

## **Evolving East: Malaysia's Look East Policy and the Strategic Inclusion of China**

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### **Introduction**

On April 15th, 2025, the Chinese President Xi Jinping visited Malaysia for the first time in 12 years in commemoration of the Golden Jubilee of Sino-Malaysian relations<sup>1</sup>. His visit was highly anticipated as Malaysia had planned to invite President Xi in 2024 on the occasion of 50th anniversary of the diplomatic ties between Malaysia and China; however, due to scheduling differences, Chinese Premier Li Qiang visited instead in June and issued a Joint Statement with Malaysia's Prime Minister Anwar Ibrahim. Both nations have witnessed multiple Memoranda of Understanding (MoUs) and documents covering various sectors of cooperation from AI to satellite<sup>2</sup>.

Malaysia has always strived to build strong relations with nations from the East, such as Japan and South Korea, evidenced by the creation of the "Look East" Policy, aiming at strengthening bilateral relations and learning from Japan and South Korea's economic success. Since then, the policy has evolved to cope with the changing nature of the geopolitical climate and economic environment, and the policy now includes China as its influence has become too apparent to ignore. The relationship reflects on Malaysia's core principle of balanced economic pragmatism and moral

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<sup>1</sup> The Star, "Chinese President Xi has arrived in Malaysia for a three-day state visit," April 15, 2025. <https://www.thestar.com.my/news/nation/2025/04/15/chinese-president-xi-has-arrived-in-malaysia-for-a-three-day-state-visit>

<sup>2</sup> Malay Mail, "From AI to Satellites: What's in the 31 Malaysia-China MoUs Inked during Xi Jinping's Visit," Malay Mail (Malay Mail, April 17, 2025), <https://www.malaymail.com/news/malaysia/2025/04/17/from-ai-to-satellites-whats-in-the-31-malaysia-china-mous-inked-during-xi-jinpings-visit/173334>

advocacy<sup>3</sup>, building and strengthening bilateral relations between nations. Malaysia-China relations are reflected in the State of Southeast Asia 2023 published by ISEAS – Yusof Ishak Institute, in which 65 percent of the Malaysian respondents in the survey identified China as the most influential economic power in Southeast Asia<sup>4</sup>.

This paper argues that Malaysia's inclusion of China in its Look East Policy reflects a strategic recalibration rooted in economic pragmatism, while China's prominent presence in the country is not a substitution or replacement of but a complement to other traditional partners like Japan. By examining the bilateral trade relations, direct investment, technology transfer, and infrastructure supports, China offers Malaysia access to a vast consumer market, positions itself as a hub for economic growth, particularly in the semiconductor and automotive sectors, creating cost-competitive electric vehicles and automotives. Through technology transfer, Malaysia benefits from fast-growing digital and AI capabilities; and with strategic infrastructure support, Malaysia enhances national connectivity and investment attractiveness. These advantages complement rather than replace Japan's traditional strengths, allowing Malaysia under the Anwar administration to pursue economic opportunities while carefully maintaining strategic hedging to avoid overdependence on any single major power.

### **The Emergence of Look East Policy**

To transform the nation from a mining- and agriculture-based economy to a manufacturing-based economy, Malaysia looked into the Asian Tigers' economic development policy<sup>5</sup>. Thus, after 6 months in office, Dr. Mahathir bin Mohamad, the former Malaysian Prime Minister, initiated the Look East Policy in 1982 to learn best practices from East Asian countries such as Japan and South Korea. This marked a shift in Malaysia's nation-building policy that tried to emulate the East Asian model by

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<sup>3</sup> Audrey Dermawan, "Duck Farms behind River Pollution in Kedah," NST Online 1, no. 1 (February 19, 2024), <https://www.nst.com.my/news/nation/2024/02/1015073/duck-farms-behind-river-pollution-kedah>.

<sup>4</sup> Sharon Seah et al., "The State of Southeast Asia: 2023 Survey Report," www.iseas.edu.sg, February 9, 2023, <https://www.iseas.edu.sg/centres/asean-studies-centre/state-of-southeast-asia-survey/the-state-of-southeast-asia-2023-survey-report-2/>.

<sup>5</sup> Saiful Bahari Ahmad, "Malaysia-Japan Relations after 25 Years of Look East Policy," ASEAN View, August, 2007, <https://www.jef.or.jp/journal/pdf/154AsianView.pdf>

taking good values and studying the past experiences of economic transformation in the Malaysian context that shares different social, cultural, and historical aspects<sup>6</sup>.

The uniqueness of East Asian countries, namely, Japan, South Korea, and Taiwan, lies in their nation-building process, particularly through industrial development. Japan began its development in the late 1800s, and by the early 1900s, the country had developed an integrated domestic market connected by railroads, had become a leading exporter of textiles and light manufactures, and had burgeoning modern sectors in metal processing, machinery, and chemicals<sup>7</sup>. On the other hand, the governments of South Korea and Taiwan also shifted their economic development policies to reduce foreign dependencies while increasing their export within two significant characteristics including major devaluation of goods, and neither of the countries pursued a broad liberalization of foreign trade.<sup>8</sup> This industrialization pushed for rapid manufacturing growth, enhancing a transitional phase in their countries.

### **Malaysia and Japan Relations**

Malaysia-Japan relations have been rooted in deep historical ties since the establishment of diplomatic relations in 1957, during which Japan played a crucial role as a key investor and bilateral trade partner. The introduction of the “Look East Policy” contributed to the reduction of Malaysia's dependency on Western countries and strengthened ties with Japan through educational exchanges and industrial training, which consisted of official development assistance (ODA) from Japan.<sup>9</sup>

In 2009, Japan was one of Malaysia's largest investors, pouring approximately US\$6.2 billion into Malaysia's market<sup>10</sup>. On top of that, both countries had promising economic

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<sup>6</sup> Natalie Shobana Ambrose, “East Asian People To People Exchange: Malaysia,” Institute of Strategic and International Studies Malaysia, August 09, 2011, [https://www.isis.org.my/wp-content/uploads/2011/08/846\\_Natalie\\_People2people\\_21Jul2011.pdf](https://www.isis.org.my/wp-content/uploads/2011/08/846_Natalie_People2people_21Jul2011.pdf)

<sup>7</sup>Kevin Hjortshøj O'Rourke and Jeffrey Gale Williamson, “East Asian Industrial Pioneers,” *The Spread of Modern Industry to the Periphery since 1871*, February 16, 2017, 169–96, <https://doi.org/10.1093/acprof:oso/9780198753643.003.0008>.

<sup>8</sup> Dwight H. Perkins and John P. Tang, “East Asian Industrial Pioneers: Japan, Korea, and Taiwan,” Oxford University Press, 2025, <https://academic.oup.com/book/7358/chapter/152146196>

<sup>9</sup> Evaely Sabet Saribu Raja and Hwang In-Won, “The Second Wave of Malaysia's Look East Policy (LEP): Bringing New Continuity, Change, and Challenges,” DBPia, 2017, <https://www.dbpia.co.kr/Journal/articleDetail?nodeId=NODE11309834>

<sup>10</sup> The Edge Malaysia, “Japan Is Largest FDI Investor in Malaysia from 2009 to August 2013,” *The Edge Malaysia*, 2025, <https://theedgemalaysia.com/article/japan-largest-fdi-investor-malaysia-2009-august-2013>.

cooperation where a Japanese company invested US\$93 million for the Dayabumi complex construction, a major landmark in Kuala Lumpur that houses several commercial facilities. Moreover, the foundation of Perusahaan Otomobil Nasional Sendirian Berhad (PROTON) in 1983, a national car company was created by the partnership between Heavy Industries Corporation of Malaysia (HICOM) and Japan's Mitsubishi.<sup>11</sup> In 2013, Japan became the third largest trading partner of Malaysia after Singapore, and noticeably from 1995 to 2013, the FDI had increased significantly from US\$371 million to US\$1,265 million.<sup>12</sup>

In 1989, the total amount of bilateral trade between the two countries was US\$9,465 million, and by the end of 2014, that amount had increased to US\$43,005 million<sup>13</sup>. Japan had imported natural gas, LPG, electronic equipment, wood, and wood products from Malaysia whereas Malaysia mostly imported vehicles, electronics, machinery, iron, and steel products from Japan.

### **What was Japan chosen?**

Former Prime Minister of Malaysia, Mahathir bin Mohamad, believed that the success and remarkable growth of Japan lies in its labor ethics, morale, and management capability whose work ethic and expertise could be considered a significant secret for Malaysians to emulate. Malaysia decided to send Malaysian students to Japan to gain knowledge not only in academics and technical know-how but also to learn about labor ethics and discipline of the Japanese people.<sup>14</sup> Dr. Mahathir bin Mohamad felt that the program would enable an important human resource, particularly young people in Malaysia to learn and bring back the insights and techniques for the country's development. Co-funded by the two governments, the program consisted of two parts, the first one is to send Malaysian students to Japanese universities and institutes of technology and the second part is to send trainees to Japanese industries and training institutes.<sup>15</sup>

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<sup>11</sup> Hanim Ismail and Ahmad Faiz Yaakob, "The Second Wave of Look East Policy (LEP 2.0): Enhancing the Bilateral Relations Between Malaysia – Japan," Faculty of Social Sciences and Humanities University of Kebangsaan Malaysia, December 19, 2023, [https://journalarticle.ukm.my/23485/1/123\\_134\\_666492358791PB.pdf](https://journalarticle.ukm.my/23485/1/123_134_666492358791PB.pdf)

<sup>12</sup> Ibid.

<sup>13</sup> Ibid

<sup>14</sup> Embassy of Japan in Malaysia, The Malaysian Look East Policy. <https://www.my.emb-japan.go.jp/English/JIS/education/LEP.htm>

<sup>15</sup> Ibid.

Despite the impact of Asian financial crisis of 1997, the Malaysian government did not retreat from the Look East Policy, on top of that, the former Prime Minister reassured Malaysia's position in playing an active role in enhancing human resource capabilities in Southeast Asia during the 2001 ASEAN Summit. Mahathir suggested that Japan should set up universities in ASEAN due to its affordability<sup>16</sup>. To support Malaysia's social and economic development and recovery following the 1997 Asian financial crisis, Japan announced approximately ¥114.1 billion (US\$788 million) in new ODA loans in March and April 1999 as part of its 1998 New Miyazawa Initiative.<sup>17</sup>

The Look East Policy was first initiated by entailing two main aspects, including educational exchange and training programs. Malaysians made up the fifth largest student group in Japan after the Chinese, Koreans, Taiwanese, and Vietnamese, representing the close ties and strengthened cooperation between Malaysia and Japan. Furthermore, Japanese experts were continuously being sent to Malaysia for knowledge exchange through programs such as the Japan Study Support program and the Dispatch of Lecturers program. In 2009, a total of 2,395 Malaysian students were studying in Japan. On the contrary, Japan plays a key role in providing training programs for Malaysians through undergoing training in various technical courses, and as part of the national car partnership agreement, Malaysian workers were sent to Japan for a maximum of 6 months of intensive training programs.<sup>18</sup>

## **Evolution of LEP**

### **LEP 1.0 (1982-2000)**

The Look East Policy 1.0 is considered to be one of the major developmental policies which lasted between 1982 and 2000 with a core focus on reducing dependency on Western countries by enhancing human resource capabilities by fostering Malaysians to adopt and adapt the work ethic and culture of developed Eastern economic powerhouses like Korea and Japan particularly through education and training

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<sup>16</sup> Ibid.

<sup>17</sup> Nur Shahadah Jamil, "Revisiting the Look East Policy: Evolution of Malaysia-Japan Relations Amidst New Geopolitical Realities," World Scientific Publishing, 2024, <https://www.worldscientific.com/doi/epdf/10.1142/S1793930524000205>

<sup>18</sup> Ibid.

exchange from the model of Japanese<sup>19</sup>. LEP 1.0 can be categorized into three changes, including structural change, behavioral change, and training and improvement. Following the transformation, structural changes included the use of punch cards, name tags, table files, work procedure manuals, and effective counter service. On the other hand, changes in behavior focus on the implementation of a clean, efficient, and trustworthy work philosophy and the creation of the Quality Control Circle (QCC). Another category involves the change in training and implementation, such as technical and academic studies involving the executive staff as well as the entrepreneur sitting for intensive training.<sup>20</sup>

### **LEP 2.0 (2015-Present)**

It is undeniable that as time passed by the direction of the Look East Policy also shifted by the geopolitical landscape transformation to reach the alignment of the current contemporary context including the emerging global challenges such as climate change, pandemics, emergence of Artificial Intelligence (AI), escalating geopolitical tensions, and US-China competition.<sup>21</sup> Following the continuous changes in foreign policy direction to fit in the transformative world, in 2013, under the administration of former Prime Minister Najib Razak, he empathized with the need for revision of the Look East Policy which is no longer about only training and education but will put more emphasis on economics.

This introduced the LEP 2.0 which consisted of an economic-oriented approach such as investment, commerce, green technology, infrastructural development, Islamic finance, and halal industry promotion where Japan offered its commitment through joint efforts in green technology and renewable energy between Malaysian companies and multinational corporations as well as small and medium enterprises (SMEs). Furthermore, special focus will be given to major technical services, institutional support, and other high-value sectors while the educational aspect will be improved to a large-scale research program or joint academic program for instance the set-up of Malaysia-Japan Institute of Technology (MJIT).<sup>22</sup> Najib Tun Razak noted that the

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<sup>19</sup> Ibid.

<sup>20</sup> "30 Years After Malaysia's Look East Policy," Socio-Economic Research Centre/Study Report Vol.1,

<https://www.kccci.org.my/attachments/article/1794/5%2030%20Years%20After%20Malaysia's%20Lo%20East%20Policy.pdf>

<sup>21</sup> Ibid.

<sup>22</sup> Ibid.

second wave should not be limited to training and education, but must also be more progressive with focus on priorities and changes in the current economic structure.<sup>23</sup>

### **The Inclusion of China**

Recently, Prime Minister Anwar Ibrahim redefined Malaysia's Look East Policy by including China. He emphasized that the policy, traditionally focused on Japan and South Korea, must evolve to incorporate China's economic development, as Malaysia is now keen to learn from all major East Asian economies<sup>24</sup>. This stems from Malaysia's commitment to modernize its economy, technological advances, and develop human capital. As the geopolitical and economic climate in Asia has undergone significant changes over the decades, coupled with China's global rising influences, Malaysia is positioning itself to bond closely with China in alignment with its economic pragmatism.

Malaysia was the first ASEAN nation to form a diplomatic tie with China during the official visit to Beijing in 1974 of the Malaysian Prime Minister Tun Abdul Razak<sup>25</sup>. Since the Joint Communiqué between the two nations on May 31st, 1974, Malaysia has adhered to the One-China Policy. However, bilateral relations only started to improve significantly after 1991 when their economic ties took off. Despite being absent in the initial draft of the Look East Policy, China's presence has become more apparent in Malaysia's foreign policy than ever, signaling that China plays a unique and crucial element in fostering strong and interconnected trade relations to leverage. Malaysia's business leaders back the expanded policy to include China, citing China's growing influence in digital tech, cybersecurity, and other global issues.

Malaysia's national interests of transforming the nation into a high-income nation by developing into a technological hub and strengthening domestic capability amidst the geopolitical and geoeconomic tension encourage Malaysia to balance its relations with

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<sup>23</sup> "Najib: 6 areas that Look East Policy 2.0 should focus on," Malaymail, December 13, 2013, <https://www.malaymail.com/news/malaysia/2013/12/13/najib-6-areas-that-look-east-policy-2.0-should-focus-on/580843>

<sup>24</sup> "Anwar's Look East Policy plus China a wise, necessary move," Malaysian Investment Development Authority, December 20, 2023, <https://www.mida.gov.my/mida-news/anwars-look-east-policy-plus-china-a-wise-necessary-move-huazong-president/>

<sup>25</sup> Roy Anthony Rogers, "Golden Friendship Endures," chinadailyhk, 2024, <https://www.chinadailyhk.com/hk/article/378933>.

global powers<sup>26</sup>. The Look East Policy 2.0 under the leadership of Anwar Ibrahim aims to strengthen diplomatic relations, embrace China's growing economic influences through trade and investment, position the nation's benefit via strategic infrastructure connectivity, and leverage technology expertise from China.

### **Embrace China's Economic Influence**

By consolidating its partnership with China to formally include in the LEP, Malaysia could benefit enormously from trade, investment, and tourism revenues that boost economic growth and development<sup>27</sup>. China has been Malaysia's largest trading partner for 16 consecutive years since 2009. Malaysia is also China's second-largest trading partner among members of the Association of Southeast Asian Nations (ASEAN)<sup>28</sup>. China also accounted for around 15 percent and 21 percent of Malaysia's exports and imports, respectively<sup>29</sup>.

### **Malaysia-China Bilateral Trade Volume**

According to Trade Map, between 2015 and 2022, bilateral trade volume in goods rose from US\$59.7 billion to US\$110.6 billion, representing nearly 18% of Malaysia's total trade volume in 2022. According to statistics from Malaysia's Foreign Affairs Ministry, total exports to China increased to US\$47.93 billion in 2022, while total imports from China stood at US\$62.92 billion in the same year, or an increase of 35.6% compared to the previous year. In 2024, trade increased from 7.01% to US\$105.09 billion compared to the previous year, accounting for 16.8% of Malaysia's total commerce. Exports to China declined by 2.2% to US\$44.30 billion due to weaker demand for electrical and electronic items, as well as metalliferous ores and metal scrap. However, the impact of the contraction was cushioned by robust exports of paper and pulp products, rubber products, as well as optical and scientific equipment. Whereas imports from China increased by 14.8% to US\$69.93 billion with major imports

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<sup>26</sup> Farmonaut, "Malaysia's Global Strategy: Navigating ASEAN Cooperation and Regional Security in an Uncertain Era," Farmonaut®, January 18, 2025, <https://farmonaut.com/asia/malaysias-global-strategy-navigating-asean-cooperation-and-regional-security-in-an-uncertain-era>.

<sup>27</sup> Tianyi Xiao, "China-Malaysia Economic Ties: Trade, Investment, and Opportunities," China Briefing News, November 22, 2024, <https://www.china-briefing.com/news/china-malaysia-closer-economic-ties-and-opportunities/>.

<sup>28</sup> Ibid

<sup>29</sup> Cassey Lee, "Malaysia-China Economic Relations: Riding the Dragon's Tail for Structural Transformation," March 27, 2024, [https://www.iseas.edu.sg/wp-content/uploads/2024/02/ISEAS\\_Perspective\\_2024\\_23.pdf](https://www.iseas.edu.sg/wp-content/uploads/2024/02/ISEAS_Perspective_2024_23.pdf).

comprising E&E products, machinery, equipment and parts, as well as chemicals and chemical products<sup>30</sup>. These figures highlight not only the sheer volume of Malaysia–China trade, but also the strategic importance of the Chinese market for Malaysia’s economic diversification. By securing sustained access to China’s vast consumer base—representing nearly a fifth of Malaysia’s total trade—Malaysia reduces overreliance on traditional markets and positions itself to benefit from China’s growing middle class and domestic demand.

**Table 1: Malaysia-China Trade Volume on Goods (2015-2024) (Billion US Dollar)<sup>31</sup>**

Year	Export Volume	Import Volume	Total Trade Volume	Year-over-year changes	Export change (%)	Import change (%)
2015	26.15	33.31	59.46	-	-	-
2016	23.8	34.38	58.18	-2.15%	-8.99%	3.21%
2017	29.36	38.28	67.64	16.26%	23.36%	11.34%
2018	34.43	43.37	77.8	15.02%	17.27%	13.30%
2019	33.7	42.39	76.09	-2.20%	-2.12%	-2.26%
2020	37.75	40.75	78.5	3.17%	12.02%	-3.87%
2021	46.36	55.28	101.64	29.48%	22.81%	35.66%
2022	47.93	62.92	110.85	9.06%	3.39%	13.82%
2023	42.19	56.77	98.96	-10.73%	-11.98%	-9.77%
2024	41.01	64.89	105.9	7.01%	-2.80%	14.30%

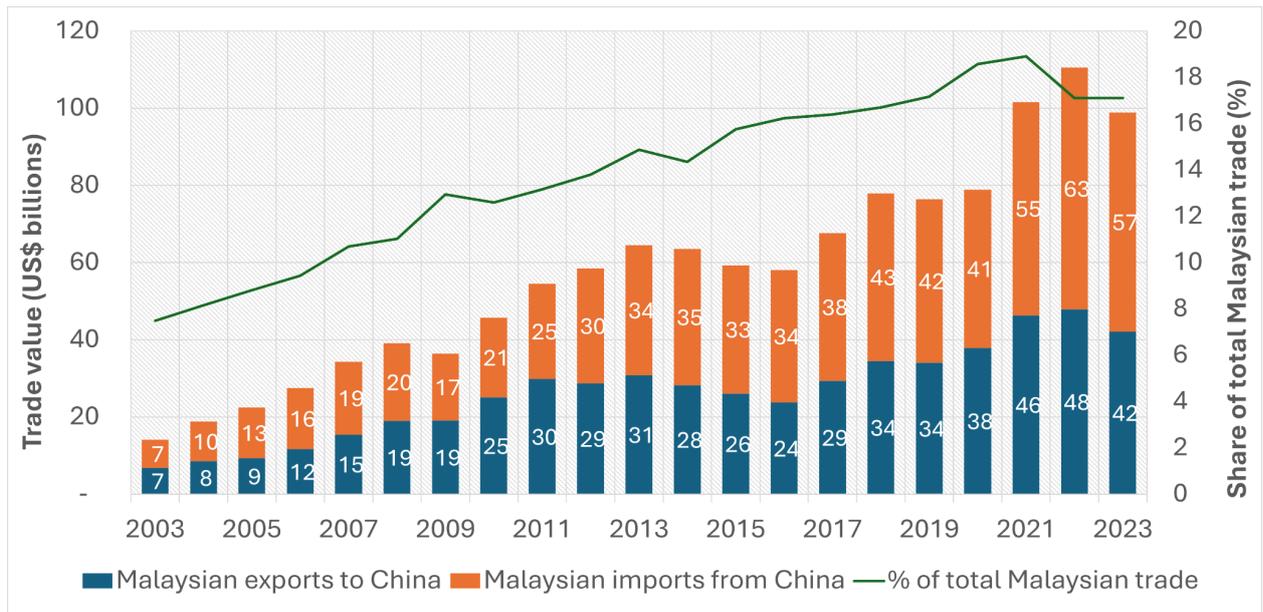
Source: Trade Map (2025)

Compiled by: Author

<sup>30</sup> Matrade, “Trade Performance 2024 - Matrade,” [www.matrade.gov.my](https://www.matrade.gov.my/en/export-to-the-world/216-malaysian-exporters/trade-performance-2024), 2025, <https://www.matrade.gov.my/en/export-to-the-world/216-malaysian-exporters/trade-performance-2024>.

<sup>31</sup>International Trade Centre (ITC), “Trade Map - Bilateral Trade between Malaysia and China,” [Trademap.org](https://www.trademap.org/Bilateral_TS.aspx?nvpm=1%7c458%7c%7c156%7c%7cTOTAL%7c%7c%7c4%7c1%7c1%7c2%7c2%7c1%7c1%7c1%7c1%7c1), 2025, [https://www.trademap.org/Bilateral\\_TS.aspx?nvpm=1%7c458%7c%7c156%7c%7cTOTAL%7c%7c%7c4%7c1%7c1%7c2%7c2%7c1%7c1%7c1%7c1%7c1](https://www.trademap.org/Bilateral_TS.aspx?nvpm=1%7c458%7c%7c156%7c%7cTOTAL%7c%7c%7c4%7c1%7c1%7c2%7c2%7c1%7c1%7c1%7c1%7c1).

**Figure 1: Malaysia-China Trade Volume (2003-2023) (Billion US Dollar)<sup>32</sup>**



Source: Author’s calculations based on U.N. Comtrade (2024)

Compiled by: Singh (2024)

### Malaysia’s Top Trade Partners

In 2010, China has overtaken Japan as the world’s Second-largest economy in the world after three decades of growth with Japan’s economy worth at US\$5.474 trillion and China’s economy was close to US\$5.8 trillion<sup>33</sup>. For any nation, including Malaysia, to ignore China’s economic prowess would be unwise diplomatically and economically. This does not mean Malaysia abandoned Japan, rather, it is a strategic decision to expand “East” beyond the relation with Japan to include China as its economic influences have become too apparent to ignore.

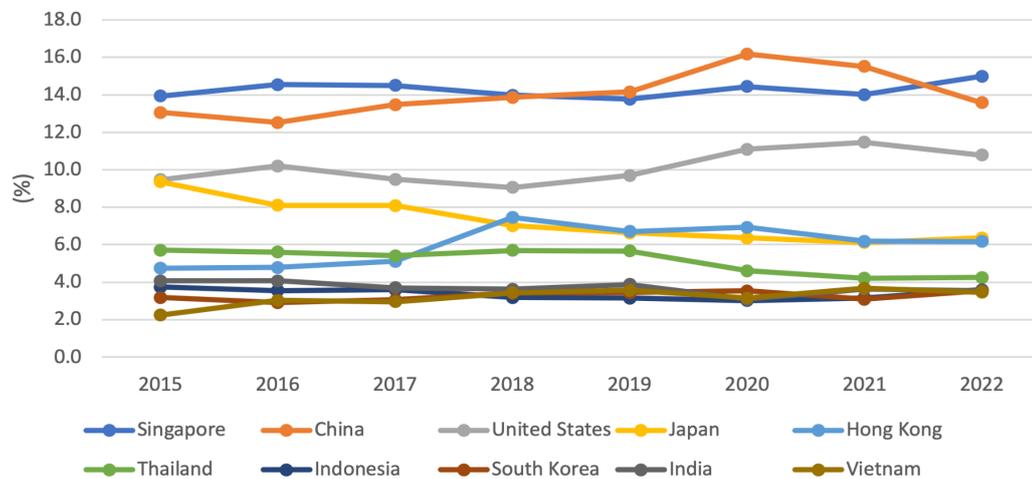
China also leveraged its way up, as the 4<sup>th</sup> largest export market to Malaysia in 2003 (7.5% share), to the 1<sup>st</sup> position in 2023 (17.1%), showcasing an increasing trade integration, presumably on the demand of electronics and commodities. Japan dropped out of the top 3 (13.5%) in 2003 to the 4<sup>th</sup> place (5.9%) in 2023 indicating the declining dependence amidst regional competition. As of 2023, the significance of

<sup>32</sup> Jaideep Singh, “Debunking the Myth of Malaysia’s Economic Overdependence on China,” TheDiplomat.com (The Diplomat, November 8, 2024), <https://thediplomat.com/2024/11/debunking-the-myth-of-malysias-economic-overdependence-on-china/>.

<sup>33</sup>BBC, “China Overtakes Japan as World’s Second-Biggest Economy,” BBC News, February 14, 2011, <https://www.bbc.com/news/business-12427321>.

China stresses the reliance of Malaysia's export economy, whereas the declining share of Japan emphasizes the changing trade relationships in the region.

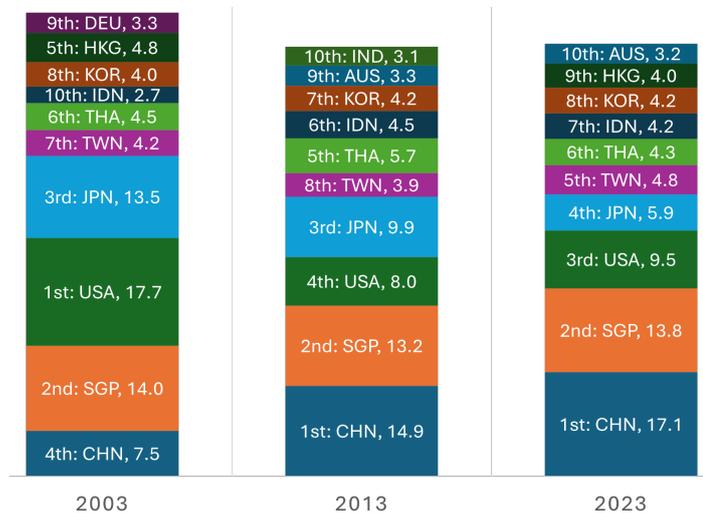
**Figure 2: Shares of Major Goods Export Markets for Malaysia**



Source: Department of Statistics, Malaysia

Author: Lee (2024)

**Figure 3: Shares of Major Goods Export Markets for Malaysia**



Source: UN Comtrade (2024)

Author: Singh (2024)

### Malaysia's Top Exported Goods to China

The policy shift comes as Malaysia attempts a final push toward high-income nation status<sup>34</sup>. For Malaysia, the China market, with its economic and population size, is an

<sup>34</sup>Calvin Cheng, "Malaysia Eyes China 40 Years after It 'Looked East' to Japan," ISIS, February 15, 2022, <https://www.isis.org.my/2022/02/15/malaysia-eyes-china-40-years-after-it-looked-east-to-japan/>.

essential source of consumer demand and intermediate goods, allowing Malaysia to increase its exports and tap deeper into China's market. China's economic growth and development in sectors like artificial intelligence and electric vehicles create demand for commodities and finished products that Malaysia produces<sup>35</sup>.

The increasing trade relations has been largely driven by the Chinese demand for Malaysian exports of electrical and electronic (E&E) components, palm oil, petroleum products as well as liquefied natural gas (LNG). In 2023, OEC World said that the leading Malaysian exports to China were mineral fuels and oils (US\$30.7 billion), electrical machinery and electronics (US\$25.4 billion), reflecting Chinese energy and technological needs. The other exports were machinery (US\$4.65 billion), copper (US\$2.04 billion), and optical/medical equipment (US\$2.02 billion)<sup>36</sup>. Hence, including China in the Look East Policy resonated with the high degree of economic interdependence as bilateral trade volume influences the growth trajectory of the two countries.

**Table 2: Malaysia Top 10 Exported Goods to China (2023)**

No	Products	Values (US\$, Billion)
1	Mineral Fuels, mineral oils, and products of their distillation	30.7
2	Electrical Machinery and electronics	25.4
3	Machinery, mechanical appliances, and parts	4.65
4	Copper articles	2.04
5	Optical, photo, & film equipment; medical instruments	2.02
6	Animal and Vegetable Fats, oils, & waxes	2.02

<sup>35</sup>Ibid

<sup>36</sup> OEC, "Malaysia (MYS) and China (CHN) Trade | the Observatory of Economic Complexity," The Observatory of Economic Complexity, 2023, <https://oec.world/en/profile/bilateral-country/mys/partner/chn?selector538id=HS2&selector1792id=usdOption>.

7	Plastics and article thereof	1.87
8	Aluminum article	1.61
9	Ores, slag, and ash	1.33
10	Organic chemical	1.30

Source: OEC (2023)

*Compiled by: Author*

Evidence suggested that Malaysia and China's supply chain ties in the electrical machinery and equipment sector industry have grown stronger over time. According to OECD's Trade in Value Added (TiVA) database, data showed that since 2010, the share of Chinese value-added content (via imports) in Malaysia's exports of these goods has risen significantly. However, the share of Malaysian value-added content in China's exports of the same goods has remained steady at just over 1% during the same period<sup>37</sup>. This indicates a dynamic that Malaysia's supply chain dependence on China's inputs for its exports has grown, making China a more important partner than ever as disruption in bilateral relations would jeopardize Malaysia's economy as an export-oriented nation, especially when China is the largest trading partner.

As the US President Trump's initial 24% tariff on Malaysia's goods may come into effects soon, Malaysia is among many nations that will see a decline in exports to the US. Although efforts to negotiate a deal with Washington in bringing the tariff down to 10% have been made<sup>38</sup>, Malaysia would still be at a competitive disadvantage compared to countries with preferential US market access<sup>39</sup>. Such uncertainty forces Malaysia to deepen its relations with China, especially in trade. The US-China trade war could also alter the course of Malaysia-China trade pattern, as Malaysia can enjoy a more balanced trade when China redirects its trade and investment to Malaysia.

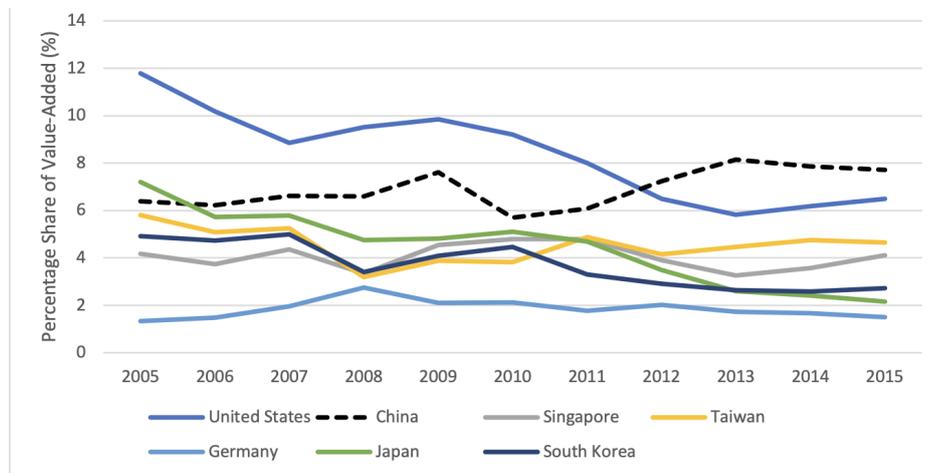
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<sup>37</sup> *ibid*

<sup>38</sup>The Straits Times, "Malaysia Sees Reducing US' Proposed Tariff to 10% as a Good Outcome," The Straits Times, May 27, 2025, <https://www.straitstimes.com/asia/se-asia/malaysia-sees-reducing-the-us-proposed-tariff-to-10-as-a-good-outcome>.

<sup>39</sup>RAHIMY RAHIM and SHERIDAN MAHAVERA, "24% US Tariff Looms for Malaysia," The Star, June 4, 2025, <https://www.thestar.com.my/news/nation/2025/06/05/24-us-tariff-looms-for-malaysia>.

**Figure 4: Key Foreign Sources of Value-added in Malaysia's Exports of Computer, Electronics, and Optical products**



Source: TiVA (OECD)

Author: Lee (2025)

### China's Foreign Direct Investment (FDI) to Malaysia

Including China in the Look East Policy represents a pragmatic response to contemporary global and regional challenges, ensuring that Malaysia remains competitive and resilient in an increasingly dynamic world<sup>40</sup>. Leveraging Foreign Direct Investment (FDI) is a strategic economic strategy that allows the influx of huge capital inflow into the nation and employs many Malaysian workers.

China is a significant investor in Malaysia. China's direct investment in Malaysia, which was \$7.92 billion in 2019, surged by over 70% to \$13.48 billion in 2023<sup>41</sup>. The Chinese FDI stood at US\$6.3 billion in the first three quarters of 2024 alone, up 39 percent year-on-year (YoY)<sup>42</sup>. In 2023, Chinese investment in Malaysia was US\$6.4 billion, or more than 16% of Malaysia foreign investment revenue according to the Malaysian

<sup>40</sup> ibid

<sup>41</sup>Lee Yoon-jung, "Chinese Firms Dominate Malaysia's Smartphone and Electric Vehicle Markets," CHOSUNBIZ, February 20, 2025, <https://biz.chosun.com/en/en-international/2025/02/21/AZHNKOKBCVEMLDONJNIRUTBJJA/>.

<sup>42</sup>Brian R Braun, "Balancing Chinese Investment with Economic Growth, Sovereignty," The Malaysian Reserve, May 6, 2025, [https://themalaysianreserve.com/2025/05/06/balancing-chinese-investment-with-economic-growth-sovereignty/#google\\_vignette](https://themalaysianreserve.com/2025/05/06/balancing-chinese-investment-with-economic-growth-sovereignty/#google_vignette).

Investment Development Authority (MIDA). The investment is set to generate more than 20,000 new jobs<sup>43</sup>.

A huge influx of Chinese investment is due to Malaysia’s advantageous geographical location of its close proximity to ASEAN, lower transit costs, international standard legal framework, abundant resources, competitive labor costs and favorable trade policies. Chinese investments in Malaysia are rapidly increasing.

**Table 3: China Direct Investment in Malaysia, 2018-2023 (billion US Dollar)**

	2018	2019	2020	2021	2022	2023
<b>FDI Newly Added (US\$ billion)</b>	1.66	1.11	1.37	1.34	1.61	1.43
<b>FDI in Stock (US\$ billion)</b>	8.39	7.92	10.21	10.36	12.05	13.48

Source: Ministry of Commerce of China (2023)

Author: Xiao (2024)

Malaysia’s manufacturing sector, particularly in the Electrical & Electronics (E&E), semiconductor, automotive, and solar equipment sectors, has attracted many Chinese investors to explore the opportunities. Malaysia aims to develop high-growth, high-value industries such as integrated circuit design, battery manufacturing for electric vehicles, and high-end solar panels, all of which can attract greater investments<sup>44</sup>. This surge is especially evident in high-tech manufacturing hubs such as Penang and the Klang Valley. These investments could significantly boost Malaysia’s industrial capabilities and create high-skilled jobs, supporting its decades-long goal of transitioning to a high-income economy<sup>45</sup>.

<sup>43</sup>Prime Sarmiento, “Chinese Investors Boost Growth in Malaysia,” Asianews.network, 2025, <https://asianews.network/chinese-investors-boost-growth-in-malaysia/>.

<sup>44</sup> Dato’ Omar Siddiq, “Trade and Investment Key to Bolstering Malaysia-China Relations,” MIDA | Malaysian Investment Development Authority, May 20, 2024, <https://www.mida.gov.my/mida-news/trade-and-investment-key-to-bolstering-malaysia-china-relations/>.

<sup>45</sup> Ibid

## Semiconductor Sector

Malaysia stands out as an attractive nation for semiconductor sector investment. Between 2019 and 2023, Malaysia attracted \$21 billions of investment into its semiconductor industry and \$10 billion into data centers. These storage facilities enable fast-growing technologies such as AI, cloud computing, and cryptocurrency mining<sup>46</sup>. MIDA reported that Intel, AMD, and Bosch were among the first big names to set up shop, followed subsequently by Micron and numerous others. In the global value chain, Malaysia has been able to generate local champions that include Inari, Vitrox, Oppstar, SkyeChip and Pentamaster<sup>47</sup>. This created a strong local supply chain and talent pool over the years. Also, leading companies recently disclosed their investments comprise Intel, which is establishing a US\$7 billion factory; Micron, which intends to spend an extra US\$1 billion to establish its second assembly and test plant; and Infineon, which has earmarked extra US\$5 billion in Phase 2, besides the initial US\$2 billion in Phase 1, to build the silicon carbide power fabrication facility<sup>48</sup>.

With the goal of attaining high growth in technology development, the Malaysian government developed the National Semiconductor Strategy (NSS), cementing its status as a major global center of semiconductor manufacturing and innovation to establish a presence in chip design. The plan, which is supported by an initial US\$5.33 billion budget, offers a precise guide on how the nation is to ascend the global technology value chain. The NSS is also an important factor in Malaysia's desire to enhance its presence in the global semiconductor business and to engage in the China+1 strategy<sup>49</sup>. By embracing the “C+1” strategy, Malaysia positioned itself as a crucial player in global supply chains for high-tech industries such as artificial

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<sup>46</sup>Owen Walker, “Malaysia Expects Surge of Chinese Investment, Economy Minister Says,” @FinancialTimes (Financial Times, January 12, 2025), <https://www.ft.com/content/ac3354cd-bff0-4081-91a5-7afc3cf066c0>.

<sup>47</sup>Nadhirah Arifin, “Malaysia Is Still the Front-Runner for China+1 Strategy,” Joneslanglasalle.com.cn, September 10, 2024, <https://www.joneslanglasalle.com.cn/en/trends-and-insights/research/malaysia-is-still-the-front-runner-for-china-plus-1-strategy>.

<sup>48</sup>Adam Aziz, “Intel Says No Changes Announced to Its Expansion Plans in Malaysia,” The Edge Malaysia, September 5, 2024, <https://theedgemaalaysia.com/node/725693>.

<sup>49</sup> Ibid

intelligence, with long-standing semiconductor manufacturing operations in Penang in the north and a burgeoning hub for data centers in the southern state of Johor<sup>50</sup>.

**Figure: Investments in the Emerging Sectors**

	Thailand	Indonesia	Philippines	Malaysia	Vietnam	Singapore
<b>EV manufacturing</b> (non-exhaustive, USD B, 2019–23)	9	5	0	0	1	0
<b>EV battery manufacturing</b> (non-exhaustive, USD B, 2019–23)	3	26	0	3	2	0
<b>Semiconductor manufacturing</b> (non-exhaustive, USD B, 2019–23)	1	2	3	21	6	17
<b>Data centers</b> (non-exhaustive, USD B, 2019–23)	9	7	1	10	0	1

Source: NAVIGATING HIGH WINDS, South-East Asia Outlook, 2024-2034 by Angsana Council, Bain & Company, DBS



Source: Angsana Council (2021)

Author: Sheng (2021)

### Automotive Sectors

Malaysia is among the top receivers of Chinese’s investments in the automotive industry. Chinese EV manufacturers such as BYD and Geely are investing in Malaysian production facilities and R&D centers. Geely, a major Chinese automaker, plans to invest \$10 billion to develop Malaysia’s main auto-making hub<sup>51</sup>. Geely’s acquisition of a 49.9% stake in national carmaker, Proton, has allowed the company to re-enter regional markets with enhanced technology and competitive pricing. Geely also plays a significant role in developing the Tanjung Malim area in Perak as a national automotive hub by creating an EV production plan and transforming Proton into a leading car brand in ASEAN. The Malaysian electric vehicle market has shown rapid growth, with sales increasing from around 700 units in 2020 to approximately 134,000 units last year, a twenty-fold increase<sup>52</sup>. Malaysia’s openness to investment and its aspiration in developing an automotive hub allow an influx of Chinese’s

<sup>50</sup> Tam Sheng, “Malaysia Cashes in on China’s Inbound Semiconductor and Data Centre Investments,” Edgeprop.my, 2021, <https://www.edgeprop.my/content/1910759/malaysia-cashes-chinas-inbound-semiconductor-and-data-centre-investments>.

<sup>51</sup> Reuters, “Malaysia PM Says China’s Geely to Invest \$10 Bln in Domestic Auto Hub -Report,” Reuters, July 18, 2023, <https://www.reuters.com/business/autos-transportation/malaysia-pm-says-chinas-geely-invest-10-bln-domestic-auto-hub-report-2023-07-18/>.

<sup>52</sup>Ibid

investment that can create a competitive pricing environment with national car producers.

In late 2020, the head of MIDA called for Chinese investments, particularly in the high-tech sector, such as robotics, aerospace, biopharma, IT and new energy vehicles<sup>53</sup>. This aligns closely with Malaysia's re-industrialization effort, the New Industrial Master Plan 2030 (NIMP 2030), to revitalize the country's manufacturing sector for the next seven years from 2023 to 2030. Focusing on 4 missions, this includes (a) innovation and production of more technologically sophisticated (complex) products, (b) digital transformation, (c) net zero future, as well as (d) economic security and inclusivity<sup>54</sup>. A move to include China would mean Malaysia can leverage China's growing technology advancement efforts and achieve significant transformation.

### **China Inbound Tourism to Malaysia**

Malaysia's economy is built upon tourism, contributed about 14% of the total GDP in 2023<sup>55</sup>. This sector also played a vital role in job creation, with total employment reaching nearly 2.3 million, a year-on-year increase of 10.8%. The surge was bolstered by the implementation of mutual visa-free policies, which led to an influx of over 3.8 million Chinese visitors to Malaysia<sup>56</sup>. In the first five months of 2024, nearly 1.2 million Chinese tourists visited Malaysia, contributed significantly to local revenue. Tourist arrivals from China to Malaysia rose to 3,725,894 in 2024, with an impressive increase of 130.9 percent year-on-year, according to Malaysia's Ministry of Tourism, Arts, and Culture<sup>57</sup>. Aside from tourism, Malaysia also benefits from its education system, with a substantial number of Chinese students choosing Malaysian universities due to advantages such as proximity, affordability, and quality of

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<sup>53</sup> Ibid

<sup>54</sup> Ibid

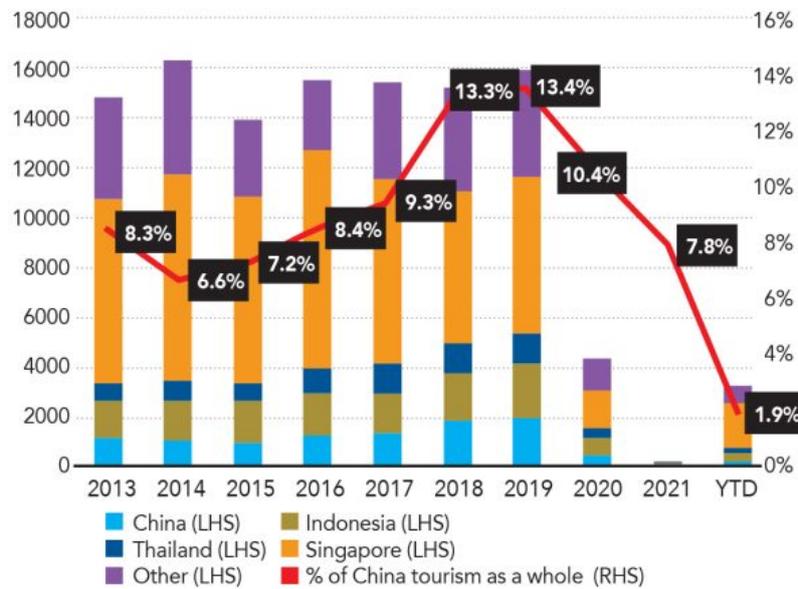
<sup>55</sup> Ayman Falak Medina, "Malaysia's Tourism Growth: Infrastructure to Identity," ASEAN Business News, June 5, 2025, <https://www.aseanbriefing.com/news/malaysias-tourism-evolution-infrastructure-identity-and-international-appeal/>.

<sup>56</sup> World Travel & Tourism Council, "Malaysia's Travel & Tourism Sector Projected to Exceed Previous Heights," Wttc.org (World Travel & Tourism Council, June 28, 2024), <https://wttc.org/news/malaysias-travel-and-tourism-sector-projected-to-exceed-previous-heights>.

<sup>57</sup> Xinhua, "Tourist Arrivals from China to Malaysia up 130.9% in 2024," chinadailyhk, 2024, <https://www.chinadailyhk.com/hk/article/605379>.

education<sup>58</sup>. Thus, including China in the policy seems appropriate when much of the bilateral relations closely link to economic ties.

**Figure 5: Major Sources of Malaysia’s annual inbound tourists**



Source: Bloomberg Finance LP (2022)

Author: IFAST Research Team (2022)<sup>59</sup>

## China’s Strategic Infrastructure Investment

To enhance the nation’s connectivity and transport infrastructure, Malaysia created the New Industrial Master Plan 2030 (NIMP 2030) and the Twelfth Malaysia Plan (2021-2025). The 12MP focuses on developing future talents, accelerating technology adoption and innovation, enhancing connectivity and infrastructure, and strengthening public services<sup>60</sup>. Such ambitious goals allow Malaysia to embrace foreign direct investment when such investments allow Malaysia to expand its infrastructure projects

<sup>58</sup>Immigration by Investment, “Evaluating the Impact of China’s Investment in Malaysia’s Property Market,” Outbound Investment Group, August 13, 2024, <https://outboundinvestment.com/evaluating-the-impact-of-chinas-investment-in-malysias-property-market/>.

<sup>59</sup> IFAST Research Team, “Which Bursa Sector Will Benefit from China’s Eventual Reopening?,” The Malaysian Reserve, December 28, 2022, <https://themalaysianreserve.com/2022/12/28/which-bursa-sector-will-benefit-from-chinas-eventual-reopening/>.

<sup>60</sup>EY, “12th Malaysia Plan (2021-2025): Sector Highlights,” Ey.com, 2021, [https://www.ey.com/en\\_my/technical/take-5-business-alert/12th-malaysia-plan-2021-2025-sector-highlights](https://www.ey.com/en_my/technical/take-5-business-alert/12th-malaysia-plan-2021-2025-sector-highlights).

that can contribute to economic development and re-industrialize its manufacturing sector.

One of the most active investors in infrastructure projects in Malaysia is China, primarily through the Belt and Road Initiative (BRI). Already, there has been significant Chinese investment in major Malaysian transport, ports, telecoms, and energy infrastructure projects. Thus, the way forward is to attract further investments in infrastructure that unlocks productivity and delivers growth, but that does so in a way that remains sustainable<sup>61</sup>.

Many of the Belt and Road Initiative (BRI) projects in Malaysia are expected to begin or resume construction, these include Malacca Gateway, Gemas-Johor Bahru Electrified Double-Tracking Project (CJ-B), Trans Sabah Gas Pipeline and the expansion of Kuantan port. Revival of the much-touted Kuala Lumpur-Singapore High-Speed Railway is also under discussion, although not part of the BRI per se, the project aligns with Chinese plans of creating a rail connection between Kunming and Singapore. Such undertakings are meant to enhance internal connectivity and trade connections with the rest of the BRI participating countries. The developments are the embodiment of the effective cooperation of Malaysia and China within the framework of the BRI program and the factor encouraging foreign investors to establish offices and factories in Malaysia to achieve the transfer of technology and promote industrial development<sup>62</sup>. The investments will also increase the role of Malaysia as a regional trade and distribution center in the BRI's network<sup>63</sup>.

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<sup>61</sup> Ibid

<sup>62</sup> Derrick A Paulo and Pearl Fross, "China Is Wooing Malaysia and Indonesia with Mega Investments. Is the Plan Working?," CNA, 2021, <https://www.channelnewsasia.com/cna-insider/china-global-south-mega-investments-malaysia-indonesia-asean-pivot-5158541>.

<sup>63</sup> Koon Huan Lim and Manshan Singh, "The Belt and Road Initiative 2025 | Malaysia," CDR News, January 27, 2025, <https://www.cdr-news.com/cdr-essential-intelligence/belt-and-road-initiative/malaysia/>.

**Table: Mega Infrastructure Projects Invested by China in Malaysia<sup>64</sup>**

<b>No</b>	<b>Project Name</b>	<b>Description</b>	<b>Type</b>	<b>Chinese Partner</b>	<b>Estimate Investment</b>
1	East Coast Rail Link (ECRL)	A major railway line connecting the east and west coasts of Peninsular Malaysia.	Railway	China Communication Construction Company Limited (CCCC)	US\$13 billion
2	Malaysia-China Kuantan Industrial Park  China-Malaysia Qinzhou Industrial Park	Twin parks to promote bilateral trade and manufacturing cooperation.	Industrial Park	Consortium of Chinese and Malaysian companies	US\$3.8 billion
3	Bandar Malaysia	Mixed-use development on the former Sungai Besi airport site, envisioned as a new financial hub.	Urban Development	China Railway Engineering Corp (CREC), China Railway Construction Corp (CRCC)	US\$30 billion
4	Forest City	A smart and green city built on reclaimed land near Johor, targeting foreign investors.	Real Estate/Urban Development	Country Garden Holdings Co Ltd	US\$100 billion
5	Kuantan Port Expansion	Expansion of Kuantan Port to boost Malaysia's role as a regional shipping hub.	Port Infrastructure	Guangxi Beibu Gulf International Port Group	US\$1.2 billion
6	Melaka Gateway	A deep-sea port and commercial development to	Port and Tourism	PowerChina International Group Ltd	US\$9.3 billion

<sup>64</sup> Sergio Grassi, "THE BELT and ROAD INITIATIVE in MALAYSIA China's Geopolitics and Geoeconomics Challenged by Democratic Transformation GLOBAL and REGIONAL ORDER," February 2020, <https://library.fes.de/pdf-files/iez/16766.pdf>.

		enhance maritime trade.		Shenzhen Yantian Port Group Rizhao Port Group	
7	Gemas–Johor Bahru Electrified Double-Tracking Project (CJ-B)	A railway upgrade project to improve connectivity in southern Malaysia.	Railway	China Railway Construction Corporation (CRCC)	US\$2.3 billion
8	Trans Sabah Gas Pipeline	A pipeline intended to connect gas sources in Kimanis to Sandakan and Tawau.	Energy Infrastructure	China Petroleum Pipeline Bureau	US\$2 billion
9	Hydroelectric Dams in Sarawak	Multiple hydroelectric dam projects to support Sarawak's energy needs.	Energy	China Three Gorges Corporation, Sinohydro	Over US\$2 billion
10	The Second Penang Bridge (Sultan Abdul Halim Muadzam Shah Bridge)	Malaysia's longest bridge, connecting Penang Island and the mainland.	Bridge/trans ports	China Harbour Engineering Company (CHEC)	US\$1.3 billion

Sources: Friedrich-Ebert Stiftung (2020)

Compiled By Author (2025)

### **Leveraging China's Expertise in Technology**

The Look East policy 2.0 focuses on cultivating strategic sectors with a particular emphasis on high technology and high-end service industries. Malaysia's close relationship and cooperation with China have greatly benefited the country's

aspirations, not only in industrialization, but also in adopting new technologies<sup>65</sup>, such as technological transferring, enhancing Malaysia's industrial capabilities and global competitiveness. The nation's goal to be a center for digital innovation, Malaysia can benefit a lot from technological transferring from China as a major hub of advance technology especially in Artificial Intelligence, Big Data analytics, and robotics<sup>66</sup>.

### **Malaysia-China Digital Collaboration**

In its drive towards its digitalization efforts and long-term strategic transformation plan, Malaysia has signed two strategic Memoranda of Understanding (MoUs) with China, which focus on the gamut of emerging technologies and the satellite navigation system. One of them is a Joint Laboratories in the field of Emerging Technologies, such as artificial intelligence (AI), blockchain, biotechnology, advanced material science, and renewable energy. It is a cooperative effort among research facilities, universities, and businesses. This kind of collaboration will assist in the Malaysian efforts to empower its national technology and innovation ecosystem through the establishment of co-development, knowledge-sharing and talent-nurturing spaces<sup>67</sup>.

The second development is the plan to extend collaboration in satellite navigation, especially the connection of the Chinese BeiDou Navigation Satellite System (BDS) into Malaysian infrastructure. It will enhance technical cooperation between the two nations in the manufacturing sector and utilization of satellite-based technologies in the growth of some important areas of logistics, agriculture, finance, and manufacturing. Such a step will not only boost local capacities in space technology and geospatial intelligence in Malaysia, but it will also lessen Malaysia's reliance on Western's tec technology. Through the system, Malaysia will be able to up with innovative smart applications through data transformation, precision farming tools, real time logistics tracking, and next-level financial services. Beyond that, the collaboration also enables Malaysian's technological firms to co-develop or scale up satellite-based applications with their Chinese counterparts which could further integrating Malaysia

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<sup>65</sup>Xinhua, "Cooperations with China Continue to Drive Malaysia's Tech Ambitions: Experts," News.cn, 2025, <https://english.news.cn/20250423/23952d602d384abe9a3be2f40797fa2d/c.html>.

<sup>66</sup>Ibid.

<sup>67</sup>Alita Sharon, "Driving Digital Growth: Malaysia's Partnership with China – OpenGov Asia," Opengovasia.com, April 17, 2025, <https://opengovasia.com/2025/04/17/driving-digital-growth-malysias-partnership-with-china/>.

into the global digital economy, aligned with the aim of Malaysia to leap into digitalization as outlined in its Digital Economy Blueprint<sup>68</sup>.

### **Strategic Research and Development (R&D) Partnership**

Malaysia stands to benefit significantly from China's growing willingness to collaborate, especially in areas such as rare earth processing and artificial intelligence<sup>69</sup>. The collaboration will focus on advanced machine learning applications, including predictive maintenance in manufacturing and AI-enabled diagnostics in healthcare<sup>70</sup>.

Malaysian Small and Medium Enterprises (SMEs), which make up 97.4 percent of all registered businesses and contribute nearly 38 percent to national GDP, will benefit directly from such corporations. Many Chinese tech giants, such as Huawei and BYD, have shared interest in forming Research and Development collaborations with Malaysian companies, allowing opportunity for local SMEs to participate in the technology transfer, workforce upskilling, and joint innovation<sup>71</sup>.

For example, Huawei's US\$520 million investment to develop a regional cloud and AI hub in Malaysia is expected to generate more than 10,000 high-skilled jobs over the next decade, offering opportunities for local digital SMEs to plug into the ecosystem. In 2017, Alibaba, as a partner, launched the Digital Free Trade Zone (DFTZ) in Kuala Lumpur, facilitated e-commerce, customs digitization, and logistics<sup>72</sup>. In the automotive sector, Chinese EV manufacturers such as BYD and Geely are investing in Malaysian production facilities and R&D centers.

With Malaysia's skilled workforce and a business-friendly environment, firms, such as Huawei and ZTE, have significantly contributed to the country's digital transformation,

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<sup>68</sup> *ibid*

<sup>69</sup> Zahratulhayat Mat Arif, "Malaysia to Gain from China's Willingness to Share Advanced Technology," NST Online (New Straits Times, April 17, 2025), <https://www.nst.com.my/news/nation/2025/04/1203407/malaysia-gain-chinas-willingness-share-advanced-technology>.

<sup>70</sup> Ayman Falak Medina, "Malaysia and China Deepen Ties amid U.S. Tariff Pressure," ASEAN Business News, April 21, 2025, <https://www.aseanbriefing.com/news/malaysia-and-china-forge-strategic-partnerships-amid-u-s-tariff-pressures/>.

<sup>71</sup> BERNAMA, "PRESIDENT OF CHINA'S VISIT: A GOLDEN OPPORTUNITY for MALAYSIAN SMEs amid GLOBAL TRADE TENSIONS," BERNAMA, 2025, <https://www.bernama.com/en/thoughts/news.php?id=2414030>.

<sup>72</sup> Tham Siew, "SMEs onto the Digital Silk Road," March 26, 2018, [https://www.iseas.edu.sg/wp-content/uploads/pdfs/ISEAS\\_Perspective\\_2018\\_17@50.pdf](https://www.iseas.edu.sg/wp-content/uploads/pdfs/ISEAS_Perspective_2018_17@50.pdf).

supporting Malaysia in gaining access to cutting-edge technology while the firms secure a strategic foothold in a growing market<sup>73</sup>. Moreover, E-commerce continues to be a vital component in the growth of the country's digital economy. With many Chinese cross-border e-commerce platforms and sellers turning their attention to Malaysia, the country stands to benefit from greater innovation and an enhanced retail experience<sup>74</sup>.

## Strategic Risks

Such relationship does not come without risks, especially when there is an asymmetrical interdependence between the two nations, including Malaysia's trade deficit, competitive market in EV vehicles, and China's massive presence in Malaysia's infrastructures such as ports and railway.

Firstly, greater trade and investment can make Malaysia overdependent on China economically. The China-supported mega-project, such as the East Coast Rail Link (ECRL), approved by the Former Prime Minister Najib Razak, raised concerns among the public about the issues of debt sustainability, obscure legal provisions between contractual parties, limited Malaysia's involvement in the project, and the 1MDB scandal that involved the former leader. In 2019, the ECRL was renegotiated by Mahathir Mohamad administration, reducing prices by almost 30 percent, and revising ownership organizations, a move that was justified as a defusing of so-called debt-trap diplomacy.<sup>75</sup> Failure of Sri Lanka to repay Chinese loans resulted in the 99-year lease of the Hambantota Port that amounted to giving up national control. Laos has given parts of its strategic energy infrastructure by unsustainable debt financing arrangements.<sup>76</sup> The lesson to Malaysia is obvious: with Chinese investment targeting such sensitive areas as AI, port management and logistics, regulatory control, transparency and diversification of investment sources will remain key in safeguarding

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<sup>73</sup> *ibid*

<sup>74</sup> Wang Li, "China-Malaysia E-Commerce Co-Operation under the 'Five Pronged Approach,'" Malaysian Journal of Chinese Studies, 2024, <https://mjcs.newera.edu.my/cgi/viewcontent.cgi?article=1155&context=journal>.

<sup>75</sup> Shannon Teoh, "New East Coast Rail Link Deal Eases 'Debt Trap' Concerns for Malaysia, Says Mahathir," *The Straits Times*, April 15, 2019, <https://www.straitstimes.com/asia/se-asia/new-ecrl-deal-eases-debt-trap-concerns-for-malaysia-says-mahathir>.

<sup>76</sup> Zdeněk Rod, "Debt or Diplomacy? Inside China's Controversial Loans to Sri Lanka, Laos, and Malaysia," *The Diplomat*.com (The Diplomat, October 5, 2024), <https://thediplomat.com/2024/10/debt-or-diplomacy-inside-chinas-controversial-loans-to-sri-lanka-laos-and-malaysia/>.

national interests. When sovereignty is compromised due to the coercive power of leverage, it can hardly be recovered.<sup>77</sup>

Secondly, as Malaysia deepens economic ties with China and embraces the China+1 strategy, external geopolitical shifts, such as the recent re-imposition of 25% U.S. tariffs on Malaysian goods under a new Trump administration risk further entrenching Malaysia's reliance on the Chinese market.<sup>78</sup> Faced with reduced access to the U.S., Malaysian exporters are likely to redirect more products to China, reinforcing trade patterns that already see China accounting for around 17–18% of Malaysia's total trade. Simultaneously, China has diverted investments into the region to mitigate its own exposure, with reports showing about 55 mainland Chinese semiconductor companies operating in Penang by early 2024, up from just 16 before U.S. restrictions.<sup>79</sup> While this inflow supports Malaysia's industrial growth, it could draw greater scrutiny from Washington, as products with Chinese components or ownership links risk becoming targets of future tariffs. This dynamic places Malaysia in a delicate position: efforts to benefit economically from Chinese investment and trade may inadvertently strain external relations, especially with the U.S., and expose Malaysian exports to broader geopolitical tensions.

Lastly, Malaysia and China's unresolved sovereignty claims in the South China Sea can blur the economic relations and sovereignty concerns. Although Prime Minister Anwar Ibrahim has publicly assured that Malaysia has a "no problem" with China,<sup>80</sup> the recent trends of China national maritime assertiveness represent practical dilemmas. Its most notable cases involve the frequent intrusions into the Malaysian exploration around the Luconia Shoals, the 2020 West Capella standoff of oil and gas BOIs, and the 2021 PLA Air Force encroachment around Malaysian skies. These

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<sup>77</sup> Mohd Amirul Asraf Bin Othman, "The Price of Partnership: Can Malaysia Protect Its Sovereignty amid China's Advance? - Australian Institute of International Affairs," Australian Institute of International Affairs, 2025, <https://www.internationalaffairs.org.au/australianoutlook/the-price-of-partnership-can-malaysia-protect-its-sovereignty-amid-chinas-advance/>.

<sup>78</sup> Miranda Jeyaretnam, "As Tariff Deadline Looms, What to Know about Trump's Trade Deals," TIME (Time, July 7, 2025), <https://time.com/7300389/trump-trade-deals-tariff-letters-deadline/>.

<sup>79</sup> Evelyn S Devadason, "Constraints behind 'Enduring' Trade Partnership, 5 Decades of Legacy: Malaysia-China Relations," ISIS Malaysia, November 2024, <https://www.isis.org.my/wp-content/uploads/2024/11/Focus-21.pdf>.

<sup>80</sup> Ian Storey, "Malaysia and the South China Sea Dispute: A Sea Change under Prime Minister Anwar?," ThinkChina - Big reads, Opinion & Columns on China (Think China, September 5, 2024), <https://www.thinkchina.sg/politics/malaysia-and-south-china-sea-dispute-sea-change-under-prime-minister-anwar>.

encounters are an indication of the conflict between rising economic reliance and protecting territorial sovereignty.<sup>81</sup> They also reveal the weaknesses of using purely diplomatic expressions without the support of coherent administrative activity and practice. Another lesson that Malaysia itself learned in earlier territorial disputes not only in defending Ligitan and Sipadan successfully at the International Court of Justice, but also in failing to defend Pedra Branca because of its failure to litigate effectively due to lack of a significant state activity to support its claims. Despite the strong economic relations, Malaysia needs to ensure it is not entangled in the entrapment and blurry boundaries of sovereignty and economic benefits.

### **Anwar's Approaches Balancing Between Japan and China**

To simply say Malaysia is choosing China over Japan is a half-measured assumption at best. Interpreting Anwar's praising Xi Jinping as "outstanding leader" and supporting China's three global initiatives as aligning with China and abandoning Japan underestimate the complexity of a middle power entangled in global power rivalry.

Firstly, the inclusion of China in the policy does not jeopardize Malaysia-Japan relations. Although China plays an active role in Malaysia's geoeconomic environment, Japan still continues to be a crucial partner. This is evidenced when Malaysia and Japan elevated their bilateral relations to a comprehensive strategic partnership<sup>82</sup> and signed the Official Security Assistance Grant Aids<sup>83</sup> which would provide surveillance equipment for Malaysia. In defense, they conducted bilateral joint exercises in 2024 for the first time since 2018. In April 2024, the Royal Malaysian Navy and the Japan Maritime Self-Defense Force<sup>84</sup> conducted a joint exercise around Kota Kinabalu Port.

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<sup>81</sup> Fikry A. Rahman, "Managing Malaysia-China Ambivalent Relations: Economy and Security Imperatives," Pacific Forum, March 1, 2024, <https://pacforum.org/publications/yl-blog-64-managing-malaysia-china-ambivalent-relations-economy-and-security-imperatives/>.

<sup>82</sup> Ministry of Foreign Affairs Malaysia, "ELEVATION of BILATERAL RELATIONS between MALAYSIA and JAPAN to COMPREHENSIVE STRATEGIC PARTNERSHIP 16 DECEMBER 2023 - Press Releases - Portal," Kln.gov.my, 2023, <https://www.kln.gov.my/web/guest/-/elevation-of-bilateral-relations-between-malaysia-and-japan-to-comprehensive-strategic-partnership-16-december-2023>.

<sup>83</sup> Prime Minister's Office of Malaysia, "PM ANWAR, KISHIDA ANNOUNCE MALAYSIA-JAPAN COMPREHENSIVE STRATEGIC PARTNERSHIP," Pmo.gov.my, December 16, 2023, <https://www.pmo.gov.my/2023/12/pm-anwar-kishida-announce-malaysia-japan-comprehensive-strategic-partnership/>.

<sup>84</sup> Ministry of Defence Japan, "Japan-Malaysia Bilateral Exercise," Ministry of Defence Japan, April 5, 2024, [https://www.mod.go.jp/msdf/en/release/202404/20240405\\_02en.pdf](https://www.mod.go.jp/msdf/en/release/202404/20240405_02en.pdf).

Secondly, under Prime Minister Anwar Ibrahim, Malaysia has consistently pursued a policy of non-alignment, seeking to maintain constructive ties with major powers without formally siding with any. This approach explains why claims that Malaysia jeopardizes its sovereignty in the South China Sea simply by engaging China economically are only partially valid. In practice, Malaysia, as a claimant state, has chosen a nonconfrontational, diplomatic strategy rather than an alliance-first or militarized approach.<sup>85</sup> As Anwar noted at the Asia-Pacific Roundtable, Malaysia's perceived neutrality has enabled it to engage China successfully while continuing its energy exploration activities.<sup>86</sup> Domestically, with significant political and economic challenges looming ahead of the next general election, the government views dialogue as a pragmatic layer of risk management that preserves sovereignty and avoids escalation. At the same time, Malaysia is careful to guard against overdependence on China economically and equally cautious to ensure its security ties with other powers such as the United States. This calibrated, non-aligned posture allows Malaysia to exercise agency, protect its maritime interests, and sustain political legitimacy by avoiding strategic entrapment between rival powers.<sup>87</sup>

Thirdly, the involvement of China in the Look East Policy by Malaysia does not imply that Malaysia is abandoning its longtime association with Japan. Instead, it is an indication of a strategic necessity of Malaysia to maneuver in an increasingly complicated geopolitical environment. Malaysia as a middle power pursues a non-alignment strategy in its foreign policy to guarantee national resilience, security and economic stability amidst great power competition. Involving both Japan and China, Malaysia balances its relationships and limits the excessive reliance on a certain power. Such strategic policy is especially crucial in the face of the existing global

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<sup>85</sup> Cheng-Chwee Kuik, "Tilting toward Beijing? Malaysia's Relations with China after Li Qiang's Visit," Carnegie Endowment for International Peace, 2024, <https://carnegieendowment.org/research/2024/08/tilting-toward-beijing-malaysias-relations-with-china-after-li-qiangs-visit?lang=en&er=europe>.

<sup>86</sup>BERNAMA, "PM ANWAR CALLS FOR AGGRESSIVE DIPLOMATIC ENGAGEMENT to RESOLVE TENSIONS in SOUTH CHINA SEA," BERNAMA, June 6, 2024, <https://www.bernama.com/en/news.php?id=2305066>.

<sup>87</sup> David Han, "The Challenges of Non-Alignment: Managing Risks in Malaysia's Policy towards China and the United States," S. Rajaratnam School of International Studies (RSIS), January 15, 2024, <https://rsis.edu.sg/wp-content/uploads/2024/01/David-Han-Essay.pdf#:~:text=Najib%27s%20embrace%20of%20the%20BRI%20courted%20controversy,undue%20influence%20over%20Malaysia%20economically%20and%20politically..>

uncertainties, such as the uncertainty of President Trump's leadership and the rising conflicts worldwide, which might interfere with Malaysia engaging in international trade and diplomacy.

## **Conclusion**

The Look East Policy has started in Malaysia as a Japanese and Korea-centered policy, but due to the flexible foreign policy of the country, it has transformed into a more pragmatic policy that encompasses China today. Although the vital involvement of Japan in the industrialization and the development of human capital in Malaysia cannot be underestimated and is still seen as a pillar, the addition of China in the Look East Policy 2.0 recognizes the increasing economic power and strategic value of China. After the establishment of diplomatic relations in 1974, the Malaysia-China relationship has grown politically, economically, and technologically, with China being the largest trading partner of Malaysia in a decade or more, highly integrated in major sectors, and supply chains. This strengthened cooperation promotes the Malaysian ambitions of infrastructure connectivity, technological, and economic diversification in line with national development strategies such as NSS and NIMP 2030. Diversifying relationships with traditional partners such as Japan and emerging giants like China helps Malaysia to increase its resilience, independence and status as a middle power in the complicated and dynamic geopolitical environment of East Asia.