

Chinese Investments in Malaysia: Question on the Future of Liberal Democracy and Economic Freedom

By Wan Saiful Wan Jan



Introduction

Eyebrows were raised when a Hong Kong-based newspaper recently claimed that Mainland Chinese are migrating to Malaysia “by the thousands”.² The report stated that in 2016 alone, more than 1,000 Mainland Chinese had utilised the Malaysia My Second Home (MM2H) programme to migrate there. Between 2002 to 2016, a total of 31,732 applications for MM2H were approved, and 7,967 of these were from the Peoples’ Republic of China (PRC). This means that, since it was started, a dragon’s share – 25 percent – of the migrants have been from the PRC.

Of course the PRC’s increasing presence in Malaysia is not just represented by recent migration. There is a lot happening on the economic front too. When Prime Minister Najib Razak visited the PRC in November 2016, Malaysia signed 14 memoranda of understanding (MOU) with Chinese companies worth a total of MYR 143.64 billion³. Najib visited China again in May 2017, and another nine MOUs worth MYR 30 billion were signed⁴.

The types of investment are diverse and they are spread throughout the country, as shown in Chart 1. More recently, it was announced that Zhejiang Geely Holding Group would purchase 49.9 percent of Malaysia’s national carmaker Proton from DRB-HICOM⁵. A report by an Australian investment analysis firm Investorist stated that Malaysia is the PRC’s sixth most preferred property investment country, sharing the spot with Singapore⁶.



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² <http://www.scmp.com/week-asia/geopolitics/article/2080869/why-are-chinese-moving-malaysia-thousands>. Accessed 30 April 2017

³ Cassey Lee, “Deepening of Malaysia’s economic ties to China: what are the implications?”. *Perspective*, Issue 2016, No 69, ISEAS Yusof Ishak Institute (20 December 2016).

⁴ <http://www.thesundaily.my/news/2017/05/16/najib-returns-home-after-successful-trip-improve-investment-ventures-china> (accessed 6 June 2017)

⁵ <http://www.channelnewsasia.com/news/asiapacific/chinese-carmaker-geely-to-acquire-malaysia-s-proton-8877716> (accessed 6 June 2017)

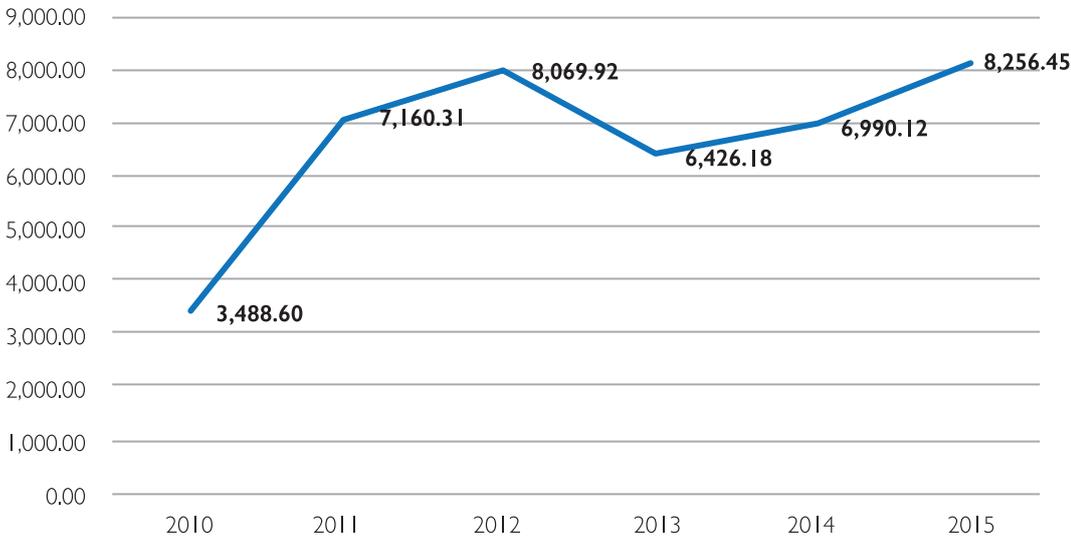
⁶ *China 2016 International Property Outlook*, Investorist (2016)

Chart I: Some of the Chinese investments in Malaysia

State	Project	Company	Value (MYR, bil)
 Penang	Penang Undersea Tunnel	China Railway Construction Corporation	3.7
	Penang Second Bridge	China Harbour and Engineering Corporation	4.5
 Selangor	East Coast Railway Link (from Klang to Kota Bharu)	China Communications and Construction Company	55
	Xiamen University Malaysia	Sinohydro Investment	1.3
	Edra Power Holdings (various power plants locally and overseas)	China General Nuclear Power Group	10
 Malacca	Melaka Gateway (port and mixed development)	PowerChina International	15
 Johor	Forest City	Country Garden	105
	Various other developments	Various	26
 Sarawak	Bakun Dam	PowerChina International	7.5
 Pahang	Kuantan Port and Malaysia-China Kuantan Industrial Park	Guangxi Beibu Gulf International Port Group	8
 Kuala Lumpur	TRX Signature Tower	China State Construction Engineering Corporation	3.5
	Four Seasons Hotel	China Railway Construction Corporation	2.5
		Total	242

Source: Straits Times, 5 May 2017

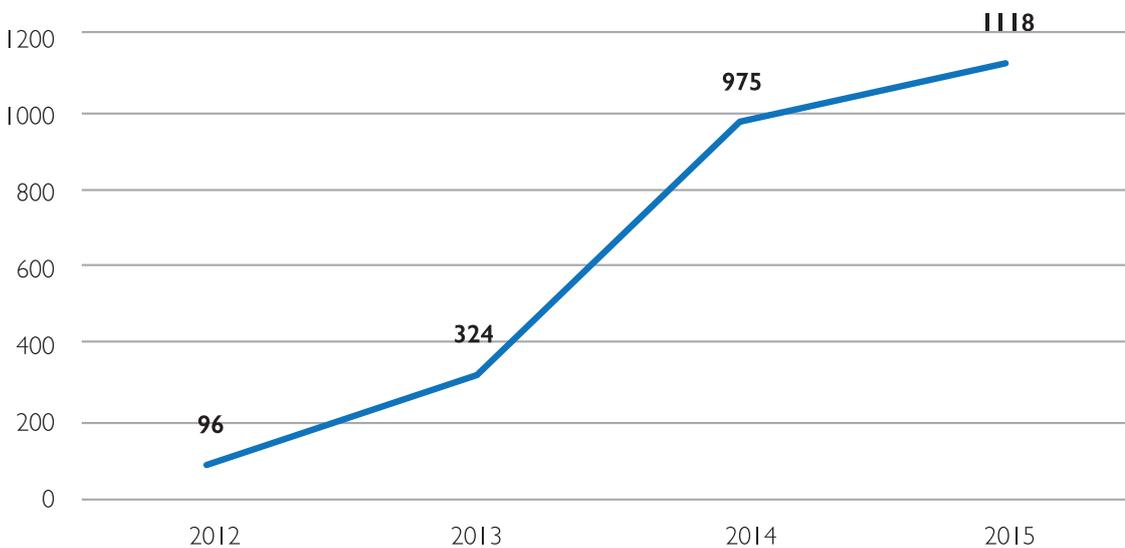
Chart 2: Amount of PRC investment into ASEAN (USD million)



Source: Data from ASEAN Secretariat Statistics Division

Malaysia’s economic relationship with the PRC is not new. Through ASEAN, it has been enjoying a growing relationship with the PRC for quite some time, especially after the ASEAN-China Free Trade Agreement (ACFTA) came into force in 2010. The PRC has also taken steps to enhance the relationship by establishing the China-ASEAN Investment Cooperation Fund in 2013. And their three policy banks – China Development Bank, the China Eximbank and the Agricultural Development Bank of China – whose role is to support the PRC government’s policy objectives, have also been actively channelling funds into projects in ASEAN. In its early days, the ACFTA was already the largest free trade area in the world with a combined population of 1.94 billion and combined GDP of more than USD 9 trillion. Today, as China pursues its One Belt One Road (OBOR) agenda, the flow of money is growing, with Malaysia recording an increase in Chinese investments of 1,064% from 2012 to 2015 (See Charts 2 and 3).

Chart 3: Amount of PRC investment into Malaysia (MYR million)



Source: Data from Department of Statistics, Malaysia

Challenges

Opening a country's economy to investors more often than not creates economic growth that benefits the population as a whole. This has been shown to be the case time after time by many studies. One such study is the annual Economic Freedom of the World Report, produced by the Economic Freedom Network, led by a team at Canada's Fraser Institute and supported by think tanks from almost 100 countries. The latest report examined 159 countries, and it confirms once again that a higher level of economic openness correlates positively with indicators such as income per capita, economic growth, poverty reduction, and civil and political freedom⁷. Thus, the arrival of more investments from China could certainly produce positive impacts for Malaysia if they are handled correctly. Nevertheless, the volume, speed and style with which this has happened, have raised questions about the potential impacts on Malaysia's commitment to improving good governance, rule of law and democracy. Some of the issues are discussed below.

Investment or debt?

One issue that has been raised is whether the influx of funds from the PRC is a real investment or just a long-term soft loan. In some of the recently announced projects, the PRC government, through their state arm, provides financing to special purpose vehicles created by the Malaysian government on the understanding that the top-tier contractor would be a PRC company. Upon completion of the project, the Malaysian entity is still liable to pay back the loan with interest. Some of the loans are also guaranteed by the Malaysian government, which means there is very minimal risk on the part of the PRC⁸.

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⁷ *Economic Freedom of the World: 2016 Annual Report*. Fraser Institute (September 2016)

⁸ For further discussions on the nature of Chinese investments in Malaysia, see, among others, Shannon Teoh, "Chinese deals in Malaysia under scrutiny", *Straits Times*, 7 May 2017; Nurul Izzah Anwar, "China's investments in Malaysia – too much, too fast, too soon", *Malaysiakini*, 29 May 2017; and <http://www.theborneopost.com/2017/05/07/china-construction-firms-friend-or-foe/> (accessed 4 June 2017)

The biggest example is the East Coast Railway Line (ECRL). State-owned China Eximbank will provide MYR 55 billion for the project. Malaysia will only start repayment after seven years when the construction is expected to be completed, and over a period of 20 years. The Malaysian government will act as guarantor to Malaysia Rail Link Sdn Bhd, a special purpose vehicle created by the Malaysian government to receive the soft loan and oversee the delivery. However, it has already been announced that the main contractor tasked with constructing the ECRL is another PRC state-owned enterprise, the China Communication Construction Company (CCCC). There is a requirement that CCCC must subcontract some portions to local companies, but the bigger picture remains in which Malaysia borrows money from the PRC and will immediately use a large sum of that money to pay a PRC company. After seven years, Malaysia will still need to pay back the loan plus interest, again, to the PRC. Not only does the PRC get back a substantial portion of their money immediately in the form of payment for work done by their state-owned enterprise CCCC, they will get more money when repayment starts with interest. Ultimately, over the long term, there is still an outflow of funds from Malaysia to the PRC. This will occur even if the ECRL is not profitable, because the risks and the liabilities are borne by Malaysian taxpayers through government guarantee of the loan⁹.

Venezuela provides a good comparison. The PRC gave Venezuela a soft loan of USD 63 billion between 2007 to 2014, and the repayment was supposed to be with oil. When the price of oil more than halved over that period, Venezuela's repayment cost doubled. The PRC refused to renegotiate the terms of what was supposed to be a soft loan, leading a commentator to say "Venezuela's road to disaster is littered with Chinese cash"¹⁰.

Will locals benefit?

There have also been questions about the trickle-down benefits to local SMEs. Prior to the ascendance of the PRC, it was common for Malaysia to issue contracts to Western companies that subsequently subcontract to and source from local companies, thereby generating a trickle-down effect - creating jobs and encouraging technology transfer to Malaysia. But now there are anecdotal complaints from Malaysian SMEs that PRC companies procure almost everything from China, sidelining local firms¹¹.

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⁹ Presentation by an industry insider at a seminar held at ISEAS-Yusof Ishak Institute under Chatham House rules, March 2017. Used here with permission.

¹⁰ <http://foreignpolicy.com/2017/06/06/venezuelas-road-to-disaster-is-littered-with-chinese-cash/> (accessed 8 June 2017)

¹¹ Personal interviews by the author with a senior manager at Petronas Refinery and Petrochemical Integrated Development (RAPID) Project, Johor, and a Board member of an international chamber of commerce in Kuala Lumpur. March 2017.

This concern does have a basis. A review on PRC investment in Africa found that PRC investors hardly create any linkages to the local economy because they source directly from Mainland China. Projects there are usually carried out by PRC state-owned enterprises who often utilise large numbers of PRC manpower and materials, shutting out locals from thousands of jobs in projects carried out in Zambia, Ghana, South Africa, Nigeria, Ethiopia and Sudan¹².

With SMEs contributing 36 percent to Malaysia's national GDP, 97 percent of Malaysian businesses being SMEs, and SMEs providing 65 percent of the country's employment¹³, this is an issue that cannot be ignored. Are Malaysian SMEs getting a fair chance to bid for a slice of the pie from PRC investments? Are there sufficient steps to ensure that not all funds flow out from Malaysia to the PRC, bypassing local players? .

Loss of focus on improving governance

Over the last several decades, it had been common for Western liberal democratic economies to bundle up trade with the requirement for Malaysia to enhance domestic governance. But the PRC has shown no sign of being interested in coupling the growing economic relationship with the promotion of democracy and good governance. The concern therefore is that Malaysia will in fact regress in these fields.

Again, the ECRL provides a good example of how standards have been lowered in the issuance of contracts, ignoring Malaysia's previously stated desire to employ competitive bidding when choosing contractors. The ECRL contract has already been given to CCCC, through direct negotiation, without any open tender. No other company was given the chance to put in a bid, making it impossible to ascertain if CCCC provides best value for money as there was no competitor. The same applies to almost all projects announce thus far. The deals were announced as *fait accompli*.

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¹² Anthony Yaw Baah and Herbert Jauch (ed.), *Chinese Investments in Africa: A Labour Perspective*, African Labour Research Network, May 2009.
¹³ <http://www.worldbank.org/en/news/feature/2016/07/05/small-is-the-new-big---malaysian-smes-help-energize-drive-economy> (accessed 25 April 2017)

Authoritarian capitalism

Some quarters have expressed concerns that the PRC may export communism into Malaysia¹⁴. But this is misguided as communism in the Leninist-Marxist sense is no longer in China’s driving seat¹⁵. The real concern should be on how China is showing that economic growth can be achieved without the need to strengthen liberal democracy or respecting human rights. This can have a real impact on the fate of liberal democracy and human rights in Malaysia. As argued by Columbia University’s Professor of Political Science Andrew Nathan, “Beijing’s pragmatic efforts to protect its regime and pursue its interests abroad have a negative impact on the fate of democracy ... China encourages authoritarian regimes elsewhere by the power of example.”¹⁶

The rise of the PRC’s economic power shows to Malaysia, and any other country for that matter, that it is possible to create economic growth without extending political and social freedoms to citizens. It shows that economic growth is possible even under one party rule, and it raises questions about the need for a strengthening of liberal democracy. Australia National University’s Professor Evelyn Goh’s commented that the PRC shows there is an “alternative path of maintaining a capitalist economy without concomitant political liberalisation”. She added that many countries now “look to China as an important model for authoritarian capitalism”¹⁷. This could be a real concern for advocates of liberal democracy in Malaysia.

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¹⁴ See for example, PERKASA lapor IGP hubungan Umno dengan Komunis China, *Malaysiakini*, 23 May 2017 (<http://www.malaysiakini.com/news/383231>, accessed 26 May 2017)
¹⁵ See for example: James Dorn, “The Death of Communism in China”, *Journal of Commerce* (4 March 1999); Ronald Coase and Nina Wang, *How China Became Capitalist*, Palgrave Macmillan (2012); and Vahan Janjigian, *Communism is Dead but State Capitalism Thrives*, Forbes Magazine (22 March 2010).
¹⁶ Andrew J Nathan, “China’s Challenge”, *Journal of Democracy*, Vol 26 (2015), p. 156 - 170
¹⁷ Evelyn Goh, “Rising Power ... To Do What? Evaluating China’s Power in Southeast Asia” *RSIS Working Paper*, No 226 (30 March 2011)

The Way Forward

While the concerns are many and often valid, it is futile to think that the influx of PRC money into Malaysia can be stemmed. Nor should it be. The investments themselves are not necessarily a problem, for the PRC's new and dominant role in the world is the new normal, especially at a time when the US is becoming more inward-looking. In fact, if one were to be consistent with the principles of market economy, restricting PRC's investments is not a liberal approach to take. What needs to be done therefore is focus on domestic governance in Malaysia itself. If these investments are managed properly, the new normal could become a positive catalyst for Malaysia's growth. The key is to acknowledge the issues and concerns, and then to devise steps to tackle them while staying committed to enhancing good governance.

The PRC will continue to pursue investments as they have their own geopolitical objectives and an overcapacity problem to address at home. Thus, while Malaysia should be open to PRC's funds, it is Malaysia that needs to remain committed to the pursuit of a rules-based, competitive and transparent economic system. Malaysia has already stated the desire to improve governance in various policy documents such as the New Economic Model and the Economic Transformation Programme. These need to be followed through, especially when dealing with an investor like the PRC. The responsibility to ensure good governance in Malaysia lies with the Malaysian government and the Malaysian people, not the PRC.

The question is whether the current Malaysian administration sees the rise of the PRC as a motivator to pursue good governance, transparency and liberal democracy, or as an opportunity to adopt authoritarian capitalism with a view to strengthen one party rule. At a time when the ruling party's grip on power is loosening, this is the real issue that should be examined. With all the problems besetting the current Malaysian administration, it is not difficult to imagine Malaysia evolving in the wrong illiberal direction if no safeguards are put in place.



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