

# China's "Belt and Road" Initiative: How Malaysia Can Benefit



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**C**hina's Belt and Road Initiative (OBOR) is gaining wide recognition and media coverage in public opinion across Malaysia. As one of the hottest destinations for foreign investment, Malaysia has attracted massive Chinese capital in recent years. It was reported that at 2015, China had invested US\$25.4 billion in various sectors including real estate, metal fabrication and more. Net capital inflow from China to Malaysia also increased significantly, from US\$56 million in 2005 to US\$616 million in 2013, recording an average annual growth rate of 34% in the same period (China Global Investment Tracker, 2015).

However, this massive capital inflow from China in such a short period has created much public buzz. While it is believed that China's investment has played an important role to revive local economy, it is also widely argued that China has asserted its influence over the region through these investments. However, most see the investments as ground-breaking feats that will boost our flagging economy.

Still, given China's large presence here (especially in the infrastructure and construction sectors), questions remain as to "how" and "to what extent" will Malaysian stakeholders, in particular engineers, benefit from this huge national project.

With connectivity as the keyword for OBOR, developing inter-connectivity of infrastructure development forms a central part of China's OBOR Initiative. The fact that the projected investment will amount to US\$1.4 trillion is giving Malaysia the opportunity to upgrade its own infrastructure, including ports and railways.

Though the priority to develop infrastructure is arguably associated with China's current needs to export its excess capacity in construction industries, there is no doubt that the infrastructure-emphasised programme is essentially needed for a sustainable and inclusive social-

economic development. It has been testified, though in theory, that 1 unit of infrastructure investment can generate 3.05 units of production expansion from other industries (Andrei, 2016).

Malaysia needs to seize this opportunity and acquire financial support from the newly launched multilateral institution, Asia Infrastructure Investment Bank (AIIB), and the Silk Road Fund, both of which are oriented towards funding specific infrastructure projects, with railways, roads and pipelines at the top of their agenda.

As Chinese companies increasingly experiment with PPP-type investments in infrastructure in emerging markets, the fact that most of them are aided by very substantial Chinese public sector financing and guarantee under the OBOR banner has drastically improved the risk-return profile of the projects.

Many of the China's State-Owned-Enterprise (SOE) players are arguably "too big to fail", with substantial government backing in negative case scenarios. In the extreme case, China's state-owned policy insurer will cover certain projects during political or social incidents. Though it is the banks' concern that the risks may become entangled in projects where commercial logic and demand for roads/bridges are subordinate

to political considerations, the collaboration with China's SOE has certainly helped local stakeholders reduce the risks.

Malaysian stakeholders can also potentially gain market entry through partnerships with Chinese clients. The majority of Chinese players reaping fruit from OBOR funding so far are China's mega-sized SOEs. A successful project partnership with these players can help build goodwill and track record to gain an edge in domestic bids and overseas business. For example, a state-owned construction company subsidiary doing business in Malaysia, can recommend its Malaysian suppliers to other subsidiaries in other markets in the region, such as Indonesia and the Philippines. By leveraging on such customer relationships, Malaysian engineering, procurement and construction companies will be able to tap the overseas market or re-enter the Chinese market.

In addition to creating more jobs, the beauty of foreign investment lies in its stimulating effect on local stakeholders to enhance productivity and competitiveness through technology transfer. Truly, the technology know-how from certain industries in China (e.g. High Speed Railway, telecommunication service, Internet-based industry) and

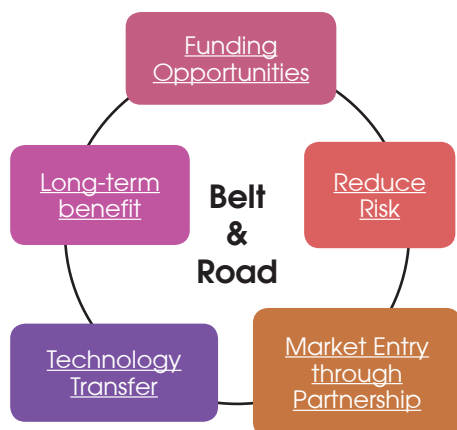


Figure 1: The Opportunities of OBOR Initiative  
Source: author

managerial skills in some industries (e.g. construction industry) will provide the opportunity for Malaysian business stakeholders to enhance their competitiveness by learning and innovating.

China's investments in Malaysia will translate into not only improved infrastructure and logistics but also high-value job creation and industrial upgrading which will ultimately facilitate Malaysia to become a high-income country by 2020. Last but not least, there will be positive long-term macro impacts for international firms by shortening lead time and reducing transportation costs especially when OBOR's objective to facilitate smoother trade flow is realised within the connected regions. Improved linkage via railway and maritime connectivity is expected to further reduce the transit time between Malaysia and China.

The possible effect of combining Kuantan Port and the East Coast Railway Link will be an alternative trade route for the movement of goods and commodities to be transported in a more efficient manner, compared to the traditional trade route of sea transportation via Singapore. This will greatly benefit those who export raw materials from Malaysia to China, as well as international players seeking to further penetrate large consumer markets with finished products.

Initially, the sectors which will possibly benefit the most from the OBOR Initiative will be those in infrastructure. After more than 20 years of building roads, railways and airports, China now has a world-class infrastructure industry.

Infrastructure, which plays a leading role in the development of the OBOR Initiative, requires investment and project contracting; it will certainly drive demand for relevant services. In this connection, Malaysia should be able to find a considerable array of opportunities in financing, project risk management, real estate services and other related industries.

With the extensive industry value chain, a well-developed supply-buyer relationship will benefit local stakeholders which can be engaged in the mega

transport and logistics project. In addition, the transport and logistics industry can also be an area of potential cooperation with a promising future.

In term of industrial co-operation, the twin industrial parks may become platforms for the clustering of industries, especially advanced manufacturing. The demand for logistics, supply chain management, consumer products and services will see an increase with the overall growth of these regions.

Then there are other service sectors, such as financing and legal services, which stand to benefit. As such, professionals in diverse areas such as design, quality control, high-tech electronics and arbitrations should also be assessing the possibilities. ■

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