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Malaysia's economic engagement with China: A consideration of the economics and security nexus

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ABER Working Paper 21/11/2021
November 2021

Draft prepared for Chapter 7 of the forthcoming book, 'Economic integration, national security and strategic uncertainty in Asia.'

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Keywords

Malaysia, China, trade policy, economic engagement, national security

JEL Codes

F50, F52, F13, F15

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Chapter 7
Malaysia's economic engagement with China: A consideration of the economics and security nexus

Shankaran Nambiar

Introduction

Malaysia's economic relations with China have been evolving since Malaysia's independence and this economic engagement has been coterminous with China's development and political ambitions. China has progressed from a nation that was drawn into the global economy through United States President Richard Nixon's administration and US Secretary of State Henry Kissinger to a country that wants to chart its own destiny, independent of any foreign power. Malaysia, for its part, has shifted from a country that viewed China with suspicion to one that cautiously cultivated economic ties with China. It has more recently identified China as an agent that can drive its own economic development.

China may indeed be a country that seeks to pursue peace, prosperity and progress among developing countries. But the argument is complicated by the perceptions of other countries in the Association of South-East Asian Nations (ASEAN) and of Western powers. The South China Sea issue has been festering and is yet to be resolved. Malaysia has been dragged into US–China trade tensions, which could well deteriorate into something of broader dimensions. While Malaysia might profit from trade diversion and benefit from investment that might otherwise have flowed to China, the reality may be more difficult to navigate.

The US may prefer that Malaysia make a binary choice between that kind of opportunistic gain from the diversion of trade and investment, or greater economic engagement with China to the exclusion of the US. Malaysia need not and should not take this path. That said, the realities of China's ambitions must be recognised. China's investment projects in Malaysia, as part of its Belt and Road Initiative (BRI), do involve security considerations. But foreign investment is to Malaysia's economic benefit. How can Malaysia navigate its way through these difficult waters, preserving both economic development and national security? This chapter offers an analysis of this question.

It proceeds as follows. The next section provides a backdrop of Malaysia's economic relations with China. Sections 3 and 4 discuss Malaysia's participation in the BRI and the disagreements that have been voiced on the BRI. Some political parties in Malaysia have not had a consistent stance on the BRI and have changed their position on assuming power. The US and other countries, particularly Western nations, have their own thoughts on how China should conduct itself in the global arena. China is carving out its own role and does not seem inclined to work within a liberal, democratic mindset; it also has ambitious plans to link the world through infrastructure. China's investments in developing countries are thought to involve an element of security risk. The sixth section deals with perceptions regarding the economic–security nexus and how they can be managed. Finally, some concluding remarks are offered.

Tracing Malaysia's economic relations with China

Malaysia's relations with China have evolved cautiously over the years, influenced by China's position in the global arena as well as international perceptions of the country (for accounts on the political economy of Malaysia's relations with China, see Wong 1984; Xia-Ming 1990; Shee 2004). During the administration of Malaysia's first prime minister, Tunku Abdul Rahman, China was not diplomatically recognised. Nonetheless, there was some trade between the two countries, albeit through Singapore and Hong Kong rather than directly. Tunku, for his part, did not recognise China for two reasons: because of the Cold War between the Soviet Union and the US, and also because of the prevailing US economic embargo against China. The underlying factor that would have influenced Tunku was probably his disinterest in offending the US and being seen as within the communist axis of strategically aligned countries.

Malaysia's relationship with China took a sharply positive turn when Tun Abdul Razak, Tunku's successor, assumed the position of prime minister. Razak established firmer links with China, ushering in direct trade between both countries, ultimately leading to Razak visiting China. Razak's visit was preceded by unofficial visits between officials of both countries, the most significant perhaps being an international trade delegation from China to Malaysia in 1971, resulting in China buying 40,000 tons of natural rubber from Malaysia. Following the normalisation of relations between both countries, bilateral trade increased. Shee (2004) observes that total trade between the two countries increased from US$27.8 million in 1971 to US$159 million in 1974; by 1980 it was worth US$424 million. The normalisation of relations in 1974 is an important benchmark in Malaysia–China relations, an event that continues to influence the nature of trade and investment for Malaysia.

In 1981, Mahathir Mohamed became Malaysia's fourth prime minister. Malaysia experienced an economic downturn between 1980 and 1985 and, following an economic recovery, Mahathir paid his first official visit to China in 1985. During Mahathir's first tenure as prime minister he undertook steps to encourage greater economic cooperation with China. Several measures were taken to encourage trade between both countries. First, the government abolished the pre-existing administrative charge on the import of Chinese goods. Earlier, permission was required from the government for these imports. Second, the government lifted restrictions on the travel of Malaysian businesspeople to China. They could travel to China with more ease and stay for longer periods. To that end, restrictive immigration practices were removed. Third, during Mahathir's tenure, several economic agreements were signed with the intention of promoting trade and investment, which included the Sino–Malaysian Trade Agreement, the Investment Guarantee Agreement and the Sino–Malaysian Economic and Trade Joint Committee. In his 1996 visit to China, Mahathir was instrumental in witnessing the conclusion of agreements between Malaysian and Chinese businessmen that included projects covering the construction of highways, mills and power plants as well as projects in the manufacturing sector, particularly vehicles and spare parts. Finally, the government encouraged students from China to study in Malaysia and tourists to visit Malaysia. Malaysia was successful in attracting both.

Shee (2004) credits these policies with an increase in two-way trade. In 1981, total trade between the two countries amounted to about US$289 million; this figure rose to US$877 million in 1988. Bilateral trade grew to US$1.3 billion in 1991 and rocketed to US$7.6 billion in 2001. The structure of trade reflected Malaysia's changing comparative advantage, shifting from commodities (tin, rubber and palm oil) in the 1970s, to goods from the manufacturing sector in the late 1980s. By 2001, Malaysia's major exports to China were not primary resources but mostly came from the electrical and electronics (E&E) sector, chemicals and their derivatives, and, to a lesser extent, machinery and appliances. Malaysia's imports from China increased in line with the increase in exports to China; this was necessary as the exports required imports for their production. Similarly, the sectoral distribution of Chinese investment in Malaysia reflected changes in Malaysia's industrial structure, moving from natural resources from the agriculture and mining sectors to the manufacturing sector, specifically in the metals, E&E and light manufacturing sub-sectors.

Since the mid-1970s Malaysia has demonstrated an interest in opening up to China. This is clear from the sequence of policies that have been introduced from the time of Razak's premiership, all of which work towards encouraging trade and investment with China. There have been shifts in the sectors and products that have been emphasised, and this has been consistent with changes in Malaysia's industrial structure. As I will outline shortly, Malaysia has consistently engaged with China in a manner that has been conducive to Malaysia's growth strategy. This is a strategy that has extended well beyond Mahathir's years as prime minister. Malaysia's economic policies have not been determined by adherence to economic ideology, neither have trade and investment relations been influenced by political ideology. Malaysia's accommodative stance towards China during Mahathir's tenure was not a new phenomenon. Although much has been made of Mahathir being partial to Japan, he was no less partial towards China, and was always keen to improve economic relations with both countries. Malaysia's economic policies, particularly its economic diplomacy, has generally been motivated by pragmatism rather than belief in any economic school of thought or philosophical position.

Malaysia under Najib Razak built upon previous policies that supported and encouraged trade and investment with China. Najib's pro-China economic policies were no different from those espoused by previous administrations. Najib had the further advantage of being Razak's son, which might have been viewed favourably by China's leadership. Alongside his attempts to cultivate friendly relations with the US, Najib was supportive of China's BRI. Najib's support for the BRI was epitomised by his attendance at the Beijing Belt and Road Summit in 2017.

Najib enthusiastically invited projects from China, signing no less than 16 memoranda of understandings with China in 2009 (Lee 2012) – a sure measure of his eagerness to cooperate. The extent of cooperation between the two countries can also be gauged by the large number of mega projects that involved China, either as part of private sector or government initiatives. These included the Malacca Gateway, Malaysia–China Kuantan Industrial Park, Digital Free Trade Zone and Forest City. A number of infrastructure projects were also undertaken such as Kuantan Port's expansion, Gemas Johor Bahru electrified double-tracking railway project and the East Coast Rail Link (ECRL). At least two pipeline projects were also included among others, including the Trans-Sabah Gas Pipeline and the

Multi-Product Pipeline. Two other projects in which Najib had shown an interest in inviting Chinese involvement were the Kuala Lumpur – Singapore high speed rail and the Bagan Datuk – Bachok gas pipeline projects. The negotiation of these projects was not completed because of intense criticism from Mahathir prior to the fourteenth Malaysian general elections (GE14) and due to the Barisan Nasional's subsequent election loss.

At a firm level, there has been increasing investment by Chinese companies in the Malaysian manufacturing sector. This has included investment in a wide range of areas spanning vehicles (locomotive and automobile), steel, solar energy and glass. Ngeow (2019) commends Chinese participation in the Malaysian economy for 'creating jobs and transferring technology and knowledge', though it is perhaps too early to conclusively state that technology transfer has been successful. Although there has been a great deal of attention that has been directed towards Malaysia's participation in the BRI, non-BRI investment has received less attention.

Malaysia's participation in the BRI

The BRI has its origins in 2013 when China's President Xi Jinping decided to extend the original Silk Road with the 21st Century Maritime Silk Road. The latter included the countries lining the South China Sea, South Pacific Ocean and the Indian Ocean, running from China's coast to Jakarta, Singapore and Kuala Lumpur in the south through to Hanoi. The route would then flow through the Strait of Malacca to Colombo, towards Male, and from there to Mombasa, Djibouti, and subsequently through the Red Sea to the Mediterranean via the Suez Canal. From the Mediterranean the maritime route would go to the Upper Adriatic region to Trieste in Italy before passing through Haifa, Istanbul and Athens. Thereafter the link would extend to the Baltic States and Northern and Central Europe. The original Silk Road, a land route, connects China, South-East Asia, the Indian subcontinent, the Arabian Peninsula, Somalia, Egypt and Europe.

Malaysia is an important node in both the original Silk Road and the Maritime Silk Road. As part of the Silk Road Economic Belt, Malaysia lies along the Kunming–Singapore railway line. Malaysia is also a crucial hub along the maritime route since the Strait of Malacca connects China with South-East, South and Western Asia. Besides, the Strait of Malacca is one of the busiest shipping lines in the world, with more than 25 per cent of the world's traded goods passing through the passage. This makes the Strait of Malacca a point of great importance for China since much of China's exports (manufacturing), palm oil and oil moves through the strait, connecting it with many of its export destinations.

As part of Malaysia's participation in the BRI, several infrastructure projects were planned. Aside from these mega projects, the government, then led by Najib, also arranged for a host of other agreements that were supposed to spearhead Malaysia's entry into the digital economy. The Malacca Gateway and Kuantan Port were two significant projects that were supposed to facilitate the maritime component of the BRI. Several projects were planned to facilitate land-based connectivity in the BRI, including the ECRL, Bandar Malaysia and Forest City. In addition, there were two planned pipeline projects, the Multi-Product Pipeline (MPP) and the Trans-Sabah Gas Pipeline (TSGP). The TSGP was supposed to connect

Kimanis Gas Terminal with Sandakan and Tawau in Sabah, and the MPP was intended to run from Malacca to Jitra.

The Malacca Gateway project was supposed to be a cruise ship terminal and deep-sea port, budgeted at US$10 billion and located along the Strait of Malacca. It was supposed to be developed by KAJ Development Sdn Bhd (KAJD) and a consortium of Chinese companies. The latter was composed of Power China International, Shenzhen Yantian Port Group and Rizhao Port Group, while KAJD was a company with connections to the United Malays National Organisation, a political party. Malacca Gateway, as part of the Malaysia–China Port Alliance, is expected to enable cooperation between ports in Malaysia and China. As part of the Malacca Gateway, four artificial islands were to be built, two to encourage tourism, another for the refuelling of ships and the fourth for a container terminal and maritime industry park. These facilities, would improve logistics and intensify trade between both countries. The Malacca Gateway would also be linked with the proposed Kuala Lumpur – Singapore high speed rail.

The Kuantan Port is another cornerstone BRI project in Malaysia because it is the only port on the east coast, overlooks the South China Sea and has proximity to China and Vietnam. The Kuantan Port will negate the need for vessels to travel from Penang or Klang via the Strait of Malacca to Chinese ports such as Dalian, Ningbo, Hainan, Guangzhou and others in the region. This will make it easier for ships to move between Kuantan, Shanghai and Shenzen, and will increase trade between the two countries. It will also help develop Malaysia’s east coast, particularly Kelantan and Terengganu, which has lagged behind the other states in peninsular Malaysia. It will have the added advantage of expediting trade since containers could be unloaded in Klang, sent by train through the ECRL to Kuantan and then transported by ship to China and Vietnam.

The ECRL is a 640-km, high-speed rail that runs from the Malaysia–Thailand border, skirting the east coast of the Malaysian peninsular, detouring before Kuantan and connecting to Port Klang along the west of the peninsular. Najib was enthusiastic about the project, calling it a ‘game-changer’ because it provided the opportunity to link the Malaysian east and west coasts. Lesser developed states in the east would be connected with the most economically developed state in the country. This was a US$16 billion project connecting Kuantan, a port adjacent to the South China Sea, with Port Klang, which strategically overlooks the Strait of Malacca. The implications of this project are significant, as it gives China a vantage point over the South China Sea as well as the Strait of Malacca, both of strategic interest to China. Port Klang is of special interest since it counterbalances any advantage that Singapore might have over the Strait of Malacca. China also has fears that Singapore, viewed by Beijing as a US stronghold, could block the Strait of Malacca in the event of a conflict.

Despite the immense strategic significance of the project to Malaysia, the ECRL was awarded without any public tender. Malaysia has a long tradition of selecting investors and giving out contracts without open tenders. It was also agreed that the China Communications Construction Company was to be responsible for the operation and maintenance of the project. The main financier for the ECRL was supposed to be the Export-Import Bank of China.

Bandar Malaysia was another important project that was floated during Najib's tenure. It was planned as a transportation hub that was supposed to be built where the Sungai Besi Airport currently sits. Bandar Malaysia was to be the centre of the China Railway Group's Pan Asia Network, linking South-East Asia with East, West and South Asia. The star feature was a high-speed railway connecting Kuala Lumpur to Singapore. A high-speed railway was also supposed to connect Bandar Malaysia to Bangkok. There were plans to extend the network to Kunming in China, Laos, Myanmar and Cambodia in the future. Bandar also had other links such as the KTM Komuter, Mass Rapid Transit, the Express Rail Link and 12 highways. Further, Bandar Malaysia was supposed to be the largest underground city in the world. This city was designed to have a subterranean shopping mall, canals, theme parks, cultural villages, gardens and a financial centre. Bandar Malaysia was also expected to house China Railway Group's regional headquarters at a cost of CN¥8.3 billion. In 2015, 1Malaysia Development Berhad (1MDB) sold 60 per cent of its stake in Bandar Malaysia to IWH-CREC Sdn Bhd. The project ended up embroiled with the 1MDB financial theft scandal and came to a halt.

Forest City is yet another mega project that will involve heavy Chinese investment in Malaysia. This project, although not technically part of the BRI since it does not constitute an infrastructure project, is nevertheeless described as being part of the BRI on Forest City's official website. Forest City is a real estate investment between Country Garden, a Chinese developer, and the Sultan of Johor. It is a futuristic town in the state of Johor, constructed on land that is presently jungle and that borders Singapore. Most of the major subcontractors for the project have been Chinese companies. It is proposed that the property at Forest City will be targeted at 700,000 wealthy citizens from mainland China rather than Malaysians.

Debating the BRI

Malaysia's participation in the BRI was not passively accepted by Malaysian society when Razak announced the numerous investments he was inviting into the country. Based on the experience of Chinese investment in Africa, where Chinese labour followed Chinese capital with little local participation, caution was urged in accepting Chinese investment without thorough scrutiny. Concerns were expressed that Malaysia might not benefit from the investments if there was no labour participation and no technology transfer. The value-added that these projects would generate for the domestic economy would be low, as Malaysia would merely be a convenient location for Chinese investment without being an active participant.

Concern was also raised about the possibility that Malaysia might end up in a China-created debt trap much like Sri Lanka. The Sri Lankan Hambantota Port Development Project was cited as an example in which credit was obtained from China with inadequate income streams being generated to pay-off the loans. Others argued that Chinese investments should be viewed with caution and that efforts should be made to distinguish those directly involving China's government, bearing in mind that the private sector in China is intimately tied with politics and the Chinese Communist Party (Nambiar 2017). There is a contrasting view that Chinese private investment in Malaysia should be seen purely as an initiative from the private sector, though the private sector in a capitalist democracy is not quite the same as one in a country in which the private sector owes allegiance to the government and its goals (Ngeow 2019).

There has been active national debate on the BRI in Malaysia. Some of the questions that have been raised – none of them unexpected – relate to financing, the construction and payment of the projects and their use (Gunasegaram 2017a). Projects in Africa and Sri Lanka have been financed by Chinese companies at very low interest rates, and with facilities for delayed payment, that have benefited corrupt leaders. These leaders have pushed the burden of repaying debts incurred during their terms of office to their successors.

The other question that has been raised relates to the participation of Malaysians in the projects. The Chinese model often involves Chinese companies undertaking projects and employing workers from China to build them. The most important question concerned the seriousness of undertaking feasibility and related environmental impact studies, and making these outcomes available in the course of public and parliamentary debate.

With reference to the ECRL, both the viability and necessity of the project were questioned. The economic feasibility of the ECRL was thrown in doubt because it was thought that the project would not be able to generate enough income to produce a reasonable rate of return on investment (Gunasegaram 2017b). A comparison was drawn with the electrified double-tracking venture that was supposed to improve the railway network along the west coast of the Malaysian peninsular, but which failed to produce a sufficient boost in revenue. This led to losses and an operating cash flow that was in deficit.

The Forest City project was a frequent target of criticisms. Concern was raised over the manner of Chinese participation, with Malaysians being excluded from construction of the project and its ownership. A real estate project built by China that was destined to be occupied by Chinese nationals and paid for by China, but not on Chinese land, the outcome would be the creation of a foreign enclave.

There have been suspicions that investments from China are a cover for financial scams. It has been alleged that MPP and TSGP were related to the scandal-ridden 1MDB. It has been suggested that loans from Chinese state-owned banks could have been used to repay 1MDB's debts, demonstrating that loan repayments were a front for money laundering arrangements. Aspersions of financial irregularity were made by members of the Democratic Action Party (DAP), who were in Opposition when Najib was prime minister and subsequently supported Tun Mahathir when he returned as the prime minister in 2018 (Tony Pua). The DAP was not alone in casting doubt on the propriety of the financial arrangements associated with Chinese investments in Malaysia. Parti Keadilan Rakyat's Nurul Izzah voiced her concern when she succinctly said that China's investments in Malaysia were 'too fast, too much, too soon', and were not prudently considered.

One should be cautious, however, in treating China's involvement in these projects as being the same. Some were completely private initiatives; some were initiated by governments on both sides, but with significant private sector participation; and some were government-to-government projects. Some projects were driven by local (state-level) governments. The financing also differed from project to project, and not all of them would result in an increase of debt. Some projects are not, strictly speaking, 'investments'; rather, Chinese companies won the construction contracts (although not always in the most transparent manner). The tendency of some foreign and domestic media outlets to lump all these projects together as if they are the same constitutive components of strategically designed ‘debt trap’ diplomacy by China is misleading.

Hedging and prevaricating

Kuik (2008) distinguishes between a variety of possible responses to China’s emergence and describes a balancing-bandwagon spectrum. At one end of the spectrum is the acceptance of the power of a strong state, which results in bandwagoning; at the other end, a state can choose a ‘balancing’ strategy, which rejects the need to blindly follow the dominant power. Between these two extremes lie other possibilities. Kuik argues that Malaysia has opted for a combination of strategies that include economic pragmatism and binding engagement. The mode of behaviour that Malaysia has displayed in its relationship with China is unusual, but symptomatic of its desire to hedge.

In view of the fact that China has displayed an aggressive stance towards Malaysia by making maritime incursions into Malaysia’s exclusive economic zones since 2013, Kuik (2016, 156) finds Malaysia’s response to China ‘especially intriguing’. China’s territorial claims over the Spratly Islands in the South China Sea are a matter that remains unresolved. Aside from recent incidents, Malaysia has experienced problems with China in the past. It is thus difficult to see why Malaysia has taken a passive attitude relative to other ASEAN member countries, Thailand excluded. Kuik points out that Malaysia’s anxiety about China has been increasing, yet it has chosen to de-emphasise points of conflict with China. Instead, Malaysia has been strengthening its military cooperation with China, while understating its defence cooperation with the US. Yet, Malaysia’s defence cooperation with the US is on solid ground and perhaps expanding, although this is being done quietly and without any reference to China. Obviously, Malaysia is keen to prevent any talk that its increased interest in cooperating with the US on security has anything to do with China. Malaysia’s desire to play both sides of the street can be seen on social media: Najib tweeted on 14 May 2013 that he had had a ‘very productive discussion with @BarackObama’, quickly following this with the message that he had spoken with Premier Li Keqiang and was ‘looking forward to expanding our relationship with China’.

This kind of behaviour is often pursued by weaker states in order to avoid the risks arising from the uncertainty associated with engaging with more powerful states. According to Mahathir, describing China as a threat could become a self-fulfilling prophecy. He said that ‘if you identify a country as your future enemy, it becomes your present enemy’ (Asiaweek 1997). That Mahathir took care to avoid being misperceived by China indicates that the relationship was not based on mutual trust and was not a sufficiently mature relationship that could allow dissatisfaction to be voiced.

Mahathir prevaricated between suggesting that China was practising a form of ‘new colonialism’ in its investment ventures in developing countries, and praising China for its BRI project, declaring ‘[BRI] is great’. This famous switch was made when Mahathir was returned as prime minister for a second time, indicating that his views were informed by pragmatism rather than any considered principle.

Within the domain of international relations, Malaysia has sought to pursue friendly relations with China since the premiership of Tun Abdul Razak. Mahathir took Razak's approach further and deepened economic cooperation with China. As we saw earlier, Mahathir greatly encouraged trade and investment from China, improved the ease of doing business with China (relaxing visa requirements) and promoted the inflow of students from China. The need to hedge was acute during the Najib years; it was at this time that a definite strategy became necessary, since China had emerged as a power to be reckoned with and was perceived to be at odds with US interests.

In the economic realm, Malaysia has a clear vision of its objectives. However, sometimes the articulation of these objectives veers towards simple-minded and contradictory assertions. These shifts became apparent during Najib's tenure and after. The economic objective is simple: Malaysia should seek to maximise the economic gains on offer from engagement with China. Of course, the pursuit of this objective is not necessarily risk free: associating too closely with one power or the other (or neither) could prove deleterious, while economic integration can lead to the erosion of sovereignty. Domestic influences on integration policy should also be emphasised. As has been stressed by xxxxx, two prominent domestic influences include the ruling elites' sense of what would best serve their interests and the management of local perceptions of foreign countries, including popular perceptions, ethnic sentiment, and the opinions of political oppositions and civil society. Attitudes towards the US are a prime example of this, as the country has drawn criticism for its handling of issues in the Middle East, its support of Israel and the purported discrimination of Muslims. Negative domestic sentiment towards the US played into the politics of the Trans-Pacific Partnership (TPP) agreement. While some objections centred on legal and economic issues, there was also a great deal of animosity that stemmed from domestic perception that the TPP furthered the US's imperialistic ambitions. These sentiments helped stoke protests from non-governmental organisations. A comparable sense of dissatisfaction was felt towards China and Najib's overtures towards Chinese investments prior to GE14.

It has been suggested (Kuik, et XXXX) that domestic elites play an important role in deciding how the trade-off between economic cooperation and security concerns is negotiated. But there is no clear explanation of the manner in which the elite influence policy nor the nature of their involvement. How the elite benefit and the determinants they take into account in their decision-making processes are unclear.

Managing the economic and security nexus

China's relations with the rest of the world are evolving and are likely to take a more complicated turn in the years to come. The US has had tense relations with China in the last few years, resulting in a trade war. It is unclear whether the US's economic relations with China will improve in the years to come. Indeed, based on tensions in the US and China, things may even worsen: for example, there is some evidence that prominent scientists in the US have been sponsored by Chinese agencies, China has been trying to exert its influence over US universities, and the US has been unhappy with the turn of events in Hong Kong. These incidents will colour US–China relations regardless of domestic political developments in the US.

Elsewhere in the world, Japan, Australia and the United Kingdom seem to have rethought their views on China. India may be reconsidering its strategic approach to China. Germany, too, may be more cautious in its dealings with China. In the light of these trends, Malaysia's economic cooperation with China will take on a new flavour. This is not to suggest that Malaysia should allow itself to be forced into deciding on its trade and investment deals with China in a binary fashion, blocking Chinese investment solely to signal which side of the divide it is on. Malaysia should not be drawn into thinking that it has to choose between the US or China. However, there is no doubt that more sensitivity will have to be exercised when dealing with economic engagement with China.

Huawei is an interesting case in point. The possibility has been raised that information could be compromised if it passes through the company's systems. Former US President Donald Trump's administration rallied a campaign against the company and several countries heeded his call. Tun Mahathir declared that Malaysia had nothing to lose by allowing Huawei's products and services to be used. He was right to criticise Trump by characterising the US's decision to ban Huawei as 'not the way to go'. But Mahathir trivialised the issue by asserting that Huawei could 'spy as much as it wants'. National security cannot be taken lightly and should be considered in conjunction with economic considerations where appropriate. Mahathir's statements ignored the strategic dimension; therefore, in a broader sense, they were unhelpful in addressing the dilemma of considering economic and strategic policy together.

The issues regarding Huawei are more difficult to manage than Mahathir would like to admit. While it is entirely Malaysia's prerogative to engage Huawei and award contracts to it, any such decisions should be weighed carefully. Other investors, particularly those from among the countries that were mentioned earlier, could feel that their data privacy are at stake. At its extreme, foreign investors could end up being reluctant to invest in Malaysia due to Huawei's presence on the presumption that their data are open to risk. Fears of intellectual property being stolen, computer systems being hacked and data being harvested, whether real or imagined, could be a serious dissuading factor for Western investors.

Malaysia plans to rollout 5G throughout the country. Huawei cannot be denied the opportunity to win the bid to rollout 5G, yet such a move runs the risk of repelling non-Chinese investment. Without investment from non-Chinese sources, a more objective approach will have to be taken. This would require an evaluation of the risks involved by inviting Huawei, addressing the possible gaps in security and ensuring that the accusations levelled against Huawei do not pose problems or are proved baseless. The Huawei case indicates how a security question, if not treated seriously, could morph into an economic problem.

Policymakers have differing views on how the security–economics question should be managed. Tun Mahathir, who did much to normalise relations with China, is of the view that economic gains should be prioritised over security considerations. His argument is based on the fact that Malaysia has had good relations with China for hundreds of years, and that China has never attempted to colonise Malaysia, although the Malacca Sultanate was, at one point, a vassal state to the Ming dynasty. According to Mahathir's thinking, unlike the West, China is not an imperialist power, and although Malaysia may not agree completely with China's views on all matters, there is no need to be suspicious of China. He points out that China is an economic superpower and that Malaysia should learn how to derive benefit from China's growth and development since 'Malaysia cannot fight with China'.

Mahathir's view is shared by other senior serving and retired diplomats and civil servants. A civil servant who has had long experience with Malaysia's Ministry of International Trade and Industry (MITI) and has represented Malaysia in international negotiations, opined that there are mechanisms to evaluate security considerations. Although the Malaysian Industrial Development Authority is the first point of reference for potential investments, it does not have the mandate to independently review and approve projects. Rather, proposals are jointly evaluated by relevant agencies; the decision-making process is an inter-ministerial process, which involves the ministries of Foreign Affairs, Defence and Home Affairs, as necessary, before a final decision is taken. Based on this position, the government has the requisite mechanisms both to assess economic and strategic concerns as well as their interplay: security issues are taken into account, with the appropriate ministries giving their feedback on matters pertaining to both internal and external security, strategy and defence.

A serving ambassador who has deep experience with China elaborated on the underpinnings of the mainstream opinions that have been described. He explained that 'the security-nexus dichotomy is a false dichotomy', adding that 'Malaysia knows that China does not think in terms of a security-economy nexus'. The problem, as he sees it, arises from the West's profound misunderstanding of China, which it wrongly expected to evolve into a liberal, democratic nation. Further, he stresses that 'there is nothing to suggest that China wants conflict and Malaysia knows that China does not think in terms of imposing a security-economic nexus.'

The challenge, in his view, is not to fixate on the security–economics nexus – a misguided exercise – but to find a niche with China, as with any other country with which Malaysia has economic relations. In this ambassador's perspective, the long-term objective is to fit Malaysia into China's narrative of growth and development. In this respect, the ambassador's thinking resonates closely with Mahathir's, as Mahathir thinks Malaysia should capitalise on China's growth, without getting embroiled in the West's political decisions.

Other policymakers disagree. A retired civil servant thinks that, while there are processes and mechanisms to address security concerns when evaluating the advisability of investments, it is not clear if these processes are fully utilised. Dennis Ignatius, a retired diplomat, has shown how Mahathir vociferously warned against the threat to the country's sovereignty and questioned the advisability of welcoming investments from China, the ECRL in particular, only to change his stance on becoming prime minister after GE14. Ignatius also finds the DAP guilty of policy inconsistency. He points out that 'the DAP which once hammered the MCA mercilessly over their support for ECRL and other [BRI] infrastructure projects is now a BRI supporter'. The DAP did not support the ECRL project when it was in Opposition; instead, it came around to it when it was in government. Ignatius adds:

> Despite the party blasting Najib for appointing politicians as special envoys, DAP national chairman Tan Kok Wai was more than happy to replace MCA's Ong Ka Ting as special envoy to China.

Ignatius's remarks reflect the view that, although there might be institutions for balanced decision-making processes, these might not be employed in practice. In this line of thinking, constant prevarication over Chinese investments, as in the ECRL, suggests that decision-making might not be based on objective facts and thorough analyses, but on questionable criteria. Ignatius argues that:

> There was hardly anything to celebrate given that we ended up with a RM[B]44 billion railway project we didn't need, couldn't afford and would have to subsidise for years to come. What is worse, we still don't know the full details about the renegotiated project and neither have we seen any feasibility studies to justify going ahead with it.

Najib's decision-making was flawed because of weak institutions and/or the lack of political will to abide by the decisions taken through designated processes. Three requirements need to be fulfilled for collaborative mega projects to work. One, institutional processes need to be respected. Two, a proper assessment of the project is necessary and there has to be complete transparency. Three, given the risk of making decisions on the wrong side of the security-economy nexus, more effort has to be put into assessing the trade-off between these two variables. That will only be possible if there is the full participation of agencies other than MITI, such as the Ministry of Foreign Affairs and the Ministry of Defence. These ministries should work with think tanks and scholars in the field to better understand the complications regarding the interface between economics and security. The current process of investing absolute power in the hands of the prime minister to make these decisions must be re-evaluated. If there are avenues for transparency (to the extent permissible given the sensitivity of security matters), then their proper implementation should be pursued.

Otherwise, appropriate institutions will have to be devised to ensure that there are channels for the adequate consideration of relevant input (particularly security issues) and that there is ample discussion at various levels. There could be a hierarchy of levels starting with broad, open discussions involving scholars, think tanks and other stakeholders, rising up to discussions among officials from relevant ministries, culminating in the presentation of these findings to the cabinet. Another possible format would be to have officials aware of multidisciplinary assessments and specially trained in evaluating projects from a strategic-economics perspective. This department could act as the link between civil society, relevant ministries and the cabinet.

Conclusion

Malaysia's relations with China are constantly evolving. With the exception of the early period of the first prime minister, Malaysia has had warm relations with China and has attempted to encourage deeper trade and investment ties. Malaysia has prioritised its economic relations with China, which, owning to China's position and role in the global stage, was less of an issue until recently. However, with China's growing economy and its ambitious projects (best exemplified by the BRI), a different perspective is now required.

Policymakers face something of a policy quandary because they have to balance disparate factors. On the one hand, Malaysia would like to take advantage of China's economic growth as it is accustomed to doing. However, tensions may escalate between Malaysia and the US – and perhaps other countries in the West as well – placing Malaysia is a sensitive position. Malaysia cannot do without foreign trade and investment. China is too large and too important to be excluded, and the nature of its strategic actions cannot be ignored. These factors demand that Malaysian policymakers take a more careful view of their country's investments from China.

It would be naïve to suggest that investments should be rejected simply because they come from China. Careful and dispassionate evaluation of projects can enable Malaysia to benefit from economic integration with the Chinese economy while maintaining its strategic independence and national security objectives. While the mechanisms to undertake these kinds of evaluations exist, more work needs to be done to ensure that these mechanisms are made use of.

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