



Restarting Malaysia's engine in the Belt and Road Initiative

Strengthening global infrastructure network

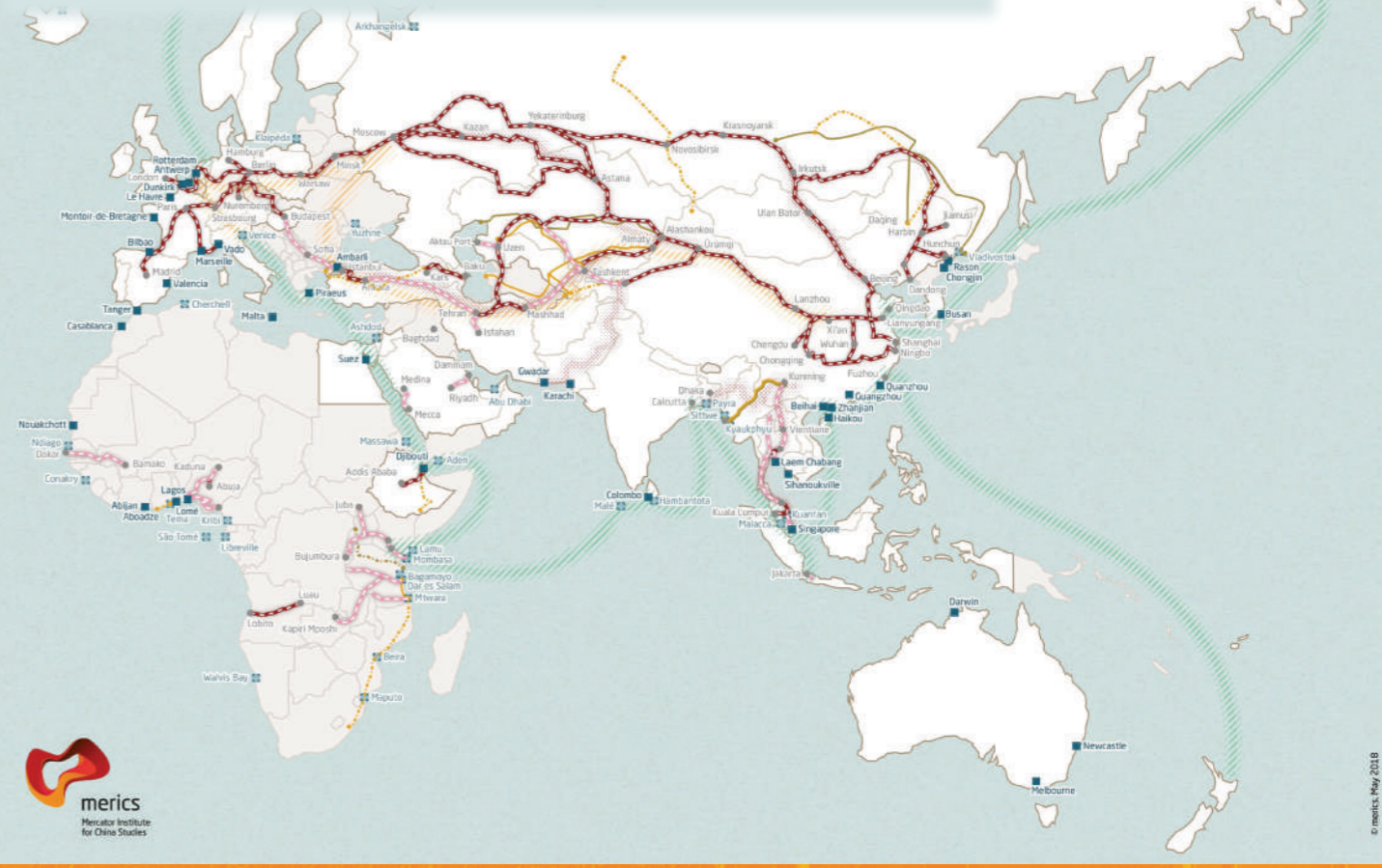
By Foo Meng Huei, Director, China Desk



A year has passed in the administration of the Pakatan Harapan (PH) government, and as expected the new administration has continued Malaysia's long-term support of the Belt and Road Initiative (BRI). Bilateral efforts with the Xi Jinping government made clear that Dr M and his team had only disagreed with the way BRI projects had been implemented by the previous administration, not the BRI per se.

In his defense of China Malaysia ties, Dr M noted that Malaysia and China have had ties dating back almost 2,000 years and with China trading with and investing in Malaysia, both sides would be able to build a big market for China.¹ Culminating in the greenlighting of the East Coast Rail Link (ECRL), the PH government has made clear its stance on BRI moving forward, led by Dr M declaring his "full support" for the BRI at the Belt and Road Forum in April 2019.²

The Belt and Road Initiative creates a global infrastructure network
China uses, acquires and builds railroads, ports and pipelines



Source: Mercer Institute for China Studies, May 2018³

Existing

-  Railroads
-  Oil pipeline
-  Gas Pipeline
-  Port

Planned / under construction

-  Railroads
-  Oil pipeline
-  Gas Pipeline
-  Port

Existing & Planned / under construction

-  Silk Road Economic Belt
-  Maritime Silk Road
-  Economic Corridor
-  AIIB member states

By the Numbers

In brief, the BRI is massive since its launch by President Xi Jinping in 2013. Many numbers have been bandied about as to the value of investments along the reimagined Silk and Maritime Road. Due to the changing nature of government priorities among the initial 60-plus countries participating in the BRI, the total value of projects is still a moving target.



Waves of Investments

Chinese FDIs into Malaysia came in waves, with the first wave highlighted by CRRC -- the world's largest rail transit equipment manufacturer setting up its Southeast Asia manufacturing hub in Batu Gajah, Perak in 2015 with the support of Crowe Malaysia's services. The hub's employees are largely (85%) Malaysian, with CRRC helping to cultivate skilled local rail talent to boost the local railway industry.⁴

The next wave involved Chinese construction companies lending their mega-project expertise and scale to local developments. These were followed by smaller Chinese businesses in the solar and hydropower sub-sectors, among others. Add to this Dr M's support for Huawei's 5G technology despite the U.S. trade ban⁵, and China infrastructure support in Malaysia covers a wide range of industries from railways and bridges, to telecommunications and power generation.

The different waves of Chinese investments culminated in a real feather in Malaysia's cap, when Alibaba chose the country as its first Digital Free Trade Zone in 2018 and partnering with Malaysian companies such as Pos Malaysia and Malaysia Airports.

All these collaborations have manifested in the form of various joint ventures between Malaysian and Chinese as well as investments by Malaysian companies into China. The movement of FDIs, skilled talent and technology between both countries opened companies to new global markets for their products and services.

Strategic Partnerships

Many Crowe clients have benefited from strategic partnerships with Chinese peers. One such client is the Bursa-listed Mega First, which secured a 25-year concession for a US\$401 million hydropower plant in Laos. Mega First appointed Sinohydro -- a hydropower specialist having constructed over 400 dams worldwide -- to construct and commission the dam in October 2015.⁶ Sinohydro also agreed to be paid partly (US\$80 million) in renminbi at a fixed interest rate and exchange rate to the US dollar, thereby shielding Mega First from volatile forex rates for RM/USD.⁷

Another case of a successful partnership was aerospace component manufacturer which followed its US client Emerson to the China market and set up a plant in Tianjin. The growth of the China businesses benefitted the company -- which employs a majority of Malaysian talent so much that the company's presence in the market made it an acquisition target for a FTSE 250-listed UK manufacturer Senior Plc in 2014.⁸

Yet another successful Malaysian-Chinese partnership was AIM-listed MayAir, which focuses on providing air filtration and clean air technology to Chinese customers. Increasing business led to the opening of a new manufacturing facility in late 2017, and drew Chinese-led company Poly Glorious to acquire MayAir in January 2018 at a substantial premium.⁹



Uplifting Individuals, Communities

It is not just companies that benefit from Chinese investments and partnerships, but individuals and entire geographic regions as well. For individuals, China's outsized role in both Bitcoin trading volume (Chinese exchanges account for 30% of global trade volume) and mining have greatly impacted how millions of people in the world profit from the cryptocurrency.¹⁰

Meanwhile, the strength and breadth of the Chinese consumer market has benefitted minor towns like Raub -- home of the Musang King -- in Pahang.

There, local farmers are enjoying more profits from their produce thanks to the increased demand for durian products from Chinese consumers. Malaysia exported 73,823 kg in 2017 to China, largely in the form of frozen pulp and paste. However, in May 2019, China approved the import of whole durians from Malaysia, causing demand to skyrocket further.¹¹ The Malaysian government expects some 1,000 tonnes of frozen whole durian to be exported to China every month, generating about RM500 million in income annually.¹²

Given the massive impact of strategic partnerships between China, Malaysia and companies in both countries, it is vital that Malaysia continue to trade with China and exploit business opportunities to grow wealth. Bilateral trade between both countries will now be further strengthened through BRI projects that will improve the economy of both nations.

China Desk

To that end, as more Chinese companies enter Malaysia and look for local partners, suppliers, and service providers, Crowe's China desk in Malaysia can serve as a go-between to introduce like-minded Malaysian and Chinese enterprises to each other.

Through our partner firm Ruihua¹³ in China, Crowe services more than 40 central SOEs, 400 public listed corporations, and 300 financial services institutions. Ruihua's Party Committee Secretary Jiantao Yang is also co-chairman of Crowe Global, driving home the importance of such expertise to the firm.

Being the 5th largest network of advisory firms in Asia Pacific, Crowe can also provide insight to Malaysian SMEs based on its experience in brokering engagements between Chinese companies and other Asia Pacific SME clients involved in BRI-adjacent projects.

Crowe China has professional teams to assist Malaysian investors into China. In addition, Crowe China has a China Marketing Centre to assist China investors who are interested to invest into all the countries of the world.

For inbound Chinese investors looking to put roots down and forge partnerships in Malaysia, please contact our Crowe Malaysia China Desk team:

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About Crowe Malaysia

Crowe Malaysia is the 5th largest accounting firm in Malaysia and an independent member of Crowe Global. The firm in Malaysia has 13 offices, employs over 1,200 staff, serves mid-to-large companies that are privately-owned, publicly-listed and multinational entities, and is registered with the Audit Oversight Board in Malaysia and the Public Company Accounting Oversight Board in the US.

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Ranked 8th largest accounting network in the world, Crowe Global has over 250 independent accounting and advisory firms in 130 countries. For almost 100 years, Crowe has made smart decisions for multinational clients working across borders. Our leaders work with governments, regulatory bodies and industry groups to shape the future of the profession worldwide. Their exceptional knowledge of business, local laws and customs provide lasting value to clients undertaking international projects.

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