The tale of Chinese dragon and Malayan mouse-deer

Digital cooperation with China from the perspective of Malaysia as a middle power

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Introduction

During his official visit to Beijing in August 2018 then Prime Minister of Malaysia Mahathir Mohammad warned Chinese Prime Minister Li Keqiang that Malaysia would not stand a ‘new version of colonialism’, referring to China’s expanding political and economic influence in the region and its 'debt-trap diplomacy’ [Hornby, 2018]. Almost immediately after his government won an election in April 2018, Mahathir put several main Chinese projects on hold, including high-technology projects with the Chinese tech giant Alibaba. In a matter of mere weeks, a dispute was resolved which has led to the change of rhetoric in the Malaysian media. China’s investment started to be seen as a ‘wind that Malaysia needs in order to sail’ referring to the transfer of China’s technology through its high-tech investment — something Malaysia will need in oder to boost its domestic technological agenda [Bai Tian, 2019].

The advanced technologies of ‘The Fourth Industrial Revolution’ (4IR) have introduced a plethora of new challenges to the existing structure of international relations erasing old geographical boundaries and drawing new ones. As a result, a more deepened interdependence and new types of power control have emerged. Mastering these advanced technologies has become a new type of power competition motivating more and more states to employ the digitalization agenda. In recent years China has not only made a great leap economically but also under its informatization campaign (*xinxihua*) began to evolve into a strong Internet power (*wangluo qiangguo*) that is highly motivated to deepen its international technological cooperation through its ICT companies [Cremers, 2018]. Some technologically less developed states have shown considerable interest in such a cooperation, even those that have raised serious concerns and objections to the cooperation with China due to fears of being ‘debt trapped’.

Malaysia being one of the most vocal skeptics of China’s investment in recent years has significantly expanded its technological cooperation with China. Even though Malaysia still generally remains considerably skeptical regarding cooperation with

China we cannot ignore an inevitable question: why did Malaysia change a political rhetoric back in 2018? Many have been pointing to the changing nature of the infrastructural agreements, noticing that China has shifted its strategy when dealing with technologically less developed countries like Malaysia by trying to promote high-tech investment which does not involve major loans unlike the standard infrastructural loans under the Belt and Road Initiative [Wang, 2019]. Therefore, such a tactic may seem appealing to Malaysia which has failed to achieve 4IR goals on its own and sees less ‘debt-trap' risk in this sort of engagement. However to what extent is it a risk-free deal?

In the Malaysian case, the majority of high-tech investment projects between Malaysia and China have been promoted by China’s national champion, Alibaba, which has already invested in multiple projects around the world. In this paper, we intend to explore the agency of Malaysia as a ‘*secondary state*’ vis-à-vis China as a ‘*superpower*’. In doing so, we believe that Malaysia even as a ‘*secondary state*’ has enough agency to negotiate digital infrastructure projects and mitigate the risks and promote its own domestic digitalization agenda. Hence, the question that we intend to propose in this research is: What can the role of Malaysia as a ‘*secondary state*’ in asymmetric negotiations with China tell us about the nature of China’s digital outward investment? It is necessary to note that by negotiations we mean high-tech investment negotiations. With Alibaba being one of the biggest China investors in the Malaysian economy, we will, therefore, focus on the negotiations that took place between Malaysia and Alibaba group between 2017 and 2020 (prior to the COVID-19 pandemic) primarily paying attention to the cooperation in e-commerce and financial technology. To this end, we believe that it is essential to examine the factors that condition the extent to which China through the Alibaba group can successfully cooperate with Malaysia, through the Alibaba Group. In other words, what is the nature of this asymmetric negotiation, and what factors contribute to its success? Furthermore, it is necessary to explain the connection between China’s state and a public Chinese tech company Alibaba, highlighting the extent to which China’s

state initiatives correspond with Alibaba's foreign projects and the role Alibaba plays in promoting China's foreign digital agenda.

At the heart of the research is an analysis of cooperation, assessment of benefits and shortcomings from the Malaysian perspective. We aim to examine how successful Malaysia was in negotiating and promoting its own agenda in the course of cooperation. And finally, on top of the asymmetric negotiation discourse there comes a discourse on technology which has been for some time quite an ambivalent one. Technology, on the one hand, can be seen as an evaluation of progress, of improvement of people's lives. On the other hand, technology can be highly disruptive and entail hidden risks. Hence, it is necessary to consider what implications technology brings to the existing discourse. Can it be that China's technological investment is a poisoned chalice to Malaysia that may not be able to retain its technological independence afterward?

We argue that China's digital strategy is based on targeting digitally less developed countries to promote mutual short-term gains, but in a long-term perspective being far more beneficial for China. Furthermore, these countries have an ambitious, almost utopian digital agenda as well as strong bilateral ties with China. In that sense, bolstered by the industrial policies China's tech giants can easily enter an underdeveloped market and gain a foothold there. In doing so, it may be a part of a greater plan to create an advanced digital ecosystem as well as physical hubs in all parts of the world. At this early stage, a smaller state may seem to preserve its leverage in asymmetrical negotiations, but long-term implications may disrupt the power balance as a digitally less developed country can appear to be in a situation of digital dependency. And in the future new implications may be unveiled, as China moves away from its 'debt-trap' diplomacy to a more sophisticated 'digital-trap' one.

Research design

In order to answer the above questions, the paper is divided into the following parts. Following the introductory chapter we introduce a theoretical framework together with a methodological approach. The theoretical framework part is further subdivided

into three consequent underparts. The first one explains the instruments of interdependence, how coercion can be imposed and what form it may take. The second one defines a notion of '*secondary states*' in asymmetric relation, as well as conceptualizes strategies that these states employ in case of asymmetric relation. Consequently, these concepts is embedded into the discourse on technology. Finally, this chapter ends with a methodological profile of the research outlining methods and data used.

The second chapter focuses on China's digital strategy. This chapter examines existing frameworks that help to explain China's engagement with the world. This chapter is subdivided into four parts. The first one comprises a study of several Chinese initiatives such as the Go Out policy (*zouchuqu*), the Digital Silk Road initiative (DSR), the Internet Plus plan, etc in order to shed light on China's increasing international presence. The second underpart inquires into the nexus between China's state initiatives and non-state actors, namely China's national champions. The third one deepens into political economy of Alibaba and its connection to the Chinese government. Finally, the last underpart entails negotiation techniques that China frequently implements especially during the negotiations with Southeast Asian neighbors.

The third chapter discusses Malaysian domestic policy and is divided into three underparts. The first one explains Malaysian industrial and development policy, emphasizing the post-New Economic Policy (NEP) era and reforms Mahathir's and Najib's governments. In the second part, we examine the role of the Malaysian Chinese minority in the framework of cooperation with China, taking into account the *guanxi* concept that is discussed in chapter 2.4. In the third chapter conditions of the cooperation between China and Malaysia are examined. We look into the political economy of China's Alibaba projects in Malaysia, and in doing so, try to uncover what kind of projects they are and how Alibaba operates in Malaysia. Additionally, we analyze negotiations and commitments that have been made and determine the existing risks and benefits. It aim to explain whether the course of cooperation may be considered successful and why.

Lastly, the final chapter draws several conclusions on China's digital strategy in the region, as well as Malaysian capacity to negotiate on its own terms.

I. Theoretical framework and methodology

Conceptualising 'secondary states'

There are still debates concerning the status of China as a great power where the majority of the researchers point out some shortcomings that make China, unlike other great powers, a rather *fragile superpower* [Han, 2021]. However, when one talks about China's engagement in Southeast Asia one can not escape the realm of asymmetrical relations. China is a much stronger external actor and a group of smaller Southeast Asian states seems as a group of *secondary states*. Traditionally, it is believed that the dominant power would have all or most of the agency in such a cooperation. Most of such research significantly focuses on China's perspective, disregarding smaller states of Southeast Asia of bargaining power. In doing so, such an explanation highlights China's initiatives and goals but fails to shed sufficient light on the agency of a smaller state. A solid bulk of these researchers prioritise China's agency and state that China acts for its own benefit and therefore, the gains for the recipient country are questionable.

But if certain events or processes are non-beneficial for some states, why do smaller states bandwagon? Answering this question some underline China's successful exercise of its soft power which leads to the regional shift in Asia, creating a new regional order, which means moving away from the US hegemony and becoming closer to the Sino-centric order. This shift creates space for China's potential leverage and power which can take forms of coercion, inducement, persuasion on smaller neighbouring countries in order to push certain geopolitical and economic bargains that will be beneficial for China [Goh, 2014]. In the past years, China has been actively promoting its image of a benevolent actor that is ready to contribute to the peace and stability in the region and therefore gradually supplementing its 'peaceful rise' (*heping jueqi*) discourse strategy. Josh Kurlantzick believes that China is winning the influence over the region because it diffuses soft power or how he calls

it *charm offensive strategy* in a more sophisticated and therefore more successful way than the USA [Kurlanzick, 2007].

On the other hand, recently more literature has been focusing on the agency of *secondary states*. In general, it points out that asymmetrical engagement can provide much more space for agency of the smaller states than it was considered before. In other words, it is not merely a stronger partner is unilaterally interested in cooperation and therefore exercises certain influence to reach its goals, but weaker states do that as well. Despite the asymmetrical nature of such relations, smaller states also have a voice during negotiations and we will see that they can use it to push their own terms or can find alternative strategies for infrastructural development than to simply bandwagon with a stronger state [Oh, 2018].

Literature on power asymmetry between ASEAN countries and China can be divided into two broad groups. The first group considers ASEAN whether as a unitary actor or each country from the bloc individually rather than as a '*secondary*' actor, placing the USA and China higher in the hierarchy of regional order [Goh, 2008]. Another group refrains from the concept of this regional hierarchy that they assume lacks in uncovering 'weaker states' potential for agency. Their critique is that in the hierarchy-centered view, influence is passed only unidirectionally from the more powerful actor to the weaker one and thus it contradicts their statement that secondary states can also exercise influence. The proponents of this point of view consider *secondary states* as agents that can tend to use their leverage opportunities to balance out the asymmetrical relations with a more powerful actor. Hence, *secondary states* possess certain responsive instruments, the so-called hedging strategies. Views on what hedging may entail differ, but one of the most standard examples is a threefold of hedging strategy, namely '*hedging*' ,'*bandwagoning*', or '*soft balancing'* options that emerge from the evaluation of the extent and probability of the potential threat coming from a more powerful actor [Chen *et al*, 2013].

Hedging strategies

The book 'Rivers of Iron: Railroads and Chinese Power in Southeast Asia' discusses China's Railway projects in Southeast Asia and follows the same logic of *hedging* framework. It criticises the traditional theories of international relations for their view on *secondary states* and it argues that smaller states do possess more agency than it is traditionally believed. It slightly breaks away from the triad of hedging, bandwagoning, and balancing and focuses on the hedging strategies of Southeast Asian states in negotiating. Furthermore, it disproves the term *secondary state* by arguing that it is false to believe that all *secondary states* are the same and do not differentiate from one another. Hence, they introduce the term *middle powers* that they propose have «*more autonomy and greater capacity for influencing international politics*» [Lampton *et al*, 2020]. Although most of the states in Southeast Asia still belong to the *secondary states*, *middle powers* are currently appearing as well. Malaysia, for instance, is one of such *middle powers*. The state's hedging strategy or its response to the cooperation with China is embedded into its own domestic factors. The book suggests a fourfold matrix framework in order to define the possible response based on the state's degree of legitimation and power pluralisation. It argues, for instance, that since Malaysia favours development-based legitimation over salient nationalistic legitimation and has a high degree of power pluralisation its response would be '*receptive, with cyclical recalibration*'. Where in states like Laos and Cambodia with a high degree of power concentration the response would be more significantly '*enthusiastic*' [Ibid].

'Rivers of Iron' states that *hedging* literature provides a more pragmatic approach that encompasses diverse options of response and therefore, presents a wider picture of risks and gains. Recently, more authors have been singling out different alignment choices within the *hedging* approach. One of the co-authors of 'Rivers of Iron' Cheng-Chwee Kuik argues that the majority has been focusing on a macro level of alignment choices leaving micro aspects relatively unexamined. In his article, he builds a theoretical spectrum of power rejection or acceptance by a weaker state from great power [Kuik, 2016]. If a weaker state opts for complete power rejection, then it

employs a balancing strategy. If, on the contrary, it decides to accept power, then it chooses to bandwagon with great power. *Hedging* is placed in the middle and presents with several choices. Kuik argues that in order to *hedge* a weaker state's policy should adopt both 'returns maximising' and 'risk contingency options. 'Return-maximising' options embrace economic, diplomatic, and political gains. 'Risk-contingency' options consist of 'economic hedge' ,'political hedge' ,'military hedge'. All together they form a conceptualised range of options that can help to better understand nuances of alignment behaviour of a weaker state [Ibid]. This 'return-maximising'/'risk contingency' hedging framework can greatly contribute to the conceptualisation of Malaysia's Chinese policy, where some aspects of Malaysian alignment policies can be inclined to be 'return-maximising' (embracing China's digital infrastructure investment), while others may be more 'risk contingency' options (skepticism towards BRI projects).

The technological 'new cold war'?

Even though digital infrastructure may seem 'return-maximising' in some cases at first, quite a few concerns surround China's technology sphere. The majority of research on China's technological development and cooperation tends to be more skeptical than optimistic. First of all, many point that digital infrastructure in itself is very strongly connected to the physical infrastructure. In the recent Five Year Plan, China has set its goals to develop 'new infrastructure' such as a system of digital networks, namely 5G, Internet of things, AI, etc. These digital networks aim to integrate physical and digital dimensions together. In such cases, it would be almost impossible to separate digital infrastructure from physical anymore [Stevens, 2019].

Hence, this increased connectivity between physical and digital dimensions can represent leverage in negotiating infrastructural projects. This can potentially create a technological dependency on China. Some papers stress that in the past years overseas Chinese firms benefited from the technological transfer the most [Kwak *et al*, 2020]. Furthermore, China's search for new supply chains pushes it to stimulate its tech companies to 'go out' and expand its digital ecosystem. Through the creation of

its own digital ecosystem, China can diffuse its standards and norms. In doing so, it can exercise certain leverage on a state within the ecosystem.

For instance, in recent years China's ICT companies have been very active in Africa. On the one hand, one can say that they have improved internet connectivity in the region and have enhanced many digital services, especially fintech within the continent. On the other hand, however, some countries started to adopt China's model of censorship using Chinese technology [Olander, 2019]. In other words, states within the ecosystem with underdeveloped digital infrastructure and internet policy can be more prone to adopt China's internet norms. Bearing in mind the current state of China-US technological diplomacy, the so-called 'new cold war', ecosystem leverage can result in a more divided Cyberspace [Segal, 2020].

The implementation of the outlined conceptual framework will contribute to a deeper understanding of the nature of Sino-Malaysian digital cooperation. Being a typical *middle power* Malaysia has a higher level of agency, which is feasible in its imposed *hedging* strategies when dealt with China. However, considering the complex character of Malaysia's responses in the past, we must consider breaking down the *hedging* strategy and look more into the details of these responses. To this end, we will examine domestic factors that shaped Malaysia's responses throughout from the beginning of the cooperation. The 'return-maximising'/'risk-minimising' framework will help to define how these responses are aligned with each other as well as evaluate their potential benefits and shortcomings. Additionally, this framework provides a broader spectrum of hedging options that can be especially useful considering the aforementioned concerns of digital infrastructure.

Methodology

This paper is framed by the following research question: what can the role of Malaysia as a '*secondary state*' in asymmetric negotiations with China tell us about the nature of China's digital outward investment? The aim of this research is to

understand how resources of power and technology are distributed in asymmetric relation, how they are embedded into the political economy of both counties. To this end, we will conduct political economy analysis, which will primarily focus on how the distribution of resources and power can shape responses, shift cooperation strategies and their final goals.

To conduct this assessment we will employ the framework developed in Lampton *et al* book [Lampton *et al*, 2020]. In particular, the matrix of nexus between power distribution and quality of responses will be engaged. Certain parts of the analysis will entail other theoretical elements to complement the research. The Lampton *et al* framework can be highly useful to analyse the source and the reason to certain response, while a more in-depth hedging strategies theory can also give explanations to what may be the consequence of this response and, therefore, to try to draw a range of responses. Secondly, when evaluating certain Chinese projects in Malaysia, we need to understand that we are dealing with new types of projects, where principles of geographical borders and sovereignty are demarcated. Digital infrastructure projects demand new ways of assessment, and in Malaysia's case we will see that they represent a rather hybrid case of physical and digital infrastructure in the form of digital hubs.

In our research we will engage with both primary and secondary sources. First of all, we will make use of secondary sources such as articles and books, that form the backbone of our analysis, framing it theoretically and historically. Secondly, the usage of primary sources is essential for a correct analysis of China's and Malaysia's industrial policies. Therefore we will look into policy documents, industrial masterplans, national five year plans and government press-releases that are publicly available. Additionally, we will consult with press-releases and annual reports of Alibaba group and Alibaba Cloud Malaysia that are either released by Alibaba group directly or can be found on the website Alizilla, which publishes different reports and articles on all variety of businesses that are managed by the Alibaba group. Because of the novelty of the topic it is necessary to refer to newspaper articles as they contain the most recent information. It is important, however, to critically access a newspaper

that has published an article. One of the trustworthy news sources that are used in this research is a digital newspaper Fintech News Malaysia, that regularly posts the main domestic and regional fintech developments.

II. China's digital strategy

China's industrial policy

Being known for its 'miracle' economic growth of the 90-s and early 2000-s, China has been experiencing a 'new normal' rather moderate rapid GDP growth starting from 2010-s, which according to some assumptions will drop even further in the future. In order to prevent this potential decline, the Chinese government has been evolving a new development strategy that would guarantee a doubling GDP growth by 2020, which comprise a union of practical initiatives and ideologically sustained development visions, which Barry Naughton has described as 'grand steerage' [Naughton, 2020]. Since 2005 China has embarked on new industrial policy initiatives that involve a plethora of projects that would bring China closer to a high-tech economic future and therefore, assure China's GDP surge.

One of the most ambitious and well-known initiatives are those under the big umbrella concept of Belt and Road Initiative (BRI), which started with Chinese President Xi Jinping's call for regional cooperation under an idea of a new «Silk Road Economic Belt» in October 2013 [Wong, 2020]. Later in November 2013, BRI was adopted during the Third Plenum of the Eighteenth Central Committee. To sustain BRI a number of multilateral financial institutions have been created such as Asian Infrastructure Investment Bank (AIIB), the New Development Bank, etc. BRI in itself became a flagship of China's industrial policy. Generally, BRI provides Chinese companies and ministries with access to cheap loans and other privileges to promote their projects under the BRI flagship.

With the introduction of the *Vision and Actions on Jointly Building the Silk Road Economic Belt and 21st Century Maritime Silk Road* in March 2015 the guiding principles of BRI have become clearer and so have its main destinations. One of which was the corridor that would connect China to Southeast Asia. This kind of north-south mobility is highly preferential for China as it strengthens the north-south supply chain and deepens regional reliance on China. Hence, the development strategy comprised an idea of improving regional interdependence to provide

economic growth and then channel it towards China. This, in return, would reshape regional economic geography by improving China's domestic underdeveloped regions, making them more connected to the external economic activity as well as making China central in a supply chain to the periphery BRI countries [Lampton *et al*, 2020].

Another integral principle of BRI is the promotion of Chinese standards. Standardization may take many forms but the initial idea is to build an ecosystem-based on China's standards. They can range from the standards of Chinese corporate culture to the standards of data management. The Thirteenth Five-Year Plan in particular emphasizing the importance of technical standards within the routes of the BRI [Ibid]. One of the most frequently discussed worldwide is the adoption of the Chinese 5G technology. The fears of adopting Chinese standards are founded on the implication that once Chinese standards are adopted there will be an even greater dependency on China's supply. Moreover, it would have been even more difficult to enter the market for non-Chinese suppliers, securing opportunities for the Chinese companies alone. In the ASEAN region, for example, adoption of 5G technology would potentially be a consistent step since the ASEAN market has been dominated by Chinese companies for years and the standardization processes have been already taking place [Keane *et al*, 2019].

However, BRI is a currently evolving concept and it is still far unclear what its final design will be. In recent years, BRI has made a new digital turn, introducing *Digital Silk Road* in 2015 and stirring away from conventional infrastructure networks and towards a global expansion of Chinese technologies [Clingendael, 2020]. Some call this shift in strategy a '*digital empire in the making*' referring to the influence of the China Empire of yore and emphasizing what role technologies can play in the process of China's expansion [Keane *et al*, 2019]. Lampton *et al* draw a rather interesting analogy comparing power in all its forms (coercive, economic, and intellectual) to electricity and infrastructure as a means of how this power circulates to the electric power grid [Lampton *et al*, 2020]. The main idea is to make that power flow and reach its final aim whether it will be via transportation, communication routes, or

cyberspace. The 4IR has presented new ways of power expansion, and Beijing with the adoption of the DSR shows that it is ready to embrace them and build new pathways through which power will be flowing to China, evoking the legacy of a great empire (*weida fuxing*). But together with new digital pathways follows a greater responsibility for its future implications. Some noted that the marriage of information and communication technology (ICT) to infrastructure was integral to the success of China's DSR in promoting its own standards, companies, and digital ecosystem [Hemmings, 2020]. But it also has created leverage for Chinese tech companies over new captive markets, sources of data, and foreign political and business elites [Ibid].

According to the Fudan University's DSR Centre's framework, the DSR consists of five main components such as infrastructure, trade, finance, people's hearts, and policy [Dekker *et al*, 2020]. Clingendael's report highlights three main objectives of the DSR. First of all, the DSR aims to improve regional and international digital connectivity in all of its five components. Secondly, the DSR aspires to '*promote the upgrade and innovation of traditional industries and employment in BRI countries by opening up China's market with China's digital assets*. And finally, the DSR means '*to optimize the regional industrial layout and to form the basis of a regional community with shared outcomes to create the global value chain*' [Ibid]. In doing so, the Chinese government sets out to foster globalization and multilateralism that would meet the Chinese interests. By promoting China's digital agenda to less developed BRI countries China can amplify its international influence as well as digital interdependence. Ever since Xi Jinping has started promoting innovation in high-tech fields like digital economy, cloud computing, big data, Artificial Intelligence (AI), Internet of Things (IoT), smart cities, they have become a desirable 'commodity' that has been sold off to BRI countries. Hence, the original focus of BRI's hard-headed economic rationale has shifted towards a more innovation-driven rationale. In other words, instead of promoting economic gains, China intends to promote an idea of regional and international digital interconnectedness, and the idea that through the adoption of Chinese technologies BRI countries can build their own

digital economy and booster innovational in all the spheres. This, in return, would make China one step forward in building its own digital ecosystem.

Role of non-state-owned enterprises

Even though in the original industrial policy plan of 2006 the main focus was shifted towards government direct investments, over time both state-owned and non-state-owned companies have stepped in. DSR is not an exemption to that rule and despite being a state-led initiative, it has a lot of non-state enterprises. These non-state-owned companies play a vital role in expanding China's economic influence outside of China, particularly targeting markets of South and Southeast Asia. China's platform economy is constantly growing and its three national champions Baidu, Alibaba, and Tencent (also known as the 'BAT'). These companies have absorbed around 75% of all digital start-ups in China [Keane *et al*, 2019]. And even though they appear as digital capitalists, they have a strong connection to the state and its initiatives. For instance, all three of them have been actively involved in the DSR projects. Chinese tech giants have been taking a lead in promoting digital infrastructure worldwide such as broadband connectivity, telecommunications (5G) networks, smart cities, cloud computing, etc. Chinese companies are leaders in 5G patents where Huawei alone has announced more patents than any other of the Western companies [Dekker *et al*, 2020]. This absolute dominance of Chinese internet firms has led to a reshaping of the industrial policy configurations, putting BATs on the pedestal as national champions and fostering closer cooperation with them and a government. It is believed that the Internet Plus plan has been initially suggested by the CEO of Tencent Ma Huateng, which also proves a very close dynamic between the PRC and private firms [Naughton, 2020]. Additionally, there is also a commonality of interests in the promotion of China's way of internet sovereignty by both the PRC and the BATs. The latter benefit from China's cyberspace policy, since the PRC exerts control of information, industrial-policy protectionism, blocking most of the largest international social media platforms and providing Chinese internet companies with monopolistic access to the realm of China's cyberspace and its market. The same rationale of promoting China's cyberspace sovereignty lies in the core of the DSR.

Furthermore, the PRC needs BATs as much as they need support and approval of the PRC. The BATs possess a sophisticated level of technological expertise, research, and design framework, the experience of successful operations abroad that government firms lack. This creates a more or less balanced-out interdependency model between the PRC and the BATs that due to to a certain extent of interest commonality will be more likely to boost further cooperation under the DSR. Hence, the Chinese government will appoint BATs and other Chinese tech companies for certain projects, providing them with official state support, while these companies will in part share their technology and research. For instance, one of the integral parts of the DSR is 'smart infrastructure' that integrates a large variety of digital technologies such as AI, IoT, 5G telecommunications, etc. In November 2017 the Chinese government appointed three BATs and iFlyk to operate AI platforms [Ibid]. Alibaba's AI platform City Brain has been the most successful one so far and with City Brain's adoption in Malaysia became the first Chinese AI platform to have been implemented outside China.

Political economy of Alibaba

China's largest e-commerce company Alibaba was established in 1999 by a former English teacher and e-commerce enthusiast Jack Ma. Since its foundation, Alibaba has expanded drastically and now embodies multiple companies under the Alibaba Group holding. In more than twenty years it has created and developed an e-commerce ecosystem, that exceeds an initial Jack Ma's e-commerce golden triangle, namely e-commerce platform, financial technologies, and logistics. With its development, Alibaba has employed different expansionist strategies. Some tend to highlight two periods in Alibaba's history during which the company has changed its policy towards government cooperation [Zhang, 2020]. The first period is from 1999 to 2007 after Alibaba has won a monopoly in China's e-commerce market, beating a world-known e-commerce giant eBay. The second period has started with the financial crisis of 2007-2008 and is marked by a shift towards a more symbiotic platform-state relationship [Ibid].

The explanation of Alibaba's success in the first period lies in an integration of a digital strategy that appealed to petty capitalist tradition and platformization tendencies. The launch of Alibaba.com has created a business-to-business (B2B) e-commerce service that answered the needs of petty capitalists (small and medium entrepreneurs) that sought to expand their businesses. With the introduction of a costumer-to-costumer (C2C) e-commerce service Taobao in 2003 Alibaba continued to support petty capitalists by providing a platform for the export-oriented SMEs. Moreover, it has also created more opportunities for individual entrepreneurs to participate in C2C e-commerce activities. At that time Alibaba positioned itself as a 'user empowering', engaging platform with a bottom-up approach as opposed to the top-down approach of the state initiatives [Ibid]. By 2007 Alibaba through its C2C e-commerce services has defended its monopoly even competing with an international e-commerce giant like eBay.

In the second phase, however, starting with the financial crisis of 2007-2008 Alibaba's had to change its business strategy in order to adapt to the evolving situation in the world. In order to do so, Alibaba has slowly begun to enhance its cooperation with the government. As a result, it has been more actively engaging in state initiatives of informatization and digitalization as well as being more inclined to resort to state support for Alibaba's overseas endeavors under the flagship of the BRI. Alibaba's shift of strategy can be to a large extent explained by the company's search for new markets, growth of its digital ecosystem that in the post-2008 period started to expand rapidly in China and beyond. To that end, Alibaba has been expanding its information infrastructure, investing in services in the fields of logistics, financial technologies, cloud computing, and big data. Moreover, through vertical and horizontal integration of its multifaceted services, Alibaba obtains and processes information [Jia *et al*, 2018]. The mechanisms of datafication are well-integrated among different products. For instance, launched in 2015 Sesame Credit is a big data credit scoring system that provides credit scores based on the transactional data of Alibaba's e-commerce platforms together with Alipay's payment history [Lerong Lu, 2018]. In addition, Sesame Credit's database comprises a part of the Chinese

government's national database and social credit scoring system, which also illustrates close cooperation between Alibaba and the Chinese government [Jia *et al*, 2018].

In the past years Alibaba has been expanding globally mainly under the flagship of the BRI. In Southeast Asia Singapore and Malaysia have been especially attractive as BRI destinations. Malaysia's economic steady growth, digital-friendly policies and currently strong bilateral relationships with China make Malaysia a potential stronghold for Chinese FDI [The Economist Corporate Network, 2019]. In terms of digital strength and development Malaysia comes second after Singapore in the region according to the World Bank's Digital Adoption Index (DAI) [Taidong et al, 2020]. Furthermore, some also point out some cultural similarities between China and Malaysia that can help to accelerate cooperation in the future [Wu, 2019]. Alibaba group as well as many other Chinese companies recently have been increasing their investment in Malaysia. Alibaba Group among others can be considered as one of the biggest investors, where for the past years its multifaceted services have been integrating into Malaysian digital ecosystem. In addition to the e-commerce activities of the Southeast Asian conglomerate Lazada, in which Alibaba has major stakes as well as expansion of financial technologies of Alipay, Alibaba has recently been promoting its leading-edge technologies to Malaysia such as AliCloud's smart city system [Taidong *et al*, 2020]. The capital of Malaysia, Kuala Lumpur, has become the very first city outside of China to adopt this know-how [Alibaba Cloud, 2019]. And the Malaysian government's optimistic response to implement this technology in other cities promises even stronger collaboration with Alibaba in the future.

China's negotiation practices

There are a few distinctive features of the Chinese way of negotiating that can be vital for understanding negotiation processes that took place between Malaysia and China in the field of digital infrastructure. Generally speaking, three distinctive features have been singled, namely the principle of being 'old friends' or *guanxi*, promotion of win-win cooperation, and connection to overseas Chinese (*huaren*). All

of these features are present and manifested in the negotiation processes between Malaysia and China in the course of digital cooperation. The last one, connection to overseas Chinese, will be thoroughly explained in chapter 3. 2 and therefore, here it will be intentionally omitted.

First of all, comes the concept of *guanxi* that can be roughly translated as *relation* or *relationship,* but in fact, is a far more complex concept. One that has lived in China knows that in every sphere of life establishing an interpersonal relationship, or guanxi is essential to the Chinese way of life. Having gotten in trouble and caught by a policeman in China may seem as problematic at first, but after you have established an interpersonal relationship with this policeman and made a few jokes, he may even let you go. The same *guanxi* principle is central to understanding Chinese negotiation rationale. However, in this case interpersonal connection appears to be a manipulative means to appeal to one of the parties. *Guanxi* in this case calls for certain obligations from the parties, once the relationship has been established, both parties have to be committed to contributing to its maintenance.

In other words, an unsympathetic country that has been implementing an unfriendly policy towards China policy cannot call itself China's *friend (pengyou),* as in Chinese understanding friendship as any relationships have obligations and commitments, that will be understanding towards China's interests and problems and will be willing to cooperate. It is interesting to note that most of the MoU between China and Malaysia have been singed during the official visits, with cultural programs where interpersonal communication is an integral part. Another example of *guanxi* can be Jack Ma's multiple visits to Malaysia to meet newly elected Mahathir Mohamad who during his campaign was very vocal against Chinese investment projects. Jack Ma took Mahathir Mohamad on a tour of Alibaba's hub in Malaysia and it is believed that with time they have established very good relationships that could have contributed to Alibaba's successful operations in Malaysia [Alibaba Group, 2018].

Another important aspect of Chinese project negotiations is the promotion of win-win outcomes. Since the 1990s China has been implementing the good neighbor policy that would promotes a new image of China as a friendly state and ready for cooperation [Ku, 2008]. Especially with smaller neighbor states, China wants to show that it is a committed and ‘responsible stakeholder’ that promotes mutually beneficial cooperation and does not have an intention to interfere in the domestic affairs of its partner countries. Moreover, it also stresses the positive outcomes for the investment-recipient country. In terms of potential cooperation in the digital sphere, win-win outcomes comprise not only standard win-win outcomes of BRI that are a higher level of development, job creation, and poverty reduction but also digitalization, technology transfer, and training of professionals. EY’s ASEAN Fintech Census 2018 mentions the lack of a professional workforce in Southeast Asia as one of the main obstacles for fintech developments in the region [EY, 2018]. Hence, Chinese investment in the digital sphere may help to improve several existing issues and that is usually what has been emphasized in negotiation discourse. Memorandum of Understanding (MoU) signed by Alibaba and Malaysia in 2017 states that Alibaba’s B2B business pledges to provide e-commerce training to Malaysian SMEs [Alibaba Group, 2017]. Some hoverer, question this win-win outcome and believe that there are multiple implications. For example, some of the Chinese companies bring their own high-qualified workers while low-skilled labor is performed by the locals. Furthermore, with Chinese fintech firms such as Ant Financial Services Group an affiliated company of Alibaba entering Southeast Asian markets, local fintech start-up businesses have to quickly adjust otherwise they will cease to exist.

III. Malaysia's vision

Malaysia's development policy

Since its independence in 1957, Malaysia has experienced a steady economic growth of around 6,5 percent that has transformed it from a regional commodity exporter into one of the newly industrialized countries (NICs) [Felkner, 2014]. Over the years, the Malaysian economy has heavily relied on trade and foreign investment, government perpetually promoted a growth-focused development policy. However, Malaysia presents an interesting case in which an outward-oriented economic regime is combined with state interventionism, growth-focused policies are intertwined with inter-ethnic socio-economic distributional policies. Finally, despite a certain extent of political continuity ever since independence, there were multiple development policy shifts through the years. Jomo believes that an explanation to this lies in historical processes: both colonial and post-independence developments.

As a result of these processes, Malaysian industrial policy became committed to pro-Malay capitalist and industrial development agenda, governing elites obtained a certain degree of autonomy, and government intervention seeks to shape the economy's distributional outcomes [Jomo. 2007]. Given the colonial and post-independence inter-ethnic socio-economic policies, the Malaysian political regime is based on an idea of the hegemony of the Malay party (United Malays National Organisation (UMNO)), which comprised a continuity within governing elites and produced a notion of long-term economic interests. Hence, even though development policies have changed dramatically over the years, governing elites were interested in preserving economic growth to defend its right to superintend the distribution of economic outcomes [Felkner, 2014].

The first important shift in development policy happened following the 13 May 1969 ethnic riots. The ruling coalition announced the New Economic Policy (NEP) that would last for the next two decades. NEP proposed to eradicate poverty and to implement social restructuring by creating a new class of well-educated, urban

Malays. This involved affirmative action policy to create a possibility for *Bumiputera* (‘son of the land’; refers to ethnic Malay majority) to participate in commerce and industry sectors. To this end, the government through fund management companies such as Perbadanan Nasional (Pernas) and later Permodalan Nasional Berhad (PNB) would acquire and expand new *Bumiputera* enterprises [Ibid]. Even though the new Malaysian urban class was partly created as a result of NEP, NEP has not met completely its goals. It failed to eradicate poverty, moreover, the newly emerged urban class contributed to the rising urban unemployment rate. Even though following the Free Trade Zone (FTZ) Act 1971 commodity-export revenues flourished, they were mostly allocated to sustain the NEP agenda and to boost the creation of a *Bumiputera* corporate sector [Ibid].

The second turn happened when Mahathir Mohamad became a prime minister for the first time in 1981. He believed that a low-value-added FTZ-based export development strategy cannot guarantee long-term growth and therefore, he proclaimed that Malaysia should ‘Look East’ and follow the examples of NICs such as South Korea and Japan to produce Malaysian state-business corporatism in the field of heavy industries. He established state-owned Heavy Industries Corporation of Malaysia (HICOM) and well-known Malaysia automobile producer Proton. By the mid-1990s Malaysia reached 9 percent GDP growth and therefore, ensured its status as a NIC. In 1991 Mahathir named his new national strategy Vision 2020, which aimed to make Malaysia a fully developed country with preserved growth of national entrepreneurship and technological innovation over a period of three decades [Ibid].

Although the ‘Look East’ policy was technologically partly successful, it did not take into account social and cultural differences between Malaysia and the first-generation of NICs, and therefore failed to provide a necessary transfer of values needed to bring innovation framework within the production [Furuoka, 2007]. After a partial success of ‘Look East’, it is believed that Mahathir Mohamad moved on to another mega-project, that is the creation of the Multimedia Super Corridor (MSC). Launched in 1996 the MSC in Mahathir’s vision supposed to become an ‘intelligent garden city’, that will bolster the IT industry and create an IT hub to attract international

companies, that will ‘explore multimedia technologies without any limitations’ [Mahathir, 2002]. MSC went in line with the Seventh Plan’s (1996-2000) proposition to bolster the adoption of IT among government ministries and agencies. In doing so, the Malaysian government attempted to change its approach towards the application of IT from the bottom-up to the top-down policy planning [Leong *et al*, 2021]. Furthermore, the government has undertaken steps in restructuring the public sector science and technology sector. Previously most of the technology development and R&D was carried out by the public sector [Kondo, 1999], but subsequently, several joint public-private groups for technology were established, as well as the old ones were reformed to increase private sector participation [Jomo, 2007]. The intention was to attract more technologically developed foreign firms, and by linking them to the local ones promote technological upgrading of the latter.

Following the retirement of Mahathir Mohammad, development policy has made another turn. Mahathir’s successor Abdullah Badawi after his appointment introduced a new government concept of Islam Hadhari (Civilizational Islam). Islam Hadhari represented a development framework firmly rooted in the values of Islam [Juego, 2018]. In 2005 Abdullah introduced National Mission, in which he proclaimed that it is risky to possess ‘first-class infrastructure but third-class mentality’, promoting a ‘more meaningful participation’ with other partner-countries [Ibid]. To this end, Abdullah’s government in addition to already existing negotiations with China and Japan decided to expand free-trade agreements with countries like US, Pakistan, India, Chile, Australia, etc. However, Abdullah’s policies served mostly interests of ethnic Islam and UMNO and soon has shown its ideological incompetence to be more inclusive to the multiethnic Malaysian state. Furthermore, it is also believed that he had failed to emulate Mahathir’s IT agenda and continue to embrace ICT development, informatization, and law-making processes in the field of cyberspace [Felkner, 2014]. After his defeat during the general elections in 2008, Najib Razak became the next Prime Minister. When Najib Razak took over, he was fostering the capitalist development plan to overcome the consequences of the Great Recession of 2007 and to build his own legacy. Consequently, he had introduced his own

development program, namely 1Malasya, which was supposed to become the last part of Vision 2020. Najib's new Four Pillar of National Transformation comprised 1Malaysia, Government Transformation Programme (GTP), Economic Transformation Programme (ETP), and the Tenth Malaysia Plan. The four pillars aimed to design a strategy that would evade a 'middle-income trap' by enhancing national competitiveness and participating in huge investment projects. For instance, during Najib Razak's term, China became one of the key investors in the Malaysian economy. Before 2012 amount of China's investment was relatively small, but with the introduction of BRI in 2013 Chinese FDI grew almost 350% during 2013-2017 [Juego, 2018]. 1Malaysia, however, once again can not be considered to be an absolute success. In 2018 a ninety-two-year-old Mahathir Mohamad once again decided to run for premiership and won. He highlighted and criticized the outcomes of the 1Malaysia vision. As Mahathir Mohamad claimed that instead of achieving its initial goals, 1Malaysia has played part in Malaysia's growing authoritarianism, corruption, and increasing reliance on China's investment by 'selling Malaysia out to China' [Lampton *et al*, 2020].

In summary, we may see a certain continuity in the policy shifts. Even though all governing elites strive to maintain economic growth to preserve its legitimacy, each newly elected government wants to show that it tries to show that it discontinues policies of its predecessor and, so as a result, that provokes policy shifts. The governments of Abdullah Badawi and Najib Razak's needed to leave behind Mahathir's old legacy and to not stay in the shadow of the more than twenty-year-old rather successful rule of Mahathir Mohammad. Upon Mahathir's re-election in 2018 he, in turn, also had to break away from the heritage of the corrupted regime of Najib Razak. That being said, although with every regime change new development policy was introduced, collectively they comprised a gradual, consistent process of technological transformation and informatization of Malaysian society.

Overseas Chinese

Malaysia in percentage terms has one of the biggest Chinese diasporas in Southeast Asia. According to the census of 2016 they count more than 6,6 million people and constitute 23.4% of the whole population which makes them the biggest ethnic group after the Malayan majority [Anggaran Penduduk Semasa, Malaysia, 2014 - 2016]. Furthermore, Malaysian Chinese historically have been more prominent than other Malaysian ethnic groups, accumulating the majority of the national capital in their hands. For example, in the 1990s ethnic Chinese owned around 40% of the total share capital of Malaysian companies, which was two times more than the *Bumiputeras* and government institutions owned together at that time [Gomez *et al*, 2013]. Some also note that due to the linguistic and cultural commonality Malaysian Chinese would more likely be predisposed to cooperate with China among other Malaysian ethnic groups [Wu, 2019]. During the second half of the 1980s Malaysian Chinese companies started to look for a new investment destination. Many of them started to invest in China, meanwhile Chinese investment in Malaysia, on the other hand, remained insignificant. Another evidence to that predisposition can be several joint venture projects between Chinese and Malaysian firms that are owned by Malaysian Chinese. For instance, at the beginning of the 2000s, China Fuxing group started negotiating a big investment project in Sabah where a Malaysian Chinese-owned company the Lions group would have a 20% stake in it [Ping *et al*, 2006]. Hence, Malaysian Chinese represent a rather powerful business elite in Malaysia and can be seen as a potential business partner and intermediary for China-Malaysia cooperation.

Another significant factor in conceptualizing the role of overseas Chinese as intermediaries is the shift in China’s approach to its diaspora policy. With the introduction of the reforms of the opening, the Chinese attitude towards overseas Chinese began to change, and recently it underwent further redefinition. With the ascension of Xi Jinping in 2012, China’s policy towards overseas Chinese has been divided into three main elements, namely Grand Qiaowu, China Dream, and the «Three Benefits» [Wu, 2019]. Grand Qiaowu signifies a restructuring of state

institutions under an all-of-government approach towards overseas Chinese affairs. Old institutions such as the Overseas Chinese Affairs Office become integrated into the United Front Work Department of the Central Committee of the CCP [Ibid]. Makes the process more centralized. The China Dream aspires to encourage overseas Chinese to boost the economic rejuvenation of the Mainland (*weida fuxing* legacy). According to this vision, overseas Chinese must act as an intermediary in promoting and maintaining projects under the BRI framework. And finally, the «Three Benefits» define the underlying principles of China's overseas Chinese policy, such as: *to benefit China, to benefit the host countries, and to benefit Chinese overseas* [Ibid]. Therefore, this policy shift can be characterized by an institutionally more centralized approach towards overseas Chinese affairs, a renewed emphasis on overseas Chinese by assigning them a role of an intermediary in BRI projects, and promoting mutually beneficial cooperation for all.

Due to historically developed domestic implications in Southeast Asian countries as well as China's policies the Southeast Asian Chinese were exposed to discriminatory and persecutory practices. Lack of protection from colonial and later post-colonial regimes as well as renunciation from China has made the community more self-reliant and inward-oriented. However, taking into account linguistic and cultural commonality, established business connections, and new developments in China's diaspora policy the situation is currently changing. The Chinese community becomes inclined to be more assertive about China's changing diaspora policy.

Malaysia's China policy

Malaysia's China policy has been greatly influenced by the fact of asymmetry of Sino-Malaysian relationships. The existing disparity in the size of territories, resources, and capabilities has determined not only Malaysia's policy towards China alone but also defined how Malaysia positions itself towards greater powers. Historically, Malaysia has developed a certain behavior when dealing with bigger and stronger countries. Some call it hierarchy diplomacy or a '*mouse-deer diplomacy*' [Milner, 2019]. Mouse-deer (*pelanduk*) is a small-sized animal that has

been frequently featured in Malayan folklore. Being small and a little bit faint-hearted, mouse-deer reckons with the power of bigger opponents but uses wily tactics to frustrate them and eventually outsmarts them. Mouse-deer diplomacy refers to the Malaysian ability to employ its smart (*cerdik)* skills to form alliances with stronger states to mitigate risks and increase economic and political gains. In doing so, despite being a smaller state, Malaysia reaches its goals but also preserves inter-state hierarchy. It is also complemented by the concepts of non-interference (*adat*) and moral balance (*adil*) [Ibid]. The case of Malaysia's China policy is a classical example of '*mouse-deer diplomacy*'. As previously mentioned Mahathir's speech during his official visit to China in August 2018 can be perceived as a clear example of '*mouse-deer diplomacy*' in action. In his speech he referred to Malaysia as a 'small country' where China was 'big and powerful', he also pointed out the history of successful cooperation between two countries, which demonstrates a degree of respect shown to the more powerful partner. However, Malaysia was ready to negotiate hard and, despite being a 'small country', it managed to achieve its main goal and renegotiate several projects under the BRI [Ibid].

Furthermore, Malaysia's current foreign policy reflects the determination of its ruling elites to preserve national security and domestic stability by sustaining its economic growth and development. Hence, it is believed that the Malaysian ruling elite will probably prioritize economic gains of cooperation over security concerns as economic growth is seen as a pillar of ruling elites' authority [Kuik, 2013]. However, this outlook on the security dimension indicates rather recent developments. In the Cold War period, security concerns were the focus of national policy. At that time Malaysia's perception of the asymmetry and proximity to China was mostly negative, as China was perceived as a potential threat to domestic and regional stability. Therefore, Malaysia tended to build a closer alliance with Western powers, mostly Commonwealth countries and the USA [Kuik, 2014].

Starting from the 1970s Malaysian elite's outlook on a strategical partnership started to alter. Since the 70s the regional order began to change when most of the Western powers began to withdraw their military presence from the region. Thus, Malaysia

had to adapt to this change by reconsidering its foreign policy. To ‘neutralize’ what was perceived as a ‘China threat’, Malaysia had to establish a formal relationship with China, build a diplomatic channel to communicate and resolve existing issues. This reconsideration paved the way to two-fold developments in Sino-Malaysian relationships.

First of all, Malaysia established diplomatic ties with China in 1974 during the visit of Malaysian Prime Minister Abdul Razak to Beijing. That initiated the beginning of a new era in the relationship between two countries. The number of potentially sensitive subjects for both countries such as the Malayan Communist Party (MCP) as well as the unresolved status of Malaysian Chinese that were regarded as a means of China’s influence were mostly resolved in the 1980s and that has laid a basis for the future cooperation. Since then ruling elites stopped seeing China as a source of threat, but instead gradually started to consider China as an integral partner in the regional and global order. The security concerns shifted towards the realm of economy, as economic problems were believed to lead to serious political implications. By the beginning of the 1990s, for instance, Mahathir began to view protectionism and unfair trade practices as a threat to his authority [Ibid]. Hence, it is not surprising that due to China’s rapid economic and development growth Malaysia would be inclined to lean towards a new rising superpower [Shambaugh, 2005]. Accordingly, Malaysia was quite a vocal proponent of China’s integration into the region. In the 90s with Malaysia’s endorsement, China joined several ASEAN regional initiatives (ASEAN Plus Three, ASEAN Regional Forum, etc). Integrating China into the regional ASEAN framework was not only essential to establish closer multifaceted cooperation, but also leave options for hedging open. For example, ASEAN Plus Three framework shows that Japan and Korea are extremely relevant regional players that are able to contribute to the regional balance of power. That being said, even though Malaysia has adopted a more welcoming pro-China foreign policy, it does not mean that it is subservient to China. On the contrary, Malaysia will most probably disapprove of regional hegemony by any superpower. Therefore, it will harvest the short-term benefits of cooperation with China, but it will be also inclined to hedge

whether by showing alignment through regional multilateral frameworks or by showing support to several regional superpowers.

IV. Analysis of China-Malaysia digital cooperation

E-commerce

This paper intends to analyse Malaysian cooperation with Chinese Alibaba from 2017 to 2020, as 2017 was a breakthrough year in Sino-Malaysian digital cooperation. Prior to 2017 Alibaba was already present in the e-commerce landscape of Southeast Asia, as the company became the largest shareholder of the biggest e-commerce platform in Southeast Asia Lazada Group, that worked together with more than 400 thousand SMEs in Malaysia, Indonesia, Singapore, Vietnam, and Thailand [Taidong et al, 2020]. Najib Razak's administration encouraged many joint projects under the BRI but also sought opportunities to boost the digitalization of the Malaysian economy. Hence, when in 2016 Jack Ma suggested establishing a Digital Free Trade Zone (DFTZ) in Malaysia during his official meeting with then Prime Minister Najib Razak, the response was more than welcoming. Najib Razak himself quoted 'his friend' Jack Ma, that Malaysia is 'business friendly' and that 'with his [Jack Ma's] guidance, together we [Malaysia and Alibaba] can achieve this vision' [Razak, 2017].

In November 2017 as part of the DFTZ, the first Electronic World Trade Platform (eWTP) hub was established in Malaysia, which is a joint venture between the Malaysian Digital Economy Corporation (MDEC) and Alibaba Group [Alibaba Group, 2017]. The concept of eWTP was introduced during G20 Hangzhou Summit in September 2016, which Malaysia did not attend [G20 Leaders' Communique Hangzhou Summit, 2016]. And almost one year later the first eWTP outside of China was established in Malaysia, which is not surprising since in that period cooperation between Malaysia and China was expanding rapidly. eWTP provided a platform for cross-border e-commerce activities, specializing in e-payment and financing, and linked Chinese Alibaba Group as well as affiliates Lazada and Cainiao Network to facilitate B2B trade for Malaysian SMEs [*Alibaba turns eWTP into reality,* 2017]. In that sense, DFTZ with its eWTP differs from traditional free trade zones that entail cross-border tax and customs regulations, while DFTZ can be compared to a so-called 'e-road', which connects several digital markets [Alibaba Turns eWTP Into

Reality With Creation of First Overseas E-hub, 2017]. In other words, DFTZ aims to digitalize trade in order to help local SMEs to export their goods around the world, but it also provides Chinese companies, first of all, that of Alibaba Group, with access to the Malaysian market. Even though Malaysian official response was mostly positive, there was also some skepticism surrounding the DFTZ.

First of all, by letting a tech giant enter the Malaysian developing digital market, Malaysia could face a potentially difficult situation, where Alibaba, a Chinese company, could monopolize the market and therefore, leave little or no space for Malaysian SMEs to operate, which was an initial idea behind the creation of the DFTZ [Chandran, 2018]. Moreover, such a situation also raises concerns of growing Chinese political and economic influence in the world, and critics of the DFTZ have also said that Alibaba holds too much power over the project and that creates a 'massive, multinational zone of economic and political influence that has Beijing at its center [Ibid]. To respond to the criticism Alibaba Group, in line with the common BRI win-win rhetoric, expressed that it does not favor ‘small businesses of one country over another’ [Ibid]. Malaysia's government has also responded stating that many Malaysian SMEs have increased their revenue since the DFTZ was established, therefore, DFTZ cannot be seen as a threat to Malaysian SMEs, but on the contrary. Moreover, the Malaysian government has set a goal that by 2025 total amount of exports of Malaysian SMEs listed in the DFTZ would reach 38 billion US dollars [Lefèvre *et al*, 2021]. In March 2018, for instance, the eWTP hub had crowded more than 2600 Malaysian SMEs, creating more than 60 thousand jobs and accelerating billions of US dollars of revenue [Taidong et al, 2020]. Although the Malaysian general elections (GE14) in April 2018 has caused some stir between China and Malaysia due to Mahathir's campaign that had anti-Chinese investment rhetoric, Ma stayed positive, saying that Alibaba will continue to invest in Malaysia after the approval from the new Malaysian government [Yean *et al*, 2019]. Following the GE14 Jack Ma has visited Malaysia several times and in June 2018 announced the opening of the Malaysian Alibaba office [*alibaba zai malaixiya kaishe bangonshi (Alibaba establishes its office in Malaysia)*, 2018]. Having established its first office

in Southeast Asia, Alibaba announced a Malaysia week in July 2018, aiming to promote Malaysian products in the Chinese market. Jack Ma called Malaysia week a symbol of Alibaba's commitment to local Malaysian businesses, but also stressed that China needs to import more [Ibid]. In August 2018 Mahathir Mohamad paid a return visit to Alibaba Group headquarters in Hangzhou. During the welcoming speech, Jack Ma stressed that Alibaba has its own version of globalization and that is 'to ensure it is inclusive, and benefits developing countries, small businesses and young people' [Alibaba Group, 2018]. Even though there is almost no information on the relations between Alibaba and Mahathir's administration before June 2018, one can suggest that Malaysia might have reconsidered the previous cooperation model, which caused Alibaba to act immediately, proving their commitment to the mutually beneficial cooperation. To that end, Alibaba has also introduced Malaysia Pavilion on alibaba.com, held the 'Access to China Consumers' seminar, ensuring that access to both markets is reciprocal [Ibid].

Furthermore, DFTZ comprises a variety of different partners that operate in multiple sectors. Firstly, DFTZ will have an e-fulfillment hub near Kuala Lumpur International Airport (KLIA) Aeropolis that will serve as customs clearance, fulfillment, and warehouse center of the hub [Alizila (a), 2017]. Secondly, Alibaba also intends to provide e-commerce training programs for SMEs, which is in line with the Malaysian Eleventh Plan vision and the importance of staff training has been frequently mentioned by Mahathir Mohamad [Ibid]. Providing such exchange training programs is also typical of Chinese companies that work within the framework of the DSR [Taidong *et al*, 2020]. Since the beginning of 2018 Alibaba has been working together with the Malaysia Ministry of High Education to organize multiple events to bolster e-commerce initiatives among young Malaysian entrepreneurs [Alizila, 2018]. Thirdly, the implementation of DFTZ requires a more in-depth integration of Alibaba Group services, namely logistics and e-payment. Only two months after launching eWTP Alibaba Group has submitted progress reports, that highlighted the successful integration of Cainiao Networks and Lazada Group (both Alibaba-owned) with Malaysian postal service Pos Malaysia [Alizila (b), 2017].

Moreover, Ant Financial which operates Alipay extended its cooperation with several Malaysian banks and other financial institutions, that provide e-payment solutions for the hub [Ibid]. Additionally, Alibaba Cloud opened its data center in Malaysia, which supplies SMEs with cloud-computing services [*Alibaba Cloud expands its footprint as Malaysia's digital transformation journey accelerates, 2019*]. Hence, DFTZ is not just a digital free trade zone, but a complex multidimensional project that is interconnected and mutually integrated. To a certain extent it can be regarded as a benefit-maximizing type of cooperation, where Malaysia gets a chance to develop several key branches of the digital economy, guarantees technology and knowledge transfer as well as boosts cooperation between local national companies and Chinese giant Alibaba. On the other hand, such cooperation with a high level of multi-agency interdependence may have hidden risks.

Essentially, the whole ecosystem of the DFTZ operates mainly through the vessels of Alibaba Group. Close cooperation between national agencies and Alibaba Group services can be seen as a sufficient risk-minimizing effort for Malaysia's ruling elites as it is in line with an idea of economic benefits' risk-neutralizing effect. However, as long as there are high economic gains, the Malaysian ruling elite would be more likely to continue such cooperation with a couple of hedging options. The first one would be a deeper integration and mobilization of local agencies, bringing the digital economy from its nascent state, which will probably require time and plenty of resources. And the second one will be to stay open to partnerships with other technologically advanced partners.

DFTZ with its eWTP serves as a good illustration of how digital infrastructure intertwines with the physical one and that it becomes almost impossible to distinguish one from another. Additionally, DFTZ cannot be seen as a project that promotes digital agenda only, it is also an integral part of a broader BRI program, sustaining major infrastructure projects under the BRI such as The East Coast Rail Link (ECRL) and Bandar Malaysia [Grassi, 2020]. Both of these projects run through or are positioned in Kuala Lumpur, and therefore, having an e-hub in Kuala Lumpur, that is operated by a Chinese company, would boost other infrastructure projects. Moreover,

as Alibaba states DFTZ and eWTP are not just e-commerce hubs and they are not strictly limited to Alibaba, but they provide an eWTP network model, that can be transferred and adopted by governments all over the world [Alibaba Group, 2019]. In that sense, Alibaba is one of the essential players that boost technological progress in Malaysia, while Malaysia is not Alibaba's final destination, but just the beginning of its route to Asia and the world. Thus, from 2017 to 2019 Alibaba Group has launched four more eWTP hubs in China, Rwanda, and Belgium. This shows Alibaba's ambition to expand its e-commerce ecosystem internationally by promoting its vision of globalization and encouraging it to adopt the eWTP model in order to fill in the technology gap.

Fintech

Closer cooperation in the sphere of fintech is a logical extension of Alibaba's e-commerce initiatives. Alipay's fintech services play an integral part in the DFTZ and Lazada Group activities, but also their role extends beyond e-commerce. Many factors make Southeast Asia a favorable destination for e-payment systems' expansion. With its large market, relatively high levels of internet penetration, and large number of internet users, Southeast Asia still lacks experience with e-payment systems, that account only for 3 percent of the total consumer expenditure [Taidong *et al*, 2020]. Therefore, Chinese fintech companies such as Ant Financial (Alipay) consider the Southeast Asian region as a place to transfer their successful experience from China to expand their financial ecosystem.

With the DFTZ launch, Alipay's expansion to SEA was bolstered. In April 2017, Ant Financial announced that it acquired HelloPay Group, a Lazada Group e-wallet, which later was rebranded as Alipay Malaysia Sdn. Bhd. and in doing so it became the first foreign fintech company to be launched in Malaysia [Xiao, 2017]. To obtain a legal status in Malaysia, Alipay had to sign MoU with three Malaysian banks Maybank Banking Bhd., Public Bank Bhd., and CIMB Bank Bhd [Chew *et al*, 2020]. As seen from the press releases of all three banks, they regard the introduction of Alipay Malaysia as an important milestone for Malaysian digitalization. Later several

MoUs were signed with three other banks, that started to promote Alipay's financial services. The rolling-out of Alipay Malaysia has started when in May 2017 around 2100 7-Eleven convenience stores began to accept e-payments through Alipay [Ibid]. In October 2017 Kuala Lumpur Airport KLIA1 and KLIA2 started to accept Alipay in their venues [Tan, 2017]. In July 2017, Ant Financial also announced that it had signed another MoU with Malaysian smart cart company Touch 'n Go Sdn. Bhd. (TNG) and CIMB Sdn. Bhd. as a subsidiary, which established an e-wallet that would use Alipay's technology [*you na yi guo! da ma ban zhifubao yi chu, malaixiya qiyong yidong zhifu* (Take another country! "Malaysian version of Alipay" has been released, mobile payment is launched in Malaysia!), 2018]. At the launching, CEO of the CIMB Group Tengku Dato' Sri Zafrul Aziz stated that this joint venture 'fits nicely with CIMB's digital aspirations and Fintech agenda', that will contribute to a more inclusive digital Malaysia [Ant Group, 2017]. According to IMF statistics already in the first four months since launch in 2018 more than 18,000 merchants in Malaysia started to use Touch'n Go e-wallet [IMF, 2020].

In general, there are two modes of market entry when it comes to Alipay Malaysia. The first one is through obtaining licenses and establishing close cooperation with Malaysian banks. And the second one is through the Chinese capital, whether it be Chinese tourists or Chinese businesses in Malaysia. Moreover, Alipay's market entry has been bolstered with the launch of the DFTZ, making Alipay an integral part of it. In January 2018 it was announced that the DFTZ would become the first intersection of Alibaba's City Brain initiative, which is an implementation of smart technologies, big data, and cloud computing [Alibaba Cloud, 2020]. Since the DFTZ has made a turn towards AI and other new technologies, the role of Alipay has extended as well as an intermediary between infrastructure and internet finance. For example, Alipay is already used at cash-free taxis and automated toll payments [Naughton, 2020].

On the one hand, it may seem that the risks and benefits of Alipay-Malaysia cooperation are well-balanced, where Alipay is interested in the Malaysian market and Malaysia is interested in Alipay's technology and services. Moreover, in order to operate successfully in Malaysia Alipay requires support from the local banks and

government entities as well as their knowledge of local merchants' networks. On the other hand, Alipay-Malaysia is a wholly-owned subsidiary that has certain advantages in such cooperation [Chew *et al*, 2020]. First of all, by using Alipay's e-payment technology of QR codes, which is very distinctive to other e-payment systems in the world, Malaysia may end up trapped adopting Alipay's or in that matter Chinese digital standards. And that would contribute to the further divide between Chinese and Western digital standards. Furthermore, once digital standards of QR-code e-payment are established in Malaysia, Alipay would be probably less likely to lose control over it. Secondly, the status of the wholly-owned subsidiary entitles Alipay to decide its strategic coordination in Malaysia [Ibid]. Although Ant Financial Group just like Alibaba Group promotes contribution to the broader development goals, fostering the growth of SMEs in Malaysia [Ant Group, 2018], due to the scarcity of primary data it is still unclear to what extent smaller domestic players are integrated into the process. In China Alibaba has been already known for its monopolistic behavior, maintaining around 60% of China's e-commerce market [Yean, 2020]. While there are still existing risks in Alibaba-Malaysia cooperation, Malaysia nevertheless would be inclined to proceed with it, as it sees its ongoing economic and development benefits exceed its potential risks. Additionally, Malaysia pictures itself in Alibaba's digital ecosystem as a gateway to ASEAN, therefore, holding a central place in its Digital Silk Road [MDEC, 2020].

That being said, the Malaysian example is highly significant to the understanding of Chinese digital outward investment. We see how China’s sophisticated and well-elaborated industrial policies have provided companies like Alibaba Group to expand internationally, primarily targeting digitally less developed markets. By promoting short-term mutual gains, like in the Malaysian case, China hopes to secure long-term cooperation, which as a result may develop far-reaching implications for the future. It might not be a classical case of ‘debt-trap’ diplomacy as there are no large loans or concessions, but it presents maybe the even greater challenge of yet unknown ‘digital-trap’. Having been tempted with an idea of quick technological transfer and bolstered digitalization, a less developed country can easily become ‘digitally-

trapped'. Apart from the most evident implication of digital dependency on China, asymmetrical digital cooperation may lead to many more consequences. Like in the Malaysian case, we see that digital projects go beyond the technological sphere, and involve a wide range of projects, therefore by accepting a digital project, one may open Pandora's box, the content of which may not be completely known. Furthermore, at this stage states like Malaysia may seem to win minor negotiation disputes to be seen in control of a situation, but for China, short-term compromises are opportunities for long-term success. For instance, Alibaba Group might have invested in the Malaysian digital economy, contributed by know-how sharing and staff training, but it pales in comparison to its potential gains from creating a hub in Malaysia and acquiring a gateway to the whole Southeast Asia.

Conclusion

Even though this research has reached its goals, there are some inevitable limitations. First of all, the paucity of primary data on Alibaba and Alipay made it difficult to conduct a comprehensive analysis of Alibaba-Malaysia cooperation. Moreover, since Ant Financial is not a public entity, unlike Alibaba Group it is not obliged to disclose its financial information. Secondly, we have analyzed only cooperation between Malaysia and Alibaba Group, without taking into consideration other significant Chinese players that are becoming more and more present in the Malaysian market, like Tencent and Huawei. Therefore, the conclusions drawn in this research may apply to a more general 'Going out' strategy for other Chinese companies, but not necessarily.

In the case of Alibaba-Malaysia digital cooperation, we can observe several general strategies in line with the DSR agenda. First of all, it is the promotion of 'win-win' cooperation, based on mutual respect and benefits. Secondly, Alibaba assures that it pursues Malaysia's development goals and aims to help to digitalize Malaysia's economy. Thirdly, it stresses the transfer of technology and knowledge, which stirs away from the traditional discourse of infrastructural projects. Finally, Alibaba and other Chinese technology firms grow significantly closer to the Chinese government, by promoting state initiatives abroad, which still fits into the companies' agenda. Following these general tactics, China's political and economic ties with Malaysia do not seem particular, but they just comprise a part of China's global strategy that right now unveils in Southeast Asia.

Malaysian cooperation with China is a clear example of asymmetrical relationships. Moreover, it perfectly illustrates how a middle power with sophisticated national agenda cooperates with China in the digital sphere. Although Malaysia using its mouse-deer diplomacy has shown that it has sufficient leverage to renegotiate some projects, make tech giants like Alibaba adapt in order to assure their commitment, there are still few existing risks. Since the shift in foreign policy towards China, Malaysia's ruling elite started to view China as a potential regional partner that would

contribute to the economic growth and therefore, ensure domestic legitimacy. However, there were always open options for hedging, whether it be through the regional network of ASEAN or bilateral ties with other developed countries. Since Najib Razak's rapprochement to China, Malaysia blindly following its digitalization goals, focused its digital partnership mostly on China, leaving it with less hedging options and becoming more digitally dependent on China. It is still early to evaluate Alibaba as a trustworthy partner in this cooperation, but considering its experience in China, one can expect that it may gradually become more monopolistic and disruptive.

In the Malay language, there is a saying: the mouse-deer forgot about the trap, but the trap did not forget about the mouse-deer (*pelanduk melupakan jerat, tetapi jerat tidak melupakan pelanduk*). This metaphor intends to explain a situation in which someone forgot about a possible danger, but the danger still exists. Hence, Malaysia should not take its digital cooperation with China for granted as there is still a possibility of becoming 'digitally-trapped'. Therefore, we have to re-evaluate short-term gains and balance them out with long-term risks. To that end, Malaysia should propose more specific conclusions on the gains and risks of such cooperation and be open to other partnerships to boost its digital agenda. For example, it can create a more diversified digital landscape by empowering other strategical partners to participate. In that way, it can minimize its dependency on China and avoid other implications. Having the largest Islamic banking system in the world, Malaysia can use the experience of Islamic fintech from its neighboring country Indonesia in order to balance out its asymmetrical relations with China in a long-term perspective.

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