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Analysis of the US-CHINA Trade War: China'S Diversion from the US towards Malaysia

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Abstract

Malaysia has been a key trading partner with the US and China since its independence. However, the US's imposition of safeguard tariffs has triggered a trade conflict with China, indirectly impacting Malaysia's supply chains and global pricing. This paper aims to explore the implications of the US-China trade war on Malaysia, focusing on the resulting international trade tensions among the involved countries. Using a doctrinal-qualitative approach, the trade policies of these three nations are analysed. With China's investment in Malaysia growing under the Belt and Road Initiative (BRI), the potential for investment diversion from China is high. However, Malaysia faces strong competition from ASEAN countries for this investment relocation, necessitating proactive economic development measures. This paper suggests that Malaysia needs to anticipate the future of multilateral trade with the US and China to effectively navigate these challenges. By addressing these issues, Malaysia can better position itself in the evolving global trade landscape.

Keywords: US-China Trade Wars, Malaysia, Safeguards Tariffs, Diversion, FDI.

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1. Introduction

The United States and Malaysia have established diplomatic relations since 1957, which happened not long after Malaysia gained its independence from the United Kingdom as stated in the U.S. Indo-Pacific Command's official website. Both countries also actively participated inside the same international organisations, such as the United Nations, Asia-Pacific Economic Cooperation forum, ASEAN Regional Forum, International Monetary Fund, World Bank, and World Trade Organization. In April 2014, they upgraded their relationship from bilateral relationship to a comprehensive partnership, which then successfully made many records of achievement as the trading partner. It is referring to some agreements stipulated under the Trade and Investment Framework Agreement (TIFA), World Trade Organization, ASEAN, and Asia-Pacific Economic Cooperation (APEC) forum.

Trade and Investment Framework Agreement (TIFA) is an agreement which is made by the governments of both countries and is only binding between the United States and Malaysia. The main points of the agreement reaffirm and give full support for the membership of the United States of America and Malaysia in the World Trade Organization. This agreement also recognises the contribution of the Memorandum of Understanding (MoU) written and legalised by the Government of the United States of America and the Governments of the Association of Southeast Asian Nations (ASEAN) member countries, where Malaysia is included. The MoU was made to enhance trade and investment flows between the United States of America and the ASEAN countries.

On the other condition, the United States and Malaysia are also bound in the Asia-Pacific Economic Cooperation (APEC) forum. Referring to Asia-Pacific Economic Cooperation's official website, APEC is defined as a regional economic forum established in 1989 which is intended to take advantage of the Asia-Pacific region's growing interdependence. The relationship arose as APEC is also the premier platform for the United States to involve Malaysia's regional partners in the field of trade and investment-related concerns in the Asia-Pacific region. According to the official portal of Immigration Department of Malaysia, Ministry of Home Affairs, APEC Business Travel Card is one of the APEC real programs which aims to support entrepreneurs who regularly conduct business with APEC nations. In the United States, APEC Card facilitates a Premier Lane

in order to make a faster and smoother movement for the business activity. Meanwhile, Malaysia can leverage the APEC Card in replacing VISA (Visitors International Stay Admission), so the businessman is allowed to visit a country which requires a VISA without necessary to make a VISA.

Increasing market access through the economic relationship will be an important step to increase economic growth. One of the most significant benefits of bilateral trade is economic growth by increasing market access, reducing costs, encouraging investment, and promoting regulatory cooperation. These advantages will help to create a more vibrant and dynamic economic environment. Nowadays, Malaysia and China have 35 years of trade relationship after establishing diplomatic relations in 1974 (Abdullah,2015). As long as the relations between these two countries have progressed substantially 35 years from 1974, these two countries are enjoying the excellent relations that have been established. Moreover, China has become an important Malaysia trading partner for now and for the foreseeable future. By this, Ouyang Yujing, China's ambassador to Malaysia said, "China and Malaysia witnessed frequent and close high-level exchanges in the year 2022" (Bernama,2023). Therefore, the relationship between China and Malaysia in the trade aspect gives some benefits for both countries.

The bilateral trade relationship between Malaysia and China has had significant growth after the Asian financial crisis of 1997. China's willingness to assist the weak ASEAN economy during the crisis despite its growing status impressed most ASEAN leaders. Due to this moment, ASEAN countries changed their perception of the "China threat theory" and facilitated greater economic integration between ASEAN countries and China (Lee Boon Fong,2011). Moreover, China and ASEAN Countries signed the Framework Agreement on Comprehensive Economic Cooperation which formed the legal basis for the creation of the ASEAN-China Free Trade Area (ACFTA) (Invest in ASEAN,2024). As the impact of the formation of AFCTA. Some benefits can be taken from the agreement like reducing trade barriers that will enable the expansion of trade between Malaysia ASEAN countries and China which can be realised through trade creation and trade diversion effects. Reducing trade barriers with comprehensive economic and technological cooperation will help improve production capabilities and efficiency. Also, this will increase real incomes in Malaysia (Yeoh and et al,2007).

Other trade relationships will give some opportunities to grow in the aspect of the economy such as the Belt and Road Initiative (BRI), Malaysia is one of the countries that supports and actively participates in the BRI initiated by China, and some investment bilateral relationships between Malaysia and China that have been continued for recent years. These agreements reflect the commitment of both countries to enhance economic and trade relations while utilising each other's potential across various sectors. ACFTA has increased trade volumes and diversified Malaysia's export markets. Participation in China's Belt and Road Initiative has strengthened infrastructural connectivity. Bilateral investment agreements boost investor confidence, encouraging capital flows. Therefore, these agreements highlight a strategic partnership to strengthen economic prosperity and sustainable development for both nations.

The trade tensions between the United States and China have been well-documented over recent years. For an extended period of time, China has maintained a positive trade balance with the US by importing considerably more goods, negatively impacting domestic job markets. Furthermore, some US firms have raised valid concerns regarding alleged intellectual property theft perpetrated by Chinese counter-parties. Understandably, such actions eroded trust between the two economic superpowers and scepticism grew regarding fair competitive practices (Kapustina and et al,2020).

As animosity increased, both nations instituted tariffs on greater volumes of imports. Data from the World Trade Organization (WTO) illustrates how these protectionist measures escalated drastically, encompassing a wide array of industries from automobiles to toys (Park,2023). Instantly, factories within the US and China had to scale back production schedules lacking affordable foreign inputs. Complex global supply networks interconnecting numerous sectors worldwide, such as electronics and agriculture, experienced impediments attributable to rising trade costs. Shipments between the adversarial economic powers also declined precipitously as goods became relatively more expensive to transport across borders.

2. **Methodology**

This methodology of this paper is based on doctrinal legal research which employs a qualitative approach (Musni and et al,2023; Althabhawi and et al, 2023; Md Khalid,2023) that is subject to international trade law. Doctrinal research uses the secondary materials which touch legal aspects databases

and conduct legal analysis of collected data (Althabhawi,2022; Romainoor and et al,2023). The qualitative method was considered suitable for this kind of study (Kashef Al-Ghetaa and et al,2023). As a result, this paper tracked down secondary sources from journal and online databases (Kamaruddin and et al,2023; Izarudin Shah,2023). Therefore, this study employs content data analysis that functions efficiently in studying trade policies between different States, particularly in the three countries of the US, China and Malaysia. Overall, this study provides a comprehensive analysis related to the topic through research methodology and careful data analysis (Kashef Al-Ghetaa and et al,2023).

3. Implication of US-China Trade War on Malaysia

3-1.Safeguard Tariffs Imposed by the US to China and Its Impact

Safeguard tariffs, also known as energy price cap, started by Ofgem to prevent excessive energy costs especially for households who are vulnerable in their energy bills (Brown,2018). On 23 January 2018, the United States Trade Representative (USTR) announced that the President had approved recommendations to provide relief to US manufacturers by imposing safeguard tariffs on imported solar cells and modules based on the independent, bipartisan United States International Trade Commission (USITC)'s investigations and recommendation. This imposition of initial safeguard measures were set to last for four years according to Section 201 of Tariffs on Imported Crystalline Silicon Solar Panels and Solar Cells under Solar Energy Industries Association (SEIA). The relief included a tariff of 30% in the first year, followed by 25% in the second year, 20% in the third year, and 15% in the fourth year (United States Trade Representative,2024).

Four years passed, on 4 February 2022, the US President announced an extension and modification of these existing safeguard tariffs by adding up four more years to the original tariff period. Modification was made whereby bifacial solar panels were exempted from these tariffs (Fischer, 2022). The consecutives years of solar safeguard tariffs raised the cost of importing foreign supplies, but in terms of expanding internal and domestic Crystalline Silicon Photovoltaic (CSPV) cells and modules, there is a significant positive industry adjustment based on USITC. The restart of domestic CSPV cells and modules manufacturing is to recover the loss from 2020 until 2022, and yet domestic solar manufacturing panel makers are still confronting multiple challenges (Dlouhy,2024).

The impact of the imposition of US safeguard tariffs remains a subject of ongoing debate and scrutiny as it affects its own trading partners in Europe and Asia. China is one of the affected countries, whereby the tariff had limited the import of US solar panels from China. Despite tariffs, most of the raw materials for solar cells and modules continued to come from China. While the tariffs had limited direct impact on China CSPV manufacturers, the US had disrupted the new energy trading order and global climate change efforts. The evading of China from the US made China shift its solar modules production to somewhere else meanwhile to maintain its capacity (Feldman,2022).

Due to the constraint, in July 2019, China issued a dispute to allege that the US safeguard tariffs were inconsistent with various obligations under the General Agreement on Tariffs and Trade 1994 and the WTO Agreement on Safeguards. In result, the WTO dispute settlement panel rejected all of China's claims. The panel found that the safeguard imposed a tariff-rate quota on cell imports and a tariff on modules, was appropriate in aiming to protect the domestic solar industry and adjust the competition primarily attributed by China manufacturers and all around the world (United States Trade Representative,2021). However, in a more recent landmark decision on 16 February 2022, a US-Mexico-Canada Agreement (USMCA) dispute settlement panel ruled that the safeguard tariff imposed by the United States on solar modules from Canada violates USMCA rules (Lovells,2022).

In parallel with the policymaking of solar safeguard tariffs, the US increased nearly 50% of its imports from China on 15 June 2018, approximately $50 billion worth of China goods. The US targeted China's aerospace, robotics, manufacturing and auto industries. Immediately, China responded with tariff retaliation of more than 70% of its imports from the US, including agricultural products, automobiles and seafood (Thompson,2018). These tariffs imposed increased tensions of trade between the US and China. The US administration's decision to increase safeguard tariffs on imports from China has impacted both countries on economic interests and national security, for example, electric vehicles (EVs) and its batteries.

The main purpose of imposing these tariffs is to protect US competitiveness in their automotive industry, at the same time to shift from traditional Internal Combustion Engine (ICE) petrol cars to EVs. The high demand of this environment-friendly type of vehicle poses obstacles for the US to foster its global competitiveness with China. China with its current

domination of the global EV market, will likely continue outcompeting the US. In fact, tariffs on batteries and critical minerals for EV will rise from 0-7.5% to 25% (Moerenhout and et al,2024). While this increase would not substantially undermine China's competitive edge due to its innovation, it definitely will raise costs for the US for energy transition. Therefore, the US faces choices whether to prioritise diversification from China and onshore industrial capacity or to support EV producers to be globally competitive.

A question raised is "what is the effect on Malaysia's trade regarding safeguard tariffs imposed by the US particularly to China?" The Malaysia Semiconductor Industry Association president Datuk Seri Wong Siew Hai answered that Malaysia had benefited from it (Leong,2024). The targeting sectors of tariffs are the electric vehicles (EVs), batteries, semiconductors, solar panels and cells, medical products and critical minerals such as steel and aluminium. Malaysia, which stands as a stronghold of the semiconductor industry's country, receives the business diversion when China opens the opportunities for Southeast Asian companies. It was out of expectation that higher foreign direct investment (FDI) flows into Malaysia for relocation and supply chain divergence because China suppliers that initially served for US multinational corporations shift the projects to outsource their sub-segment semiconductor to Malaysia-based companies. In short, the safeguard tariffs between the US and China unexpectedly bring on positive development and longer FDI flows for Malaysia's entire supply chain.

Notwithstanding the tension between the US and China, the implementation of safeguard tariffs by the US indeed affected solar components imported from Southeast Asia countries as well, including Malaysia. However, these tariffs were paused from 2022, making it not as serious as China, but are set to resume in June 2024. If resumed, these tariffs would apply to components from China that are found to have been dumped in Southeast Asian nations, including Malaysia, Vietnam, Thailand, and Cambodia for import to the US. These tariff rates could range from 50% to 250% of the cost of shipped goods. With nearly 80% of US solar modules imported from Southeast Asia, trade measures could threaten supply. In summary, the safeguard tariffs influence Malaysia's solar exports to the US by affecting supply chains and pricing dynamics.

3-2.Investment Diversion and the Belt and Road Initiative

China's investment landscape has undergone a significant shift in recent years, characterised by a growing focus on outbound investments through initiatives like the Belt and Road Initiative (BRI). While this presents potential opportunities for developing nations like Malaysia, it also raises concerns about investment diversion from traditional sectors and the potential over-reliance on Chinese capital. The BRI, launched in 2013, is a sprawling network of infrastructure projects aimed at enhancing connectivity and cooperation between China and countries across Asia, Europe, and Africa. Its scope encompasses a wide range of sectors, including energy, transportation, and telecommunications, which are considered as a global infrastructure vision. For Malaysia, the BRI offers a potential avenue for attracting much-needed foreign direct investment (FDI) to boost economic growth and infrastructure development. However, this influx of Chinese investment comes with potential pitfalls.

The Belt and Road Initiative (BRI) presents a complex array of opportunities and challenges for Malaysia, with the potential for both significant economic growth and increased vulnerabilities. One of the primary concerns is the potential for investment diversion. While BRI projects promise large-scale infrastructure development, they may also divert resources away from traditional sectors that have historically been the backbone of the Malaysian economy, such as manufacturing. This could hinder Malaysia's efforts to diversify its economy and create a more sustainable growth model. Furthermore, the influx of Chinese state-owned enterprises participating in BRI projects could potentially crowd out local businesses, limiting their access to resources and opportunities.

The sustainability of Malaysia's debt is another pressing concern. BRI projects, often financed through loans from Chinese institutions, can lead to a rapid accumulation of debt. This is particularly worrisome given the large-scale and capital-intensive nature of many BRI projects in Malaysia, such as the East Coast Rail Link (ECRL). The ECRL, initially estimated to cost RM65.5 billion (US$16 billion), has already been renegotiated multiple times due to concerns over its financial viability and potential impact on Malaysia's debt burden. This highlights the need for careful evaluation and stringent financial management to ensure that BRI projects do not undermine Malaysia's long-term economic stability.

Moreover, as Malaysia deepens its economic ties with China through the BRI, there is a risk of over-reliance on China. This could make Malaysia vulnerable to fluctuations in the Chinese economy and policy decisions, potentially compromising its economic autonomy and bargaining power in bilateral negotiations. The cancellation or delay of BRI projects in other countries due to political or economic factors underscores this risk. However, it is important to acknowledge the potential opportunities that the BRI offers Malaysia. Increased investment in infrastructure can improve connectivity, reduce logistical costs, and boost trade. This could create new economic opportunities and contribute to overall economic growth. Furthermore, BRI projects have the potential to create jobs, stimulate domestic demand, and enhance technological capabilities through knowledge transfer and collaboration with Chinese firms.

To navigate this complex landscape, Malaysia needs to adopt a strategic approach. This involves carefully evaluating the potential benefits and risks of each BRI project, prioritising projects that align with national development goals, and ensuring that financing terms are sustainable. Additionally, diversifying investment sources and strengthening economic ties with other countries can help mitigate the risk of over-reliance on China. It is also crucial to ensure transparency and accountability in BRI projects to safeguard against corruption and environmental degradation. The BRI presents both opportunities and challenges for Malaysia. By adopting a prudent and strategic approach, Malaysia can harness the potential benefits of the BRI while mitigating its risks, ultimately achieving a more prosperous and sustainable future. However, this requires careful planning, effective governance, and a commitment to balancing economic growth with social and environmental concerns.

The BRI's impact on specific sectors of the Malaysian economy is multifaceted. In the automobile industry, the BRI could open up new export markets in BRI participating countries, potentially boosting the Malaysian automotive industry. However, Malaysian automakers may also face increased competition from Chinese counterparts, especially as Chinese car manufacturers seek to expand their global footprint. This could pressure Malaysian automakers to innovate and improve efficiency to remain competitive (Jun and et al,2024). In the agricultural sector, the BRI presents both opportunities and risks. On one hand, it could create new avenues for agricultural exports, especially for palm oil, a major Malaysian export.

Increased demand from BRI countries could boost palm oil prices and benefit Malaysian palm oil producers. On the other hand, concerns over food security and land acquisition by Chinese companies need to be addressed to ensure the long-term sustainability of the agricultural sector. Striking a balance between economic gains and environmental and social concerns is crucial .

Beyond automobiles and agriculture, the BRI could also impact other sectors of the Malaysian economy. For instance, the construction industry could benefit from increased demand for infrastructure projects, while the tourism sector could see an influx of Chinese tourists. However, these sectors may also face challenges such as increased competition and the need to adapt to Chinese preferences and standards. Overall, the BRI's impact on the Malaysian economy is complex and varies across different sectors. While the BRI presents potential opportunities for growth and development, it also poses challenges that need to be carefully managed (Dar and Seng, 2022). A nuanced understanding of these trade implications is crucial for Malaysia to maximise the benefits of the BRI while minimising its risks.

Since its inception in 2013, China's Belt and Road Initiative (BRI) has undergone significant evolution, transitioning from a focus on large-scale infrastructure projects to smaller, more sustainable initiatives with quicker returns. This strategic shift is largely a response to China's economic slowdown and the repercussions of the COVID-19 pandemic. Despite these challenges, China's investment in the BRI remains robust, with a cumulative overseas investment of US$235 billion from 2007 to 2023. In Malaysia, the BRI's implementation has been a topic of considerable discussion and debate. Initially, under the Najib Razak administration, the emphasis was on large-scale projects like the East Coast Rail Link (ECRL). However, the change in government in 2018 led to a reassessment of these projects by Prime Minister Mahathir Mohamad, who expressed concerns regarding their financial viability and potential impact on Malaysia's sovereignty. Under Anwar Ibrahim's administration, there have been further improvements, focusing on enhancing transparency and ensuring equitable benefit distribution. Despite these concerns, Malaysia and China have continued to collaborate under the BRI framework, focusing on mutual benefits and addressing challenges related to financial sustainability, technology transfer, and local job creation.

To navigate these challenges, Malaysia needs to adopt a prudent and strategic approach to its engagement with the BRI. This includes diversifying FDI sources. While Chinese investment is important, Malaysia should not solely rely on it. Malaysia can mitigate the risks associated with over-reliance on a single source by attracting investments from other countries. Next, to prioritise debt sustainability. It could be done by a careful evaluation of the financial viability of BRI projects, so as to avoid excessive debt accumulation. Another approach is to protect domestic industries. A variety of measures are implemented to support and protect domestic industries, particularly those in traditional sectors as it could help to prevent them from being marginalised by the influx of Chinese investments. The last crucial step is to enhance transparency and accountability in BRI projects, as holding all stakeholders accountable can mitigate potential negative impacts on the environment and local communities. By taking these steps, Malaysia can leverage the opportunities offered by the BRI while mitigating its potential risks, ultimately achieving a more prosperous and sustainable future.

3-3.Current Position of Malaysia

The trade war between China and the United States has an impact on these two countries and others because these two countries are the strongest economic countries in the world. Regarding the trade war, the current position of Malaysia refers to a stance, actions, and strategic decisions in response to the ongoing economic conflict between these two major global economies. It could be how Malaysia navigates the trade policies, economic relationships, and diplomatic interactions between China and the US. Due to the trade war, businesses are considering relocating their investments because of the imposition of tariffs and other trade barriers by both the US and China because it increases the cost of goods to be exported from one country to the other. For that reason, companies might relocate their production facilities to other countries that have no impact on the tariffs imposed. For instance, Malaysia could be the best choice for companies to relocate their production facilities.

As per the prior condition, Malaysia has enhanced its investment by improving infrastructure, offering tax incentives, and simplifying regulatory procedures. These actions have been taken by Malaysia with some benefits to attract businesses to relocate their investment to this country. Lim Guan Eng, the Finance Minister of Malaysia in the year 2018 said the Malaysian

Investment Development Authority (MIDA) showed that the foreign direct investment (FDI) in Malaysia across all sectors increased 73.4% year-on-year to RM29.3 billion in the first quarter of the year from RM16.9 billion a year ago (Kaur,2024). Therefore, some policies that have been taken by Malaysia towards the impact of a trade war between China and the US result in a benefit to Malaysia itself. On the other hand, maintaining the economic relations between countries is very important during or after the trade war between the two strongest countries in the economic aspect.

In this case, Malaysia keeps maintaining economic relations with China by implementing some agreements and promoting or supporting projects under China's BRI. The Regional Comprehensive Economic Partnership (RCEP) which is a regional multilateral free trade agreement between ten ASEAN members and other countries like China, South Korea, and New Zealand (Chong,2021). By this, RCEP can be an answer to maintaining the economic relations between Malaysia and China. Also, another strategy that has been taken by Malaysia is to keep supporting the BRI projects which can enhance connectivity and infrastructure in Malaysia but also strengthen economic and trade links with China.

The economic relationship between Malaysia and the United States has been realised with some actions taken by both countries. First, they implemented trade and investment diversion in order to prevent the disruption from China that is caused after the US-China trade war. Unfortunately, Malaysia has not really benefited from the trade war, and its exports to the US have actually declined. The same condition also happens in the investment diversion, where the evidence is limited. Even though the diversification projects in the manufacturing of machinery, equipment, electrical and electronic components in 2018 has experienced an increase, the official Foreign Direct Investment (FDI) substantiates that the provided evidence of investment diversion is not what the policymakers were asking for. Foreign Direct Investment growth in the manufacturing sector has decreased, despite headline FDI growth advancing (Cheng,2019).

Due to its status as the world's leading manufacturer of semiconductor assembly, Malaysia has benefited greatly from the US-China trade war (Saeed,2023). According to the Malaysian Department Development Authority's official website, because of the proximity of Malaysia to China and lack of geopolitical hazards, Penang has become a centre for operations in Malaysia, which has become a popular location for the semiconductor

sector worldwide. The semiconductor industry shift has substantially boosted foreign direct investment in the nation, especially in the semiconductor industry. In developing and maintaining the trade relation of both countries, Malaysia has been diligently promoting itself as a credible and unbiased substitute for businesses seeking to broaden their supply chains. It includes the investment on higher-value tasks like the integrated circuit design and wafer fabrication, which are essential steps in the manufacturing of semiconductors.

4. Analysis

4-1. Malaysia Strategic Imperatives in Navigating US-China Competition

Malaysia, located within the dynamic geopolitical landscape of Southeast Asia, faces the intricate challenge of balancing its relations with the United States and China. As these superpowers engage in strategic rivalry, Malaysia must chart a course that safeguards its interests, promotes regional stability, and maximises economic opportunities. This part of analysis will examine Malaysia's strategies for overcoming competition and maintaining agency in the face of major power dynamics.

In light of Malaysia's bilateral trade relationship with both US and China, the best approach of Malaysia to US-China trade war should centre on the concept of 'equidistant diplomacy'. This concept does not imply equal distance from both powers but rather an impartial, neutral stance while cultivating pragmatic relations with all parties. By actively maintaining this balance, Malaysia could avoid being coerced into choosing sides and preserving its autonomy. Malaysia's neutral stand ensures economic resilience, regional stability at the same time could strengthen ASEAN unity. The centrality of ASEAN unity must be maintained not only to foster the cohesion within the blocks, but also to avoid overreliance on any single power that could risk vulnerability without alienating either side.

Eventhough US-China competition changed the economic pattern of both countries, in fact Malaysia has benefited from it. Multinational firms relocating outside China due to the trade war and hence China have found a hospitable environment including Malaysia. However, the policymakers recognize that these short-term gains must align with long-term national interests. Therefore, Malaysia should continue to attract investment from both powers while diversifying its economic partnerships. To make things clearer, China has been Malaysia's top trading partner for 15 consecutive years. This robust economic relationship offers growth in dialogue and

investment as well as access to China markets (Sipalan,2024). Hence, according to current prospects, Malaysia will continue to attract investment from both countries while trying to diversify its economic partnership amidst the rivalry of US-China.

As Malaysia prepares for chairing ASEAN in the upcoming year of 2025, it aims to amplify unity and prosperity within the blocs through ASEAN Regional Forum and the East Asia Summit, at the same time to drive collective efforts in enhancing its economic stability. This aligns with the core value principle of 'Malaysia Madani' that emphasises civil inclusivity, interconnectivity and respectful engagement by demonstrating open dialogue with Southeast Asian countries (The Star Online,2024). However, this prospect faces challenges for Malaysia and other ASEAN countries such as Brunei, Philippines and Vietnam related to Myanmar's civil war and territorial disputes within the South China Sea.

The South China Sea dispute creates global tension on international security, in which more than 3,750 civilians have been killed by Myanmar security forces due to military takeover. Significantly, the European Union (EU) directly participated in this dispute, by imposing order upon Myanmar's military that Myanmar will be excluded from the role of coordinating ASEAN's engagement with EU if the violences continues to occur (CNA,2023). In the midst of seeking peaceful resolution, Malaysia upholds ASEAN's principle by trying to advocate active neutrality and regional stability, because to balance the multilateral relationship of Malaysia with the US and China, the prevention of external conflicts must be taken as ASEAN's collective resilience.

In short, the Malaysian government must plan to use various international platforms to mitigate the impact of the US-China trade war. A harsh reality is that the trade may not be diverted to Malaysia alone, as there are also competing producers from the region particularly among Southeast Asian countries. In 2019, Malaysia's GDP growth around 0.43% however exports remained in surplus except the short dip due to Covid-19 shocks. The trade balance of Malaysia between the US and China was different as Malaysia had a trade deficit with China while enjoying trade surpluses with the US (Yi,2023). Since Malaysia wishes to have high quality FDI, the way to achieve this aim while competing with regional countries such as Singapore, Thailand and Vietnam is that Malaysia must be willing to transfer technologies as motivation stemming from financial cost. However, this

relocation process significantly limited the absorptive capacity of workers. Unfortunately, there is nothing much that Malaysia can do alone to alter the conflict of the US-China trade war, but Malaysia can improve the competitiveness and internal resiliency by promoting local industries.

4-2. Prospecting the Future of Trade Relations between Malaysia, US and China

While the global economic landscape evolves, Malaysia finds itself in the middle of the crossroads of the US-China trade war. This intricate tangle between superpowers shapes Malaysia's trade relations, strategic positioning and economic developments (Cheng,2021). Considering the historical ties and current challenges in socio-political economies, the future trade system is explored to revise the possible dynamics between Malaysia and these two countries. The intertwining of China's Belt and Road Initiative (BRI) that imposes multiples of infrastructure projects across Malaysia has substantially rooted for both nation's future economic ties. Meanwhile, the US still remains its crucial market for Malaysia's exports in manufactured goods, palm oil and electronics. These historical ties could not be neglected as it shapes current and long term economic interdependence of all.

Malaysia's trade with China has been formed by its deepening diplomatic ties, thus leading China-Malaysia to be the largest trading partner. The tie deepens as China has typically been considered relatively more resourceful-seeking than other countries for their motivations of outward FDI activities (Lee and et al,2023). The significant investments occur in various sectors that cross manufacturing, technology, and infrastructure. The BRI initiative further cemented this relationship and provided Malaysia with opportunities for economic growth and development. However, this dependence also comes with vulnerabilities, particularly in the context of geopolitical tensions and economic coercion. As a result, Malaysia will need to diversify its economic partnerships and enhance its domestic industries to mitigate any potential risks arising from over-reliance on Chinese investments.

Meanwhile, the US will remain an important trading partner for Malaysia, in terms of technology, defence, and education. The US-Malaysia trade relationship is underpinned by a shared commitment to free trade and open markets. The US companies have a strong presence in Malaysia, contributing to the country's technological advancement and employment. Moreover, the strategic military cooperation between Malaysia and the US

provides a counterbalance to China's growing influence in the region. In fact, the US-China trade war unintendedly brings on positive influence for Malaysia, whereas China's semiconductor companies diversified away from China itself to foreign countries due to tariffs and restrictions by the US. Malaysia was one of the beneficiaries that battled up with these chain disruptions (Zhen,2024).

Moving forward, Malaysia is likely to seek a nuanced approach that leverages its relationship with the U.S. to gain technological and strategic advantages while maintaining its economic ties with China. Malaysia's trade relations often hinge on pragmatism, thus for future prospects, it must seek balance between the economic interests, security concerns, and regional stability. While China's economic allure remains strong, Malaysia also values its strategic partnership with the US. By maintaining an active role in shaping regional affairs, Malaysia can secure its sovereignty, maximise economic gains, and contribute to a stable and prosperous Southeast Asia. To sum up, Malaysia's trade relations with the US and China are multifaceted, requiring agile diplomacy, economic diversification and a commitment to regional cooperation especially ASEAN. As the geopolitical landscape shifts, Malaysia's agency lies in charting a pragmatic course that serves its national interests while contributing to regional stability and prosperity.

5. Conclusion

The safeguard tariff was initially imposed to provide relief to US local manufacturers, but it benefited Malaysia when the affected country, especially China, diversified its solar's industry from US to Southeast Asian. Nevertheless, since the US tariffs will be resumed towards Southeast Asian countries in June 2024, it seems that the end of the bridge period will no longer bring advantages to Malaysia. Indeed, it threatens the exportation of solar supply from Malaysia to the US. Meanwhile, the evolution of China's Belt and Road Initiative (BRI) in Southeast Asia epitomises a sophisticated interplay of economic and geopolitical dynamics. The continued collaboration between China and Southeast Asian nations, such as Malaysia, underscores the BRI's potential to promote mutual prosperity and shared growth. However, it is imperative for both China and its partner countries to navigate the complexities of the BRI with transparency,

inclusivity, and a steadfast commitment to sustainable development to fully realise its prospective benefits.

The US-China trade war has encouraged some companies to consider relocating production to Malaysia, which is unaffected by tariffs and offers a favourable business climate and strategic location for diversifying supply chains. In maintaining the economic relations with China, Malaysia has been implementing some agreements such as Regional Comprehensive Economic Partnership (RCEP) and supporting projects under China's BRI. On the other side, the economic relationship between Malaysia and the US has attempted to be maintained by applying the trade and investment diversion, semiconductor industry shift, and supply chain diversification. As an intermediate between China and US, Malaysia stands in equidistant diplomacy of US-China trade war as it aligns with ASEAN core value to boost economic growth within the blocs. In the near future, Malaysia would still remain in trade partnership with both China and the US regardless of tariffs. However, the maritime dispute in the South China Sea creates concern for Malaysia to be at a cautious position for ASEAN regional security and peace.

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