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Wave of China investments likely

China's confidence in Malaysia shows in the form of billions in investments, with more to come.

By HO WAH FOON

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THE business community – at least among Chinese businessmen – still cannot get over the euphoria created by Premier Li Keqiang, who recently announced a string of measures that have improved sentiment for the financial market.

At a follow-up seminar to discuss the implications of these measures, organised by the Associated Chinese Chamber of Commerce last Tuesday, speakers feel that the local financial market – hit by the plunge in crude oil prices, outflow of funds as well as political instability – would be stabilised.

Without delay, Securities Commission of Malaysia called for a meeting last Wednesday with the Bank of China in Malaysia and other financial institutions to discuss these measures announced by Premier Li.

On Nov 23, the Chinese leader announced at a local high-level forum that China would continue to buy Malaysian government bonds, issue renminbi bonds in Kuala Lumpur and grant local institutional funds a quota of RMB50bil (RM33bil) under the Renminbi Qualified Foreign Institutional Investor (RQFII) programme to invest directly in Chinese equities in the mainland.

The following day, the ringgit gained 1.0% and the currency has been stabilised at around 4.25 to the dollar since. Government bonds also gained.

Li also told the Nov 23 forum, held on the last day of his four-day official visit to Malaysia, to attend several summits, that China would encourage more Chinese investments to come into Malaysia.

And after his bilateral talks with Prime Minister Datuk Seri Najib Razak the same day, it was announced that state-owned 1Malaysia Development Bhd (1MDB) had sealed a deal to sell its

power assets in Edra Global Energy Bhd to state-owned China General Nuclear Power Corporation (CGNPC) for RM9.83bil.

Apart from the size of the transaction and the parties involved, what caught the market's attention was that this was the first time 100% equity of a state firm owning strategic assets was sold to a foreign company, versus the general rule of 49% laid down for foreign holdings.

In addition, the price CGNPC paid for the power assets is seen as "generous". It is RM1.83bil more than the RM8bil bid put in by Tenaga Nasional Bhd (TNB).

And in fact, the Chinese company will also absorb the debts of Edra totalling about RM8bil, which is in the books of 1MDB. This means that CGNPC will pay 1MDB a total of about RM18bil, which is 43% of 1MDB's RM42bil debts.

Following this major deal – which could possibly be the largest so far between state-owned companies of these two nations – there are ques-

tions whether there will be more major and "generous" investments coming from China.

Ian Yoong Kah Yin, former investment banker of CIMB, tells *Sunday Star*:

"This deal is seen as a precursor for China. And if our policies are aligned closer with China in international relations to the chagrin of the United States, there will be a wave of China investments coming our way."

But he adds: "Malaysia is an ideal beachhead for China into Asean and ideal investment partner for China in terms of time zone, language and natural resources. Both could create a win-win situation. For the Barisan Nasional government, aligning with China may also

help to win Chinese votes in the next general election."

Malaysia's Special Envoy to China Tan Sri Ong Ka Ting, one of the key architects behind the great leap in Malaysia-China relations in recent years, believes that the entry of giant Chinese firms will attract more mainland investments into Malaysia.

For example, in the Malaysia-China Kuantan Industrial Park in Pahang, a Chinese porcelain is planning to set up shop here with an investment of RM2bil following an investment of RM5.6bil by Alliance Steel Mill. The entry of giant property company Country Garden also has similar draw.

In an interview, Ong says the measures announced by Premier Li show the confidence China has had on Malaysia.

"The positive signal he sent out is expected to draw more Chinese investments into the country."

In addition, due to the close diplomatic ties between the two countries, many major companies are now planning to invest in Malaysia now, according to Ong.

"I also believe that more investments from China will flow in after our Prime Minister announced that the Johor Baru-Gemas double track rail project will be awarded to China," says Ong, who is also chairman of the Malaysia-China Business Council.

China's "one-road-one-belt" initiative, which has mapped Malaysia as one of the beneficiary nations, is currently attracting Chinese investments into Malacca and other states, he adds.

But the leading diplomat on China affairs is not optimistic that total China-Malaysia bilateral trade could hit targeted US\$170bil (RM712bil) by 2017.

In the 90-minute interview, the former MCA president and Minister

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of Housing and Local Government also airs his views on other issues relating to Li's visit and Malaysia-China relations. Below are excerpts:

In your opinion, what have Malaysia and China gained most from the recent summits? Did Malaysia play a key role in playing down the South China Sea conflict?

The recent forum was the only occasion where Premier Li had the opportunity to address a big crowd of senior government officials and key business sectors from Malaysia and China on the opportunities and direction of the economy of China. He was very happy and was smiling most of the time on Nov 23 before and after he delivered his keynote speech.

His visit has further strengthened the economic cooperation between Malaysia and China.

On the regional front, Malaysia has played its lead role well, as chair of Asean for 2015, in conducting the Asean and related summits to maintain harmony and stability of the region.

China has indicated it will continue to buy up Malaysian bonds and will issue RMB bonds here for a more stable financial market. It will also offer a 50 billion yuan RQFII (RMB Qualified Foreign Institutional Investor) quota to Malaysia.

How large will the bond purchase be and when will the impact from these measures be felt?

These measures, including all the mutual trade and investments signed during Premier Li's visit to Malaysia, will certainly help stabilise our financial market and boost our economic growth.

The purchase of Malaysia's government bonds and the issue of RMB bonds will have implications on the demand for the ringgit. It will then stabilise the ringgit. Buying our bonds definitely shows China's confidence in us and will send out a positive signal.

If they issue RMB bonds in Malaysia, it will attract foreign investors, including Chinese investors, and there will be inflow of foreign funds into Malaysia. This will have a positive impact on the ringgit, which has been hit by outflow of foreign funds for the past 18 months. The RQFII quota will allow the flow of funds in and out of China's equity market, which means that there will be greater exchange of RMB and ringgit taking place. This comes in timely as Kuala Lumpur has already set up the RMB

clearing system. The Bank of China and other local financial institutions will play a big role in enhancing the financial market.

When can we feel the impact?

For a premier to announce all these measures, I believe they will be implemented soon. This could take place early next year, if the potential parties involved are ready. The purchase of Malaysian bonds is expected to be quite substantial. In fact, financial institutions are now making preparations to capitalise on all these three measures.

Premier Li said China will invest more in Malaysia.

Which are the sectors and states China is keen in? Will there be more major investments coming in the country, after the deal to buy Edra for a generous enterprise value of RM18bil?

China's interest in Malaysia covers a wide area, ranging from manufacturing, property to service sectors.

The Malaysia-China Kuantan Industrial Park in Pahang (MCKIP) has become the iconic project signifying the close relationship between Malaysia and China.

It is a park established to reciprocate the China-Malaysia Qinzhou Industrial Park. The setting up of a RM5.6bil Alliance Steel Mill in MCKIP and the recent MoU on setting up Guangzi Zhongli company, a porcelain manufacturer, with RM2bil investment, set the stage for further major investments into Pahang.

The joint venture project of Kuantan Port is another major project. It is one of the early One-Belt One-Road project in enhancing logistic capability of the ports along the Maritime Silk Road.

China has also targeted Malacca as a convenient port along its modern Maritime Silk Road. It is keen on developing tourism, the development of a marine park and industrial parks to house potential manufacturing firms from China, and the redevelopment of Malacca port.

Chinese tourists, including Chinese leaders, have special interest in Malacca due to its long historical ties with China since the visit by Admiral Zheng He in the 15th century. The special position of Malacca as the mid-way port along the busy Straits of Malacca is seen as having the potential to become a future hub of trade and other service industries for the South-East Asian region.

For this purpose, Guangdong province has been named the Chinese partner to Malacca. The

"Guangdong- Melaka Friendly Province and State" will unlock the economic potential between the two regions. Guangdong is the province with the highest GDP among all

provinces in China.

Perak has also attracted some major investments from China, such as the rail car manufacturing centre and under planning is a major Chinese steel mill.

In Johor, property investments from China have made a strong presence with the development of major projects by big names such as Country Garden and R&F. The other Chinese property players are exploring Malaysia now as a result of the presence of these major players.

On the education front, Xiamen University Malaysia Campus has just completed the construction of Section One of Phase One of the campus in Dengkil, Selangor. With total investment of RM1.2bil, this university will open for the first intake of students in February 2016. (Ong is instrumental in bringing in Xiamen University.)

I believe more investments from China will flow in, after our Prime Minister announced that the Johor Baru-Gemas double-track train project will be awarded to a consortium of Chinese companies.

What kind of benefits can Malaysia obtain from China's one-belt one-road initiative? Which are the local companies enjoying these benefits now?

The one-belt one-road initiative would involve massive construction on infrastructures such as highways, railways, ports, logistic facilities, pipe works, telecommunication and buildings. Malaysia is strong in consultancy and construction work.

With Malaysia at the geographical strategic position along the Maritime Silk Road, local entrepreneurs will have an advantage in competing with nations of the region in getting such infrastructure projects.

Do you foresee China becoming an economic colonial master of some countries in the near future due to its massive investments and grants/aids given to these countries?

The whole world is slowing down, including China and Malaysia. In good times, everybody prospers. During bad times, everybody becomes prudent. Hence, it is not easy for China – which has its own domestic priorities to take care – to colonise other countries

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economically.

For Malaysia, we have our bottom line. We know how to safeguard our national interest and we are competent enough to protect ourselves.

However, in a globalised economy, cross border investment is unavoidable. Malaysia should grab opportunities in joint ventures and productive investments to create win-win situations.

Will China be the answer to solving Malaysia's current economic woes, just as the influx of Taiwan's investments in the 1990s had helped in reviving Malaysian economy?

China is willing to help Malaysia mainly because of its strong bond with Malaysia. It has always reiterated its gratitude to the friendship extended by Malaysia.

The Malaysia-China friendship has gone a long way since the historic visit by our second Prime Minister. The late Tun Abdul Razak made the visit to China in 1974. He was the first Asean leader to take the bold step to visit China at a time when most Asean leaders were still worried about China's political position (of supporting communist parties outside China). The Chinese were very appreciative of the Malaysian move (at a

time when others stayed clear of China).

The special bond between the two nations is being pursued by our present PM who wishes to continue his late father's legacy, which has gained the trust of the Chinese government. The warm friendship of China towards Malaysia could be felt when President Xi Jinping met our PM.

Over the past two years, President Xi has had at least six private dinners with our PM when the leaders met. These private dinners were held in Kuala Lumpur, China, New York and Manila.

Do you think the bilateral trade target of US\$160bil (RM670bil) by 2017 can be achieved?

The US\$160bil target was raised by the Chinese in 2013 when China's economy was robust and it was very bullish about global outlook. But with the current slowing down of global growth, including that of China and Malaysia, this target is no longer realistic. It will

be very challenging to meet this target.

Despite this, bilateral trade for 2013 and 2014 had surpassed US\$100bil (RM418bil). Both nations and the business community will have to work very hard to main-

tain this US\$100bil mark.

Will China remove visa requirement from Malaysians after Malaysia announced relaxation of the visa requirement for the Chinese?

They normally will reciprocate and we expect China to move towards relaxing the requirement soon.

To attract more Chinese tourists, we need to carry out strategic promotions to make it more attractive for them. I think Chinese tourists are coming back after a vast decline following the disappearance of MH170 in March 2014.

How do you see Malaysia-China relations, going forward? Are there challenges ahead?

We will continue to be close and our relations will hit new highs. The last two years have been very good.

I don't see any major issue coming in the way of Malaysia-China relations. If there are obstacles, I believe our Prime Minister can overcome them.

I expect to see closer and stronger cooperation between the two nations. The top leaders are very friendly towards each other and they have shown they trust each other very much.



Rosier outlook: Malaysian top businessmen meeting with Premier Li on Nov 23. Li recently announced a string of measures that have improved sentiment for the financial market.

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Positive vibes: Ong, one of the key architects behind the great leap in Malaysia-China relations in recent years, believes that the entry of giant Chinese firms will attract more mainland investments into Malaysia. Left: Najib and Li are all smiles in Putrajaya.