

# Malaysian government strengthens economic ties with China

Kurt Brown  
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On a four-day visit to Beijing from March 29 to April 1, Malaysian Prime Minister Anwar Ibrahim secured promises of record levels of Chinese investment. His tour continued a balancing act between China and the US as Washington escalates its military and economic offensive against China throughout the Indo-Pacific.

In China, Anwar signed 19 memoranda of understanding (MOUs) with the government pledging investments in the petrochemical, automotive, finance and other sectors of Malaysia. At the same time, Anwar anxiously stated that his country remained neutral in the mounting conflict between the US and China.

While the MOUs referred only to commitments and not actual investments, the total promise of RM170 billion (\$US38.5 billion) from the Chinese government and corporations was the biggest so far for Malaysia, equalling about 10 percent of its gross domestic product (GDP). As a result of the MOUs, Chinese investment into Malaysia is expected to double in coming years.

Simultaneously, Anwar indicated a willingness to discuss or resolve contested South China Sea territorial claims with the Chinese government without escalating disputes. That is significant in the context of increasingly provocative moves by the Biden administration to goad China into war over various flashpoints, including the South China Sea and Taiwan.

Anwar led a high-level delegation to China. He was joined by International Trade and Industry Minister Tengku Zafrul Aziz, Foreign Affairs Minister Zambry Abdul Kadir, four other ministers and various government and private sector trade representatives.

Key events included a roundtable meeting between Anwar and 36 senior Chinese executives and the Malaysia-China Business Forum attended by over 1,000 business representatives from both countries.

China has been Malaysia's largest trading partner since 2009, with total trade of \$110.6 billion in 2022. China was also the biggest foreign direct investor in Malaysia in 2022, with investments amounting to \$12.5 billion. Yet, according to the US State Department website, the US is still Malaysia's third-largest trading partner, after China and Singapore.

Out of the RM170 billion investment commitment, the single largest is for a RM80 billion petrochemical refinery in the southern state of Johor, adjacent to Singapore, by Rongsheng Petrochemical.

The second biggest pledge, tallying RM32 billion, is by Chinese automaker Zhejiang Geely, for an electric vehicle manufacturing plant in the state of Perak. Geely committed an initial investment of RM2 billion this year.

Anwar's unstable coalition government, in office since November, is desperate to attract investment amid a social crisis fuelled by inflation, growing food prices in particular, poor wages and unaffordable housing.

Anwar and his government have heavily promoted the investment commitments. Undoubtedly, this is in part to signal to global financial markets that the government is attempting to address concerns about the ballooning level of government debt, which stands at about \$US346 billion.

In February, only three days after the government tabled its annual budget, the Fitch credit rating company noted the high level of government debt relative to other "BBB"-rated governments. Fitch warned that "a risk remains that further shocks to GDP growth or fiscal slippages could result in debt/GDP continuing to increase."

Senior Malaysian government figures have drawn parallels between the high level of government debt and the situation in Sri Lanka, which defaulted on its debt

obligations in 2022, resulting in political turmoil as workers and the poor fought crushing austerity measures.

In his introductory remarks before a closed-door 45-minute meeting with President Xi Jinping, Anwar went out of his way to praise Xi. He was a “visionary” who had “not only changed the course of China but also given a ray of hope to the world and mankind, with the visions that extend beyond China, into the region and the world.”

Speaking at the Bo’ao Forum for Asia, Anwar also lauded China’s Belt and Road Initiative (BRI), the global infrastructure program intended to encompass more than 150 countries, as “translating lofty ideals into practical reality, solidarity and cooperation.” The BRI is a direct challenge to the economic might of the US.

Responding to a question on the rising US-China conflict during a public lecture at Beijing’s Tsinghua University, Anwar pleaded neutrality, saying Malaysia would not allow any power to “dictate” its decisions, while adding that his country did not view China as a competitor or threat.

Anwar sought to tread a similar line on Malaysia’s South China Sea dispute with China. He noted that the Chinese government had expressed concerns over a gas field developed by Petronas, the Malaysian government energy company, off the coast of Sarawak.

The field is expected to produce 900 million cubic feet of gas per day from this year but is in a part of the South China Sea also claimed by China. Anwar said the Malaysian government was “ready to negotiate.”

On April 8, Malaysian opposition leader Muhyiddin Yassin accused Anwar of ceding sovereignty over this disputed territory. In response, the Malaysian Ministry of Foreign Affairs denied the charge, while stating that “issues relating to the South China Sea should be discussed or resolved in a peaceful manner... to avoid any escalation of disputes and the threat or use of force.”

These moves are certain to provoke hostile responses in Washington. A key US threat could be to block access by Malaysian banks to the US dollar-denominated banking system.

Anwar said he had raised with Xi a proposal to conduct investment transactions using Malaysian ringgit and Chinese yuan. Anwar later told parliament

that China was open to talks about setting up an “Asian Monetary Fund” with Malaysia, in order to reduce Asia’s dependence on the US dollar.

In an effort to placate the Biden administration, Trade Minister Zafrul told CNBC on April 6 that Malaysia was determined to work with both the US and China, amid the rising geostrategic tensions between the two powers.

Nevertheless, commentators have expressed concerns. US sanctions against China could potentially affect some Malaysian companies that form part of China’s supply chain, Ngeow Chow Bing, the director of Universiti Malaya’s Institute of China Studies, told Al Jazeera.

Hoo Chiew Ping, an international relations lecturer at the National University of Malaysia, told Al Jazeera that if Malaysia wished to boost cooperation with China, especially in the tech sector, it would need to consider the possibility of US pressure. It needed to work out how to “navigate the delicate line of advancing technological cooperation for national interests while still being able to convince both US and China that such cooperation will not affect bilateral relations politically.”

That balancing act will become ever-more difficult as Washington ramps up its confrontation with China, which it has designated the existential threat to American global power.



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