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Belt & Road Business Forum and Symposium 2018

China's BRI in Malaysia:
Can it be a win-win partnership?

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Agenda



Key messages

China is a dominant player in global capital flows

- China's "Going Out" strategy spurs deeper economic and financial integration
- Belt and Road Initiative (BRI) will elevate China's investment to greater heights
- Chinese investments flow across a broad range of industries, including strategic sectors

Deepening of Malaysia's ties with China: What are the implications?

- Spillover on GDP, investment, exports, SMEs and financial market
- Opportunities vs. challenges; Partners or competitors?
- How can local enterprises and SMEs benefit from BRI?
- Rising China engagement comes with concerns, negative perceptions and criticisms

Policy prescriptions to foster stronger mutual economic benefits

- Coordinate approaches to secure mutual economic benefits
- Targeted intervention policy – sourcing of local materials, transfer of technology, employment, synergetic ties-up
- SMEs – be prepared to seize business opportunities while facing competition
- Increasing the competitiveness of local SMEs

Key probing questions

- ✓ What kind of the government's policies would be conducive to help SMEs to tap such opportunities?
- ✓ How to encourage and promote local enterprises and SMEs?
- ✓ Are our SMEs well prepared to compete and benefit from the opportunities created by the Belt and Road Initiative?
- ✓ What obstacles and barriers exist in China? How to improve market access?





Section 1:

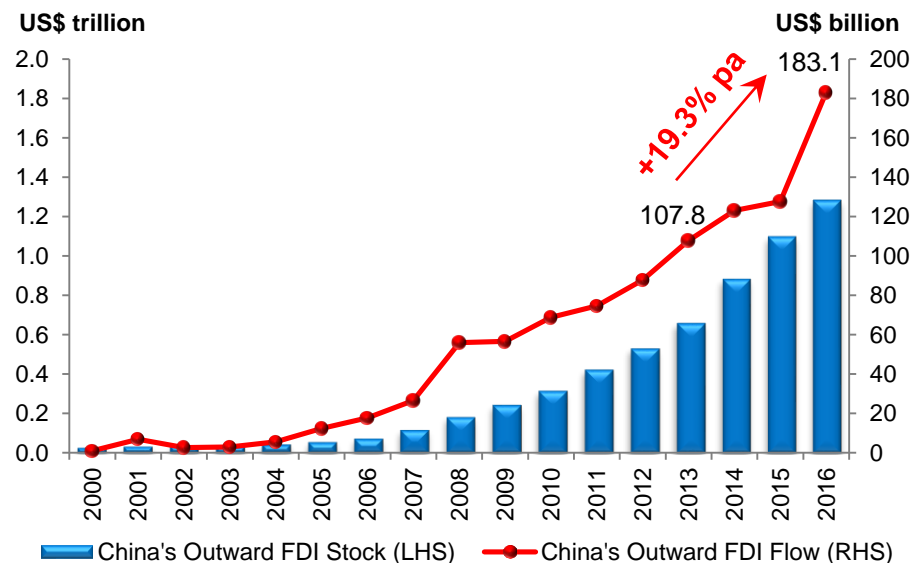
China's investment going strong globally



China's large exporter of capital offers opportunities to Asia

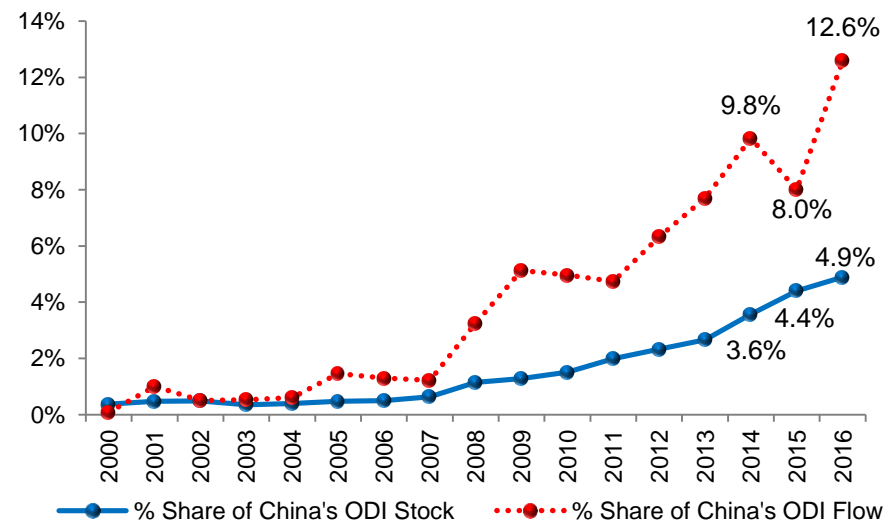
- China's "Going Out" strategy and Belt and Road Initiative (BRI) catalyse its global investment presence
- China is the world's third largest recipient of FDI, absorbing 7.7% of the world's FDI flows and the second largest exporter of capital, making up 12.6% of the world's outward direct investment (ODI) in 2016

China's ODI flow exceeded US\$100 billion since BRI in 2013



Source: UNCTAD

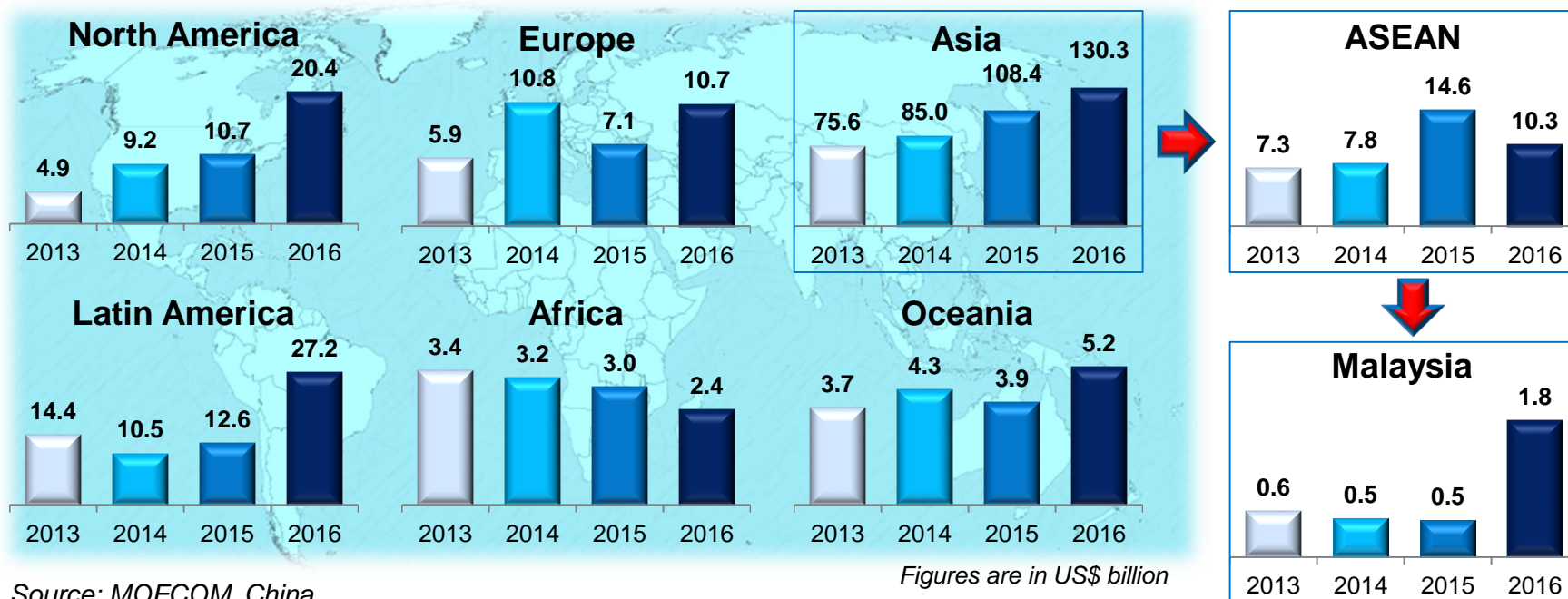
China's ODI stocks and flows rise steadily



Where is China sending its investment?

- Asia remains the largest recipient of China's ODI
- By sector, leasing & business services accounted for the largest share (33.5%) of total investment flow, followed by manufacturing (14.8%) and wholesale & retail trade (10.7%)
- At end-2016, 67.0% of China's ODI stocks were invested in Asia, of which 5.3% was in ASEAN, followed by Latin America (15.3%), Europe (6.4%) and North America (5.6%)

China's ODI increases in most regions except Africa since the introduction of BRI



China's BRI-related investment across the globe

- In 2016, 64 B&R countries absorbed US\$15.3 billion or 7.8% of total China's ODI (2015: US\$18.9 billion; 13.0% share)
- Singapore came in top (US\$3.2 billion), followed by Israel (US\$1.8 billion), Malaysia (US\$1.8 billion), Indonesia (US\$1.5 billion), Russia (US\$1.3 billion), Vietnam (US\$1.3 billion) and Thailand (US\$1.1 billion)
- ASEAN collectively accounted for US\$10.3 billion or 67.0% of China's ODI to B&R countries in 2016 (US\$71.6 billion of ODI stock; 55.3% share among B&R countries)
- In the first ten months of 2017, B&R countries received US\$11.2 billion out of total US\$86.3 billion of China's non-financial outward investment, representing an annual decline of 7.4% with a share to 13.0%

China's ODI in ASEAN: Top five industries

Industry	US\$ million	Investment destination
Manufacturing	3,543.7	Indonesia, Vietnam, Thailand, Malaysia
Wholesale and Retail Trade	1,963.0	Singapore, Thailand
Leasing and Business Services	1,371.1	Singapore
Real Estate	1,245.9	Malaysia, Singapore
Production and Supply of Electricity, Heat, Gas and Water	664.2	Vietnam, Indonesia, Thailand

Source: MOFCOM, China

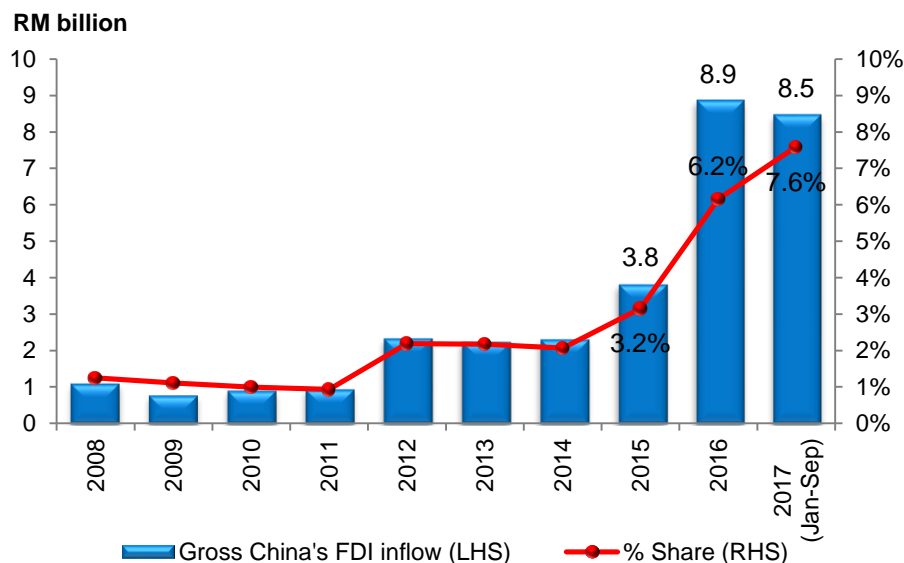
Five ASEAN members have above US\$1bn of China's ODI stock in the manufacturing sector

ASEAN members	US\$ billion
Indonesia	2.9
Vietnam	2.5
Thailand	2.1
Singapore	2.0
Malaysia	1.2

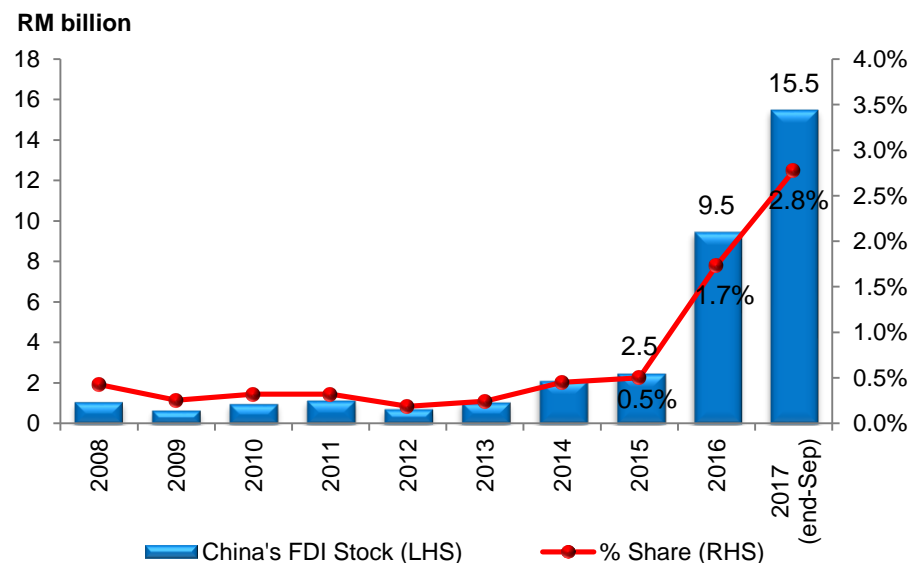
China's investment in Malaysia is gaining momentum

- China is Malaysia's fourth largest FDI in terms of FDI flows. in Jan-Sep 2017, total inflows of RM8.5 billion made up 7.6% of Malaysia's total investment flows
- In terms of FDI stocks, China is the 10th largest investor in Malaysia with RM15.5 billion of outstanding FDI stocks or a share of 2.8% as at end-September 2017. On a cumulative basis, China's FDI stocks have grown by 103.4% pa since end-2013

China's FDI to Malaysia accelerated in recent years



China's FDI stocks only accounted for 2.8% as at end-September 2017

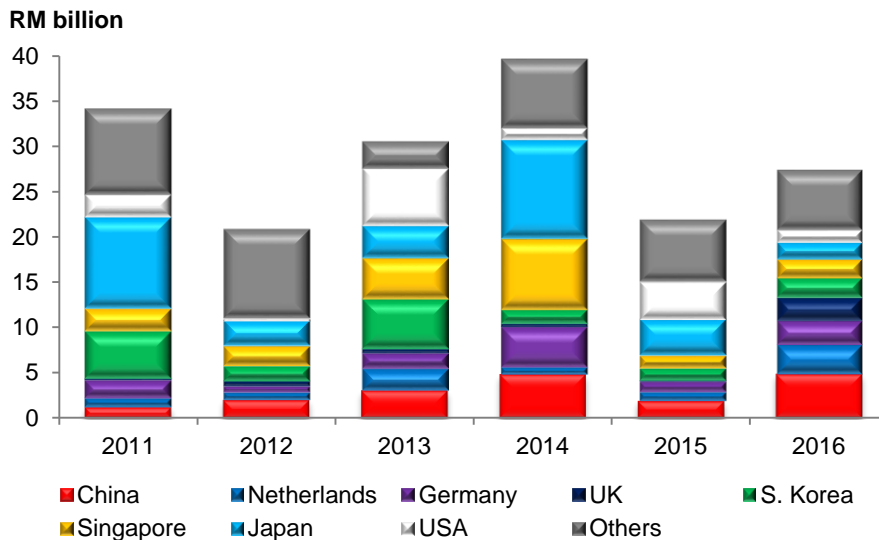


Source: BNM

Does Malaysia over-reliance on China as a source of FDI?

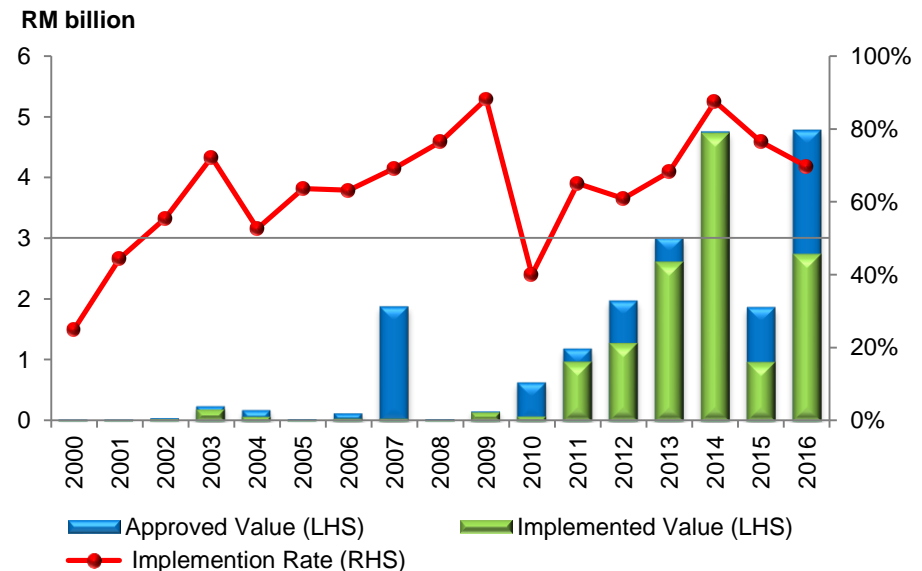
- Malaysia has a well-diversified sources of FDI and this minimises the risk of over-concentration
- In 2016, China is the largest foreign investor in terms of approved manufacturing projects. A total of 33 China-related manufacturing projects amounting to RM4.8 billion or 17.4% of total approved foreign-owned manufacturing investments was approved
- In 2000-2016, 197 (out of 282 approved) China-related manufacturing projects worth RM14.0 billion have been implemented, generating 30,341 employments

Diversified sources of FDI in approved manufacturing projects



Source: MIDA

China-related manufacturing projects in Malaysia: approved vs. implemented

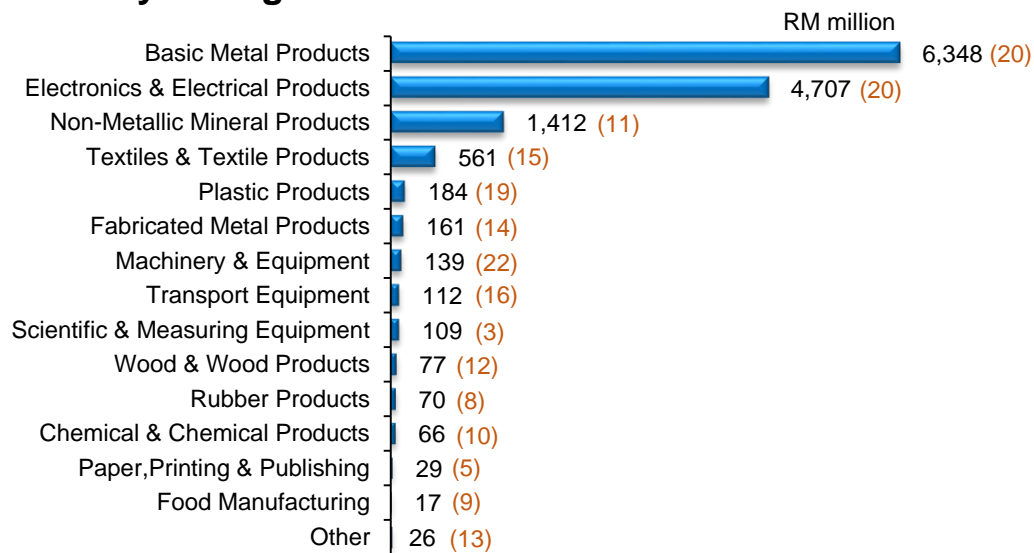


Note: Implementation rate refers to the number of projects implemented

Sectors receiving Chinese investments

- Broadening and spanning a wide variety of sectors, including public transportation, port, manufacturing, industrial park, real estate, construction and energy
- Nearly 90% of Chinese investment were invested in three sectors: basic metal products (RM6.3 billion or 45.3% of the total), electrical and electronic products (RM4.7 billion or 33.6% of the total), and non-metallic mineral products (RM1.4 billion or 10.1% of the total)
- The bulk of jobs creation were from electrical products and electronics (32.7%), basic metal (24.4%) and transport equipment (8.1%) industries

Implemented China's manufacturing investment by industry during 2000-2016



Note: Figure in parenthesis denotes number of projects
Source: MIDA



BRI-related projects in Malaysia

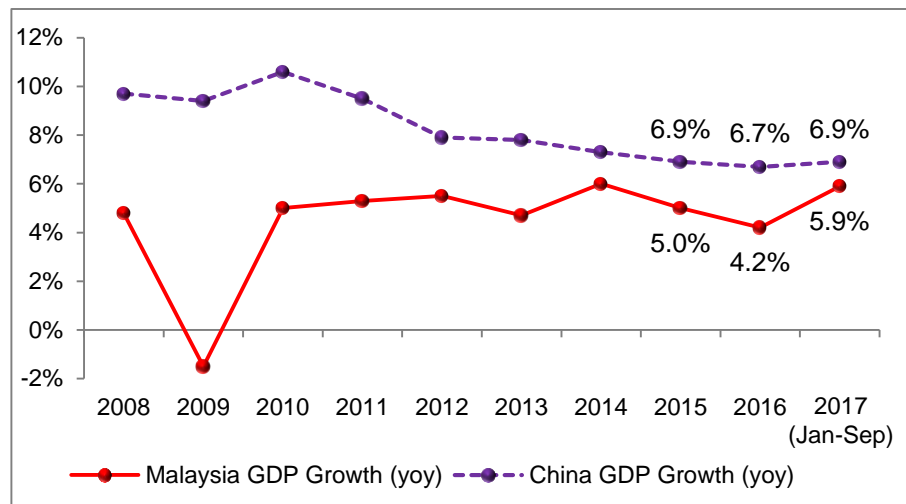


Robotic Future City

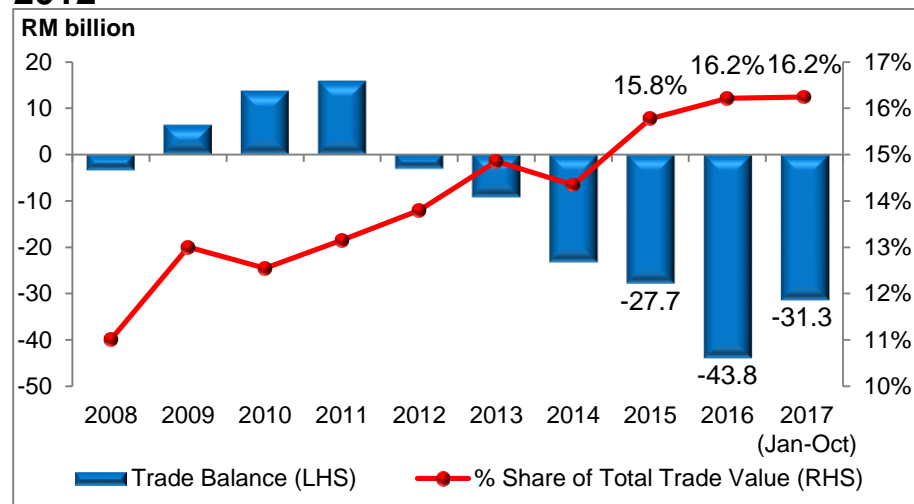


Malaysia-China's bilateral trade and economic relations

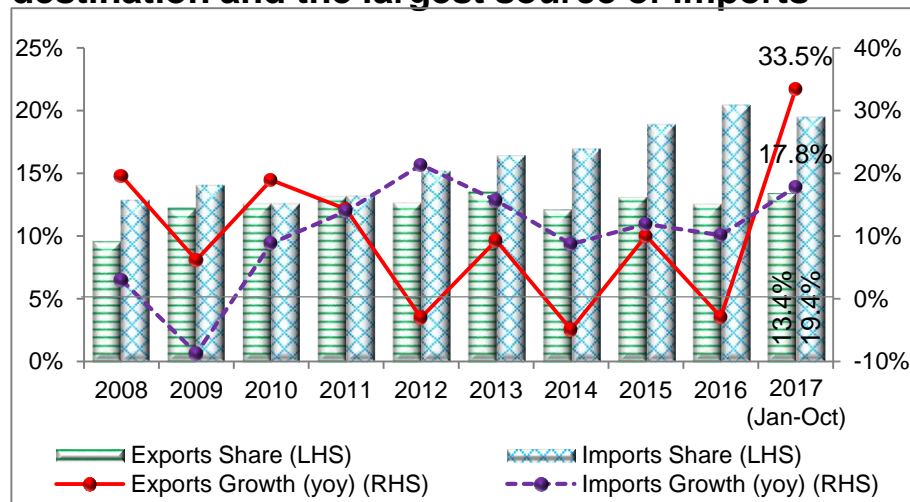
Malaysia's GDP growth vs. China economy



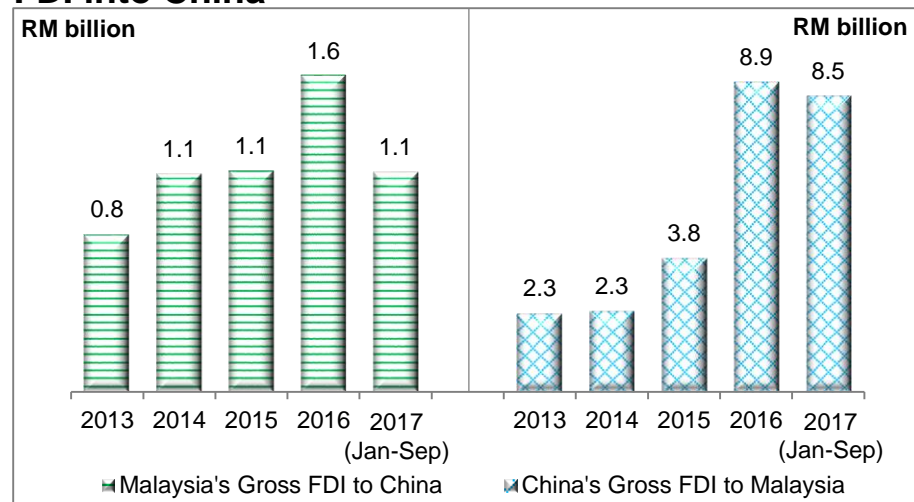
Malaysia incurred trade deficit with China since 2012



China is Malaysia's second largest export destination and the largest source of imports



China's FDI into Malaysia outpaces Malaysia's FDI into China



Source: DOS, Malaysia; NBS, China; BNM

Section 2:

How Malaysian businesses view about China's investment?

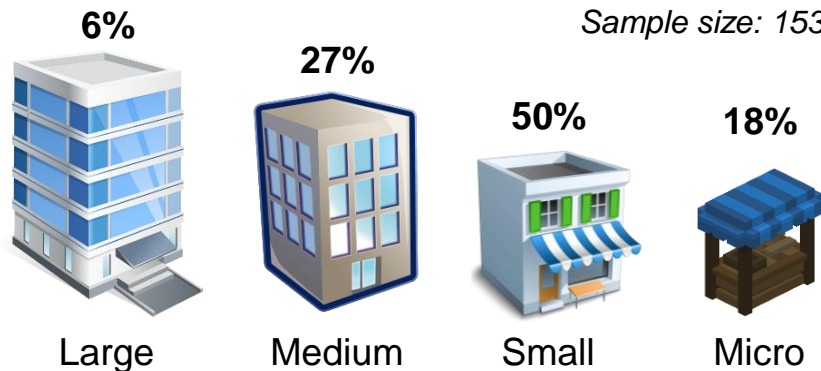


Demographic profile

First approach: Quantitative survey

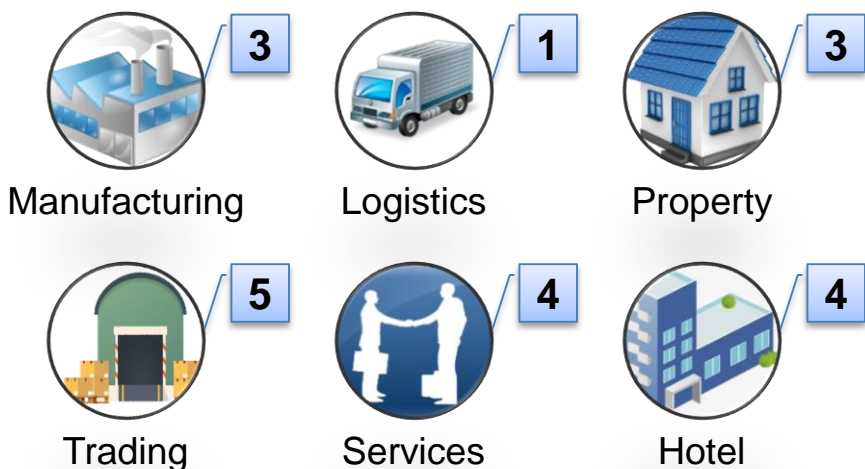
94% from micro, small and medium-sized business

Sample size: 153



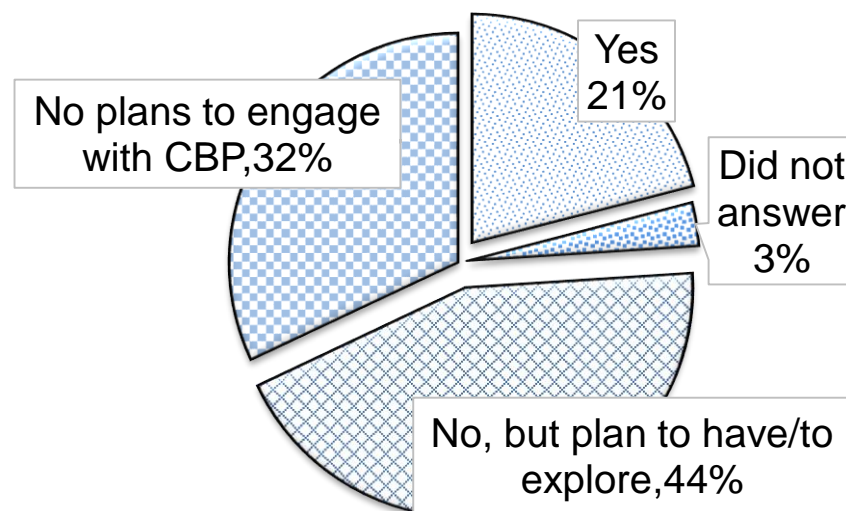
Second approach: Qualitative survey

Interviewees from various industries (20)



76% of respondents said: “Don’t have a China’s business partner”

Do you have a China’s business partner (CBP) in Malaysia’s business unit?



Qualitative findings

Their CBP are mainly from Guangzhou, Shanghai, Zhejiang province and other southern regions.

Market access tops the list of benefits

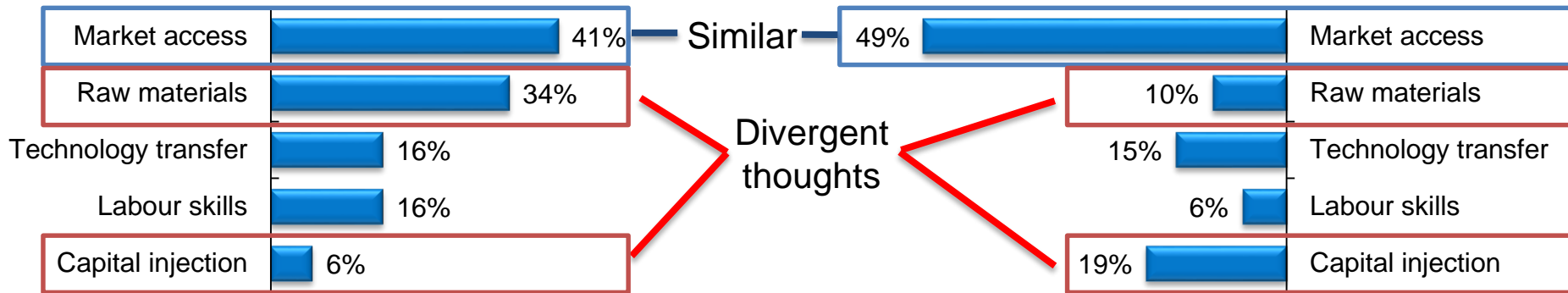


“Yes, I have a CBP”

What is the **most important** benefits or potential benefits received from China’s business partner (CBP)?



“No, but plan to engage”



“Yes” group
(interviewees)

Chinese businesses are market leader; tapping into China’s market; increasing sales
Cost competitiveness and products' varieties and a wide sources of raw materials at reasonable prices

Disparate constraints faced during pre and post engagement

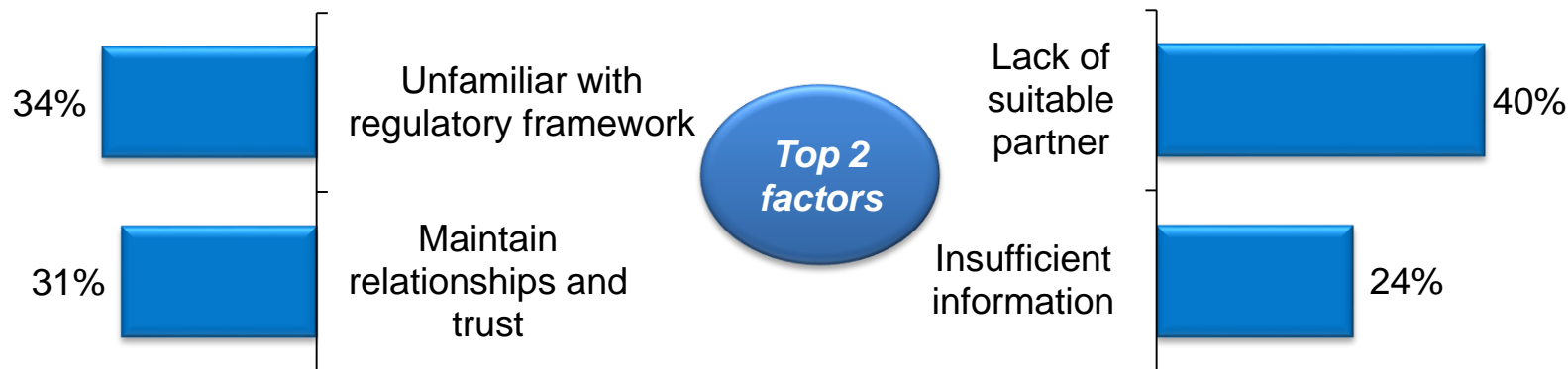


“Yes, I have a CBP”

What is the **most important** constraints or potential constraints faced when dealing with CBP?



“No, but plan to engage”



Interestingly, **both groups agreed that language is not a major constraint** in engaging CBP.

Other constraints



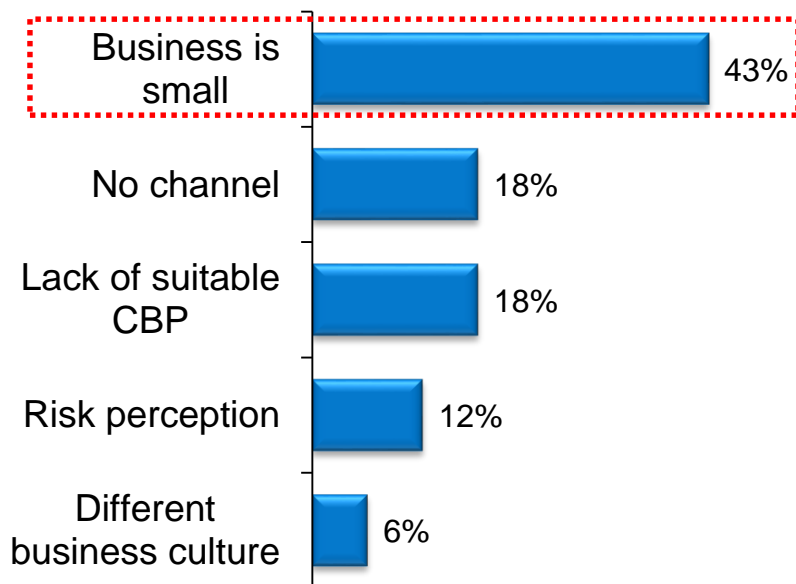
“Yes” group
(interviewees)

Not all China’s companies are well prepared with their product specifications

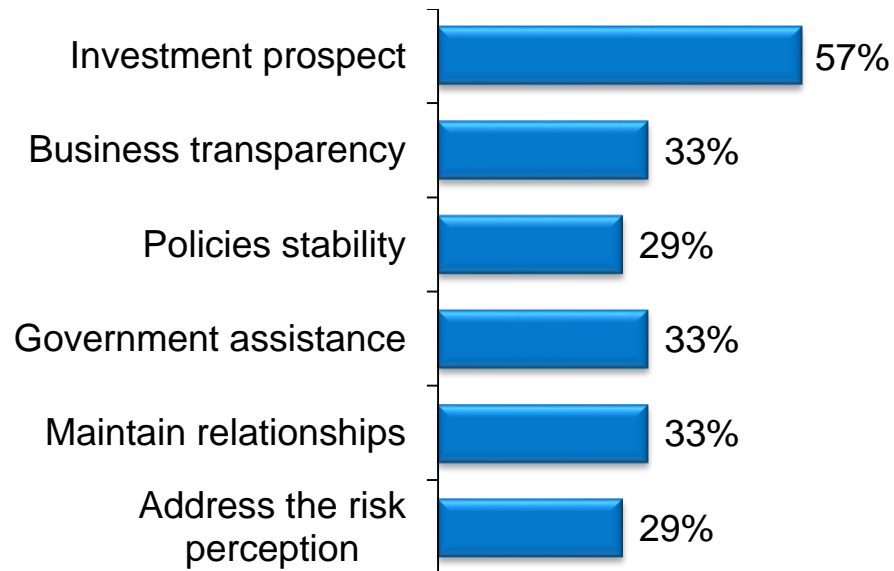
Continuously monitor the products’ quality to ensure consistency in delivery and meeting the products’ specification as agreed upon

“Business is small” restrains SMEs to engage CBP

What is the **most important reason** for not having a plan to engage CBP?



What can motivate this group of people?



Budget hotel operator
(interviewee)

China's investors are not keen to invest because of the hotel business is too small.

Difficult to establish network or direct cooperation with CBP

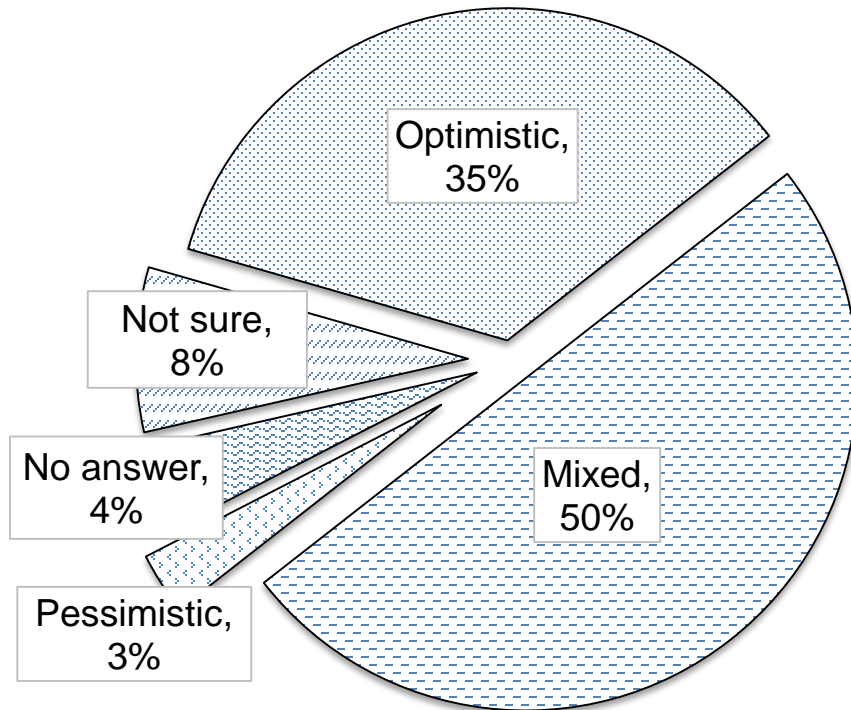
Chinese companies are continuously seeking advanced technology applications



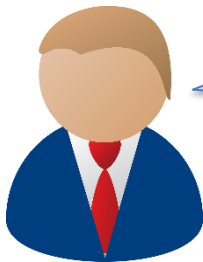
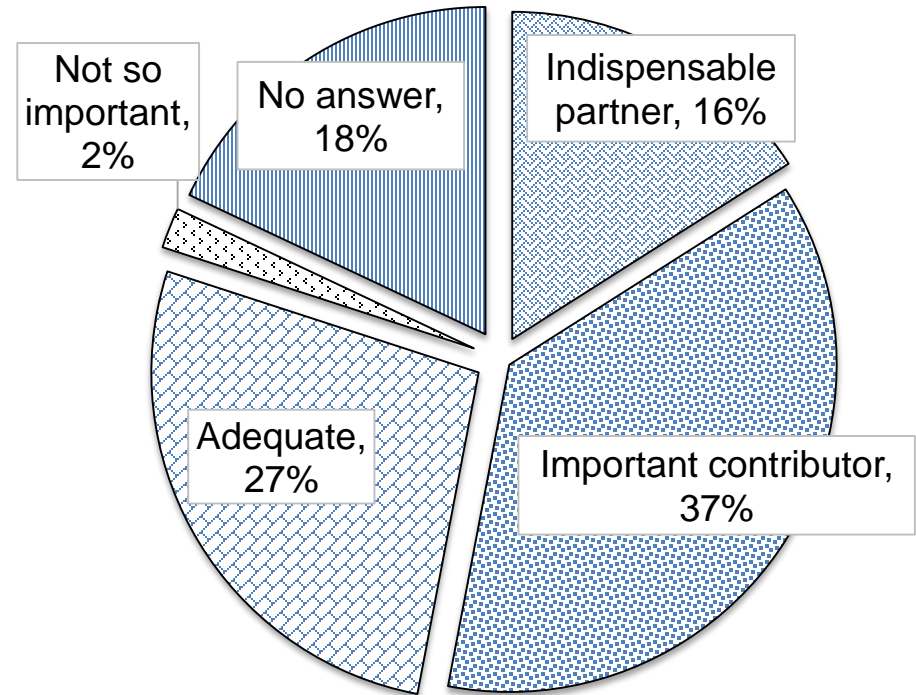
An engineering firm
(interviewee)

Mixed perceptions about the impact of China's investment

Business perception about the impact of China's investment



Business viewpoint about China's presence



Interviewees

Malaysian companies could act as manufacturers and distributors for China products and brands as Malaysia become the gateway to access ASEAN or west region.

Positive and negative impacts

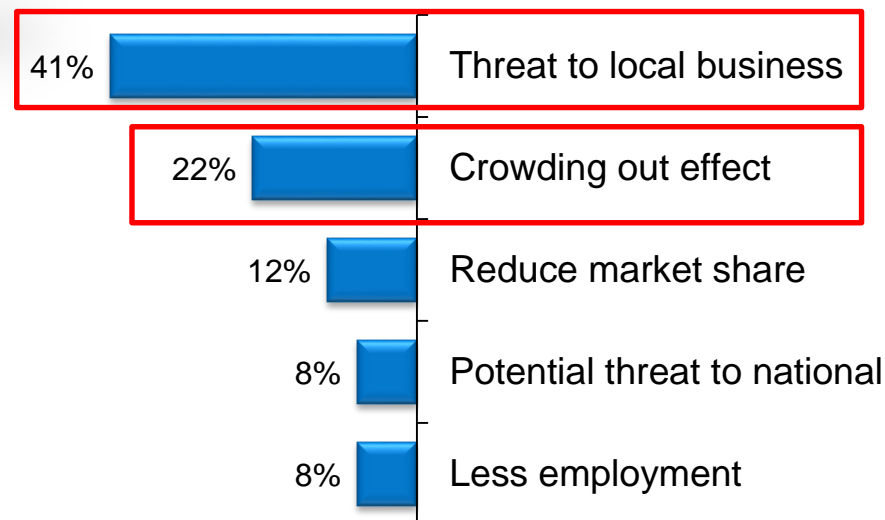
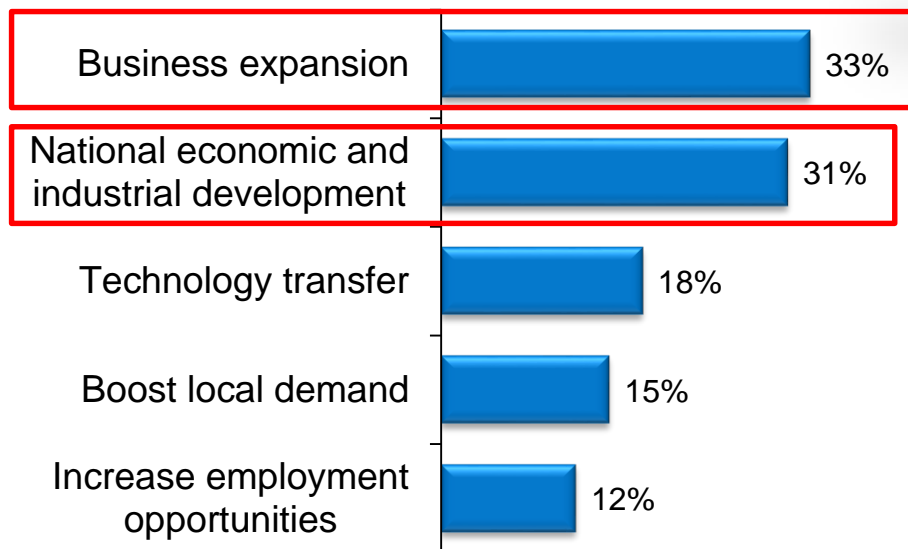
Most important impacts



Positive impacts



Negative impacts



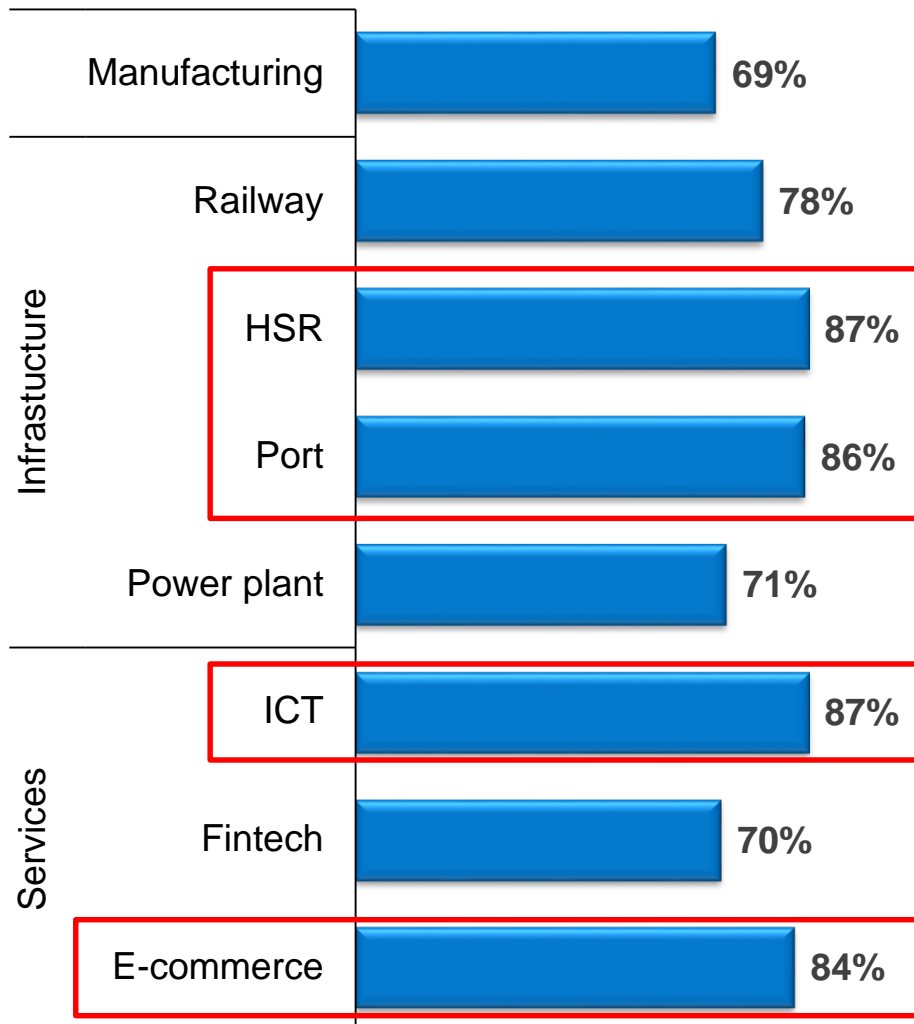
SMEs foresee stiff competition in terms of products' pricing if the Government's interventions are not in place.



Interviewees

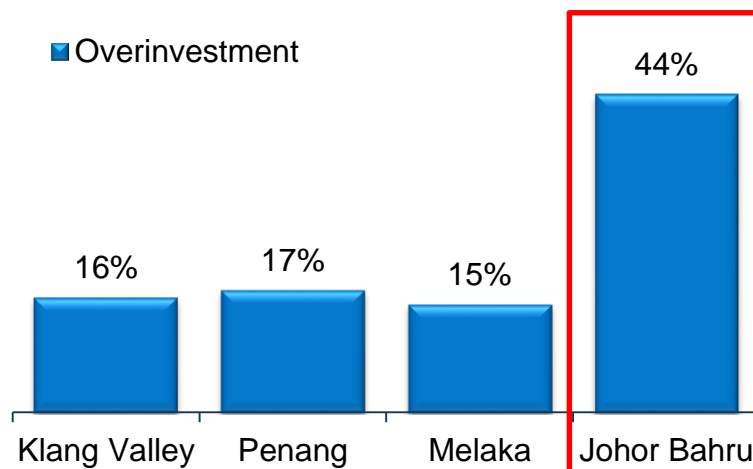
China's role in Malaysia's infrastructure development

Ratings on the importance of China's investments by sector/industry



Note: % = "very important" vote + "important" vote

44% of respondents rated overinvestment in property investment in Johor Bahru

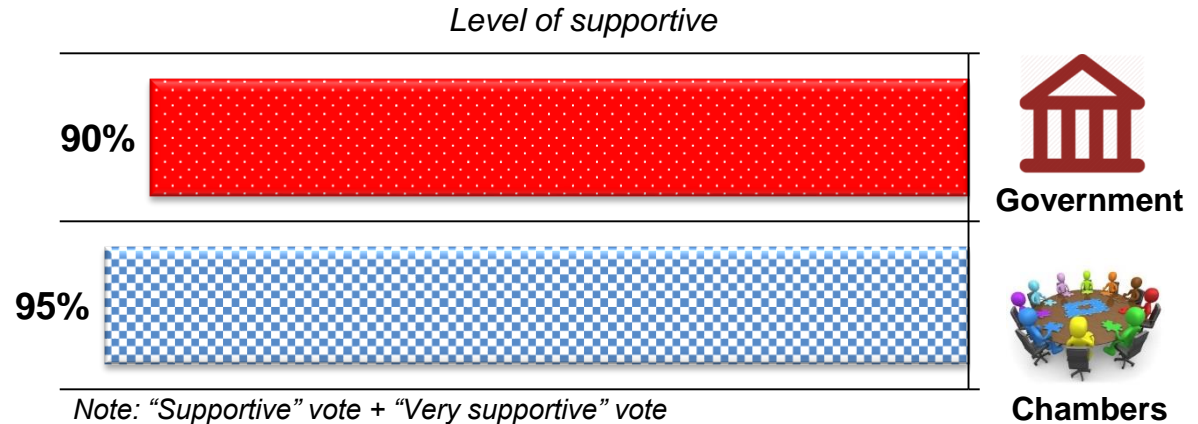


Interviewee
(property industry)

"No opportunities and multiple effects created after China's property developer bought a piece of land at above market price."

How effective is Government and chambers in engaging with China's investors?

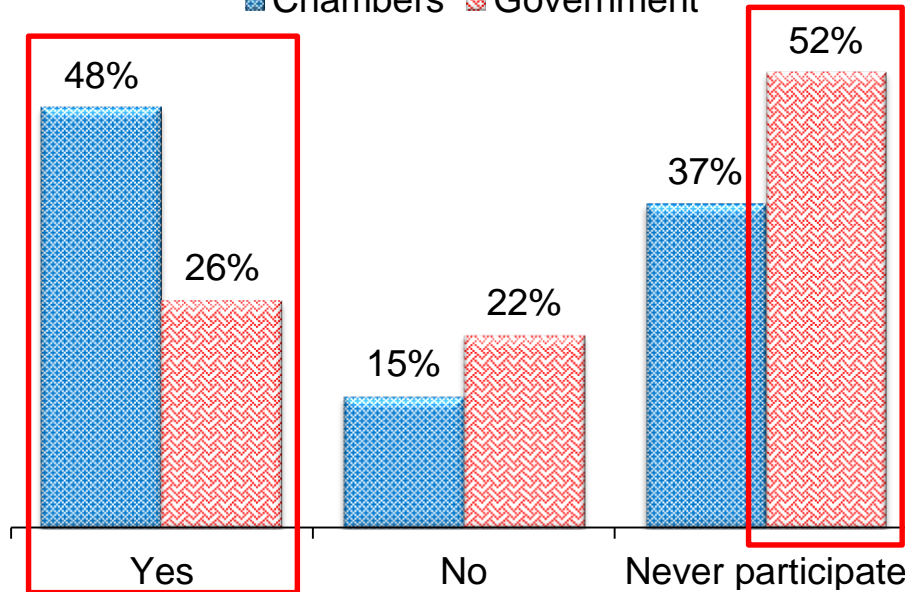
The Government and chamber of commerce are supportive when comes to engaging Chinese investors.



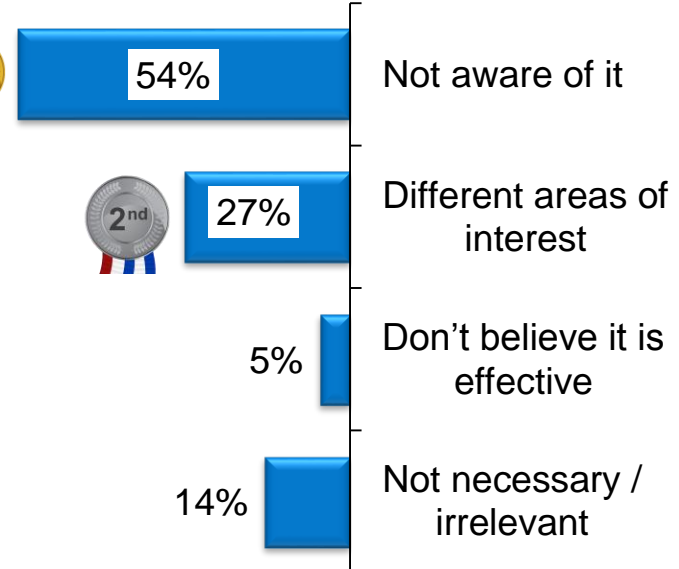
Overall effectiveness of business matching:

Business matching organized by:

Chambers Government



Why?



Malaysia-China's relations: SWOT analysis

S

STRENGTHS

- Malaysia-China's "Special relationship"
- Diversity
- Strategic location
- Gateway to ASEAN
- BRI fits into Malaysia's economic plan

W

WEAKNESSES

- Trade imbalance with China
- Negative perception about China's investment
- Small and limited resources
- Low productivity and lack of skilled human capital

O

OPPORTUNITIES

- Wider access into China's market
- Open up business opportunities
- Facilitate Malaysia's economic development projects
- Enhance Malaysia's economic linkages with the world through BRI

T

THREATS

- Competition
- Facing resentment as well as negative sentiment from locals and social implications
- Territorial and sovereign issues; worries about a threat to national interests
- Sustainability of China's economic growth

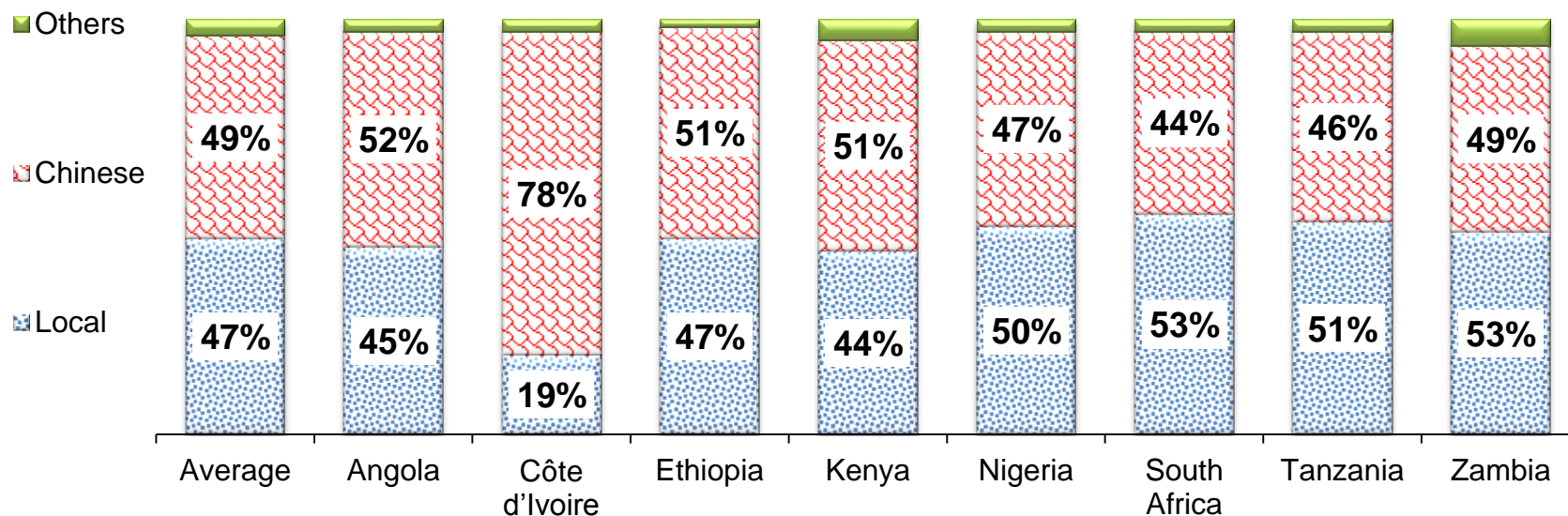
The impact of China's investment – Myth vs. Perception

According to McKinsey&Company (2017), they interviewed more than 1,000 Chinese companies in eight African countries.



Chinese firms sourced 47% of their supplies from local firms

Supply channels by country, average % of procurement by value



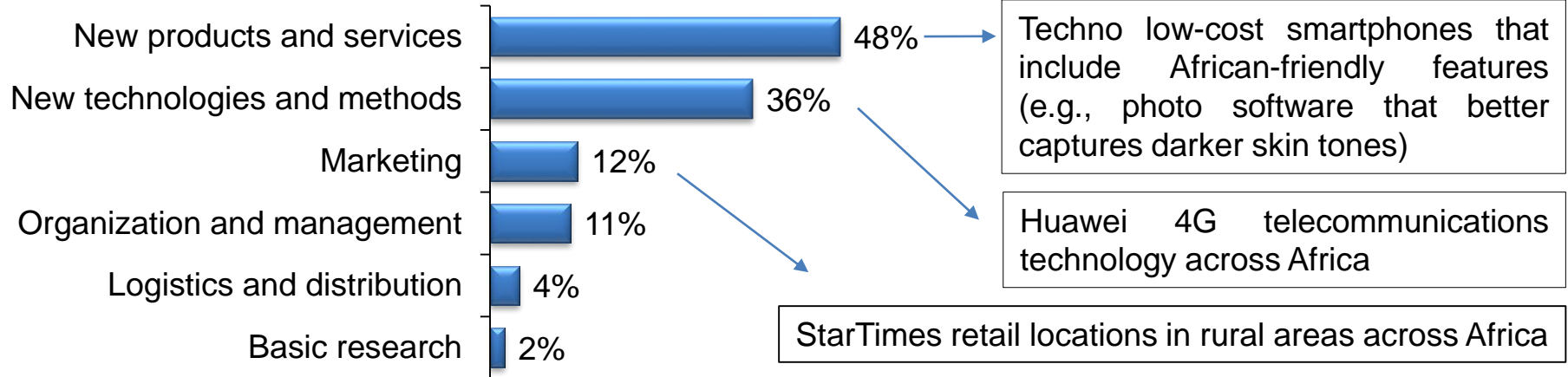
SOURCE: McKinsey field survey of Chinese firms in eight African countries (Angola, Côte d'Ivoire, Ethiopia, Kenya, Nigeria, South Africa, Tanzania, Zambia), November 2016–March 2017



Chinese firms have contributed to economic and market development

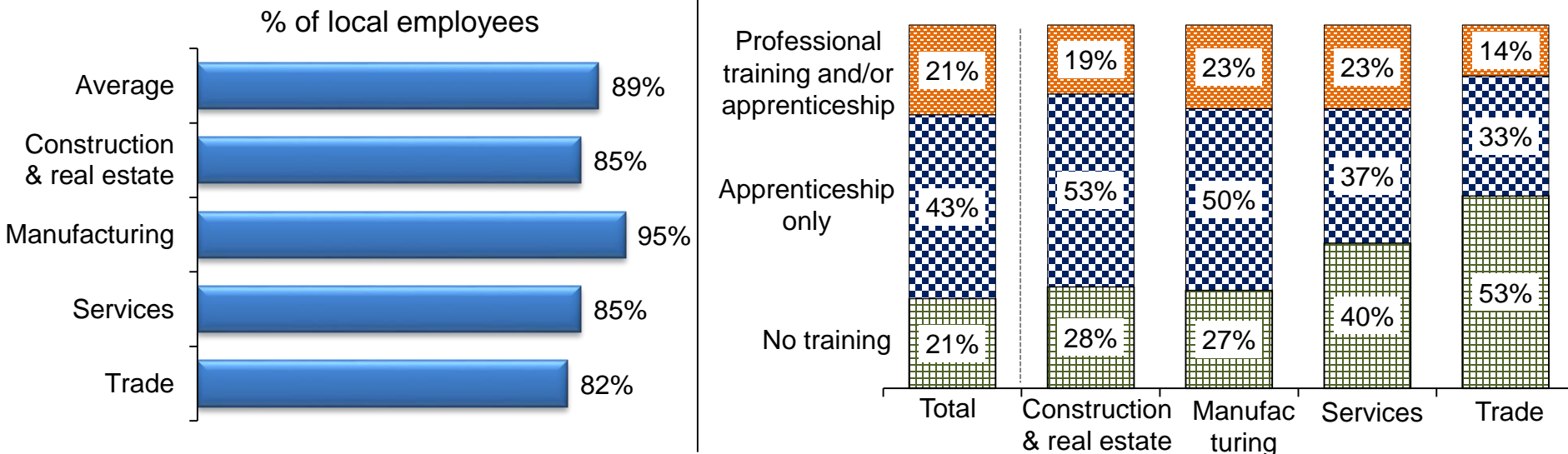
% of firms who had invested in each area in the past three years

Examples



Chinese firms hired >80% local employees and provided skills training

Training programs offered by Chinese firms





China Pakistan Economic Corridor



Steel industry and construction chemical manufacturers are receiving benefits from CPEC.



Mr. Kamal Amjad Mian, Director of Fast Cables, commented “Chinese firms prefer to import equipment from China for power projects rather than sourced from local.”



Uneven treatment between Chinese companies and domestic businesses.

Source: Dawn.com (Nov 2017)



Ghana
(located in West Africa)



Chinese manufacturing firms are driving manufacturing and creating employment in Ghana.



Limited of technology transfer and local linkage between Chinese firms and Ghanaians.



Ghana's Ministry of Industry complained some Chinese companies registered as manufacturing travel bags or suitcases but not really function as manufacturing.

Source: China-Africa Research Initiative (2016)



Sri Lanka

Debt Crisis or “Debt Trap”



Accumulated huge debts due to China’s infrastructure investment. In 2017, Chinese investment converted into Chinese management project such as Hambantota port to exchange for US\$1.1 billion in debt relief.

Source: Global Risk Insights (Dec 2017)

US\$4 billion trade deficit with China in 2016



- Exports to China about US\$211 million
- Imports from China about US\$4.21 billion (21.7% share of the total imports of Sri Lanka)
- Machinery, hardware, and raw materials for China’s projects

Source: Ceylontoday.lk (Dec 2017)

Management under Chinese companies



Hambantota port



Mattala Airport

Under Construction



Colombo Port City Project

Source: Dailynew.lk



Addressing negative perceptions...

- *Concerns about investments with relatively low local content in terms of sourcing of raw materials, employment opportunities for the locals, the impact on domestic small-and medium-sized enterprises (SMEs). Some view Chinese companies as unfair competitors in terms of products' pricing, and they see many informal barriers to entry into the Chinese market.*
- *Most major BRI projects were undertaken by Chinese builders though some were sub-contracted to local players.*
- *Concerns about the economic risks associated with over-reliance on China as a marked slowdown in China's economy may threaten the implementation of BRI projects and also China's private investment in Malaysia.*
- *The perceived threat perceptions on Malaysia's sovereign risk stems from China's substantial interests in some connectivity projects as well as its assertiveness on territorial issues surrounding South China Sea. BRI is seen as a tool to strengthen China's geo-political influences regionally and globally.*
- *These negative perceptions and concerns seem hard to correct and address. Perhaps the lack of transparency and positive information about Chinese investments are the main factor for the distrust about China's sincerity to strike a win-win deal with Malaysia.*

Section 3:

Malaysia-China: Can it be a win-win?



Exports



- Enhanced connectivity deepens regional trade and economic integration
- Economic advancement in BRI countries spur demand
- Strategic value-added processing base in the global supply chain

Tourism and tourism-related industries



- China outbound tourists to reach 700 million in next 5 years
- Malaysia is currently among China's top ten tourism destinations (2016: 2.1 million tourist arrivals; Jan-Aug 2017: 1.5 million tourist arrivals)
- Meetings, incentives, conventions and events (MICE) industry

Opportunities for SMEs

Small-scale business

- SMEs can adapt to market's needs in filling smaller demand orders
- Smaller-scale local contract jobs



Services support



- Consulting, accounting and taxation, legal, and financial services
- Hub for the business processing outsourcing (BPO) functions such as global contact centres, system operations, finance centre

E-commerce



- Digital Free Trade Zone (DFTZ) will facilitate SMEs in cross-borders business
- SMEs' export goods will increase by US\$25 billion and create 60,000 jobs by 2025

Encourage purchases of commodities

- Trade deficit with China

Well-coordinated facilitation services

- Streamline the existing business matching modus operandi
- Set up a dedicated unit in MATRADE
- Impactful trade fairs, exhibitions and roadshows
- Set up a high trade officials' technical committee

Business intelligence and sharing of market information

- Protect investment interests in the host country
- Enhance business confidence; ease the hidden cost of doing business
- Develop an integrated business intelligence and information surveillance system

New business ideas and products

- Compete with China's companies in terms of products' and inputs' pricing
- Halal products, eco-friendly, green technology products, eco-tourism

Local procurement policy

- Domestic procurement policy and strict enforcement
- ECRL project - 30% of raw materials
- Local professional services, consultancy and project engineering firms

Strategic tie-up with local SMEs

- SME Corporation – draw up actionable plans
- Understanding of China's rules of law and business regulations

Governance and services efficiency

- Be transparent on the process flows
- Ease the processes of starting business, obtaining approvals and enforcing contracts

Policy recommendations



Conclusion

- Given proper strategic planning, there are many possibilities for advancing the relationship with the vigor China's engagement to ensure a win-win cooperation and partnership.
- Both Malaysia and China can reap the benefits of economic investment as they have pledged to build a stronger all-round strategic partnership in areas including trade, finance, port development and logistics.
- Malaysia's strategically located position, backed by the enhanced connectivity via ports and rail and will not only serve the regional gateway to the ASEAN market, but also a gateway to China.
- Investments along the BRI would create new business opportunities through increased connectivity and opening up to new markets.
- Domestic SMEs must be well prepared to leverage on our home-based advantages and strengths to "collaborate and synergies" with Chinese business partners.
- SMEs must continue to sharpen their capabilities via technological advancement to counteract with the rising tides of competition from China in domestic and oversea markets.
- Both the Government and chambers must coordinate their efforts and initiatives to attain a balance and optimal economic impact from China's investment on domestic economy.



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谢谢
THANK YOU

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