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A QUESTION OF REBALANCING: MALAYSIA'S RELATIONS WITH CHINA

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Malaysia's dispute with China over islands in the South China Sea never created the diplomatic strain that the disappearance of Malaysia Airlines Flight 370 did in March 2014. The fact that the Malaysian government poorly handled the search for the missing jet and that most of the plane's passengers were Chinese triggered a public furor in China. Many called for a boycott of Malaysian goods and travel. Chinese authorities openly criticized Kuala Lumpur. They even allowed the families of the missing Chinese passengers to protest outside the Malaysian embassy in Beijing. (One can imagine what China's response might have been had the airline been Japanese and the search bungled by Tokyo.)

Tensions were still evident two months later when Malaysian Prime Minister Najib Razak visited Beijing to commemorate the 40th anniversary of the establishment of diplomatic ties between China and Malaysia. Chinese social media pounced on Najib's decision not to visit the families of the missing passengers and intimated that his government had not yet disclosed everything it knew about the incident. Even Chinese officials, who officially praised their "friendship" and "partnership" with Malaysia during Najib's visit, found it necessary to further press Malaysia to find the missing plane.¹

The friction between the two countries was all the more notable given their close relationship over the last couple of decades. By and large, Malaysia 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. In fact, some Malaysian leaders, especially former Prime Minister Mahathir Mohamad, seemed to delight in commenting on the distinction between "eastern values," which they believe Malaysia shares with China, and the liberal democratic values espoused by the West. On a more practical note, they also sought to benefit from China's economic rise to enhance their political stature at home. That inclination has led Malaysia to pursue a China policy that tended to "prioritize immediate economic and diplomatic benefits over potential security concerns, while simultaneously attempting to keep its strategic options open for as long as

¹ "Li Keqiang and Najib Razak Attend and Address Celebration of 40th Anniversary of Establishment of Diplomatic Relationship between China and Malaysia in Beijing," Ministry of Foreign Affairs of the People's Republic of China press release, Jun. 1, 2014.

[possible].”²



DRIVERS OF MALAYSIA'S CHINA POLICY

Of course, keeping strategic options open has been a hallmark of Malaysian foreign policy. Historically, Malaysia's leaders have been wary of all external powers. That should not be surprising given their country's colonial past and its abandonment by its security guarantor, the United Kingdom, at a time when the region was riven by Cold War conflicts. Hence, Malaysia has long advocated turning Southeast Asia into a "zone of peace, freedom, and neutrality." It helped found the Association of Southeast Asian Nations (ASEAN) so that the region could chart its own course. It encouraged ASEAN countries to put their economic development above external security concerns.

² Cheng-Chwee Kuik, "Making Sense of Malaysia's China Policy: Asymmetry, Proximity, and Elite's Domestic Authority," *Chinese Journal of International Politics* 6:4 (Winter 2013), pp. 429-467.

Malaysia even suggested that the other members of ASEAN reach out to Hanoi after its conquest of South Vietnam in 1975. Malaysian leaders believed that the best way for their country (and all the region's countries) to achieve regional stability was to craft an international environment in which all countries were interested in good relations with one another.³

But with the end of the Cold War, Malaysia seemed to tilt towards China. There were good reasons for it to do so. Economic imperatives pulled Malaysia toward China, whose economic rise was gathering steam. Since then China has become Malaysia's largest trading partner with bilateral trade likely to top \$60 billion this year.⁴ Meanwhile, Malaysia was pushed toward China by what Kuala Lumpur saw as the West's shabby treatment of it during the 1997 Asian Financial Crisis. In Malaysia's hour of need, the West imposed onerous and intrusive conditions for financial assistance that grated on the pride of Malaysian leaders.⁵ And so, even as some of its neighbors now sound the alarm over Chinese assertiveness in the South China Sea, Malaysia has so far resisted attempts to draw it into the fray, regardless of its own dispute with China over those waters. (One could argue that Malaysia has been a free rider—benefiting from its neighbors' efforts to challenge the legality of China's claim without bearing any of the costs.)

Yet Malaysia's reticence to challenge China may run deeper than any diplomatic strategy driven by national interest. Malaysia is an ethnically divided country, with Malays (locally referred to as the *bumiputra*) in the majority and Chinese as a substantial minority. That divide has been the source of considerable strife throughout Malaysia's history. During the Malayan Emergency in the 1950s, a sizable portion of Malaya's Chinese community, inspired by China's communist ideology, took up arms against Kuala Lumpur. Anger between the two groups peaked again in 1969 when violent ethnic riots erupted. Even today ethnic tensions lurk under the surface in Malaysian society, propagated by far-reaching affirmative-action policies that favor the *bumiputra* over Chinese-Malaysians.⁶ The potential for such internal conflict may well have made good relations with China a tacit imperative for the Malaysian government.

There may be a further cultural component to Malaysia's approach to China. "After the riots of May 1969 the Malay leadership clamped a lid on discussions of race or communal relations. For Malays, talking about trouble makes matters worse."⁷ Many Malays seem to feel that time is the best healer of pent-up passions; so the best way to handle "unpleasant and even dangerous situations is one of avoidance and silence, of repressing emotions in the hope that the problem will go away if matters are smoothed over."⁸ Thus, Kuala Lumpur may believe that, since there is little to be gained from confronting China now, it should discretely bide its time. That contrasts with how China has tended to react to affronts from abroad. Historically, Chinese leaders have "bewailed, almost with pride, China's mistreatment by foreigners—a tradition which is expressed in the National Humiliation Day celebrated by [Beijing] as a reproach to the Soviets [during the Cold War], and in their complaints about Taiwan to the United States."⁹ These cultural differences in dealing with troublesome issues have made China's public criticism of Malaysia over the Flight 370 incident all the more grating on Malaysian sensibilities.

³ Another way Malaysian leaders could have achieved regional stability would have been to create a balance of power. But given the vast differences in population and resources across the region's countries, doing so would have required the long-term involvement of external powers—something they were reluctant to accept. Thus, they sought to achieve regional stability through collaboration and cooperation. For such a scheme to work, ASEAN countries would have to restrain themselves from using either political coercion or military force. The way they ultimately chose to do so was to adopt a very strict form of national sovereignty that brooked no interference in the internal affairs of other countries. That approach was given full expression in the guiding principles of ASEAN's Treaty of Amity and Cooperation in Southeast Asia in 1976. Felix K. Chang, "Limits to the 'ASEAN Way': Economic and Security Interests in Southeast Asia," *Orbis* 58:3 (Summer 2014), pp. X-X.

⁴ "Malaysia External Trade Statistics," Office of Chief Statistician Malaysia, Department of Statistics press release, Jun. 6, 2014

⁵ Keith B. Richburg, "Frail Asian Economies Watch Hong Kong, Malaysian Ploys," *Washington Post*, Sep. 11, 1998, p. A18; Nicholas D. Kristof, "Has the I.M.F. Cured or Harmed Asia? Dispute Rages After Months of Crisis," *New York Times*, Apr. 23, 1998.

⁶ Harold A. Crouch, *Government and Society in Malaysia* (Ithaca: Cornell University Press, 1996), pp. 32-55.

⁷ Lucian W. Pye, *Asian Power and Politics: The Cultural Dimensions of Authority* (Cambridge: Harvard University Press, 1985), pp. 249-250.

⁸ *Ibid.*, p. 249.

⁹ *Ibid.*

CHINA'S APPROACH TO MALAYSIA

Nonetheless, Malaysia has continued to befriend China. In their joint communiqué at the conclusion of Najib's visit to Beijing, Malaysia agreed to work with China "to deepen China-ASEAN cooperation and welcome the initiatives proposed by Chinese and ASEAN leaders including the establishment of the 21st century Maritime Silk Road." Beijing reciprocated. It agreed to respect Malaysia's "independence, sovereignty and territorial integrity," and said that it would "ensure progress of consultations for the conclusion of the Code of Conduct in the South China Sea based on consensus."¹⁰

After all, China has always viewed Malaysia as politically useful. As one of the founding countries of ASEAN, Malaysia provides much of the glue for that organization and has an outsized influence on its direction. Hence, it is one of the targets of China's latest charm offensive in Southeast Asia. During the 2013 Asia-Pacific Economic Cooperation summit, Chinese President Xi Jinping announced the beginning of a new "diamond decade" in the relations between China and Southeast Asia. He listed several ways China could work with the region. He singled out Malaysia when he stated that "the Chinese government is ready to give positive consideration to participate in the Northern Corridor development projects in the appropriate ways," referring to long-held Malaysian plans to build a high-speed railway between Kuala Lumpur and Singapore.

Even during the chaotic search for Flight 370, China tempered the impact of the incident on China-Malaysia relations. Despite the domestic furor over the missing plane, Beijing ultimately limited its official response to delaying the transfer of two giant pandas to a Malaysian zoo.¹¹ And when a row flared up between China and Vietnam over a Chinese oil rig, the Hai Yang Shi You 981 (or HD 981), operating in the disputed waters of the South China Sea two months later, China commended Malaysia's quiescence. In an interview on China's state television, one Chinese scholar applauded Malaysia's approach to the issue as "a very stable policy" and one that is in line with that of China's.¹²

FROM BALANCING TO REBALANCING?

For many decades, Malaysia has seen being drawn into great power rivalries as the biggest threat to its security. It has urged its regional neighbors to stick together, rather than rely on external powers. From Malaysia's perspective it is far better to balance the interaction of external powers with the region, than have them create their own balance within it. But China's growing assertiveness in Southeast Asia has begun to change Malaysia's calculations and put its long-established non-confrontational approach to the test.

Until recently, Malaysia did not make the defense of its territorial claims a top priority. Even as Chinese air and sea capabilities grew steadily over the last quarter century, Malaysia's armed forces focused their attention on other contingencies. Kuala Lumpur considered the protection of the islands that it claims in the South China Sea to be a constabulary task, rather than a military one. But it eventually had second thoughts. In 2007, it inaugurated a new naval base at Sepanggar Bay where its navy would station its two Scorpene-class submarines. In August 2010, the Malaysian navy held its first fleet exercise in the South China Sea. There one of its then-new submarines fired an underwater-launched SM39 Exocet cruise missile in an unusual demonstration of naval strength. In the following years, Malaysia began to advance more proposals for closer defense industry and military training collaboration within ASEAN.¹³

Then in March 2013, four Chinese warships held an amphibious exercise in the waters near Malaysia-claimed James Shoal. Kuala Lumpur pushed back with a rare official protest to Beijing. A few months later, Malaysia announced that it would establish a marine corps and build a naval base at Bintulu, near the disputed shoal. China was

¹⁰ "China, Malaysia celebrate 40th anniversary of diplomatic ties," Xinhua, Jun. 01, 2014

¹¹ "Malaysia says China delays sending 2 giant pandas," Associated Press, Apr. 11, 2014.

¹² China has sought to prevent the "internationalization" of the dispute over the waters of the South China Sea. China prefers bilateral negotiations with individual countries—where its greater power can overshadow that of its counterpart—over multilateral solutions. Given Malaysia's historical preference for multilateral solutions, many Malaysians would likely differ with Teng Jianqun's portrayal of Malaysia's desired path to resolve the South China Sea dispute. "China-Vietnam Row," interviewee Teng Jianqun, host Tian Wei, *Dialogue*, CCTV, Beijing, Jun. 13, 2014, <http://english.cntv.cn/2014/06/14/VIDE1402696562672438.shtml>.

¹³ Dzirhan Mahadzir, "Malaysia's first submarine completes fleet wargames," *Jane's Defence Weekly*, Aug. 13, 2010; Robert Karniol, "Balancing Act," *Jane's Defence Weekly*, Apr. 3, 2002.

undeterred. In February 2014 the Chinese navy sent another three warships to exercise off the same shoal. The Malaysian government shrugged off the incident, but it did raise eyebrows. Tang Siew Mun, a Malaysian government advisor and scholar at Malaysia's Institute of Strategic and International Studies, observed that the Chinese exercises off James Shoal were "a wake-up call that it could happen to us and it is happening to us... For some time we believed in this special relationship [between China and Malaysia]... James Shoal has shown to us over and over again that when it comes to China protecting its sovereignty and national interest it's a different ball game."¹⁴

Since then Malaysia has begun a dialogue with the Philippines and Vietnam over the disputes in the South China Sea. While those talks have so far been described as mere "chit chat," the fact that they happened at all is notable.¹⁵ So too was the warm welcome that President Barack Obama received when he visited Malaysia in April 2014. During that visit, he and Najib signed an accord that elevated the American relationship with Malaysia to that of a "comprehensive strategic partnership," putting the United States back on an even footing with China, which reached a similar agreement with Malaysia in 2013.

NEW REALITIES

Malaysian society is also changing. Old taboos are gradually being broken. Staying on good terms with China for the sake of domestic stability is less of a concern. Indeed, Malaysian politicians have become more open about controversial issues, though not always in a positive sense. During Malaysia's latest national election, Najib presided over a campaign in which his party, the United Malays National Organisation, UMNO, carried out a "negative, racially divisive" campaign in the rural Malay heartlands that encouraged anti-Chinese headlines in the Malay-language press. But at the same time, in response to pressure from his political opponents, he has begun to dismantle the affirmative-action policies that have long rankled Chinese-Malaysians and that many now see as the source of corruption and cronyism in the country.¹⁶

Just as controversies over ethnic or communal relations have become more acceptable parts of public discourse, so too have Malaysia's concerns over its claims on the Spratly Islands. In unusually blunt language (for a Malaysian leader) Najib remarked in September 2013 that China's assertiveness was sending "mixed signals" about its intentions in the region.¹⁷ Even so, Malaysia's political elite has not yet been willing to completely abandon its traditional approach to China, especially if there are economic benefits it could still reap.

But Malaysia's economic orientation could also change. China's economy is set to slow in the coming year. Meanwhile, Japan's economy seems to have finally gotten its second wind. In addition, Japan has developed strong incentives to encourage trade and make investments in Southeast Asia. Facing ever greater hostility and labor costs in China, Japanese companies have looked to Southeast Asia for their future growth. In 2013, Japanese direct investment in Malaysia more than doubled over the prior year. That is likely to grow further if Japan's economic revival continues. And with tensions between China and Japan running high in the East China Sea, Tokyo has become concerned that Southeast Asia has drifted too far into China's orbit. So it has begun to reach out to the region. Japanese Prime Minister Shinzō Abe has already visited Southeast Asia several times, twice to Kuala Lumpur in the last year.

For the moment, Malaysia can be said to have begun hedging its bets. But it has not altered its traditional China policy. That may not always be so. It has been nearly twelve years since the Declaration on the Conduct of Parties in the South China Sea—under which China, Malaysia, and all the other disputants in the South China Sea pledged "to exercise self-restraint in the conduct of activities that would complicate or escalate disputes and affect peace and stability"—was signed. Since then, little progress has been made in settling the disputes. Some have come to believe that China sees the prospect of negotiation only as a way to delay a settlement. "China has been reluctant to

¹⁴ Stuart Grudgings, "Insight – China's assertiveness hardens Malaysian stance in sea dispute," Reuters, Feb. 26, 2014; Reme Ahmad, "KL's boost for naval defence 'strategic shift'," *The Straits Times*, Oct. 28, 2013, <http://www.straitstimes.com/the-big-story/asia-report/malaysia/story/kls-boost-naval-defence-strategic-shift-20131028>, Dzirhan Mahadzir, "Malaysia to establish marine corps, naval base close to James Shoal," *Jane's Defence Weekly*, Oct. 16, 2013.

¹⁵ John Ruwitch, "Xi says China won't stir trouble in South China Sea," Reuters, May, 31, 2014.

¹⁶ "A dangerous result," *Economist*, May 11, 2013; Watrau Yoshida, "Malaysia's ethnic tensions rise as its economy declines," *Nikkei Asian Review*, Feb. 2, 2014.

¹⁷ *Ibid.*

even talk about the code of conduct,” bemoaned one Malaysian diplomat. “[The code is] a carrot to dangle in the distance. We are dealing with a superpower.”¹⁸ In contrast, China insists that the sea disputes are “not a problem between [it] and Southeast Asia,” only the Philippines and Vietnam.¹⁹

So far Malaysia has continued to prioritize its long-standing preferences to keep external powers at arm’s length and to further expand its economic ties with China in its foreign policy calculations. But the underlying rationales for these preferences have begun to shift. How fast they shift and how accommodating China is (or is not) in the South China Sea will ultimately determine whether Malaysia decides that it must rebalance its current relationships with external powers, rather than allow China to reshape its relationship with Southeast Asia.

¹⁸ Sui-Lee Wee and Manuel Mogato, “China warns Japan, Philippines accuses China in maritime spat,” Reuters, May 23, 2014.

¹⁹ Ben Blanchard, “Sea row not a problem between China and Southeast Asia group, Beijing says,” Reuters, May 11, 2014.