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From *The Malay Dilemma* to Malaysia's Dilemmas: The Political Economy of Mahathir's China Policy since May 2018

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Introduction

In Mahathir Mohamad's controversial political manifesto entitled *The Malay Dilemma*, which was published in 1970, eleven years before taking up his first term of prime ministership (1981-2003), he highlighted the substantial economic disparities between the Malays as the indigenous people and the ethnic Chinese in the country, calling for affirmative actions by the government to offer protection for the Malays. The implementation of the New Economic Policy (NEP) since the 1970s has significantly reduced the economic gaps between the two major ethnic groups and helped bring about a reasonably large Malay middle class, with some of them emerging as key players in the local political economy. While the dilemmas faced by the Malays initially identified by Mahathir might have largely faded away half a century later, the country has faced new sets of dilemmas that go far beyond racial politics and are deeply embedded in the domestic and international political economy within a fast changing region symbolised, first and foremost, by the rise of China and its growing clout in the region. While China was at the height of the Cultural Revolution in 1970, it has risen up to become the second largest economy in world today. In the meantime, the American-China rivalries in almost all spheres, ranging from diplomatic, trade, technological to ideological, have inevitably affected Malaysia's foreign policy options, including its relations with China.

Malaysia's policy choices, therefore, are increasingly shaped through a complex process of (re)negotiations among different stakeholders, both internally and externally. The domestication of external political economy has played a much bigger role than the case of the early 1970s when the Malay dilemmas were first elaborated and were mostly confined to

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the domestic arenas. However, the two spheres, internal and international politics, are intimately intertwined and mutually reinforcing. As two of the three largest economic partners of Malaysia, both China and the USA have significant impact upon the country's reindustrialization and its trade, which account for 129% of its total GDP in 2016, according to the World Bank report. As one of the most dynamic economies in Southeast Asia, Malaysia's domestic politics including racial politics (for example, the role of ethnic Chinese) are also to affect China's grand strategies such as the Belt and Road Initiative (BRI) and America's Indo-Pacific Strategy.

It was against the backdrop of China's growing influences in Southeast Asia and intensified confrontations between the USA and China that the 92-year old Mahathir rose to power once again, after winning, quite unexpectedly, the nation's 14th General Election held in May 2018. What have been Mahathir's and his new government's policies towards China (and the Sino-American confrontations in the region)? How do domestic politics and economy shape his perceptions and policy choices with respect to international power politics (and vice versa)? What are the implications of the Malaysian experiences for an understanding of the local initiatives and interests in affecting great power politics and diplomacy? This working paper attempts to provide some preliminary answers to the above questions.

Data for this paper are mostly drawn from recent media reports in Malaysia, China, and other countries, which are supplemented by the author's own fieldworks in Malaysia and China including interviews with stakeholders in both countries.² In terms of theoretical framework, this paper attempts to go beyond the existing debates between rebalancing and hedging theses and to place the emphasis on how small and middle powers articulate and advance their own interests amidst intensive great power contestations.³

From the perspective of Sino-Southeast Asian relations, there has been a growing body of research analysing the motivations and impacts of China in its overseas expansion. Such studies tend to view actors within China as the major variable behind China's foreign policy and foreign direct investment (FDI) in the region. Firstly, much of the debate has pinpointed the Chinese state as the primary determinant undergirding the BRI which, as Xi Jinping's signature foreign policy design since its launch in 2013, has constituted a core of China's diplomacy toward the region.⁴ Secondly, the state-centric perspective has been

² Some of the materials for this paper are derived from Hong Liu and Lim Guanie, "A Nanyang Approach to the Belt and Road Initiative," in Yongnian Zheng, ed., *Chineseness and Modernity in a Changing China: Essays in honor of Professor Wang Gungwu* (Singapore: World Scientific, forthcoming), pp. 253-286.

³ For recent debates on Southeast Asia in global politics, see Cheng-Chwee Kuik, "Malaysia Between the United States and China: What do weaker states hedge against?" *Asian Politics & Policy* 8, no. 1 (2016): 155-177; David Shambaugh, "US-China Rivalry in Southeast Asia: Power Shift or Competitive Coexistence?" *International Security* 42, no. 4 (2018), pp. 85-127; Jürgen Haacke, "The concept of hedging and its application to Southeast Asia: a critique and a proposal for a modified conceptual and methodological framework," *International Relations of the Asia-Pacific*, vol. 19, no. 3 (2019), pp. 375-417.

⁴ See, for example, Mark Beeson, "Can ASEAN Cope with China?" *Journal of Current Southeast Asian Affairs*, vol. 35, no. 1 (2016), pp. 5-28; William Callahan, "China's 'Asia Dream': The Belt Road Initiative and the New Regional Order", *Asian Journal of Comparative Politics*, vol. 1, no. 3 (2016), pp. 226-243; and Zhou Weifeng and Mario Esteban, "Beyond Balancing: China's Approach towards the Belt and Road Initiative", *Journal of Contemporary China*, vol. 27, no. 112 (2018), pp. 487-501. For an historical and network perspective on Sino-Southeast Asian relations, see Hong Liu, "Sino-Southeast Asian Studies: Towards an Alternative Paradigm," *Asian Studies Review*, vol. 25, no. 3 (2001), pp. 259-283; Hong Liu, "Transnational Asia and Regional Networks: Toward a New Political Economy of East Asia," *East Asian Community Review*, vol. 1, no. 1 (2018), pp. 33-47.

augmented by other studies on the multitude of actors shaping China's economy. They posit that the BRI is driven by other Chinese players such as the state-owned enterprises (SOE), private firms and less well-capitalised Chinese entrepreneurs. To ensure access to overseas energy supply, Beijing has been utilising diplomatic instruments and policy banks to help its national firms – primarily the SOEs – tap into the oil and gas fields in Russia-Central Asia, Middle East-North Africa and South America.⁵

These two strands of work tend to understand Chinese outward expansion mainly from the perspective of the Chinese actors, giving little attention to the responses formulated and implemented by players in the BRI recipient states such as Malaysia who have their own agendas in their engagement (or disengagement) with China. Therefore, a perspective from Southeast Asia is imperative to decipher the on-the-ground intricacies of China-Southeast Asian diplomacy.

This paper is organized into three main parts. The first part briefly examines the factors leading to the resurgence of Mahathir, including the opposition alliance's anti-China rhetoric. The second section discusses complex domestic factors and variables in shaping Malaysia's engagements with China and its stance in the great power politics, under the new foreign policy framework that was announced in June 2019. The third part of the paper analyses Malaysia's policies toward the BRI through a case analysis of the East Coast Rail Link (ECRL) project as well as Mahathir's positions on Huawei which is at a centre of the dispute between the US and China. The concluding section explores the implications of Malaysia's dilemmas in a broader context of international political economy and highlights the important role of local agency (interests, institutions, and players) in engaging great power politics.

The China Factor and the Re-Emergence of Mahathir

Mahathir's China policy during his second term since May 2018 started from the foundation that China had been a major economic force in Malaysia. The governmental statistics showed that China became Malaysia's largest investor in 2016, contributing an investment totalling USD 1.6 billion (equivalent to 17.5% of the country's total FDI inflow). China was Malaysia's largest trading partner for the tenth consecutive year in 2018, with bilateral trade increasing by 15 per cent from US\$63.6 billion in 2017 to US\$77.7 billion in 2018. Chinese FDI has eclipsed those from the Netherlands (11.7% of inward FDI), Germany (9.5% of inward FDI), UK (9.5% of inward FDI), Korea (8.0% of inward FDI) and Singapore (7.7% of inward FDI). Chinese investment is especially noticeable in large-scale, capital-intensive infrastructure projects.

The United Malays National Organisation (UMNO) that had been in power after the country's independence in 1957 has been a key player in the coalition (the Barisan Nasional, or the National Front) of the Malay, Chinese and Indian political and business elites which had controlled the country's political and economic resources for more than half a century. It was therefore a big surprise that UMNO and its allies were voted out in the general election held on 9 May 2018. The UMNO-led coalition lost power not only at the federal

⁵ Monique Taylor, *The Chinese State, Oil and Energy Security* (New York, Palgrave Macmillan, 2014). On Chinese capital in Southeast Asia, see Hong Liu and Zhou Yishu, "New Chinese Capitalism and the ASEAN Economic Community", in Yos Santasombat, ed., *The Sociology of Chinese Capitalism in Southeast Asia* (New York: Palgrave Macmillan, 2019), pp. 55-73.

level, but also in several important states, including Johor, its birthplace and traditional vote bank.

While there were several reasons leading to UMNO's defeat, the anxiety surrounding the Najib administration's management of the BRI, and its relations with China, was as one of the more prominent factors in the pre-electoral coalition politics.⁶ Indeed, one of the major pleads of the Mahathir campaign was against the growing visibility of China in the country, exemplified not only in the massive scale of trade and investment, but also in major real estates projects such as the Forest City, a mega private housing project in a man-made island built by a mainland Chinese developer, with a targeted number of housing more than 300,000 residents upon completion (most of whom are expected to be from China). He actively critiqued large-scale projects like Forest City and pleaded to review all China investments if he won. "Here we gain nothing from the [Chinese] investment," Mahathir said. "We don't welcome that." With reference to the Forest City project, he claimed that "We don't have enough people with wealth to buy all those very expensive flats, so you're bringing in foreigners. No country wants to have an influx of huge numbers of foreign people into their country." To be sure, the anti-China rhetoric was primarily aimed at outing Najib Razak, the then Prime Minister who was perceived to be corruptive and who had maintained close ties with China.

Mahathir's success at mobilizing electoral support underlined how the controversies surrounding the BRI and Sino-Malaysian diplomacy had meshed with Malaysia's complex, multi-layered politics, indirectly inducing regime change. The background leading to Mahathir's re-emergence demonstrated that Malaysia has its own political and economic goals that may not be in-line with China's foreign political and economic objectives and when the divergence emerges, the former tends to assume a bigger role in determining the outcome.

Malaysia's foreign policies, therefore, should be understood in the context of both internal political economy and global power relations. In the process of formulating and implementing these policies, local imperatives—the interests, agency, and mechanisms from small and middle powers such as Malaysia—should not be overlooked. What is important is how these local imperatives are articulated and institutionalized and how they are presented to major powers, which in turn shape the outcomes diplomacy and international politics.

Domestic Imperatives, New Foreign Policy Frameworks, and Mahathir's China Policy

When Mahathir assumed power after the May 2018 Election, he must face the realities that might prevent him from translating his anti-China rhetoric during the election campaign into implementation. Instead, domestic priorities serve as the guiding principle of his policy toward China and big power politics, and the great powers might have to make some concessions in confronting these domestic-driven foreign policies. I will illustrate this argument by examining the changing fate of the ECRL with respect to Sino-Malaysian

⁶ See for example, Bridget Welsh, "'Saviour' Politics and Malaysia's 2018 Electoral Democratic Breakthrough: Rethinking Explanatory Narratives and Implications", *Journal of Current Southeast Asian Affairs*, vol. 37, no. 3 (2018), pp. 85-108; Andreas Ufen, "Opposition in Transition: Pre-electoral Coalitions and the 2018 Electoral Breakthrough in Malaysia," *Democratization* (2019): 1-18.

ties and Mahathir's views on China's telecom giant Huawei as a part and parcel of the US-China trade war.

Mahathir's top domestic agenda after taking over the government is to ensure regime stability and continuity, especially for a coalition government (Pakatan Harapan or Hope Alliance) in which his own party, Parti Pribumi Bersatu Malaysia (known simply as Bersatu), is the minority, and the majority party in the alliance, Parti Keadilan Rakyat (People's Justice Party), led by Anwar Ibrahim who is slated to take the premiership within a certain period of time, although the prospect of this peaceful power transition is by no means certain. In the meantime, he has to ensure that the influences of his predecessor, Najib Razak, and the UMNO, would be curtailed or even diminished. His foreign policy has to facilitate or at least be in line with this political agenda.

The new Foreign Policy Framework of the New Malaysia launched in June 2019 has also reaffirmed this agenda. In his preface to this policy document, Mahathir highlights that "we must continue to speak against injustices and in defending the rights of the oppressed. Malaysia must be effective in influencing and making decisions that impact our national interests."

More specifically, this new framework adopts three broad categories of national interests:

"[W]hich are security, economic and identity. In terms of security, this Framework highlights the changes in issues pertaining to territorial dispute and the South China Sea, migration and irregular movement of people, cyber security and terrorism. In the economic dimension, this Framework discusses changes in emphasis that will be affected in issues related to Industrial Revolution 4.0, digital economy, ASEAN and fairer systems of international trade and finance. In the context of identity, this Framework elaborates on the changes in emphasis that will happen with regard to issues of human rights, assistance in post-conflict and post-disaster situations, memberships in international organisations, the Muslim world, South-South Cooperation, relations with major powers and international treaties and agreements."

With respect to economic interests, there is a profound reason that would prevent Mahathir's anti-China rhetoric (such as on Chinese investments) from being implemented. China continues to be one of the key economic partners for Malaysia after the establishment of the new regime. According to Deputy Prime Minister Datuk Seri Dr Wan Azizah Wan Ismail who spoke in October 2019, total trade between Malaysia and China in 2018 was valued at RM325.53 billion (US\$77.72 billion), an increase of 8.1 per cent from 2017. Malaysia has been closely integrated with global supply chains. Over 82 per cent of large firms in Malaysia and nearly half of all small to medium sized enterprises participate in global value chains. Besides, Malaysia has a high degree of exposure to the Chinese economy, with China being both its largest trading partner and a top source of tourists.

The Intertwining of Economy and Diplomacy: From ECRL to Huawei

The case of renegotiation of the East Coast Rail Link (ECRL) project demonstrates the supremacy of domestic agendas in shaping Malaysia's China policy and Mahathir's skilful manoeuvre of big power politics to advance his own political interests at home. ECRL was initially orchestrated by the China Communications Construction Company (CCCC), a state-owned enterprise (SOE), with strong endorsement by Najib Razak when he was in

power. With state-owned CCCC as the main contractor and with 85% of the construction cost financed by soft loans from Beijing, ECRL was lauded by Najib for its potential to better connect the relatively backward east coast states (Pahang [Najib's home state], Terengganu and Kelantan) to Selangor, the country's most prosperous state. The improved connectivity (for passengers and freight) was expected to bridge the economic divide between both regions, a chronic issue since the British colonial era. Valued at a sum of US\$18.2 billion, ECRL had been fast-tracked by the government to commence construction in July 2017 rather than in late 2017 as initially expected. ECRL had also been given top priority by CCCC, its leaders believed that ECRL, the largest railway project in Southeast Asia, would create demonstration effects that would advance its business prospects in Southeast Asia as well as other countries involved in the BRI. The 640km mega project boasted a strong pro-Malay undertone as almost the entire stretch of the railway would pass through the three ethnic Malay-heavy states of Pahang, Terengganu and Kelantan.

Geopolitics is another important dimension of ECRL. Upon completion, it will connect Pahang's Kuantan Port (jointly managed by a Malaysian conglomerate and Guangxi Beibu Gulf International Port Group, an SOE) to the bustling Port Klang on the west coast. This potential land bridge could provide a 'significant resolution' to China's over-reliance on the Strait of Malacca, the so-called 'Malacca Dilemma'.⁷ To put things into perspective, about 80% of current Chinese energy needs pass through this narrow waterway. This new network will create alternative trade routes, but with significant Chinese involvement as China now has a direct interest in both the Kuantan Port and ECRL itself. The project could also negatively impact Singapore's stature as the leading shipping and commercial centre of Southeast Asia. While a combined sea and land route via Kuantan Port and ECRL is estimated to cost more (in bulk cargo per tonne) than the existing sea route via Singapore, the travel time can be shortened by 30 hours (18% reduction from current levels).⁸ The shorter travel time is useful for the movement of time-sensitive goods such as exotic food and biomedical products.

During his official visit to China in August 2018 in which he openly criticized "new colonialism" during a joint press confess with Chinese Premier Li Keqiang and stressed that "free trade should also be fair trade," Mahathir announced that ECRL would be "deferred until such time we can afford, and maybe we can reduce the cost also if we do it differently." In another occasion, he also said that Malaysia might cancel the project altogether. While Mahathir's decision to shelf ECRL has been interpreted as a cost-cutting measure, but probably its more important goal is to shrink the economic base of the Najib clique. More practically, ECRL's shelving (or de facto renegotiation) does not negate the fact that despite losing the control over the federal government, UMNO and PAS have reinforced their grip on the state assemblies of the three east coast states, in addition to defeating most of Mahathir's allies vying for federal seats there. To bolster his legitimacy, Mahathir cannot afford to alienate voters from these states. Mahathir must have also realised that the expeditiousness in which the previous federal and state authorities implemented the project implies that some segments of the Malay-heavy constituencies can (and have already) tap into ECRL's spillover effects. This can be seen in the determination of the new

⁷ Leslie Lopez, "Malaysia's East Coast Rail Line Touted as a Game Changer", *Straits Times*, 22 December 2016. China has been heavily dependent on Middle Eastern oil, with up to 80 per cent of its energy supply passing through the Malacca Straits, and as early as in 2003, the then President of China Hu Jintao identified the to mitigate the "Malacca Dilemma." B.A. Hamzah, "Alleviating China's Malacca Dilemma," available on <http://isdpeu.com/alleviating-chinas-malacca-dilemma/> (Accessed November 27, 2019).

⁸ Leslie Lopez, "Malaysia's East Coast Rail Line Touted as a Game Changer."

administration in persisting with the ECRL. It has been renegotiating the terms of the deal with CCCG after August 2018, seeking to reduce the ECRL's cost and to include more local products and services into the project.

Against the background of the renegotiation, Mahathir, as a seasoned politician, changed his tone about China and the BRI. Speaking in Beijing in late April 2019 during his second official visit to Beijing after reassuming power, he pledged to support the China-led Belt and Road Initiative (BRI), while calling for "longer, bigger" trains to bridge the distance between the East and the West: "I am fully in support of the Belt and Road Initiative. I am sure my country, Malaysia, will benefit from the project." He also said the BRI would improve ease of travel and communication. "Yes, the Belt and Road idea is great. It can bring the land-locked countries of Central Asia closer to the sea. They can grow in wealth and their poverty reduced."

After a lengthy process of negotiations, China agreed in July 2019 to cut the cost of East Coast Rail Link project by one-third, down to 44 billion ringgit, with the Export-Import Bank of China financing 85% of the loan. Malaysia would save about 12.6 billion ringgit in financing costs, reduced to 24 billion ringgit from 36 billion ringgit. In addition, China is set to purchase an additional 1.9 million tonnes of palm oil from Malaysia over the next five years. Mahathir had revealed earlier that Malaysia hoped to take advantage of the ECRL renegotiation to sell more palm oil to China. It was indeed a big boost to Malaysia, as the European Union passed an act earlier this year to phase out palm oil from renewable fuel by 2030 over deforestation concerns, which in turn would severely affect the livelihoods of the Malaysian farmers, thus weakening Mahathir's power base. What is equally important for the relaunched project, therefore, is that that "at least" 40 per cent of civil works would be handed to local contractors.⁹

It should be pointed out, however, that Mahathir's newly found support for the BRI is not a blanket and unqualified one. While trade and investment from China are sought after for the purpose of boosting economic development and social stability at home, Mahathir is mindful about China's ideological influences. He argued that Malaysia is a multiracial country where racial sensitivities remain prevalent. "We do not want our people to think that after being influenced by the West before, we have now become influenced by China. I believe that China will have a great influence over the whole world in the future, but for the moment, it is not for us to promote Chinese ideas and ideologies," said the Prime Minister during the question and answer session after delivering his keynote address at the ISIS Praxis conference held in Kuala Lumpur on October 21, 2019. Asked to comment on a comic circulated in schools to promote China's BRI, titled "*Belt and Road initiative for Win Winism*", Mahathir replied that it was not good to influence the minds of Malaysian youths. "The young people must understand the problems, strategies and the policies of their own country first, so that when they come up against other people, they know their place. As much as we do not want the influence of the West in our strategies in our school, we also do not want other countries to have undue influence over our young people." It was perhaps against this background and Mahathir's concern that this comic (in both Chinese and English) was banned from circulation a few days after his remarks.

For China, the renegotiation is essential for both economic and strategic reasons: the trade volume between the two countries stood at US\$108.6bil (RM455.8bil) at the end of 2018,

⁹ Tashny Sukumaran, "Local Contractors to Play Bigger Role in Reworked China-backed Rail Project," *South China Morning Post*, 19 November 2019.

equivalent to 20% of the total trade between China and ASEAN countries. More importantly, the geopolitical dimension of these BRI projects is most clearly reflected in ECRL. Connecting the Kuantan Port on the east coast of Peninsular Malaysia to the bustling Port Klang on the west coast could resolve China's perennial 'Malacca Dilemma'. The success of Malaysia would serve as a significant showcase for China's BRI in which Malaysia has been a key hub among the 70 countries alongside the BRI.

From a diplomatic perspective, Mahathir's affirmative and non-confrontational position on the South China Sea and China's ethnic minorities issues—considered to be the core national interests by Beijing—might also be a conducive reason for China in looking for long-term foreign policy goals in the region rather than short-term economic gains. A realistic politician aware of the country's limitations and domestic priorities, Mahathir remarked in the end of September 2019, "You don't just try and do something which would fail anyway, so it is better to find some other less violent ways not to antagonize China too much, because China is beneficial for us."

The global economy has been significantly affected by the US-China trade war over the past two years, which is in itself a component and reflection of great power rivalries that will continue to shape the world. As a smaller power, Malaysia has, just like other countries in the region, been caught in the middle and faces major dilemmas whether to choose side. For one thing, alongside with China and Singapore, the US is one of the three largest trading partners to Malaysia. While in the initial months of the trade tensions, Malaysia had hoped that the country would benefit from the spillover effects of more factories moving out from China, though the results might not be that promising due to a complex set of reasons beyond Malaysia's control.

Since the early phase of the trade war, the Chinese telecom giant Huawei has been in the centre of the disputes, with its products and services being blacklisted by the US and most of its Western allies. Malaysia's attitudes to the trade war and the Huawei ban, therefore, can be seen as a test case of its strategic positioning in the great power rivalries. Traversing through the dilemmas, Mahathir has again dexterously turned the disputes to his own agendas of promoting reindustrialization and the 4th industrial revolution, which has been written into the new Foreign Policy Framework announced in June 2019.

In a speech delivered in mid-October 2019, Mahathir said that Malaysia's economic growth relies on trade, and so the country needs markets and "cannot afford to make enemies". He also highlighted how Malaysia has been "caught in the middle" and could be hit with trade sanctions amid rising protectionism highlighted by the US-China trade war, adding that he was disappointed with the proponents of free trade who were now indulging in restrictive trade practices on a "grand scale". "Economically we are linked to both markets, and physically we are also caught in between for geographical reasons. There are even suggestions that we ourselves would be a target for sanctions."

Two major considerations have shaped Mahathir's positions on Huawei. One is his view on free trade from which Malaysia has benefitted greatly, and the other is his domestic development agenda of moving the country in the global chain of technological innovation, major Chinese tech corporations such as Huawei and Alibaba present viable opportunities for Malaysia to cooperate with. Mahathir, therefore, believes strongly that the Trump administration's decision to effectively ban Huawei is "not the way to go". In a keynote speech at the Nikkei Future of Asia Conference, Mahathir said China currently boasted "the best technology in the world", and that the US had to accept the new status quo. We

have to accept that the US cannot forever be the supreme nation [with] the best technology ... [The West] must accept that this capability can also be found in the East. But if they want to have a situation where they are always ahead, and if not [they] will ban you, [they] will send warships to your country, that is not competition. That is threatening people.”

Mahathir’s support of Huawei, among the strongest from an Asian leader, has been echoed by the public and private sectors. Categorising Malaysian-China relations as being “unique and civilizational”, Malaysian foreign minister Saifuddin Abdullah said in an interview in June 2019 that when Malaysia was facing the problem in selling palm oil, the country’s major commodities, to Europe, China added the volume of purchase of palm oil from Malaysia. “When some countries in the West go against Huawei, Malaysia reciprocated by saying ‘No, we will continue using Huawei’.” In a similar vein, Malaysian Finance Minister Lim Guan Eng told an audience in August 2019 in Kuala Lumpur: “I am happy that Huawei has its regional hub located in Kuala Lumpur, with more than 2,500 employees throughout Malaysia. Reputed as the leader in 5G technology, Huawei and other technology companies have a role to play in aiding Malaysia in implementing Industry 4.0 technology, especially 5G, throughout our society. We will continue to facilitate Chinese investment into Malaysia particularly the high-tech Industries and innovation-based services,” he said, adding that Malaysia is keen to learn from Chinese advances in artificial intelligence (AI), advanced materials, robotics and cloud computing.

The response from the private sector on Huawei is similarly positive. Malaysia-China Business Council (MCBC) chairman Tan Kok Wai said: “China has made tremendous progress on new and pioneering technologies where we can learn so much from, especially when we are formulating plans to move forward to meet the challenges of the Fourth Industrial Revolution (IR4.0) and China will be an important partner to help us achieve the goal.”

Apart from engaging Huawei, Malaysia is also tapping on the e-commerce sector with assistance from the Alibaba Group Holding in developing warehousing technology and from Tencent Holdings in mobile payments. Mahathir made a point of visiting Alibaba headquarters in Hangzhou during his official visit to China in August 2018. Impressed with the company’s ideas in its use of modern technology, he remarked that “I hope that Malaysia could tap on your innovative ideas so that we can benefit too from modern technology”.

Concluding Remarks

This working paper has demonstrated the complicated domestic political and economic interests in shaping Mahathir’s policies toward China and the US-China rivalries. Despite its power, wealth and technical expertise, China cannot forge ahead without taking account of the aspirations of the Malaysian stakeholders and accommodating the latter’s interests in the foreign policy formulation. As I have demonstrated elsewhere, BRI projects require the cooperation (or at the very least, non-hindrance) of these players and China’s interactions with Southeast Asia have been shaped by the latter’s own social,

political and economic interests and agendas.¹⁰

This paper has underlined the value and necessity of looking beyond large-scale geopolitical shifts and conventional literature that depict smaller countries such as Malaysia as merely on the receiving end of the bigger powers' diplomacy or just reacting passively through rebalancing or hedging strategies. ECRL's re-launching and Mahathir's support for Huawei (despite of the US ban and threat of trade sanctions) demonstrates that Malaysia's foreign policy towards a rising China is contingent upon three key conditions: fulfilment of Malaysia's longstanding pro-ethnic Malay policy (including through Malays' involvement in the BRI-related projects), supporting the country's economic development and reindustrialization, and advancement of geopolitical interests for both China and Malaysia. These key conditions, moreover, can be translated into policy options partly because China is willing to accommodate Malaysia's domestic interests based upon its own long-term strategic considerations.

Our cases have also shown that a seasoned politician such as Mahathir has the capacities of skilfully converting the dilemmas the country is facing to operational policy options to not only to advance the country's own economic development agendas but also the political interests of the respective (dominant) groups in their quest for power within the national boundaries. It is therefore imperative to consider local interests, initiatives, agencies, and institutions in taking advantage of the changing global and regional environments for smaller powers' own agendas.

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¹⁰ Hong Liu and Guanle Lim, "The Political Economy of a Rising China in Southeast Asia: Malaysia's Response to the Belt and Road Initiative", *Journal of Contemporary China*, vol. 28, no. 116 (2019), pp. 216-231. Due to space constraints, this paper is not able to examine the complex role of ethnic Chinese in influencing Mahathir's China policy in particular and Malaysia's China policy in general. For some relevant discussions, see Hong Liu, "Opportunities and Anxieties for the Chinese Diaspora in Southeast Asia", *Current History: A Journal of Contemporary World Affairs*, vol. 115, no. 784 (2016), pp. 311-316; Hong Liu and Els van Dongen, "China's Diaspora Policies as a New Mode of Transnational Governance", *Journal of Contemporary China*, vol. 25, no. 102 (2016), pp. 805-821; and Hong Liu, "An Emerging China and Diasporic Chinese: Historicity, the State, and International Relations", *Journal of Contemporary China*, vol. 20, no. 72 (2011), pp. 813-832.