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The Big Picture - India's Trade Diplomacy With Malaysia, Turkey

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Context

- India is planning to cut some imports from Turkey and widen curbs on palm oil from Malaysia to oil, gas and other products in the backdrop of their criticism of India's policy towards Kashmir (Abrogation of Article 370).
- The tension between India and Malaysia, the world's second-biggest producer and exporter of palm oil after Indonesia, further escalated after its PM Mahathir criticised recently passed **the Citizenship Amendment Act (CAA)**. Malaysia's PM Mahathir has a long record of criticising India on Kashmir.

Issues with Malaysia

- According to a report, India is planning to restrict buying of petroleum, aluminium ingots, liquefied natural gas, computer parts and microprocessors from Malaysia.
- India is the world's biggest buyer of edible oils and has already effectively stopped importing palm oil from Malaysia by asking importers to look elsewhere.
- Earlier in September, India had increased customs duty on refined palm oil imports from Malaysia by 5% for six months as a measure to safeguard the domestic industry.
- India may further enhance its **informal Economic sanctions** that include import control, Non-tariff Barrier, stronger inspections of Electronics imports from Malaysia.
Recent response by Malaysian PM has been much more out of character. Not only has he chosen to speak about the internal matter of India publically, but he has also done it at a higher platform like UNGA.
- The response has come despite PM Modi's positive gesture towards Malaysian PM Mahathir that was evident when Modi cut short his visit to Indonesia and flew to Kuala Lumpur to personally greet Mahathir after his election as the Malaysian PM.
- Malaysia continually made vacuous comments on Kashmir, the citizenship amendment act and has given **permanent residency to Zakir Naik and did not take India's request for his extradition seriously.**
- Malaysia's Behaviour towards India is also guided by its **domestic political compulsions** to use "Islamic card" to woo support from the Islamist parties in its domestic politics.

Issues with Turkey

- The Indian government is planning to cut imports of oil and steel products from Turkey.
- Modi had earlier cancelled a planned visit to Ankara to show displeasure over Turkish President Recep Tayyip Erdogan's comments over Kashmir at the United Nations General Assembly.
Erdogan had urged India to hold talks with Pakistan following Modi's August decision to revoke autonomy in Kashmir.
- Turkey meanwhile has sided with Pakistan on issues such as its membership of the Nuclear Suppliers Group, which oversees the export of goods that can be used for nuclear weapons manufacturing.
- Turkey is also against the blacklisting of Pakistan by the world financial watchdog, the Financial Action Task Force, to curb its alleged financing of terror, something India has been lobbying for hard.
- Turkey and Malaysia are trying to wrest the leadership of the Islamic countries in a subtle way away from Saudi Arabia. They also organised a conference in Kuala Lumpur in which Pakistan was also invited.

Impacts

- 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.
India's move to restrict palm oil imports from Malaysia will create a huge challenge for the world's second-biggest producer of the edible oil as India has been its top market for the past five years.
- There is **enough refining capacity in India**, so its consumers are not going to suffer from this event very much. India can buy the rest palm oil from Indonesia which earlier was a big exporter of Palm oil to India.
Indonesia traditionally corned around two-thirds of India's palm oil imports, but a lower duty on refined palm oil helped Malaysia to overtake Indonesia as India's biggest supplier in 2019.
- The decision to restrict all imports of refined palm oil is also likely to **boost business for Indian refiners of vegetable oil**.
- With Turkey, India has a trade surplus. If too much trade sanction is done, India may lose more than to gain
- Turkish firm Anadolu Shipyard is banned from doing defence-related business in India over its increased defence ties with Pakistan.

Way Forward

India is using trade as a tool to create an international and domestic perception. However, restricting trade should be used only as a last resort and only when the provocation is grave enough.