



**社会经济研究中心**  
**SOCIO-ECONOMIC**  
**RESEARCH CENTRE**

**IDFR-IIUM's Seminar on "Malaysia-China's Trade & Investment: Challenges, Opportunities & The Way Forward"**

**The Private Sector's Perspective**

**Lee Heng Guie**  
**Executive Director of SERC, ACCCIM**

**6 March 2019**

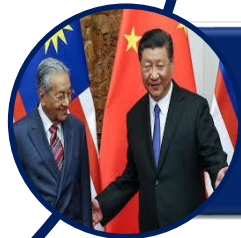
# Key Agenda



**Prospects and Challenges of investing in China**



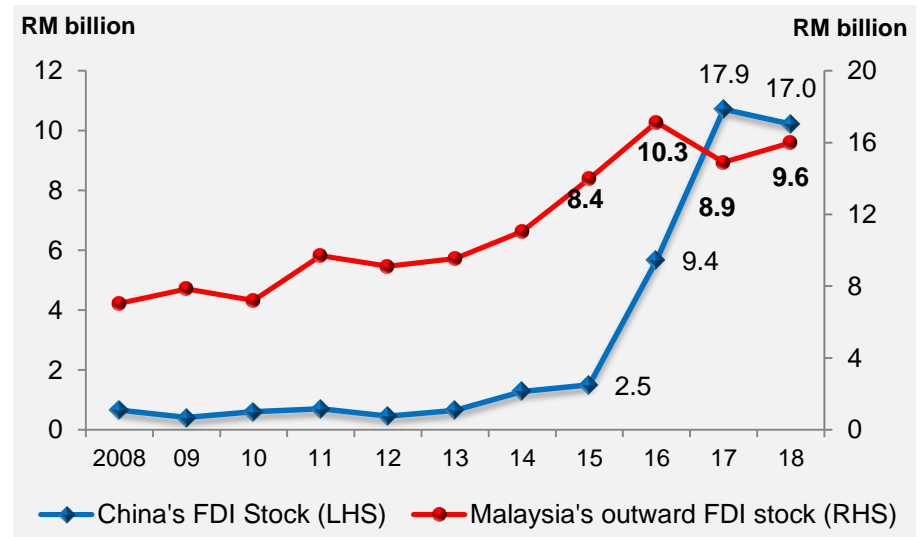
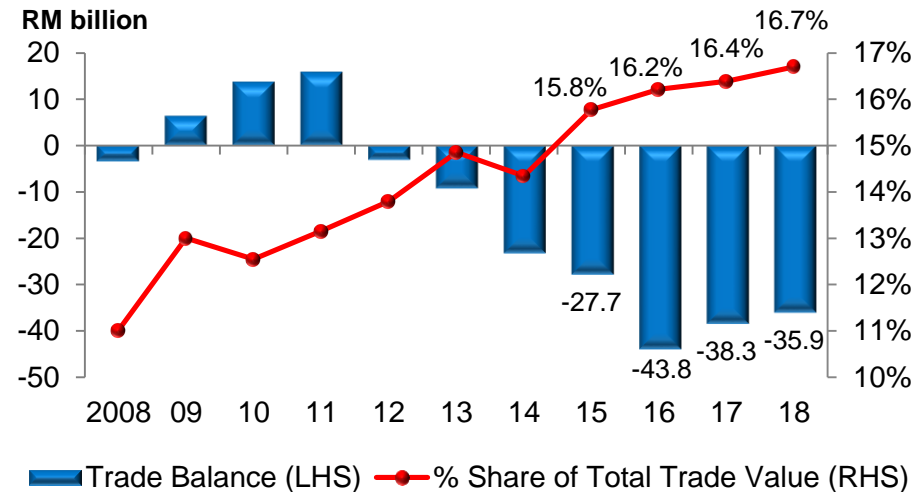
**Does China's investment in Malaysia benefit Malaysian businesses?**



**The Government's role in facilitating Malaysia-China's bilateral trade and investment agenda**

# Malaysia-China's BILATERAL TRADE & INVESTMENT

- China is Malaysia's **largest trading partner** (16.7% of Malaysia's total external trade in 2018).
- **2<sup>nd</sup> largest exporter** (13.9% of total exports); the **largest importer** (19.9% of total imports).
- Malaysia has been incurring **trade deficits with China for seven consecutive years** since 2012, widening from RM3.1 billion in 2012 to RM43.8 billion in 2016 before narrowing to RM35.9 billion in 2018.
- At end-2018, China's **FDI outstanding stock** stood at **RM17.0 billion or 2.7%** of Malaysia's outstanding FDI and was ranked as the **11<sup>th</sup> largest foreign investor** in Malaysia.
- Malaysia's **outward direct investment** stock in China amounted to **RM9.6 billion or 2.0%** of total. China was ranked as the **9<sup>th</sup> largest** Malaysia's outward direct investment destination.

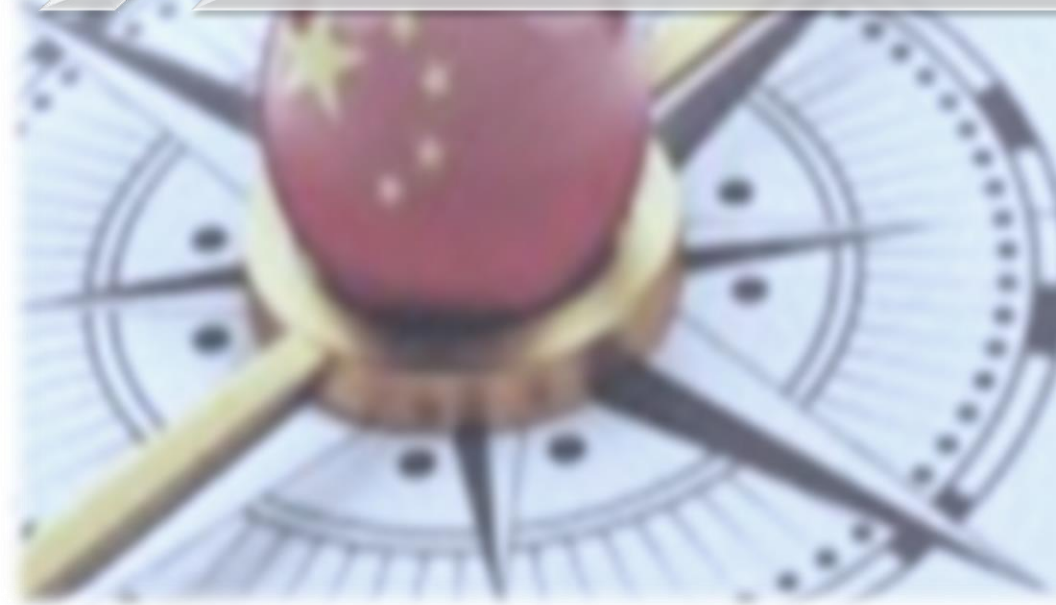


Source: DOSM; BNM



## **Section 1**

# **Investing in China: Prospects and Challenges**



# China's FOUR STRENGTHS



## MARKET

- Tap into huge market
- Demand for the product; customized
- Marketing
- Delivery services (speed)
- Communication



## PEOPLE

- Mass entrepreneurship and innovation
- Entrepreneurial spirit runs deeper than just in business
- Competitive, hardworking and highly efficient



## CAPITAL

- Sheer size or scale of companies
- Strong and larger balance sheet



## TECHNOLOGY

- Growing strength in innovation
- A new science and technology (S&T) powerhouse



Our **Government, Businesses and Educators** must mobilise efforts to strategise, compete and prosper in the coming decades against China.

Rome wasn't built in a day. Doing business in China might seem slow at first, but the rewards for those who patiently persevere will be great.

# LANGUAGE, BUSINESS CULTURE, LEGAL and POLICIES



## LANGUAGE

- Great advantage but can be a challenge
- Must “understand” the lingo and terms used
- Misunderstanding or misinterpretation



## GUANXI “personal relationships”

- Critical to business success
- Right business partner
- Mutual respect, sincere and trustworthy
- Patience to build the relationship



## CULTURE “sensitivity”

- Lack of understanding of local culture
- Managing “face” (mianzi)
- Business etiquettes “loss of face”
- Verbal and nonverbal cues (such as facial expressions, gestures, and body language) are visible and easy to grasp

# LANGUAGE, BUSINESS CULTURE, LEGAL and POLICIES



## NEGOTIATION SKILLS

- Wary of China investors' negotiation skills
- Engage professional services on legal and financial matters
- A “verbal contract” may not be the same as a written one



## LEGAL SYSTEM

- “Traps of unwary”
- Chinese law restricts both the choice of law and the types of resolution mechanisms that can be used in China-related commercial contracts
- Investors' protection



## CENTRAL GOVERNMENT POLICY

- Overrides market forces
- Certain industries that are subject to ‘special management measures’
- Keep close tab on Foreign Investment Guidelines of the central and local government

# Investing in China: DO's AND DON'Ts

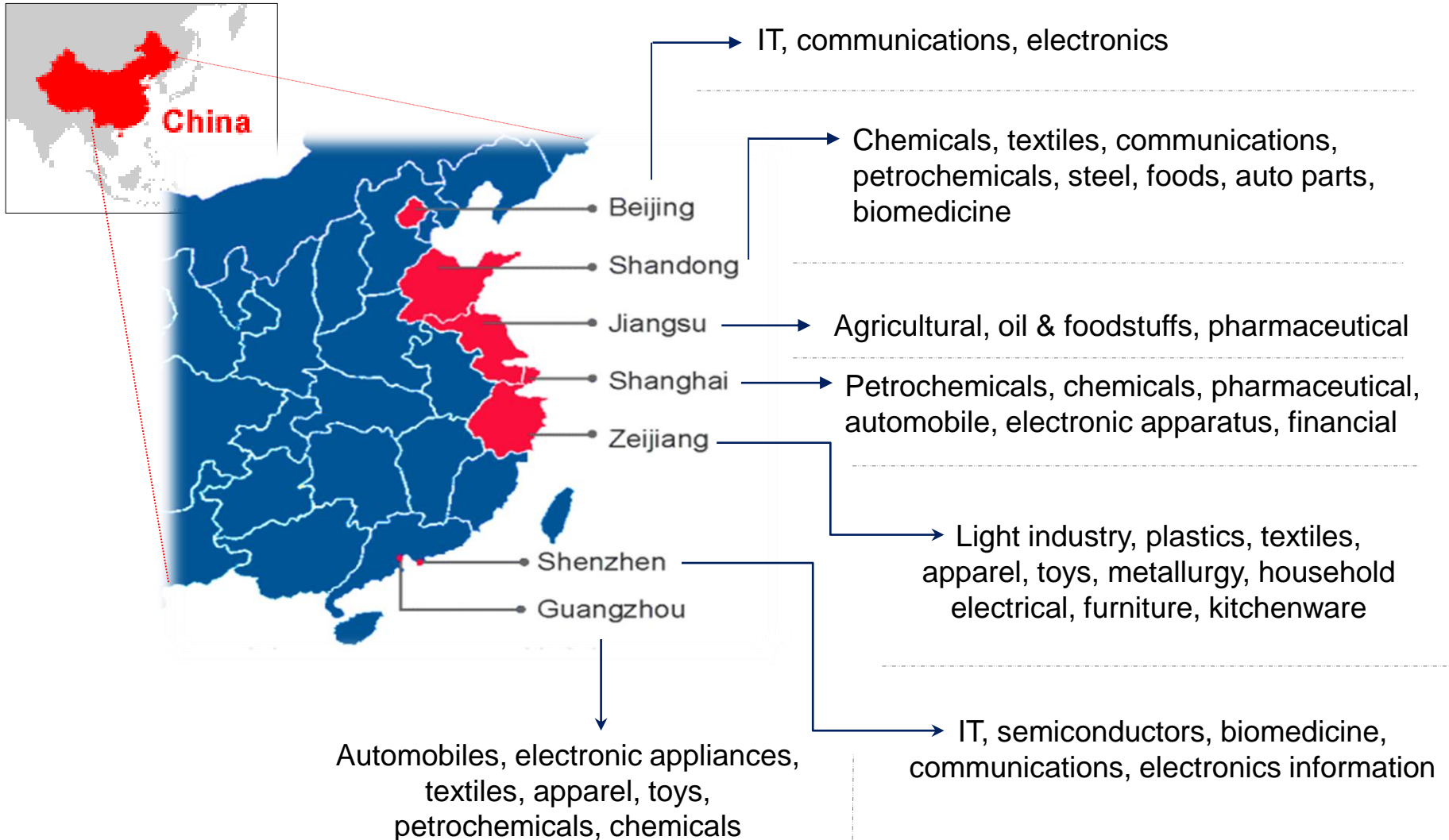


- Conduct initial background research
- Carry out extensive market research before entering the market
- Determine the best entry platform/routes to market and channel partners
- Conduct thorough due diligence process on prospective partners and employees
- Register trademarks in China prior to market entry

- Rely on hearsay or third-hand market information from Chinese partners
- Assume that similar market conditions apply throughout China
- Invest in a local presence prior to researching the market thoroughly
- Choose partners or employees without proper due diligence
- Assume that IP rights are automatically protected under Chinese law



# INDUSTRIAL ORIENTATION in selected cities



**MALAYSIA SMEs NEED TO STRENGTHEN INDUSTRIAL AND DIGITAL SUPPLY CHAIN TO RIDE ON “MADE IN CHINA” 2025 (中国制造 2025)**

# Guangdong, Hong Kong and Macao GREATER BAY AREA

- Promote economic integration in the area and to develop external links
- Spur **B2B** and **B2C** opportunities
- Forge **connectivity**



Global Bay Areas	Area (sq. km)	Population (million)	GDP per capita	Total GDP	Stock Market Capitalisation	Main industries
Greater Bay Area	56,000	66.7	US\$20 trn	US\$1.36 trn	US\$7.6 trn	Tech-innovation Financial services Manufacturing
Greater Tokyo	36,800	43.5	US\$41 trn	US\$1.8 trn	US\$5.7 trn	Advanced manufacturing wholesale & retail sector
Greater New York	17,400	23.4	US\$69 trn	US\$1.4 r	US\$30.5 trn	Financial services Real Estate Healthcare
San Francisco Bay Area	17,900	7.2	US\$99 trn	US\$0.76 trn	N.A	Tech-innovation Professional services

Source: InvestHK

# MALAYSIA INNOVATION CLUSTER (MIC) of China-Malaysia Qinzhou Industrial Park

马来西亚创新城



- ACCCIM, CITIC Construction Co. Ltd., Zhongrun Economic Development Co. Ltd. and **China-Malaysia Qinzhou Industrial Park (CMQIP) Administrative Committee** have jointly-built the MIC within CMQIP. It is to promote competitive industries and excellent companies to enter CMQIP with **innovative mindset and modes, supported by various policies**.
- MIC will cover an area of about 10km<sup>2</sup>, comprising international education, agglomeration, Malaysia corporate headquarters district, scientists' town, agglomeration of special competitive industries, superior residential area, etc.
- First phase (about 300 Chinese mu or 20 hectares) will be established as **agglomeration of Malaysian SMEs** and a platform offering public services to Malaysian industries, to **help and guide Malaysian SMEs to participate in the park**.

## • Various supportive policies:

- Land-related policies
- Fiscal policies
- Taxation policies
- Labour and employment policies
- Financial policies
- Logistics subsidies
- Support to scientific and technological R&D
- Subsidies for processing trade
- Policy for electricity usage
- Social security

For more information, please log in [www.qip.gov.cn](http://www.qip.gov.cn)

# ACCCIM members greatly benefitted from INTERNATIONAL EXPO



Since 2011, ACCCIM has jointly-organised or participated in **10 exhibitions**, of which **7** were held in **CHINA**.

More than **450** booths have been set-up to promote high-quality Malaysian products.



- ACCCIM has been actively assisting Malaysian entrepreneurs to explore overseas markets
- During the 1<sup>st</sup> China International Import Expo (CIIE) held recently:



**28** companies participated in the Food & Agricultural Exhibition Area

Actual Sales: RM12.9 million  
Potential Sales: RM14.9 million  
**Total\*:** **RM27.8 million**



More than half participants have indicated that they will be **PARTICIPATING AGAIN**

*\* Based on 18 respondents*



## Section 2

# China's presence in Malaysia

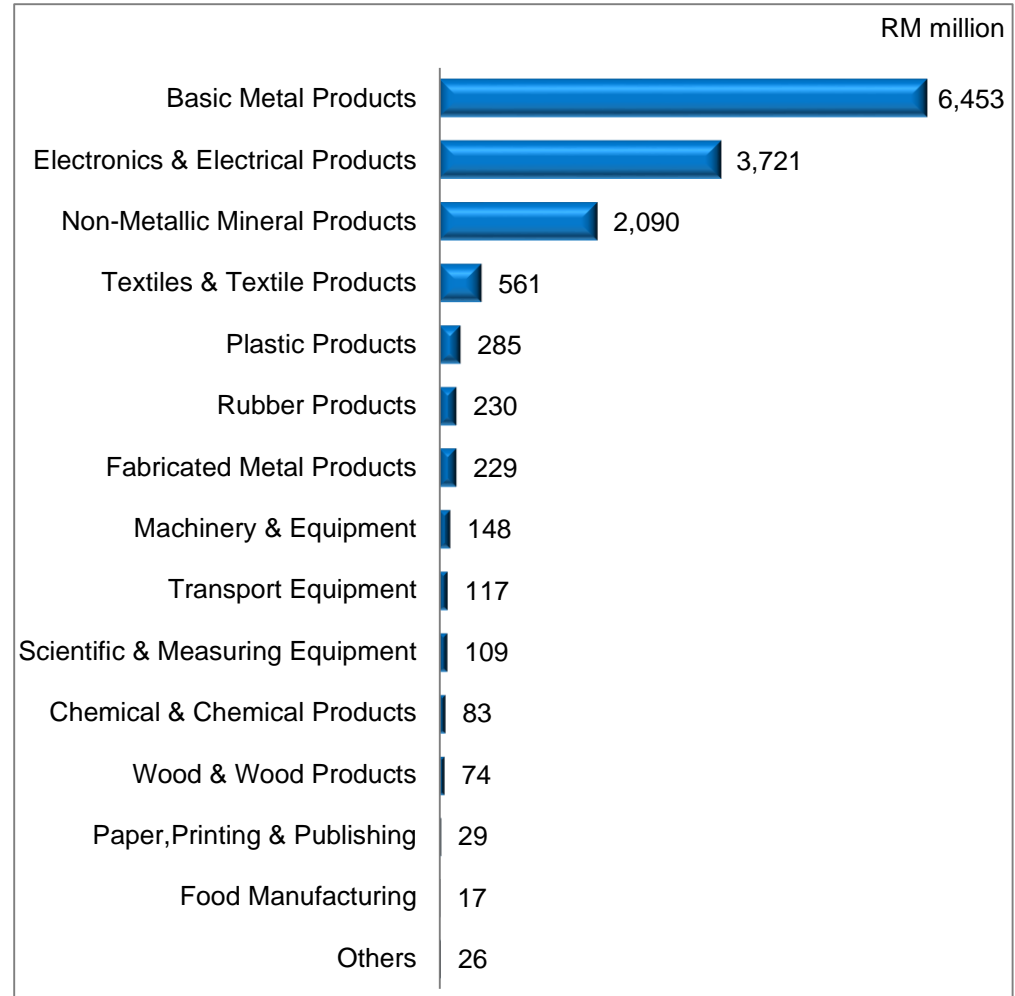


# China's MANUFACTURING INVESTMENT and Employment Opportunities in Malaysia

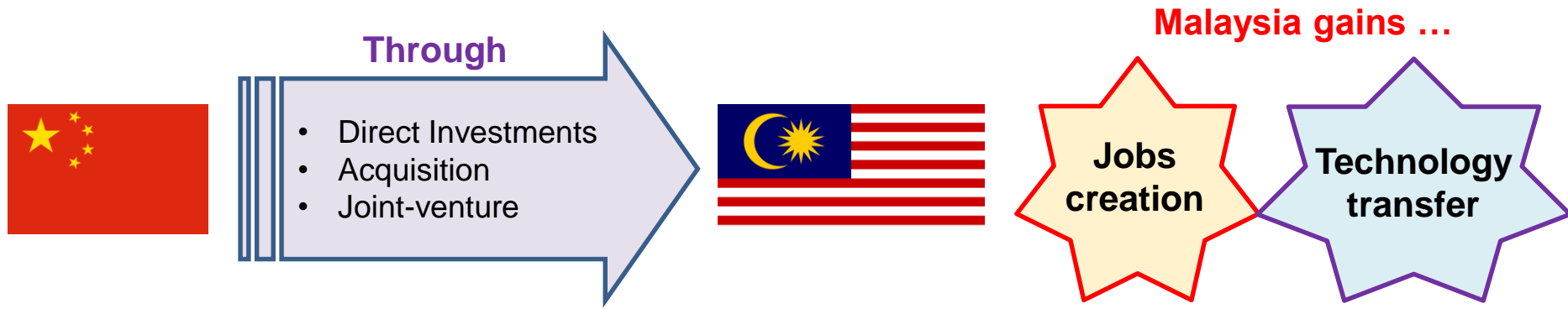
- The Malaysia Investment Development Authority (MIDA) has approved 29 China-participated projects worth **RM15.6 billion in Jan-Sep 2018** (20 projects worth RM3.9bn in 2017), making **China the largest source of approved manufacturing investment** in Malaysia for three consecutive years since 2016. These projects are estimated to create 9,835 employment opportunities for Malaysia.
- In 2000-2017, 211 (out of 348 approved) **China-participated manufacturing projects worth RM14.0 billion** have been implemented and a total of **31,210 employments** have been generated.

Source: MIDA

## Implemented China's manufacturing investment by industry during 2000-2017




# ECONOMIC IMPACT of China-participated investments




## Some examples ...

### Glass sector




With investments of: 

- Kibing Glass Group
- Xinyi Glass Holdings Ltd



 become **glass exporter**,  
forex savings of RM1.5bn/year  
from imports previously

### Solar cell sector

  invested in Penang  
 invested in Sarawak




 become **third largest solar cell producer** in the world

### Auto sector

Strategic Partnership



 Proton comes with **new technology**  
- *meets Euro 6 emission standard*

### Huawei's presence:

- ✓ Collaborating with >150 local partners
- ✓ Hired 75% local staff out of 2,000+ staffs
- ✓ Local procurement close to US\$100m/year and contributed to entire supply chain

### More ...

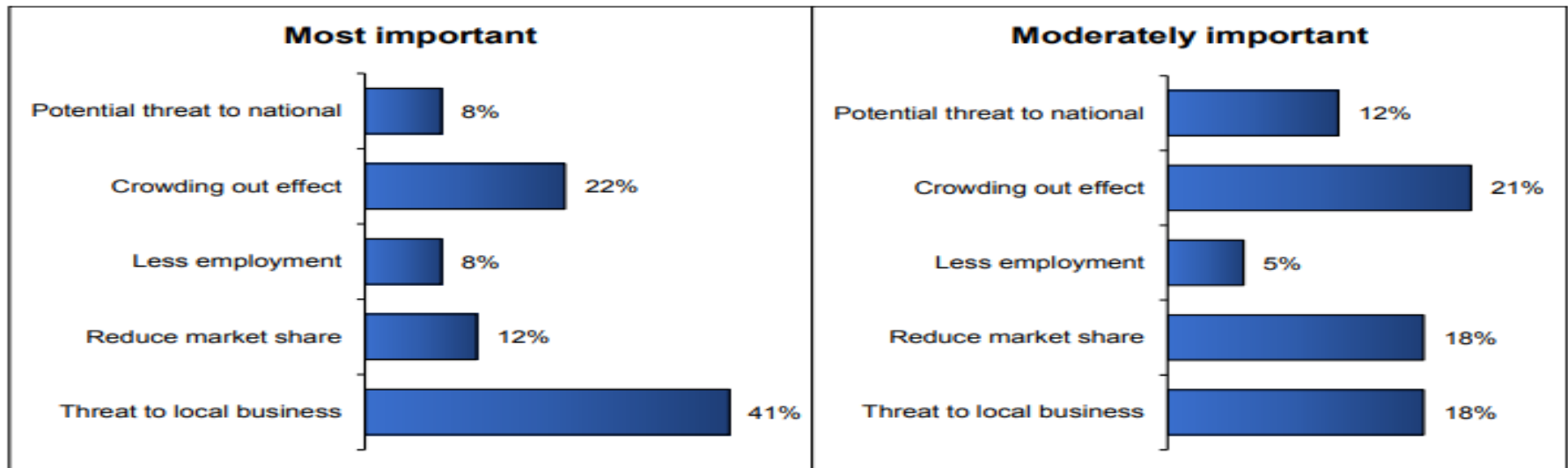
**DFTZ**  
DIGITAL FREE TRADE ZONE



## SERC's survey found that ...

- **35%** of the respondents indicated that they are **optimistic with China's investments** and 50% have mixed perceptions, only 3% showed pessimistic while remaining mainly unsure.
- **Slightly more than half (53%)** of the respondents felt that China is an **indispensable partner and important contributor** to Malaysian economy.
- Nevertheless, China's dominant investments in large-scale non-manufacturing projects and activities generated **domestic concerns and some negative perceptions**, especially the domestic SMEs.
- Majority of the respondents voted **threat to local business, crowding out effect and reducing market share** as their major challenges from China's investments in Malaysia.

### Potential negative impacts from China's investment







## **Section 3**

### **Government's facilitation**

# RESETTING Malaysia-China ties

- Renew commitments; a concerted **COMMUNICATION APPROACH TO CORRECT MISPERCEPTIONS** and **SENTIMENTS**.
- A **CLEAR AND CONSISTENT POLICY CERTAINTY**. Avoid **AMBIGUOUS ANNOUNCEMENTS AND STATEMENTS** that could strain the relations of both sides.
- To overcome the **FEELING OF “DISTRUST” AND MUTUAL “MISUNDERSTANDING”**, both sides should follow some guiding principles:
  - ❑ establish common standards of procedures;
  - ❑ reciprocal protection of investments;
  - ❑ enhanced communication lines and increase transparency; and
  - ❑ maximize efforts to manage and resolve differences through consultative means
- Adopt a new holistic approach to forge **NEW MODEL OF ECONOMIC AND BUSINESS PARTNERSHIPS** with China’s globalization and ‘Going out’ strategy built on mutual and win-win cooperation.
- Enhanced the **ROLE OF INTERPRETER** – conversations and political statements that sometimes contain sensitive issues; a negative consequence in a bilateral relationship if they are **MISINTERPRETED OR RENDERED INCOHERENTLY**.

# STRATEGIC measures to strengthen Malaysia-China ties



## INSTITUTIONALISED “G-G” RELATIONSHIP

- ❑ Collaborations between Malaysian state and city governments with their counterparts in China should be encouraged.
- ❑ Senior ministers and key ministries are encouraged to make regular visits to China or engage with their counterparts to reflect our sincerity to make good relationship from both sides.



## GLCs TO TAKE THE LEAD

- ❑ **Public-Private Partnership** to explore investment opportunities.
- ❑ **GLC-lead Malaysia Consortium** in areas of **technology and communications, plantation, logistics, finances, power, renewable energy as well as oil and gas sector.**



- ➔ **SET UP A SPECIAL DESK** dedicated at facilitating China investors' investment in Malaysia, in coordination and collaboration with the chambers.
- ➔ **SET UP A DEDICATED UNIT IN MATRADE** to conduct market and business intelligence services.
- ➔ **SET UP A HIGH-LEVEL TRADE FACILITATION COMMITTEE** to discuss bilateral trade issues concerning market access, tariff structures, anti-dumping as well as non-tariff barriers.

# STRATEGIC measures to strengthen Malaysia-China ties



## PROMOTING CULTURAL CONNECTION

- ❑ The two sides should make efforts to **promote friendly exchanges** in various fields, including people-to-people exchanges, interconnection, academic and youth exchanges as well as cultural exchanges.
- ❑ In the area of education, **Xiamen University Malaysia (XMUM), the first overseas Chinese university branch campus in Malaysia** is a strong attestation of special relationship and collaboration between China and Malaysia.



## STRENGTHENING THE RENMINBI-RINGGIT CONNECTIVITY

- ❑ Both central banks have to further enhance the renminbi settlement and clearing system, bringing efficient, seamless and cost-effective real-time settlement of renminbi-denominated transactions.



## PROMOTING CHINA-MALAYSIA QINZHOU INDUSTRIAL PARK

- ❑ Both Governments must **give strong political support** for the project in terms of ownership and management of the industrial park.
- ❑ **To organize roadshows and marketing events** showcasing the state-of -the-art industrial park to Malaysia investors.
- ❑ To provide pre-and post-inspection activities in order **to timely resolve difficulties and obstacles faced by enterprises.**



**社会经济研究中心**  
**SOCIO-ECONOMIC**  
**RESEARCH CENTRE**

**谢谢**  
**THANK YOU**

**Address** : 6<sup>th</sup> Floor, Wisma Chinese Chamber,  
258, Jalan Ampang, 50450 Kuala Lumpur, Malaysia.  
**Tel** : 603 - 4260 3116 / 3119  
**Fax** : 603 - 4260 3118  
**Email** : [serc@accimserc.com](mailto:serc@accimserc.com)  
**Website** : <http://www.accimserc.com>