Trade, Investment & Economic Cooperation Between China and Southeast Asia:

The Case of MALAYSIA

November 2003 – February 2004

JOINT RESEARCH BETWEEN

Institute of Developing Economies - Japan External Trade Organization (IDE-JETRO)

AND

Socio-Economic & Environmental Research Institute (SERI)

CONTENT

Joint Research Project on

"Trade, Investment and Economic Cooperation between China and Southeast Asia":

The Case of Malaysia

Executive Summary

In this study, we examine the economic relation between China and Malaysia in terms of trade, investment and economic co-operation to understand the following aspects, from the viewpoint of Malaysia:

- Profiles of Malaysian business in China and Chinese business in Malaysia,
- Reasons for Malaysian investment and trade in China,
- Challenges in China and Malaysia,
- Evaluation of the growing relationship,
- Initiatives undertaken on the Malaysian side, and
- Opportunities to grow the relationship.

China is Malaysia's fourth largest trading partner. In 2002, Malaysia's trade with China was worth RM43.4 billion and up by 49 per cent compared to the year before. Malaysia-China's bilateral trade is now ten-fold larger than ten years ago when it was only RM4.44 billion. Compound annual growth rate (CAGR) over ten years is 25.6 per cent. In terms of investment, China is the 7th largest foreign investor in Malaysia between 1998 and 2002. During this period, Chinese investors poured RM3.38 billion into Malaysia. In the first ten-months of 2003, an additional RM0.24 billion or a total of 11 projects from China were approved.

The true relationship between China and Malaysia is characterized by optimism, trust, and excitement; rather than the inverse of fear and protectionism. Through our interviews across Malaysia, we found that a large majority was thrilled by the increasingly liberalized market access into the 1.26 billion Chinese population, lower cost of doing business, cheaper capital and intermediate goods, and most of all, China's complementary growth alongside its Asian neighbours. Without doubt, small-time Malaysian SMIs and companies that thrive on price rather than technology and marketing prowess in Malaysia must be on the look out.

To maintain economic competitive vis-à-vis China, the Malaysian's economy must move towards high technology and value-added creations, skilled workers, and rational government policies.

1. Introduction

Is China a threat or an opportunity to South East Asian countries and to Malaysia in specific?

This has been the question playing in the minds of most Malaysian businessmen, politicians, and academicians. It has left many Malaysians sleepless for fear of business failures and created headaches for manufacturers who used to thrive on price competition. On the other hand, consumers and bargain hunters are delighted by the flood of cheap goods, importers happy with lower cost of input materials, and investors excited about the new source of growth.

The Malaysian government has, by far, adopted an open-mind, open-door policy to China by allowing investments and imports from China to flow into the country freely. Besides that, it also wants to promote exports and large scale project bidding in China.

Beneath the confusion of opinions and conflicts of interests, little is actually known about the true perception of Malaysians on the growth of China. Even less is understood of the profiles of trade and investment movements, as well as the human aspect that makes this happen.

To address the gap, this study, held jointly between the researchers from the Socio-Economic & Environmental Research Institute of Penang (SERI) and international trade specialists from the Institute of Developing Economies (IDE) and Japan External Trade Organization (JETRO), was conducted over the period of October 2003 to February 2004.

2. Objective of Study

In this study, we examine the economic relation between China and Malaysia in terms of trade, investment and economic co-operation.

The research involves two stages:

(1) Informational and statistical data gathering through secondary research and
(2) One-to-one interview with business leaders (on the levels of Managing Director, Chief Executive Officer, or Executive Chairman), government agencies, trade associations, and other supporting organizations in Malaysia.

3. Methodology

Informational and Statistical Research Through Secondary Research

Statistical research is conducted through secondary sources on the web and through direct collection at business associations and government agencies. In addition, SERI also gather insights through locally-produced and locally-available publications such as magazines, newspapers, conference proceedings, and special reports.

Statistical research allows us to capture the nature and volume of economic relation between Malaysia and China in a quantitatively-accountable ways. Besides acting as evidence to the exact nature of the Malaysia-China bilateral relationship, it complements the qualitative insights gathered from the interviews. Informational gathering through other sources, meanwhile, allows us to broaden our understanding beyond the scope and constraints of this project.

Field Interviews

Over the period from October to December 2003, thirty-one (31) face-to-face interviews[1] were conducted with top-level executives of Penang and Kuala Lumpur-based companies. These companies range in size from medium-sized local companies to listed local companies and foreign multinationals (MNCs). Small local industries, i.e. SMIs and SMEs, were not included in the sample.

Through the interviews of business entities, we attempted to understand the profile of companies, whether as investors or traders, that are involved with the China-Malaysia business relationship. We also investigated their rationales for exploring the Chinese market, challenges faced in Malaysia and China, and finally, their outlooks for the near and medium-term.

Business associations and government agencies whose functions are to regulate, support, and promote international / bilateral relationship are included in the sample to understand the supporting structure of Malaysia's business. Attention was focused not merely on federal agencies but also on some state agencies especially in the state of Penang where manufacturing features prominently in the local economy. Several semi-governmental agencies included in our interview, such as the Penang Skills Development Corporation (PSDC), are often benchmarked as role-model organizations in Malaysia.

[1] Written interviews were done in the rare event that we could not schedule a live interview.

Finally, two renowned individuals of Malaysia, Dato' PY Lai and Tan Sri Lim Guan Teik graciously accepted our invitations for interview. Dato' PY Lai was the former President for Motorola China and Vice President for Motorola. He is currently serving as an advisor to the state of Penang. Tan Sri Lim Guan Teik, the influential immediate past president of the ACCCIM (Associated Chinese Chambers of Commerce and Industry of Malaysia), is currently the Chairman of Muda Holdings. Both have significant direct involvements in China and as such were invaluable resources.

Following are the breakdown of our interviewees:

- 5 multinational companies (MNCs),
- 11 local Malaysia manufacturers,
- 3 local non-manufacturers,
- 5 business associations and supporting agencies,
- 5 government agencies, and
- 2 eminent Malaysian businessman / government advisor.

(List of interviewees in Appendix 1)

Aside from SERI's interviews in Malaysia, representatives of IDE-JETRO also independently conducted interviews with the following organizations / companies in China: Matrade in Beijing, Malaysian Chamber of Commerce, Maycham China, Parkson Beijing (Lion Group), and Globetronics Jiaxing Inc. These interviews were not included in the analysis of this report.

4. Malaysia–China Trade Relationship[2]

China is an important trading partner for Malaysia. China is Malaysia's fourth largest trading partner and accounts for 6.6 per cent of Malaysia's global trade in 2002.

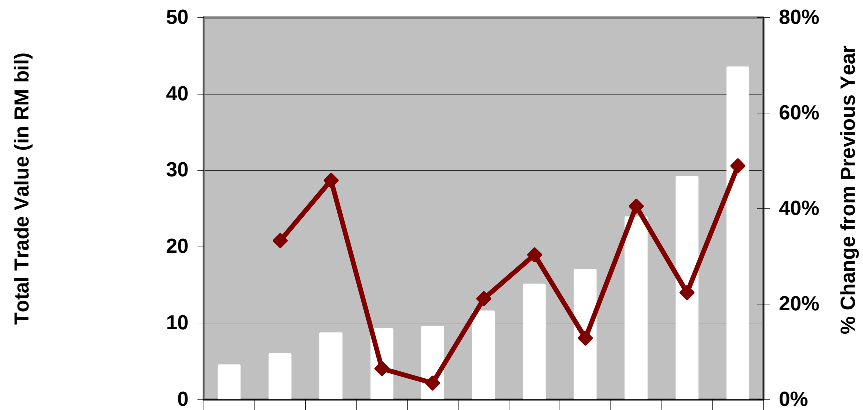
In 2002, Malaysia's trade with China was worth RM43.4 billion, up from $29.2 billion the year before (*Chart 1*). This represents a 49 per cent increase, the highest percentage increase recorded since 1992 (the next highest being 46 per cent increase in 1994).

Malaysia-China's bilateral trade is now ten-fold larger than 10 years ago when it was only RM4.44 billion. Statistically-speaking, the compound annual growth rate (CAGR) over ten years is 25.6 per cent. More notably, growth over last two years since 2000 has been phenomenal. Trade grew by 41% in 2000, 22% in 2001, and 49% in 2002. The increased trade not only signals a revival of the

[2] Data based on statistics obtained locally within Malaysia government agencies. Discrepancy with data published by the Chinese government may arise due to differential in definition and calculation.

good economic relationship with China but also exceeded growths during the good times in the early 1990s.

Chart 1 – Total Bilateral Trade Between China-Malaysia (in RM bil)



	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Total Trade	4.44	5.92	8.64	9.2	9.52	11.5	15	17	23.8	29.2	43.4
Change from Previous Year (%)		33%	46%	6%	3%	21%	30%	13%	41%	22%	49%

Source: Matrade

Along with unparalleled increase in trade, Malaysia has also recorded the largest ever trade deficit with China (RM3 billion) in 2002. As seen on *Table 1*, Malaysia has a total of 4 trade deficits only during the last ten years from 1992 to 2002. These occurred in the years 1992, 1997, 2000, and 2002. Except for 2002, none exceeded RM1.02 billion. In 2002, an explosion of imports from China, which grew at 62 per cent, accompanied by a much more modest increase in exports (36 per cent), pushed trade deficit into RM3.5 billion.

Table 1 – Malaysia's Trade With China

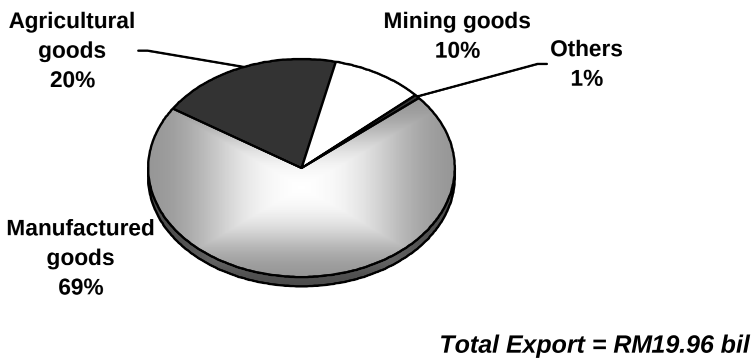
Year	*Bal of Trade (RM Billion)*	*Total Exports (RM Billion)*	*Total Imports (RM Billion)*	*Exports Growth Rate*	*Imports Growth Rate*
1992	-0.52	1.96	2.48		
1993	0.27	3.09	2.82	58%	14%
1994	1.49	5.06	3.58	64%	27%
1995	0.61	4.9	4.3	-3%	20%
1996	0.08	4.8	4.72	-2%	10%
1997	-1.02	5.26	6.27	10%	33%
1998	0.51	7.77	7.26	48%	16%
1999	0.65	8.8	8.15	13%	12%
2000	-0.81	11.51	12.32	31%	51%
2001	0.21	14.68	14.47	28%	17%

2002	-3.51	19.97	23.47	36%	62%

Source: Matrade

In *Figure 2*, we see that manufacturing goods takes the lead in exports to China. Manufactured goods accounts for 69% of exports or equivalent to RM14 billion, agriculture accounts for 19.6% (RM3.9 billion), mining goods 9.6% (RM1.9 billion), and others 0.6% (RM0.1 billion).

Figure 1- Malaysian Export Sectors to China



Source: Matrade

The export of electrical and electronics (E&E) products, under the "manufactured goods" category, make up 43% of total export to China (*Table 3*). E&E export by itself is even greater than the entire category of agricultural goods. At RM8.6 billion, "electrical and electronics" is approximately three-times the value of the next largest exports (i.e. palm oil, which is valued at RM2.9 billion) and four times the size of "chemicals and chemical products" export (valued at RM2.29 billion). Crude petroleum is the fourth largest export, with a value of RM1.3 billion. Table 2 summarizes the composition of Malaysia's export to China.

Table 2– Top 10 Malaysian Products Exported to China in 2002 (in RM Million)

Product Sectors	Value (in RM mil)	Share of Total Exports (%)	Annual Growth (2001-2002)
Electrical & electronics	8,619.80	43.2	21.1
Palm oil	2,911.20	14.6	100.7
Chemicals & chemical products	2,293.50	11.5	50
Crude petroleum	1,334.80	6.7	84.3
Machinery, appliances & parts	774.6	3.9	17.1

Saw logs & sawn timber	516.8	2.6	9.8
Other agricultures	447.2	2.2	93.3
Manufactures of metal	399.5	2	16.8
LNG	381.3	1.9	67.9
Wood products	322.6	1.6	0.6

Source : Matrade

Note : Refer to Appendix 2 for the exhaustive list of exported products.

On the imports side, we see that manufactured goods takes up an even larger chunk of the share (87% of imports) compared to exports (69% of exports) (*Figure 2)*. This amounts to RM 20.39 billion in 2002 (*Figure 2*). Agricultural goods consist of 8% of imports, mining goods 2%, and others 3%. The large chunk of imported manufactured goods is partly attributed to the imports of E&E products, as evident in *Table 3*. In 2002, Malaysia imported RM13 billion worth of E&E products from China. In contrast, Malaysia only exported RM8.6 billion to China.

Figure 2– Malaysian Imports From China

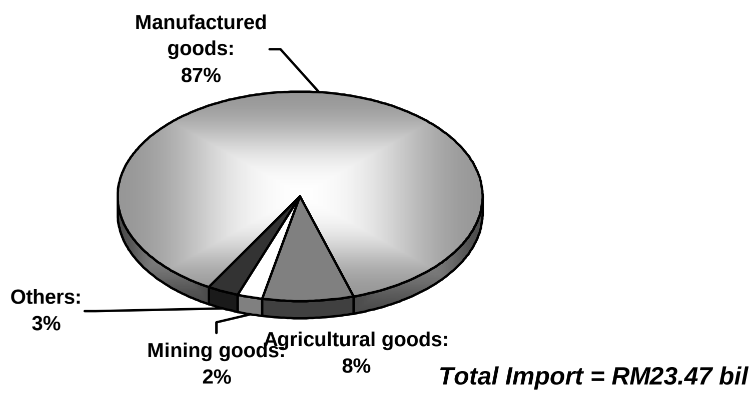


Table 3– Top 10 Malaysian Imports from China in 2002 (in RM Million)

Product Sectors	Value (in RM mil)	Share of Total Exports (%)	Annual Growth (2001-2002)
Electrical & electronics	13,019.70	55.5	70.6
Machinery, appliances & parts	1,831.30	7.8	78.7
Cereal	988.7	4.2	139.1
Textiles & clothing	962.9	4.1	46.5
Other manufactures	952.8	4.1	71
Chemicals & chemical products	945.1	4.0	18.7

Other agricultures	922.9	3.9	13.3
Manufactures of metal	704.2	3.0	38.7
Processed food	440.7	1.9	36.2
Optical & scientific equip.	428.7	1.8	66.2

Source : Matrade

Note : Refer to Appendix 3 for the exhaustive list of exported products.

The demarcation of production according to competitive advantage between both countries has clearly caused large inflows and outflows of E&E products. By and large, many of the components and products used for assembly and testing in Malaysia are imported from China as they are cheaper to manufacture in China. In other words, intermediate and capital goods are the most common imported items from China. Availability of skilled workers is a shortage in China, so Malaysia is able to take part in the E&E supply chain by acting as a value-added manufacturer and designer, in certain cases. This complementary trade is mutually beneficial as it keeps cost down for Malaysian's E&E finished products at the same time that it "forces" Malaysian manufacturers to move up the value chain. The differences in the nature of imported vs exported E&E products as well as Malaysian's E&E export focus on developed countries (instead of emerging countries such as China) also explains the RM4.4 billion trade deficit.

Apart from E&E, other sectors with significant trade deficits are machinery appliances and parts, cereals (food), as well as textile and garments *(Table 4)*. With the abolishment of Multifibre Agreement (MFA) under the WTO rules in 2005, imports of textiles and clothing will only grow exponentially as China's textile will no longer be subjected to quotas. On the flip side, palm oil, chemical and chemical products, and crude petroleum are large money earners for Malaysia. Each of these respective sectors have trade surplus of RM1 billion and above.

Despite complementing China's growth in the E&E field, Malaysia is fast losing grounds on competitive basis. Severe domestic labour crunch and inadequately-skilled local employees in Malaysia, coupled with Chinese's abundant supply of cheap and skilled workers will skew trade deficit further. Further sections in this report will explore further the challenges faced by Malaysian businesses. To compensate for the decline, Malaysia is turning towards resource-based exports. Palm oil, petroleum products, liquefied natural gas (LNG), and wood-based products are top exports to China. As a matter of fact, China has become the largest export market for Malaysia's palm oil in 2002, overtaking India. Chemical product manufacturing, which is also somewhat dependent on natural resources, is another avenue of trade receipt.

Table 4 – Trade Deficit and Surplus (RM Bil)

Top 5 Sectors With Trade Deficit	
Electrical & electronics	-4.40
Machinery, appliances & parts	-1.06
Cereal	-0.99
Textiles & clothing	-0.74
Processed food	-0.39
Top 5 Sectors With Trade Surplus	
Palm oil	2.91
Chemicals & chemical products	1.35
Crude petroleum	1.02
Saw logs & sawn timber	0.51
LNG	0.38

Source : Matrade

5. Malaysia–China Investment Relationship

According to statistics published by Malaysian Industrial Development Authority (MIDA), China is the 7th largest foreign investor in Malaysia between 1998 - 2002. The amount of investment stood just below Taiwan and surpassed investments from the Republic of Korea, United Kingdom, and Switzerland.

From 1998 - 2002, Chinese investors invested RM3.38 billion into Malaysia. In the first ten-months of 2003, an additional RM0.24 billion or a total of 11 projects poured in from China. In total, Chinese FDI summed up to RM3.6 billion between 1998 to October 2003.

2001 was truly an exceptional year. A total of RM2.9 billion was invested in Malaysia in 2001, compared to RM0.36 bil in 1998, RM0.01 bil in 1999, RM0.03 bil in 2000 and RM0.25 bil in 2002.

Figure 3 – FDI from Foreign Sources, 1998 - 2002 (in RM Mil)

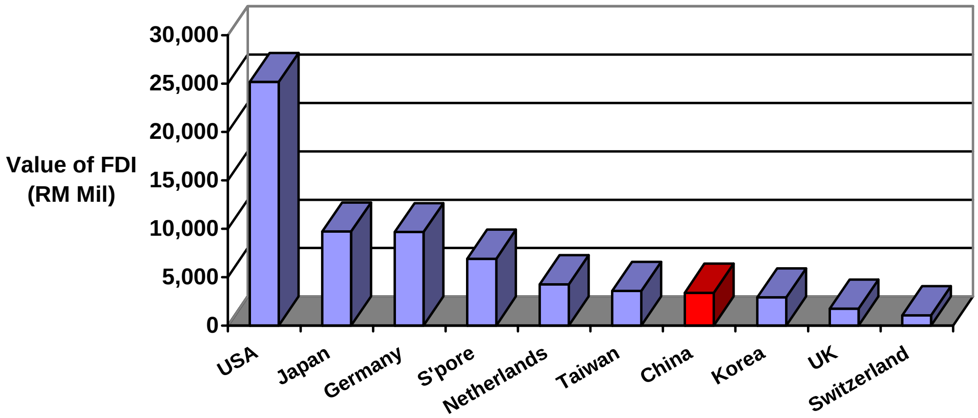


Table 5 – Top 10 Sources of FDI in Approved Projects in Malaysia (RM Mil)

Rank	Country	1998	1999	2000	2001	2002	1998 - 2002
1	USA	6,433	5,159	7,492	3,412	2,668	25,164
2	Japan	1,868	1,006	2,881	3,366	587	9,708
3	F.R Germany	152	187	1,656	2,603	5,055	9,654
4	Singapore	968	902	1,778	2,228	1,019	6,896
5	Netherlands	628	772	2,175	69	607	4,251
6	Taiwan	1,001	267	916	1,140	252	3,576
7	**China**	**361**	**12**	**34**	**2,923**	**55**	**3,384**
8	Korea,Rep.	76	35	723	1,703	369	2,907
9	United Kingdom	479	192	772	123	168	1,734
10	Switzerland	142	708	91	85	25	1,050

Source:MIDA

Compared to other ASEAN countries, FDI from China is second only to Singapore and well ahead of the second largest ASEAN source of FDI, namely, Indonesia.

Table 6 – Sources of FDI into Malaysia, Comparison of China vs. ASEAN countries (RM Mil)

Country	1998	1999	2000	2001	2002	1998 - 2002
Singapore	968.1	902.4	1,778.5	2,227.8	1,019.2	6,896.0
China	**360.9**	**11.5**	**33.7**	**2,922.7**	**55.3**	**3,384.1**
Indonesia	55.3	31.6	66.3	75.5	11.8	240.5
Thailand	1.9	0.0	16.4	67.6	8.9	94.7
Philippines	1.5	-	-	-	0.8	2.3
Brunei	1.2	-	-	-	-	1.2

Source:MIDA

To date, 51 projects from China have been approved by the Malaysia Ministry of International Trade and Industry (MITI).[3] Of that, 10 projects worth RM53.6 mil are already in production while another 29 projects worth RM323 mil are in the initial stages of implementation and machinery installation. The 10 projects in production are involved in the following industries: transport equipment, E&E, chemical and chemical products, wood and wood products, non-metallic mineral products, machinery manufacturing, food manufacturing, and plastic products manufacture.

In terms of Malaysian investment in China, we refer to the special survey report by Deloitte KassimChan, entitled "*Malaysian Investment into China Fitness Survey*" conducted in 2003.[4] Following are the key results of the survey, out of 160 respondents representing diverse sectors in Malaysia:

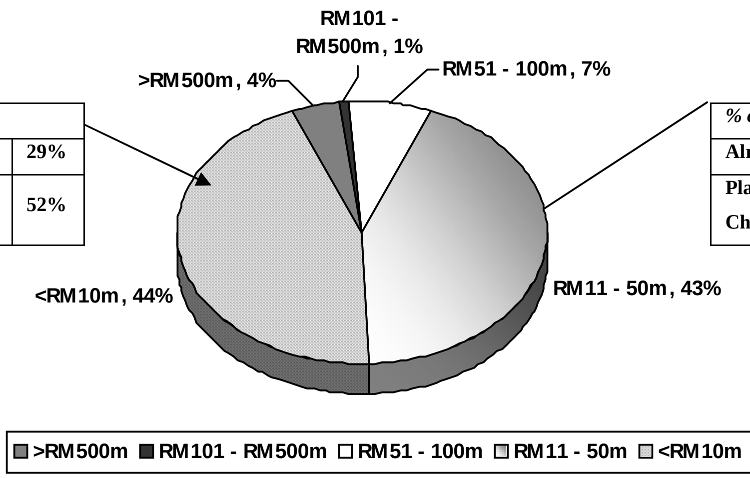
- 21% already have operation in China
- 43% intend to make their first investment in China within next five years
- 58% of respondents planning to enter or expand in China anticipate that it will take at least three years for their Chinese business to become profitable

An overwhelming number of respondents (79%) with existing operations in China intend to expand their operations. More than half intend to take advantage of the liberalization afforded by China's ascension onto WTO by expanding into different localities and previously prohibited industries or sectors. The easier expansion plan consisting of growing existing operations is in the pipeline for 8 out of 10 of respondents already operational in China.

The size of anticipated investment is mostly in the region of RM50 million or less *(Figure 4*). Out of the 87% of investors who plan to invest RM50million or less, half will be investing less than RM10 million. It is interesting to note that those with experience in China have more confidence in the Chinese market compared to those who have never been there. This is reflected by the higher amount of investment intention of the group who is already operating in China (see pop-up tables in *Figure 4*). The majority of those already in China intend to invest between RM11 million to RM50 million in the next 5 years, whereas those who are just planning to enter are most likely to start small by investing less than RM10 million.

[3] Specific detail on the 51 projects remains confidential. According to MIDA, data on Chinese investment in Malaysia is hard to track because Chinese companies usually maintain a local identity. Identification of the parent company is not required by the government.
[4] The Malaysian authority does not have statistics on Malaysian investment in China.

Figure 4 – Anticipated Size of Intended Investment in China Over the Next 5 Years



% of Respondents	
Already in China	**29%**
Planning to Enter China	**52%**

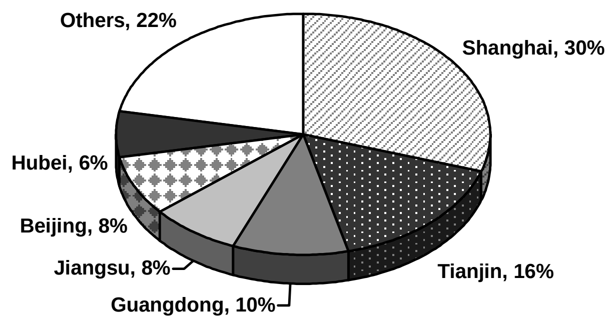
% of Respondents	
Already in China	**54%**
Planning to Enter China	**37%**

Source: "Malaysian Investment into China Fitness Survey 2003,"Deloitte KassimChan

To explain this phenomenon, it is important to look at the differential in perception of the Chinese market between the two groups. While those who are already in China perceive competition and operational challenges (such as recruiting and raising funds) as obstacles, those who have not enter China are more likely to perceive external challenges such as dealing with the Chinese government, fraud, and obtaining relevant information and professional advice as stumbling blocks. Thereby, they prefer to play-it-safe by investing minimally.

In terms of location, Malaysian investors predominantly choose coastal cities because of their better infrastructure and better prospect for return on investment. Their development is a reflection of China's history of liberalisation, deregulation, and government support. Shanghai is the biggest draw of all – 30% of respondents with operation in China are located there. Up next are Tianjin, Guangdong, Jiangsu, and Beijing. Together, these five cities make up almost three-quarter of the overall pie.

Figure 5 – Investment Locations (of Respondents Already in China)



Source: "Malaysian Investment into China Fitness Survey 2003,"Deloitte KassimChan

6. Evolution of Malaysia-China Trade and Investment , From 1970 Onwards

Trade relationship between Malaysia and China has taken place more than a century ago. In the olden days, many migrant Chinese people moved to Malaysia to seek jobs. Penang, a tiny state in the northern region of Malaysia populated by Chinese ethnic immigrants, was one of the pioneer trader of goods from China.

In the past 30 years, relationship between Malaysian and China has grown by leaps and bounds. On May 1974, Malaysia established diplomatic relationship with China – one of the first Southeast Asian countries to do so. That said, there were many restrictions for entrance and exit between the two countries. In terms of business, the 1970s was a period defined by business explorations rather than actual business dealings. Participation in trade shows, the Canton trade fair being the prime event, was tightly monitored. The trips were organised by the Associated Chinese Chamber of Commerce and Industry of Malaysia or the Kuala Lumpur/Selangor Chinese Chamber of Commerce and Industry and led by Pernas and the Ministry of International Trade and Industry (MITI). Businessmen had to seek approval from the Malaysian internal affair department and be interviewed in order to join the trade fair. Because of the limitation in human movement, bilateral trade was limited. To bypass the almost impassable border of China, many Malaysian businesses routed their goods through Hong Kong, and sometimes Singapore, for distribution in mainland China. Robert Kuok, a wealthy Malaysian tycoon, was said to be one of the first Malaysians to invest in China, through Hong Kong. His main investments were in the hotel, property, and manufacturing lines.

In the 1980s, the Prime Minister of Malaysia then, Tan Sri Dr. Mahathir Mohamad, had a vision to improve relationship between China and Malaysia. When he took office in the 1980s, he joined delegations to China and granted more freedom for visits to China on business or tourism purposes. From 1985 onwards, the Malaysian Government made gradual readjustment of its policy toward China. Frequent visits by leaders of both countries occurred. In 1994, President Jiang Zemin paid a state visit to Malaysia.

In January 1988, the Malaysian government removed the much-criticized AP system (Approved Permit) under which importers of Chinese goods had to apply for permits from the former government agency, Pernas, that charged a fee of 0.5 per cent against the invoice value of imports. Prior to 1988, complaints of permit issuance irregularities were rife. As a result, the Malaysian trade bore the brunt of the government's inefficiency as traders prefer to trade through Singapore.

The lifting of restrictions in the 1990s allowed Malaysian businesses to flourish. Tourists thronged between both countries. Trade missions and government-to-government relationship became less and less important as individually-led initiatives took over. More importantly, a new organization, The China Goods Importers and Exporters Association of Malaysia, a forerunner of the Malaysia-China Chamber of Commerce (MCCC), was formed specifically to "serve the interests of importers of goods from China and to take advantage of an expected surge in trade with China after the Malaysian government lifted travel restrictions to China and relaxed business conditions."

While restrictions on investment and trading still apply in certain sub-segments in China nowadays, Malaysian companies are able to penetrate the Chinese market on their own without seeking assistance from the Malaysian government. As one of the respondents said aptly, "I can just buy a ticket and fly to China." In fact, during our interview, the Malaysian Industrial Development Authority (MIDA) professed that they do not actively keep close track of Malaysian investors and traders in China.

In the banking sector, the Bank of China and Bank of Malaya set up its own branch respectively in Kuala Lumpur and Shanghai beginning year 2000. In October 2002, the Chinese People's Bank and the National Bank of Malaya signed an agreement on bilateral exchange of currencies.

In 2003, relationship with China took a step further when the current Prime Minister, Datuk Seri Abdullah Ahmad Badawi, toured China and met with senior leaders including Chinese President Hu Jintao and Premier Wen Jiabao in September. Among others, the visit signaled 30 years of diplomatic ties between the two countries and commitment to further strengthen. The year 2004 marks the "Malaysia-China Friendship Year":

7. Profiles of Malaysian Business in China

Malaysian businessmen in China are involved in a range of activities. While direct investment has grown by historical standard, trading still accounts for a major part of the bilateral relationship.

In manufacturing, some Malaysian manufacturers have moved their labour intensive activities such as components and parts manufacturing, low-end electrical appliances, and parts of garment-making to China to take advantage of the low labour cost. There are reasons to manufacture within China beyond cost factor. Among others, tax savings and manoeuvrings around the Chinese government restrictions on licensing and distribution are essential factors. Without doubt, some subcontractors are being "forced" by their customers, notably the multinational corporations (MNCs), to shift part of their production to China so that they could continue serving them.

To capitalize on the voracious appetite for infrastructure development, some Malaysian companies have also ventured into contract biddings. Property development, including hotel building and retail property development, is another promising sector – the Lions Group is a big Malaysian player in China. In the education market space, several new Malaysian players are entering to capture the growing demand for tertiary and technical education in China. For example, the Kuala Lumpur Infrastructure University College (KLIUC) recently signed a Memorandum of Understandings (MoUs) with Tongji University, Tianjin Engineering and Technical Institute, and Tianjin University to provide joint technical twinning degrees in engineering and scientific fields. Inti International College, a renowned local college, has been providing management education in Beijing for a decade, since 1993. Many of these projects have received the blessing, and in some cases, support, from the Malaysian government.

Location wise, most Malaysian business are concentrated within the coastal cities such as Beijing, Shanghai, and Guangzhou for ease of marketing, distribution, talent sourcing, and infrastructural support. However, Malaysian subcontractors serving multinationals in China, are located around the bases of the MNCs but not necessarily along the coastal areas.

In terms of human resource strategy, most prefer to hire locals (Chinese) for low-level, non-managerial jobs. The preference for local employees is driven by cost consideration as well as the locals' possession of crucial connections and market knowledge. Furthermore, relocating low-skilled Malaysians workers to China is unjustifiable. Meanwhile, among the higher-skilled engineers and managers, Malaysian companies are interested to hire local Chinese workers. In reality, the tight labour market and inadequately-skilled human resources in China constrain their abilities to do so. Therefore, Malaysians are placed in China on short-term expatriate basis for supervision, quality control, and technology transfer purposes. In the long run, plans to transition such positions to local managers will be put in place.

On the subject of profitability, most respondents said that they are making reasonable amount of profits. Profit levels are not optimal and there is a potential to be more profitable. Despite of that, they are concerned that profit margin is not sustainable given the fierce competition in China. Nonetheless, none of our respondent professed that they plan to exit the Chinese market irregardless of difficulties because businessmen believe in the potential of China.

There is an incorrect perception among foreigners that the Malaysian-Chinese people are attracted to China because of their ancestral roots, which is as recent as two generations ago. Nonetheless, the reality for Malaysian businessmen is that they ply their trade where opportunities arise. Connections and feeling of attachment to their ancestral roots is often not a factor in deciding where to go in China. The Malaysian- Cantonese people have no preference for Guangzhou, nor do the Fukiens (or Hokkiens) for the Fujian province. Business sense prevails above sentimental value.

8. Profiles of Chinese Business in Malaysia

The presence of Chinese investors is still uncommon in Malaysia. As an illustration, we noted that most respondents, when asked to name a few types of Chinese investors in Malaysia, were not able to give a clear answer.

Trading services accounts for the majority of the bilateral business relationship. China is already the seventh largest foreign investor in Malaysia, as stated in the "Malaysia–China Investment Relationship" section above. The few Chinese business transactions in Malaysia include herbal medicine sales, resource-oriented products trading such as rubber and palm oil trading, and property investment and development.

One of the highest profile Chinese investments in Malaysia was a proposal to build a US$4.5 billion pulp and paper mill in Sabah in 2001, featuring joint co-operation between the Sabah's state government (through Yayasan Sabah's investment arm, Innoprise Corporation Sdn Bhd), the Lions Group of Malaysia and the China Fuxing Pulp and Paper Industries of China. The project failed to take off due to strong environmental concerns, which was then followed by the withdrawal of the Lions Group.

9. Reasons Why Malaysians Invest and Trade in China

Malaysians consider China as a place of vast opportunity and great potential.

With 1.26 billion population in the 31 provinces, autonomous regions and municipalities of mainland China, growing at a rate of 12.79 million persons, or 1.07 percent annually, there is no doubt why China has been earmarked as the next big market in Asia. And with the thawing of diplomatic relationship between Malaysia and China since the year 1974 and the ascension of China into the WTO in December 2001, the path towards the 1.26 billion people is becoming clearer. Before the recent Western craze about China, Malaysians have, for the last three decades, identified China as an important trading nation. Hence they were willing to go to great lengths to penetrate the country by bypassing restrictions through ports in Hong Kong and Singapore.

But size alone is not the sole indicator of market potential. The ability of the market to sustain and support business activities is very important as well. In the last quarter of 2003, China's GDP grew by 9.9 percent; in the previous quarter by 9.6 percent. Meanwhile in Malaysia, GDP grew by 5.1 percent in the fourth quarter of 2003 – a very respectable growth but still lagging behind China. Meanwhile, industrial output in China grew 18.1 percent year on year in December and 17 percent for the whole of 2003. No wonder China is a magnet for Malaysian and foreign businessmen alike.

The urge to follow the market trend is yet another factor for Malaysians to go to China. Fear of losing out to other competitors keeps them on their toes. Also, first-mover advantage is a strong motivation for the race to China. A simple but common Malaysian wisdom goes as follow: "If you go to China, you'll die. If not, you'll die too." Not surprisingly then, some Malaysian businessmen in China are less interested in making long-term profits but more interested to take advantage of the small window of profit opportunity between now and when their customers convert to local Chinese suppliers.

The choice to go or not to go to China is not always an option. Several local manufacturing companies, especially those serving MNCs, have been compelled to enter China to service their existing customers in this new location. To quote one of our respondents, "Many MNCs are moving to China. So in order to continue to serve our MNC customers, we must be there. We weren't intending to do so if it wasn't because of the MNCs." Unfortunately for them, since competition is so intense, their customers may not even end up choosing them as the outsourcing supplier in China.

Without doubt, cost of materials and cost of labour in China are motivational factors. This would be most applicable for cost-sensitive manufacturers and other labour-intensive industries. Malaysian manufacturers, from garment makers to electronics component producers, have re-positioned part of their low-cost or cost-sensitive manufacturing from China to Malaysia, while maintaining high value-added, skill-intensive production in Malaysia. Cost is a tricky issue, though. Inflation in China, though still low, has jumped into positive territory after being in the negative in 2002. As China improves its living standard, cost savings will be increasingly less relevant. Some soothsayers predict that China will be able to sustain its cost-competitiveness for a much longer period compared to smaller countries like Malaysia because China's provinces are unevenly developed. Hence, when the coastal cities become unreasonably expensive, businessmen could move westwards / inland. Whatever it is, China will inadvertently lose out its low-cost image.

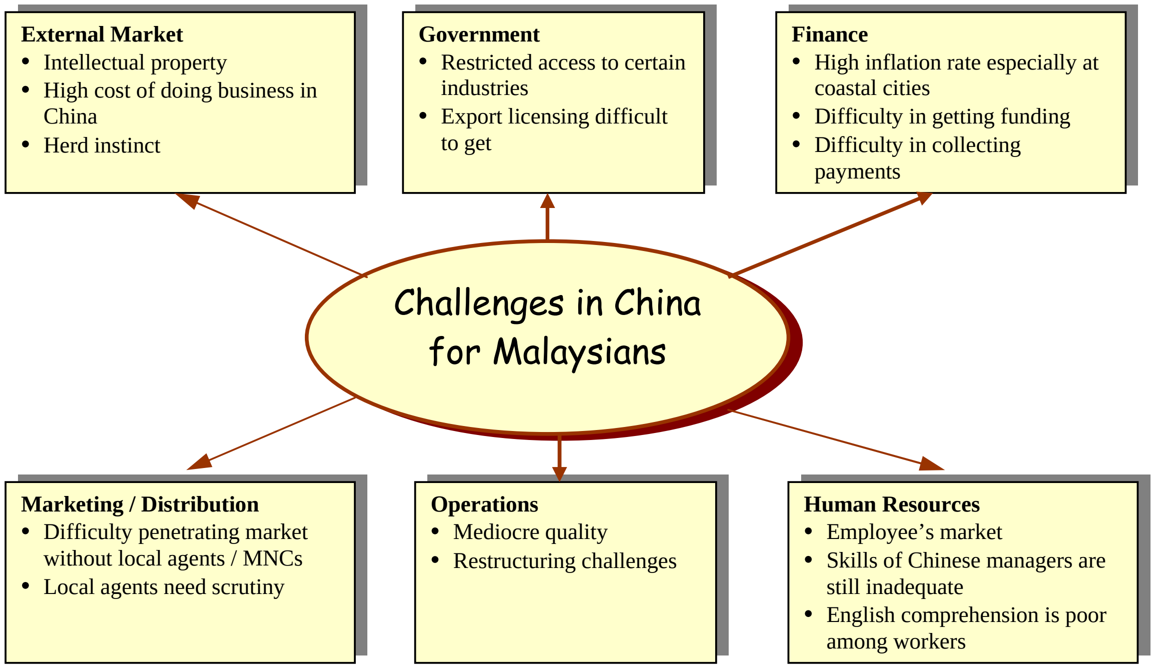
Domestic limitation also forces Malaysian businessmen to move to China. Not only is the Malaysian market small, its population is also not wealthy and sophisticated enough to afford high-priced items that local manufacturers make. To add salt to wound, cheap imports from China is flooding the market. The saving grace is that AFTA has opened up the Asean countries, so local businesses have more incentives to stay put in Malaysia to explore tariff benefits afforded by AFTA.

At present, there is no overt government incentive to explore China. The Malaysian government, however, is encouraging Malaysians to explore overseas market to broaden their exposures.

10. Challenges in China from Malaysian's Perspectives

Our respondents named six business challenges in China, as shown in Figure 6:

Figure 6 - – Diagram of Business Challenges in China



Externally, Malaysian businessmen often complain about the lack of intellectual property (IP) protection and the alacrity with which their products are copied in the Chinese market. This affects small and large companies alike. Small companies are naturally more concerned as they lack the breadth of product lines and the depth of product innovations to stay ahead of the modern day "piraters." Forward-looking firms, though no less affected, are less worried as they are able to introduce new models continuously based on rigorous R&D efforts.

Besides the IP issue, the cost of doing business is "high" in China. This is because a lot of unnecessary resources are spent dealing with corruption and red tapes. Herd instinct, or more simply explained as having a mass of players flooding the market with the same business interest, creates intense competition. This happens because of the sheer number of population in the cities, the constant influx of new migrants, the population's fiercely competitive personalities, and the Chinese's intellectual abilities.

Secondly, the Chinese government is a sizeable business barrier. While WTO rules have relaxed China's stringent control over its domestic market, it remains a fact that China is still a restricted country. Local government in China also has the power to block products that are competitive with the ones that are produced under its own jurisdiction. To solve the problem, an article called the "China Countering Fair Unfair Competition Law", was promulgated in 1993; sadly it has never taken effect to promote healthier competition.

Within the firm level, operational issues deserve careful attention. On average, the quality of China's outputs is mediocre. Hence, many expatriates including those from Malaysia have been sent to China for quality supervision as well as to transfer technology for quality improvement.

Financially, there are 3 obstacles: high inflation rates, fund raising, and credit collections. Along the coastal cities of China, where growth is the highest, inflation rate is skyrocketing. These coastal cities have prospered much due to their long history of liberalization and modernization. Naturally, high inflation, ranging from property to human resources, accompanies the high growth. In fact, a few respondents stated the costs in Shanghai and Beijing are already above the cost in Kuala Lumpur! As such, they said, the image of China as a "cheap" place is deceptive. The weak financial market in China is also posing trouble for raising funds internally. China's recent rule to allow foreign banks to conduct Renminbi business with Chinese enterprises is a welcomed change for a market strapped for liquidity. And lastly, there are complaints of difficulty in collecting credits and payments among debtors. The problem spreads extends beyond foreign enterprises; locals are facing the same problem.

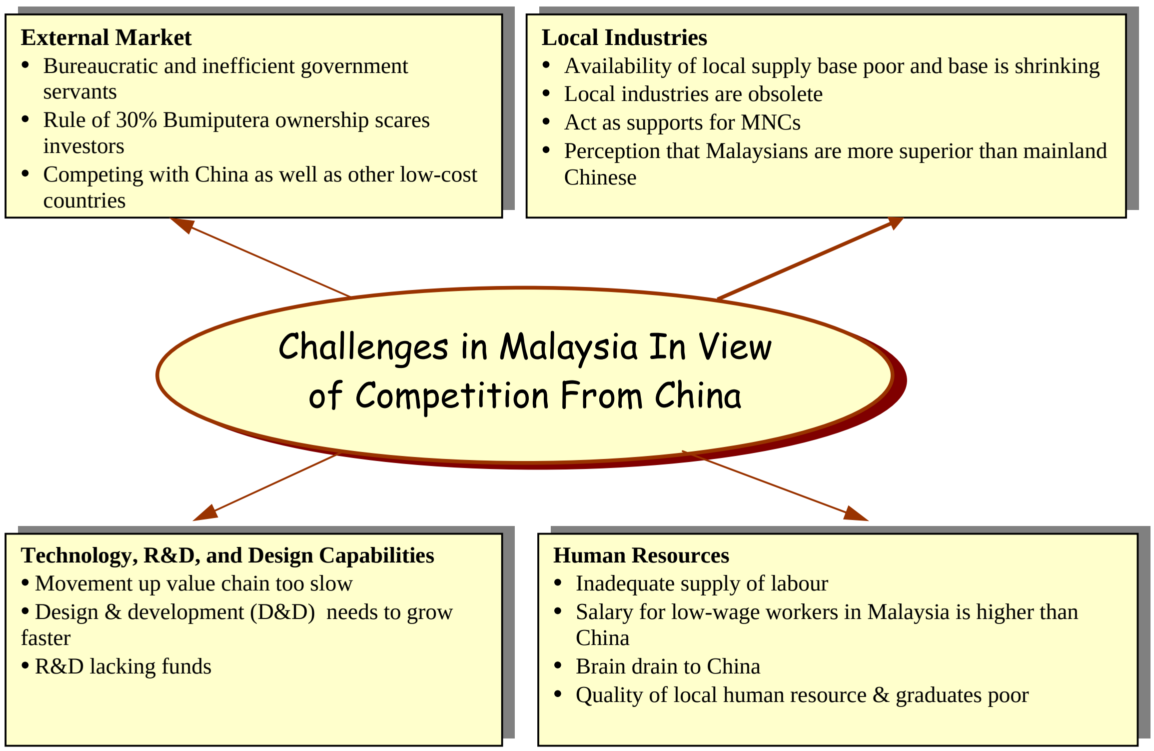
China's reputation as the factory of the world is somewhat negated by the tight labour supply market. On top of high labour costs in Shanghai, Beijing, Shenzhen, Guangzhou, and other modern cities, an additional 60 to 80 percent of taxes need to be contributed by employers to cover education, housing, retirement, and medical funds. To make matters worse, Malaysian businessmen have difficulty employing English-proficient employees and if they manage to, the salary is often steep. Restrictive labour laws, such as heavy overtime payment and difficult termination process, create operational challenges. Finally, a hot labour market leads to high employee turnover.

Marketing and distribution is an uphill battle, and especially without the help of local Chinese agents or multinationals already operating on the soil of China. The prevailing mentality among the Chinese people is that they should support their own countrymen. Intriguingly, the Chinese people are also obsessed with foreign labels which they associate with quality and prestige. Despite the benefits of employing local agents, Malaysian companies cautioned of the need to screen out unscrupulous agents.

11. Challenges in Malaysia In View of Competition From China

China's economic influence is felt not only within its internal boundary but also much beyond. China has emerged as a nation to fear in the recent few years, competing fiercely for a share of the MNCs' production revenue as well as exporting its own outputs to other countries. The promise of the vast land of China along with its competitive ability to jostle with emerging nations has placed developing countries such as Malaysia and even low-cost India in a quandary. The emergence of China has simultaneously expedited the exposure of Malaysia's economic weaknesses. How do these countries compete against China?

Figure 7 – Diagram of Business Challenges in Malaysia



In the 1970s and 1980s, Malaysia was one of the world's premier destinations for foreign investment. The rule of 30% Bumiputera ownership, although not well-liked, was acceptable then. However, it is becoming a burden to investors, now that they have much more choice in terms of investment location. Malaysia's declining competitiveness is further aggravated by burdensome and inefficient government sector, in comparison to aggressive Asian countries such as Singapore, Thailand, and even China. Investment incentive in Malaysia, such as tax breaks, has lost its appeal as it was based on obsolete models long emulated at other nations. The Chinese government openly supports targeted industries; in Malaysia, while the government espouses an open door policy, its earnestness in attracting foreign investors should be questioned.

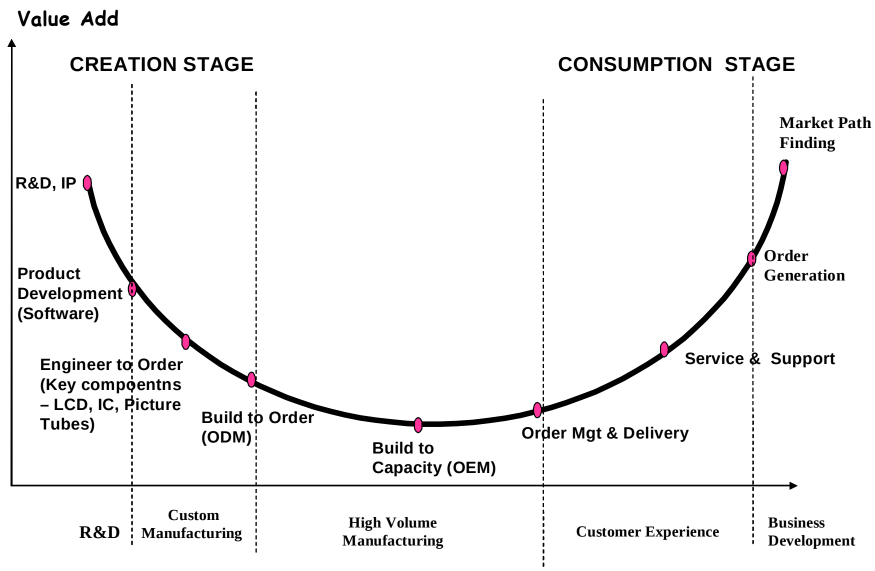
Industrialists in Malaysia often lament about the tedious and convoluted government process of application, approval, and grant-seeking. An affair with the government, which could take several days to several weeks in other countries, may drag on for several months in Malaysia. Apart from that, many often complain about the lack of understanding among low-level government officers. A story that has been told to us involves an application for R&D grant which was rejected because the processing agent failed to understand the significance of technological advancement stated in the application. Our respondents admitted that the government people at the helm is not the source of blame, rather the problem lies with the middle and bottom-rungs who are inflexible and procedure-oriented. As a result, Malaysian companies fear and avoid dealing with the government unless it is absolutely necessary. The lack of true private-public partnership leads to the country's competitiveness degradation. It is time for Malaysia to wake up and to understand that it is not only dealing with China alone, but also with many other countries – its neighbours and foes – who are all vying for the same piece of the world's economy and who are willing to work very hard to attract that piece of the pie.

On top of poor government partnership, the Malaysian economy is also suffering because its local industry base is weak. As supporting contractors of MNCs, the Malaysian local industry merely fulfilled their customers' requirements, without taking the time to develop their own technologies and capabilities. Three decades of industrialization later, Malaysia is still stuck with a poor supply base with obsolete technologies. Training, a vital part of upgrading, is ignored not because of the lack of opportunities but because of the local mentality that training is a waste of time and it encourages job hopping. There is no comfort either that the existing base of local suppliers is shrinking, as some industries moved to China to cater to the relocated MNCs. To top it off, some Malaysians still perceive themselves as being more superior than the mainland Chinese people.

Technologically, Malaysia has been, and still is, at the bottom of the value chain (smiling curve[5]) (Figure 8). Malaysia excelled at being on the "Build to Capacity (OEM)" stage, the lowest rung on the curve. Competitiveness at this level is defined by cost rather than technology or expertise. With China in the horizon, there is no hope for Malaysia to win the cost game. An obvious alternative is to populate the other segments of the "Creation Stage," by engineering to order key components, improving designing capability, and intensifying research breakthroughs. On the other side of the curve, advancement can also be achieved by inching up the "Consumption Stage" through order management and delivery, support and service, order generation, and most of all, market path finding.

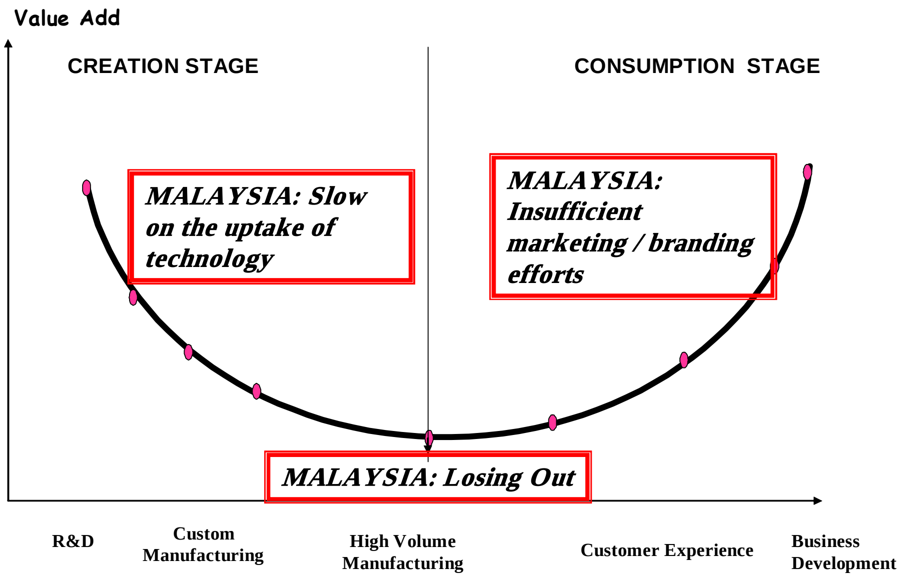
Figure 8 – Value Chain of High Tech Industry

[5] The Smiling Curve was made popular by Stan Shih, the Chairman, CEO, and co-founder of the Acer Group in Taiwan, to describe the high tech development stages. See Figure 8.



As shown in Figure 9, Malaysia is in danger of technological obsolescence. On the OEM rung (trough of the curve), Malaysia is fast losing out to cost-competitive countries. On the "Consumption Stage" (right side of curve), insufficient marketing and branding effort by the private sector thwarts economic growth. One does not need to go far to seek evidence than to attempt to associate Malaysia with an internationally-renowned brand – in short, there is a dearth of Malaysian brands. Progress on the "Creation Stage" (left side of curve) is slightly better as the Malaysian government is more aware of the importance of it, thus the renewed emphasis on science and technology as well as the recent financial support to re-skill unemployed graduates. Unfortunately, time is not on this country's side – slow uptake on the area of technology, D&D, and R&D may leave the country behind in the technological race. Furthermore, the country does not have sufficient R&D funds to support local innovations on the tertiary education level and industry sectors; even if there is, government grants are cumbersome to apply and inadequately-funded.

Figure 9 – The State of High Tech Industry in Malaysia



Human resource is also a problem in Malaysia. However, the HR challenges in Malaysia are dissimilar to China. Uncontrolled salary inflation and rampant job-hopping is not a big problem in Malaysia. Rather, the quantity and quality of workers are the causes. On the low-skill, low-wage spectrum, there is insufficient number of workers. Malaysia, being a small country, could not satisfy the entire demand for labour. Nor does its tough immigration policy allow for foreign labour to plug the gap. On the technical spectrum, which includes the technician, engineer, and researcher levels, there is an urgent need for expertise. The irony is that while many local graduates with technical degrees could not make themselves employable locally, the industry is yearning for more quality technical workers. Part of this discrepancy is caused by differential between local graduates' workforce preparation and the requirements of high-tech companies. Most respondents have accepted the fact that fresh local technical graduates are ill-prepared for work, so companies are turning towards internal trainings to provide re-skilling. Brain drain to developed countries (and to China) aggravates the lopsidedness; so does the inflexible policy of hiring foreign expertise.

12. Evaluation of Current Influence of China

Private Sector

Surprisingly, in spite of the purported threats of free trade from China, the majority of the private sector respondents views China positively.

The obvious reason for their optimisms, for Malaysians and foreigners, is the magnitude of the human population in China, which translates in market potential. China has 1.29 billion people, growing at a rate of 12.79 million people a year and accounting for more than one-fifth of the world's population. In terms of household, there are 348.37 million family households. Only 36 percent of the population resides in urban areas, 64 percent in the rural areas. The population in the Beijing municipality alone, numbering 13.82 million, is 55 percent of the total Malaysian population; the population in the Guangdong province is 3.4 times that of Malaysia's population. These numbers are indeed mind-boggling. Apart from absolute population numbers, Chinese consumers' rising purchasing power also makes it an appealing market. The advent of foreign companies and increasing competitiveness of Chinese-owned businesses generates personal incomes at levels never been seen before. For Malaysian businessmen, being able to tap into even a small segment of the population is good enough. This would overcome business expansion limitation caused by the small domestic market in Malaysia.

Heterogeneous development among the provinces creates opportunities for business. While the coastal cities surge ahead, inner cities and the Western sections of China lag behind. This leaves a range of marketing possibilities to target consumers differentially. Luxury goods may be the hunt for wealthy coastal dwellers, but low-tech products may sell better in rural China.

China, in addition to being a potential for expansion, also plays a part to the flow of money outwards. That is, when Chinese people travel to this region, seek medical consultations here, pursue their education overseas, or invest in Malaysia, their money will contribute to the Malaysian economy directly. The flow of money in this manner is rather limited at the moment, but it is not far-fetched to think that one day, those resources will make up a significant portion especially when the Chinese population becomes financially stable.

China is also a sourcing market for Malaysia. It's the "factory of the world" and the source of cheap components, parts, and sometimes even finished goods such as undergarments, shoes, and trinkets. However, more often that not, Chinese imports to Malaysia are intermediate or capital goods which feeds into the production lines of Malaysian manufacturers. Take for example, the manufacturing of shoes. By shifting or sub-contracting the actual labour-intensive shoe-making to China and adding the value-added finishing touches (such as branding), Malaysia's shoe-makers can profit through lower labour cost, lesser capital outlays, and higher profit margin. They could also devote more attention to marketing. The garment industry also exemplifies this win-win trade. A respondent of ours moved approximately sixty percent of the garment sub-components (such as buttons, collars, and pockets) to China; in Malaysia, the plant assembles and adds value to the garments using processes such wrinkle-free or anti-odor technologies. With this type of complementary trade, no wonder some

Malaysian manufacturers are happy with the liberalization of China. Malaysia, the country, benefits through expansion of export capability.

Due to Malaysia's 30-years history of industrialization, Malaysia could position itself as a contributor of expertise. This may come in the form of technology transfer, Asian management knowledge, infrastructure building, and human resource expertise. Already, Malaysia is seeing a trend of migration among knowledge workers to seek opportunities in China. Expatriate Malaysians are also recruited or transferred to China to help develop business from the ground-up. Infrastructure companies lend expertise as road and bridge-builders.

Furthermore, competition promotes new ways of thinking and eradicates complacency. It will force local companies to adapt and change its old way of doing business. Without the threat of China, Malaysian companies would become complacent and stuck on inefficient ways.

Among the minority of respondents who gave the thumbs down to China's influence, four reasons were stated. Firstly, local companies that compete on cost basis would not survive. From our observation, companies that are small, cost-driven, and rely little on product innovation were the ones most likely to state negative consequences of China's growth. Secondly, respondents also highlighted the difficulty of penetrating the Chinese market despite its ascension into WTO. The "restless hand" of the Chinese government still has a major role to play in determining market access. Among the textile and garment industry players, the lifting of Multifibre Agreement (MFA) in 2005 means very uncertain time for Malaysian businesses. Previously protected or helped by the quota system, garment makers may see negative implication with the abolishment of MFA. Finally, expansion into China and other countries may lead to growth impediment in Malaysia, within the same company. That is to say, if a Malaysian company were to invest money in China, it is less likely to invest money in Malaysia given its limited financial resources and Malaysia's limited growth potential.

Nonetheless, negative comments are often peppered with optimistic outlooks. Examples include the following:

- "We can solve problems and turn it into good opportunities"
- "Malaysia needs challenges in order to benchmark themselves"

Within the textile and garment industry, some players believe that Malaysia will benefit "once the smoke clears." The saving grace for Malaysian manufacturers is that they are reputed as reliable suppliers who are able to meet customers' deadlines. For highly-seasonal products such as clothing, capability to ship on-time is extremely important. Some believe that their customers who turn to low-cost countries such as China may get "burned" and decide to return to Malaysia. Finally, Malaysian manufacturers' capability to make higher value-add materials, such as anti-odor and anti-wrinkle materials, is unmatched by the low-cost countries.

Public Sector

All of the government agencies, such as the Ministry of International Trade and Industry (MITI), Malaysian Industrial Development Authority (MIDA), and Malaysia External Trade Development Corporation (Matrade), expressed positive views with regards to China.

The Malaysian government is open to increased trade because trade is perceived to be beneficial for the country. This is aptly expressed by the following wisdom stated by MIDA: "It's better to build bridges than walls." Outward protectionism against China is unheard of in Malaysia. Defensive action against China's trade is not common. More importantly, balance of trade is considered less important than the overall effect of trade on Malaysian economy.

Malaysia does not actively target Chinese traders and investors. The same policies apply to all kinds of investors regardless of national origins. Where investors are concerned, Malaysia would like to target companies intent on making Malaysia an international hub i.e. as a regional center, a procurement center, or a headquarter. Labour-intensive industries that will necessitate the hiring of foreign workers are discouraged; capital-intensive investments are encouraged.

Above all, the Malaysian government is well aware of the multiplier effect. That is, for RM1 invested, there is RM7 spin-off to local industries. Should Malaysian-based companies relocate to China, Malaysia stands to lose significant amount of this indirect benefit. So despite the open door policy, the interest of the Malaysian government is clear: maintain the presence of manufacturing companies in Malaysia, attract more foreign investments, and encourage more exports.

13. Evaluation of Future Influence Post China-Asean FTA (2010)

The Association of South East Asian Nations (ASEAN) and the People's Republic of China (PRC) started taking initiatives in establishing a bilateral free trade area in 2010 during the Annual Summit in Bandar Seri Begawan on November 6, 2001. On 4 November 2002 during the ASEAN-China Summit in Phnom Penh, Cambodia, the Leaders of ASEAN and China signed the Framework Agreement on Comprehensive Economic Cooperation. In actual fact, closer ASEAN-China partnership has already taken place with the implementation of the Early Harvest Package on January 1, 2004. What does this mean to Malaysia and Malaysian businessmen?

Consistent with their optimistic outlooks, as outlined in Section 12, Malaysians embrace the China-ASEAN FTA positively. Large changes are not foreseen because the impact of China has already arrived onshore. To push this initiative further, it is imperative to develop closer human relationship and government-to-government relationship. Continued economic exploration between the countries is also needed; so is the need for negotiations on thorny issues such as petroleum exploration and rail projects. The obstacle is large. Unlike European countries in the EU circle, the South East Asian countries have significant differences in all aspects from political system, economic structure, culture, to education. These differences need to be ironed out and economic cooperation tightened to prolong the positive effect of free trade.

Doubtless, inefficient local manufacturers will suffer even more but on a macro level, free trade is beneficial to ASEAN and Malaysia.

14. Initiatives to Improve Malaysia's Competitiveness Vis-à-vis China

Malaysian Government Agencies

Malaysian government agencies' initiatives fall into these categories:

- Trade promotions
- Financial & taxation
- Administrative

In terms of trade promotion initiative, trade missions are frequently held by the government (MITI, MIDA, Matrade), chambers of commerce, and trade groups (FMM). Since the 1970s, Malaysians have been participating in trade missions to China. Exposure to the market is the primary reason for such mission, insufficient as it is for real investment purpose. Chambers of commerce and private organizations that are interested to organize trade missions are now authorized to conduct trade missions and may receive the assistance of officers for trade matchmaking; however, in this case, the government will not be the lead agency.

Trade missions aside, Malaysians are also participating in international exhibitions. For example, Malaysian's participation in the Stadia China 2004 Exhibition, scheduled for February 16-18, 2004 in Beijing aims to supply for the 2008 Olympics and to intensify and expand the country's exports to China. Apart from that, Matrade organizes product exhibitions featuring Malaysian products.

In terms of finance and taxation, the government's investment agency, MIDA, provides incentives for cross-border investment. At the moment, there are few takers. Tax exemption for remittance from

Malaysian manufacturing business in China, another initiative to increase the presence of Malaysian businesses abroad, will be implemented in the near future. Promotion of Chinese imports is not actively done for two reasons: one, there's a reciprocal Chinese organization similar to Matrade to promote exports from China; two, the government is supported by Malaysian taxpayers' revenue, hence it is inappropriate to concentrate the government's resources on import promotion.

Lastly in terms of administrative initiative, both MIDA and Matrade have offices in China. MIDA has an office in Shanghai, while Matrade has two offices in Shanghai and Beijing. Besides that, there is a "China Watch Group" although its existence and function are not known.

Non-Governmental Agencies

Apart from the government, we find many supporting organizations involved in the upgrading of Malaysia's competitiveness. These can be broadly divided as follow (Figure 10):

Figure 10 – Types of Non-Governmental Agencies

3 types of organizations:

(1) Chambers of commerce by state or ethnic groups.

Examples are Associated Chinese Chamber of Commerce and Industries of Malaysia (ACCCIM), Penang Chinese Chamber of Commerce (PCCC), Selangor and Klang Valley Chinese of Commerce

(2) Industrial organizations

Example: Federation of Malaysian Manufacturing (FMM)

(3) Training organizations

Example: Penang Skill Development Corporation (PSDC), Japan-Malaysia Technical Institute (JMTI)

As non-governmental agencies, their roles are to support and complement government's initiatives. An important function of the former two categories (i.e. chambers of commerce and industrial organizations) is to lead Malaysian trade delegations. Occasionally, they also receive trade delegations from different provinces in China, acting as the middleman to match foreign trade interests with local companies. Beyond that, the function of developing the relationship falls outside of their jurisdiction. Lately, delegations from China have been very active, i.e. there is an average of one inquiry every fortnight.

The organization of business networking events is yet another function of the NGOs. Furthermore, through dialogues, annual forums, and joint councils with the government to discuss business issues, NGOs are able to project their needs and form a united voice, compared to the voice of each business separately. In fact, our respondent stated that they expect advisory help from the government, more than actual hand-outs.

The third category, namely training organizations, fills the training aspect of the industries and implements the government's policies in human resources. There is no overlap in function between these organizations and the universities / colleges. The former is involved in the training of school leavers, unemployed graduates, and full-time workers; whereas the latter are involved in tertiary training in the traditional sense.

15. Opportunities for Malaysia

China's growth is Malaysia's opportunity (Figure 11).

Figure 11 – Three Areas of Opportunities for Malaysia for Tapping China's Market

PRIMARY	SECONDARY	TERTIARY
•**Commodities** - rubber, palm oil, timber, petroleum, and natural gas •**Infrastructure** - bridges, roads, power stations, dams •**Constructions / developer** - Olympics 2008. - Participating in Stadia China 2004 to win projects from Beijing Olympics 2008	•**Oleochemical products** *(chemicals derived from natural fats and oils)* •**Resource-based products** - such as furniture, steel •**Industrial materials** - metals and tools •**Hub of Halal food**	•**Education** - English language centre for foreign students - Study abroad experience for those who cannot afford high-cost countries such as US, EU, Australia •**Logistics hub** •**Health care** - Health care tourism

In the primary sector, commodity export and processing, infrastructure development, and constructions / property development are opportunities for Malaysia. As a land rich in natural resources – both on land and in the sea – Malaysia will play a key role in supplying China's appetite for raw materials and semi-processed products. Rubber, palm oil, timber, petroleum, and natural gas are Malaysia's best bets.

In the secondary sector, the making of oleochemical products (chemicals derived from natural fats and oils) should be another lucrative avenue. Oleochemical in Malaysia particularly represents the production of fatty acids, fatty esters, fatty alcohols, and glycerol from palm oil and palm kernel oil. Malaysia's strength in this segment is bolstered by several factors including the availability of raw materials especially lauric oils in the form of palm kernel oil, good infrastructure, adequate labour supply, and appropriate timely and attractive government incentives (such as pioneer status and foreign direct investments). Malaysia's resource based products, such as furniture and steels, are also promising given Malaysia's abundant supply of natural resources and China's voracity for them.

In infrastructure building, opportunities exist in areas such as ports, roads, highways, resorts and hotels buildings as well as oil and gas exploration. To capitalize on Beijing's host status for the Beijing Olympics 2008, Malaysians could bid on projects involving architectural design of sport and related facilities, engineering services and infrastructure construction that meet the requirements of modern sports facilities. With an existing experience base from major sporting events such as the 1998 Commonwealth Games and the Formula 1 racing, Malaysia is well-positioned to bid for further sporting venues constructions. It is hope that Malaysia's participation in the Stadia China 2004 Exhibition in February 2004 will bring Olympics-based business projects to this country.

China has an estimated 150 to 200 million Muslim population. Malaysia, established in its knowledge of the requirements of halal food processing, could supply halal food to the Muslim population in China, or better still, become the halal products hub in the region. In Malaysia, the Department of Islamic Development Malaysia (JAKIM) has been issuing halal certificates since 1974. The aspiration of Malaysia to be the regional halal hub is affirmed by Prime Minister Datuk Seri Abdullah Ahmad Badawi who, in launching the 2003 Islamic Economic Development Week on December, spoke about this issue. However, in order to achieve this, Malaysia should overcome barriers such as shortage of livestocks (as halal food is always associated with meat-based products) and rural youth migration away from the farming industry.

Two trends are in favour of developing Malaysia as the education center regionally: One, as the wealth effect kicks in at China and the Chinese government opens its door, a growing number of Chinese students will seek for foreign education. Two, the Chinese government announced in February 2004 that it will be sending more students and scholars abroad. Malaysia could become the regional English centre of education as it is one of the few Asian country where English features prominently. Malaysia could also provide quality study abroad opportunity to those who cannot afford to study at high-cost nations such as the United States, European countries, or Australia

Finally, Malaysia could grow itself as the logistics hub and the health care tourism centre. Malaysia has good sea ports and its location at the middle point between the East and the West is ideal for seafaring activities. Airports, especially the Kuala Lumpur International Airport (KLIA), are of world-standard. Medically, good hospitals abound in Malaysia, doctors and medical personnel receive internationally-recognized trainings.

16. Conclusion: Future Direction

Many have predicted that China will be the next important economy in the world, after the US, in a decade or so. For South-East Asian countries such as Malaysia and Thailand which rely heavily on exports, China's growth represents an opportunity to broaden their distributions and reduce reliance on the traditional export markets of the Americas and the EU.

As the China-Asean FTA becomes a reality in 2010, trading and investment should be made much easier. Less effort will be spent on administrative procedures and information gathering; instead resources could be focused on running the business. Standardization of business practices across Asia will lower the cost of doing business and reduce barriers to market access.

Also, the China's economy is bound to saturate and possibly over-heat from over-investments. Hence, Chinese businessmen will have to come out of China to source for new investments. Many believe that Chinese entrepreneurs will find a win-win approach so that the neighboring countries in Asia would prosper alongside China. When that happens, ASEAN will be seen as an attractive region because of its 515 million population and natural resources. On top of that, Malaysia has an edge over many other ASEAN countries as it offers developed infrastructure, established industrial experience, and more sophisticated consumers. In the future, Malaysia may act as manufacturers and distributors for the Chinese brands in ASEAN.

The potential for Malaysia-China business relationship is limitless. Threats from China remain present. However, for most Malaysia, China is not seen as a devil but rather, the savior of Asia and the epicenter of growth in the Asian region.

Appendix 1: Profile of Interviewed Companies

	Company	*Location of Interview*	**Organization Focus / Type of Company**
	(i) MULTINATIONAL COMPANIES		
1	Agilent Malaysia	Penang	E&E
2	Intel Malaysia	Penang	E&E
3	Pen Apparel Sdn. Bhd. (Malaysia)	Penang	Textile/Garment
4	The Eastern Garment Mfg. Co. Sdn. Bhd. (Malaysia)	Penang	Textile/Garment
5	Toray Pen-Group	Penang	Textile/Garment
	(ii) LOCAL MANUFACTURERS		
1	Eng Teknologi Holdings Bhd	Penang	E&E, Equipment / Machinery
2	Globetronics Technology Bhd.	Penang	E&E
3	Ingress Engineering Sdn. Bhd.	Negeri Sembilan	Autoparts
4	Kwong Yuen Machinery & Hardware	Kuala Lumpur	Fabricated Metal
5	LKT Industrial Bhd	Penang	Equipment / Machinery
6	Pensonic Holdings Bhd	Penang	Electrical Appliances
7	Pentamaster Corporation Berhad	Penang	Equipment / Machinery
8	Perusahaan Otomobil Nasional Berhad (Proton)	Selangor	Automobile
9	Southern Rubber Works Sdn Bhd	Penang	Footwear
10	Southern Steel Bhd	Penang	Steel
11	Suiwah / QDos	Penang	Retail & E&E
	(iii) LOCAL NON-MANUFACTURING COMPANIES		
1	Hai-O Enterprise Berhad	Kuala Lumpur	Chinese Goods Trading
2	Maybank Group	Kuala Lumpur	Bank
3	Protasco / Ikram Group	Kajang	Infrastructure & Education
	(iv) BUSINESS ASSOCIATIONS		
1	Associated Chinese Chamber of Commerce and Industries Malaysia (ACCCIM)	Penang (based in Kuala Lumpur)	Malaysian-based Chinese companies
2	Federation of Malaysian Manufacturers(FMM)	Kuala Lumpur	Malaysian Manufacturers
3	Malaysia-China Chamber of Commerce (MCCC)	Kuala Lumpur	Malaysian companies with business interests in China and investors from PRC
4	Penang Chinese Chamber of Commerce	Penang	Penang-based Chinese companies
5	Penang Skills Development Centre (PSDC)	Penang	Education
	(v) GOVERNMENT AGENCIES		
1	Malaysia External Trade Development Corporation (Matrade)	Kuala Lumpur	Malaysian Exporters
2	Malaysian Industrial Development Authority (MIDA)	Kuala Lumpur	All Investment Related
3	Ministry of International Trade and Industry (MITI)	Kuala Lumpur	All International Trade Related
4	Penang Development Corporation	Penang	Manufacturers in Penang PDC's Industrial Zone

5	Small And Medium Industries Development Corporation (SMIDEC).	Selangor	Malaysian SMIs
	(vi) EMINENT INDIVIDUALS		
1	Dato' PY Lai, Penang State Advisor & Ex-President of Motorola China	Penang	--
2	Tan Sri Lim Guan Teik, Immediate past president of ACCCIM and Chairman Muda Holdings	Selangor	--

Appendix 2: Malaysian Exports to China in 2002

(in RM Million)

Product Sectors	Value (in RM Mil)	Share (%)	Growth (2001-2002)
Manufactured goods:	**14,005.0**	**70.1**	**25.3**
Electrical & electronics	8,619.8	43.2	21.1
Chemicals & chemical products	2,293.5	11.5	50
Machinery, appliances & parts	774.6	3.9	17.1
Manufactures of metal	399.5	2	16.8
Wood products	322.6	1.6	0.6
Iron & steel products	271.1	1.4	100.5
Non-metallic mineral products	242.2	1.2	87.5
Textiles & clothing	226.7	1.1	-0.9
Petroleum products	211.8	1.1	50.6
Optical & scientific equip.	199.1	1	-13.9
Transport equip.	70.5	0.4	43.8
Paper & pulp products	63.1	0.3	-9.1
Rubber products	60.3	0.3	34.2
Processed food	48.2	0.2	15.6
Beverages & tobacco	11.4	0.1	-56.7
Other manufactures	190.7	1	70.2
Agricultural goods:	**3,920.0**	**19.6**	**79.7**
Palm oil	2,911.2	14.6	100.7
Saw logs & sawn timber	516.8	2.6	9.8
Other vegetable oil	44.7	0.2	53.3
Other agricultures	447.2	2.2	93.3
Mining goods:	**1,925.7**	**9.6**	**60.3**
Crude petroleum	1,334.8	6.7	84.3
LNG	381.3	1.9	67.9
Refined petroleum products	174.4	0.9	-11.3
Metalliferous ores and metal scrap	24.7	0.1	-43.6
Crude fertilizers & crude minerals	9.2	0	12.8
Tin	1.3	0	0.2
Other mining	0.0	0	-100
Others:	**115.1**	0.6	-3.6
TOTAL EXPORTS	**19,965.8**	**100**	**36**

Source: Matrade and Department of Statistics of Malaysia

Appendix 3: Malaysian Imports from China in 2002

(in RM Million)

Product Sectors	Value (in RM Mil)	Share (%)	Growth (2001-2002)
Manufactured goods:	**20,385.20**	**86.8**	**62.4**
Electrical & electronics	13,019.70	55.5	70.6
Machinery, appliances & parts	1,831.30	7.8	78.7
Textiles & clothing	962.9	4.1	46.5
Chemicals & chemical products	945.1	4	18.7
Manufactures of metal	704.2	3	38.7
Processed food	440.7	1.9	36.2
Optical & scientific equip.	428.7	1.8	66.2
Iron & steel products	354.3	1.5	32.5
Non-metallic mineral products	242.5	1	60.6
Wood products	140.6	0.6	58.2
Paper & pulp products	119.4	0.5	23.9
Transport equip.	119.2	0.5	10.3
Beverages & tobacco	61.4	0.3	151
Rubber products	46.3	0.2	-8.7
Petroleum products	16	0.1	27.6
Other manufactures	952.8	4.1	71
Agricultural goods:	**1,936.30**	**8.2**	**53.9**
Cereal	988.7	4.2	139.1
Other vegetable oil	19.7	0.1	13.3
Saw logs & sawn timber	3.4	0	-54.8
Palm oil	1.7	0	-69.2
Other agricultures	**922.9**	**3.9**	**13.3**
Mining goods:	516.3	2.2	100.4
Crude petroleum	317.8	1.4	570
Crude fertilizers & crude minerals	75.5	0.3	7.5
Refined petroleum products	33.5	0.1	2,048.90
Metalliferous ores and metal scrap	16.4	0.1	-81.8
Tin	4.3	0	8.3
LNG	0.5	0	2,597.90
Other mining	68.4	0.3	53
Others:	**636.6**	**2.7**	**58.7**
TOTAL IMPORTS	**19,965.8**	**19,965.8**	**19,965.8**

Source: Matrade and Department of Statistics of Malaysia

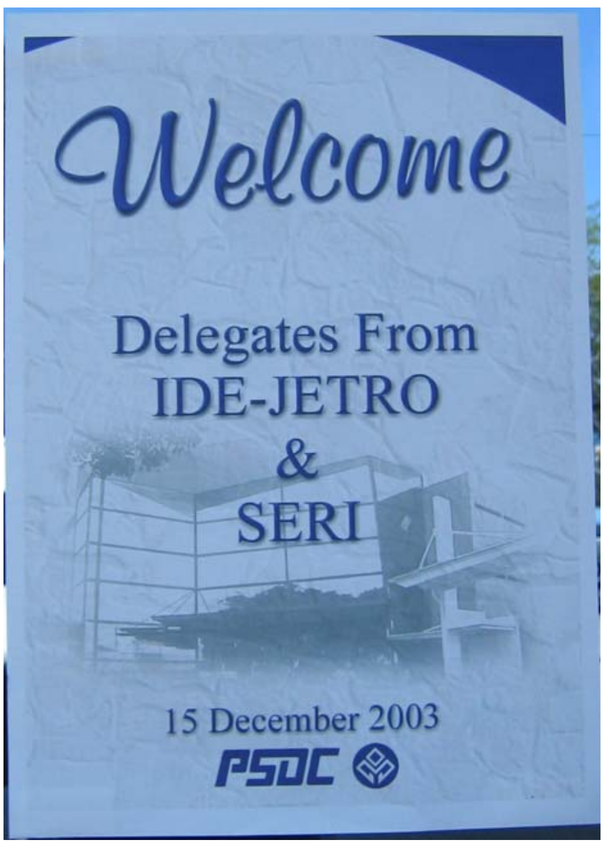
Appendix 4: Pictures from Field Interviews

Picture 1 - Interview With Protasco / Ikram (Education & Infrastructure Company)

Picture 2 - Interview With Proton (Automobile Company)

Picture 3 - Interview With Federation of Malaysian Manufacturers (FMM) (Trade organization)

Picture 4 – Interview with Penang Skills Development Center (PSDC) (Training Organization)



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