Malaysian Perspective – China's One Belt One Road and Made in China 2025

One Belt One Road (OBOR)

PREFACE

In the previous article, we discussed the objectives and benefits of OBOR and MIC. OBOR has offered tremendous investment prospects to those countries along the land-based "Silk Road Economic Belt" and ocean-going "Maritime Silk Road". The recent economic development in China indicated that China is in the midst of enhancing its comprehensive strategic alliances with Malaysia based on their mega outbound investments in railway and port infrastructure. Therefore, Malaysia expects to benefit from the creation of investment and job opportunities from the OBOR.

Malaysia welcomes the OBOR initiative

In November 2016, Malaysia and China inked 14 business-to-business agreements and 16 government-to-government Memorandum of Understandings amounting to approximately RM144 billion. Among the key deals inked was East Coast Rail Line ("ECRL") infrastructure project amounting to RM55 billion and Malaysia's acquisition of four Chinese littoral mission ships.

The ECRL infrastructure development is one of the examples of Malaysia welcoming the OBOR initiative. This ECRL is part of a Silk Road Economic Belt's rail network from Singapore to China. For the Maritime Silk Road initiative, 2 examples of Malaysia's strategies that were in line with this vision are Kuantan Port and Malacca Gateway Port. Both ports are jointly developed by Malaysian and Chinese corporations.

Made in China 2025 ("MIC")

In 2015, China has adopted the MIC policy to encourage technological innovation and enhance competitiveness in the country's manufacturing sector. The primary aim of this strategy is to upgrade China into a manufacturing powerhouse, from a quantity-based manufacturer of quality-driven manufacturing powerhouse to compete with top-notch players from the United States and Europe.

Leverage on the MIC initiative

Malaysia External Trade Development Corporation ("MATRADE") has urged Malaysian exporters to leverage on the MIC initiative to export more products to China especially in manufacturing sectors.

Based on MATRADE's analysis, one of the key bottlenecks facing the Chinese manufacturing industry is in the manufacturing of high-end microchips as MIC encourages substantial automation within the manufacturing activities, which drives high consumption of microchips component. Therefore, Malaysian exporters should reap the opportunities in this sector and boost their exports of components and related materials.

Consequent to the OBOR and MIC 2025 strategies, Malaysia has a higher potential to attract Chinese Multinational companies ("MNCs") to grow their business in Greater Kuala Lumpur ("GKL"). GKL's optimal location in Asia enables them to leverage GKL as a gateway into the ASEAN region on the back of 633 million populations, with growing household income and increasing high standard of living.

The principal hub model

With the rapidly rising labour cost in China and complex consumer demand in Asia region faced by the Chinese's manufacturers, MNCs should now consider setting up their regional business, innovation and talent hubs in GKL. For instance, the principal hub and business hub models not only facilitate quicker decision making and optimisation of resources but also offer a cost competitive advantage with optimal and global levels of operational excellence. Due to the strategic location of GKL which is closer to the Asian market, Chinese MNCs are able to control the regional market and provide value-added service to their customers. Eventually, enabling them to move up the value chain and potentially overtake major rivals from the United States and Europe in the Asia region.

Within the business principal hub models, Chinese MNCs should centralise strategic global/regional functions, activities, risks and their associated revenue stream in GKL. This provides better sharing of resources, services, technology and commercialisation of products. The key functions of a principal hub include management of risks, decision making, strategic business activities, trading, finance, management and human resources. As a result, MNCs are able to reap the benefits of improved operations at reduced costs from the GKL hub.

Furthermore, Malaysian companies should form strategic partnerships with Chinese MNCs which are vital to nurturing innovation and expansion for various business ventures and opportunities. By setting up their business in GKL, it is a strategic fit into China's 'Go Abroad' strategies which are encapsulated in the OBOR and MIC 2025. At the same time, Chinese MNCs are able to leverage on the strategic partnerships for technology innovation and future talent pool. On the other hand, the Malaysian government should align its 12 National Key Result Areas under the Economic Transformation Plan with the OBOR and MIC 2025 especially within the infrastructure as well as electrical and electronics sectors. The alignment will enable Malaysia to benefit from the sharing of advanced technology, knowledge and experience. In addition, the alignment also will see increased exposure to a global perspective, cultivate innovation and the creation of high-value job opportunities.

Conclusion

The trade, investment activities between Malaysia and China will see mutual economic benefits for many decades to come. From 2009 to 2015, China was Malaysia's largest trading partner. In 2015, China invested US$2 billion in Malaysia and total bilateral trade was US$100 billion. Given the strategic partnership initiative between both countries, Malaysia continues to be highly attractive outbound investment destination in China. China foreign investments in Malaysia will essentially translate to improved infrastructure and logistics and high-value job creation which ultimately facilitates Malaysia to become a high-income country by 2020.