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Mohd Ikbal Mohd Huda, Zhao Xinlei

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The Development of Malaysian Economic Policy towards China, 1974-2018

Mohd Ikbal Mohd Huda, Zhao Xinlei

Centre for History, Politics and International Affairs, Faculty of Social Sciences &
Humanities, Universiti Kebangsaan Malaysia

Abstract

The economic relations between Malaysia and China have always maintained a relatively stable trend, and Malaysia also attaches great importance to maintaining the development of economic relations with China. Throughout the decades of development, Malaysia's economic policies towards China have shown different characteristics in different development periods. Especially after Malaysia's domestic election in 2018, Malaysia's economic policy towards China has undergone new adjustments, which is very different from Malaysia's economic policy towards China before 2018. Therefore, by analyzing and summarizing the development of Malaysia's economic policy towards China from 1974 to 2018, this article discusses the focus of economic policy towards China in different periods and how it affects the development of Malaysia's economic relations with China. In this article, researcher systematically review the development of Malaysia's economic policy towards China from 1974 to 2018, and analyse what factors have affected Malaysia's economic policy towards China during this period, and summarize the impact of economic policy on China-Malaysia economic relations? This article mainly includes four parts, the first part is mainly to define the timeframe of the research and introduce the reasons. The second part mainly introduces the main features of Malaysia's economic policy towards China from 1974 to 1985 and its influence. The third part will introduce the characteristics of Malaysia's economic policy towards China since 1985 and focuses on analysing the motivation behind the economic policy towards China during Mahathir and Najib. The last part summarizes the characteristics of Malaysia's economic policy towards China and related impacts over the decades from 1974 to 2018.

Keywords: Economic Policy, Economic Relations, Development, Malaysia, China.

Introduction

In 1974, Malaysian Prime Minister Abdul Razak travelled to Beijing for the first time in Southeast Asia, establishing diplomatic ties with communist China. Malaysia has not lost track of China's outstanding achievements since the beginning of the reform and opening-up process. Malaysia's most important economic partner and most important biggest trade partner in Southeast Asia is China. As a result, when the two countries extended their connection to a Comprehensive Strategic Partnership in 2013, it came as no surprise. Working with a single Chinese province is like to working with a single country. Malaysia has the ability

to work with Chinese provinces on an individual basis. Because China's culture is similar to ours, doing business with them is easier and the issue is whether Malaysian small and medium-sized businesses are ready. Malaysia's participation in the Belt and Road Initiative (BRI) will result in increased international trade in the region, which will benefit Malaysia, which is already the world's 23rd largest exporter out of 168 World Trade Organization (WTO) member countries.

When Abdul Razak, had made his historic visit to China in 1974, Malaysia had become the first ASEAN member to establish diplomatic relation with China. As a result, Malaysia-China diplomatic relations celebrate their 48th anniversary in 2022. Economic cooperation between countries has increased dramatically during the last four decades. Razak was accountable for normalising diplomatic relations between the two countries, Mahathir was in charge of the economic relationship. Mahathir strengthened political connections and promoted tourism industry between China and Malaysia. Najib Razak had established 16 Memorandums of Understanding (MOUs) with China in 2009. Malaysia's main trading relationship is China and Malaysia become China's third largest commercial partner in Southeast Asia region. Malaysia and China's bilateral trade has grown at a phenomenal rate. The presence of a substantial Malaysian-Chinese minority in Malaysia has already been critical in fostering Malaysia-China business cooperation. The Malaysia-China Business Council (MCBC) which became a non-profit organisation in April 2012 plays a crucial facilitative role. Malaysian and Chinese businesses in Malaysia can both benefit from the MCBC's information and consulting services. It is considered strategic by the Malaysian government.

China and Malaysia are also looking at the investment prospects for reciprocal investment under the Regional Comprehensive Economic Partnership (RCEP) framework, particularly given Malaysia's ambition to attract foreign capital, especially in high industries. China invested about 3.5 billion yuan (USD32 million) in services, manufacturing and other industries in Malaysia in the first half of 2020, according to data from the Malaysian Investment Development Authority (MIDA). Malaysia invites investment from high-tech, capital-intensive and high-value-added Chinese companies. China is likely to assign some jobs to specific Southeast Asian countries as a result of the RCEP's adoption and it make Malaysia and other countries such as Singapore and Thailand will have less labour-intensive manufacturing. Distinct Southeast Asian countries will perform different roles for putting things together. Malaysia agrees with China that the purpose of the RCEP is to expand its business for all member economies and Malaysia will benefit from possibilities to expand with both China and the other RCEP members.

Many changes are expected as a result of the signing of the world's largest free trade agreement, the RCEP including export growth between Malaysia and China and a broad restructuring of Asian supply chains. 15 economies including Australia, New Zealand, China, Japan, South Korea and another 10 ASEAN countries, signed the treaty to create the largest free trade zone in the world. Malaysia and China trade is likely to expand when the government urge businesses from both sides to work in sectors such as high technology and clean energy development. There will very certainly be further increases, since the RCEP will open a slew of new doors in a variety of fields, both of which will benefit the companies and economies involved. The agreement will reduce tariffs on 90% of traded goods within a ten-year timeframe. Because numerous countries have different economic structures and situations, there comes a time when specific tasks must be completed. The acquisition should be executed smoothly in Malaysia, where there has been a common idea that the need to develop and engage with new partners.

For a long time, Malaysia's economic policy towards China has always been concerned and discussed by scholars and researchers. The focus of the discussion is what kind of economic policy Malaysia will take towards China to promote and develop economic relations between China and Malaysia. Mainly because China's strong economic strength is extremely attractive to Malaysia and the two countries have established extensive interaction and cooperation in bilateral trade and investment, which makes Malaysia unable to ignore the importance of China's economy in Malaysia's development blueprint. However, Malaysia is also worried about the risks and challenges to its own security due to the excessive dependence on the Chinese economy. In addition, there are still certain differences between the two countries on the South China Sea issue, which makes Malaysia maintain a certain level of cautious and serious attitude when deciding which economic policy will be taken to develop the economic relations with China.

FROM 1974-2018

The economic interaction and development between China and Malaysia does not start in 1974, but in 1957. Some scholars are used to defining and dividing the periods of economic development between China and Malaysia and regard 1974 as the embryonic period of the economic development between the two countries (Shee, 2004). But one problem is that during this period, China and Malaysia did not officially establish diplomatic relations, mainly because of ideological issues between the two countries, and each other did not pay attention to bilateral economic and trade interaction. In this chapter, the scope of the study is chosen from 1974 for two main reasons. On the one hand, China and Malaysia have formally established diplomatic relations since 1974, helping the two countries to open up official economic interactions and interaction making economic ties and cooperation between the two countries more and more frequent, and Malaysia has begun to pay more attention to the development of economic policy towards China. Therefore, choosing 1974 as the starting point is more representative and valuable, and will help us to sort out the development of Malaysia's economic policy towards China. On the other hand, from 1957 to 1974, there was no official economic trade and interaction between the two countries, and during this period, bilateral trade was more concentrated on the level of non-governmental organizations, especially the bilateral trade carried out by Malaysian Chinese. Therefore, the research scope in this chapter will focus on the development of Malaysia's economic policy towards China from 1974 to 2018.

Among the decades of development from 1974 to 2018, 1985 is the most critical time node. This is mainly because Mahathir officially became the Prime Minister of Malaysia and opened the climax of the economic development of China and Malaysia. Since 1985, Malaysia's economic policy towards China enters a new period. This policy is not only because Malaysia pays more attention to developing economic relations with China, but also because leaders such as Mahathir regard economic relations as the core of China-Malaysia relations, while security and military concerns are placed at the second level (Nambiar, 2021). Therefore, for this reason, the China-Malaysia economic and trade stage mainly includes two periods: 1974-1985 and 1986-2018. The following sections will analyze and discuss how Malaysian government will take economic policies on developing economic relations with China in different periods.

THE FIRST STAGE: FROM 1974 TO 1985

During this period, although China and Malaysia established diplomatic relations and carried out bilateral interactions, economic cooperation was only confined to some aspects, and bilateral cooperation was still very limited, while Malaysian government economic policy still plays an important role in promoting the development of economic between two countries.

Economic Diplomacy and Economic Policy

When people analyze what kind of economic policies will be used by the country to promote economic development, they take economic policies as a special kind of economic diplomacy to develop foreign economic relations. As for economic diplomacy, different scholars have different definitions. Some scholars believe that economic diplomacy is a diplomatic means of a country, whose main purpose is to resolve economic trade conflicts with other countries, thereby helping countries obtain relevant interests (Zhao, 2011). Chohan (2021) believes that economic diplomacy is a process of multi-stakeholder participation, mainly through economic means to achieve the largest range of economic gains. Berridge and James (2003) propose that economic diplomacy as a significant way by country or government, its purpose is to achieve a specific economic task, using economic sanctions or rewards to solve related problems, so as to maintain national security and interests. From the above definitions, most scholars regard economic diplomacy as a way or means to solve external and internal problems, and its purpose is also to maintain national security and social stability and ensure the interests of the country.

In the specific implementation process of economic diplomacy, three key factors need to be paid attention to mainly include: political and economic tensions; domestic and international tensions; tensions between government and other groups. (Bayne & Woolcock, 2017). This mainly shows that when a country takes economic diplomacy to solve external problems and conflicts, it needs to deal with the relationship between different levels and groups. For example, domestic and international tensions, in the process of economic diplomacy, On the one hand, we should pay attention to the impact of economic diplomacy on other countries so as to avoid the upgrade of conflicts caused by the damage to other countries' interests. On the other hand, economic diplomacy is also affected by various factors at the domestic level and need to coordinate different interests.

Regarding the relationship between economic diplomacy and economic policy, economic policy is usually regarded as a means or strategy to implement economic diplomacy. The specific content of economic policy includes economic investment, trade, assistance, and sanctions, etc. These different methods can help countries develop economic relations with foreign countries, consolidate economic interaction and cooperation with other countries, and promote their own economic development. And economic policy also includes positive economic policy and negative economic policy. Different economic policies have completely different effects on the development of a country's foreign economic relations. For example, when a country decides to take a positive economic policy, it is bound to actively develop economic ties with other countries and establish more extensive economic cooperation, so that both countries will benefit from economic cooperation, thereby reducing the necessary contradictions and conflicts and keep the two countries in an inter-dependence. On the contrary, if a negative economic policy is taken by country or government, such as economic sanctions, it will inevitably intensify the tension and conflict with other countries, which will also adversely affect its own security and increase risks.

At the same time, in the implementation of economic diplomacy, the importance of professionals is also emphasized. This is mainly because professionals in contemporary society have mastered comprehensive and professional knowledge, and they can rely on this professional knowledge to provide comprehensive reference for the implementation of economic policies. Professionals also can depend on the significant knowledge to gain economic advantages during the process of the economic interaction of other countries, thereby influencing the process of decision-making in terms of economic policy (Seabrooke, 2011). Therefore, economic policy is closely related to economic diplomacy. When a country develops foreign economic relations, it needs to pay attention to what kind of economic policy to adopt to develop foreign relations, so as to gains the interests and maintain its own security.

Malaysian New Economic Policy on China

Due to the ethnic conflict in Malaysia in 1969, forcing the Malaysian government to change the country's development policy, the New Economic Policy (NEP) was implemented during this period. The New Economic Policy was implemented from 1970 to 1990. In the past two decades, the New Economic Policy has an important impact on the economic development of Malaysia and China. The main reason for the implementation of the New Economic Policy is that since the independence of Malaysia, Malays and Malaysian Chinese always kept in an unequal status for long time, which has stimulated the determination of the Malays to change a racially unbalanced status. NEP aims to improve the social status of the Malays in the process of national development, to create and consolidate the role of the leadership of Malays in the development of the country, and to be more inclined to the Malays in education and culture, promoting the country's economic development (Aziz, 2012).

The specific implementation of the new economic policy mainly includes four aspects: changing the fiscal policy, providing free education, housing and medical services for the middle and lower class people; directly intervening in the commodity market to control the price and output of products; rural development policy, improving Economic income and living standards of Malays; change the capital ownership structure and cultivate Malay capitalists (Cao, 1998). Through the above policies, the positive impact of NEP is to change the long-term racial imbalance in Malaysia, improve the status of the Malays in the economy and society, create a large number of state-owned enterprises dominated by Malays, and narrow the gap between the rich and the poor. It also enhanced the national self-confidence of the Malays and promoted the country's economic development (Rasiah & Shari, 2001; Cao, 1998). But at the same time, NEP has also produced many adverse effects, which are mainly manifested in three aspects: (1) it has become a tool for the legalization of Malay privileges, intensified conflicts between races, and the problem of poverty has not been fundamentally resolved, and it has led to serious corruption problems; (2)it has seriously damaged the interests of the Malaysian Chinese, lowered the social status of the Chinese, widened the class gap between the Chinese and the Malays, and caused the Chinese capitals to escape Malaysia and turn to other countries; (3) foreign capitals lose their interest in Malaysia, and accelerate the pace of escape of foreign capitals, causing damage to the country's economic development in the long time (Koon, 1997; Lin et al., 2021; Hara, 1991; Yacob & Khalid, 2012). In view of these adverse effects, Malaysia has also indirectly adopted a relatively conservative and inactive economic policy towards China.

In the process of China-Malaysia economic development, Malaysian Chinese have always played an important role and had a significant impact. Due to the close historical and cultural

ties between Malaysian Chinese and China, Malaysian Chinese have always maintained a sense of closeness to China. Under the influence of the new economic policy, Malaysian Chinese cannot maintain their own security and interests, so they can only choose to invest and trade in China in order to maintain their own security and interests, and this choice is also invisibly maintaining and consolidating the economic relations between the two countries and established the strong foundation for the later comprehensive economic development (Husin et al., 2012; Chin, 2008). However, during this period, Malaysia's economic policy toward China was influenced by the New Economic Policy, and Malaysia did not pay much attention to the development of relations with China.

Although the two countries have established diplomatic relations, the economic interaction is still confined to some aspects, and extensive economic cooperation has not been established and carried out (Zheng, 2009). On the one hand, due to the implementation of the New Economic Policy, the Malaysian government has overly maintained the interests and social status of the Malays, while ignoring the interests of the Chinese community. Therefore, China, which is closely related to the Malaysian Chinese, is not a priority for the Malaysian government. On the other hand, due to the gap in ideology and political system between the two countries, the Malaysian government still has strong concerns and suspicions about China, so its economic policy toward China is relatively conservative.

In short, during this period, Malaysia's economic policy towards China was characterized by relatively conservative and inactive; emphasis on domestic economic development and neglect of external interactions; slow economic development. However, although Malaysia's economic policy towards China was not proactive during this period, Malaysia was gradually exploring and developing its economic relationship with China, which also laid an important foundation for the subsequent comprehensive economic interaction between the two countries.

THE SECOND STAGE: FROM 1986 TO 2018

Since 1986, China-Malaysia economic relations have entered a new period. This period is not only because of the further expansion of economic cooperation and interaction between the two countries, but also because Malaysia has also changed its previous economic policy towards China and adopted a more proactive and positive strategy to develop economic relations with China. During this period, Malaysian leaders have also experienced a great change from Mahathir, Badawi to Najib, with Mahathir being the more significant leader, and under his administration, Malaysia has changed economic policy towards China dramatically.

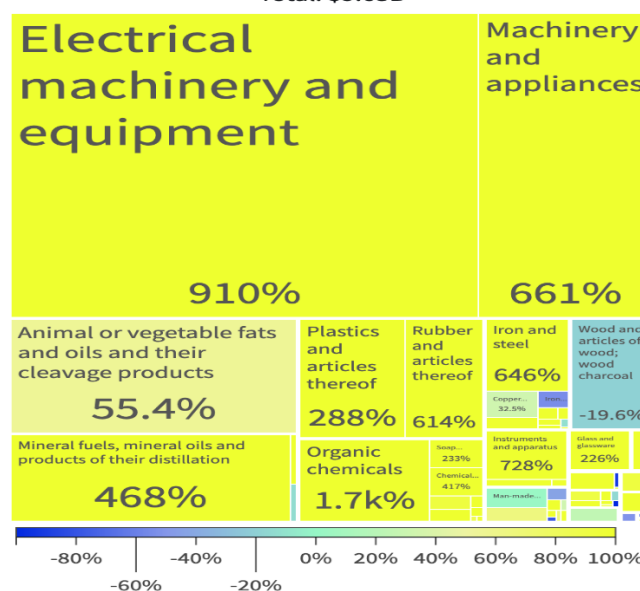
Analysis of Economic Policy towards China During Mahathir' term

Since Mahathir's first official visit to China in 1985, it has opened the prelude to the development of his economic policy towards China. Since 1985, the bilateral trade between the two countries has grown substantially, and economic cooperation and interaction have become more frequent. Especially in 2002, Malaysia replaced Singapore as China's largest trading partner in ASEAN, which made the economic ties between the two countries much deeper and closer. Facing the favorable situation of the economic development of the two countries, Mahathir also took corresponding measures to further promote economic development at this time, mainly including: First, cancel relevant administrative regulations and obtain import licenses for Chinese products; Second, provide more support for Malaysian Chinese to invest in China, set up relevant representative offices, and extend the time of

Malaysian Chinese to stay in China; Third, remove restrictions on businessmen and other related rules, further broaden the communication channels between the two countries and expand the scale of cooperation (Shee, 2004; Zheng, 2009).

Under the influence of the above-mentioned policies, the development of economic and trade between China and Malaysia have been further consolidated and expanded. The continuous development of economic and trade relations reflects a shift in Malaysia's China policy, from a relatively conservative attitude to an active and positive policy. Like Figure 1 shows, it mainly presents the growth of export from Malaysia to China from 1998 to 2003 and it can be seen that the level of economic trade between two countries also has been improved substantially. During this period, the development of Malaysia's economic policy towards China was mainly affected by three factors. Mainly include leaders; Malaysian Chinese interest groups; the attractiveness of China's economy.

Growth of Exports from Malaysia (🇲🇾) to China (🇨🇳) (1998-2003)
Total: \$9.63B



oec.world/en/profile/bilateral-country/mys/partner/chn?compareExports0=comparisonOption5&depthSelector=HS2Depth&dynamicBilateralTradeSelector=year2003&measureBilateralTradeSelector=vizValueOption3

Figure 1 Growth of Exports from Malaysia to China 1998-2003

(Cited by OEC.World <https://oec.world/en/profile/bilateral-country/mys/partner/chn?compareExports0=comparisonOption5&depthSelector=HS2Depth&dynamicBilateralTradeSelector=year2003&measureBilateralTradeSelector=vizValueOption3>)

Compared with previous leaders before Mahathir, they are more concerned with the domestic economic development of Malaysia rather than the focus abroad, while Mahathir, who insists on pragmatism, sets his sights on the broader international community. With the end of the Cold War and the development of economic globalization, Mahathir gradually realized that the future society will be a cooperation between countries, and it is difficult for closed and isolated countries to integrate into this era. Therefore, Mahathir proposed National Development Policy (NDP) to replace the New Economic Policy (NEP). Under the influence of the national development policy, Malaysia has changed its development method

and chose to develop economic relations with other countries in a more open and inclusive way, to better integrate into the global economy.

Regarding the development of economic relations with China, although Mahathir is worried about Chinese military power, he always believes that China has the world's most cheap labors and a huge international market and other advantages, as well as huge development potential. The friendly dialogue and economic policy will be conducive to the development and prosperity of Malaysia's economy with the help of China's economic development. Therefore, under the influence of pragmatism, economic relations will bring more benefits and profits to Malaysia than worries and doubts about China. Therefore, it is important to maintain a friendly and positive economic policy towards China (Nambiar, 2021).

As a special interest organization, Malaysian Chinese play an extremely important role in the economic development of Malaysia and China. On the one hand, this importance is reflected in the fact that Malaysian Chinese, relying on their language advantages and close cultural ties with China, are working hard and actively to develop trade and investment in China, and at the same time, China, which is coincidentally in the period of reform and opening up, is in great need of tremendous overseas investment. The investment of Malaysian Chinese has also deepened the economic ties between Malaysia and China. On the other hand, under the leadership of Mahathir, Malaysia pushed the National Development Policy to develop foreign economic relations, and the importance of Malaysian Chinese was highlighted at this time. Malaysian Chinese need to maintain economic stability towards China and ensure the continued acquisition of interests, so they rely on their own resources and advantages to influence Malaysia's economic policy towards China (Whah & Fee, 2012).

Therefore, during Mahathir's period, the importance of the Chinese community was more obvious and prominent, and Mahathir also hoped to use the Chinese community to expand economic cooperation with China and consolidate bilateral development. A major factor that Mahathir attaches to the Chinese community is that Malaysian Chinese and Chinese societies enjoy the same language and letters, and there are no barriers on communication (Zheng, 2009). The connection in language and culture also enables Malaysia's investment in China to be valued by the Chinese government, and to receive policy support and assistance from the local government, which can better promote bilateral economic and trade development and enhance mutual friendship.

With China's implementation of the reform and opening-up policy, the relaxation of various restrictions on foreign capital, and the introduction of various policies and measures to attract foreign investment, the huge potential of China's economy has been realized. Since 1980, China's economy has developed rapidly and its export has been increasing. In particular, China's huge domestic market and sufficient labor resources have attracted capital companies from many countries in the world, so they have invested in and built factories in China, and China has entered a comprehensive development. new era. But at the same time, when China's economy was developing rapidly, Malaysia's economic development was relatively slow. The Asian financial crisis in 1997 also hit Malaysia's economy hard, which made Mahathir realize that China's economy is driving the Malaysian economy. and restorative effect. As an export-oriented country, Malaysia relies heavily on overseas capital to drive economic development. Due to the impact of the previous New Economic Policy, many overseas capitals have fled Malaysia.

Therefore, Malaysia urgently needs to change the domestic investment environment and attract more overseas investment to Malaysia. Therefore, under this dual pressure at home and abroad, Malaysia's economic policy towards China has also undergone

corresponding changes at this time. Mahathir has changed his economic development ideas and methods, focusing on developing economic relations with China, and striving to expand various economic interactions and cooperation with China, hoping to rely on China's development to drive Malaysia's economic recovery.

Under the influence of the above three factors, Malaysia's policy toward China has shown a more active and active attitude, but although the economic policy is relatively active and active, it does not mean that Malaysia fully supports China's various policies. As a small country, with the strengthening of China's economic strength, China has begun to show its determination in geopolitics more and more, and the frequent use of military means has also increased the threats and risks to neighboring countries. In view of this situation, Mahathir also maintains relative vigilance and suspicion, and is also avoiding the great risks brought about by relying too much on the Chinese economy, but from a practical point of view, Malaysia needs to rely on the Chinese economy to drive itself. Therefore, during Mahathir's period, Malaysia's economic policy towards China was manifested as follows: a proactive approach, focusing on economic relations, and expanding bilateral cooperation. Through such dialogue economic policies, Malaysia has consolidated and developed its bilateral relations with China, enjoyed the economic benefits and influences brought about by China's economic development, and helped itself promote economic recovery and development.

Development of Economic Policy from Badawi to Najib

As the national leaders after Mahathir, Badawi and Najib did not make greater changes in the economic policy towards China but inherited the economic policy towards China during the Mahathir period, and still maintained active and positive approach to China, and further expanded the areas of cooperation between the two countries as well as consolidated the development achievements of the two countries. Compared with Badawi, Najib has shown a more open and proactive attitude in his relations with China, which is manifested in his initiative to sign relevant economic projects with China, frequent visits to China and support for Chinese companies to carry out related activities in Malaysia etc. During Najib's term, the emergence of BRI had an important impact on China-Malaysia economic relations. As China's most important economic project so far, BRI aims to connect countries in the world closely, provide funds and technologies for their development, and promote the common development of all countries. And Malaysia, which enjoys great geographical values, will not miss this precious opportunity.

Najib decides to join the BRI project decisively and fully supported and welcomed the project and launched various measures to develop and promote the cooperation between China and Malaysia surrounded BRI. It can be said that the BRI project is an important motivation, not only because it shortens the political distance between Malaysia and China and deepens the close ties between the two countries, but also because it provides sufficient investment and important technology for the development of Malaysia, changing local infrastructure and providing many employment opportunities and improving people's income (Yu, 2017; Yean, 2018; Zhang et al,2020). Under the influence of BRI, Najib paid more attention to developing economic relations with China and pushed more open and active economic policies to attract Chinese investment. However, BRI also caused some controversies, mainly including: debt risks, intransparent content of cooperation projects, corruption issues and national security risks, etc (Loh, 2017; Balding,2018;), and the 2015 South China Sea Arbitration also led to disputes and conflicts between Malaysia and China in

the South China Sea over sovereignty issues and at the same time also led Malaysia to examine whether its economic policy toward China still needs to be maintained or changed.

However, despite many challenges such as the South China Sea issue, from a practical point of view, the economic development of China and Malaysia during the terms of Badawi and Najib has continued to develop and rise, and China has also been Malaysia's largest trading partner for many years. As shown in Figure 2, growth of export from Malaysia to China has continued to grow for many years, and the trade between the two countries has continued to develop upward. Therefore, during this period, Malaysia's economic policy towards China is still active and positive, economic development is still the core of China-Malaysia relations, and political and security issues are placed at the second level.

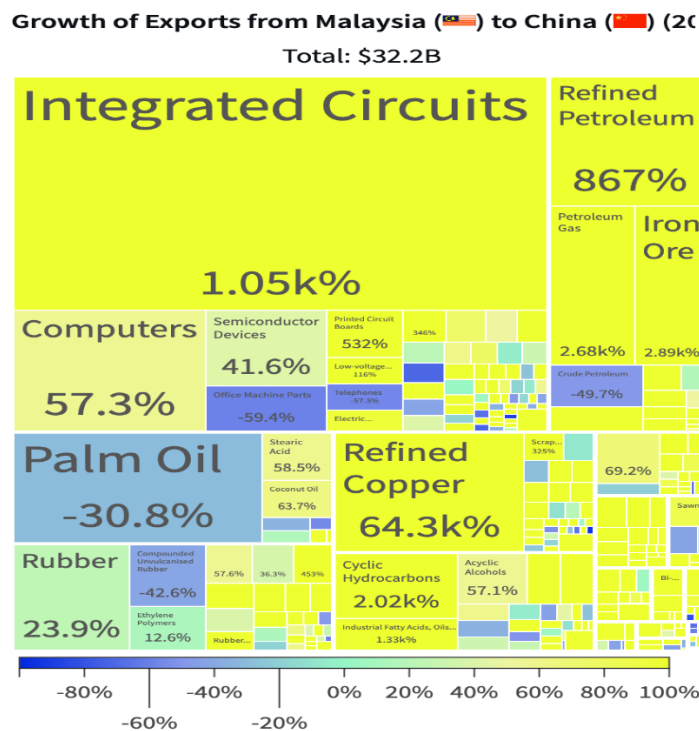


Figure 2 Growth of Exports from Malaysia to China 2008-2013
 (Cited by OEC.World, <https://oec.world/en/profile/bilateral-country/mys/partner/chn?compareExports0=comparisonOption5&dynamicBilateralTradeSelector=year2018&measureBilateralTradeSelector=vizValueOption3&subnatTradeValueSelector=tradeScale2>)

Conclusion

In this article, researcher systematically review the development of Malaysia's economic policy towards China from 1974 to 2018 and analyze what factors have affected Malaysia's economic policy towards China during this period, and summarize the impact of economic policy on China-Malaysia economic relations. Researcher also systematically review the characteristics of Malaysia's economic policy towards China since 1985 and analyzing the motivation behind the economic policy towards China during Mahathir and Najib.

By reviewing the development of Malaysia's economic policy towards China, we can see that the development of Malaysia's economic policy towards China has shown a continuous and rising curve, and this economic policy has shown a progressive and proactive development as a whole. Overall, the Malaysia-China economic relationship from 1974 to 2018 can be subdivided into two stages. The first stage is from 1974 to 1985. During this

period, Malaysia focused on the New Economic Policy (NEP) and did not pay much attention to the development of economic relations with China. It is relatively passive and conservative in its economic policy towards China. Meanwhile, Malaysia-China economic relations did not have much progress and interaction during this period. In the second stage, from 1986 to 2018, as Mahathir became the leader of Malaysia, his pragmatic and active foreign economic policies effectively promoted the recovery and progress of Malaysia-China economic relations, and on this basis, for the Badawi and Najib administrations have provided valuable experience and inspiration in handling economic relations with China. If Mahathir opened the door to the rapid development of Malaysia-China economic relations, Badawi made an important contribution to the development of Malaysia-China economic relations, thus realizing prosperity of Malaysia-China economic relations during the Najib government. In the essence of the development of economic relations, Malaysia has always insisted on adopting a hedging strategy to deal with its economic relations with China and this hedging is a relatively soft hedging rather than a hard hedging, which relies on pragmatic economic means to handle relations with China. This is mainly reflected in the fact that Malaysia does not use coercive military means to handle relations with China.

Although the two countries have natural differences and contradictions on the South China Sea issue, Malaysia still takes advantage of positive and firm economic policies towards China to gain political benefits, and at the same time rely on China's huge economic volume to promote Malaysia's economic growth and development. Malaysia's hedging strategy is mainly affected by two factors. The first factor is the asymmetry of relative strength. As a small country, Malaysia and China have inherent gaps and asymmetries in their power. In addition, in recent years, Chinese capital has continued to infiltrate into Malaysia, which has led to Malaysia's suspicion and concerns on Chinese economic investment when developing economic relations with China. One of the purposes is to avoid Malaysia's over-reliance on China's economy, if not will bring risks and uncertainties to its own national security and interests. The second factor is the principle of neutrality. As a small country, one of the principles of Malaysia's long-term foreign policy is to adhere to its own neutrality and to avoid being involved in geopolitical competition between major powers, thereby threatening its own security and interests. And the rising geopolitical tensions between China and the United States in recent years have adversely affected countries which maintain frequent economic dependencies on the two countries. Therefore, out of the principle of maximizing national interests, the hedging strategy has played an important role in the development of Malaysia's economic relations with China, which not only strongly promoted the development of economic relations with China, but also effectively defended its own interests and safety.

Therefore, from 1974 to 2018, despite the change of domestic government, Malaysia has not fundamentally changed its economic policy towards China and has always adhered to the principle of small country pragmatism. Under the premise of pursuing its own interests, Malaysia uses hedging strategies effectively to deal with economic relations and conflicts with China. From the perspective of long-time development, Malaysia still needs to adopt an active and effective economic policy towards China to consolidate and advance its economic relations with China, especially since Malaysia has experienced the domestic political crisis and the impact of the Covid-19 pandemic successively after 2018, the cooperation with China will greatly promote the economic recovery and development of Malaysia. But at the same time, Malaysia needs to avoid over-reliance on China's economy, and also needs to consolidate and develop economic relations with other countries such as the United States,

so as to reduce the risks and uncertainties brought about by the Chinese economy and promote the stable development of its own economy.

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