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## **China's Investments in Malaysia: Choosing the "Right" Partners**

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### **Abstract**

This paper examines China's outward foreign direct investment into Malaysia by analysing the major coalition partners of mainland Chinese firms that have invested into the country, a relatively underexplored topic. Based on personal interviews with parties familiar with the investment of mainland Chinese firms in Malaysia as well as published reports, this paper argues that a large portion of the mainland Chinese firms have cooperated with the government-linked companies (GLCs) in their cross-border investments, while a smaller percentage have cooperated with the ethnic Chinese firms, and other entities i.e. neither the GLCs nor the ethnic Chinese firms. The mainland Chinese firms' strong preference of the GLCs is attributed to the dominance of the GLCs in the Malaysian economy, a direct result of the country's ethnocentric economic redistribution model. However, the preference of mainland Chinese firms for the GLCs, ethnic Chinese firms, and other entities is not uniform across the economic sectors. The preference for the GLCs decreases from the construction, to the manufacturing, and to the other services, agriculture, finance, and information and communication sectors. The preference for the ethnic Chinese firms and the other entities illustrates an opposite trend as it increases from the construction sector, to the manufacturing, and the other services, agriculture, finance, and information and communication sectors respectively. The mainland Chinese firms' choice of coalition partners reflects the capitalist development and state-society relations of Malaysia, outcomes of the country's decades-old political economic mantra of wealth redistribution along ethnic lines.

**Keywords:** *China, economic globalization, ethnic Chinese business, foreign direct investment, political economy*

## 1. Introduction

Scholarly research on China's outward foreign direct investment (FDI) has attracted relatively little attention especially vis-à-vis the large body of research detailing the country's inward FDI. Such research was conducted more intensively only since 2004, following the rapid increase in Chinese outward FDI (see [Zhang and Daly, 2011](#)). The latest available information shows that China has invested as much as US\$84 billion in 2012, establishing the country as the world's third largest outward investor after the US and Japan ([Sauvant, 2013](#)). Prior to 2004, China was largely viewed as a "giant sucking vacuum cleaner for global inward foreign direct investment" ([Wu, 2007: 445](#)). As the Chinese economy matures in the near to medium term and more mainland Chinese firms internationalize their operations, it is reasonable to expect even more outward FDI from the country.<sup>1</sup> As China is also a prominent member of the Global South, the increase of its outward FDI is likely to have implications on the existing Global North-led political economic order ([UNCTAD, 2010](#)).

Implicit in the illustration above is the importance of FDI to economic development. For China, one of the most crucial reasons undergirding its economic success is the country's receptiveness towards the inflow of FDI, initiated by the 1979 economic reforms. Similar to China, Malaysia is another Global South country that has relied on inward FDI to propel its economic growth ([Hill, 2012](#); [Jomo, 2007](#)). However, this model of economic development is increasingly under pressure as Malaysia has become a net FDI exporter since 2007 (see also [Menon, 2014](#)). It has also not been able to rely as much on its "traditional" sources of FDI (from the Western bloc, Singapore, and Japan) as before. The ensuing desperation has forced Malaysian policymakers to seek alternative sources of investment outside its "traditional" group of FDI contributors. To this end, China is one of the alternative sources of FDI most actively targeted by these policymakers ([Bao, 2012](#); [Khor, 2013](#); [Lee, 2013](#); [Malaysia-China Business Council, 2013](#)). The gravitation to China is understandable as Malaysia has been the former's largest trading partner in Southeast Asia since 2009 ([Shen and Chen, 2010](#)). Since that time, China has also emerged as Malaysia's largest trading partner, enjoying a 13.8 per cent share of Malaysian trade in 2012 ([Khor, 2013](#)). Furthermore, Malaysian firms (especially those owned and managed by Malaysians of ethnic Chinese origins) have been active investors in China since it liberalized its economy in 1979, and some of them have also played a crucial role in attracting mainland Chinese firms to invest in Malaysia (see also [Gomez, 2006](#); [Shen and Chen, 2010](#)).

With the above as a backdrop, the paper intends to analyse the organization of Chinese outward FDI in Malaysia by scrutinizing not only China's

unique and changing political economic context, but also Malaysia's. In particular, this paper attempts to examine the identities of the coalition partners of mainland Chinese firms (the vessels of the FDI) in their Malaysian investments. It further analyses the similarities and differences of such cross-border cooperation across various economic sectors. More broadly, the paper contributes to existing research detailing "South-South Cooperation", a research area that would likely gain prominence as the emerging economies – led by the likes of Brazil, Russia, India, China, and South Africa (BRICS) – exert their considerable (and still growing) influence in the foreseeable future. Based on personal interviews with parties familiar with the investment of mainland Chinese firms in Malaysia and published reports, this paper argues that a large portion of the mainland Chinese firms have cooperated with the government-linked companies (GLCs) (50 per cent of all firms) in their cross-border investments, while a smaller percentage have cooperated with the ethnic Chinese firms (28 per cent of all firms), and other entities i.e. neither the GLCs nor the ethnic Chinese firms (33 per cent of all firms). The mainland Chinese firms' strong preference of the GLCs is attributed to the dominance of the GLCs in the Malaysian economy, a direct result of the country's ethnocentric economic redistribution model. However, the preference of mainland Chinese firms for the ethnic Chinese firms, the GLCs, and other entities is not uniform across the economic sectors. The preference for the GLCs decreases from the construction (76 per cent), to the manufacturing (29 per cent), and to the other services, agriculture, finance, and information and communication (25 per cent) sectors. Such a trend highlights the close relationship between the GLCs and the government in the construction sector, an advantage which the GLCs have exploited most effectively. On the other hand, the preference for the ethnic Chinese firms increases from a lowly 18 per cent in the construction sector, to 43 per cent and 33 per cent in the manufacturing, and the other services, agriculture, finance, and information and communication sectors respectively. While the ethnic Chinese firms are not able to secure state support as effectively as the GLCs in the construction sector, weakening the likelihood of cooperation with mainland Chinese construction firms, the lack of state support indirectly provides the ethnic Chinese firms with some freedom to expand into other less regulated economic sectors (outside of the construction sector) in which the presence of the GLCs is comparatively weaker. Their eventual success in these sectors has made themselves reliable coalition partners for mainland Chinese firms investing into Malaysia. Similarly, the preference for the other entities increases from a lowly 12 per cent in the construction sector, to 43 per cent and 58 per cent in the manufacturing, and the other services, agriculture, finance, and information and communication sectors respectively. Mirroring the cross-border cooperation pattern of their mainland Chinese counterparts

who have relied on the ethnic Chinese firms, this group of mainland Chinese firms has exploited the greater economic liberty outside the construction sector, i.e. sectors in which the participation of the GLCs is less active.

This paper begins with a critique on the theoretical underpinnings of the emergence of the mainland Chinese firms and its relationship to China's broader political economy. It emphasizes that the heavy presence of the Chinese state and associated patron-client networks have indirectly "toughened" these firms up in the domestic economy. The experience gained from operating in such a difficult setting has in turn eased their transition when they invest abroad, especially to countries with a similar political economy, i.e. weak corporate governance and heavy presence of the state sector in the economy. Illustrating the emergence of both the GLCs and the ethnic Chinese firms in Malaysia, it also underlines the need to be sensitive to the capitalist development and state-society relations in the host country (Malaysia). In the next section, the paper offers an analysis of Chinese outward investment, emphasizing its impact in Southeast Asia (especially Malaysia). This is accompanied by an identification of the gap in knowledge in the body of literature detailing Chinese outward FDI entering Malaysia. It then describes the research methodology before the major coalition partners of the mainland Chinese firms in their Malaysian investments are examined. This is followed by a discussion of the findings. The paper concludes with a summary of the main arguments and research findings, along with an analysis of their policy implications.

## **2. Theoretical Framework**

There are a number of theories on the existence and growth of FDI, of which Dunning's eclectic paradigm (Dunning, 1988, 1993, 2000) is one of the most widely accepted. While this body of research is insightful in its own right, there has been some critique on the inadequacy of such theories in explaining outward FDI from developing countries (of which China is a key member). This is because they are modelled almost exclusively on the behaviours of relatively experienced multinational companies (MNCs), especially those from the Global North i.e. US, Europe, and Japan (Buckley *et al.*, 2007; Wei, 2010). Put another way, much less information is available on the behaviours of MNCs from developing countries such as China. More broadly, this lack of insight is perplexing as it does not commensurate with the comparatively larger corpus of literature detailing "South-South Cooperation" (see Alden and Vieira, 2005; Aykut and Ratha, 2004; Jilberto and Hogenboom, 2012; UNCTAD, 2010). In view of this situation, one is left wondering whether mainland Chinese MNCs behave differently compared to their counterparts from the Global North. To this end, this paper argues that a more critical

insight examining the political economy of the home (China) and host (Malaysia) countries, and the relationship linking their broader political economy to the corporate strategies of firms operating within specific economic sectors, is needed. Such a perspective is compelling because – should past data on the direction and intensity of China's outward flow of FDI provide a good indication of future performances – an increasingly larger number of mainland Chinese firms would be extending their operations beyond their national borders in the search for new markets and higher profits.

To better understand the outward investment of mainland Chinese firms, and how it takes root in Malaysia across different economic sectors, a more situational perspective is needed. Echoing Dicken (2011), this paper asserts that the *specific circumstances* of the investment scenario need to be taken into consideration. It also stresses the importance of being sensitive to the political economy prevalent in both the home (China) and the host country (Malaysia) of the firms involved. More specifically, this paper explores the identities of the partners of mainland Chinese firms in their investment abroad (in this case, it is Malaysia), and the reasons undergirding such collaboration by critically analysing empirical data on Chinese outward FDI entering Malaysia and literature detailing *capitalist development* in the former and the latter. As the following sections would reveal, the mainland Chinese firms predominantly cooperate with Malaysia's GLCs in their Malaysian investments, particularly in the construction sector. This development is partly the outcome of Malaysia's unique combination of ethnocentric policies and "pick the winners" approach, which encouraged the formation of the GLCs and their subsequent domination of the economy. In other words, the mainland Chinese firms' choice of coalition partners reflects the capitalist development and state-society relations of Malaysia, aftereffects of the country's decades-old political economic mantra of wealth redistribution along ethnic lines. In addition, the mainland Chinese firms are not averse to such an interventionist stance for they also operate in a similar set of political economy (albeit with some variance) and have gained substantial experience in navigating the patron-client networks interconnecting the state and the private sector before venturing abroad.

### **2.1 Capitalist Development: The Chinese Way**

Upon the unification of China in 1949, the China Communist Party (CCP) organized a series of import substituting industrialization (ISI) in heavy industries led by newly formed state-owned enterprises (SOEs). Mao Zedong, chairman of the CCP, had wanted to build a socialist economic system, yet these efforts did not attain much success because of a low level of capital and expertise, obsolete technology, poor management system, and lack of willing

buyers for such products (Studwell, 2013). The situation worsened in 1960 as the Soviet Union withdrew all its advisers and discontinued aid to China after irreconcilable political and ideological disagreements emerged between the leadership of both countries (Vu, 2010). Until that point, the Soviet Union was the largest backer of the Chinese state, offering the latter advice and aid.

The desperation that ensued compelled Deng Xiaoping, China's post-Mao reformist leader, to push for a new development policy in 1979. Deng's reform was largely centred on two interrelated pivots – attraction of FDI and the professionalization of the SOEs. As Pereira and Tong (2005) explained, MNCs were encouraged to invest in China, especially to form joint ventures with the SOEs, so that technological and managerial expertise can be transferred to the Chinese. Many of these SOEs were also gradually privatized and internationalized during the process. One of the often-cited examples of such an inward FDI-induced growth is the Haier Group, which started out as a small and ailing SOE before becoming one of the best known names in the home appliances industry (see [Liu and Li, 2002](#)). The post-1979 reforms provided Haier with an opportunity to forge partnerships with other more well-managed foreign firms. In 1985, Haier entered into a joint venture with Germany's leading appliance maker, Liebherr, which allowed the Chinese SOE to tap into the expertise of its German partner. More specifically, Haier gained valuable managerial and technical competence from such an arrangement (see also [Deng, 2003](#); [Warner \*et al.\*, 2004](#)). In terms of marketing capability, it not only enabled Haier to sell a broader (and better quality) range of products to the domestic Chinese consumers but also to the comparatively more sophisticated Western markets, a rarity for Chinese producers in the 1980s. To further consolidate its position, Haier utilized different internationalization advantages available to it and adopted corresponding strategies (depending on the context) such as establishing its own manufacturing facilities outside of China (targeting the unique demands of the host market) and exporting finished goods directly out of its Chinese factories (relying on distributors in the export market) to serve its large and growing overseas market.

Notwithstanding the success story of Haier, one must also understand the broader dynamic surrounding the mainland Chinese firms. More importantly, China's opaque business environment (i.e. weak corporate governance structure and rule of law) and its relationship to the growth of mainland Chinese firms and their internationalization efforts must be unpacked. Yeung and Liu (2008: 71) observe that “many large state-owned enterprises – turned mainland transnationals – occupy monopolistic positions in China's enormous domestic market, in which predatory corporate behaviours are often observed and tolerated”. This development enables less well-managed SOEs to exercise their monopolistic power without due consideration of business risks and fear

of failures, becoming “too big” to fail and “too powerful” to be questioned. Enjoying strong political clout in the home country, some of these SOEs adopt a reckless and less-than-honest approach in their international investments. In extreme cases, international investments have even served as a conduit through which well-connected company executives and their cronies receive huge payoffs and kickbacks from host country bankers, underwriters, and joint venture partners (Yeung and Liu, 2008).

Nevertheless, the mainland Chinese firms' familiarity in operating in a relatively challenging business environment, and experience in managing complex patron-client networks (both in China) have indirectly helped them when they invest in other developing countries in which a similar political economy is also present (see Michel and Beuret, 2009). The “baptism of fire” in China is especially relevant for their outward FDI in developing countries in which formal management systems are less effective than the centralization of information and decision-making (Yeung and Liu, 2008). Reflecting the business knowledge gained through years of operating in China's unique political economic environment, many of the Chinese firms opt for a highly centralized management protocol in their cross-border operations, underscoring their reliance on swift decision-making, operational flexibility, and high adaptability to the host country's business conditions (Yeung and Liu, 2008). Moreover, many of the mainland Chinese firms do not regard the weak corporate governance structure and rule of law in most (if not all) of the developing countries as significant hurdles in their internationalization efforts. To circumscribe these complexities, one of the most common measures is to enter into joint ventures with influential and well-connected firms from the host economies (see Wu, 2005). Wary of such manoeuvring, some critics have even accused these firms (and the Chinese state) of exacerbating the already dire situation of the FDI recipient states (Moyo, 2012; Naím, 2007).

## ***2.2 Capitalist Development: The Malaysian Way***

For Malaysia, the state has played an active role in developing the economy since its independence in 1957. The interventionist stance is further solidified following the 13 May 1969 (mainly) Malay-Chinese sectarian violence. It is often argued that one of the primary causes of this incident is the growing socioeconomic inequality between the major ethnic groups, particularly between the relatively poorer native Malay and the richer Chinese (Gomez and Saravanamuttu, 2013; Teh, 2002). To eliminate poverty and achieve economic parity among the ethnic groups, an ambitious 20-year social engineering plan, the New Economic Policy (NEP), was implemented in 1971. Although the NEP officially ended in 1991, it has continued to flourish under the guise of other development plans. The NEP and its successor programs (hereafter



referred to as simply the NEP) are based on the principle of affirmative action favouring the majority *Bumiputera* (essentially Malay) ethnic group, often at the expense of other ethnic groups (Ooi, 2013; Pua, 2011).

The socioeconomic means to implement the NEP are diverse, but one of the government's more direct measures is to employ GLCs to venture into major sectors of the economy on behalf of the ethnic Malays (Gomez, 2013). Such a paradigm is epitomized by the 1980s decision to implement the state-led ISI in heavy industries such as automobiles, steel products, and cement. To ensure their success, the government imposed import quotas and high excise and import duties to shield the domestic market from foreign competition (Lee, 2012). These GLCs were viewed as proxies of Malay wealth, but corporate ownership were still concentrated in the GLCs themselves rather than in the hands of individual Malays (Shome and Syahira, 2009). In response, Mahathir Mohamad, Malaysia's longest serving Prime Minister (1981 to 2003), stressed the need to nurture ethnic Malay businessmen in control of well-capitalized firms (not limited to the pre-existing GLCs of that time) with international reputation, an effort that would constitute part of his *Bumiputera Commercial and Industrial Community (BCIC)* policy (Gomez, 2009). Furthermore, Mahathir's strong emphasis on redistribution along ethnic lines meant that it was politically difficult to groom other more well-capitalized and better-managed firms that were owned by the ethnic Chinese minority for these industrialization efforts (Studwell, 2013). While their rise was meteoric, almost all of these well-connected Malay entrepreneurs and the firms that they headed ran into difficulties during the 1997 Asian financial crisis. The government subsequently bailed out several of these firms and renationalized key privatized projects, making them *de facto* GLCs (if they were not already prior to this) (Gomez, 2012). Such extravagance was most glaring in the construction sector (see Wain, 2009). Despite the subsequent re-privatization exercise of some of the bailed out and restructured GLCs, many of them are only partially divested and continue to remain government-linked and controlled. The unsuccessful industrialization drive of these GLCs has not only drained the coffers of the government, but also stunted the country's manufacturing capacity, especially in the heavy industries. Exacerbating this situation is the lack of transparency in the management of these GLCs (see Athukorala and Waglé, 2011).

Yet, how do the Malaysian Chinese firms manage the pro-Malay state-society relations? Jesudason (1997) illustrates that some of the well-capitalized ethnic Chinese firms have forged political alliances with elites from the United Malays National Organization (UMNO), Malaysia's most influential political party and the chief architects of the NEP, for the growth of their enterprises. For instance, he argues that Quek Leng Chan (head of the powerful Hong Leong Group) utilized his alliance with Anwar Ibrahim, Malaysia's then

Deputy Prime Minister and current opposition leader, in the taking over of the banking and financial arms of Khoo Kay Peng's Malayan United Industries Berhad (MUI) in 1993. Prior to this event, it was alleged that Khoo's lack of support for Mahathir (the then Prime Minister) in the 1987 UMNO elections meant that he "was not in the government's good books" (Jesudason, 1997: 128). The political dimension of this acquisition is underscored further as "Quek was able to persuade Khoo to sell off the companies by offering political leverage to expand the companies' branch networks, which had remained frozen" (Jesudason, 1997: 128). Despite the close ties with the political elites, the ethnic Chinese firms generally receive comparatively less support from the state vis-à-vis the GLCs (see also Gomez, 2009; Tipton, 2009). This is particularly true for the ethnic Chinese firms operating in the construction sector as they are in direct competition with the GLCs. Moreover, the Malaysian Chinese firms enjoying state rents, at least during the Mahathir era, were required to apportion these concessions to well-connected Malay firms (and GLCs) (Gomez, 2012). In the manufacturing sector, Studwell (2013) shows that Malaysia's adoption of the NEP, especially its selection of the GLCs over the country's most successful ethnic Chinese firms in the ISI programs, has proven to be a double-edged sword for some of these ethnic Chinese firms. While they have been overlooked in terms of state support, they are allowed to operate with much less surveillance from the Malaysian state vis-à-vis firms enjoying state support. This has in turn provided them with a greater degree of freedom to pursue other types of business activities, usually related to their core businesses. To this end, some of the ethnic Chinese firms have indeed been hugely successful at exploiting their expertise in the manufacturing industry. For instance, Oriental Holdings Berhad (owned and managed by the Loh family) had set up a plant in Penang to assemble Honda motorcycles as early as 1969. The experience gained from assembling motorcycles proved useful as it helped the firm to expand into related and higher value-added manufacturing activities such as car assembly, and the design and production of vehicle components (Gomez, 2002). However, many of the ethnic Chinese firms are increasingly unable to upgrade their technical and managerial know-how to compete in the more knowledge-intensive and higher value-added operations of newer (manufacturing-related) economic activities such as modular electrical/electronic production and biomedical research (Henderson and Phillips, 2007). Overall, the ethnic Chinese firms are still able to thrive in this discriminating environment not only because of political support, but also because of their strong entrepreneurial ability and their recourse to the socioeconomic networks that the various ethnic- and clan-based trade associations provide them with, which have roots dating back to the pre-independence era. While the well-capitalized ethnic Chinese firms have gradually moved away from these socioeconomic networks, many of

the country's ethnic Chinese firms (particularly those in industries enjoying a relatively lower capital intensity e.g. trading and services) are still reliant on them (see [Jesudason, 1997](#); [Zwart, 2007](#)).

As a result of the protection of the GLCs and the resilience of the ethnic Chinese firms, both of which were already big players in the economy prior to the 1997 Asian financial crisis, they have been able to further cement their status in the years following the crisis. For the GLCs, [Menon and Ng \(2013\)](#) illustrate that the large and growing presence of GLCs has been crowding out private investment in the Malaysian economy in the post-1997 years. While there has not been a similar study on whether the ethnic Chinese firms have crowded out the Malaysian economy, what is certain is that many of them (particularly the well-capitalized and well-connected ones) are able to resist a government intent on wealth redistribution along ethnic lines. Nevertheless, the dominance of the ethnic Chinese firms is not as strong as that of the GLCs, especially in economic sectors in which state support is a crucial factor in their success (i.e. the construction sector). Conversely, many of the ethnic Chinese firms have learnt to channel their entrepreneurial zeal instead to the sectors in which the GLCs are less active at such as small- and medium-scale manufacturing, trading, and services. More importantly, the market power of both groups of firms puts them in a good position to form commercial ties with foreign investors, primarily to acquire technology and other expertise. For the GLCs, one only needs to note Perak State Development Corporation's joint venture with South Korea's Doosan Heavy Industries and Construction Company Limited in the establishment of a cement producing facility in the state of Perak. The joint venture brings the best out of both parties – the latter's expertise in cement making and the former's close relationship with the authorities and marketing experience in the domestic market ([Jomo, 2007](#)). The ethnic Chinese firms are no less adept in their cooperation with foreign investors. An often-cited example is MBM Resources Berhad's lead role in the establishment of the Perusahaan Otomobil Kedua Berhad (Perodua), a 1993 automobile joint venture between MBM Resources, two GLCs, and two other Japanese MNCs (Daihatsu and Mitsui). Perodua has subsequently established itself as a successful compact car maker, with a growing capacity to export its products. In this venture, Daihatsu and Mitsui provide the manufacturing competency while their Malaysian counterparts contribute by bringing their knowledge of the domestic and regional marketplace to the table (see [Gomez, 2012](#)). The ability of the GLCs and the ethnic Chinese firms to secure FDI to advance their corporate goals combines well with the Malaysian state's generally positive attitude in courting FDI to fuel economic growth, complementing its reliance on the GLCs to participate in the economy directly and its ambivalence towards the ethnic Chinese firms. Apart from the sectors in which the GLCs are protected, e.g. the ISI programs and domestic

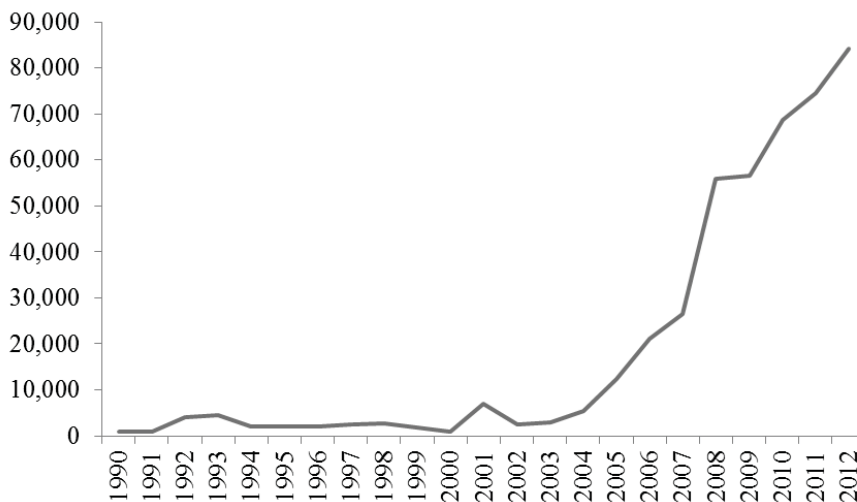
construction, the state has generally adopted a liberal approach towards foreign capital. As a result, foreign investors are not averse to investing in sectors in which the GLCs are absent or inactive in (Jomo, 2007; Lim, 2014). One only needs to look at the vibrant and export-oriented electronics sector in the northern state of Penang for a classical example of this type of inward FDI-induced growth (Henderson and Phillips, 2007).

The above paragraphs have showcased the ability of mainland Chinese firms in navigating opaque business environment (e.g. forging joint ventures with well-connected firms from the host country) when they invest abroad, and the receptiveness of Malaysian (GLCs and ethnic Chinese) firms in establishing alliances with foreign firms investing in Malaysia. More generally, both mainland Chinese and Malaysian firms display competencies in managing complex patron-client relationships in difficult environments, and strong business acumen. Also alluded to in the paragraphs above is the need to examine the political economy of the home and host countries (China and Malaysia respectively), focusing on their capitalist development and state-society relations.

### 3. China's Investment in Malaysia

Figure 1 depicts the outward flow of China's FDI from the years 1990 to 2012. It can be observed that the outward FDI has been relatively low during the 1990s, but escalated exponentially after 2000.

Figure 1 China's Outward Flow of Foreign Direct Investment at Current Prices and Current Exchange Rates, 1990–2012 (US\$; Million)

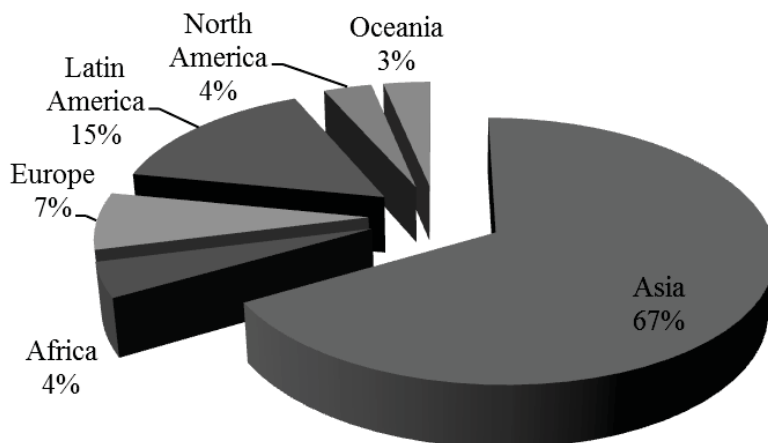


Source: United Nations Conference on Trade and Development.

While China remains the most attractive country in the world in attracting FDI, it has also become one of the largest outward investors since the turn of the century (see UNCTAD, 2012). Geographically, China's outward *flow* of FDI is unevenly distributed across the continents with its investments mostly going to Asia (67 per cent) and Latin America (15 per cent) (see Figure 2). These two continents account for 82 per cent of China's outward FDI from 2003 to 2012. Within Asia, Hong Kong is the largest recipient, capturing 84 per cent of Chinese outward FDI. Hong Kong's low tax and business-friendly environment is much appreciated by investors, including those from China. As Yeung and Liu (2008) argue, Hong Kong is an attractive location for the "round-tripping" of Chinese outward FDI back to China itself. To this end, some of the mainland Chinese firms first register their businesses in the city-state (transferring capital from China to Hong Kong in the process), then subsequently invest back into China in order to enjoy preferential treatment for inward FDI (see also UNCTAD, 2012). Nevertheless, Sutherland and Ning (2011) illustrate that while a significant amount of this outward FDI does "round-trip" back to China, an unknown amount may also "onward-journey" to third countries.

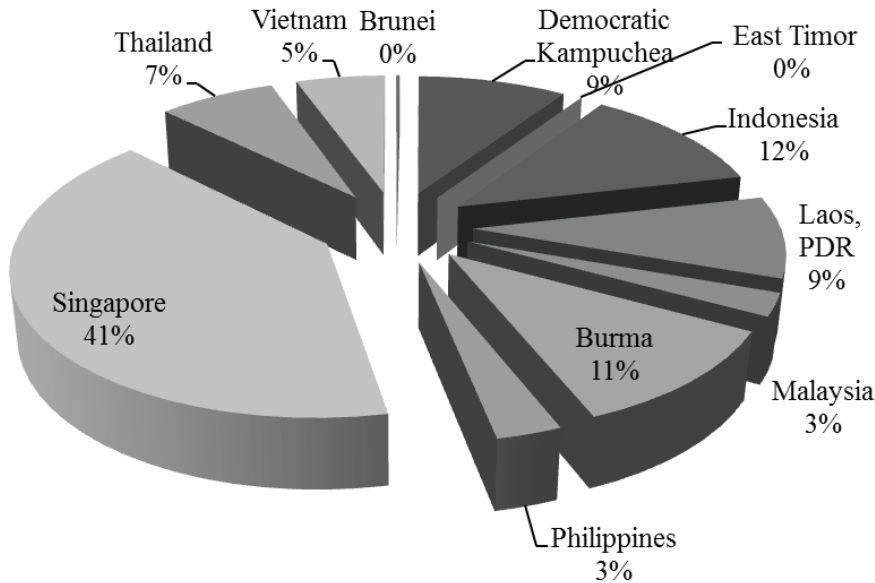
Within Southeast Asia, Singapore is the largest recipient of China's outward *flow* of FDI, capturing 41 per cent of the market share (see Figure 3). Like Hong Kong, Singapore is a top performer in the attraction of FDI primarily because of a low tax and pro-business environment. It is also seen as a gateway to the surrounding "hinterland" economies, e.g. Indonesia and

Figure 2 Geographical Distribution of China's Outward Flow of Foreign Direct Investment, 2003–2012 (%)



Source: CEIC Data Manager.

Figure 3 Geographical Distribution of China's Outward Flow of Foreign Direct Investment in Southeast Asia, 2003–2012 (%)



Source: CEIC Data Manager.

Malaysia (see UNCTAD, 2012). The second and third largest recipients in the region are Indonesia (12 per cent) and Burma (11 per cent) respectively, but their gap from the top spot is significant. Malaysia, on the other hand, is only able to garner 3 per cent of Chinese outward FDI designated for Southeast Asia.

For Malaysia, it has relied predominantly on FDI from the Western bloc, Singapore, and Japan – its “traditional” sources of FDI – to drive its growth. Therefore, Chinese FDI is still relatively new and modest in value vis-à-vis those originating from the “traditional” sources, a point made in the previous sections. More specifically, China has only begun to invest aggressively into Malaysian shores since 2010 (*Business Times*, 2013b; Lee, 2013; Zhuang and Wang, 2010). Predictably, there is a corresponding lack of research and empirical data on Chinese outward FDI entering Malaysia. While detailed statistics on such investments are not available at this point of time, statements from the Malaysian political and commercial elites (documented in secondary sources) suggest that the mainland Chinese firms invest chiefly in the basic metal (mining and manufacturing), infrastructure, and construction industries (see Bao, 2012; *Business Times*, 2013b; Lee and Ong, 2013). These three industries are also the fields in which Malaysia’s ethnic Chinese firms and

GLCs are most active at (see also Menon and Ng, 2013). Seen from this angle, it appears that the mainland Chinese firms have decided to participate in relatively mature economic sectors, either by themselves or by cooperating with other (Malaysian) firms. Yet, it is difficult to present such a position without a detailed research on the subject. The next section would illustrate some empirical data on Chinese outward FDI entering Malaysia, unpacking this issue and the identities of the partners (if any) of these mainland Chinese firms. More crucially, it explores the reasons sustaining such collaboration.

#### **4. Methodology**

This paper uses a “mixed method” approach, comprising personal interviews with knowledgeable parties and a reliance on secondary sources, to collect and analyse data on the mainland Chinese firms investing in Malaysia and their major coalition partners (see also Lim, 2014). As Yeung and Liu (2008) have asserted in their research on the outward FDI of mainland Chinese firms, more conventional research methodologies are inapplicable because of the relatively recent and, in some cases, obscure activity of mainland Chinese firms in Southeast Asia. The empirical analysis is based on primary data collected through personal interviews with parties that are familiar with the operations of mainland Chinese firms which have invested into Malaysia, namely active members of the Klang Chinese Chamber of Commerce and Industry (KCCCI), especially those who have regular business interactions with mainland Chinese firms. In addition, officers from the Malaysian trade and investment promoting agencies, and political and business analysts were interviewed. Secondary data published by the Ministry of Commerce (China), the United Nations Conference on Trade and Development (UNCTAD), and the CEIC Data Manager as well as academic manuscripts (e.g. Buckley *et al.*, 2007; Deng, 2003; Lee, 2013; Sutherland and Ning, 2011; Wei, 2010; Yeung and Liu, 2008; Zhang and Daly, 2011) were also referred to.

Thirty-six mainland Chinese firms were eventually identified. In-depth interviews with KCCCI members, trade and investment promoting officers, and political and business analysts were subsequently conducted from November 2013 to December 2013. The perspective of these parties is important as they were well-informed on the investment strategies and the operating mechanism of mainland Chinese firms in general. These interview sessions were open-ended and semi-structured, with a focus on the main coalition partners of these firms in their investments in Malaysia. In particular, the paper explored how and to what extent cooperation with the two main players of the Malaysian economy – the ethnic Chinese firms and the GLCs – help in improving the mainland Chinese firms’ access to resources and business prospects. For these 36 mainland Chinese firms, their choice of



coalition partners in Malaysia is not mutually exclusive. Put another way, they cooperate with more than one party, whenever the need arises. Nevertheless, most of these firms have cooperated with only a single coalition partner vis-à-vis four (out of a total sample size of 36) which have collaborated with more than one partner. The paper also analysed the sector-specific circumstances driving the internationalization process of these firms. All of the interview sessions were conducted in Malaysia.

Throughout the research, it became apparent that many of the mainland Chinese firms surveyed were SOEs. This is within expectations as mainland Chinese SOEs have traditionally played a leading role in the country's outward investment. Scissors (2011) reports that SOE ownership of the country's outward FDI has averaged about 96 per cent throughout a seven-year period (from 2005 to 2011). The latest available survey shows that share of SOE ownership has remained dominant, accounting for close to 90 per cent of total outward FDI in 2012 (see Cary, 2013). Some of the SOEs (e.g. Guangxi Beibu Gulf International Port Group Ltd, Macrolink Real Estate Company Ltd, and Sinohydro Group) have also invested in more than one business venture in Malaysia. A substantial portion of the mainland Chinese firms (67 per cent) were involved in construction and manufacturing activities while the rest of their counterparts invested in the other services, agriculture, finance, and information and communication sectors. In addition, a significant proportion of the mainland Chinese firms studied in this paper have invested in Malaysia through joint venture agreements with their coalition partners. Such a discovery is also not surprising as Wu (2005) has highlighted that joint venture and outright acquisition have become increasingly popular modes of cross-border expansion for mainland Chinese firms.

To improve the reliability of the primary data provided by the interviewees, the data were cross-validated with published reports and company websites (if available). The use of these sources of information allowed for data verification and triangulation, which helped to improve data accuracy (see also Sim, 2009). As several of the themes discussed – mainly interethnic ties and state-society relations – are considered sensitive in both China and Malaysia, the interviewees were promised confidentiality. It must nevertheless be cautioned that this research was conducted with a relatively small sample size (n=36) and under non-random conditions.

## **5. Findings: Major Coalition Partners of Mainland Chinese Firms Investing into Malaysia**

Table 1 shows that mainland Chinese firms have cooperated with three major coalition partners when they invest into Malaysia: (i) ethnic Chinese firms; (ii) GLCs; and (iii) other entities (i.e. non-ethnic Chinese firms and non-



Table 1 Major Coalition Partners of Mainland Chinese Firms Investing into Malaysia

<i>No.</i>	<i>Firm</i>	<i>Sector</i>	<i>Ethnic Chinese Firms</i>	<i>Government-Linked Companies</i>	<i>Others</i>
1	Beijing Urban Construction Group	Infrastructure (Construction)			X
2	China Harbour Engineering Company Ltd	Infrastructure (Construction)		X	
3	China Three Gorges Project Corporation	Infrastructure (Construction)		X	
4	Export-Import Bank of China	Infrastructure (Construction)		X	
5	Gansu Chamber of Commerce	Infrastructure (Construction)			X
6	Guangxi Beibu Gulf International Port Group Ltd	Infrastructure (Construction)		X	
7	Guangxi Beibu Gulf International Port Group Ltd	Infrastructure (Construction)	X	X	
8	Sinohydro Group	Infrastructure (Construction)		X	
9	Sinohydro Group	Infrastructure (Construction)		X	
10	Agile Property Holdings Ltd	Property (Construction)	X		
11	Country Garden Holdings Company Ltd	Property (Construction)	X		
12	Country Garden Holdings Company Ltd	Property (Construction)		X	
13	Greenland Group	Property (Construction)		X	
14	Guangzhou R&F Properties Company Ltd	Property (Construction)		X	
15	Hao Yuan Investment Pte Ltd	Property (Construction)		X	
16	Macrolink Real Estate Company Ltd	Property (Construction)		X	
17	Zhouda Real Estate Group	Property (Construction)		X	

Table 1 (continued)

<i>No.</i>	<i>Firm</i>	<i>Sector</i>	<i>Ethnic Chinese Firms</i>	<i>Government-Linked Companies</i>	<i>Others</i>
18	Aluminum Corporation of China Ltd	Manufacturing		X	
19	China South Locomotive and Rolling Stock Corporation Ltd	Manufacturing		X	
20	Comtec Solar Systems Group Ltd	Manufacturing			X
21	Daiyin Textile and Garment Group	Manufacturing			X
22	Haier Group	Manufacturing	X		X
23	Jinan Iron and Steel Group	Manufacturing	X		
24	Shougang Group	Manufacturing	X		
25	Perfect World Company Ltd	Gaming (Other Services)			X
26	Hopefluent Group Holdings Ltd	Property (Other Services)	X		
27	Chery Automobile Company Ltd	Trading (Other Services)	X	X	
28	Diving Best Group	Trading (Other Services)			X
29	Macrolink Real Estate Company Ltd	Trading (Other Services)			X
30	Midea Group	Trading (Other Services)	X	X	
31	TCL Corporation	Trading (Other Services)		X	
32	China Sinochem Group Corporation	Agriculture	X		
33	Bank of China Ltd	Finance			X
34	Industrial and Commercial Bank of China Ltd	Finance			X
35	Huawei Technologies Company Ltd	Information and Communication			X
36	ZTE Corporation	Information and Communication			X

Source: Author's estimation based on interviews and secondary sources.

GLCs). As noted in the previous section, the selection of coalition partners for these mainland Chinese firms is not mutually exclusive. In other words, they cooperate with more than one party, whenever the need arises. For example, the Midea Group has partnered both an ethnic Chinese firm and a GLC in its Malaysian investment. To this end, a total of four mainland Chinese firms (i.e. Guangxi Beibu Gulf International Port Group Ltd, Haier Group, Chery Automobile Company Ltd, and Midea Group) have cooperated with more than one coalition partner. Because of the non-mutually exclusive selection of coalition partners by these four mainland Chinese firms, some of the statistics do not add up precisely to 100 per cent. Despite this minor statistical shortcoming, the finding still provides a clear overall picture of who the mainland Chinese firms cooperate with in their Malaysian ventures. Table 1 also shows the distribution of these firms' coalition partners, across and within the economic sectors surveyed. Furthermore, mainland Chinese firms' affinity to the three types of coalition partners varies considerably between the respective economic sectors.

Overall, a significant portion of the mainland Chinese firms prefer to cooperate with the GLCs (50 per cent of all firms), while a smaller percentage have collaborated with the other entities i.e. neither the GLCs nor the ethnic Chinese firms (33 per cent of all firms), and the ethnic Chinese firms (28 per cent of all firms). However, it can be observed that the preference for the three types of coalition partners is uneven from one economic sector to the other. In the construction sector, more than three-quarters (76 per cent) of the mainland Chinese firms surveyed prefer to cooperate with the GLCs. Comparatively, only 18 per cent and 12 per cent of the mainland Chinese firms have collaborated with the ethnic Chinese firms and other entities respectively. In the manufacturing sector, 43 per cent of the firms have established commercial alliances with the ethnic Chinese firms and the other entities respectively. Only 29 per cent of the mainland Chinese firms cooperate with the manufacturing GLCs. In the other services, agriculture, finance, and information and communication sectors, 58 per cent of the mainland Chinese firms rely on the other entities as their coalition partners. Meanwhile, 33 per cent and 25 per cent of the mainland Chinese firms have collaborated with the ethnic Chinese firms and the GLCs respectively.

## **6. Discussion**

The findings of this paper illuminate a few salient points. Firstly, a large portion of the mainland Chinese firms have cooperated with the GLCs (50 per cent of all firms), while a smaller percentage have cooperated with the ethnic Chinese firms (28 per cent of all firms), and other entities, i.e. neither the GLCs nor the ethnic Chinese firms (33 per cent of all firms). This reaffirms

the research of Menon and Ng (2013), who argue that the GLCs play a (overly) dominant role in the Malaysian economy. Their dominance is in turn attributed to the history and political economic development of the country, both of which shaped especially by the ethnocentric NEP. Although critics have argued that the implementation of the NEP is arbitrary and often used as a vehicle for political patronage (see [Gomez, 2009](#); [Gomez and Jomo, 1999](#); [Ooi, 2013](#)), it has undeniably encouraged the formation of various GLCs to promote interethnic equality (in principle, at least). The ethnic Chinese firms have also thrived, to some extent, in spite of their ethnic minority status. Although it is difficult to pinpoint any single factor for their success, it must be stressed that the more successful ethnic Chinese firms have occasionally been able to secure some form of political support. Nevertheless, such support is rather limited vis-à-vis that enjoyed by the GLCs. In view of the strong economic representation of both the ethnic Chinese firms and the GLCs and their links to the authorities, it is only logical for foreign investors (including those from China) to collaborate with these “*Di Tou She*” (the literal meaning is local snakes; a Chinese business term to describe capable local firms, usually with good connections) (personal communication, 29th November 2013). Such a development is also not surprising as both the ethnic Chinese firms and the Malay-centric GLCs have been shown to be adept at forming commercial ties with foreign investors, whenever the need arises. Perak State Development Corporation’s joint venture with South Korea’s Doosan Heavy Industries and Construction and the Perodua (a Japanese-Malaysian automobile joint venture company) are only two names among a long list of such cross-border cooperation. For the mainland Chinese firms that have not depended on the GLCs and the ethnic Chinese firms, they are a testament to Malaysia’s (somewhat selective) economic openness. However, like the ethnic Chinese firms of Malaysia, their presence is also circumscribed by the redistributive nature of the NEP, as the following paragraphs would illustrate.

Secondly, the mainland Chinese firms’ preference for the ethnic Chinese firms, the GLCs, and other entities is not uniform across all economic sectors. In the construction sector for example, 76 per cent of the mainland Chinese firms have cooperated with the GLCs vis-à-vis 18 per cent and 12 per cent which opted for ethnic Chinese firms and other entities. Such an observation can be explained by the inherent nature of the construction sector, particularly the reliance of the firms on accessing state resources (primarily land and the awarding of government projects) and the large capital outlay involved (usually accompanied by a long gestation period). Under such a scenario, it is conceivable that mainland Chinese firms would be tempted to work with the GLCs as their close ties to the government confer them with some form of “political advantage” as far as the distribution of state resources such as land and concession agreement is concerned (personal communication, 20th

November 2013). Further encouraging this tie up is the lack of transparency regarding the operations of these GLCs (see [Athukorala and Waglé, 2011](#); [Teh, 2002](#)). For example, one only needs to note the controversy surrounding the 1Malaysia Development Berhad (1MDB), the joint venture partner of the Export-Import Bank of China in the development of the landmark tower in the Tun Razak Exchange (TRX), the country's new financial district (see [Business Times, 2013a](#)) (see Table 1). More specifically, opposition lawmakers and financial analysts have questioned the seemingly high debt level accumulated by the 1MDB, which reached Malaysian Ringgit (MYR) 38.4 billion in August 2013. This debt level is even more worrying as it has been accumulated “against a backdrop of paltry profits, derived largely from the shuffling of assets... and the revaluation of properties purchased at steep discounts from the government” (Lopez, 2013). Furthermore, there is disquiet on the alleged transfer of large sums of money (about MYR7 billion) to an offshore account in the Cayman Islands (see [Vinod, 2013](#)). The secretive nature of such dealings has prompted critiques to label the 1MDB as a “part strategic investment arm and part political slush fund” (Lopez, 2013). While this paper does not suggest any wrongdoings by the 1MDB or the Export-Import Bank of China, it is nevertheless difficult to convince neutral observers that their joint venture agreement to develop the landmark tower in the TRX would be conducted in an at-arms-length manner, in view of the highly publicised negativity and allegations surrounding the 1MDB (see also [Lim, 2014](#)).

Meanwhile, a different dynamic exists in the manufacturing sector, illustrated by a high incidence of alliance – 43 per cent in both cases – between the mainland Chinese firms and their Malaysian Chinese counterparts, and between the mainland Chinese firms and other entities. The proportion of mainland Chinese firms opting for the GLCs stands at a comparatively lower 29 per cent. Why is there such a strong preference for the ethnic Chinese firms and the non-GLCs and non-ethnic Chinese firms? Such an outcome can be partly explained by the Malaysian Chinese firms' ability in exploiting their expertise in the manufacturing industry despite a lack of state support. Parallel to this development is the failure of the state in cultivating competitive and sustainable manufacturing GLCs although considerable resources have been allocated for such purposes (especially in the heavy industries), a pointed remark raised by [Wain \(2009\)](#) and [Studwell \(2013\)](#), both renowned researchers studying Malaysia's political economic development. A business analyst further revealed that most of the manufacturing GLCs underperform because they are essentially the products of a misguided and ill-conceived industrialization drive by the Malaysian government (personal communication, 22nd November 2013). This view is also echoed by a trade promoting officer who claimed that running a manufacturing business is

naturally difficult, and the ethnic Chinese firms usually outperform their GLC counterparts because the former is exposed to the realities of the marketplace and is thus more adept in managing the operations (personal communication, 22nd November 2013). Such a situation best exemplifies Ji Kang Dimensi Sendirian Berhad and Hiap Teck Venture Berhad (both firms owned and managed by Law Tien Seng, a prominent Malaysian Chinese entrepreneur), the joint venture partners of Jinan Iron and Steel Group and Shougang Group (both large Chinese steelmakers) respectively (see Table 1). Law has been an active player in the Malaysian and Asian steel industry for a number of decades, but he was largely ignored by the Malaysian state during the country's heavy industrialization growth during the 1980s. The ambivalence from the authorities, along with his entrepreneurial drive, allowed Law to explore other opportunities within and without the steel industry. According to RM Research (2012), Law's business portfolio has since expanded from the distribution and manufacturing of steel related products to the mining, property investment and development, food and beverage industries. Within the steel industry, Law's group of companies have steadily acquired the ability to make more complex steel products from their humble beginnings in steel pipe fabrication. Furthermore, Law's extensive network of contacts and rich corporate experience in China has made him a good coalition partner for mainland Chinese firms, e.g. Jinan Iron and Steel Group and Shougang Group intending to invest into Malaysia. In addition, both the GLCs and the ethnic Chinese firms have not been particularly active in the newer types of manufacturing activities e.g. solar wafer, modular electrical/electronic products, and biomedical products. Therefore, mainland Chinese firms have invested into Malaysia without a need to rely on the GLCs and the ethnic Chinese firms for their technical expertise or market knowledge. To this end, Comtec Solar Systems Group Ltd, Daiyin Textile and Garment Group, and Haier Group have all invested in fully-owned Malaysian subsidiaries to manufacture and market solar wafer, textile-related products, and household appliances respectively, fulfilling their corporate objectives without the need of a local coalition partner (see Table 1). For Haier, it has collaborated with the ethnic Chinese firms in its distribution and sales network while keeping the manufacturing competence fully in-house. This is an expected event as the Malaysian state has generally adopted a rather liberal attitude towards industries in which the GLCs are weak at. The continued pre-eminence of Penang's predominantly Western- and Japanese-owned electronics cluster is one of the most obvious examples of this liberal policy.

In the other services, agriculture, finance, and information and communication sectors, more than half (58 per cent) of the mainland Chinese firms rely on other entities as their coalition partners. Meanwhile, 33 per cent and 25 per cent of the mainland Chinese firms have collaborated with

ethnic Chinese firms and GLCs respectively. Mirroring the cross-border cooperation pattern of the manufacturing sector, it can be observed that the GLCs are not the most popular choice for the mainland Chinese firms. This observation can be explained by the relative lack of presence of the GLCs in these sectors. In other words, these sectors are comparatively more open to market participation by non-GLCs. Compared to their counterparts in the construction and manufacturing sectors, mainland Chinese firms participating in the other services, agriculture, finance, and information and communication sectors display a higher tendency – 58 per cent compared to 12 per cent and 43 per cent in the two former sectors – to collaborate with non-ethnic Chinese firms and non-GLCs. For the ethnic Chinese firms, the generally low capital requirement and ease of operation of the other services, agriculture, finance, and information and communication sectors are especially attractive. In spite of the marginalization by the NEP, these ethnic Chinese firms are still thriving in this environment because of their ability to tap into the cross-border socioeconomic networks that the various ethnic- and clan-based trade associations confer them with. While the well-capitalized ethnic Chinese firms no longer utilize these networks actively, many of the country's ethnic Chinese small and medium enterprises (SMEs) are still reliant on them. The utility of these networks is particularly useful for trading firms. For instance, Alado Corporation Sendirian Berhad (a privately held firm owned by Tan Sri Cam Soh Thiam Hong, a prominent ethnic Chinese businessman) is adept in utilizing its business prowess in the automobile industry to formalize a business arrangement with Oriental Assemblers Sendirian Berhad (another ethnic Chinese firm) to assemble completely-knocked-down (CKD) automobile kits of China's Chery Automobile Company Ltd into completely-built-up (CBU) units. In addition, Alado Corporation is also able to establish a Malaysia-China joint venture with Chery Automobile – with the Lembaga Tabung Angkatan Tentera (LTAT) or the Armed Forces Fund Board (a GLC) as a passive investor – in the distribution of the CBU units across Malaysia (Abdullah, 2009; Ang, 2006) (see Table 1). More prosaically, the business approach of Alado Corporation reinforces Jesudason's (1997) and Zwart's (2007) research, highlighting that many of Malaysia's ethnic Chinese firms (particularly those in industries enjoying a relatively lower capital intensity e.g. trading and other services) are still reliant on ethnic-based socio-economic networks.

More broadly, mainland Chinese firms seem to be at ease with the political economy of Malaysia, particularly the dominance of the GLCs and (to a smaller extent) the ethnic Chinese firms. Their adaptability to this state of affairs can be attributed to the learning experience gained from navigating the complicated set of state-society relations back in China. Such exposure helps them manage the nexus of politics and business in Malaysia, which

is somewhat different – an emphasis on wealth redistribution along ethnic lines – yet just as challenging vis-à-vis that of the mainland. This finding reinforces Michel and Beuret's (2009) research on the controversial behaviour of mainland Chinese firms in their investments in developing countries, arguing that their familiarity in operating in a relatively challenging business environment, and experience in managing complex patron-client networks (both in their home country, China) have indirectly helped them when they invest in other developing countries in which a similar political economy is also present. The "baptism of fire" acquired from operating in China implies that it is unrealistic for the mainland Chinese firms to insist on or hope for at-arms-length dealings in Malaysia, a developing country with its unique set of complicated state-society relations and associated patron-client networks. Some of the mainland Chinese firms have even managed to juggle their economic interests with Malaysia's two dominant economic actors, evidenced by the manner in which Guangxi Beibu Gulf International Port Group Ltd and Country Garden Holdings Company Ltd establish their Malaysian operations (see China Central Television, 2013; Han, 2013; Khor, 2013). These two mainland Chinese firms have been able to work with both the ethnic Chinese firms and the GLCs for different business ventures (see Table 1).

## 7. Conclusion

This paper has analysed the major coalition partners of 36 mainland Chinese firms that have invested into Malaysia. It has argued that a large portion of the mainland Chinese firms have cooperated with the GLCs (50 per cent of all firms) in their cross-border investments, while a smaller percentage have cooperated with the ethnic Chinese firms (28 per cent of all firms), and other entities, i.e. neither the GLCs nor the ethnic Chinese firms (33 per cent of all firms). This reconfirms the assertion that the GLCs play a dominant role in the Malaysian economy. Their dominance is attributed to Malaysia's capitalist development and state-society relations, both of which shaped particularly by the ethnocentric NEP. For the GLCs, their rise and subsequent domination of the economy is a direct result of state support. Although the ethnic Chinese firms receive less support from the state vis-à-vis the GLCs, they are still able to function as a useful coalition partner for the mainland Chinese firms investing into Malaysia. Many of the ethnic Chinese firms have also consolidated their positions, excelling in less regulated sectors such as trading. For the sizeable contingent of mainland Chinese firms that have not depended on the GLCs and the ethnic Chinese firms in their Malaysian investment, they are a testament to Malaysia's (partial) economic openness. However, the mainland Chinese firms' reliance on other entities is also circumscribed by the redistributive nature of the NEP.



More specifically, the preference of mainland Chinese firms for the ethnic Chinese firms, the GLCs, and other entities is not even across the economic sectors. The preference for the GLCs decreases from the construction (76 per cent), to the manufacturing (29 per cent), and to the other services, agriculture, finance, and information and communication (25 per cent) sectors. Such a trend highlights the close relationship between the GLCs and the government in the construction sector, an advantage which the GLCs have exploited most effectively. Their position provides them with better access (*vis-à-vis* other firms) to state resources such as land and concession agreements, major advantages in any kinds of enterprise (especially the construction sector). On the other hand, the preference for the ethnic Chinese firms increases from a lowly 18 per cent in the construction sector, to 43 per cent and 33 per cent in the manufacturing, and the other services, agriculture, finance, and information and communication sectors respectively. It is apparent that the ethnic Chinese firms cannot secure state support as effectively as the GLCs in the construction sector, weakening the likelihood of cooperation with mainland Chinese firms. Nevertheless, the lack of state support indirectly provides the ethnic Chinese firms with some freedom to expand into other less regulated economic sectors (outside of the construction sector) in which the presence of the GLCs is comparatively weaker. Their success in these sectors has made themselves worthy coalition partners for mainland Chinese firms investing into Malaysia. The preference for the other entities increases from a lowly 12 per cent in the construction sector, to 43 per cent and 58 per cent in the manufacturing, and the other services, agriculture, finance, and information and communication sectors respectively. Like their counterparts who have relied on the ethnic Chinese firms, this group of mainland Chinese firms have exploited the greater economic liberty in sectors in which the participation of the GLCs is less active.

More importantly, the paper has underscored the influence of political considerations in the internationalization of mainland Chinese firms. It also shows that a country's socio-political institutions are able to influence firm dynamics and their cross-border investment strategies. Such a perspective is illustrated in the mainland Chinese firms' selection of coalition partners. To this end, they have shown their adaptability in navigating the political economy of Malaysia, evidenced by their cooperation with both the GLCs and the ethnic Chinese firms. The ease with which they cooperate with Malaysia's two largest economic actors across different economic sectors can be partly explained by the learning experience gained from navigating an equally, if not more, complicated set of state-society relations back in China.

What then are the policy implications of this paper? Firstly, FDI from developing countries such as China can be as important as that from the "traditional" developed countries, e.g. the Western bloc and Japan. Hence,

policy makers should not solely target outward FDI from the “traditional” developed countries as there are considerable socioeconomic benefits to be derived from engaging in the much touted “South-South Cooperation”. In this regard, Malaysian policy makers have to be applauded for their determination in courting FDI from China, a fellow member of the Global South. More crucially, it would be beneficial for Malaysia to attract manufacturing FDI from China to bolster its relatively underdeveloped manufacturing sector, especially in the more technologically advanced activities. While the benefits of a robust manufacturing sector are beyond dispute, Malaysia’s developmental record suggests that the country has not been able to craft or implement an industrial policy to groom its manufacturing firms on a consistent and sustainable basis (Jomo, 2007). Even the much touted Economic Transformation Programme (ETP), launched in 2010, is also not particularly specific in attracting foreign manufacturing firms to establish their operations in Malaysia. Within the context of this paper, the findings show that there is a high incidence of alliance between the mainland Chinese manufacturing firms and the ethnic Chinese firms of Malaysia, suggesting that Malaysia’s manufacturing sector could benefit from the unique relationship linking China’s business community and their Malaysian Chinese peers. However, there is a natural limit to the amount and types of FDI that Malaysia can attract from China (and other countries) should there be no urge to curtail the distortions introduced by the NEP, and transform the economy to one which is less ethnic-based and more meritocracy-driven. Although various Malaysian leaders have sought to alleviate the situation after the retirement of Prime Minister Mahathir in 2003, their efforts have been lacklustre at best (Menon, 2014; Pua, 2011). The lack of success of these reforms implies that the NEP is too deeply embedded in the nation’s collective psyche, especially among the ethnic Malays. Prime Minister Najib’s recent backtracking from his 2009 pledge to reform the NEP is one of the most prominent examples of such fault lines undergirding the country (Salim, 2013).

Related to the above point is the argument that ethnic-based business networks are not necessarily counterproductive to economic development (cf. Backman, 2001). This paper has highlighted that Malaysia’s ethnic Chinese firms and their ethnic Chinese business networks are a useful conduit integrating both the Malaysian and Chinese economies. Although the Malaysian Chinese firms and their mainland Chinese partners may lack the resources of other better-endowed firms, e.g. the GLCs in the construction sector, their nimble and on-the-ground approach, complemented by the deep entrepreneurial support from the ethnic Chinese business networks, contributes to local economic development. In other words, Malaysia stands to benefit from these cross-border ethnic Chinese business networks. The

investments of the mainland Chinese firms are particularly useful for the Malaysian government as it seeks to reduce its dependence on the GLCs, which have been shown to crowd out private investment.

## Notes

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1. The term “mainland Chinese firms” is used in this paper to avoid confusion with the “ethnic Chinese firms”. The latter refers to firms owned and/or managed by ethnic Chinese people living outside China (e.g. Hong Kong, Macau, Taiwan, Malaysia, Singapore, and Thailand). Within the context of this paper, “ethnic Chinese firms” refer to those firms owned and/or managed by the ethnic Chinese populace of Malaysia, unless specifically mentioned otherwise.

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