



YOUNG LEADERS
PROGRAM

**MANAGING MALAYSIA-CHINA
AMBIVALENT RELATIONS: ECONOMY
AND SECURITY IMPERATIVES**

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Anwar Ibrahim (center) with China's Vice-Minister of Foreign Affairs Sun Weidong (right) at Beijing Capital International Airport on March 30, 2023.

Under the leadership of Anwar Ibrahim as the 10th Prime Minister, Malaysia looks to solidify its ties with China in a robust economic partnership. The outcome of Anwar's [visit](#) to China in March 2023 is a testament to Malaysia-China's strong relations. The signing of 19 memorandum of understanding (MoU) that generates investment commitment from China [worth](#) USD 37 billion signifies Chinese economic importance to Malaysia. The reputation is further strengthened by the 2022 [bilateral](#) trade number of USD107 billion, a 15.6 percent increase from 2021.

Anwar Ibrahim, like his predecessors, did not derail overall Malaysia's China policy amid the geopolitical contestation and China's assertiveness in the South China Sea. The boon of China as a key partner will further consolidate Malaysia's trajectory in trade, investment, and connectivity. With the new [announcement](#) for the second 5G network in Malaysia,

Huawei is considered a favorite due to its technological prowess, and its long-time presence and key [collaborator](#) with local players in Malaysia.

Looking back in history, the transition of Malaysia's foreign policy shift from pro-West to non-aligned and neutrality principles in the late 1960s led to a more pragmatic diplomatic move, manifested in the 1974 Malaysia-China bilateral ties. Since then, Malaysia-China relations has strongly driven by diplomatic and economic domains notably during Mahathir Mohamad's first term administration and Najib Razak era, on trade and infrastructural projects.

However, alarming concerns over Chinese assertiveness near Malaysian sovereign right in the South China Sea are looming over its benign relationship. Key events of assertive behavior on the continuous [encroachments](#) on Malaysian exploration near Luconia Shoals, the 2020 West Capella [standoff](#) involving Malaysia's oil and gas operations, and the 2021 PLA's jet [incursion](#) near Malaysian airspace, are detrimental to Malaysia's sovereignty and overall bilateral relations.

In terms of economic partnerships, bilateral trade numbers and the Belt and Road Initiative (BRI) projects are beneficial to Malaysia's development. However, questions arise on the asymmetrical interdependence that might succumb to overdependency issues toward China over trade and connectivity projects. In fact, the concerns have manifested into domestic politics [interplay](#) in the period of the 14th General Election and 2018 Mahathir Mohamad's second term over China-related infrastructure projects in Malaysia, and its [connection](#) with the 1MDB cases.

The security challenges in the maritime domain, along with the massive webbed of China's economic partnerships with Malaysia that might trigger an overdependency debate, are the two-pronged China's strategic behavior that Malaysia needs to be cautious upon.

It is crucial for Malaysia to revisit its overall Malaysia's China policy which has been long dominated by economic imperative. Especially since

the challenges that China possessed on both high- and low-politics, Malaysia must embark on a more deliberate and pronounced response toward the South China Sea issues. Hence, as Malaysia's sovereignty and sovereign rights in the South China Sea have been constantly challenged and the ramifications have spilled over to domestic discourse, Malaysia's China policy needs to depart from its low-profile response towards a vocal and direct stance.

Malaysia's new stance on being bold in the South China Sea issue is in parallel with the 2020 Malaysia [Defence White Paper](#) and 2021 Malaysia's foreign policy [framework](#) that strongly indicates the South China Sea as the key priority. With the persistent challenges in the South China Sea that are directed near Malaysian water and airspace, it is necessary to have pronounced responses without triggering any provocation and unwanted retaliations toward the economy and security.

With an ambivalent relationship in the economy and security domains, Malaysia is at a crossroads on how best to maneuver its relations with China. With the debated [remark](#) by Anwar Ibrahim on the South China Sea that gained traction among the Malaysian public, conceiving a new strategic approach to China is paramount to be navigated.

Malaysia, collectively, should start rethinking its China policy. With Malaysia's foreign affairs gradually prone to [domestic imperatives](#) and the public and the [politicians](#) growingly involved in the discourse, China's assertiveness must be wisely managed. For Malaysia to contend with China's two-pronged strategic behavior, crucial actions are needed to steer both opportunities and adversities in multi-layered domains.

Firstly, as Malaysia-China's economic cooperation is growingly significant and continues to strengthen, Malaysia should seek to explore other credible partners and markets to diversify its bet in low-politics domains. Malaysia should manifest the cornerstone of ASEAN in its foreign policy by bolstering economic partnerships. Although China is Malaysia's biggest trading partner, [ASEAN](#) possessed a monumental share in Malaysia's trading market of USD 170 billion

representing a 27.1% share in 2022. ASEAN is the fertile ground for more robust economic partnerships that Malaysia must strategically leverage. With endless opportunities presented and expedited by COVID-19 on digital connectivity, the enormous [market](#) of the digital economy of ASEAN is key for Malaysia to be explored.

Secondly, the utilization of the UNCLOS and international law and norms must be constantly reiterated in order to stake Malaysia's claim in the South China Sea. Malaysia shows its resiliency in adopting legal instruments through joint submission with Vietnam in 2009 and sole submission in 2019 to the Commission on the Limits of the Continental Shelf (CLCS) on the continental shelf claims in the South China Sea. As the signatory of UNCLOS in 1982 and the 1996 ratification, Malaysia's claim and sovereign rights in the South China Sea have been driven by the UNCLOS, notably on the exclusive economic zone (EEZ) for oil and gas and fisheries industries. Next, Malaysia must rally ASEAN member states to conclude the negotiation of the ASEAN-China Code of Conduct to ensure a peaceful process and stability in the South China Sea. As the negotiation might be able to conclude soon, it is paramount for Malaysia to have a proper mechanism in dealing with the process particularly when Malaysia assumed ASEAN chairmanship in 2025.

Thirdly, Malaysia must advance both its national maritime capabilities and credible partnerships with key partners. The national maritime capabilities need enhancement through the increased annual budget allocation for defense procurement to bolster assets capacities, while improvising cross-agencies cooperation and coordination to safeguard Malaysian interest in the South China Sea. Externally, a more proactive security and defense cooperation with key partners through bilateral, unilateral, and multilateral arrangements with ASEAN and extra-regional powers is vital for Malaysia's maritime capabilities trajectory. The mechanisms of joint training and exercises can help improve Malaysia's interoperability and capacity-building in maritime areas. Plus, the [coast guard](#) cooperation through [ASEAN](#) and key countries like the US is vital to be advanced.

Nevertheless, Malaysia's China policy must be reviewed in a holistic way to avoid the repercussions that are deleterious to the Malaysian economy, and without compromising its sovereignty and territorial integrity. Thus, political will and proper strategic thinking are required in hedging its bets across multi-layered domains in protecting Malaysia's interest in economy and security.

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