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**EXPLORING THE DEVELOPMENT OF INTER-STATE RELATIONS UNDER THE MECHANISM OF THE HIRSCHMAN EFFECT - A CASE STUDY OF MALAYSIA-CHINA RELATIONS IN A POLITICAL CRISIS (2020-2022)****\*Zhao Xinlei**

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**Abstract**

The purpose of this article is to test how the Hirschman effect differs in explaining the development of relations between small and great powers from the traditional links between great powers, using the development of bilateral relations between China and Malaysia during the Malaysian political crisis (2020-2022) as a case study. The study results show that the Hirschman effect partially develops bilateral relations between small and great powers. In particular, the interest groups in small countries that are closely related to trade with extraordinary abilities, as the primary beneficiaries in the development of trade between the two countries, although they may use their resources to a certain extent to influence the decisions of small countries towards great powers, they do not fundamentally determine the small countries' response to large countries. In this process, the relative power asymmetry between states plays a dominant role, as small states lack trust and suspicion in political diplomacy towards large states based on the perception of threat arising from the relative power asymmetry. When developing bilateral relations with large countries, small states seek practical cooperation to promote economic and trade development but become more cautious in their political ties to avoid being caught in power struggles between large states or being controlled by them. The case of Malaysia-China relations also illustrates that despite the ongoing political crisis in Malaysia, which saw the country go through the transition from Perikatan Nasional (PN) to Barisan Nasional (BN), different governments have maintained a pragmatic and proactive economic policy towards China to reduce suspicion and mistrust between the two countries in political and diplomatic affairs, thereby enhancing cooperation and interactions between the two countries. At the same time, the Malaysian government is developing multi-dimensional foreign relations and actively participating in multilateral, regional organizations and platforms, such as those organized by the United States, to maintain a relative balance in the influence of the US and China on Malaysia.

**Keywords:** Hirschman effect, Interest groups, Malaysia, China, Bilateral relations.

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**INTRODUCTION**

Scholars and researchers in International Relations (IR) have long explored how inter-state relations interact. Generally, inter-state relations are diverse and include economic, political, military, and diplomatic. Moreover, in terms of how economic ties affect a country's political and diplomatic relations with another country, many scholars have focused on using the mechanism of the Hirschman effect to explain such phenomena. Regarding the Hirschman effect, Hirschman (1980) argues that by defining a country's domestic governmental interests, a diverse group of elites can be shaped. When a country forms domestic interest groups, these interest groups will make full use of their social resources to lobby the government and influence the government's decision-making process to gain maximum benefit from the government's foreign policy. Moreover, political relations with other countries can also be consolidated and strengthened based on stable economic ties (Xiong, 2019; Abdelal & Kirshner, 1999). In the case of Malaysia-China relations, the political crisis in Malaysia in 2020 (also known as the Sheraton Move) has negatively impacted Malaysia's domestic governance and economic development. It has also affected the development of bilateral relations with other countries. In this process, China, one of the countries with which Malaysia has the most robust and complex ties, has also undergone significant changes and

adjustments in Malaysia-China bilateral relations from 2020 to 2022 due to the political crisis. In terms of Malaysia-China relations, Malaysia has relied on an active and pragmatic economic policy toward China to consolidate and strengthen its economic cooperation with China. The impact of the ongoing political crisis, which has seen Malaysia undergo domestic regime changes, including the Pakatan Harapan (PH), the Perikatan Nasional (PN), and the Ismail Shabbri government, coupled with the escalating geopolitical tensions between China and the US, has also required Malaysia to reconsider whether its previous foreign policy towards China is still relevant in the present. Thus, both domestic and international complex changes have created unprecedented uncertainty and crisis in the bilateral relationship between Malaysia and China. This paper, therefore, focuses on discussing and analyzing how economic relations will affect Malaysia-China political and diplomatic relations, using the development of Malaysia-China bilateral relations in the context of the political crisis between 2020 and 2022 as a concrete case study, in order to test whether the Hirschman effect mechanism is still applicable to the study of relations between large and small states. The paper consists of three main parts. The first part details the traditional model of the Hirschman effect mechanism and the rationale for its application. The second part is a detailed review of Malaysia's domestic political crisis development from 2020 to 2022, using the development of Malaysia-China bilateral relations under a political crisis as a concrete case study. The final section constructs an analytical model of Malaysia-China bilateral

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relations based on the play of the Hirschman effect in the conventional state in order to explain how the economic, political, and diplomatic relations between Malaysia and China interact with each other, thereby validating the Hirschman effect in the development of relations between small and large states.

### **THE HIRSCHMAN EFFECT MECHANISM**

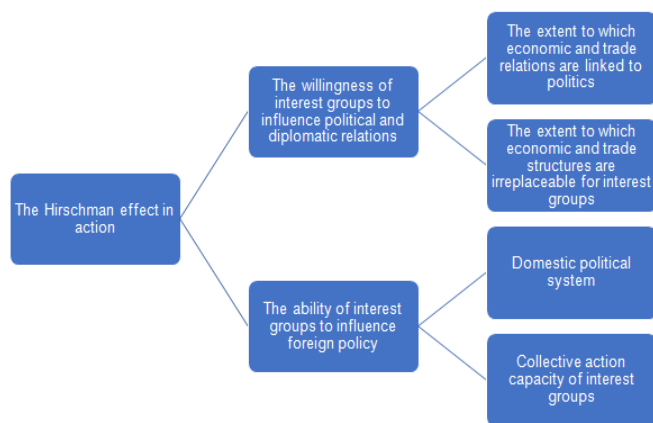
The interaction between economic and political-diplomatic relations between states has been the focus of discussion among international relations scholars. Scholars have constantly analyzed and studied whether there is a causal relationship between economic and political-diplomatic relations (Chan, 2001). For many countries in the international political system, it is essential to identify the specific links between economic and political-diplomatic relations to help them take the initiative and prioritize the development of their relations with other countries and thereby gain more benefits in international cooperation and competition. The American Jewish scholar Albert Hirschman explains this issue regarding the impact of economic and trade dependence on political and diplomatic relations between countries, also known as the "Hirschman effect." The Hirschman effect emphasizes that in international relations, when a sovereign state develops bilateral relations with another country, it will make use of the degree of interdependence of economic and trade relations between the two countries to influence the development of political and diplomatic relations, mainly through the formation of interest groups in the other country to advocate for itself and use the influence of other countries' interest groups on the government's foreign policy and decisions to gain the initiative in the political and diplomatic game for its own country. In this way, they can gain more benefits (Kirshner, 2008; Hirschman, 1980). Two points need to be explained here. The first is the particular positioning of 'interest groups in the 'Hirschman effect. 'For Hirschman, interest groups play a dominant and, in some cases, decisive role in developing a state's relations with other states. It is reflected in the fact that interest groups, as an essential part of the state, can benefit from the interaction between their country and other countries when developing bilateral relations with them. They use their social resources in the country to influence the government's decisions and push the government to formulate foreign policies that are conducive to their continued profitability (Abdelal and Kirshner, 1999). In turn, the actions of interest groups in the country are seen by others as indirectly helping to create a favorable political environment in the country's interactions with its trading partners, thus helping the country to gain more political and diplomatic advantages, and such interest groups are seen as the face of the country in its trading partners. The key to the "Hirschman effect" lies in the role of interest groups. Secondly, economic and trade relations have significant benefits and effects on political relations. As liberal scholars emphasize, in international politics, as no "world government" transcends the state, the development and interaction between states are more based on the state itself. The stability of economic and trade relations between the two countries can promote long-term positive win-win cooperation between the two countries. Such cooperation and win-win will lead to a common perception between the two countries that cooperation in economic relations will promote the joint development of the two countries. In comparison, political tensions will undermine the cooperation and exchange in economic and trade relations

between the two countries, which will not be conducive to the long-term interests of the two countries. Therefore, the countries will rely more on such a perception. In such a perception, the state would rely more on the mutual benefits of economic relations to promote the stability of political relations to prevent the breakdown of political relations from backfiring on economic relations and leading to the damage of national interests (Keohane & Nye, 1973).

A question remains here regarding how the Hirschman effect is successfully played out and implemented. According to Xiong (2019), there are two preconditions for the Hirschman effect to play out: the willingness of interest groups to influence political-diplomatic relations and the ability of interest groups to influence foreign policy. On the one hand, in the process of development and interaction between countries, the economic and trade structure determines the degree of interdependence in bilateral relations between the two countries. It is reflected in the economic and trade structure between the two countries is dominated by strategic products, i.e., food, energy, weapons, etc. When these strategic products are more politically relevant, the lower the substitutability of trade products and the more profound the interdependence between the countries (Xiong, 2019). In contrast, once the trade structure between two countries is dominated by commonly used consumer goods, such as household appliances and transportation, this trade structure is usually less politically relevant. It is easier to find the same substitute products, and the interdependence between countries is relevantly lower. For example, in the case of Germany's energy trade with Russia, when the war in Ukraine broke out in 2022, Germany followed the US and EU in imposing severe sanctions on Russia, on which it maintains a deep energy dependence as it imports more than half of its domestic gas. When the political and diplomatic relations between Russia and Germany became volatile and crisis-prone, Russia used gas as an energy weapon to countersanctions against Germany, causing Germany to suffer from energy shortages. It shows the critical influence of the economic and trade structure on developing political relations between the two countries.

On the other hand, the ability of interest groups to influence foreign policy is influenced by both the domestic political system and the ability of interest groups to collaborate. The first is the domestic political system, generally regarded as the sum of the methods and means by which the ruling group governs or manages the state (Eulau, 1954). The political system, in turn, defines the specific ways the state is governed and resolves conflicts and problems within the state. Different interest groups are the main actors in implementing the political system in this process. Through the political system, the state gives different interest groups the ability to influence political decisions. As a result, the different interest groups use the state's ability to use their resources to influence specific actions of the state or government. As political systems vary from country to country, the ability of interest groups to act varies from country to country, which leads to differences in the ability to influence government decisions. For example, in single-party and multi-party governments, the main political power of the state is held by a single party. This single party is one of the essential players in influencing the decisions of the state and therefore has a single influence on the government's actions. On the other hand, a multi-party system of government emphasizes the existence of multiple parties within the state, which also determines the existence of a multitude of interest

actors whose influence on the government is multi-dimensional. The second is the ability of interest groups to collaborate. When the state, through its inherent political system, gives power to different interest groups, the ability to cooperate varies because of the interest actors' size, nature, and composition. According to Olsen (1968), the dilemma in collective action is that individual actors can enjoy the products of other actors' labor without paying for them, which in the long run can lead to "free-riding." Olsen argues that groups with high homogeneity, smaller organizations, already fixed interests, and a clear organizational structure are more likely to overcome collective action dilemmas (Pang, 2012). In actual political life, due to the different power given to different groups by the political system, a minority group holds the main power. In contrast, the majority group holds less power. The group holding the main power can enjoy the dividends or benefits brought by the leading group through orders or without paying any price. It will lead to political instability and more serious social problems.



**Fig 1 Mechanism of the "Hirschman effect" in an ideal state**

The above explains the specific mechanism by which the Hirschman effect would ideally play out. Generally, such a specific mechanism emphasizes that political and diplomatic relations between states are influenced by economic and trade relations, which are not the product of a country's foreign policy or strategy formulation. In the existing system of international relations, however, economic and trade relations are often the product of specific strategies of individual states to gain advantages and benefits in geopolitical competition, depending on the form of the state (Davis & Meunier, 2011). For example, in the development of bilateral relations between the US and China, China is one of the most important trading partners of the US, and the two countries maintain close interdependence in economic and trade relations. However, this stable and close economic and trade relationship has yet to serve to stabilize bilateral political and diplomatic relations. Instead, the US has frequently used diplomatic relations as a weapon to sanction the Chinese economy, which has seriously undermined the development of bilateral economic relations. Under the Trump administration, the Covid-19 pandemic was used as a pretext to exacerbate the deterioration of political and diplomatic relations between the US and China, to divert domestic political attention and electoral pressure, and to use economic sanctions to undermine China's national interests (Boylan *et al.*, 2021). It suggests that economic and trade relations only partially determine the development of political and diplomatic relations between states. However, it may, in turn, be used by some states to influence economic and trade relations, thus helping them to achieve specific political

objectives and thereby gaining more benefits (Waltz, 2010). Therefore, the "Hirschman effect" requires certain assumptions for its successful implementation, including three prerequisites:

- The individual or group of people who make decisions about the state or government must be a rational actor, i.e., they will act in the most rational way to achieve the interests of the state at all times.
- No political decision in any country is made under the influence of a single factor; it is the result of a combination of factors. In making specific political decisions, the state or government is influenced by the different interest groups from domestic politics and by the pressures or dynamics given by the foreign environment.
- The government emphasizes the maximization of national interests, specifically the interests of some individuals or groups who hold supreme power in the state.

Although the above assumes three critical assumptions for the 'Hirschman effect' to work, the complexity of international politics means that the national situation varies from country to country in interstate relations. Some countries are powerful and play a significant role in the international political arena, such as the United States. In contrast, others are weak and have limited influence on international politics, such as some Southeast Asian or African countries. Therefore, when studying and analyzing the impact of the 'Hirschman effect' on interstate relations, the variables of interest groups' willingness to influence political relations and the ability to influence foreign policy are weak in explaining the development of relations between some countries. They need to take into account the actual relative power contrasts between countries. For example, when studying the relationship between the United States and China, as both countries are permanent members of the United Nations and rank among the top in the world in terms of economic power and political influence, the combined power of the two countries remains relatively similar. Both can be called significant powers in the international relations system. In the study of bilateral relations between China and Southeast Asian countries such as Malaysia, the single ASEAN country is lagging in terms of China's overall power. Its total power is also limited, so the conclusions obtained are not quite the same when applying the "Hirschman effect" to explain the development of relations between these two types of countries. Therefore, this paper believes that "relative strength" is the third important variable that affects the success of the "Hirschman effect." When the relative power of two countries is similar, the willingness of interest groups to influence political relations and the ability to influence foreign policy will be the main factors influencing the "Hirschman effect." When the relative power of two countries is too large or asymmetrical, the willingness of interest groups to influence political relations and the ability to influence foreign policy have limited influence on the 'Hirschman effect.' Then the state or government needs to consider other countries' relative power in developing foreign relations (Morgenthau *et al.*, 1985). Relative power becomes the third dominant factor in influencing the Hirschman effect, as shown in Figure 2. Its influence on the Hirschman effect is much more significant than interest groups on political relations and foreign policy. The following is a case study of the development of bilateral relations between Malaysia and China during the political crisis to examine how 'relative strength' plays its role in the 'Hirschman effect.'



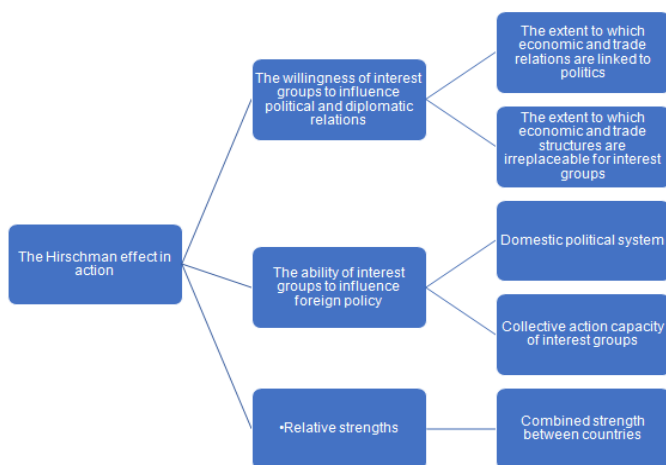


Fig. 2. The Hirschman effect under the influence of 'relative strength'

### POLITICAL CRISIS IN MALAYSIA 2020-2022

The Sheraton Move, as the Malaysian media dubbed it, was marked by a political party meeting at the Sheraton Hotel in Petaling Jaya, Malaysia, which started a nearly three-year-long political crisis and turmoil in the country (BBC, 2020). The crisis began on 21 February 2020 with the fall of the PH. It ended on 10 October 2022 when Prime Minister Ishmael Sabri announced the formal dissolution of the 14th Lower House of Parliament. Although the political crisis has ended, it has had a profound impact on Malaysia's economic development and governance, as well as on bilateral relations with other countries, especially during the entire period of the political crisis. The political crisis in Malaysia can be divided into three specific phases, namely the first phase:

- The fall of the PN and the coming to power of the BN
- The second phase, the handling and response of the PN under the state of emergency
- The third phase, the return to power of the BN

Each of these phases is described in detail below.

#### The fall of the PN and the return of the BN to power

The political crisis was sparked by the dispute within PN over the transfer of power to Mahathir. During the fourteenth general election in 2018, which saw UMNO defeat BN and bring about the first political change in Malaysia's history, Mahathir agreed with People's Justice Party (PKR) president Anwar to hand over power to him two years after the election (Orientaldaily, 2020). There is still a tit-for-tat within the PKR namely Azmin Ali, and the two form two significant forces within the PJP. Anwar has called for a speedy transfer of power to Mahathir, while Azmin has a fierce rivalry with Anwar over his support for Mahathir. In February 2020, the president of the Parti Pribumi Bersatu Malaysia (PPBM), Muhyiddin, announced his departure from PH. Azmin led ten MPs to join PPBM to support Muhyiddin as Prime Minister of Malaysia. As a result, Mahathir announced his resignation as Prime Minister of Malaysia. With the recognition of the supreme head of state, Muhyiddin succeeded Mahathir as the new Prime Minister of Malaysia (China Press, 2020; Sinchew, 2020). The election of Muhyiddin also marked the formal collapse of the PH, and the PN, comprising the PKR, the People's Movement Party, and the Islamic Party, became the

new ruling coalition in Malaysia and ushered in a period of rule by the PN. Typically, when a new government is formed, the country should be led by the new government to deal with the country's internal and external conflicts and crises and promote the country's economic development. However, instead of stabilizing the political situation in Malaysia, the UMNO, under the leadership of Muhyiddin, has exacerbated the political instability in the country and led to the spread of political crises in Malaysia, which has had a severe adverse impact on the country's governance.

#### Handling of and response to the state of emergency by the BN

When the PN under Muhyiddin's leadership officially became the ruling coalition of the country, one of the significant issues that followed was the legitimacy of the PN administration. On the one hand, the legitimacy of Muhyiddin and the coalition has not been confirmed by the majority of voters and MPs through an open and transparent election process but rather by the announcement of the Supreme Head of State as Prime Minister. On the other hand, by his position and power, the Supreme Head of State silenced the opposition and facilitated the emergence of Muhyiddin as the new Malaysian national leader. It has led to opposition parties such as the PPBM strongly questioning the legitimacy and regularity of the process of Muhyiddin's election. As a result, the PPBM and the PKR split into two factions and began a heated exchange of views. For Muhyiddin, apart from the legitimacy of his administration at home, the external environment was accompanied by the global spread of the Covid-19 pandemic. In order to respond effectively to the spread of the epidemic, Muhyiddin declared a state of emergency and imposed a national Movement Control Order (MCO) to curb the spread of the epidemic (Orientaldaily, 2020). It was seen by the opposition parties as a political move by Muhyiddin himself to prevent opposition parties from threatening his position in power, rather than a regular crisis response strategy, with the fundamental aim of maintaining Muhyiddin's and the PN's position and interests in power and enhancing their influence (Lee, 2021). The state of emergency adopted by UMNO led to a prolonged suspension of the Malaysian Parliament, which seriously affected the discussion and formulation of the country's significant policies, and this triggered strong dissatisfaction and anger among some political parties within UMNO and the opposition parties, who demanded that the national government withdraw the emergency regulations and reconvene the Parliament. In the face of strong opposition and protests, Muhyiddin's coalition lost the support of the majority of parliamentarians (Orientaldaily, 2020). On 16 August 2021, Muhyiddin announced his resignation as Prime Minister and the dissolution of his cabinet. UMNO Deputy President Ismail was replaced by Muhyiddin as the new Prime Minister, with the support of a majority of parliamentarians. He marked the return of the BN to power after three years after its defeat in the 2018 general election. However, Ismail's rise to power did not prevent the political crisis in Malaysia from spreading. The epidemic crisis in the country continued to worsen after he took office, causing Ismail's new government to face internal and external difficulties.

#### The return of BN to power

Following Muhyiddin's announcement of his resignation as Prime Minister, Ismail was appointed as the ninth Prime

Minister of Malaysia with the support of most parliamentarians. Shortly after he took office, on 13 September 2021, BN and PH pioneered the first cross-party memorandum of understanding in Malaysian history, the Memorandum of Understanding on Political Transformation and Stability (Sin Chew, 2021), by abandoning political bias. With this memorandum, Ismail believed that Malaysia could change the long-unstable domestic political environment and boost the country's economic development. However, he still faces enormous internal and external pressures. On the one hand, there is the issue of rising domestic prices due to external geopolitical conflicts. On 21 February 2022, due to the outbreak of a war between Russia and Ukraine, which led to a global economic crisis, and Malaysia was no exception, with many daily necessities rising, causing massive inflation. At the same time, coupled with the RM3.8 to USD mark, the cost of living for the people in the country significantly increased. As a result of the prolonged economic downturn, the public began to question the correctness of the Ismail government's strategy. It demanded that the government introduce policies to stabilize price increases in the country as soon as possible (Malaysiakini, 2022). On the other hand, the lack of economic development caused tremendous political pressure on Ismail's government. Strong voices from some parties within the ruling coalition urged him to make changes. Eventually, Ismail announced the dissolution of Parliament on 10 October 2022, and a new national election was scheduled for 19 November 2022, marking the end of the political crisis that had lasted for nearly three years with the dissolution of the 14th Parliament, ushering in a new era of development in Malaysia.

### Malaysia under the political crisis

Malaysia's political crisis lasted 986 days, from 2 February 2020 to 10 October 2022. In these nearly 1,000 days, the Malaysian government went through a succession of administrations from the PH, represented by Mahathir, to the PN, represented by Muhyiddin, to Ismail under the BN. This ongoing political crisis has profoundly impacted the Malaysian state's internal and external development. Internally, the prolonged political instability has led to a prolonged political party struggle, which has consumed the country and the government's primary development efforts, making it difficult to address many livelihood issues. In addition, the Covid-19 pandemic has dealt a massive blow to the economic development of the Malaysian nation, resulting in a lack of momentum in the Malaysian economy, a rise in unemployment, and many Malaysians losing their jobs.

Frequent changes in government have also failed to provide an effective means to stabilize the country's economic situation, leading to solid public discontent and protests and deepening social tensions and crises. On the external front, due to the change of government, Malaysia is faced with the impact of geopolitical competition between major powers, such as the Sino-US rivalry and the Russia-Ukraine conflict, which requires Malaysia to adopt specific measures and strategies to safeguard its security and interests in such conflicts and rivalries between major powers. As a result of the political crisis, it is difficult for Malaysia to form a unified and robust foreign policy and approach to developing its relations with the major powers due to the disagreement between the ruling party and the opposition parties. The intense conflict and struggle between the major powers also seriously threaten Malaysia's neutrality and national security. Malaysia's bilateral relations with China face severe challenges due to the ongoing political crisis.

### MALAYSIA-CHINA RELATIONS UNDER THE "HIRSCHMAN EFFECT" ANALYSIS

China has always played an important role in Malaysia's economic development, not only because of its strong influence in East Asia and the world but also because of the many new opportunities that economic cooperation with China will bring to Malaysia's economic development, which is why the Malaysian government attaches great importance to the development of economic relations with China. Under the BN administration, especially since Mahathir's first term, Malaysia has always adopted a steady and progressive economic policy towards China to develop economic relations with China. However, in 2018 a new change has been ushered in, which stems from the 14th Malaysian national election 2018. With the defeat of former Prime Minister Najib's BN against Mahathir's PH, Mahathir replaced Najib as the country's new leader until the subsequent "Sheraton Move." The outbreak of the political crisis also brought much uncertainty to the development of bilateral relations between Malaysia and China in the short span of a few years, which led to a new adjustment in how Malaysia develops its bilateral relations with China, both in terms of economic relations and political and diplomatic relations between the two countries. As mentioned earlier, interest groups play the most crucial role in the Hirschman effect, and they are the prerequisite and basis for the successful implementation of the Hirschman effect. According to this logic, three main political parties or interest groups represent the Malaysian Chinese:

**Table 1 Chronology of the political crisis in Malaysia**

Phases	Time	Specific events
Phase I (21 Feb 2020 - 1 Mar 2020)	13 Jun 2019	Trigger: Azmin and Anwar fight each other, Azmin backs Mahathir as PM until the end of his term
	23 Feb 2020	In the Sheraton coup, Azmin joins the Indigenous Unity Party and backs Muhyiddin for Prime Minister. The following day, Mahathir resigns as Prime Minister.
		The political crisis begins. The Alliance of Hope loses its status as the ruling party and the National Alliance comes to power.
Phase 2 (1 Mar 2020 – 16 Aug 2021)	29 Feb 2020	Muhyiddin is elected as the new Prime Minister of Malaysia.
	18 May 2020	Parliamentary debate, the shortest parliamentary session in Malaysia's history
	13 Jul 2020	Second parliamentary debate, with the resignation of the President of the Lower House of Parliament, Muhammad Arif, and the Deputy Speaker, Ni Keminn
	6 Nov 2020	Debate on the 2021 Malaysian Federal Government Budget
	12 Jan 2021	The Supreme Head of State declared a state of national emergency
	16 Jun 2021	The Supreme Head of State demands that the government must call a parliamentary session
Phase 3 (16 Aug 2021-10 Oct 2022)	16 Aug 2021	Muhyiddin loses support of MPs and resigns as Prime Minister
		Political crisis continues
	21 Aug 2021	Ismail was elected as the new Prime Minister and BN replaced the PN as the ruling party again.
	13 Sep 2021	BN and PH signed the Memorandum of Understanding on Political Transformation and Stabilization
	10 Oct 2022	Ismail announced the dissolution of the 14th Parliament, bringing the political crisis to an end.

The Democratic Action Party (DAP), the People's Movement Party (PMP), and the Malaysian Chinese Association (MAC). While the PMP and the DAP are Chinese Malaysian parties, the Malaysian Chinese Association (MCA) is the most crucial interest group that influences the development of bilateral relations between Malaysia and China (Fang & Liao, 2018). Because the MCA, as a party organization for representing Malaysian Chinese, contains many Malaysian Chinese businesspeople and enterprises, these organizations have made significant contributions to promoting the development of bilateral relations between the Malaysian government and China and stabilizing the Malaysia-China relationship on its way forward. In particular, when mainland China announced its reform and opening up in 1978, China's investment and business environment changed drastically. It became conducive to foreign investment, and many Malaysian Chinese businesspeople decided to return to mainland China to make significant investments. These valuable investments became an essential driving force for China's reform, opening, and economic development (Fang & Liao, 2018). In addition, the Malaysian Chinese have extensive and close cultural and historical ties with China, with most of them migrated to Southeast Asia (including Malaysia) as a result of the war in China's early years, so they have a solid attachment to their homeland, and this emotional connection has become an essential basis for the rapid development of Malaysia-China relations later on. At the same time, with the rapid development of the Chinese economy after the reform and opening up, many Malaysian Chinese businesspeople became the beneficiaries of the extensive benefits brought by the economic take-off in mainland China (Zheng, 1993). In addition to the MCA, several Malaysian Non-Governmental Organizations (NGOs) closely associated with trade and education in China have also played an essential role in promoting Malaysia-China bilateral relations, as shown in Table 2. Thus, these NGOs, in combination with the significant Chinese political parties, use their corresponding power to influence the formulation and implementation of the Malaysian government's policies towards China.

**Table 2. Major China-related NGOs in Malaysia**

Name of organization	Category
Chinese Students Association in Malaysia (CSAM)	Education
Persatuan Muafakat One Belt One Road (PBOBOR)	Business
Malaysia OBOR Development Chamber of Commerce (MODCG)	Business
China Entrepreneurs Association in Malaysia (PUCM)	Business
Malaysia-China Chamber of Commerce (MCCC)	Business
The Association Chinese Chamber of Commerce and Industry of Malaysia (ACCCIM)	Business

Source: Designed by author.

The Hirschman effect is based on two crucial variables, namely, the willingness of interest groups to influence political relations and the ability to influence foreign policy. The first is the interest group's willingness to influence political relations, which is influenced by the degree to which the economic and trade structure is linked to politics and the degree to which the economic and trade structure is irreplaceable to the interest group. China has been Malaysia's largest trading partner since 2010. The two countries have maintained close and deep ties in their economic and trade relations, forming a stable economic and trade structure. In 2020, for example, Malaysia's exports to China grew by 12.5% to reach RM158.6 billion (CIEE, 2021), and the leading trade structure between the two countries is

shown in Table 3. According to Table 3, Malaysia's exports to China are mainly electrical, fuel, machinery, palm oil, and rubber, among which palm oil and rubber are Malaysia's most important pillar industries. As the world's largest producer of palm oil and the third largest producer of natural rubber, palm oil and rubber play the most crucial role in promoting Malaysia-China trade relations. China is also one of Malaysia's largest importers of palm oil and rubber, and these two strategic products play a vital role in stabilizing economic relations with China. On the one hand, the outbreak of the Russian-Ukrainian war in 2022 has led to a spike in global energy prices, with many countries seeking to replace Russian oil with palm oil to reduce energy prices. Naturally, China has been affected by the Russian-Ukrainian war. Once it loses its imports of Malaysian palm oil, it will be challenging for China to find a replacement in a short period. In addition, China's population is so large that it cannot ignore the importance of Malaysian palm oil in the daily lives of its citizens (China Dialogue, 2022). On the other hand, with the global Covid-19 pandemic in 2020, China was the first to be affected by the epidemic. With the rising number of new cases in the country, there is a need to produce more public health products for use in the fight against the epidemic, and rubber is one of the essential raw materials for medical gloves. Therefore, the spread of the epidemic in China has increased the need and urgency for rubber imports. Therefore, Malaysia's dominant position in palm oil and rubber production and the domestic and international conditions dictate that China needs to stabilize and consolidate its economic relations with Malaysia. Similarly, for Malaysia's domestic rubber and palm oil producers, China imports a large amount of rubber and palm oil from Malaysia every year, accounting for 30-40% of Malaysia's foreign exports, and such a high proportion means that these interests cannot ignore the importance of the Chinese economy in Malaysia's foreign exports. The direct interests of these interest groups will also be undermined in the event of a corresponding impact on Malaysia-China economic relations. Thus, the trade structure between Malaysia and China, which is dominated by strategic products, indicates a low degree of substitution of Malaysian exports to China, a high degree of interdependence between the two countries, and a high degree of political relevance.

**Table 3 Malaysia's trade structure with China**

Country	Trading Partners	Types of products for export
Malaysia	China	Electrical and electronic products, metal products, palm oil and its products, rubber products, and paper and pulp
China	Malaysia	Electrical and electronic products, machinery, equipment and parts, and chemical and chemical products

Source: China Import and Export Fair (CIEF), 16th November, 2022, <https://www.ciie.org/zh/bqxwbd/20210201/25478.html>

**Table 4 Major exporters of palm oil from Malaysia**

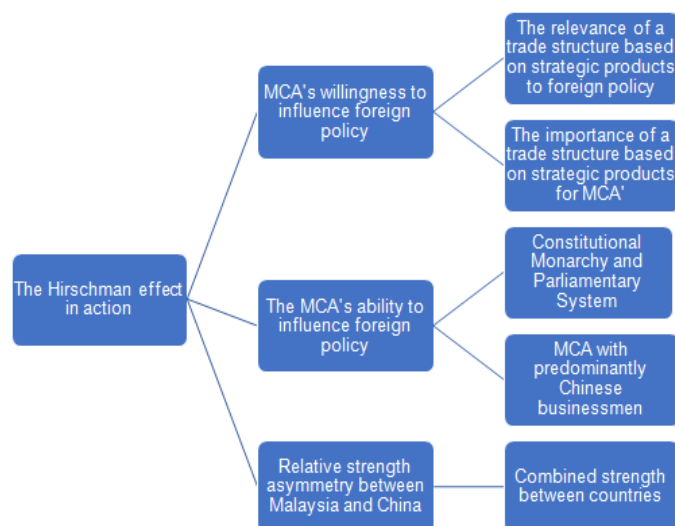
Country	2019	2020	2021	2022(1-10)
China	2,490,503	2,730,660	1,872,865	1,370,813
India	4,409,511	2,726,956	3,592,811	2,285,161
Netherlands	880,728	1,072,952	989,967	663,568
Pakistan	1,085,546	1,003,723	609,807	427,403
Philippines	629,086	693,026	579,752	563,269
Turkey	709,262	615,872	703,588	707,030
Kenya	193,340	520,758	672,715	625,371
Total	11,839,521	10,796,627	10,194,540	7,923,198

Source: Malaysian Palm Oil Council (MPOC), 16th November, 2022, Retrieved from <https://mpoc.org.my/monthly-palm-oil-trade-statistics-2022/>



At the same time, influenced by the corresponding trade structure, China's influence and position in Malaysia's foreign exports is unmatched by any other country for the influential interest groups within Malaysia, and the importance of China in Malaysia's interest groups cannot be overstated (Sinchew, 2022). Due to the combination of these factors, Malaysian domestic interest groups, including the MCA, have a strong desire to use their social resources to influence the government's economic decisions on China in order to consolidate and maintain their interests and to avoid the occurrence of certain events that would lead to political and diplomatic tensions between the two countries and thus threaten the stability of economic and trade relations. The stability of economic and trade relations is threatened by certain events leading to political and diplomatic tensions between the two countries.

The second important variable is the ability of interest groups to influence political and diplomatic relations, which is largely influenced by the domestic political system and the ability of interest groups to collaborate. In the case of Malaysia's political system, as a former British colony, it follows the British cabinet system and has a federal parliamentary system with a constitutional monarchy. Like many Western representative states, the actual power of the state rests with the Cabinet Prime Minister, who derives his primary authority from the MPs' support. As MPs are elected, different interest groups can use their social resources to mobilize or lobby voters to vote for them to gain a majority in Parliament and facilitate greater political power. In the case of the MCA, as a critical player in the development of Malaysia-China economic relations, the degree of the political power of the MCA will directly affect the Malaysian government's proximity to China. Historically, the changing political status of the MCA in Malaysia can be divided into three phases. During this period, the MCA was one of the largest political parties in Malaysia and a member of the ruling BN coalition. Overall, the MCA held many seats in Parliament and enjoyed greater power in Parliament and took active steps to promote the government's efforts to achieve more practical benefits for Chinese and Chinese businesspeople in Malaysia. The second phase was from 2008 to 2020, when the MCA lost more seats in Parliament, and its influence on national policy was greatly diminished until the Sheraton Move in 2020.



**Fig 3 Malaysia-China bilateral relations under the "Hirschman effect" mechanism**

The third phase was from 2020-2022, when the MCA decided to form the ruling party of the BN after the fourteen national elections. With the rise to power of Muhyiddin, the MCA reemerged as one of the country's ruling parties. During the political crisis, with its return to power, the MCA once again held a majority in Parliament. It used the power it held to further the fundamental interests of its own party. Apart from the amount of power the political system gives interest groups, the power of action of the interest groups themselves is also an extremely crucial factor. As the majority of the MCA's members are Malaysian Chinese business people, who have long enjoyed stable benefits from economic cooperation and interaction with China, and who themselves are a vital driving force in Malaysia's national economic development, with the return of the MCA to power during the political crisis, the MCA, with Chinese business people as its prominent members, was bound to take measures to restore and consolidate its economic relations with China, thus stabilizing its access to benefits. Under the influence of the two variables mentioned above, Malaysia adopted the principle of stability and pragmatism in its economic policy towards China throughout the political crisis, as the impact of the Covid-19 pandemic and the ongoing political instability in the country has left Malaysia's overall economic development lacking momentum, with unemployment rates rising and in a problematic economic development situation, when economic recovery and development with China is significant. On the one hand, economic cooperation with China could help Malaysia withstand the continued spread and impact of the Covid-19 pandemic, helping Malaysia to emerge from the quagmire of the epidemic and readjust and return to the regular track of the country's economic development.

On the other hand, it would also significantly revitalize its sagging economy by leveraging Chinese investment and trade to bring more real employment opportunities to Malaysia and boost the rapid economic development of both countries (Chin, 2021; Yeah *et al.*, 2019). Thus, despite their ongoing battles over domestic political legitimacy, the Muhyiddin and Ismail governments have placed great importance on the resumption of economic cooperation with China. With the MCA's help, Malaysia also needs to adopt an active and pragmatic economic policy towards China to consolidate its cooperative relationship with China. At the same time, with the entry into force of the Regional Comprehensive Partnership Agreement (RCEP) on 1 January 2022, Malaysia can also take full advantage of this transparent and open platform to develop its economic relations with China, which will not only bring substantial development opportunities and benefits to Malaysia's domestic interests (including the MCA) but will also help Malaysia to consolidate a stable trade structure with China and promote closer economic and trade relations between the two countries (Abadi, 2022).

According to the Hirschman effect, when a stable economic relationship between two countries brings benefits to the relevant interest groups, the interest groups become the spokesperson of the trading partner country in their own country and thus use the influence and resources of the interest groups to influence the government's policies towards the trading partner country. The economic relations between Malaysia and China during the political crisis have been developing positively. Ideally, the Hirschman effect mechanism would have led to a breakthrough in the political and diplomatic relations between the two countries. These

challenges and difficulties mainly manifest in the two countries' political frictions and territorial disputes. For example, when Malaysia accused Chinese military aircraft of entering Malaysian airspace on 2 June 2021, Malaysian Foreign Minister Hisham Mudin summoned the Chinese ambassador to Malaysia and accused the Chinese government of encroaching on Malaysian territory. Although the Chinese government always emphasized that its military aircraft complied with the principles of international law, such an explanation not only failed to satisfy the Malaysian side but also deepened Malaysia's political suspicion and distrust of China, leading to the resurgence of the long-shelved South China Sea issue (BBC, 2021). It shows that although the economic relations between Malaysia and China are relatively stable, the Hirschman effect has yet to be fully exploited because the interdependence of economic and trade relations alone cannot bring stability and harmony to the political and diplomatic relations between the two countries. One of the most fundamental elements of this is the relative strength of the two countries, which is influenced by their combined power. Unlike the US and China, Malaysia lags far behind China regarding economic power, population size, territorial area, and military power. It is, therefore, a tiny country compared to China. Based on the threat perception caused by the relative power asymmetry, small states are always suspicious and distrustful of the foreign policies or behaviors of large states in order to avoid being caught in the geopolitical conflict and competition between large states or being politically controlled by large states in order to safeguard better their national interests and security (Goh, 2005; Kuik *et al.*, 2021; Chin, 2021). Thus, relative power becomes the dominant factor affecting whether Malaysia and China can exert the Hirschman effect. In terms of Malaysia's foreign policy towards China during the political crisis, there were two new adjustments compared to its previous one. First, the traditional political attitude towards China has changed. Before the outbreak of the "Sheraton Move," Malaysia's political relations with China were developed through a pragmatic economic strategy that promoted the development of economic relations between the two countries to reduce political friction and stabilize political relations between them. Political relations are placed in a secondary position (Mark, 2019; Chow, 2019). In contrast, after 2018, along with the rise to power of PH and PN, there is a demand for more openness, fairness, and transparency in economic cooperation with China to meet the political expectations of the Malaysian state and to safeguard Malaysia's national interests and security. Therefore, national interests and security are more prominent. Secondly, other extra-territorial powers balance China's influence on Malaysia. With the deepening of economic and trade relations between the two countries, Chinese capital power has been pouring into Malaysia, and for some political elites in Malaysia, the power of Chinese capital poses specific threats and risks (Balding, 2018; Moser, 2018), especially in specific sensitive industries, and the political elites in the country are worried whether they will be monopolized and manipulated by Chinese capital in the future. Moreover, manipulation, and then asked the Malaysian government to take measures in this regard to maintain national security (Noor, 2019; Malhi, 2018). It is why the Ismail government decided to deepen its economic and political cooperation with the US to balance the Chinese economy's influence on it, as demonstrated by the Malaysian Prime Minister's participation in the US-sponsored 'US-ASEAN Special Summit' on 12 May 2022. On 23 May 2022, Biden announced the official launch of the Indo-Pacific

Economic Framework (IPEF) in Tokyo, and Malaysia and other ASEAN members decided to join. The various actions under Ismail's administration could indicate that Malaysia was actively participating in US strategies and actions and leveraging political cooperation with the US to achieve a corresponding dynamic balance (Kuik, 2022).

Thus, the development of bilateral relations between Malaysia and China during the political crisis shows that the ideal 'Hirschman effect' does not apply to all inter-state situations, and that another dominant factor in whether the 'Hirschman effect' can be fully exercised is based on the influence of combined power. In general, Malaysia's economic relations with China were relatively stable and positive during the political crisis, with both the PN under Muhyiddin and the BN under Ismail adopting a pragmatic economic policy towards China to consolidate and promote economic relations with China (Yeoh *et al.*, 2021). However, political and diplomatic relations between the two countries have yet to stabilize, along with the development of economic relations. Due to the relative power asymmetry, Malaysia has yet to be able to place complete trust in China politically. It has been suspicious and wary of China to avoid excessive closeness to China that would cause resentment among some of the domestic political elite. At the same time, in its external relations, it has taken steps to consolidate further its economic and political cooperation with the United States to promote a relative balance between the influence of the US and China on Malaysia. China has always maintained a peaceful and friendly foreign policy. It hopes to use its economic advantages to bring real development opportunities to developing countries such as Malaysia to achieve win-win cooperation, so China sees itself as a 100% trustworthy friend. For Malaysia, however, China and the United States are of similar status and weight in their diplomatic strategy. Malaysia welcomes practical cooperation with China and the need for extensive interaction with the United States. Due to the perceived differences between the two countries, such structured conflicts and contradictions are essential in the development of political and diplomatic relations between the two countries (Noor and Qistina, 2017).

## CONCLUSION

In this paper, the development of bilateral relations between Malaysia and China during the political crisis was used to test the mechanism by which the 'Hirschman effect' plays out in different types of inter-state relations. The findings show that the Hirschman effect in its ideal state does not explain the development of all inter-state relations. It is different in explaining the development of bilateral relations between large and small states. Relative power is the most crucial determinant in this regard. Based on the relative power gap between countries, economic cooperation between large and small countries can effectively help small countries to promote their economic development and provide the impetus for their long-term economic growth while at the same time creating relevant interest groups within the small countries, which the large countries can then make use of to gain the initiative and a head start in their political and diplomatic interactions with the small countries. The case of Malaysia-China relations, however, further demonstrates that the influence of interest groups within a small state concerning trade with a large state is limited and does not fully determine the foreign policy of the small state towards the large state but only has a certain degree of influence. Based on the differences in perceptions and



relative power gaps, small states are more cautious and conservative in their political and diplomatic relations with major powers to avoid being caught up in disputes and conflicts between major powers' geopolitical rivalries, thereby jeopardizing their interests and security.

The development of bilateral relations between Malaysia and China during the political crisis also shows that despite the ongoing political crisis and the political instability in the country, Malaysia still adheres to the principles of small state pragmatism and neutrality, adopts a proactive and pragmatic economic policy towards China to consolidate its economic cooperation with China, and makes use of multilateral platforms such as the RCEP to expand cooperation and exchanges with China. At the same time, there are inevitable political and diplomatic frictions and challenges between Malaysia and China. However, these cannot fundamentally shake the solid foundation of friendship and cooperation between the two countries. On the one hand, Malaysia has adopted a pragmatic approach to economic cooperation to reduce friction in developing political and diplomatic relations between the two countries and has used economic cooperation as a cornerstone to stabilize political and diplomatic relations between the two countries. On the other hand, Malaysia is also striving to develop a multi-dimensional relationship and to participate in various cooperation mechanisms and platforms under the auspices of the US in order to achieve a dynamic balance between the US and China in Malaysia and Southeast Asia, thereby avoiding geopolitical confrontations and conflicts involving the US and China, and better safeguarding the national security and interests of the small state.

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