

## Malaysian Perceptions of China Following the Asian Financial Crisis

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### Abstract

*This paper examines Malaysia's perception of China following the Asian Financial Crisis. The Asian Financial Crisis, which occurred in 1997, resulted in a contraction in Malaysia's GDP, which resulted in increased unemployment in Malaysia. China is a rising economy. Several bilateral visits and trade missions meet both states to achieve an advantageous economic position. Malaysia's decision to rely on China despite historical events that had sparked tensions between the two countries. Despite Malaysia's economic downturn, the country is taking swift action to address the issue. During the crisis, Malaysia viewed Western countries as irresponsible and allowed the situation to deteriorate, which later became the reason for Malaysia's relationship with China. The crisis, however, has influenced Malaysian Chinese businesses to improve their foreign policy and bilateral relations. This paper contends that Malaysia recognizes the importance of its bilateral relationship with China in stabilizing its economic development and social activity following the crisis.*

**Keywords:** Malaysia's Perception, The Rise of China, the Asian Financial Crisis, Interdependence

### Introduction

Looking back in time, the world was devastated by financial instability within a period of about two years. It began with the United States' debt deflation, was followed by the European crisis in 1992-1993, the Mexican crisis in 1994-1995, the East Asian crisis in early 1997, and, most recently, the crisis in Brazil and the Russian Federation (Akyüz, 2000). This Asian crisis was a continuation of a series of crises that began with the 1929 stock market crash and the Great Depression of the 1930s (Furuoka et al., 2012). The crisis spread quickly throughout Latin America, East Asia, and Southeast Asia. According to The Bank for International Settlements Report 1996, East Asia and Southeast Asia depend entirely on capital inflows. When there is a disruption, their economy suffers a loss of competitiveness and becomes vulnerable (Akyüz, 2000). The

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crisis in East Asia began with a loss of trust, a massive withdrawal by domestic and global leaders, and, most notably, unhedged debtors.

The Asian Financial Crisis was a period of the financial crisis that began in July 1997, primarily in East and Southeast Asia (Richardson, 1998). According to one point of view, markets are one of the most important financial aspects of any country or region. Due to the worsened performance of some Asian countries in the middle of the 1990s, fundamental imbalances and unpaid debt triggered currency value and crisis (Corsetti et al., 1998). When this occurred, the quality of economic activity deteriorated and became more severe, resulting in a decline in economic growth. The moral problem that occurred during financial market liberalization in the 1990s was the root of the Asian Crisis, which exposed Asia's financial vulnerability. Internationally, the international bank's decision to lend large sums of money to local governments has contributed to the crisis.

There were two explanations for the rapid increase that occurred in East Asia over a short period of time (Akyüz, 2000). First, lenders lend funds because of developed-country investors' reaction to falling interest rates and increased liquidity in local markets. As a response to the recession, industrial countries lowered interest rates. However, from the borrower's point of view, it was due to a decrease in earnings and an attempt by domestic financial and non-financial firms to reduce their financial costs by borrowing from cheaper foreign markets. This occurred as a result of the East Asian region's falling manufacturing product prices (Akyüz, 2000). Their loss of competitiveness compelled them to increase investment in the hope of increasing productivity and market share. Indeed, the industrial-country recession has harmed Asia's exports and economic growth. Furthermore, China acted while causing an adjustment in the external value of the currency, which increased the competitive challenge to East Asian exports.

Some Asian currencies, including the Thai Baht, Indonesian Rupiah, and Malaysian Ringgit, were in decline. Southeast Asian countries export a wide range of manufactured goods, including automobiles, computer chips, and steel, as well as textiles (Furuoka et al., 2012). The Asian Financial Crisis was not caused by poor domestic policy or misaligned exchange rates but by an increase in capital flows and the flow of global demand. Countries such as Thailand and Indonesia that have been impacted by local companies have chosen to follow the International Monetary Fund's (IMF) lead and borrow emergency loans to help repay their foreign debts (Furuoka et al., 2012). While Malaysia chose to implement similar austerity measures on its own. Malaysia's government announced that all ringgits used outside Malaysia must be returned, demonstrating that all transactions and trading will take place within their own country (Furuoka et al., 2012). Foreigners were prohibited from selling stocks or repatriating funds unless it was a one-year transaction.

Malaysia imposed currency controls during the crisis because they believed that following the IMF's strategy was a deception that would worsen their economic situation (Kwame Sundaram, 2005). Their currency control action was to ensure that ringgit trading ceased to exist. Malaysia's Prime Minister, Mahathir, took this action to ensure Malaysia's economic recovery and to prevent the financial crisis from worsening. For one year, the policy has restricted capital flows by investors to keep their country's economy stable and adapt to the global financial system. Mahathir had to cancel several large projects that Malaysia and other countries had planned. Malaysia planned to entice foreign investors and boost the Kuala Lumpur Exchanged Composite Index at the time. Although Malaysia received some concern about its policies and government's unconventional policies, Jan Kregel, a United Nations Conference on Trade and Development expert, was optimistic about the Malaysian Government's actions (Kwame Sundaram, 2005). Based on this context, this paper investigates Malaysia's perception of China following the Asian Financial Crisis.

### **Conceptual Framework**

Interdependence would be the most accurate international relation theory based on how Malaysia approaches China following the Asian Financial Crisis. Malaysia-China relations have a long history dating back to the first century (Akhir et al., 2018). The Chinese Kingdom has an interest in Malacca because of the trading relationship that began during the Ming dynasty. As a result of Malacca's natural wealth, Western imperialists invaded Southeast Asia, specifically Malaysia. In the 17th and 19th centuries, there was a flood of Chinese migrants to Malaysia and other Southeast Asian countries (Akhir et al., 2018). Malaysia's position in the post-World War II democracy-communism bloc was disastrous. While the world is grappling with the complexities of ideological differences, Malaysia faces economic challenges. This eventually altered China's relations with Malaysia, as well as Malaysia's perception of China, which adheres to communist ideology.

As a result, maintaining good relations with its allies is one of the strategies for overcoming regional security and the Malaysian model aimed at containing communists to develop its economic sector. Opposing communism became the foundation for Malaysia to open free trade and expand its market share in the global order. With the tense situation and international ideological conflict, combined with American dominance, Malaysia finds it difficult to open relations with China. Many other countries are opposed because it is perceived that it will not benefit Malaysia, even though both states have several options for normalization. Tengku Razaleigh Hamzah, one of Malaysia's top brasses, visited China in 1971, and several Chinese trade visits to Malaysia followed. In 1974, the two countries reached an economic and diplomatic agreement, and Malaysia backed China against communism (Akhir et al., 2018).

Following the financial crisis, Malaysia sees China as a country with full power that can assist Malaysia in boosting its economy in the coming year. In fact, Malaysia appears to be heavily reliant on China in some areas of cooperation and relations between the two countries. Malaysia's approach to China to maximize profit demonstrates an interdependence theory. In today's world, the term "interdependence" is frequently used to describe a global political situation in which all actors, including states and non-state actors, are dependent on one another (Rana, 2015). "Dependence means a state of being determined or significantly affected by external forces," it says in general. The most basic definition of interdependence is mutual dependence. In world politics, interdependence refers to situations characterized by reciprocal effects between countries or between actors in different countries" (Keohane & Nye, 1977). Malaysia and China's relationship after the crisis are marked by cooperation, partnership, and a diplomatic agreement.

By examining Malaysia's behaviour in maintaining silence with China over territorial disputes, economic intervention, and political, and ideological differences, it is possible to see how the two countries' relationship leads to the type of interdependence control partner. This type of interdependence influences both actors' actions and the outcomes of the other actor. Based on Malaysia and China's bilateral relationship, Malaysia is the dependent state to China because Malaysia is the actor who requires China's assistance and involvement. The concept of interdependence explains the dynamics of international organizations as well as the role of international institutions in the global governance structure (Coate et al., 2017). Interdependence stems from the liberal and neoliberal perspectives on actor relationships with one another. Liberals see multiple actors in the world order and prioritize common interests that can be realized through bilateral or multilateral cooperation and relations. The liberal approach sees other actors as a potential advantage in establishing common interests. State and non-state actors can contribute to maintaining order by preserving the balance of power and avoiding conflict wars through interdependence.

### **Malaysia and China Relations**

Malaysia-China relations are difficult to measure, but historical events show that both countries frequently engage in bilateral cooperation. Bilateral trade, investment, and public relations have all thrived in recent decades. However, this does not mean that there is no tension between the two countries; there were either some internal issues or Malaysia always took precautions to avoid publicly criticizing China. Malaysia and China maintained a cautious relationship until the 1980s. After the Malaysian government signed the peace treaty at the end of the cold war in the mid-1990s, their bilateral relations took off (Bing, 2021). However, following the new agenda reformation that promised a new beginning for both countries and during Mahathir's leadership, he saw opportunities rather than risks.

During Mahathir's presidency, he dispatched a trade mission to China, and some Malaysian local governments encouraged the population of Chinese ethnicity in their country (Bing, 2021). This demonstrates Malaysia's strategy to increase business opportunities with the Chinese. Malaysia has erased China as an ideological threat in the post-Cold War era, but there were several security challenges coming through the South China Sea. In 1992, Malaysia's then-chief of defence forces also stated that "the Malaysian Armed Forces will fight to the end to protect the nation's sovereignty should countries claiming ownership of the Spratly archipelago use force," and he warned ASEAN to be "wary of China's military expansion" (Bing, 2021). However, Mahathir did not see China as a threat but rather as an opportunity to become an economic power.

Malaysia's external policy planners and foreign policymakers continue to look to China for guidance. Although both countries have had an unpleasant situation since the end of the cold war, Malaysia is taking advantage of the situation to gain an advantage over China. Malaysia was using China's rising economy as part of its strategy to gain commercial and geopolitical strength. The two countries' territorial, population, and resource differences have significantly impacted their economic and military capabilities. The disadvantage of their disparity in strength and capability is that China may be able to control or assist Malaysia in any way they desire. As is well known in international relations studies, the stronger state will have the authority to govern and defend its sovereignty, in this case, Malaysia (Bing, 2021)

One point of contention between these two countries is the South China Sea maritime claims that overlap with their respective territories. Malaysia, on the other hand, chose to remain silent in the face of any provocation by the Chinese government. Furthermore, Malaysian Prime Minister Najib Razak was removed from office in 2018 after ruling Malaysia for around nine years since 2009 for misappropriating funds provided by China for a belt and road initiative project (Chang, 2020). This demonstrates that Malaysia has never been truly transparent in its foreign policy decisions. Malaysia genuinely believes that it can build a stronger relationship through accommodation rather than confronting China with its differences. In 2013, cooperation and exchanges between the two countries improved.

Both stated that they tend to conduct frequent high-level exchange state visits in order to elevate their strategic cooperative partnership in the hope of mature development in the future. The partnership they formed resulted in significant economic development, with China becoming Malaysia's largest trading partner for four consecutive years. Malaysia, on the other hand, has become China's largest trading partner among ASEAN countries in the last five years. The friendship between the two countries will last until the signing of The Five-Year Program for Economic and Trade Cooperation 2013-2014 (The Department of Asian Affairs, 2014). They also strengthen their bonds through people-to-people exchanges and cultural collaboration. Aside from the economy, they continued to declare several cooperation agreements in the following years, including education and

technology. Malaysia's foreign relations with China, on the other hand, have the potential to shift in a different direction, but they tend to remain cooperative for the sake of their state.

Malaysian state leaders believe that Malaysia-China relations must be strengthened, and relations were initiated by Mahathir, who focused on economic cooperation and investment in the 1990s to repair their fractured relationship from 1974 to 1989 (Akhir et al., 2018). This evidence is provided by Najib Abdul Razak, who has continued Mahathir's actions by making an economical visit to China and attending several business forums. Aside from the second recognition of the Spratly Islands and the conflict of interest in the South China Sea, Malaysia continues to believe that economic relations with China have provided mutual benefits. Following the Asian Financial Crisis, Malaysian diplomacy prioritized global interests over conflict resolution. Cooperation in strengthening economic and investment relations, particularly with China, is required to achieve global peace and order. The two countries' relationship has often changed in the past, but Malaysia's only goal is to maintain the country's sovereignty and integrity.

### **Malaysian Recovery Prospect after the Financial Crisis**

The Asian financial crisis has made it difficult for Malaysia to achieve its goal of becoming an industrialized nation. Malaysia's economy has been in decline since 1997, with only a one percent increase in GDP growth from 1998 to 1999. The Malaysian central bank must approve every Malaysian currency conversion and currency transfer. This policy will be in effect until Malaysia's capital control achieves monetary independence. The Malaysian government is implementing a policy that requires all trade and transactions to be conducted under Malaysian supervision. This is demonstrated by the restriction on bringing more foreign currency out of Malaysia, as well as the requirement for any local citizens with ringgit accounts to bring it back within one month.

Malaysia's Ringgit was under severe selling pressure because of the Asian Financial Crisis. To address this issue, Malaysia's central bank intervened immediately in the foreign exchange market to maintain the value of their currency. During the crisis, the bank had already lost over 1.5 billion US dollars to keep the Ringgit's value stable. On January 7, 1998, the Ringgit fell nearly 50% against the dollar, resulting in RM 4,88 per US dollar (Ariff & Abubakar, 1999). In the following months, the exchange rate continued to fall until it collapsed in the stock market. The crisis persisted and had an impact on Malaysia's real sector economy, such as low stock prices, a drop in the property market, and ringgit depreciation, which led to a public contraction in domestic demand. Furthermore, domestic industries such as construction and services are in a dire state.

Malaysia's Foreign Direct Investment (FDI) in the manufacturing sector, as well as investment in hotels, recreation, and agriculture, declined rapidly from January to December 1998 (Ariff & Abubakar, 1999). The local government responded by cutting the operating and expenditure budgets and cancelling some of Malaysia's large bilateral projects. In fact, imports were increasing at an unprecedented rate while exports were declining. Malaysia experienced an increase and decrease in economic growth throughout the year of uncertainty, causing instability in 1997 and 1998. Malaysia experienced a social crisis, as well as an economic one, with rising unemployment and inflation. Furthermore, a new poor community has emerged, and urban families are struggling as the cost of living and household necessities, education, and transportation continue to rise.

The road to recovery has encouraged Malaysia's government to support exports while discouraging all types of imports. This policy was implemented by raising import taxes on specific goods and services, while exports were accomplished by lowering the cost of doing business by increasing tax incentives to boost the agricultural and service sectors. The government also prohibited all foreign investment in new Malaysian companies. However, due to the unstable, volatile exchange rate and the stock market, all of those real actions still result in distrust in their economic sectors. The less noticeable thing about local governments' policies is that they do not consider long-term projects. Eventually, the government formed the National Economic Action Council (NEAC) in January 1998 to provide an absolute framework for overcoming the crisis (Mohamed & Kennedy, 2002).

Throughout the crisis, Malaysia was one of the Southeast Asian countries that could compete with the East Asian miracle economies. Malaysia was able to maintain its high growth rates of 8.9% on average from 1988 to 1996, as well as a low inflation rate of about 3-4% per year (Ariff & Abubakar, 1999). Since 1997, international stakeholders have been astounded by Malaysia's significant performance and involvement in addressing the regional economic crisis. Many academics and researchers believe Malaysia's ambition to become a developed country is a real possibility. For more than two years, the Malaysian government has implemented various strategies to combat the negative effects of the economic crisis, with some succeeding and others failing spectacularly.

Aside from political instability, environmental concerns, and health risks, the tourism industry is inextricably linked to the country's economic development. Based on revenue and job creation, tourism has surpassed agriculture as Malaysia's second-largest foreign exchange earner. The Malaysian government is boosting the tourism sector to attract investors and strengthen the economy during bleak economic prospects. Malaysia is strategizing its economy by lowering interest rates and capital controls in the tourism sector in the hope of reviving upcoming potential projects. Despite some of the concerns, the capital control they maintain will allow the government to reform its

tourism sector. The government is working hard to ensure that FDI in the tourism sector does not deteriorate because it would be difficult to raise funds from abroad in that situation. Because hospitality and tourism account for the majority of Malaysia's FDI, a lack of FDI will increase unemployment and business partnerships in the tourism sector (Sadi, 1999).

Following the Asian financial crisis, Malaysia found itself in a different economic situation in which the financial system needed to be transformed. However, the country managed to increase its GDP by more than 10% on average in 1999. Despite the progress made, the country remains inextricably linked to the worst crisis (Lim Mah-Hui & Soo-khoon, 2012). Malaysia's trade and investment sectors were severely impacted, and the country is completely reliant on market trade. In early 2009, they also saw a 45% drop in exports, from 64 billion Malaysian Ringgit to 38 billion Malaysian Ringgit (Lim Mah-Hui & Soo-khoon, 2012). In contrast to the Asian financial crisis, Malaysia's economy began to recover gradually and strengthen in the post-crisis period. Unlike any other ASEAN country, Malaysia managed to maintain a stable banking system with a low level of exposure, allowing the country to stand firm despite two crises in a 10-year period. As a result, the Malaysian government has learned the importance of having low exposure to debt obligations in order to maintain a stable credit ratio.

### **Impacts on Malaysian Chinese Business**

The Chinese were involved in the cultivation of pepper and gambier during the eighteenth century, which started the Malaysian Chinese Business (Whah, 2017). The expansion of European capitalism in Southeast Asia sparked economic activity and cooperation. The Chinese role in Malaysian business was seen through its engagement with Western capitalism's culture, politics, and social economics. It was also influenced by the rapid expansion of Chinese business in 1957 and the 1970 New Economic Policy (Whah, 2017). Prior to independence, Chinese business began by adopting the colonial economy and European rules. The role of the Chinese then continued until they were able to contribute to the recovery of the Malaysian economy through small businesses and becoming entrepreneurs, traders, and shop owners in urban areas. The company continues to expand agricultural production and commodities by demonstrating to Malaysia that China can build an efficient financial and supply system.

Malaysia recovered its economy through export manufacturing, which has played a significant role in the Malaysian economy and multinational corporations. This aided the crisis and subsequent recovery. In the same year, 1997, the manufacturing sector accounted for 36% of the total GDP, and manufacturing exports accounted for 81% of total exports in Malaysia (Ping & Yean, 2007). The role of multinational enterprises levelled Malaysia's total exports in the electronics sector in 1997, which were stated to be 37% of the country's total exports (Ping & Yean, 2007). Surprisingly, foreign investors dominated electronic exports, which were permitted in the Free Trade Zone in

their export activities. Despite growing electronic exports, Malaysia's exports to ASEAN were declining, while exports to the European Union and the United States were increasing. Furthermore, the presence of Multinational Enterprises in the industry resulted in a small number of jobs.

Malaysian Chinese business firms were not as badly affected as other Malaysian firms because they continued to interact during the crisis. There are two types of China-Malaysia business firms. The first is the large business group, and the second is the small business group. It was stated that small and medium-sized enterprises (SMEs), also known as small and medium-sized enterprises (SME), performed well because they were not vulnerable to large loans. Some SMEs benefited from the Malaysian Ringgit's depreciation, which increased the global competitiveness of Malaysian products. Malaysian SMEs produced a greater proportion of their goods for export. The goal of large Chinese business groups was to seize control of the Malaysian stock exchange, which has been identified as a global business.

From independence until 1970, businesses relied on Foreign Direct Investment (FDI) and Import Substitution Industrialization (ISI) as a strategy for creating business opportunities (Whah, 2017). The local government began to hire investors and skilled workers in the manufacturing sector, such as electronics and technology, to gain knowledge transfer. During this time, Malaysian Chinese have dominated all economic sectors, from SMEs to healthcare development. Chinese business expansion in Malaysia-owned banks and shops. Malaysia's industrialization drew the attention of China in the late 1960s, and the electronic industry became the country's leading manufacturer. Malaysian Chinese capitalists continue to expand their businesses across a wide range of economic activities. It maintains control over Malaysia's construction property, banking, and finance development. Furthermore, the Asian Financial Crisis from 1997 to 1998 coincided with the decline of China's capital and Malaysian economic deregulation.

Malaysian Chinese business enterprises in the corporate sector, with or without political alliances, as well as SMEs. Chinese entrepreneurs build large Chinese companies outside the country by going abroad or overseas. Some of the businesses they build are to accommodate policy transformations for any other company that has not formed a political alliance. Affirmative action has had an impact on Chinese business in Malaysia, and Malaysian Chinese Entrepreneurship has various types of ownership depending on the type of SMEs they run. However, it is critical to improving development and competitiveness to predict the future of Chinese SMEs in Malaysia. Chinese families previously dominated small industries. Medium industries, on the other hand, are more dynamic because they collaborate with modern enterprises and have contracts with multinational corporations (MNCs). As a result, medium-sized businesses have a better chance in terms of product quality, knowledge, and skills.

Several Chinese businesses based on industrial technology are looking for ways to collaborate with Malaysian businesses to create more value for their own business interests. It was intended for them to gain access to new opportunities for capital investment through collaboration with Malaysian companies (Whah, 2017). When it came to their business, the Chinese entrepreneurs were pragmatic. Furthermore, they were enticing capital, labour, knowledge, network, and technology to achieve their goals. These well-managed Chinese businesses will increase their financial power through wealth accumulation, and the technology industries SMEs they run will be based on innovation and global market competitiveness. Political stability is another factor that will impact Chinese business and Malaysia. In the future, Chinese entrepreneurs will continue to acquire technological knowledge to meet economic demands and engage Malaysia as a bargaining power.

### **Malaysia's China Policy**

Malaysia is a developing country that has experienced colonialism, a lack of infrastructure, and an autocratic government style. Malaysia, as a developing country, takes an unusual approach in its political and economic sectors. Malaysia has also had a long period of political stability and steady economic growth, making it one of the countries with the most outstanding growth records in modern history. Many academics believed that Malaysia was acquiring characteristics of developed countries (Liow, 2009). Furthermore, the country's diverse culture and heritage society make it a multi-diverse state; it has most Malayan people and some Chinese ethnic societies. The combination of these two cultures has resulted in a positive relationship between the two states, which are now known as Malaysia's China polity. The prime minister has complete control over Malaysia's foreign policy, which significantly impacted the state environment and regional situation during the Mahathir administration.

Malaysia's China Policy in the Post-Cold War focuses on its caution in responding to China's rise and limiting its involvement; Malaysia is more focused on the promising opportunities China offers. Some assumptions underpin Malaysia's post-war policy, which favours Beijing (Liow, 2009). First, there is no evidence that China poses an immediate threat to Southeast Asian countries; instead, it is relatively stable. It is the strategic environment that encourages Malaysia to make the policy rather than the crisis itself. Second, Malaysia's recent China policy is based on an ideational profit from a major power. Third, this policy is based on leaders in Kuala Lumpur and Beijing sharing a strong commitment to international relations. Finally, Malaysia's active involvement and success with China have aided the purpose of their political and domestic interests.

Although some scholars were concerned about China in the years preceding the crisis, Malaysian policymakers attempted to view China favourably. Looking at the territorial disputes between Malaysia and China in the South China Sea, it is clear that accepting China's claim would be a profit-seeking dimension. Following the crisis, Malaysia and

China's bilateral economic cooperation reached \$50 billion USD in the following years (Liow, 2009). Aside from that, the tourism sector has grown rapidly, whether it is Malaysian tourists visiting China or vice versa. Through bilateral cooperation between Malaysia and China, both countries' international political interests would be defined, such as allowing China to join the World Trade Organization (WTO) and making it easier for Malaysia to establish the East Asia Economic Caucus (EAEC) perhaps because the world sees both states' partnership as a strong state that has brought Malaysia's economy to a stable formation.

Malaysia's foreign policy is distinguished by its willingness to engage with other countries. Malaysia is a founding member of the Association of Southeast Asian Nations (ASEAN), which aims to establish a peaceful and free zone in Southeast Asia (Bing, 2021). Malaysia's historical tragedy during the Cold War between them and Western countries has created tension and an unpleasant regional security situation. ASEAN was established in the hope that Southeast Asian countries would be able to achieve regional stability through an international environment in which they could collaborate to achieve their national interests and mutual benefits. Since then, Malaysia has believed that conflicts and wars will not benefit the country. As a result of China's claim to the South China Sea, Malaysia's relationship with China has become a source of contention among its neighbours (Bing, 2021). Furthermore, Malaysia could not deny that China provided significant assistance and contribution to its country during the Asian Financial Crisis.

Malaysian diplomacy optimization is one of their strategies for establishing a stable state order and achieving national interests. Legally, it has compelled Malaysia to engage in silent diplomacy in order to resolve its bilateral relations with China. Malaysia is defending its territorial integrity as well as its economic interests. Malaysia's awareness as a weak country in terms of military and strength to fight a stronger country globally is represented by silent diplomacy (Bing, 2021). Hedging is a term used to describe Malaysia's approach to dealing with China in the South China Sea, which served as the foundation for the development of Malaysia's China Policy. Malaysia has used multilateral diplomacy to advance its interests in the South China Sea by implementing the ASEAN-China code of conduct (CoC). However, given that not every ASEAN country has the power to deal with China, this has resulted in a variety of situations. Even though no decision has been made regarding the territorial ownership of the South China Sea for the countries that claim it, Malaysia continues to commit to its silent diplomacy with China, which significantly impacts Malaysia's political elite.

### **Malaysia's Response to China**

China is one of the most important trading partners for ASEAN economies, particularly in the aftermath of the Asian Financial Crisis (Chan, 2017). China took its own initiative, collaborating with regional partners to expand its industrial trade in a variety of products. In other words, China's presence as a global economic power has increased

international trade diversification, which will lead to regional economic integration with the European Union and the North American Free Trade Agreement. Other countries' concerns about China's yuan regime, investment, low labour, and accession to the World Trade Organization have positioned China as an economic competitor, posing a threat to other Southeast Asian countries. Malaysia, for example, has had a continuous seven-year trade deficit with China since 2002, peaking at \$4.2 billion USD in 2007 before the major correction in 2009 (Chan, 2017).

Both China and Malaysia have had similar exchange rate regimes since 1998. It was confirmed that the Chinese authorities organized the float. Although a ringgit depreciation would have resulted in a net surplus for Malaysia against China, the domestic and was stated to be the US dollar at RMB 8.28. At the same time, Malaysia was reported to be at RM 3.80. The Chinese yuan appreciated against the US dollar in the middle of 2005, while the Malaysian Ringgit de-pegged from the US dollar (Chan, 2017). Foreign income variables were only observed in the short term, not in the long term. Then, the Ringgit's depreciation was insufficient to keep Malaysia's exports expanding against China.

China's intention became Malaysia's security agenda during the cold war. Beijing's desire to maintain ties with Malaysia's communist movement has become a stumbling block in their bilateral relationship, with Beijing convinced that Malaysia is a genuine threat. At the end of the Cold War, Beijing's claim in the South China Sea prompted Malaysian policymakers to view China as a potential source of regional order breakdown (Bing, 2021). Nonetheless, several Malaysian stakeholders see potential in their bilateral relationship. This includes Malaysia's security policy, which has remained ambiguous. However, this incident has prompted some Southeast Asian countries to declare a change in their foreign policy regarding the political issues in the South China Sea, as well as Malaysia's response to China's action.

Malaysia's perception of China's risk and opportunity by accepting China's high power and economic interest for Malaysia. In fact, this situation has led Malaysia down an uncertain and constrained strategic path. At the time, Mahathir Mohammad recognized that economic dependence on China posed a risk of reducing autonomy in politics and security (Gerstl, 2020). Malaysia's approach to China is more likely to back down and demand militarization. This perception, however, indicates that Malaysia would rather maintain its sovereignty and territorial integrity than confront China for hard balancing. Despite their opposing ideologies, Malaysia was the first country in Southeast Asia to establish diplomatic relations with China in 1974, shortly before the financial crisis (Gerstl, 2020). The crisis has forced Mahathir Mohammad to approach China more pragmatically, promoting exchanges and economic cooperation (Gerstl, 2020).

Despite the fact that the crisis that hit Malaysia and several other Southeast Asian countries resulted in significant losses for the country, Malaysia chose to maintain good

relations with China in order to keep some of the economic agreements they had agreed to. Malaysia, on the other hand, sees China's interest in strategic relations as bringing several benefits to Malaysia's sovereignty and development. Malaysia's participation in political diplomacy with China also provides an opportunity for Malaysia to negotiate issues related to China's Belt and Road Initiative and ownership of the South China Sea (Bing, 2021). Simultaneously, Malaysia's economic involvement with China reflects a desire to reap greater benefits from the Chinese. Furthermore, Malaysia has prepared itself by strengthening bilateral ties with other Southeast Asian countries in order to mitigate potential political and economic risks posed by China. Malaysia hopes to gain more economic benefits from this partnership and cooperative approach while upholding the principles and values.

### **Conclusion**

Malaysia assessed some options for reviving its economy and financial markets, as well as reducing capital flows and excess liquidity. First, by limiting banking institutions' non-trade-related external liabilities, the government encourages every commercial bank to deposit ringgits in non-interest-bearing accounts. Second, the sale of a short-term instruments was restricted to Malaysian residents only. Third, commercial banks were not permitted to engage in non-trade-related swaps. Following the collapse of Malaysia's stock market, these policies were implemented. Looking back on what the West did during the crisis, which affected every sector in Malaysia, the country sees China as a potential rising state at the time. During the crisis, economic ties grew significantly, becoming the anchor of both states' strategies. Malaysia hoped that its defensive posture toward China would replace the United States' global dominance.

Taking action in response to China's post-cold war policy demonstrates that Malaysia gradually reacted to the opportunity presented by China, which has been actively rising in its economic aspects. Following that, Malaysia and China's relationship was stated on a written policy toward Beijing, first, Malaysia does not consider China to be a threat. Second, Malaysia's policy toward China was based on a major power's ideational gains. Third, this policy was based on the identification of international relations between the leaders of Kuala Lumpur and Beijing. Finally, Malaysia and China's active role and success support the purpose of their politics and nationalistic goals. Malaysia's approach to hedging is a strategy in its political and economic diplomacy with China. Malaysia's foreign policy toward China is shaped by a friendly and balanced relationship that recognizes its strategic ambiguity.

Malaysia's cooperation with China has resulted in a successful partnership when considering how Malaysia is running toward China to gain material and political benefits from their relationship. Malaysia has committed to pursuing a soft diplomacy strategy in dealing with China and its neighbours in the future. Regardless of how the international community perceives Malaysia and how the world order changes in

politics, Malaysia has remained silent, refusing to engage in any form of confrontation or war with China. Malaysia believed that maintaining friendly relations with China would be beneficial to the country's economic development. They can choose to be friendly and cooperative, but Malaysia's primary goal is to maintain their country's sovereignty and security, which cannot be compromised. Despite some previous tensions between Malaysia and China, the result will determine the future of both countries. Malaysia has seen that China's rising power can have a positive impact on Malaysia's progress and global interests.

The economic crisis that brought Malaysia to its knees has harmed the country, but Malaysia is not the worst of Southeast Asia's countries. Malaysia's government knows exactly how to handle the crisis, as evidenced by its swift recovery and economic stabilization. Although the crisis has affected some Malaysian Chinese businesses, it is not entirely concerning because they are not excessively borrowing from foreign sources. Aside from that, despite some divisions among political parties, the crisis had no effect on their country's constitutional structure. On the other hand, the crisis has taught Malaysia's government that bilateral relations between states and businesses can bring tremendous economic development and social stability to the country. Clearly, Malaysia has taken a serious approach to transformation in order to be stronger and more competitive in the future.

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