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CONTINUITY NARRATIVES AND EVOLVING POLICY IN THE HISTORY OF CHINESE TRADE AND INVESTMENT IN MALAYSIA

With the development of China's reform and opening up policy, China's identity has gradually shifted from a solely foreign investment destination country into one that prioritizes capital exports. Among the capital receiving countries, Malaysia has been definitely attractive. As the first ASEAN country that has fostered diplomatic relations with China, Malaysia instituted friendly exchanges with China more than 2,000 years ago. This paper summarizes the history of investment and trade in the Malaysia and China in the ancient Chinese historical books based on the chronicle, and concludes the characteristics of investment and trade in various periods. With the qualitative method, it specifically analyzes the related research materials and historical writing records and focuses on the reasons why China has been willing to invest in Malaysia. The paper finds both countries' complementarity of goods, the continuous accumulation of exchanges, mutual understanding, influx of Chinese immigrants, and Malaysia's unique geographical advantages, which have contributed to the fact that China chose to invest and cooperate in Malaysia for two thousand years. This paper can help understand the development of the China-Malaysia relations and can accelerate understanding between the two countries, thus helping in removing hindrances against Chinese investment in Malaysia due to various modes of incomprehension.

Keywords: *History and economic Law; China-Malaysia investment regulation; Malaysian investment regulation; Belt and Road Initiative*

Introduction

With the development of China's reform and opening up policy, China's identity has gradually shifted from a solely foreign investment destination country into one that prioritizes capital exports. Such outward wave of foreign investments has been spurred by the Belt and Road Initiative (BRI), which commenced in 2013. Chinese companies have been encouraged by the BRI to seek foreign investment and trade opportunities in other countries. In 2019, Chinese enterprises invested more than 100 billion US dollars in various

countries along the Belt and Road, involving three continents – Asia, Africa and Europe. Among the targeted countries, Malaysia has been definitely attractive. For five consecutive years since 2016, China has been the largest source of foreign investment in manufacturing in Malaysia.¹

China's economic relationship with Malaysia has experienced a long history; the friendly yet profound exchanges between the two countries have spanned more than 2,000 years. Today, as China-Malaysia relations have encountered a new historical period, examining the trade and investment history between China and Malaysia can help in understanding the development of China-Malaysia relations, thus further promoting the sound development of such relations. The contribution of this research entails chronologically encapsulating historical records concerning trade and investment between China and the Malaysia as recorded in ancient Chinese history books, sorting out the history, background and reasons regarding the enduring trade and investment between China and Malaysia and exploring the reason why China has been willing to trade and invest in Malaysia since the ancient times. It fills gaps in existing research that concentrates on the political relationship between China and Malaysia, yet ignores special research on trade and investment relations and peruses the entire trade and investment history in a chronological dimension. This article can clearly depict the entire trade and investment history between China and Malaysia from ancient times to the present, as well as intensively analyze the reasons for such behavior.

Relations During The Ancient Times

In the history book *Han Shu*, Guangdong Landmark is the earliest Chinese description of the trade navigation route from China to India.² The said book also manifests the earliest information in the world to have recorded this route, and has always been valued by scholars. It records the process in which Chinese diplomats had visited India from southern China during the 2nd century BC. The said route was from Guangxi, China and other places to the Kra Isthmus of the Malay Peninsula. It crossed the isthmus before continuing to Thailand, southern Myanmar, and then to Kanchipuram, India, before going to Pisang Island on the west coast of the Malay Peninsula. Despite the definite identification of the information as recorded in the document, it has remained controversial.³ Nevertheless, the route from China to India is undoubtedly through Malaysia. Some scholars believe that "Pisang" as mentioned is located in the northern part of the Malay Peninsula. It may be regarded as the initial understanding of Malaysia by the ancient Chinese. This route recorded in the *Han Shu* is the ancient Chinese Maritime Silk Road that lasted for more than two thousand years. It was opened from the time of Han Wu-ti of the Han Dynasty and connected a sea route between China and Southeast Asia. Chinese silk and goods were shipped out on this voyage, while metals and luxury

goods were shipped back to China. This trade was maintained because of the Chinese demand for “southern” goods and the demand for Chinese silk and porcelain from Western countries. It was very difficult for silk and porcelain to be transported from China to the West, from rugged land by animal power, and the quantity of goods to be transported was extremely limited. The land road to the Western countries was sometimes hindered due to the influence of politics, wars and robberies. Therefore, people felt that land could no longer meet the demand, and it was imperative to expand economic ties with other parts of the world and develop maritime trade. So this maritime trade route was opened up in the Han Dynasty.⁴ The route recorded in the *Han Shu* can also be confirmed in the archaeological discoveries of Borneo. Archaeologists have discovered coins marked with Han writing, steel sabers, iron hooks, and a great deal of Han dynasty pottery along the coastal regions of Borneo generally and especially on the southwest coastline. This is indisputable proof that the Chinese have traveled to Borneo which was in a strategic position geographically for the Maritime Silk Road trade.⁵

During the Wei, Jin and Southern and Northern Dynasties, various kingdoms of the Malay Peninsula were successively recorded in history. In *Liang Shu*, a Chinese history book written during the early 7th century, has a detailed description of Langkasuka, recorded as a 20 days’ journey from north to south, and a 30 days’ journey from east to west. The place was abundant with agarwood and spices. Its capital was surrounded by walls with double gates, towers and pavilions. Its king rode upon an elephant. Its inhabitants said that their kingdom had been founded more than 400 years ago.⁶

Especially during the reign of Liang Wu-ti (502-549), Buddhism was highly respected, and developed on a large scale during this period. Thus, a trade in “holy things” followed, in incense (gharu-woods), ivory and sandalwood stupas and statues, and glass-vessels used for temple rituals from southeast Asia, many of these things were products of the Malay Peninsula. The demand for commodity from luxury goods to a richer variety of goods, indicating that trade was no longer limited to satisfying the needs of the royal family and the court, but also has a broader consumer market.⁷

During the Sui Dynasty (581-618), with the unification of China, the country’s foreign relations had further developed. In 607 AD, Emperor Yang Guang sent Chang Jun and Wang Junzheng to visit Chi Tu. That was the first time in history that China had sent envoys to the Malay Peninsula. Undoubtedly, this visit provided China an official deeper recognition of the Malay Peninsula. *Sui Shu*, which was written in the early 7th century, has a highly detailed record of Chi Tu.⁸ According to its 82nd volume, after the envoys departed from Guangdong, they sailed for more than 20 days to reach the port of Chi Tu. More than 30 ships led by Brahman monks were sent by the King of Chi Tu to welcome the envoys at the port. After more than a month of travel, the envoys finally reached the national capital of Chi Tu.

During the Tang Dynasty (618-907 AD), foreign relations were closer than before. The *Tong Dian*, which was written during that period, introduced a kingdom named Koli. There were 24 districts in Koli, with no sub-districts. The arms of soldiers consisted of bows and arrows, swords and lances, and leather buff-coats, and mounted on elephants. As taxes, each man paid one Chu of silver.⁹ There was no silk or flax in the country, except for a cloth made of kapok. Livestock was mostly cattle, and there were few horses. *Tong Dian* also introduced that the Dan Dan Kingdom had a population of more than 20,000, and had prefectures and counties to manage it. It said kingdom produced gold and silver, white sandalwood, *Su fang mu*, and betel nut.¹⁰ From 623 to 684, the trade with these kingdoms was the greatest because of the prosperity and peace of China, and the advances in navigation, shipbuilding, and trading methods. The states, such as P'an-p'an (in 635 and 650-655). Chu-lou-mi (in 655 and 656) and Tan-tan (in 666-669) on the Malay Peninsula sent trade missions to China. The trade during the Tang dynasty, China's demand for goods from the Malay Peninsula began to quest decorative goods, like pearls, ivory and colourful feather of birds, perfumes, incense and various types of dyes.¹¹

During the Sung Dynasty (960-1279) and the Yuan Dynasty (1279-1368), with the development of maritime traffic and foreign trade, political and trade relations between China and the Malay Archipelago had been further developed. The traded items expanded to drugs and spices. In particular, China had highly close relations with Borneo. Under such circumstances, China's record became more comprehensive and detailed. During the Sung Dynasty, a significant work had emerged – *Zhu Fan Zhi* by Zhao Rushi. The said work recorded that Borneo had a population of more than 10,000 with 14 districts.¹² Borneo produced spices, wax and hawksbill. Whenever foreigners did business in the kingdom, after a ship would land, the king and the foreign merchants would firstly determine the price of the goods, and would then call the people to do business with them. Before the king would set the price, no one could trade privately, or else they would be punished. The customs in the kingdom centered around businessmen; if a businessman was guilty and needed to be sentenced to death, he would be generally punished without being killed.¹³ The discovery of the archaeological site of Santubong in Borneo also confirms the record of Borneo in ancient Chinese books.¹⁴ A large number of pottery fragments, coins, iron-smelting crucible from the 6-13th centuries were discovered at the archaeological site of Santubong.¹⁵ According to archaeologists, it may have been a temporary sea transportation stop at first.¹⁶ Chinese merchants brought metal, pottery and other items to Santubong for trade and sought a valuable commodity to bring back to China. Therefore, this place gradually became a busy trading port during the Tang, Sung and Yuan Dynasties.¹⁷ Later, iron ore was discovered here, so this place gradually became an “industrial” complex of iron-smelting, and reached its peak in the 12th to 13th centuries.¹⁸

Before the Tang Dynasty, merchants from China and India rarely used the Malacca Strait. They used the route opened in the Han Dynasty to cross the Kra Isthmus. Therefore, the channel of the Kra Isthmus became an international channel for trade between East and West. The opening of the Kra Isthmus has made trade between China and India more convenient. The fishing and hunting society on the Malay Peninsula, which lived by the sea, gradually collapsed under the impact of trade. Trading ports similar to Dunxun emerged as the times required.¹⁹ Ancient countries such as P'an-p'an and Tantan prospered, which attributes to its geographical location related to the trade of the Kra Isthmus.²⁰

Among the ancient kingdoms that had survived in Malaysia, Old Kedah had at least 2,000 years of history. Kedah was located on the northern corner of the Malay Peninsula and established its country around the beginning of the 2nd century. It gradually became a vital transit point for the China-India route and maritime trade due to its unique geographical and natural environment. The Jerai Peak in Kedah could be seen at a distance of 30 km from the sea, and had become a prominent geographical indicator for leading merchant ships. Kedah's waterway was located between the two monsoons. Due to the kingdom's natural and geographical environment, many merchant ships chose to stop in Kedah for a while, waiting for another monsoon before continuing to sail. Indeed, Kedah became a significant port for East Asian merchant ships to dock, repair and trade commodities.²¹

According to ancient records, spices, fragrant wood, betel nut, bamboo and coconut, among others produced in the Malay Peninsula, were the main commodities for trade between China and Kedah. Meanwhile, Chinese ceramics, silk, gold and silver, copper coins, bronzes and ironware were exported to the Malay Peninsula. The archaeological discoveries that consisted of ritualistic materials and trade ware in Kampung Sungai Mas are usually found to be associated to each other.²² And Chinese ceramics dated from the 10th to 14th Century C.E have also been found in the Sungai Batu Archaeology Complex. Several ceramic fragments from the Sung Dynasty of Zhejiang Province were unearthed, as an evidence of frequent trade between Kedah and China.²³

The 10th century to the 14th century was the golden age of China's maritime trade development. Several porcelain and other pieces of Chinese products unearthed in Kedah from this period further manifested the frequent trade between China and the Malay Peninsula. Indeed, ceramics imported from China have always been loved by people of the Malay Peninsula. Some of these people even regard ancient porcelain and bottles as artifacts, treating them as family treasures.²⁴

The Malacca Sultanate Era (Contemporary of Ming Dynasty)

During the development of the Malacca Sultanate, Yongle, Emperor of the Ming Dynasty, provided support to it to gradually get rid of control from Ayutthaya. In 1403, he sent his envoys headed by Yin Qing to Malacca.²⁵ Yin's visit opened the door for establishing friendly relations between the Malacca Sultanate and China.

The Ming Dynasty traded with Malacca Sultanate in three ways – tributary trade, official trade, and private trade. Because the Ming Dynasty was faced with a more complicated external environment after the founding of the dynasty. The remnant forces opposed to the Ming Dynasty fled overseas, while Japanese pirates in the southern coastal areas continued to harass the eastern coastal areas. The Ming rulers were forced to instinctively protect themselves by prohibiting private trade and implementing the sea ban policy. Therefore, compared with the previous dynasty, the Ming dynasty's attitude towards overseas trade was generally not open.²⁶ It even imposed strict maritime bans and prohibited private trade, thereby preventing the coastal people from colluding with Japanese pirates and maintaining their rule. As a result, the tributary trade reached its peak in the Ming Dynasty.²⁷

According to historical records, the Ruler of the Malacca Sultanate came to China for tribute activities; the tribute sent was mainly spices and medicinal herbs. In essence, the Dynasty's tributary system caused its central government to monopolize the channels for importing goods from Southeast Asian countries.²⁸ People could only purchase these foreign goods according to channels and prices stipulated by the central government. Meanwhile, the goods exported by the Ming Dynasty to Southeast Asian countries such as the Malacca Sultanate went through barter under a tribute system, and the prices and methods were also prescribed by the central government.²⁹ Countries that did not send tribute to the Ming Dynasty were forbidden to trade in China.

The second trading approach during the Ming Dynasty was official trade. The fleet led by Zheng He was a typical official trader. Through its trade operations in Southeast Asia, Chinese products were brought abroad, while Southeast Asian goods were traded to China. From 1405 to 1433, Zheng He sailed seven times, including six stops in Malacca. He even built warehouses to store money, grain and goods in Malacca as a supply station. China's fleet needed to establish a fixed material transfer station on the way in order to facilitate the transfer of materials and berth while waiting for the monsoon. It could take advantage of the convenience of warehouse storage while trading between Malacca and other countries.³⁰ The Ming government chose the Malacca Sultanate to support its rise. Because of the unique and superior geographical factors of the Malacca Strait, the fleet of Ming Dynasty needed such an ideal transit point for replenishment. On the other hand, it restricted Siam by fostering the rise of the Malacca Sultanate and control the Strait

of Malacca to ensure the smooth entry and exit of the Chinese fleet, so that China's status and influence in Southeast Asia were not threatened. While the monsoon factor made it an excellent choice for intermediate stations, at the same time, Malacca also used the power of the Ming Dynasty to quickly rise up by relying on the status of international ship assembly and cargo distribution center, attracting merchants from all over the world.

Apart from bringing Chinese goods, Zheng He's fleet's multiple stays in Malacca had also brought Chinese immigrants, especially during the 15th to 17th century. These immigrants mostly originated from the Fujian and Guangdong provinces.³¹ They settled in Malaya and partook in its entire modernization. They also became an integral part of the history.

By the middle of the Ming Dynasty, tribute trade gradually declined, before it basically stopped in 1523. Meanwhile, private maritime trade massively developed. Despite strict prohibitions by the government, according to records, thousands of traders had conducted private trade with foreign countries.³²

The Coming of European Power

Compared with the Ming Emperors, the rulers of the Qing Dynasty were generally more relaxed about market-based transactions. The Qing Emperors also issued sea ban, which was for political purposes, not for the pursuit of self-sufficiency.³³ The overseas trade policy of the Qing Dynasty actually went through four stages: banning, opening, and closing and being forced to open. Its trade policy was inextricably linked with the changes in the political and economic environment at that time. The overseas trade of the Qing Dynasty also flourished for a while at the period of Kangxi, but in the end it fell into the abyss of seclusion.

In the early years of the Qing Dynasty, in order to block the contact between the coastal areas and Taiwan's anti-Qing forces and maintain their own rule, in 1655, a sea blockade was decided. This measure included the suspension of all trade and industries along the coast. As a result, non-governmental overseas trade was hit. Therefore, in the early Qing Dynasty, the legal way of overseas trade was still mainly based on the tributary system, but at the same time, the world situation had changed. Along with the rising power of European countries, the emerging capitalist countries were seeking capital expansion abroad and trying to establish a new system of world trading, which was obviously incompatible with the Chinese tributary trade. In particular, many countries in Southeast Asia became colonies. For example, Portuguese colonists invaded and occupied Malacca in 1511, opening the Malay Peninsula to its 450-year history of colonization. Under the colonial rule of the Malay Peninsula, it was difficult to maintain the tributary relationship with the Qing government as before. The increasing demand of European countries for

Chinese goods and the inability of the tributary system to fill the trade needs of European countries had promoted the prevalence of illegal smuggling trade along the coast. The Qing government began to lift the maritime ban after regaining Taiwan in 1683, allowing overseas trade, and set up four customs responsible for imposing tariffs. In particular, Guangdong Customs, had grown very rapidly, which could reflect the development of Chinese overseas trade. After the invasion of Malacca, the colonists monopolized Malacca's main trade, particularly the trade of pepper and spices. They also forced ships passing by Malacca's ports to pay high taxes.³⁴ They looted Chinese merchant ships, which deeply undermined China's enthusiasm for economic and trade relations with the Malay Peninsula. According to the historical record *Dong Xi Yang Kao*, Malacca's commerce and trade gradually declined under the Portuguese colonial rule.³⁵ The Portuguese used force to plunder Chinese merchant ships and merchants, which caused a long-term disruption of China's transportation and trade with Malacca. The Chinese then attempted to transfer to other places to trade, far away from the Malacca Strait.

In the face of increasingly serious piracy activities and potential threats from European forces in the "Southern Sea". Residents along the coast of Fujian have already started a large number of private sea trades. And some Chinese have chosen to settle down in the Malay Peninsula. The Qing government was worried that these people would stay overseas and not return, and become pirates, seriously threatening the security and rule. Therefore, in 1717, the sea ban against "Southern Sea" was again implemented, which prohibited the Chinese ships to sail to Southeast Asia, place the emperor considered to be the cradle of the renegades. This ban has been maintained for only ten years. In addition, foreign ships were still allowed to call at Chinese ports. The policy reflected this maritime trade ban in Qing Dynasty was not an absolute one and it was not proclaimed as a result of an anti-commercial attitude; commercial networks continued to function.³⁶

By 1727, the Qing government, worried that the Fujian-Guangdong region would cause maritime disasters due to foreign prohibition, abolished the sea ban. Therefore, in the early Qing Dynasty, the relationship between the Qing government and its neighboring countries continued to be a combination of bureaucratic tributary relations and commercial trade.³⁷

Then, in 1757, because foreign merchants wanted to sail into northern China to conduct trade on a larger scale, this had aroused concerns about the policy of opening trade ports. The Qing government ordered the closure of three customs and designated foreign merchant ships to only trade at the Guangdong Custom. The export volume of traditional commodities such as silk and tea has been strictly controlled.

Thus, the rulers of the early and mid-Qing Dynasty took foreign trade as a lever of power and included a very different set of institutional constraints. The Qing government's trade relations with foreign countries maintained a

combination of bureaucratic tributary relations and commercial trade. National security interests and economic interests were both considerations to be dealt with by Western businessmen in the early and mid-Qing Dynasty. And the ruler feared that foreigners and their activities would infringe on their own interests, and tried to impose controls.³⁸

In the late Qing Dynasty, European colonists wanted free access to Chinese ports, and even wanted enough power to influence Chinese politics.³⁹ In the balance between national security and economic interests, the Qing rulers chose to maintain the security of their national rule and reject the requests of European colonists. In 1840, the British colonists launched the Opium War, and forced the Qing government to open the ports of trade and meet their requests. China had to be integrated into the torrent of world development.

In fact, from the 19th century, as the Qing Dynasty gradually declined and was defeated in various wars, people lived a hard life. After the Opium War, China and Britain signed the Nanjing Treaty. The British colonist needed a lot of cheap labor to develop Malaya, and the Qing government allowed to recruit Chinese workers. This had caused a large number of Chinese coastal residents to serve as laborers.

For example, the Chinese played the significant role in the economic development of Johor. Temenggung Daeng Ibrahim introduced the “kangcu” system of cultivation whereby a Chinese headman, called the “kangcu” or lord of the river, was given control of each river where pepper and gambier were cultivated along its banks. This system has attracted a large number of Chinese from Singapore and Chinese laborers to Johor for land reclamation. The kangcu system is the successful example of Malay co-operation with Chinese investors and labourers. Daeng Ibrahim and his son Sultan Abu Bakar devised this method to indirectly control the Chinese in a way that conformed to Chinese social conventions while eliminating potential sources of conflict. Therefore, by the early 1860s, there were approximately 1,200 pepper and Gambier plantations in Johor, with approximately 15,000 Chinese laborers. In 1870, due to the close and harmonious relationship between the ruler of Johor and the Chinese community, the Chinese leader Tan Hiok Nee was appointed as “Major China of Johor”, the highest-ranking Chinese official. Subsequently, in 1874 he and Seah Tee Heng were appointed members of Sultan Abu Bakar’s 24-member State Council.⁴⁰

Another example is Sabah. In 1810, there were Chinese pepper plantations in Sabah, where attracted Chinese to come. The influx of the Chinese into Sabah after the 19th century was associated with the need for British colonists for a larger labour force. But it was not the same as the influx of Chinese into Malaya. The importation of Chinese into Sabah was largely state-assisted.⁴¹ Chinese labour migration took place in three waves: first, for employment in coal mining and the tobacco estates (1880s-1890s).⁴² In 1886, the earliest state-aided immigrant settlers of 27 families arrived and were

settled at Kudat. The large-scale Chinese immigration into Sabah in the 1880's was sponsored by the tobacco companies. Thus, many parts of the forested east coast of Sabah were turned into tobacco plantations.⁴³ The second wave of Chinese labour migration was for government undertakings, especially the railway (1890s); then followed by recruitment for rubber plantations and timber camps (1900 onwards). Although a large number of Chinese no longer entered Sabah after the Second World War, there were approximately 70,000 Chinese who entered Sabah before the war.⁴⁴ Such large-scale Chinese immigrants have contributed to the development of Sabah's economy.

There are two types of Chinese immigrants coming to Malaya, one group is the aforementioned Chinese labour, and the other is Straits Chinese. Through the hard work of these Chinese laborers, they gradually developed through small businesses, such as small and medium plantations, tin mines, agency commerce and retail.⁴⁵ After accumulation of capital, some Chinese businessmen had amassed a certain amount of capital and began to establish and operate small factories and started to invest extensively in Malaya.⁴⁶ Such as Loke Yew, Wee cheow Keng, Yap Ah Loy, Thio Thiau Siat, these outstanding entrepreneurs are successful models of this type of Chinese immigrants.⁴⁷

The second group of Chinese immigrants are the Straits Chinese, who arrived between the 15th and 17th centuries.⁴⁸ They settled in Malaya before these Chinese laborers, and some of them intermarried with locals.⁴⁹ From the early 19th century to the early 20th century, the Straits Chinese were proficient in utilizing their advantages in three languages and cultures, and played a significant role as intermediaries among the British, Chinese and local Malays, amassing large-scale fortunes in the process.⁵⁰ For example, the Kelantan Peranakan Chinese has become the earliest evidence of the relationship between the Malay world and China. About 50 Peranakan settlements in Kelantan are believed to have been established sometime before the 19th century.⁵¹ The descendants of these early Chinese immigrants married with the locals and had close contact with the Malays and Thais who make up the majority of the population. The Peranakan Chinese lived along both sides of the Kelantan River. They planted paddy and black pepper, mined gold and tin. As a result from trading expansion between Kelantan and the outside world, trade capitalists were mostly Chinese, who played the role of connecting local people with the world market. They bought commodities such as dried coconuts, dried fish and forests and then sold the products to traders at the port for export. These capitalists also bought and sold imported products to locals.

Although the Qing government did not officially invest in Malaya, through these Chinese immigrants, the Chinese private investment and trade in Malaya was gradually increasing, which has even formed a very unique and powerful force. These Chinese capital was primarily invested in mining and planting industries and re-export trades. Unlike Western capitals such as the British, as the Chinese did not have a solid capital base and advanced technical

support, their development was extremely slow. Therefore, they could invest only in small and medium plantations, tin mines, agency commerce, intermediary commerce and retail. Regardless of capital, production or market conditions, they were unable to compete with the British and other Western capitals, and were constantly being eroded. Eventually, the proportion had gradually decreased after the 20th century. Economic investment activities of the Chinese in the Malaya were mainly supported by dialect groups and fellow gangs based on the geography of dialects. This led the Chinese capital to possess an inherently unique force of resistance. Amid Western capital encirclement and suppression, it could still survive. Moreover, the Chinese made full use of the advantages of their middleman position between European colonists and agricultural-based natives, and invested in modern light industrial sectors such as the consumer goods industry, gradually becoming dominant in the process.⁵²

Cold Relationship Period (From 1949 To 1985)

From the founding of the People's Republic of China on October 1, 1949, to the independence of the Malayan Federation on August 31, 1957, the two countries had maintained limited economic and trade relations with suspicion. Amid the Cold War at that time, both countries failed to establish diplomatic relations in the 1960s. The Malaysian government always doubted that the Chinese Communist Party had supported the Malaysian Communist Party, which further became an obstacle to the development of bilateral relations.⁵³ Due to the hindrance brought by different social systems, as well as doubts concerning communist parties, the two countries were full of difficulties in establishing diplomatic relations. Until the early 1970s, Tun Razak took over as prime minister from Tunku, Malaysia's China policy has begun to move to a new direction. As the international political order shifted from bipolarity to multipolarity, with the loosening of the American "containment of China" policy, which subsequently led to the historic visit of Nixon to Peking in February 1972, after the 1969 racial riots, the Malaysian government realized the need for a change in relations with China. The Malaysian political elite hope the establishment of bilateral relations would increase Malaysia's exports and improve direct trade. Tun Razak discontinued the Tunku's policy of non-recognition and adopted a one-China policy, and voted for the unconditional admission of China into the United Nations in 1971.

Despite the ideological differences between the two countries, the business relationship was allowed to continue in fact. By the late 1960s, apart from Singapore, Malaysia was the only country with direct trade links between ASEAN and China. From 1957 to 1971, imports from China accounted for an average of 4.83% of Malaysia's total imports and exports to China accounted for 1.05% of total exports. Between 1957 and 1971, the trade balance tended to favor China, because unlike Malaysia, China only imported one commodity

from Malaysia which was rubber.⁵⁴

In May 1971, Malaysia sent its first trade delegation to China. In August that year, the China Council for the Promotion of International Trade visited Malaysia; since then, official exchanges between the countries had risen⁵⁵ As a result of the first Malaysian trade mission's visit to China, China agreed to purchase all rubber stocks of the Malaysian Rubber Foundation's board of directors and promised to buy them at an average market price each year.⁵⁶ When the China Committee for the Promotion of International Trade visited Malaysia, the delegation agreed to purchase 40,000 tons of rubber, 5,000 tons of palm oil and 50,000 cubic meters of wood. The significance of this purchase marked the beginning of direct trade between the two countries. After the normalization of diplomatic relations between the two countries in 1974, the total trade jumped from from US\$27.8 million in 1971 to US\$159.17 million in 1974. Since then, with the exception of 1976 (US\$136.41 million U.S), trade between the two countries has gradually increased to US\$424.4 million in 1980. It could be seen that the formal diplomatic relations established by the two countries are very obvious in promoting the investment and trade relations between the two countries.⁵⁷

Journey of Ice-Breaking (From 1985 To 2010)

China-Malaysia relations during this period can be summarized as a shift from a period of coldness to a that of thawing relations after 1990. Although Malaysia and China had formally established diplomatic relations in 1974, as China adopted the policy of government-to-government and party-to-party towards Malaysia at that time, Malaysia was regarded China as a threat to its security. Thus, within the first ten years, it was difficult to envisage progress.⁵⁸ As of 1985, bilateral trade accounted for a meager share of foreign trade between the countries.

With China's implementation of its reform and opening up policy, the country gradually focused on the establishment and promotion of its economic, trade and investment relations. Attention to business and development became an increasingly significant target for its government. Meanwhile, Malaysian leader Mahathir who did not want to copy the Western modernization model, put political disputes aside, and was committed toward economic development, focusing on developing relations with China in the economy and trade aspects.⁵⁹ Another reason for promoting Malaysia's relationship with China was to combat economic recession during the mid-1980s crisis through encouraging businessmen to sell their products to China and participate in the said country's economic modernization.⁶⁰

In 1985, when Prime Minister Mahathir visited China, he avoided the perplexed question on sensitive political issues between China and Malaysia, and emphasized the importance of economic cooperation, and wanted to

seize the opportunity of China's opening up to promote economic and trade cooperation between the two countries. During the visit, the two countries signed a series of economic, trade and cooperation agreements to promote the development of their bilateral economic and trade relations. For example the Double Taxation Avoidance Agreement aims to encourage entrepreneurs of both parties to trade and joint ventures without having to pay taxes twice. In 1988, both countries signed a trade agreement and an investment guarantee agreement, and decided to establish the China-Malaysia Joint Commission on Economy and Trade. The Malaysian government has encouraged companies from both China and Malaysia to exchange visits and relax restrictions on trade visas.

By the early 1980s, the Malaysian government began to change its attitude towards China for several reasons. First, the existence of the Communist Party of Malaysia had always been an extremely sensitive issue in the Malaysia-China relations. The Malaysian government was worried and skeptical that China would subsidize the said Party.⁶¹ However, on December 2, 1989, Chin Peng, the leader of the Malaysian Communist Party, respectively signed agreements with the Thai and Malaysian governments, indicating that they would disarm the guerrillas. The Malaysian Communist Party, who had been fighting the government for 40 years, finally laid down its arms, walked out of the forest, and integrated themselves into the society. And the North Kalimantan Communist Party also signed a peace agreement on 17 October 1990 to dissolve the party and end the insurgency in Sarawak.⁶² With the reconciliation between the Communist Party of Malaysia and the Malaysian government, the attitude of the latter toward China had also changed, and suspicions had dropped.

Secondly, in the 1990s, with dramatic changes in Eastern Europe and the disintegration of the Soviet Union, the decades-long Cold War came to an abrupt end, and ideological confrontation was at an ebb. The Malaysian government then began to value cooperation and development with fellow Southeast Asian countries to counteract the erosion of their interests by Western powers. It further needed to seek partners throughout Asia to benefit its national interests.

Thirdly, the Malaysian government had doubts on how the Chinese government treated overseas Chinese. The Chinese were the second-largest ethnic group in Malaysia. At that time, the Chinese population accounted for 35% of Malaysia's total population, which became one of the vital factors influencing the relationship between the countries. The Chinese government's attitude towards overseas Chinese likewise directly affected such relations. Therefore, in negotiations for the establishment of diplomatic relations in 1974, the Chinese government proposed not to recognize dual nationality; on the other hand, the Malaysian government believed that China could not fulfill its commitments in the agreement. Therefore, within the first ten

years following the onset of diplomatic relations, the Malaysian government had strictly restricted non-governmental movements and did not allow its nationals to visit their relatives in China. In the 1980s, China promulgated the Nationality Law of the People's Republic of China, which explicitly declared its opposition to a Chinese dual nationality in the form of domestic legislation. The passage of this law caused the Malaysian government to have a good impression of the Chinese government and largely change its perceptions of China. Consequently, Prime Minister Mahathir described the Malaysia-China relations as "mutual trust" in a public speech on December 10, 1990.⁶³

High-Speed Development (From 2010 To 2018)

During the term of Najib Razak's prime minister (2009 to 2018), Chinese investment in Malaysia has increased significantly. Special research has been conducted on it. Compared with other investors, China's investment in Malaysia has its own characteristics: high amount and very concentrated; located in the margins (East Malaysia on Borneo and East Coast of Peninsular Malaysia).⁶⁴ In addition to the traditional manufacturing, the new areas where the Chinese invests in Malaysia are mainly transportation, the metal industry, infrastructure, ports, and real estate. This is completely different from the traditional investors (Europe, US, Japan) who focused on the west coast of Peninsular Malaysia in the past.

These giant projects invested by Chinese include: the Bakun Dam in Sarawak (East Malaysia, Borneo, completed in early 2010); the Second Penang Bridge (completed in 2014); the East-Coast Railway Line (announced in Nov. 2016); and the High Speed Rail from Kuala Lumpur to Singapore and the Malacca Gateway project (announced in Nov. 2015) and real estate project (Forest City, Johore). China has begun to invest aggressively into Malaysia since 2010⁶⁵, especially after 2013. This is closely related to the strategic concept of jointly building the "Silk Road Economic Belt" and the "21st Century Maritime Silk Road" proposed by the Chinese government. The purpose of Belt and Road Initiative is to strengthen policy communication, facility connectivity, smooth trade, financial support and popular support communication. The enthusiasm of Chinese companies to invest in Malaysia was greatly ignited. As such, the geographical advantage of the Malay Peninsula in the Malacca Strait is the core of the Western, Middle Eastern and South Asian countries showing interests in the ASEAN.⁶⁶ In this case, Malaysia will become a window into the Belt and Road. During Najib's tenure, the reasons behind the welcoming attitude towards Chinese investment were naturally compounded. There were political as well as economic considerations, and also possibly because Tun Razak (Najib's father) reestablished the diplomatic ties between Malaysia and China in 1974.⁶⁷ Najib benefited from the most favorable tradition in the matter of the Malaysia-China relation. For Malaysia, it hopes that the Chinese

investment will drive a leap into its own economy; for China, it hopes to promote a smoother trade channel through Malaysia.⁶⁸

Malaysia's economy has successfully transformed from agricultural and commodity product exports (e.g., palm oil, crude oil, natural gas, rubber) to service and manufacturing industry. In 2016, original products accounted for only 17.2% of Malaysia's total exports; on the contrary, manufacturing exports accounted for 82.2%, among which electronic products and chemical products were the most significant, accounting for 36.6%. Although the Chinese firms invest chiefly in the basic metal (manufacturing and mining), and construction industries,⁶⁹ indeed, Malaysia's industry needed expansion, innovation and markets. In emerging industries such as solar wafers, modular electrical/electronic products and biomedical products, Malaysia takes a relaxed attitude so as to attract Chinese investment. For example, Comtec Solar Systems Group Ltd, Daiyin Textile and Garment Group, and Haier Group, these Chinese companies invested in wholly-owned subsidiaries in Malaysia to produce and sell solar wafers, textile-related products and household appliances.⁷⁰ Because Malaysia chose a liberal attitude towards these industries, they did not need local alliance partners to achieve their corporate goals. In fact, Chinese companies are very adaptable to the investment environment in Malaysia, which seem to be at ease with Malaysian political economy. Their adaptation to this situation can be attributed to the learning experience gained from China's complex state and social relations. These experiences help them manage the political and business links in Malaysia. Although Chinese investment in Malaysia is somewhat different, Malaysia emphasizes the redistribution of wealth along ethnic lines, but it is similar as challenging as investment in China.⁷¹ For the first time, in 2016, China emerged as Malaysia's largest manufacturing investment-exporting country. The most significant investments include steel industry, non-metal mining and solar energy. As these projects involve technological innovation and transfer, they can help Malaysia in driving demand in key industries, including local metals, chemicals and petrochemicals, electricity and electronics.⁷²

Benefiting from Malaysia's open economic policy, cooperation with Malaysian Chinese companies, and the support of the Chinese government, among Malaysia's sources of foreign investment in 2016, China had the highest investment, reaching 1.063 billion US dollars.

After Mahathir's return to power in 2018, due to changes in the political situation in Malaysia, China's investment in Malaysia has always been accompanied by negative reviews. These negative voices about Chinese investment include the belief that China has formed a hegemonic power to control Malaysia's economy through investment, fears that it will rely too much on Chinese capital and may cause unaffordable debt.⁷³ Despite anti-China remarks in the 2018 election, they were more of a political means. Although there were calls to suspend Chinese investment projects in Malaysia

and review China's investment in Malaysia. Chinese investment in Malaysia continues, and railway, port, industrial and residential projects wholly or partially financed by Chinese investors still exist. The only change is that Mahathir negotiated new contract, reduced costs, and extended the scheduled start and completion dates. According to the new agreement, China will invest 44 billion ringgit (about 10.6 billion US dollars today) to build the East Coast Railway, which is more than 30% less than the 2016 initial construction contract negotiated by Najib, to a certain extent, the cost reduction is due to the shortening of 40 kilometers.⁷⁴ This is also a way for the Malaysian government to reconstruct investment through political means to achieve a greater degree of benefit maximization.

Although starting from 2016, China has been the Malaysia's largest source of manufacturing investment for five consecutive years. In the future, whether China-Malaysia relations can continue as before in the new era, we will wait and see.

Conclusion

Approximately 2,000 years ago, China's history books had first recorded polities in the Malay Peninsula, as people from both areas had begun to communicate and trade with each other. Throughout the years, China has been willing to do business with Malaysia for various reasons. Firstly, Malaysia occupies a significant geostrategic position. During ancient times, the development of maritime trade between China and India made it as a necessary transit point for Chinese ships. There were clear monsoon changes in two seasons per year. The port became a natural signpost in the maritime channel, leading Chinese ships to their ports to wait for the monsoon to come, while they repaired ships, obtained food and exchanged goods. This was the main reason for China and Malaysia (and its predecessors) to start to do business during the ancient times.⁷⁵

In modern times, under China's Belt and Road Initiative, Malaysia remains as a significant partner of China's BRI cooperating countries. China must cooperate with Malaysia in order to ensure a smooth passage of maritime trade. With the unique geographical advantage of the Malacca Strait, which serves as the connector between the Pacific Ocean and the Indian Ocean, China has long been perceived as highly vulnerable when it comes to the protection of its trading routes in key geopolitical areas. Such an anxiety is also known as the Malacca Dilemma. The Chief Minister of Malacca, Idris Haron, has acknowledged the urgency to build a new seaport terminal, and said that there are inadequate related facilities in Malacca at the moment, making more than 300,000 ships that pass through the Strait annually waiting for a long time to be served.⁷⁶ China needs Malaysia, a country with a favorable geographical location, to help with its BRI. Meanwhile, Malaysia needs to regain its wings

of rapid economic development through cooperating with China.

Secondly, Malaysia's total population in 2016 had reached 31.7 million, of which the Chinese population was more than 6.64 million, accounting for 23.4% of the total. After years of prominent market presence, Chinese Malaysians have had an irreplaceable role and influence in the country. In particular, Chinese communities, media and schools have inextricably linked Malaysia and China. In order to promote understanding of exchanges, the two countries may need "bridge" for interconnection. Indeed, several Chinese Malaysians have played a significant role in Malaysia's economic development and cultural exchanges. The presence of these extensive Chinese groups is likewise a vital cornerstone for China to establish good relations with Malaysia. For Chinese Malaysians, since their ancestors came from China's southern coastal areas, they have a historical cultural connection with China. Truly, the Malaysian Chinese society has certain innate opportunities in terms of ethnicity, language and culture, among others, which are relatively conducive toward achieving "community" and further promoting China, ASEAN and Malaysia to attain mutual connections. Only by connecting the local people's hearts can China deepen its cooperation with countries along the Belt and Road and raise its regional economic and trade relations to a higher level.

Thirdly, the export of commodities and investment between the two countries constitute a kind of complementarity. In ancient China, silk and porcelain were exported in exchange for spices, medicinal materials and precious metals from the Malaysia. In modern times, at the beginning of reform and opening up, China actively encouraged Malaysia to invest in China. After 2010, Chinese companies invested heavily in Malaysia, as well as the transformation of Chinese capital from investing in Malaysia's traditional industries to investing in emerging industries in the new era. It shows that the commodities and investment between the two countries can achieve a kind of complementarity and cooperation in different periods, forming a kind of virtuous circle, which is beneficial for their respective economic development.

The history of China's investment and trade in Malaysia through the years depicts both countries' complementarity of goods, the continuous accumulation of exchanges, mutual understanding, recent influx of Chinese immigrants, and Malaysia's unique geographical advantages. All of these are significant foundations for the long-term economic and trade exchanges between China and Malaysia, eventually realizing a healthy development of their relations.

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