dialogue. It is also necessary to put in place various trade remedial measures, and rules of origin, as mutually acceptable, designed in such a way as to facilitate trade creation between the two countries. A brief overview of some key trade facilitation measures are mentioned below.

1. TBT, Sanitary and Phytosanitary Measures (SPS), Harmonisation of Standards and Conformity Assessment

To facilitate trade between two partners, mutual recognition of standards and conformity assessment procedures through cooperative arrangements is important. In this context, it is imperative to have clear and transparent rules with respect to harmonisation of standards, equivalence principle, and criteria for risk assessment. In terms of implementation, it is also necessary that issues relating to, inter alia, approval procedures, inspection requirements, testing, and certification are also addressed. The TBT and SPS measures put in place should be practical and consistent with the TBT and SPS Agreements in the WTO. Enhanced consultations leading to cooperation between regulatory agencies would need to be evolved. This cooperation could also be extended to include activities for development of capacity of institutions in both countries in identified priority sectors.

2. Mutual Recognition Agreements (MRAs)

MRAs are one of the means to facilitate trade through agreement to eliminate duplicative conformity assessment and approvals. MRAs can also lead to harmonisation of each other's regulations and measures. In pursuing these objectives, it should be noted that regional and international agreements between conformity assessment and accreditation bodies would provide a good basis for formal recognition of approvals by regulatory agencies in the two countries. It would be appropriate to pursue closer cooperation between regulatory agencies in order to develop initiatives for mutual acceptance of regulations, enhance acceptance of results of conformity assessment and capacity building.

3. Customs Cooperation

A lack of adequate Customs cooperation can become a major hindrance to preferential trade flows. It is for this reason that Customs cooperation need to be strengthened to enhance trade flows and reduce business costs. In this regard, Customs processes and procedures have to be standardised, harmonised and benchmarked against international best practices. The scope of this cooperation could extend to various Customs related procedures and valuation methods. An important aspect of Customs cooperation in the context of trade facilitation is to facilitate clearance of consignments through increasing use of electronic means.

4. Dispute Settlement Mechanism and Trade Remedies

It has been the experience that in any trade and economic agreement disputes may arise. A speedy redressal of disputes within specified timeframe becomes important for a smooth functioning of the agreement and further intensification of economic linkages between partner countries. This involves devising mechanisms for consultations, assessment of the problem in terms of its economic impact and a process of arbitration. The rules and mechanisms for trade dispute and trade remedial measures need to be open, transparent and consistent with global best practices.

CONCLUSION

Malaysia's commercial policy is designed not only to promote economic integration and development, but also to keep trade control to the minimum. Most goods enter Malaysia freely, although some exports and imports are subject to control under certain considerations of national significance. Import tariffs and export duties are also not very high. The Malaysian policy also provides various incentives both for export and tariff related incentives for imports. Key initiatives have been undertaken to liberalise the investment regime, particularly in the industrial sector, and facilitate investments. This has lead to the development of state-of-the-art infrastructure in Malaysia.

The Malaysian policy emphasis has been on import substitution and export oriented growth. The growth of manufacturing and small scale sectors has been accorded priority. Foreign investment in the form of capital and technology import has been given greater importance. Malaysia extends MFN (Most Favoured Nations) treatment to all of its trading partners while providing tariff preferences to ASEAN countries. The simple average applied MFN tariff rate was approximately 8.1% in 2005. India can expedite its bilateral trade with Malaysia and other ASEAN nations and reap the benefit of this Malaysian policy. This will be another step towards the fulfillment of India's LOOK EAST POLICY.

The assessment of India's trade policy reveals that during the first few decades of Indian plans government of India had not adopted a balanced policy but later on, the policy adopted was a bold, pragmatic and imaginative approach towards accelerated economic development and heralded a new era of thinking in terms of enhanced competitiveness of the Indian products, both qualitatively as well as price wise.

The announcement of 5 year EXIM policies from 1992 onwards has helped in bringing stability and continuity in India's foreign trade. It has provided a direction and guided the country's exports and imports. The Indian policy also provided various schemes and incentives to keep pace with the trends of globalization in the world. Liberalized Exchange Rate Management System (LERMS), Export Promotion Capital Goods (EPCG) scheme and various other duty drawback schemes helped to change the scenario of India's foreign trade for the better. To build a brand equity "Served From India "a unique step has been taken to push forward India's image in the Foreign Service sector. This step will certainly strength India's Foreign service market particularly in the Asian region as India's service sector can compete in the world market. This will also be one of the thrust areas to improve the trade between India and Malaysia.

Thus it can be said that the policy during the period of study stressed on stability and simplicity of procedures and can be termed as a balanced policy.

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