



POLICY BRIEF

China's Dual Circulation Strategy: Implications and opportunities for Malaysia

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Executive summary

China's new development paradigm, dubbed the "Dual Circulation Strategy", will impact on the direction of Belt and Road Initiative (BRI) projects. Shifting away from infrastructure projects, the BRI will be reoriented towards three key areas of public health, digital transformation and green development. As a result, Malaysia stands to lose 6.5% of GDP in the medium term. Malaysia should seize this opportunity to adapt to these changes and attract Chinese investments that will upgrade its industries. This policy brief recommends that Malaysia and China establish a disease research centre, launch innovation programmes, and collaborate on climate financing and green technology sharing.

Introduction

In May 2020, President Xi Jinping unveiled the "Dual Circulation Strategy" (DCS).¹ It entails two economic circulations – internal and external – reinforcing each other in a complementary way and prioritises the domestic as the main growth driver of China's economy. This marks a shift in China's economic paradigm, which previously emphasised export-led growth.

Framed by the 14th Five-Year Plan, the DCS aims to enhance China's self-sufficiency and reduce vulnerability to external shocks.² The DCS represents a qualitative change and aims to transform China from the "world's factory" to a first-class technological hub. Through this change, three new economic priorities emerged – resilience

in supply chains, technological innovation and industrial upgrade.³ These priorities will help realise the "Made in China 2025" vision of being a high-tech manufacturing economy.

In prioritising internal circulation, China's foreign economic relations are expected to change. It will pursue new directions through a more strategic approach. The BRI is expected to remain instrumental to China's foreign policy as it embodies its foreign economic activities. However, through the DCS, the BRI will be subsumed under the three new economic priorities.

The Belt and Road Initiative reframed

The BRI describes China's overseas investments and infrastructure programmes. Previously, the BRI was promoted as bridging connectivity through infrastructure building and economic integration. Through the DCS, the BRI will now be reoriented towards three key areas – public health, digital transformation and green development.⁴

Context for Malaysia

In 2020, China was Malaysia's third largest source of foreign direct investment at RM2.6 billion.⁵ The potential impact of the DCS on the Malaysian economy cannot be understated. According to risk consulting firm Euler Hermes, Malaysia stands to lose 6.5% of GDP in the medium term because of the reorientation of the BRI.⁶ The BRI's shift away from hard connectivity will lead to Chinese investors seeking new avenues, such as public health and digital economy.

Malaysia is on track in realigning with the new BRI directions. Malaysian companies are collaborating with the Chinese on various digital spheres, such as the Huawei-Maxis 5G partnership as well as Alibaba and Tencent investments into e-commerce sites Shopee and Lazada respectively. In public health, Malaysia is also a priority recipient in China's vaccine diplomacy and has received 500,000 doses of Sinovac vaccines as a donation. However, more can and should be explored of the BRI's new scope.

As the revisions in China will open new opportunities, economies in the region will likely strive for closer cooperation with Beijing.⁷ Similarly, Beijing's keen attention to the pandemic-ravaged economies in Southeast Asia, as demonstrated by its active vaccine diplomacy, highlights its desire for strong relations with the region. In the context of the disruptions brought by Covid-19, the Health and Digital Silk Roads offer promising solutions.⁸ In the face of increased competition, Malaysia cannot risk falling behind its neighbours in advancing its economic interests and partnership with Beijing.

Opportunities for Malaysia

As global trends shift, Malaysia should seize the opportunity to collaborate with China to upgrade its industries, particularly in advancing the fourth industrial revolution. These are some suggestions for each key area of the new BRI.

1. Public health. Malaysia should explore a public health partnership by establishing a disease research centre. The Chinese Centre for Disease Control contained the Covid-19 outbreak and is leading an impressive national immunisation programme,⁹ and the region could stand to benefit from knowledge sharing through a multilateral platform. The centre should not be limited to coronavirus research but include other diseases that plague the region, such as dengue, tuberculosis and bird flu. The centre should aim to increase information sharing on public health systems, enhance cooperation on disease research and promote research and development on vaccines. A Regional Public Health Laboratory Network, launched by the Global Health Security Agenda, already exists.

The proposed research centre should instead be Asean-led and Asean-centric, so that it can better coordinate and streamline existing health initiatives. This partnership could cultivate research and development capabilities, boost local capacity and lessen reliance on Western pharmaceuticals.

2. Digital transformation. Malaysia should establish innovation programmes with China.¹⁰ China's rapid technological development and emphasis on innovations provide a model that Malaysia should aspire towards. This collaboration should aim to enhance Malaysia's indigenous capabilities instead of integrating into the Chinese tech systems. The ongoing major power rivalries are causing volatility in the global economy. It is in Malaysia's interests to pursue tech neutrality and avoid getting entangled in rivalries. The innovation programmes should cultivate talent and nurture creativity to boost Malaysia's technological self-reliance, enhance our ability to develop indigenous technology and become more competitive. This will help Malaysia develop future technologies, targeting the manufacturing sector that will upgrade industrial capabilities. Key technologies to explore include artificial intelligence, internet of things and advanced robotics.

3. Green development. Malaysia should collaborate with China on climate-aligned financing and green-technology sharing. Malaysia needs to transition to renewable energy sources. Malaysia is a major solar equipment manufacturer. However, consumption of solar energy represents a huge potential which Malaysia has not tapped into due to barriers of financing and a lack of green technology.¹¹ China is leading globally in the energy transition and has the resources to assist Malaysia's green transition. China has developed infrastructure to transmit and store renewable energy and has the world's largest solar capacity, producing 268 gigawatts of solar power in the first half of 2021.¹² This partnership will help advance Malaysia's pledge to reduce carbon emissions by 45% by 2030.

Conclusion

China's new development paradigm represents the future of global economic trends and Malaysia cannot afford to be an idle bystander. As a strong economic partner, Malaysia stands to benefit from the new opportunities brought by the DCS. The new BRI directions align with Malaysia's economic development trajectory. Public health, digital transformation and green development are all avenues that Malaysia needs to make advances on, and the new BRI presents opportunities to cultivate local talent and bring about an industrial upgrade to IR4.0. In the face of increasing competition for Beijing's cooperation, Malaysia must exercise political will and exhibit a clear vision for future Chinese collaborations.

¹ Current literature on the DCS has mainly focused on the geoeconomic implications of China's economic changes, therefore quantitative projections of the DCS' effects are limited.

² The US-China trade war, China's increasingly tense relationship with Western economies and Covid-19 economic disruptions have pushed Beijing to realise greater economic self-sufficiency.

³ http://www.qstheory.cn/wp/2020-07/28/c_1126291938.htm

⁴ https://www.fmprc.gov.cn/mfa_eng/zxxx_662805/t1844079.shtml; while these three key areas represent Beijing's most pressing challenges, they are not new aspects of the BRI. Initiatives such as the Digital Silk Road was launched as early as 2015 but overshadowed by Beijing's focus on hard connectivity. Nevertheless, it provided a foundation for China's ambitions as a cyber superpower, especially in leading up to the 5G race. Similarly, the idea of a Health Silk Road emerged in 2016 but its initiatives became prominent through medical diplomacy during the Covid-19 pandemic. On the other hand, green development can be seen as Beijing's response to previous criticism of the BRI's environmental sustainability as well as China's new climate change commitments.

⁵ https://www.dosm.gov.my/v1/index.php?r=column/cthemByCat&cat=322&bul_id=WjJ6NU94Z3haUHEzcUxMaEdVbVVBQT09&menu_id=azJjRWpYLOVBYU90TVhpcIByWjdMQT09

⁶ https://www.eulerhermes.com/content/dam/onermarketing/ehndbx/eulerhermes.com/en_gl/erd/publications/pdf/2020_10_29_ChinaDualCirculation.pdf; Chinese investments in Malaysia are concentrated in infrastructure and construction projects and as the BRI's focus shifts away from hard connectivity, Malaysia will face losses in this area.

⁷ At the 2021 Belt and Road Summit, Asean countries have called for more multilateral investments through China's BRI. In December 2020, Singapore and China have signed numerous agreements to deepen cooperation. Among them include a new Memorandum of Understanding on public health which is a new pillar of bilateral cooperation between the two countries. In September 2021, Chinese tech giant Huawei became the first authorised cloud service provider in Cambodia, demonstrating an important step towards Cambodia's digital transformation.

⁸ For example, Indonesia is at the forefront of China's vaccine cooperation in the region and there are plans to engage on digitalisation and cyber-connectivity. Thailand is also looking to attract more Chinese investments into the Eastern Economic Corridor (EEC), an initiative to diversify its economy into a technological hub.

⁹ In June 2021, China has administered more than one billion doses. Despite being the first to be hit by Covid-19, China is among the few countries that have been well equipped to respond, manage and contain the pandemic in an effective manner.

¹⁰ Although digitalisation has been accelerating, technological innovation in Malaysia lags other Asean countries. In April 2021, Singapore's Grab Holdings Inc announced it was going public in the United States at a valuation of nearly US\$40 billion. A month later, Indonesia's tech giants Gojek and Tokopedia announced a merger to form a multi-billion-dollar company that is also planning to go public in the US later this year.

¹¹ https://www.sciencedirect.com/science/article/abs/pii/S0959652620328791?casa_token=GEI65ibYEKAAAAA:C8y23H5AhhGAHOH90IdFeJNQoqFR_VBoehgpof4l6ek7Zzb-LZAkwJ_Y0oDmbFywcsNs4hHkvqHz;https://www.ncbi.nlm.nih.gov/pmc/articles/PMC7355333/

¹² <https://www.nature.com/articles/d41586-020-02464-5>; <https://www.upstreamonline.com/energy-transition/green-leap-forward-china-boosts-renewable-energy-capacity/2-1-1047867>