10 Beyond strategic hedging

Mahathir's China policy and the changing political economy of Malaysia, 2018–2020

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Introduction: towards a Constructivist approach to Malaysian foreign policy

In Mahathir Mohamad's controversial political manifesto entitled *The Malay Dilemma*, published in 1970, 11 years before taking up his first prime ministership (1981–2003), he highlighted the substantial economic disparities between the Malays and the ethnic Chinese, calling for the Malaysian government's affirmative actions to provide protection and comprehensive support for the Malays who are "sons of the land." The implementation of the New Economic Policy (NEP) since the early 1970s has significantly reduced the economic gaps between these 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.¹

While the dilemmas faced by the Malays identified initially by Mahathir might have largely faded away half a century after *The Malay Dilemma*'s publication, the deep-seated question about national and ethnic identity remains at the core of Malaysia's politics and directly or indirectly impact upon its diplomacy. The country has now faced new sets of dilemmas that are intricately embedded in the domestic and international political economy within a fast-changing region symbolised by the rise of China and its growing clout in the region as well as intensifying US-China confrontations, especially over the past decade. While China was amidst the turmoil of the Cultural Revolution in 1974 when the two countries established diplomatic relations, it has risen to become the second largest economy in world. In the meantime, the beginning of the Trump administration in early 2017 witnessed the escalation of the American-China rivalries in almost all spheres, ranging from diplomatic and trade to technological and ideological. The global COVID-19 pandemic has further fuelled the competitions between the two major powers in both the international and regional arenas. All these have inevitably affected Malaysia's foreign policy options, including its relations with China and the US.

Malaysia's foreign policy choices, therefore, are increasingly shaped through a complex process of (re)negotiations among different stakeholders, both internally and externally. As two of the three largest trading partners of Malaysia, both China and the US have significant impact upon the country's reindustrialisation

and its trade, which account for 130.50 per cent of its total gross domestic product (GDP) in 2018, according to the World Bank national accounts data.² As one of the most dynamic economies in Southeast Asia, Malaysia's domestic politics, including racial politics, are also to affect China's grand strategies such as the Belt and Road Initiative (BRI) that was launched in late 2013 and, to a lesser extent, America's Indo-Pacific Strategy, which was the Trump administration's defining foreign policy towards the region with the key goal of containing China.³

It was against such a fluid domestic and global milieu that the 92-year-old Mahathir rose to power once again, after winning, quite unexpectedly, the nation's 14th General Election in May 2018. Although Mahathir 2.0 was short-lived in its political life, ending on 29 February 2020 due to internal frictions within the ruling coalition,⁴ as this chapter argues, his foreign policy towards China represented some major departures from both his first prime ministership and his immediate predecessor, Najib Razak (2009–2018), and heralded some key characteristics that have an impact upon Malaysia's future diplomacy.

The existing literature concerning Southeast Asian nations' China policy over the past two decades has been dominated by the "strategic hedging" framework. The concept of strategic hedging is introduced as "a core strategy for second-tier states operating in the current deconcentrating unipolar system with the United States as system leader,"⁵ and it has been suggested that "Southeast Asian states have sought to maintain their strategic autonomy by adopting hedging strategies to secure economic and security benefits from different partners".⁶

In a number of studies, Kuik has argued that

the enduring uncertainty at the systemic level has compelled the states to hedge by pursuing contradictory, mutually counteracting transactions of 'returns-maximizing' and 'risk-contingency' options, which seek to offset the potential drawbacks of one another, as a way to project a non-taking-sides stance while keeping their own fallback position at a time when the prospect of power structure is far from clear.⁷

A recent study on Mahathir's China policy after 2018 also contended that "Malaysia has demonstrated a cautious hedging strategy that overall tends to acquiesce toward China, even in areas of tension."⁸

The strategic hedging thesis, in its own right, has provided some instrumental insights in explaining the rationality and choices of foreign policy behaviours of smaller powers such as those in Southeast Asia in avoiding "bandwagoning," which is "often defined as the opposite of balancing, or the choice of allying with the stronger or threatening side."⁹ However, there is a need to consider other alternatives beyond Neo-realism and Neo-liberalism, which focus on the state's material power and serve as main theoretical foundation of strategic hedging.¹⁰

This chapter is not only informed by a recognition of the political economy's significant role in shaping foreign policies, but it is also inspired by the Constructivist approach in International Relations (IR), which "emphasizes the social and relational construction of what states are and what they want."¹¹ Contrast

to materialism interpretation, Constructivism looks at “international politics not just about materials forces such as power and wealth but is also shaped by subjective and intersubjective factors, including ideas, norms, culture and identity.” This approach is particularly relevant for third world countries where “ideas and ideologies are far more important than power or wealth.” This is perhaps a reason that Constructivism has gained “popularity in Southeast Asia,” with scholars looking to the local historical resources as a basis for IR theorising.¹²

From the perspective of China-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. First, 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 towards the region.¹³ Second, the state-centric perspective has been 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.¹⁴

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 the region’s diplomacy towards China.¹⁵

With the previous brief discussion on various approaches to a rising China in Southeast Asia and Malaysian foreign policy, this chapter addresses the following questions: How did the “China factor” contribute to Malaysia’s domestic political transformation leading to the re-emergence of Mahathir in May 2018? What were Mahathir’s and his government’s policies towards China (and by extension, the US-China rivalries)? What were key elements in Mahathir’s foreign policy that are not adequately explained by the dominant framework of strategic hedging? How did domestic political economy and other social factors shape his perceptions and policy choices with respect to international power politics (and vice versa)? What are the implications of Malaysia’s experiences under Mahathir 2.0 for a better understanding of the local initiatives and interests of small powers in responding to and affecting great power politics?

This chapter is organised into three main sections. The first part briefly discusses the factors leading to Mahathir’s resurgence, including the role of the opposition alliance’s anti-China rhetoric before and during the general election. The second section examines 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 announced in June 2019. The third part analyses Malaysia's policies towards the BRI through a case study of the East Coast Rail Link (ECRL) project as well as Mahathir's positions on Huawei, which has been a hotly disputed issue between the US and China in recent years. Apart from exploring the implications of Malaysia's dilemmas in a broader context of international political economy, the concluding section highlights the importance of going beyond strategic hedging by giving greater attention to significant roles of local agency (interests, institutions and players) in engaging great power politics, which in turn points to the validity of Constructivism in deciphering Southeast Asian foreign policies towards a rising China. In short, this chapter goes beyond the existing debates between rebalancing and hedging theses and aims to place the emphasis on how small and middle powers articulate and advance their own interests amidst intensified great power contestations.¹⁶ Data for this chapter are mainly drawn from relevant policy documents and speeches published 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.¹⁷

The China factor and Mahathir's re-emergence

Mahathir's China policy during his second term between May 2018 and February 2020 started from the fact 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 US\$1.6 billion (equivalent to 17.5 per cent 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 2018.¹⁸ Chinese FDI has eclipsed those from the Netherlands (11.7 per cent of inward FDI), Germany (9.5 per cent of inward FDI), the UK (9.5 per cent of inward FDI), Korea (8.0 per cent of inward FDI) and Singapore (7.7 per cent 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 was a key player in the ruling 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 14th General Election. The UMNO-led coalition lost power not only at the federal level but also in several important states, including Johor, its birthplace and traditional vote bank.

While there were complex factors leading to UMNO's defeat, such as "credible personalities" embodied in Mahathir and pre-electoral coalitions,¹⁹ the disquiet surrounding the Najib administration's management of the BRI and its relations with China was one of the more prominent factors in unseating the ruling coalition. Indeed, one of the main pledges 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-estate 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 of more than 300,000 residents upon completion (most of whom are expected to be from China). Mahathir severely criticised 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.”²⁰ 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.²¹

As a reflection of growing influence of foreign affairs upon the 14th General Election²², the China factor had also been politicised in Malaysia’s ethnic politics surrounding the election. The Malaysian Chinese Association (MCA), which was the key ethnic Chinese party in the BN government, had been a strong supporter of the BRI, even making it one of the ten pledges in the election campaigning in 2018, in addition to setting up a BRI unit within the party to promote Chinese business participate in the BRI.²³ The MCA’s attempt to play the China card, however, did not seem to work in its favour; it antagonised the other Chinese opposition party during the election campaign, which accused the MCA for using the poster of Chinese leader’s handshaking with its chairman during the campaign. The 2018 election saw the worst performance of the MCA since independence, winning only one seat in the federal government, a big drop from the previous general election.

In any event, Mahathir’s success at mobilising 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 interlinked 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 of Malaysia – should not be overlooked. What is important is how these local imperatives are articulated and institutionalised and how they are presented to major powers, which in turn shape the outcomes of diplomacy and international politics.

New foreign policy frameworks and Mahathir’s positions towards China

When Mahathir assumed power after the May 2018 Election, he had to face the realities that would prevent him from translating his anti-China election campaign rhetoric into policy. Instead, domestic priorities served as the guiding principle

of his positions towards China and big power politics, and the great powers possibly had to make some concessions in confronting these domestic-driven foreign policy agendas.

Mahathir's top domestic agenda after taking over the government was to ensure regime legitimacy and stability, especially for a coalition government (*Pakatan Harapan* or Hope Alliance) in which his own party, *Parti Pribumi Bersatu Malaysia* (known simply as Bersatu), was the minority, and a majority party in the alliance, *Parti Keadilan Rakyat* (People's Justice Party), led by Anwar Ibrahim who was slated to take the premiership within 2 years. In the meantime, he had to ensure that the influence of his predecessor, Najib Razak, and the UMNO, would be curtailed. His foreign policy had to facilitate or at least be broadly consistent with this political agenda.

This agenda had been reaffirmed by the new Foreign Policy Framework of the New Malaysia launched in June 2019.²⁴ In his preface to the policy document, which was the first such foreign policy document in the independent Malaysia, Mahathir highlighted 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." At the document's launch, Mahathir emphasised both continuity and change:

We are living in a world where changes take place at a rapid pace. These changes bring both challenges and opportunities. It is, therefore, only logical that Malaysia does not stick to the traditional methods of engagement and instead proactively seek to explore new approaches.²⁵

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

which 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.

Pertaining to economic interests, there was a profound reason that would prevent Mahathir's anti-China rhetoric (such as on Chinese investments) from being implemented. China continued to be a key economic partner for Malaysia after the establishment of the new regime. According to the then Deputy Prime Minister

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 2017.²⁶ 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 had a high degree of exposure to the Chinese economy, with China being both its largest trading partner and a top source of tourists.²⁷

In terms of security, being a pragmatist, Mahathir had tried to contain potential conflicts with China over the South China Sea issue, for which Malaysia is a claimant over the disputed territories. Mahathir had proposed the non-militarisation of the disputed waterway and for it to be turned into a region of peace, friendship and trade.

Essentially, the South China Sea should be a sea of cooperation, connectivity and community-building and not confrontation or conflict. This is in line with the spirit of Zone of Peace, Freedom and Neutrality (ZOPFAN). Malaysia will actively promote this vision in ASEAN according to the Framework.²⁸

Indeed, this position was also in concordance with the so-called Mahathir Doctrine, which was thought to include the principles of neutral and non-alignment, mutual respect for mutual gain in any cooperative endeavour; the importance of the “prosper-thy-neighbour” philosophy, and a formula for reforming the Security Council.²⁹ Aware of his country’s limitations and domestic priorities, Mahathir remarked candidly in 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.”³⁰

Finally, in terms of identity, as a long-time advocate of the so-called “Asian Values” and South-South Cooperation, Mahathir saw his country’s foreign policy partially through the lens of civilisation, though this did not mean that the country would automatically side with China in its confrontation with America. It has been pointed out that “Mahathir’s contributions [during his first prime ministership] to a wider East Asian regionalism are a lasting legacy,”³¹ and this legacy was extended to his second term. His Foreign Minister Saifuddin Abdullah described in June 2019 that the Sino-Malaysian bilateral relations as being “also civilizational, it’s a very unique kind of relations.” He was quoted as saying

Malaysia wants to learn more from China, especially in new technologies, robotics, Artificial Intelligence (AI), even in agriculture, we are sending our people to learn from your research and development. Between Malaysia and China, our relations go beyond political, bilateral and trade – it is also civilizational.³²

In a broader sense, Mahathir’s policy towards China could be understood in this historical continuity of “moral balance” and “a strongly organic concept of regionalism.”³³

The intertwining of economy and diplomacy: from ECRL to Huawei

As mentioned earlier, domestic political economy, alongside key issues such as economy, security and identity, played a main role in shaping Mahathir's foreign policies, which are beyond the strategic hedging framework. We illustrate our argument by examining the changing fate of the East Coast Rail Link (ECRL) with respect to Sino-Malaysian ties and Mahathir's views on China's telecom giant Huawei as a part and parcel of the US-China trade after 2017.

The case of ECRL's renegotiation 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 country/party's own political interests. ECRL was initially orchestrated by the China Communications Construction Company (CCCC), an SOE, with strong endorsement by Najib Razak when he was in power. Najib considered that the ECRL project would be a "game changer" on the East Coast, driving an additional economic growth rate of 1–1.5 per cent per year in Pahang (his home state), Negeri Terengganu and Kelantan states³⁴ and connecting them with Selangor, the country's most prosperous state. With state-owned CCCC as the main contractor and with 85 per cent of the construction cost financed by soft loans from Beijing, ECRL was valued at a sum of US\$18.2 billion. It had been fast-tracked by the government to commence construction in July 2017 rather than in late 2017 as initially expected.³⁵ 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.³⁶ The 600-km 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, which helps explain partially China's strong interest in continuing this project with smaller profit margins. Upon completion, it will connect Pahang's Kuantan Port (jointly managed by a Malaysian conglomerate and Guangxi Beibu Gulf International Port Group, a China SOE) to 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, what it calls the "Malacca Dilemma."³⁷ As some 80 per cent 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. While a combined sea and land route via Kuantan Port and ECRL is estimated to cost more (in bulk cargo per ton) than the existing sea route via Singapore, the travel time can be shortened by 30 hours (18 per cent reduction from current levels).³⁸ 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 criticised “new colonialism” in a joint press conference (with Chinese Premier Li Keqiang) and stressed that “free trade should also be fair trade,”³⁹ 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.” He said on another occasion that Malaysia might cancel the project altogether.⁴⁰ While Mahathir’s decision to shelve ECRL had been interpreted as a cost-cutting measure, its more important goal was likely to shrink the economic base of the Najib clique. More practically, ECRL’s shelving (or de facto renegotiation) did not negate the fact that despite losing the control over the federal government, UMNO and Malaysian Islamic Party (PAS) had 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 needed voters from these states with some segments of the Malay-heavy constituencies potentially tapping into ECRL’s spillover effects, including allocating more contracts to the Malays.

Against this background of the renegotiation, as a seasoned politician, Mahathir changed his tone about China and the BRI. Speaking in Beijing in April 2019, during his second official visit to Beijing after reassuming power, he pledged to support the BRI, 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.” Considering the BRI would improve ease of travel and communication, he said that “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 [will be] reduced.”⁴¹

After a lengthy process of negotiations, China agreed in July 2019 to cut the cost of ECRL project by one-third, down to 44 billion ringgit (US\$10.7 billion), with the Export-Import Bank of China financing 85 per cent 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 was set to purchase an additional 1.9 million tons of palm oil from Malaysia over the next 5 years.⁴² 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 had passed an act earlier in the year to phase out palm oil from renewable fuel by 2030 over deforestation concerns, which in turn would severely affect the livelihood of the Malaysian farmers, thus weakening Mahathir’s power base.⁴³ What was equally important for the relaunched project, therefore, was that that “at least” 40 per cent of civil works would be handed to local contractors.⁴⁴

It should be pointed out, however, that Mahathir’s newly found support for the BRI was not unconditional. While trade and investment from China were sought after for the purpose of boosting economic development and political legitimacy at home, Mahathir attempted to contain China’s ideological influences *and* maintain Malaysian national identity. He argued that Malaysia is a multiracial country

where racial sensitivities remain prevalent, as he declared in his keynote address at the ISIS Praxis conference held in Kuala Lumpur on October 21, 2019:

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,

Commenting 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.⁴⁵

It was perhaps against this background of Mahathir's concern that this comic (in both Chinese and English) was banned from circulation a few days after his remarks. Ironically, this comic was presented by Mahathir himself to the Chinese president during his official visit to Beijing in April 2019.

For China, the renegotiation was necessary for both economic and geo-strategic reasons: the trade volume between the two countries stood at US\$108.6 billion (RM455.8 billion) at the end of 2018, equivalent to 20 per cent of the total trade between China and ASEAN countries.⁴⁶ More importantly, the geopolitical significance of the BRI projects was most clearly reflected in ECRL. As mentioned, connecting the Kuantan Port to Port Klang could resolve China's perennial "Malacca Dilemma." The success of Malaysia would serve as a meaningful showcase for the 60-plus 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 in Xinjiang – considered by Beijing to be core national interests – 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/losses.

In short, as the then Deputy International Trade and Industry Minister Ong Kian Ming put it,

ECRL is a very interesting test case not just for Malaysia in the context of BRI, but globally, in finding sustainable ways to make sure that the project can be manageable in terms of financing and risk mitigation in the long-term.⁴⁷

The re-launching of the ECRL project has demonstrated the complex intertwining of domestic political economy and diplomacy. In particular, Malaysia had successfully projected its own interest upon China, which was willing to make concessions based upon its long-term economic and geostrategic considerations.

Mahathir's skilful manoeuvring ensured the negotiation in Malaysia's national interests, which also facilitated his own political agendas (e.g., in reducing Najib's influences in some regions alongside the ECRL).

The global economy has been significantly affected by the US-China trade war since 2017, which is in itself a component of great power rivalries that has continued to shape the world. As a small power, Malaysia has, just like other countries in the region, been caught in the middle and faces major dilemmas whether to choose sides. As Joseph Liow pointed out in his study of Sino-Malaysian relations in the 1990s, "small states do matter in international relations, as they are often the battlefield upon which evolving major power rivalries are played out."⁴⁸ For one thing, alongside China and Singapore, America is one of the three largest trading partners to Malaysia. Whilst in the initial months of the American-China 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 and clear-cut due to a complex set of reasons beyond Malaysia's control.⁴⁹

Since the early phase of the trade war, the Chinese telecom giant Huawei has been in the centre of the confrontation, with its products and services being black-listed by the US and some of its Western allies such as Australia and the UK. Malaysia's attitudes to the trade war and the Huawei ban, therefore, could be seen as a test case of its strategic positioning in the great power rivalries. Traversing through the dilemmas, Mahathir again skilfully turned the disputes to his own agenda of promoting reindustrialisation and the fourth industrial revolution.

Mahathir stated in October 2019 that Malaysia's economic growth relies on trade, and so the country needs markets and "cannot afford to make enemies."⁵⁰ While lamenting how Malaysia had been "caught in the middle" and could be hit with trade sanctions amidst rising protectionism, highlighted by the US-China trade war, 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."⁵¹

Two major considerations shaped Mahathir's positions on Huawei. The first was his view on free trade from which Malaysia has benefitted greatly, and the other was his domestic development agenda of moving the country in the global chain of technological innovation, major Chinese tech corporations such as Huawei and Alibaba thus present viable opportunities for Malaysia to cooperate with.⁵² Mahathir, therefore, believed strongly that the Trump administration's decision to ban Huawei was "not the way to go." In his keynote speech at the Nikkei Future of Asia Conference in May 2019, 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.⁵³

Mahathir's supportive view of Huawei, among the strongest from an Asian leader, was echoed by the public and private sectors in the country. In June 2019, the then Foreign Minister Saifuddin Abdullah said that when Malaysia was facing the problem in selling palm oil 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'."⁵⁴ In a similar vein, the then Finance Minister Lim Guan Eng told an audience in Kuala Lumpur in August 2019:

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 added that Malaysia was keen to learn from Chinese advances in artificial intelligence (AI), advanced materials, robotics and cloud computing.⁵⁵ According to Malaysia-China Business Council (MCBC) Chairman Tan Kok Wai,

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.⁵⁶

Apart from engaging with Huawei, Mahathir's Malaysia was also tapping on the e-commerce sector with assistance from Alibaba in developing warehousing technology and from Tencent Holdings in mobile payments. During his official trip to China in August 2018, Mahathir made a point of visiting Alibaba headquarters in Hangzhou and took a high-speed train ride from there to Shanghai. Impressed with the company's use of modern technology, he remarked that "Malaysia could tap on your innovative ideas so that we can benefit too from modern technology."⁵⁷ In the meantime, unlike infrastructure projects that are more prone to disputes and competing interests from local and national forces, technological innovation projects, for instance, by Alibaba and Huawei, similar to private investment projects in the manufacturing sector, encountered less problems at home.⁵⁸

Concluding remarks⁵⁹

Lasting for only 22 months, the Mahathir 2.0 administration was short-lived. But his China policy has shown some important departure from his predecessor and highlighted the importance of going beyond the conventional approach of strategic hedging. This chapter has demonstrated the complicated domestic political and economic interests in shaping Mahathir's policies towards China (and to some extent, the US-China rivalries). Despite its power, wealth and technical

expertise, China cannot forge ahead without understanding the aspirations of the Malaysian stakeholders and accommodating the latter's interests in the foreign policy formulation and implementation. As we have shown elsewhere, BRI projects require these stakeholders' cooperation (or at the very least, non-hindrance), and China's interactions with Southeast Asia have been shaped by the latter's own social, political and economic interests and agendas.⁶⁰ The articulation, institutionalisation and implementation in the foreign policy arena of these interests, furthermore, validate the Constructivist approach to international relations, especially among non-Western nations.

This chapter has underlined the value and necessity of looking beyond conventional literature that depict smaller countries such as Malaysia as merely on the receiving end of the bigger powers' diplomacy or just reacting 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) reinforced our earlier argument that Malaysia's foreign policy towards a rising China is contingent upon three key conditions: fulfilment of Malaysia's long-standing pro-ethnic Malay policy (including through Malays' involvement in the BRI-related projects such as ECRL), supporting the country's economic development and reindustrialisation, and advancement of geopolitical interests for both Malaysia and China.⁶¹ These key conditions, moreover, can be translated into foreign policy options partly because China, based upon its own long-term economic and geo-strategic considerations, has been willing to accommodate Malaysia's domestic interests and minimise the potential tensions.

Our cases have also shown that a seasoned politician such as Mahathir has the capacities of skilfully converting the dilemmas the country faces to operational policy options to advance not only the country's own economic development agendas but also the political interests of the respective (dominant) groups in their quest for power. In terms of the influence of personality on foreign policy, Mahathir 2.0 represents a continuity from his first premiership and a discontinuity from his immediate predecessor.⁶² It is, therefore, imperative to pay greater attention to local interests, initiatives, identity, ideology, agencies and institutions – all these are important elements in the Constructivist approach to international relations – in taking advantage of the changing global and regional environments for smaller powers' own agendas. It is from the conjuncture of all these factors and various interests that we should take our analysis of Malaysia's policy towards China beyond "strategic hedging."

Notes

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