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Mahathir's China Visit and Malaysia-China Relations: The View from China

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EXECUTIVE SUMMARY

- China's priority is to set its relations with Malaysia on the right trajectory following Dr Mahathir Mohamed's coming into office and halting some of its projects initiated by the Najib administration.
- China is approaching its relations with Malaysia from a strategic standpoint as it believes that this can be a basis for further cooperation with Malaysia. After all, it was Mahathir who steered Malaysia away from its earlier policy of distrust and suspicion to improve relations with China during his first tenure as prime minister.
- In China's view, any differences or issues arising from their cooperation ought to be set in context and be addressed without harming or affecting the overall positive state of China-Malaysia relations.
- Despite Mahathir saying earlier that some of these projects had to be cancelled, it is not altogether clear that they are entirely off the table. There are mixed signals from Mahathir which suggests that he remains open to negotiations. If so, this would be welcomed by China.

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INTRODUCTION

China-Malaysia relations initially appeared to be in for a rough ride in the light of Mahathir's domestic austerity drive against mega and questionable deals that the Najib administration had concluded with China. More specifically, Malaysia has suspended the East Coast Railway Line (estimated to cost RM55 billion or more) and the Multi-Product Pipeline as well as the Trans-Sabah Gas Pipeline (estimated at RM9.4 billion) on grounds that they are too costly and would mire Malaysia in further debt.

Yet, China-Malaysia relations seen from a broader perspective, are vibrant and substantive. For example, China has been Malaysia's largest trading partner for the past nine years, the largest investor in Malaysia's manufacturing industry for two consecutive years and the main construction contracting partner of Malaysia for a longer period. China is also among the top sources of tourist arrivals to Malaysia for the past six years.¹

China went out of its way to lay the groundwork for Mahathir's recent official visit to China. It hosted Mahathir's special envoy Daim Zainuddin in Beijing and sent Chinese State Councilor and Foreign Minister Wang Yi to Kuala Lumpur. Mahathir's itinerary in China had a strong economic and practical focus judging from the agreements signed largely on promoting Malaysia's agricultural products. Mahathir also visited Chinese companies like Alibaba and Geely that are already in Malaysia and keen to expand their presence there. These are the types of investments that Mahathir welcomes from China.

China has avoided public mention of the troubled mega-projects in Malaysia. Instead, it has highlighted the many practical areas of cooperation between the two countries and how they can further build on this basis. While acknowledging that differences or issues could arise from their collaboration (an indirect reference to the stalled Chinese projects in Malaysia), China stressed that these differences are but a facet of the broad-based relationship and ought to be addressed through friendly negotiations.

CHINA-MALAYSIA RELATIONS (1981- 2003)

When Mahathir was prime minister from 1981 – 2003, he launched his Look East Policy for Malaysia to become an industrialized country by learning from the development experience of Japan and South Korea. Although China was not widely regarded as a reference model for Malaysia then, Mahathir shifted away from the Malaysian policy of suspicion and distrust to improve ties with China.

In fact, during this 22 years at the helm, Mahathir visited China seven times, in 1985, 1993, 1994, 1996, 1999 and twice in 2001. A key thrust of Mahathir's first visit to China as prime minister in November 1985 was to strengthen bilateral economic ties at a time when China was

adopting an open door and reform policy in the late 1970s and Malaysia had started its industrialization drive with signature projects like the first made-in-Malaysia car, the Proton Saga, in July 1985. Mahathir saw Asian countries including Malaysia and China as engaged in an “economic revolution” to free their “respective peoples from poverty, unemployment and underdevelopment”.²

Under Mahathir’s watch, Malaysia-China trade ties improved significantly. In 1985, Malaysia-China trade was around US\$388 million. By 1993, during Mahathir’s second visit to China, bilateral trade was approximately US\$1.8 billion, an almost fivefold increase from 1985. By the time Mahathir stepped down as prime minister in 2003, bilateral trade had exceeded US\$20 billion, more than 50 times the 1985 figure.³ Furthermore, from 1985-2003, Malaysia enjoyed a trade surplus with China (except for year 1986), reversing the pre-1985 trend of a trade deficit with China. People-to-people ties, such as students and tourist arrivals from China, also grew during this period.⁴

At the regional level, apart from being the first ASEAN country to establish diplomatic ties with Beijing in 1974, Malaysia created another first by inviting Chinese Foreign Minister Qian Qichen to attend the 24th ASEAN Ministerial Meeting in Kuala Lumpur in 1991 as a guest of the Malaysian government. This paved the way for China to eventually become a full dialogue partner of ASEAN in 1996. It is worth noting that when Mahathir was grappling with the economic and political fallout of the 1997 financial crisis, he had expressed his gratitude to the Chinese government for “holding steadfastly” to its promise not to devalue the Chinese *yuan*. He reportedly said in 1999 that “China is a friend indeed, much more so than some other so called friends”.⁵

China further lent its support to regional concepts proposed by Mahathir that aimed to promote greater economic and financial autonomy of developing countries in Asia. For instance, Mahathir announced his East Asian Economic Caucus (EAEC) proposal when Chinese Premier Li Peng’s visited Kuala Lumpur in 1990. After some initial hesitation, Chinese President Yang Shangkun eventually proclaimed in 1992 that EAEC was of “positive significance for the promotion of regional economic cooperation.”⁶ Separately, Chinese Premier Zhu Rongji announced China’s full support for the creation of an Asian Monetary Fund when Mahathir renewed his call for such a fund during Zhu’s visit to Kuala Lumpur in November 1999.⁷

CHINA REACHING OUT TO MAHATHIR

After Mahathir’s election victory in May 2018 and before his China visit in August 2018, China made a concerted effort to reach out to Mahathir and individuals whom China regards as being close to him.

In his congratulatory message to Mahathir when the latter was sworn in as prime minister on 10 May 2018, Chinese Premier Li Keqiang referred to Mahathir as a Malaysian and regional “senior politician” who had made proactive and important contributions to the development of Malaysia and ASEAN as well as China-Malaysia and East Asian cooperation. Li said that China “highly valued” China-Malaysia relations and that he was willing to work together with Mahathir to further the stable development of the strategic partnership between the two countries.⁸

The Chinese Ambassador to Malaysia Bai Tian referred to Mahathir in similar adulatory terms when he called on him in May 2018. Bai Tian described Mahathir as an “old friend respected by the Chinese people”. He noted that Mahathir had made important contributions to China-Malaysia relations as half of the existing 44 years of diplomatic relations between China and Malaysia⁹ occurred when Mahathir was prime minister and that he had also visited China seven times during that period. Bai Tian also said that China appreciated Mahathir’s support for the Belt and Road Initiative and Chinese investments in Malaysia soon after he assumed office.¹⁰

Before calling on Mahathir, the Chinese Ambassador Bai Tian met with two key individuals close to Mahathir: Tun Daim Zainuddin, former finance minister and currently chairman of the five-member Council of Eminent Persons (CEP) advising Mahathir and Mr Robert Kuok, a member of the CEP and someone with strong economic dealings with China. Robert Kuok, held in high regard by China given his generosity and assistance to China over the years,¹¹ was described by Bai Tian as an “outstanding model” for Malaysian Chinese and an “extremely respected elder and friend”. Showing due deference, the Chinese embassy in Malaysia released a photo showing Bai Tian sitting affectionately next to Robert Kuok and listening attentively while the latter was talking.¹²

China readily hosted a visit by Daim Zainuddin as Mahathir’s special envoy in July 2018 while putting off a visit by Malaysia’s Finance Minister Lim Guan Eng.¹³ The Chinese side reportedly balked at the idea of Lim Guan Eng visiting China and his blunt approach of trying to hold China to account over alleged irregularities involving China’s two gas pipeline projects in Malaysia. Daim’s visit was seen as less formal and a more effective conduit since Daim had Mahathir’s ear.¹⁴ During his visit, Daim was accorded access to Chinese Premier Li Keqiang and State Councilor and Foreign Minister Wang Yi, indicating the level of importance China attached to the visit.

Daim handed over a personal letter from Mahathir to Premier Li Keqiang when he called on Premier Li. The letter reaffirmed Malaysia willingness to build on ties with China but apparently did not mention the troubled Chinese projects in Malaysia. In the letter, Mahathir reportedly gave the assurance that his government would work to maintain friendly relations with China and was willing to further strengthen the comprehensive strategic partnership between the two countries. Mahathir also reportedly said that Malaysia welcomed Chinese companies to invest in Malaysia and was optimistic of the future of Malaysia-China relations.

Nevertheless, in a veiled reference to stalled Chinese megaprojects in Malaysia, Daim reportedly said to Premier Li said that no matter what problems were to surface in the course of the development of their bilateral relations, he was confident that both Malaysia and China could find solutions to the problems.¹⁵

To further lay the groundwork for Mahathir's visit to China, Chinese State Councilor and Foreign Minister Wang Yi visited Malaysia in July/August 2018 en route to attending the ASEAN related meetings in Singapore. His originally scheduled 30 minutes call on Mahathir was extended to 90 minutes.¹⁶ Wang Yi also took the occasion of his visit to meet with several Malaysian ministers including Foreign Minister Saifuddin Abdullah, Economic Affairs Minister Mohamed Azmin Ali, Transport Minister Anthony Loke Siew Fook, Finance Minister Lim Guan Eng (whose proposed visit to Malaysia did not materialize) as well as renew his acquaintance with Daim Zainuddin.

FATE OF CHINA'S MEGA-PROJECTS

While in China, Mahathir underscored the type of economic engagement he sought with China. His first two stops at Alibaba's HQ¹⁷ and Geely's HQ¹⁸ showed his support for Chinese companies to invest in Malaysia to help Malaysian businesses and products internationalize and expand overseas. Likewise, the agreements signed during his visit on frozen durians, rubber, palm oil, and palm biofuel were aimed at promoting Malaysian agricultural exports to China. Mahathir sought economic cooperation that focused on job creation, innovation and export promotion, quite similar to the type of economic relationship he promoted with China during his first tenure as prime minister.

Mahathir made no public mention of the fate of China's mega-projects in Malaysia in the first few days of his five-day visit to China.¹⁹ It was only on the fourth day that he alluded to these projects at the joint press conference with Chinese Premier Li Keqiang by saying:

“We hope also to get China to understand the problems being faced by Malaysia today and I believe that China will look sympathetically towards a problem that we have to resolve and perhaps help us in resolving some of our internal fiscal problems.”²⁰

When prodded by Chinese Premier Li at the press conference to support free trade, Mahathir instead sounded a note of caution by saying that “fair trade” was just as important as free trade. Given the different development levels of countries, Mahathir said that “we do not want a situation where there is a new version of colonialism” because poor countries could not compete with rich cities. This seeming veiled criticism of China as engaging in a form of neo-colonialism would have been jarring to the ears of his Chinese hosts as China itself has occasionally harped on the humiliations it suffered at the hands of foreign or colonial powers in the nineteenth century.²¹

Mahathir was more unequivocal when he said at his own press conference on the final day of his China visit that the East Coast Railway Line and two pipeline projects in Malaysia “will not go on” and “will be deferred until maybe when we can afford and reduce the costs of loans”. He said that he had explained to all the three Chinese leaders²² he met why he was doing this. He added that they “understand our problem and they understand why we have to cancel it”.²³

In contrast, China has officially avoided specific mention of the stalled Chinese projects in Malaysia. Instead, it has emphasized the need to look at China-Malaysia relations from a strategic and longer historical standpoint. China also stressed the multi-faceted relations between the two countries and noted that Malaysia was one of the countries that lent its early support to the Belt and Road Initiative.

For instance, when Chinese President Xi Jinping met with Mahathir, Xi reportedly expressed his appreciation for the great importance the Malaysian government and Mahathir attached to China-Malaysia relations, the many occasions Mahathir viewed China as a development opportunity and his support for the Belt and Road Initiative, as well as his contributions to accelerating regional cooperation within Asia. Mahathir was reported to have told Xi at the same meeting that Malaysia’s friendly policy towards China remained unchanged and that Malaysia welcomed Chinese companies to invest in Malaysia to deepen cooperation and bring better benefits to the peoples of the two countries.²⁴

The Malaysian-China joint communique issued said that both countries would adopt a “strategic and long-term vision” to the bilateral relationship. It highlighted several areas of cooperation between Malaysia and China at the bilateral as well as regional levels. The communique stated that Malaysia would continue to “actively participate” in the Belt and Road Initiative and “speed up implementation” of the MOU on Promoting Mutual Economic Development through the Belt and Road Initiative, and “discuss the formulation of relevant outline of cooperation plans”. The latter phrase “discuss the formulation of relevant outline of cooperation plans” appeared to be a veiled reference to China’s stalled mega-projects in Malaysia.²⁵

Separately, in an implicit reference to China’s stalled mega-projects, China’s foreign ministry spokesperson Lu Kang said that it was unavoidable that issues or different views would arise between two countries that are cooperating with each other. In handling these differences, Lu Kang added that the two countries ought to approach them from the standpoint of friendly and long term bilateral relations, and properly resolve them through friendly negotiations. He further said that this was an important consensus reached by both sides during Mahathir’s visit.²⁶

FUTURE DIRECTION

China's focus appears to be on getting the trajectory of China-Malaysia relations on a right footing. It made a conscious effort to reach out to Mahathir prior to his China visit. During his visit, China stressed how Mahathir had contributed to the building of bilateral relations and regional cooperation in the past and expressed the hope that he will continue to make contributions on these two fronts going forward.

To China, getting the strategic or big picture right would create a framework to situate details such as the fate of its mega-projects in Malaysia in context so that they can be addressed. In other words, these projects are but one aspect of the multi-faceted relationship between China and Malaysia and should not assume a disproportionate role that would adversely affect bilateral ties.

At this juncture, it is not unambiguously clear that the projects are cancelled for good. There seems to be room for both countries to manoeuvre. Mahathir himself had said during the final day of his China visit that his job was to “establish principles” on the projects Malaysia needs while leaving detailed negotiations to officials. He signaled that China's mega-projects are not entirely off the table when he reportedly said that the Malaysian government had received offers from Chinese and local companies alike to undertake the East Coast Railway Line for as low as RM10 billion instead of the original amount of RM55 billion and that his government was open to consider cheaper alternatives because it would be “stupid” to ignore them.²⁷

Given the mixed signals emanating from Putrajaya, it would appear that China's approach of taking the strategic standpoint and not over-reacting is the right one. Moreover, Chinese leaders like Xi Jinping and Li Keqiang recognize Mahathir as an elder statesman and, therefore in line with Chinese tradition and practice, it would be disrespectful to contradict or take issue with an elder statesman in public even if one were to disagree with him. China views Malaysia as an important partner as it was the first ASEAN country to establish diplomatic ties with her. China is keen to work with Mahathir to further strengthen regional collaboration and autonomy.

¹ “Mahadier jiang fang hua ZhongMa guanxi shou guanzhu (Mahathir will visit China soon, China-Malaysia relations are being closely watched), *Xinhua*, 16 August 2018.

² Dr Mahathir Mohamad, “Regional Cooperation: Challenges and Prospects”, Speech at Qing Hua University, Beijing, 22 November 1985.

³ China-Malaysia trade, CEIC data, various years.

⁴ The burgeoning trade ties were possible due to more liberal measures introduced by the Malaysian cabinet under Mahathir. In the late 1980s, Malaysia abolished the administrative rule to get special permission to import Chinese goods. It lifted restrictions on businessmen and traders which had limited their visits to the Canton Trade Fair. The Malaysian immigration authorities further altered the multiple exit permits to allow businessmen a longer stay in China. The Malaysian government also loosened its control by not insisting that business delegations to China require officials from the Ministry of Interior to accompany them. In 1988, the two countries signed a bilateral trade agreement and an investment guarantee agreement that further facilitated the growth of their economic ties. See Poon Kim, Shee, “The Political Economy of Mahathir’s China Policy: Economic Cooperation, Political and Strategic Ambivalence”, in *Ritsumeikan Annual Review of International Studies*, vol. 3, 2004, pp. 61-62 and p. 79.

⁵ “Capital controls a right move, says Dr Mahathir”, Article extracted from *The Star*, 4 August 1999.

⁶ Joseph Chin Yong, Liow, “Malaysia-China Relations in the 1990s: The Maturing of a Partnership”, *Asian Survey*, vol. 40, no. 4 (Jul-Aug 2000), pp. 676-677.

⁷ Poon Kim, Shee, “The Political Economy of Mahathir’s China Policy: Economic Cooperation, Political and Strategic Ambivalence”, p. 66.

⁸ “Li Keqiang xiang Malaixiya xinren zongli Mahadier zhi hedian (Li Keqiang sends congratulatory message to newly appointed Malaysian Prime Minister Mahathir), Website of the Chinese Embassy in Malaysia, 11 May 2018.

⁹ China and Malaysia established diplomatic relations in 1974.

¹⁰ “Baitian dashi baihui Mahadier zongli (Ambassador Bai Tian calls on Prime Minister Mahathir), Website of the Chinese Embassy in Malaysia, 24 May 2018.

¹¹ “Tashi dama shoufu, duoci bangzhu zhongguo: Deng Xiaoping chen tashi yinluren” (He is the richest man in Malaysia, helped China many times; Deng Xiaoping refers to him as a pathfinder), Baidu Baike, 5 July 2017. Robert Kuok has had the rare privilege of having met all the top leaders of China, from the late Deng Xiaoping to current President Xi Jinping. See “Robert Kuok’s return adds optimism”, *The Star Online*, 20 May 2018.

¹² “Baitian dashi baihui Guo Henian lao xiansheng (Ambassador Bai Tian calls on the elder Robert Kouk), Website of the Chinese Embassy in Malaysia, 23 May 2018.

¹³ In June 2018, it was announced that Finance Minister Lim Guan Eng together with Malaysian Anti-Corruption Commission officials would visit China to discuss two specific gas pipeline projects, the Multi-Product Pipeline in Peninsula Malaysia and the Trans-Sabah Gas Pipeline (TSGP). Eventually, Lim Guan Eng’s China visit did not materialise.

¹⁴ Conversation with a Chinese scholar on 30 July 2018.

¹⁵ “Li Keqiang huijian Malaixiya zongli teshi (Li Keqiang meets with Malaysian prime minister special envoy), *Xinhuanet*, 19 June 2018.

¹⁶ https://www.youtube.com/watch?v=71P0_qYnDAQ, KiniTV, 1 August 2018.

¹⁷ In November 2017, under Prime Minister Najib administration, Alibaba launched an e-commerce and regional logistics hub close to Kuala Lumpur International Airport to facilitate SMEs and young entrepreneurs to buy and sell products. In June 2018, under the Mahathir administration, Alibaba set up its first Southeast Asian office in the heart of Kuala Lumpur to reaffirm its commitment to bolster the technology capability of Malaysian SMEs and young entrepreneurs, provide support and platforms to assist them to drive exports, and offer training programs to enable them take advantage of digital innovation and trade opportunities. Prime Minister Mahathir’s visit to Alibaba’s HQ in Hangzhou was an endorsement of Malaysia’s willingness to collaborate and do more with Alibaba on this front.

¹⁸ In June 2017, under Prime Minister Najib’s administration, Chinese car maker Geely acquired a 49.9% stake in Proton. During Prime Minister Mahathir’s visit to Geely’s HQ in Hangzhou, an agreement was signed to enable Proton to upgrade the quality of its cars by leveraging on Geely’s green-car and smart technology. Geely also indicated that it would assist Proton to break into international markets including in Southeast Asia and China. See “Jili yu Baoteng shenhua xin nengyuan lingyu zhanlue hezuo” (Geely and Proton deepen strategic cooperation in the field of new energy), *Sohu*, 18 August 2018.

¹⁹ Although before his China visit, Mahathir had publicly objected to the terms of the contracts, the loans as well as interests on the loans related to China’s mega-projects.

²⁰ “Dr Mahathir hopes 'sympathetic' China will help M'sia”, *KiniTV*, 20 August 2018.

²¹ “Mahathir, China and neo-colonialism”, *Nikkei Asian Review*, 30 August 2018. When asked, Mahathir denied that he was referring to any specific country. See “Transcript of Mahathir’s press conference” (Beijing), *1Media.My*, 21 August 2018.

²² The three Chinese leaders that Mahathir met were President Xi Jinping, Premier Li Keqiang and Chairman of the Standing Committee of the National People’s Congress Li Zhanshu.

²³ “Transcript of Mahathir’s press conference” (Beijing), *1Media.My*, 21 August 2018.

²⁴ “Xi Jinping huijian Malaixiya zongli Mahadier (Xi Jinping meets Malaysian Prime Minister Mahathir), *Xinhuaawang*, 20 August 2018.

²⁵ “Joint statement by governments of China and Malaysia on bilateral ties”, *The Star Online*, 20 August 2018.

²⁶ “2018 nian bayue ershiyiri waijiaobu fayanren Lu Kang zhuchi lixing jizhehui (2018, August 21 foreign affairs spokesperson Lu Kang chairs regular press conference), Website of China’s Foreign Ministry, 21 August 2018.

²⁷ “Gov’t received offers to build ECRL for RM10bil: Dr M”, *New Straits Times*, 28 August 2018. Earlier in May 2018, when referring to the ECRL, Mahathir reportedly said that “Yes, we are renegotiating the terms. The terms are very damaging to our economy.” See “‘It is a much more difficult task (than in 1981)’: Dr M”, *The Edge* (Malaysia), 18 May 2018.

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