

## CHAPTER SIX

### CONCLUSION

#### 6.1 SUMMARY OF THE SURVEY FINDINGS

From the results of the survey, the author found that the potential offered by the vast China consumer market was indeed the most significant factor influencing the decision for Malaysian business involvement there.

In the course of the survey, the response from companies interviewed concurred with the author's view that technological standards and infrastructural facilities were lagging far behind and that due to the still expanding legal framework and the conflicting and ambiguous nature of the existing laws, these factors could significantly affect the decision of Malaysian businessmen with regard to involvement in China.

Due to the disparity in responses received, with reference to the changing role of the government and the inconsistency in government policies from time to time, there was no conclusive evidence to infer that it affects Malaysian decisions for conducting business in or with China.

The findings also indicate that Malaysian businesses involved in or with China

also faced two major risks i.e. financing constraints and legal structure.

## 6.2 IMPLICATIONS OF THE STUDY

This study has attempted to analyse the extent or influence of various factors which could pose as opportunities to Malaysian business investment in China as well as evaluate the major risks faced which may lead to failure if not realised by these investors.

These findings have widespread implication especially for prospective Malaysian investors as well as for foreign investors alike and for the Chinese Government, in that:

- \* there is a need for insights into the vast China consumer market. The Chinese market, although extremely promising, does present daunting challenges to the unwary investor. Investors should note that it would be better to view China, not as a monolithic market but rather as comprising a series of regional markets, each a consumer market in its own right, as there may be widespread disparity in populace, taste, culture, income levels, purchasing power etc.. These disparities will influence the selection of a location by Malaysian investors. They may also want to consider as well the various incentives offered by provincial and municipal governments to attract investment. Or perhaps they should also take into consideration whether to invest in the special

investment zones or special economic zones. Clearly the criteria determining locational decisions will vary depending on the sector, type of industry and the individual company's objective.

- \* these investors need to realize that liquidity problems arising from economic related issues such as labour costs, production costs, marketing choices, pricing and taxation could lead to financial problems. Financing constraints are one of the greatest risks faced. These investors should be fully aware of the principal financing options available for foreign involvement in China, such as loans, foreign exchange guarantee, government sources of credit enhancement and trade financing services. They must also be aware of the financing sources such as the local banks, the Chinese International Trust and Investment Corporation(CITIC) and local ITICs, foreign commercial banks, foreign governments and multi-lateral lending institutions.
  
- \* they cannot afford to ignore the ambiguity and contradictory nature of the existing laws nor the still expanding legal framework. As many Malaysian -Chinese deals that have turned sour would have driven home the point that, a full understanding of the fact that Malaysian and Chinese legal systems vary tremendously. It must also be re-iterated that within China itself there exist a chaotic and unstructured enforcement of the law. However this should not discourage them as

the Chinese government is committed to changing its laws to be more flexible and compatible with international laws to attract foreign investment. Before committing themselves, they may want to consult the Ministry of Foreign Relations and Economy or the China Legal Services office to get the best advice so that they will not repeat the earlier mistakes of their unfortunate countrymen who got their fingers burned by dipping into the China fortune cookie jar.

- \* these Malaysian investors should consider the possibilities for venturing into the infrastructure sector as there are ample opportunities for Malaysians and others, considering the fact that we have the expertise/experience and also the other fact that China cannot cope with the demands made on it arising from its economic growth. This would serve both parties' interests and would bring mutual benefits.

- \* The Chinese government must accelerate its efforts in upgrading its technological standards, its infrastructural facilities and formulate its laws in line with international standards quickly before investors get frustrated and decide to pull out.

### 6.3 LIMITATIONS & RECOMMENDATIONS

There are several limitations to this survey. Firstly, the research was a cross sectional study which covered only 28 respondent companies in the Wilayah Persekutuan Kuala Lumpur which were registered with MITI. I wish to recommend that for future research perhaps a nationwide study be conducted to overcome this limitation.

Secondly, the sample size was considered small - only 28 companies in Kuala Lumpur which were registered with MITI. A much larger sample size should be used in future surveys.

Thirdly, arising from the small sample size, further statistical tests such as t-tests, anova, factor analysis or cross tabulation could not be applied as it would not indicate any conclusive or significant bearing or relationship between the variables. If in future research , a larger sample size is used in a nationwide study, then further statistical testing could be appropriately applied to test the hypothesis and the relationship between the variables.

Fourthly the study focused only on the 3 major risks faced by local investors in China, without exploring further the remaining factors. It is suggested that studies could be done on other risks too to test their

degree of significance on business decisions.

Fifthly no case study analysis or comparative analysis were done on successful or failed ventures of Malaysian companies who had business involvement in China. Such a study would provide insights that could have far reaching implications for Malaysian business involvement - especially with regard to type of sector or industry, type of business venture(ownership form), location of business venture, type of involvement whether joint venture, franchise etc.

Finally, the author was not able to get first hand information from those at the scene in China itself, namely the government officials who may have been able to shed better light on the realities of the situation for prospective Malaysian investors.

#### **6.4 PROSPECTS FOR THE FUTURE**

China is currently ranked as 10th largest trading partner for Malaysia. According to the Economic Adviser to the Government, Datuk Paduka Daim Zainuddin<sup>29</sup>, in 1996 alone, there were 100 Malaysian companies operating in China. As of September 1996, Malaysian investment in China amounted to RM2.2 billion<sup>26</sup>, mostly concentrated in the southern provinces of Guangdong, Fujian and Hainan, and mostly in the manufacturing, retail, tourism and infrastructure sectors. Apparently

those Malaysian companies that fared better did so in export oriented and services sector. Datuk Paduka Daim also advised Malaysian investors to be more adventurous and to move on to pillar industries like the automotive, electronics, machinery and petrochemicals industries and also to go ahead to the north instead of concentrating on the south.

On the other hand quite a number of foreign firms have pulled out of China, including some from Malaysia, such as the Renong Group, as well as some in the Berjaya and Genting groups. However, Deputy Minister in the Ministry of International Trade and Industry is quick to emphasize that any problems they face can be overcome if there is greater information flow between the parties involved. He suggests that Malaysian investors could also approach the Malaysian MITI before investing in China to avoid any major pitfalls. And if there are any problems faced by local companies in China, MITI can work hand-in-hand to solve same with its counterpart in China, the Ministry of Foreign Trade and Commerce (MOFTC).<sup>23</sup>

Once bitten, twice shy Malaysian entrepreneurs and companies which had hopped on and fallen off the bandwagon of opportunities created by China's economic reforms are understandably still nursing their wounds. It is hoped that despite the early setbacks, Malaysian companies should not turn their backs on what China has to offer.

They just need to bear in mind that success in China requires an understanding of the country's unique investment environment. The Chinese market is a moving target for investors, be they Malaysian or otherwise. Keeping pace with these changes will be a major challenge for Malaysian investors over the coming decade.

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