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Economic Hedging by Small-State Firms in Great Power Strategic Competition: The Case of Malaysian Rail Link (MRL) (2013-2020)

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Abstract

Existing research on how small (weak) states respond to the geopolitical rivalry of great powers often centers around the hedging strategy, where small states tend to maintain their diplomatic independence by taking non-explicit sides and stances to better safeguard their security and interests in the face of increasing external uncertainty. This paper, however, provides another powerful way of explaining this from the perspective of non-state actors through the changing attitudes and strategies of the Malaysian Rail Link (MRL) in the Malaysia-China East Coast Rail Link (ECRL) project. This paper shows that due to the unique nature of firms, small state firms will choose to respond to external great power games with economic hedging, and performance legitimization and particularistic legitimization determine the strength of small states' economic hedging and when firms and the governments they represent choose performance as a way to enhance legitimacy, small state firms will choose to use economic soft hedging as their primary mode of response. Conversely, economic complex hedging is more pronounced when particularistic legitimization is used to enhance legitimacy. The findings of this paper also demonstrate that small state firms have a complex connection with the government. On the one hand, small state firms are the implement and influential representatives of the ruling government's foreign policy, inheriting the government's essential interest pursuits and expectations. On the other hand, the enterprise itself is also a vital interest organization. It will also formulate economic policy according to its own needs. However, the MRL shows that the Malaysian government firmly controls the tiny state firms and is an important tool and instrument for the foreign economic game of the small state government.

Keywords: Small State Firms, Great Power Rivalry, Economic Hedging, Legalization, MRL, China

1. Introduction

For many small and medium-sized countries in international politics, when faced with increasingly fierce geopolitical conflicts and competition among external powers, the hedging strategy has become an essential choice for the foreign policy of most small and medium-sized countries. It is reflected in the fact that the hedging strategy provides many small and medium-sized countries with a third path independent of bandwagoning and balancing and can effectively ensure the diplomatic autonomy of small and medium-sized countries. It can also prevent small

and medium-sized countries from falling into the dilemma of great power competition and adopting a non-clearly siding method to maintain their safety and interests. However, for many non-state actors, such as enterprises, as an essential part of the internal structure of a sovereign country, they also represent the country's will to a certain extent, especially enterprises in specific small and medium-sized countries, which are increasingly facing external powers. Will its strategic choices be the same as a country in fierce confrontation and conflict, or will they show differences? Moreover, what is its mechanism of action? In order to answer these questions, the author borrows the concept of "economic hedging" and constructs an analytical framework for economic hedging of small-state enterprises and takes the Malaysia Railway Link Sdn Bhd (MRL) response policy to the East Coast Rail Link (ECRL) project of the Malaysia-China "Belt and Road Initiative (BRI)" as a specific example to further answer these questions.

The research significance of this article has two aspects. On the one hand, the discussion of hedging strategies has shifted from political and security to economic. Most of the existing research on hedging strategies focus on the hedging of small and medium-sized countries in response to the security and politics of big countries. Few studies have focused on hedging from the economic field and other perspectives to analyze the operability and feasibility of hedging strategy in economic and trade cooperation. Especially as the interaction model of the relationship between small and medium-sized countries and big countries is increasingly transitioning from political security to frequent economic interaction, the concept and scope of hedging strategies are also quietly changing. Therefore, this article can better understand the practical application of hedging strategies in economics, improve and enrich hedging strategies' concepts and implementation conditions. On the other hand, by analyzing the implementation of the economic hedging strategy of the MRL in the BRI between Malaysia and China, this article can better examine the conditions and factors that affect the implementation of the economic hedging strategy and broaden the scope of existing research. The main research object has shifted from state actors in Southeast Asia to internal enterprises in Southeast Asian countries to explore further the differences in the interaction patterns between states and enterprises at different levels when small and medium-sized countries face games and competition from external powers.

2. Literature review

Regarding the policy choices of small-state enterprises under the strategic competition of big powers, more research focuses on the external choices made at the national level when facing competition from external big powers, especially around the discussion and analysis in the political and security fields. Currently, two main types of related research topics surround the external choices of different entities under the game of great powers.

2.1. *Different strategic options at the national dimension*

Great power games and competition are the main core topics in current international politics, which test different countries' coping and coordination capabilities when facing such situations. However, the choices they make when facing great power games are different for different types of national actors. For countries whose comprehensive capabilities are at the same level as those of competing major powers, their foreign strategies often manifest themselves in confrontation and cooperation. For example, according to the views put forward by realist scholars and liberal scholars, the state of a country can be either conflict and confrontation and also achieve cooperation and win-win (Keohane & Nye, 1973; Waltz, 1998; Mearsheimer, 2021). Due to the proximity of relative strength, major countries in competition will not cause greater security pressure and threats to third-party major countries, forcing third-party major countries to make corresponding concessions in foreign policy.

In contrast, third-party major countries can make corresponding concessions based on the status and development of competing significant powers, which can be used to adjust their foreign policies to maximize interests rationally. However, for small and medium-sized countries whose relative power gap is too large, their primary means of coping with the game between great powers are balanced diplomacy, which includes explicitly five coping methods: bandwagoning, engagement, hedging, alienation, and balancing (Bresser, 2002; Sun&Jin,2017; Wang&Zhang,2021; Teo&Koga,2022). In past studies, scholars often regard following and balancing as the main ways for small and medium-sized state actors to deal with the game of great powers. However, this dichotomy

analysis often ignores the initiative and independence of small states themselves. Therefore, some scholars propose the third path of "hedging" based on bandwagoning and balancing. "Hedging" was originally an essential concept in finance, which generally refers to the fact that in financial investments with higher risks, decision-makers will adopt hedging to reduce related risks in order to avoid risks and ensure their returns (Chen, 2021). Some international relations scholars have applied "hedging" in finance to actual international politics, emphasizing that there are dual risks and benefits when some small and medium-sized countries face competition and conflicts with external powers. They can choose to follow the big powers or obtain corresponding benefits but, at the same time, bear the severe consequences of failure to follow the big powers. Therefore, in order to achieve the above goals, small and medium-sized countries have adopted a relatively neutral path to achieve more benefits in their interactions with the big powers. Reduce small states' risks and pressures and ensure relative independence at the external level (Ciorciari, 2019).

Regarding the specific connotation of hedging, scholars primarily define the concept of hedging based on criteria such as risk transformation, strategic combination, and delayed bandwagoning. Although the classification standards are different, the common point is that hedging is regarded as a measure the state takes to reduce risks. A series of strategic combinations, specifically including engagement, enmeshment, prevention (fangfan), containment (qiangzhi) and balancing, which is an evasive behavior by the state in order to maximize interests (Chung, 2004; Shi, 2016; Wang, 2018; Tan, 2020; Jones & Jenne, 2022). In studying the implementation conditions and purposes of hedging, the mainstream view is to analyze under what circumstances a country will tend to adopt hedging policies from the dual dimensions of domestic politics and international politics, such as perceived threats and relative capabilities at the external level, institutional system, regional order, and political elite considerations and strategic perceptions at the internal level (Wang, 2018; Kuik, 2016a, 2016b; Jiang, 2023). When countries adopt a hedging strategy, the purposes could be more consistent. For example, Evelyn Goh believes that the primary goal of Southeast Asian countries adopting a hedging strategy is to avoid China or the United States' hegemony, the United States' withdrawal from Southeast Asia, and unstable regional order. At the same time, Wu emphasized three elements for "hedging" Southeast Asia, namely, the first is indirectness or soft balance, emphasizing cooperation with other major powers such as the United States as a way to curb China's increasing expansion of power in the region; the second is hoping that China When formulating China's foreign strategy, leaders can operate more by inherent international principles, avoid imposing more Chinese power on international cooperation, and use a constructive hedging to counter offensive Chinese dominance; It is to entangle more regional forces to maintain a stable regional order (Goh, 2007a, 2007b). Kuik proposed that the primary purpose of Malaysia's hedging is to avoid the risk of falling into conflicts between China and the United States, the uncertainty of the United States' long-term commitments, the risk of alienating recently rising powers, the danger of being attached to a dominant force, and the risk of domestic authority. Erosion (Kuik, 2010; Kuik, 2021)

In terms of the research on hedging countries, some opinions indicate that any country can implement a hedging strategy, such as the United States' hedging strategy against China. However, existing research still focuses more on the hedging strategies of small and medium-sized countries, especially Southeast Asian countries. Small and medium-sized countries in Southeast Asia are believed to be more inclined to choose hedging strategies because they guarantee a particular space and initiative for small countries to make foreign strategic decisions. Adopting an equidistant diplomacy model to interact with big countries can effectively maintain small states' national security and interests. The hedging strategy of small countries is caused by uncertainty, which indicates that the uncertainty of the main threats and primary support of small countries. Small countries not only hope to maintain effective interaction and exchanges between competing big countries to achieve stability gains but also want to avoid following or relying on neighboring major powers and losing diplomatic autonomy. This uncertainty about the future makes small countries more likely to use hedging (Kuik, 2021).

2.2. The role of Multinational Corporations (MNC) in International Relations

With the end of the Cold War, the role of non-state actors has begun to play an increasingly important role. As specific interest organizations, enterprises are growing more substantial in the trend of globalization and have an increasingly significant impact on today's international political and economic system. In the process of enterprises integrating into globalization, the birth and development of multinational corporations (MNC) play an increasingly important role in global politics. The general definition of multinational corporations refers to companies registered, operated, and scaled simultaneously in multiple countries/regions. Regarding MNC, existing research focuses on discussing and analyzing the role and functions of multinational corporations in international politics. For example, Joseph Nye believes that the three significant functions of multinational corporations are private diplomacy against the host country, solving a disagreement within a country, becoming a political and economic tool for the home and host countries to benefit themselves, and promoting the formulation of inter-country political agendas (Nye, 1974). In addition, some scholars also believe that the impact of multinational corporations has apparent duality, which includes positive and negative impacts coexist. The positive impact is reflected in multinational companies introducing capital and technology into underdeveloped countries through the global flow of capital, helping underdeveloped countries obtain the capital and technology they need and promoting their rapid economic development. However, the negative impact is also very prominent. For example, for some backward and poor developing countries, multinational corporations can use their solid economic capital power to influence the economic and political structure of the host country, exacerbating the host country's internal vulnerability and making it vulnerable to Multinational corporations have formed a long-term and deep dependence, and the wealth gap between multinational corporations and their home countries and these host countries has become broader and more comprehensive(Nye,1974). Especially with globalization's development, multinational corporations' negative impact has become more prominent. To a certain extent, multinational corporations have failed to promote the further development of regional integration and have exacerbated the wealth gap between countries in the global South and developed countries. These multinational corporations have corporate investment activities that are also regarded as a form of "neocolonialism" (Alger, 1972). Regarding the relationship between multinational corporations and the government, some scholars have proposed that multinational corporations, as a specific interest organization within a country, tend to use existing resources to lobby the government based on their interests, thereby affecting the government's foreign policy decisions and moving towards development in a direction conducive to multinational corporations. For example, to promote the development of enterprises, the political elites of multinational corporations may urge the government to lower tariffs and implement more open introduction policies to promote the overseas flow of multinational corporations (Tarzi,2002). In addition, multinational corporations often represent the will of the country (home country) to a certain extent. Part of the equity shares of some large multinational corporations are also in the hands of the home country government. The home country government can export the country's products through multinational corporations as an intermediary. Economic strength and influence can make the host country highly dependent on the home country through economic coercion or inducement, thereby striving for more interests and diplomatic initiative in international political competition (Dörrenbächer & Geppert, 2011). Some scholars have also interpreted the design of economic activities by multinational companies in multiple countries and regions as "business diplomacy. The economic activities of multinational companies are regarded as diplomatic behavior, not only to maximize the company's commercial profits but also to transcend commercial interests, realize the political role of enterprises in promoting social problems and governance gaps between underdeveloped and developed countries, and expand the responsibilities of enterprises in the global governance system (Rehbein et al., 2015). Researchers have also noticed the specific participation of enterprises in host countries. In the form of independent foreign-funded companies, most will participate in the production and construction of the host country. However, for some socialist countries, joint ventures will also be used to carry out related production activities (Nye, 1974).

In addition to the discussion of the home country of multinational enterprises, some studies also interpret the economic behavior of enterprises from the host country's perspective. Southeast Asian and African countries are the focus of analysis, especially regarding the investment activities of Chinese enterprises in Southeast Asian countries and African countries. The research tendency is that, on the one hand, the investment behavior of Chinese enterprises in these host countries has brought many benefits to the local areas. Employment opportunities effectively reduce the unemployment rate and promote improving the host country's infrastructure and economic development (Ravenhill, 2004; Klaver & Trebilcock, 2011; Yu, 2017). However, on the other hand, many host countries need a clear understanding of Chinese enterprises' investment behavior. In particular, many Southeast

Asian countries believe that the economic behavior of Chinese companies in their countries has posed a severe threat to their national security and harmed the actual interests of the host countries. In particular, China has formed a hostile relationship with the host country by allowing the host country China's economic solid dependence to affect and control the host country's internal political and diplomatic decisions. Therefore, the host country has a negative view and attitude towards China's investment based on this situation and remains relatively cautious and prudent attitudes in some economic cooperation processes with China. (Goh, 2007; Prajuli, 2013). Therefore, some scholars also call on Chinese companies from the perspective of international communication to do effective publicity abroad and establish a positive and good international image to promote the external economic development of Chinese companies.

In summary, the deficiencies in existing research are mainly reflected in two aspects through reviewing the relevant literature. First, although the discussion on hedging strategies has been vibrant, the analysis level of hedging strategies focuses more on the political and security fields, and less research has started from the economic field to explore the operability and implementation conditions of hedging strategies, especially comparative studies, especially in the difference between economic hedging and hedging in the political and security fields. Second, when studying the external behavior of multinational enterprises, most studies focus on the economic impact of multinational enterprises from large or developed countries or interpret the responses and cognitive attitudes towards multinational enterprises from the host country level. Few studies discuss small-state respond to the rise and competition of external powers from the perspective of small-state enterprises in the host country. Therefore, this article analyzes the challenges and competition of small countries' enterprises against external powers from the perspective of economic hedging, which will better enrich and improve the application and implementation of hedging strategies in the economic field. It will also expand the level of analysis of small countries' foreign strategies from the perspective of enterprises. It also provides a more complete understanding for analyzing enterprises' external behavior and decision-making in this context.

3. Foreign strategic choices of small-state enterprises

In current international politics, small countries are often in a relatively passive position when facing competition from big external powers. Not only is the gap in relative strength too large, and small countries cannot unilaterally compete with competing big powers, but also because small countries cannot unilaterally compete with competing big powers. Economically, they maintain a complex interdependence with big countries. Small countries need to rely on the markets and technologies provided by big countries to develop their foreign economies. For small country enterprises, the domestic market space of small countries is relatively limited, so the market and economic resource advantages of large countries can provide small country enterprises with a broader development space. Therefore, when small country enterprises face competition from big countries, their strategic choices are more special compared with those of other countries.

3.1. Concept definition and operationalization

The objects analyzed in this article are mainly enterprises in small (weak) countries. According to Joseph Nye's definition and explanation of multinational enterprises, the small-state enterprises in this article are usually headquartered in countries with relatively weak comprehensive strengths in the international relations system. In this country, Enterprises with certain economic status and advantages within the country can appear as multinational enterprises or joint ventures externally (Nye, 1974). Regarding economic hedging, this article believes that it mainly refers to a country or enterprise adopting a two-way economic interaction model when facing fierce economic collision and competition from external powers and maintaining full economic cooperation with competing powers and making full use of the economic advantages of the great powers to Feed back its economic development. At the same time, the independence and autonomy of foreign economic decision-making should be maintained during cooperation to avoid solid economic dependence on significant countries and maximize economic benefits (Yan, 2023).

There are complex connections and interactions between countries and enterprises in international relations. After the end of the Cold War, with the rapid development of globalization, non-state actors represented by enterprises

gradually became essential participants in international politics. They had a significant impact on the development of international relations. Compared with state actors, the interaction of enterprises in international politics relies more on their vast business networks and significant capital and technological advantages. When enterprises flow through the trend of globalization, their capital and technology flow to many other developed and developing countries. On the surface, underdeveloped countries have received financial and technical support from multinational enterprises. However, underdeveloped countries have formed a deep economic dependence on multinational enterprises, and multinational enterprises can take advantage of the deep dependence on the country to influence and control its foreign affairs and political decisions. Therefore, the external impact of enterprises is more reflected at the economic level (Keohane & Nye, 1998).

The relationship between the state and enterprises can generally be divided into two dimensions. On the one hand, enterprises represent the political and economic will of the home country to a certain extent. When it is inconvenient for the country to act as a national unit at the external level, multinational enterprises can be used to exert political and economic influence on the host country, making the enterprise a national As actors and representatives who implement corresponding foreign policies, countries use the significant advantages of enterprises to compete and compete with host countries in all aspects to achieve more profits (Xiong, 2019). On the other hand, although enterprises are often imprinted with the shadow of the country in their external actions, enterprises are still a specific interest organization. Especially when the enterprise has a high status in the home country, the political influence of the enterprise in the home country also increases. The core goal of an enterprise is to pursue maximized commercial profits. However, sometimes, a country's strategic decisions are not just to achieve commercial profits but also to achieve political and military interests and sometimes even to sacrifice economic interests in exchange for external political interests. However, this kind of behavior often damages the core value of the enterprise itself and brings about a direct conflict of interest between the enterprise and the country. At this time, the enterprise will take various actions to defend its core interests (Hirschman, 1980). Therefore, enterprises often have two sides: enterprises can act as intermediaries to carry out various operations and actions in international politics on behalf of the home country to win more benefits for the home country. However, at the same time, the enterprise itself is also a specific interest organization and often acts according to its interests. Interests to maximize their interests. Regarding enterprises, the specific relationship between the host country and the home country is shown in Figure 1.

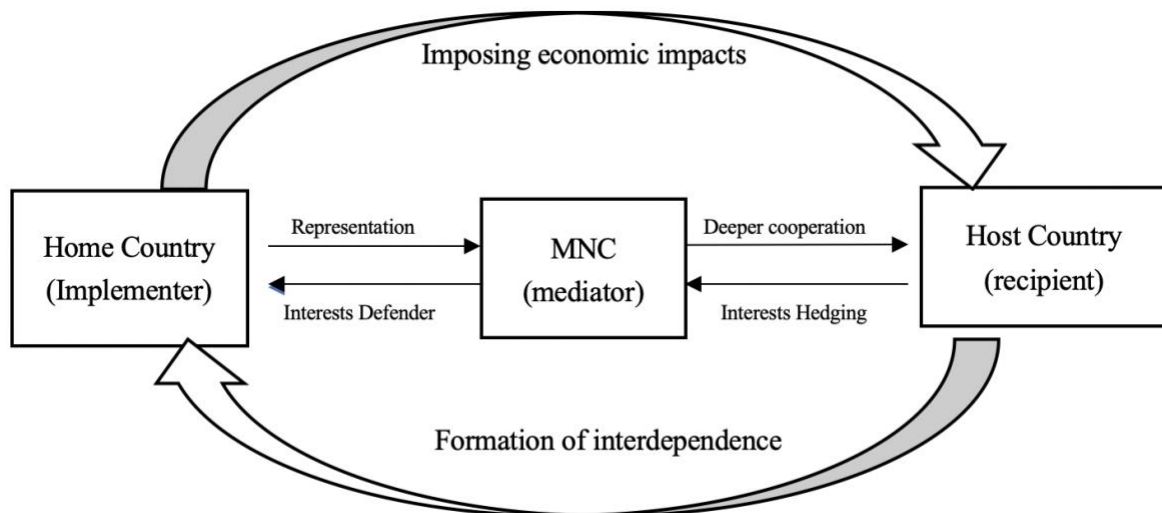


Figure 1: Three-dimensional interaction model between home country, MNC and host country

Source: Self-made by the author

3.2. Analytical framework: Economic hedging of small-state enterprises from the perspective of legalization

In political science, legalization is essential in analyzing the government's power concentration and legal basis to measure whether a government complies with norms. Similarly, enterprises, as a specific interest group, play an essential role in the country's internal political structure. Enterprise groups composed of many political elites also need to obtain corresponding legitimacy in internal and external political decisions to establish a good image and reputation, laying a solid foundation for the development of the enterprise (Weatherford, 1992). Especially as multinational enterprises in small countries (weak countries) have strong economic and political influence on the country, they are also integrated with the political party organizations within the small country. Under this joint effect, the country's political power is formed. Given this situation, this article borrows legitimation theory. It introduces the performance legitimation and particularity legitimation paths as the core explanatory variables. At the same time, the interest's pursuit is the primary intermediary variable of this article, and the economic hedging of small-state enterprises is the dependent variable. The specific interactive relationship is shown in Figure 2.

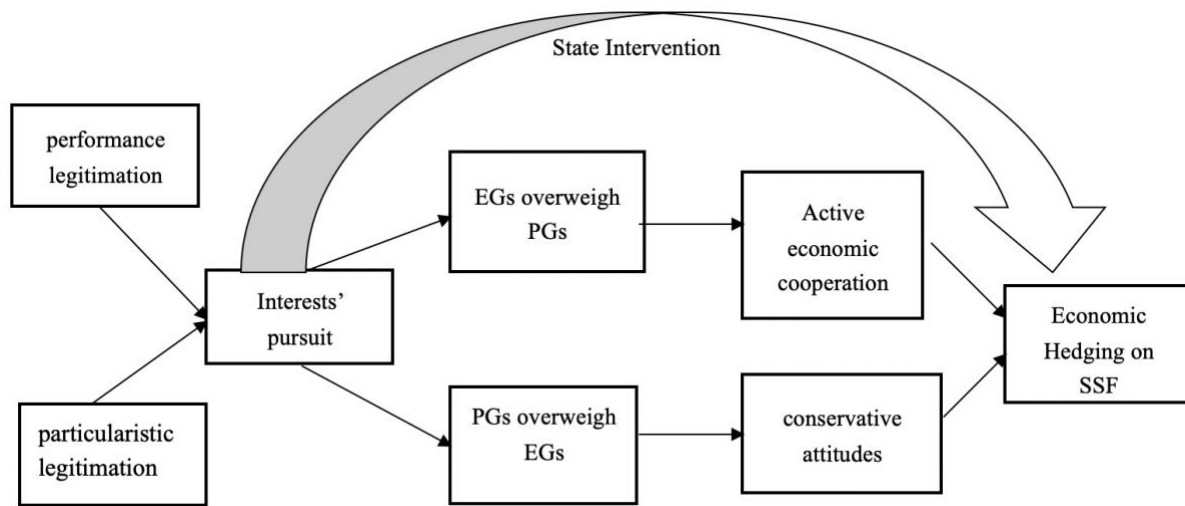


Figure 2: Legalization and economic hedging patterns of small-state firms

Note: PGs (Political Gains), EGs (Economic Gains)

When enterprises implement economic hedging in the game of great powers, two critical variables, performance legitimation, and particularity legitimation, simultaneously affect the external interaction model of small country enterprises. The first is performance legitimation, which refers to the country or government proving the authority of its rule through economic growth and well-being and using substantial economic gains as a specific indicator to clarify its legitimacy status (Dagher, 2018). For small countries, their performance significantly impacts whether elite groups can win the support and trust of the people. When leaders achieve the country's overall foreign economic growth and development by implementing strong economic policies, the people will also be affected by the interrelatedness due to the continuous development of the country's economy, such as the increase in people's income, the increase in employment opportunities and the improvement of public welfare. Therefore, the people will think that the economic measures of the leaders or the government are adequate and correct, and contributing to the country's long-term external prosperity and development. People will have more support and trust in elite groups, and the ruling foundation of the country or government will be consolidated to a greater extent (Cha & Lv, 2022).

On the contrary, when the country's elite groups cannot take effective economic measures to achieve positive economic growth, the country will not be able to fundamentally provide the people with broader economic results and public welfare, and the people will be dissatisfied with the government or political elites. Protests against decisions require elite groups to adopt practical policy options to promote the country's economic development. Once the domestic decision-making group fails to achieve the goals expected by the people or the contrast with the people's expectations is large, it will intensify the people's distrust of the government and trigger more serious social unrest. For enterprises, enterprises are often a particular elite group composed of many political and business elites. Political and business elites are also essential to the country's external decision-making. They often influence the Country's foreign policy according to their interests. The will of the state can also be expressed among the

people through enterprises. The state provides more development opportunities for the people by supporting the development of enterprises. At this time, the enterprises achieve the expected profit income, and the state also improves itself through performance legitimation (LaPalombara, 2019).

As an essential way of legalization, particular legalization mainly emphasizes political mobilization based on identity. The country selectively implements corresponding political mobilization and propaganda based on the identity characteristics of its internal people and takes specific measures to meet specific needs. The interests of a group of people stimulate the favorability and trust of this specific group of people in the country, thereby enhancing its legitimacy (Kuik, 2021). For some small and medium-sized countries, one of their prominent internal political characteristics is multi-ethnicity, and the country is composed of different ethnic groups. The state can take specific measures according to the needs of different ethnic groups to cater to their needs and thereby enhance their trust and support for the government. However, this is often a relatively complex and challenging process of decision-making because of the political characteristics of multi-ethnic groups. There are intense conflicts of interest among various ethnic groups. When the state selectively makes corresponding decisions to cater to the needs of individual ethnic groups, although the unique needs of that individual ethnic group can be met, it is also at the expense of other ethnic groups. It not only cannot achieve a dynamic balance between different ethnic groups but will further intensify the fierce conflicts and confrontations between ethnic groups, which is not conducive to the country's long-term stability. However, particularity is still essential transformation path for the country or leadership groups. (Ahmad & Kadir, 2005). In this process, enterprises can play the role of intermediaries. Enterprises can serve as representatives and concrete actors of the state, expressing the state's support and assistance to specific ethnic groups through the economic support of enterprises to this ethnic group. When an enterprise, as a symbol of the country, implements specific economic policies and measures, the enterprise can achieve effective communication and dialogue directly with different ethnic groups and pass the demands of different ethnic groups to the country through the enterprise. The enterprise is also a community of interests that includes certain members of different ethnic groups. At this time, the needs of the same dimension are unified and conveyed to the country through the enterprise organization, and the resources and status of the enterprise itself are used to influence the country's political decisions. in a direction that favors ethnic goals. Based on this situation, enterprises effectively connect the state with special ethnic groups, and the state can also realize its different needs through enterprises, thereby enhancing its legitimacy (Gomez, 2008). At the same time, when different ethnic groups cannot recognize specific country policies, different ethnic groups will have solid political dissatisfaction with the country, and companies, as specific executors, will become targets of attack by different ethnic groups. For the country, it disperses the political impact and pressure on the country to a certain extent. It is conducive to consolidating the relative stability of the government and its governance.

For a country, obtaining legitimacy can be one way or a combination of multiple paths. However, there is an obvious sequence for using multiple paths simultaneously, and enterprises can adopt multiple paths. To obtain appropriate legality. It is important to note that the essence of an enterprise is to maximize profits. For different legalization paths, the expected benefits achieved by enterprises are different. Performance and particularity determine the mutual game between enterprises' economic and political benefits, when performance is the main legitimation path, the enterprise's economic benefits will exceed political benefits and become the main profit target of the enterprise; when particularity is the main legitimation path, the enterprise's economic benefits will give way to political benefits. It has become the secondary revenue goal of the enterprise. However, no matter which legalization path is adopted, the enterprise's core purpose is to promote the pursuit of corporate interests and maximize its interests. Therefore, the joint action of performance legitimation and particularity legitimation determines the game and pursuit of interests within the enterprise, ultimately affecting small-country enterprises' economic hedging model.

Based on the above explanation, the main hypotheses of this article are as follows:

Hypothesis a: When faced with the game of external big powers, small-country enterprises will not tend to choose to bandwagon and balance but choose to use economic hedging as the primary strategic choice due to the nature of the enterprise.

Hypothesis b: When small-country enterprises choose performance legitimation as the main path, the economic gains of the enterprise are more important than political gains, and the enterprises will tend to carry out more active economic cooperation and interaction with competing powers.

Hypothesis c: When small country enterprises choose to particularity legitimation as the main path, the political benefits of the enterprise are more important than the economic benefits. The enterprises will be relatively cautious in maintaining economic cooperation with competing big countries and even show an economic level of hostile confrontation.

It should be noted that when enterprises choose actual legalization paths, they will not mainly focus on one legalization path alone but will choose to combine multiple legalization paths. Therefore, the research hypothesis of this article is based on the main legalization path of enterprises. Taking the legalization path as the core, the following uses the Malaysian Railway Connection Company as a specific case to verify the research hypothesis further.

4. MRL economic hedging against the competition between China and the United States

This article selects the **MRL** as the research object mainly for the following four reasons. First, Malaysia is one of the Southeast Asian countries with the most complex economic and political interactions with China. On the one hand, China is Malaysia's largest trading partner and target. The economic and trade volume between the two countries has exceeded 200 billion US dollars. Malaysia has a high degree of economic dependence with China. On the other hand, there are political tensions between Malaysia and China, and existing research rarely discusses Malaysia's economic hedging against China. Second, Malaysia actively participates in China's "Belt and Road" initiative cooperation. The East Coast Rail Link (ECRL) is one of the most important and representative projects in the "Belt and Road" cooperation between the two countries, while the MRL is the leading participating company of ECRL. Third, throughout its participation and performance in ECRL can reflect Malaysian government understanding and attitude towards Malaysia-China relations and the external game between China and the United States. By analyzing its participation in ECRL, we can better examine how small state-owned enterprises respond to geopolitical competition among major powers. Fourth, the research timeline is chosen from 2013 to 2020, mainly because China officially proposed the BRI in 2013. As one of the tiny Southeast Asian countries, Malaysia has actively participated in the economic cooperation between the two countries, and Malaysian local enterprises have also become important. Participants played an important role, but the change in the Malaysian government in 2018 influenced enterprises' attitudes towards ECRL. Therefore, examining the external changes of enterprises during this period will also provide more comprehensive thinking and understanding for the study of economic hedging of small country enterprises.

4.1. The active participation period of the MRL (2013-2018)

Since China officially proposed the "Belt and Road" initiative in 2013, Malaysia, one of the tiny Southeast Asian countries, has expressed strong interest and high enthusiasm for the "Belt and Road" initiative. The then Malaysian Prime Minister Najib expressed his enthusiasm for the "Belt and Road" initiative. He highly appreciates and supports the initiative and believes that the "Belt and Road" initiative will bring unlimited development to the future of Malaysia and the region. He also encourages Malaysian enterprises to actively participate in the "Belt and Road" initiative to create a more united and progressive country (MOC, 2016). Therefore, with the strong support of Najib, Malaysia and China have reached several cooperation on the "Belt and Road Initiative." Malaysia also uses the funds and technology provided by China's "Belt and Road Initiative" to vigorously promote the development of domestic enterprises and the economy. The economic relationship between Malaysia and China is, at this time, a new period has entered. As the flagship project of the "One Belt, One Road" initiative between Malaysia and China, ECRL is China's most prominent investment project in Malaysia and a landmark project in the entire Southeast Asia region. Najib expressed his high support and recognition for it because, as a large-scale infrastructure construction project, ECRL will effectively connect East Malaysia and West Malaysia, greatly facilitate the life and work of local people, and inject more economic development power into the poor East Malaysia region (Tat et al.,2018). Therefore, Malaysia established the Malaysia Rail Link Sdn Bhd (MRL)to

consolidate ECRL's cooperation with China better. MRL is the owner company of the project by the Malaysian government. Although its equity is a joint venture company established with equal equity between MRL and China Communications Construction Company (CCCC), MRL wholly owns the ECRL project, and 80% of the joint venture's profits belong to MRL. Although MRL participates in the specific construction in the form of a joint venture, in essence, MRL not only has the official background of the Malaysian government but also represents the will of the Malaysian state to a certain extent, and because it is in partnership with Chinese overseas enterprises and capital forces. It symbolizes important product born of mutual integration, the cooperative development between MRL and Chinese enterprises, and also reflects the complex economic game between small-country enterprises and big countries.

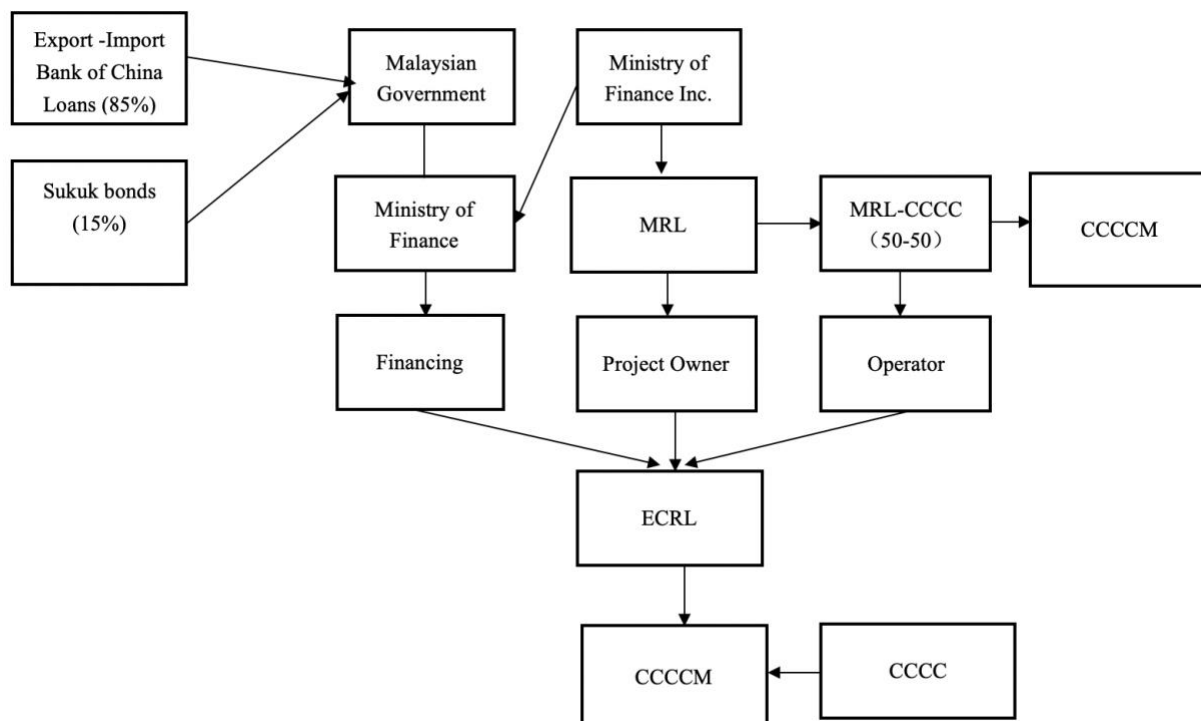


Figure 3: Project ownership structure of ECRL

Source : BRI Monitor, 2020

When MRL became the direct participant and executor of the Malaysian government's economic cooperation with China, MRL also conducted extensive and active interactions with China Communications Construction Company to discuss specific cooperation details regarding ECRL. MRL expressed strong support for the East Rail project and enthusiastic cooperation. Prior to the construction of the ECRL project, the Suruhanjaya Pengangkutan Awam Darat (SPAD) and East Coast Economic Region Development Council (ECERDC) conducted a market intention review on the agreed East Coast Rail Network on March 15, 2016, in order to explore and gain a deeper understanding of the East Coast Rail Link. However, the two essential implementation units did not disclose relevant information and investigation results. This triggered criticism and controversy from the Malaysian opposition parties and some politicians about Najib's administration's opaqueness and the transformation has laid the foundation for MRL's subsequent attitude (BRI Monitor, 2020). On October 21, 2016, Malaysian Prime Minister Najib formally approved the East Rail project in Parliament.

On November 1, MRL, representing the Malaysian government, officially signed the first phase with CCCC about ECRL for a total price of US\$13.1 billion (estimated RM55 billion) construction contract. Performance legitimization is decisive in influencing MRL's approach to economic cooperation with Chinese state-owned enterprises. The "Malaysia Development Berhad" (1MDB), founded by Najib, then the leader of Malaysia, 2015 was accused of embezzlement and corruption. In particular, Najib was considered by the opposition and some local political elites to be responsible for his internal and external decision-making. The opacity and illegal procedures have triggered strong criticism and accusations. Najib has been under intense pressure from the country

to govern, and Najib's legitimacy in power has been seriously challenged (Chin, 2010). For small multi-ethnic Southeast Asian countries like Malaysia, legitimacy is an essential prerequisite for whether political leaders or political parties can fully win the trust and support of multi-ethnic groups. If leaders cannot achieve legitimacy through relevant paths, their political status will be in danger. Therefore, when Najib could not enhance his political legitimacy through procedural legalization, performance legalization became the main path and method of implementation, by adopting solid economic measures and policies to stimulate the positive growth of the domestic economy and transform the economy. The growth has benefited a wide range of people in Malaysia, offsetting political dissatisfaction through performance growth, thereby enhancing people's support and trust (Ufen, 2022). For Najib, the East Rail project is the most critical performance growth opportunity. As a direct participant and executor of the Najib government's foreign policy, MRL's enthusiasm and friendly attitude toward economic cooperation with China, to a certain extent, relies on the foreign policy choices of Najib and his government, which is to express the Malaysian government's great importance to economic cooperation with China. Under the leadership of Najib and actively participating in cooperation with China on the East Rail project, and Malaysia obtained substantial capital and technology from China, driving the rapid growth of Malaysia's external economy (Lim et al., 2022). Although performance legitimation is the main influencing factor, particularity legitimation also plays a corresponding role. The Barisan Nasional, under the leadership of Najib, has the support of certain Malaysian Chinese political parties and Chinese chambers of commerce, so MRL's active cooperation with China also plays a corresponding role. This allowed many Malaysian and Chinese businessmen to benefit more from economic interaction with China. However, accordingly, Najib did not bring more benefits to the local Malays, which also became an essential factor in his subsequent resignation (Hrubý & Petru, 2019).

At the same time, as an enterprise, pursuing interests is one of the core goals of its external development. Although MRL represents the Najib government to a certain extent, the enterprise also seeks to maximize economic growth and interests, especially as a newly established company that needs to rely heavily on the financial support provided by China for its external development. Although Malaysia is not entirely dependent on China and still has a certain degree of political wariness towards China, companies have worsened their economic relationship with China to maintain national political security and it is not worth the gain for the enterprise's long-term development. Therefore, in political games and economic considerations, economic gains are far more critical than political gains. For a small Southeast Asian country that advocates economic pragmatism, enterprises serve as a collection of national interests. It can bring more diversified benefits to MRL through active interaction and participation in the economy of major countries. It can not only maximize corporate interests but also help Najib gain more public support and recognition and enhance his legitimacy with the government, so MRL's cheerful enthusiasm for China on the East Rail project is undisputed (Leifer, 2001; Kuik & Lai, 2023). However, it should be pointed out that MRL's economic cooperation and attitude towards China do not mean that Malaysia is entirely dependent on China but that it fully uses China's economic advantages and resources to ensure its relative independence.

While Malaysia and China have established a high degree of economic cooperation, Malaysia is also facing increasingly severe geopolitical tensions between the two major powers, China, and the United States. The Trump administration has always regarded China as a severe geopolitical threat and believes that it has harmed the economic interests of the United States, so it has taken relatively severe economic measures against China. This tense relationship makes Malaysia worried about whether it will affect its economic cooperation with China. Malaysia must adopt a hedging approach to avoid a dilemma between big powers. However, as a rationalistic small country (Chin, 2021), Malaysia understands China's East Rail Link project and the "One Belt, One Road" initiative behind it have brought considerable benefits to MRL and Malaysia as a whole that are unmatched by the United States. In addition, Trump's inappropriate remarks about Islamic countries since he came to power have worsened relations with many Islamic countries, such as Malaysia, triggered strong dissatisfaction, prompting Malaysia to choose closer economic cooperation with China emotionally (Xinhuiet, 2017).

Therefore, from 2013 to 2018, MRL, as an essential representative and intermediary under the leadership of the Najib government, used an economic soft hedging method to deal with the game and competition between China and the United States in its economic cooperation with China, manifested in maintaining a specific independent space of its own. Focusing on the East Rail project, MRL is more inclined to adopt a proactive, cooperative attitude

towards China and makes full use of the significant conditions of the Chinese economy to achieve Malaysia's domestic economic growth and thereby promote long-term development. With the change in Malaysian domestic government in 2018, MRL's attitude towards economic cooperation with China has also quietly changed.

4.2. Transformation period of MRL (2018-2020)

At the end of the fourteenth general election in Malaysia in 2018, Najib, who represented the Barisan Nasional (BN), lost the domestic election and stepped down. Mahathir, who represented the Alliance of Hope, replaced Najib as the new prime minister of Malaysia. And leaders. When the Pakatan Harapan (PH) led by Mahathir came to power, it announced a comprehensive review of large-scale infrastructure projects approved by Najib. The review aimed to understand Najib's personal corruption and corruption in these projects. In addition to the "1MDB" incident, Najib and his leadership group have been accused of severe corruption and embezzlement, especially Najib's alleged betrayal of Malaysia's national interests in exchange for China's economic bribery, which triggered strong dissatisfaction and protests from the Malaysian opposition parties and the people (Abadi, 2021). Based on this situation, after taking office, Mahathir announced that he would re-examine the economic cooperation projects between Malaysia and China during the Najib period. Mahathir also cited the East Rail and pipeline projects as "harming national interests" and they need to be suspended. On July 3, 2018, MRL instructed China Communications Construction Company to suspend all projects under the East Rail project's design, procurement, construction, and commissioning contract. MRL no longer treats cooperation with China Communications Construction Company as it did during the Najib period but became more conservative and cautious and even caused some conflicts of interest (Theedge Malaysia, 2018).

The change in MRL's attitude also shows that the Malaysian government's policy towards China has adjusted. Malaysia has become more cautious in reviewing its economic interaction with China, especially with the change of domestic government and the outbreak of the Sino-US trade war externally. The leaders' perception of China has also changed and China's threat to Malaysia has increased, and the direct pressure it has brought has also significantly increased (Yeoh, 2019). For the suspension of the East Rail project, one of the reasons given by MRL is that the cost of the East Rail project far exceeds the company's budget and the financial scope of the Malaysian government. The original cost budget of the Malaysian Ministry of Finance and MRL was 55 billion ringgits. However, after a construction period, MRL and the Malaysian financial department believe the final construction cost will be RM88 billion. This result has far exceeded Malaysia's budget range and will put massive pressure on Malaysia's finances (Malaysiakini, 2016). In addition, Mahathir believes that much of the content of the East Rail Project signed with China during the Najib period needs to be more transparent and fairer to Malaysia. Such content cannot be in line with Malaysia's national interests. It has also become an essential factor that forced the suspension of the East Rail project (Fan & Long, 2020).

Although Mahathir and the Pakatan Harapan government emphasized that the construction cost was too high, the fundamental factor that affected the change in MRL's attitude was the particularistic legitimation. During the Najib period, he hoped to enhance the legitimacy of his rule through performance. However, this economic growth only partially translated into substantial benefits for the people. Instead, it was criticized by some Malaysian political elites as necessary means for Najib himself plundering wealth and capital (Chin & Razak, 2016). When Najib was exposed to corruption, it triggered many people in Malaysia to protest and be dissatisfied with the poor governance of the Barisan Nasional (BN) and Umno. They condemned Umno for being unable to effectively solve the corruption problem of the country's internal political leadership groups, which also led to Umno The government is no longer able to attract the complete trust and support of the Malaysian people, which indirectly affected the Barisan Nasional's domestic elections in 2018 (IntelliSnap, 2020). Based on Najib's situation, how to re-enhance the trust and support of the Malaysian people in the government and consolidate its governing legitimacy has become a vital issue, and legalization is a critical path. For Malaysia, the core of legitimizing specialness means highlighting and defending the leadership and interests of the Malays, especially paying attention to the distribution of actual interests of the indigenous Malays in the country. However, Although Najib also emphasized maintaining the Malay leadership position during his period, his actual operations were more based on personal interests. Therefore, to regain the support and trust of the Malay indigenous people, Mahathir and the PH have made more efforts in the East Rail project, especially maintaining Malay value orientation and interest demands

have been carefully considered because. Some scholars believe that many economic cooperation projects with China benefit more Malaysian Chinese than the majority Malays. If things continue like this, the Malays will be dissatisfied with China's economic cooperation (Shamsuddin & Liaw, 2015). Based on these considerations, highlighting the particularity of the Malays has become an essential means to increase the legitimacy of the Mahathir government.

As for the Mahathir government and MRL, the relationship between them is complex and subtle. On the one hand, MRL, as a direct interlocutor and participant in the economic cooperation between the Malaysian government and China, shoulders the interest demands and expectations of the Malaysian government and political elites. MRL must maximize Malaysia's national interests in its economic games and interactions with China. At the core, MRL and the Malaysian government have become a complex community of interests. MRL is a crucial tool and means for the Malaysian government's foreign economic game, and MRL serves the diversified development of Malaysia's economic interests (Liu & Lim, 2020). On the other hand, MRL itself is also an independent enterprise. The core purpose of the enterprise is to maximize external interests. Therefore, MRL will retain a particular space and authority in its foreign economic decision-making. However, MRL must still be under the order of the Malaysian government and take corresponding actions and policies can be implemented.

Therefore, during Najib's period, because Najib himself paid more attention to the role of performance legitimation, he saw the enormous economic benefits that China's BRI brought to him and Malaysia. He actively promoted MRL's cooperation with China in order to achieve broader economic cooperation. Therefore, MRL actively conducted various friendly and positive interactions and consultations with China in the early stages of the East Rail project. This also shows that the Najib government attaches great importance to China's economic policy and is enthusiastic about it. However, when Mahathir came to power, the government groups served by MRL changed from the Barisan Nasional (BN) to the Pakatan Harapan (PH) because Mahathir and the Pakatan Harapan had specific criticisms and dissatisfaction with the East Rail project. This dissatisfaction was inconsistent with the criticism that cannot be expressed directly to China from the national level because, to a certain extent, it will damage the long-term friendly cooperative relations between Malaysia and China and cause dissatisfaction in China. So, Mahathir also skillfully changed this attitude towards China. MRL as an intermediary is conveyed to China, making China realize that cooperation with Malaysia needs to align with the interests, requirements, and expectations of the host country (Liu, 2019). When Mahathir and the Pakatan Harapan government believed that the East Rail project was not in line with the ruling interests of the current government, they required new policy adjustments for cooperation with China. MRL also needed consistency with the Mahathir government on the East Rail project. Corresponding transformations and adjustments will take place to cooperate with national-level actions to safeguard the leadership and interests of the Malays effectively and enhance the governing legitimacy of the Pakatan Harapan government. For MRL, although the pursuit of interests is diversified, including political and economic interests, economic interests are often the most important because enterprises need long-term development through profitability. This is the most significant difference between enterprises and the government. However, after Mahathir came to power, the Pakatan Harapan government remained relatively cautious in cooperating with China on the East Rail project. This also prompted MRL to choose between economic gains and political gains. Economic gains must give way to political gains because MRL, as a Malaysian national enterprise, cannot gain economic benefits at the expense of national interests, so in order to safeguard national interests and security, MRL must reconsider and formulate cooperation with China on the East Rail project, which is more expressed in a conservative and cautious attitude towards economic cooperation (Ngeow, 2022).

Therefore, MRL's choice to be particularistic legitimation determines that it must use economic hard hedging as its primary strategic choice in the East Rail project. This is also affected by the increasing tension in external Sino-US relations. With the Sino-US trade war outbreak in 2018, the economic game between the two major powers, China and the United States, has become more intense and tense. This is a severe challenge for many small countries that rely on the economic development of the two major powers, China and the United States. The economic impact on the global production chain is undeniable, and Malaysia has naturally been affected by this adverse impact. Former leader Najib's actions were considered too pro-China, which could have negative impact on Malaysia's neutrality in foreign policy. In order to prevent dissatisfaction from the United States and reduce economic dependence on China, Mahathir also chose to re-examine economic cooperation with China through MRL, thereby sending an essential signal to the United States and the world that Malaysia's close cooperation with

China is only for economic development. Malaysia will adhere to the neutrality of its foreign policy instead of taking sides, Malaysia will participate in the governance of significant global political affairs with ASEAN (Moeller, 2019; Chin, 2023).

Although MRL, under the leadership of Mahathir, has chosen to adopt a more challenging economic attitude towards ECRL cooperation with China, this does not mean that Mahathir or MRL does not attach importance to economic cooperation with China. As a leader who puts rationality and pragmatism first, Mahathir can see the enormous role of the East Rail project in leading and promoting the integrated development and economic coordination of Malaysia's east and west coasts, and Mahathir does not entirely reject all the BRI cooperation projects (Kuik, 2023). Only have complicated views and opinions on the East Rail project and the two pipeline projects, especially when Mahathir came to power, he still allowed other projects to continue. He visited China three months after taking office, visited China's Alibaba and Geely Automobile, and discussed "unfair transactions" and "loan issues" with the Chinese side. There are various signs that Mahathir is only dissatisfied with some cooperation, such as the East Rail project, and still expresses support and welcome for the overall BRI. This also stems from China's economy's significant advantages and importance over other countries. Therefore, after many negotiations and consultations with China, Mahathir announced on April 12, 2019, that the East Coast Railway project would resume, significantly reducing the construction cost compared with the original plan. More systematic coordination and communication on new construction cooperation have been re-launched between MRL and CCCC (Vietnamplus, 2022; Guowuyuan, 2018).

Table 2: Development of MRL's response strategies in the East Rail project

Phase	Influencing Factors	Expected return	Features	Specific performance	Response strategy
2013 — 2018	performance legitimization	main economic gains	Positive and enthusiastic	Represented the Malaysian government in the signing of a contract with China for the construction of the ECRL	Economic soft hedging
2018 — 2020	particularistic legitimization	main political gains	cautious and prudent	Suspension of the continuation of the ECRL; a new contract was renegotiated with CCCC and the ECRL continued to be built	Economic hard hedging

Source: Designed by author

In summary, through the change in MRL's attitude towards the Malaysia-China Eastern Railway project, it can be found that MRL has a complex interactive relationship with different Malaysian governments, and different legalization paths also determine the development of MRL's attitude when cooperating with China. On the one hand, MRL, as the policy executor and intermediary of the Malaysian government at the external level, represents the government's and the country's interests. The government's external interest considerations and specific actions need to be implemented through MRL. MRL's different perceptions and attitudes towards the East Rail project also reflect the Malaysian government's policy direction for economic cooperation with China. On the other hand, due to the legalization choices of different ruling groups in Malaysia, MRL has also adopted economic soft hedging and hard hedging strategies in the East Rail project, prioritizing the most important to the enterprise in the dual game of economic interests and political interests.

Table 3: ECRL project schedule

March 15, 2016	SPAD (Suruhanjaya Pengangkutan Awam Darat) and ECERDC (East Coast Economic Region Development Council) conducted market
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	interest gauging surveys to gain insight on views and ideas for the ECRL using a “Request for Information” (RFI).
October 21, 2016	Malaysian prime minister Najib Razak announces approval of the project during his speech to parliament on the 2017 budget.
November 1, 2016	The Malaysian government signs “framework finance deal and construction agreement” valued at 13.1 billion USD, with China Construction Communications Company as the “builder” for Phase 1 of ECRL construction.
March 2, 2017	SPAD grants conditional approval for the preferred route alignment for the ECRL and the plan for the proposed ECRL was displayed for public inspection for 3 months total at the SPAD head office and through a roadshow at 38 district office locations across the nation.
May 13, 2017	Prime Minister Najib Razak witnessed the signing of a “Memorandum of Understanding” for the second phase of the ECRL, supplementing the November 2016 EPCC agreement. The MOU was signed with Malaysia Rail Link Sdn Bhd , China Communications Construction Company Ltd (CCCC), and China Communications Construction Company (M) Sdn Berhad .
June 2017	Approval of final alignment and start of the construction.
July 3, 2018	The Ministry of Finance, on the instruction from the Prime Minister, issued a suspension notice to all contracts related to the ECRL project. MRL had instructed its main contractor, CCCC, to suspend the EPCC contract on grounds of national interest.
April 12, 2019	After months-long negotiation process between the two state companies, Malaysia Rail Link Sdn Bhd and China Communications Construction Company Ltd signed a Supplementary Agreements (SA) which paved the way for the resumption of the ECRL project. In addition, both parties agreed to form a joint-venture company to manage, operate and maintain the ECRL rail network. The SA covers Phase 1 and Phase 2 of the Engineering, Procurement, Construction & Commissioning of the ECRL at a reduced cost of RM 44 billion.
July 25, 2019	ECRL officially resumed work.

Source: *BRI Monitor*, 2020

5. Conclusion

This article takes the Malaysian Railway Connection Company as the research object, uses legitimacy theory to analyze the economic hedging model of small-state enterprises in the context of competition among big countries, and provides essential enlightenment in three aspects.

First, when small countries face competition and conflicts between external powers, domestic enterprises in small countries often become the specific executors and participants of foreign policies of small countries. Small country enterprises will also carry the mother country's economic expectations and interest demands behind them. Compared with large countries, the interests of small-country enterprises and domestic governments will be more

intertwined, forming a closely connected community of interests. The economic choices and considerations of small-country governments for big countries competition will also directly affect the small-country enterprises specific behaviors and performances.

Second, legitimacy is of great significance to whether a small country's government can fully win the trust and support of the domestic people and enhance its political authority. When the government of a small country chooses to use performance legitimization as the primary method, the enterprises of the small country serve as the intermediary for communication and dialogue with the big countries, and the importance of economic gains is higher than political gains. Therefore, the small countries mainly focus on economic soft hedging. It shows active catering and support for economic cooperation between major countries. When small country governments mainly choose to particularity legitimacy, political and security interests will become the priority goals of the country and enterprises. At this time, economic gains need to give way to political interests. Small country enterprises mainly use economic hard hedging as the primary mode, manifested as economic caution, prudence in cooperation, and even conflicts of economic interests.

Third, judging from the actual performance of the MRL in the ECRL project with China, MRL has complex interests and connections with different ruling parties in Malaysia, from Najib to Mahathir, from the Barisan Nasional(BN) to the Pakatan Harapan, with the change of the domestic government in Malaysia, MRL's attitude and policies towards economic cooperation with China are also undergoing transformation and adjustment, from the original economic soft hedging to hard hedging, and the primary purpose is to achieve the priority of political gains or economic gains. The case of Malaysia also shows that when faced with economic investment activities from state-owned enterprises in large countries such as China, rationality and pragmatism play essential roles in prompting small-country enterprises to choose to carry out all economic interaction and cooperation with large countries. However, the specific performance is complex. It is a complex economic hedging model that is largely different from bangdwagoning and balancing, and on the premise of maintaining the relative independence of small countries and enterprises, making full use of large countries' economic advantages and resources to drive their economic development. However, when small enterprises and countries face the risk of conflicts between external powers, they tend to give up part of their economic gains to maintain their political security and avoid getting involved in fierce conflicts with great powers.

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Data Availability: The data that support the findings of this study are available from the corresponding author, upon reasonable request.

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