CHANGING DYNAMICS OF MALAYSIA'S RELATIONS WITH CHINA, 1989-2011

Thesis submitted to Jawaharlal Nehru University

for the award of the degree of

DOCTOR OF PHILOSOPHY

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2017

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Date 13/02/2017

DECLARATION

I declare that the thesis entitled **"CHANGING DYNAMICS OF MALAYSIA'S RELATIONS WITH CHINA, 1989-2011"** submitted by me for the award of the degree of **Doctor of Philosophy** of Jawaharlal Nehru University is my own work. The thesis has not been submitted for any other degree of this University or any other university.

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CERTIFICATE

We recommend that this thesis be placed before the examiners for evaluation.

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LATE BABA (GRANDFATHER)

Acknowledgement

In the process of completion of this study, I have received invaluable guidance and constant encouragement from my Supervisor Prof. Manmohini Kaul. I have benefited from her immense knowledge, expert advice and incisive research guidance. She painstakingly revised and corrected the draft of the thesis till it was made into a coherent and concise, and academically contributive one. Without her critical comments, suggestions and constant support, this work would not have been possible. She has been a great source of inspiration and encouragement for me. I really feel proud to be her student and I wish that every student should be bestowed with such a great teacher and mentor like Kaul mam. No words are enough to express my sincere gratitude for her and I remain indebted to all she has done for me.

I would also like to take this opportunity to express my gratitude to our Chairperson Prof. G.V.C. Naidu, and our faculty Prof. Ganganath Jha, Prof. Shankari Sundararaman, and Prof. Sahadevan for giving me new insights and constructive suggestions regarding my thesis. I also remain thankful to Dr. Varaprasad S. Dolla, Professor in Chinese Studies, Centre for East Asian Studies, JNU, for his invaluable comments and suggestions.

I would like to thank Dr. Cheng Chwee Kuik, Associate Professor in the Strategic Studies and International Relations at the National University of Malaysia (UKM) and Prof. K.S. Balakrishnan, Department of International and Strategic Studies, University of Malaya, for giving me email-interviews regarding my research work and providing me with their invaluable articles. Besides, I would like to express my gratitude and thanks to H.E. Dato' Tan Seng Sung, High Commissioner of Malaysia in India, for insightful discussions about the research.

I would like to express my gratitude to my teachers during the M.A. course, Prof. Ghanshyam and Prof. A. Gangatharan, Banaras Hindu University, for their helpful advice and encouragement.

I also acknowledge the help of the staffs of the Jawaharlal Nehru University Library, the Institute of Defence Studies and Analysis Library, and the Indian Council of World Affairs Library. I am also thankful to the office staff of our School and Centre.

Of course, I am grateful to my friends Humayun Kabir, Mona, Abdur Rahim, Resham Lal, Prashant, Rajeev, Ruth Khan, Mohan ji, Chandra Khemandu, Vimal and all my near and dear ones who have been affable and have helped me in more ways than that they have been aware of. I am also thankful to my colleagues at University of Rajasthan, Jaipur, specially Abhimanyu Singh Arha, Tamegh Panwar, Radha Krishan Baror and Yash Jain for much needed understanding and kind cooperation. Special thanks to Baror ji for proofreading and helpful comments. I am also grateful to my sister-in-law Dr. Manorma Gautam for providing technical help and moral support.

I owe a special debt of gratitude to my Maa and Pitaji. I am what I am only because of their tireless efforts, unconditional love and endless patience. I have no words to thank my wife Mrs. Pushpa Gautam for providing me constant support, company in times of stress and keeping my spirits shored up throughout this difficult task. She has been my best friend during my good and bad times. The thesis would also not have been possible without her support and assistance. No amount of acknowledgement, thanks and dedication can express what my heart feels.

Last, the mistakes in this work belong to me only.

Karmveer Singh

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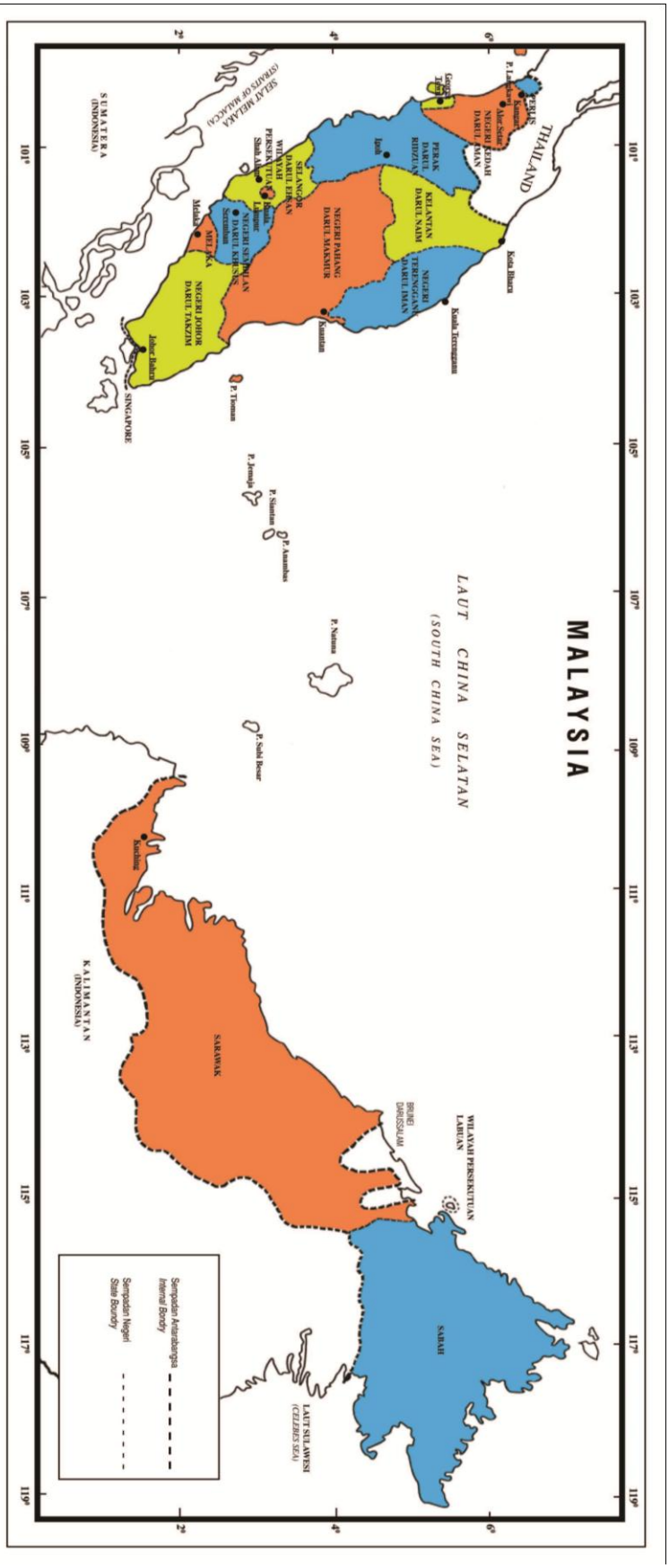
ACCCIM	:	Associated Chinese Chambers of Commerce and Industry of Malaysia
ACFTA	:	ASEAN-China Free Trade Area
ADMM Plus	:	ASEAN Defence Ministerial Meeting Plus
AMDA	:	Anglo-Malayan Defence Agreement
AMF	:	Asian Monetary Fund
APEC	:	Asia Pacific Economic Cooperation
APT	:	ASEAN Plus Three
ARF	:	ASEAN Regional Forum
ASEAN	:	Association of South East Asian Nations
ASEAN PMC	:	ASEAN Post-Ministerial Conference
ASEM	:	Asia-Europe Meetings
ASLI	:	Asian Strategy and Leadership Institute
BFA	:	Boao Forum for Asia
BN	:	Barisan Nasional
BOC	:	Bank of China
CCPIT	:	China Council for the Promotion of International Trade
CNOOC	:	China National Offshore Oil Corporation
CMI	:	Chiang Mai Initiative
CMTA	:	China Muslim Travel Association
CNPC	:	China National Petroleum Corporation
UNCLCS	:	United Nations Commission on the Limits of the Continental Shelf
DOC	:	Declaration on the Conduct of Parties in the South China Sea
CBM	:	Confidence-Building Measures
CPC	:	Communist Party of China
CPM	:	Communist Party of Malaya
E&E	:	Electrical and Electronics
EAEC	:	East Asian Economic Caucus

EAEG	:	East Asia Economic Grouping
EAS	:	East Asia Summit
EIA	:	Energy Information Administration
ETP	:	Economic Transformation Programme
EU	:	European Union
EEZ	:	Exclusive Economic Zone
ECS	:	Extended Continental Shelf
FDI	:	Foreign Direct Investment
FPDA	:	Five Power Defence Arrangements
G-15	:	Group of Fifteen
GATT	:	General Agreement on Tariffs and Trade
GDP	:	Gross Domestic Product
GLC	:	Government-Linked Companies
GNI	:	Gross National Income
ICBC	:	Industrial and Commercial Bank of China
ISIS	:	Institute of Strategic and International Studies
JWG	:	Joint Working Group
JV	:	Joint-Venture
KIG	:	Kalayaan Island Group
KLSE	:	Kuala Lumpur Stock Exchange
LNG	:	Liquefied Natural Gas
MATTA	:	Malaysian Association of Tour and Travel Agents
MCA	:	Malayan Chinese Association
MCBC	:	Malaysia-China Business Council
MCFS	:	Malaysia-China Friendship Society
MFA	:	Ministry of Foreign Affairs
MFN	:	Most Favoured Nation
MIC	:	Malaysian Indian Congress
MIDA	:	Malaysian Investment Development Authority
MITI	:	Ministry of International Trade and Industry
MoU	:	Memorandum of Understanding
NAFTA	:	North American Free Trade Area
NAM	:	Non-Aligned Movement
NEM	:	New Economic Model

NEP	:	New Economic Policy
NPC	:	National People's Congress
OPM	:	Office of the Prime Minister
PLA	:	People's Liberation Army
PRC	:	People's Republic of China
QDII	:	Qualified Domestic Institutional Investor
QIP	:	Qinzhou Industrial Park
RM	:	Ringgit Malaysia
RMN	:	Royal Malaysian Navy
ROC	:	Republic of China
SEATO	:	Southeast Asia Treaty Organisation
SOM	:	Senior Officials Meeting
SCS	:	South China Sea
SPV	:	Special Purpose Vehicle
TAC	:	Treaty of Amity and Cooperation
UK	:	United Kingdom
UMNO	:	United Malay National Organisation
UN	:	United Nations
UNCLOS	:	United Nations Convention on the Law of the Sea
UN DOALOS	:	United Nations Division for Ocean Affairs and the Law of the Sea
UNGA	:	United Nations General Assembly
UNSC	:	United Nations Security Council
UNTC	:	United Nations Treaty Collection
US	:	United States
USSR	:	Union of Soviet Socialist Republics
WTO	:	World Trade Organisation
ZOPFAN	:	Zone of Peace, Freedom and Neutrality



Map-1, Source: Department of Statistics, Malaysia

Map-2, Source: United Nations

Chapter-1

Introduction

1.1 Introduction

Malaysia and China are neighbours who share a long historical relationship which has witnessed both amicable and inimical phases. In the past century, despite ideological and political differences dictated by the Cold War, Malaysia's relations with China have undergone a transformation, evolving from mutual suspicion and hostility to a mutually cordial and beneficial partnership. The end of the Cold War led to a change in bilateral ties, which have experienced a sustained period of stability and cordiality that has allowed the relationship to flourish. More importantly, Malaysian policy planners have gradually shifted their stance on China from perceiving it as a security threat, as they did during the Cold War, to viewing it as an indispensable economic and political ally.

Malaysia's relations with China have been defined and directed by its pragmatic foreign policy towards the latter. As priorities changed, Malaysia's China policy has accordingly evolved. At the time of the establishment of People's Republic of China (PRC) by Mao Zedong in 1949, Malaya was under British colonial rule. The British Malay rulers sought to keep a distance with China because of the Communist insurgency that had erupted in the Peninsula during the previous year. The insurgency was led by the Communist Party of Malaya (CPM), a majority of whose members and supporters were ethnic Chinese, this raised British apprehensions that China might seek to influence and direct the movement. There is no doubt that the Malayan communists did receive support and financial assistance from China and it also became a safe sanctuary for the CPM's exiled leaders.

The policy that the colonial rulers had followed towards China remained unchanged under the Malayan leadership after Malaya became independent in 1957. Although, China recognised Malaya's independence, Kuala Lumpur refused to reciprocate the gesture. The bilateral relations between Malaya and China in their early years of independence were overshadowed by fundamental ideological and political differences as well as mutual mistrust due to the former's bitter experience of Communist insurgency

backed by local ethnic Chinese. Moreover, China's support for Indonesia's policy of 'konfrontasi' or confrontation (1963-66) towards the newly formed Federation of Malaysia (1963) created further tensions in bilateral relations. In addition, the ideological disposition of the Malayan ruling elite was also a strong influence on the shaping of Malaysia's relations with China. Tunku Abdul Rahman, the first Prime Minister of Malaysia, was staunchly pro-West and anti-Communist in his political posture. He was determined to maintain a close relationship with the West and distance Malaysia from Communist China. Under his premiership, Malaysia was aligned with the anti-Communist bloc through the 1957 Anglo-Malayan Defence Agreement.

In the late 1960s, Malaysia was forced to change its perception of and approach towards China owing to significant developments such as the British announcement to withdraw its military bases from the Malay Peninsula and the Sino-US rapprochement, along with domestic challenges in the aftermath of the general elections in 1969. The racial riots are regarded as watershed in the constitutional history of modern politics of Malaysia– the ethnic strife between Malays and ethnic Chinese were unexpected and led to political instability requiring major changes such as the change in the political leadership and expansion of Alliance party with the inclusion of 13 parties. This alliance came to be known as Barisan Nasional (BN) or the National Front which continues to be in power till date with United Malays National Organisation (UNMO) continuing as the dominating partner in BN as it was in the Alliance. The confident political leadership adopted in its external relations a more pragmatic policy approach towards China. The regional changes had convinced the Malaysian leadership that Malaysia could no longer afford to remain solely dependent on the West for its external defence; and realised that anti-China policy could be counterproductive in the changing geo-strategic environment in the region. Thus, the re-assessment of Malaysia's China policy resulted in Kuala Lumpur's support for China's membership in the United Nations (UN) in 1970 and restoration of direct trade links in 1971; especially after Prime Minister Tun Abdul Razak's landmark visit to Beijing in May 1974 and the establishment of diplomatic relations between the two countries. Despite the adoption of a more realistic policy under which relations with China were normalised, suspicion of Chinese intentions persisted

due to the continuation of links between the Communist Party of China (CPC) and the CPM. For Malaysia, the maintenance of domestic stability was crucial for the security and integrity of the nation.

In 1981, when Mahathir Mohamad became the Prime Minister, Malaysia's relations with China went through a major transformation. As he was a vocal advocate of 'Asian values' and Asian regionalism, China was to figure prominently in Malaysia's foreign policy. He viewed China as a significant facilitator which could help Malaysia achieve its development goals, a political ally in the debate over 'Asian values' and a key player in his vision for an Asia–centric and Asian–only regional order. Yet, in spite of this positive approach towards China, certain doubts persisted vis-a-vis China which meant that it was perceived as a security threat,' a perception not much different from Mahathir's predecessors.

The beginning of the 1990s, witnessed the emergence of a new dimension in Malaysia-China relations. The end of the Cold War and the dissolution of the CPM in December 1989 brought about far-reaching changes in the direction, style and focus of Malaysia's relations with China. With the CPM issue finally resolved, Malaysia's policy engagement with China deepened. In addition, Mahathir unveiled the 'Vision 2020' policy in 1991, which envisaged elevation of Malaysia into the ranks of developed nations by 2020. Foreign policy was directed towards the pursuit of this goal. While economics and trade engagement formed an important dimension of Malaysia-China relations during the Cold War period, the start of the 1990s saw special dedicated efforts being made for enhancing bilateral trade ties, as Mahathir saw great opportunities for Malaysia in engaging with the rising Asian power. Economic cooperation with East Asia in general, and China in particular, became the cornerstone of his foreign policy. His government removed the security barriers that had constrained the development of economic ties with China. In 1990, all restrictions on Malaysians travelling to China were lifted, and three years later, the ban on private individuals making trade investments in China was also lifted.

In the changing environment of the post-Cold War era, bilateral trade has increased significantly, and the economic benefits from Kuala Lumpur's engagement policy

towards China have had a substantial positive impact on Malaysian economy. More importantly, the balance of trade with China, which had been disadvantageous for Malaysia from 1957 through the 1980s, began to turn to Malaysia's advantage. As bilateral trade expanded, the nature of commerce also changed. Following the establishment of trade ties in 1971, Malaysian exports to China had consisted mainly of commodities, especially rubber, tin, palm oil and timber. However, since 1990, manufactured goods command a larger proportion of Malaysian exports to China. In more recent years, China has become the biggest trading partner of Malaysia while the latter has become China's biggest trade partner within ASEAN. It must be pointed out that China's positive diplomacy towards Southeast Asia in the 1990's led to its inclusion in ASEAN plus three.

Fast-growing economic ties in the post-Cold War era were accompanied by a concomitant improvement in Malaysia-China political relations as well. Improved political relationship has led to shared political perspectives on the issues of governance, human rights and the nature of the international system. Malaysian leader Mahathir, for example, openly praised the Chinese system of governance, arguing that the Western model of democracy was alien to China and inappropriate for its current stage of development. Both sides have agreed to pursuit a multi-polar international order in the Asia-Pacific region. The leaders of both sides were highly critical of the manner in which their respective regimes had been consistently condemned as undemocratic and for human rights abuses by the Western media and governments. A further example of convergence of Malaysian and Chinese stands on matters of perceived Western interference was Mahathir's proposal to review the UN Declaration of Human Rights and the strong support he got from the Chinese leadership on the issue.

Mahathir was a strong opponent of US' domination of the international economic order and, therefore, advocated for East Asian economic integration. An important dimension in this context was Mahathir's proposal for East Asia Economic Caucus (EAEC), which was Malaysia's response to counter the formation of the Asia Pacific Economic Cooperation (APEC). China was the first Northeast Asian country which openly extended its support for the EAEC and showed its discontent on the formation of APEC. Although

the EAEC could not fructify, the concept has been realised 'informally' as the ASEAN Plus Three (APT), comprising the ASEAN countries plus China, Japan and South Korea. The first ASEAN +3 meeting was held on 15 December 1997, in Kuala Lumpur and since then the meetings have been a regular affair and are held at the level of Heads of Government and at the ministerial level.

Shared political perspectives and convergence of interests have also led Kuala Lumpur and Beijing to support each other's international initiatives. For instance, Malaysia and China actively cooperated in promoting the latter's entry into the WTO, lobbying for the creation of a new international financial order, and making collective proposals for the restructuring of the United Nations Security Council (UNSC). In addition, Malaysian leaders had remained silent on both the Tiananmen massacre of 1989 and China's aggressive actions in the Taiwan Straits in 1996. In fact, extending its indirect support to Chinese actions, Kuala Lumpur accused Taipei of provoking the mainland. Support and goodwill for each-other on various issues and concrete positive steps, such as China's decision of not to devalue the Renminbi during the 1997-98 Asian financial crisis, paved the way for close and cordial relationship between the two countries.

The close political engagements between Malaysia and China have also encompassed various ASEAN-driven multilateral channels. In fact, Malaysia has played an important role in promoting ASEAN-China dialogue as one of the key pillars of the post-Cold War regional realignment in Southeast Asia. In 1991, Malaysia took the lead by inviting the Chinese Foreign Minister to attend the ASEAN Ministerial Meeting as a 'Consultative Partner.' Five years later, China became a full Dialogue partner. Kuala Lumpur also encouraged China's participation in the ASEAN Regional Forum (ARF) when the process began in 1992-93. The Malaysian government viewed the ARF as an ideal instrument for managing the rise of China and its impact on the regional balance of power. The ASEAN Plus Three and the East Asia Summit (EAS) have provided additional mechanisms for cooperation between Malaysia and China. From China's perspective, Malaysia occupies a very important position in its Southeast Asia policy. As a founding member of ASEAN, Malaysia remains an influential voice within the organization and the various ASEAN-driven forums, such as the ARF and the EAS.

Besides its economic significance, Malaysia's location between the Indian Ocean and the Pacific Ocean makes it an important strategic focus for China's energy security and regional connectivity initiatives.

Although Malaysia-China relations have developed smoothly in the post-Cold War era, overlapping sovereignty claims in the South China Sea have been an irritant in bilateral relations for many years. In 1979, Malaysia had published a map outlining its maritime boundary and territorial claims that included eleven insular features in the Spratlys archipelago. To strengthen its claims in the area, Malaysian forces occupied Swallow Reef in 1983 and Mariveles Bank and Ardasier Reef in 1986. On both occasions, China, which makes territorial claims over the entire South China Sea, called the occupations a violation of its sovereignty. Although the maritime features claimed and occupied by Malaysia clash with China's expansive claims, both countries have yet to have any direct confrontation over any particular landmass. Nonetheless, Malaysia remains concerned about the increasingly assertive behaviour of China in the area.

Malaysia seeks a peaceful resolution of the dispute through friendly consultations and negotiations in accordance with the universally recognised principles of international law, including the 1982 UN Convention on the Law of the Sea (UNCLOS). Malaysia has also constantly declared its commitment to ensure the full and effective implementation of the 2002 Declaration on the Conduct of Parties in the South China Sea (DOC) and to maintain peace and stability through the exercise of self-restraint in order to prevent the escalation of tensions in the region. On the other hand, Kuala Lumpur has also taken steps to consolidate its claims in the Spratlys. For instance, in early march 2009, PM Badawi visited the Swallow Reef to reaffirm Malaysia's sovereignty claims in the Spratlys. In response, China reiterated that it has 'indisputable sovereignty' over the entire area. Later, in May 2009, Malaysia lodged a joint submission with Vietnam at the UN Commission on the Limits of the Continental Shelf, which China branded a violation of its sovereignty and called on the Commission to reject it. Malaysia has also increased its naval power to consolidate its presence and strengthen its position in the area. In spite of these developments, Malaysia's essentially non-confrontational position as well as its low-key approach to external powers' interference in regional affairs is in line with

China's South China Sea policy. Irrespective of their overlapping claims in the South China Sea, Malaysia and China have successfully maintained cordial relations with each other and pursued close collaboration on both geopolitical and economic matters.

1.2 Review of Literature

The literature pertaining to the study has four facets. These are: Malaysia's foreign policy towards China, the political dimension, the economic component and the South China Sea issue.

1.2:1 Malaysia's Foreign Policy towards China

As far as the literature regarding Malaysia's foreign policy is concerned, Saravanamuttu (1983) provides a critical analysis of the evolution of Malaysia's foreign policy during the first two decades (1955-77) of the post-independence period. Malaysia's foreign policy during these decades was influenced by domestic security concerns caused by internal conflict with Communist insurgents backed by China and the global and regional fallout of the Cold War. Besides these factors, Malaysia's foreign policy was also influenced by idiosyncratic factors particularly PMs Tunku Abdul Rahman and Abdul Razak's personalities and their ideological orientations. The major shift of Malaysian foreign policy occurred during the Razak government's initiatives of the early 1970s. Saravanamuttu has argued that under Razak Malaysia pursued a policy of neutralism and equidistance vis-a-vis the major powers which resulted in the recognition and establishment of diplomatic relations with China.

Equidistance from existing power blocs was one of the several characteristic themes of the Malaysian foreign policy. Malaysia's unique pluralistic demographic landscape has served as the underlying philosophy of its foreign policy. In their analysis, Mahathir and Irwan (2007) argue that Malaysia's domestic experience in dealing with a multitude of Asian races and cultures has enabled it to understand the challenges that Asian countries face, and therefore, it allowed the country to forge close cooperation with many Asian countries over the years. Malaysia's policies aimed at strengthening ties with its neighbours have been based on the philosophy of 'enlightened self-interest and mutual

political, social and economic benefits.' The authors also highlight the importance of Malaysia's foreign policy approaches such as 'prosper thy neighbour', 'mutual respect' and, 'strength in unity' in dealing with the country's role in Asian regional cooperation.

Dhillon (2009) explains and analyses Malaysia's foreign policy during the Mahathir era across seven major policy initiatives namely 'Buy British Last,' 'Anti-Commonwealth,' 'Look East,' 'Third World Spokesmanship,' 'Regional Engagement,' 'Islamic Posturing' and 'Commercial Diplomacy.' He argues that the traditional elements of Malaysian foreign policy- defence and security- took a backseat during the Mahathir era, who gave a new dimension to the engagement of the region by incorporating economic issues into the policy initiatives. The EAEC and the desire to seek refuge from globalization within regional framework were unique to the Mahathir period. In this book, Dhillon also examined the main determining factors of Malaysia's foreign policy e.g. Mahathir's idiosyncrasy, domestic factors and external developments. Mahathir's personality, leadership style and political ideology were vital in determining the shape and direction of the country's foreign policy. The need to maintain the domestic political goals of national development, integration of its multi-ethnic society and regime maintenance were the major domestic factors. The demise of the Cold War, the collapse of the communist bloc and, the spread of globalisation and regionalism were the major external developments that influenced Malaysia's foreign policy during the Mahathir era. The author also discusses external pressures including Japan's regional designs, Singapore's defence posture and the growing importance of China for the region. He points out that Malaysian foreign policy in the Mahathir era preferred to allow the mechanism of collective security– ARF and UN as the regional and global institutions respectively– to take care of the China threat.

Kuik (2010) provides a comprehensive analysis of Kuala Lumpur's changing policy toward China and other big powers during the Cold War period, as a case to illustrate how and why smaller states adjust their alignment choices in the wake of reduced strategic commitment of their big power patrons. Dealing with Malaysia's alignment choices, he argues that it was due to the changing distribution of regional power in the face of the British East of Suez policy and the American retreat from mainland Southeast

Asia in the late 1960s in conjunction with domestic political considerations in the post-1969 period that compelled Malaysia's ruling elite to replace the country's long-standing pro-West policy with a new posture of non-alignment and regional neutralization. This new alignment posture necessitated the Tun Razak government to adjust its China policy, paving way for the Malaysia-China rapprochement in the early 1970s. Kuik points out that despite the rapprochement with China, Malaysian leaders had continued to view Beijing with distrust and apprehension till the end of the Cold war and dissolution of the CPM.

Kuik (2008a) explains three major factors which have led to a shift in Malaysian policy makers' perception of China, from a major threat to a key economic and foreign policy partner. First, the dissolution of the CPM in 1989, which removed a long-standing political barrier; second, the increasing importance of economic performance as a source of legitimacy for the ruling elite; and last, Mahathir's foreign policy aspirations. Kuik also analyses the broad conceptual framework of 'hedging' as a strategy, applying it within the context of Southeast Asia-China relations, by focusing on the cases of Malaysia and Singapore's responses to China in the post-Cold War era. He argues that a small state's strategy towards a rising power is driven not so much by the growth of the Great Power's relative capabilities per se; rather, it is motivated more by an internal process of regime legitimation in which the ruling elite evaluate- and then utilise- the opportunities and challenges of the rising power for their ultimate goal of justifying their own political authority at home. In case of Malaysia's response to the rise of China, Kuik observed that in addition to deepening its economic-pragmatism, Malaysia has slowly pursued policies of binding-engagement and limited-bandwagoning.

Dealing with the rising China in the post-Cold War era has been a key concern of policy planners in Kuala Lumpur. Amitav Acharya (1999) analyses Malaysia's policy towards the rise of China through the lens of international relations theory, specifically, the concept of "engagement." He argues that the political leadership in Kuala Lumpur views the rise of China with mixed feelings: as both a major economic opportunity and a potential threat to national security and regional stability. Malaysian leaders want to avoid an openly hostile relationship with China and, therefore, prefer a strategy of

"engagement" to a posture of "containment". The main objective of adopting the strategy of engagement is to maximise benefits from the economic opportunities offered by China's rapidly growing economy while discouraging a Chinese security posture that would pose a threat to Malaysia's security interests. Acharya observes that the strategy of engagement may be a more desirable alternative because it lies somewhere between balancing and bandwagoning. While containment and balancing require increased dependence on great power alliances, which Kuala Lumpur seeks to avoid. However, Malaysia has had difficulty in fully engaging China, and therefore, its policy towards the latter has been located between engagement and containment.

Liow (2005) examines Malaysia's relations with China in terms of the continuity and change in its foreign policy towards the latter during the Mahathir administration, but focuses primarily on the post-Cold War era. The author asserts that a discernible shift has taken place in Malaysia's policy towards China, which in turn demonstrates how Kuala Lumpur is seeking to secure its own interests by building relations with China. Liow argues that Malaysia's orientation towards China is part of its hedge diplomacy towards the two major powers, the United States and China, and is premised with engagement strategies towards both the powers. This behaviour is motivated not so much by threat perception as by Kuala Lumpur's intention to capitalise on the potential political, economic and strategic benefits associated with the rise of China. Liow maintains that Malaysia's policy towards China, particularly in recent times, should be viewed in the context of the current strategic milieu, where in a relatively stable strategic environment offers smaller states such as Malaysia many more options in their relations with major powers than earlier. Tang (2012) discusses Malaysia's strategic options and outlook in dealing with the major powers. He argues that bandwagoning and balancing strategy are problematic for Malaysia. Kuala Lumpur's present and future strategic options comprise of elements of engagement and assurance. The author contends that Malaysia views developments in China positively and its interests lie in co-opting Beijing into the larger regional framework, with emphasis on multilateral cooperation.

Saravanamuttu (2012) examines Malaysia's approach and options in dealing with geopolitics of Southeast Asia. He argues that since the 1970s, Malaysia's approach to

geopolitics in the Southeast Asian region has remained a two-level approach of seeking to reduce or eliminate inter-state conflicts, whilst instituting minimalist engagement with major powers active in the region. The author asserts that ASEAN and its various instrumentalities are likely to remain the foundation on which Malaysia seeks to base the new dynamics of relationship in the region, and in particular the role of the United States in the face of a more politically assertive China. Under Najib, Malaysia has been positive about a US "re-engagement" in Asia, whilst being careful to balance this with an equally cordial relationship with China. Khalid (2011) presents a broad analysis of continuity and changes in Malaysia's foreign policy under Najib and its comparison with Mahathir. She asserts that while the underlying rationale– economic interests as the basis of Malaysian foreign policy– remain intact, the approach has shifted under Najib. She argues that Najib has formulated external strategies in order to sustain Malaysia's economic progress to ensure his regime's legitimacy and political stability. Dealing with the Malaysian approach towards China, she argues that during the Cold War period, Mahathir did not attach much importance to deepening relations with China, other than recognising its strategic weight in regional security. However, by the 1990s, in the context of a post-Cold War scenario and a burgeoning China, Mahathir expressed warm interest in forging closer business links with China. In her analysis, Khalid points out that under the Najib administration, China is seen as Malaysia's most important economic partner, a role that Japan fulfilled during Mahathir's era. This is because Najib does not view Japan with the admiration that Mahathir did. According to Khalid, Najib believes that to become a developed nation by 2020, Malaysia needs to make a concerted effort at linking up with successful, emerging economies in East Asia.

1.2:2 The Political Dimension

The political and diplomatic relations between Malaysia and China have been shaped and directed by both domestic and external factors. Major global, regional and national events and issues have influenced the tone and tune of bilateral relationship. Many scholars have made efforts to understand the changing dynamics of Malaysia-China relations by either dealing with the policies, perceptions, events or by a comprehensive study. This section

reviews the available literature on the theme of political dimension in Malaysia's relations with China.

During the Cold War period, Malaysia-China relations had been restrained by many reasons. Leong (1987) examined the major obstacles that hindered the relations between Malaysia and China and assessed the status of bilateral ties during the Cold War period. The author argues that Kuala Lumpur viewed Beijing with suspicion and distrust. The main source of this distrust was party to party relations between the CPC and Malaysia's CPM which resulted in the almost total ban on people-people relations. Beijing's policy towards overseas Chinese and ethnic Chinese of Southeast Asia had been another reason for Kuala Lumpur's general prohibition of people-to-people relations as well as a source of Malaysia's distrust and suspicion of China's intentions in the region. Leong shows that despite the establishment of diplomatic ties in 1974, persisting problems had caused Malaysia-China relations to proceed cautiously.

Baginda (2002) provides a critical analysis of the evolution of Malaysia's perception of China since independence in 1957. In examining the various stages of development, the author discusses the reasons behind the changes in perception as well as their outcomes. He shows that during the early years of independence, Malaysia perceived China as a security threat and relations between the two remained hostile. China's 'moral' support and fraternal ties with the local communist insurgents had a direct impact on how Malaysia viewed China. During this period, Kuala Lumpur opposed China's entry into the UN. In the late 1960s, the British policy of withdrawal from 'East of Suez' and Sino-US rapprochement compelled Malaysia to improve its relations with Communist countries. However, Malaysia's suspicion of China lingered until the end of the Cold War. Baginda also discusses the impact of the end of the Cold War and changing global and regional scenario on Kuala Lumpur's China perception in the 1990s. He points out that convergence of both sides' interests over various regional and international issues resulted in shifting of bilateral relations from hostility to cordiality in the post-Cold War era.

Ganesan (2010) examines the structural and domestic imperatives in Malaysia-China relations. He argues that bilateral relationship between Malaysia and China has traditionally been shaped and directed by international structural arrangements as well as domestic political considerations. The former is a general reference to the impact of the Cold War and the ideological disposition of early ruling elite. The latter, on the other hand, is a reference to Malaysia's social composition that included a significant ethnic Chinese minority. Ganesan also examines the changes that occurred in the traditional bilateral relationship with China as part of a broader "Look East" policy under the Mahathir administration. He shows that the impact of Mahathir's Look East policy and philosophical convergence on the utility of Asian values dissipated what tensions remained in Malaysia-China bilateral relations.

Liow (2000) attempts to analyses different dimensions of Malaysia-China relations in the 1990s. He describes that during the Cold War period, Malaysia perceived China as a major menace to its security because of Beijing's Communist propaganda in the Southeast Asian region and its constant support to the local Communist insurgents. The end of the Cold War and dissolution of the CPM laid the stage for a new era in Malaysia-China relations. Liow argues that, in the changing geo-political regional environment, Mahathir saw China as an important ally in his diplomatic confrontation with the West, since China is the only Asian country that holds a permanent seat on the UN Security Council. The main characteristic of both countries' improved political relationship has been their shared belief in and pursuit of a multi-polar international order in the Asia-Pacific. Liow also highlights the importance of frequent high-level visits between Malaysia and China in order to expand the channels for cooperation between the two. Yiping (2006) provides a detailed description of the exchange of high-level visits and their role in boosting development of bilateral relations in the post-Cold War era. He states that political mutual trust has been promoted due to frequent exchanges of visits that have been going on between the leaders of the two countries. The political leadership of both sides advocates the democratisation of international relations, the reduction of the limits to international trade and investment activities, therefore, the two countries adopt similar standpoints when participating in multilateral cooperation organisations of different spheres, such as the UN, WTO, APEC etc.

Seng (2009) provides a critical examination of the outcomes of Najib Razak's visit to China in 2009 which was a significant event for Malaysia-China relations as it marked the 35th anniversary of diplomatic ties between the two countries. The writer states that since China has transformed into an economic powerhouse, it is necessary for Malaysia to reassess and renew its relationship with China and to identify areas of cooperation so that bilateral ties could stay relevant in a rapidly changing international order where challenges such as globalisation and regionalism are common features. He refers to the deepening of Malaysia's relations with China as a subject to stability within Malaysian society.

Balakrishnan (2006) examines the new developments in Malaysia-China relations and major political challenges. He argues that Malaysia's political relations with China have improved in a significant way driven by the "constructive engagement" policy and economic pragmatism. But, it is indeed difficult to believe that an authoritarian communist regime which suppresses its own people will always be a benign power. The fear over China is still there and that cannot be erased in just two decades of engagement. The author refers to trade deficit, political differences, social perceptions and security problems as main areas in which engaging China can be challenging for Kuala Lumpur. Engaging and accommodating China into a regional cooperation framework has also been a challenge for ASEAN countries.

Zhao (2011) explores how China's strategic motivations and calculations have both prompted and constrained its participation in East Asian regional cooperation. The writer states that China's participation in regional economic and security cooperation is primarily motivated by the calculation of the country's domestic interests to create a peaceful peripheral environment for its economic development and political stability. To enhance China's position in power competition with other major players in the region, particularly Japan and US, also play an important part in China's strategic calculation. Zhao refers to the Sino-Japanese competition as a constraint for China's ability to play a major role in regional cooperation framework. However, this competition has created the opportunity for small states, particularly ASEAN states, to take the driver's seat in East Asian regional cooperation.

1.2:3 The Economic Component

Economic relations between Malaysia and China have seen many ups and downs. In the initial phase, trade ties were hampered by security concerns and domestic political considerations. Since the normalization of diplomatic ties in 1974, economic relations between the two countries began to improve gradually. The removal of political barriers in the early 1990s and convergence of national interests played an important part in boosting of full-fledged economic cooperation between Malaysia and China.

Dening (1999) provides an account of the changes in trade relations between Malaysia and China during the period from before and after the Second World War (1869-1974). The author argues that before the War, the development of trade between British Malaya and China depended to a great extent on the fact that Malaya was the centre of the transit trade in Southeast Asia. He refers to the role of Overseas Chinese as a positive factor in the trade of China with British Malaya. After the founding of the PRC in 1949, Malaya's trade relations with 'New China' were badly impacted because of the former's internal security concerns, the threat of communism and the problem of the Chinese minority. Until the early 1970s, trading ties between China and Malaysia were largely unofficial. It was the 1971 onwards, major changes took place in the politics of the two countries which enabled trade relations on both sides to develop normally. Dening states that one of the objectives of the establishment of diplomatic recognition in 1974 was the establishment of a more equable balance of trade between the two countries.

Ku (2006a) examines China's changing political economy with Malaysia by exploring the former's three policy initiatives that started in the early 1980s, i.e. the "Open-door" policy, the "Good-neighbour" policy and the "Go global" strategy. He argues that because of the implantation of these policy initiatives, China has changed its political economy with individual countries like Malaysia and also with the region as a whole from a low-key political economy to an extensive political economy with expanding economic relations and frequent political interactions. In order to examine China's changing relations with Malaysia, Ku uses four indicators: exchange of high-level visits, trade and investment, tourism, and China's linkages with the ASEAN. The author also

states that China's changing political economy with Malaysia is not a particular one; rather, it is just part of China's overall strategy towards the region. He concludes that China's increasing political economy with Malaysia and with Southeast Asia will sustain for a long time, as China continues its "going global" policy.

Shee (2004) provides a critical analysis of the political economy of Malaysia's China policy during the Mahathir regime (1981-2003). He argues that Mahathir's economic policy toward China was based on pragmatism and cooperation. Under Mahathir, the strategic-cum security dimensions in Malaysia's relations with China were overshadowed by his economic thinking of pragmatism. The author also analyses the shift in Malaysia-China trade and investment patterns, from primary commodities to the manufacturing sector of the economy. He states that the emerging Chinese economy offers both opportunities as well as challenges to the developing economy of Malaysia. Shee also analyses the effect of Taiwan factor in Malaysia-China relations. Malaysia has adopted a "one China" policy politically and a "one Taiwan" policy economically.

Devadason (2007) examines the existing patterns and shifts in Malaysia-China trade. He refers to the structural shift in bilateral trade from traditional industries to higher concentration in electrical and electronics and machinery. He also argues that to reap benefits from mutual trade dependence, Malaysia needs to enhance its technological capacity which is to innovate indigenously, particularly to upgrade exports.

Yeoh et al. (2010) examine China-Malaysia economic relations and the rise of China in the context of growing regional economic integration in the Asia-Pacific region. Malaysia's trade ties with China, particularly after the financial crisis in 1997-98, have grown faster than her trade ties with the rest of the world. Malaysia's exports market has been widening with China's accession to the WTO and the agreement to establish a Free Trade Area (FTA) with ASEAN. The authors state that Malaysia's rapidly growing trade with China could gradually reduce the former's dependence on the West. The writers also analyse the possible regional implications of ASEAN-China FTA as part of a paradigm shift in China's trade policy. China sees the free trade agreement as a way of securing raw materials, while ASEAN countries see opportunities in China's huge market. They

suggest that China and ASEAN states should seek to promote proper coordination and cooperation in economic integration.

1.2:4 The South China Sea Issue

As far as the literature regarding the strategic and security dimensions in Malaysia's relations with China is concerned, Joyner (1999) analyses the significance of the South China Sea and examines the geopolitical and legal nuances of this particular territorial dispute. He highlights the strategic importance of commercial and military sea lanes, and potential hydrocarbon resources. The author focuses especially on the Spratly Islands dispute, because it involves the largest number of claimants and remains the most contentious, complex and volatile issue. The complexities of competing claims and the dispute's long history make determination of national sovereignty in the Spratlys extremely difficult. In this situation, China, which is the largest military power in the region, has emerged as a key player in maritime geopolitics affecting the South China Sea disputes.

Understanding China's conception of the sea is important as it has a bearing on its strategic thinking and policies towards the South China Sea and its Southeast Asian neighbours. Shee (1998) examines China's strategic thinking and policy towards the South China Sea in the post-Cold War era. He argues that Beijing's strategic thinking is not confined to the military dimensions but, rather, is comprehensive and holistic in outlook. Therefore, the strategic dimensions of China's policy towards the South China Sea cannot be disassociated from its security, political and economic concerns. The author also states that China has adopted a dual strategy: one, to strengthen its military modernisation and, at the same time, to promote an external peaceful environment in the region so that it can continue to concentrate on its economic development and modernisation programme. He says that Southeast Asian states view Chinese intentions with suspicion due to its creeping assertive behaviour in the Sea. Despite that, China will continue to be the most important actor in the sovereignty disputes over the Spratlys, and will set the tone, direction and, to some extent, the course of developments in the region.

Jie (1994) examined China's policies in addressing the sovereignty disputes in the South China Sea with particular reference to Malaysia and the Philippines. He argues that China has increased its military profile in the South China Sea but maintained its low-profile diplomatic approach to Malaysia and the Philippines to minimise the effects of the Spratly dispute upon its relations with them. With expanded economic reforms and the Open-door policy, it became more important for Beijing to reassess the strategic significance of the South China Sea and establish a good-neighbour relationship with the ASEAN countries to maintain a peaceful regional environment. The author also states that regional countries perceive China as aggressive and provocative in the South China Sea but Beijing views its assertive policy as a long-overdue and legitimate action to protect its territorial integrity. China's assertiveness has contributed to ASEAN's policy of internationalising the dispute and involving extra-regional powers in South China Sea security arrangements. Tonnesson (2000) provides a critical analysis of China's South China Sea diplomacy and outlines a possible strategy for assuming a constructive role in resolving the disputes. He argues that while playing a passive diplomatic role, China has pushed its position forward both militarily and legally. Militarily, China has modernised its South China Sea fleet and upgraded its military bases in the area. Legally, Beijing has advanced its position by adopting new national laws that reassert its claims to most of the South China Sea. The author also states that it is neither a feasible nor desirable option for China to occupy the Spratly Islands by force. By engaging the ASEAN in a process of conflict resolution, Beijing can ensure peace and stability in the region and significantly enhance its international standing.

Odgaard (2003) addresses ASEAN's security concerns about China's role in the South China Sea. He argues that the Southeast Asian states are in agreement that Great Power engagement, dialogue and a code of conduct are required in order to contain the violent conflicts that may erupt from the disputes in the South China Sea. The author also discusses divergent views of ASEAN members on issues of cooperation and the scope of a code of conduct. He states that an assessment of ASEAN's ability to maintain a common stand on the South China Sea issues depends on the level of diplomatic integration associated with unity.

Emmers (2009) discusses the changing distribution of power in the South China Sea and evaluates its implications for conflict management and avoidance. He notes a growing asymmetry of naval power to the advantage of China, causing concern and fear in the Southeast Asian claimants that overwhelming naval capabilities could be used by Beijing to resolve the sovereignty disputes militarily. The author recommends greater institutional structures which could mitigate the unequal power distribution in the South China Sea. He also advocates a stronger multilateral approach consisting of a joint development scheme incorporated and structured around a cooperative management regime to enhance cooperation and stability in the region.

Hongfang (2011) describes the overlapping sovereignty claims of concerned countries and attempts to seek an alternative approach to reduce tension in the South China Sea. He argues that claimant parties in the conflict are driven in part by nationalism and the belief in the indisputable sovereignty of the "mother country". The concerned countries feel the pressure from their own people not to concede any piece of territory which makes compromises hard to reach. In order to mitigate tension in the region, the author recommends for the establishment of an effective mechanism within the framework of ASEAN-China Strategic Partnership for Peace and Prosperity, with an aim to develop a code of conduct with binding guidelines for actions of parties concerned. He also seeks an active and increasing role of the East Asia Summit in handling the situation through multilateral dialogues.

Other important works that are related to this work include: Kim (1981), Hashim (1986), Fu (1987), Hills and Bowie (1987), Camaroux (1994), Higgott and Stubbs (1995), Leong (2002), Hooker (2003), Hoe (2004), Bakar (2005), Lam and Lim (2006), Lee (2006), Jeshurun (2007), Kheng (2009), Li (2010), Lee (2011), and Storey (2011).

1.3 Rationale and Scope of the Study

This study attempts to advance the scholarship on Malaysia-China relations by scrutinising Kuala Lumpur's policy towards China. Analysing the multi-dimensional interactions—political, economic and strategic—between the two countries is the primary focus of this study. The study has tried to look carefully at the nature and character of the

key issues which shaped the relationship between the two countries. Particular attention is given to Malaysia's South China Sea policy and Chinese response to it, as this has been perhaps the most contentious issue in the bilateral relationship. This study examines Malaysia's search for gainful ways and policies in order to enhance and improve relations with China during the period under investigation.

The decade of the 1990s, marked by the end of the Cold War, introduced a new strategic environment in Southeast Asia. In the following two decades, China emerged as a major player in the Asia-Pacific arena. It is, therefore, important to understand how Malaysia endeavoured to establish and maintain relationship with China, since this may affect Malaysia's growth and political development, as well as the security and stability in the Southeast Asian region as a whole. This study, thus, assumes importance as it holds the potential to understand even the future direction of economic, political and strategic relations between the two countries. Malaysia still has territorial disputes with China in the South China Sea. The kind of relations it has established, and wants to perpetuate, with China would determine the manner in which these disputes are resolved. It would, thus, be necessary to examine the evolving nature of Malaysia's relations with China.

The Malaysia-China relationship is likely to continue to be a vital component of the Southeast Asian regional security architecture. Malaysia is a founding member of the ASEAN, and the country's leaders have been key figures among statesmen and policy makers in giving direction plus contributing constructively in making ASEAN a successful regional organization. Of further significance is the fact that Malaysia, with growing confidence in domestic stability after adopting an affirmative policy towards the Malays through the New Economic Policy, became confident in its external policy and was the first Southeast Asian country to normalise ties with China in 1974. In doing so, Malaysia in effect set the pace and scope for ASEAN's improved relations with its Communist neighbour. Malaysia has played a crucial role in the institutionalisation of relations between ASEAN and China in the post-Cold War era setting an example of a realistic approach. In addition, a study of Malaysia's relations with China would serve as an important contribution to the studies of international relations, providing a reminder that small states do matter in international relations.

Last but not least, there is a conspicuous paucity of scholarship on Malaysia-China relations especially in the post-Cold War era. Most of the existing studies on Malaysia focus on its domestic affairs, while this study attempts to focus on Malaysia's foreign policy considerations, attributes and decision-making towards China. This work, therefore, seeks to enlarge the scope of the study of Malaysian foreign policy by adopting a holistic approach in focusing mainly on relations with China. The arguments are substantiated with data and sourcing of primary material. It is a study of Malaysia-China relations during a specific period and helps in understanding the significance and impact of Malaysia's approach on the bilateral engagement. This study opens the door for comparative foreign policy of ASEAN countries vis-a-vis China.

The period covered by this work is from 1989 to 2011. It was in 1989, when the Communist Party of Malaysia (CPM) was dissolved, ending a major impediment to growth in bilateral relations. In the same year, the incident of crackdown on demonstrators at Tiananmen Square took place which was a significant turning point in China's foreign policy towards the West as well as the peripheral neighbours including Malaysia. Further, in 2011, ASEAN and China adopted long-overdue Guidelines on the Implementation of the 2002 Declaration on the Conduct of Parties in the South China Sea, raising hopes for a peaceful resolution to the overlapping claims in the Sea. Importantly, unlike Vietnam and the Philippines, Malaysia has not allowed the South China Sea dispute to overshadow its relations with China.

1.4 Objectives of the Study

The main objectives of the study are:

- To analyse the basic determinants, principles and objectives of Malaysia's foreign policy towards China.
- To study the historical aspect of Malaysia-China relations and locate the roots of mutual suspicion and hostility during the Cold War period.
- To examine the trajectory of Malaysia-China bilateral process that led to a mutually cordial and beneficial partnership in the post-Cold War era.

- To study Malaysia's relations with China in the context of political, economic and strategic issues during the period under investigation.
- To examine the impact of the South China Sea issue on Malaysia-China relations.
- To analyse the manner in which Malaysia has been managing its relations with China.

1.5 Hypotheses

The study is based on two hypotheses:

1. The end of the Cold War impacted Malaysia's policy towards China by changing it from "threat" perception to "engagement" policy.
2. The move towards bilateral engagement has come primarily from domestic and regional imperatives.

1.6 Research Methodology

The study is inter-disciplinary in nature. The historical and analytical method is followed in explaining the different aspects of Malaysia-China relations, both in the Cold War and the post-Cold War period. The study is based on a wide range of source materials. The primary data are based on government publications, documents, reports, press releases, joint statements and speeches. The secondary sources include books, news reports, journal articles, newspaper clipping and various academic papers. The study is also accompanied by various data and information collected through internet sources. Email interviews with renowned scholars on the concerned topic are also used in the study.

1.7 Chapter Scheme

The structure of the study includes seven chapters and each chapter is further divided into sub-parts. These seven chapters have discussed and analysed, in detail, the various aspects of Malaysia's relations with China.

The **First** Chapter of the thesis is introductory in nature providing a brief overview of the study along with rationale and scope of the study, main objectives, hypotheses, research methodology, and chapter scheme as well as a review of related literature.

The **Second** Chapter deals with the historical and theoretical aspects of Malaysia's relations with China. It begins with a brief introduction of Malaysia and proceeds with an overview of the country's foreign policy and also deals with the early historical context of Malaysia-China relations. In this chapter, an effort has been made to explore some conceptual international relations paradigms relevant to the understanding of Malaysia's strategic alternatives in dealing with an ascending China.

The **Third** Chapter analyses the factors determining Malaysia's policy towards China. In this chapter, an effort has been made to explore various internal and external factors that directed and determined Malaysia's foreign policy towards China.

The **Fourth** Chapter deals with various dimensions of political and diplomatic relations between Malaysia and China. The crux of the discussion is how the earlier antagonistic political relation has been transformed into cordial and cooperative partnership during the post-Cold War era. Malaysia's role in establishing linkages between ASEAN and China has also been discussed.

The **Fifth** Chapter examines different aspects of the economic relations between Malaysia and China. This chapter analyses the pattern of trade and investment, economic cooperation through bilateral and multilateral channels and, initiatives for regional economic integration. It also focuses on ASEAN-China Free Trade Area (ACFTA) agreement and its impact on Malaysia.

The **Sixth** Chapter scrutinises the impact of the South China Sea dispute on Malaysia's relations with China. The chapter also discusses strategic and economic significance of the South China Sea, and the various overlapping sovereignty claims over the area. It analyses Malaysia's policy towards this dispute, both as an individual claimant and as a member of ASEAN, and China's response to it. The role of ASEAN in dispute resolution has also been critically analysed.

The **Seventh** Chapter is the concluding chapter of the thesis. This chapter mainly shows the different facets of Malaysia-China relations as well as ascertain how far the previous hostile relations have been transformed into cordial and cooperative relationship.

Chapter-2

Malaysia's Relations with China: A Historical and Theoretical Critique

Geographically located in Southeast Asia, Malaysia (known as Malaya before 1963) is a multi-cultural and multi-ethnic country comprising of Malays, Chinese, Indians and other ethnic groups. During the British colonial period, economic development in Malaya had attracted many Chinese to the growing employment opportunities in the tin mines. Similarly, many Indians were brought in as indentured labour from southern India to work in the rubber plantations, railways and road projects (Mahathir and Irwan 2007: 98). Since then, ethnic Chinese and Indian communities have been an important part of Malaysia's plural society and both these ethnic groups have played a crucial role in the overall development of the country. Geographically, the country is divided into two different locations namely Malaysian Peninsula, located between Thailand in the north and Singapore in the south, and Sabah and Sarawak located in the north-west of the island of Borneo. Sabah was known as North Borneo before becoming a sovereign part of Malaysia.

Being situated between the two great civilisations of India and China, Malaysia has benefited for centuries in terms of economic, cultural and political relations. Indian and Chinese traders have for centuries engaged with the trading outposts and enclaves in and around the Malay Peninsula. They were followed by the Europeans searching for trading posts during the colonial period. The Portuguese and the Dutch were the first to arrive and their economic activities were mostly focused on developing trade relations in order to supply the European demand. The British also had political and territorial ambitions and eventually came to control a large proportion of the economy and administration of the Malay Peninsula as well as of Brunei and the north-western part of Borneo Island. The colonial rulers primarily focussed on plantations and mining activities in this region (Ibid).

It is noteworthy that during the freedom struggle against the British, all Malayan ethnic groups fought together. The three most dominant and exclusive ethnic political parties of that time, the United Malay National Organisation (UMNO), the Malayan Chinese Association (MCA) and the Malayan Indian Congress (MIC), established to negotiate liberation from the colonial power, were united in their ultimate goal of independence (Bakar 2005: 93). When the Federation of Malaya achieved its liberation in August 1957, the newly-created country consisted of eleven states with a diverse composition from various ethnic groups. Of the three communities, the Chinese had advanced markedly in business and commerce, education and civil service. They were centred in the urban areas while the Malays lived mostly in the rural countryside and were primarily occupied in agriculture and fishing. The third major ethnic group, the Indians, occupied the middle position in the economic and educational setup (Sardesai 1981: 383).

The political system adopted after independence was the Westminster-style parliamentary democracy requiring all ethnic political parties representing the Malays, Chinese and Indians to arrive at a consensus with the aim of securing a majority in the Parliament. Consequently, an alliance between the UMNO, the MCA and the MIC was formed which governed the country during the early period of communist insurgency (1948-60). However, the Chinese community resented the secondary role to which they were relegated by the new constitution and the new governmental regulations (Ibid: 384). Article 153 of the Constitution specifically provides that Malays be given preferential treatment with regard to positions in the public service, the disbursement of educational scholarships and the allocation of business licences. Malay was made the official language of the state (The Commissioner of Law Revision 1957).

Tunku Abdul Rahman, who headed the UNMO-MCA-MIC alliance government, attempted to increase the number of Malays[1] by enlarging the Federation of Malaya to include Sarawak and Sabah. This step was primarily aimed at reducing the overall percentage of Chinese. The Chinese, on their part, had proposed a merger of Singapore with the Federation on the grounds of mutual economic benefits for both. Singapore's

[1] In 1960, Malays constituted 50.09 percent of the population against 36.93 percent Chinese, 11.18 percent Indians and 1.80 percent others (Sardesai 1981: 387).

seventy-five percent Chinese population would have increased the overall proportion of Chinese citizens in the proposed federation, a major reason for the Malays not being enthusiastic about such a merger (Sardesai 1981: 384-87). Finally, the Federation of Malaysia was inaugurated on 31 August 1963 consisting of fourteen states- the nine princely states, along with Malacca, Penang, Singapore, Sabah and Sarawak- with Kuala Lumpur as capital. But, Singapore's membership in the newly formed Federation of Malaysia proved short-lived, and the former left the Federation in August 1965. In the remainder of the Federation, the Malays constituted majority of the population (Ibid: 386).

2.1 Evolution of Malaysia's Foreign Policy

As an extension of domestic policy, the foreign policy of any sovereign state functions for the purpose of preserving and promoting its national security and other vital interests. Such a foreign policy is determined by a range of domestic and external factors covering geographic location, historical settings, economic and political conditions, external environment and more often by temporal compulsions and impending diplomatic factors. A state's foreign policy cannot remain static; continuity and change is an essential feature for it to remain relevant to the needs of the nation. Malaysian foreign policy is not an exception. Since independence, the vision of Malaysian foreign policy, as defined by an official document, remains consistent, that is to "safeguard Malaysia's national interests as well as contribute towards a just and equitable community of nations" (Ministry of Foreign Affairs, Malaysia, 'Foreign Policy Overview'). In pursuing such a foreign policy, Malaysia has gone through several distinct phases of transition.

In the initial phase, when the country's security was threatened by local communist insurgency backed by China, Malaysia's primary focus was on developing a peaceful and stable environment prior to emphasising on economic development. In addition, the Malaysian policy makers also had to develop a strategy to deal with the two international ideology-based power blocs during the Cold War. In order to achieve peace and security, the administration under Prime Minister Tunku Abdul Rahman (1957-1970) adopted anti-communist and pro-Western posture, and thus had aligned with other pro-Western

powers such as Britain, Australia and New Zealand to develop its military capability (Mahathir and Irwan 2007: 100). In the wake of the Chinese-US rapprochement of 1972 and withdrawal of British forces from the region by mid-1970s, foreign policy of Malaysia began to shift towards non-alignment under the stewardship of the second PM Tun Abdul Razak Hussein (1970-76). This period, along with that of successive PM Tun Hussein Onn (1976-81), has been labelled as the period of consolidation with the Association of South East Asian Nations (ASEAN) becoming the defining feature of the nation's foreign policy. This was the period that followed the retreat of the United States (US) forces from the region in 1975 and the invasion of Cambodia (then Kampuchea) by the Vietnamese military in December 1978 (Ministry of Foreign Affairs, Malaysia, 'Foreign Policy Overview').

With the succession of Mahathir Mohamad as the fourth Prime Minister of Malaysia from 1981 to 2003, the country began cultivating relations with other developing countries. Under his dynamic leadership, Malaysia underwent a greater economic orientation in its foreign policy than ever before, championing the interests and aspirations of the developing countries. This approach led to a strong advocacy for South-South Cooperation and a more proactive role in multilateral institutions such as the Group of 77 (G-77). Thus, Malaysia emerged as a leader of the Third World countries and a role model for many of them (Ibid). Mahathir also opposed the West's hegemony over various global political and economic institutions. Under his leadership, Malaysia expressed support for reforms in the existing international system dominated by erstwhile colonial powers (Khalid 2011: 431). Tang Siew Mun has rightly stated that Mahathir's administration

> represented a high water mark for Malaysian diplomacy, promoting the country into the ranks of leading states among the developing countries. Mahathir's advocacy of South-South cooperation and his championing of the position of developing countries on the issues of human rights, globalisation, environmental degradation as well as promotion of Antarctica as the common heritage of humanity had not only enhanced Malaysia's international profile but also earned him respect and appreciation from many quarters (Mun 2009).

Consecutive Prime Ministers Abdullah Ahmed Badawi (2003-2009) and Najib Tun Razak (since 2009) have stayed true to the basic governing principles of Mahathir Mohamad and continued to project a pragmatic foreign policy whilst promoting the agenda of economic development and ensuring that Malaysia is viewed as "a stable and peaceful country" (Kuik 2012)

Malaysia has consistently played a much greater role at the international level beyond that of countries of similar population and economic power. As a young nation that emerged as an independent country only in 1957, Malaysia's conduct at the international arena is the "antithesis of power politics" (Mun 2009). Owing to the comparatively modest size of its economy and military strength, Malaysia has adopted "unconventional means to pursue its national interests and maintain its relevance in international politics" (Ibid.). Malaysia continued to consolidate its external relations bilaterally as well as multilaterally through existing regional and international mechanisms.

At the regional level, Kuala Lumpur has emphasised and pushed for the strengthening of ASEAN as a bulwark of regional cooperation. In the post-Cold War era, with growing uncertainty in regional security environment and the emergence of competing economic groupings, Kuala Lumpur supports a continually stable, strong and prosperous ASEAN, not simply as a matter of economic prudence but also a strategic imperative. A successful ASEAN, symbolising peace and cooperation amongst its members as well as its neighbours is the best guarantee for regional security and stability. In fact, the success of ASEAN has motivated similar patterns of regional cooperation thereby reducing security/conflict risks by facilitating open dialogue on political and security issues as well as enhancing confidence building measures. The existing dialogue through such mechanisms as the ASEAN Post-Ministerial Conference (ASEAN PMC) and the ASEAN Regional Forum (ARF) adequately serves the purpose- cooperation and negotiation of regional issues (Ministry of Foreign Affairs, Malaysia, 'An Overview of Malaysia's Foreign Policy'). In addition, as Muthiah Alagappa mentioned, the collective diplomatic weight of ASEAN "augments the political and economic importance of member countries. It enables the ASEAN member states to deal with major powers on favourable terms and to play a central role in the structuring and institutionalisation of order in the

region" (Alagappa 2012).

According to Tang, the 'ASEAN way' and consensual decision making process, which virtually assigns a veto to every member state, ensures Malaysia's interests are not jeopardised by stronger fellow members. Over the years, Malaysia has viewed ASEAN as an effective platform amiable to the pursuance of its national interests and an important vehicle for regional cooperation (Tang 2012: 219-220). It is the officially declared opinion of Kuala Lumpur that "ASEAN will continue to be the cornerstone of Malaysia's foreign policy and the predominant forum for maintaining peace and stability in the region through dialogue and cooperate policy" (Ministry of Foreign Affairs, Malaysia, 'ASEAN as the Cornerstone of Malaysia's Foreign Policy'). This has been true even under the Mahathir premiership, usually considered to be the most active years of independent Malaysian foreign policy. Even his Look East policy and anti-Western posture did not derail the centrality of ASEAN in Malaysia's external relations at regional level (Saravanamuttu 2012: 48).

In engaging with global powers in political and economic issues, Kuala Lumpur has mostly favoured ASEAN driven forums such as ARF, East Asia Summit (EAS), ASEAN-Plus-Three (APT), the ASEAN Defence Ministerial Meeting Plus (ADMM Plus), etc. These forums have presented Malaysia and other member states with the opportunity to present a stronger bargaining position and to enhance consensus-building on contentious matters (Ibid: 49). The regional strategy of Malaysia, as mentioned by Li Yiping, is to keep "equilibrium among major powers in the region and to enhance cooperation between ASEAN and the great powers so that regional stability and primordial national interests of Malaysia could be preserved" (Yiping 2006: 13).

In order to enhance closer economic cooperation with neighbours, Malaysia also advocates the "prosper thy neighbour" policy. This foreign policy philosophy was first articulated by PM Mahathir during his address to the Pacific Dialogue in November 1994. He urged that the "prosper-thy-friend and beggar-thy-foe" policies that constituted the foundation of international relations during the Cold War period must be replaced with the "prosper-thy-neighbour" policy. For only when the international community

actively pursue such policies of "cooperative prosperity" can there be sustainable peace and the "twenty-first century will be mankind's most bountiful, greatest century" (OPM 1994a). He further explained this policy during his speech in Hong Kong in 1997. According to Mahathir, "prosper-thy-neighbour" is opposed to "beggar-thy-neighbour". Everyone gains from "prosper-thy-neighbour" policy while only one side gains from "beggar-thy- neighbour" mindsets. It simply means:

> "If you help your neighbour to prosper you will prosper along with it. When countries are prosperous they become more stable and their people need not immigrate to your country. Instead their prosperity provides you with a market for your goods, with opportunities to invest and to enrich yourself even as you create jobs and wealth for them. Poor neighbours are a source of problem for everyone, for themselves and for you. Their problems tend to spill over your borders and undermine your peace and prosperity." (OPM 1997).

In order to defend and promote its national interests at broader level, the longest serving Prime Minister of Malaysia, Mahathir crafted a three pillar strategy in the realm of external relations. The first was through entrenching strong bilateral relationships with traditional security and economic partners such as America and Japan, in addition to a strong economic and diplomatic relationship with a rising China. The second was to use regional multilateral forums to create consensus amongst and bind great powers to agreed rules of engagement, hence enhancing the leverage of smaller Southeast Asian states; as well as to extend Malaysia's influence within these forums. The third pillar was to enhance Malaysia's international profile by exercising leadership in non-traditional groupings; for example, Malaysia's role in advancing South-South Cooperation. Another was Malaysia's standing as one of the leaders within the largest grouping of Muslim countries- the Organisation of Islamic Conference (OIC, rechristened as the Organisation of Islamic Cooperation in 2011), which Malaysia chaired from 2003 to 2007 (Lee 2011: 158).

In sum, Malaysia's orientation in the realm of external relations has shifted from a security-centric posture during the initial phase towards greater economic pragmatism as well as keeping ASEAN as a cornerstone of the nation's foreign policy during the Mahathir tenure. The consecutive premiers since Mahathir's tenure have continued to

broadly adhere to his policies and deepened the emphasis on economic pragmatism by making it the central aspect of Malaysian foreign policy.

2.2 Malaysia-China Relations: Historical Perspective

Political, economic and cultural relations between Malaysia and China can be traced back to the early history. Malaysia's geographical position has put it in the cross-roads of civilisational interactions from ancient times. Because of its geographic location, Malaysia has long had political and cultural contacts with India and China which has continued into the present century (Ryan 1974: 4). The earliest known political contacts between the Malay Peninsula and China can be traced back to the third century A.D. The Chinese Wu dynasty (222-280 A.D.) sent envoys Shun Quan and Zhu Ying to Southeast Asian rulers including to the Malay Peninsula. This exchange of envoys continued through the fifth and sixth centuries. Successive dynasties, namely Tang (618-907 A.D.), Song (960-1274 A.D.) and Yuan dynasty (1206-1368 A.D.), continued to expand political and cultural relations with the Malay Peninsula (Bakar 2005: 97).

The second crucial period of political and diplomatic contacts between China and the region was during the reign of the Malacca Sultanate (1398/1400-1511 A.D.) and the Ming Dynasty (1368-1644 A.D.). The Malay Sultans relied on Chinese Empire to protect them from the attacks by the Siamese (Thai) Kingdom, which ruled Thailand and the northern part of Malay Peninsula. During the fourteenth century, the Siamese Kings controlled a large part of the Malay Peninsula, while the Javanese Empire of Majapahit was dominant in Borneo and the Indonesian islands. However, the entire Peninsula was not under the suzerainty of the Siamese Kings (Ryan 1974: 12).

The areas under the Malacca Sultanate were independent of the Siamese influence because of the maintenance and strengthening of political and diplomatic ties with the powerful Chinese kingdom (Bakar 2005: 97). China was a predominant power in the region because of its internal cohesion. As Ryan mentioned, the strength of the Chinese rulers led other Southeast Asian kingdoms to send embassies and gifts to China and ask for its protection (Ryan 1974: 13). This explains why the rulers of Malacca Sultanate had been very willing to maintain political and diplomatic ties with the Chinese empire.

For political reasons, the Malay ruler, Parameswara[2] (1400-1414 A.D.) sought protection of strong powers in the region without which his kingdom could not have survived. At that time, China and Siam were the two strongest powers in the region, with China being the more advanced and powerful empire (Bakar 2005: 98). According to Ryan, King Parameswara sought China's protection to counter-balance the Siamese. After establishing himself as the ruler of Malacca, Parameswara sent envoys to China in order to seek protection against the Siamese Kings (Ryan 1974: 18). This was the period of the Ming dynasty (1368-1643 A.D.), and its ruler, Emperor Chu Ti (1403-1424 A.D.) was not averse to accepting Parameswara's allegiance. He sent a Chinese fleet under Admiral Yin Ching to Malacca acknowledging Parameswara as the ruler of Malacca. In return, Parameswara sent his envoy and delegates to accept Chinese suzerainty and present gifts to the Chinese emperor (Ibid).

Another historically well-known envoy sent many times by the Chinese Emperor to Malacca and other Southeast Asian states was Admiral Zheng Ho (also known as Zheng He, Cheng Ho or Sam Po Kong). According to Ryan, Zheng Ho made seven voyages to Malacca between 1408 and 1431 A.D. Through his frequent visits, the Chinese Admiral affirmed and strengthened the political protection provided by China to Malacca. However, the primary aim of his visits was to enforce Chinese supremacy and to collect tribute from the regional states (Ibid).

Needless to say that, the arrival of Admiral Cheng Ho to the Malay land, especially in Malacca, marked an important aspect of maritime diplomacy and political contacts. The arrival of Admiral Zheng to Malacca must be viewed from two perspectives. The first is from the perspective of a Muslim Admiral arriving to establish hegemony and influence. Second is the fact that smaller international trading ports like Malacca viewing it

[2]Parameswara was a Hindu prince from Palembang in Sumatra (Indonesia). He was a rejected prince and he fled to Tumasik, the classical old name for Singapore. He killed the ruler of Tumasik and ruled it for few years before the Siamese in 1398 or 1400 A.D. sent out their armed forces to suppress the pirates in the Straits of Malacca and to demand allegiance of Tumasik that was known for the pirating activities. From Tumasik, Parameswara and his followers went to Muar in Johor and to Malacca, a small fishing settlement at that time. He established himself as the ruler there and under his leadership the fishing settlement was turned to the known seaport in the early fifteenth century. He converted to Islam (Bakar 2005: 98).

positively in the context of enriching the Sultanates and their future survival. In both scenarios, the idea of fear and friendship had dominated political and security thinking of the era (Balakrishnan 2006: 1-2).

By the time of Parameswara's death in 1414 A.D., Malacca was firmly established with the support and protection of the Ming Emperors. Consecutive Malayan rulers, Megat Iskandar Shah and Muhammad Shah also maintained relations with the Ming Dynasty for Chinese protection against the Siamese. However, after the death of Admiral Zheng Ho, the Chinese interest in overseas kingdoms and principalities progressively waned and China withdrew once again into its policy of seclusion (Ryan 1974: 21). It is argued that political relations between the Chinese Empire and rulers of the Malacca Sultanate during the fifteenth century were mutually beneficial and useful for both sides (Bakar 2005: 99).

Apart from political and diplomatic ties, Malaya and China had also maintained cultural contacts since the Neolithic Age. The Proto-Malays, Stone-Age people, who are considered among the earliest inhabitants in Malaya had their origin in the southern part of China, in the Yunnan province. Approximately between 2500 and 1500 B.C. they moved southward through the Peninsula and the neighbouring islands. The Proto-Malays, owing to their superior stone implements, were better equipped than the Negritos (Ryan 1974: 5). Another wave of immigrants from southern China arrived in the Malay Peninsula around 300 B.C., known as the Deutero-Malays, who overcame the Proto-Malays. Both the Proto-Malays and Deutero-Malays were Mongoloids from Yunnan. The Deutero-Malays were more advanced than the Proto-Malays because of their knowledge of metal tools and weapons. This final wave of immigrants formed the Malay population of Malaysia, and came to the Peninsula and Borneo from the islands of Java and Sumatra in the centuries that followed. This later migration was especially significant during the reign of the Srivijaya Empire (700-1000 A.D.) which controlled both areas. The Deutero-Malays were settlers, mostly farmers and fishermen living in areas near water sources. Religiously, they were animists and believed in the existence of spirits dwelling in trees, animals, stones and other objects (Ibid: 6).

During the reign of the Malacca Sultanate, the Malay rulers had maintained close cultural contacts with China. There were frequent exchange of visits, envoys and gifts between the two empires. The frequent voyages made by the Chinese Admiral Zheng Ho to Malacca also contributed in the strengthening of cultural relations between the two states. Zheng is credited with spreading Islam outside China. After the Malay Sultans were defeated by the Portuguese, who conquered Malacca in 1511 A.D., the cultural contacts between Malacca and China were also severed (Bakar 2005: 97).

During the fifteenth century, Malacca was able to grow economically, politically and culturally under the protection of the Ming Dynasty whose policy towards the region was open and pragmatic. Malacca became an important centre for spreading Islam across the region although the Chinese emperors were non-Muslim by this time. China's indirect influence was maintained nonetheless. However, when the Portuguese attacked and acquired Malacca in 1511 A.D., China did not came forward to protect Malacca because China's open and pragmatic policy was no longer in existence (Ibid: 104). In 1641 A.D., the Dutch replaced the Portuguese and ruled Malacca until the British took over in 1799 A.D. Except the period of Japanese occupation during the Second World War (1941-45), the British ruled Malacca until the liberation of Malaya in 1957.

2.3 Malaysia's China Perception

During the British colonial rule in Malaya, political relations with external powers were determined directly by the British government. The indigenous Malay rulers had no effective power over the foreign affairs of the colony. Although, Malay rulers were still nominal heads, and had authority over Malay customs and religious issues in their respective states, they had no power over the external affairs. After independence in August 1957, under the first PM Tunku Abdul Rahman, the country was faced with serious security threats from local communist insurgents backed by Communist China. Hence, the Malayan authorities refused to establish diplomatic and political relations with China and perceived it as the biggest challenge to the nation's security. It is noteworthy that before and after liberation, the Communist guerrillas' primary support base was among the Malayan Chinese, not the Malayan Malays. These Communist rebels were

receiving overall support from the China on the pretext that they were fighting against Western imperialism. The long battle with the Communist guerrillas and China's constant support to them had left behind a legacy of suspicion and hostility in the minds of Malaysian policy makers (Purcell 1967: 129). Prime Minister Tunku's anti-Communist and pro-Western political outlook also played an important role in the building of Kuala Lumpur's anti-China perception. Tunku was heavily influenced by political values of democracy and human rights, as advocated by the Western nations. According to Bakar, the perception during the initial years of Malaysian independence was that it was better for the country to be with the Western powers since Malaysia needed their political and economic support against the local Communist insurgents as well as to ensure security and stability in the region against external threats (Bakar 2005: 104).

When Tun Abdul Razak took over the office of PM in September 1970 after the racial riots of May 1969 between the Chinese and Malays, the country began to see a change in its relations with China. Unlike his predecessor, Abdul Razak moved towards rapprochement with China, as Baginda argues "to stabilize the relations between the Chinese and Malays in Malaysia and deal with the Malaysian communist insurgency movements" (Baginda 2002: 235). The Malaysian government was convinced that the Communists were responsible for fuelling the racial riots as a way to destabilise the country. In the foreword to the 1971 White Paper, Deputy Prime Minister and Home Minister Ismail Abdul Rahman said that the "Communist efforts to produce a situation favourable to an armed insurrection have borne some results. This was due to the support given by a small section of the population who are either disloyal or misled" (Ibid).

To some extent, the government wanted to pre-empt any additional moral support from the PRC to the communists in Malaysia. PM Abdul Razak hoped that by engaging China and eventually normalising relations, the PRC would stop providing any assistance to the Communist Party of Malaya (CPM) (Ibid). In continuation of such a policy Abdul Razak visited China in May 1974 and paved the way for the normalisation of relations although the common perception of threat from the Communists in Malaysia remained strong.

Despite normalisation of relations, mutual suspicion between the two countries lingered for another two decades due to China's refusal to cut off party–to-party ties between the Communist Party of China (CPC) and the outlawed Communist Party of Malaya. Although Malaysia created history in regional politics by being the first ASEAN country to establish diplomatic relations with China, persisting problems caused Kuala Lumpur-Beijing ties to proceed cautiously. Undeniably, the links between the CPC and CPM constituted a major obstacle in relations between Malaysia and China during the Cold War. Malaysia's fear and suspicion was that Beijing's refusal to sever all ties with the CPM indicates that China harbours ulterior motives to utilise the local Communist organisation consisting mainly of Malay Chinese for political leverage against the Malaysian government at some time in the future (Leong 1987: 1110).

With the collapse of Communist insurgency movement and dissolution of the CPM in December 1989, the greatest political hurdles in Malaysia's relations with China were removed. The end of the Cold War, with the collapse of the Soviet Union, and convergence of both sides' interests in the transforming regional and international security landscape had compelled Kuala Lumpur to reconsider its China policy (Shee 2004: 67). In the post-Cold War regional dynamics, Malaysia's China perception has shifted from suspicion and strategic threat towards increasing engagement. During the last two decades, Malaysia and China have increased high-level exchanges, political and strategic mutual trust have been enhanced, economic ties have improved tremendously, and mutually beneficial cooperation has rapidly developed. In addition, both sides have made significant achievements in the fields of energy, finance, culture, education, etc. (Liow 2009).

Malaysia's overall relations with China have improved rapidly since 1989, and dealing with rising China has been a key concern for the country's policy planners in the post-Cold War era. According to Amitav Acharya, Malaysian leaders view China's ascendancy with mixed feelings both as a major economic opportunity and potential threat to national security and regional stability. China's growing military power and its claim on the Spratly Islands in the South China Sea, contested by Malaysia and four other claimant countries of the region, have created new fears of Chinese hegemony. As

Acharya highlights, Malaysian leaders want to avoid an openly adversarial relationship with China, generally preferring a policy of engagements to a posture of containment, but the country remains sufficiently worried about the potential of China becoming a threat to regional security (Acharya 1999: 129). However, a Malaysian scholar, Cheng Chwee Kuik is of the opinion that from mid-1990s, Malaysia's successive leaders have chosen not to view China as a threat. Nonetheless there are signs that Malaysian policy elites are increasingly concerned regarding China's intentions and actions in the South China Sea in the recent years (Kuik 2014).

2.4 Alternative Strategies for Malaysia

Needless to say, the PRC is fast emerging as a pre-eminent power in the Asia-Pacific region. Its growing power has led to rising suspicions across the East and Southeast Asian states. Against this backdrop, not only regional powers but even smaller states in the region are seriously considering best strategies to deal with the situation. International Relations theory prescribes several alternative strategies for small states like Malaysia to deal with a rising China. According to Denny Roy, "two of the common responses of smaller states in the shadow of a potentially dominant or threatening power are balancing and bandwagoning" (Roy 2005: 306). On the other hand, Randall Schweller holds that "the range of policy choices for small and medium-sized states facing a potential regional hegemon is broader than balancing and bandwagoning" (Schweller 1999:7–16). Malaysia, in fact, applies various paradigms in dealing with ascending China. These paradigms, as discussed below, help enhance Malaysia's policy options vis-a-vis securing more benefits from the engagement with China.

2.4:1 Engagement

The strategy of engagement is a deliberate policy of socialisation with a rising power using non-coercive methods. Its aim is not to prevent or block the growth of the latter's influence or status, but to ensure that any change in the regional or global order caused by its ascendancy is peaceful (Acharya 1999: 130). This strategy relies on the "promise of rewards rather than the threat of punishment to influence the target's behaviour" (Schweller 1999: 14). Evan Resnick defines engagement as an "attempt to influence the

political behaviour of a target state through the comprehensive establishment and enhancement of contacts with that state across multiple issue-areas" (Resnick 2001: 559). Similarly, Kuik also describes engagement as a "policy wherein a state seeks to establish and maintain contacts with a Great Power, for the purpose of creating communication channels, increasing 'voice opportunities' and influencing the power's policy choice" (Kuik 2008: 167). Denny Roy defines engagement as "a strategy whereby a state uses inclusion and rewards to attempt to socialise a dissatisfied power into accepting the rules and institutions of the pre-existing international order" (Roy 2005: 306).

An engagement policy is pursued essentially through non-coercive methods. It may involve the creation of institutional constraints on the rising power's geopolitical behaviour, accommodation of its legitimate interests, and the devising of other means to transform its policies that are deemed to be destabilising (Acharya 1999: 130). The policy of engagement includes such instruments as diplomatic contacts (e.g. establishment, extension and elevation of diplomatic ties, summit meetings and high level political visits, etc.), military contacts (e.g. military exchanges and aid, joint training or exercise, confidence building measures, intelligence sharing), economic contacts (e.g. financial aids/assistance, loans, trade agreements, coordination of macroeconomic policies, etc.), and socio-cultural interaction (e.g. cultural exchanges, tourism, sports, artistic and academic exchanges). These modes of interactions allow small powers to try to induce relatively moderate behaviour and a more peaceful path of ascendance on part of the stronger power. Although the chances of small states in their attempts to shape the perceptions and conducts of an ascending power may not be as powerful as great powers', engagement is still a considerable option (Lee 2012:7).

The policy of engagement policy serves the primary objective of minimising conflict and avoiding war without upsetting existing integrity of the international order. Engagement also serves three other important goals as Schweller has mentioned:

> First, it enables the status-quo powers to get a clearer picture of the actual (as opposed to declared) intentions and ambitions of the rising, dissatisfied power. Second, it is a useful policy for buying time to re-arm and gain allies in case the great power cannot be satisfied and war becomes necessary.

> Third, engagement policy can be used to break up dangerous combinations or to prevent them from occurring in the first place (Schweller 1999: 14).

In dealing with China, it seems that Malaysia clearly favours a strategy of engagement as is evident in the statements of its political elites. In 1997, the then Foreign Minister of Malaysia, Abdullah Badawi openly declared that, to improve relations with China, "the most important thing is engagement, not containment" (Asiaweek 1997). The policy elites in Kuala Lumpur have also been aware of the fact that an engagement policy towards China is perhaps the best possible strategic option available for Malaysia, despite its historical hostility after several decades of threat-based relationship caused by the Communist insurgency, ideological differences and China's persistent support to the CPM. As Acharya writes, from a Malaysian perspective,

> a policy of engaging China means a conscious effort by its neighbours and the international community at large to develop a normative framework and a range of bilateral and multilateral linkages which will constraint Chinese unilateralism and encourage its role as a peaceful and responsible member of the regional and international system (Acharya 1999: 130).

In explaining the logic of this policy of engagement, the former Foreign Minister Badawi commented:

> Close relations and cooperation between Malaysia and China would alleviate any attempt by China to resort to military action because that would also be detrimental to China... If there is no co-operation, there is a possibility China may resort to military action (against Malaysia) or cause a conflict here because it will not lose anything. We want to create a choice (for China) (Liow 2005: 287).

Malaysian scholar Cheng Chwee Kuik has used the term 'binding' engagement rather than simply 'engagement' in the context of Kuala Lumpur's engagement policy towards Beijing. According to Kuik, 'binding' refers to a state's act of seeking to institutionalise its relations with a power by the means of "enmeshing it in regularised diplomatic activities. When binding and engagement are combined, they serve to socialise and integrate a great power into the established order, for the aim of neutralising the revisionist tendency of the power's behaviour" (Kuik 2008: 167).

Malaysia's engagement policy can be traced back to the Cold War period when, as stated earlier, in 1974 it became the first ASEAN member to establish relations with China. Since then, Malaysia has adopted a policy of engagement with the aim of establishing communication channels with China (Kuik 2012: 12). However, the element of 'binding' was absent from Malaysia's engagement throughout this period, simply because of a lack of regularised diplomatic structure between the two states. The 'binding' element was implemented only in the early 1990s, following the creation of several institutionalised dialogue mechanisms between ASEAN and China. At the bilateral level as well, consultation mechanisms were established between the Foreign Ministries of Malaysia and China in 1991. At multilateral level, Malaysia has been actively engaging and 'binding' China in various ASEAN-led institutions, such as the ARF and the ASEAN-China dialogue process (Kuik 2008:167-168). In Acharya's opinion, Malaysia sees such multilateral institutions as an important instrument in socialising and eventually integrating China into a system of regional norms and order (Acharya 1999: 130).

Engagement is both a process and a goal for Malaysia. The goal is to ensure that Malaysia benefits from the economic opportunities offered by China's economic growth while discouraging a Chinese security posture that would threaten Malaysia's security interests. Malaysian policy towards China is designed to create a mutual accommodation of legitimate interests. A related objective is to "maximise positive economic and functional interdependence" (Ibid.). According to Acharya, the economic ties between Malaysia and China are based primarily on calculation of economic opportunity, rather than being the result of a considered strategic approach. Economic interdependence has been viewed by Malaysian officials and academics as an important source of peace and stability in the Asia Pacific region (Ibid.).

The strategy of 'constructive' engagement and promoting national interests via economic pragmatism has prevailed all along in the post-Cold War era. The rapid growth of China's economy following Deng Xioping's modernisation programme had a significant impact on Malaysian perception towards China. The late 1980s and 1990s have portrayed the strength and potential of Chinese market economy to the world. Owing to its prudent policy, Malaysia too benefited significantly by the significant increase in its trade and

business with China (Balakrishnan 2006: 2-3). The overall result of Kuala Lumpur's strategy of engagement with China has been phenomenal while, at the same time, problems have remained unresolved in certain areas.

2.4:2 Balancing

'Balancing' implies "opposing the stronger or more threatening side in a conflict" (Walt 1987). Kenneth Waltz contends that "driven to preserve their own security, states especially the smaller ones tend to perceive a rising power as a growing threat that must be counter-checked by alliance (external balancing) and armament (internal balancing)" (Waltz 1979). As Tang noted, small states can opt to pursue a balancing strategy which calls for the formation of alliances with like-minded states to contain and confront the threatening power. For him, smaller states balance against the stronger state, for it is the stronger state that threatens smaller powers (Tang 2012: 223).

Balancing may be accomplished in two ways: internally, with threatened states making individual attempts to mobilise their national resources in order to strengthen their defensive capability to match those of the enemy; or externally, with these states establishing formal or informal alliances, with other state(s) that fear the same potential adversary, directed against the rising state or a coalition (Schweller 1999: 9). Denny Roy argues that balancing behaviour

> may involve different levels of intensity. In the case of low intensity balancing, the balancing state seeks to maintain a constructive relationship with the targeted state. In the case of high intensity balancing, the relationship between the balancing state and the targeted state is more openly adversarial, and many forms of cooperation between them are stalled by political tensions (Roy 2005: 306).

In case of China, Cheng Chwee Kuik writes that "an increase in China's relative capabilities will cause the small states to become apprehensive, which in turn, will compel them to strengthen their alliances and defence capabilities for balancing China, as a necessary move to preserve their security" (Kuik 2008: 162). To describe ASEAN states' (including Malaysia) balancing acts, Kuik uses the term 'indirect balancing' which refers to a policy wherein a state copes with 'diffused uncertainties,' in contrast to

specific threats as in the case of 'pure balancing,' through military efforts, such as forging defence cooperation or upgrading its own military. It is different from 'soft-balancing,'[3] which entails maintaining informal military alignments for the express purpose of balancing (Ibid: 170).

Malaysian policy towards China is qualitatively different from a pure and classic balancing strategy. Attempts to establish a partnership with the big power to attain a common foreign policy objectives (e.g., Sino-Malaysian cooperation in promotion of East Asian Economic Grouping (EAEG)) could not be explained as part of a 'pure balancing' strategy. Further, it would not entail a decision to develop, let alone institutionalise, bilateral defence ties with the big power; and it would not feature enduring willingness to accommodate the big power's interests on various issues (e.g. those ranging from Taiwan and Tibet to Xinjiang and Falungong)[4]. A 'pure balancing' strategy would be one wherein Malaysia openly describes China as a threat (as epitomised by Kuala Lumpur's posture during the Cold War); wherein the state took actions aimed at isolating, limiting, and denying rather than engaging, encouraging, and facilitating the big power's role in the region; and most important of all, one manifested in a military alliance (formal or de facto) with other powers directly and explicitly targeted at containing the rising power's strategic reach.[5] None of these features characterises Malaysia's post-Cold War China policy (Kuik 2013: 5).

Malaysia's approach towards China is labelled by Kuik as a 'limited' or 'indirect balancing,' and not a 'pure balancing'. This approach is complemented with the practice of using multilateral diplomatic institutions as platforms to prevent and deny domination by any single power in regional affairs. Hence, it is an act of balance of political power, and not a balancing strategy in the classic sense. To illustrate Malaysia's absence of 'pure

[3] 'Soft balancing' is used as a contrast to 'hard balancing,' which refers to formal and strict sense of military alliance (Kuik 2008: 183).

[4] A spiritual movement that began in China in the latter half of the twentieth century and is based on Buddhist and Taoist teachings and practices. It is officially banned in China.

[5] In 2005, Malaysian Prime Minister Abdullah Badawi openly dismissed the China threat theory. He also labelled security and defence alliances in the Asia Pacific region as both 'unnecessary' and 'destabilising'. For Badawi, such alliances serve to provoke more than they reassure (OPM 2005).

balancing' vis-a-vis China, Kuik gives an example of Kuala Lumpur's response to the South China Sea disputes in contrast with that of Philippines' and Vietnam's response. Unlike the Philippines and Vietnam, which have publicly described China as a threat and thus sought to upgrade their defence ties with the US as the main leverage to deal with the PRC, Malaysia continued to emphasise on a peaceful resolution of the dispute through diplomatic means (Ibid).

Although Malaysia, together with Indonesia and Brunei, does not oppose an American presence in the region, it has not favoured a balance of power approach to the maintenance of regional stability. That would have meant relying on what it felt to be the uncertain guarantees of great powers for regional security. Malaysia prefers to manage the rise of China through the expansion of economic ties and by relying as much as possible on its own defence capabilities (Chung 2004: 38-39). As Acharya asserts, if balancing China entails bandwagoning with the United States beyond loose and informal security ties, Malaysia will not find it politically attractive. For Malaysia, choosing containment or a pure balancing strategy toward China would mean increasing its dependence on US (and to lesser extent Australian and Japanese) power. But such a strategy is politically unappealing to Malaysia, which values its independent and non-aligned international posture (Acharya 1999: 144).

While it maintains close military cooperation with the US and other Western powers, Malaysia entered into such arrangements during the height of the Cold War, before China emerged as a regional concern.[6] Kuik finds "no clear indication that Malaysia's external military links and its own defence modernisation has been primarily motivated by, and

[6]Malaysia's defence relationship with the United States was upgraded and institutionalised during the Mahathir Administration through the 1984 Bilateral Training and Consultation (BITAC) agreement which provided a framework for combined training and exercises, intelligence exchange and logistical support for the US military. The agreement formed the basis of an extensive bilateral military relationship that continued into the 1990s and beyond, and which explicitly recognized the stabilizing role the United States played in the region vis-à-vis a rising China (Storey 2011: 223). In 1994, US-Malaysia defence ties were strengthened when BITAC was upgraded into an Acquisition and Cross-Servicing Agreement (ACSA) that allowed for US naval ships and aircraft to transit through Malaysia for resupply and maintenance. The ACSA has been renewed by both Badawi (2003-2009) and Najib (2009-onwards) administrations. The Najib administration has solidified Malaysia's long-standing defence cooperation with the United States by elevating Malaysia's status in the US-led Cobra Gold military exercise from observer to participant in 2010 (Kuik 2012a: 1-2).

accelerated in tandem with, the pace of China's growing power" (Kuik 2013: 4). Joseph Chinyong Liow has noted two important reasons for Malaysia's not being keen on balancing China. First, unlike the Cold War period, China does not appear to pose a clear, direct threat. It can be argued that, instead of posing a threat, China is beginning to endear itself to Southeast Asia, and Malaysia seems to be leveraging on this to further its own interests (Liow 2005: 299). Tang has also observed that balancing is a problematic strategy because China is not viewed as a security threat by Malaysia. Hence, the absence of a clear and imminent threat complicates the implementation of a balancing strategy (Tang 2012: 223).

Second, given Malaysia's inclination to prioritise economic security, its most obvious 'balancer' from a strategic perspective, the US, looks equally 'threatening' from an economic and political perspective (Liow 2005: 299). According to Acharya, ASEAN countries (including Malaysia) are wary of balancing strategies that are simply unfeasible without creating significant dependence on the US. Traditionally, ASEAN member states have strived to prevent any external power from acquiring strong influence over any member state or the region as a whole. In keeping with this goal, ASEAN states do not wish to be in a situation where they have to choose either the US or China. Acharya further contends that ASEAN is pursuing 'double-binding,' involving a conscious effort to engage both the US and China in institutional mechanisms aimed at promoting regional interdependence so as to induce China to act moderately and increase the cost of Chinese use of force. Simultaneously, ASEAN would discourage the US from pursuing containment strategies, which it views as counterproductive (Acharya 2004: 152-153). In the particular case of Malaysia, Chang noted that Kuala Lumpur "has been willing to give China the benefit of the doubt in its dealings with Southeast Asia. That willingness partly arose from Malaysia's attempt to maintain a certain distance from the West, despite its strong ties with it" (Chang 2014: 1).

2.4:3 Bandwagoning

The first referral to the concept of 'bandwagoning' as a description of international alliance behaviour was presented in Quincy Wright's *A Study of War* and later in Kenneth

Waltz's *Theory of International Politics*. Both scholars use the concept of bandwagoning to explain a behaviour pattern opposite of balancing. 'Bandwagoning' refers to a state joining the stronger coalition, as opposed to the concept of 'balancing' wherein a state would ally with the weaker state against a stronger power (Wright 1964: 136; Waltz 1979: 126). According to Stephen Walt, states may either balance or bandwagon when confronted by an external threat. Balancing is defined as "allying with others against the principal source of danger"; bandwagoning refers to "alignment with the state that poses the major threat" (Walt 1985: 4). Schweller comments that rather than being behavioural opposites, bandwagoning and balancing represent opposite systemic conditions: "balancing with stasis; bandwagoning with change." The motivation for bandwagoning is fundamentally different from that of balancing. Bandwagoning is usually done in the "expectation of making gains; balancing is done for security and it always entails costs" (Schweller 1994: 106-107). Schweller noted that

> states have very different reasons to choose balancing or bandwagoning. The aim of balancing is self-preservation and the protection of values already possessed, while the goal of bandwagoning is self-extension: to obtain desired values. Balancing is driven by the desire to avoid losses while bandwagoning is aimed to gain opportunities (Ibid.: 74).

Balancing is a cost-intensive strategy most states would prefer to avoid, but sometimes must take recourse to in order to survive and protect their values. Bandwagoning, on the other hand, seldom involves costs and is typically resorted to in anticipation of gains (Ibid: 93). Liow writes that weak states are helpless in the face of great power rivalries in an anarchical international political environment and, hence, are forced to resort to security strategies such as bandwagoning with stronger, more threatening powers. Bandwagoning signifies the necessary compromising of the interests of smaller states that, while unwilling to do so, are nevertheless helpless to resist the pressures of 'systemic forces' and hence bandwagon in the hope for the best (Liow 2005: 283).

In contrast to Walt's position that bandwagoning behaviour is pursued out of a sense of threat and limited options, Schweller introduces another dimension to bandwagoning which views small states' adoption of such behaviour as proactive, not because of a sense of fear and helplessness in the face of a serious threat, but rather a cautiously calculated

and calibrated response in order to capitalise on great powers' need for friends and allies and advance their own political, economic, and strategic interests. This form of bandwagoning is motivated by incentives and gains and not by fear or threats. In further contrast to Walt, Schweller asserts that the presence of a significant external threat (while required for effective balancing) is unnecessary to bandwagon (Schweller 1994: 74).

Another aspect of bandwagoning; suggesting that bandwagoning is often directed at challenging a prevailing international order. Schweller writes that "unlike defenders of the status quo, revolutionary states will not hesitate to offer other dissatisfied nations substantial gains in prestige and territory as a reward for helping them to create a new order" (Schweller 1999: 11). While the 'profit' dimension of this aspect of bandwagoning may not be tangible it still remains an appealing option for smaller states dissatisfied in one way or another with the current international order to bandwagon with a rising major power that shares similar beliefs and reservations towards the inequality of the status quo (Liow 2005: 284).

In summary, Walt's position states that bandwagoning is defensive and represents the extreme end of a bandwagoning spectrum, where small states have little or no choice, their policy options and behaviour being dictated by the forces of an international system dominated, in turn, by great powers. Schweller takes a comparatively nuanced view that bandwagoning strategies can be consciously and deliberately chosen by small states for the purposes of advancing their own goals and interests.

As far as Malaysia's strategy options towards China are concerned, Tang is of the opinion that bandwagoning is a realistic option for small powers, such as Malaysia, because when faced with the option of confronting stronger states, small states usually bandwagon with the former as it is the least costly alternative. Furthermore, states pursuing this strategy often 'bandwagon for profit': siding with the stronger state brings benefits and gains. But in the case of Malaysia, it is not practicable option because it is not clear what the country stand to gain by forming a tight alliance with China. It is unclear what Malaysia could gain other than the benefits it already enjoys. Tang has given the negative aspect of bandwagoning strategy when he argues: "the smaller power

depends at the mercy and dictates of the stronger power. This could mean the loss of freedom and sovereign rights." In that sense, bandwagoning is a high risk strategy for small states (Tang 2012: 223). The threats associated with bandwagoning, especially for smaller states, could therefore lead to a loss of sovereignty for states such as Malaysia. This has led some scholars to suggest that such a strategy might be unwise for the ASEAN states, given their geographical and economic inferiority to China (Chung 2004: 50).

Malaysia's chances of opting a bandwagoning behaviour vis-à-vis China is 'limited.' Unlike the pure form of bandwagoning, which inevitably forces smaller states to accept hierarchical (superior- subordinate) relations with regard to the patron, Malaysia's policy behaviour towards China "has been driven by a clear hierarchy-avoidance strategy, where it cautiously avoids losing its autonomy to or becoming over-dependent" on the great power (Kuik 2012: 13). "Given Malaysia's sensitivity about sovereignty, along with the complex relations between the majority Malays and the Malaysian Chinese, the country's bandwagoning behaviour is expected to remain *limited* in the near future" (Kuik 2008: 176).

The limits on Malaysia's bandwagoning behaviour have been witnessed, according to some experts, not only in the deference shown by its policy planners towards Beijing's 'core interests' (e.g. the 'One China policy'), but also by its growing inclination to view China as a partner in promoting certain common foreign policy goals such as East Asian economic integration. The latter is a strategy which aims at foreign policy benefits accruing from aligning with a rising power. Owing the convergence of worldviews in the two states, both the countries have extended their support to each other's stance at various international forums, over issues relating to Global South, human rights, state sovereignty and non-interference, as well as the need for a new multi-polar international order (Kuik 2012: 13).

2.4:4 Hedging

The term 'hedging' is borrowed originally from finance and brought into international relations to "refer to an alternative strategy distinguishable from balancing and

bandwagoning" (Kuik 2008: 161). According to Acharya, hedging refers to a "situation in which states are not sure whether to balance, bandwagon, or remain neutral" (Acharya 2003/2004: 153). Thus, hedging refers to diversification of strategy options to prepare for unforeseen policy challenges. Jeongseok Lee is of the opinion that

> strategic decisions that are too specific may endanger the future of a state. If the situation of power shift develops toward a completely predictable direction, choosing the most relevant strategy of response with concentration of all relevant resources may be effective. However, if not, depending on only a single option can be disastrous for minor powers under severe influence of great power politics. For such reasons, small states may hold to a portfolio of multiple options such as balancing, bandwagoning, engagement etc. In that sense, hedging is rather a mix of strategies than an exclusive one (Lee 2012: 8).

Liow views the hedging diplomacy as a move not only to avoid becoming a strategic pawn of great powers, but also to take advantage of economic, political and diplomatic rivalry between great powers in a manner that advances a small state's own interests and does not foreclose policy options (Liow 2005: 285).

Kuik defines the term 'hedging' as a strategic behaviour in which a country seeks to offset risks (security, economic and political) "by pursuing multiple policy options that are intended to produce mutually counteracting effects, under the situation of high-uncertainties and high-stakes" (Kuik 2008: 163). Given the highly complex nature of international relations, with the attendant high-stakes and uncertainties, small states would always tend towards hedging. This course would be attractive because it would allow smaller states to avoid taking sides or seem to bet on the future of great powers. However, whether such a tendency is translated into actual policy behaviour depends on several factors. Kuik notes three main factors: first, the presence of an immediate threat that might force smaller states to align with a great power for the purposes of protection; second, ideological fault-lines that might rigidly divide states into opposing camps (as in the case of the Cold War); and, finally, a rivalry between great powers that might force smaller states to choose sides. Hedging behaviour is possible only in cases where these three conditions, or any combination of these, are present. On the basis of these

parameters, "hedging is conceived as a multiple-component strategy between the two ends of the balancing-bandwagoning spectrum" (Ibid: 165).

In further explanation of the hedging strategy in the context of Malaysia's policy towards China, Kuik holds that with the collapse of the erstwhile Soviet Union/Eastern bloc which ended the Cold War, the ensuing unipolarity caused deep uncertainty among regional actors, especially the smaller Southeast Asian states including Malaysia. Following the withdrawal or reduction of superpower military presence in the region, new uncertainties had emerged raising question on whether the emerging Asian powers will compete to fill the power vacuum; and what role the ASEAN would assume in the changed regional security architecture. Factors such as uncertainty at the regional security level and the suspicions regarding the long-term allegiances and role of major powers have prevented smaller states from developing close relationship with any of the great powers. Smaller states fear losing their autonomy in case of close relationship with a great power, which, in turn, may create domestic challenges to the legitimacy of the ruling elites. There is also the threat of small states being dragged involuntarily into a great power conflict. On the other hand, maintaining a distance from a great power may also cost the elite the opportunity of gaining various benefits that could boost their domestic political standing. Such a distancing might also create distrust or even hostility on the part of the great power which could be catastrophic for the smaller state. Hence, such high stakes would force the small states to adopt the 'right' strategy to negotiate and manoeuvre the uncertain and evolving power structure (Ibid: 164-165).

If 'hedging' seems to be the chosen behaviour of ASEAN states, it could be understood by the grouping's desire to minimise security threats and to optimise economic benefits in an uncertain scenario generated by the rise of China as the regional hegemon. ASEAN states strongly believe that increasing of China's economic interdependence with the region and rest of the world has had the effect of giving Beijing a stake in the peace and stability of the region (Chung 2004: 35). As a prominent ASEAN member, Malaysia has used economic engagement as part of its hedging strategy. According to John Lee, Malaysia is not unsure of Chinese intentions and aspirations, and strengthening bilateral economic relations and cooperation with her makes perfect sense with little political cost.

However, Malaysia has emerged as China's largest trading partner in ASEAN. This is despite the fact that the Malaysian economy is in many ways in competition with China's, and despite complaints in Malaysia that manufacturing jobs are being lost because of China's greater competitiveness. Kuala Lumpur believes that this is a necessary price to pay for the sake of good bilateral relations with Beijing (Lee 2006: 7).

In the light of the changed strategic environment in the post-Cold War era, it is of enormous importance to Malaysia to find the perfect strategy to deal with an emerging power like China. Undoubtedly, China's rise to the status of a key strategic player in the Asia-Pacific region is inevitable. Consequently, the concerns for regional small states like Malaysia would be less how to stop this development than how to deal with it. Malaysia's policy behaviour vis-a-vis China must be viewed in the context of the current strategic environment, where it has been a relatively stable strategic milieu that offers small states like Malaysia much more operating space in its relations with great powers. While the role of major powers in maintaining regional order and stability is vital, states like Malaysia can proactively capitalise on periods of tranquillity, solidify their bargaining positions, and secure their interests by pursuing a mix of strategies in dealing with ascendant powers like China. It is important to emphasise, however, that Malaysia's orientation towards China is part of a policy of hedge diplomacy and is premised on engagement strategies towards the rising power. Furthermore, in relation to China, this behaviour is motivated not so much by threat perception as by Kuala Lumpur's intention to capitalise on the potential political, economic, and strategic benefits associated with the rise of China.

The strategic puzzle for Malaysia is crafting an optimal strategy to engage with the major powers in a constructive and mutually beneficial manner. To that end, it is important not to isolate or give cause for any party to adopt an aggressive stance toward Malaysia. The most conducive outcome for Malaysia is to maintain equidistant relations with both powers, the US and China, aimed at maintaining and enhancing existing ties. Pure balancing and pure bandwagoning are ruled out as possible options for Malaysia. The idea of engagement may be a more desirable alternative because it lies somewhere between balancing and bandwagoning (Acharya 1999: 144). But while balancing requires

increased dependence on great power alliances, which Malaysia seeks to avoid, even a strategy of engagement requires a certain degree of equality in status and capabilities between the parties in order to be meaningful. Moreover, China may not be interested in being 'engaged' by Malaysia. 'Engaging' a vastly superior rising power may not be a credible option for a weaker power because it does not offer much in terms of the 'power-prestige demands' and needs of the superior power. When the capacity of two sides to damage each other's interests is unequal, the weaker side's policy of engagement may be seen by the stronger side as a form of appeasement (Ibid: 145).

In the case of Malaysia, neither pure balancing nor pure bandwagoning is desirable in itself if it entails vastly increased dependence on external security guarantees. Even if the US develops a clearly defined strategy of containment, Malaysia is unlikely to accept the political costs of identifying completely with the US posture. As a developing country, Malaysia will do its utmost to avoid being seen as a client tethered to the US. Neither will Malaysia opt for bandwagoning with China, even though Malaysian leaders have made common ground with China over issues such as human rights and accepted China as a legitimate great power (Ibid.).

For Malaysia, therefore, the preferred strategy of dealing with a rising China has been to adopt a middle way between balancing, bandwagoning and engagement. It entails that the smaller state, in this case Malaysia, adopt a generally cooperative posture towards an ascending power (China). Such a posture clearly required that, to the extent possible, Malaysia does not choose to take sides in bilateral or larger conflicts involving competing great powers, unless such a conflict seriously threatens its interests. In that situation, considerable emphasis is laid on multilateralism that is often used by weak powers to enhance their bargaining clout which they cannot achieve through unilateral actions (Ibid.: 145-46). It can be argued that although Malaysia has used classical strategies of engagement, balancing, bandwagoning and hedging at various times, its ultimate guide has been the perceived nationalistic right of a developing country to chart an independent course in its relations with other powers.

Chapter-3

Determinants of Malaysia's China Policy

Malaysia's foreign policy towards the People's Republic of China (PRC) has evolved from a predominantly antagonistic and suspicious relationship into a cordial and mutually beneficial partnership. Malaysia's foreign policy towards China has traditionally been determined by international and regional structural arrangements as well as domestic political considerations. The former is a reference to the impact of the Cold War and the pro-West inclinations of the early Malaysian leaders based on colonial experience, political ideology and, equally importantly, as a result of the communist insurgency movement in the country that started immediately after the end of the Second World War. Throughout much of the Cold War period, Malaysia viewed and dealt with China as the major security threat primarily due to the latter's persistent support to the outlawed Communist Party of Malaya (CPM) that attempted to sabotage the newly independent country and overthrow the Malaysian Government. The antagonism was also due to Beijing's policy towards the Overseas Chinese. This suspicion and distrust persisted even after the normalisation of formal diplomatic relations between the two countries in 1974. The domestic political considerations, on the other hand, are in reference to the Malaysia's racial composition that included a substantial ethnic Chinese population whose loyalty to their adopted nation was at times suspect in the eyes of the Malay political elite, particularly after the emergence of communist China. In fact, there was a severe trust deficit among the various ethnic communities with the result that considerable efforts were made by the government to put in place policies which were felt to be necessary for social cohesion and stability (Ganesan 2010: 245-246)

3.1 The Cold War Period

After the end of the Second World War, the world was divided into two opposite camps on the basis of ideological differences. One was spearheaded by the United States (US) and the other was led by the Soviet Union. The bipolar structure of international politics deeply influenced the orientation and conduct of foreign policy of each country whether

directly or indirectly. The emergence of the People's Republic of China after a violent Communist revolution in 1949 intensified the Cold War politics, particularly in the Asia-Pacific region. China's ambition to spread the Communist ideology throughout the region resulted in its persistent support to the Communist insurgency in the countries of Southeast Asia, including Malaysia, posing a major threat to the internal security of the concerned countries.

The factors that influenced the formulation of Malaysia's China policy during these years were numerous and complex. Among the major determinants of this policy are the following:

3.1:1 Internal Security Concerns

China's moral or material support to the local Communist insurgents in Malaysia served as a major factor in determining Malaysia's China policy during the Cold War. It was at the end of World War II that Communist insurgency erupted in Malaya, posing a major threat to its internal stability and security. The Communist Party of Malaya[7] that was active in waging guerrilla warfare against Japanese occupation forces during World War II spearheaded the movement after the end of the war as well. Following the Southeast Asian Youth Conference held in Calcutta in February 1948, the CPM launched an armed insurrection aimed at overthrowing the rule of colonial masters and, according to them, their puppet Malay elites in order to establish an independent Malayan republic. Subsequently, the Malayan government declared a state of Emergency that lasted from 1948 to 1960 and banned the CPM (Jain 1984: xxxiv-xxxv) (Morrison 1948: 281-82). The guerrilla warfare reached its climax with the assassination of the British High Commissioner in October 1951 and steps were taken to curtail the movement which intensified in the ensuing years resulting in the death of hundreds including soldiers, red

[7] The CPM, known originally as the Nanyang Communist Party was established in Malaya in 1929. Its role was limited until the eruption of World War II when it formed the Malayan People's Anti-Japanese Army to fight against the Japanese occupation forces. At the end of the war and the return of British rule in Malaya, the CPM was legally recognized as a political party but eventually conflict developed between the Communists and colonial rulers. Consequently, the CPM formed the Malayan People's Anti-British Army in 1948 and launched a guerrilla fight- what they called a 'liberation war' against the British. The notable fact is that about 95 per cent of its armed cadres, numbering between 4,000 and 5,000, were ethnic Chinese (Sebastian 1991: 272-73).

cadres and civilians (Short 1975: 303-304). Although Malaya achieved independence from the United Kingdom in 1957, the Communists continued their armed struggle, defying the independent Malayan Government (Sebastian 1991: 273).

During the period of 'emergency', British Malaya's policy towards China was primarily determined by the 'support' given by the latter to the anti-government Communist movement. When the People's Republic of China was established under Chairman Mao Zedong on 1 October 1949, Malaya had been combating Communist insurgency for the second straight year. The new Communist government in China, motivated as it was by a militant ideology, could not remain disinterested in the neighbouring Southeast Asian region, with Malaya occupying a strategic position. China viewed the region serving as a crucial connecting link between the Indian Ocean and the South China Sea. Further, about 40 per cent of Malaya's total population of 10 million at that time was of Chinese origin, creating another factor inviting Chinese interest in Malaya (Jain 1984: xxxiii). Prior to Malaya's independence, internal security threats and Mao's policy of exporting Communism had ensured that the British rulers sought to limit contact with the PRC. The insurgency led by the CPM, whose membership drew heavily on ethnic Chinese community,[8] raised fears among the British that China might seek to influence and direct the local Communist movement (Storey 2011: 213).

The policy that the Colonial rulers had followed towards China continued to be pursued by the Malayan leadership after independence. Although China had recognised Malaya's independence, the latter refused to reciprocate. Tunku Abdul Rahman (1957-1970), the first Prime Minister of independent Malaya, regarded China a potent source of external threat because of its support to the CPM. Malaya was also wary of what was then perceived by the pro-West countries as China's expansionist ambitions in the region. As far as the Malayan leadership was concerned, Beijing's objective was to 'carve up large parts of Asia, particularly Southeast Asia, and draw the fragmented parts into the Communist sphere of influence' (Jain 1984, Document 98: 98). China's role in the Malayan insurgency has been considered controversial in the context of Beijing's support to the guerrillas. However, no irrefutable evidence of direct military aid given by China

[8] Non-Chinese membership of the CPM and its ancillary bodies never exceeded 10 per cent (Short 1975: I).

to the insurgents has emerged. Nonetheless, even indirect Chinese encouragement and support was enough to influence Malaysia's threat perceptions. China's moral support and fraternal ties with the local Communist movement, consisting of largely ethnic Chinese residents of Malaya, had a direct impact on how Kuala Lumpur viewed the PRC (Baginda 2002: 228). China's most important contribution to the Malayan Communist movement was its role as an ideological mentor and financial backer. CPM cadres undertook ideological instructions in China and Beijing provided funding to the movement. China also served as a safe sanctuary for exiled CPM leaders including Chin Peng,[9] after 1969 (Storey 2011: 213). This Chinese policy of providing moral and material support to the CPM was clearly regarded as a violation of Malayan sovereignty.

The revival of insurgency in 1968-69 and party-to-party links between the CPM and the Communist Party of China (CPC) further contributed to Malaysia's view of China as a threat to its social harmony which could destabilise the country. On 20 June 1968, on the twentieth anniversary of its 'Malayan People's National Liberation War against British Imperialism,' the CPM expressed its intentions to intensify the armed struggle by first capturing the countryside and then the cities, and ultimately seizing power. The CPC extended its firm support for CPM's revolutionary struggle to "smash Malaysia and overthrow the reactionary British imperialism and its lackeys" (Jain 1984: Xlii). In a message of greeting from the Central Committee of the party, the CPC conveyed its moral support to the CPM's cause:

> The Communist Party of China is firmly convinced that by integrating the universal truth of Marxism, Leninism and Mao Tse-Tung's thought with the concrete conditions of Malaya, by firmly holding the red flag of armed struggle, closely uniting with the Malayan peoples of all nationalities, resolutely relying on the masses of the people, consolidating and expanding the revolutionary armed forces and persisting in struggle, the Malayan Communist Party, which has been tested in and tempered by raging flames of

[9] Chin Peng's real name is Ong Boon Hua. He was born in Sitiawan, Perak, in 1924, to parents of Chinese origin. He was a long-time leader of the Communist Party of Malaya. During the Japanese occupation of Malaya from 1941 to 1945, Chin Peng became one of the leaders of a guerrilla force, known as the Malayan People's Anti-Japanese Army. He led the party's guerrilla insurgency during the emergency period (1948-60) against the British and Commonwealth forces in an attempt to establish an independent People's Republic of Malaya. After independence in 1957, he waged a campaign against the new government in an attempt to replace it with a Communist one, until 1989 when a peace accord was signed with the Malaysian government. He is currently living in exile in Southern Thailand.

> war, will certainly be able to lead the Malayan people to drive out the British and U.S. imperialist aggressors, overthrow the Rahman-Lee Kuan Yew puppet regimes and build a new and truly independent, unified and democratic Malaya (Short 1970: 531-532).

In a White Paper issued on 9 November 1968, the Malaysian government stated that the "Chinese Communist Party's influence has contributed to an increasingly militant trend in communist revolutionary activities in Southeast Asia (including Malaysia) where the Communist parties received directives from Peking" (Jain 1984, Document 126: 123). Addressing the Commonwealth Prime Ministers' Conference in 1969, Malaysian PM Rahman reiterated this accusation by arguing that regional security challenges were being "caused by China's policy of attempting to dominate and influence the region by both fair and foul means...," and that "along the Thai/Malayan border, there were about 1,000 hardcore Communists who obtain direct inspiration and assistance from Peking and who have become increasingly active" (Ibid, Document 135: 129-130). The PRC's unending support to the CPM was seen when it inaugurated, in November 1969, a radio station known as the "Voice of Malayan Revolution," based in Hunan, South China. The objective of the Radio station was to use it to spread revolutionary propaganda to mould public opinion for the launching of an extensive peoples' war to establish a "People's Republic of Malaya" (Short 1970: 532-33).

Owing to aforementioned Chinese moral and material support to the Malayan Communist insurgents and party-to-party links between the CPC and CPM, diplomatic relations between Malaysia and China could not be established until 1974. Commenting on his government's firm stand on this issue, Rahman argued that

> We cannot be friendly with a country which directly or indirectly has agents here before and after *Merdeka* (independence) plotting to overthrow our democratic Government. Communist China uses her hammer to break our heads by having agents in our midst whose ideology is to instigate the people to rise and cause us trouble (Jain 1984, Document 120: 120).

Even after the normalization of diplomatic relations with Beijing Kuala Lumpur remained apprehensive of the former's disruptive potential exercised through Chinese nationals within the country and party-to-party links between the CPC and the CPM (Jain 1984: iii). In his address at Indonesia's National Defence Institute in Jakarta in December

1970, then PM Tun Abdul Razak (1970-76) stated that, "the countries of Southeast Asia must come together to face the threat from China. There is not one country in this region free from the danger of Chinese aggression" (Ibid, Document 166: 150). His statement shows that Malaysia was pursuing a dual-track approach. While showing positive gesture towards Beijing, primarily due to its security concerns, Kuala Lumpur continued to remain suspicious, especially while the threat from Communist extremists still loomed large (Baginda 2002: 233). Later in March 1981, the Minister for Home Affairs Ghazali Shafie accused Beijing for following a "two-faced" policy. While the Chinese Government maintained friendly relations with the ASEAN countries, the ruling Communist party was determined to support local Communist parties. He argued that the Chinese Government had its own policies and that it was separate from the Communist Party of China (Jain 1984, Document 314: 288-289).

However, in spite of its moral support to the Communist Party of Malaya, Beijing showed increasing interest in improving relations with Malaysia, and later, took steps to end material aid to the Malayan Communists. The closure of the Hunan-based radio station "Voice of Malayan Revolution" was considered as one of the steps taken by China to improve bilateral relations. However, the radio station merely shifted its operations to Southern Thailand with a new name, the "Voice of Malayan Democracy," in July 1981. Another step taken by Beijing was the Chinese Communist Party decision to not give prominence to speeches of Malayan Communist leaders in its newspapers (Sebastian 1991: 277). During his visit in August 1981, Chinese Prime Minister Zhao Ziyang stated that relations between the CPC and the CPM were "only political and moral ones" and that China was not willing to make "issues left over by history hamper the normal development of friendly relations between the two countries" (Jain 1984, Document 326: 302). Malaysian leaders, however, felt that even moral support created an air of suspicion which acted as a hindrance to improved Sino-Malaysian relations. Foreign Minister Ghazali Shafie argued that Chinese Communist Party's links with the Communist parties of Southeast Asia posed a greater danger than that posed by the Soviets and exposed the region to Chinese subversion (Ibid, Document 330: 305).

Although Beijing attempted to mollify Malaysian concerns by stressing that Chinese support for the CPM was intended to prevent the latter falling under Soviet influence, and that it was limited only to moral support, Kuala Lumpur remained suspicious (Liow 2009: 53). In February 1984, the Chinese Foreign Minister Wu Xueqian reiterated that China's links with the CPM were merely fraternal but it could not cut them off completely as it was the policy of the CPC to keep links with political parties with the same beliefs (Sebastian 1991: 277). His statement clearly indicated the dilemma China faced in trying to strike a balance between ideology and pragmatism during the Cold War period.

3.1:2 China's Overseas Chinese Policy

Beijing's policy toward the overseas Chinese (*huaqiao*, i.e. Chinese nationals living abroad) and ethnic Chinese of Southeast Asia (*huayi* or *huazu*, i.e. ethnic Chinese or persons of Chinese descent) had also been another significant factor in determining Kuala Lumpur's policy towards China. It was an important factor in Malaysia's general policy of prohibition on people-to-people relations as well as a source of Kuala Lumpur's distrust and suspicion of Beijing's intentions in the region (Leong 1987: 1112). The Chinese Constitution lays down special provisions for the protection of the rights and interests of Chinese residents abroad.[10] The Constitution of 1954 even reserved thirty seats in the National People's Congress for overseas Chinese representatives (Skinner 1959: 146). Such provisions added to the elements of suspicion on the part of Kuala Lumpur.

[10] The 1947 Constitution of the Republic of China provided for the election of representatives of Chinese nationals residing abroad to the legislative Yuan (Article 64). The foreign policy objectives as laid down in the constitution, *inter alia*, aimed "to protect the rights and interests of overseas Chinese nationals." In 1909 the Imperial Government of China had passed the Chinese Law of Nationality. This was based on the *Jus Sanguinis* concept. According to this law, all persons of Chinese descent through the male line were considered as Chinese citizens regardless of where they were born. The concept was accepted by Sun Yat Sen and the Kuomintang government. After coming to power in 1949, the Communist government also maintained this policy towards the overseas Chinese. Both the Common Programme of 1949 (Article 13) and the 1954 Constitution (Article 23) of the People's Republic of China provided for the inclusion of representatives of the overseas Chinese or the deputies elected by "Chinese residents abroad" in the Chinese People's Political Consultative Conference and National People's Congress (China's Parliament). The PRC also undertook to protect the proper rights and interests of Chinese residents abroad (Article 58 of 1949 Common Programme and Article 98 of 1954 Constitution) (Jain 1984: xxxiv).

The security threat from China, emanating from the support for Communist insurgency prevailing in most of the countries of Southeast Asia including Malaysia, compelled the latter states to perceive Beijing's controversial overseas Chinese policy with suspicion. Many observers viewed this issue as a major factor for regional suspicion regarding the loyalties of ethnic Chinese within their borders, stating that "each government had severely restricted the immigration of Chinese from mainland China; each opposed Communist infiltration of Chinese schools; each realized that some of its resident Chinese were avowed Communists willing to conduct intelligence or subversive activities for Peking" (Ibid: 144). In the early years of the revolution, the Communist government of China made concerted attempts to gain the loyalty and support of the Chinese-origin populations abroad. Towards this end, the Chinese government utilised three major appeals: first, the offer of ensuring the welfare and protection for the interests of overseas Chinese through PRC's diplomatic efforts and the deterrent effect of Communist power; second, the 'legitimate' right of the Chinese government to claim the patriotic loyalty of all Chinese and the appeal to pride in China's new-found stature and achievements; and finally, the incentive of preferential treatment and privileges that could accrue to overseas Chinese and their dependents in China. This propaganda campaign was carried out through a variety of channels "including Chinese schools, the Chinese-owned press, extensive radio broadcasts aired to Southeast Asia, expense-free visits to China, and cultural missions to Southeast Asia" (Ibid: 144-145). In the case of Malaysia, where most members of the insurgent CPM were invariably ethnic Chinese, Malayan threat perceptions of China also acquired an ethnic character. Addressing the Commonwealth Prime Ministers' Conference in January 1969, Rahman said, "In Malaysia the Chinese schools were used as nurseries for communist infiltration and subversion and to train the youngsters to take up the communist cause" (Jain 1984, Document 135: 130).

When, Malaysia decided to normalize its relations with China in 1974, the issue of overseas Chinese was a major item in the bilateral discussions, the joint communiqué stating that neither government recognizes dual nationality and that:

> The Chinese Government considers anyone of Chinese origin who has taken up of his own will or acquired Malaysian nationality as automatically forfeiting Chinese nationality. As for those residents who retain Chinese

> nationality of their own will, the Chinese Government…will enjoin them to abide by the law of the Government of Malaysia, respect the customs and habits of the people there and live in amity with them (Joint Communiqué 1974).

China's rejection of dual nationality was reiterated in 1980 when Beijing promulgated its first nationality law, stipulating that "any Chinese national who has settled abroad and who has been naturalized there or has acquired foreign nationality of his own free will automatically loses Chinese nationality" (Suryadinata 1985: 159). Despite Beijing's pronouncements, Kuala Lumpur continued to believe that China had failed to keep its commitment to the 1974 joint communiqué. There were evidences that Chinese Malaysians visiting China had been treated like overseas Chinese returning to their homeland and were being looked after by the Commission for Overseas Chinese Affairs (*Qiaowu Weiyuanhui*). This Commission had been abolished at the height of the Cultural Revolution in 1968 and was restored after Deng Xiaoping returned to power. Although the Commission's name was changed to the Office for Overseas Chinese (*Qiaoban*) in 1978, signifying that the organization was downgraded, nevertheless Chinese authorities continued paying greater attention to the cause of Overseas Chinese (Leong 1987: 1112-1113).

With the launch of China's ambitious economic modernisation programme, it became keen to invite investments and expertise from both the overseas Chinese and the people of Chinese descent without making clear distinctions between the two. Such an attitude gave an impression to Malaysia and other Southeast Asian governments that the Communist China was not sensitive to their feelings; was disregarding local policies and interfering in their domestic affairs. Among other concerns on the part of the Southeast Asian states, it was feared that appeals for ethnic Chinese investment in China's modernisation would lead to the outflow of capital needed by Malaysia for its own industrialisation and development. Further, appeals based on narrow ethnic and cultural grounds to all professional Chinese, without distinction, to contribute their expertise to China's modernisation caused Southeast Asian governments to question Beijing's motives as well as cast doubt on the ethnic Chinese communities' loyalty in these countries. For Malaysia, an added concern was that the PRC's appeals would revive

China-oriented tendencies among the local Chinese community. Also, given the fragile relations among Malaysia's ethnically plural social groups, especially between Malays and ethnic Chinese, pursuit of an indiscriminate overseas Chinese policy by Beijing would enhance communalism (Ibid: 1113).

Thus, China's suspicious overseas Chinese policy which aimed to harness ethnic Chinese loyalty towards the homeland, through promotion of Chinese culture, education, ethnic links and even financial linkages, played an important role in determining Malaysia's policy towards China. Kuala Lumpur viewed such policies as evidence of PRC's insensitivity towards Malaysia's feelings regarding the issue of overseas Chinese.

3.1:3 Ideological Dispositions of the Ruling Elite

A country's foreign policy choices are influenced by a combination of various individual, national and systemic factors (Waltz 1996). Malaysia's foreign policy and external behaviour has similarly been heavily influenced by a variety of factors, including domestic considerations and the world view of its decision-makers. It has been argued that the political elite's ideology was largely responsible for the most characteristic features of Malayan foreign policy. In the early decades of the post-independence period, this ideology was epitomized in the beliefs and attitudes of PM Rahman, and most, if not all, of his cabinet colleagues (Saravanamuttu 1983: 49). According to T. H. Silcock 'Malaya's foreign policy owes more to the personality of its Prime Minister, Tunku Abdul Rahman, than is usual' (Silcock 1963: 42). The ruling elite's ideology was marked by a commitment to the Western conception of democracy and, in its external relations, was marked by the classic bipolar situation in which the "so-called" Free World faced the growing menace of Communism (Saravanamuttu 1983: 49).

Rahman was vehemently anti-Communist and pro-West in his political outlook, as exemplified in his following statement, made in 1958:

> We must not deceive ourselves that communism is merely local. Communism we know is an intrinsic part of an international conspiracy for world domination and so all countries, which believe in democracy and human rights and liberty, must rally together and fight it. We have to face up to the threat of communism and not wait for the time to come when we may wake up and find

> ourselves in mortal danger. That is why we in Malaya who value our freedom cannot be neutral about communism (Quoted in Baginda 2002: 229).

Rahman followed a clear policy of alignment with the West in general and United Kingdom (UK) in particular, during a period when the country faced the threat of Communist insurgency. His long association with the UK apparently influenced his worldview and he was often considered to be an avid anglophile (Ganesan 2010: 250). As part of his pro-Western and anti-Communist policy, Rahman remained opposed to China which was reflected in Malaysia's non-recognition of the PRC during his premiership. Under Rahman, Malaysia opposed China's admission into the United Nations (UN) and cast its vote against the draft resolution (A/L.427 and Add.1) proposal arguing that Taiwan must preserve its right to self-determination. On 16 October 1963, making his statement in the General Assembly on the issue of Chinese representation in the UN, Malaysian representative Ramani stated: "China started unprovoked armed aggression on India... which has been so consistently championing its cause at the United Nations, what can China not do to any other country?" (Jain 1984, Document 63: 68-71). While Kuala Lumpur's stand on China's admission into the UN softened in the late 1960s, Rahman remained vehemently opposed to the PRC, stating at the Commonwealth Prime Ministers' Conference in September 1966 that China posed a threat and remained the one country in Asia "that aims to dominate the rest of the continent" (Ibid, Document 98: 100).

Under the premiership of Rahman's successor Tun Abdul Razak, Malaysia's foreign policy gradually shifted from the strongly pro-Western and anti-Communist leanings towards non-alignment and internationalism (Ministry of Foreign Affairs, Malaysia, 'Foreign Policy Overview'). During this period, 'neutralism' became a major policy thrust as a way to manage regional security vis-a-vis the great powers. Kuala Lumpur advocated a policy of neutrality for Southeast Asia and suggested that the United States (US), the Soviet Union and the Peoples Republic of China should guarantee this neutrality. In his address to the Commonwealth Heads of Government Meeting in Singapore in January 1971, PM Tun Razak argued that "Malaysia is convinced that the countries in this region can by a discernable consistency policy and action reassure China that peace, stability and neutrality are what Southeast Asian nations are truly striving for"

(Cited in Baginda 2002: 231). Within this context, Malaysia began to gradually work towards improving its relations with China. Tun Razak's objective, it has been argued, was to obtain Beijing's support for a zone of peace and neutrality in Southeast Asia, of which Malaysia had been the leading advocate in ASEAN (Milne 1967: 166). After Tun Razak's death in office in 1976, his deputy Hussein Onn became Malaysia's third Prime Minister (1976-81). He remained committed to the fundamentals of his predecessor's foreign policy, including neutralism, although he was perceptibly less enthusiastic about China's role in regional affairs.

Hussein Onn's successor Mahathir Mohamad (1981-2003) advocated a more independent and pragmatic foreign policy. His leadership was especially significant in reorienting Malaysia's foreign policy away from a dominantly pro-West orientation and towards East Asia (Ganesan 2010: 246). Explaining the underlying cause for this refusal to rely solely on the West, Mahathir said that, "the West does not wish to see the East become so advanced and strong as to pose a threat to the West. Thus, even as the Western nations let go of their colonies one after another, they strive to protect themselves through various effective ways means" (Mohamad 1986: 48). Mahathir was also critical of the West for its attempts to impose political and cultural values on developing countries and neglect of issues affecting Muslims (Storey 2011: 216). In Mahathir's newly established order of foreign policy priorities, ASEAN was the foremost, followed by relations with the fellow Islamic countries and the Non-Aligned Movement (NAM) member-states. The Commonwealth, which used to be an important element of Malaysia's foreign relations, was relegated to the fourth place in the order of priorities, followed by the rest of the world (Harun 2009: 28).

As for Malaysia's China policy, Mahathir's attitude was more pragmatic than his predecessors'. Under his leadership, the external relations of Malaysia began reflecting a greater emphasis on economic aspects. He recognized China's enormous economic potential, and brought this fact to bear on bilateral relations even though Beijing was still viewed as a security problem (Storey 2011: 216). Since his maiden visit to China in 1985, it became apparent to Mahathir that the top-most priority of Chinese leadership will be economic modernization of the country and, therefore, Beijing would seek to secure a

stable external environment conducive to domestic economic development (Shee 2004: 72). Such realization made it relatively easier for Malaysia to embark on a new and friendlier direction in its relations with China.

Mahathir's launching of the 'Look East'[11] policy significantly changed the tone and temper of Malaysia's China policy and made bilateral ties more strong (Ganesan 2010: 254). Although, under this new policy drive, greater emphasis was on augmenting economic ties with Japan, Mahathir also sought to promote Malaysia's economic relations with China and other big economies. During the first decade of his premiership, promotion of closer economic linkages became a key aspect of Malaysia's relations with China. This new policy direction was occasioned by factors such as desire to diversify Malaysia's external relations and reduce the real and perceived dependency on the West; and the favourable perception among the Malaysian policy makers that the economic reforms being implemented by Deng Xiaoping would be long-lasting and beneficial to Kuala Lumpur's interests. Mahathir government's determination to tap into the growing market potential of China was reinforced by the world economic recession of 1980s which "exposed Malaysia's vulnerabilities as a result of the country's heavy dependency on the American and European markets" (Kuik 2010: 48-49). However, despite such bold new determinations, Kuala Lumpur's lingering suspicion about China continued to colour Malaysia's view of China, as reflected in Mahathir's speech at the Qinghua University during his 1985 visit to China:

> ...we welcome the many assurances of your leaders that China will never seek hegemony and will never do anything to harm us. We also note your assurances that China's developing military capacity is purely for its own defence. We appreciate the enormous burden of self-restraint and responsibility that this entails. I ask that you understand us, if despite these assurances, some concerns linger on, for we are extremely jealous of our sovereignty and trust does not come easily to us in view of our past experiences. Our experiences with China have not entirely been free of problems and it would take time and mutual efforts for us to put to rest some of the things left over from history (OPM 1985a).

[11] The 'Look East' policy sought to infuse productivity and hard work as core values that would drive the economy. The Far East was also a viable option that could be depended upon to drive Malaysia's economic growth. It was a collaborative partner, and was a source of foreign direct investment and technology transfers for Malaysia.

3.1:4 Regional structural changes

The foreign policy of Malaysia has been determined by the "established national characteristics and succession of political leadership as well as by the dynamic regional and international environment" (Ministry of Foreign Affairs, Malaysia, 'Foreign Policy Overview'). An overwhelming role has been played by geopolitical and geostrategic factors in determining Malaysia's foreign policy towards China, especially viewed within the long-term strategic external environment of the Cold War. At the time of Malaya's independence, the world had started bifurcating along ideological lines, with the capitalist-democratic Western bloc led by the US on one side and the Soviet-led Eastern/Communist bloc on the other. Owing to its colonial history and other factors such as its geographical location Malaya came within the sphere of influence of the Western bloc. The Cold War had emerged as the most important geopolitical factor which characterised the post-World War II international system, which influenced Malaysia's external policy as well. At the same time Malaysia's worldview was also influenced by the birth of Communist China and the beginning of guerrilla wars in various Southeast Asian countries which, in turn, augmented the East-West confrontation in the region (Saravanamuttu 1983: 49).

Thus, in the case of Malaya, the British colonial rule, the Emergency (1948-60) and the global and regional fallout of the Cold War combined to produce a pro-West, anti-Communist foreign policy posture in general, and particularly in the matters of defence and security (Ibid). Malaya's protracted internal conflict with Communist insurgents, in which the British had also played an important role, left the country's decision-makers, with a considerable degree of apprehension regarding Communist expansionism in the region. Before independence, Malaya had been provided security under the ANZAM Agreement of 1949 signed between Britain, Australia and New Zealand. The Commonwealth Far East Strategic Reserve was formed in 1955 and stationed in Malaya, its functions being to contain Communist insurrection, provide defence from external invasion. Immediately after independence, Malaysia found it challenging to deal with the Communist guerrillas backed by external powers and also had to concentrate its efforts on improving the standard of living of its people and providing amenities and social

services. It could only afford to maintain a small armed force and, therefore, had to depend on the help of allies for its external defence (Ibid: 21-23). Malaysia, therefore, entered into a mutual defence pact with the former colonial ruler Britain, and signed the Anglo-Malayan Mutual Defence Agreement (AMDA) in October 1957 whereby the UK and the Federation of Malaya promised to provide each other with mutual aid and assistance at the time of an armed attack on "any of the territories or forces of the Federation of Malaya or any of the territories or protectorates of the United Kingdom in the Far East" (AMDA, Article V).

During the early phase of Malaya's independence, its perception of Communist China was primarily determined by ideological and internal considerations, with ideology being the predominant influence. Although, Kuala Lumpur did not become a signatory to the Manila Pact of 1954, and the subsequent formation of the Southeast Asia Treaty Organisation (SEATO), Malaya was definitely a part of this circle of containment (Baginda 2002: 228).

The regional structural developments during the second half of the 1960s and the early 1970s also compelled Malaysia to make appropriate adjustments in its external policy. Developments during this period had led to an uncertainty amongst the Malaysian foreign policy decision makers about the long-term reliability and commitments of its allies and security patrons (Kuik 2013: 12). In July 1967, the UK announced the eventual, time-bound withdrawal of its forces 'East of Suez,' including from the bases in the Malay Peninsula. The AMDA pact of 1957 was replaced in 1971 by the Five Power Defence Arrangements (FPDA), a military consultation agreement between the UK, Malaysia, Australia, Singapore and New Zealand which called for consultation amongst the signatories in case of a threat of or actual an external aggression against Malaysia or Singapore (FPDA, Article V). However, the FPDA did not include any obligation for the partners to act in such cases of aggression. Some observers suggest that the FPDA was merely an arrangement to create the necessary environment for the British to withdraw from the region (Wah 1991: 193).

These events made it apparent that Britain had neither the interest nor, probably, the capacity to play a major role in the security architecture of Southeast Asia. Almost simultaneously, the US had also initiated the withdrawal of its troops from mainland Southeast Asia, as a part of President Richard Nixon's Guam Doctrine of 1969.[12] These rapidly changing structural scenarios made it evident that Malaysia could no longer rely on the presence of Western allies for its security, and would be forced to cope with its security challenges on its own. These structural changes necessitated major adjustments in Malaysia's foreign policy, leading to a realignment in the country's historic pro-Western and anti-Communist stance and adoption of a non-aligned and neutral posture, at least in the immediate region (Kuik 2013: 13). The regional changes in security and power dynamics forced Malaysia to view itself as a part of a great-power game, in which the only way to survive and eventually prevail was to pursue a policy of neutrality. The uncertainty of the security environment in the early 1970s only reinforced the belief that neutrality was the best approach towards managing Malaysia's security dilemma. In a way, the changing strategic environment forced Malaysia to consider better relations with Communist countries, in order to soften its image of being part of the pro-Western bloc (Baginda 2002: 230-34).

The policy shift towards neutralization was formalised in April 1970, when the Malaysian Permanent Secretary for Foreign Affairs, Ghazali Shafie, called for the larger regional endorsement of the neutralization "not only of the Indo-China area but of the entire region of South East Asia, guaranteed by the three major powers"- the US, the USSR and the People's Republic of China- "against any form of external threat, pressure or interference" (Kuik 2013: 14). The new strategic structural shift and reorientation made it necessary for Kuala Lumpur to alter its policy towards China, because successful institutionalization of neutralization required "formal relations between the neutralised and the guarantor". The fact that Beijing had also started displaying considerably moderate posture towards the Southeast Asian states made it easier for Malaysia to consider reconciliation with the former. This policy shift was also driven in some part by

[12] President Nixon announced that although the US 'would continue to honour all its treaty commitments', in cases other than those 'whose survival we consider vital to our security', the US 'shall look to the nation directly threatened to assume the primary responsibility of providing the manpower for its defence' Kuik 2013: 13).

domestic security concerns facing the Malaysian government. Kuala Lumpur decided to fill the vacuum to be created by the withdrawal of Western troops by establishing more amicable diplomatic ties with China in order to reduce the threat of local Communist insurgents (Ibid.).

Malaysia's China policy had also been influenced by the attitudinal change in the latter's foreign policy following the return to normalcy after the chaotic period of the Cultural Revolution. The emergence of deep division between China and USSR had destroyed the "myth of monolithic communism" which had also influenced the external outlook of the Chinese leadership (Baginda 2002: 230). However, the policy outlook and attitude of one country towards another is determined by a series of actions and reactions, the fundamental link in that chain, in so far as the relations between small countries and large countries are concerned, is essentially the attitude of the latter. In the early years of the 1970s, some signs of positive change were seen in China's external policy and those were reciprocated by Malaysia. PM Tun Razak acknowledged the change in Chinese attitude:

> Chinese foreign policy in the closing years of the sixties was erratic, if indeed it can be said that she had followed a foreign policy which was anything more than a reflection of her domestic intra-party squabbles. Recent changes, however, have been most encouraging... Chinese attitudes... are premised upon a more sober and realistic acceptance of the international order (Jain 1984, Document 172: 157-158).

3.1:5 Ethnic Dimension

Apart from the external factors, there were also domestic issues that influenced Kuala Lumpur's perception towards Beijing. Malaysia's large ethnic Chinese minority was a constant influence on its foreign policy towards China. Malaysia is a multi-ethnic and multicultural society, populated by more than 80 ethnic groups. Among these, there are three major ethnic groups: the Malays and indigenous groups (*Orang Asli, Sabahans* and *Sarawakians*, etc.), who are defined as *bumiputera*[13] and constitute 67 percent of the total population, followed by the Chinese with 25 percent, and 7.3 percent of the Indians (Department of Statistics, Malaysia 2010a). Traditionally, the Malays have dominated the national politics, administrative and other governmental jobs while the Chinese, who are

[13] *Bumiputera* is a Malay word, comes from the Sanskrit word *bhoomi-putra* meaning 'son of the soil'.

economically powerful, dominate the fields of trade and business. Even, within the ruling alliance (Barisan Nasional-BN), there are three major ethnic political parties: the United Malay National Organization (UMNO), the Malaysian Chinese Association (MCA) and the Malaysian Indian Congress (MIC), which claim to represent their respective ethnic groups in the government.

Keeping in mind the multiracial set-up of Malaysian society, the influence of external forces on the domestic developments cannot be overlooked, especially where foreign policy decisions are concerned. The Chinese and, to a lesser extent, the Indians have a tendency to look to their respective ancestral homelands for moral and political support. In particular, the Chinese draw greater attention than the Malaysians of Indian descent. This is so because the ethnic Chinese are numerically more significant, constituting a quarter of the country's total population; they are a force to be reckoned with in many Southeast Asian countries; and China enjoys the status of an influential global and regional player. With a substantial ethnic Chinese population that remains protective of its cultural identity, close relations with China had the effect of codifying the support of this community for the ruling coalition (Liow 2005: 290-91).

During the Cold War era, Malaysia's efforts at engaging China were impeded by this issue of ethnic Chinese population. Due to the apparent close linkages between Communist movement and Malaysia's ethnic Chinese community, the relations between the two countries remained strained. Further, China's assumption of a race-based patron-custodian attitude towards Malaysia's ethnic Chinese made the decision-makers in Kuala Lumpur uncomfortable and apprehensive about the Chinese intentions. It was also contended that the stark differences in political and economic opportunities available to the Chinese as compared to the Malay communities served as a new dimensions to the already complicated domestic political discourse regarding Malaysia's relations with China (Liow 2009: 57). Thus, the demographic and economic balance in Malaysia was "important in shaping its perceptions of, and policy towards, China" while the use of the China threat as a political stratagem "for shoring up Malay unity and hence a basis of regime legitimization in Malaysia" also impacted bilateral relations (Acharya 1999: 134). Such arguments are based on the presupposition that any particular stance towards China

would carry racial implications and political consequences within Malaysia's domestic politics. This is a factor which constantly informed Malaysian policy planners' formulation of China policy (Liow 2009: 57).

Malaysia's geopolitical and economic pragmatism towards China is rooted in the domestic political necessities of the multi-ethnic ruling coalition. The need to preserve its sources of political authority led the UMNO-led alliance to follow an external policy that prioritised substantial geopolitical and economic gains over potential security threats without undermining the nation's sovereignty. It is this imperative that led Mahathir Mohamad and the successive Prime Ministers to pursue a pragmatic foreign policy towards China. In return, Beijing's positive attitude towards Malaysia justified and consolidated Kuala Lumpur's pragmatic China policy (Kuik 2013: 35).

Thus, it is argued that although the regional structural transformation in the late 1960s and early 1970s occasioned a rethinking in Malaysia's foreign policy, it was certain domestic developments that had an influence on its rapprochement with China in 1974. The unprecedented electoral setback suffered by the ruling coalition in the general elections of May 1969, as well as the ensuing racial riots targeting the Chinese forced the newly sworn-in Razak government to reformulate Malaysia's internal and external policies. The objective of this revisionist exercise was to restore internal ethnic cohesion and stability as well as reassert the government's authority. Domestically, the government introduced affirmative action policies, in the form of the New Economic Policy (NEP) of 1971, which gave strong priority to Malays.[14] The government also ensured that the dominance of the UMNO within the ruling alliance was strengthened through co-option of most opposition parties. These political changes drastically limited the power and role of non-Malay ethnic groups and their political organizations in the country's political and economic activities, and created a sense of fear among them. In order to allay such fears of ethnic domination among the ethnic Chinese community and balance the situation, the administration of Tun Razak took steps towards rapprochement with China (Kuik 2013: 13-14).

[14] It has been said that economic imbalance among the ethnic groups was one of the fundamental causes of the racial riots of May 1969. The launching of the New Economic Policy (NEP) in 1971 was aimed 'to reduce poverty, to restructure Malaysian society, and to assure inter-ethnic peace' (Kuik 2010: 37).

During the tenure of Tun Razak, Malaysian foreign policy was reoriented towards non-alignment and neutralization which particularly appeased the Malay left-leaning groups as well as the nationalists. The policy of neutralization necessitated that Malaysia had to alter its earlier anti-China posture and make overtures to Beijing, which also helped in alleviating the perceived alienation of Malaysia's ethnic Chinese population. This development resulted in much improved inter-racial relations and reconciliation in the post-riots conditions (Kuik 2010: 37-38). In order to engage the Chinese electorates, forging ties with China was perhaps seen as a means to get rid of the anti-Chinese image of the ruling coalition and make it more acceptable to the local Chinese. This change in policy had the desired result in the 1974 general elections, held merely two months after Razak's historic visit to China, the ruling coalition won a landslide victory, not only receiving the majority of the Malay votes but sweeping the ethnic Chinese votes as well (Suryadinata 2005: 75-76). A vast majority of the ethnic Chinese saw the newly-developing cordial relations with Beijing as a sign of willingness of the government to acknowledge their ancestral homeland (Saravanamuttu 1981: 29). Further, the rapprochement encouraged inter-ethnic reconciliation, mainly by enabling the majority Malays to delink the ethnic Chinese, China, and the problem of Communism (Hashim 1986: 159).

3.2 The Post-Cold War Era

The Cold War marked an era of when foreign policy decisions in Kuala Lumpur and other Southeast Asian capitals were primarily oriented towards minimising real and perceived threats. The end of the Cold War ushered in a new phase in Malaysian foreign policy, which was defined by two fundamentals: dynamism in championing the cause of the Third World countries and independence from the largely Western-oriented foreign policies of previous administrations. This new orientation was largely driven by Mahathir Mohamad's own belief that Malaysia's international agenda should be premised on economics rather than geopolitics and "based on a philosophy of prosper-thy-neighbour as opposed to threat perception and security alliances" (Liow 2000: 673). As priorities changed, Kuala Lumpur's policy towards Beijing changed accordingly. The factors or

determinants that have influenced and shaped Malaysia's China policy after the end of the Cold War are as following:

3.2:1 Dissolution of the CPM and Allaying of Threat Perception

As already mentioned, Malaysia had perceived China as the greatest security threat throughout much of the Cold War years, mainly due to the latter's support to the CPM-led Communist insurgency in Malaysia. Malaysia had resented the support provided by China to the Malay Communist insurgents. However, developments towards the end of the Cold War set the stage for a new era in Malaysia-China relations. In December 1989, the Malayan Communist guerrillas finally agreed to end their armed struggle against Kuala Lumpur government and sign a peace agreement with the government of Malaysia as well as military officials from Thailand at Haadyai in southern Thailand (Kheng 2009: 150).

The dissolution of CPM effectively eliminated a long-standing barrier to bilateral relations between the two countries. It remains difficult to determine the degree of China's role in brokering the peace accord between the CPM and the governments of Malaysia and Thailand. It is nonetheless noteworthy that the CPM leader, Chin Peng, was allegedly residing in Beijing since the failed 1955 Baling talks with Kuala Lumpur and, hence, could possibly have been influenced by China to some extent. Moreover, China's seriousness in ending the support for local Communist insurgency movements was also demonstrated when Beijing stopped backing the Khmer Rouge in the early 1990s. These decisions were interpreted by Kuala Lumpur as indicative of China's sincerity towards improving ties with its neighbours, including Malaysia (Liow 2000: 673).

In addition, China changed its citizenship laws, revoking the citizenship status of overseas Chinese living in the Southeast Asian countries and thereby abandoning the claims to the welfare of these communities. These developments coincided with internal demographic attitudinal transformations within the Malaysia, where the ethnic Chinese population become "more aware and confident of their status as Malaysian citizens." Since the 1970s, there has been a significant shift in the perceived emotional attachment of the Chinese diaspora in Malaysia to their forefathers' ancestral homeland. Some

observers have even suggested that their "communal ties with the Singaporean Chinese are stronger than those with China. For the young generation of Malaysian Chinese, China is no longer a political question. In fact, they view themselves as more Malaysian than Chinese" (Liow 2009: 69-70). Importantly, Malaysian government officials' attitude towards Malaysian Chinese has changed, as reflected in then Foreign Minister Abdullah Badawi's statement: "We used to question the loyalty [of overseas Chinese] but I do not think it is in the minds of [indigenous Malaysians] today" (Asiaweek 1997).

Throughout the post-Cold War period, statements made by Malaysian ruling elite have constantly reflected a decreased levels of threat perceived as emanating from China, despite the tangible increase in the latter's defence capabilities (Kuik 2013: 3). Malaysian leaders, from Mahathir to Najib Razak (since 2009), have publically and repeatedly asserted that Kuala Lumpur does not see China as a threat to its security. In fact, they have often defended Beijing's foreign outlook by contending that China has never made incursions into foreign soil. An example is Mahathir's speech made in 1994:

> ...historically China has not exhibited any consistent policy of territorial acquisitiveness... full invasion and colonisation has not been a feature of Chinese history... The question of Chinese aggression occupies much of the Western mind. This is because historically hegemony and violent or peaceful occupation of territories had always been the West's approach to self-preservation and wealth. So now they naturally suspect China of having similar ambitions (OPM 1994).

Mahathir's statement is emblematic of how the thinking of the government and the leadership had come full circle in the short period, as reflected in his two statements of 1985 and 1994. In the post-Cold War era, Malaysian policy-makers' 'Chinese fear' perception gradually changed and they began to view China through more benign strategic lenses.

Mahathir's successor, Abdullah Ahmad Badawi (2003-2009) was equally categorical, perhaps more than his predecessors, in his dismissal of any threat from China. Addressing the Asia-Pacific Roundtable in 2005, he declared that "China has no hegemonic ambitions and had never been openly declared a military threat or potential threat." To him, "China of tomorrow, no less than the China of today will be a force for

peace and stability unless its integrity and vital interests are threatened." Further, he contended that, while emerging as one of the leading powers, China will "champion constructive change and not obstruct it. If any nation is against hegemony, it is China" (OPM 2005). Malaysian government officials have also maintained a quiet attitude to the upgradation of the Chinese People's Liberation Army. For example, in 2007, Foreign Minister Syed Hamid Albar told parliament that by modernising its armed forces, Beijing was "merely looking after its own interests" and that China had no "expansionist intent" (Storey 2011: 225).

3.2:2 Economic Pragmatism

In the post-Cold War era, advancement of economic interests has been among the most important determinants of Malaysia's foreign policy prerogatives towards China (Khalid 2011: 437). Since 1990, bilateral trade and commerce has witnessed steady growth, owing to the fact that economic pragmatism has been the central theme in Malaysia's China policy. This economic pragmatism was primarily driven by the Malaysian aim of diversifying its economic interests and relations with foreign markets, especially after the economic recession of 1980s. In accordance with this, leaders such as Mahathir tried to utilise China's immense economic potential, which was instrumental in reducing the country's dependency on the Western markets (Kuik 2012: 10).

Economic pragmatism was also the result of a policy revision in Malaysia which identified economic destabilisation amidst the growing pressures of globalization and unfair practices and protectionism in international trade. With the experience of political fallouts of economic crises, as signified by the crisis triggered by the 1980s' recession, Malaysian leadership adopted a new approach towards national economic security. The aim, in addition to fostering economic prosperity, was to prepare strategies to deal with the newly-emerging international economic order (Jeshurun 2007: 164-165). Such thinking was reflected in Mahathir's 1991 'Vision 2020'[15] speech:

[15] As defined by Malaysian government officials, "Vision 2020 aims to create a united Malaysian nation with an outward looking society infused with strong moral and ethical values and living in a state that is democratic, liberal and tolerant, caring, economically just and equitable, progressive, and prosperous in full possession for an economy that is competitive, dynamic, robust, and resilient.", Deputy Prime Minister

> To grow we have to export. Our domestic market is far too small. It is important to us that free trade is maintained. The trend towards the formation of trading blocs will damage our progress and we must oppose it. We must therefore play our part and not passively accept the dictates of those powerful nations who may not even notice what their decisions have done to us (OPM 1991).

Mahathir's view of China as a positive contributor has been linked with his 'Vision 2020,' which necessitates the existence of a regional security environment that "intentionally de-emphasises the Chinese threat while simultaneously asserting the need to contain if not moderate, Chinese foreign policy" (Nathan 1995: 229). The succeeding administrations, of Badawi and Najib Razak, have continued this policy of economic pragmatism while dealing with China, aiming to increase Chinese investments in Malaysia and furthering strong bilateral trade ties (Kuik 2012: 17-21).

Malaysia's China policy has also been affected by the regional shift in the economic balance of power between China and Japan. After the G-5 negotiated 1985 Plaza Accord,[16] which rectified the exchange value of the US dollar, Japan had played a crucial role in the economic growth of Malaysia, through Foreign Direct Investment (FDI), developmental aid and low-cost loans. Japan's pre-eminence among the foreign economic partners of Malaysia was also boosted by Mahathir's 'Look East' policy. However, by the early 1990s, due to various domestic and international factors, Japan was losing its economic momentum. Though it has remained a major economic player, Japan's influence has been progressively challenged by the rapidly growing Chinese economy (Tang 2012: 221). China has recently become the second-largest economy in the world replacing Japan.

Malaysia and the whole Southeast Asian region in general benefitted enormously from the economic rise of China. The vast potential offered by China as a market for

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Encik Ghafar Baba's speech at the National Seminar on 'Vision 2020', 5 December 1991, cited in Nathan (1995): 226.

[16] The Plaza Accord was signed at the Plaza Hotel in New York on 22 September 1985 by US officials and their counterparts from the G-5 countries, agreeing to bring down the value of the US Dollar. The Accord is celebrated as a high-water mark of international policy coordination aimed at rectifying the negative US trade balance which had fallen to record lows as of 1985, a deficit of US$ 122 billion. The Accord also led to the creation of the G-7 Finance Minister's Group (Frankel 2015).

Malaysian goods and as a consumer for Malaysia's Palm oil and other abundant natural resources allowed the latter to diversify its export destinations and minimise the dependence on Japan and the US. Presence of a huge market close by allows smaller Asian economies, such as Malaysia, with the wherewithal to cope with any future economic downturn in the US. Thus, the rise of China has been among the most important factors that had an impact on Kuala Lumpur's external outlook in the post-Cold War era (Ibid: 222).

The policy of economic pragmatism has persistently been a driving force in Malaysia's policy towards China during the last two decades, irrespective of the changes in domestic political scenario and the leadership. This reflects a sustained 'across-the-aisle' unanimity and will on the part of the political elite to prioritise mutually beneficial economic partnership over conventional security concerns.

3.2:3 Geopolitical Considerations

Geographical factors such as size, location, boundaries, population, climate, etc. exert a strong influence on the geo-political setting of a country and, consequently, on the determination of its foreign policy. According to James N. Rosenau "geo-political factors contribute both to the psychological environment through which officials and public define their links to the external world and the operational environment out of which this dependence on other countries is fashioned" (Rosenau 1976: 19).

Since the 1970s, Malaysia's regional geopolitical approach has been a two-level strategy of trying to reduce or eliminate inter-state conflicts, while minimising the level of great-power engagement with/in the region. The policy of Non-alignment and initiatives such as the Zone of Peace, Freedom and Neutrality (ZOPFAN) mean that Malaysia would prefer to avoid political and military presence of major powers, like the US, China and erstwhile USSR, in the region. This approach was different from Singapore's as the latter viewed the presence, political as well military, of major powers as a guarantee of stability and harbinger of a 'balance of power' in the region (Saravanamuttu 2012: 47).

As far as Malaysia's China policy is concerned, Kuala Lumpur's pragmatic attitude towards Beijing has been motivated by geopolitical considerations as well. Being aware of the permanent presence of a giant neighbour has been a major factor in the evolution of Malaysia's foreign policy. Concerns regarding the inherent dangers in and uncertainties of great power commitments, as experienced by Malaysia during Cold War,- have compelled the country's policy makers to take a long-term view of Malaysia's relations with China. A former Malaysian diplomat justifies this argument:

> Economically, China is important for Malaysia just as it is important to other countries. Strategically speaking, China is important to Malaysia because it is a permanent neighbour in the region, unlike say the United States which can decide to retreat to its own regional domain far away from Asia. China is here to stay forever, and it will assume super-power status sooner or later. It is pragmatic to establish friendship and understanding with super-powers. Malaysia has always held the view that the correct approach towards China is not to isolate China but to engage China. This is the best way to enable Malaysia to maintain its non-aligned posture and sustain its own independence in the international arena (quoted in Kuik 2013: 33-34).

Such a pragmatic and foresighted view has influenced Kuala Lumpur's policy choices and has consequently guided the ruling elites to opt for the policy of engagement rather than confrontation with China. In the recent past, China's increasingly assertive behaviour over the territorial dispute in the South China Sea has strained its relations with several Southeast Asian states, but Malaysia has not changed his engagement policy. Unlike the Philippines and Vietnam, Malaysia's reactions and response are much more sanguine in dealing with China on the issue of South China Sea disputes. Malaysia has also been averse to adopt the policy of promoting US involvement, as done by some other ASEAN states (Kuik 2013: 34).

In the twenty-first century, there are several changing dynamics in the geopolitics of Southeast Asia. Two most significant geopolitical factors could be enumerated as having deeply influenced Malaysia's foreign policy: China's ascendance as a global and regional player and the US supposedly losing interest in Southeast Asia. During the early years of the Barack Obama administration, the new strategy of 'pivot' to Asia was considered a significant gesture in the region. Malaysia, like other states in the region, welcomed the

idea of US re-engagement with Asia, although there was an element of caution regarding the effect on China (Saravanamuttu 2012: 48-49).

3.2:4 Geographical Proximity

In international relations, power asymmetry coupled with geographical proximity, effects smaller states significantly. Growing capabilities of a rising power, especially if its geographically proximate, raise the spectre of a widening and overwhelming power gap for smaller and weaker states. Geographical proximity to a powerful neighbour renders smaller states vulnerable, especially if the former shows the willingness to demonstrate its strength,, although a restrained power can still be a hegemon towards the smaller neighbours. However, the existence of a powerful neighbour is not necessarily harmful and can also be beneficial. Indeed, the effects of a powerful neighbour are rarely wholly positive or negative (Kuik 2013: 24-25).

In the case of Malaysia's relations with China, the consequences of geographical proximity are multifaceted. During the Cold War, as discussed earlier, proximity to China was a major security threat, whereas in the post-Cold War years, threats have assumed a different character, of territorial disputes. Nevertheless, Malaysia's post-Cold War engagement with China indicates that geographical nearness has in fact positively shaped bilateral relations. For example, proximity has allowed a growing economic inter-dependence and cooperation in terms of goods, people and capital. However, geographical proximity needs to be augmented by political willingness in order for bilateral dealings to develop to the levels of close cooperation. This can be accomplished on the basis of three primary factors. First, the neighbours should have long-term purpose to their approaches towards each other and the reality of inter-dependence is shared by both. Secondly, the two sides agree on official governmental cooperation and coordination necessitated by their proximity, especially in issues that require cross-border management for successful resolution. Finally, cooperation can be fostered if people-to-people contacts and cultural affinity are strong enough or are based on common cultural and historical background. These aspects have been evident in Malaysia-China bilateral relations in the past two decades. For instance, economic interdependence of the two

countries was made evident by the financial crises of 1997. China's role during the crisis was appreciated by Malaysia and other ASEAN states. China's positive response to Malaysia's proposals for ASEAN Plus Three (APT) and East Asia Summit (EAS) and its increasingly active participation in various ASEAN-led regional mechanisms reinforced Malaysia's assessment of China as an important regional partner (Ibid: 26).

Malaysian policy-planners' outlook on China demonstrates a pragmatic acceptance of the reality of co-existing with a dominant neighbour and a rising power, as is evident in Mahathir's 1995 speech:

> We must always be realistic and ready. But times have changed dramatically. And Malaysia is one of the countries that recognise these changes. We no longer regard China as a threat. We do not believe in feuds. We cannot allow the past to determine our future forever… Big powers cannot but cast big shadows over neighbours. How light or how dark the shadows are depends not on just the power concerned but also on those overshadowed. It is well to remember that the Malay states, all tiny by comparison to their neighbours, have survived despite numerous very large and powerful neighbours. They only succumbed when distant powers intrude (OPM 1995).

Mahathir's remarks show that in spite of the dual realities of geographical proximity and power disparity, Malaysia chose to determine its relations with China through "a process of engaging and community building rather than isolation and confrontation" (Kuik 2013: 27-28). This tendency has continued during the post-Mahathir era as well, and is rooted in both economic and geopolitical grounds.

3.2:5 Mahathir's Pragmatic China Perception

Finally, the role of the charismatic Malaysian leader Mahathir Mohamad in promoting close and cordial relations with China has also been a significant determining factor in the bilateral relations between the two countries during the post-Cold War era. The significant improvement in political cooperation between the two erstwhile antagonistic neighbours is a development that rests primarily on the foundations laid by and direction set by Mahathir whose dominance over the country's foreign policy establishment was unchallenged. Prime Minister Mahathir's own political agenda aimed at constructing an

independent, dynamic and proactive Malaysian foreign policy was instrumental in ensuring greater cooperation and friendly ties with China (Liow 2000: 677).

During the Mahathir era, Malaysia's relations with the region as well as the world were a reflection of his predisposition as a leader of a Non-aligned Third World and the facilitator of greater South-South cooperation. This rationale provided him with a strategic motive for strengthening relations with China within the larger framework of his intended direction for Malaysian foreign policy. For example, anticipating the weight of China's participation in the Non-Aligned Movement, Mahathir argued in its favour by saying that "if China becomes a full member of the NAM, the movement will become stronger because China is a member of the UN Security Council and holds the power of veto." (Ibid: 678).

Under Mahathir's leadership, a significant change characterised Malaysia's attitude towards the perceived 'China threat.' On the one hand, Mahathir downplayed the immediacy of China as an existential threat to Malaysia. In a conference on bilateral relations between the two countries held in Kuala Lumpur on 23 January 1995, Mahathir stated that:

> It is high time for us to stop seeing China through the lenses of threat and to fully view China as the enormous opportunity that it is. The perception that China is a threat is a popular one. Malaysia itself once nursed this view, but then those were the days when the Communist Party of Malaya drew inspiration and support from the Chinese Communist Party and when fears of a Chinese fifth column in Southeast Asia was strong...We prefer to see China as a friend and partner in the pursuit of peace and prosperity for ourselves as well as for the region (OPM 1995).

His statement shows that Mahathir did not allow the past to dictate the future of Malaysia's relations with China. He negated the theory of 'China threat' and advanced a pragmatic foreign policy towards China based on mutual cooperation and benefits. The central thrust of his policy of economic pragmatism overshadowed the hitherto dominant strategic-security dimensions in Malaysia-China relations (Shee 2004: 78). Mahathir recognised that a policy dominated by the urge to find a military solution to the quagmire of bilateral relations of 1960s and 1970s had been largely ineffective in finding a

sustainable strategy of dealing with China. This was also based on the realisation regarding the huge mismatch in the offensive capabilities of the militaries of the two countries. Thus, Malaysia adopted new strategies aimed at including China in bilateral and multilateral mechanisms of dialogue and cooperation which could render any resort to military power less desirable. Mechanisms such as the ARF have the potential to minimise armed conflicts, in cases such as the current crisis over the Spratly Islands, if not resolve them amicably. Such logic lead Mahathir to invite China to the Kuala Lumpur post-ASEAN Ministerial meeting in 1991 (Ibid: 72).

In sum, it can be asserted that the post-Cold War Malaysian policy approach towards China has overcome the distrust and threat-perception of the initial decades of relations. The removal of regional and global geo-strategic barriers and easing of domestic political apprehensions have led to significant change in the perception of China among the Malaysian policy makers. This attitudinal shift has been positively reciprocated by China as well, leading to new-found appreciation for convergence of strategic and economic interests and, therefore, greater cooperation. Thus, Malaysia's China policy, since independence, has matured considerably and has come to emphasise economic imperatives rather than the traditional security concerns.

Chapter-4

Political and Diplomatic Relationship

The political and diplomatic relations between Malaysia and China have gone through several ups and downs. During much of the Cold War period, bilateral ties were impacted by Malaysia's internal security concerns and ideological dispositions of the ruling elite. Communist China was looked upon with distrust by many of the Southeast Asian countries particularly as Beijing was seen to support "local communist parties dedicated to the overthrow of the newly established and fragile regimes by subversion and by rural insurgencies" (Yahuda 2003: 32). Even after the diplomatic relations between Malaysia and China were established in 1974, distrust continued to linger in the minds of the Malaysian political elite which influenced bilateral ties for two decades. In the post-Cold War era, political relations between the two sides are now characterised by a high degree of mutual trust and shared perspectives reflected in an established mechanism of regular dialogue. During the last two decades, the partnership between the two countries has entered a new stage of maturity and all-round development. Relations, however, had passed through a phase of enmity and mutual suspicion before reaching the current stage of political and diplomatic cooperation.

4.1 Before Normalisation of Ties

In October 1949, the revolutionary leader Mao Zedong declared the creation of the People's Republic of China (PRC). Communism was made the ideological basis of the political system and policy making. Since then, relations between Malaysia and the PRC deteriorated into high levels of antagonism owing to differences in ideology as well as to Mao's policy of providing moral and material support to various local Communist insurgencies in Southeast Asia. Among the groups to benefit from Mao's policy was the Communist Party of Malaya (CPM), which was engaged in a struggle against the newly independent state of Malaya with the aim of establishing a republic. As a result, the ethnic Malay-dominated ruling elite and state bureaucracy as well as the English-educated, pro-Western ethnic Chinese and Indians came to regard the PRC as a threat to

Malaya's internal order. The Malaysian government, led by the anti-Communist and pro-West Prime Minister Tunku Abdul Rahman, refused to establish diplomatic and political relations with China. The Malayan leaders' strategy was dominated by the desire to achieve a balance by aligning with the Western bloc in order to face the source of threat. Upon its independence in 1957, the Federation of Malaya entered into the Anglo-Malayan Mutual Defence Agreement (AMDA) with the United Kingdom (UK) and pursued an openly anti-Communist foreign policy.

In 1959, when the Chinese army suppressed the Tibetan revolt, Malaya was one of the first countries to strongly condemn the military action. Along with Ireland, Malaya requested the United Nations General Assembly (UNGA) for the inclusion of the Tibetan item [A/4234] in its agenda for discussion. In his statement to the UNGA on 5 October 1959, Malayan representative Dato Ismail said:

> The events in Tibet show that colonialism is still rampant in our area of the world…Why has there been disturbance in the peaceful life of a country like Tibet, a country where men do not ask for much, but merely the liberty to live in peace and the serenity which they have long had, preserving their right to worship as they please?....We are witnessing a ruthless suppression of the heroic Tibetan people (Jain 1984, Document 44: 39).

The Federation of Malaya was persistent in its criticism of China on the issues of human rights violation and suppression of the Tibetan independence. On 19 December 1961, addressing to the General Assembly on the question of Tibet, Malayan representative categorically decried Chinese actions and ambitions. He stated:

> The question of Tibet represents an unmistakable case of a systematic and large-scale oppression of a people whose only crime is to struggle in defence and for the preservation of their basic and fundamental human rights and freedoms... Thousands of Tibetans who had the courage to resist the conquerors in defence of their liberty and freedom were mercilessly liquidated. Thousands more, many of whom were Buddhist priests, were conscripted for forced labour. And innocent Tibetan children were separated from their families and deported to China on a massive scale. All these measures were part of a grand policy of the People's Republic of China designed to destroy the Tibetan people as a religious community with a distinct cultural identity of their own and to incorporate Tibet with China....What is happening in that country is a clear case of aggression and bullying of a weak and defenceless people by a strong and powerful neighbour (Ibid, Document 53: 51-52).

This constant support for the Tibetan struggle for liberation badly affected Kuala Lumpur's political ties with China. Under Tunku's leadership, Malaysia refused to recognise the PRC as sole representative of whole China and maintained a formal relationship with Taiwan (Formosa), although the common animosity towards China failed to bring Malaya and Taiwan any closer. The reason for this lukewarm relation could be traced to the atrocities committed by the Kuomintang before the Second World War. Irrespective of public apprehensions, there was always a strong lobby in Malaya which campaigned for strong relations with Taiwan[17] (Suryanarayan 1972: 17). In November 1964, a Consulate of the Government in Taiwan was opened in Kuala Lumpur aimed at "strengthening of trade ties" between the two countries (Jain 1984, Document 71: 77). Despite Malaysia's refrain from formally recognising Taiwan as the representative of mainland China, under Tunku, Kuala Lumpur supported the world opinion to protect the right of self-determination of Taiwanese people (Suryanarayan 1972: 17). Stating his country's position on 13 December 1961, Malaysian representative in the UN said:

> We cannot accept any proposal...which, by its terms, ignores or chooses to ignore the right of the people of Formosa to maintain their separate political identity and existence....While the 600 million people of the Chinese mainland have a right to be represented in the United Nations, this organisation would do a grave injustice to the people of Formosa if, by changing the representation, of China in favour of the Peking regime it were, by implication to sanction the taking over of Formosa by the Chinese People's Republic (Jain 1984, Document 52: 49).

Kuala Lumpur also opposed China's entry into the UN. In 1962, Malaya decided to abstain from voting on this issue, but by the end of 1962, Kuala Lumpur's attitude towards the PRC hardened and, as a result, in 1963 it voted against China on the same issue primarily because of two major developments.[18] The first was China's 'unprovoked aggression' against India, during October-November 1962, which was severely criticised by Malaya (Saravanamuttu 1983: 27). The Chinese aggression came in the midst of

[17] The lobby included some influential leaders of the Malayan Chinese Association (MCA), the Chinese partner in ruling multi-ethnic Alliance. Besides prosperous trade connections, some of them sent their children to Taiwan for higher education (Suryanarayan 1972: 17).

[18] China's opposition to the Nuclear Test Ban Treaty (NBT) was also one of the reasons for Malaya's negative vote on China's admission into the United Nations (Jain 1984: xxxix).

Malayan PM Tunku's visit to India, and the latter offered his whole-hearted support to New Delhi and condemned the "Chinese aggression unreservedly." On his return, he stated that "in the event of a declaration of war between India and China, Malaya would give India all-out support" (Jain 1984, Document 79: 84). Later on he initiated a public campaign, known as the 'Save Democracy Fund,' which raised more than one million dollars, "to help India defend herself against Chinese aggression" (Ibid.). In his statement in the UNGA, the Malayan representative strongly condemned the Chinese invasion of India. He said: "…the armed forces of the People's Republic of China are engaged in a premeditated and naked aggression against India. The acts of aggression should be roundly condemned by all peace-loving people" (Ibid, Document 55: 55).

The second, and more significant, factor in Kuala Lumpur's opposition to China's entry into the UN was the Chinese support for Indonesia's policy of *Konfrontasi*[19] (confrontation) against Malaysia. The Chinese Vice-Premier Marshal Chen Yi had declared that,

> The Chinese people resolutely support the people of North Kalimantan in their struggle for national independence and resolutely support the Indonesian people in their just struggle against Malaysia- the product of neo-colonialism… The imperialist created Malaysia is a direct threat to the security of Indonesia and the peace of Southeast Asia and other Asian countries have every reason to support the people of North Kalimantan in their struggle against imperialist aggression and for national liberation (Ibid, Document 69: 75-76).

The government-supported Chinese press started a campaign in support of Indonesia's *Konfrontasi* policy against Malaysia, portraying the latter as a puppet of the former colonial powers and a challenge to the security of Indonesia and other regional states. In an editorial, published on 27 March 1964, the People's Daily wrote that "the Federation of Malaysia... is a neo-colonialist invention of the British imperialists... Malaysia is also a grave threat to the peace and security of Southeast Asia, and of Indonesia in particular…

[19] Indonesia launched the policy of *Konfrontasi* against Malaysia from 1963 to 1966. It was a low intensity military campaign, to 'crush' the enlarged Federation of Malaysia which was announced in September 1963, comprising the former British colonies of Singapore, Sarawak, and North Borneo (now Sabah). The latter two are located on the island of Borneo (or Kalimantan), the majority of which is Indonesian territory. Paradoxically, given Indonesia's own colonially defined territory, Sukarno viewed the concept of enlarged Federation of Malaysia as a neo-colonial creation, and consequently opposed it (Bristow (2005: 3).

The Chinese people resolutely support the just stand of the Indonesian Government and people against Malaysia" (Jain 1984, Document 66: 72-74).

China's support to the Indonesia's armed campaign against the newly created Federation of Malaysia, including Singapore, Sarawak and Sabah, intensified Kuala Lumpur's fear that the Communist China and Indonesia had formed an axis to establish hegemony over the region. Delivering a speech in October 1965, Malaysia's Permanent Secretary for External Affairs, Dato M. Ghazali blamed Chinese ambitions behind its policy of expansionism by asserting that, "...Communist China poses the gravest threat to world peace and world order... For China's grand design to succeed Malaysia also must be crushed. Malaysia's strategic significance is a major factor in Peking's calculations... Malaysia, although a small country, is regarded by Peking as a major barrier to Communist China's ambitions" (Ibid, Document 82: 85-86).

The period of *Konfrontasi* was the first major foreign policy challenge faced by the newly independent state. At the international level, Malaysia had to face the consequences of being "too obviously pro-Western" (Milne 1967: 195). With Chinese support, Indonesia succeeded in preventing Malaysian participation in the second Afro-Asian Conference scheduled to be held in Algeria in 1965, although eventually the Conference could not take place. The ruling elite in Kuala Lumpur also felt let down by the UK because of the latter's alleged "partiality" towards Singapore and reluctance to provide sufficient financial and military aid to Malaysia. This experience challenged the notion of complete reliance on traditional allies and, as a part of the rethinking this episode caused, a group of Parliamentarians recommended that the government should pursue "an independent and non-aligned foreign policy" and to establish the "widest diplomatic representation possible with countries, irrespective of their ideologies" (Suryanarayan 1972: 18). The end of *Konfrontasi* in 1966 and establishment of cordial relations with Jakarta effectively settled the confrontationist issue with Indonesia, but did not bring about any fundamental change in Malaysian perception of China.

Despite the strong anti-Communist views of the Tunku government, there were early signs, in the mid 1960s, that Malaysia was adopting a more nuanced stance towards

China, particularly over the question of China's entry into the UN. While remaining firmly anti-Communist, Malaysia wanted to portray a less orthodox and rigid image by exploring and making positive overtures towards China (Baginda 2002: 229). As witnessed in then Deputy Prime Minister Tun Abdul Razak's speech at the UNGA on 26 September 1966, Malaysia "believed that the Chinese people with their illustrious civilisation, a people who number one-quarter of the world's population, should be brought into association together with the other 118 member states of this organisation." However, he also expressed regret over the PRC's hostile attitude towards the UN, as well as mentioned the need to consider the PRC's representation in the world body together with "the question of the fate of the thirteen million inhabitants of Taiwan." Further he emphasised that "... this organisation cannot deny their (Taiwanese) inalienable right to self-determination... Taiwan should be allowed the right to remain a member of the United Nations while Mainland China should be admitted to this Organisation if she so agrees" (Jain 1984, Document 99: 101-102). Thus, Malaysia became much more 'sanguine' regarding the strategic environment it faced at that time, especially following the end of the confrontation with Indonesia (Baginda 2002: 230).

Kuala Lumpur's openly hostile posture towards the PRC underwent a discernible shift only after the coming to power of the second Prime Minister, Tun Abdul Razak in September 1970. The Tun Razak administration initiated a concerted effort towards "psychological decolonisation" to reform the country's foreign policy and take it in the direction of Non-alignment and renewed nationalism. In his first major policy speech Tun Razak declared:

> We must show an independent attitude in our relations with foreign countries- an attitude which suits the time and circumstances… We must understand that we ourselves are responsible for the security of our country and for the defence of our sovereignty. We must be bold and firm in shouldering that responsibility (quoted in Suryanarayan 1972: 19).

Such efforts brought about a positive turn in Malaysia's bilateral relations with China, starting in the late 1960s, which was given fillip by near simultaneous regional and global developments, such as the British decision to withdraw its forces from "east of Suez," and the Nixon administration's urging of Asian states to be more self-reliant in matters of

defence, the 'Vietnamisation' plan of the United States (US) and the massive withdrawal of its military forces from Indo-China. In addition, the Sino-US rapprochement following the historical visit of President Richard Nixon to China, from 21 February 1972, had a deep impact on the external outlook of pro-Western countries of Southeast Asia including Malaysia (Baginda 2002: 24). As discussed in the previous chapter, these structural changes coincided with the 're-emergence of China from the throes of the Cultural Revolution into the international and regional fields' (Jain 1984, Document 188: 173). All these factors made it apparent to Southeast Asian states that the Cold War in this region had reached to a virtual deadlock and would require a new and different approach to manoeuvre. For Malaysia, these factors led to a neutralisation of several external circumstances which had informed and influenced its foreign policy (Ibid: 172-173). The changing regional strategic realities occasioned a rethinking in its foreign policy decision-making taking into account new developments, such as the diminished prospects of receiving Western assistance to cope with internal and external security challenges. Such changes prompted a pragmatic decision by Kuala Lumpur to adopt a posture of neutralisation and subsequently improve its relations with the Communist China (Acharya 1999: 134-35). The Deputy Prime Minister at that time, Ismail Abdul Rahman, confirmed such a rethinking during his speech at the ASEAN Ministerial Meeting in March 1971, stating that "it was with Vietnam in mind together with the withdrawal of American and British from Southeast Asia" that the Malaysian government was "advocating a policy of neutralisation for Southeast Asia" (Jain 1984, Document 169: 153). According to Ismail, neutralisation was meant "to be a proclamation that the region is no longer to be regarded as an area to be divided into spheres of influence of the big powers." For him, the policy of neutralisation "represents a programme to ensure stability and preserve peace" in the region (Ibid.).

The Tun Razak government called for the neutralisation of the whole Southeast Asian region guaranteed by the three big powers, viz. the US, USSR and China. Malaysian leadership also adjudged that, in order to seek an undertaking from the big powers to recognise and guarantee the independence, integrity and neutrality of Southeast Asia, the ASEAN states "should acknowledge and accommodate each of those powers' 'legitimate interests', while following a policy of 'equidistance' with them" (Kuik 2013: 14). In his

address to the UNGA on 1 October 1971, PM Tun Razak said: "One of the essential pre-requisites for the realisation of the neutralisation proposal is the existence of a dialogue between the major powers". The most important among the dialogue channels, according to him, was "China's participation in the United Nations." Stating his Government's position on this issue, Tun Razak said that

> Malaysia will oppose any resolution which proposes dual representation for the China seat because in our view, there is one China and one seat for China in the United Nations. It is beyond doubt that the Government of the People's Republic of China is de jure and de facto the Government of China... the question of Taiwan is a separate issue which will have to be resolved by the parties concerned (Jain 1984, Document 191: 175)

Tun Razak also conveyed Malaysia's eagerness to initiate into diplomatic relations with "any country that accepts the principles of peaceful co-existence, no-interference in our internal affairs and respects our sovereignty and territorial integrity" (Ibid, Document 170: 154). This was a clear overture towards China, an example of Malaysian usage of the neutrality argument as a way to engage China, and to advocate a UN seat for the latter.[20] By doing so, it created a favourable opinion in China thereby paving the way for a bilateral dialogue, "as the first step towards normalising and establishing diplomatic relations" (Baginda 2002: 231-32).

With regional neutralisation and Non-alignment as the new cornerstones of its external policy, major adjustments were made in Kula Lumpur's attitude towards China. At a time when the country was still facing security threat from Communist elements and while there were still no diplomatic relations, Malaysia's advocacy for China's admission into the UN is the highlight of such adjustments. For Malaysian leadership, these adjustments were aimed to protect their "larger interest to bring about peace and stability in the region" (Jain 1984, Document 171: 155).

[20]Though Beijing did not specially acknowledge Kuala Lumpur's efforts in its successful bid to achieve a seat in the United Nations, it did attribute this to Third World countries, arguing that it was because of these countries that the UN had ceased to be a tool of the superpowers. To some extent this was reflective of Malaysia's prevalent policy of equidistance with all major powers (Baginda 2002: 232).

Malaysia's move towards détente with the PRC was driven not only by regional structural developments, but also by domestic security concerns and political compulsions. In terms of security, the Tun Razak government had to take into consideration the impending departure of Western allies and, thus, normalisation of relations with China became a necessary step to neutralise the Communist insurgent threat. It was in Malaysia's interest to neutralise Chinese support to the local Communists (Suryanarayan 1972: 20). From domestic political perspective, recognition of China would prove popular among the ethnic Chinese population which would be reflected in electoral support for the United Malay National Organization (UMNO)- led ruling alliance (Storey 2011: 214).

The Chinese response to Malaysia's overtures was positive, with the first indication of a change coming in the form of Radio Peking referring to "Malaysia" and not "Malaya." When a large part of West Malaysia was devastated by floods in February 1971, China came forward with monetary and humanitarian help for the flood victims, including supplies worth M$ 6,25,000. Such steps also served the purpose of boosting the morale of the Malaysian Chinese Association (MCA) (Suryanarayan 1972: 21). In May 1971, Chinese Premier Chou Enlai welcomed a semi-official Malaysian trade delegation. He told the leader of the visiting Malaysian delegation, Razaleigh Bin Tengku Hamzah, that "no big powers should interfere with the affairs of other nations" (Jain 1984, Document 180: 162). In principle, he endorsed Malaysia's policy of neutralisation of Southeast Asia. Peking's change of heart especially her continuous reference to Malaysia and not "Malaya" was perceived as a "significant sign" (Ibid, Document 179: 162).

4.2 After Establishment of Diplomatic Ties

The process of engagement and normalisation negotiations which began in the early 1970s resulted in PM Tun Razak's landmark visit to China and in the two countries establishing formal diplomatic relations in May 1974. It must be noted that Malaysia was the first ASEAN member country to establish diplomatic ties with Communist China. The Joint Communiqué, which was signed by PM Tun Razak and his Chinese counterpart Zhou Enlai, set the stage for future bilateral relations. The document, comprising only six

paragraphs, dealt with two broad areas: first being the principles underlying relations between the two countries, and the second dealing with Malaysia-China arrangements on the nationality issue regarding the Chinese origin residents of Malaysia. The principles of Malaysia-China relations are covered in the Joint Communiqué by operative paragraphs one to four.

In accordance to the Joint Communiqué, the diplomatic relations between the two countries were established "on the basis of the principles of mutual respect for sovereignty and territorial integrity, mutual non-aggression, non-interference in each other's internal affairs, equality and mutual benefit, and peaceful co-existence. The two Governments consider all foreign aggression, interference, control and subversion to be impermissible" (Joint Communiqué 1974). Abandoning its 'Two China' policy, the Government of Malaysia agreed to "recognise the Government of the People's Republic of China as the sole legal government of China," and acknowledged the official PRC stand that "Taiwan is an inalienable part" of her territory. The Malaysian Government also agreed "to close down its Consulate in Taipei" (Ibid.). However, people to people relations with Taiwan were to continue. There was "no barrier to Malaysians travelling to Taiwan to visit, to conduct private business, to trade and so on," and the Malaysian Airlines was "continuously operating its services to Taipei, as this falls within the category of people-to-people relations" (Jain 1984, Document 248: 225). The second area of the Communiqué, dealing with the issue of citizenship of the Overseas Chinese, is very important from Malaysian point of view. Both the governments agreed not to recognise dual nationality, thus bringing to an end the ambiguous status of around 2,00,000 stateless ethnic Chinese in Malaysia. Thus, apart from mutual recognition and normalisation of relations, both sides moved a step forward to deal with some critical issues like dual nationality and non-interference.

However, despite the normalisation of bilateral relations, Malaysia's perception towards China was not entirely positive because of domestic security concerns. The threat from Communist insurgents was still serious as the period following Tun Razak's visit to China saw the re-emergence of their activities, including a number of high profile attacks (Baginda 2002: 236). China's refusal to cut-off all ties with the Malayan Communists

made Kuala Lumpur more worried about Peking's intentions. Owing to this apprehension, throughout the 1970s and 1980s, the ruling elite in Malaysia, from Tun Razak to Mahathir Mohammad, continuously viewed the giant neighbour with suspicion and distrust. They were suspicious of China's "dual-track policy" of separating and compartmentalising party-to-party ties and government-to-government relations, which meant the relationship between the Communist Party of China (CPC) and the Communist Party of Malaya (CPM) was separate from government-to-government relations between the two countries (Kuik 2013: 16).

A relevant question arises regarding the failure of the two sides to resolve the issue of party-to-party relations during the negotiations on normalisation of relations. In the joint communiqué, neither mentioned the CPC or the CPM. For Malaysia, it was clear that mentioning of "non-interference in each other's internal affairs" meant that the CPC would not in any way support an illegal organisation in Malaysia that aims to overthrow the established government through violent means (Leong 1987: 1111). PM Tun Razak also explained after his return from Beijing that "Chairman Mao and Premier Chou and other leaders of China categorically assured [me] they regard the remnant terrorists in our country as our internal problem, which is for us to deal with as we think best" (Jain 1984, Document 248: 224).

A direct consequence of the CPC-CPM relations maintained by China had been the almost total absence of people-to-people relations between the two neighbours. For many years the Malaysian government had a stringent policy on its citizens visiting China. The prohibitions imposed on travels to China were not lifted even after the normalisation of bilateral relations in 1974. In June 1979, a month after his state visit to China, then PM Tun Hussein Onn declared: "The government has no intention of lifting restrictions on social visits to China as it continues to support the communist group operating within Malaysia. The matter would be reviewed from time to time in accordance with changes taking place in China" (Ibid, Document 297: 273). In May 1980, Minister of Home Affairs Ghazali Shafie reiterated his government's position: "So long as the Communist Party of China behaves the way it does, there is no hope of people to people relations as

far as I am concerned. However, special sick cases will be exempted if doctors prove that they cannot be cured in Malaysia" (Ibid, Document 307: 285).

Local visits to China were, thus, only among the following categories: (a) official state visits; (b) official or semi-official trade or medical missions; (c) sports teams; (d) private citizens seeking medical treatment; and (e) private citizens age sixty and above, on social visits. The last category was the matter of interest since it was related to national security. Because of CPC's support for the CPM and the bitter experience of the Communist uprising during the 'state of emergency' period from 1948 to 1960, Kuala Lumpur feared that easy access to China for Malaysian citizens of Chinese origin would "render them susceptible to Communist influence and cause them, upon their return to Malaysia, to sympathise with and support the local Communist movement"; or "evoke strong cultural emotions that in the Malaysian context would enhance communalism among ethnic Chinese" (Leong 1987: 1111). While Communism had posed a direct threat to national security, communalism could hamper the attainment of national integration that was essentially required in multiethnic plural society of Malaysia. Another important reason for discouraging widespread people-to-people contact was Malaysian government's concerns about those Chinese Malaysians who went to China seeking marital relations. This could not only increase the number of Chinese Malaysians in the country, thus affecting the population ratio, it would have been detrimental to national security if Communist elements could take advantage of this opportunity to infiltrate the country (Ibid: 1112). Malaysia's decision to liberalise visits to the PRC was only announced in June 1985, but limits on travel had been relaxed unofficially a year earlier, following an official visit of Ghazali Shafie to China in May 1984. This is evidenced in the increase of Malaysian visitors to the PRC from 9,000 in 1983 to 14,000 in 1984 (Ibid: 1119-20).

A dramatic change in bilateral relations came about after Mahathir Mohamad became the Prime Minister succeeding Tun Hussein Onn in July 1981. Mahathir followed an independent and pragmatic foreign policy, although during the initial phase of his tenure, he was apprehensive about China. Within a few weeks of taking office, Mahathir had lamented that he was "not fully happy with the nature of Malaysia's present relations with China." The compartmentalisation of state-to-state and party-to-party relations, as

practiced by China, was not acceptable to his government (Jain 1984, Document 332: 306). The sources of his discontentment were the same as those that had bothered his predecessors, prominent being China's persistent support to the CPM. Although Mahathir admitted that China had downgraded its support for the CPM since 1978, he remained adamant that his government could only be satisfied when Beijing had completely terminated all contacts with the Communist insurgent group. Mahathir's open resentment led to China's rejection of an invitation to visit Beijing in 1984 to commemorate ten years of diplomatic ties (Storey 2011: 217). Mahathir government's position on China was apparently articulated by then Foreign Minister Shafie in November 1981:

> I say this with the firm conviction that China has dangerous ambitions of her own in the region which she has refused to renounce. Indeed, she continues to maintain her links by openly giving moral and political support to the illegal Communist parties which are striving to overthrow by violent means, the local governments in ASEAN (Jain 1984, Document 347: 316).

China's confrontation with Vietnam over Cambodia in 1979 presented another obstacle to improved relations. Like his predecessor, Mahathir believed that China's military pressure on Vietnam was counterproductive and inimical to regional security (Storey 2011: 217). Malaysia's disagreement on Chinese aggression was expressed by Shafie in an interview in September 1981: "Chinese idea of bleeding Vietnam white, I think, is far-fetched. It just won't work. Indeed, this kind of policy will further entrench the Soviets in Vietnam" (Jain 1984: Document 339: 311).

Apart from China's aggressive posture vis-a-vis Vietnam, China's military modernisation programme was also beginning to cause unease in Malaysia's national security establishment, due to the implications for the South China Sea dispute. In 1979, Malaysia had published a map outlining its maritime boundary and territorial claims that included 12 insular features in the Spratlys archipelago. To bolster its claims in the area following passage of the 1982 United Nations Convention on the Law of the Sea (UNCLOS), Malaysian forces occupied Swallow Reef in 1983 and Mariveles Bank and Ardasier Reef in 1986. On both occasions Beijing termed the occupations as a violation of its sovereignty. Although the possibility of a Sino-Malaysian military clash in the Spratlys were slight, Mahathir expressed concern over the modernisation of the People's

Liberation Army (PLA) in 1981, criticising US arms sales to China and portraying the PRC as a more serious threat to regional security than Vietnam (Storey 2011: 217). Malaysia's main concern was that as more advanced military hardware became available to PRC for deployment in the South China Sea, Beijing might use force to settle the disputed offshore islands issue (Leong 1987: 1117).

By comparison Malaysia's defence capabilities are no match for China's military might. China's military modernisation programme along with the existing security issues caused Malaysia to perceive China as a long-term threat. It was in this context that Kuala Lumpur expressed concern over the US policy of military assistance to China (Ibid: 1116). Malaysia's security concerns were succinctly put forth in Foreign Minister Shafie's statement made in October 1981:

> If the Americans do not take into account China's policies in Asia...then the assistance it gives to China might be negative to us...It is all right for the United States to support China in its global strategy but if its support for China will hurt us, then we have to tell them (the Americans) that arms could be used for subversion against us by guerrillas (Jain 1984, Document.342: 313).

Coexisting with these important security concerns, and complicating foreign policy objectives, was the attraction towards China's growing market economy. While the Mahathir government had strengthened economic relations with Japan, under the Look East Policy, it was also aiming to develop better ties with China and other newly-emerging big markets. This was part of the new focus on economic pragmatism that Mahathir aimed to establish in Malaysian foreign policy making. The objective was to reduce the country's dependency on the Western market, and in part to Malaysian leadership's conviction that the economic reforms introduced by Deng Xiaoping in 1978 were bound to continue and present benefits to Malaysia. The economic recession of mid-1980s further strengthened this conviction, and led to concrete policy changes, such as the 1985 visit of Mahathir to China along with a business delegation. This visit was significant because it signalled a new emphasis on economic matters in the 'most important foreign relations' for Malaysia. This pragmatism led to signing of a several agreements in order to facilitate bilateral trade and investment (Kuik 2013: 17). Since the focus of this visit was trade and investment, Mahathir did not raise the sensitive issue of

CCP-CPM nexus. As he explained after his return from China: "We know the Chinese stand on this issue and they know our stand. We decided that instead of talking about our differences during the visit we should concentrate on our similarities... on economic matters where we can achieve more." (Leong 1987: 1121).

Growing pragmatism and progressively closer economic ties notwithstanding, the Malaysian authorities continued to exercise political vigilance, enforcing travel restrictions to China and maintaining military pressure on the Communist guerrillas throughout the 1980s. It was not until the end of the Cold War that the old political barriers were replaced by new opportunities, setting the stage for a reversal in Malaysia-China relations.

4.3 The Post-Cold War Era

Despite the establishment of formal diplomatic ties between Malaysia and the People's Republic of China in 1974, suspicions and distrust continued for two more decades. Bilateral ties began to flourish only in the 1990s when the two sides found convergence of interests. The 1990s witnessed profound systemic changes in the international pattern. The Soviet Union disintegrated and the Cold War came to an end. The original pattern of polarisation was replaced by the pattern of "one superpower and multiple strong powers." Moreover, globalisation, regional cooperation, multilateralism as well as international organisations and international mechanisms developed with momentum. In such an environment, the importance of economic factors became paramount (Yunling and Fangyin 2011: 43). New economic opportunities offered by the changing pattern of international relations had a major impact on foreign relations across the globe and positively influenced Malaysia's relations with the neighbouring countries, including China, as well.

Both countries have developed extensive multi-dimensional cooperation since the advent of this new era in international relations. Political cooperation that had stuttered under the shadow of the East vs. West tussle was restructured in a multilateral frame work. The end of the Cold War did flourish economic cooperation under the rubric of liberalisation and globalisation. Thus, economic cooperation came to share an equal, if not greater, space

with political and diplomatic cooperation within the larger ambit of Malaysia-China relations. Their extensive political and diplomatic relations have been used to boost economic ties, with the forces of liberalisation and globalisation acting as new catalysts in the domestic and foreign policy of both Malaysia and China. Their respective quest for greater integration with regional and trans-regional economies propelled them towards maintaining good political relations with each other and with many other East Asian countries.

Thus, in the past two decades, Malaysia-China relations have transformed from hostility and guarded rapprochement to increasing cooperation, economic interdependence and a productive partnership. Malaysia's threat perception of China has undergone momentous change in the post-Cold War era. Multiple factors have contributed to this transformation, with three most noticeable and crucial factors enumerated below:

First, the removal of long-standing political hurdles cleared the path to a new era of bilateral ties. For most of the second half of the twentieth century, the primary concern for Kuala Lumpur was China's refusal to officially renounce the Communist revolutionary movement in Malaysia and stop its moral and material support. With normalisation of ties in 1974 this issue did not cease to be important, rather continued to colour Malaysian opinion of China as a security threat, albeit of varying potency depending upon the perceptions at any given point in time. In the post-1990 phase, the local Communist insurgent struggle came to an end, with a peace accord being signed on 2 December 1989, which eliminated a key obstacle to Malaysia-China bilateral ties (Kuik 2013: 19). Further impetus to resolution of political hurdles was given by the enactment of a new law by China in 1989, asking ethnic Chinese populations to choose the citizenship of their countries of residence (Yuan 2006: 5). Consequently, in August 1990, Malaysia relaxed, and eventually removed, all travel restrictions on its citizens' visit to China, which had been aimed at insulating Malaysian Chinese from the cultural and emotional influence of their ancestral country (Kuik 2012: 11).

However, the internal, domestic dimension of the perceived 'China threat' had dissipated by the end of the Cold War, and had altered into an external threat: "The Malaysian

perception of China as a threat has... increasingly externalised to the point where the Chinese navy is currently considered as a serious, direct military threat in the South China Sea" (Mak 1991: 150). In the post-1990 era, "Malaysia remains sufficiently worried about the potential of China becoming a threat to regional security...Malaysia's security concerns have increasingly shifted from counter-insurgency to conventional warfare, with the sea assuming a major place in its strategic planning" (Acharya 1999: 129-132).

Second, in the opinion of Malaysia's ruling elite, the biggest threats to their domestic authority has shifted from strategic and even military ones to such economic threats as unfair trade practices, various forms of trade barriers and protectionism. Such an understanding was spearheaded by Mahathir Mohamad, who considered these issues not merely as economic problems, as having profound political ramifications on domestic political authority (Kuik 2013: 19). The prolonged recession of 1980s had severely threatened Mahathir's domestic political support base, thus the protection of economic interests "was one of the major factors that motivated much of his new thinking on national economic strategy and how to deal with the emerging realities of a new international economic order" (Jeshurun 2007: 164-165). This concern was reflected in a working paper presented by PM Mahathir in February 1991, which proclaimed that "A country without adequate economic defence capabilities and the ability to marshal influence and create coalitions in the international economic arena is an economically defenceless nation and an economically powerless state. This Malaysia cannot afford to be" (OPM 1991).

Against this backdrop, certain developments in the 1990s, such as the non-committal attitude of Japan and other Association of South East Asian Nations (ASEAN) member states in contrast to Beijing's eager support to Mahathir's idea of an East Asian Economic Grouping (EAEG), became a factor in the latter's opinion of China as a partner in his quest "to marshal influence and create coalitions" (Kuik 2013: 20). China's rapidly growing economy made it lucrative as an emerging player which "would eventually replace Japan as an economic leader in the region" (Whiting 1997: 311). Therefore, the

decision-makers in Kuala Lumpur warmed up to the idea of China as an ally which would benefit Malaysia economically as well as geo-politically.

Third, international reaction to the June 1989 incident of crackdown on demonstrators at Tiananmen Square had been a significant turning point in transformation of China's relations with its peripheral neighbours including Malaysia. The sanctions imposed by Western countries following the Tiananmen incident and the collapse of the Soviet Union forced China into international isolation (Cheng 1999: 179). Having reoriented its foreign policy to support faster domestic economic reforms, China was more integrated, and thus exposed, global developments, opinions and international criticisms. Though short-lived, Tiananmen-linked economic sanctions and new developments linking human rights to trade opportunities created greater troubles for China. These developments compelled Beijing to reconsider its external relations with more focus on Southeast Asia (Ba 2003: 630).

Tiananmen marked the turning point in China's relations with its neighbours, witnessed in increasingly focused efforts at developing deeper economic and political relations with the ASEAN. The immediate objective was to counter-balance Western sanctions and diplomatic pariah status by fostering closer ties in the immediate neighbourhood (Zhao 2011: 61; Kuik 2013: 21). It is noteworthy that the human rights record of most ASEAN states was comparable to that of China. Perhaps not surprisingly then, ASEAN members' (including Malaysia's)[21] response to Beijing's crackdown was mild in comparison to the Western reactions. To a certain extent, China even enjoyed sympathy with some of the ASEAN governments. Such coalescing of desires, regarding freedom from Western interference on issues of human rights, environment, etc, underlined the growing friendly relations between ASEAN and China in the early 1990s. Such desires were strong enough to tide over the significant differences in terms of ideological tendencies and political systems as existed in the countries involved (Zhao 2011: 61). Malaysia, on its part, also made concerted efforts to engage China, a convergence that gave rise to a process of mutual engagement between the two countries.

[21] Malaysian leaders remained silent on the Tiananmen incident, and Chinese leaders later expressed their appreciation for this support (Liow 2000: 680).

4.4 Transformation of China's Neighbourhood Policy

Deeply divisive ideologies, political systems and governing philosophies during the Cold War period complicated China's relations with neighbouring countries, which were deeply suspicious and wary of Chinese intent. Rapid development and enhancement of China's influence, the dominating attitude in neighbouring countries was of being on "guard against China." This situation started changing since 1978 when China shifted the focus of its domestic political agenda primarily towards economic development. As Deng Xiaoping said: "The 1980s was an important period in the historical development of our Party and the state...The core is economic construction" (Yunling and Fangyin 2011: 39-40). With economic development being the central aim of national strategy, China began to adjust its diplomatic focus accordingly. Thus, ideological similarities were relegated in importance and replaced by a need for "improving and developing a stable relationship of peace and cooperation" (Ibid). Since the late 1970s, the economic strategy adopted by China has been similar to that of other developing countries in East and Southeast Asia, which made it relatively easier to ignore differences based on ideological restrictions, and start engaging, cooperating and competing with other developing countries, within the existing international financial and trade framework (Cheng 1999: 177-78).

This new found bonhomie was in sharp contrast to the situation prevalent less than two decades earlier when most ASEAN states and China followed a subtle, and in some cases openly, hostile policy towards each other. China was viewed as an exporter of destructive and violent Communist ideology, supporter of military insurrections, and instigator of divisive politics using its influence over the ethnic Chinese living in various Southeast Asian states. Since 1978, China moved away from a foreign policy dominated by support for radical ideology and pursued a "good neighbourliness" policy, which aimed to establish a "stable and friendly relationship with Southeast Asia" so that primary national focus could be on domestic economic development (Guatu and Wangbo 2010: 179). In 1978, to put this new philosophy into practice, Vice-Premier Deng Xiaoping visited the Southeast Asian states of Thailand, Malaysia and Singapore. That was the first time a Chinese leader had visited those countries. China expressed its support to the ASEAN countries in safeguarding their independence and sovereignty and for ASEAN's initiative

to make Southeast Asia a peaceful and neutral zone. Nevertheless, due to the Cambodian issue, a China–Vietnam confrontation ensued, which lasted for the whole of the 1980s. Although the two countries did not break their diplomatic relations, normal ties were effectively suspended (Yunling and Fangyin 2011: 41). Apart from the Vietnam issue, Beijing's wholesome support for the ASEAN initiative for settlement of the Cambodian issue helped assuage other ASEAN countries in their attitude towards China (Ibid: 43).

Along with growing trust between China and ASEAN, the economic factor gradually became the very important in China's external relations, especially with her neighbours. Economic relations and trade partnerships became an important bond throughout 1980s and beyond. Especially after 1982, China began to push for "a foreign policy of independence and peace," no longer allying with other big powers or forging strategic relationship with them (Ibid.). Its main strategy was to create an environment favourable for reforms and peaceful development. China needed a peaceful international environment to concentrate on her economic modernisation programme. Establishing friendly relations with countries in the neighbourhood and avoiding conflicts thus became the most important foreign policy objective for China. Such a policy started paying dividends in the 1990s, garnering better relations and advancing China's national interests without using or threatening to use force (Cheng 1999: 180).

With the Soviet disintegration, the ideological and strategic rivalry between the West and the East came to an end, greatly changing the international pattern and also the environment of China's neighbouring region. Following the end of the Cold War, the prevailing global situation was more amicable and, therefore, the significance of trade and economic factors rapidly increased. As the fundamental aim of China's foreign policy was the creation of an international environment favourable for domestic economic development, such a situation paved the way for China to develop its relations with neighbouring countries. Regionally, after a dozen years of reform and opening up, China's economic strength increased significantly and this, in turn, provided certain conditions for China to exert its influence over neighbouring areas. With the further enhancement of overall power, China gradually became more conscious of the importance of creating a favourable neighbourhood and adopted policies accordingly.

The rapid economic development of the country brought about new economic revival and corresponding economic linkages between China and her neighbouring states. Due to the reforms and opening up, China achieved stunning successes in economic development and became a growth engine for the regional economy, its economic growth providing enormous opportunities for its neighbours as well (Yunling and Fangyin 2011: 44). Simultaneously, the importance of neighbouring states for China as sources of raw materials and other resources and as markets for its products also increased. They further shared economic interests and became more interdependent, thus creating more intimate relations between China and her neighbouring countries. China's interest in creating a stable regional environment conducive to strong economic growth has benefitted other countries of Southeast Asia as well. In doing so, China has also achieved a greater degree of legitimacy for its Communist regime (Ba 2003: 633).

In order to reduce and thoroughly eliminate the misgivings of neighbouring countries about China's rise, and to further improve and develop good-neighbour relations, it became necessary to develop policies suited to meet such needs. To this end, China has come out with a new policy of "good, secure and wealthy neighbourhood" (Yunling and Fangyin 2011: 51). In October 2003, describing China's neighbourhood policy, Premier Wen Jiabao said:

> The peripheral diplomacy under the new situation is: persist in being good to neighbours, make neighbours our partners, strengthen friendship with them, intensify regional cooperation and bring exchange and cooperation with neighbouring countries to a new level. Good neighbourhood, secure neighbourhood and wealthy neighbourhood is an important part of the strategy for China's own development (quoted in Yunling and Fangyin 2011: 51).

Two important changes can be identified in China's post-1990 foreign policy conception. First, China assigns grave importance to creating better and friendlier surroundings as the emphasis of its foreign relations. Historically, Chinese foreign policy was cautious about preventing an association of rival external powers and establishment of unfavourable institutions, leading to a lack of initiative. After the end of the Cold War, there has been a clear reversal in this cautious approach, with Beijing being proactive and taking initiatives to further its interests. From the perspective of self-cognition and self-

estimation, China believes that it has the capability, and has thus assumed the responsibility, to achieve a secure, pro-development regional environment on its own initiative. Consequently, China's foreign policy conduct over the past two decades has shown greater signs of confidence, which has been the foundation of several changes in its foreign policy, especially towards neighbours (Yiping 2006: 2). Major changes include China's entry into the international economic order and its acceptance of the current framework of international relations and security, even though it is dominated by the US (Ibid: 2-3).

Under the fourth-generation Chinese leadership, Hu Jintao and Wen Jiabao, the aforementioned transformation in Chinese foreign policy continued. Jintao adopted the phrase *yousuozuowei* as the objective of Chinese foreign policy. This term and its connotation has been explained by David Shambaugh as "doing something" (Shambaugh 2013: 19), but it literally means to "reveal one's position and carry through work." This reflects China's objective to adhere to the new foreign policy and pro-actively participate in international affairs as a rising great power. During the Boao Forum for Asia,[22] organised in November 2003, Prime Minister Jiabao introduced the new Chinese foreign policy doctrine: *hepingjueqi* (peaceful rise) (Kim 2015). The initial idea for the concept of 'peaceful rise' was to reassure the world community about China's rapidly growing economic and military power. It was an intricately designed Chinese effort to deconstruct two Western-origin theoretical notions, the "China threat theory" and the "China collapse theory" (Suettinger 2004: 7). Articulating the 'peaceful rise' doctrine, a renowned Chinese intellectual and former member of the Central Committee, Zheng Bijian opines, "China does not seek hegemony or predominance in world affairs. It advocates a new international political and economic order, one that can be achieved through incremental reforms and the democratization of international relations" (Bijian 2005).

At the conclusion of the CPC's 16th party convention in 2002 and the 11th National People's Congress, a blueprint of national goals, to be achieved by 2020, was unveiled by

[22] Boao Forum for Asia (BFA) is a "nongovernment and nonprofit international organization" dedicated to facilitating communication between Asian business and government leaders. It was formally inaugurated on 27 February 2001. Boao, located in Hainan province of China, serves as the permanent site of BFA headquarters. Since 2001, BFA has been holding its annual conferences at Boao.

the new leadership. The objective of the new policy directives is to transform the Chinese society into a *hexie* society, able to enjoy a more prosperous and 'harmonious' life. This is to be achieved by raising the Gross Domestic Product (GDP) levels of 2000 fourfold by 2020. To fulfil this end, China is banking on securing its surrounding environment at a time when the country is focused on sustaining economic development (Yi 2005: 76). The transformation in China's foreign policy from Deng Xiaoping to Hu Jintao, has been well explained by Pei Yuanying, former Director General of the Department of Policy Planning at China's Ministry of Foreign Affairs, who characterised Deng Xiaoping's policy as "giving prominence to peace and development as the theme of our times," while that of Jiang Zemin's as "advocating a just and fair new international political and economic order, advocating a new security concept, and promoting the concept of civilization to defend world diversity." In comparison, President Jintao's policy rests on "building up an image of a peace-loving, moderate but resolute, and responsible major power," i.e., "peaceful development" (Yunhua and Shanbao (2004).

4.5 Convergent Worldviews and Political Collaboration

Since 1990, international political developments have witnessed a remarkable convergence of Malaysian and Chinese leaders' worldviews. The Mahathir administration had regularly criticised the fact that prevailing international economic and political orders were predominantly Western-dominated. The fact that the Chinese leadership shares some of these grievances made it easier to maintain closer relationship with China. This shared resentment, and the following closeness between the two countries, helped raise Malaysia's stature. Indeed, the words and acts of Malaysian leaders demonstrate the utility of wooing Beijing. In December 1990, describing Malaysia's relations with China, Mahathir stated that "mutual confidence and trust" had facilitated the two countries to take a "common stand" on several international and bilateral issues (Liow 2005: 289). Where once Chinese and Malaysian leaders diverged considerably in their worldviews, the post-Cold War international political order promoted coherence, with both countries openly identifying with and supporting each other on issues of democracy, human rights, UN reform, and the increasingly important role of the Third World in international politics in opposition to Western and US

dominance. Since the early 1990s, a host of initiatives such as the Malaysia-China Friendship Society (MCFS),[23] Foreign Officials' Meetings, and the 'Beijing Dialogue on Malaysia and China Partnership' have nurtured the convergence of views between the two neighbours on issues of common concerns (Ibid).

Whereas Kuala Lumpur and Beijing differed over state and party relations during the 1970s and 1980s, in the 1990s both sides were in agreements on issues of governance and the nature of the international system. Prior to the 1997 Asian financial crisis, a contentious debate raged between Western and Asian states over the role of individual rights and freedom versus state development. Mahathir was at the forefront of the 'Asian Values'[24] debate, blaming the West for cultural arrogance, views that found resonance in authoritarian China. For instance, during his visit to China in June 1993, Mahathir extended his support for the Chinese government's position that the renewal of the US' Most Favoured Nation (MFN) status should not be tied-up with the PRC's human rights record. He said that "for a developing country human rights are in the first place the right to independence, existence and development, and the promotion of democracy should be conducive to political stability and economic development" (Storey 2011: 220). In his next trip to Beijing in May 1994, Mahathir praised the Chinese system of governance, arguing that Western notions of democracy were alien to China and inappropriate for its current stage of developments; and warned that if political change was forced upon it economic collapse would follow. Mahathir stated that "China needs the strong Government that it has. It may be authoritarian, but it is better than anarchy. Business needs order" (OPM 1994).

Both countries also shared the pursuit of a multi-polar, as opposed to a US-dominated international order in the Asia-Pacific. China has been purported to favour promotion of

[23] MCFS has been active in increasing cooperation at the societal and private sector level. This organisation is also supported by Malaysian Chinese Chamber of Commerce and Industry (Balakrishnan 2006: 7).

[24] Malaysian leader Mahathir and Singaporean leader Lee Kuan Yew introduced the concept of 'Asian Values' in response to the global democratization, booming economy and political stability of 1990s. Its main elements were strong authority, prioritising the community over the individual and a strong family based society (Sani et al. 2009: 111).

democratic decision-making processes in international institutions and organisations. China supports the idea of a 'fair' and 'reasonable' international political and economic order. Malaysian leaders have endorsed this idea of democratic, just and fair international financial architecture. For Mahathir, "...the present international financial system is inadequate to prevent destruction abuses and tragic consequences. Reforms must therefore be undertaken to ensure the international financial system will be good for everyone." He urged to his Chinese counterparts to work together "for a stronger voice to urge the developed nations for a concerted effort to create a new global financial architecture." (OPM 1999). Mahathir's successor Abdullah Badawi continued this coalescing of ideas with the Chinese leadership and has promoted further cooperation towards "establishment of a fair and just international political and economic order." (Joint Communiqué 2004).

Malaysian leaders have been sceptical of Washington's exercise of coercive diplomacy, particularly since the demise of the Soviet Union, and have taken the view that the US exercises too much power and influence over smaller, developing countries. Malaysia was critical of US policies in such places as Somalia and Bosnia. After reluctantly voting in favour of US-led trade sanctions and military involvement in the Persian Gulf conflict, Malaysia later sought to distance itself from the quagmire that followed, criticising the conduct of the operation and constantly lobbying for the Iraqi trade embargo to be lifted. Malaysia's views with regard to the conduct of the war were shared by the Chinese leadership, which considered the Gulf War to have been an example of American hegemony (Liow 2000: 678).

In line with their opposition to US dominance of the international political and economic spheres, leaders in both Malaysia and China were highly critical of the manner in which their respective regimes were consistently condemned as undemocratic and poor on human rights record by the Western media and governments. To that extent, China supported Mahathir's calls to redraft the UN Declaration of Human Rights so as to accommodate 'Asian views' (Ibid.). In fact, to counter the "overwhelming dominance of Western media reporting on regional and global affairs", Mahathir proposed Chinese leaders to work together to set up an "Asian Media" to counter the former's "slanted and

distorted reporting of global events to Asian audiences and similar reporting of Asia to other parts of the world" (OPM 1999). The tendency for Western leaders to criticise China's practice of democracy was also not welcomed by Malaysia, especially citing the fact that China had not criticised neighbouring states' governments. In a statement made in August 1996, Mahathir noted that China has not tried to teach us "how to administer the government or country" (Bernama 1996). Chinese leaders also have been supporting their Malaysian counterparts on issues concerned to democracy and human rights. For instance, in a highly symbolic gesture that underscored close political cooperation between the leaders of both sides, in 1998, President Zemin met with the Malaysian PM on the side-lines of the Asia-Pacific Economic Cooperation (APEC) Summit in Kuala Lumpur while Mahathir was snubbed by the US, Canadian and Australian leaders for his treatment of former deputy Prime Minister Anwar Ibrahim (Liow 2000: 679).

Shared worldviews, thus, led Beijing and Kuala Lumpur to support international initiatives started by each other, such as Malaysia's proposal to establish a regional economic grouping- East Asian Economic Caucus (EAEC), China's entry into the World Trade Organisation (WTO) in 2002, and proposals for reforming the UN Security Council (Liow 2005: 290). Delivering a landmark speech on Malaysia-China Relations in Beijing, Mahathir said:

> China and Malaysia share the common desire for an undominated United Nations to be the highest authority on matters affecting the international community. As Asia's only member in the UNSC, China together with Malaysia can work to promote reforms of the United Nations. Expanding the membership of the UNSC to reflect the interests of developing countries in vastly new circumstances since the United Nations was established more than five decades ago will help create a more equitable political world order (OPM 1999).

Events following the 9/11 attacks on the US, have fostered further convergence between China and Malaysia on foreign policy postures, strengthening their political relations. Malaysia's opposition to US 'hegemony' and unilateralism has resonated with Beijing's political and strategic concerns, and China has reciprocated by supporting Malaysia's

vocal leadership of international opposition to the US' conduct of the War on Terror.[25] In the main, China's support of Mahathir's opposition to American and Western cultural, political, and economic dominance has undoubtedly augmented Kuala Lumpur's role and status as a Third World leader (Liow 2005: 290). However, under the premierships of Mahathir's successors, Kuala Lumpur's policy towards the US has perceptibly become more cooperative rather than confrontational. Malaysian regional and global approach in the past decade has started reflecting greater pragmatism than rhetorical (Kuik 2012a: 1).

4.6 Exchange of High-Level Visits

Political bonhomie and close diplomatic relations is often reflected in the frequency of and importance accorded to high-level official visits and interactions. Malaysia's transforming diplomatic and political ties with the PRC can be understood by considering the frequency of high-level official visits in the past two decades. Till the 1970s, China's relations with its Southeast Asian neighbours were lukewarm or even openly hostile, with the result that high-level visits to these states were very rare, if not non-existent. Even after the introduction of its 'Open-Door Policy' in 1979, China's Southeast Asian connections were not as deep and important as its relations with Africa. It was only in the late 1980s that relations between ASEAN states and China began to improve (Ku 2006: 121). The statement made by Mahathir during his visit to Beijing in November 1985, which was his only visit in the 1980s, highlights the significance of high-level visits between Malaysia and China: "...close scrutiny appears to be given to our relations only during high-level visits such as this. Instead of becoming a continuous process, the development of our relations has hinged upon the visits we make." (OPM 1985).

The 1990s heralded an era of increasing political interactions between Malaysia and China, which has now become a continuous process. In the last decade of the nineteenth century, PM Mahathir paid four visits to China, three of them over a period of four years: in June 1993, May 1994, August 1996, and August 1999. His Deputy Anwar Ibrahim

[25]Despite public criticism of the United States' policies in Iraq and Afghanistan, Kuala Lumpur has always approved military over-flights by the US air force after 9/11, and also allowed access to port and airfield facilities (Tan 2010: 38).

visited China in August 1994. Chinese leaders too reciprocated with visits by Premier Li Peng in December 1990 and August 1997, Presidents Yang Shangkun in January 1992 and Zemin in November 1994, and Zhu Rongji as vice-premier in May 1996 and as premier in October 1999 (Liow 2000: 679). This trend alone sufficiently reveals the improved complexion of Malaysia-China relations.

In other significant visits, the visits made by the People's Liberation Army (PLA) Chief of Staff General Chi Haotian and Chairman Qiao Shi of the Standing Committee of China's National People's Congress in 1993 underscored the expanding scope of bilateral ties. Initial efforts at cooperation in the highly sensitive defence sphere were indicated during the visit in August 1992 by the then Malaysian Defence Minister Najib Tun Razak to Beijing to meet with his Chinese counterpart, General Chi Haotian. The visit was reciprocated by the latter in May 1993, when the two sides held wide-ranging discussions, including the situation in the South China Sea and bilateral military cooperation. In November 1995, China and Malaysia agreed to expand bilateral military cooperation, including defence industrial cooperation and an officer exchange programme. While the scope of defence cooperation remains extremely modest, the high-level visits have proved useful in confidence building (Acharya 1999: 135). Certain summit-level meetings and high frequency of visits by leaders from both sides have proved to be landmarks in the history of Malaysia-China relations. Most notable among these, have been discussed below.

4.6:1 Exchange of High-level Visits in 1999

The year 1999 marked the 25th anniversary of the establishment of diplomatic ties between Malaysia and China and thus had an added significance. Setting the stage for a chain of events over the year, Defence Minister Abang Abu Bakar met the PLA Chief of Staff in Kuala Lumpur (Liow 2000: 689), followed, in May, by Foreign Minister Syed Hamid Albar who participated in the official celebration of the 25th year of normalised ties between Kuala Lumpur and Beijing. During this visit, the landmark document for wider and deeper bilateral cooperation, 'Joint Statement on Future Bilateral Cooperation' was signed between the Malaysian Foreign Minister and his Chinese counterpart, Tang

Jiaxuan. This comprehensive document, calling for a 'multi-directional relations' became the blueprint for the future of bilateral relations based on a wide scope of cooperation, from economics to education to defence, and was at the time arguably the most comprehensive agreement signed between China and a Southeast Asian country (Liow 2005: 288). The twelve-point document called on the two sides to increase the frequency of high-level exchanges, expand trade and investment cooperation, collaboration in the fields of education and tourism, strengthen regional forums, exploration of joint weapons production and promote multi-polarity (Storey 2011: 221). In this document, both parties "agreed to maintain stability in the South China Sea" and to approach the disputes on a bilateral level (Liow 2000: 689).

Syed Hamid's visit was followed by Mahathir's three-day visit to Beijing in August 1999. Mahathir, who was referred to by Premier Rongji as "an old friend of the Chinese people," thanked China for not taking advantage of Southeast Asia by devaluing the Yuan during the regional financial crisis and for Beijing's support for the Southeast Asia Nuclear Weapons Free Zone Treaty, to which China pledged to accede at the July 1999 ASEAN Post Ministerial Conference. Mahathir further repeated Malaysia's desire for speedy resolution of all maritime disputes on a bilateral basis and joined China in criticising the US for expressing an interest in the developments in the Spratlys. A host of other agreements were concluded during the visit, including the ones between the Academy of Sciences in Malaysia and the Chinese Academies of Sciences and Engineering. Further agreements included a counter-trade agreement on Chinese rice and Malaysian palm oil, a joint venture for a forest plantation and pulp mill in East Malaysia, and the opening of a Malaysian consulate in Shanghai. The joint venture in East Malaysia is noteworthy, for it represented China's largest investment in a project outside of its borders. Other agreements mooted were regarding the re-introduction of the Bank of China in Malaysia and Malaysian requests for another consulate in Kunming and a Proton car assembly plant in China. In view of Mahathir's political crisis back home, the Chinese leadership's support for his administration, under which they lauded Malaysia for having "scored remarkable success in achieving social stability and ethnic harmony and economic development under Mahathir," was sincerely welcomed. Likewise, President Jiang highlighted his support for Mahathir's handling of Malaysia's economic

crisis. It must be mentioned that during this visit, Mahathir proclaimed his belief that Malaysia-China relations had matured to the extent that both countries should stand united at the forefront leading East Asia into the 21st century. This sentiment was certainly a far cry from Mahathir's hostile suspicion of China one and half decade ago (Ibid: 689-90). Addressing the 3rd Malaysia-China Forum on the subject 'China-Malaysia Relations: Challenges and Opportunities in the 21st Century,' Mahathir pointed out that "Although we have different political and social systems, we did not allow the differences to obstruct our relationship. Instead, we focused on what could bring us closer together for mutual benefit" (OPM 1999).

Prime Minister Mahathir's visit was reciprocated by Chinese Premier Rongji, who visited on the eve of Malaysia's tenth general elections in November 1999. The timing of the visit in the midst of pre-election campaigning was not lost on analysts and opposition leaders, who viewed it as a move by Mahathir to capture the Chinese vote and legitimise his position as a respected global leader (Liow 2000: 690). Opposition leader Lim Kit Siang of the Democratic Action Party (DAP) charged that Prime Minister Mahathir "deliberately timed the general elections to play the Chinese card" with Rongji's visit in an effort to gain electoral advantage. The advantage being referred to was the substantial ethnic Chinese bloc comprising nearly 30 percent of Malaysia's total population. They had assumed a very important role in deciding the outcome of the results as the Malays were clearly divided over the unceremonious sacking and arrest of former Deputy Prime Minister Anwar Ibrahim (Kyodo News International 1999).

On his arrival in Kuala Lumpur, Rongji issued a written statement declaring that the purpose of his visit was to "have an in-depth exchange of views with Malaysian leaders on the ways to deepen our bilateral cooperation and strengthen coordination in international and regional affairs..." (Thayer 2000: 39). PM Mahathir also urged his Chinese counterpart to support an East Asian Monetary Fund and an East Asia Economic Caucus, as well as the ASEAN-China consultative process. In reply, Premier Rongji stressed further "consultations on how to resist hegemonism and power politics, to promote East Asian economic cooperation..." (Ibid.). During his visit, Rongji chose to avoid politically sensitive issues and instead stressed "mutual beneficial economic and

trade; and scientific and technological cooperation." Regarding the flashpoint of the South China Sea territorial dispute, the leaders stated that "differences in this part of the world should be properly resolved through friendly (bilateral) consultations between the relevant countries..." (Ibid: 40). Both leaders also agreed to a general code of conduct as far as the Spratly Islands dispute was concerned. Memoranda of Understanding (MoU) were also signed during the visit between Malaysian and Chinese banks on setting up of branches in each other's country, and agreements on cultural cooperation and exchange of animals (Ibid).

4.6:2 Badawi's 2004 Visit to China

In October 2003, Datuk Seri Abdullah Bin Haji Ahmad Badawi succeeded Mahathir Mohamad as the fifth Prime Minister of Malaysia and served until April 2009 when he was forced to make way for his deputy Najib Tun Razak after the ruling coalition had suffered disastrous election results in 2008. There were no substantive changes to Malaysian foreign policy under PM Badawi, although his moderate and amicable disposition smoothen relations with the US, and other regional players such as Australia and Singapore, which had been criticised by Mahathir. As far as Malaysia's China policy is concerned, it was marked by continuity and no major deviations from Mahathir's policies took place, nor were any new initiatives advanced. Bilateral relations between the two countries progressed well during his six years in office. Badawi was aided by his good personal relations with Chinese leaders developed during his tenure as foreign minister from 1991 until 1999 in the Mahathir administration (Storey 2011: 224).

China received particular attention from Badawi even before he became Prime Minister. Prior to becoming the premier, Badawi visited China as Deputy PM and declared that 2004 would be a Malaysia-China Friendship Year in commemoration of 30th anniversary of diplomatic ties and the 600th anniversary of the landing of Admiral Zheng Ho, credited with initiating the first official contact between China and the Malacca Sultanate in the 15th century. In May 2004, within seven months of becoming the PM, Badawi visited China with the largest official and business delegation, marking Abdul Razak's historic 1974 visit. Choosing China as the first non-ASEAN destination after assuming office

was a clear testimony of the importance attached to Malaysia-China relations by Badawi (Kuik 2012: 15).

During the visit, PM Badawi met President Jintao and held meetings with his Chinese counterpart Jiabao and Vice Premier Huang Ju. The leaders expressed satisfaction with the positive trajectory of relations and "underlined the importance of mutual trust and understanding and a spirit of dialogue as the basis for enhancing constructive and cordial relations." (Joint Communiqué 2004). During the official talks between Malaysian Premier Badawi and Chinese Premier Jiabao, the latter made five proposals for expanding relations and strengthening cooperation within the parameters of ASEAN-China Strategic Partnership. Particularly, he urged strengthening bilateral cooperation in agriculture, high-tech, resource development, trade, tourism, and promotion of East Asian Cooperation (Ministry of Foreign Affairs, the PRC 2004).

The leaders of both sides were agreed on the following:

- "To maintain the momentum of high-level exchanges and frequently exchange views between the leaders of the two countries and at all levels including ruling parties, legislative bodies, governmental and non-governmental agencies to sustain a comprehensive development of bilateral relations. The two sides would continue with the annual consultations between their respective Ministers of Foreign Affairs, through which matters of bilateral, regional and international issues of common concern could be discussed.
- To welcome the participation of enterprises from both countries in the development of infrastructure in each other's countries. The Chinese side expressed its readiness to provide financing facilities for Chinese enterprises investing in Malaysia. The two sides will continue to encourage their enterprises to make joint investment in a third country.
- To increase two-way trade to a significant level by 2010. The two sides also agreed to resolve any trade disputes in the spirit of mutual understanding and cooperation in accordance with the relevant principles of the World Trade Organization. The two sides also agreed to strive for a balance of trade.

- To recognise China's full market economy status by the Malaysian side.
- To improve cooperation between the two countries in the field of transportation, energy and finance. The two sides undertook to enhance the management of labour cooperation following the signing of the MoU on labour in 2003.
- To recognise the significance of science and technology in the development of both countries. The Chinese side would encourage Chinese scientific and research institutions and high-tech enterprises to take part in the Bio-Valley project of Malaysia.
- To expand exchanges and cooperation in the fields of culture, education and public health. Both sides agreed to renew the MoU on Cooperation in the Field of Education and expressed the willingness to enhance the regulation on the intake of students studying in each other's country.
- To maintain peace and stability in the South China Sea and to promote the settlement of disputes through friendly bilateral consultations and negotiations in accordance with international laws including the 1982 United Nations Convention on the Law of the Sea. The two sides expressed their readiness to study the follow-up actions on the implementation of the Declaration on the Conduct of Parties in the South China Sea.
- To reaffirm their commitment in the fight against terrorism in all its forms and manifestations and stressed that the international community should enhance cooperation and address both the symptoms and root causes of terrorism" (Joint Communiqué 2004).

Several significant agreements during the course of this visit, such as an MoU on cooperation in the field of Foreign Affairs and International Relations Education, on cooperation in Public Health and Plant Health, and an MoU between China Mayor Association and Malaysia China Business Council. Both sides also agreed to strengthen cooperation in the strategic arena (Yiping 2006: 4-5). Apart from signing of agreements and MoUs, both sides showed their willingness to enhance their cooperation in international and regional affairs, especially in promoting cooperation in East Asia. Chinese President Jintao appreciated the role played by Kuala Lumpur "to boost the development of the strategic partnership between China and ASEAN countries" (Ministry

of Foreign Affairs, the PRC 2004a). This visit of Badawi showcased the momentum of development of Malaysia-China relations which was initiated in the early 1990s and has been maintained by the successive leadership in Kuala Lumpur.

4.6:3 Najib's 2009 Visit

Malaysia's sixth PM Najib Tun Razak (since 2009) was well acquainted with the Chinese government, partly because he had occupied the defence portfolio during 1990-95 and 1999-2008, but also because his father, Tun Abdul Razak, was the second Prime Minister of Malaysia. In that capacity Tun Razak had made a historic journey to China in 1974 and made Malaysia the first among the ASEAN community to establish formal diplomatic ties with the PRC. PM Najib Razak also chose China as the first non-ASEAN state to visit upon assuming power. What made his visit significant than other Malaysian leaders' is the fact that this visit came within two months of his assuming office. This reflected the importance attached to relations with China by the new government. In Beijing, Najib declared that he was not only following in the footsteps of his late father, but "wants to walk faster and further" in developing ties with China (Bernama 2009a).

Najib's China visit was a significant event since it came at a time when the two countries were marking the 35th anniversary of the establishment of diplomatic ties. As Najib announced, his "visit is aimed at further accelerating the development of the friendly cooperative relations and pushing bilateral cooperation towards more outcome based on the contributions made by the elder generation of leaders of the two countries 35 years ago" (Ministry of Foreign Affairs, the PRC 2009). During the meeting of the two prime ministers, Jiabao made a four-point proposal for furthering China and Malaysia cooperation. First, "promote trade diversification and maintain the growth of bilateral trade;" second, "enhance mutual investment and well build key projects;" third, "deepen financial cooperation and safeguard financial stability;" And fourth "strengthen coordination on regional affairs and push forward in-depth development of regional cooperation." Premier Najib positively responded to the proposals made by his host on advancing bilateral relations, saying "the new Malaysian government will commit to all-round development and enhancement of bilateral ties and is ready to enhance cooperation

with China in the fields of economy, finance, resources, energy and infrastructure construction on the basis of reciprocity and mutual benefit" (Ibid.) Responding to the global financial crisis, both leaders agreed to work closely in coping with the effects of the crisis. The Chinese side also noted the level of cooperation between the two countries in pushing forward East Asia cooperation and promoting regional stability and prosperity (Ibid.).

During the visit, several agreements and MoU's were signed, such as the "Joint Action Plan on Strategic Cooperation," providing a framework for upgrading bilateral cooperation to meet future challenges. Chinese President Jintao pledged that "China would take... joint Action Plan on Strategic Cooperation as an opportunity to comprehensively expand and lift tangible cooperation in bilateral and multilateral areas and to open up a brighter future for bilateral ties" (Ministry of Foreign Affairs, the PRC 2009a). Second significant agreement was on mutual abolition of Visa requirements for holders of diplomatic or official passports. Other major agreements include areas such as "Marine Science and Technology Cooperation" and "Malaysia-China Postal Agreement" (Hing 2013: 242). MoUs signed between Chinese and Malaysian business concerns include agreements for the supply of animal feed additives made using biotechnology to China; for undertaking joint production and international broadcast of the 2010 Chinese New Year celebration in Beijing; and the one "between the Malay Chamber of Commerce, Malaysia and the China Council for the Promotion of International Trade for jointly promoting trade between business communities of both countries" (Seng 2009: 5).

Apart from agreements and MoUs, Najib's China visit was regarded as an opportunity to strengthen the trust and goodwill painstakingly established between leaders of the two countries. As PM Najib stated,

> Bilateral relations between Malaysia and China are further characterized by the good personal rapport between leaders and business communities alike, as well as with regular exchanges of visits at all levels... through more exchanges of visits, we can get to know each other even better... We need to continually nurture this relationship so that it will not, through benign neglect, result in any misunderstanding or miscommunication. Therefore, I hope we shall continue to visit one another, to get to know each other more. Mutual trust, open

communication and regular exchanges will ensure a healthy bilateral relationship (OPM 2009a).

4.6:4 Wen Jiabao's 2011 Kuala Lumpur Visit

The process of frequent high level exchanges between Malaysia and China has continued further. In April 2011, Chinese Premier Jiabao paid a two-day official visit to Malaysia and discussed ways to enhance strategic cooperation and promote understanding on international and regional issues of common concern. During his trip, Jiabao expressed his country's willingness to further promote and increase exchanges between respective state's students, scholars, teachers and experts, and enhance cooperation between higher education institutions of both countries. He also urged enhancement of "cooperation in research and development and joint training in biology, remote sensing, information technology, traditional Chinese medicine and Oceanology as they have strengths in these fields" (Xinhua 2011). Chinese Premier also offered "to train more than 10,000 telecommunication professionals for Malaysia in the next five years" (Ibid.).

During the official talks with his Malaysian counterpart, Chinese Premier proposed a four-point agenda to strengthen bilateral relations, which were fully endorsed by Razak:

- Enhancing bilateral exchanges at the highest political level and deepen mutual trust. Jiabao proposed that the respective Foreign Ministries should initiate efforts for establishing a mechanism for strategic consultation with the aim of strengthening communication and coordination.

- The two countries should promote further cooperation in areas such as finance, economy, trade, maritime affair and law enforcement. Within this ambit, a clear roadmap should be established identifying the principle, direction and framework of their future cooperation. Jiabao also suggested that such a mechanism could also formulate the five-year plans for furthering economic and trade cooperation between the two countries, with a special focus on large projects and key economic focus areas.

- Expanding people-to-people interactions and continuously consolidating the social basis of bilateral friendship. Jiabao urged both countries to enhance exchanges on culture, tourism, education and journalism.

- Finally, Jiabao proposed enhancing communication and cooperation in international and regional affairs. He called both sides to make joint efforts to enhance cooperation across East Asia to safeguard peace, prosperity and stability of the region (Ministry of Foreign Affairs, the PRC 2011).

Following the talks, the two sides signed the 'Agreement on Expanding and Deepening Bilateral Economic and Trade Cooperation' and other important cooperation documents, setting out the principles and direction for mutually beneficial cooperation between the two sides. Addressing the Malaysia-China Economic, Trade and Investment Cooperation Forum, Razak said, "I am confident that this Agreement, which takes a more targeted, sector-specific approach to planning and implementing business co-operation programmes, will inject fresh momentum into our bilateral economic and trade collaboration" (OPM 2011). At the same platform, Jiabao stated that to promote all-round economic cooperation and trade between the two countries, both sides "should work hard to increase exports of high and new technologies and high value-added products, and raise the share of telecommunications, bio-medicine, and green science and technology products in total trade with a view to optimising bilateral trade mix" (Ministry of Foreign Affairs, the PRC 2011a).

These visits between the two sides and the statements issued by the top-most political leadership promoting and strengthening close ties signify that Malaysian leaders, from Mahathir to Razak, have viewed China's global rise as an opportunity to learn and benefit from not just the sphere of economy and trade, but also in political and geo-strategic terms. The ruling and foreign policy elite of Malaysia have pragmatically accepted the presence and rise of China as a permanent feature of Malaysia's external environment, and opted to act towards creation of conducive conditions promoting productive and beneficial relationship. Reflecting on the apparent success of this approach, Razak remarked in April 2011 that the "considerable amount of foresight" shown by Malaysia

in establishing diplomatic ties with the PRC in 1974 "has paid dividends," and that China has emerged as "a friend, not an adversary; a colleague, not a competitor; a partner, not a rival" (OPM 2011).

Besides the political and diplomatic interactions at the bilateral level, both the countries have also been engaged in cooperation at multilateral, regional arrangements particularly in ASEAN-driven institutions. In fact, Malaysia had been crucial in establishing linkages between China and ASEAN.

4.7 China-ASEAN Engagement and Malaysia's Role

In the immediate aftermath of the post-1990 global paradigm shifts, China was struggling in the international arena to recover from the stigma attached with the Tiananmen massacre. It was helped in this quest by its rapidly-growing economy and deft diplomacy, which helped transform China into an important power shaping the new regional alignments in East Asia. Beijing has been especially committed to cultivating closer ties with ASEAN. Immediately after ASEAN's establishment in August 1967, Beijing's attitude was hostile as the new regional grouping was suspected of being promoted by the US as an effort to counter China. There was a change in this attitude after the 1971 entry of China into the UN as a permanent member of the UN Security Council (UNSC), replacing Taiwan (also known as the Republic of China). With greater integration into the international community, and with new approaches such as the 'good neighbour' and 'go global' policies, China progressively increased its interaction with multilateral institutions, including ASEAN (Ku 2006: 134-35). China had initially disregarded such multilateral dialogue frameworks as coalitions of smaller countries against their bigger northern neighbour, and preferred bilateral dialogue mechanisms with ASEAN member-countries since these offered greater manoeuvrability and leverage (Ba 2003: 632-33).

Thus, China's interactions with ASEAN countries were almost exclusively bilateral before the period of globalisation and liberalisation, and no institutionalised linkages were established between ASEAN and China. In the wake of Western sanctions imposed on China following the Tiananmen incident, Beijing embarked on improving relations in the immediate region through a much publicised good neighbourhood policy. Through

such measures, China wanted to secure political and strategic concerns as well as its continuing access to markets and foreign investments (Kuik 2005: 103). Within this policy shift in Chinese approach to foreign relations, ASEAN assumed greater importance, offering political and economic alliances. ASEAN as an ally offered an added benefit in the form of shared concerns about US-dominated Western trade and human rights policies (Ba 2003: 631). Thus, ASEAN offered China strategically acceptable economic partnership, sharing similar developmental priorities as well as political sensitivities. ASEAN's "principle of non-interference in another country's domestic affairs was certainly appreciated by the Chinese leadership" (Cheng 1999: 179). Further, with its long-established stature and influence in East Asia, associating with ASEAN offered China the means of engaging with both regional and international community (Ba 2003: 632).

Although, the evolving cooperation between ASEAN and China in the immediate aftermath of the Cold War was rather a result of multilateral actions than the efforts of one state, Kuala Lumpur's proactive diplomatic efforts towards promoting such cooperation cannot be overlooked. Bilateral linkages with Malaysia and its enthusiastic efforts helped initiate a consultation and integration process between China and ASEAN. In July 1991, within three months of first consultative meeting between Malaysia and China, then Foreign Minister Badawi invited his Chinese counterpart Qian Qichen to attend the opening session of the 24th ASEAN Foreign Ministers' Meeting held in Kuala Lumpur. Qian's informal talks with ASEAN foreign ministers on the sidelines of the Meeting marked the initiation of ASEAN-China dialogue process. China has been a permanent attendee of ASEAN Foreign Ministers' Meetings ever since. In 1992, China attended the 25th ASEAN Ministerial meeting in Manila in its capacity of a consultative partner. In 1993, it was invited to "the founding dinner of the ASEAN Regional Forum (ARF) in Singapore" (Kuik 2013: 21-22). Following these developments, in July 1994, the two sides constituted two committees, ASEAN-China Joint Committee on Science and Technology and ASEAN-China Joint Committee on Economic and Trade Cooperation. In the same month, China took the significant step of becoming a member of the ASEAN Regional Forum (ARF), constituted to provide a platform for regional consultations on political and security issues of common concern. This was a major

development since it reflected Beijing's willingness to participate and its increasing role not only in regional economic affairs but also in political and security matters. The first "ASEAN-China Senior Officials Consultations at the vice foreign ministers level was held in Hangzhou, China," and within a year, in July 1996, the status of engagement was elevated to make China a full dialogue partner of ASEAN (Ku 2006: 135).

The outbreak of 1997 Asian financial crisis gave China an opportunity to elevate its interactions with ASEAN. Accepting Malaysia's 1997 suggestion of organising an informal 'ASEAN plus Japan, China and South Korea Summit' in Kuala Lumpur, China signalled its readiness to engage with other regional powers for the common good. The Summit was held in December 1997, marking the beginning of the ASEAN Plus Three (APT) (Kuik 2013: 26). Since 1997, China has been participating in the APT Summits paving the way for holding of the annual ASEAN-China Summits. It is this Summit which provided the framework for the two entities to discuss economic as well as political and security issues of common concerns (Mondejar and Chu 2005: 218). Malaysia became the host of the first ASEAN-China Summit held in Kuala Lumpur in December 1997. At the end of this Summit, a joint statement was issued announcing the decision to establish "a partnership of good neighbourliness and mutual trust between them as an important policy objective for relations between ASEAN and China in the 21st century" (ASEAN Secretariat 1997).

Since then, China has increasingly been involved in ASEAN-driven multilateral forums, thus reinforcing the Malaysian assessment of China emerging as an important regional player. As a signal of its appreciation for facilitating association with ASEAN, China strongly supported the Malaysian proposal of establishing an APT Secretariat in Kuala Lumpur in 2002. Although, this bid was unsuccessful because of opposition within ASEAN, it reflected China's backing of and trust in Malaysia. On 30 May 2004, during his visit to Beijing on the occasion of the 30th anniversary of diplomatic relations, PM Badawi announced the idea of an East Asia Summit (EAS). Badawi proposed that the existing APT mechanism could be elevated to a higher level in the form of EAS, and that China and Malaysia should cooperate "in setting the agenda for a new era of regional co-

operation" (Kaur 2004). In July 2004, in his first key foreign policy speech, Badawi told the annual conference of Malaysian heads of missions that:

> Malaysia must persevere in the diplomatic efforts required to find consensus to upgrade the ASEAN +3 process to become a gathering of equal partnership such as in an East Asia Summit meeting. The creation of such a forum will ensure a deeper commitment by the three East Asian partners to the development and prosperity of the ten countries in Southeast Asia (OPM 2004).

The concept of such a grouping of East Asian states was first introduced by Mahathir Mohamad in 1991. Mahathir's proposal for "East Asian Economic Caucus" was not successful at that time largely of US and Australian counter- proposal for an Asia-Pacific Economic Cooperation (APEC) forum, which came into being in 1993 (Malik 2006: 3). Although, the EAS was established as "a forum for dialogue on broad strategic, political and economic issues of common interest and concern with the aim of promoting peace, stability and economic prosperity in East Asia" (ASEAN Secretariat 2005), there were sharp divisions among the APT members over the membership issue. China viewed the APT as a potential vehicle to advance its regional leadership aspirations and, therefore, resisted attempts to expand the membership, especially to the allies of the US such as Australia and, India. However, with the exception of Malaysia, China did not find any takers for its stance (Malik 2006: 3). Japan, Singapore and Indonesia advocated a more inclusive approach by inviting non-APT countries, because of the fear of China's domination of the EAS. A compromise formula was eventually found whereby existing Dialogue Partners of ASEAN could attend the EAS provided they had significant economic interests in the region and had signed the Treaty of Amity and Cooperation (TAC). India, Australia and New Zealand could attend on the basis of these criteria. At the Summit's conclusion, which was marred by rivalry between China and Japan, Malaysia joined China in proposing that the APT remain at the core of the EAS process. However, ASEAN turned down Beijing's proposal to host the second Summit, and decided that the EAS will be "hosted and chaired by an ASEAN member country only that assumes the ASEAN Chairmanship and held back-to-back with the annual ASEAN Summit" (ASEAN Secretariat 2005).

Thus, increasing collaboration between Kuala Lumpur and Beijing towards elevating East Asian cooperation illustrates how a smaller state can choose to align its interests with a proximate big power and rely the latter's growing clout to promote shared geopolitical interests, which would otherwise be difficult to achieve (Kuik 2013: 27). The constant interactions between Malaysia and China via ASEAN-led regional multilateral forums are significant as they marked growing engagement between the two. These mechanisms and dialogue processes have allowed Malaysia, along with other ASEAN states, to promote confidence building on issues of security and stability in the region and "build upon East Asian solidarity and economic cooperation" (Saravanamuttu 2012: 49). At the same time, these forums have been an important instrument in integrating an ascending power like China into a system of regional norms and order (Acharya 1999: 130). Through these multilateral channels, increasing political cooperation between Malaysia and China has allowed both the countries to support each other on issues of common concerns.

Chapter-5

Towards Economic Integration

Economic relations between Malaysia and the People's Republic of China (PRC) have gone through phases of robust growth alternating with period of stagnation or even contraction. In the initial phase of bilateral ties, cooperation in the field of trade and business was hampered by political factors and security concerns. A range of trade and travel restrictions were imposed in 1950s and 1960s, leading to most of the bilateral trade being carried out through un-official channels via third parties. Until Malaysia's recognition of China and political rapprochement in 1970s, economic relations between the two sides were largely ignored. It was only during Prime Minister Mahathir Mohamad's tenure (1981-2003), which coincided with the opening up of the Chinese economy that Kuala Lumpur began to prioritise economic interests over traditional security issues. As discussed in previous chapters, Mahathir's approach towards China was driven by pragmatism and the need for greater cooperation. In the post-Cold War era, trade and economic cooperation have become the backbone of Malaysia-China relations and the volume of trade has touched the new heights. Thus, cooperation and collaboration between the two countries has intensified during the last two decades.

For the purpose of deeper analysis, Malaysia's economic relations with China can be divided into three phases. The first phase is before the political rapprochement: 1957-1973; the second after the rapprochement: 1974-1988; the third starts from 1989 with the removal of political hurdles which had slowed the bilateral relationship.

5.1 Before the Rapprochement (1957-1973)

In the aftermath of Malaya's independence in 1957, economic relations between the two countries were hostage to mutual suspicion and hostile attitudes owing primarily to Chinese support for Malaya's local Communist insurgents. The Malayan government's approach was refusal to recognise the PRC government in Peking thus preventing any direct relations. From the economic point of view, during this period before

rapprochement (1957-73), trade was characterised via non-official channels, mostly by the private sector with the help of Chinese middlemen based in Singapore and Hong Kong (Shee 2004: 60). The obvious reason for complete absence of direct trade was the policy of non-recognition adopted towards China by the first Prime Minister (PM) Tunku Adbul Rahman, which resulted in a ban on trade with China. A commentary published in *Peking Review* cites several unfriendly acts by the Malayan authorities during the second half of 1958:

> In July they prevented Chinese goods from being shown at the Kuala Lumpur Exhibition; in October they announced that special permits were needed for the importation of Chinese cotton piece-goods; at the same time imports of four kinds of Chinese cotton piece-goods were altogether prohibited. No such restrictions have ever been imposed on imports from other countries (Jain 1984, Document 42: 36-37).

In late 1958, the Malayan government decided to curb the import of cheap Chinese textiles and cement and to ban certain Chinese publications. In retaliation, Peking also suspended trade with Malaya (Leng 1959: 8). Further, delivering a severe blow to financial relations between the two countries, the Federal Bank amendment bill adopted by the Legislative Assembly of the Federation of Malaya on 4 December 1958 forced the Bank of China in Kuala Lumpur to cease its operations (Jain 1984, Document 40: 33). The lack of direct trade between the two neighbours was also a result, albeit in part, of the United States (US) economic embargo against China, making it even more difficult to develop Malaysia-China bilateral trade. Consequently, in 1957, the total value of bilateral trade amounted to a meagre US$ 59.94 million, which remained abysmally low till 1970, reaching the level of only US$ 95.6 million (Shee 2004: 60). These low levels of trade were a reflection of hostile political relations characterised by mutual distrust and suspicion.

The succession of Tun Abdul Razak as the second PM in September 1970 marked the end of the phase of indirect, private-sector dominated trade between Malaysia and China, and ushered in a period of direct, active trade engagement. While PM Tunku was known for his staunchly pro-West and anti-Communist leanings which were reflected in his policy towards communist China, His successor Tun Razak followed a non-aligned

approach, resulting in a breakthrough in Malaysia's relations with China. During his tenure as PM, the first unofficial visit to Peking by a trade mission took place in May 1971, under the leadership of Razaleigh bin Tengku Hamzah, the then head of the Perbadanan Nasional (PERNAS, National Trading Corporation, Malaysia).[26] This significant and momentous step was reciprocated by a Chinese trade delegation's trip to Kuala Lumpur in the same year resulting in China purchasing 40,000 tons of Malaysia's natural rubber, doubling the amount traded in the preceding years, 5,000 tons of palm oil and 50,000 cubic metres of timber as well as other commodities. The Malaysian side also agreed to import consumer goods, light machinery and other products from China (Jain 1984, Document 185: 168-169). These bilateral trade missions signified the beginning of direct trade between the two countries.

5.2 After the Rapprochement (1974-1988)

Malaysia's economic relations with China began to change from May 1974 when both countries accorded diplomatic recognition to each other. With the normalisation of diplomatic relations, total trade between Malaysia and China increased to US$ 159.17 million in 1974, up from US$ 27.8 million in 1971 (see Table-1). Thereafter, with the exception of 1976 when negative growth rate was registered (total trade being US$ 136.41 million), the value of bilateral trade progressively increased to US$ 424.40 million in 1980. Thus, it can be hypothesised that the rise in trade volume was positively correlated to the normalisation of diplomatic ties between the two countries. Although the trade between Malaysia and China began to expand gradually since 1974, the volume of total trade remained very low till the mid-1980s. For instance, in 1980, China's trade with Malaysia was merely 1 percent of its total trade (US$ 38,100 million). In the same year, Chinese imports from Malaysia stood at US$ 240 million which accounted for only 1.2 percent of its total imports of US$ 20,000 million. Similarly, Chinese exports to Malaysia were valued at US$ 184 million which was a dismal 1 percent of its total exports of US$ 18,100 million (Table-1; China Statistical Yearbook 1996). These figures reflects that neither of the two countries was an important trading partner for the other. One of the

[26] The delegation was the first to visit China since 1959 when a combined Singapore-Malaysia trade mission paid a visit to Peking.

Table-1: Malaysia's Trade with China: 1971-1988

(US$ million)

Year	Imports	Exports	Total Volume	Balance of Payment
1971	26.72	1.08	27.8	-25.64
1972	40.67	3.70	44.37	-36.97
1973	124.93	1.28	126.21	-123.65
1974	155.26	3.91	159.17	-151.35
1975	108.57	51.04	159.61	-57.53
1976	87.38	49.03	136.41	-38.35
1977	94.43	105.31	199.74	+10.88
1978	163.19	111.15	274.34	-52.04
1979	171.37	189.14	360.51	+17.77
1980	184.47	239.93	424.40	+55.46
1981	194.34	94.85	289.19	-99.49
1982	183.51	123.80	307.31	-59.71
1983	198.91	147.79	346.70	-51.12
1984	196.41	141.84	338.25	-54.57
1985	170.31	171.12	341.43	+0.81
1986	180.34	133.67	314.01	-46.67
1987	255.00	302.00	557.00	+47.00
1988	308.00	569.00	877.00	+261.00

Source: Shee (2004), Table-I, p. 79.

important reason for the slow pace of growth in Malaysia-China trade ties was the downturn of economic growth in Malaysia from 1980-1985 which badly affected its external trade trends (Shee 2004: 61). Another reason had been the balance of trade[27] being in China's favour, mainly due to the heavy import of Chinese foodstuffs, manufactured goods, and chemicals that outweighed low-value exports of Malaysia's primary commodities of rubber, timber, and palm oil (Leong 1987: 1114). This situation prevailed till the mid-1980s when domestic political changes and economic exigencies brought about a major change in Malaysia's economic as well as foreign policy.

As discussed earlier, with the advent of Mahathir Mohamad as PM in 1981, Malaysian foreign policy became reoriented towards greater economic pragmatism. The importance of the economic dimension to Malaysia's national interest was emphasised early in Mahathir's tenure when his administration embraced the concept of comprehensive security. Central to this idea was the emphasis on economic security as a primary national interest (Liow 2000: 673-74). As Mahathir noted during his trip to China:

> Economic development has also been a major factor in reversing the tide of insurgency in Malaysia...For the most part, the Asian states of the region are now caught up in the grips of a new and peaceful revolution that is immensely more satisfying and productive: an economic revolution to forever free our respective peoples from poverty, unemployment and underdevelopment. A necessary corollary of this struggle is the fight for a more equitable economic order. This is the reality of our times. To borrow a phrase from your Central Committee we must now put 'economics in command' (OPM 1985a).

Mahathir's statement signified the political support in Malaysia for a gradual shift in economic relations with China. On the part of the Chinese, the implementation of some policy initiatives also brought about positive changes in Beijing's politico-economic relations with its neighbouring Southeast Asian countries. In December 1979, China began implementing its 'Open-door Policy' which brought about comprehensive changes in China's relations with the region as well the world and impacted China's domestic and international affairs, politically as well as economically. Although not particularly directed at Malaysia, this policy had a positive impact on the hitherto unstable relations

[27]The balance of trade is the difference between the value of exports and imports. When exports exceed imports it is recorded as a surplus while a deficit is registered when imports exceed exports.

between Malaysia and China (Ku 2006: 114-117). Since the implementation of the open-door policy, the abysmally low levels of bilateral trade between China and Malaysia began to improve. Even though the total volumes of Malaysia-China trade were still not significant enough in 1980s and the trade balance was not in favour of Malaysia, the 1979 policy did gradually open up China's huge and lucrative market to Malaysian enterprises (Ku 2006a: 3).

Since the mid 1980s, a series of events led to improvement in bilateral trade relations between the two countries. After the opening up of China's economy to the world, Malaysian Foreign Minister Ghazali Shafie paid an official visit to Beijing in May 1984 to harness the economic opportunity offered by the growing economy of China. The timing of his visit was significant because it marked the tenth anniversary of establishment of normal bilateral relations, and Malaysia wanted to mark the occasion with a gesture of goodwill by further discussing bilateral ties with the PRC. The foreign minister led a 33-member delegation that included top Malaysian businessmen, indicating that Kuala Lumpur was seriously considering the possibilities of participating in Beijing's open-door policy for economic modernisation. As a gesture to indicate that China was sincere in understanding Malaysia's problem of trade deficit, a contract for US$ 700,000 worth of dried chillies was signed with PERNAS. Subsequently, other major corporations- Promet Malaysia, Malaysia Overseas Investment Corporation, and the Kuok Brothers' Group signed letters of intent for multimillion dollar projects in China (Leong 1987: 1118). The impetus for such developments came after PM Mahathir's landmark first official visit to China in November 1985. As Table-1 shows, the volume of bilateral trade increased from the 1981 level of US$ 289 million to US$ 557 million in 1987 and reached the level of US$ 877 million in 1988. The year 1988 was a crucial point in terms of trade and business. In November that year, both the countries signed the Investment Protection Agreement "to encourage, protect and create favourable conditions for investments…based on the principles of mutual respect for sovereignty, equality and mutual benefit and for the purpose of the development of economic cooperation between both states" (Department of Treaty and Law 1988). Taking forward this momentum, Malaysian Trade and Industry Minister Paduka Rafidah Aziz visited China in 1989, and was followed by a visit of the chairman of the Malaysian Chinese

Chambers of Commerce in the same year. Such high-level visits and removal of trade restrictions laid the groundwork for expansion of economic ties between Malaysia and China in the 1990s (Ku 2006a: 4).

5.3 Phase of Increasing Trade and Economic Cooperation (1989-2000)

Economic considerations have always been among the primary driving forces of a country's foreign policy irrespective of size and power, although the ideologically-driven period of Cold War led to economic factors being overshadowed by political, military and ideological issues. The fall of the Berlin Wall in 1989, the historic changes in Eastern Europe, the disintegration of the Soviet Union and the signing of the Maastricht Treaty to establish an economic union in Europe with a single currency and a single Central Bank ushered in a new era of international relations. The prospects for a more equitable international order reflective of greater peace and security were brightened by the end of the Cold War and the concomitant bipolar structure of world politics. This development presented unprecedented possibilities as well as gave rise to new forces such as globalisation and economic integration which made international cooperation beneficial for nations. Although power and security constitute the cores of the foreign policy of every state, the emphasis on the economic aspect of their relationship has assumed new dimensions in an increasingly inter-connected and globalised world.

Malaysia-China relations have not been immune to such upheavals and the considerations that shaped bilateral ties during the Cold War, namely political and strategic considerations, were relegated in importance in the 1990s. The lure of emerging economic opportunities in China at that time helped the two countries to shift the focus from contentious political issues and to cast the relationship on a broader, more positive footing (Acharya 1999 135). Domestically, Chinese economy further opened up in 1990s through reductions in the average tariff rate. In the international sphere, China moved towards increasing global economic engagement. The temptation of global identification of domestic economy encouraged China to avoid narrow regional entanglement and to engage economically with the neighbours.

An important dimension in China's external policy was the implementation of the 'Good Neighbourliness Policy' since 1990. While the 1980s was marked by the 'open door' policy, opening up the insular Chinese state to the world, the 1990s witnessed China strengthen its relations with surrounding countries especially in Southeast Asia. The 'good neighbourliness' policy was particularly significant in the aftermath of international outrage over the Tiananmen Square massacre of 4 June 1989. Under the prevailing international criticism, Communist China focussed on promoting cordial relations with its Southeast Asian neighbours, as well as with 'like-minded' countries in Central and South Asia. As Beijing began to implement this policy, China's relations with the neighbouring region entered a new phase. In August 1990, after a bitter gap of 23 years, Indonesia restored full diplomatic ties with China. In October 1990, the most modernised country in the region, Singapore, granted full diplomatic recognition to China and vice versa. In the same year, Chinese Premier Li Peng visited five major Southeast Asian countries- Indonesia, Singapore, Thailand (in August 1990), Malaysia and the Philippines (in December 1990). Significantly these five countries are also the founding members of Association of Southeast Asian Nations (ASEAN).

While China had already normalised its relations with Laos in 1989, the hitherto fraught relations with Vietnam were normalised in October 1991 (Ku 2006: 118). The political report presented at the 14th National Congress of the Communist Party of China (CPC), in 1992, mentioned that "Our friendly and good neighbourly relations with neighbouring countries are in the best time since the founding of the PRC" (Yunhua and Shanbao 2004: 3). Similarly, the report presented at the 15th National Congress of the CPC, held in 1995, stated that, "The good-neighbourly policy should be upheld. This has always been our consistent stand and will never change... In carrying out the socialist modernisation programme, we need a long-term of peaceful international environment, and above all, we need to maintain good relations with surrounding countries" (Ibid.). The 1990s was an era of frequent high-level visits between China and Southeast Asian countries, and resulted in a series of important agreements and declarations. These initiatives laid the foundation for later expansion of relations in the economic realm as well, including trade, investment, banking, foreign aid and tourism (Ku 2006: 118-119).

The speedy growth of Chinese economy offered huge opportunities for its neighbouring countries, and these opportunities were utilised by Mahathir who made economic cooperation the cornerstone of his foreign policy towards China. Malaysia's China policy was premised on mutual benefits to be garnered from increased economic cooperation. China's economic rise was viewed by Malaysia as both an opportunity and a challenge. On the one hand, China's massive human resource base and cheap labour market had the capability to drain foreign direct investment (FDI) from neighbouring states such as Malaysia; while on the other hand, adopting a strategy of 'economic bandwagoning' could accrue significant economic benefits for Malaysia. The Mahathir government adopted the latter strategy and, consequently, instituted several liberalised administrative measures to promote every aspect of relations that could lead to closer Malaysia-China economic cooperation. These measures included steps to liberalise visas, promoting Chinese language among Malays as well Malaysia as a destination for Chinese students, etc. The Malaysian government also changed its outlook under the 'Look East' policy to include China. Mahathir's commitment to the issue could also be understood on the basis of his strongly pro-Chinese business policy, encouraging ethnic Chinese Malaysians to invest in China as well as Chinese investments to Malaysia (Shee 2004: 73). As far as China's growing economic significance to Malaysia is concerned, economic interdependence had been viewed by Kuala Lumpur as an important source of peace and stability in the Asia Pacific region. The importance of Malaysia's trade with China is also highlighted by structural changes in the Malaysian economy that was becoming increasingly reliant on the export oriented manufacturing sector. Thus, the large Chinese market was an obvious attraction for Malaysian exporters (Acharya 1999: 136).

An equally significant development in 1991 was Mahathir's unveiling of 'Vision 2020,' an ambitious plan for ensuring all round development of Malaysia in the next 30 years. Vision 2020 aims to create "a united nation, with a confident Malaysian society, infused by strong moral and ethical values, living in a society that is democratic, liberal and tolerant, caring, economically just and equitable, progressive and prosperous, and in full possession of an economy that is competitive, dynamic, robust and resilient" (OPM 1991). This ambitious plan aims to promote Malaysia into the ranks of developed countries by the end of the second decade of the 21st century. Foreign policy was to be

fully harnessed in the pursuit of this goal. In the words of PM Mahathir, "In international relations, the emphasis should be less on politics and ideology but more on economic imperatives" (Ibid). Economic cooperation therefore became the cornerstone of Malaysia's foreign policy towards the PRC from the early 1990s.

In order to enhance bilateral trade and economic relations, Mahathir led a 290-member business delegation to China in June 1993 and signed thirty-six agreements and Memoranda of Understanding (MoUs) worth a total of Renminbi (RM) 8 billion. During this visit, interacting with the members of the Chinese and Malaysian business communities, Mahathir said: "the PRC has been, and will continue to be, the main attraction for Malaysian companies" (OPM 1993). A subsequent visit by then Deputy PM Anwar Ibrahim in September 1994 led to further agreements on 13 joint-venture (JV) projects. During Mahathir's next visit to Beijing in 1995, fifteen more agreements and MoUs were signed between Malaysian and Chinese business houses and companies towards establishing JV projects in diverse fields such as power plants, manufacturing of vehicles, motorcar engines and spare-parts, steel mills and the construction of toll highways (Sulaiman 1996). These ventures provided Malaysia a crucial foothold in the emerging China market and played a big part in shifting the trade balance in Malaysia's favour.

Economic relations took a significant leap forward in 1999 with the exchange of high level visits. During a visit by Malaysian Foreign Minister Syed Hamid Albar in May 1999, Malaysia and China signed a twelve-point historic agreement in Beijing entitled "Framework for Future Bilateral Cooperation" which aimed at facilitating "all directional relationship and good neighbourliness, friendship and cooperation based on mutual trust and support." The agreement covered comprehensive economic cooperation between the two countries in many areas including trade, investment, finance, banking, mining, agriculture, forestry, defence, security, medicine, health, education, science/technology, information, environment, culture, tourism, transport, and friendly youth sports among others (Shee 2004: 64). In terms of trade and economic cooperation, Mahathir's August 1999 visit to China is considered to be a landmark. This was his fourth visit over a period of six years reflecting the increasing importance Kuala Lumpur placed on its relations

with Beijing. During the course of this visit, several agreements were reached on furthering bilateral economic cooperation. Two MoUs were signed for cooperation in the field of science and engineering, while a third between two Malaysian companies, Lion Forest Industries and Innoprise Corporation, and their Chinese counterparts, China Fuxin Pulp and Paper Industries Co. was signed for the development of forest plantations and setting up of a pulp and paper mill in Sabah worth about US$ 1.2 billion[28] (Liow 2000: 675). At that time, this agreement was China's largest investment outside of the mainland (Liow 2005: 288). More importantly, economic initiatives taken throughout the 1990s ensured that the socially and politically sensitive *bumiputera* businesses became substantial direct players in the conduct of trade with China. This differed from the 1970s and 1980s, when Malaysia's China trade remained, to a great extent, the prerogative of either Chinese Malaysian business people or Hong Kong and Singaporean middlemen (Liow 2000: 675).

Thus, economic relations between Malaysia and China underwent considerable upturn over this time period. Overall trade statistics also verify this development. As Table-2 shows, except a slowdown in 1989, when the total trade between Malaysia and China was worth US$ 560.15 million, the volume of bilateral trade has increased from US$ 1.18 billion in 1990 to US$ 3.34 billion in 1995. In 2000, the volume of Malaysia's total trade with China was worth US$ 8 billion, up from US$ 5.27 billion the year before.[29] This represents a 52 percent jump, the second highest percentage increase recorded since 1991 (the highest being 53 percent in 1994). Out of the total Malaysian exports of US$ 98.15 billion, 5.58 percent or US$5.48 billion worth was to China. Significantly, of its total imports of US$ 79.64 billion, 3.21 percent or US$ 2.56 billion was from China; which resulted in a trade surplus of US$ 2.91 billion vis-à-vis China. Overall, between 1990 and 2000, Malaysia's trade with China grew seven-fold and remained advantageous in Malaysia's favour during the decade (see Table-2 and Table-3).

[28]The Malaysian companies held 60 percent equity while the Chinese company had a share of 40 percent of the joint investment project.

[29] In 2000, China's trade with Malaysia accounted for 20 percent of its total trade with ASEAN, worth US$ 39.5 billion, Yeoh et al. 2010: 18.

Table 2: Trade between Malaysia and China, 1989-2000

(Unit: US$ million)

Year	Imports	Exports	Total Volume of Trade	Balance of Payment
1989	306.48	253.67	560.15	-52.81
1990	340.79	842.28	1183.07	+501.49
1991	527.89	804.00	1331.89	+276.11
1992	645.44	830.18	1475.62	+184.74
1993	704.37	1083.64	1788.01	+379.27
1994	1117.67	1622.04	2739.71	+504.37
1995	1280.99	2065.09	3346.08	+784.10
1996	1370.32	2243.57	3613.89	+873.25
1997	1919.93	2495.38	4415.31	+575.45
1998	1596.39	2673.85	4270.24	+1077.46
1999	1673.75	3605.59	5279.34	+1931.84
2000	2564.87	5480.00	8044.87	+2915.13

Source: Data for 1989-1993 from Shee (2004: 79), Table-1 (data source: *Almanac of China's Foreign Economic Relations and Trade*, Beijing: China National Economic Building House.
Data for 1994-2000 are from *China Statistical Yearbook* 1996, 1998, 2000, 2002.
Note: The statistics refers the trade from Malaysia to China.

Table-3 Malaysia's Total External Trade, 1993-2000

(US$ million)

Year	Exports	Imports
1993	46316.5	44388.0
1994	55465.1	57058.2
1995	67147.8	71439.9
1996	74246.5	75303.1
1997	77457.6	76988.3
1998	77098.6	60976.5
1999	84287.9	63677.8
2000	98154.5	79647.5

Source: ASEAN Statistical Yearbook 2003, pp. 54-55.

Malaysia-China economic relations were consisted of two major dimensions during the first decade of the post-Cold War era. One was that the volume of bilateral trade took a great leap in comparison to the previous decade. Second dimension was that as bilateral trade relations expanded, the pattern of trade components also changed. The reasons for the rapid expansion of bilateral trade were as following:

First, healthy political relations between Kuala Lumpur and Beijing contributed immensely to the rapid and comprehensive economic cooperation. In this regard, Malaysia-China relations follow the traditional pattern and logic that

> economic interactions... are not purely oriented by economics; by and large they are influenced by politics. Countries with cordial relationships or with certain official agreements between them are likely to foster a favourable trade environment. Conversely, hostile countries or closed societies are not likely to have significant trade relations with other countries, which sometimes even place prohibitions or set up hurdles to discourage trade with countries in disfavour (Ku 2006: 127).

Since the early 1990s, frequent visits by leaders of both countries not only strengthened political trust but also encouraged the business communities to cooperate closely in the field of trade, finance, investment as well as construction (Yi 2006: 8). While PM Mahathir's first visit to China, in 1985, was his only visit in the 1980s, after 1989, he paid visits (three of them over a four-year period), in June 1993, May 1994, August 1996 and August 1999. On their part, the Chinese leaders also reciprocated with more visits in the 1990s. Within the framework put in place by the exchange of these frequent high-level political contacts, both the countries have expanded the channels for bilateral cooperation.

Second, the abolishment of trade and travel embargo by Malaysian authority at the end of 1980s facilitated smooth exchange of business resources and people between the two countries. In January 1988, the Mahathir administration removed the much-criticised Approved Permit System under which importers of Chinese goods had to acquire prior approval from the government agency PERNAS which charged a 0.5 percent fee on the total value of imports. This permit system had been much criticised for irregularities in issuing permits, leading to several traders preferring the indirect route of trading via

Singapore. The removal of such restrictions allowed Malaysia-China trade to flourish (IDE-JETRO and SERI 2004: 14). The Malaysian government also removed the barriers on the cross-border movement of people imposed on the premise of safeguarding national security interests. In 1990, all restrictions on Malaysians travelling to China were lifted and, in 1993, the ban on private individuals making investments in China was revoked. The government urged the country's business community to seize the commercial advantages offered by China's opening up to the outside world. Chinese Malaysians took the lead, partly because of their linguistic and cultural advantages, but also to circumvent restrictions placed on their economic activities at home by affirmative action policies that favoured ethnic Malays (Storey 2011: 219). By the end of the decade, Kuala Lumpur also agreed in principle to increase the number of consulates in China so as to permit easier access to visas for Chinese businessmen who wished to visit Malaysia (Liow 2000: 675).

Thirdly, the Malaysian government also took steps to make it easier for Malaysian businessmen, mostly of ethnic Chinese origin, to do business in China. Multiple exit permits were now allowed for businessmen so as to facilitate longer stays in China. Kuala Lumpur also relaxed its bureaucratic control by abolishing the erstwhile rule that required Interior Ministry officials to accompany business delegations to China. In April 1988, the Sino-Malaysian Trade Agreement was signed which gave preferential treatment to imported goods originating from the two countries in matters of custom tariffs. In June 1988, both sides also signed an air flight agreement (Shee 2004: 62). All these measures strengthened trade and economic cooperation between the two sides.

Another important dimension of Malaysia-China economic relations during the last three decades of the 20th century was the shift in the trade pattern. In 1970s and 1980s, Malaysian exports to China had consisted mainly of primary products or commodities, especially rubber, tin, palm oil and wood products, etc. But the share of these products dropped drastically in the 1990s, especially after 1995 while the share of capital-intensive goods rose quickly. As the figures in Table-4 show, the share of agriculture-intensive products in Malaysia's exports to China dropped from 79 percent in 1990 to 66 percent in 1995 and remained merely 21 percent in 2000. On the other hand, capital-intensive

products doubled from 12 percent in 1990 to 23 percent in 1995 and reached an impressive 67 percent in the end of the decade.

Table-4, Commodity composition of exports from Malaysia to China (percent)

Year	Agriculture-intensive	Mineral-intensive	Labour-intensive	Capital-intensive
1990	78.7	7.5	1.4	12.4
1995	66.3	6.2	4.3	23.2
2000	21.5	9.5	2.4	66.6

Source: Yi, Li (2006), Table 2, p.5 (data source: Calculation from UN Comtrade database).

The fact that both economies progressed towards increasing industrialisation in the 1990s, almost simultaneously, is borne out by this trade pattern. Trade statistics also show that throughout the 1990s, the balance of trade was consistently in favour of Malaysia, which was a complete reversal of the trend witnessed from 1971 to 1984. Further, this deficit vis-à-vis Malaysia was unlike the trade deficit in US-China economic ties, which had spill-over effects on the diplomatic relations between the latter two. Negative deficit for China's as compared to Malaysia never affected diplomatic relations between the two countries. In fact, China has showcased the trade deficit as an incentive to other surplus-accruing ASEAN states so as to promote trade relations with them (Shee 2004: 63).

The shift in trade patterns between Malaysia and China is also reflected in the evolving patterns of investment, where the focus has shifted from primary products to manufacturing. Given Malaysia's abundant natural and mineral resources base, earliest Chinese investments in Malaysia were invariably in the production of rubber, tin and palm oil. As the Malaysian economy industrialised, foreign, including Chinese, investments also started focussing more on the manufacturing sector. The sector-wise analysis of Chinese investments from 1996 to 2000 reflects this trend. Maximum investments were concentrated in metal and related sectors (39 percent), followed by

electronics and electrical (33 percent), light manufacturing (14 percent), machinery and equipment (8 percent), petroleum and chemicals (5 percent) etc. (Ibid.).

Table-5, FDI inflows into ASEAN Member Countries from China, 1995-2000

(US$ million)

Host Country	1995	1996	1997	1998	1999	2000	1995-2000
Brunei Darussalam	0.0	0.0	0.0	0.0	0.0	0.0	
Cambodia	-	-	-	-	-	-	-
Indonesia	5.7	0.0	8.0	-44.0	-1.2	-2.8	-34.3
Lao PDR	1.5	0.4	2.7	2.8	1.1	9.1	17.6
Malaysia	**22.5**	**13.3**	**43.6**	**5.5**	**3.2**	**0.7**	**88.8**
Myanmar	3.1	2.2	0.4	2.6	0.0	0.0	8.3
The Philippines	13.7	3.1	5.8	216.4	64.9	0.0	303.9
Singapore	81.2	91.9	-18.7	101.1	-10.4	-168.6	76.5
Thailand	1.9	3.9	-7.8	5.1	-2.1	7.2	8.2
Vietnam	7.2	3.1	28.1	1.7	7.0	21.0	68.1
ASEAN*	**136.8**	**117.9**	**62.1**	**291.2**	**62.5**	**-133.4**	**537.1**

Source: ASEAN Statistical Yearbook 2005, pp. 164-165.

Note: unless otherwise indicated, the figures include equity and inter-company loans. Negative sign means disinvestment.

*Excludes: (a) total FDI in Cambodia; (b) reinvested earnings in Myanmar and the Philippines; and (d) inter-company loans (1995-1996) in Singapore; includes privatization and asset sales under the Indonesian Bank Restructuring Agency program; figures for Myanmar cover the fiscal year ending in March of the following calendar year.

In addition to expansion in trade, both countries also witnessed significant increase in mutual investments especially after the Investment Protection Agreement was signed in

November 1988. In the period from June 1993 to August 1994, forty-nine investment agreements were signed between Malaysia and China with the total value of investments amounting to US$ 1 billion (Ibid: 64). From 1995 to 2000, as Table-5 shows, Malaysia received US$ 88.8 million in FDI from China which accounts 16.5 percent of China's total investments in ASEAN (US$ 537 million). However, it was mere 0.29 percent of the total FDI Malaysia received during 1995-2000 (see Table-6).

Table-6, Total FDI inflows in Malaysia, 1995-2000

(US$ million)

Year	1995	1996	1997	1998	1999	2000	**1995-2000**
FDI	5815	7297	6323	2714	3895	3788	**29832**

Source: ASEAN Statistical Yearbook 2004, p. 139.

5.4 Economic Cooperation (2001-2011)

Economic ties and mutual cooperation between Malaysia and the PRC have strengthened considerably during the concerned period. In fact, trade relations between Malaysia and China have developed at a much faster pace as compared to the former's ties with the rest of the world, especially in the aftermath of the Asian financial crisis of 1997-98. Trade and economic relations are poised for further growth especially considering China's emergence as the second largest economy in the world and its sustained interest in the import of Malaysian commodities. The 2008 US financial crisis and its global repercussions have had an adverse impact on Malaysia and China as well, although both countries have performed relatively much better than the US, the European Union (EU), and Japan (Hing 2013: 241).

China's policy initiatives, especially its 'Going Global' or 'Stepping Out' Strategy, which was initiated in 2002 as part of the economic reform process aimed at emerging as a global industrial hub, has led to the strengthening and deepening of China's external trade ties (Lo 2011: 53). These policy initiatives must be viewed in the backdrop of China joining the World Trade Organisation (WTO) in 2001, giving it more avenues for

establishing closer economic linkages with other countries under the WTO's multilateral, institutional framework. As PM Mahathir Mohamad noticed in 2002:

> China's membership in the WTO has allowed for improved market access for Malaysia's products. Commitments by China in the WTO will reduce average tariffs to 15 per cent for agriculture products and 8.9 per cent for industrial goods...China's WTO commitments also include liberalisation of trade in services...This environment would be beneficial to China's trading partners including Malaysia as more imported products can be purchased by Chinese consumers (OPM 2002).

After its accession to the WTO, Beijing started the 'Going Global' strategy to encourage Chinese enterprises, primarily state-owned, to invest overseas, which was in stark contrast to the period of 'Open-door' policy which was more inward-looking and aimed at attracting foreign capital into China. Such a policy initiative was reflective of China's rising economy and its growing confidence in its capabilities at the beginning of the 21st century. According to the Chinese Ministry of Commerce, several measures were adopted for the promotion of 'Going Global' strategy, including enacting new and reformed laws and regulations on foreign investments by China's enterprises; effective administration of overseas contract workers; facilitating Chinese enterprises in undertaking large-scale projects abroad; fulfilling the achievements of high-level political visits to abroad; helping Chinese enterprises to develop foreign investments and cooperation through various ways, etc. (Ku 2006: 119-120). In addition to focussing on traditional partners, such as the countries in Africa, the 'Going Global' policy has also prioritised countries in Southeast Asia. As a result, China's economic ties with Malaysia and other Southeast Asian states have expanded greatly since the beginning of 21st century (Ku 2006a: 9).

On the part of Malaysia, PM Mahathir's successors maintained a positive attitude towards China. In October 2003, Mahathir Mohamad stepped down as the Prime Minister of Malaysia, and his successors, both Abdullah Ahmad Badawi and Najib Tun Razak, have continued ascribing to economic cooperation as the central focus of Malaysia's relations with China. Prime Minister Abdullah Badawi's clearly signalled this approach when he said at the Malaysia-China Business Meeting in August 2005 that, "I am pleased to note that trade has been, and will continue to be, a key driver in strengthening relations

between our two countries. Indeed, Malaysia and China can be considered as natural trading partners due to our historical ties, geographical proximity, rich product diversity and robust economic growth" (OPM 2005a). During his premiership (2003-09), Malaysia's volume of trade with China increased at a faster pace as compared to trade with the US and Japan, traditionally two of Malaysia's major trading partners. His premiership also witnessed the revival of Malaysia-China Business Council (MCBC), an advisory body dedicated to promoting business and investments between the two countries. The council was formed in 2002 at the initiative of the China Council for the Promotion of International Trade (CCPIT) and Malaysia's Asian Strategy and Leadership Institute (ASLI), during the then Chinese Vice-President Hu Jintao's official visit to Malaysia. After the change of guard in Kuala Lumpur in 2003, China hinted at the desirability of having ethnic 'Malay leadership' in the Council, rather than the traditional nomination of Malaysian Chinese. Accepting the suggestion, PM Badawi appointed the former Deputy PM Musa Hitam as the Joint Co-Chairman of MCBC. Under Hitam, the Council organised several trade delegation and reciprocal visits and played a crucial and timely role in the task of promoting bilateral business ties. Because of Hitam's political stature and links, the MCBC garnered strong support in several provinces in Malaysia, like Negeri Sembilan, Johor, Sabah and Sarawak. These provinces alternately acted as 'anchor state' in co-organising MCBC's events and activities and thus lead to enthusiastic participation from local and provincial entrepreneurs and corporations as well (Kuik 2012: 18).

After assuming office of Prime Minister in 2009, Najib Tun Razak gave further fillip to economic ties between Malaysia and China. During Chinese Premier Wen Jiabao's visit to Malaysia in 2011, Najib Razak especially highlighted the fast growth of trade ties with China, saying

> Today, China is Malaysia's biggest trading partner globally, and we in turn are China's biggest trading partner within ASEAN... I want to see trade between our countries double over the next five years. In China, Malaysians are doing business not only in the big cities of Beijing, Shanghai and Guangzhou but in many other smaller provinces, from Sichuan to Shandong and from Xian to Xinjiang. And these exchanges work both ways, with more than 100 Chinese companies making

> the most of an attractive investment environment to pursue their business goals here in Malaysia (OPM 2011).

Najib Razak's emphasis on economic pragmatism while dealing with China had two primary objectives, first, to attract larger volumes of FDI from China and, second, to enhance Malaysia-China trade ties. These objectives were seen as major contributors to Najib Razak's Economic Transformation Programme (ETP)[30] which was launched in September 2010. Continued emphasis on mutual economic benefits and building on the solid foundation laid by Mahathir, had the effect of further strengthening Malaysia-China economic ties during the period of both Badawi and Najib Razak (Kuik 2012: 19).

5.4:1 Bilateral Trade

Malaysia and China have witnessed remarkable growth in bilateral trade in the first decade of the new century. As Table-7 shows, from 2001 to 2011, trade volume between the two countries has grown by 573 percent, from RM 29.15 billion to RM 167.25 billion. During this period, the volume of trade increased at an impressive average annual growth rate of around 20 percent. Significantly, since 2001, Malaysia's total trade with China has consistently registered double-digit annual growth rates, except in 2009 when the global financial crisis led to negative growth. The increase in trade is also predictably reflected in the increasing importance of China as a trading partner when considered as a percentage of Malaysia's total trade. As Table-8 shows, in 2002, total trade between two countries was valued at RM 43.33 billion that was 6.5 percent of Malaysia's total external trade (RM 660.52 billion) in that year, thus making China the fourth largest trading partner of Malaysia, replacing Taiwan; fifth largest export destination and fourth largest source of imports in 2002 (see Table-9 and Table-10). In the same year, as China's official statistical data shows, Malaysia for the first time overtook Singapore[31] as its

[30] The ETP was introduced as part of Malaysia's National Transformation Programme. The main goal of ETP is to elevate Malaysia to developed-country status by 2020, targeting GNI per capita of US$ 15,000. This will be achieved by attracting US$ 444 billion in investments which will, in turn, create 3.3 million new jobs. The programme represents the catalyst for economic growth and investment needed for the nation to achieve high-income status by 2020. The Government's role in the ETP is that of facilitating, coordinating, tracking and monitoring the programme.

[31]It is long believed that Singapore traditionally enjoys a foothold on the Chinese economy given its substantial ethnic Chinese population and economic wealth.

Table 7, Malaysia-China Bilateral Trade, 2001-2011

(RM million)

Year	Exports	Imports	Total Trade	Balance of Trade
2001	14,682.9	14,472.7	29,155.6	210.2
2002	20,008.0	23,329.1	43,337.1	-3,321.1
2003	25,791.3	27,630.4	53,421.7	-1,839.1
2004	32,286.0	39,273.7	71,559.7	-6,987.7
2005	35,153.1	49,879.9	85,033.0	-14,726.8
2006	42,620.0	58,259.6	100,879.6	-15,639.6
2007	53,037.9	64,712.7	117,750.6	-11,674.8
2008	63,435.0	66,853.7	130,288.7	-3,418.7
2009	67,358.5	61,025.7	128,384.2	6,332.8
2010	80,104.6	66,429.8	146,534.4	13,674.8
2011	91,550.7	75,706.5	167,257.2	15,844.2

Sources: Calculated from Yearbook of Statistics Malaysia, various years from 2005 to 2012 (Department of Statistics, Malaysia).

Note: The statistics refers to the trade from Malaysia to China.

Table 8: Malaysia's Top 5 Trading Partners (2002-2011)

(RM million)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
	US 123,685.8 (18.7%)	US 126,588.9 (17.7%)	US 148,116.4 (16.8%)	US 161,107.2 (16.6%)	US 170,202.8 (15.9%)	US 148,643.1 (13.4%)	Singapore 154,157.5 (13%)	**China** 128,384.2 (13%)	**China** 146,534.4 (12.5%)	**China** 167,257.2 (13.1%)
	Singapore 96,783.2 (14.6%)	Singapore 99,630.0 (13.9%)	Singapore 116,215.2 (13.1%)	Singapore 134,182.0 (13.8%)	Singapore 146,042.9 (13.6%)	Singapore 145,443.5 (13.1%)	US 138,835.2 (11.7%)	Singapore 126,368.2 (12.8%)	Singapore 145,530.9 (12.4%)	Singapore 161,890.1 (12.7%)
	Japan 93,609.5 (14.1%)	Japan 96,545.1 (13.5%)	Japan 112,887.3 (12.8%)	Japan 113,283.0 (11.6%)	Japan 115,988.3 (10.8%)	Japan 120,447.3 (10.8%)	Japan 135,565.7 (11.4%)	US 109,644.7 (11.1%)	Japan 133,297.9 (11.4%)	Japan 146,730.0 (11.5%)
	China 43,337.1 (6.5%)	**China** 53,421.7 (7.4%)	**China** 71,559.7 (8.1%)	**China** 85,033.0 (8.7%)	**China** 100,879.6 (9.4%)	**China** 117,750.6 (10.6%)	**China** 130,288.7 (11%)	Japan 107,661.9 (10.9%)	US 117,209.8 (10%)	US 113,058.5 (8.8%)
	Taiwan 30,155.4 (4.5%)	Hong Kong 34,231.5 (4.7%)	Thailand 44,874.2 (5%)	Thailand 51,602.7 (5.3%)	Thailand 57,446.2 (5.3%)	-	Thailand 60,777.4 (5.1%)	Thailand 56,106.9 (5.6%)	Thailand 67,108.5 (5.7%)	Thailand 70,222.5 (5.5%)
Malaysia's Total Trade	**660,520.5**	**714,422.3**	**880,885.2**	**969,104.5**	**1,067,388.2**	**1,106,344.2**	**1,182,817.8**	**987,187.9**	**1,167,650.7**	**1,271,488.2**

Source: Calculated from Yearbook of Statistics Malaysia, various years from 2005 to 2012 (Department of Statistics, Malaysia).

largest trading partner amongst the ASEAN countries and seventh largest trading partner globally (three positions up from 2001) (China Statistical Yearbook 2003: 659-662).

Significantly, as Table-7 exhibits, between 2002 and 2006, there was a considerable rise in the volume of total trade between the two countries, crossing the highly symbolic mark of RM 100 billion in 2006. During this period, the volume of total exports from Malaysia to China increased by an impressive 113 percent, from RM 20 billion to RM 42.62 billion, while total imports from China to Malaysia grew by 150 percent from RM 23.32 billion to RM 58.25 billion. It is important to note that even though Malaysian exports to China increased, imports from China also grew substantially, much faster than the growth in exports. This resulted in trade deficit for Malaysia vis-à-vis China, which reached at its highest level of RM 15.63 billion in 2006. In 2007 and 2008 as well, Malaysia had to suffer negative trade balance with respect to China but the positive indication was that its exports to China grew faster than the imports.

Since 2009, China has become Malaysia's largest trading partner, overtaking Singapore, Japan, and the US. As Table-8 shows, among the top five trading partners of Malaysia, China jumped from fourth position (from 2002 to 2008, China consistently remained at fourth rank) to first position in 2009, although reflecting global trends of downturn the volume of total trade between the two countries decreased that year from RM 130 billion in the previous year to RM 128 billion. The noteworthy fact, as Table-7 exhibits, is that for the first time since 2002, Malaysia's imports from China registered a negative growth rate in 2009 while its exports grew fairly well, which resulted in the trade balance turning in Malaysia's favour. In 2011, Malaysia's total trade with China has touched the height of RM 167 billion which accounts 13 percent of Malaysia's total trade worth RM 1,271 billion (see Table-8). The same year, China became Malaysia's biggest exports destination replacing Singapore. Of its total exports valued at RM 697.86 billion, Malaysian exports to China accounted for 13 percent, valued at RM 91.55 billion (see Table-9). China has also displaced Japan as Malaysia's largest source of imports. Of its total imports in 2011 worth RM 573.62 billion, Malaysia imported 13 percent from China, amounting to RM 75.70 billion (see Table-10). In the same year, China's statistical data shows that Malaysia was China's largest trading partner among the

ASEAN countries. However, China's trade with Malaysia constituted merely 2.47 percent (US$ 90 billion) of its total trade (US$ 3,641.86 billion), with exports to Malaysia accounting for a mere 1.46 percent (US$ 27.88 billion) of its total exports (US$ 1,898.38 billion) and imports being only 3.56 percent (US$ 62.13 billion) of its total imports (US$ 1,743.48 billion) (China Statistical Yearbook 2012).

Besides the rapidly growing trade volume, the pattern of Malaysia-China trade relations has also changed. The once-dominant raw materials and natural resources, such as rubber, tin and palm oil, no longer figure prominently in Malaysian exports to China. Even in 1994, palm oil constituted around 37.7 percent of Malaysia's total exports to China while technological products, such as electrical and electronics (E&E) goods, made up for only 3.3 percent. Though the net value of palm oil exports increased from RM 1.9 billion in 1994 to RM 4.45 billion in 2005, its relative value amongst overall exports has progressively dropped from 37.7 per cent to 12.6 per cent during the respective period. This can be attributed to the growing importance of manufactured goods in the exports to China. For example, the share of E&E exports has increased to a great extent from 3.3 per cent in 1994 to 43.4 per cent in 2005. E&E exports have thus overtaken palm oil as the most important export product to China. Similarly, the share of chemicals and chemical products grew considerably from 1.3 per cent in 1994 to 11.5 per cent in 2005 (Yeoh and Loh 2009: 6-7). This shift towards manufactured and technologically-intensive products can attributed to the increasing specialisation within the Chinese economy and its growing integration with the world economy through the operations of the multinational companies that have increasingly made China and other ASEAN states their production and export base (Kwek and Tham 2005: 3). The increasing importance of E&E products also reflected in Malaysia's imports trend. In 2005, the share of E&E in Malaysia's imports from China was 61.6 percent, amounting to RM 30.72 billion, thus dominating all other sectors of bilateral trade between the two countries (Yeoh and Loh 2009: 7).

Table 9: Malaysia's Top 5 Export Destinations, 2002-2011

(RM million)

Year	1	2	3	4	5	Total Exports
2002	US 74,130.9	Singapore 60,533.7	Japan 39,707.1	Hong Kong 20,281.0	**China 20,008.0**	357,430.0
2003	US 77,872.2	Singapore 62,488.4	Japan 42,506.6	**China 25,791.3**	Hong Kong 25,723.4	397,884.4
2004	US 90,253.5	Singapore 71,937.5	Japan 48,498.7	**China 32,286.0**	Hong Kong 28,735.7	481,253.0
2005	US 105,238.1	Singapore 83,595.8	Japan 50,509.5	**China 35,153.1**	Hong Kong 31,221.3	536,233.7
2006	US 110,134.7	Singapore 90,198.9	Japan 52,475.5	**China 42,620.0**	Thailand 31,176.8	589,240.3
2007	US 94,485.4	Singapore 87,884.0	Japan 55,648.2	**China 53,037.9**	Thailand 29,576.5	604,299.6
2008	Singapore 97,018.6	US 82,700.2	Japan 70,687.9	**China 63,435.0**	Thailand 31,625.2	663,013.5
2009	Singapore 77,009.1	**China 67,358.5**	US 60,811.2	Japan 53,345.5	Thailand 29,808.2	552,518.1
2010	Singapore 85,253.1	**China 80,104.6**	Japan 66,763.1	US 60,950.9	Thailand 34,136.2	638,822.5
2011	**China 91,550.7**	Singapore 88,190.6	Japan 81,368.0	US 57,653.0	Thailand 35,742.5	697,861.9

Sources: Yearbook of Statistics Malaysia, various years from 2007 to 2012 (Department of Statistics, Malaysia).

Table 10: Malaysia's Top 5 Import Origins, 2002-2011

(RM million)

Year	1	2	3	4	5	Total Import
2002	Japan 53,902.4	US 49,554.9	Singapore 36,249.5	**China 23,329.1**	Taiwan 16,891.2	303,090.5
2003	Japan 54,038.5	US 48,716.7	Singapore 37,141.6	**China 27,630.4**	Republic of Korea 17,303.7	316,537.9
2004	Japan 64,388.6	US 57,862.9	Singapore 44,277.7	**China 39,273.7**	Thailand 21,973.9	399,632.2
2005	Japan 62,773.5	US 55,869.1	Singapore 50,586.2	**China 49,879.9**	Taiwan 23,958.0	432,870.8
2006	Japan 63,512.8	US 60,068.1	**China 58,259.6**	Singapore 55,844.0	Thailand 26,269.4	478,147.9
2007	Japan 64,799.1	**China 64,712.7**	Singapore 57,559.5	US 54,157.7	Taiwan 28,706.4	502,044.6
2008	**China 66,853.7**	Japan 64,877.8	Singapore 57,138.9	US 56,135.0	Thailand 29,152.2	519,804.3
2009	**China 61,025.7**	Japan 54,316.4	Singapore 49,359.1	US 48,833.5	Thailand 26,298.7	434,669.8
2010	Japan 66,534.8	**China 66,429.8**	Singapore 60,277.8	US 56,258.9	Thailand 32,972.3	528,828.2
2011	**China 75,706.5**	Singapore 73,699.5	Japan 65,362.0	US 55,405.5	Indonesia 35,113.0	573,626.3

Sources: Calculated from Yearbook of Statistics Malaysia, various years from 2007-2012 (Department of Statistics).

The composition and structure goods traded between Malaysia and China has remained relatively stable even if their relative importance has changed. As per the Malaysia International Trade and Industry Report 2012, China became Malaysia's biggest export destination in 2011. Exports to China amounted to RM 91.55 billion, up by 14 percent from 2010. About 69 percent of these exports were manufactured goods (RM 63.05 billion) including E&E products, chemicals and chemical products, and processed rubber. Among these, E&E products continued to be dominant export products with a 45 percent share of total Malaysian exports to China. Agricultural goods amounted to RM 21.38 billion with a 23 percent share of total exports to China, with palm oil alone accounting for RM 13.95 billion worth of exports. In 2011, imports from China also continued to be dominated by manufactured goods accounting for almost 94 percent of total imports. Of Malaysia's total imports from China (RM 75.70 billion), E&E products comprised 43 percent followed by machinery, appliance and parts (11.71 percent) and, chemical and chemical products (8.21 percent) (MITI 2013).

The growing importance of technology-intensive products in Malaysia-China bilateral trade has been attributed to intra-industry and intra-firm trade in their respective economies. According to a joint research project report, several components and products that demand lower levels of skill and technology are cheaper to manufacture in China, and are then exported to Malaysia for assembly and testing. There has been a shortage of highly skilled labourers in China, allowing Malaysia to act as the destination for value-addition and final design in the supply chain of electrical and electronic products. This cross-border production network compliments the two economies and keeps costs competitive (IDE-JETRO and SERI 2004: 8). Thus, the increasing international fragmentation of productions and FDI inflow into Malaysia has caused Malaysian manufacturing sector to move from traditional inter-industry trade to intra-industry trade (Jambol and Ismail 2007: 124). In the case of Malaysia's trade with China, this shift has happened only in the 1990s. Before that fragmented trade accounted for a mere 11.73 percent of total Malaysia-China trade in 1990. While in 2005, this sector's share in total trade had increased to 62.11 percent (Devadason 2007: 146).

5.4:2 Investments

Besides rapidly growing bilateral trade, mutual investments by Malaysia and China have also shown healthy growth, though not to the same degree as bilateral trade. As far as China's investment in Malaysia is concerned, 2001 was an exceptional year, when the Malaysian Investment Development Authority (MIDA) approved 10 projects from China, with the total proposed investments being RM 2.9 billion or 15 percent of total FDI in Malaysia. In 2002, nine projects were approved with a total investment of RM 55 million, accounting for merely 0.47 percent of the total FDI (IDE-JETRO and SERI 2004: 10; Yeoh et al. 2010: 13). In 2002, almost 50 Chinese companies were active in Malaysia in various manufacturing and non-manufacturing sectors, such as steel products, ceramics, palm oil and products, power presses, marine gearboxes, heavy machinery like mobile and truck cranes, and rough terrain cranes (Hing 2013: 254).

In 2003, as Table-11 shows, investment from China increased to RM 247 million, almost a four-fold increase accounting for 1.5 percent of total FDI in Malaysia. Chinese investments in Malaysia during 2004 and 2005 were RM 187 million and RM 40 million respectively, amounting to 1.42 percent and 0.22 percent of the overall FDI for respective years. However, in the initial years of the 21st century, China no longer features in the list of top 10 sources of FDI in Malaysia (Yeoh et al. 2010: 13-14). This trend was reversed in 2007 when Chinese investment grew by fourteen-fold to RM 1,883 million, up from RM 134 million in 2006. As per the data published in the Ministry of International Trade and Industry (MITI) report, China ranked ninth in investments in the manufacturing sector in Malaysia in 2010 with RM 639.53 million (US$ 207.64 million), behind major Western and Asian countries (MITI 2012). This can be compared to the previous year when the 17 Chinese projects approved by MIDA amounted to only RM 162.2 million (MITI 2011).

The year 2011 was a landmark in terms of economic policy-making in Malaysia with the implementation of several key initiatives such as the Economic Transformation Programme (ETP) and the 10th Malaysia Plan. These initiatives were aimed at creating a robust foundation for economic transformation so as to achieve the status of a high income economy for Malaysia, as envisioned in the New Economic Model (NEM)

(Malaysia Investment Report 2011). With the implementation of these policies, a total of 441 projects with foreign participation were approved in 2011, mostly in manufacturing, which amounted to RM 34.14 billion (or US$ 10.77 billion). Among these, a majority of foreign investments proposals came from Japan, 77 manufacturing projects involving an investment of RM 10.1 billion. Other major foreign investment sources included South Korea, the US, Singapore and Saudi Arabia (MITI 2012: 46). China ranked eighth with RM 1.19 billion (or US$ 376.72 million) which accounted for 3.48 percent of the total foreign investment in manufacturing in Malaysia (MITI 2013).

A significant study analysing China's outward flow of FDI in terms of geographical distribution from 2003 to 2012, shows that in the Southeast Asian region, Singapore is the foremost destination of Chinese FDI, amounting to 41 percent of total outward flow of investments, owing to the favourable tax laws and business environment. Indonesia and Myanmar were the second and third largest recipient in the region with a share of 12 percent and 11 percent respectively, but the gap between Singapore and others is significant. Malaysia received only 3 percent of Chinese investments in Southeast Asia. Malaysia has continued to rely on FDI from its "traditional" sources- the Western bloc, Singapore, and Japan, to drive its growth. Therefore, levels of Chinese FDI are still modest vis-à-vis the "traditional" sources. In fact, China has only begun to invest aggressively in Malaysia since 2010 (Lim 2015: 12-13).

Similarly, between 2001 and 2011, actual Malaysian investments in China have been very small in value but still larger than China's investment in Malaysia except in 2001, 2007 and 2011 (see Table-11). In 2001, Malaysia was the 18th largest source of investment with projects worth US$ 262.98 million, which accounted for only 0.56 percent of total FDI in China. Among ASEAN countries, Malaysia was the second largest investor in China just behind Singapore (US$ 2.14 billion) (China Statistical Yearbook 2003). Amongst the major sectors where Malaysian companies invested were "production of wood-based products, computers, office equipment, plastic-based products and foodstuffs. Investments in the service sector include infrastructure development, construction, power generation and hypermarket business chain" (OPM 2002). PM Najib Razak remarked that

> ... Malaysia views the People's Republic of China as a strategic partner not only in trade matters, but also in investment. Chinese investment in Malaysia totalled US$134 million from 2000 to 2008. Over the same period, Malaysian investment in China was ten times more, at US$1.36 billion. Indeed, last year (2008), Malaysia was the 19th largest foreign investor in China" (OPM 2009).

Investments from Malaysia in 2010 and 2011 were US$ 358.28 million and US$ 294.33 million respectively, with a share of 0.27 percent and 0.30 percent of the total utilised FDI in China. In 2011, Malaysia was ranked as the 22nd largest source of FDI in China, but amongst the ASEAN countries it remained at second position (China Statistical Yearbook 2012).

It has to be noted that the rising number of Malaysian companies venturing abroad coincided with a period of economic liberalisation and opening up in China. This created high expectations among Malaysian businessmen who saw the potential of the vast Chinese market. Moreover, there were also certain push factors which prompted several Malaysian companies to venture abroad. Rising labour costs at home as well as a small domestic market with limited investment opportunities were major factors. In other words, returns from investments at home are seen as less attractive than investing abroad. In addition, Malaysian Chinese companies have also been concerned with what they regarded as the increasingly limited domestic market due to the NEP[32]-related policies. They find increasing difficulties competing for government projects against *Bumiputera*-owned companies or government-linked corporations. Chinese companies also encounter high costs in doing business including acquisition of land, delays in approval, and the need to surrender 30 percent of equity to *Bumiputera* participation. Investing overseas, particularly in China, has therefore been an attractive option. Examples of a few companies which invested early in China and did relatively well, especially in hotel, retail, and property sectors, was also a motivating factor. Successful entrepreneurs who invested in China, such as William Cheng (the Lion Group) and Robert Kuok (Shangri-La Hotels and others) were seen as role models. The other big groupings are the Genting

[32]The New Economic Policy (NEP) was an affirmative action policy coordinated by the state that was put in place as a result of ethnic riots in Kuala Lumpur in 1969. The policy accorded preferential treatment to the indigenous population known as *Bumiputera* (primarily Malay) in fields ranging from education to employment and ownership of stocks in efforts to reduce economic disparity among the various ethnic groups (Hing 2013: 259).

Table-11 Mutual FDI inflows

Year	FDI by China in Malaysia (RM million)	FDI by Malaysia in China (US$ million)
2001	2922.7	262.98
2002	55.3	367.86
2003	247	251.03
2004	187	385.04
2005	40	361.39
2006	134.1	393.48
2007	1883.2	397.25
2008	35.7	246.96
2009	162.2	428.74
2010	639.53	294.33
2011	1194.22	358.28

Source: FDI by China in Malaysia: data of 2001 and 2002 are from *IDE-JETRO and SERI* (2004: 10. Data of 2003 to 2005 are from Yeoh et al. (2010: 14). Data of 2006 and 2007 are from *Hing (2013: 255-256).* Data of 2008 to 2011 are from *Malaysia International Trade and Industry Report* 2009, 2010, 2011, and 2012. Data for FDI by Malaysia in China are from *China Statistical Yearbook* 2003, 2005, 2006, 2007, 2008, 2010, 2012.

Group (oil and gas exploration), Hong Leong Group (property development), Kuala Lumpur-Kepong (edible oil), and Tan Chin Nam's Ipoh Garden (property development) (Hing 2013: 258-259). Malaysian investments in China can be divided into three categories: First, the continuation of investment by small-scale business in food, textiles, cosmetics, and rubber products. The second category takes advantage of being a first mover or having a niche or boutique business. The last category is the manufacturing of component parts for companies operating in China and/or for Malaysian manufacturers in Malaysia (Ibid: 262).

5.4:3 Encouraging Projects by Government-linked Companies

During the period 2000 to 2011, Malaysian Government-linked Companies (embarked on large and ambitious JV projects with Chinese companies both in Malaysia and China as well as in other countries. Owing to huge investment requirements, such ventures were mostly carried out only by government-linked companies, which had the financial base and diplomatic backing to manage the challenge. In Malaysia, the companies having links with the Malay-dominated government also ensured *bumiputera* participation in China's trade and business ventures. Examples of such policies include the MoU signed during Najib Razak's 2009 visit to China, between the Malay Chamber of Commerce and the China Council for the Promotion of International Trade for jointly promoting trade between business communities of both countries (Hing 2013: 260).

An important example of JV between government corporations of the two countries is the collaboration between Malaysia's state-owned oil company, Petronas, and two Chinese oil and gas companies. Under a US$ 25 billion contract, signed in July 2006, Petronas supplies up to 3.03 million metric tonnes of Liquefied Natural Gas (LNG) per year to China for 25 years (Shenli 2006). In October 2009, Petronas made the first delivery to Shanghai LNG Company which is jointly owned by Shenergy Group (55 percent) and CNOOC Gas and Power (45 percent). The agreement marked Petronas' first long-term contract with China and was a major breakthrough for Malaysia in China's energy sector. Petronas also tied up with China's national oil company, Sinopec, for joint oil exploration in several countries including Sudan and Iran (Hing 2013: 260). UMW Holdings Bhd, another Malaysian Government-linked company, joined the China National Petroleum Corporation (CNPC) in a joint venture in 2003, called the Zhongyou BSS Petropipe Co. Ltd. Under this JV a pipe-manufacturing plant was set up in the port city of Qinghuangdao, in northern Hebei province, which would supply about 6,800 km of pipes for a natural gas pipeline spanning west to east across China, from Kazakhstan to Shanghai (The Star 2008a).

Another government-linked Malaysian company, Sime Darby Bhd, the largest conglomerate in Malaysia and one of the largest in Southeast Asia, has expanded its

operations in China by investing in JVs in the utilities and infrastructure sectors. These investments include a bulk cargo port, and water treatment business in the Shandong Province. The JV, named Weifang Sime Darby Port Company was formed in 2005, operates the Weifang Port located on the southern coast of the Bohai Sea. This JV company has also entered in a partnership with the local government to utilise the port a catalyst for regional economic growth. Simultaneously, Weifang Sime Darby Water Company Ltd, which began operations in 2005, supplies in the Shandong province (Hing 2013: 261).

Another major example of government-funded corporations taking forwards bilateral economic relations is Khazanah Nasional, the investment holding arm of the Malaysian government. Before it opened its first overseas office in Beijing in 2008, most government agencies preferred to be located in London or elsewhere in Europe, thus making Khazanah Nasional's decision an important milestone. At the opening of the office, PM Badawi noted that apart from China's emerging economy and a long friendship between the two countries, the decision to set up the company's first international office in Beijing was influenced by the fact that "we regard China as a very strategic and very important economic partner" (The Star 2008). For Badawi, "The Beijing representative office will also serve as a base to support Government-Linked Companies (GLC) and other Malaysian companies in their efforts to explore business opportunities and build two-way linkages with China" (OPM 2008). Thus, the presence of these Government-linked and *Bumiputera* corporations in China is economically and politically very important as it indicated that China's economic growth has not only benefited ethnic Chinese but also Malay Malaysians.

As far as Chinese companies' involvement in JV projects in Malaysia is concerned, there are several significant examples. The participation of a Chinese engineering firm in the construction of the Penang second bridge[33], connecting the island with peninsular Malaysia, highlights the growing participation of China in Malaysia's infrastructure development. Construction work on the bridge, being built by China Harbor Engineering Company along with United Engineering Group Bhd, a subsidiary of Khazanah, started

[33] The first Penang bridge was built by a Korean company.

in late November 2008. The 23.5 km long bridge of which 17 km is over water is the longest bridge in Southeast Asia (Hing 2013: 261). The project is financed by a loan of US$ 800 million from the Chinese government via an agreement signed in July 2009 which included an interest rate of mere 3 percent per annum over 20 years. That was the largest, and the most favourable loan offered by China for a single project in a foreign country at that time (Anis 2007).

In November 2009, during an official visit of President Jintao to Malaysia, several agreements were signed by both countries facilitating greater involvement of Chinese companies in Malaysia's construction projects. For instance, a contract for the construction of a 250 km double-track railway line between Gemas to Johor Baru in Southern Malaysia costing about US$ 2.5 billion was awarded to a Chinese company. Companies from China have also been invited to invest in the Mengkuang Dam project in Penang, while a Malaysia-China Hydro Joint Venture Consortium has been formed to complete the Bakun Dam in Sarawak (Hing 2013: 261). As Chinese Premier Wen Jiabao mentioned, "...the Southern rail project and the Mengkuang Dam in Penang, will produce considerable economic and social benefits once completed, and become landmarks in the mutually beneficial cooperation between our companies as well as symbols of friendship between our two countries" (Ministry of Foreign Affairs, the PRC 2011).

In recent times, the launching of industrial parks has become a new form of economic cooperation between Malaysia and China. During Premier Jiabao's visit to Kuala Lumpur in April 2011, both countries finalised the Qinzhou Industrial Park (QIP) project which was formally launched in April 2012. Jiabao remarked that "the China-Malaysia Industrial Park in Qinzhou, Guangxi is our first joint industrial park in western China. It has set an example for our cooperation in this field. The Chinese government welcomes the active involvement of competent business from Malaysia in the planning and development of the park" (Ibid). Malaysian PM Najib Razak described the rapid realization of the joint venture project as "a testament to the vibrancy, energy and commitment on both sides and to the ever broader and deeper economic ties between our nations" (Bangkuai 2012). The industrial park is strategically located with a railway connection to a container port in Beibu Gulf and has the potential to be a regional hub for

"international logistics geared towards China-ASEAN cooperation" (Bangkuai 2012a). The QIP is significant because it is the first instance of Malaysian and Chinese governments entering into a direct economic collaboration. After finalising two similar government-to-government projects in Singapore, namely the Suzhou Industrial Park and Tianjin Eco-City, the Malaysian project is the third such Chinese initiative. The proposal for QIP was finalised by the two governments, but its development and operation was handled by joint venture comprising several Chinese and Malaysian companies (Ban 2012b).

It has been suggested that "mutual trust, understanding and excellent cooperation" between Beijing and Kuala Lumpur have been the reason for the swift decision-making and launch of the prestigious QIP and is set to elevate economic cooperation between the two countries (Bangkuai 2012a).

5.4:4 Financial Services: Banks, Currency and Stock Exchange

Expanding bilateral trade and investments have been facilitated by growing cooperation among China and Malaysia in the financial services sector. The most significant step in this direction was the December 2000 Malaysian decision to allow the reopening of Bank of China (BOC) branch. The BOC first opened its branch in Penang City in 1939, and expanded to Kuala Lumpur and Ipoh, eventually operating five branches. All BOC branches were shut down by Malaysian authorities in 1959 due to the bitterness in bilateral ties. Since the 2000 reopening, the BOC has set up several branches including in Kuala Lumpur, Muar, Penang, Klang and Johor Bahru (Global Times 2009a). This step was reciprocated with China allowing Malayan Banking Bhd, the largest banking and financial conglomerate in Malaysia, to open a full-service branch in Shanghai that commenced operations in December 2000 (Maybank 2001). Likewise, the Industrial and Commercial Bank of China (referred to as ICBC Malaysia), a wholly-owned subsidiary of China's largest commercial bank, Industrial and Commercial Bank of China Ltd, was allowed to open its branch in Kuala Lumpur as a full banking license financial institution in April 2010 (ICBC Malaysia). The ICBC's presence in Kuala Lumpur is significant as

it services both Chinese and Malaysian customers having ties in both countries, thus making financial transactions for joint economic operations easier (Hing 2013: 265).

In order to facilitate increasing bilateral trade and investment, Malaysian and Chinese central banks agreed on a three-year RM 40 billion (US$ 11.7 billion or 80 billion Yuan) currency swap agreement in February 2009. The agreement was aimed at making it easier for Malaysian banks to draw greater amounts of Yuan while providing services to local companies which use Chinese currency for their trade. This agreement reflected growing importance attached by Beijing to trade with Malaysia as it was only the third currency swap agreement China had signed, having earlier done so with Hong Kong and South Korea (Ibid.). As Chinese Premier Jiabao mentioned, the currency swap agreement is the "first of its kind between China and ASEAN countries, making important contribution to regional stability. Ringgit became the first currency of an emerging market economy traded in the Chinese inter-bank foreign exchange market" (Ministry of Foreign Affairs, the PRC 2011). The agreement was renewed in February 2012 for an amount of RM 90 billion. With the signing to the currency swap agreement, a higher percentage of businesses were settling trade transactions using local currencies, resulting in a four-fold jump in such trade (Ban 2012a).

Further, during President Jintao's 2009 visit to Malaysia, an MoU was signed between Bank Negara Malaysia (Central Bank of Malaysia) and China Banking Regulatory Commission "to forge deeper cooperation between the two regulatory authorities on banking supervision including the sharing of information and in the promotion of regional financial integration" (Bank Negara Malaysia 2009). This marked an important milestone in bilateral efforts to enhance regulatory cooperation and promote economic and financial linkages between the two countries. PM Najib Razak lauded the development saying that, "... the signing of the agreement marked the entry of bilateral cooperation in the financial sector into a new era... It is especially meaningful in view of the global economic challenge and ever deeper cooperation between the two economies" (Global Times 2009c). Furthermore, in 2011, Razak and Jiabao attended the signing of an agreement to set up a Bank Negara Malaysia representative office in Beijing, third such office after London and New York, to facilitate trade in local currencies. This office is

expected to serve as a liaison with Chinese regulators and financial markets to promote a deeper understanding of both countries' economic and financial development (Bank Negara Malaysia 2011).

Besides banking and financial cooperation, Kuala Lumpur and Beijing have also encouraged investments in each other's bonds and share markets. In June 2010, China's banking regulator accorded Malaysia the "China Qualified Domestic Institutional Investor (QDII)" status, making Malaysia one of the 11 approved investment destinations for Chinese government-regulated funds. This would facilitate a larger flow of Chinese investments into Malaysia (Kuik 2012: 20). Likewise, taking an unprecedented step, Bank Negara Malaysia bought Yuan-denominated bonds for its reserve in September 2010.

Despite signing currency swap agreements with prominent trading partners China has remained cautious, even reluctant, about opening up its capital markets to foreign investors (Hing 2013: 265). In this context, it was a significant development when several China-based companies were allowed listing in the Kuala Lumpur Stock Exchange (KLSE), allowing them to raise capital from Malaysian investors. Beginning in 2006, five China-based companies had been listed in KLSE till 2010 (Ibid: 266; Seong 2010). Thus, both the countries have taken several measures to strengthen bilateral cooperation in the financial services sector. Premier Jiabao has rightly said that "stronger financial cooperation meets the pressing need of the economic communities of both countries and serves as an important foundation for sustained progress in our business cooperation" (Ministry of Foreign Affairs, the PRC 2011).

5.5 Tourism

People to people exchanges are a crucial indicator for evaluating bilateral relations. In addition to increasing trade and investment between the two countries, Malaysia and China have also been promoting tourism and people-to-people exchanges that can boost both economic as well as political relations. Since the removal of barriers on social and commercial visits by the end of 1980s and early 1990s, tourist arrivals from China to

Malaysia and vice versa have rapidly increased. PM Najib Razak remarked in November 2010 that,

> Before 1990, our ties were largely state-to-state, but bilateral relations were broadened to focus on people-to-people relations since then. Today, travel between the two countries is easy, owing to the efforts by Malaysia and China to increase people-to-people contacts, and the policies of our two countries have resulted in a dramatic surge in visits (OPM 2010).

In 1995, for example, Malaysia received 103,130 tourists from mainland China, which accounted for only 1.38 percent of the total number of tourist arrivals in Malaysia. This figure grew to 425,246 in 2000, an increase of 312 percent (see Table-12). Similarly, Malaysia has also made a significant contribution to the growing tourism industry in China. Tourist arrivals from Malaysia to China began to show an increase since the early 1990s. For example, in 1990, China received only 36,800 visitors from Malaysia (China Statistical Yearbook 1998). However, by 1995, as Table-13 exhibits, the figure totalled about 251,800, more than double as compared to Chinese visitors to Malaysia in the same year. The number of tourist arrivals from Malaysia to China reached 441,000 in 2000, an increase of 75 percent from 1995, making Malaysia the fifth biggest source of tourist arrivals in China and the largest among ASEAN countries (China Statistical Yearbook 2012).

China has consistently been a favoured tourism destination for many Malaysians just as it has been a significant source of visitors to Malaysia as well. The number of yearly tourist arrivals between the two countries reached more than two million in 2009 and Malaysia became the most favoured destination for Chinese tourists visiting ASEAN region, with 24 percent of total Chinese visitor arrival in ASEAN (ASEAN Statistical Yearbook 2010: 165). PM Najib Razak remarked that visitor arrivals from China were increasing rapidly, and described this trend as "a promising development for the country" (Bernama 2011). Tourist arrivals from China to Malaysia reached 1250,536 in 2011, the largest numbers from outside ASEAN. However, this accounted for only 5 percent of the total tourist arrivals to Malaysia in that year (Department of Statistics 2013: 275). Similarly, arrivals from Malaysia to China have grown rapidly from 468,600 in 2001 to 1,245,200 in 2010, an increase of 165 percent. In 2011, China received 1.2 million visitors from Malaysia,

next to 4.1 million from South Korea's, 3.6 million from Japan, 2.5 million from Russia, and 2.1 million from the US (China Statistical Yearbook 2012). Apart from the traditional domination of ethnic Chinese among the tourists, recently Malaysian Muslims have also started travelling to China in significant numbers to visit Islamic sites in China. Earlier, they had to follow a circuitous route with immigration hassles in the US and Europe (Hing 2013: 267).

The tourism industry provides vast opportunities for expansion in both Malaysia and China. Both the countries have already taken various measures to attract travellers and investment flows in the tourism sector. One such measure taken by Malaysia is intensified promotion through tourism offices in Beijing and Shanghai, while other measure deal with technical aspects such as simplifying visa formalities, allowing more chartered flights and participating in promotional exhibitions in major Chinese cities. The Tourism Ministry now stations Putonghua-speaking immigration personnel at the Kuala Lumpur International Airport, the country's main gateway, ensuring that Chinese visitors do not face linguistic hindrances when entering into Malaysia (Yeah et al. 2010: 26). Further, Malaysia also instituted a system of visa-on-arrival for Chinese group tours at all major airports from March 2001 (Shee 2004: 62).

With the aim of attracting higher numbers of Chinese visitors, the Tourism Ministry of Malaysia has also launched various packages, such as the "Homestay" programme that allows tourists to experience *kampung* or traditional village lifestyle, including harvests and livestock-rearing (Ministry of Tourism; Global Times 2009). Likewise, a tourism programme called "Craze in Malaysia", aimed at sending 10,000 tourists a year to Malaysia through Air China's network, was launched in October 2009 by China International Travel Service Ltd, China CYTS Outbound Travel Service, Beijing Mytour International Travel Service Company, Air China and the Malaysia Tourism Promotion Board (Global Times 2009b). In August 2011, the Malaysian Association of Tour and Travel Agents (MATTA) and the China Muslim Travel Association (CMTA) signed a cooperation agreement designed to remove barriers for Muslim travellers and enhance collaboration between the two associations (Parameswaran 2012: 13). The Malaysian Government has also encouraged hotel and tour operators from China to set up operations

Table-12: Tourist Arrivals from China to Malaysia, 1995-2011

Year	Chinese Tourists	Total Number of Tourists (in thousands)	Share (%)
1995	103,130	7,469	1.38
1996	135,743	7,138	1.90
1997	158,679	6,211	2.55
1998	159,852	5,551	2.87
1999	190,851	7,931	2.40
2000	425,246	10,272	4.13
2001	453,246	12,775	3.54
2002	557,647	13,292	4.19
2003	350,597	10,577	3.31
2004	550,241	15,703	3.50
2005	352,088	16,431	2.14
2006	439,294	17,547	2.50
2007	689,000	20,236	3.40
2008	944,000	22,052	4.28
2009	1019,756	23,646	4.31
2010	1130,261	24,577	4.59
2011	1250,536	24,714	5.06

Source: Data for 1995-2004 are from *ASEAN Statistical Yearbook 2005*. Data for 2005-2006 are from *Yearbook of Statistics Malaysia 2007*. Data for 2007-2008 are from *ASEAN Statistical Yearbook 2010*. Data for 2009-2011 are from *Yearbook of Statistics Malaysia 2012*.

Table-13: Tourist Arrivals from Malaysia to China, 1995-2011

Unit: 10,000 persons

Year	Malaysian Tourists	Total Number of Tourists	Share (%)
1995	25.18	588.67	4.27
1996	29.85	674.43	4.42
1997	36.13	742.80	4.86
1998	30.01	710.77	4.22
1999	37.29	843.23	4.42
2000	44.10	1016.04	4.34
2001	46.86	1122.64	4.17
2002	59.24	1343.95	4.40
2003	43.01	1140.29	3.77
2004	74.19	1693.25	4.38
2005	89.96	2025.51	4.44
2006	91.06	2221.03	4.09
2007	106.20	2610.97	4.06
2008	104.05	2432.53	4.27
2009	105.90	2193.75	4.82
2010	124.52	2612.69	4.76
2011	124.51	2711.20	4.59

Source: Data are computed from China Statistical Yearbooks of 1998, 2000, 2003, 2005, 2008 and 2012.

in Malaysia. In the words of Malaysian Tourism Minister Ng Yen "China tourism operators could understand tourists from China well" and "they could render better services to tourists from China" (Ping and Xueqing 2009).

For Malaysia, tourism has become a major source of foreign exchange after traditional sources such as the manufacturing sector. Particularly, Chinese tourists, from among the tourists coming from outside of ASEAN, have a significant role in developing tourism industry in Malaysia. In 2010, gross tourist receipts from the Chinese visitors reached RM 3,129 million (or US$ 985 million) from RM 2,783 million in the previous year, next only to income generated from tourists from Singapore and Indonesia. Chinese tourists are increasingly spending more on purchases, food and hotels (Hing 2013: 245, 267). In fact, tourists from China have overtaken Japanese visitors to become the top spenders in Malaysia (China Daily 2010). Tourism Minister Yen noted that the major strength of the country's growing tourism industry is that "Malaysia has many citizens of Chinese origins who can speak Mandarin and Chinese dialects. This made tourists from China feel themselves at home" (Ping and Xueqing 2009).

Such forms of economic cooperation have increased bilateral understanding and helped promote political bonhomie as well, which has been paramount in generating collaborative frameworks between Malaysia and China on larger regional and global economic issues.

5.6 Malaysia-China Response to East Asian Economic Regionalism

The end of the Cold War also led to severe strain on and, in some cases, outright breakdown of the systemic structures which lay at the foundation of international relations. This has forced re-evaluation and reassessment on state policy makers regarding the position of their respective countries in the international system. As a result, state actors have developed a new found appreciation for their respective 'region' while deciding foreign policy objectives, including economic policy-making. In the Asia Pacific, the question of regional economic cooperation has assumed increasing importance for many states (Higgott and Stubbs 1995: 516). As far as East Asian economic integration is concerned, Malaysia and China have taken several initiatives and

supported each-other in enhancing cooperation among East Asian economies which was evident in China's positive response to Malaysian initiatives such as the East Asian Economic Caucus (EAEC) and Asian Monetary Fund (AMF), as well as China's role during Asian financial crisis of 1997. Both countries' keenness for ASEAN-China Free Trade Agreement also clearly indicates the convergence of their views on East Asian economic cooperation.

5.6:1 The East Asian Economic Caucus

Partly due to both countries' shared worldviews and partly due to Beijing's international clout, Malaysia views China as a valuable partner in pushing for its goal of fostering closer economic cooperation among the East and Southeast Asian countries. The goal can be traced back to PM Mahathir Mohamad's December 1990 proposal for an East Asia Economic Grouping (EAEG). When concerns were raised that the EAEG proposal seemed like an attempt to form a regional trade bloc, it was renamed the East Asia Economic Caucus (EAEC) with greater emphasis on its role as a consultative body for discussions on regional economic issues (Ibid: 522). Mahathir later made it clear that

> … the East Asia Economic Group or EAEG was proposed, not as a trade bloc, but as a forum for the nations of East Asia to confer with each other in order to reach agreement on a common stand for a common problem caused by the restrictive trade practices of the rich (OPM 1991b).

Mahathir proposed that membership should include the ASEAN states (Brunei, Indonesia, the Philippines, Malaysia, Singapore and Thailand) plus Japan, China and South Korea, and excluded the non-Asian countries of Australia, New Zealand, Canada and the US. Thus, it was meant to be an Asian-only caucus or 'East Asia without the Caucasians' (Higgott and Stubbs: 1995: 522-23). Some scholars have suggested that through EAEC Mahathir advocated a grouping to protect the regional countries' collective interests in the perceived face of trade protectionism in the West (Kuik 2008: 174). It has also been argued that the EAEC was proposed as response to the Asia Pacific Economic Cooperation (APEC)[34] initiative, which Mahathir feared would be dominated

[34] The Asia Pacific Economic Cooperation (APEC) was launched in Canberra in November 1989 as a platform for economic dialogue in the Asia Pacific region. The founding members were Australia, Canada,

by the US (Liow 2000: 676). In this context, Mahathir could have conceived the EAEC as a group that would provide an alternative and united voice in trade negotiations with other blocs such as the North American Free Trade Area (NAFTA) and the European Union (EU) (Storey 2011: 221).

Symbolically, the announcement of Mahathir's proposal for EAEC was made during Chinese Premier Li Peng's Malaysia visit. This was a time when China harboured discontent with the APEC, which was considering admitting China on the condition of giving membership to Hong Kong and Taiwan as well, as part of a "three China" policy. Despite envisaging Japan as the natural leader of the EAEC, Mahathir chose to announce the initiative along with a Chinese leader (Liow 2000: 676). The proposal was strongly opposed by the US which used its clout with Japan and South Korea to thwart Mahathir's idea of an East Asian grouping. Irrespective of US opposition, Japan was ambivalent to the proposal because while Japanese interests lay in expanding economic relations with East Asia, Tokyo was not keen on jeopardising its special relationship with the US. Within ASEAN also there was resistance to such a grouping with Indonesia, in particular, showing wariness towards an economic arrangement that might lead to fragmentation of the global economy into trading blocs (Higgott and Stubbs: 1995: 522). In due course, China remained the only major power which extended its full support to the proposal, with President Yang Shangkun proclaiming in 1992 that the EAEC was "of positive significance for the promotion of regional economic cooperation" (Liow 2000: 676-77). In July 1993, Foreign Minister Qian Qichen reiterated China's backing of the proposal describing it as an opportune and suitable platform for promoting cooperation among East Asian economies (Kuik 2012: 14). Later, delivering a speech at the 3rd Malaysia-China Forum, Mahathir admired China's stand on the EAEC, saying "Malaysians also remember that China was the first Northeast Asian country to openly declare its support for the EAEC. Japan and South Korea have hesitated, I believe because of pressure from the US." (OPM 1999).

Japan, New Zealand and South Korea, the US and the six members of the Association of Southeast Asian Nations- Brunei, Indonesia, Malaysia, the Philippines, Singapore and Thailand.

A strong motivating factor behind the EAEC proposal, and China's strong support, could have been both countries' desire to promote an East Asian economic agenda independent of US influence. Nevertheless, there was another consideration that drove the two parties to cooperate on the initiative. In both capitals, the APEC was viewed to be oriented primarily around the swift liberalisation of the region's national economies. Further, Malaysian and Chinese leaders also perceived APEC as a forum designed to provide Washington with a gateway for the then ailing US economy into the markets and economies of East Asia. Malaysia and China feared that if successful, the pace of liberalisation pushed by the US through APEC would strongly pressurise their economies, both of which had adopted state-driven corporatist model in making national economic policies. Hence, the concern that such liberalisation would impinge on the Malaysian ruling party, the United Malay National Organization's (UMNO), and the Communist Party of China's close control of their respective national economies provided an additional impetus for cooperation via the EAEC initiative (Liow 2000: 677).

The EAEC proposal was similar to APEC in that both were responses to the emerging from a global economy in transition. However, in addition to promoting economic liberalism, the EAEC also had the added political factor of resisting the perceived, and real, growing clout of US and Europe in the region. The timing of EAEC proposal was also an indicator that it was a symbolic protest against what the Malaysian government perceived as inadequate attention being given to Malaysian and ASEAN's concerns in multilateral negotiations such as the Uruguay Round of General Agreement on Tariffs and Trade (GATT). Facing growing economic consolidation in EU, the possibility of NAFTA and the lack of speedy evolution of ASEAN as a counterweight, Malaysia and China were forced to look for a broader collaboration within East Asia that could resist Western economic domination (Higgott and Stubbs 1995: 524). Articulating his idea of East Asian grouping, Mahathir said

> We in East Asia must not form a trading bloc of our own. But we know that alone and singly we cannot stop the slide towards controlled and regulated international commerce...which is obviously going to replace free trade if the EC (European Community) and the American Union are allowed to rewrite the rules. To stop the slide and to preserve free trade, the countries of East Asia, which contain some of the most dynamic economies in the world today, must at least

> speak with one voice. It will be impossible to do this unless we can consult each other, unless we can have some form of grouping which is recognisable...A formal grouping intended to facilitate consultation and consensus prior to negotiating with Europe or America or in multilateral fora such as the GATT is not too far-fetched an idea (OPM 1991a).

Elements of North-South political divide and South-South cooperation have also been ascribed to the EAEC as a proposed counterweight to US hegemony. Mahathir had been instrumental in the formation of the Group of Fifteen (G-15) developing countries, which was inaugurated in June 1990 in Kuala Lumpur as a forum for promotion of South-South economic cooperation. Moreover, Mahathir had a standing as one of the leading statesmen of Asia and had defended Asian political and social freedom and distinctiveness against US dominance. The EAEC proposal was, therefore, consistent with Mahathir concerns for US domination of economic policy in the region (Higgott and Stubbs 1995: 524). Addressing to the second summit meeting of G-15, Mahathir had argued that

> Together with "democracy" and the "free market" comes the new gospel of "the environment". We are told that the South must curb its aspirations and its approach towards development so that mankind, i.e. the rich North's enjoyment of the good life is not threatened… The North must accept the legitimate aspirations of other nations. When they fortify themselves economically behind trade blocs, they must accept that others also have a right, at least, to raise their voices in defence of their interest. Yet the East Asians are not allowed even to consult each other or indeed to call themselves East Asians. The United States rejects and opposes vehemently the East Asia Economic Caucus or EAEC and demands that Japan and South Korea dissociate themselves from the formation of this consultative group (OPM 1991c).

However, the EAEC did not materialise and a somewhat similar institution has been created in the form of ASEAN Plus Three (ASEAN+3 or APT) meetings where China, Japan and South Korea are key members. Speaking at the Malaysia-China Forum in 1999, Mahathir expressed his dissatisfaction, saying "While the EAEC concept had been realised 'informally' as the ASEAN+3 in the Informal Heads of State and Government Summit in the last three years and in the Asia-Europe Meetings (ASEM), I personally feel that it is inadequate to meet the pressing needs of the region" (OPM 1999). He further urged China "to join Malaysia and other ASEAN countries to consult with Japan and South Korea so that the EAEC or any East Asian body with a different name can be

'formalised' and acknowledged as a regional grouping representing the interests of East Asian countries" (Ibid.).

5.6:2. Asian Financial Crisis and China's Role

The financial crisis that gripped East and Southeast Asian economies in 1997-98 not only severely affected currency values and financial systems, but also led to severe stress on their overall productivity, social welfare and, in some cases, even political stability. Following the rapid collapse of Thailand's Baht against the Dollar, the crisis soon engulfed Malaysia, Indonesia, Philippines, Hong Kong, Laos and South Korea forcing many of these economies to float their currencies. The financial crisis created panic among institutional lenders and borrowers, a collapse in demand, and a general loss of confidence throughout the region (Astarita 2008: 79).

As far as Malaysia is concerned, the financial crisis had a traumatic impact. The economic turmoil led to political problems along with the near collapse of the currency, and stock and property markets. Initially the crisis had its impact on the Malaysian currency. With precipitate withdrawal of large sums of money from Malaysia, the Ringgit faced huge fluctuations in value from 2.52/dollar (US) in June 1997 to 3.2/dollar in September 1997. In January 1998, the Ringgit reached the new low of 4.5/dollar, leading to a sharp fall in the stock market as well, which was already facing a bear-run owing to panic sales by both domestic and foreign investors. This twin downslide had a disastrous effect on capital-intensive, highly geared enterprises, especially the ones that had availed of foreign loans. The sharp decline of the stock market and the probability of these highly geared enterprises being unable to pay even the interest on their loans then created pressure on bank liquidity. This liquidity crunch resulted in a general loss of confidence in the Malaysian economy (Ping and Yean 2007: 915-16), and eventually resulted in a massive downturn in the Malaysian economy from the high growth rate of 7.3 percent in 1997 to a low of -7.4 percent in the following year. The manufacturing and service sectors were particularly affected, registering a highly negative growth rate of -13.4 percent and -24 percent respectively in 1998. The crisis also witnessed many companies closing down or having to restructure their operations by disposing of their non-core

activities and cutting the workforce. This resulted in an increase of unemployment rate from 2.4 percent in 1997 to 3.4 percent in 1999 (Kadir 2007: 59-60). Unfortunately, the situation in neighbouring ASEAN economies, especially Thailand and Indonesia was even worse, making it difficult for Malaysia to emerge out of the crisis with regional help (Ibid).

The financial crisis of 1997-98 gave an opportunity to China to offer help to Southeast Asian countries and economically integrating itself with the region. China pledge US$ 1 billion as assistance to Thailand and decided not to devaluate its currency "in the overall interest of maintaining stability and development in the region" (Ministry of Foreign Affairs, the PRC 2000). Had China devalued its currency during the financial crisis, as it had done in 1994 by a huge 33 percent, it would have made Chinese exports cheaper and thus undermined other Asian countries' efforts at economic restoration. China's then Vice Minister of Foreign Trade and Economic Cooperation, Long Young-tu said, that "If China devalues, that would set off a new cycle of devaluations and that would be disastrous. Therefore I have been authorized to tell you: China will not devalue" (Halloran 1998). In a joint statement at the conference on 'ASEAN-China Cooperation towards the 21st Century' issued during the unprecedented 1997 ASEAN-China leaders' Summit, Beijing further pledged cooperation "in all areas to enhance understanding and mutual benefits" and "expressed full confidence in the economies of the ASEAN region." Likewise, ASEAN noted with appreciation "China's contribution to the recent financing packages in the region", and both parties "reaffirmed the importance of enhanced cooperation on economic and financial issues" (ASEAN Secretariat 1997).

In sharp contrast to Japan and even the US, China emerged favourably from the crisis. As Rodolfo Severino Jr., then Secretary General of ASEAN, said in April 1998, "China is really emerging from this [crisis] smelling good. We still have a territorial problem with China, but otherwise things are going well between ASEAN and Beijing" (Richardson 1998). China used its economic strength and apparent immunity to the crisis to achieve significant diplomatic gains in a previously suspicious Southeast Asian neighbourhood. The situation favoured China even more since these gains were made at the expense of Japan, which had failed to rise up to regional expectations during the financial turmoil.

As then Malaysian Deputy PM and Finance Minister Anwar Ibrahim stated in April 1998, "While we in ASEAN recognize the measures implemented by Japan to stimulate its own economy, we believe that Tokyo can be more responsive to its neighbours and friends" (Ibid). Beijing's conduct during the crisis was thoroughly praised in Southeast Asian capitals and at ASEAN–China meetings. PM Mahathir Mohamad openly displayed appreciation of China's unilateral decision of not devaluing its currency. Addressing to the 3rd Malaysia-China Forum, Mahathir said

> China's concern for the well-being of East Asia in financial crisis has been most laudable. The regional economies…greatly appreciate China's decision- despite strong pressure- not to devalue the Yuan. Beijing's cooperation and high sense of responsibility has spared the region of a much worse consequence… The Price that China has to pay to help East Asia is high and we in Malaysia truly appreciate the stand you have taken (OPM 1999).

China's engagement and active participation in East Asian financial initiatives also reflected its intention for regional economic integration. In May 2000, China joined the Chiang Mai Initiative (CMI), which was launched by finance ministers of the APT member countries to enhance regional financial cooperation in the wake of the 1997-98 crisis. The CMI provides significant liquidity support to East Asian economies thus reducing the risk of similar currency crises. It comprises a network of bilateral currency-swap arrangements among the APT member countries (Kawai 2010: 4). China has also signed several such currency-swap agreements at the bilateral level with Japan, South Korea, Malaysia, Thailand, Indonesia and Singapore (Global Times 2013). Thus, the APT cooperation has been responsive to the needs of the regional economies in the aftermath of the financial crisis and established itself by means of several initiatives aimed at strengthening economic cooperation amongst ASEAN and other East Asian economies. The Malaysian government also supports efforts and initiatives "to further strengthen the ASEAN Plus Three relations through the deepening of economic integration of East Asia involving ASEAN, People's Republic of China, Japan and Korea on a progressive basis" (OPM 2011). In the words of the current Chinese Premier Le Keqiang, the APT cooperation has become "a strong impetus in the East Asian integration process" (The State Council, 2014).

5.6:3 ASEAN-China FTA

The severe impact of the 1997 financial crisis motivated the region's countries to increase their economic cooperation. In order to quicken the pace of regional economic integration and cooperation, the ASEAN-China Free Trade Area (ACFTA) agreement was signed in 2002 and fully implemented from 1 January 2010. The idea of setting up a FTA between ASEAN and China was formally proposed by then Chinese Premier Zhu Rongji at the APT Summit of November 2000 (ASEAN Secretariat 2000). Following this proposal, the ASEAN-China Experts Group on Economic Cooperation was created in 2001 to study the FTA's feasibility. In 2002, the Framework Agreement on Comprehensive Economic Cooperation was signed by the two sides at the ASEAN-China Summit in Phnom Penh on 4 November 2002, and it became operational on 1 July 2003. The Framework Agreement was an umbrella agreement which provided general provisions for the formation of an ASEAN-China FTA within ten years and to strengthen and enhance economic co-operation (ASEAN Secretariat 2002b).

The Framework Agreement opened up a negotiation process that resulted in the conclusion of the Agreement on Trade in Goods in November 2004; the Agreement on Trade in Services in 2007; and an Agreement on Investment in 2009 completing the ACFTA. The Agreement on Trade in Goods became operational on 1 January 2005 and dealt with modalities for reduction in tariff rates as well as elimination of certain tariff lines. Till 2010, ASEAN-6, including Brunei Darussalam, Indonesia, Malaysia, the Philippines, Singapore and Thailand, had reduced their tariff rates to zero. For the newer ASEAN members states, including Lao PDR, Cambodia, Vietnam and Myanmar, the agreement allowed a gradual tariff reduction by 2015 (Ministry of Commerce, the PRC 2004). The Agreement on Trade in Services came into force in July 2007 with the aim of liberalising and eliminating all discriminatory measures in trade in services. It also attempts "to enhance co-operation in services among the Parties in order to improve efficiency and competitiveness, as well as to diversify the supply and distribution of services of the respective service suppliers of the Parties" (ASEAN Secretariat 2007). The Agreement on Investment came into force in February 2010 and intends to "progressively liberalise the investment regime, strengthen co-operation in investment,

facilitate investment and improve transparency of investment rules and regulations, and provide for the protection of investments" (Ministry of Commerce, the PRC 2009).

Thus, the ASEAN-China Free Trade Area is fairly comprehensive agreement covering all the vital trade aspects such as goods, services and investments. In the terms of population base and territory, the ACFTA is the world's largest FTA representing almost 1.9 billion people and an area of 14 million km^2. The combined GDP of this FTA is approximately US$ 6 trillion and has total international trade volume worth US$ 4.5 trillion (Jianren 2012: 11). In terms of economic size, it is the third biggest FTA after the EU and the NAFTA. Together with the other key FTAs of ASEAN, the ACFTA is expected to not only create opportunities for regional businesses to be significant players in the global supply chain but will also increase investment flow between the two sides and serve as an accelerator for East Asia economic integration (Soerakoesoemah 2012: 20). As PM Najib Razak remarked

> We have worked to integrate our economies and boost our sources of growth by implementing the China-ASEAN Free Trade Agreement- an agreement that means companies from Kuala Lumpur to Beijing and from Bangkok to Shanghai can reap greater rewards from trade, expand their opportunities to invest and step up their regional and global presence (OPM 2011b).

Nevertheless, the ACFTA has also raised apprehensions, especially in the manufacturing sectors of Southeast Asian states, regarding Chinese low-cost products flooding their markets under the newly-established zero-tariff regimes; and local manufacturers being forced out of competition by low labour rates prevailing in China (Jianren 2012: 15). In this regard, the Associated Chinese Chambers of Commerce and Industry of Malaysia (ACCCIM) had already made objections to the government over the removal of tariffs for 90 percent of goods traded under the ACFTA because local businesses might not be fully prepared or capable to face competition from cheap priced Chinese products (Yuh and Aslam 2012: 23).

5.6:4. Impact of ACFTA on Malaysia

The ACFTA is the first pan-regional economic institutional framework that Malaysia has joined through the ASEAN mechanism. Together with Malaysia's quest for new export

market, rapid growth rate of Chinese economy and the large size of the ACFTA have been the main reasons for the country to join this initiative (Abidin and Aziz 2012: 48). The impact of ASEAN-China FTA has been varied depending on the domestic as well as foreign aspects of the signatory country's economic agenda. The variations are dependent on factors such as structures of production and trade, and their competitiveness vis-à-vis China. Under ACFTA, Malaysia's tariff commitments fall under the 'Normal Track' where reductions began in January 2005 and were eliminated by January 2010. Since 2005, Malaysia's total trade with China have increased (except 2009 due to the global financial crisis) from RM 85 billion to RM 167.2 billion in 2011 (see Table-7). PM Najib Razak has also admitted that "The implementation of the ASEAN-China Free Trade Agreement in 2010 has undoubtedly boosted our bilateral trade and investment relations" (OPM 2011). Further, since the signing of ACFTA, the growth of Malaysian exports to China has risen significantly. In contrast, the growth of imports from China has been comparatively much slower. This trade trend has turned the balance of payment into Malaysia's favour since 2009. However, it is unclear if this change can be attributed only to ACFTA, because other relevant factors have also been at play, such as China's entry into the WTO in 2001 and its high growth rate which have substantially expanded its international trade with Southeast Asia and the world.

Needless to say that the high growth rate of Chinese economy and consequently the rising purchasing power is likely to increase demands for Malaysian products. In addition, its desire to reduce its dependency on the US and European markets also compelled Malaysia to participate in this FTA. It is expected that the ACFTA would improve the country's access into Chinese market and thus will also help its efforts for diversification of export market. With the establishment of the ACFTA and the elimination of tariff barriers and improvement of trade facilitation, it is expected that costs would be lowered and bilateral trade and investment flow would increase (Abidin and Aziz 2012: 48). The FTA is also expected to benefit the banking industry across the region. The full implementation of ACFTA also provides an opportunity to Malaysia to diversify its trade pattern vis-à-vis China. As Malaysia's Deputy Minister of Foreign Affairs Lee Chee Leoong said

> With the move towards ASEAN-China Free Trade Area, we can and should significantly diversify and broaden opportunities for trade and investment. Currently most of our bilateral trade comprises of electronics and electrical products, palm oil and chemicals. Clearly, we can do much more to diversify this trade pattern and explore emerging sectors which have high potential for future growth. These include oil and gas, high-value agriculture, green technology, financial services and information technology (Ministry of Foreign Affairs, Malaysia 2010).

Thus, Malaysia's participation in ACFTA presents opportunities for it to be a part of and benefit from speedy growth of China's market economy.

Hence, it can be asserted that the ACFTA has helped Malaysia secure an easy access into and a strong foothold in the huge Chinese market. In contrast, the reduction and eventually elimination of import duties by Malaysia has invited risks such as increase in textile and clothing importations from China. In spite of such concerns, there already signs that the ASEAN-China Free Trade Area has started providing huge benefits to Malaysia, especially in services trade because of its comparative advantage in health, education and tourism services and niche services like Islamic banking and finance. With greater progress in the Agreement on Trade in Services made under the ACFTA, Malaysia may further increase its services trade with China. Thus, despite various challenges, the ACFTA has created a win-win situation for both Malaysia and China in terms of trade and investment, and has led to fruitful results of their combined efforts for enhancing regional economic integration.

Malaysia has strengthened cooperation and collaboration with China in the domain of trade and economics over the years and has intensified its efforts for great regional economic integration. At the same time, Kuala Lumpur has not hesitated to promote closer economic cooperation with other regional players like India, Australia, US, etc. through both bilateral and multilateral channels.

Chapter-6

South China Sea in Malaysia-China Relations

Geographically and geopolitically, the South China Sea (SCS) ranks among the most complex ocean spaces in the world. Over the last two decades, it has emerged as a major conflict flashpoint and as an issue of significant contention regarding territorial disputes. These disputes pertain to sovereignty over island territories and territorial waters, as well as the contiguous exclusive economic zones (EEZs). Nomenclature of the area also constitutes a part of the dispute with the Philippines calling it the "West Philippines Sea" (*Dagat Kanlurang Pilipinas*), Vietnam the "Eastern Sea" (*Bien Dong*), and China calling it the "Southern Sea" (*Nan Hai*) (Scott 2012: 1019). The dispute involves six claimant countries- Brunei Darussalam, the People's Republic of China (PRC), Taiwan, Malaysia, the Philippines, and Vietnam. Outside powers, that have significant commercial and strategic interests in the region, are also involved (Ibid.). One of the foremost interests of outside powers concerns the freedom of navigation in the disputed waters, which is crucial to the geostrategic role played by the region in connecting the major economies of Northeast Asia with global markets in general and the energy-rich Middle East in particular. The significance of the SCS lies not just in its strategically important sea lanes of communication (SLOCs), but also in its vast existing and potential, oil and natural gas, minerals and fishery resources. As a consequence, contentions over island territories, maritime and seabed jurisdiction, and access to resources have embroiled the claimants into regional conflict and rivalries (Joyner 1999: 55).

The end of the Cold War altered the balance of power in the South China Sea region and the strategic vacuum that followed led to renewal of territorial competition. The Soviet disintegration and its withdrawal from Cam Ranh Bay in Vietnam; that of American forces from the US bases in the Philippines greatly reduced the capacity of the competing superpowers to influence developments in the region. Such post-Cold War developments forced several South China Sea littoral states to re-align their strategic and national security imperatives regarding the disputed territory (Ibid: 53). Although all the concerned parties continue to assert their respective claims, their approach towards the

dispute is varied with Malaysia apparently pursuing a non-confrontationist approach, in stark contrast to that adopted by Vietnam and the Philippines. Malaysia has continued to emphasise on developing pragmatic ties with China, choosing to focus more on the rapidly growing economic cooperation between the two countries (Finkbeiner 2013: 1).

6.1. The Territorial Setting

The South China Sea is among the largest semi-enclosed seas, spread over almost 800,000 square kilometres. It holds immense strategic importance as vital energy and trade routes, linking the Indian and the Pacific Oceans, pass through this sea. The SCS comprises hundreds of insular features such as islands,[35] shoals, banks, reefs and rocks,[36] most of which form a part of the Paracel and Spratly Archipelagos. An overwhelming majority of these are partially submerged, not suitable for habitation and hazardous for shipping (Joyner 1999: 55-56). The Spratly and Paracel Islands are at the centre of the contentious strategic, territorial and economic claims. The Spratly archipelago comprises more than 190 islets and reefs covering approximately 390,000 sq. km in area. The Spratly islands' location makes this archipelago strategically vital. It is located about 500 km from Vietnam, 950 km to the southeast of China's Hainan island, 80-150 km east of Philippines' Palawan Island and 250 km south the Malaysian state of Sabah and Brunei (Dutta 2005: 273). All six parties to the SCS dispute claim full (China, Taiwan and Vietnam) or partial (Brunei, Malaysia and Philippines) sovereignty over the Spratly Islands (Storey 1999: 96). The other group of islands, the Paracels, is also a disputed territory that was occupied by China in 1974, wresting control from Vietnam, with Taiwan being the third claimant (Dutta 2005: 273).

Despite most islands in the South China Sea being too small and incapable of supporting permanent independent human settlement and only a few having drinking water or other essential resources, these hold strategic and economic value for the littoral states. This is

[35] An Island is defined as "a naturally formed area of land, surrounded by water, which is above water at high tide" (UNCLOS article 121 (1). The maximum breadths of the maritime zones of islands are the same as for land territory along the coast: territorial sea 12 miles; EEZ 200 miles, and continental shelf 200 miles (UNCLOS article 121 (2).

[36] Rocks are islands "which cannot sustain human habitation or economic life of their own." They are entitled only to a territorial sea, not to an EEZ or continental shelf (UNCLOS article 121(3).

mainly because these islands could act as bases for claiming exclusive jurisdiction over surrounding ocean and its resources. In addition, the Spratly archipelago also holds strategic significance for all littoral states in the region as it straddles one of the busiest and most significant sea trade routes of the world. The resource-potential of the SCS has also been a driving factor for the competing claims (Joyner 1999: 57).

The two most contested areas, the Spratlys and Paracels, have a chequered history in terms of occupation and sovereign control in the nineteenth and twentieth century. Ownership of the islets repeatedly changed over the last century as Britain, France and Japan exerted influence over the maritime expanse. In fact, until World War II, the two island chains were not considered strategically significant (Dutta 2005: 273). In the post-WW II era, however, competing nationalisms and conflicting claims of sovereignty have increasingly focussed on the region leading to differing territorial claims, especially in light of the possibility of expanding EEZs as provided under the United Nations Convention on the Law of the Sea (UNCLOS). The problem has also been "complicated by the divided nationalisms and identity struggles characterising China-Taiwan relations" since both claim territory based "on the same set of historical and nationalist arguments" (Ibid: 274).

6.2. Significance of the South China Sea

The geo-strategic significance of the South China Sea lies in a series of SLOCs of both regional and global significance and in the energy resources which make it invaluable for littoral states and other maritime powers. Since maritime transportation remain the backbone of international trade, freedom of navigation and secure SLOCs are essential to the unhindered growth of the global economy. Thus, the South China Sea islands and their adjacent waters have vital strategic, economic and political significance not only for coastal states but also for other user states. In view of competing claims, power projection by rival powers threatens to turn the region into a flashpoint of global concern.

6.2:1. Strategic Value

The South China Sea is a semi-enclosed sea with immense significance as a strategic passageway. This is considered to be one of the world's busiest international sea-routes that connects the western Pacific and Northeast Asia to the energy-rich Middle East through the Indian Ocean. It is believed that more than half of the world's energy traffic passes through this region, giving it a special strategic significance. Further, in terms of gross tonnage as well, the sea lanes in the South China Sea carry more than half of the world's total annual merchant transport, especially through the Strait of Malacca, the second busiest strait in the world. As economies in Northeast Asia continue to record impressive growth rates, the strategic significance of South China Sea waterways also grows (Thao and Amer 2009: 334). These SLOCs are indispensable to the energy-importing economies of Northeast Asia. In addition to these economies, and keeping pace with the tremendous growth in inter- and intra-regional trade, ports in the littoral states, such as Hong Kong and Singapore, have also emerged as key global economic and financial hubs (Rosenberg and Chung 2008: 52). Conforming to this view, the Singapore Defence Minister, Ng Eng Hen, stated that the South China Sea is "strategic for global trade and commerce" and therefore, "ASEAN has a vested interest in the stability of this region" (Ministry of Defence, Singapore 2011).

The freedom of navigation and safety of these sea lanes is, therefore, of considerable strategic interest for the littoral states as well as for other economic powers with stakes in the region, such as the US, Japan, Australia and India. Control of these sea lanes by an antagonistic power could prove be a major interruption to international trade (Buszynski 2013: 5). In such a scenario, the Spratly archipelago is a strategic asset of immense importance, as it can be used to block passage of ships. Air assets based in this archipelago can effectively interrupt shipping as far as the vital choke-points of the Malacca and Sunda Straits, through which almost all the maritime container traffic between the Pacific and the Indian Ocean passes. Thus, a military presence in the Spratlys, especially air assets, could effectively stop all shipping in the South China Sea (Joyner 1999: 67).

6.2:2. Energy Resources

With the rapid growth of Asian economies, the demand for energy especially petroleum and gas has increased substantially. The concept of energy security is assuming greater significance as increasing industrialisation and overall economic growth, countries are losing energy self-reliance. Oil and gas reserves have been discovered in most of the South China Sea littoral states, with Brunei, Malaysia and Vietnam being the most active producers among the parties to the territorial dispute. Domestic oil production in the region has plateaued and is expected to stagnate at current levels (EIA 2013). This, along with the steep rise in domestic energy needs has forced regional economies to scout for new energy sources. The South China Sea is estimated to hold substantial hydrocarbon reserves beneath its seabed. However, it is difficult to determine the amount of these estimated reserves since the territorial dispute makes exploration extremely difficult. Because of this, there are no authoritative estimates of hydrocarbon reserves in the region. Most of the proven oil and gas fields exist in undisputed waters, especially in continental shelves or close to coasts. Although, the US Energy Information Administration (EIA) has estimated that the South China Sea might hold oil reserves to the extent of about 11 billion barrels and 190 trillion cubic feet of natural gas reserves. These estimates include proved as well as probable reserves (Ibid.). The US Geological Survey, similarly, estimates that the region may have 5 to 22 billion barrels of oil reserves and 70 and 290 trillion cubic feet of natural gas reserves (Ibid.).

According to some Chinese estimates, the main basins of the South China Sea hold 70.78 billion tons of hydrocarbon reserves. Out of this, 29.19 billion tons are petroleum reserves (2 billion of which is proven to be extractable) and 58 trillion cubic meters are natural gas reserves (4 trillion cubic meters proven extractable) (Guoqiang 2015). According to the geological survey data of China's Ministry of Land and Resources, the South China Sea basin contains 23-30 billion tonnes of oil reserves and about 16 trillion cubic meters of natural gas reserves, amounting to one-third of China's total reserves, and 12 percent of the world total (Ibid).

Although the estimates on the energy resources in the South China Sea vary, there is no doubt regarding the abundant hydrocarbon reserves in the region, particularly of natural gas. That is the reason the Chinese media often refers to this basin as the "second Persian Gulf" (Global Times 2011). Because of its energy resources, the area garners sustained attention of various regional and global powers and has become the focus of energy development and energy security. Several claimants, including Vietnam, Philippines and China are engaged in exploration projects in this basin in association with multi-national companies. China's state-owned China National Offshore Oil Corporation (CNOOC) announced in 2010 that it is "planning to invest 200 billion Yuan (US$30 billion) over the next 20 years in oil and natural gas mining to transform the South China Sea into a new Daqing- China's largest oil field" (Ibid). This is in the backdrop of China's growing energy consumption essential for its economic growth and increasing industrialisation. China already imports more than half of its energy requirements. Rising costs of energy imports has made it imperative for China to search for new sources to boost its proven energy reserves. As a result, China views the disputed waters of the SCS as not merely a sovereignty issue but as essential to its future energy supply (Higgins 2011). Not only China and other claimant parties, but many other energy-seeking countries have also increasingly focused on this part of the world which is considered to be a potential source of oil and gas apart from its geo-strategic significance.

6.2:3. Fishery Resources

While the potentiality of energy resources in the South China Sea is still a matter of debate and conjecture, the value of its marine biological resources has been proven beyond doubt. The semi-enclosed, tropical environment of this Sea is rich in biodiversity and supports significant fishery resources, especially with regard to regional food security and livelihood (Schofield 2014: 10). Currently, fishing hauls in the SCS are approximately ten million tonnes (Witter et al. 2015: 3). A comprehensive catalogue of marine fishes in the South China Sea lists 3365 species of fishes in 263 families (Randall and Lim 2000: 570).

It is estimated that the South China Sea accounts for about 10 percent of the total global fishing by tonnage. Fish is a principal source of protein for millions of Asians and growing incomes across the continent will inevitably raise the demand of fish products (Pitlo 2013). It is noteworthy that from the late 1980s to the early 1990s, exports of fishery products from the South China Sea littoral states accounted for 11 percent of annual global exports, which increased to 27 percent by 2011. For China and other coastal states, the fisheries sector remains a significant source of revenue and a crucial component of regional food security. In fact, for many of these states, export earnings from marine products are considered to be an important source of foreign exchange (Witter 2015: 3). However, overexploitation of fish stocks of the Sea, has led to declining catches. Increased competition for depleting fish stocks is another reason for the recent outbreak of clashes between the littoral states. Threat to traditional coastal livelihoods and the official support granted by each state to its fishing industry, in the form of naval or coastguard vessels, has resulted in numerous tense standoffs in the South China Sea (Buszynski 2013: 4).

6.3. Origin and Development of the Disputes

The territorial disputes in the South China Sea have historically evolved as a series of actions and counter-actions with the decisions and acts of one claimant have triggered retaliations from others. The French were the first foreign power to intrude into the area, which as opposed by China's Qing Dynasty (1644-1911), although this opposition was limited to the control of Paracels, which was considered by China to demarcate its southern borders. The French intrusion was economically motivated, specifically in order to mine guano deposits on the islands and to exclude the Japanese (Buszynski 2013: 5). In April 1930, France hoisted its flag over the islands, and French Indo-Chinese authorities announced the annexation of the Spratlys. Three years later the French sent their naval vessels to the Spratlys and occupied six of its islands. In fact, France issued an official notice of its annexation of the islands in July 1933, and later in the year, declared these islands a part of Baria province. The French claims and actions in the Spratlys were protested by China, Japan and Britain. In late 1939, the Japanese established dominance in the region and occupied the Spratlys and Paracels. They placed the Spratlys under the

administration of Kaohsiung in Taiwan, then a Japanese colony, and later used the islands as bases for conducting operations in Southeast Asia and also for submarine attacks on allied naval forces (Severino 2014: 179-80).

After the Japanese defeat and surrender in the Second World War, in the September 1951 San Francisco Conference was called to deliberate on the future of the territories hitherto occupied by Japan. Article 2(f) of the San Francisco Treaty declared that, "Japan renounces all right, title and claim to the Spratly Islands and to the Paracel Islands" (United Nations Treaty Collection 1952: 50). Although China was not a participant in the Conference, Zhou Enlai, then Foreign Minister of the PRC, claimed Chinese Sovereignty over the SCS, before the Treaty with Japan was signed. Similar claims were asserted by Vietnamese representative to the conference, Tran Van Huu. The San Francisco Treaty stripped Japan of possession of the Spratlys and the Paracels but did not specify which country would have sovereignty over them. The inability of the Conference to identify the successor resulted in contesting claims that remain unresolved as yet (Buszynski 2013: 6).

Vietnam's claims over the SCS and the Island territories are based on the principle of being a 'colonial successor state', and having the right to inherit the territory from France. The latter, however, disputed the Vietnamese claim arguing that, after decolonisation resulting from 1954 Geneva Conference, Paris had ceded only the Paracel Islands to Vietnam. Philippines made similar claim in its capacity as a successor state to Japan's colonial empire and that "the San Francisco Conference had left the area as *res nullius*," and open to whichever state laid claims first (Ibid). In 1956, a seafaring Philippine adventurer, Tomas Cloma, sailed to the Spratly islands. As these islands were not demarcated in any standard maps of the time, Cloma called the area Kalayaanor (Freedom-land) and unilaterally issued a "Proclamation to the whole world" that announced the creation of a new state, although no country recognised his claim (Tiglao 2011). In 1978, basing its claim on Cloma's discovery of the islands, the Philippine government under President Ferdinand Marcos formally annexed the archipelago, which was named as the 'Kalayaan Island Group,' and made it a 'separate municipality of the Province of Palawan' through Presidential Decree No.1596. The decree states that the

archipelago belongs to the Philippines "by reason of history, indispensable need, and effective occupation and control established in accordance with international law" (Official Gazette, Govt. of the Philippines 1978). The Philippine actions motivated Malaysia to use the contiguous continental shelf[37], which overlaps that of Philippines, as the legal basis for asserting its own claims over the islands. Brunei's claim to an EEZ also overlaps with Malaysia's (Buszynski 2013: 6). Hence, the territorial disputes became more complicated in the mid-1970s. Some scholars suggest that the re-emergence of disputes in the SCS was a symptom of the changing balance of power associated with the end of the Vietnam War (Hyer 1995: 36).

The presence of American and Russian naval forces based in Philippines and Vietnam respectively, acted as a stabilising balance of power in Southeast Asia. With the end of the Cold War, both the super powers withdrew their military bases from the region, leaving China as the dominant naval force in the Asia-Pacific. Many regional states feared that China intended to establish control over the South China Sea as a "Chinese lake" and that the supremacy in this "heartland" would allow China great political and strategic sway over the smaller regional players (Ibid.). Throughout the 1990s, the South China Sea dispute was often regarded as a major regional security flashpoint. The problem was intensified in February 1995, when China's armed forces encroached on the Philippines-claimed Mischief Reef in the Spratlys. The Mischief Reef incident also indicated that the Philippines had become the most vulnerable claimant since the 1992 withdrawal of American forces from the Subic Bay Naval Base and the Clark Air Force Base. The US departure from the region had removed a major deterrent against China's territorial aspirations in the area (Emmers 2007: 7).

6.4. Claimant States

Most of the claimant states, except Brunei, have pursued the policy of occupying some section of the archipelago, deployed troops and fortified various reefs. It is believed that

[37] The UNCLOS defines a continental shelf as- "The continental shelf of a coastal state comprises the sea-bed and subsoil of the submarine areas that extend beyond its territorial sea throughout the natural prolongation of its land territory to the outer edge of the continental margin or to a distance of 200 nautical miles from the baselines from which the breadth of the territorial sea is measured" (UNCLOS article 76(1)).

with the increase of strategic and economic significance of the SCS, all the claimant parties are strengthening their claims and no country is ready to comprise on their sovereign rights and interests over the disputed territory. There are six claimant countries, some with claims over the entire archipelago and their contiguous waters, while some have only partial claims. In order to understand Malaysia's approach to its claim in the South China Sea it is important to examine briefly the basis of the claims of those who are party to the dispute.

6.4:1 Brunei's Claims

The Sultanate of Brunei is perhaps the least visible among the states involved in the territorial dispute in the South China Sea. Its claims do not include any of the islands in the Spratly archipelago, nor has it developed a presence, military or otherwise on any of the islands. However, Brunei does lay a claim for sovereignty, on the basis of continental shelf extension, over a part of the waters around the Spratlys, including over two maritime features, namely Louisa Reef and Rifleman Bank (Rowan 2005: 419; Koh 2011). Controlling the Louisa Reef would allow Brunei to extend its EEZ, although its claim is relatively weak as this reef has only two small rocky outcrops which submerge in high tide. An official map published in 1988 extended Brunei's continental shelf claims by 350 nautical miles, which form the legal basis of its territorial claims till the Rifleman Bank (Rowan 2005: 419). The Preliminary Submission on Brunei's Extended Continental Shelf clearly states that the country's continental shelf "extends beyond 200 nautical miles from the baselines from which the breadth of Brunei's territorial sea is measured" (UN DOALOS 2009).

6.4:2. Vietnam's Claims

Vietnam claims sovereignty over the entire Spratly archipelago (known locally as Truong Sa) as part of the offshore territory under the jurisdiction of its Khanh Hoa province. Further, Vietnam also claims sovereignty over the Paracel Islands (Hoang Sa), accusing China of forcefully occupying the islands in 1974. Vietnam has military presence on about 22 land formations in the area, including on Spratly Island (Dao Truong Sa), West London Reef, Pearson Reef, Sin Crowe Island, Namyit Island, Amboyna Cay, Sand Cay,

Southwest Cay, and Barque Canada Reef. The military presence is centred around the fortified garrison on Sin Crowe Island, which boasts of artillery and anti-aircraft installations. In addition, Vietnam has also constructed extensive infrastructure facilities around the area, including a small airfield on the Spratly Island (built in 1989) and structures on Vanguard Reef, Prince Consort Bank, and Grainger Bank. As in the case of Brunei, Vietnam's claims have also been contested as several of these maritime features are mostly submerged (Rowan 2005: 424).

Vietnam bases its claims on arguments of activities carried out during the Nguyen Dynasty (Quoc Su Quan) (17^{th}-19^{th} centuries). Vietnam drafted and issued two White Papers, titled *Vietnam's Sovereignty over the Hoang Sa and Trung Sa Archipelagoes*, in 1979 and 1982 containing maps and supporting historical documents in order to substantiate its claims over the Spratlys and the Paracels. In addition, Hanoi also uses the principle of 'colonial successor state' to support its claims (Joyner 1999: 61; Nguyen 2012: 186-87). In its May 2011 *Note Verbale*, submitted to the United Nations (UN), Hanoi reasserted its claims stating that "Hoang Sa (Paracel) and Truong Sa (Spratly) Archipelagos are integral parts of Vietnamese territory. Vietnam has sufficient historical evidences and legal foundation to assert her sovereignty over these two archipelagoes" (UN DOALOS 2011).

6.4:3. The Philippines' Claims

The Philippines stakes territorial claims do not cover the whole of the Spratlys and are rather limited to eight islets. Its claims are based on four arguments: these maritime features are contiguous to the main islands; the region is vital to the security and economic survival of the Philippines; the islets were abandoned after second World War and were open to be claimed.; and the recent Philippine occupation of some small features allow it the legal basis to claim them on the argument of "discovery" or "prescriptive acquisition" (Rowan 2005: 421). However, Philippine's claims are based principally on the 1956 "discovery" and subsequent occupancy of certain islands by the explorer Tomas Cloma, who officially transferred the "ownership" of the islands to the Philippines government in 1974. In 1971, the Philippines government had, for the first

time, officially claimed the eight islands in the Spratlys (Joyner 1999: 61-62). In 1978 the archipelago was formally annexed by Philippines and designated as part of Palawan province by a Presidential Decree (Official Gazette, Govt. of the Philippines 1978). Recently, in a note submitted to the UN in April 2011, the Permanent Mission of the Philippines reaffirmed its claims stating that

> the Kalayaan Island Group (KIG) constitutes an integral part of the Philippines. The Republic of the Philippines has sovereignty and jurisdiction over the geological features in the KIG...The Philippines...necessarily exercises sovereignty and jurisdiction over the waters around or adjacent to each relevant geological feature in the KIG as provided for under the United Nations Convention on the Law of the Sea (UN DOALOS 2011a).

6.4:4. Indonesia's Interests

Indonesia is technically not a claimant in the ongoing dispute regarding territorial sovereignty over the South China Sea, but it has strategic interests in the region as China's and Taiwan's claims extend into Indonesia's EEZ and continental shelf. China's so-called "nine-dash" line map includes the areas around the Natuna Islands—an archipelago of roughly 300 small islands—the basin around which contains Indonesia's largest natural gas reserves (Hongfang 2011: 588). In a 2010 note submitted to the UN, Jakarta has rejected Beijing's claims stating that the above-mentioned map of China "clearly lacks international legal basis" and therefore its purpose is "tantamount to upset the 1982 UNCLOS" (UN DOALOS 2010) .

6.4:5. Taiwan's Claims

The claims asserted by Taiwan extend over all the island chains in the SCS including the Spratlys (referred to locally as Nansha), Paracels (Xisha), Macclesfield Bank (Chungsha), and Pratas (Tungsha) Islands, as does China's claims. However, it enjoys territorial control only over the Pratas Island and Taiping (also known as Itu Aba). Taipei believes in historic ownership over the territory within a specified U-shaped line but this claim is challenged by the other claimants. Taiwan is also the first party to the dispute which decided to militarily occupy one of the Spratlys' islands and to establish its physical presence in the Spratlys following the departure of Japanese after World War II. Thus,

the Itu Aba Island, largest in the Spratly archipelago, has been under Taiwan's control since 1956 (Lin 1997: 323-24).

Taiwan has stationed troops on Itu Aba, along with supporting infrastructure including a radar station, an airstrip, a meteorological centre, and a power plant. Interestingly enough, this Taiwanese occupation has not yet been seriously challenged either by China or any of the other claimants (Kao 2014: 161). Similarly, Taiwan has also historically refrained from taking any action whenever other claimants occupied parts of the South China Sea. Further, Taipei has refrained from constructing lighthouses on territory in the Spratlys claimed by it. Although the Spratly islands are situated 800 nautical miles from Taiwan and much beyond the usual range of its power projection, Taipei has attached significant importance to this archipelago in the post-Cold War period. In 1993, Taipei unilaterally adopted the "South China Sea Policy Guidelines" which comprises of five principles: first, safeguard Taiwan's territorial claims in the SCS; second, strengthen development and management of the Sea; third, promote cooperation among the coastal countries of the region; fourth, oppose any provocative move in the disputed territory and support any initiatives to resolve the issue peacefully; and fifth, preserve the ecological environment of the Sea (Lin 1997: 324-25). However, due to Taiwan's ambiguous international status and the absence of diplomatic ties with any of the claimant states, it is difficult for Taipei to conduct any negotiations for resolving the dispute (Kao 2014: 162).

6.4:6. China's Claims

China is the most provocative and aggressive among the parties to the dispute, claiming widest-ranging areas of the water. China claims sovereignty over four major archipelagos: Paracels (which it calls Xisha), Spratlys (Nansha), Pratas (Dongsha), and Macclesfield Bank (Zongsha), as well as over the Scarborough Reef (Huangyan Island) (Beckman 2013: 153). Beijing's position is based on assertions that the South China Sea is "an inalienable part of Chinese territory since ancient times," an area lost to the colonial powers in the 19thcentury but to be recovered in full (Ministry of Foreign Affairs, the PRC 2000a). China bases its claims in the South China Sea on 'historical' grounds, arguing that "it was the Chinese people who were the first to discover and

develop the Nansha Islands and it was the Chinese Government that has long exercised sovereignty and jurisdiction over these islands" (Ibid). According to indigenous sources, Chinese forbearers discovered the islands, including the Spratlys and Paracels, during the reign of the Han Dynasty, almost two thousand years ago. The discovery of islands, detailed descriptions of the geographical locations and activities of Chinese navigators in the area are mentioned in books such as *Yiwu Zhi* (Records of Rarities) written by Yang Fu of the Eastern Han Dynasty (23-220 A.D.) and *Funan Zhuan* (Journeys to and from Phnom) (an ancient state in present day Cambodia) written by General Kang Tai of the East Wu State of the Three Kingdoms Period (in the 3rd century) (Ibid; Ministry of Foreign Affairs, the PRC 2000b).

Many historical accounts from the Song and Yuan Dynasties (10th-14th century), suggest that the South China Sea was a part of China's boundaries. Yuan Dynasty navigator Wang Dayuan, for instance, mentions the Spratlys in his book *Abridged Records of Islands and Barbarians*. During the Ming and Qing Dynasties, China included the Spratlys in its official maps and recognised these islands as Chinese territory. China also tries to substantiate its claims by arguing that Chinese fishermen have been operating in these waters for centuries. Detailed historical navigational records of routes and names of the islands, islets and shoals in the Sea are said to exist. "The Road Map" which served as a navigational guide for fishermen during the Ming and Qing Dynasties, has also been considered by Beijing as "strong evidence" about the activities of Chinese people in the Paracels and the Spratlys (Ministry of Foreign Affairs, the PRC 2000a).

In the modern period, China started staking claim on these islands in the 19th and 20th century. The first formal assertion regarding sovereign right to Spratly and Paracel islands was made in 1876, with Chinese ambassador to England claiming the latter island group. This was followed by the first forceful action in modern times when, in 1883, a German survey team was expelled from the Spratlys. However, with increasing incursions of colonial powers in the region, by 1930s, China started losing territory in and around the islands (Rowan 2005: 427). During World War II, the Spratlys were controlled by Japan. Two years after the end of the War, in 1947, the Republic of China published an official map, for the first time using eleven-dashes drawn in a u-shape (also

known as the U-shaped line), to include most of the area of the South China Sea as its territory. Interestingly enough, the title of this map was "Map on Location of Islands in the South China Sea," suggesting that this map was intended only to represent the location of these islands. After the foundation of the People's Republic of China in October 1949, this dashed-line map was adopted as part of official claim. In 1953, the two dashes of the eleven-dash line, encompassing the Gulf of Tonkin, were deleted, leaving it a nine segments or nine-dash line (Beckman 2013: 154).

China's claims evolved into codified domestic laws in keeping with the evolution of the international maritime legal regime. In 1992, China adopted a "Law on the Territorial Sea and the Contiguous Zone of the People's Republic of China," laying down China's exclusive claim over the Spratlys, Paracels and Pratas Islands and authorising the Chinese military to evict trespassers by force (UN DOALOS 1992). Subsequently, in 1996, China issued baselines based on which it would calculate its territorial waters. In 1998, China's National People's Congress (NPC) passed the "Exclusive Economic Zone and the Continental Shelf Act of the People's Republic of China," containing claims regarding maritime rights in addition to those claimed by the 1992 law. The 1998 law did not specifically mention the Spratlys and Paracels, but, when read along with the 1992 law, it forms the legal basis for extending territorial claims over most of the South China Sea (Fravel 2011: 294; UN DOALOS 1998).

Recently in April 2011, reaffirming and reiterating its claims over the South China Sea, the Permanent Mission of the PRC to the UN presented a *Note Verbale* to the UN Commission on the Limits of the Continental Shelf (UNCLCS), in which Beijing stated that

> China has indisputable sovereignty over the islands in the South China Sea and the adjacent waters, and enjoys sovereign rights and jurisdiction over the relevant waters as well as the seabed and subsoil thereof. China's sovereignty and related rights and jurisdiction in the South China Sea are supported by abundant historical and legal evidence (UN DOALOS 2011b).

Map-3: Official Chinese map of the South China Sea with the "nine-dash" line

Source: The Traffic and Tourist map of Hainan, 1999. Adapted from Tonnesson (2000): 310.

Further it said that

> under the relevant provisions of the 1982 UNCLOS, as well as the Law of the PRC on the Territorial Sea and the Contiguous Zone (1992) and the Law on the EEZ and the Continental Shelf of the PRC (1998), China's Nansha Islands [Spratlys] is fully entitled to Territorial Sea, EEZ and Continental Shelf (Ibid).

However, the scope of China's claims remains ambiguous. First, UNCLOS provisions would not categorise several South China Sea geographical features, claimed by China, as 'islands.' Under UNCLOS, in order to be considered as an island, a land feature needs to be "above water at high tide" (UNCLOS Article 121(1)). The features used by China to be base its claims do not satisfy this criteria and, thus, cannot be the basis for staking claims over continental shelf and EEZ. In addition, as per Article 121(3) of the UNCLOS, in order to serve as a base for continental shelf and EEZ claims, islands must have the capacity to "sustain human habitation or economic life of their own" (UN DOALOS 1994). Other than military troops, none of the Spratlys' islands have ever sustained permanent human habitation (Tonnesson 2000: 312). Second, the historic rights mentioned by China in support of its sovereignty claims are ambiguous. Article 14 of China's 1998 EEZ and Continental Shelf Act states that, "The provisions of this Act shall not affect the historic rights of the People's Republic of China" (UN DOALOS 1998). These "historic rights" have not been clarified by Beijing, nor is there unambiguous understanding on whether these "rights" extend over ocean space inside the nine-dash line. Moreover, "historic rights" do not enjoy much legal weight in international law. Beijing further argues that its territorial claim predates the UNCLOS (came into force in 1994) and that it should be modified to accept and accommodate "historical rights" (Buszynski 2012: 140).

China's official map of the region containing nine-dash line creates another source of ambiguity. First charted in the 1930s, this map was brought out in 1947 by then Republic of China's government of Chiang Kai-Shek and has been a part of People's Republic of China's official publications since 1949. But, neither governments ever enumerated the legal implications of the nine-dash line, nor did either clarify the exact scope of the territorial claim over the South China Sea. Irrespective of this ambiguity, the nine-dash line remains one of the most important "evidences" used by China to substantiate its

claim over the Sea (Li 2010: 54). Thus, it has been suggested that this line is compatible with the existing law of the sea, even if it might have been based on some outdated concept of international law. The UNCLOS does not recognise or uphold claims of sovereignty by any state beyond the 200 nautical miles EEZ limit, except in the case of 'historic bay'—an exception which cannot be extended to the present case as the SCS is surrounded by many states (Tonnesson 2000: 312). Thus, China's claim on basis of so-called 'historic rights' and U-shaped line map has contributed in making the overlapping claims in the SCS more complicated and contentious.

6.4:7. Malaysia's Claims

Malaysia claims eleven marine features in the southern Spratly Islands of South China Sea, on the basis that they are within its legal continental shelf. Malaysia currently occupies Swallow Reef Island (*Terumbu Layang-Layang*) and three rocks, namely Erica Reef (*Terumbu Siput*), Investigator Shoal (*Terumbu Peninjau*) and Mariveles Reef (*Terumbu Mantanani*). The country has constructed mini-naval stations and small jetties on each of these features. Malaysia also claims Commodore Reef/Rizal Reef (*Terumbu Laksamana*) which is currently occupied by the Philippines and, two other maritime features currently occupied by Vietnam, namely Barque Canada Reef (Terumbu Perahu) and Amboyna Cay (*Pulau Kecil Amboyna*), the latter is also claimed by the Philippines. In addition, Malaysia also claims two low-tide elevations named Dallas Reef (*Terumbu Laya*) and Ardasier Reef (*Terumbu Ubi*) and two totally submerged features (James Shoal and Luconia Shoals) that are situated on its claimed continental shelf. Malaysia's claim to Louisa Reef, which is also claimed by Brunei, has been dropped. All the features claimed by Malaysia are also claimed by Vietnam and China as well as by Taiwan (Roach 2014: 10-15; Salleh et al. 2009: 112).

Ashley Roach's findings show that the only features claimed by Malaysia that could generate maritime zones are the islands named Swallow Reef, Commodore Reef, Barque Canada Reef and Amboyna Cay, and the rocks forming Erica Reef, Investigator Shoal, and Mariveles Reef. The islands are entitled to a territorial sea, EEZ, and continental shelf. The rocks are entitled only to a 12-mile territorial sea. The other features claimed

by Malaysia are either low-tide elevations[38](Dallas Reef and Ardasier Reef) situated more than 12 nautical mile from the mainland or an island or submerged at low tide (James Shoal and Luconia Shoals) (Roach 2014: 15). According to article 13(2) of the UNCLOS, such features have no maritime zone entitlements (UN DOALOS 1994), and hence, are not subject to appropriation. In case of such non-appropriable feature that rise from its continental shelf, Malaysia clearly has sovereign rights over them (Roach 2014: 31).

Kuala Lumpur has used and argued the continental shelf theory, outlined in UNCLOS and reaffirmed in Malaysia's own Continental Shelf Act of 1966, to justify its claims in the Spratlys. However, some scholars find Malaysia's position dubious arguing that neither UNCLOS nor Malaysia's own act indicate that the continental shelf pertains to land or rocks that rise above sea level. The wording of both documents addresses only submerged land and rocks (Valencia et al. 1997: 37). Vivian Louis Forbes comments that control of the continental shelf is not a basis for a claim to title over maritime features, but only a basis for a claim to the resources of the shelf. Kuala Lumpur's claims, therefore, appear to be at odds with the legal principle that claims to maritime space arise from sovereignty over territory rather than other way around (Forbes 2013: 164).

6.5. Malaysia's South China Sea Policy

Malaysia made its first official claim to features in the Spratly Archipelago by publishing a map called *Peta Baru Menunjukkan Sempadan Perairan dan Pelantar Benua Malaysia* (New Map Showing the Territorial Waters and Continental Shelf Boundaries of Malaysia; hereinafter, *Peta Baru*) on 21 December 1979 (Salleh 2009: 108). By publishing this map, Malaysia staked its claims to about a dozen tiny reefs and atolls in the south-eastern portion of the Spratly Islands. Prior to this, Malaysia had enacted a legislation called the Continental Shelf Act, 1966, addressing the question of its continental shelf claims. Article 2 of the 1966 Act defined Malaysia's continental shelf as:

[38] A low-tide elevation is a naturally formed area of land which is surrounded by and above water at low tide but submerged at high tide (UNCLOS article 13(1)).

> the sea-bed and subsoil of submarine areas adjacent to the coast of Malaysia but beyond the limits of the territorial waters of the states, the surface of which lies at a depth no greater than two hundred metres below the surface of the sea, or, where the depth of the super adjacent waters admits of the exploitation of the natural resources of the said areas, at any greater depth (UN DOALOS 1966).

When the 1966 Act was promulgated, there were no protests, and the legislation was of a general nature, not specific in the area claimed by Malaysia. While there were no disputes following the 1966 legislation, the 1979 map drew protests from Malaysia's neighbours. A few months later, in April 1980, Kuala Lumpur finally announced the country's 200 nautical mile EEZ, which expanded its territories. With this proclamation, Malaysia entered the Spratly Islands dispute, laying claims alongside those of China, Taiwan, Vietnam, Philippines, and Brunei. Kuala Lumpur's new position prompted Beijing to send a diplomatic note stating that "unilateral demarcation without negotiating with the government of the PRC constitutes a violation of China's sovereignty" (Baginda 2002: 237). In June 1983, when the FPDA conducted a naval exercise in the South China Sea, Malaysia renamed the Swallow Reef to *Terumbu Layang-Layang* or *Pulau Layang-Layang* (an island situated approximately 160 miles northwest from Kota Kinabalu, Sabah) and established a permanent military presence there, indicating its desire to back its claim (Ibid). The Malaysian government subsequently occupied the Dallas (Ubi) and Mariveles (Matanani) Reefs along with six smaller islets in November 1986. Later, in June and August 1999, Malaysia erected structures on both Investigator Shoal (Terumbu Peninjau) and Erica Reef (Terumbu Siput) (Liow 2000: 686).

Malaysia's policy towards the South China Sea is guided by its significant strategic and economic interests in the region. The most important interest is safeguarding the country's claims over certain features in the Spratlys which are essential for Malaysia's economic prosperity and maritime security. Malaysia, which is a significant producer of oil and natural gas, derives a considerable part of energy resources from this region (Parameswaran 2015:4). For instance, the Luconia Reefs (North Luconia and South Luconia) area (currently occupied by Malaysia) contains extensive reserves of oil and natural gas. Malaysia has already built oil platforms in this area (Roach 2014: 14). A policy document of Malaysia's Ministry of Defence also acknowledged that the area controlled by Malaysia in the Spratlys have abundant hydrocarbon and fisheries resources

and have contributed significantly to the country's economy (Ministry of Defence 2010: 3). Security-wise, Malaysia has a special interest in the South China Sea lanes of communications which are indispensable for connecting the island provinces of Sabah and Sarawak to Peninsular Malaysia. A threat to or obstruction of the sea and air lanes in this region could jeopardise the territorial integrity of Malaysia (Ibid: 3-4). In addition, Kuala Lumpur has an interest in maintaining a cordial and close relationship with Beijing and, therefore, does not allow the SCS disputes to overshadow bilateral ties. Although, the area claimed by it in the Spratlys lies in the southernmost part of China's so-called nine-dash line, Malaysia has been much less affected by China's assertiveness than other Southeast Asian claimants, especially compared to the Philippines and Vietnam. Lastly, but of importance, Malaysia considers that ensuring regional peace and stability, especially considering the importance of the South China Sea for global maritime trade, shipping and telecommunications, is essential for all developing economies (Parameswaran 2015: 4-5).

It should be noted that all the maritime features claimed and occupied by Malaysia clash with China's claims which encompass the entire body of waters and all its islets in the South China Sea. Although both the countries have not allowed a military confrontation with each other; Malaysia is nonetheless concerned about China's activities in the region. Malaysia's concerns for China's intentions in the Sea seemed to peak in 1995, during the Mischief Reef incident. In February 1995, Chinese-built structures were discovered by Filipinos on Mischief Reef 135 miles west of Palawan and within the EEZ limits of Philippines. This was the first time China had confronted an ASEAN member in the South China Sea, limiting its hostile attitude to then non-ASEAN members such as Vietnam (Thuy 2011: 2-3). However, China stated that the constructions were nothing but 'shelters for fishermen', the incident drew strong reactions from the ASEAN member countries including Malaysia (Stenseth 1999). As it was reflected in then Prime Minister Mahathir Mohamad's speech at a conference on "The Future of Asia" in May 1995:

> the worst possible scenario, Asian countries would go to war against each other...may start with disputes over the Spratlys. China insists that the South China Sea belongs to China along with all the islands, reefs and the minerals in

> the sea. To emphasise its claims, China builds a series of shelters for Chinese fishermen. They look suspiciously like military installations (OPM 1995a).

Malaysia stood with ASEAN and was part of the collective concern for Chinese expansionism in Mischief Reef. Reflecting Malaysian views, former Director-General of the government-linked Institute of Strategic and International Studies (ISIS) in Kuala Lumpur, Noordin Sopiee admitted that the 1995 Mischief Reef incident "had a very substantial impact on how we [ASEAN] look at China" (quoted in Liow 2009: 66-67). However, Kuala Lumpur seemed to quickly reassess its approach towards Beijing with regards to the South China Sea. In October 1995, during the fifth bilateral meeting of foreign officials from Malaysia and China, both countries concluded a China-Malaysia Spratly Accord that rejected any form of outside interference or mediation in the islands dispute (Liow 2000: 687).

Since 1995, there has been a perceptible change in Malaysia's South China Sea policy with regards to China. For example, when the Mischief Reef conflict between the Philippines and China erupted again in November 1998, Kuala Lumpur's stance was significantly different from that of 1995. Rather than cautious admonition, Kuala Lumpur chose to commend China's restraint. During the 1999 ASEAN Ministerial Meeting, Malaysia rejected Philippines' request to discuss the 1998 Mischief Reef incident at the ASEAN Regional Forum (Ibid). Kuala Lumpur also supported Beijing's demand to prevent the internationalisation of the issue insisting that the territorial dispute could be resolved without the involvement of external powers, provided that the freedom of navigation is not jeopardised (Odgaard 2003: 15). Following the above incident, Malaysia opposed a proposed Code of Conduct drafted by Philippines and Vietnam, insisting that a code of conduct could only be a guideline, not an obligatory treaty under international law (Ibid). This willingness of Malaysia to oppose fellow ASEAN members over the dispute revealed the extent of amity and cooperation that exists between Malaysia and China. Malaysia's response to the Mischief Reef dispute echoed what has been a long-held stance of China that bilateral negotiations are the only acceptable approach to resolving disputes, including the one in South China Sea (Liow 2000: 688).

As per Malaysia's strategic interests in the Spratlys, it has been suggested that Malaysia has three options: it can either rescind its territorial claims, forcefully assert its claims and confront Beijing (either unilaterally or multilaterally) politically, diplomatically and militarily, or position itself in a seemingly pro-China stance with the expectation that, in the future, the latter would be less aggressive regarding its territorial claims. The first option is unlikely to materialise as it is a sensitive issue involving Malaysia's sovereignty and economic-strategic interests. As for the second option, the chances of assembling a successful military or political coalition against Beijing are almost non-existent. This is because while the potential coalition-partners within ASEAN are suspicious and openly opposed to each other's claims in the region, the involvement of a major external power would also be crucial to confronting China. Presupposing the creation and sustenance of an anti-China military and political coalition in Southeast Asia, the economic and political costs of such an endeavour would be too prohibitive, to the extent that states like Malaysia would not choose to execute such a decision. In such a scenario, the most pragmatic option for Kuala Lumpur is to draw closer to China. Malaysia's reactions to the 1998 incidents in the South China Sea and subsequently in the ASEAN forum indicate that Kuala Lumpur might be pursuing the third option vis-a-vis Beijing (Liow 2009: 73). Malaysia has chosen bilateral as well as multilateral dialogue as the basis of its dealings with China, in full realization negotiations are a better means of securing the country's interests.

Another major aspect of Malaysia's approach is that collective interactions and bargaining with China, through the ASEAN institutions, are conducted parallel to the bilateral channel. Its overwhelming military and economic strength makes it imperative that in dealing with China, the ASEAN states have to rely on a united, concerted front. Being a part of ASEAN, thus, grants more leverage to Kuala Lumpur (Acharya 1999: 145). Successful engagement between two states requires certain equanimity in terms of power and status. "Engaging" a superior rising power may not be a credible option for a weaker power because it does not mean much for the "power-prestige demands" and needs of the superior power. When the capacity of two sides to damage each other's interests is unequal, the weaker side's policy of engagement may be seen by the stronger side as a form of appeasement (Ibid). However, Beijing prefers a bilateral approach in

engaging with ASEAN members regarding South China Sea disputes. As argued by some scholars, "it is in China's interest to deal with its neighbours bilaterally, and to seek to reduce any efforts to 'internationalize' aspects of foreign policy that would result in more actors being capable of working together to balance China" (Segal 1996: 114).

6.6. Impact of the SCS Dispute on Malaysia-China Relations

The controversy regarding claims over the islands of the South China Sea in itself is not a major factor in Malaysia-China relations. Malaysia's claims in the Spratlys have not affected bilateral relations, with the exception of the usual diplomatic protests. Malaysia has yet to have any direct confrontation with China over any particular landmass. That Malaysia and China have not attempted to exert a physical presence on the same island at the same time has contributed to the relatively cooperative and amicable approach both parties have taken in response to each other's claims (Liow 2000: 685). Although, China has a fairly regular record of aggressive posturing in the South China Sea, as of now, most of such posturing has been targeted at Vietnam. A long history of hostility with Vietnam presents the backdrop for this aggression. China and Vietnam had clashed over the Paracel Islands in 1974 as well as over their common border in 1979 (Baginda 2002: 238).

Until late 1992, China had dealt with Malaysia and other ASEAN claimants in a less heavy-handed manner as compared to Vietnam. In the immediate aftermath of the Sino-Vietnamese clash near Sinh Cow Island in March 1988, Beijing demanded that Hanoi withdraw immediately from all the "illegally" occupied islands and reefs of *Nansha Islands* (Spratlys) and reiterated its vow to recover at an appropriate time all the 21 islets and reefs occupied by Vietnam. Indeed, Hanoi's request for ministerial-level talk with China was turned down as an empty gesture. Meanwhile, however, Beijing assured Malaysia and the Philippines that China held no inimical feelings toward them, and declared that its dispute with them over the Spratlys could be resolved through amicable dialogues. In April 1988, when then Chinese Prime Minister Li Peng pointed out in his government work report to the first Plenum of the Seventh NPC that collusion had emerged among regional claimant countries at China's expense, he criticized only Hanoi

directly, alleging that Vietnam was "going out of its way to use the dispute to drive wedges" between China and ASEAN (Jie 1994: 900-901).

In the case of Malaysia's contrary stand to China's claims, it can easily be argued that the latter's response has been much more benign. While China vociferously opposed, as "flagrant provocation of its territorial integrity," the May 1989 visit by Vietnamese Army Chief-of-Staff and the Vice-President of the Council of State to Vietnam-occupied islets in the Spratlys (Ibid: 901), Beijing remained silent over a similar May 1992 visit of the Yang-di-Pertuan-Agong, the Constitutional Head of Malaysia, to Swallow Reef Island. Similarly, China strongly protested against Vietnam's "illegal" establishment in 1989 of a 'Science, Technology and Economic Zone' on certain Spratly islands and reefs, but made only moderate reactions when Malaysia initiated development of Swallow Reef Island into a tourist resort in 1991, thus becoming the first country to use the disputed islands for tourism. However, China did complain about Malaysia's construction of an airstrip on the Swallow Reef island, although, even then it refrained from commenting on the whole project and remained silent even when the resort construction was well underway in 1992 (Jie 1994: 901).

Despite the generally positive overtone of China-Malaysia bilateral relations in the backdrop of contradictory territorial claims, the issue did influence Malaysian policy makers' threat perception of China. Whereas previously there was hardly any cause for a direct military clash between Malaysia and China, the Spratly dispute created such a scenario where the two countries are confronting each other. Notwithstanding Beijing's moderate reaction towards Kuala Lumpur's claims and subsequent occupation of some of the maritime features, Malaysia began to see its claims within the context of the need to defend its presence and to prepare for contingencies against any possible conflict, especially with China (Baginda 2002: 238-39). As Vice Admiral Mohamad Shariff Ishak, then chief of the Royal Malaysian Navy (RMN), said in 1994:

> In maritime terms, there is a real and close threat which we must be prepared to deal with- one being the territorial dispute in the resources rich South China Sea. Issues of territorial disputes could be used as a facade for the pursuance of regional superpower role by those harbouring hegemonic ambition. It would be

> too naive for us to disregard the worst that could evolve from these developments (Baginda 2002: 239).

However, China has not 'threatened' Malaysia directly, it has only worked to strengthen its presence and power-projection capabilities in the region. Further, China has demonstrated its firmness over the issue of sovereignty in the area, prompting some scholars to suggest that its claims were indicative of China's "long term goal of becoming a regional sea power in order to expand its sphere of influence" (Bert 1993: 327). Similarly, it has also been argued that "China is 'the threat' to the status quo, peace and stability of the South China Sea region" (Guan 2000: 201).

Some analysts suggest that the looming 'China threat' in the South China Sea did play an important role in influencing Kuala Lumpur's decision of its ambitious military modernisation programme in the 1990s which includes the acquisition of the British Hawk trainer jet, the Russian MiG-29 Fulcrum, and the US F-18 combat fighter aircraft, large surface platforms such as 2200-ton guided missile frigates (Acharya 1999: 133). With the uncertain climate following the post-Cold War withdrawal of Russian and American forces from Southeast Asia, the China factor did loom large in Southeast Asian countries including Malaysia (Ibid: 134). Malaysia's maritime concerns reflected in a statement of the former Chief of Malaysia's Defence Forces, General Hashim Mohammed Ali. In March 1992, comparing the three regional powers, India, Japan and China, General Hashim said that "while India is constrained by domestic problems and Japan by constitutional constraints, China continued to increase its defence spending and military modernisation and threatened the use of force to support its territorial claims in the South China Sea" (Ibid: 132). A Malaysian military officer, Brigadier General Mohammad Ali bin Alwi clearly stated:

> Having inadvertently displayed its naval might in the Spratlys in 1988 and shown its determination to protect its territorial interest, China has caused turmoil in the stability and security of the area. The fear and concern among the smaller littoral states in the region are justifiably grave. Even Vietnam, the strongest military nation in Southeast Asia, cannot match the Chinese onslaught. Therefore, the presence of large Chinese naval forces in the South China Sea is seen as threatening to the security of other disputants (Alwi 1991: 32)

Although, the above mentioned security analysts have identified China as a threat to regional stability, statements from Malaysian political elite have tended to be less direct. For instance, in May 1994, PM Mahathir stated that, "Historically China has not exhibited any consistent policy of territorial acquisitiveness. Its neighbours may have lost some disputed territory, but full invasion and colonisation has not been a feature of Chinese history" (OPM 1994).

Malaysia's security planners and defence analysts have been much more forthcoming than its political elites in voicing concerns about the rising power of China. For instance, in November 1995, General Che Md. Noor b. Mat Arshad, the Chief of Malaysian Army, gave a clear hint of the country's fears about China's rising military power:

> China has engaged in a large defence build-up....Despite recent friendly utterances, suggesting that China wants to see peace in the world and particularly in East Asia, it seems likely that the long-term aim is dominance, though not necessarily aggression. That surely must be the meaning of the proposed large fleet and this factor immediately focuses attention on the most sensitive territory in Southeast Asia- the group of Spratly Islands (Acharya 1999: 132).

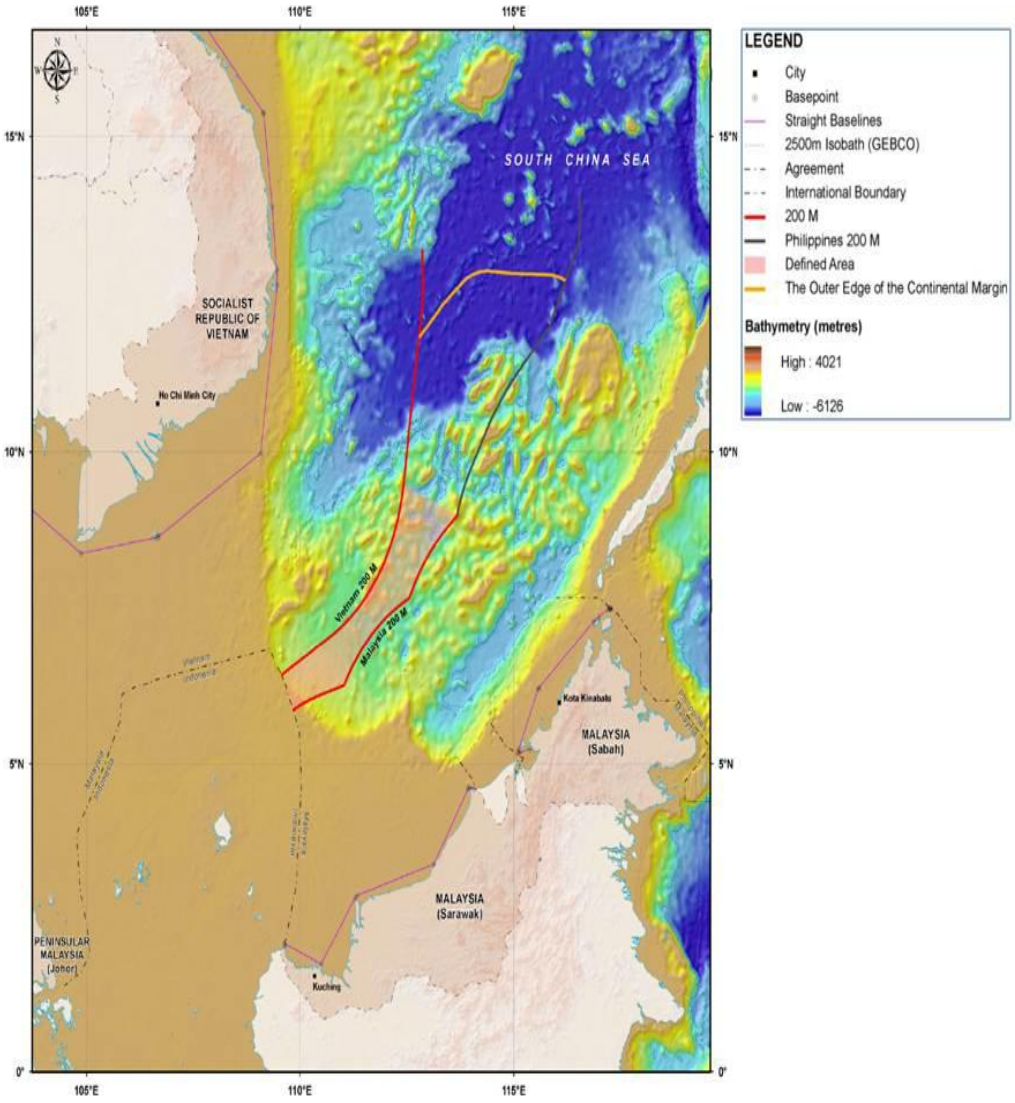
Confrontation over territorial claims over islands in the South China Sea has dogged Malaysia-China relations in the twenty-first century. However, Kuala Lumpur has remained committed to the peaceful resolution of the dispute through consultation and negotiations. Further, Malaysia has also committed to maintaining peace and stability in the region through the full and effective implementation of the 2002 Declaration on the Conduct of Parties in the South China Sea (DOC), in its entirety. The DOC was a part of the China-Malaysia joint communiqué issued during the visit of PM Abdullah Ahmad Badawi to China in 2004. According to the joint communiqué, both countries agreed:

> to maintain peace and stability in the South China Sea and to promote the settlement of disputes through friendly bilateral consultations and negotiations in accordance with universally recognized principles of international law, including the 1982 United Nations Convention on the Law of the Sea. The two sides also expressed their readiness to study the follow-up actions on the implementation of the Declaration on the Conduct of Parties in the South China Sea (Joint Communiqué 2004).

On the other hand, the government in Kuala Lumpur continued to consolidate its claims in the Spratlys. The country has upgraded military structures on occupied reefs and atolls in the sea. Indeed, in 2007, Malaysian Foreign Minister Datuk Seri Syed Hamid Albar partially justified the acquisition of French-manufactured *Scorpene* submarines on the grounds they could be used to defend the Malaysian claims in the Spratlys and to ensure the security of regional maritime area (Bernama 2007; Storey 2011: 228). The submarines, which were commissioned in 2009, are stationed in Sabah close to the Spratly islands. In 2008, during a visit to Malaysia-occupied Swallow Reef Island (*Pulau Layang-Layang*), then Deputy PM and Defence Minister Najib Tun Razak clearly stated that the stationing of strategic assets such as warships and combat aircraft in the Spratlys would ensure that "people will be apprehensive about undermining the sovereignty of our nation." Further he said, "if we want oil or other products from the earth, we have to safeguard the sovereignty of this island" (The Sun Daily 2008). In early March 2009, PM Badawi also visited the Swallow Reef to reaffirm the country's sovereignty claims over the island. In response, Beijing reiterated that it had "indisputable sovereignty over the Nansha Islands (Spratlys) and adjacent waters" (Dasgupta 2009; Bernama 2009).

In May 2009, the joint submission of claims made by Malaysia and Vietnam for Extended Continental Shelf (ECS) to the United Nations Commission on the Limits of the Continental Shelf (CLCS) also contributed to renewed friction. As per the rules of procedure adopted by the CLCS, all claimant countries in Southeast Asia had to submit information to the CLCS by 13 May 2009 if they intended to make a claim for a "continental shelf beyond 200 nautical miles" pursuant to Article 76, paragraph 8 of the UNCLOS (UN DOALOS 1994). Kuala Lumpur and Hanoi submitted their claim for extended continental shelf on 6 May 2009, just a few days before the deadline for all the signatories to the UNCLOS.[39]

[39] Malaysia signed the UNCLOS on 10 December 1982 and ratified the same on 14 October 1996.



Map-4: Joint ECS Submission by Malaysia and Vietnam

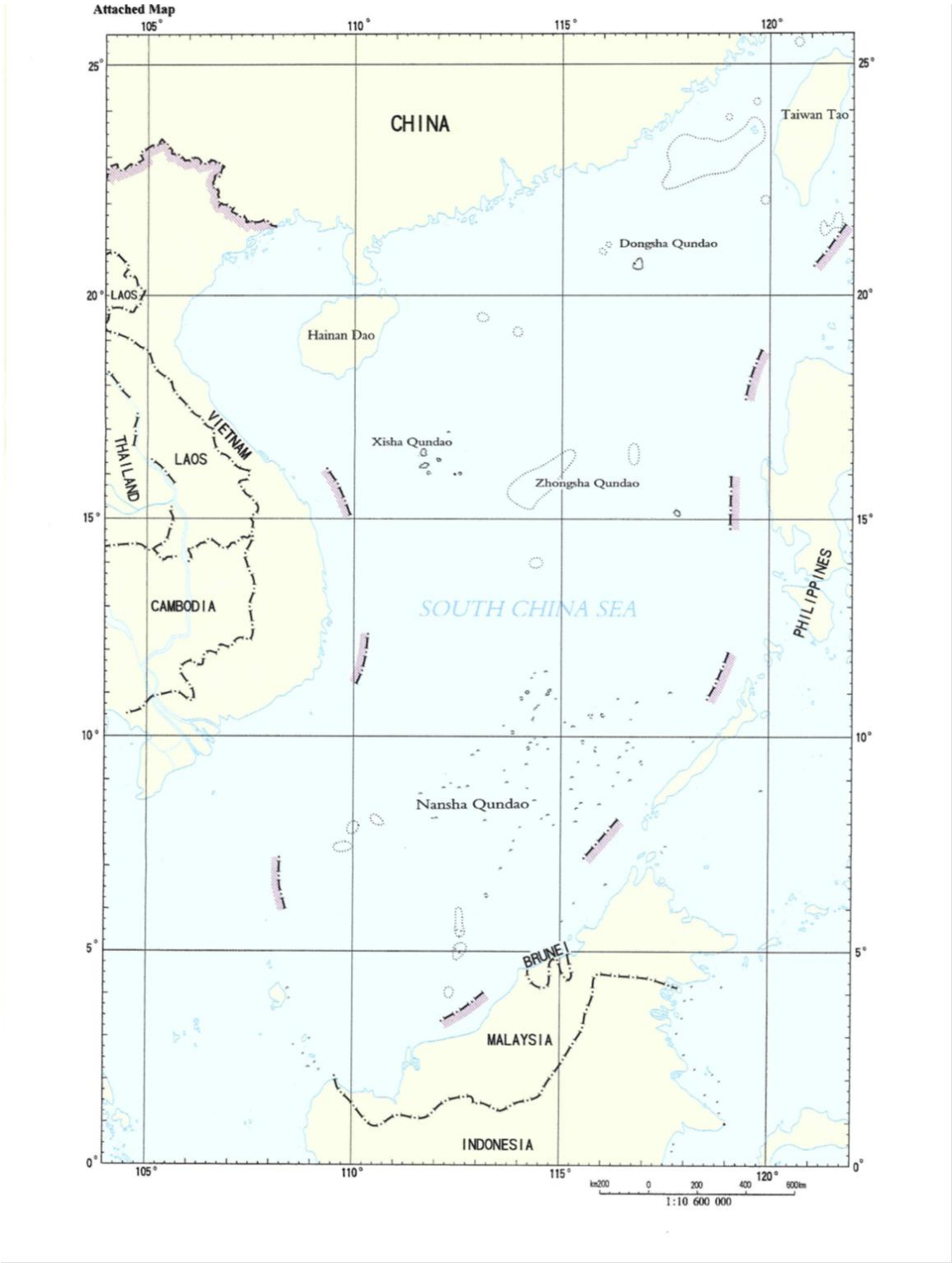
(Source: Executive Summary of the Joint ECS Submission)

The joint submission staked claims on specific areas of the continental shelf in the southern part of the SCS. Malaysia and Vietnam argued that their submission included a small part of the outer extremity of their continental margin and that they reserved the right to submit further submissions, either jointly or unilaterally. The two coastal states' submission did acknowledge that there are unresolved disputes in the area, and that efforts were being taken to attain no-objection clearances from the other concerned states.

Both the states emphasised that the joint submission would not "prejudice matters relating to the delimitation of boundaries between States with opposite or adjacent coasts" (Govt. of Malaysia and Govt. of the Socialist Republic of Vietnam 2009: 1-2). It should be noted that the joint ECS submission of Malaysia and Vietnam was measured based on their respective baselines from the main coasts, in Malaysia's case from the baselines of Sabah or North Borneo. According to some experts, by not measuring their continental shelves from any of the islands which the two states claim in the South China Sea, Malaysia and Vietnam have taken the position that the geological features in the South China Sea are not "islands" capable of having 200 nautical miles EEZ and continental shelf[40] (Espina 2013: 12; Beckman 2010: 2).

China objected to the joint Malaysia-Vietnam ECS submission on the basis that it "has seriously infringed China's sovereignty, sovereign rights and jurisdiction in the South China Sea." In its *note verbale,* CML/17/2009 dated 7 May 2009, the Permanent Mission of the People's Republic of China to the UN claimed that "China has indisputable sovereignty over the islands in the South China Sea and the adjacent waters, and enjoys sovereign rights and jurisdiction over the relevant waters as well as the seabed and subsoil thereof." Clarifying its position, the Chinese Government "requested the Commission not to consider the joint submission" by Malaysia and Vietnam (The Permanent Mission of the PRC to the UN 2009). China's *note verbale* included a 'Nine-dash' line map that indicated its sovereignty claims over the islands in the South China Sea and the adjacent waters.

[40]Under the Regime of Islands (Article 121) of the UNCLOS, an "island" is entitled to maritime zones, including the EEZ and continental shelf.



Map-5: China's 'Nine-dash line' map attached with *Note Verbale* CML/17/2009

This was the first time that Beijing officially announced the 'Nine-dash' line map to the world. China did not explain the meaning or basis of the dashes, or the meaning of "adjacent" and "relevant" waters. Neither did China give the coordinates of the dashes. Because of this, it has been argued that the nine-dash line fails to stand rigorous scrutiny as a legal basis for maritime delimitation. China's arguments do not stand scrutiny as this line does not have geographical coordinates and is not precisely defined yet. The current Chinese demarcation is arbitrary as it is drawn in an approximate way (Dupuy and Dupuy 2013: 132). Moreover, the text of Chinese *note verbale* fails to make any reference to "historic rights" and thus fails to establish clear link between these two foundational principles of China's argument. Indeed, the map presented in *note-verbale* seems a mere cartographic representation of the arguments presented in writing; that is, the map only has informative value, rather than probative (Ibid). However, Chinese scholars continue to assert that China's "historic rights" are rooted deep in history and culture, and based on consistent state practice. This, according to the Chinese experts provides legal foundation to the nine-dash line (Gao and Jia 2013: 123-124).

Responding to the Chinese *note verbale*, Malaysia's Permanent Mission to the UN submitted its own *Note*, HA 24/09, to the Secretary General on 20 May 2009. In the *note*, Malaysia argued that the joint ECS submission, along with Vietnam to the UN CLCS, to establish the limits of the continental shelf in the South China Sea for the two states, "constitute legitimate undertakings in implementation of the obligations of States Parties to the United Nations Convention on the Law of the Sea 1982." The *note* also stated that the joint submission was made "without prejudice to the question of delimitation of the continental shelf between States with opposite or adjacent coasts," and "without prejudice to the position of states which are parties to a land or maritime dispute." Malaysia also claimed to have "informed the People's Republic of China of its position prior to the submission of the joint submission." (The Permanent Mission of Malaysia to the UN 2009).

Malaysia may seem to have a stronger claim to the area than China, as it has maintained at least some form of occupation on five islands located in the contested area, which is not the case with China. Moreover, Kuala Lumpur's claim to an extended EEZ is based

on a large contiguity with its provinces of Sabah and Sarawak. The Spratly maritime features occupied by Malaysia lay within this extended EEZ it claims. Further, Kuala Lumpur's claim follows the principle laid down in the UNCLOS which allows claiming economic zones on the basis of contiguous land and insular territories, and irrefutable sovereignty over a land mass like, makes it claims more substantial. This is contrast to the Chinese claims which are based merely on occupation of land features that may or may not qualify as "islands" as defined by the UNCLOS (Finkbeiner 2013: 7).

Irrespective of these claims and counter claims of the territorial sovereignty and maritime rights in the South China Sea, Malaysia and China did not allow the dispute to overshadow the close and cordial relations shared by the two countries. Merely one month after contending UNCLOS claims, in June 2009, Malaysian PM Najib Razak visited China, Beijing being his first overseas destination after assuming office in April. This development emphasised, once again, that Kuala Lumpur attached great significance to enhancing bilateral ties with China. Prior to his visit to China, interacting with a Chinese media group, Razak admitted that:

> The issue of overlapping claims [in the South China Sea] is a very complex one…It is important for us to use existing mechanisms to resolve such overlapping claims. Although complex, these problems are not insurmountable. There are various ways we can resolve our differences. China is committed to settling any dispute in a peaceful manner, and so is Malaysia. So I see it not so much as a problem but as a challenge for our two countries and governments to put our minds to resolving this issue in an amicable manner (Jianxiong 2009: 10).

During official talks with Chinese Premier Wen Jiabao, Razak got the assurance that China would continue adherence to the Declaration on the Code of Conduct on the South China Sea. He urged that both the countries "should beef up dialogue and cooperation and handle relevant issues in a proper way to jointly safeguard peace and stability on the South China Sea" (Ministry of Foreign Affairs, the PRC 2009). Razak clarified that Malaysia had never perceived China as a threat, rather viewed the latter as an important ally. Both countries agreed to respect each other's "core interests" in the South China Sea and that the best way to solve the dispute was to establish joint cooperation in the area and through "friendly negotiation under the guidance of international laws."

Implementing this understanding, the two sides signed agreements in the specific maritime domain, such as one on maritime science and technology and another on the introduction of a joint action plan on strategic cooperation in the exploration of energy resources in the South China Sea (Xiaokun and Wanjuan 2009).

However, in spite of this public display of camaraderie, Malaysia has been concerned about rising tensions in the region, especially after China's vehement opposition to the above-mentioned joint submission. China's rising military power has added to the fear and distrust among ASEAN countries. The chairman of Malaysia's Foreign Ministry linked think tank, the ISIS, Mohamed Jawhar Hassan, stated in 2010 that, "Beijing would only ignite latent fears among its Southeast Asian neighbours if it raises its military profile in the area excessively and flexes its growing military muscle" (Hassan 2010). The Malaysian political elite, however, have not altered their generally positive perception of China. It has not prompted the policy-makers in Kuala Lumpur to start viewing China as a direct threat to Malaysian security. This approach was reflected in Malaysia's Defence Minister Ahmad Zahid Hamidi's August 2011 statement: "We are confident that China is not aggressive in this matter [Chinese naval manoeuvers in the South China Sea], but they only want their [military] presence to be known...We want to solve the matter diplomatically and avoid military conflicts" (Bernama 2011b).

Kuala Lumpur has not assessed this territorial dispute as a major national security concern in the recent years, and therefore its reaction to the Chinese aggression in the region has been largely muted. In fact, it can be argued that

> Malaysia makes decision on China by taking in all factors, including being a small country that is dependent on trade and sometime, has to face the not so reliable West. If China is very poor and communist, the scenario can be different. Now, China is rich and economically open communist rule. For Malaysia, economic wellbeing is first (Balakrishnan 2014).

In last few years, economic cooperation between Malaysia and China has rapidly expanded in scale and scope. China is now the largest trading partner of Malaysia, while the latter is China's biggest trading partner among the ASEAN states. Similarly, bilateral investments were in excess of US$ 6 billion in 2010 (Xinhua, 29 April 2011). Some

scholars argue that Malaysia's dependency on trade and its close commercial contacts with China makes Kuala Lumpur's cost benefit analysis, regarding confronting China over the SCS dispute, different than those of its fellow ASEAN claimants (Padua 2013).

In addition, Malaysia is farther from the Chinese mainland and enjoys a strategic buffer in Philippines and Vietnam. Chinese aggression in the region has not led Kuala Lumpur to change its positive perception towards Beijing, mainly because Malaysia's interests in the South China Sea have not been directly threatened. Unless China undermines Malaysia's regional strategic, Kuala Lumpur will continue to adhere to its established policy of not allowing the territorial dispute to affect bilateral relations, and to continue its reliance on diplomacy as the primary means to handle the dispute (Kuik 2012: 31). Speaking at the 10th IISS Asia Security Summit of Shangri-la Dialogue held in Singapore in June 2011, PM Razak asserted that:

> We must never allow our disagreement on this issue (South China Sea dispute) to escalate beyond the diplomatic realm. All parties must remain steadfast in their resolve to find a peaceful resolution of this dispute...I am determined to ensure our bilateral relationship remains unaffected and in fact continues to go from strength to strength (OPM 2011a).

The Najib government has adopted a conciliatory stance amid rising tensions between China and other South China Sea claimants. During the 2011 Shangri-la Dialogue, Malaysia's Defence Minister Ahmad Zahid Hamidi suggested some confidence-building measures (CBM) to alleviate tension in the area. These include: "conferences, workshops, seminars and symposia, training and exercises in non-contentious areas such as humanitarian assistance and disaster relief, anti-piracy and search and rescue; and exchange of personnel and port visits." He further said that "when we are busy talking, we will have less time for fighting." (Hamidi 2011). It was noteworthy that during the same event Hamidi proposed to set up a Special Purpose Vehicle (SPV) as the platform to share economic activities among the claimant countries in the South China Sea. He argued that, the "claimant countries could share not only in terms of equity participation but also in terms of exploration of the natural resources in the disputed areas." This proposal was well-received by the Chinese side. China's National Defence Minister

General Liang Guanglie said "all the relevant parties must be prudent of the South Sea and should work together on that" (Bernama 2011a).

6.7. ASEAN's Role in Dispute Resolution

The ASEAN has emerged as a significant forum for discourse in managing the complex set of issues within this dispute. Even though the dispute involves only four ASEAN members it has the potential to threaten peace and stability of throughout the Southeast Asian region and therefore concerns the whole Association. The nature of the disputes is multifaceted, involving bilateral as well as multilateral disputes amongst ASEAN member states and China. Within ASEAN, the claims of Philippines, Malaysia and Brunei clash with those claimed by Vietnam, while China lays claim over the entire Sea. That is why no common ASEAN approach to the dispute has emerged as yet (Bateman 2011). Moreover, ASEAN states take varying positions on the dispute: Cambodia, Laos and Myanmar lean toward China; Thailand and Singapore are neutral; Malaysia and Indonesia are cautious about American involvement; while both the Philippines and Vietnam welcome an American role (Simon 2012: 997).

Malaysia has traditionally preferred multilateralism, in particular the mode of multilateralism practiced by ASEAN. This has been the basis for its consistent position that the South China Sea disputes have to be resolved through ASEAN's engagement with China. Despite Beijing's rejection of a multilateral solution to the dispute, Kuala Lumpur's policy has been firm to seek resolution of the dispute through a multilateral Channel (Finkbeiner 2013: 19). At the same time, Malaysia also deals directly and extensively with China regarding the dispute between them, and their 2004 joint communiqué referred to "promote the settlement of disputes through friendly bilateral consultations and negotiations" (Joint communiqué 2004). A 2011 statement of PM Razak clarifies Malaysia's stance on the dispute: "I remain fully committed to a common ASEAN position in terms of our engagement with China on the South China Sea" (OPM 2011a). The same year, commenting on China's naval manoeuvers near the Spratly Islands, Malaysian Defence Minister Hamidi said, "We propose to hold a multilateral meeting, instead of a bilateral meeting, and hopefully, achieve a more relevant and

amicable solution" (Bernama 2011b). By encouraging ASEAN to push for a multilateral solution, Malaysia wants to position itself as a promoter of dispute resolution among China and its fellow ASEAN states (Finkbeiner 2013: 19).

Given the deep interest of Malaysia and other ASEAN states in keeping the South China Sea peaceful and stable, there have been efforts by the grouping to seek opportunities to enhance cooperation in the area. These efforts have resulted in, among others, the ASEAN Declaration on the South China Sea in 1992 and the adoption of the ASEAN-China Declaration on the Conduct of Parties in the South China Sea (DOC) in 2002.

6.7:1. ASEAN Declaration on the South China Sea

In 1992, ASEAN became involved in this territorial dispute for the first time, in the aftermath of a conflict between China and Vietnam, which was not yet an ASEAN member, over oil exploration in the disputed area. ASEAN foreign ministers, for the first time, adopted a common stance on the dispute and issued the 'ASEAN Declaration on the South China' (also known as Manila Declaration) on 22 July 1992 at the 25th ASEAN Ministerial Meeting. The Declaration was initiated by then chair of ASEAN, the Philippines. The declaration called on the parties concerned to resolve all "sovereignty and jurisdictional issues pertaining to the South China Sea by peaceful mean, without resort to force." It exhorted the need for "restraint" in aggression and creation of a positive climate for dispute-resolution, and to "apply the principles contained in the Treaty of Amity and Cooperation in Southeast Asia as the basis for establishing a code of international conduct over the South China Sea." It was also recognized that "South China Sea issues involve sensitive questions of sovereignty and jurisdiction of the parties directly concerned" and the fact that "any adverse developments in the South China Sea directly affect peace and stability in the region" (ASEAN Secretariat (1992). Thus, the aim of this Declaration was to manage the dispute peacefully and preclude any military means. Apart from this, the ASEAN foreign ministers also focused on non-traditional security issues. The Declaration committed the ministers to exploring:

> the possibility of cooperation in the South China Sea relating to the safety of maritime navigation and communication, protection against pollution of the

> marine environment, coordination of search and rescue operations, efforts towards combating piracy and armed robbery as well as collaboration in the campaign against illicit trafficking in drugs (Ibid).

The Declaration demonstrated a common ASEAN position to resolve the disputes through diplomatic means and enhance cooperation among the members. All concerned states were encouraged to adhere to this Declaration of principles. Vietnam, a non-ASEAN state till then, strongly supported the Manila Declaration. However, the Chinese Foreign Minister Qian Qichen refused to sign it as China was not involved in drafting of the declaration. Nevertheless, China, he said, subscribed to the declaration's "principles" (Severino 2010: 42).

Together with the series of "Workshops on Managing Potential Conflicts in the South China Sea," initiated and hosted by Indonesia (since 1991), the adoption of the ASEAN Declaration seemed to improve the prospects for peace and stability in the region, despite the low probability of full resolution of the dispute through multilateralism. These hopes received a setback, in 1995, when China occupied the Mischief Reef, a maritime feature also claimed by the Philippines. This incident lent an urgency to ASEAN's efforts to seek appropriate means to prevent disputes from escalating into conflicts. At the 28th Ministerial meeting in Bandar Seri Begawan, the ASEAN Foreign Ministers

> expressed their concern over the situation in the South China Sea and called on the concerned parties to reaffirm their commitment to the principles enshrined in the 1992 ASEAN Declaration on the South China Sea. They also called on them to refrain from taking actions that could destabilise the region, including possibly undermining the freedom of navigation and aviation in the affected areas (ASEAN Secretariat 1995).

6.7:2. The Declaration on the Conduct of Parties in the South China Sea

The 1992 ASEAN Declaration on the South China Sea had first raised the likelihood of a regional code of conduct concerning the dispute, as indicated in Point 4 of the Declaration. The 1995 Mischief Reef incident led to a convergence in the approach of ASEAN states on the desirability of such a code as a means to manage relations with China and to avoid similar incidents. In August 1995, Philippines raised the issue of the

code with China during bilateral foreign ministry negotiations. The resulting joint statement indicated that

> both sides had agreed to abide by the principles of a code of conduct which included the peaceful settlement of disputes, the adoption of a 'gradual and progressive process of cooperation,' and recognition of the principles of international law and the UN Convention on the Law of the Sea of 1982 (Joint Statement Republic of Philippines-the People's Republic of China Consultation on the South China Sea and Other Areas of Cooperation, 9-10 August 1995).

This was followed, in July 1996, by the Joint Communiqué of the 29th ASEAN Ministerial Meeting which endorsed the idea of a regional code of conduct "to lay the foundation of long term stability" in the South China Sea and "foster understanding among claimant countries" for which "the Philippine-China agreement of August 1995 would serve as a model" (ASEAN Secretariat 1996).

Philippines and Vietnam were tasked with preparing the draft which was submitted for discussion to the ASEAN Senior Officials Meeting (SOM) in May 1999. The geographical extent under the purview of the code was a major hurdle as Vietnam wanted to include the Paracels, occupied by China but also claimed by the former. The ASEAN resisted these efforts. The Philippine draft was objected to by Malaysia and other ASEAN members, because of controversial elements like the insistence on a provision refraining the parties from the occupying new islands, or reefs in the disputed area. The two drafts submitted by Philippine and Vietnamese were reconciled and the combined draft was approved in November 1999 by the ASEAN heads of the governments. To ensure Chinese approval, the draft mentioned only "disputed areas" of the South China Sea, without mention of the Paracels (Buszynski 2003: 354-355).

Respective drafts were exchanged in March 2000 by ASEAN and China. However, negotiations on the code stalled owing to four major areas of disagreement: "the geographic scope of the code, ban on new structures, military activities in waters adjacent to the Spratly islands, and whether or not fishermen found in disputed waters could be detained and arrested" (Thayer 2013: 3). In July 2002, at the 35th ASEAN Ministerial Meeting in Bandar Seri Begawan, the Malaysia proposed a less-binding declaration on a code of conduct as a concession to Beijing. However, Philippines demanded a code of

conduct and not just a declaration. But, finally agreed, because the choice was the declaration or nothing (Buszynski 2003: 356). ASEAN foreign ministers reaffirmed that the "adoption of a code of conduct in the South China Sea would further promote peace and stability in the region and agreed to work towards a Declaration on the Conduct of Parties in the South China Sea" (ASEAN Secretariat 2002).

ASEAN and China eventually agreed on a non-binding political document. Both sides signed a 10-point document known as the Declaration on the Conduct of Parties in the South China Sea (DOC) at the end of the sixth ASEAN-China Summit at Phnom Penh on 4 November 2002. The DOC enumerated four CBM and five voluntary cooperative activities. All parties reaffirmed their "respect for and commitment to the freedom of navigation in and over flight above the South China Sea." They also pledged "to resolve their territorial and jurisdictional disputes by peaceful means, without resorting to the threat or use of force, through friendly consultations and negotiations by sovereign states directly concerned, in accordance with universally recognized principles of international law, including the 1982 UN Convention on the Law of the Sea." In addition, pending the peaceful settlement of disputes, the parties concerned vowed "to intensify efforts to seek ways, in the spirit of cooperation and understanding, to build trust and confidence between and among them" (ASEAN Secretariat 2002a). It is noteworthy that the Philippine-supported provision banning construction of new structures was rejected by China and replaced, in Article 5, with an agreement "to exercise self-restraint in the conduct of activities", and "refrain from action of inhabiting on the presently uninhabited islands, reefs, shoals, cays and other features." Significantly, the parties reaffirmed that "the adoption of a code of conduct in the South China Sea would further promote peace and stability in the region and agree to work, on the basis of consensus, towards the eventual attainment of this objective" (Ibid).

Despite its high principles of peace and harmony and reaffirmation to international laws and norms, the DOC had several lacunae. First, it is merely a political statement, with no legal force or method for enforcement. Second, it does not mention any geographic scope, specifically concerning the Spratlys or Paracels Island chains (Rowan 2005: 435). On the other hand, it must be noted that the DOC was the first political document jointly

issued by ASEAN and China on the dispute. ASEAN had attempted to obtain Beijing's endorsement of international norms of behaviour over the issue since 1992. China had previously insisted on bilateral negotiations in order to take advantage of its position as a regional power and avoid any unified ASEAN front against its interest. The declaration indicated a major change in China's approach towards the dispute—from bilateralism to 'bi-multilateralism' (Thuy 2011: 3). Though Beijing has continued to assert its claim in the SCS, the signing of the DOC indicated that it was prepared to enter into multilateral arrangements designed for conflict prevention. By accepting such multilateral negotiations, it can also be argued, China might have been trying to exploit the divisions amongst the ASEAN states. Furthermore, with the DOC, China could gain politically and economically and alleviate ASEAN's concern about China (Ibid). Equally important was the recognition on China's part that a suitably-worded code of conduct could work in its favour in terms of limiting the risk of conflict in the South China Sea, which could involve external powers, specially the US, in the dispute (Buszynski 2003: 357).

6.7:3. Guidelines for the Implementation of the DOC

In 2004, the ASEAN-China Senior Officials' Meeting set up a joint working group (JWG) to implement the DOC (ASEAN Secretariat 2004). The ASEAN-China JWG was tasked "to study and recommend measures to translate the provisions of the DOC into concrete cooperative activities that will enhance mutual understanding and trust." It was also assigned "to formulate recommendations on guidelines and the action plan for implementation of the DOC" (ASEAN Secretariat 2004a). At the first meeting of the ASEAN-China JWG held in Manila in August 2005, ASEAN proposed a draft of Guidelines for implementing the DOC. China objected to point two of the draft that had a provision for ASEAN consultations prior to meeting with China. Beijing insisted on consultation only with "relevant parties", not with ASEAN as a bloc (Thuy 2011: 6). As a result, the JWG did not make any progress for the next six years and twenty-one successive drafts were exchanged before final agreement was reached. Finally, in July 2011, the 'Guidelines' were adopted after ASEAN dropped its insistence on prior consultation within the group and agreed "to promote dialogue and consultations" among the parties of DOC. A point was also added to the Guidelines specifying that "activities

and projects" carried out under the DOC "shall be reported to the ASEAN-China Ministerial Meeting" (ASEAN Secretariat 2011).

The Guidelines consist of a preamble and eight brief points. The preamble identified the DOC as "a milestone document," recognising that the "full and effective implementation of the DOC will contribute to the deepening of the ASEAN-China Strategic Partnership for Peace and Prosperity." The preamble also noted that Guidelines "are to guide the implementation of possible joint cooperative activities, measures and projects as provided for in the DOC" (Ibid). As per the Guidelines, the participation in the activities or projects should be carried out on a "voluntary basis." It provided that "initial activities to be undertaken under the DOC should be confidence-building measures." Significantly, "the decision to implement concrete measures or activities of the DOC should be based on consensus among parties concerned, and lead to the eventual realization of a Code of Conduct" (Ibid). However, the formulation of the Guidelines clearly indicates that these are tentative and nothing is binding. Malaysia believes that the adoption of draft guidelines to implement the DOC will pave the way for collective efforts towards preventive diplomacy and confidence building measures in the region (Bernama 2011c). Chinese Foreign Minister Yang Jiechi described the agreement on the Guidelines as a "very important" landmark, and an important first step by ASEAN and China "towards practical cooperation, and building mutual trust" (ASEAN Secretariat 2011a).

Since the DOC is neither legally binding nor enforceable, it has not fully accomplished its target of promoting a peaceful, friendly and harmonious environment in the South China Sea. Instead, the recent years have witnessed numerous clashes between the claimant countries primarily due to China's growing assertiveness in the Sea (Thayer 2011). It can also be asserted that the DOC has failed to provide any mechanism or procedure to ensure that the parties comply with their obligation to respect the provisions of this declaration (Hongfang 2011: 596). However, as some ASEAN members acknowledged, it may have "contributed to a reduction in the intensity of the conflict" (Hamidi 2011), ASEAN and China continued to work towards the eventual conclusion, "on the basis of consultation and consensus," of a more binding Code of Conduct to replace the DOC (ASEAN Secretariat 2010; Thayer 2013). If consultations or

negotiations between the concerned parties will not be effectively managed, the South China Sea might turn into a serious potential battle field in the region. A breakout of conflict in the area could result in interventions by the major external powers because of its importance to regional security and maritime trade. Here, ASEAN role must be lauded despite its limitations in interfering in disputes involving questions of national sovereignty. Any dispute resolution mechanism or procedure must be within the framework of ASEAN-China partnership. Malaysia continues to play its role in engaging China with ASEAN to promote harmonious environment in the region and to finalise the Code of Conduct in the South China Sea. Kuala Lumpur also continues to follow its traditional belief that a closer relationship with Beijing can deter tensions and avoid escalation of conflicts in the South China Sea.

Chapter- 7

Conclusion

Malaysia's relations with the People's Republic of China (PRC) have been transformed from one of hostility and mutual suspicion, during the Cold War, to one of cordiality and mutually beneficial partnership during the post-Cold War period. This thesis argues that such transformation is, to a large extent, guided by a determination to prioritise deeper economic and diplomatic engagement over potential security concerns. Whereas during the Cold War China was perceived as a potent and constant source of threat to Malaysia's national security, in the post-Cold War era, there has been a discernible shift in Malaysian foreign policy discourse. China is no longer viewed as a security problem. Instead, Malaysia has become a major political and diplomatic ally of China as the interests and perspectives of both the countries have converged on a range of issues, especially in the immediate region. Thus, despite overlapping territorial claims in the South China Sea, Malaysia and China have pursued close collaboration on economic and political matters over the last two decades.

Since independence in 1957, Malaysia's relations with China have gone through several phases. From 1950s to mid-1980s, bilateral relations between the two were overshadowed by mutual suspicion and hostile attitude. Malaysia regarded China as a major threat to its internal security due to the latter's continued support to the Malayan Communist insurgents and because of the party-to-party links between the Communist Party of China (CPC) and the outlawed Communist Party of Malaya (CPM). The CPM had launched a movement aimed to overthrow the established government through the use of subversion and armed conflict. In addition, Beijing's 'Overseas Chinese' policy, which was aimed to harness the loyalty of Chinese living abroad and the people of Chinese descent by promoting its ideology, culture and education, also helped to deepen Malaysia's suspicion of China's intentions. Under this policy, special privileges and facilities were provided to Chinese residents abroad and their dependents in the homeland. In fact, Malaysians of Chinese descent visiting China were treated like returning overseas Chinese and attended to by the Commission for Overseas Chinese

Affairs. In response to Beijing's Overseas Chinese policy and its continued support to the CPM, most of the members of which were from ethnic Chinese community, Kuala Lumpur adopted an openly hostile attitude and imposed travel restrictions, banned the import of Chinese literature, and shut down the Malaysian branch of Bank of China. Consequently, normal people-to-people relations between the two countries remained prohibited for a long time.

More significantly, the openly anti-Communist and pro-West outlook of Malaysian political elites, particularly Prime Minister Tunku Abdul Rahman, contributed in Malaysia's evaluation of the threat perception from China. Kuala Lumpur even refused to recognize the PRC and also opposed its entry in to the United Nations (UN). In retaliation, Beijing also refused to recognize the creation of the Federation of Malaysia in 1963, and extended its support to Indonesia's *Konfrontasi* (confrontation) policy against Malaysia. Thus, due to this mutual distrust and hostile attitude, diplomatic relations could not be established between the two countries and bilateral ties remained strained.

Malaysia's openly hostile posture towards China started changing after Tun Abdul Razak became the PM in 1970. Under his administration, the two countries initiated a process of engagement and efforts were made towards normalisation of relations. As a gesture of goodwill, Malaysia gave up its opposition to the PRC's entry into the UN. Direct trade links between the two countries were restored in 1971. These Malaysian moves toward détente with China were, in part, motivated by the changing superpower approach to the region and the Sino-US rapprochement in conjunction with domestic security concerns and political compulsions. The changing geopolitical and strategic scenario in the region and beyond forced major adjustments in Malaysian foreign policy and compelled the ruling elite to replace its long-standing pro-Western posture with a policy of non-alignment and regional neutralisation. The Razak administration also sought to achieve two major domestic objectives through the establishment of diplomatic relations with Beijing. First, it would reduce the threat of local Communist insurgents and neutralise Chinese support to them. Second, normalisation of relations with China would prove popular among the ethnic Chinese community of Malaysia which would be reflected in electoral support for the ruling coalition.

Malaysia-China diplomatic relations were finally formalised in May 1974 with the historic visit of PM Razak to Beijing. Abandoning its "two China" policy, the Razak government agreed to recognise the Government of the PRC as the sole legal government of China. However, China did not commit to renounce its support to the CPM. In fact, party-to-party contacts between the CPC and CPM continued even after the 1974 developments. Consequently, despite the rapprochement, Malaysia's perception of China was not entirely positive due to Beijing's insensitivity towards the former's security concerns.

A major shift in bilateral relations was witnessed with Mahathir Mohamad becoming Malaysia's PM. Under Mahathir, Malaysia started assigning much greater importance to economic cooperation as a facet of the country's external relations. The realisation of Malaysia's over-dependence on the West along with China's emergence as a hub of enormous economic potentials motivated Mahathir to adopt economic pragmatism as a central theme in Malaysia's relations with China. However, growing pragmatism coalesced with the need to exercise political vigilance, especially in the 1980s when the threat from local Communist guerrillas still existed. It was not until the end of the Cold War that impediments to broader relations were replaced by new opportunities, paving the way for a turnaround in Malaysia's relations with China.

The Cold War marked an era of threat perceptions dominating Malaysia's relations with China. The end of the Cold War set the stage for a new era in bilateral ties. The Communist insurgency dissipated with the dissolution of the CPM in December 1989. In the same year, the Chinese government formulated a new law on citizenship requiring overseas Chinese to adopt citizenship of their countries of residence, severing the deep ties between mainland China and the overseas Chinese community. Thus, the two major irritants in bilateral relations ceased to exist by the end of the Cold War, paving the way for improvement of political ties between the two nations.

These developments overlapped with significant transformations within the Malaysian society: since the 1970s, the ethnic Chinese community started espousing their Malaysian citizenship status more prominently. Since then, the ethnic Chinese, particularly the

business community, have played a significant role in strengthening economic ties between Malaysia and China. Moreover, keeping in view the country's multiracial composition, it is not possible to neglect the influence of external forces on the domestic developments of Malaysia, particularly so in the case of the ethnic Chinese and Indians who have a tendency to look to their ancestral land. Especially, the Chinese community, who constitute a sizeable vote bank, draw greater attention and the ruling coalition cannot easily ignore their significance in electoral politics.

From the Chinese perspective, international reactions to the Tiananmen Square massacre of 1989 had been a significant turning point in the country's relations with its neighbours. Sanctions imposed by the West as a response to this incident, along with the disintegration of the Soviet Union and collapse of the East European communist regimes, left China culturally and economically exposed, and thus more vulnerable to international criticism and isolation. Moreover, the post-Cold War era was also a period of strategic re-evaluation for China. Beijing had to readjust its foreign policy, and one of the consequent new initiatives was a greater orientation towards Asia, with a special emphasis on Southeast Asia. The Tiananmen incident marked the beginning of China's increasingly focused efforts to develop close and cordial relations with the Southeast Asian countries, including Malaysia, in order to counter the West's isolation policy and expand its diplomatic space.

The changing international pattern after the end of the Cold War has also been an important factor in Malaysia-China relations. The bi-polar international system was replaced by a system primarily dominated by the US and a few regional powers. The international situation was greatly relaxed and the significance of economic factors increased tremendously under the era of globalization and liberalization. Countries devoted more resources and efforts towards economic development and harnessing the new opportunities offered by the changing pattern of international relations. Malaysia was no exception to this global trend, with regional economic developments coinciding with the launch of Malaysia's 'Vision 2020' in 1991, aimed at propelling the economy into the elite group of developed countries by 2020. Malaysian foreign policy was to be fully harnessed to achieve this goal. Hence, economic cooperation became the

cornerstone of Kuala Lumpur's foreign policy towards China from the early 1990s onwards.

With the heralding of a new 'World Order,' international political developments have witnessed a growing convergence of interests, as in the case of Malaysia and China which have been driven to seek greater collaboration. Both countries have supported each other on the issues of human rights, democracy, reforms in the UN bodies, South-South Cooperation, and the increasing role of the Third World countries in international politics. In fact, PM Mahathir was a great admirer of the Chinese system of governance. For Mahathir, the Western notions of democracy were not appropriate for the current stage of China's developments. On the issue of human rights, Mahathir's proposal to review the UN Declaration of Human Rights so as to accommodate 'Asian views' was strongly supported by the Chinese leadership. Both the countries have been dissatisfied with some aspects of the prevailing international legal system, especially US unilateralism and the emphasis on democratic decision-making processes. During his premiership, Mahathir endorsed Beijing's view that multi-polarity would make the international system more democratic. His successors Abdullah Badawi and Najib Razak were also unanimous in their efforts to work with their Chinese counterparts for the establishment of a fair and just international political and economic order in opposition to the Western-dominated system. The convergence of perspectives led both countries to support each other's regional and international initiatives. For instance, Malaysia's proposal to establish a regional economic grouping, named East Asian Economic Caucus (EAEC), received warm support from Beijing. Malaysia also reciprocated by supporting China's entry into the World Trade Organisation.

Apart from the convergence of national and regional interests and worldviews, frequent exchanges of high-level visits between the leaders of the two countries have continued. Since mutual suspicion was replaced with a productive partnership from the early 1990s onwards, leaders from both sides have been regularly visiting each other. Mahathir alone paid six visits to China. After Mahathir's retirement in 2003, the successive premiers Badawi and Razak continued the tradition of paying visits to China. In fact, both Badawi and Razak chose China as their first official foreign destinations outside the ASEAN

region. It is a clear testimony to the importance they attached to relations with China. These visits were equally reciprocated by their Chinese counterparts on regular basis. Within the structural framework put in place by these frequent visits, both sides have expanded the channels for bilateral cooperation in a range of fields from economic, political and defence to education, health and cultural activities.

Besides the bilateral political and diplomatic interaction, both the countries have also been closely engaged at multilateral regional platforms, particularly the ASEAN driven arrangements, in order to enhance mutual trust and cooperation. In fact, Malaysia had played an important role in the establishment of institutional linkages between China and ASEAN, exemplified by decisions such as the 1991 initiative to invite Chinese Foreign Minister to attend the ASEAN Ministerial Meeting held in Kuala Lumpur as a 'Consultative Partner'. Three years later, it also encouraged China's participation in the ASEAN Regional Forum (ARF) which was conceived as a security framework for Asia-Pacific in the post-Cold War era. The ARF was considered by Malaysia as an ideal instrument for managing the rise of China and its impact on the regional security architecture.

The ASEAN Plus Three (APT) and the East Asia Summit (EAS) provided additional such mechanisms for integrating China into the regional architecture. When Kuala Lumpur forwarded a proposal to become the host of the inaugural EAS, it was strongly supported by Beijing. However, there were sharp divisions within the APT over which countries should participate in the proposed EAS. Malaysia supported China's proposal over this issue, supporting restricting membership to existing APT members and exclude US allies and India. Malaysia also joined China in proposing that the APT remain at the core of the EAS process. Thus, both countries have supported each other at multilateral regional forums to promote shared geopolitical goals and interests. Malaysia has also supported various ASEAN-China dialogue and cooperative mechanisms, ranging from ASEAN-China working group on the South China Sea to ASEAN-China FTA and ASEAN-China Expo.

Similar to the political and diplomatic ties, economic relations between Malaysia and China have also experienced twists and turn. During decades of the Cold War, economic issues were often overshadowed by political and ideological factors resulting in mutual suspicion and hostile perception. Due to Malaysian Prime Minister Tunku's non-recognition policy of China, several forms of restrictions were imposed on bilateral trade and travel. Hence, during his premiership, trade between the two countries was mostly carried out through non-official channels particularly via Chinese middlemen based in Singapore and Hong Kong. When Abdul Razak took office as PM in 1970, direct trade links were restored within a year and three years later, in 1974, with the exchange of diplomatic recognition and normalisation of relations, Malaysia-China economic ties witnessed a dramatic improvement in terms of bilateral trade and investment. Razak's successor Mahathir's policy of economic pragmatism also played an important role in the steady growth of bilateral trade in 1980s. However, until the end of political barriers in 1989 and early 1990s, economic relations had to suffer due to the persistent trust deficit and mutual suspicion.

In the 1990s, together with the changing international political scenario, domestic demands in both countries helped shift the focus from contentious political and security issues to productive economic partnership. Chinese economy opened up and started globalizing in the post-Cold War era. Its desire and demand of global identification of its economy motivated China to avoid narrow regional conflicts and enhance economic engagement with neighbours. The rapidly growing Chinese economy offered huge opportunities to its neighbours and these were not lost on the Malaysian leadership which had simultaneously started emphasising on economic cooperation as the new cornerstone of the country's foreign policy. Moreover, Kuala Lumpur has identified economic interdependence as an important source of peace and stability in the Asia-Pacific region.

The present study asserts that in the post-Cold War era, with the end of political and ideological obstacles, Malaysia's economic relations with China developed three major dimensions. First, the volume of bilateral trade increased rapidly in comparison to earlier. Second, as the trade relations expanded, the pattern of trade also changed. Malaysian exports to China shifted from predominantly commodities-based portfolio to

manufactured goods dominated portfolio. The change in trade pattern was also reflected in the shifting of investment pattern from commodities to the manufacturing sector. Third, the balance of trade began to turn in Malaysia's favour.

Malaysia-China economic ties continue growing in the twenty-first century and remain the bedrock of bilateral relations. The speedy growth in bilateral trade volume indicates the level of close cooperation between the two countries. Since 2009, Malaysia has been the largest trading partner of China in the ASEAN region, contributing about a quarter of the total volume of ASEAN-China trade. China also has become Malaysia's biggest trading partner.

The exchange of frequent visits of high-level officials have not only strengthened political trust but also encouraged corporate sectors of both countries to enhance cooperation and collaboration. Particularly, government-linked companies of both sides have been working on large and ambitious joint projects in the field of energy, construction, port-development, etc. Measures have also been taken to strengthen bilateral financial and investment cooperation, such as liberalising visa regimes, reopening of the branches of the Bank of China and the Bank of Malaya in Kuala Lumpur and Shanghai respectively, finalisation of currency swap agreements etc. The two countries have also witnessed significant developments in exchanges and cooperation in the scientific, technological, educational, sports, tourism and cultural fields. As far as regional economic integration is concerned, Malaysia and China have been proactive in taking initiatives and extending their support to each other. The financial crisis of 1997 provided an opportunity to China to win the trust of Southeast Asian nations. China's decision, during the crisis, not to devalue its currency was seen as a strong gesture of support in Malaysia and its fellow ASEAN states. Malaysia had also strongly supported China's proposal of ASEAN-China Free Trade Area (ACFTA) which was fully implemented in January 2010.

The only source of contention between Malaysia and China are the overlapping territorial claims in the South China Sea. Needless to say that since several littoral states (including Malaysia and China) are involved in territorial claims over the South China Sea, the issue

has become more complicated and has emerged as a major flashpoint in the last two decades. Although, it is surrounded by Southeast Asian countries, China has staked its sovereignty claim over entire the South China Sea. The strategic significance and economic value of the South China Sea, which are linked to the safety of the Sea Lanes of Communication, surveillance, maritime trade and energy reserves, has caused conflict between the claimant states.

Due to the increasingly assertive claims of China, coinciding with its growing military capability, the issue of maintaining peace and stability in the South China Sea has become a major concern for all ASEAN countries. After the Mischief Reef incident between China and the Philippines, Kuala Lumpur joined its fellow ASEAN states in expressing collective concerns at the increasing tension and instability in the Sea due to Chinese aggression. In fact, after this incident Malaysia has become more serious about defending its claims. However, in later years, when the Mischief Rees issue erupted again, Malaysia took a different position and rejected the Filipino request for discussing the conflict at the ARF.

Malaysia does not view the South China Sea dispute as a major national security concern and, therefore, its reaction to conflicts between China and other claimants has been largely muted. While China has developed a track record of aggression in the region during the last two decades, it has primarily been targeted at Vietnam and Philippines. China's reaction towards Malaysia's claims and subsequent occupation of some of the islands and atolls in the South China Sea has been mild. Since both the claimants have not attempted to maintain a physical presence on the same islands at the same time, they are yet to have any direct confrontation over the disputed area. Moreover, Malaysia is at a greater distance from the Chinese mainland which also makes its cost benefit analysis regarding military confrontation with China different than those of Vietnam and the Philippines.

Malaysia has been managing this territorial dispute with China by following a dual policy. At one level, Kuala Lumpur has been committed for a peaceful resolution of the dispute through friendly dialogue and consultations, in accordance with universally

recognised principles of international law. On the other hand, the Malaysian authorities have moved to consolidate its sovereignty claims by allowing its political dignitaries to visit the disputed territory, to reaffirm its claims, and upgrading military structures to deal with any possible conflict. Kuala Lumpur has also strongly promoted ASEAN's role in the conflict resolution process whether it was through the 1992 Declaration on the South China Sea or the 2002 Declaration on the Conduct of Parties in the South China Sea (DOC). It has also reaffirmed its commitment to follow the 2011 Guidelines for the implementation of the DOC.

While Malaysia has been determined to protect its maritime and resource interests in the South China Sea, it has not allowed the issue to adversely affect its relations with China. The country prefers to manage the dispute by political and diplomatic means, but also moved to consolidate its presence on the occupied territory. However, Malaysian leaders have not openly described China as a security threat, although this does not necessarily mean that Malaysia is not apprehensive about China's aggressive behaviour in the region.

The thesis further asserts that, during the period under study- 1989-2011, Malaysia's relations with China have moved towards a mutually beneficial productive partnership from the earlier threat based mutual suspicion. At present, the two countries enjoy excellent bilateral relations. The absence of major problems between Malaysia and China suggests that bilateral relations will continue to flourish in the foreseeable future as well. Malaysia prefers to base its relations with China primarily on economic prosperity, above other interests including sovereignty disputes over the South China Sea, and it will remain the bedrock of mutual cooperation. Given the convergence of economic and political interests, the prospects of Malaysia-China relations are bright.

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APPENDICES

Appendix-I

Joint Communiqué of the Government of the People's Republic of China and the Government of Malaysia

31 May 1974

Embassy of the People's Republic of China in Malaysia

At the invitation of His Excellency Chou En-lai, Premier of the State Council of the People's Republic of China, His Excellency Tun Abdul Razak bin Datuk Hussein, Prime Minister of Malaysia, visited the People's Republic of China from May 28 to June 2, 1974. His Excellency Prime Minister Tun Abdul Razak was accompanied by representatives of political parties in the Government and government officials.

During his visit, Prime Minister Tun Abdul Razak called on Chairman Mao Tsetung and conveyed to him the best wishes of the Malaysian Government. They had a friendly and frank talk.

Premier Chou En-lai, Vice-Premier Li Hsien-nien and Prime Minister Tun Abdul Razak had wide-ranging talks on various subject matters of bilateral, regional and international nature. These talks were held in a frank and friendly atmosphere. The two Prime Ministers agree that in recent years the situation in Asia has undergone deep changes favorable to the people of all countries. It is in conformity with the interests of the peoples of China and Malaysia to normalize the relations between the two countries. To this end, the two Prime Ministers have decided to announce the normalization of relations between their two countries by issuing this Joint Communique.

1. The Government of the People's Republic of China and the Government of Malaysia, with a view to promoting the traditional friendship of the two peoples, have decided upon mutual recognition and the establishment of diplomatic relations as from the date this Communique is published.

2. The two Governments hold that although the social systems of the People's Republic of China and Malaysia are different, this should not constitute an obstacle to the two Governments and peoples in establishing and developing peaceful and friendly relations between the two countries on the basis of the principles of mutual

respect for sovereignty and territorial integrity, mutual non-aggression, non-interference in each other's internal affairs, equality and mutual benefit, and peaceful co-existence. The two Governments consider all foreign aggression, interference, control and subversion to be impermissible. They hold that the social system of a country should only be chosen and decided by its own people. They are opposed to any attempt by any country or group of countries to establish hegemony or create spheres of influence in any part of the world.

3. The Government of Malaysia recognizes the Government of the People's Republic of China as the sole legal government of China, and acknowledges the position of the Chinese Government that Taiwan is an inalienable part of the territory of the People's Republic of China. The Malaysian Government decides to close down its consulate in Taipei.

4. The Government of the People's Republic of China recognizes the Government of Malaysia and respects the independence and sovereignty of Malaysia.

5. The Government of the People's Republic of China takes note of the fact that Malaysia is a multi-racial country with peoples of Malay, Chinese and other ethnic origins. Both the Government of the People's Republic of China and the Government of Malaysia declare that they do not recognize dual nationality. Proceeding from this principle, the Chinese Government considers anyone of Chinese origin who has taken up of his own will or acquired Malaysian nationality as automatically forfeiting Chinese nationality. As for those residents who retain Chinese nationality of their own will, the Chinese Government, acting in accordance with its consistent policy, will enjoin them to abide by the law of the Government of Malaysia, respect the customs and habits of the people there and live in amity with them. And their proper rights and interests will be protected by the Government of China and respected by the Government of Malaysia.

6. Premier Chou En-lai and Prime Minister Tun Abdul Razak agree that the two Governments, in conformity with international practice, will provide each other with all necessary assistance for the establishment and performance of the functions of embassies in their respective capitals, and that ambassadors will be exchanged as soon as practicable.

CHOU EN-LAI

Premier of the State Council of the People's Republic of China

TUN ABDUL RAZAK BIN DATUK HUSSEIN

Prime Minister of Malaysia.

Peking, May 31,1974.

Appendix-II

Joint Communiqué Between the People's Republic of China and Malaysia

People's Daily, 30 May 2004

At the invitation of H.E. Wen Jiabao, Premier of the State Council of the People's Republic of China, H.E. Dato' Seri Abdullah Ahmad Badawi, Prime Minister of Malaysia paid an official visit to China from 27 to 31 May 2004. The visit was also to mark the 30th anniversary of the establishment of diplomatic relations between the People's Republic of China and Malaysia. During the visit, Prime Minister Abdullah met with H.E. Hu Jintao, President of the People's Republic of China, held official talks with Premier Wen Jiabao, and together with Vice Premier Huang Ju, attended the commemorative reception of the 30th anniversary of China-Malaysia diplomatic relations. The two sides had an in-depth exchange of views on bilateral, regional and international issues of mutual interest in a friendly and cordial atmosphere, the leaders of both countries reached broad consensus on the issues discussed.

The leaders of the two countries noted with satisfaction the significant progress in cooperation in the political, economic, trade, culture, education, defense and other fields made by the two countries since the establishment of diplomatic relations 30 years ago. They underlined the importance of mutual trust and understanding and a spirit of dialogue as the basis for enhancing constructive and friendly relations. They expressed their shared commitment to consolidate the existing bilateral relations and work for greater cooperation between China and Malaysia in strategic areas to serve the fundamental interests of both countries.

The leaders recalled the principles enshrined in the Communiqué on the Establishment of Diplomatic Relations signed in 1974 and further reiterated their full endorsement and support for the Joint Statement on Framework for the Future Bilateral Cooperation between China and Malaysia signed in Beijing on 31 May 1999. They reaffirmed the significance and relevance of the two Documents in guiding the future development of China-Malaysia relations. Both leaders stressed that they would intensify efforts to implement the various cooperation programmes outlined in the Documents and have agreed on the following:

-TO MAINTAIN regular communications between the leaders of the two countries and at all levels including ruling parties, legislative bodies, government agencies, non-governmental organization, the private sector and their peoples to sustain a comprehensive development of China-Malaysia bilateral relations. The two sides would continue with the annual consultations between their respective Ministers of Foreign Affairs, through which matters of bilateral, regional and international issues of common concern could be discussed.

-TO EXPLOIT the comparative economic advantages of their respective economies in order to strengthen and deepen economic cooperation.

-TO INCREASE two-way trade to a significant level by 2010. The two sides welcomed the signing of the Memorandum of Understanding on Strengthening the Cooperation of WTO/TBT and the Memorandum of Understanding on the Strengthening the Cooperation of WTO/SPS by the two countries. The two sides also agreed to resolve any arising trade disputes in the spirit of mutual understanding and cooperation in accordance with the relevant principles of the World Trade Organization. The two sides also agreed to strive for a balance of trade.

-TO RECOGNIZE China's full market economy status by the Malaysian side.

-TO WELCOME the participation of enterprises from both countries in the development of infrastructure in each other's countries. The Chinese side expressed its readiness to provide financing facilities for Chinese enterprises investing in Malaysia. The two sides will continue to encourage their enterprises to make joint investment in a third country.

-TO STRENGTHEN cooperation in the field of agriculture and agreed to step up the implementation of the Agreement on Agricultural Cooperation signed by the two governments in 2003. Cooperation in agricultural R&D in rice planting, aquaculture and other related fields would also be pursued.

-TO IMPROVE cooperation between the two countries in the field of transportation, energy and finance. The two sides undertook to enhance the management of labor cooperation following the signing of the MOU on labor in 2003.

-TO RECOGNIZE the significance in the application of science and technology in the development of both countries. In this connection both sides would pursue new areas of cooperation in this sector while strengthening the existing areas of cooperation under the Agreement of Science and Technology Cooperation. The Chinese side welcomes Malaysia's interest to collaborate in R&D projects and training, particularly in the fields of biotechnology and Chinese traditional medicine. The Chinese side would encourage Chinese scientific and research institutions and high-tech enterprises to take part in the Bio-Valley project of Malaysia. The two sides also expressed their readiness to continue to implement the Agreement on Space Cooperation and the Peaceful Use of Outer Space signed by the two countries. The two sides are willing to work together with other relevant countries towards the establishment of the Asia-Pacific Space Cooperation Organization.

-TO EXPAND exchanges and cooperation in the fields of culture, education and public health. The two sides agreed for both countries to renew the Memorandum of Understanding between the Government of the People's Republic of China and the Government of Malaysia on Cooperation in the Field of Education and expressed the willingness to enhance the regulation on the intake of students studying in each other's country. The two sides underlined the importance of the signing of the Memorandum of Understanding between the Government of the People's Republic of China and the Government of Malaysia on Cooperation in the Field of Public Health, and decided to establish an epidemic reporting mechanism to enhance cooperation in prevention and control of infectious diseases.

-TO AFFIRM the respect for the independence, sovereignty and territorial integrity of each other. The Malaysian side emphasizes its adherence to the One-China policy and recognizes that Taiwan is an inalienable part of the territory of the People's Republic of China.

-TO ACKNOWLEDGE the tremendous progress in China-ASEAN relations in recent years, the two leaders expressed their readiness to continue to strengthen cooperation in the ASEAN+3 process and the development of the ASEAN-China Free Trade Area. The Malaysian side also expressed appreciation for China's active contribution to ASEAN's efforts towards closer integration especially in the development of

ASEAN-Mekong Basin and the Brunei, Indonesia, Malaysia and the Philippines East ASEAN Growth Area (BIMP-EAGA).

-TO ENHANCE regional and international peace and development, the two sides agreed to further strengthen consultations and coordination at the UN, ARF, APEC, ASEM, WTO and other multilateral fora. Both sides also agreed to maintain peace and stability in the South China Sea and to promote the settlement of disputes through friendly bilateral consultations and negotiations in accordance with universally recognized principles of international law, including the 1982 United Nations Convention on the Law of the Sea. The two sides expressed their readiness to study the follow-up actions on the implementation of the Declaration on the Conduct of Parties in the South China Sea.

-TO ACKNOWLEDGE that peace, security and development are currently the main themes and concerns to the world. The international community should respect world diversity, advocate democracy in international relations, promote multilateralism, advocate settlement of international disputes through peaceful consultation and negotiation, and work together for the establishment of a fair and just international political and economic order. The two sides emphasized that the international community should undertake effective measures to safeguard the authority of the UN and support its leading and central role in major international affairs. Both sides also believed that the economic globalization presents both opportunities and challenges. Developing countries should enhance the South-South cooperation, promote North-South dialogue, and take pro-active approach in international economic cooperation so as to ensure that economic globalization develops in a way that is conducive to common prosperity.

-TO REAFFIRM their commitment in the fight against terrorism in all its forms and manifestations and stressed that the international community should enhance cooperation and address both the symptoms and root causes of terrorism. They also reiterate their opposition to linking terrorism with any specific religion or ethnic group. The two sides maintain that the international community should strengthen cooperation in addressing this menace.

-TO EXPRESS their deep concern over the situation in the Middle East and Iraq. They called on the international community to make greater efforts for the peaceful settlement of the issues in the region. The two sides also welcomed the positive progress made in the Six-Party Talks on the nuclear issue of the Korean Peninsula. The Malaysian side expressed its appreciation to China for its sustained efforts to seek a solution to resolve the issue. The Chinese side expressed its appreciation of Malaysia's role as the current Chairman of the Non-Aligned Movement and the Organization of the Islamic Conference.

The Malaysian side expressed its appreciation for the warm hospitality extended to H.E. Prime Minister Dato'Seri Abdullah Ahmad Badawi and his delegation during his visit to China. Prime Minister Abdullah extended an invitation to the Chinese leaders tovisit Malaysia at their convenience. The Chinese leaders accepted his invitation with pleasure.

Beijing, 29 May 2004

Appendix-III

1992 ASEAN DECLARATION ON THE SOUTH CHINA SEA

[Adopted by the Foreign Ministers at the 25th ASEAN Ministerial Meeting in Manila, Philippines on 22 July 1992]

WE, the Foreign Ministers of the member countries of the Association of Southeast Asian Nations;

RECALLING the historic, cultural and social ties that bind our peoples as states adjacent to the South China Sea;

WISHING to promote the spirit of kinship, friendship and harmony among our peoples who share similar Asian traditions and heritage;

DESIROUS of further promoting conditions essential to greater economic cooperation and growth;

RECOGNIZING that we are bound by similar ideals of mutual respect, freedom, sovereignty and jurisdiction of the parties directly concerned;

RECOGNIZING that South China Sea issues involve sensitive questions of sovereignty and jurisdiction of the parties directly concerned;

CONSCIOUS that any adverse developments in the South China Sea directly affect peace and stability in the region.

HEREBY

1. EMPHASIZE the necessity to resolve all sovereignty and jurisdictional issues pertaining to the South China Sea by peaceful means, without resort to force;

2. URGE all parties concerned to exercise restraint with the view to creating a positive climate for the eventual resolution of all disputes;

3. RESOLVE, without prejudicing the sovereignty and jurisdiction of countries having direct interests in the area, to explore the possibility of cooperation in the South China Sea relating to the safety of maritime navigation and communication,

protection against pollution of the marine environment, coordination of search and rescue operations, efforts towards combatting piracy and armed robbery as well as collaboration in the campaign against illicit trafficking in drugs;

4. COMMEND all parties concerned to apply the principles contained in the Treaty of Amity and Cooperation in Southeast Asia as the basis for establishing a code of international conduct over the South China Sea;

5. INVITE all parties concerned to subscribe to this Declaration of principles.

Signed in Manila, Philippines, this 22nd day of July, nineteen hundred and ninety-two.

For Brunei Darussalam: **HRH PRINCE MOHAMED BOLKIAH**, Minister of Foreign Affairs

For the Republic of Indonesia: **ALI ALATAS**, Minister for Foreign Affairs

For Malaysia: **DATUK ABDULLAH BIN HAJI AHMAD BADAWI**, Minister of Foreign Affairs

For the Republic of Philippines: **RAUL S. MANGLAPUS**, Secretary of Foreign Affairs

For the Republic of Singapore: **WONG KAN SENG**, Minister for Foreign Affairs

For the Kingdom of Thailand: **ARSA SARASIN**, Minister of Foreign Affairs

Appendix-IV

2002 DECLARATION ON THE CONDUCT OF PARTIES IN THE SOUTH CHINA SEA

[Adopted by the Foreign Ministers of ASEAN and the People's Republic of China

at the 8th ASEAN Summit in Phnom Penh, Cambodia on 4 November 2002]

The Governments of the Member States of ASEAN and the Government of the People's Republic of China,

REAFFIRMING their determination to consolidate and develop the friendship and cooperation existing between their people and governments with the view to promoting a 21st century-oriented partnership of good neighbourliness and mutual trust;

COGNIZANT of the need to promote a peaceful, friendly and harmonious environment in the South China Sea between ASEAN and China for the enhancement of peace, stability, economic growth and prosperity in the region;

COMMITTED to enhancing the principles and objectives of the 1997 Joint Statement of the Meeting of the Heads of State/Government of the Member States of ASEAN and President of the People's Republic of China;

DESIRING to enhance favourable conditions for a peaceful and durable solution of differences and disputes among countries concerned;

HEREBY DECLARE the following:

1. The Parties reaffirm their commitment to the purposes and principles of the Charter of the United Nations, the 1982 UN Convention on the Law of the Sea, the Treaty of Amity and Cooperation in Southeast Asia, the Five Principles of Peaceful Coexistence, and other universally recognized principles of international law which shall serve as the basic norms governing state-to-state relations;

2. The Parties are committed to exploring ways for building trust and confidence in accordance with the above-mentioned principles and on the basis of equality and mutual respect;

3. The Parties reaffirm their respect for and commitment to the freedom of navigation in and overflight above the South China Sea as provided for by the universally recognized principles of international law, including the 1982 UN Convention on the Law of the Sea;

4. The Parties concerned undertake to resolve their territorial and jurisdictional disputes by peaceful means, without resorting to the threat or use of force, through friendly consultations and negotiations by sovereign states directly concerned, in accordance with universally recognized principles of international law, including the 1982 UN Convention on the Law of the Sea;

5. The Parties undertake to exercise self-restraint in the conduct of activities that would complicate or escalate disputes and affect peace and stability including, among others, refraining from action of inhabiting on the presently uninhabited islands, reefs, shoals, cays, and other features and to handle their differences in a constructive manner.

Pending the peaceful settlement of territorial and jurisdictional disputes, the Parties concerned undertake to intensify efforts to seek ways, in the spirit of cooperation and understanding, to build trust and confidence between and among them, including:

a. holding dialogues and exchange of views as appropriate between their defense and military officials;

b. ensuring just and humane treatment of all persons who are either in danger or in distress;

c. notifying, on a voluntary basis, other Parties concerned of any impending joint/combined military exercise; and

d. exchanging, on a voluntary basis, relevant information.

6. Pending a comprehensive and durable settlement of the disputes, the Parties concerned may explore or undertake cooperative activities. These may include the following:

a. marine environmental protection;

b. marine scientific research;

c. safety of navigation and communication at sea;

d. search and rescue operation; and

e. combating transnational crime, including but not limited to trafficking in illicit drugs, piracy and armed robbery at sea, and illegal traffic in arms.

The modalities, scope and locations, in respect of bilateral and multilateral cooperation should be agreed upon by the Parties concerned prior to their actual implementation.

7. The Parties concerned stand ready to continue their consultations and dialogues concerning relevant issues, through modalities to be agreed by them, including regular consultations on the observance of this Declaration, for the purpose of promoting good neighbourliness and transparency, establishing harmony, mutual understanding and cooperation, and facilitating peaceful resolution of disputes among them;

8. The Parties undertake to respect the provisions of this Declaration and take actions consistent therewith;

9. The Parties encourage other countries to respect the principles contained in this Declaration;

10. The Parties concerned reaffirm that the adoption of a code of conduct in the South China Sea would further promote peace and stability in the region and agree to work, on the basis of consensus, towards the eventual attainment of this objective.

DONE on the Fourth Day of November in the Year Two Thousand and Two in Phnom Penh, the Kingdom of Cambodia.

For Brunei Darussalam: **MOHAMED BOLKIAH**, Minister of Foreign Affairs

For the Kingdom of Cambodia: **HOR NAMHONG**, Senior Minister and Minister of Foreign Affairs and International Cooperation

For the Republic of Indonesia: **DR HASSAN WIRAYUDA**, Minister for Foreign Affairs

For the Lao People's Democratic Republic: **SOMSAVAT LENGSAVAD**, Deputy Prime Minister and Minister for Foreign Affairs

For Malaysia: **DATUK SERI SYED HAMID ALBAR,** Minister of Foreign Affairs

For the Union of Myanmar: **WIN AUNG**, Minister for Foreign Affairs

For the Republic of the Philippines: **BLAS F. OPLE**, Secretary of Foreign Affairs

For the Republic of Singapore: **PROF. S. JAYAKUMAR**, Minister for Foreign Affairs

For the Kingdom of Thailand: **DR. SURAKIART SATHIRATHAI**, Minister of Foreign Affairs

For the Socialist Republic of Viet Nam: **NGUYEN DY NIEN**, Minister of Foreign Affairs

For the People’s Republic of China: **WANG YI**, Special Envoy and Vice Minister of Foreign Affairs

Appendix V

(Translation)

CML/17/2009

New York, 7 May 2009

The Permanent Mission of the People's Republic of China to the United Nations presents its compliments to the Secretary-General of the United Nations and, with reference to the Joint Submission by Malaysia and the Socialist Republic of Viet Nam dated 6 May 2009, to the Commission on the Limits of the Continental Shelf (hereinafter referred to as "the Commission") concerning the outer limits of the continental shelf beyond 200 nautical miles, has the honor to state the position as follows:

China has indisputable sovereignty over the islands in the South China Sea and the adjacent waters, and enjoys sovereign rights and jurisdiction over the relevant waters as well as the seabed and subsoil thereof (see attached map). The above position is consistently held by the Chinese Government, and is widely known by the international community.

The continental shelf beyond 200 nautical miles as contained in the Joint Submission by Malaysia and the Socialist Republic of Viet Nam has seriously infringed China's sovereignty, sovereign rights and jurisdiction in the South China Sea. In accordance with Article 5(a) of Annex I to the Rules of Procedure of the Commission on the Limits of the Continental Shelf, the Chinese Government seriously requests the Commission not to consider the Joint Submission by Malaysia and the Socialist Republic of Viet Nam. The Chinese Government has informed Malaysia and the Socialist Republic of Viet Nam of the above position.

The Permanent Mission of the People's Republic of China to the United Nations requests that this Note Verbale be circulated to all members of the Commission, all States Parties to the United Nations Convention on the Law of the Sea as well as all Members of the United Nations.

The Permanent Mission of the People's Republic of China to the United Nations avails itself of this opportunity to renew to the Secretary-General of the United Nations the assurances of its highest consideration.

H.E. Mr. BAN KI-MOON
Secretary-General
The United Nations
NEW YORK

Appendix VI

HA 24/09

The Permanent Mission of Malaysia to the United Nations presents its compliments to the Secretary General of the United Nations and, with reference to the Note Verbale CML/17/2009 dated 7 May 2009 from the Permanent Mission of the People's Republic of China to the United Nations, has the honour to state the position of the Government of Malaysia as follows:

The Joint Submission of Malaysia and the Socialist Republic of Vietnam to the Commission on the Limits of the Continental Shelf (hereinafter referred to as "the Joint Submission") to establish the limits of the continental shelf appurtenant to Malaysia and the Socialist Republic of Vietnam beyond 200 nautical miles from their baselines from which the breadth of their respective territorial seas is measured in respect of the southern part of the South China Sea constitute legitimate undertakings in implementation of the obligations of States Parties to the United Nations Convention on the Law of the Sea 1982 (UNCLOS 1982), which conform to the pertinent provisions of UNCLOS 1982 as well as the Rules of Procedure of the Commission on the Limits of the Continental Shelf.

The Joint Submission is made without prejudice to the question of delimitation of the continental shelf between States with opposite or adjacent coasts in consonance with Article 76 (10) of UNCLOS 1982, Article 9 of Annex II of UNCLOS 1982, Rule 46 to the Commission's Rules of Procedure, and Paragraphs 1, 2 and 5 of Annex I to the Commission's Rules of Procedure. Similarly, the Joint Submission is without prejudice to the position of States which are parties to a land or maritime dispute in consonance with Paragraph 5 (b) of Annex I to the Commission's Rules of Procedure.

The Government of Malaysia has informed the People's Republic of China of its position prior to the submission of the Joint Submission to the Commission on the Limits of the Continental Shelf.

The Permanent Mission of Malaysia has further the honour to request that this note be circulated to all members of the Commission on the Limits of the Continental Shelf (CLCS), all States Parties to the United Nations Convention on the Law of the Sea 1982 as well as all Members of the United Nations.

The Permanent Mission of Malaysia to the United Nations avails itself of this opportunity to renew to the Secretary General of the United Nations the assurances of its highest consideration.

New York, 20 May 2009

PERMANENT MISSION OF MALAYSIA TO THE UNITED NATIONS

H.E. Mr. BAN KI-MOON
Secretary General
United Nations

Appendix-VII

"ASEAN Community in a Global Community of Nations"

Guidelines for the Implementation of the DOC

Reaffirming that the DOC is a milestone document signed between the ASEAN Member States and China, embodying their collective commitment to promoting peace, stability and mutual trust and to ensuring the peaceful resolution of disputes in the South China Sea;

Recognizing also that the full and effective implementation of the DOC will contribute to the deepening of the ASEAN-China Strategic Partnership forPeace and Prosperity;

These Guidelines are to guide the implementation of possible joint cooperative activities, measures and projects as provided for in the DOC.

1. The implementation of the DOC should be carried out in a step-by-step approach in line with the provisions of the DOC.

2.The Parties to the DOC will continue to promote dialogue and consultations in accordance with the spirit of the DOC.

3. The implementation of activities or projects as provided for in the DOC should be clearly identified.

4. The participation in the activities or projects should be carried out on a voluntary basis.

5. Initial activities to be undertaken under the ambit of the DOC should be confidence-building measures.

6. The decision to implement concrete measures or activities of the DOC should be based on consensus among parties concerned, and lead to the eventual realization of a Code of Conduct.

7. In the implementation of the agreed projects under the DOC, the services of the Experts and Eminent Persons, if deemed necessary, will be sought to provide specific inputs on the projects concerned.

8. Progress of the implementation of the agreed activities and projects under the DOC shall be reported annually to the ASEAN-China Ministerial Meeting (PMC)./.