

**RENEWING 35 YEARS OF  
MALAYSIA-CHINA RELATIONS:  
NAJIB'S VISIT TO CHINA**

LIM Tin Seng

*EAI Background Brief No. 460*

Date of Publication: 23 June 2009

## Executive Summary

1. Malaysian Prime Minister Najib Razak's four-day trip to Beijing in June 2009 is a significant event for Malaysia-China relations as it symbolically marked the 35<sup>th</sup> anniversary of diplomatic relations between the two sides.
2. More importantly, China, after Singapore, is Najib's second state visit as Malaysian Prime Minister since assuming office in April 2009. This shows that Najib will be adopting a China policy that is much deeper than his predecessors.
3. Malaysia and China have been enjoying friendly relations with each other since Kuala Lumpur normalised ties with Beijing in 1974. Incidentally, this effort was led by Najib's father, the late Tun Abdul Razak Hussein, and continued by Najib's predecessors, particularly Mahathir Mohamad.
4. Najib's Beijing trip is packed with economic deals that create business opportunities for Malaysian companies in China and provide an impetus of growth for the Malaysian economy amid the current poor global economic situation.
5. One of the highlights of these agreements is the proposal for a consortium of Malaysian companies to develop a multi-billion ringgit integrated city in Weifang (潍坊), Shandong (山东). It would be led by Malaysia's Sime Darby Berhad.
6. Najib also aims to take advantage of China's "go global" economic strategy by encouraging Chinese companies to invest in Malaysia. He identified five key sectors for Chinese investors: infrastructure, energy, manufacturing, services and finance.

7. As for the Malaysia-China bilateral trade, Najib called for the broadening of the bases of trade between Malaysia and China to increase the share of higher value and high-tech products and services.
8. These agreements would take place on a solid economic platform which was laid by 35 years of Malaysia-China economic cooperation. New agreements such as the currency swap would also fuel the process.
9. Determination by both sides to resolve outstanding issues such as territorial disputes together with changes in Malaysian politics such as Najib's adoption of the merit-based "One Malaysia" concept could also help in the deepening of Malaysia-China relations.
10. This will, however, take place while Malaysia is simultaneously maintaining close ties with trading partners such as the United States and Japan as they are still the main destinations of Malaysian goods and sources of investment.
11. To a certain extent, the deepening of Malaysia-China ties is also subject to stability within Malaysia. This includes Najib's grip on political power and the state of racial relations in the Malaysian society.

# **RENEWING 35 YEARS OF MALAYSIA-CHINA RELATIONS: NAJIB'S VISIT TO CHINA**

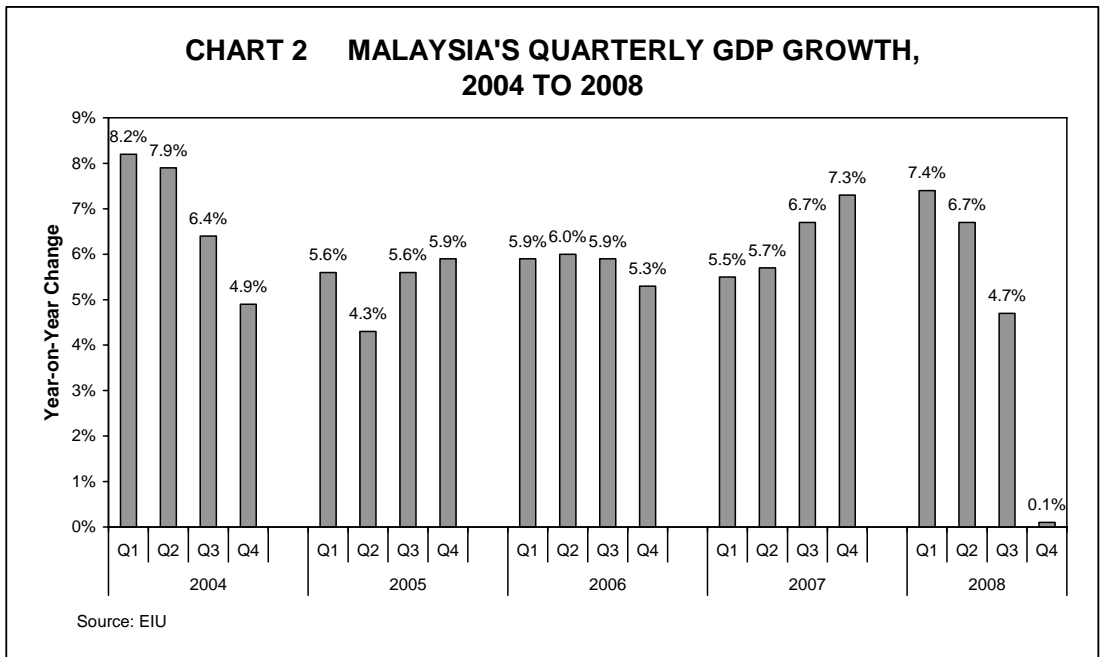
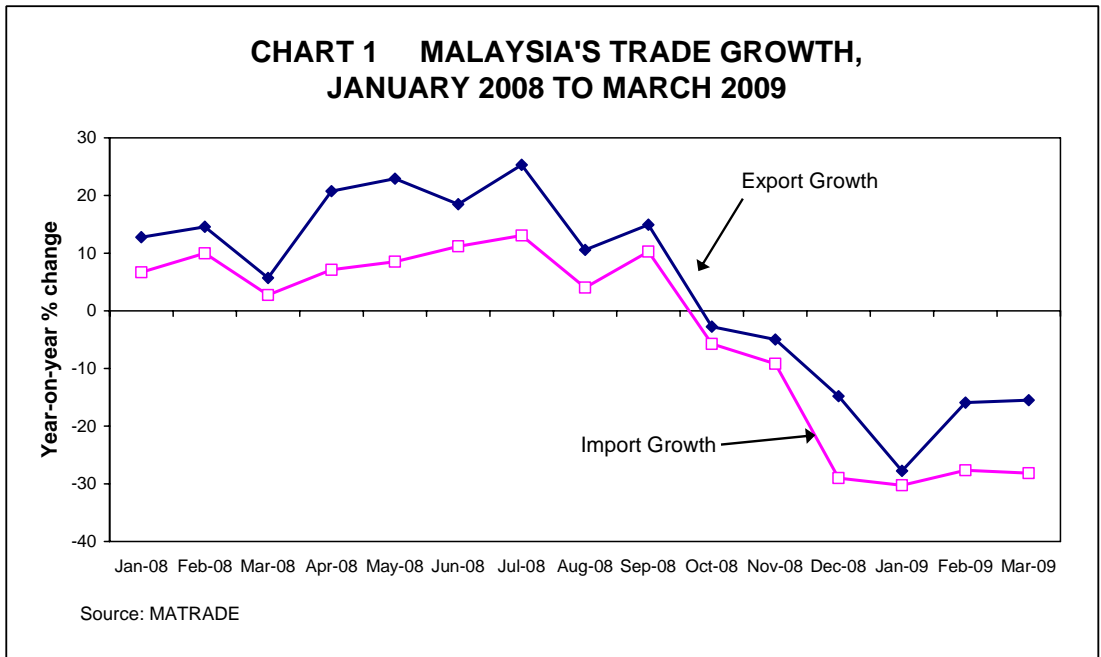
LIM Tin Seng\*

## **Najib's China Policy**

- 1.1 Malaysian Prime Minister Najib Razak's four-day trip to Beijing in June 2009 is a significant event for Malaysia-China relations as it symbolically marked the 35<sup>th</sup> anniversary of the establishment of diplomatic relations between the two sides. More importantly, China, after Singapore, is Najib's second state visit as Malaysian Prime Minister since assuming office in April 2009. This highlighted the importance of China as a significant partner for the development and sustainability of Malaysia's economy especially during the current economic situation.
  
- 1.2 Like many of its ASEAN neighbours, Malaysia's economy has been badly affected by the global financial crisis. A drop in demand from the Western market has plunged Malaysia's export-oriented economy into recession. Malaysia's total exports sank from a high of RM62.3 billion in September 2008 to one of the lowest levels of around RM43.7 billion by the end of March 2009 (Chart 1). Consequently, this cut Malaysia's Gross Domestic Product (GDP) from 4.7 percent to 0.1 percent in the final two quarters of 2008 (Chart 2) before plunging it to a negative growth of 6.2 percent at the end of the first quarter of 2009.

---

\* Mr Lim Tin Seng is Research Officer at the East Asian Institute, National University of Singapore. He would like to thank Professor John Wong and Dr Zhao Hong for going through his drafts and giving very helpful comments.



1.3 With his party, the Barisan National, seriously weakened by the results of the 2008 general election, Najib cannot afford to allow Malaysia's economy to continue to deteriorate. It is, therefore, crucial for Najib to search for sources of growth in order to haul the country's economy out of recession and China proves to be a promising source.

- 1.4 In fact, Najib stated in his Beijing trip that China would be at the “forefront” to pull the world out of recession as it would be the few countries that are able to “survive” the economic crisis better than others.<sup>1</sup> He also noted that the revival of the world economy would witness a greater integration of major economies in East Asia with those of Southeast Asia. This shift would create many opportunities and Malaysia should take advantage of them by advancing and upgrading its relations with China.<sup>2</sup>
- 1.5 Najib’s statement on China underlined the continuity of Malaysia’s friendly attitude towards China which began after Malaysia became the first ASEAN country to established diplomatic ties with Beijing in 1974.<sup>3</sup> Incidentally, this event was led by Najib’s father, the late Tun Abdul Razak Hussein. Najib’s bid for warmer ties with China is also facilitated by the solid foundation laid down by Najib’s predecessors, particularly Mahathir Mohamad. Although Mahathir was an admirer of the Japanese development model after having initiated the “Look East” policy, he was also aware of the economic potential that China can offer and the leadership role it possesses following the latter’s economic rise.<sup>4</sup> In fact, since becoming Prime Minister in 1981, Mahathir had been consistent in improving Malaysia-China relations by making regular trips to Beijing and dismissing the “China threat” theory. He was also a

---

<sup>1</sup> “China will Drive Economic Revival, says Najib”, *The Star*, 5 June 2009.

<sup>2</sup> Najib is not alone in pursuing such a strategy. In fact, Malaysia’s neighbours such as Singapore and Vietnam as well as Western economies like the United States and the European Union have also identified China as an important factor in leading the world out of the current economic situation. “China, US Crucial to World Economy: Geithner”, *MSN News*, 1 June 2009. Accessed at <http://news.my.msn.com/business/article.aspx?cp-documentid=3350678>, 8 June 2009.

<sup>3</sup> See John Wong, *ASEAN Economies in Perspective: A Comparative Study of Indonesia, Malaysia, the Philippines, Singapore, and Thailand*, (London: Macmillan, 1979) for more details on Malaysia’s establishment of diplomatic relations with China in 1974.

<sup>4</sup> The “Look East” policy was initiated in 1981 to boost productivity and output by emulating the Japanese economic model. Over the years, the policy inspired many policy initiatives that helped diversify and deepen Malaysia’s industrialisation. See Jomo K.S. *M Way: Mahathir’s Economic Legacy* (Kuala Lumpur: Forum, 2003) and Jomo K.S. (ed.) *Japan and Malaysian Development: In the Shadow of the Rising Sun* (London and New York: Routledge, 1994).

strong supporter of the idea of Beijing and Tokyo sharing the leadership role in an East Asian economic regional grouping.<sup>5</sup>

### **Strengthening Existing Links in Malaysia-China Relations**

- 2.1 Najib's Beijing trip is packed with economic deals that aimed to create business opportunities for Malaysian companies in China and provide impetus of growth for the Malaysian economy. These include agreements to increase and diversify bilateral trade and deals to increase investment flows from Malaysia to China and vice versa. One of the main highlights of these agreements is the proposal for a consortium of Malaysian companies to develop a multi-billion ringgit integrated city in Weifang prefecture, Shandong province.<sup>6</sup>
- 2.2 The massive Weifang City (潍坊) project would be led by Malaysia's Sime Darby Berhad, the largest conglomerate in Malaysia and one of the largest in Southeast Asia. The initial phase of the project calls for the development of medium and high rise apartments within a 700-square km area to cater for the 13 surrounding universities being developed in the same area. But according to Najib, the project is more than a township project as it aims to create business opportunities for Malaysian investors in the future.<sup>7</sup>
- 2.3 Dubbed by Najib as an "iconic milestone project", the proposed Weifang City project is the first of such kind in Malaysia-China relations and is one of the biggest ventures ever undertaken by a foreign company in China. In other words, the Weifang project could well set a new trend for Malaysia's future investment pattern in China.

---

<sup>5</sup> See John Wong, "China's Economic Rise: Implications for East Asian Growth and Integration", *Bulletin on Asia-Pacific Perspectives*, 2004; John Wong, "The ASEAN Model of Regional Co-operation". In K.S. Sandhu, *et. al.* (eds.), *The ASEAN Reader* (Singapore: Institute of Southeast Asian Studies, 1992) and Herbert Yee and Ian Storey (eds.), *The China Threat: Perceptions, Myths and Reality* (New York, NY: RoutledgeCurzon, 2002) on ASEAN's and Malaysia's perceptions on the rise of China and the China threat theory.

<sup>6</sup> "China Offers Sime Darby Multi-billion Development Project", *The Star*, 5 June 2009.

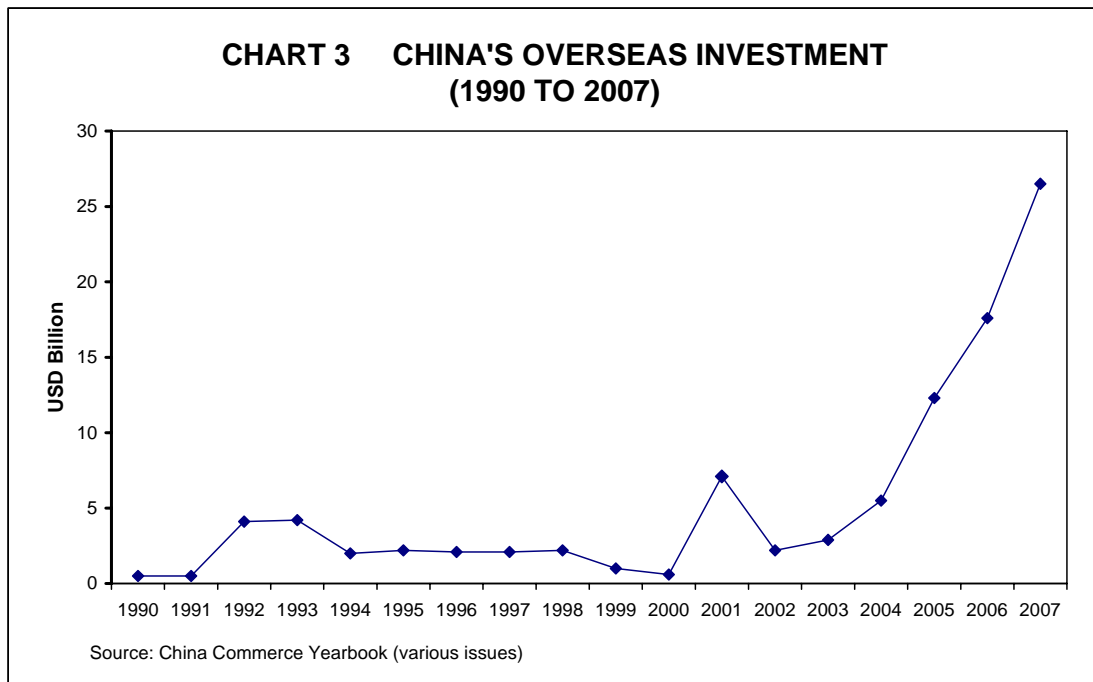
<sup>7</sup> *Ibid.*

- 2.4 Besides the Weifang City project, Malaysian companies are also planning to invest in a wide range of sectors in China. For instance, among the 16 MOUs (Memorandum of Understanding) signed during Najib's trip include one between Sunzen Biotech Berhad and Regal Plus (Beijing) Investment Consultant Co. Ltd for the supply of animal feed additives made from biotechnology to China; one between Jia Yu Home Entertainment Sdn Bhd and Nanning TV Station for undertaking the joint production and international broadcast of the 2010 Chinese New Year celebration in Beijing; and 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.<sup>8</sup>
- 2.5 Najib also aims to take advantage of China's "go global" economic strategy by encouraging Chinese companies to invest in Malaysia. Since initiating this strategy in 2000, China's overseas investment has been growing quite rapidly. From 2000 to 2008, it had ballooned from about US\$50 million to nearly US\$80 billion (Chart 3). However, the growth of Chinese investment in Malaysia is quite sluggish. From 2000 to 2008, Chinese investment in Malaysia only amounted to US\$134 million. Malaysia's investment in China, on the other hand, accounted for around US\$1.36 billion during the same period.<sup>9</sup>

---

<sup>8</sup> *Ibid.*

<sup>9</sup> "Broaden Base of Malaysia-China Trade, says Najib", *New Straits Times*, 4 June 2009.



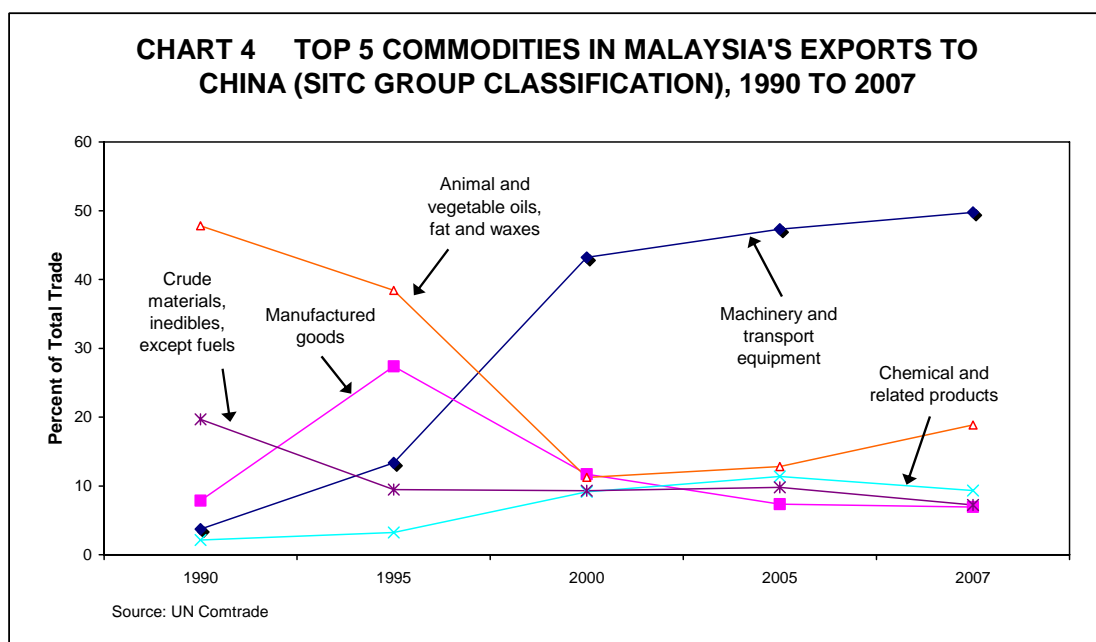
- 2.6 In order to encourage more Chinese companies to invest in Malaysia, Najib has identified five key sectors where they could enjoy higher comparative advantage: infrastructure, energy, manufacturing industries, services and finance.<sup>10</sup>
- 2.7 Some of the projects put forward by Najib during his discussions with his Chinese counterparts Hu Jintao and Wen Jiabao include building the rail double-tracking project from Gemas to Johor Bahru. This project would be funded by soft loans taken from the US\$10 billion fund that China had set aside for infrastructure projects in ASEAN in April 2009.<sup>11</sup>
- 2.8 Najib also seeks Chinese investment in the Mengkuang Dam project in Penang and the construction of the Second Penang Bridge. He suggests that Chinese companies could be involved in completing the problematic Bakun Hydroelectric Plant in Sarawak, including the complicated process of laying HVDC (High-voltage Direct Current) cables under the South China Sea to carry electricity from Bakun to Peninsular Malaysia. Other investment

<sup>10</sup> “Exciting Offer from China: ”, *The Star*, 6 June 2009.

<sup>11</sup> “China Rolls Out Assistance Blueprint for ASEAN”, *People’s Daily*, 13 April 2009.

projects in Sarawak seeking Chinese investment include the establishment of a pulp paper mill and an aluminium smelting plant.

2.9 As for Malaysia-China bilateral trade, Najib called for the broadening of trade bases between Malaysia and China.<sup>12</sup> Currently, close to 70 percent of Malaysian exports to China consisted of electrical and electronic products, and commodities, primarily palm oil (Chart 4). Similarly, 65 percent of Malaysian imports from China comprised electrical and electronic products, and machinery, appliances and parts.

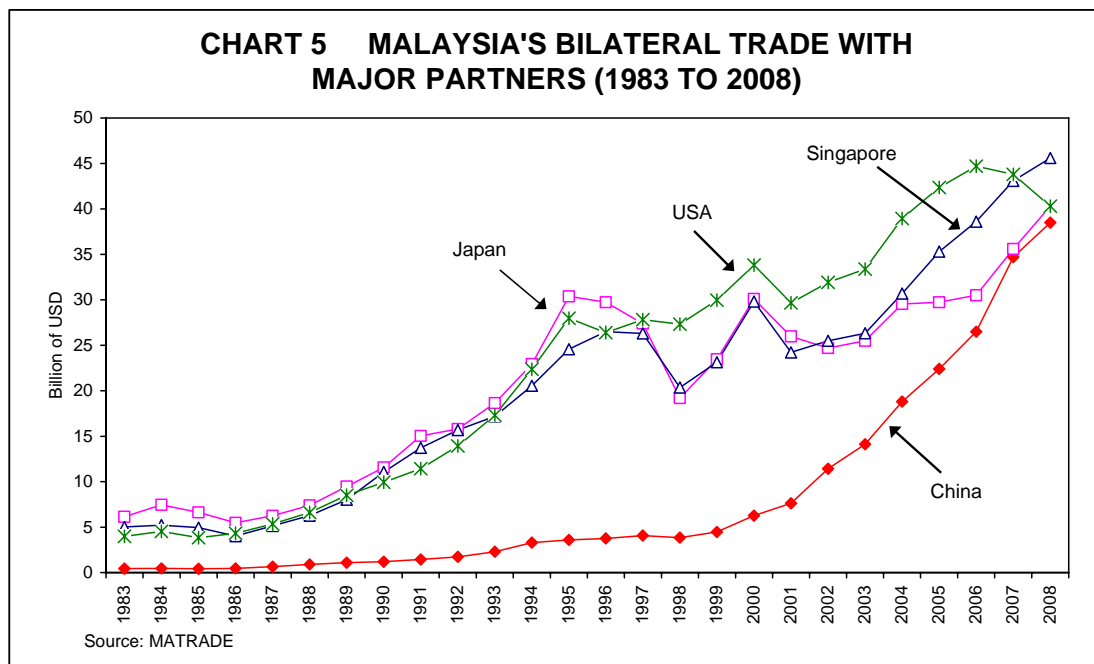


2.10 For Malaysia-China relations to enter a new stage of economic cooperation, there is a need for bilateral trade to expand beyond the relatively narrow range of goods stated earlier. One ideal direction is to increase the share of higher value and high-tech products and for bilateral trade to advance into services such as tourism, finance and construction.

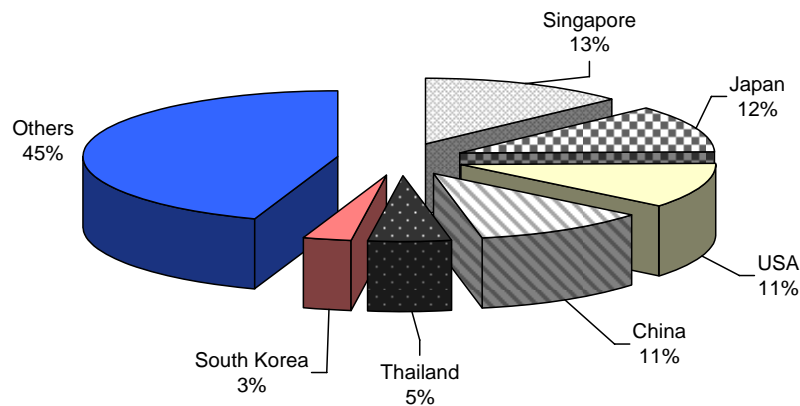
<sup>12</sup> “PM Calls for Broadening of Trading Base Between Malaysia and China”, *New Straits Times*, 4 June 2009.

## Foundation of Malaysia's Future Economic Relations with China

- 3.1 To a large extent, the success for upgrading and renewing Malaysian-China economic relations depends heavily on the economic foundation set by both sides during their 35 years of diplomatic relations. Judging from the trade and investment data between Malaysia and China, this has been relatively solid.
- 3.2 From 1974 to 2008, Malaysia-China bilateral trade grew significantly at an average annual rate of 16.8 percent from less than US\$100 million to around US\$40 billion. The growth of bilateral trade between Malaysia and China, however, was the most significant during the past decade, especially after the Asian financial crisis in 1997, and picking up speed after China's accession to the World Trade Organisation (WTO) in 2002 and the conclusion of the China-ASEAN Free Trade Agreement (CAFTA) in 2003 (Chart 5). By the end of 2008, China is Malaysia's fourth largest trading partner. But China's market share of Malaysia's total global trade is about the same as that of Malaysia's three biggest trading partners (Chart 6).



**CHART 6 MALAYSIA'S TOP 5 TRADING PARTNERS, 2008**



Note: Malaysia's total bilateral trade for 2008 was about US\$350 billion

Source: MATRADE

3.3 The prominent rise of China's position in Malaysia's total global trade indicates that there is no doubt that Malaysia is gearing its economy more closely towards China. Therefore, Najib's move to strengthen and expand Malaysia-China relations is timely and beneficial to Malaysia's economic ties with China.

3.4 Recent agreements concluded by Kuala Lumpur and Beijing could also facilitate the cementing of Malaysia-China relations. One good example is the establishment of a bilateral currency swap arrangement.<sup>13</sup> Concluded in February 2009, the agreement is designed to promote trade and investment between China and Malaysia and would provide about RM40 billion or 80 billion yuan for a period of three years.<sup>14</sup> Furthermore, Malaysia is planning to offer the People's Bank of China a commercial banking licence so that Chinese investors would find it easier to acquire funds in Malaysia. Perhaps

<sup>13</sup> A currency swap is one in which two countries agree to exchange a given amount of currency on an agreed-upon interest rate and a common maturity date for the exchange.

<sup>14</sup> "Malaysia and China Establish Currency Swap", *The Star*, 8 February 2009.

the most groundbreaking move is the mulling of a proposal to conduct trade in Chinese yuan and Malaysian ringgit to phase out the dollar.<sup>15</sup>

- 3.5 The China-ASEAN free trade mechanism which was established by CAFTA could also fuel the growth and deepening of Malaysia-China economic relations as import tariffs would be significantly reduced. In fact, under the early harvest scheme, China has reduced import tariffs on more than 7,000 products from ASEAN, of which the tariffs on more than 60 per cent of all the products had been eliminated.<sup>16</sup> By the end of 2010, the bulk of duties on goods entering China from ASEAN countries will be reduced to zero. In the Malaysian context, the tariff reduction means that more than 9,000 products imported from China to Malaysia would also be duty free.

### **Settling Outstanding Differences**

- 4.1 In order to take Malaysia-China relations to new heights, Najib has also laid out plans to settle outstanding differences between Kuala Lumpur and Beijing. During his Beijing trip, Najib agreed to resolve the decades-long territorial disputes in the South China Sea promptly through friendly means. This is to guarantee that the issue would not damage cordial ties between the two sides in the future.<sup>17</sup>
- 4.2 The sovereignty dispute in the South China Sea nearly erupted into a critical problem when Malaysia and Vietnam tendered a joint petition to dispute China's territorial boundary claim in the South China Sea in May 2009. This drew strong response from Beijing as it rebuked the argument presented by Malaysia and Vietnam and asked the Commission on the Limits of the

---

<sup>15</sup> "Malaysia, China Consider Ending Trade in Dollars", *The Wall Street Journal*, 4 June 2009.

<sup>16</sup> "PM Calls for Broadening of Trading Base Between Malaysia and China", *New Straits Times*, 4 June 2009.

<sup>17</sup> "Accord to Talk on Claims: KL and Beijing Pledge to Negotiate on Territorial Disputes", *The Star*, 6 June 2009.

Continental Shelf (CLCS) not to review the submission.<sup>18</sup> Beijing was successful in overturning the petition but it seemed to have left a dent on Malaysia-China relations.

4.3 However, this was quickly fixed first by Wen Jiabao when he assured his Malaysian counterpart that China would continue to adhere to the Declaration on the Code of Conduct on the South China Sea shortly after Najib's arrival in Beijing. This was followed by Najib's speech at the Beijing Foreign Studies University clarifying that Kuala Lumpur has never viewed China as a threat but as an important partner. Both sides agreed to take care of each other's "core interests" in the South China Sea and identified the best way to handle the dispute is to establish joint cooperation in the area and through peaceful negotiation.<sup>19</sup> This resulted in the signing of several documents of cooperation, including one on maritime science and technology and another on the introduction of a joint action plan on strategic cooperation in the exploration of resources in the South China Sea.

4.4 China's response to Malaysia's territorial claim is commendable as it portrays that China is committed to its "peaceful rise" policy, especially in dealing with outstanding issues with its neighbours. In other words, China shows that it is not behaving like a superpower and does not harbour intentions to establish a Chinese hegemony in the region. This display should diffuse the "China threat" theory and add confidence to Malaysia-China relations as well as create more opportunities for both sides to settle their historical differences.

4.5 Other problems that are potential barriers to Malaysia-China relations such as Malaysia's ethnic tensions and the continuing Malay dominance in domestic politics are appearing to be less of an issue. This is illustrated by the series of remarks made by Najib shortly after his assumption of office on the importance of China to Malaysia and the world economy. In other words, it

---

<sup>18</sup> "Vietnam, China and Malaysia Dispute Sovereignty Claims in South China Sea", Vietnam Briefing, 15 May 2009. Accessed at <http://www.vietnam-briefing.com/news/vietnam-china-malaysia-dispute-south-china-sea-boundaries.html/>, 31 May 2009.

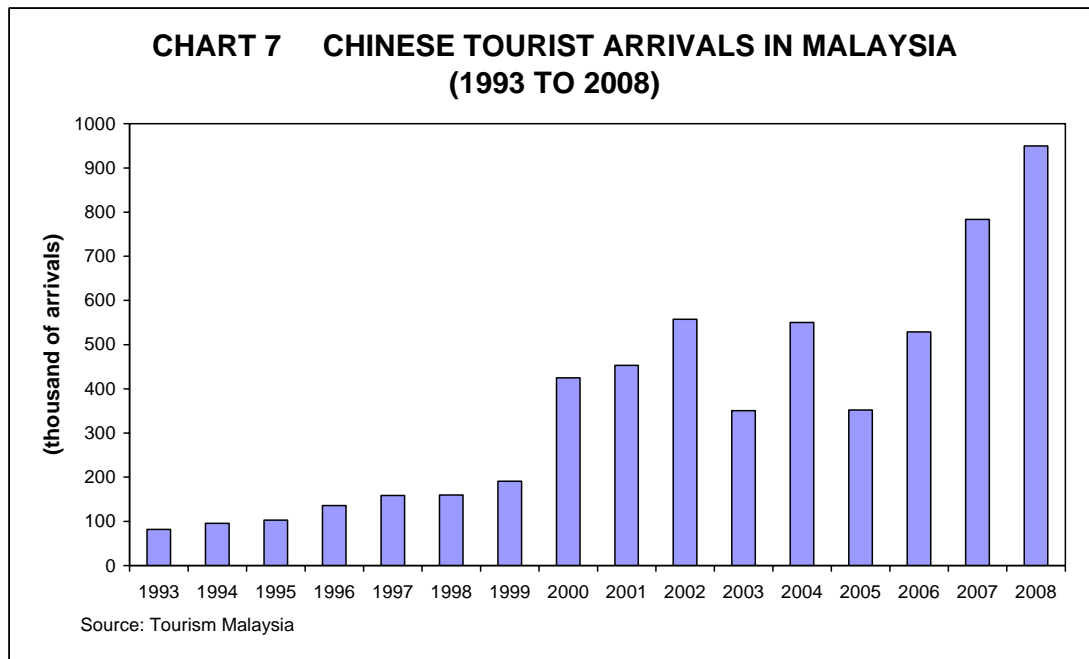
<sup>19</sup> "Malaysia PM Wants Friendly Talks", *China Daily*, 4 June 2009.

seems that Malaysian policymakers of the Najib administration may be beginning to think less along ethnic lines when it comes to formulating economic policies.

- 4.6 This change could be due to Najib's commitment to "decommunalise politics" in his pursuance of the "One Malaysia" concept where meritocracy rather than ethnicity is central to nation building. It could also be Najib's strategy to strengthen his political influence by improving Malaysia's economy in the softening global economy. In fact, Najib surprised many by announcing that he would be relaxing the Bumiputera policy on investment with the removal of the longstanding requirement that foreign investors must take on Malay partners to own 30 per cent of any joint venture in the services industry.<sup>20</sup>
- 4.7 The deepening of mutual understanding between Malaysia and China through cultural and social exchanges in recent years may also have provided outlets for Najib to pursue new ways to resolving differences between the two sides. For instance, Malaysia and China have been enjoying good people-to-people exchanges ever since travel restrictions were lifted from both sides in 1991. In fact, China occupies a prominent position in Malaysia's tourism industry. For instance, the total number of Chinese tourist arrivals in Malaysia increased dramatically from 81,874 in 1993 to 949,864 at the end of 2008 (Chart 7).

---

<sup>20</sup> The relaxation of the Bumiputera policy in the service industry, however, is only restricted to 27 sub-sectors which include health and social services, tourism, transport, business and computer-related services. "Najib Drops Bumiputera Quota for Services Sector", *The Malaysian Insider*, 22 April 2009. Accessed at <http://www.themalaysianinsider.com/index.php/malaysia/24151-najib-drops-bumiputera-quota-for-services-sector>, 8 June 2009.



### Prospects

5.1 Malaysia-China relations have changed considerably in the past 35 years. In 1974, China was still in the middle of the Cultural Revolution and there were major ideological differences between Malaysia and China even though the former was the first ASEAN country to establish diplomatic relations with Beijing. But today, China has transformed into an economic powerhouse. As a result, 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.

5.2 By making this trip to Beijing, Najib shows that the Malaysian government is well aware of the need for Malaysia to constantly review its ties with China, something that his predecessors have been successful in doing. In fact, he stated that his trip was “a successful one” and was made “not just [for] the historical perspective but the future development of the two countries”. This view was shared by Hu Jintao who stated that Malaysia-China relations had entered a deeper and more matured phase.<sup>21</sup>

<sup>21</sup> “Hu Praises Najib for Successful Bilateral Talks”, *New Straits Times*, 5 June 2009.

- 5.3 Even with this rosy conclusion of Najib's trip to Beijing, there are still a number of problems that may potentially derail Malaysia-China relations. First, Kuala Lumpur's pursuance of deeper relations with China is dependent on the continuity of Najib's China policy, which is largely based on the stability of the current government. As the 2008 general election and subsequent by-elections have shown, the Malaysian people are not entirely happy with the leadership of the current ruling coalition. If the ruling coalition loses the next general election, there will be doubts whether the new government would adopt a similar stance towards China.
- 5.4 Second, the deepening of Malaysia-China economic relations is also dependent on Najib's ability to successfully implement the "One Malaysia" concept. As the world becomes globalised, Malaysia needs to revise its Bumiputra policy so that equal opportunities could be created for foreign investors. If not, there are chances that Malaysia's competitiveness and attractiveness would be eroded.
- 5.5 On the other hand, China must also continue to adhere to its "peaceful rise" policy and refrain from exerting any hegemonic influence that could portray itself as a superpower. Similarly, it must also continue to be an active and willing participant in all ASEAN activities, including the ASEAN plus frameworks.
- 5.6 Notwithstanding these issues, Malaysia-China relations are likely to continue to prosper in the years ahead. However, this will not be a zero-sum game as Malaysia will also continue to pursue closer economic ties with other major trading partners including the United States and Japan as they will continue to be a valuable source of investment and among the main destinations of Malaysian exports.