

The Malaysia–China Economic Relationship at 40: Broadening Ties and Meeting the Challenges for Future Success

Hooi Hooi Lean and Russell Smyth

1 Introduction

Malaysia was the first country among ASEAN members to establish diplomatic ties with the People's Republic of China (hereafter China) when Malaysia's second Prime Minister, Abdul Razak, made his historical visit to China in 1974. Hence, 2014 marks the 40th Anniversary of Malaysia–China Diplomatic Relations. Over the course of the last four decades, economic cooperation between the two countries has exhibited strong growth. While Razak was responsible for the normalization of diplomatic relations between the two countries, the economic relationship showed the strongest evolution under Malaysia's fourth Prime Minister Mahathir Mohamad. Mahathir expanded trade and tourism between China and Malaysia and strengthened political ties (Barori 2012; Ko 2010; Lee 2012). Bilateral ties were further consolidated when Malaysia's sixth Prime Minister, Najib Razak, signed 16 MOUs with China in 2009 (Lee 2012). Most recently, the Malaysian and Chinese governments have established the Kuantan and Qinzhou industrial parks in an attempt to deepen bilateral economic and trade ties.

In this chapter, we discuss China's growing impact on Malaysia's economy through bilateral trade and foreign direct investment between the two nations, including the contributions of the Malaysian–Chinese business community in facilitating bilateral economic ties. Chinese tourists are one of the major sources of inbound tourism for Malaysia. Prior to the MH370 tragedy, Malaysia was expected to attract two million Chinese tourist arrivals in conjunction with Visit Malaysia Year 2014. On the other hand, China is one of the most popular destinations for outbound Malaysian tourists, especially among the Malaysian–Chinese

H.H. Lean (✉)

Economics Program, School of Social Sciences, Universiti Sains Malaysia, Penang, Malaysia
e-mail: hooilean@usm.my; learnmy@gmail.com

R. Smyth

Department of Economics, Monash University, Melbourne, VIC, Australia

community. We will also discuss the burgeoning tourist link between the two countries and how the MH370 tragedy and recent kidnappings of Chinese tourists in Sabah might impact on this relationship.

As the economic relationship between the two countries enters its fifth decade, some challenges are emerging. Perhaps chief among these for Malaysia is the growing importance of the Chinese economy, which threatens to shift the bilateral economic relationship in China's favour. As China moves up the value-added chain, there is the potential that Malaysia will lose its comparative advantage in the regional production network. We will conclude by discussing these economic challenges and how these challenges might be addressed in the future.

2 Trade and Investment

2.1 Trade

China is Malaysia's largest trading partner, while Malaysia is China's biggest trading partner in ASEAN, third in Asia and sixth in the world. The growth in bilateral trade between Malaysia and China has been remarkable. Figure 1 shows bilateral trade between the two countries. Bilateral trade increased from USD370 million in 1985 to USD6.26 billion in 2012. Bilateral trade took off after 2001 and 2002. The People's Bank of China reopened its Malaysia branch in 2001, which facilitated trade flows (Ko 2010). In 2002 the ASEAN–China Free Trade Agreement (FTA) was signed. This was the first FTA in the region and also Malaysia's first FTA. In the period since the ASEAN–China FTA was signed, total trade has grown at a compound annual growth rate of 48 %. Significantly, there has also been a changing pattern in trade between China and Malaysia, largely arising from the expanding Asian production network (with components sourced from all over East Asia with final assembly in Chinese factories), of which both China and the

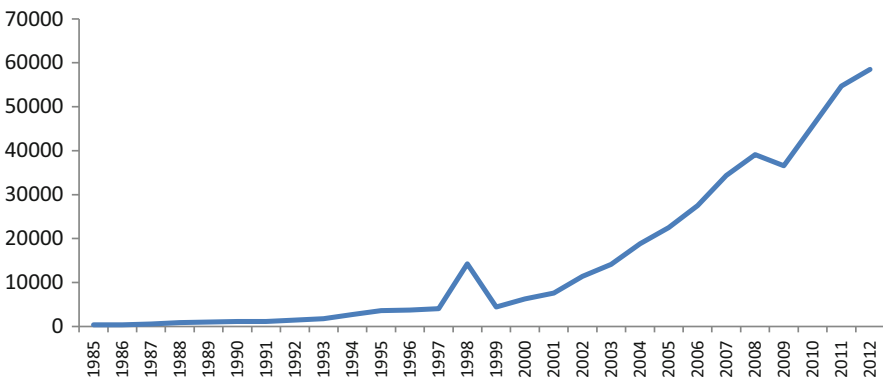


Fig. 1 Bilateral trade (million USD). *Source:* Asian Development Bank

ASEAN countries belong (Lee 2012). Within this production network of largely multinational corporations, there is considerable inter- and intra-regional trade. In 2012, electronics and electrical products were responsible for just under half (44 %) of China–Malaysia trade.

According to the Ministry of International Trade and Industry, the bilateral trade profile has witnessed a major shift in the past decade, in which commodities are no longer the major source of goods traded, but as much as 50 % of trade now comprises manufactured products and other higher value-added goods. In October 2013, both countries signed the Five-Year Programme for Economic and Trade Cooperation. This is a broad agreement that provides for bilateral cooperation in agriculture, energy and mineral resources; information and telecommunications; manufacturing, infrastructure and engineering; and tourism, logistics and retailing. This forms the basis of economic and trade cooperation for the next 5 years and provides the foundation of bilateral economic relations for decades to come.

2.2 Investment

Outward investment by both China (Zhang and Daly 2011) and Malaysia (Goh and Wong 2011) has increased rapidly since the 1990s. Reflecting this growth in both countries, mutual investments by Malaysia and China have increased, although growth has not been as rapid as growth in bilateral trade (Lee 2012). China was the sixth largest investor in Malaysia in 2010. Over the last decade, Chinese investment in Malaysia increased steadily to around USD470 million, coming off a base of less than 40 million in 2000 (Fig. 2). The Associated Chinese Chambers of Commerce and Industry of Malaysia (ACCCIM) hopes to further increase this number to

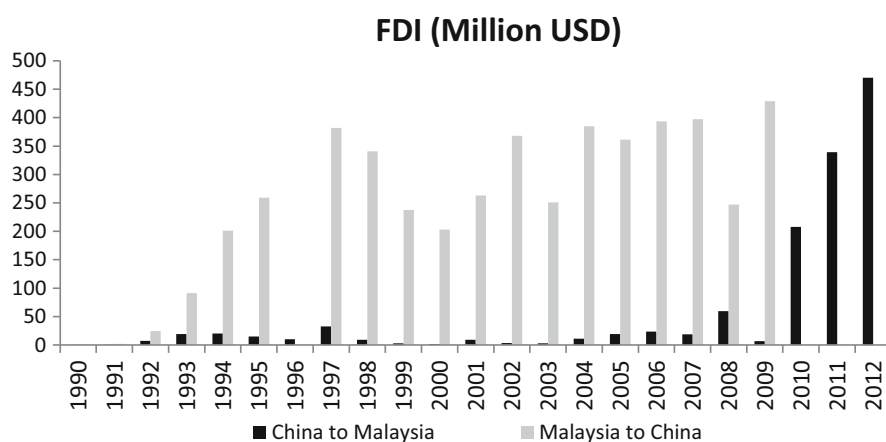


Fig. 2 FDI (million USD). *Source:* Asia Integration Center. *Notes:* Data for FDI from Malaysia to China is not available after 2009

USD500 million over a period of 3 years (The Star 2014a). Prominent Chinese companies, such as Huawei Technologies, the largest private company in China, have sizeable investments in Malaysia. Huawei Technologies has invested in information and communication technologies in Malaysia since 2001 and produces most of the broadband modems in Malaysia.

A key objective of the Najib government has been to attract more Chinese investment, while further strengthening the already strong bilateral trade ties between the two countries (Kuik 2013). The Najib government has put in place several measures to this effect. These include approval for a branch of China's largest bank, the Industrial and Commercial Bank of China, in Malaysia; simplifying visa requirements for Chinese nationals; establishment of a representative office of Bank Negara in China; and establishment of the Kuantan Industrial Park in Pahang.

Malaysia is the second largest investor in China among ASEAN countries with total investment of USD428 million in 2009. Malaysian investment in China increased sharply in the aftermath of the Asian financial crisis. Following the Asian financial crisis, then Prime Minister, Mahathir Mohamed, encouraged outward foreign direct investment. This period coincided with further marketization and opening up of the Chinese economy, following China's accession to the WTO in 2001. Malaysian investments in China are concentrated in the coastal cities with three-quarters in the cities of Shanghai, Guangzhou, Jiangsu, Beijing and Tianjin (Lee 2012). Malaysian investment in China has been boosted by the establishment of Qinzhou Industrial Park in Guangxi.

2.3 Kuantan and Qinzhou Industrial Parks

The Qinzhou Industrial Park was first put on the agenda during Premier Wen Jiabao's visit to Malaysia in 2011 and was launched in April 2012 by Najib Razak and Wen Jiabao. It is a 13,600 acre industrial park located near Qinzhou Free Park (150 km from Nanning). It will be completed in three phases over a 15-year period (Kuik 2013). Qinzhou is the third industrial park set up in China with a partner country, following the Suzhou Industrial Park and Tianjin Eco-City, which are set up as collaborative joint ventures between China and Singapore. Qinzhou is expected to be a regional hub for international logistics around China-ASEAN economic cooperation. Investors acquiring industrial land in the Qinzhou Industrial Park are expected to be offered attractive land prices, tax incentives and financial support.

The sister industrial park to Qinzhou is the Kuantan Industrial Park, which was selected because it is a deep-water port accessible from the South China Sea. Kuantan Industrial Park was first mooted at the launch of Qinzhou Industrial Park and was officially launched in February 2013. It is to be built on 1500 acres in Malaysia's eastern corridor. Thus, its size is just over one-tenth the size of Qinzhou. The Kuantan Industrial Park is costing USD 3.4 billion to build and will include steel and aluminium plants as well as a palm oil refinery. Kuantan Industrial Park is

expected to offer similar investment incentives to Qinzhou, such as 5 + 5 + 5-year pioneer tax-free status and capital allowances. The objective of the Kuantan Industrial Park, from Malaysia’s perspective, is to boost Chinese investment in Malaysia. The hope is that it will draw in between 3 and USD10 billion in the next 5 years. It would also bring much needed jobs and investment to a region which is currently lagging more developed areas of Peninsular Malaysia. Initial Chinese investment in Kuantan Industrial Park, however, has been modest. One report, 12 months after it was launched, suggested that there was very little initial Chinese investment in Kuantan.

3 Tourism and Education

3.1 Tourism

Over the last decade, the number of tourists from China to Malaysia has doubled from 501,590 in 2000 to more than 1.5 million in 2012 (see Fig. 3). This figure further increased to 1.8 million in 2013 (Malaysian Insider 2014). There was a negative spike following the SARS outbreak. Salleh et al. (2011) found that the SARS outbreak had a statistically significant negative effect on Chinese tourism to Malaysia. China is the third largest source of visitors for Malaysia. This is significant given that tourism is the sixth biggest contributor to Malaysia’s GDP and Malaysia’s second largest source of foreign revenue (Salleh et al. 2011). One view is that Chinese tourists prefer Malaysia to Indonesia, the Philippines, Thailand and other ASEAN countries because Chinese language is widely used in Malaysia, making communication more convenient.

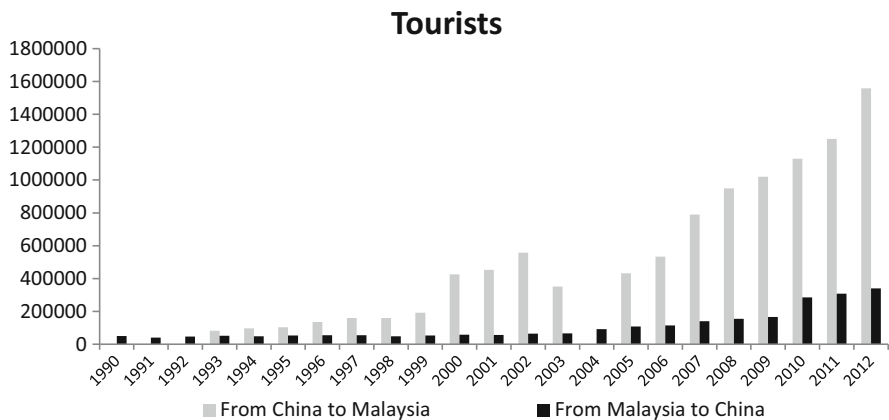


Fig. 3 Tourism between China and Malaysia. Source: China Statistical Year Book

While Malaysia was targeting two million Chinese tourists for Visit Malaysia Year 2014, the disappearance of Malaysia Airlines flight MH370 and a spate of kidnappings in Sabah are likely to hurt Malaysia's tourism industry until at least 2015. About two-thirds of passengers on board MH370 were Chinese nationals. The kidnappings in Sabah included a Chinese national, news of which was widely discussed on Sina Weibo, China's microblogging platform (The Star 2014b).

Malaysia's Tourism Minister Mohamed Nazri Abdul Aziz said that as of April 2014, more than 30,000 flight bookings were cancelled or delayed because of travellers' concerns about missing MH370. Following the disappearance of MH370, Malaysia suspended its Visit Malaysia Year 2014 campaign. The mainland travel agencies in China have also reported a sharp drop in the number of Chinese visitors to Malaysia. One report predicted Chinese arrivals in 2014 would drop by 20–40 % from 2013 levels, representing 400,000 to 800,000 tourists. If each tourist spends an average of 10,000 RMB during their stay, the total loss could amount to between four and eight billion RMB. Another report suggested that in March–April 2014, the number of tourists from northern China to Malaysia dropped by 50 % (Malaysian Insider 2014).

Tourism from Malaysia to China has also been considerable especially in recent years, reflecting China's opening up. The number of Malaysian visitors to China in 1990 numbered less than 50,000. However, since 2005 this number has doubled to reach around 400,000 in 2012. Indeed, Malaysian visitors now are the fifth largest source of tourists into China. In particular, The Chinese mainland attracts Malaysian Muslims who can now visit Islamic sites in China.

3.2 Education

Malaysia aspires to be a regional hub for the provision of education to international students (Knight and Morshidi 2011). To a large extent, this has been facilitated by Australian and UK universities setting up campuses in Malaysia and an assortment of twinning programmes between private colleges in Malaysia and foreign universities (Morshidi et al. 2011; Welch 2014). It is also assisted by Malaysia's cost structure and liberal visa requirements, relative to Australia, the UK and the USA. Nevertheless, Malaysia's aspirations to be a regional hub depend, to a large degree, on attracting international students from countries such as China (as well as Indonesia and South Asia), which otherwise might go to Australasia, Europe or the USA.

China has the largest number of international students studying in Malaysia, with 10,355 Chinese students studying in Malaysia at the end of 2008 (Lee 2012). The number of Chinese students studying in Malaysia at the end of 2013 was still around 10,000. This represents about 15 % of international students studying in Malaysia, although only a small proportion of the number of Chinese students studying abroad. At the end of 2013, there were 400,000 Chinese students studying abroad, so Malaysia attracts about 2.5 % of Chinese students studying overseas.

There are several factors which have had a positive effect on the number of Chinese students studying in Malaysia. The first was the signing of an MOU on educational exchange between China and Malaysia in 1997. The second is the large number of foreign campuses and twinning arrangements in Malaysia. The Malaysian campuses represent a cheaper option, which is often also regarded as a safer option, to studying in Australia, the USA or the UK. At the same time, it allows Chinese students to get a qualification from the Australian or UK institution. Malaysia is also viewed as an attractive destination for Chinese students because it allows them to improve their English, while still living in a Chinese community. In interviews Kell and Vogl (2012) conducted with Chinese nationals studying in Malaysia, one of the most attractive features of studying in Malaysia, besides the lower cost, was being able to communicate with Malaysian Chinese in Mandarin, which they felt helped them settle in better.

Third, in April 2011, China and Malaysia signed an MOU to recognize academic degrees and diplomas in both countries to facilitate student exchanges. Malaysia formally recognized 820 higher education institutions in China, while China recognized 71 higher education institutions in Malaysia (The Star 2014c). Education ties between China and Malaysia are expected to be strengthened by the establishment of a campus of Xiamen University in Malaysia. The campus will have a capacity for 10,000 students, of which one-third will be from China, one-third from Malaysia and one-third from other ASEAN countries (The Star 2014c). Shanghai Jiao Tong University is expected to open a campus in Kuching by 2018 (The Star 2014c).

The number of Malaysian students studying in China is smaller at about 6000. Almost all Malaysian students in China are ethnic Chinese students from Chinese independent school backgrounds. The Chinese government has generally not been very active in encouraging students from other races to study in China. There are particular specialties in which non-ethnic Chinese students are studying in China, such as Mandarin language training. This is a niche which could be considerably expanded. It has been argued that an expansion in Malaysian students studying in China would help to further facilitate trade and investment links between the two countries through increasing the awareness of China in Malaysia (The Star 2014c).

4 Role of the Malaysian–Chinese Business Community

Malaysian Chinese constitute about 24 % of the Malaysian population, but have traditionally been the major entrepreneurial class in Malaysia and have dominated business. The political economy of economic policy in Malaysia is very much about ethnicity and race. The New Economic Policy (NEP) in Malaysia has been described as a means to politicize ethnicity (Pepinsky 2013). The NEP, which was introduced following the 1969 race riots, was designed to reduce socio-economic disparities between Malays and non-Malays (Malaysian Chinese and Malaysian Indians). The NEP had three specific objectives. The first aim was to raise the

income level of Malays to match those of non-Malays. The second aim was to increase the share of Malays in the high-earning professional and technical occupations. The third aim was to increase the proportion of Malays in business (see Lean and Smyth 2014). The New Economic Model (NEM), which was spelled out in two reports in 2009 and 2010, ostensibly rolls back some of the affirmative action policies inherent in the NEP. In particular, the NEM shifts the focus of raising the income level of Malays to raising the income level of the bottom 40 %, irrespective of ethnicity. However, the initial boldness in the NEM has been watered down in response to strong opposition from Malay nationalists, and the Malaysian government has been criticized for backtracking on commitments given in the NEM to discontinue affirmative action policies in favour of the Malays (see, e.g. Menon 2014; Woo 2011; World Bank 2011).

The role of the NEP in terms of promoting harmony between Malays and Malaysian Chinese in Malaysia has been controversial. Some observers have been complimentary. For example, Ramli et al. (2013) praise the NEM for ensuring ethnic and political stability over a long period and avoiding the racial problems that have had deleterious consequences for economic growth in some other Asia-Pacific countries, such as Fiji. The NEM has been responsible for relatively strong growth in Malaysia, which has helped to ease ethnic tensions (Pepinsky 2013).

Others, however, have pointed out that the NEP has contributed to ethnic tensions between the Malays and Malaysian Chinese (Aslam et al. 2012; Munusamy 2012). The NEP is widely regarded as promoting a rent-seeking culture among Malays, which has resulted in accusations of corruption and cronyism (Ramli et al. 2013). Overt discrimination against Malaysian Chinese under the NEP has resulted in capital flight and outward migration of skilled labour. In the period 2000–2010, Malaysia was in the top three countries in the world in terms of capital flight, and in 2010 Malaysia had the highest capital flight in the world in per capita terms (Woo 2014). According to the EPU (2011), a conservative estimate is that there are one million Malaysians living abroad. Singapore absorbs 57 % of the Malaysian diaspora, with most of the remainder in Australia, Brunei, the UK and the USA. The Malaysian diaspora is ethnically skewed with ethnic Chinese accounting for 90 % of the diaspora in Singapore and ethnic Chinese being overrepresented in other countries as well. Certainly, ethnic Chinese companies in Malaysia have had to be ingenious about adopting strategies that allow them to be successful in a pro-Malay business environment. This includes participating in so-called *Ali Baba* companies, which are joint ventures between Malays and financially well-endowed non-Malays, set up to access contracts to be allocated to Malays under the NEP (see, e.g. Chin 2010; Ramli et al. 2013).

The existence of a large Malaysian–Chinese community in Malaysia has been important for facilitating the economic relationship between China and Malaysia. The Malaysia–China Business Council (MCBC), which was officially registered as a non-profit organization in April 2012, has an important facilitative role. The MCBC provides information and advisory services to Malaysian entrepreneurs in China as well as Chinese entrepreneurs in Malaysia. It is seen as strategically important to the Malaysian government. Najib Razak appointed Ong Ka Ting,

who is a former senior Cabinet Minister and Prime Minister’s Special Envoy to China, as the first Chairman of the MCBC.

Malaysia’s approach to foreign relations with China has been influenced by the fact that it has a large Chinese ethnic community in Malaysia. As Kuik (2013) discusses, Malaysia’s China policy in the post-Mahathir period can be attributed to an interplay of domestic and external factors. Domestically, the very positive approach which the Malaysian government adopts toward China is a reflection of its need to consolidate its mandate in an ethnically diverse country with, in particular, a nod to appeasing the large Malaysian–Chinese community at home. Underpinning this approach to China and Malaysian Chinese in Malaysia is the need to promote racial harmony within the broad parameters laid down by the economic policies of the NEP and NEM. In this sense, the role that the Malaysian–Chinese community plays in promoting Malaysia–China economic relations is twofold. At one level, the Malaysian–Chinese community plays a direct role through cultural and economic ties with China. However, at another level, their role is more subtle and operates through the political system. In a sense, this role is more powerful. It influences the attitude that the Malaysian government has toward China simply by representing a sizeable ethnic demographic in Malaysia which, in turn, provides it with some political clout.

5 Malaysia–China Diplomatic Relations at 40: Assessing the Relationship

The 40th Anniversary of Malaysia–China Diplomatic Relations provides a good opportunity to assess the economic relationship between the countries. Both countries have their own reasons for promoting the economic relationship and both gain from the relationship, albeit in different ways. Ko (2010) notes that the bilateral relationship between China and Malaysia is motivated by each country’s political calculations with regard to other issues. In this respect, the economic relationship between China and Malaysia reflects the differential in economic size and political influence between the two countries. From Malaysia’s perspective, maintaining a healthy relationship with China helps UMNO to attract votes from Malaysian Chinese in elections in Malaysia and provides an external assurance to domestic stability (Ko 2010). China recognizes Malaysia as an influential member of ASEAN and ASEAN forums, such as the ASEAN Regional Forum and the East Asian Summit, which consolidates Malaysia’s position (Chan and Hooy 2012).

From China’s perspective, promoting a strong economic and political relationship with Malaysia serves its political interests and assists China to counterbalance the influence of the USA in Asia. China and Malaysia have *de facto* worked together on various issues, such as advocating South–South cooperation and resolution of the South China Sea dispute. Malaysia has adopted a non-confrontational approach to resolving sovereignty disputes with China over the South China Sea,

which differs from Vietnam and the Philippines (Finkbeiner 2013). Najib's pragmatic approach to resolving disputes with China over sovereignty of the South China Sea has been to deflect the conflict to ASEAN channels for resolution, while stating that its bilateral relationship with China will be unaffected. This has been done primarily in order to promote its economic relationship with China and associated benefits flowing to Malaysia (Finkbeiner 2013). For its part, China sees nurturing its relationship with Malaysia on various issues as consistent with its own interests in promoting multipolarity, the creation of a new international order and China itself acting as a counterbalance for the USA in Asia (Ko 2010).

The Malaysia–China economic relationship can be expected to face several challenges. Foremost, among these from a Malaysian perspective is that it is becoming less competitive vis-à-vis China (Hew 2008; Lee 2012). A study by McKinsey consulting concluded that middle-level ASEAN countries, such as Malaysia, have lost their competitive advantage to China (Schwartz and Villinger 2004). The concern is that as China improves its innovative capacity, Malaysia risks losing its competitive advantage in the regional production network and ability to attract foreign direct investment (Lee 2012). This relates to a more general concern that Malaysia is stuck in the middle between being a labour-intensive low-income country and an innovation-intensive high-income country (Hill et al. 2012; Lean and Smyth 2014; Menon 2014; Woo 2011, 2014).

In the 1990s, GDP per capita growth in Malaysia was 4.6 %. Over the period 2000–2012, this figure fell to 2.8 % (World Bank 2013). Malaysia's critics point the finger at the NEP as a barrier to Malaysia graduating to a high-income country (Doraisami 2012; Menon 2014; Woo 2014). A standard production function suggests that output is being driven by labour, capital and total factor productivity growth (TFP). The critics of Malaysia's growth experience argue that the NEP has been responsible for capital flight (affecting capital) and outward migration of skilled labour (affecting labour). In the 1990s, Malaysian growth was relatively high *in spite of* the NEP, on the back of massive inward foreign direct investment. Since 2000, economic growth is lower because capital flight and outward migration have continued, while the bottom has largely fallen out of inward foreign direct investment (Woo 2014). This has occurred in large part because China joined the World Trade Organisation and attracted investment that had gone to Malaysia (Das 2007; Woo 2014). It is difficult for Malaysia to compete against the lower wage structure and larger market size in China in terms of attracting inward foreign direct investment (Goh and Wong 2011; Lee 2012; Woo 2014). The Third Industrial Malaysian Plan (2006–2020) identifies TFP as holding the key for promoting economic growth in Malaysia in the face of lower wage competition in China. However, TFP growth is relatively low in Malaysia. For example, Mahadevan (2011) found that TFP growth in manufacturing was less than 1.5 % over the period 1970 and 2002 and that technical efficiency was actually negative.

Another challenge to Malaysia, at least in the short term, is the potential economic slowdown in China, affecting Malaysian exports to China. China has a problem of over production, in which sectors such as iron and steel are producing a surplus (Beardson 2013; Krugman 2013; Naughton 2014). This is reducing the need

to import goods, which might impact on Malaysian exports to China. There are early signs this is occurring. Between February and March 2014, growth in Malaysian exports to China decreased from 25 to 1.8 %. However, overall it is expected that the effect of slowing growth in China on Malaysia should not be too drastic. The reason is that an important Malaysian export to China is palm oil. Irrespective of whether the Chinese economy slows, there still should be strong demand for palm oil for cooking.

A further potential threat is anti-Chinese sentiment in Malaysia. Domestically, there have been different points at which there has been anti-Chinese sentiment in Malaysia, dating back to the period before the establishment of diplomatic relations when Malaysia was suspicious of China for backing the Communist insurgency in Malaysia. It has, at times, erupted into violent riots, such as the race riots, which were the catalyst for the NEP. In Malaysia, the NEP has maintained ethnic stability, but the balance between Malays and Chinese has been fragile (Ko 2010).

Externally, as Lee (2011) notes, despite the blossoming diplomatic and economic relationship between the two countries, Malaysia has harboured a distrust of China. This, in part, reflects suspicion in Malaysia (and Southeast Asia more generally) of China's true intentions in Southeast Asia and the South China Seas (Cho and Park 2013). Malaysia uses the rhetoric of 'non-alignment' to adopt an issue avoidance stance with China on strategic matters, taking hard security matters and points of difference with China off the table (Lee 2011). Malaysia effectively puts this distrust to one side, because to do so enables it to benefit from the economic relationship with China. However, if China continues to squeeze Malaysia's economic competitiveness, Malaysia's economic rationale for its issue avoidance stance will be impeded, and this creates the environment for anti-Chinese sentiment in Malaysia to get a foothold.

Beyond the immediate effect of the MH370 disappearance on Chinese tourism to Malaysia, the MH370 incident potentially has broader implications for the Malaysia–China economic relationship. In the immediate aftermath of the disappearance, the Malaysian Airlines stock price declined 16 %, and the Malaysian Airlines stock price fell 40 % in the first 3 months of 2014. There has been widespread criticism in China of how the Malaysian government conducted the search for the plane. There has been speculation that the Chinese might boycott Malaysian exports. However, it is likely that any such boycott is only likely to have a short-term impact on bilateral trade. Some commentators have pointed out that there might be a boycott of the use of Malaysian Airlines in China in the short term, but this is unlikely to be significant, given that most trade uses sea transportation and there are alternative carriers for air transportation. The Wall Street Journal expressed the view that the MH370 incident might have a short-term psychological impact on Chinese investors, investing in Malaysian real estate resulting in less investment, but there is no hard evidence on this point.

6 Conclusion

The Malaysia–China economic relationship has been a beneficial one for both sides. China has used the relationship to further its political interests. Malaysia has benefitted from China’s large size, while at the same time playing to the large Malaysian–Chinese community at home. This said, after four decades of diplomatic relations, the Malaysia–China relationship faces some challenges on the Malaysia side. Some of these, such as the MH370 incident, are likely to cause, at most, a temporary blip to trade and tourism between the countries. Others, such as the relative competitive position of the two economies, are more structural and potentially have more persistent implications for economic relations between the two countries.

As the Malaysia–China economic relationship enters its fifth decade, there is sufficient goodwill on both sides to expand investment and trade links. Bilateral trade is already strong. Trade ties could be strengthened via the Trans-Asian Railway Network Agreement, which will extend the Trans-Asian Railway. One avenue forward is strengthening of investment ties in manufacturing between the two countries through the two industrial parks, which are still in their formative stages. The other avenue forward is to focus on trade and investment in services, particularly education and tourism. Again, it is likely that Malaysia has the most to gain given the economic importance of China to Malaysia; however, Malaysia remains strategically important to China as it seeks to further its political interests in Asia more generally and ASEAN specifically.

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