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**No. 244**

**Malaysia's China Policy in the Post-Mahathir Era:  
A Neoclassical Realist Explanation**

**KUIK Cheng-Chwee**

**S. Rajaratnam School of International Studies  
Singapore**

**30 July 2012**

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## ABSTRACT\*

Malaysia's China policy in the post-Cold War era – as an instance of a smaller state's strategy toward a proximate and rising great power – has been characterized by three patterns. First, there was a shift from hostility and guarded rapprochement during the Cold War to cordiality and maturing partnership in the post-Cold War era. Second, despite the overall positive development, Malaysia's China policy has remained, in essence, *a hedging approach* that is driven by both a pragmatic desire to maximize benefits from a closer relationship with the neighboring giant *and* a contingent calculation to guard against any long-term strategic risks in the uncertain regional environment. Third, such a two-pronged approach, which took shape since the 1990s under Mahathir Mohamad, has endured beyond the Mahathir era. Indeed, under his successors Abdullah Ahmad Badawi and Najib Tun Razak, Malaysia has continued to pursue a policy of dualism vis-à-vis China. What explains the enduring continuity of the hedging approach in Malaysia's China policy? This paper adopts a neoclassical realist perspective, arguing that the continuity is attributed to both structural and domestic factors. Domestically, the changing bases of political legitimation in the multi-ethnic country, which highlight the increasing salience of economic performance and political inclusiveness as key sources of moral authority to the UMNO-led coalition government, have necessitated the succeeding leaders to continue pursuing a pragmatic policy aimed at ensuring a stable and productive relationship with China, not least to gain from the steadily growing bilateral trade and the giant's growing outward investment. Structurally, Malaysia's position as a smaller state has compelled it to be constantly vigilant about the uncertainty of state intentions *and* inter-great power relations, which in turn demands it adopts contingent measures to hedge against longer-term risks. It is such structural and domestic determinants that have fundamentally shaped the country's policy towards China in general and the South China Sea issue in particular, which characteristically bears the mark of a delicate dualism, i.e. an explicit preference for engaging China through bilateral and multilateral diplomacy, but one that is backed by a low-key practice of maintaining and strengthening its traditional military links with its Western security partners.

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KUIK Cheng-Chwee is an Associate Professor at the Strategic Studies and International Relations Program at the National University of Malaysia (UKM). He was a recipient of the British Chevening Award and the Fulbright Graduate Scholarship. He received his M. Litt. in International Security Studies from the University of St Andrews, and Ph.D. from the Johns Hopkins University's School of Advanced International Studies (SAIS) in Washington, DC. Kuik researches on smaller states' alignment behavior, Southeast Asia-China relations, and Asia Pacific security. His publications include: "Multilateralism in China's ASEAN Policy" (*Contemporary Southeast Asia*, April 2005), "China's Evolving Multilateralism in Asia" (in Calder and Fukuyama, *East Asian Multilateralism*, 2008), "China's Evolving Strategic Profile in East Asia: A Southeast Asian Perspective" (in Li and Lee, *China and East Asian Strategic Dynamics*, 2011), and "The China Factor in the U.S. 'Re-Engagement' with Southeast Asia: Drivers and Limits of Converged Hedging" (*Asian Politics and Policy*, 2012). His article "The Essence of Hedging: Malaysia and Singapore's Response to a Rising China" (*Contemporary Southeast Asia*, August 2008) was awarded the 2009 Michael Leifer Memorial Prize by the Institute of Southeast Asian Studies (ISEAS). From August 2012 until August 2013, he is a Visiting Postdoctoral Research Fellow at the Department of Politics and International Relations, University of Oxford. He can be contacted at <[cckuik@gmail.com](mailto:cckuik@gmail.com)>.

# **MALAYSIA'S CHINA POLICY IN THE POST-MAHATHIR ERA: A NEOCLASSICAL REALIST EXPLANATION**

## **INTRODUCTION**

This paper is about Malaysia's policy towards the People's Republic of China (PRC) in the post-Cold War era. As an instance of a smaller state's response to a proximate and rising great power, the case of Malaysia's China policy presents three overarching patterns. First, there was a shift from hostility and guarded rapprochement during the Cold War to cordiality and maturing partnership in the new era.<sup>1</sup> Second, despite the progress, Malaysia's post-Cold War China policy is, in essence, a hedging approach that has manifested in both a pragmatic desire on the part of the smaller state to gain economic and diplomatic benefits from a closer relationship with the neighboring giant, *and* a contingent desire to guard against the risks of strategic uncertainty surrounding the rise of a big power.<sup>2</sup> Third, such a two-pronged approach – which took shape since the 1990s under the premiership of Mahathir Mohamad (1981-2003) – has endured beyond the Mahathir era. Indeed, under the leaderships of Mahathir's successors Abdullah Ahmad Badawi (2003-2009) and the current Prime Minister Najib Tun Abdul Razak, Malaysia has continued its policy of dualism vis-à-vis China, as shall be discussed below. What explains the endurance of the hedging approach in Malaysia's China policy in the post-Mahathir era?

Addressing this puzzle is important for both theoretical and policy reasons. Theoretically, a study of Malaysia's China policy offers a case of a smaller state's foreign policy choices toward a rising and proximate great power. Specifically, it provides a case to examine how the interplay of external and internal factors may have an impact on a smaller actor's policy choices vis-à-vis an increasingly powerful neighbor. These choices include: how close or how far it decides to position itself with the power, what policy goals (security, prosperity, autonomy, and/or policy maneuverability) it seeks to pursue

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<sup>1</sup> Stephen Leong, "Malaysia and the People's Republic of China in the 1980s: Political Vigilance and Economic Pragmatism," *Asian Survey* 27:10 (October 1987), pp. 1109-1126; Joseph Liow Chinyong, "Malaysia-China Relations in the 1990s: The Maturing of a Partnership," *Asian Survey* 40:4 (July/August 2000), pp. 672-691; Amitav Acharya, "Containment, Engagement, or Counter-Dominance? Malaysia's Response to the Rise of China," in Alastair Iain Johnston and Robert Ross, eds., *Engaging China: The Management of an Emerging Power* (New York: Routledge, 1999), pp. 129-151; Abdul Razak Baginda, "Malaysian Perceptions of China: From Hostility to Cordiality," in Herbert Yee and Ian Storey, eds., *The China Threat: Perceptions, Myths and Reality* (London: RoutledgeCurzon, 2002), pp. 227-247; Nor Azizan Idris, "Etnisiti dan Ideologi dalam Hubungan Malaysia-China," in Sity Daud and Zarina Othman, eds., *Politik dan Keselamatan* (Bangi: Penerbit Universiti Kebangsaan Malaysia, 2005); Ian Storey, *Southeast Asia and the Rise of China: The Search for Security* (London & New York: Routledge, 2011), pp. 212-229.

<sup>2</sup> Kuik Cheng-Chwee, "The Essence of Hedging: Malaysia and Singapore's Response to a Rising China," *Contemporary Southeast Asia* 30:2 (August 2008), pp. 159-185.

and prioritize in its dealings with the power, and which policy assets (possession of certain resources and policy stance, membership in particular regional bodies and international organizations, relations with certain neighboring countries and big powers, as well as the adoption of particular domestic efforts) it chooses to mobilize in pursuit of those goals. By smaller states, I refer to those sovereign actors who are conscious of their disadvantages as a non-great power in the international system, who realize that their own inherent vulnerability and inadequacy necessarily require them to enlist the assistance of others (big powers, neighboring countries, and international institutions) in their struggle for survival.<sup>3</sup>

At the policy level, the case of Malaysia's China policy is important because an inquiry into the asymmetrical bilateral ties may shed light on the implications – however indirect – of the bilateral relations for the evolving regional order in East Asia. About a decade ago, scholar Joseph Liow lamented that there was “a conspicuous paucity of scholarship” on Malaysia-China relations in the 1990s and that the paucity was unfortunate because the bilateral relationship “is and likely will continue to be a vital component of the Southeast Asian regional security architecture.”<sup>4</sup> This observation has remained true. While the evolution of the post-Cold War regional order in Southeast Asia is attributed to a wide array of factors ranging from great power relations, bilateral and intra-ASEAN (Association of South-East Asian Nations) interactions, as well as the institutional dynamics and limits of ASEAN as a regional body, the aggregate and interactive effects of bilateral relations between individual great powers and individual ASEAN members should not be overlooked. Malaysia-China interactions are one of the key bilateral ties that have had some impact on the emerging regional architecture in the post-Cold War Asia Pacific. Indeed, few would dispute that the growing convergence of the two countries' external interests in the post-Cold War era has been an important variable in the development of regional multilateralism during this period. These include the creation and progress of the ASEAN-China cooperation since the early 1990s, the ASEAN Plus Three (APT) since 1997, and the East Asia Summit (EAS) since 2005.

This, however, does not imply that Malaysia-China relations have had a greater

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<sup>3</sup> Annette Baker Fox, *The Power of Small States: Diplomacy in World War II* (Chicago: The University of Chicago Press, 1959); David Vital, *The Inequality of States: A Study of the Small Power in International Relations* (London: Clarendon Press, 1967); Robert L. Rothstein, *Alliances and Small Powers* (New York & London: Columbia University Press, 1968); Robert Keohane, “Liliputians' Dilemmas: Small States in International Politics,” *International Organization* 23: 2 (Spring 1969), pp. 291-310.

<sup>4</sup> Liow, “Malaysia-China Relations in the 1990s,” p. 672.

regional impact than other bilateral ties like U.S.-Singapore, China-Thailand, or Japan-Indonesia interactions. It only suggests that despite the relatively smaller size and strength of Malaysia, the country's bilateral interactions with China does have some important albeit indirect implications for the regional architecture in the new era. It is therefore crucial to inquire into the peculiarities of the smaller state's post-Cold War China policy as noted at the outset. Given that there have been a number of scholarly works concentrating on Malaysia's China policy *during* the Mahathir years,<sup>5</sup> the present study will focus primarily on the *post*-Mahathir era.

The main argument of the paper is that, Malaysia's China policy in the post-Mahathir era has been characterized more by continuity than change, and that this enduring continuity is attributed to the interplay of domestic *and* structural factors. Domestically, the political needs of the ruling Barisan Nasional (BN) elites to enhance their authority to govern the multi-ethnic country have driven the succeeding Malaysian leaders to pursue a pragmatic China policy that is aimed at maximizing economic and diplomatic benefits from the giant neighbor, for the ultimate aim of consolidating and justifying their mandate at home. Structurally, Malaysia's position as a smaller state and its concerns over the uncertainty in inter-great power relations has compelled it to adopt some risk-contingency measures, chiefly by maintaining its military links with Western powers, but without forming a military alliance with any of them. Such a two-pronged approach constitutes a strategic behavior that is best described as "hedging."

"Hedging" is defined here as a behavioral tendency under conditions of high-stakes and high-uncertainties, in which a self-interested state actor seeks to insure its long-term interests by pursuing *a bundle of mutually-counteracting options* that are aimed at offsetting any perceived risks stemming from structural changes.<sup>6</sup> Unlike others who have

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<sup>5</sup> Shee Poon Kim, *The Political Economy of Mahathir's China Policy: Economic Cooperation, Political and Strategic Ambivalence*, IUJ Research Institute Working Paper 2004-6 (Tokyo: International University of Japan Research Institute, 2004); Joseph Chinyong Liow, "Balancing, Bandwagoning, or Hedging? Strategic and Security Patterns in Malaysia's Relations with China, 1981-2003," in Ho Khai Leong and Samuel C.Y. Ku, eds., *China and Southeast Asia: Global Changes and Regional Challenges* (Singapore: ISEAS, 2005), pp. 281-306; Zakaria Haji Ahmad, "Malaysia," in Evelyn Goh, ed., *Betwixt and Between: Southeast Asian Strategic Relations with the U.S. and China*, IDSS Monograph No. 7 (Singapore: The Institute of Defence and Strategic Studies, 2005), pp. 51-60; Lee Poh Ping and Lee Kam Hing, "Malaysia-China Relations: A Review," in Hou Kok Chung and Yeoh Kok-Kheng, eds., *Malaysia, Southeast Asia and the Emerging China: Political, Economic and Cultural Perspectives* (Kuala Lumpur: Institute of China Studies, University of Malaya, 2005); Liao Xiaojian, "Adjustments in Malaysia's China Policy," in Tang Shiping, et al, eds., *Lengzhanhou Jinlin Guojia Duihua Zhengce Yanjie [A Study of the Immediate Neighbors' China Policies after the Cold War]* (Beijing: Shijie Zhishi Publisher, 2006), pp. 131-153.

<sup>6</sup> Kuik, "The Essence of Hedging"; Cheng-Chwee Kuik, *Smaller States' Alignment Choices: A Comparative Study of Malaysia and Singapore's Hedging Behavior in the Face of a Rising China* (Ph.D. dissertation,

defined hedging as a “middle position” where a state “avoids having to choose one side at the obvious expense of another”<sup>7</sup>, I hold that hedging is *not just a middle position*, but an *opposite* position. Under this conception, hedging is an act in which a state seeks to protect its interests by pursuing a bundle of ambivalent and even contradictory options, with the ultimate goals of maximizing benefits from a rising power when all is well, while simultaneously keeping its options open to face any possible worst-case scenario. As I have argued elsewhere, hedging typically consists of two sets of opposite, dualistic, and mutually-counteracting policies – namely “returns-maximizing” and “risk-contingency” measures – that, together, are designed to offset the effects of one another, with the goal of avoiding the danger of betting-on-the-wrong-horse and other related risks amid structural changes at the systemic level.<sup>8</sup>

The paper is divided into three sections. The first section develops a neoclassical realist framework to explain Malaysia’s post-Cold War China policy. The second section describes the constituent elements of Malaysia’s China policy under Mahathir. The third section analyzes the enduring continuity in Malaysia’s China policy under Abdullah and Najib. The conclusions sum up the key findings by analyzing how Malaysia’s hedging approach vis-à-vis China is a product of the interplay between structural factors and domestic determinants.

## **THEORETICAL FRAMEWORK**

This study adopts a neoclassical realist (NCR) perspective to explain the continuity of the hedging approach in Malaysia’s China policy. As an analytical framework, NCR begins with a simple premise: a state’s foreign policy choices are often a function of the interplay between structural and domestic factors. This premise leads the NCR analysts to integrate the basic tenets of both neorealism (which emphasizes the centrality of structural, systemic variables like anarchy and polarity, i.e. distribution of capabilities among the great powers) and classical realism (which highlights the role of unit-level variables like leadership,

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Johns Hopkins University, 2010), pp. 126-131.

<sup>7</sup> Evelyn Goh, *Meeting the China Challenge: The U.S. in Southeast Asian Regional Security Strategies* (Washington, DC: East West Center, 2005); Evelyn Goh, “Understanding ‘Hedging’ in Asia-Pacific Security,” *PacNet*, 43 (August 2006). Available at: <http://www.csisd.org/media/csis/pubs/pac0643.pdf>; David C. Kang, *China Rising: Peace, Power, and Order in East Asia* (New York: Columbia University Press, 2007).

<sup>8</sup> Kuik, “The Essence of Hedging”; Kuik, *Smaller States’ Alignment Choices*, pp. 126-131. See also Cheng Chwee Kuik, Nor Azizan Idris, and Abd Rahim Md Nor, “The China Factor in the U.S. ‘Reengagement’ with Southeast Asia: Drivers and Limits of Converged Hedging,” *Asian Politics and Policy* 4:3 (2012), pp. 315-344.

human nature, and internal attributes), by paying attention to how the interplay of these systemic- and domestic-level variables may have a causal impact on a state's foreign policy choices.<sup>9</sup> Depending on the focus of their analytical tasks (e.g. a state's policy towards a particular actor, issue, and/or phenomenon), different NCR analysts have looked into different sets of structural and domestic factors as their explanatory variables (e.g. power distribution and leadership perceptions, polarity and state-society relations, external threats and regime interests, big power rivalry and domestic legitimation, etc). In that sense, NCR is a fairly loose theoretical framework, rather than a rigid theory with a fixed set of specific structural variables and domestic determinants.

Given the analytical focus of this study, the structural variables are conceived here as *the changes in the distribution of capabilities and commitments across the great powers*, which would induce systemic-level pressures and opportunities affecting a smaller state's existential conditions in an anarchic environment. This conception is ontologically broader than the neorealist notion of "international structure" in three aspects. First, structural factors do not just bring about threats and challenges; they may also create benefits and opportunities. Second, structural factors may affect – in either direction – a state's existential values not just in terms of physical conditions (security), but also economic foundations (prosperity) and political base (sovereignty and policy maneuverability). Third, structural factors do not just stem from a change in great powers' relative capabilities, but also a change in inter-great power relations (from friends to foes, from rivals to ambivalent partners, etc), and a change in the levels of their strategic commitments to allies and partners (from low to high, and vice versa). Any of these structural changes – and *the uncertainties* associated with them – would present a combination of pressures and potential benefits to any or all three aspects of a state's existential conditions. These include: the risk of being entrapped in a great-power conflict, the risk of being abandoned by one's security patron, the risk of antagonizing the giant-next-door, the risk of becoming over-dependent and losing autonomy, the benefits of being courted by competing powers, the tangible rewards from an increased interest of a Gulliver, the shadow over the uncertain intentions of the great powers, etc. The more vulnerable a state is (either because of its size, geographical factors, and/or internal

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<sup>9</sup> Gideon Rose, "Neoclassical Realism and Theories of Foreign Policy," *World Politics* 51:1 (October 1998), pp. 144-177; Brian C. Rathbun, "A Rose by Any other Name: Neoclassical Realism as the Natural and Necessary Extension of Neorealism," *Security Studies* 17:2 (April 2008), pp. 294-321; Steven E. Lobell, Norrin M. Ripsman, and Jeffrey W. Taliaferro, eds., *Neoclassical Realism, the State, and Foreign Policy* (Cambridge: Cambridge University Press, 2009).

attributes), the higher the impact of such structural variables will be.

This broadened conception of structural variables underscores the issue of *policy trade-off* typically faced by smaller states in coping with the uncertainties and changes at the systemic level. Because of their intrinsic vulnerability and the resultant necessity to enlist external assistance to mitigate existential risks, smaller states constantly find themselves confronted by a *policy trilemma*. That is, of the three policy goals that they seek to pursue – security and freedom from military threat, prosperity and freedom from economic deprivation, sovereignty and freedom from political encroachment – it is impossible for them to attain all three through a single policy at a single time. This is because regardless of which external assistance a state chooses to turn to (either a great power, its neighboring countries, or particular international organizations), its attempt to rely on that option to mitigate specific risks will inevitably expose it to other hazards and challenges. For instance, while joining a big power-led alliance may allow a smaller state to reduce security threats and reap economic gains (through developmental aid and taking advantage of the security umbrella to channel its resources for domestic development), the option will nonetheless expose the state – as the junior and weaker partner – to various forms of political risks, such as incurring domestic opposition, eroding its sovereignty, and limiting its policy maneuverability.

The consequence of such a trilemma is that, a smaller state's eventual foreign policy choice, more often, is the second-best option that involves the twin processes of goal-prioritization and risk-calculation. Since it is unlikely for a smaller state to attain all three policy goals by a single act at a given time, it is only logical for the state to *prioritize* certain goals and *downplay* others; and since it is unlikely for a smaller state to pursue its goals in an absolutely optimal way without exposing itself to certain risks, it is only natural for the actor to calculate the trade-offs of each option, and choose one that is *least risky* and *least costly*. A state's eventual policy choice, thus, is usually reflective of its prioritized goals, with calculated risks and accepted trade-offs.

None of these processes are determined purely by structural factors. Rather, they are necessarily a product of domestic determinants.

This is why the NCR paradigm insists that structural variables by themselves do not determine a state's foreign policy choice, and that domestic variables must be taken into account in order to explain why the same structural factor – e.g. the rise of a great power – induces different responses among similarly-situated smaller states; and why

certain actors are less alarmed by the growing power of a neighboring giant, preferring to see it more as an opportunity than a threat, and why they are more willing than others to downplay certain potential security problems, preferring to prioritize other aspects of policy goals in their dealings with the rising power.

From an NCR perspective, structural conditions only constitute the external environment on which a state views certain forms of threats and opportunities; it is the domestic variables that will determine how the states will respond to them. More specifically, whether a smaller state will perceive a rising power more as a source of threat that must be balanced against or a source of opportunity to bandwagon with – and, consequently, which goals to prioritize and which tools of statecraft to emphasize – are matters to be determined by the state’s domestic conditions.

I propose to focus on one specific aspect of the domestic determinants, which can be termed as “domestic legitimation.” This refers to the manner in which state elites seek to justify and consolidate their moral authority to govern at home – as a key intervening variable between structural conditions facing a state and the state’s policy choices vis-à-vis a rising power.

The domestic legitimation thesis is premised on four core assumptions. First, states do not make foreign policy choices, governing elites do. Second, ruling elites are concerned primarily with *their own domestic political survival*.<sup>10</sup> As such, their policy actions are geared towards mitigating all forms of risks – security, economic, and political – that may affect their capacity to exert control of the people and the territory over which they claim jurisdiction.<sup>11</sup> Third, the representation of risks – which risks will be *identified* and *prioritized* as key foreign policy “problems”<sup>12</sup> – is neither given nor fixed, but is constantly shaped by the manner in which the elites seek to justify their rule *by acting in accordance with the very foundations of their authority* at a given time. Fourth, such governance foundations do not merely refer to elite compliance with liberal-democratic norms, but also their ability to ensure security and internal cohesion, deliver economic

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<sup>10</sup> W. Howard Wriggins, *The Ruler’s Imperative: Strategies for Political Survival in Asia and Africa* (New York: Columbia University Press, 1969); Edward E. Azar and Chung-In Moon, eds., *National Security in the Third World: The Management of Internal and External Threats* (Hants, England: Edward Elgar, 1988).

<sup>11</sup> Sukhumbhand Paribatra and Chai-Anan Samudavanija, “Internal Dimensions of Regional Security in Southeast Asia,” in Mohammed Ayoob, ed., *Regional Security in the Third World* (Boulder, CO: Westview, 1986); Mohammed Ayoob, “The Security Problematic of the Third World,” *World Politics* 43 (January 1991), pp. 257-83.

<sup>12</sup> On the issues surrounding problem representation in foreign policy, see Donald A. Sylvan and James F. Voss, eds., *Problem Representation in Foreign Policy Decision Making* (Cambridge: Cambridge University Press, 1998).

growth, uphold sovereignty, and promote a rationalized ideal that is peculiar to a particular country, like the necessity of “maintaining ethnic balance” in a multi-racial society.<sup>13</sup> It is within the context of such inner justification that elites evaluate the ramifications of a rising power (or any external factor) to make policy choices.

For the empirical case at hand, the continuity of Malaysia’s China policy – during the Mahathir years and beyond – is closely tied to the enduring factors that have underpinned the Malaysian ruling elites’ efforts to enhance and justify their domestic mandate in the post-1980s political environment. The political crisis during the period 1987-90 – which was sparked first by economic recession and then by the intense power struggle within the United Malays National Organization (UMNO), the dominant Malay political party in the governing multi-ethnic coalition *Barisan Nasional* (BN, the National Front) – highlighted to the ruling elite that, while UMNO’s traditional role as the protector of Malay prerogatives remained an important pathway to mobilize support and claim the mantle of authority among the Malay Muslim majority, this alone would not be a sufficient ground for the elite to maintain their political supremacy. In the light of the continuing intra-Malay division as resulted by the growing intra-elite struggle for patronage within UMNO as well as the growing UMNO-PAS competition in the politicization of Islam since the 1970s, the UMNO elite realized that they could no longer rely solely on their traditional supporters from the Malay community, but had to garner the support of non-Malays and non-ethnic-based groups like civil society organizations, to win elections and retain their political power.<sup>14</sup>

Given the changing state-society relations as well as the competing and growing demands of the multiethnic constituencies in the post-New Economic Policy (NEP) Malaysia, it became clear to Mahathir and other BN elite that the most important pathways for them to broaden their electoral appeals are: first, ensuring the country’s *economic performance*; and second, embracing *an all-inclusive nationalist vision* for nation-building.<sup>15</sup> It was against this background that Mahathir introduced Vision 2020, which underscored the centrality of economic performance and nation-building – alongside the

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<sup>13</sup> On inner justification of the “right to govern,” see Max Weber, “Legitimacy, Politics, and the State,” in William Connolly, ed., *Legitimacy and the State* (New York: New York University Press, 1984), pp. 32-62; David Beetham, *The Legitimation of Power* (London: MacMillan, 1991); Muthiah Alagappa, ed., *Political Legitimacy in Southeast Asia: The Quest for Moral Authority* (Stanford: Stanford University Press, 1995).

<sup>14</sup> Harold Crouch, *Government and Society in Malaysia* (New South Wales: Allen & Unwin, 1996); Shamsul A.B., “The ‘Battle Royal’: The UMNO Elections of 1987,” in Mohammed Ayoob and Ng Chee Yuen, eds., *Southeast Asian Affairs 1988* (Singapore: Institute of Southeast Asian Studies, 1988).

<sup>15</sup> Gordon Means, *Malaysian Politics: The Second Generation* (Singapore: Oxford University Press, 1991), pp. 183-203; Cheah Boon Kheng, *Malaysia: The Making of a Nation* (Singapore: ISEAS, 2002).

more inward-looking bases of ethnic balance and national sovereignty – as the key sources of political legitimacy for governing the multi-ethnic country.<sup>16</sup>

It is not a coincidence that these very same themes – performance legitimacy and all-inclusive *Malaysian* nationalism – have been invoked by the ruling elite in the post-Mahathir era, especially after the BN's unprecedented setback in the March 2008 General Elections. In the wake of the political tsunami, the ruling coalition – with its leadership transferring from Abdullah Badawi to Najib Razak – has embarked on the “1Malaysia” initiative and various long-term national transformation programs, including the New Economic Model's “Economic Transformation Programme” (ETP).

These evolving bases of inner legitimation have brought about profound implications not only for Malaysia's domestic political landscape, but also for its foreign policy direction. Among others, they have contributed to the primacy of economic consideration in Malaysia's external policy, as best illustrated by the case of Malaysia's China policy in the post-Cold War era.

## **MALAYSIA'S CHINA POLICY UNDER MAHATHIR**

Malaysia's China policy during Mahathir's 22-year tenure is constituted by five major pillars. These policy pillars are: (a) economically, a pragmatic approach to maximize trade and investment benefits from China's vast and growing economy; (b) diplomatically, a preference for binding and engaging the rising power; (c) geopolitically, a gradual tendency to adopt a limited-bandwagoning approach by partnering with the rising China on certain regional and international issues; (d) strategically, an inclination to practise a dominance-denial approach aimed at preventing China (or any other power) from becoming a predominant power; and (e) militarily, a proclivity to pursue an indirect-balancing policy to prepare for strategic contingencies, but without directly and explicitly targeting China.

### ***Economic Pragmatism***

This policy can be traced back well before Mahathir, all the way back to the early 1970s when Malaysia was still politically at odds with Communist China against the backdrop of the Cold War. Under the second Prime Minister Abdul Razak Hussein (1970-76), several

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<sup>16</sup> Khoo Boo Teik, *Paradoxes of Mahathirism: An Intellectual Biography of Mahathir Mohamad* (Shah Alam: Oxford University Press, 1995); William Case, “Malaysia: Aspects and Audiences of Legitimacy,” in Muthiah Alagappa, ed., *Political Legitimacy in Southeast Asia: The Quest for Moral Authority* (Stanford: Stanford University Press, 1995), pp. 69-107.

trade missions were dispatched to China since May 1971 for forging rapprochement while attempting to establish direct trade links.<sup>17</sup> Razak's move marked a departure from Malaysia's earlier non-recognition policy and hostility under his predecessor Tunku Abdul Rahman (1957-1970), who saw China as an outright enemy mainly because of Beijing's support for the outlawed Malayan Communist Party (MCP).<sup>18</sup> Razak's rapprochement and economic pragmatism were continued by his successors Hussein Onn (1976-81) and Mahathir, despite the leaders' lingering distrust of China over the MCP issue and Beijing's overseas Chinese policy.<sup>19</sup> During most of the Cold War period, these two inter-related issues constituted the biggest barriers to the bilateral relations. As observed by Shafruddin Hashim, although the MCP insurgency was not supported by the majority of local Chinese who made up between 40 and 50 percent of the newly independent Malaya, the fact that the movement was overwhelmingly Chinese in membership and was encouraged by China had created the impression among the Malays that there was "an apparent link between communism, the PRC, and the local Chinese."<sup>20</sup> Razak's rapprochement with China in 1974 helped to enable the Malays to view the three as separate entities, but it did not reduce Malaysian elites' distrust of Beijing throughout the Cold War period.<sup>21</sup>

The situation began to change gradually only after Mahathir's first visit to China in 1985. The trip, which signaled Mahathir's pragmatism in concentrating on economic matters as a way to manage what was then considered to be the "most sensitive foreign relationship" for Malaysia,<sup>22</sup> was in large part driven by Mahathir's desire to diversify Malaysia's foreign markets in the wake of the 1980s world economic recession and to tap into the enormous economic potential of China's market so as to reduce Malaysia's dependency on the West.<sup>23</sup> Economic pragmatism was consolidated after the 1985 trip and,

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<sup>17</sup> Kuik Cheng-Chwee, "Analyzing Malaysia's Changing Alignment Choice, 1971-89," *Jebat: Malaysian Journal of History, Politics and Strategic Studies* 37 (2010), pp. 41-74.

<sup>18</sup> Malaysian veteran diplomat Zakaria Ali, who represented Malaysia in the normalization negotiations with China during the 1973-74 period, reflected in 2006 that one of the considerations driving Razak's normalization move was to sever the line of support given by the Chinese Communist Party to the MCP. See Zakaria Mohd Ali, "Normalisation of Relations with China," in Fauziah Mohamad Taib, ed., *Number One Wisma Putra* (Kuala Lumpur: Institute of Diplomacy and Foreign Relations (IDFR), Ministry of Foreign Affairs, 2006), pp. 124-125.

<sup>19</sup> Leong, "Malaysia and the People's Republic of China in the 1980s."

<sup>20</sup> Shafruddin Hashim, "Malaysian Domestic Politics and Foreign Policy: The Impact of Ethnicity," in Karl Jackson et al, eds., *ASEAN in Regional and Global Context* (Berkeley: University of California, 1986), esp. pp. 156-157.

<sup>21</sup> *Ibid.* See also Johan Saravanamuttu, *The Dilemma of Independence: Two Decades of Malaysia's Foreign Policy, 1957-1977* (Penang: Penerbit Universiti Sains Malaysia for School of Social Sciences, 1983).

<sup>22</sup> James Clad, "An Affair of the Head," *Far Eastern Economic Review*, July 4, 1985, pp. 12-14.

<sup>23</sup> Author's interview with Abdul Majid Ahmad Khan, Puchong, 4 November 2009. Majid served as the Political Counselor at the Malaysian Embassy in Beijing during Mahathir's visit in 1985, and subsequently

later, made the central theme in Malaysia's China policy.

The end of the Cold War and the dissolution of MCP in 1989 then effectively removed the long-standing political obstacle to Malaysia-China relations, paving the way for a new era in the bilateral relations. Also in 1989, China formulated a new Law on Citizenship, which severed the ties between PRC and the overseas Chinese diaspora. This development overlapped with the internal transformation within the Malaysian society, where the ethnic Chinese have since the 1970s become "more aware and confident of their status as Malaysian citizens", with waning emotional attachment to their forefathers ancestral land.<sup>24</sup> One of the net effects of these developments was that, by the early 1990s the ethnic Chinese factor had slowly ceased to be a central impediment to the bilateral relations. It was against this backdrop that the Malaysian government decided to relax and eventually remove all restrictions on its citizens' travel to China, in effect terminating its earlier "managed and controlled" policy that was aimed at insulating the local Chinese from China's influence.<sup>25</sup>

With those problems now behind them, the new era saw the steady growth of bilateral trade throughout the Mahathir years. Economic pragmatism became the backbone of Malaysia's China policy, as evidenced by the leader's high-level visits to China, which have always been accompanied by large business delegations that resulted in many joint-venture projects. Mahathir made six formal visits to China during the period 1993-2001. Stronger trade ties with China were deemed important, as it was hoped to help reduce Malaysia's dependence on the West, and thereby reducing the risk of export volatility and its resultant risk of internal instability. Malaysia-China trade climbed from US\$307 million in 1982 to US\$1.4 billion in 1992 and to US\$14 billion in 2002. During this period, the increase in the *volume* of bilateral trade was accompanied by a shift in the *pattern* of the trade, with the scope of traded products expanding from traditional primary commodities (mainly rubber and palm oil) to a wide range of manufactured goods like machinery, transport equipment and electronic products.<sup>26</sup> In 2002 and 2003, Malaysia

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became the Malaysian Ambassador to China from 1998 to 2005. He is currently the President of the Malaysia-China Friendship Association.

<sup>24</sup> Joseph Chinyong Liow, "Malaysia's Post-Cold War China Policy: A Reassessment," in Jun Tsunekawa, ed., *The Rise of China: Responses from Southeast Asia and Japan* (Tokyo: The National Institute for Defense Studies, 2009), pp. 69-70.

<sup>25</sup> Chai Ching Hau, *Dasar Luar Malaysia Terhadap China: Era Dr Mahathir Mohamad [Malaysia's Foreign Policy towards China: The Mahathir Mohamad Era]* (M.A. Thesis, National University of Malaysia, 2000).

<sup>26</sup> See Kian-Teng Kwek and Siew-Yean Tham, "Trade between Malaysia and China: Opportunities and

overtook Singapore for the first time as China's largest trading partner in the ASEAN region.

### ***Binding-Engagement***

Having become the first ASEAN state to establish diplomatic relations with China in May 1974, Malaysia has since adopted an engagement policy aimed at creating channels of communication with the neighboring giant. Under Mahathir, the Malaysian and Chinese government initiated a bilateral consultative meeting in April 1991. This meeting enabled the senior officials of the two countries' foreign ministries to meet regularly for "consultations on bilateral, regional and international issues of mutual concern."<sup>27</sup> In July 1991, the then Malaysian Foreign Minister Abdullah Badawi invited his Chinese counterpart Qian Qichen to attend the opening session of the 24<sup>th</sup> ASEAN Ministerial Meeting as a guest of the Malaysian government.<sup>28</sup> These events – along with the burgeoning regional multilateral processes in the post-Cold War Asia-Pacific following the inception of the Asia-Pacific Economic Cooperation (APEC) in 1989, the ASEAN Regional Forum (ARF) in 1994, the ASEAN-China Senior Officials Consultation in 1995, and the ASEAN Plus Three (APT) in 1997 – set the stage for more institutionalized relations between China and Malaysia and other regional countries. Together with the bilateral visits at the leaders and ministers levels, these regional multilateral meetings had provided important platforms for Malaysia (and its ASEAN partners) to *engage* and *bind* the rising power in an era of strategic uncertainty. Malaysia's trust in China's regional role increased significantly during the 1997-98 Asian financial crisis, when China decided not to devalue the Renminbi, an act openly lauded by Mahathir as a responsible conduct.

For Malaysia, these burgeoning multilateral framework – most notably the ASEAN-China Senior Officials Consultation – was particularly important for their role in providing useful avenues for handling the touchy Spratlys territorial disputes, which involved Malaysia, China, Vietnam, the Philippines, Brunei, and Taiwan. From the period 1999 to 2002, the ASEAN countries and China met to discuss the possibility of

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Challenges for Growth," in Emile Kok-Kheng Yeoh and Evelyn Devadason, eds., *Emerging Trading Nation in An Integrating World: Global Impacts and Domestic Challenges of China's Economic Reform* (Kuala Lumpur: Institute of China Studies, University of Malaya, 2007), pp. 123-137.

<sup>27</sup> Mohamad Sadik Bin Kethergany, *Malaysia's China Policy* (MA unpublished paper, Universiti Kebangsaan Malaysia and Institute of Diplomacy and Foreign Relations, 2001), p. 23.

<sup>28</sup> Qian's attendance at the meeting, during which he also held an "informal talk" with ASEAN foreign ministers, marked the beginning of the ASEAN-China dialogue process. Author's interview with Abdullah Badawi, former Prime Minister of Malaysia, Putrajaya, 18 March 2010.

formulating a code of conduct in the South China Sea area. In November 2002, China and ASEAN countries signed the Declaration on the Conduct of Parties in the South China Sea (DOC). While DOC was merely a political declaration and not a legal document, it was deemed useful by Malaysia in that it served to reduce tension in the disputed area.<sup>29</sup> In October 2003, China acceded to ASEAN's non-aggression pact, the Treaty of Amity and Cooperation (TAC). For Kuala Lumpur, these developments helped contribute to regional stability and prevent regional disputes from affecting Malaysia-China relations.

### ***Limited-Bandwagoning***

Geopolitically, Malaysia under Mahathir had, since the second half of the 1990s, slowly embraced a policy that can be described as limited-bandwagoning. Bandwagoning refers to a policy in which a country chooses to align with (rather than balance against) a rising power with an eye to gaining present or future rewards.<sup>30</sup> Malaysia's bandwagoning behavior vis-à-vis China is described as "limited" in that unlike the pure form of bandwagoning which necessarily involves an acceptance of hierarchical (superior-subordinate) relations between a patron and a smaller actor, Malaysia's China policy has been driven by a clear hierarchy-avoidance thinking, where it cautiously avoids losing its autonomy to or becoming over-dependent on Beijing.

Malaysia's limited-bandwagoning behavior was evidenced not only by its elites' willingness to voluntarily accord deference to Beijing's "core interests" (such as the "One China policy" that did not affect Malaysia's own interests), but also by their growing inclination to see Beijing as a partner in promoting certain common foreign policy goals – most notably East Asian cooperation – in a move that is aimed at reaping present and future foreign policy benefits from a rising power. Chiefly because of the convergence of worldviews between the leaders of the two countries, Malaysia and China have since the 1990s supported each other's position at various international forums, over issues pertaining to the cause of the developing world, the debate on human rights, the principles of state sovereignty and non-interference, as well as the need for a multipolar international order.<sup>31</sup>

In part due to the shared worldview and in part due to Beijing's international clout,

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<sup>29</sup> Author's interview with Ambassador Ahmad Fuzi Abdul Razak, the former Secretary-General of the Malaysian Foreign Ministry, Kuala Lumpur, 8 August 2008.

<sup>30</sup> On "bandwagoning" behavior in international relations, see Randall Schweller, "Bandwagoning for Profit: Bringing the Revisionist State Back in," *International Security* 19:1 (1994), pp. 72-107.

<sup>31</sup> Liow, "Malaysia-China Relations in the 1990s"; Baginda, "Malaysian Perceptions of China."

Malaysia saw China as a valuable partner in pushing for its goal of fostering closer cooperation among the East Asian economies. The goal can be traced back to Mahathir's East Asia Economic Group (EAEG) proposal in 1990, through which he advocated a grouping to protect the regional countries' collective interests in the perceived face of trade protectionism in the West. The proposal was opposed by the U.S. and received only a lukewarm response from Japan, South Korea and other ASEAN members, even after it was renamed the East Asian Economic Caucus (EAEC). In due course, China stood out as the only major power which lent explicit support to EAEC. In July 1993, Chinese Foreign Minister Qian Qichen expressed his government's support for the EAEC, describing the caucus as an appropriate vehicle to spur economic cooperation among East Asian countries.<sup>32</sup> In 1997, in the wake of the Asian Financial Crisis, China along with Japan and South Korea accepted ASEAN's invitation to attend an informal summit in Kuala Lumpur, which evolved as the ASEAN Plus Three (APT) process.

### ***Dominance Denial and Indirect Balancing***

These policy pillars – economic-pragmatism, binding-engagement, and limited-bandwagoning – which were driven by a pragmatic desire to maximize returns from a close and cordial relationship with the rising China, *were implemented in conjunction with an opposite and counteracting position* that was aimed at offsetting long-term strategic risks and keeping its options open for contingencies. This position had been maintained through continuing Malaysia's traditional military ties with the Western powers, as well as supporting the involvement of other big powers in regional affairs. Both practices sought to cultivate a stable balance-of-power (in both political and military terms) in the Asia-Pacific region, in order to prevent and deny *any* big power from becoming dominant. Mahathir's decision to sign the Acquisition and Cross-Servicing Agreement (ACSA) with America in 1994 – notwithstanding the leader's anti-West rhetoric – was very much a manifestation of such a fall-back posture.<sup>33</sup>

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<sup>32</sup> K.P. Waran, Zulkifli Othman, and Mohamed Yusof Taib, "China Comes Out In Full Support of EAEC Concept," *New Straits Times*, 25 July 1993, p. 2.

<sup>33</sup> The Mahathir government earlier signed the Bilateral Training and Consultation (BITAC) agreement with the United States in 1984. See Mak Joon Nam, "Malaysian Defense and Security Cooperation: Coming Out of the Closet," in See Seng Tan and Amitav Acharya, eds., *Asia Pacific Security Cooperation: National Interests and Regional Order* (London: M.E. Sharpe, 2004), pp. 127-53. See also Barry Wain, *Malaysian Maverick: Mahathir Mohamad in Turbulent Times* (London: Palgrave Macmillan, 2009), p. 251; Ian Storey, *Southeast Asia and the Rise of China: The Search for Security* (London & New York: Routledge, 2011), p. 223.

## **MALAYSIA'S CHINA POLICY IN THE POST-MAHATHIR ERA**

Each of the above-mentioned policy thrusts has been inherited and continued – and in some areas, deepened – by Mahathir's two successors, Abdullah Ahmad Badawi and Najib Tun Abdul Razak. Before discussing how the combinations of these thrusts have together constituted and defined Malaysia's China policy in the post-Mahathir era, it is useful to first provide a snapshot of each prime minister's China policy.

Relations with China was one of the key foreign policy areas that received particular attention from Abdullah Badawi even before he succeeded Mahathir as Malaysia's fifth Prime Minister on 31 October 2003. One month prior to assuming the premiership, during his visit to China in his capacity as the Deputy Prime Minister, Abdullah declared that 2004 would be a Malaysia-China Friendship Year to commemorate the 30<sup>th</sup> anniversary of diplomatic ties and the 600 year anniversary of the landing of Admiral Zheng He (Cheng Ho), who initiated the first official contact between China (the Ming Court) and the Malacca Sultanate in the 15<sup>th</sup> century. On 27 May 2004, less than seven months after taking office, Abdullah led the largest official delegation to China to mark the 30<sup>th</sup> anniversary of the bilateral relations. The high-profile delegation consisted of about a third of his Cabinet, a Chief Minister, two *Menteris Besar*, and over 500 businessmen. The fact that Abdullah had chosen China as the first country to visit outside ASEAN – and had done so in a matter of eight months after his last visit to the country – was a clear testimony to the importance he attached to Malaysia-China relations.

During Abdullah's six-year tenure, while the substance of Malaysia's China policy was in many ways a continuation of Mahathir's policy, Abdullah's various initiatives and decisions – e.g. strengthening bilateral cooperation on key foreign policy issues (most notably the hosting of the inaugural East Asia Summit in Kuala Lumpur in December 2005), encouraging state-linked corporations to invest in China, revitalizing the Malaysia-China Business Council, securing a loan from China to build the Second Penang Bridge, as well as further promoting people-to-people contacts and educational exchanges – had shifted bilateral ties to a higher gear, which culminated in a “strategic cooperation” between Malaysia and its increasingly powerful neighbor. Such a partnership – notwithstanding its diplomatic rhetoric – was manifested in and substantiated by the closer bilateral cooperation in a wide range of policy areas, including the economy, foreign policy, education, transport, and to some extent, defense. The maturing bilateral relations during the Abdullah years were evidenced by the signings of the two joint communiqués

in 2004 and 2005. Towards the final two years of Abdullah's term, the two sides had taken joint efforts to work on an "action plan" for their strategic cooperation. The bilateral relations were regarded by both sides as the best in its history.

These legacies were passed on to – and further developed by – Abdullah's successor Najib Tun Razak, who became the country's sixth Prime Minister in April 2009. Najib had similarly chose China as the first country outside ASEAN to visit upon assuming power. He did so at a faster pace, i.e. two months after taking office. The new leader – the son of the late Tun Razak who forged rapprochement with China in the 1970s – declared during his trip that he would not only follow the footsteps of his father but would take the bilateral relations to greater heights.<sup>34</sup> During the visit, Najib witnessed the signing of the "Joint Action Plan on Strategic Cooperation", which provided a framework for future bilateral cooperation in 13 key areas. Two weeks after the visit, in his key policy speech at the 7<sup>th</sup> Heads of Mission Conference on 22 June 2009, Najib said that his trip to China was made "because our relationship with China is fundamental to our national interests, and because there are many mutual lessons to be learnt and shared between our countries."<sup>35</sup>

Economic pragmatism has been the key pillar of Najib's China policy from the very beginning, which aims at increasing China's investment in Malaysia while enhancing the already strong bilateral trade ties.<sup>36</sup> Various measures have been taken by the new administration to pursue these dual goals, which are expected to help boost the new leader's key domestic initiative, the Economic Transformation Programme (ETP). These efforts include: approving the opening of the Industrial and Commercial Bank of China (ICBC), China's largest bank, in Malaysia, setting up a Bank Negara (Malaysia's central bank) representative office in Beijing, signing an agreement to exempt visa requirements for holders of diplomatic and official passports (which also covers officers from Chinese government-linked companies), renewing the bilateral currency swap agreement, launching an industrial park in Qinzhou (in China's southwestern Guangxi province), and most recently, proposing a similar development park in Kuantan (in Malaysia's east coast state of Pahang, Najib's home state). Beyond trade and investment, Malaysia and China

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<sup>34</sup> Wong Sai Wan and Chow How Ban, "Najib's Visit Heralds a New Era of Diplomatic Ties with China," *The Star*, 4 June 2009.

<sup>35</sup> Dato' Sri Najib Tun Abdul Razak, Prime Minister of Malaysia, "Malaysian Foreign Policy: Future Direction for 2009-2015," Keynote Address at the 7<sup>th</sup> Heads of Mission Conference, Putrajaya, 22 June 2009.

<sup>36</sup> Author's interview with Abdul Majid Ahmad Khan, Kuala Lumpur, 3 May 2012. Majid is the President of the Malaysia-China Friendship Association, and concurrently an Exco Member of the Malaysia-China Business Council.

have also made progress in people-to-people contacts, especially in the areas of tourism and education.

What follows is a brief discussion of Abdullah and Najib's China policies, which, on the whole, reflect a high degree of continuity of their predecessor Mahathir's policy, particularly in the following areas: (a) deepening economic-pragmatism; (b) pursuing diplomatic and strategic cooperation; and (c) persisting with a hedging position.

### ***Deepening economic-pragmatism***

Both Abdullah and Najib have continued and deepened economic pragmatism, by making it the central thrust of their respective China policy. Both have taken important steps to further expand Malaysia's bilateral trade and investment links with China.

The Abdullah Administration: During Abdullah's tenure, Malaysia's trade with China grew at a rate faster than that with the United States and Japan, the country's two traditional major trading partners. Bilateral trade doubled from US\$20 billion in 2003 to US\$39 billion in 2008, making China the fourth largest trading partner of Malaysia.<sup>37</sup> The Abdullah years also witnessed the following emerging features and trends in Malaysia-China economic relations:

- *Encouraging more government-linked companies (GLCs) to make a presence in China.* The plantations-to-property conglomerate Sime Darby, for instance, has since 2005 expanded its ventures in China by investing mainly in the utilities and infrastructure sectors.<sup>38</sup> Petronas, Malaysia's state-owned oil company, signed a US\$25 billion contract in July 2006 to supply up to 3.03 million metric tons of LNG annually to China for 25 years.<sup>39</sup> Petronas also tied up with China's National Oil Company in a joint venture in Sudan. UMW Holdings, another Malaysian GLC, forged a partnership with China National Petroleum Corp (CNPC) in a venture in Shanghai, as early as in 2003. The two companies later set up a huge pipe-manufacturing plant in the port city of Qinghuangdao (northeast of Beijing), which would supply about 6,800km of pipes for the part construction of a natural gas pipeline spanning from Kazakhstan to Shanghai.<sup>40</sup> Another example was Khazanah Nasional, the investment holding arm of the Malaysian

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<sup>37</sup> Simrit Kaur, "Najib following in dad's footsteps," *The Star*, 31 May 2009.

<sup>38</sup> "Sime Darby in China," [http://www.simedarby.com/Sime\\_Darby\\_in\\_China.aspx](http://www.simedarby.com/Sime_Darby_in_China.aspx)

<sup>39</sup> Leong Shenli, "Petronas clinches RM92bil China deal," *The Star*, 31 October 2006.

<sup>40</sup> "UMW's China ops holding up well," *The Star*, 7 November 2008.

government, which opened its first overseas representative office in Beijing in May 2008. At the opening of the office, Prime Minister Abdullah remarked that one of the reasons Khazanah chose to set up its first overseas office in Beijing was because “we regard China as a very strategic and very important economic partner.”<sup>41</sup> Khazanah’s investment in China focused primarily on the country’s renewable energy and retail sectors. The presence of these state-linked and Bumiputera corporations in China is politically significant, in that it indicated that China’s economic growth has not only benefited ethnic Chinese but also Malay Malaysians.

- *Revitalizing Malaysia-China Business Council (MCBC) to promote bilateral business and investment links.* The council was formed in 2002 at the initiative of the China Council for the Promotion of International Trade (CCPIT) and Malaysia’s Asian Strategy and Leadership Institute (ASLI), in conjunction with the then Chinese Vice-President Hu Jintao’s official visit to Malaysia. After Abdullah assumed power, China hinted to the new premier, Wen Jiabao about the significance of having “Malay leadership” in the council, suggesting that “Malaysia-China business relations should not be between Malaysian Chinese and China.”<sup>42</sup> Abdullah later appointed the former Deputy Prime Minister Musa Hitam as the Joint Co-Chairman of MCBC.<sup>43</sup> Under Musa, the council played an active role in promoting bilateral commercial ties, mainly by organizing trade delegations and other activities to explore business and investment opportunities across sectors, and at various levels. Largely because of Musa’s stature and contacts as a former statesman, MCBC managed to obtain strong backing from various state governments (like Johor, Sarawak, Negeri Sembilan, and Sabah), which took turns to act as “anchor state” in co-organizing the council’s activities to promote Malaysia’s economic interests before Chinese investors. It also managed to attract more participation from Malay entrepreneurs and corporations.

- *Securing a loan facility from China for infrastructure projects.* In October 2006, during a closed-door meeting between Abdullah and his Chinese counterpart Wen Jiabao in Nanning, the Malaysian leader sounded out the possibility of obtaining a loan to construct a bridge in his home state of Penang. China responded positively. In a matter of nine months, in July 2007, the two countries signed a US\$800 million loan agreement for

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<sup>41</sup> “Khazanah Sets Up First Overseas Office in Beijing,” *The Star*, 24 October 2008.

<sup>42</sup> Author’s interview with Musa Hitam, the Co-Chairman of the Malaysia-China Business Council (from 2003-2011) and former deputy prime minister of Malaysia, Kuala Lumpur, 8 February 2010.

<sup>43</sup> Author’s interview with Abdullah Badawi, former Prime Minister of Malaysia, Putrajaya, 18 March 2010

the construction of the 23.5 km Second Penang Bridge. The terms of the loan agreement included an interest rate of 3 percent per annum over 20 years. That was the largest, and reportedly the most favorable loan facility offered by China for a single project in a foreign country at that time.<sup>44</sup> The bridge project is estimated to be completed by November 2013. The bridge, which will link Batu Maung on the island and Batu Kawan on the peninsular Malaysia, will be the longest bridge in Southeast Asia.

- *Establishing a bilateral currency swap arrangement.* The arrangement, which was signed in February 2009, provided RM40 billion and had an effective period of three years that could be extended by agreement between the Malaysian and Chinese governments. The swap was designed to promote bilateral trade and investment.

The Najib Administration: During Najib's tenure, Malaysia's commercial links with China have grown even faster and wider, in part due to the ASEAN-China FTA that was operationally effective 1 January 2010. Since 2009, China has become Malaysia's largest trading partner, overtaking Singapore, Japan, and the United States. In 2011, bilateral trade reached a new high of US\$90 billion, with Malaysia enjoying a large surplus of US\$30 billion. The same year, China displaced Singapore as Malaysia's biggest export market. Palm oil was one of the key commodities exported to China, while other goods included information technology products like chips.<sup>45</sup> Bilateral trade volume is expected to reach US\$100 billion in 2012.

The primary goals of economic pragmatism in Najib's China policy, as mentioned, are two-fold, namely to increase China's investment in Malaysia, and to enhance the bilateral trade relations. Both are expected to contribute to the leader's Economic Transformation Programme. These goals have been pursued mainly through the following:

- *Aiming at broadening the trading base between Malaysia and China.* During his first visit to China as prime minister in June 2009, Najib called for broadening of trading base between the two countries. This call was repeated in May 2010 by his deputy Muhyiddin Yassin, who said Malaysia should diversify its trade pattern and explore emerging sectors in China which have high potential for future growth: "Currently, most of our bilateral trade comprises electronics and electrical products, palm oil and chemicals. Clearly, we can do much more to diversify the pattern. ... These include oil and gas, high-

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<sup>44</sup> Mazwin Nik Anis, "Penang Bridge Loan Deal Signed," *The Star*, 14 July 2007.

<sup>45</sup> "China-Malaysia Trade to touch US\$100b," *The Star*, 16 March 2012.

value agriculture, green technology, financial services and information technology.”<sup>46</sup>

- *Strengthening the bilateral financial and investment cooperation.* On 11 November 2009, an MOU was signed between Bank Negara Malaysia and the Banking Regulatory Commission of China to forge cooperation on banking supervision. Later the same month, on 20 November, Malaysia approved a commercial bank license to the Industrial and Commercial Bank of China (ICBC), China's largest commercial bank. In June 2010, China Banking regulatory Commission granted Malaysia the “China Qualified Domestic Institutional Investor (QDII)” status, making Malaysia one of the 11 approved investment destinations for Chinese portfolio funds. The move was expected to generate larger inflow of Chinese investments into Malaysia.<sup>47</sup> The Securities Commission of Malaysia said that the potential inflow of Chinese funds will contribute to increased liquidity in the Malaysian market.<sup>48</sup> In April 2011, Prime Minister Najib and his Chinese counterpart Wen Jiabao witnessed the signing of an agreement on the setting up of a Bank Negara Malaysia representative office in Beijing to facilitate trade in local currencies.<sup>49</sup> On 8 February 2012, Bank Negara Malaysia and the People’s Bank of China renewed the 2009 bilateral currency swap deal for RM90 billion. Analysts observe that since the 2009 swap deal, more businesses have settled trade transactions using local currencies, resulting in a four-fold jump in the total trade conducted in local currencies.<sup>50</sup>

- *Launching industrial parks as a new form of bilateral economic cooperation.* Merely a year after the idea of setting up an industrial part in China was first mooted during Premier Wen Jiabao’s visit to Malaysia in 2011, the Qinzhou Industrial Park (QIP) project was launched by the leaders of the two nations in April 2012. Najib described the rapid realization of the joint-venture project as “a testament to the vibrancy, energy and commitment on both sides and to the ever broader and deeper economic ties between our nations.”<sup>51</sup> The 55 sq km industrial park, located near Qinzhou Free Port (150 km from Nanning), will be developed in three phases and is expected to take about 15 years to

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<sup>46</sup> “Malaysia should diversify trade pattern and explore China's sectors, says DPM,” Bernama, 22 May 2010. Available at: <http://www.pmo.gov.my/tpm/?frontpage/news/detail/3375>

<sup>47</sup> Dato’ Sri Najib Tun Abdul Razak, Prime Minister of Malaysia, Welcoming Address at the 2<sup>nd</sup> World Chinese Economic Forum, 2 November 2010. Available at <http://1malaysia.com.my/zh/speeches/world-chinese-economic-forum/>

<sup>48</sup> “Beijing recognizes KL as approved investment destination,” *New Straits Times*, 24 June 2010, p. 8.

<sup>49</sup> Farrah Naz Karim, “Bank Negara in Beijing,” *New Straits Times*, 29 April 2011, p. 1.

<sup>50</sup> Chow How Ban, “Fostering Closer Ties with China,” *The Star*, 28 April 2012. Available at <http://thestar.com.my/columnists/story.asp?file=/2012/4/28/columnists/madeinchina/11191625&sec=madeinchina>

<sup>51</sup> Joniston Bangkuai, “New park boosts ties,” *New Straits Times*, 2 April 2012, p. 1.

complete.<sup>52</sup> The Qinzhou port, one of the closest Chinese ports to the ASEAN countries, is expected to serve as the most convenient access to China's southeast. At the QIP launch, Najib proposed a sister industrial project in Malaysia, to be located at Gebeng town in Kuantan. He said Kuantan was chosen because a deep-water port located nearby was suitable and accessible from the South China Sea.<sup>53</sup>

Abdullah and Najib's efforts in deepening economic pragmatism on the solid foundation they inherited from their predecessor, as discussed above, have had the effect of further elevating Malaysia-China economic ties to a new height. Table 1 shows Malaysia-China bilateral trade for the years 2001 through 2010. Tables 2 and 3 show Malaysia's top five export destinations and top five import destinations, respectively, for the years 2005 through 2010. The data sets indicate not only the speed of the growth in the bilateral trade, but also the extent of the growing economic importance of China to Malaysia.

### ***Pursuing diplomatic and strategic cooperation***

In the realm of diplomacy and foreign policy, both Abdullah and Najib administrations have continued to engage China actively, not only through bilateral means, but also various existing and emerging regional multilateral platforms such as ASEAN-China, APT and EAS, which have deepened Malaysia's diplomatic and strategic cooperation with the rising power.

The Abdullah Administration: Given Abdullah's experience in dealing with China in his earlier capacity as Malaysian foreign minister (from 1991 to 1999) and his familiarity with Chinese leaders, it was perhaps not surprising that foreign policy was one of the key areas receiving particular attention from the leader. On 30 May 2004, months after assuming office, Abdullah used the occasion of the 30<sup>th</sup> anniversary commemorative dinner of Malaysia-China diplomatic relations in Beijing to reveal his administration's idea of an East Asia Summit (EAS). Abdullah said that the Summit can be built upon the existing ASEAN Plus Three process to raise the regional dialogue to a higher plane, and that

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<sup>52</sup> The QIP project is the third industrial park jointly developed by China with a foreign country after the China-Singapore Suzhou Industrial Park and the China-Singapore Tianjin Eco-City. See "Qinzhou Industrial Park in Nanning heralds closer ties between China and Malaysia," *New Straits Times*, 6 April 2012, p. 12.

<sup>53</sup> "PM proposes sister industrial park in Malaysia," *Bernama*, 1 April 2012. Available at: [http://www.pmo.gov.my/?menu=newslist&news\\_id=9516&news\\_cat=13&cl=1&page=1731&sort\\_year=2012&sort\\_month=](http://www.pmo.gov.my/?menu=newslist&news_id=9516&news_cat=13&cl=1&page=1731&sort_year=2012&sort_month=)

Malaysia and China should co-operate “in setting the agenda for a new era of regional co-operation.”<sup>54</sup> Subsequently, in his first key foreign policy speech in July in Putrajaya, the country’s administrative capital, Abdullah told the annual conference of Malaysian heads of missions that “Malaysia must persevere in the diplomatic efforts required to find consensus to upgrade the ASEAN + 3 process to become a gathering of equal partnership such as in an East Asia Summit meeting.”<sup>55</sup> Four months later, at the APT Summit in Phnom Penh on 29 November 2004, Abdullah officially proposed to hold the inaugural EAS the following year in Kuala Lumpur. Abdullah’s proposal was strongly supported by Premier Wen, and accepted by the Summit. During the run-up to the EAS in 2005, Malaysia and China at first both favored limiting the EAS membership to the APT countries (i.e. ASEAN plus China, Japan, and South Korea). Later, when it became clear that India, Australia and New Zealand would be included in the new forum, the two countries then advocated making the APT the main vehicle for East Asia community building, and the EAS “a forum for dialogue” on broad strategic, political and economic issues of common interests and concern.<sup>56</sup>

Beyond East Asian cooperation, the Abdullah government also continued to underscore the importance of consultation and collaboration with China on other foreign policy issues. In a joint communiqué on bilateral relations signed on 29 May 2004 (the second joint communiqué between Malaysia and China after the one that established diplomatic relations in 1974), the two governments pledged to further strengthen consultations and coordination at the UN, ARF, APEC, ASEM, WTO and other multilateral forums. In another communiqué issued in December the following year in 2005, the two sides reiterated their commitment to further expand and deepen their cooperation in strategic areas to serve the fundamental interests of both countries. The contents, the tone, and the timing of the joint communiqués evidently reflected a growing convergence of interests between them.

Perhaps as a reflection and reinforcement of the deepening political trust and widening cooperation at both the bilateral and ASEAN-China levels, the Abdullah

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<sup>54</sup> “Malaysia Proposes East Asia Summit,” *The Star*, May 30, 2004; Hardev Kaur, “East Asia Summit Proposal to Discuss ‘New Era of Regional Co-operation,’” *New Straits Times*, 30 May 2004.

<sup>55</sup> “Malaysian Foreign Policy in the Era of Globalization,” Keynote Address by YAB Dato’ Seri Abdullah Haji Ahmad Badawi, Prime Minister of Malaysia, to the Conference of the Malaysian Heads of Missions, Putrajaya, 5 July 2004.

<sup>56</sup> Alan D. Romberg, “The East Asia Summit: Much Ado about Nothing – So Far,” January 11, 2006, <http://www.stimson.org/pub.cfm?id=264>; Mohan Malik, *China and the East Asian Summit: More Discord Than Accord*, APCSS Brief Analytical Report (Honolulu: Asia-Pacific Center for Security Studies, February 2006).

administration had chosen to describe Malaysia's relations with China as one of "strategic partnership." In his speech at a conference in Kuala Lumpur on April 28, 2004, Deputy Prime Minister Najib Razak remarked:

Today, Malaysia and China enjoy cordial relations in many areas and have indeed forged a kind of strategic partnership, which goes beyond bilateral ties. Both share common global perceptions and we stand together on many international issues which have helped to form consensus among developing and even developed states. As we move into the 21<sup>st</sup> Century, with new challenges confronting all of us, wherever we are located, we need to better understand each other so as to face a global environment that has come to be dominated by a few over the many.<sup>57</sup>

In June that year, Foreign Minister Syed Hamid Albar declared at a reception in Kuala Lumpur that "Malaysia-China relations have today matured. The mutual confidence, respect and trust that characterize the existing cordial ties have brought interaction between the two countries to a new and never seen before dimension, embracing virtually all areas of human activities and endeavors."<sup>58</sup> He added: "Looking to the future, bilateral ties are expected to intensify even more as the two countries launched a new 'strategic partnership' which will pave the way for the future enhancement of relations at all level and all sectors of society."<sup>59</sup>

This high level of mutual confidence and trust between the two countries seems to have had a profound impact on the leaders' outlook on the sensitive issue of the overlapping claims over the Spratlys in the South China Sea. When asked in February 2010 about the impact of the Spratlys disputes on Malaysia-China relations, a former senior official at the Malaysian foreign ministry replied:

There is an unspoken consensus between Malaysia and China that their overlapping claims in the South China Sea should in no way affect the development of bilateral relations in various other areas. Indeed, the problem concerning the South China Sea remains to be resolved. But, there is a kind of unwritten understanding that these problems should be solved on their own terms and in their own time, without spoiling the good atmospherics which now exist both in the bilateral and regional context of relations.<sup>60</sup>

The Najib Administration: Well before taking the helm as Malaysia's 6<sup>th</sup> Prime Minister,

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<sup>57</sup> Keynote Address by YAB Dato' Sri Mohd Najib Tun Abdul Razak, Deputy Prime Minister of Malaysia, to the Conference on Malaysia-China Relations: Strategic Partnership, Kuala Lumpur, 27 April 2004.

<sup>58</sup> "Malaysia-China Relations At Best Stage: Malaysian FM," *People's Daily*, 10 June 2004. Available at: [http://english.peopledaily.com.cn/200406/10/eng20040610\\_145846.html](http://english.peopledaily.com.cn/200406/10/eng20040610_145846.html)

<sup>59</sup> Ibid.

<sup>60</sup> Author's email interview with a former senior official who headed the Malaysian foreign service, 16 February 2010.

Najib had already left important marks on Malaysia-China relations through his earlier capacities – first as Minister of Defense (1991-1995) and then as Minister of Education (1995-2000). His 1992 trip to China was the first visit by a Malaysian defense minister since the establishment of diplomatic ties. He then became the first Malaysian defense minister to receive a delegation from the People’s Liberation Army (PLA), when his Chinese counterpart General Chi Haotian led a 10-member delegation to call on him in May 1993. General Chi made his second visit to Malaysia and held talks with Najib in September 1994. It was during that meeting that the Malaysian and Chinese governments decided to exchange military attaches. The two countries subsequently established military attaché offices in each other’s capital in the following year. During the second half of the 1990s, Najib continued to promote Malaysia-China relations – this time in his new role as Education Minister. He visited China twice in that capacity, first in May 1996 and then in June 1997. Najib’s 1997 visit resulted in the signing of the Memorandum of Understanding on Educational Exchange, which provided the framework and foundation for greater cooperation in education between the two countries. Najib also played an instrumental role in the setting up of the Malay Language Center at the Beijing Foreign Studies University. Then, during his second tenure as Minister of Defense (2000-2008), Najib took steps to develop closer defense links with China. Under his watch, there were more exchanges of military personnel and military visits between the two countries. It was during Najib’s 2005 visit to China that the two governments signed the MOU in Defense Cooperation, and in May 2006, Malaysia and China held their first ever defense consultation in Kuala Lumpur.

Since Najib took over premiership in April 2009, Malaysia has continued its diplomatic and strategic engagement with China. In July 2009, Malaysian Defense Forces Chief General Abdul Aziz Zainal led a delegation on a five-day working visit to China at the invitation of his Chinese counterpart General Chen Bingde. On 11 November 2009, during Chinese President Hu Jintao’s two-day visit to Malaysia to mark the 35th anniversary of Malaysia-China diplomatic ties, Najib and Hu pledged to jointly advance the “strategic and cooperative relations” between the two countries. On 19 December 2011, Malaysian Defense Minister Ahmad Zahid Hamidi and his Chinese counterpart General Liang Guanglie pledged to strengthen “pragmatic military cooperation.” On 20 February 2012, Najib met with visiting Chinese State Councilor and Minister of Public Security Meng Jianzhu, calling for closer ties with China in fighting cross-border crimes.

While these developments can be considered as a progress given the low starting point in Malaysia-China security ties, the fact remains that the current bilateral military cooperation between the two countries are more diplomatic and functional in nature, rather than strategic. In fact, even in the domain of foreign policy, there has been a lack of active and concrete collaboration between the two countries in the way they had during the late 1990s and early 2000s in pursuing their common goal of promoting and institutionalizing East Asia cooperation. This, of course, may have less to do with policy choice than domestic preoccupation on the part of the Najib administration.

The domestic political priorities of winning the mandate and fending off the challenge posed by the Anwar Ibrahim-led opposition in the coming elections, instead, have led the Najib administration to focus more on the national economy and government performance issues. In this respect, increasing trade and investment benefits from China (and any other promising economies), attracting more tourists to Malaysia, and *ensuring a more cordial and productive relationship with all the players that matter*, are politically more important than pressing on issues like EAEG-spirited East Asian cooperation.

One logical result of the primacy of economic motives is that Najib's China policy has not only aimed at enlarging the bilateral trade and investment flows, but also enlarging tourism and educational links that may help to bring more economic gains. On 28 April 2011, at a joint media conference with visiting Chinese Premier Wen Jiabao after witnessing the inking of several agreements in higher education, banking, energy and infrastructure, Najib noted that tourist arrivals from China have been increasing rapidly, with 1.1million visiting Malaysia in 2010, and this trend, he described, was "a promising development for the country."<sup>61</sup> One of the documents signed that day was a mutual recognition agreement on higher education designed to boost student exchange between the two nations. Earlier, in March 2011, Malaysian Higher Education Minister Khaled Nordin called on private universities and colleges to take in more students from China and elsewhere through scholarship schemes to realize the ministry's target of having 150,000 foreign students by 2015. He said: "Every foreign student brings RM30,000 into the country. We must attract foreign students to produce talent and human capital."<sup>62</sup> As of 14 March 2012, a total of 146 higher learning institutions in China had been accredited and recognized by the Malaysian Ministry of Higher Education, while a list of 54 public and private higher learning institutions in Malaysia had been submitted to the Chinese

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<sup>61</sup> "Malaysia, China seek stronger ties in higher education, tourism," *Bernama*, 28 April 2011.

<sup>62</sup> Lydia Gomez, "Eye on China's talent pool," *New Straits Times*, 31 March 2011, p. 14.

education authorities for accreditation.<sup>63</sup> This is not to say that all efforts to promote people-to-people exchange are economically motivated. Over the past two decades, particularly the post-Mahathir era, there has been an increase in socio-cultural exchange and people-to-people interaction in the fields of media, science, technology, education, culture and sports between the two countries. Najib remarked in November 2010: “Before 1990, our ties were largely state-to-state, but bilateral relations were broadened to focus on people-to-people relations since then. Today, travel between the two countries is easy, owing to the efforts by Malaysia and China to increase people-to-people contacts, and the policies of our two countries have resulted in a dramatic surge in visits.”<sup>64</sup>

***Persisting on a hedging position (but insisting on avoiding a self-fulfilling prophecy***

Despite the overall progress in the bilateral relations as discussed, Malaysia’s China policy under Abdullah and Najib has continued to be guided by a “hedging” position. That the Malaysian leaders are determined to develop a closer and more comprehensive bilateral ties with China does not mean that Kuala Lumpur now favors a Beijing-dominated regional order. In fact, preventing the possibility of domination by *any* great power in Southeast Asia continues to be an unwavering goal in Malaysia’s strategic outlook. This is indicated by the country’s emphasis on sovereign equality, as well as its insistence in keeping an “equidistance” relationship with all big powers. Najib Razak’s open remarks in 2006 are very telling. He stressed that accepting the reality of China’s rise “is by no means a reflection of our fatalism or adopting a subservient position towards China.”<sup>65</sup> Given Malaysia’s sensitivity about sovereignty and the complexity of its domestic ethnic structure, it is only logical for its leaders to ensure that its close relations with China are *not at the expense* of losing its autonomy or becoming dependent on the neighboring giant. This was the case during the Mahathir years, and it remains so in the post-Mahathir era.

Malaysia’s hedging position can be observed not only from its leaders’ goal of not wanting to appear submissive to China, but it is also evidenced by their insistence on keeping the “equidistance” policy, and their preference for a stable balance of power. In September 2010, while speaking at the Council on Foreign Relations in New York, Prime

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<sup>63</sup> “Recognition for 146 institutions from China,” *New Straits Times*, 14 March 2012, p. 2.

<sup>64</sup> Dato’ Sri Najib Tun Abdul Razak, Prime Minister of Malaysia, Welcoming Address at the 2<sup>nd</sup> World Chinese Economic Forum, 2 November 2010. Available at <http://1malaysia.com.my/zh/speeches/world-chinese-economic-forum/>

<sup>65</sup> Mohd Najib Tun Abd Razak, Deputy Prime Minister of Malaysia, “Strategic Outlook for East Asia: A Malaysian Perspective,” Keynote Address to the Malaysia and East Asia International Conference, Kuala Lumpur, 9 March 2006.

Minister Najib said that ASEAN “wants to engage with China as much as it wants to engage with the United States,” and that ASEAN states don't see the region as “exclusive to one power.” There must be a nice equilibrium, so the region will be a region of peace and stability.”<sup>66</sup>

In addition to the above, Malaysia's hedging tendency is most evident in the *recurring choice* of its successive leaders in maintaining Malaysia's traditional military ties with the Western powers. In 2005, Malaysia under Abdullah – decided to renew the Acquisition and Cross-Servicing Agreement with America (which was signed in 1994 under Mahathir), which enabled the two armed forces to share logistics and supplies for the next ten years. In 2011, Malaysia under Najib decided to upgrade Malaysia's participation in the U.S.-led Cobra Gold military exercises from an “observer” to a “participant” status. These recurring decisions suggest that, although Malaysia is currently not confronted by any direct or immediate threat, the leaders of the smaller state *have continued to be mindful of the need to maintain the country's military links with the United States as a contingency measure, in order to hedge against any possible longer-term risk of an uncertain strategic environment.*

When asked why Malaysia has decided to keep its traditional military ties with the Western powers, a retired senior official who served in the Abdullah government replied in a candid manner which captures the essence of hedging behavior:

It is a back up insurance. Let's be blunt about it. That is why until now we do not see it necessary to completely put an end or even dissolve the FPDA. [We are doing just] like other countries who also have working relationships with the U.S. in particular, like Thailand, Singapore, the Philippines, so on and so forth. So what we are doing is no different from what others are doing. In a way [this practice] provides a kind of insurance. But the fact of the matter is that we do not want to overplay this thing. We do not want to say it publicly. We do not want to overplay that we are doing this because of the Chinese threat. In fact on the contrary we are saying that we do not look upon the emergence of China as a threat to our economy, prosperity, and security; [and that] we look upon China as a partner.<sup>67</sup>

Two themes can be inferred from the above remarks. First, despite the progress of bilateral relations over the past two decades, some Malaysian elite still view China as a *possible* source of threat to Malaysian interests. This should not be surprising, bearing in mind

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<sup>66</sup> Chen Weihua, “Malaysian PM able to work with ‘assertive’ China,” *China Daily*, 29 September 2010. Available at: [http://www.chinadaily.com.cn/usa/2010-09/29/content\\_11364039.htm](http://www.chinadaily.com.cn/usa/2010-09/29/content_11364039.htm)

<sup>67</sup> Author's interview with a former senior official who served Abdullah's government, Kuala Lumpur, 28 September 2009.

smaller states' inherent fear about the potential harm proximity to a great power could bring. As Mahathir remarked during his 1985 visit to China, "Historically small countries on the peripheries of a big and powerful state have always had reason to be wary."<sup>68</sup> In the case of Malaysian perception of China, such a natural fear has been buttressed in part by the memory of China's support to the Malayan Communist Party during the Cold War, and in part by the unresolved territorial disputes over the Spratlys. This leads to the second theme: despite these understandable reasons to fear China – which has become increasingly powerful over the past decades – the Malaysian elite, interestingly, have *chosen* not to overplay their fear; instead, they have chosen to downplay it. In a 2004 speech, Abdullah Badawi said: "Malaysia's China policy has been a triumph of good diplomacy and good sense. ... I believe that we blazed a trail for others to follow. Our China policy showed that *if you can look beyond your fears and inadequacies*, and can think and act from principled positions, *rewards will follow* [emphasis added]."<sup>69</sup>

Such a choice of perception has implications for the state's choice of policy actions. It has, among others, led Malaysian leaders to persistently place more emphasis on diplomatic rather than military tools of statecraft to deal with China. This is discernible from the state's preference for engagement rather than estrangement, its preference for balance-of-political-power than balance-of-military-power, and its preference for diplomatic consultation than confrontation in their efforts to deal with China in general and the Spratlys issue in particular.

Malaysia's preferences for these policy approaches do not seem to have undergone major changes, even when China's increasingly assertive actions in the South China Sea area over the past few years have already pushed the Philippines and Vietnam – the other ASEAN claimant states in the disputed area – to gradually pay more attention to a military approach by moving closer strategically to the United States. Malaysia's views and reactions, by comparison, are still more sanguine. In September 2010, Prime Minister Najib reportedly said in New York: "Malaysia does not see China as indulging in power projection but wants to engage with major powers to achieve a balance in the region." He added that although "China has become more assertive than ever before, we believe China would not want to destabilize the region," and that there are "mechanisms for us to

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<sup>68</sup> Dato' Seri Dr. Mahathir Mohamad, Prime Minister of Malaysia, "Regional Co-operation: Challenges and Prospects," speech at the Qing Hua University, Beijing, 22 November 1985. Available at: <http://www.pmo.gov.my/ucapan/?m=p&p=mahathir&id=846>

<sup>69</sup> Keynote Address by YAB Dato' Seri Abdullah Haji Ahmad Badawi, Prime Minister of Malaysia, to the China-Malaysia Economic Conference, Bandar Sunway, 24 February 2004.

undertake conflict resolutions with China because Chinese people tend to be quite pragmatic people. We believe we can work and consult with the Chinese.”<sup>70</sup>

Geographical factor – that Malaysia’s claimed territory in the disputed area lies further from China – certainly plays a part in accounting for Malaysia’s much more relaxed policy. But there are other structural and domestic factors as well, that explains why Malaysia, a long-time U.S. security partner which has generally welcomed Obama’s pivot to Asia policy, has stopped short of embracing the U.S. military power as a leverage to counter-balance China in the way Manila and Hanoi have chosen to do in recent years. These factors will be elaborated shortly. Here, suffice it to say that Malaysia’s more ambivalent policy – a tendency to hedge, but one that is limited by a prudence of not wanting to unnecessarily antagonize the giant neighbor – is informed by its successive leaders’ belief that the notion of a “China threat” is nothing more than a self-fulfilling-prophecy. As Mahathir categorically stressed in 1997, “Why should we fear China? If you identify a country as your future enemy, it becomes your present enemy – because then they will identify you as an enemy and there will be tension.”<sup>71</sup>

This belief clearly has endured into the post-Mahathir era, as evident in the Malaysian leaders’ preference to use diplomatic means to manage the Spratlys issue, as well as their choice, and indeed, *deliberate policy*, of not viewing China as a threat. This is unambiguously stated by a former senior official at the Malaysian foreign ministry in February 2010:

The question of whether China IS in fact a threat to the region, including Malaysia, or IS NOT a threat is a complex and debatable issue. But this point must not be confused with Malaysia’s conscious and deliberate policy of NOT VIEWING China as a threat. The transformation of the Malaysian attitude towards China is very much the product of applying and putting into practice one of the fundamental principles of Malaysian foreign policy, that is pragmatism [emphasis original].<sup>72</sup>

## CONCLUDING ANALYSIS

The above discussion suggests that Malaysia’s China policy in the post-Mahathir era has been driven primarily by *a persistent pragmatism* on the part of the smaller state’s

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<sup>70</sup> Chen Weihua, “Malaysian PM able to work with ‘assertive’ China,” *China Daily*, 29 September 2010. Available at: [http://www.chinadaily.com.cn/usa/2010-09/29/content\\_11364039.htm](http://www.chinadaily.com.cn/usa/2010-09/29/content_11364039.htm)

<sup>71</sup> “I am still here: Asiaweek’s complete interview with Mahathir Mohamad,” *Asiaweek*, 9 May 1997.

<sup>72</sup> Author’s email interview with a former senior official who headed the Malaysian foreign service, 16 February 2010.

successive leaders' goal to maximize economic and other benefits from a closer relationship with the rising power, which has culminated in a matured partnership that goes beyond the bilateral level. The discussion also highlights that, despite the progress in the bilateral ties in a wide range of areas, Malaysia's China policy under Abdullah and Najib has continued to be characterized by a hedging approach, which is motivated by *a contingent calculation* to guard against any long-term strategic risks in an uncertain external environment. The continuity of this dualistic approach is a result of both structural and domestic factors.

Structurally, Malaysia's position as a smaller state means that its leaders have been mindful about the systemic implications of China's rise for Malaysia. As stated succinctly by Prime Minister Najib Razak, "China is a growing global power and that is something inevitable that you have to come to terms with."<sup>73</sup> By and large, Malaysian leaders from Mahathir to Najib have chosen to see China's rise more as an opportunity, from which Malaysia can benefit not only in terms of trade and investment, but also in terms of diplomacy and long-term geopolitical interests. In the eyes of the Malaysian elite, since the neighboring giant is one of the permanent features of Malaysia's external environment, Malaysia must act to create conditions that will ensure a friendly, productive, and beneficial relationship with China in the long run. Najib remarked in April 2011, while welcoming the visiting Chinese Premier Wen Jiabao, that Malaysia's "considerable amount of foresight" in establishing diplomatic relations with China in 1974 "has paid dividends", and that Malaysia's efforts have made China "a friend, not an adversary; a colleague, not a competitor; a partner, not a rival".<sup>74</sup> A friendly and productive long-term relationship means that, as China's power grows, Malaysia's interests are expected to grow as well. This structural consideration has given impetus for Malaysia to move closer to China – both economically and diplomatically – in the post-Mahathir era, as discussed.

Nevertheless, the uncertainty over state intentions (primarily China's future intentions, but also the U.S. long-term strategic commitment) and inter-great power relations (primarily the U.S.-China relations, which have been marked by a growing rivalry in recent years) at the structural level – along with the concerns over the territorial issues in the South China Sea – has convinced Malaysia of the imperative of keeping its

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<sup>73</sup> Chen Weihua, "Malaysian PM able to work with 'assertive' China," *China Daily*, 29 September 2010. Available at: [http://www.chinadaily.com.cn/usa/2010-09/29/content\\_11364039.htm](http://www.chinadaily.com.cn/usa/2010-09/29/content_11364039.htm)

<sup>74</sup> Dato' Sri Najib Tun Abdul Razak, Prime Minister of Malaysia, Welcoming Address at the Malaysia-China Economic and Trade Cooperation Forum, 28 April 2011. Available at: <http://1malaysia.com.my/speeches/malaysia-china-economic-and-trade-cooperation-forum/>

strategic options open. This is vital in order to allow itself to strike a balance between maximizing its interests and minimizing the range of systemic risks. These include: the risks of being entrapped in a great-power conflict, the risks of being abandoned by its security patron, the risks of being harmed by a proximate giant, and the risks of losing potential benefits that can be reaped from all the powers that matter. *Aligning with or distancing from any particular power – in a rigid and premature manner – will expose Malaysia (or for that matter, any smaller states in the region) to one or more of these structural risks.*

In the eyes of the Malaysian policy planners, these structural pressures have been made more acute in recent years by the growing U.S.-China rivalry, which has brought about effects spilling over into almost every single facet of international and regional affairs, including the situation in the South China Sea.

Malaysia, like other regional states, is increasingly concerned about the rising tensions in the South China Sea, especially after China issued a strong protest against the Joint Submission by Malaysia and Vietnam in May 2009 to the United Nations Commission on the Limits of the Continental Shelf. This, however, has not led Malaysian political elite to alter their generally positive perception of China. It has not prompted the policymakers in Putrajaya to start viewing China as a threat to Malaysia. This is mainly because China's actions, thus far, have not directly undermined Malaysia's physical interests in the Spratlys. Unless China has done something that threatens Malaysia's security and interests in the area, the Malaysian government is expected to adhere to its long-standing policy of not allowing the Spratlys issue to affect the development of Malaysia-China ties, and to continue emphasizing the use of diplomatic means to manage the issue. While there are lingering concerns among the Malaysian armed forces about China's future intentions in the area, such concerns have rarely been voiced in public, which is an indicator of the military playing along with the government's official line. Admiral Abdul Aziz Jaafar, the Chief of the Royal Malaysian Navy, commented in April 2012: "Military diplomacy can ensure the safety, security and stability of the disputed maritime South China Sea."<sup>75</sup>

There are both domestic and structural reasons why Malaysian policy elites have preferred diplomacy and persistently rejected a pure-military approach to manage the South China Sea issue. Malaysia's relatively limited military capability means that, if it

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<sup>75</sup> "Military diplomacy can ease tension," *New Straits Times*, April 26, 2012, p. 20.

were to counter China militarily, it will have to align with an external power that is strong enough to confront the Asian giant. The United States is the only candidate on the horizon. But joining a U.S.-led alliance is not an option that the Malaysian elite would consider, as it is bound to engender other set of risks that will erode the very bases of the UMNO-led coalition government's domestic legitimation. To begin with, allying with American military power will invite fierce domestic opposition, especially from the majority Malay-Muslims who have been critical of U.S. policy on the Israeli-Palestinian conflict. Reliance on a foreign power is also likely to erode Malaysia's "sacrosanct" independence and sovereignty, an important base of UMNO's domestic moral authority.

Domestic political considerations aside, such a military-based approach is strategically unjustified, for China is merely a security concern, and it is not – at least not yet – an immediate threat that must be tackled by military means. More importantly, the approach is strategically counter-productive, as it could galvanize a potential problem into an imminent threat. In addition, the approach is also economically unwise, because a military confrontation will only result in the loss of vast commercial benefits that can be tapped from China. This is not merely an economic issue, but a critical political concern, given the growing salience of economic performance as a key source of domestic legitimation for the ruling elite, as noted.

These bases of domestic legitimation, thus, have necessitated Abdullah and Najib to continue the major thrusts of their predecessor's China policy, largely by prioritizing practical economic and diplomatic gains over potential security concerns. Given that a stronger bilateral relationship with China has helped to enhance the Malaysian ruling elites' capacity to strengthen their economic foundations *and* political base over the past few decades, and given that China has remained more a potential than an actual security concern, the current policy of pragmatically engaging China while keeping some contingent options open are deemed strategically sufficient, politically acceptable and economically rewarding. It is such a goal-prioritization and ends-means calculation – on the ground of the elites' domestic legitimation – that has contributed to the continuity of the hedging approach in Malaysia's China policy. Such an approach is likely to continue in the years to come.

**Table 1:**  
**Malaysia-China Trade, 2001-2010**  
(RM million)

| <b>Year</b> | <b>Export</b> | <b>Import</b> | <b>Total Trade Volume</b> | <b>Balance of Payment</b> |
|-------------|---------------|---------------|---------------------------|---------------------------|
| <b>2001</b> | 14,682.9      | 14,472.7      | 29,155.6                  | 210.2                     |
| <b>2002</b> | 20,008.0      | 23,329.1      | 43,337.1                  | -3,321.1                  |
| <b>2003</b> | 25,791.3      | 27,630.4      | 53,421.7                  | -1,839.1                  |
| <b>2004</b> | 32,286.0      | 39,273.7      | 71,559.7                  | -6,987.7                  |
| <b>2005</b> | 35,153.1      | 49,879.9      | 85,033.0                  | -14,726.8                 |
| <b>2006</b> | 42,620.0      | 58,259.6      | 100,879.6                 | -15,639.6                 |
| <b>2007</b> | 53,037.9      | 64,712.7      | 117,750.6                 | -11,674.8                 |
| <b>2008</b> | 63,435.0      | 66,853.7      | 130,288.7                 | -3,418.7                  |
| <b>2009</b> | 67,358.5      | 61,025.7      | 138,384.2                 | 6,332.8                   |
| <b>2010</b> | 80,595.1      | 66,432.9      | 147,028.0                 | 14,162.2                  |

Sources: *Yearbook of Statistics Malaysia*, various years from 2005-2010 (Department of Statistics, Malaysia).

**Table 2:**  
**Malaysia's Top 5 Export Destinations, 2005-2010**  
(RM million)

|      | 1                          | 2                               | 3                         | 4                               | 5                               | Total Export |
|------|----------------------------|---------------------------------|---------------------------|---------------------------------|---------------------------------|--------------|
| 2005 | United States<br>105,238.1 | Singapore<br>83,595.8           | Japan<br>50,509.5         | <b>China</b><br><b>35,153.1</b> | Hong Kong<br>31,221.3           | 536,233.7    |
| 2006 | United States<br>110,134.7 | Singapore<br>90,198.9           | Japan<br>52,475.5         | Hong Kong<br>49,201.8           | <b>China</b><br><b>42,620.0</b> | 589,240.3    |
| 2007 | United States<br>94,485.4  | Singapore<br>87,884.0           | Japan<br>55,648.2         | <b>China</b><br><b>53,037.9</b> | Thailand<br>29,576.5            | 604,299.6    |
| 2008 | Singapore<br>97,018.6      | United States<br>82,700.2       | Japan<br>70,687.9         | <b>China</b><br><b>63,435.0</b> | Thailand<br>31,625.2            | 663,013.5    |
| 2009 | Singapore<br>77,009.1      | <b>China</b><br><b>67,358.5</b> | United States<br>60,811.2 | Japan<br>53,345.5               | Thailand<br>29,808.2            | 552,518.1    |
| 2010 | Singapore<br>85,430.0      | <b>China</b><br><b>80,595.1</b> | Japan<br>66,284.5         | United States<br>60,958.4       | Thailand<br>34,188.9            | 639,428.1    |

Sources: *Yearbook of Statistics Malaysia*, various years from 2005-2010 (Department of Statistics, Malaysia).

**Table 3:**  
**Malaysia's Top 5 Import Destinations, 2005-2010**  
(RM million)

|      | 1                               | 2                               | 3                               | 4                               | 5                    | Total Import |
|------|---------------------------------|---------------------------------|---------------------------------|---------------------------------|----------------------|--------------|
| 2005 | Japan<br>62,733.5               | United States<br>55,869.1       | Singapore<br>50,586.2           | <b>China</b><br><b>49,879.9</b> | Taiwan<br>23,958.0   | 432,870.8    |
| 2006 | Japan<br>63,512.8               | United States<br>60,068.1       | <b>China</b><br><b>58,259.6</b> | Singapore<br>55,844.0           | Thailand<br>26,269.4 | 478,147.9    |
| 2007 | Japan<br>64,799.1               | <b>China</b><br><b>64,712.7</b> | Singapore<br>57,559.5           | United States<br>54,157.7       | Taiwan<br>28,706.4   | 502,044.6    |
| 2008 | <b>China</b><br><b>88,853.7</b> | Japan<br>64,877.8               | United States<br>59,135.0       | Singapore<br>57,138.9           | Thailand<br>29,152.2 | 519,804.3    |
| 2009 | <b>China</b><br><b>61,025.7</b> | Japan<br>54,316.4               | Singapore<br>49,359.1           | United States<br>48,833.5       | Thailand<br>26,298.7 | 434,669.8    |
| 2010 | Japan<br>66,545.6               | <b>China</b><br><b>66,432.9</b> | Singapore<br>60,443.0           | United States<br>56,305.3       | Thailand<br>32,977.6 | 529,194.6    |

Sources: *Yearbook of Statistics Malaysia*, various years from 2005-2010 (Department of Statistics, Malaysia).

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