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Mahathir 2.0 & China: Hedging in a Fluid World

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SYNOPSIS

Under Mahathir, in his second term as prime minister, Malaysia has crafted a foreign policy of capitalising on an ascendant China while hedging against the current environment of a more fluid world. In so doing Malaysia is maintaining strong ties with major US allies of Asia, such as Japan.

COMMENTARY

FOR COUNTRIES of Southeast Asia, addressing the ascendancy of China has been de rigueur for some time now. For the most part of the first decade of this 21st Century, the United States loomed large as the major hedge against a rising China with the view that it was the benign regional power and, indeed, the natural political and economic ally. This equation has been altered somewhat since 2016 because of the Trump presidency and the apparent declining prestige of the US in the region.

Malaysian leaders have experienced both the periods of strong US presence in the region and its current decline against the backdrop of China's rise. The impact on Malaysian's foreign policy is substantive and visible this time around. Under the premiership of Najib Razak, Malaysia was quick to embrace China's Belt and Road Initiative (BRI), launched in 2013, with a slew of projects, including the multibillion-dollar East Coast Rail Link (ECRL) stretching across the peninsula, in effect creating a land bridge from the Strait of Malacca to the South China Sea.

Still Upbeat?

Under current premier Mahathir Mohamad, after initial hiccups, the relationship with China has remained upbeat. The ECRL was revived by April 2019, with the cost reduced by a whopping RM21.5 billion (US\$5.26 billion). Several other BRI projects,

such as the Bandar Malaysia, Malaysia-China Kuantan Industrial Park (MCKIP), with its state-of-the-art Alliance Steel company, as well as the Malacca Gateway were reinstated. China has remained as Malaysia's largest trading partner for the past 10 years with total trade of RM319 billion, is or about 18% of Malaysia's trade.

China also rose to become its top foreign direct investor in 2018 but fell behind the US in 2019 possibly due to scuttled 1MDB projects. With China's Geely's investing a major stake in Proton since 2017, the national car has seen its sales rocket by 46% in 2019 and its market share rising to 18%. Malaysia is also on track to launch Huawei's 5G technology by this year having set up a task force for its full adoption by 2023. On the Huawei issue, Mahathir is on record as stating that the Trump policy was "hypocritical".

In broad geopolitical terms, the growing China presence through BRI penetration into Southeast Asia has elicited a belated response by the Trump administration in the form of the US Indo-Pacific Strategy. The Free and Open Indo-Pacific (FOIP) strategy, announced at the 2017 APEC Conference is to be pursued through US military alliances and ongoing engagements with Japan, South Korea, Australia and the Southeast Asian states.

Malaysia has followed the ASEAN cue through the ASEAN Outlook on the Indo-Pacific announced on 23 June 2019 through an Indonesian-led initiative. While welcoming the idea, the document stated that the Asia-Pacific and the Indian Ocean were closely integrated, emphasising the importance of the evolving norms, principles and rules-based security and economic architectural structures that has been already put in place by ASEAN.

Free and Open Indo-Pacific

The FOIP may not necessarily devalue Southeast Asia and the Asia Pacific but importantly signals US concern with a rising China which it dubs as a "revisionist power", a term that ironically could well apply a fortiori to the US today. Trump's "America First" posture has ushered in a possible decline of an American-led global order.

If Malaysia and its ASEAN neighbours are now in a more fluid, multipolar world, it would be then quite logical to engage full tilt with China albeit with a cautious eye to Beijing's ambitions in the South China Sea. The ASEAN push in 2018 for a Code of Conduct (CoC) within three years is the primary avenue for negotiation with China in this area of continuous friction.

A measured approach towards China should come with maintaining strong ties with major US allies of Asia. Mahathir seems to be on the ball, announcing a foreign policy that is "neutral and friendly" to all countries, noting that "whether they are communist or non-communist, it is of no concern to us".

He subsequently added that Malaysia would implement a "no warships" policy or a warships-free zone in Malaysia's adjoining seas of the Strait of Malacca and the South China Sea. Such a policy could be aimed at the US as much as it is targeted at China.

KL's Hedging in Fluid World Order

As for hedging in an evolving and more fluid world order with an ascendant China, Mahathir has turned first to his tried and trusted friend – Japan. The 94-year old premier has visited Japan yearly since assuming power.

This renewed “Look East” policy towards Japan for economic leadership and inspiration balances a heavy reliance on China investments. Engaging Japan, a US ally, to hedge against China indirectly also implies a subtle policy of overall hedging vis-à-vis the US. Such a policy also applies to South Korea, another important US ally. In his state visit to South Korea in late November Mahathir reiterated his call for Malaysian companies to emulate Korea by going global.

Finally, for Malaysia and Southeast Asia, geopolitical developments have favoured a renewal of new regional economic trade agreements. Since the collapse of the Trans-Pacific Partnership (TPP), which Trump abandoned in 2017, Mahathir has prevaricated over ratifying the TPP's revised version, the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), (which the Najib government joined in 2018), because of its possible impact on Malaysia's Bumiputra policies.

Instead, attention has been given to the 15-member Regional Comprehensive Economic Partnership (RCEP), which has made significant headway in 2019. The trade deal, with India still demurring to join, will harmonise existing ASEAN FTAs with Australia, China, Japan, South Korea, and New Zealand. Even without India, RCEP countries will constitute some 2.3 billion people with a GDP of US\$24.8 trillion.

Outside of trade, India has proved difficult for Mahathir to handle given Malaysia's putative Muslim inclinations in foreign policy. The most fractious issues concern Jammu and Kashmir after Premier Narendra Modi's unilateral withdrawal of its autonomy status and the new citizenship enactment of India, both of which Mahathir has criticised. Mahathir's hedging diplomacy here is to rely on selective Muslim allies of the US, such as Pakistan and Turkey, to balance Indian hostility.

In contrast, Malaysia's relations with Australia, a major US ally, has nearly always been positive, given that both states are parties to the Five Power Defence Arrangement (FPDA) since Britain's East-of-Suez policy of the 1970s. Mahathir in inimitable fashion has suggested that Australia will over time become “more Asian”.

In the current hybridised environment of a more fluid world order, Malaysia is well-poised to craft policies which capitalise on a rising China while hedging against this through maintaining strong ties with states such as Japan, South Korea and Australia as well as good relations with other major Asia-Pacific states.

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