Malaysia-China Relations

Problematic sections

Infrastructure: East Coast Railway Line (ECRL), Multi-Product Pipeline (MPP), Trans Sabah Gas Pipeline (TSGP): Malaysia has suspended the ECRL (estimated to cost RM55 billion or more) and the MPP as well as the TSGP estimated at RM9.4 billion) on grounds that they are too costly and would mire Malaysia in further debt.[1]

Islands territories: Islands and maritime territories in the South China Sea that claimed by the China involve several sovereign states such as Malaysia, Indonesia, Taiwan, Philippines, Brunei and Vietnam.[2]

Trade War: The trade war between China and United States also has impacted Malaysia's exports and its GDP which almost 50% of Malaysia's exports are incorporated into China's final products which are then exported to the US.

What has the new government done/shelve?

- **ECRL**: The Cabinet made no clear decision what will happen to the ECRL with related ministers have released contradicts statements to each other. However, Tun Dr. Mahathir Mohamad has made a statement that the ECRL might be revived but on a smaller scale and also China is willing to reduce the price tag for the ECRL project.

- **MPP and TSGP**: Ministry of Finance (MoF) has issued a services and operation suspension notice on July 2018 to China Petroleum Pipeline Bureau (CPPB), which handled the MPP and TSGP projects.[3]

- **Islands territories**: Tun Dr. Mahathir has affirmed that Malaysia wants to continue occupying the islands it has called its own in the South China Sea as he said that the islands is a part of keeping the sea safe from pirates and others. However, there is no on-going talks has happened and Wisma Putra did not release any official statements yet regarding the islands.

- **Trade War**: Malaysia was in the middle of the trade war between the US and China, as were other ASEAN countries and the government has stood that Malaysia would likely to remain China as largest trading partner by looking at the current situation.

---

[1] Final cost of ECRL is RM81 billion: LGE, The Sun Daily, 3 July 2018, https://www.thesundaily.my/archive/final-cost-ecrl-rm81-billion-lge-IUARCH561085

[2] FACTBOX-The South China Sea's disputed maritime borders, 6 October 2010, Reuters, https://www.reuters.com/article/china-vietnam-idAFSGE6950BX20101006

[3] MoF orders suspension of three multi-billion-ringgit projects, The Sun Daily, 5 July 2018, https://www.thesundaily.my/archive/mof-orders-suspension-three-multi-billion-ringgit-projects-EUARCH561881

Updates

PM five-day official visit to China witness two memorandum of understanding (MoUs) were signed with Beijing.

- **Palm oil**: China has agreed to import more palm oil commodity from Malaysia. Under the signed MoUs, China agreed to increase palm oil purchase of 1.9 million tonnes (RM4.56 billion) from Malaysia over five years starting 2019. This was additional to the four agreements inked in March where China agreed to buy 1.62 million tonnes (RM3.64 billion) of palm oil from Malaysia.

- **ECRL & Bandar Malaysia projects**: The second MoUs was about the revive of ECRL projects that involved the development of infrastructure, industrial parks and logistics hubs. A framework agreement was also signed with China that to restore the Bandar Malaysia project which previously under the 1Malaysia Development Berhad (1MDB).

- **Biofuel project**: China also plan to invest RM2 billion to set up a biofuel in Malaysia.

- **Strategic collaboration**: G3 Global Bhd and China's SenseTime Group and China Harbour Engineering Company (CHEC) was agreed to establish the first artificial intelligence (AI) park in Malaysia.

- **Bilateral relationship**: emphasized Malaysia is a friend of China and continued to support the Belt and Road Initiatives (BRI).

Sabah Chief Minister working visit to China (Shenzhen and Nanchang, Jiangxi Province) resulted in the signing of 12 MoUs with various parties in China.

- **Investment**: The MoUs with investments estimated to value RM20 billion that involved education and industrial sectors such as glass, furniture and property development.

  - Zhejiang Zhou Shan Run Energy Co Ltd to construct and manage the integrated refinery and oil storage terminal at the Sipitang Oil and Gas Industrial Park

  - Jiangxi Copper Corporation

  - Xinyi Glass Holdings Ltd to invest in a glass manufacturing factory in Sabah

  - Huawei's headquarters and factory in Shenzhen

- **Education**: University Malaysia Sabah establish ties for the placement of students and lecturers at Huawei's factory

Malaysia's fundamentals still attractive — World Bank

The focus should be on these, not so much on the stock market

BY CHESTER TAY

KUALA LUMPUR: Although Malaysia's stock market has performed relatively poorly when compared with its regional peers, World Bank lead economist for Malaysia Richard Record says the country's economic fundamentals remain resilient, which still make Malaysia an attractive investment choice.

"We would perhaps suggest focusing less on [the] stock market but maybe more on underlying fundamentals of the economy — those things make Malaysia an attractive place for both domestic and foreign institutes to invest over the medium- and long term," he told a media briefing yesterday.

"Firstly, Malaysia's starting point is a very strong one. The economy is growing at a commendable rate and we see solid foundations in terms of diversified economy, physical and human capital infrastructure, [and] favourable geographic location at the heart of a fast-growing region.

Record said Malaysia's economic resilience stands out among its East Asia and Pacific (EAP) economies, which are facing moderating outlooks amid some global headwinds. The World Bank is keeping its forecast for Malaysia's 2019 gross domestic product (GDP) growth at 4.7% for 2019. It achieved the same rate of growth in 2018.

In contrast, the World Bank foresees growth in developing EAP economies to soften to 6% in 2019 and 2020, down from 6.3% in 2018, largely reflecting global headwinds and a continued gradual policy-guided slowdown in China.

Record added that by 2020, Malaysia's economy is projected to expand at 4.6%, and the country is expected to achieve high-income country status by 2024.

"That is the narrow definition, based on GNI (gross national income) per capita. Malaysia's current GNI per capita is around US$9,500 (RM39,217), while the current threshold for high-income nation is just over US$12,000 GNI per capita, so with the current rate of growth, Malaysia will probably pass that threshold," he said.

"But we want to emphasise that that is just average income, it doesn't tell you anything about the distribution of income, of how [the] B40 income would grow — which is more important — and many other dimensions which we use to judge development progress, not just per capita income, but human capital, health, education and social protection," he added.

Record also said as crude oil prices increase, it becomes increasingly important for the government to roll out a more targeted fuel subsidy to avoid diminishing benefit from higher oil revenue.

"By having that artificially lower price on RON95, it encourages overconsumption of that commodity, so that is economically inefficient. The objective is to provide cost of living assistance for the low-income households. The current mechanism would cause part of that fuel subsidy to leak to non-poor people and distort consumption," he added.

'Think carefully about project selections'

The briefing yesterday was held in conjunction with World Bank issuance of its April edition of *EAP Economic Update*. In keeping its 4.7% growth forecast for Malaysia this year, the report wrote that private consumption will continue to be the main growth driver, albeit at a more measured pace, with household spending to be buoyed by a stable labour market and income support measures like the cost of living aid (Bantuan Sara Hidup).

In addition, gross fixed capital formation is expected to rise slightly, driven by the private sector, though public investment is expected to remain subdued in the near term.

When asked about public sector investments like the East Coast Rail Link (ECRL) and Bandar Malaysia developments, Record said while they would benefit the country's economy, these stimuli would only materialise over the medium term. "In the short run, we are not seeing a major stimulus in terms of public sector investment, but decisions around [the] ECRL and Bandar Malaysia may affect the medium-term projection in that area. The advice we could give to countries everywhere, not just in Malaysia, is to think carefully about project selections, and that means doing the right projects, which have the most impact on growth — not just the headline number, but also the distribution outcome," he said.

Record: Malaysia's starting point is a very strong one. The economy is growing at a commendable rate and we see solid foundations. **The Edge file photo**

Externally, the World Bank said Malaysia may be negatively affected by heightened uncertainties surrounding the global environment, particularly the possible escalation of US-China trade tensions. Shifts in global financial market sentiment may also pose downside risks to Malaysia's economy in the near term, due to the country's high degree of trade and financial integration.

But at a time when global trade is slowing down, Malaysia's weaker currency could help to improve external trade competitiveness.

"It is very hard to ascertain an exact value for an exchange rate [moving forward], [but] certainly an exchange rate that has weakened somewhat could help in terms of external competitiveness," he said.

Fiscal deficit-wise, the report wrote that Malaysia is expected to narrow to 3.4% of GDP in 2019, and subsequently to 3% in 2020. "Near-term fiscal consolidation efforts are expected to be achieved primarily through rigorous expenditure rationalisation, with broad-based declines (in percentage of GDP) projected across major components of operating and economic development outlays," it said.