CHAPTER FIVE: CONCLUSION

The shift of Malaysian governmental policy in the 1980's has allowed PLCs, besides their focus in their home country, to turn their attention to other countries in the region, especially China. Some PLCs have embarked on their own development plans abroad and have injected dynamism into the host countries as well as indirectly stimulating economic growth in Malaysia. The establishment of overseas investment has raised the demand for funds from capital markets which is reflected in the KLSE Composite Index.

Malaysian PLCs' investment in China started late in 1985 by DSSB. As at December 1996, 109 PLCs have at least signed MoUs with individual Chinese partners for investments in China. Judging from the pace of these companies, Malaysian investment in China quickened after 1991 and reached the period of consolidation in 1996. Thereafter, while there was considerable amount of reinvestment by firms, the investment trend generally slowed down.

I. Similarities and Differences Between Malaysian Investments and International Investments

An examination of the past 15 years of Malaysian investment in China, despite many vagaries and changes, provides several points to ponder. These may be summed up as follows:

1) Location of Investment. A study on the distribution of foreign investments shows that foreign investments are concentrated at the coastal area,

especially at Guangdong and Fujian Province of southern China (XBCJ 10/96: 62). However, Malaysian PLCs' investments are distributed in a more even manner with Guangdong and Fujian comprising only 16.1% as compared to 57% of total FDI (Table 5.1). In addition, while majority of European and US companies focus their activities around Liaoning, Hebei and Shandong (NYSP, 23/12/95) and majority of Hong Kong and Taiwanese investors group in Guangdong and Fujian, Malaysian investors concentrated their attention around Jiangsu, Shanghai, Beijing and Guangdong.

Table 5.1 Distribution of FDI in China (%)

Province	No. of Investment by Total FDI	No. of Investment by Malaysian PLC
1)Guangdong	44.9%	11.7%
2)Fujian	12.1%	4.4%
3)Jiangsu	5.4%	9.8%
4)Shandong	4.2%	4.9%
5)Liaoning	4.0%	6.3%
6)Hainan	3.7%	2.4%
7)Beijing	3.7%	9.8%
8)Zhejiang	3.3%	4.9%
9)Shanghai	3.2%	11.2%
10)Tianjin	2.2%	3.9%
11)Guangxi	1.9%	0.9%
12)Hebei	1.6%	0.9%
13)Hubei	1.6%	4.4%
14)Sichuan	1.2%	2.9%
15)Shaanxi	0.5%	1.5%

Source: Capital 10/96: 62 with writer's addition from a survey of reports in newspapers on Malaysian figures.

2) Nature of Business. The size of the China market is very promising and serves as a main attraction for foreign investors. However, the types of investment by individual investors would vary depending to their own strength and weaknesses. European, US and Japanese investors invest heavily in the capital and technology intensive industries. Taiwanese and Hong Kong investors aim for costs reduction and invest in the labour intensive industries which are export oriented (Qing 1996: 94). The bulk of Malaysian investors, on the contrary, aim mainly on the local consumption market and concentrate on the import substitution industries at the early stage and later ventured into sectors such as property and infrastructure development. Predominance of property and infrastructure development is the feature for Malaysia PLCs between the year 1993 and 1996.

3) Size and Type of Investment. It is noted that the average size of European and US investment is the biggest while Taiwanese and Hong Kong investment is the smallest (Table 3.8). Although most of Malaysian PLCs' investments are relatively small-scale in the forms of local rural or township enterprises, especially at the early stage before 1993, but after being involved in many property and infrastructural projects, the average size of investment has increased. In the early years of economic reform, equity joint venture (EJV) is the main form of FDI. When the PRC further relaxed restrictions, there was a growing tendency for foreign investors to set up wholly foreign owned enterprise (WFOE). However, predominance of EJV by Malaysian investors continued until 1996, which is contrary to other foreign investors. This may due to the fact that Malaysian investors

wanted to take advantage of the existing local partner's network in order to penetrate into the market.

4) Investment Strategy. Many MNCs test the China investment environment through investment from their Hong Kong subsidiaries. Malaysian investors are no different on this point. As elaborated in Chapter 3, Malaysians did not invest directly in China due to political factors. When the political issue subsided, many Malaysians still invested through Hong Kong to take advantage of the information available. While most of the FDI in Asia can be explained by the traditional flying-geese theory, in pursue of low cost, Malaysian investments in China reflect the other side of the story. Because majority of the investments by PLCs is aimed at local consumer products rather than taking advantage of the low labour costs, the goods produced tend to have a low ratio of export. From the limited figures released by a few PLCs, the figure is less than 10%, in comparison with 86.12% of Taiwanese firms (Qi 1995: 103).

5) Reasons for Investment. Profit is the main consideration for any businessmen to make a decision. In the case of China, businessmen are lured by the possibility of making a profit in such a huge market and also factoring in the cheap labour resource. While the importance of profit seeking cannot be denied, consanguineous relations and cultural ties play an important part in encouraging the Malaysian Chinese investor. Political or governmental encouragement also played an important role on promoting investments in China, as explained earlier in Chapter 3.1.

II. Factors Which Account for Success in Investment in China

The past 15 years of Malaysian investments in China has been a succession of failures and successes. Judging from the achievements of Malaysian PLCs which have been successful in China, it is noteworthy to mention that the factors which contribute to success are as follows:

1) **Hard work needed to ensure success.** William Cheng of the Lion Group was in China for 10 days every month, for a two year period between 1992 and 1994 to meet and negotiate with potential partners (NST, 23/10/95). His perseverance saw him signing agreement after agreement. He finally became one of the biggest Malaysian investors in China. When Lim of Muda Holdings wanted to find a suitable place to set up a new factory in China, he visited China at least once a month for more than one year despite a heavy work load at home (NYSP, 30/1/96). Coca-Cola's achievements in China is a strong proof that endurance will eventually lead to success (Yan 1998: 62). Interviews by the researcher show that, businessmen going to China must be prepared to toil due to the difference in regulation and work culture. IMC Malaysia's chairman Frank Tsao Wen King pointed out that patience and perseverance is the two of the 5P secret strategy (people, place, product, patience and perseverance) to success in China (NYSP, 25/1/95). Shortcomings abound for a country that has only recently been opened to the outside world. A businessman has to face irritating problems from difficulties in securing project financing to differences in legal and financial framework, which certainly need great determination and hard work.

2) **Understand China thoroughly.** Time spent on reconnaissance is never wasted. A survey done by Singapore suggested that the most successful companies were those that had done their homework before committing a cent (Star, 15/9/96). Lee Shen Jing of IOI Group said comprehensive planning is essential before investing in China (NYSP, 13/3/96). It was reported that the Lion Group spent two years in conducting detailed feasibility studies on Nanjing Jincheng Machinery before committing itself to the joint venture and before transforming it into the third largest motorcycle producer in China (SCJP, 29/8/94). After doing all the necessary homework and preparation, they are better equipped to face their competitors. Cultural similarity between Malaysian Chinese and Mainland Chinese also play an important role. A familiar cultural milieu aided and abetted the negotiation process. The Malaysian businessman of the Chinese origin stands a better chance than other foreign investors because he is able to communicate directly and efficiently with his Chinese partner. It was believed that Toyota Corp. of Japan was also competing with Lion Group to negotiate with Tianjin Huali Motor Co. Ltd. for joint venture (NYSP, 26/10/95) and the Lion Group finally won the deal.

3) **Prepare for a marathon, not a sprint.** Successful businessmen in China tend to seek out long-term commitments rather than hoping to get rich quick. Xinyu City economic adviser Chan Quan Chun advises that, "invest in China in a sincere manner and never speculate."(NYSP, 2/12/96) Cheng of the Lion Group also attributes the key formula of impressive achievement of the Group as "sincerity and commitment to progress together with the local partner."

(NST, 23/10/95) They always make sure their plans do not conflict with the ambitions of the Chinese government. Investments by gaming PLCs such as Talam and Magnum ended up in failure because gambling is against government policy (SCJP, 4/12/92).

4) **Astute management of human factor.** This can be seen in two ways, firstly choosing the right partner, secondly, intelligence empowers. On the first matter of choosing right partner, China External Trade and Economy Minister Wu Yi, attributed this factor as one of two secrets of good investment in China (SCJP, 18/10/94). A good partner should be creditable and responsible. With reference to the second matter, both Robert Kuok and William Cheng were known for their ability of authorizing subordinates to run jobs which conform to their ability. In an interview by TV2, Robert Kuok attributed the fast expansion of his business kingdom to being able to appoint capable people according to their merits (NYSP, 10/8/96). The Lion Group emphasis on human resource management (NYSP, 10/8/98) and the proper selection of capable managers appears to have paid off.

5) ***Guanxi*** **(good or special relation) smoothes the negotiation process and reduces red tape.** For the Chinese, *guanxi* is a profound concept which determines closeness or distance, hate or love. The network of *guanxi* is so varied in postures that it becomes one of the characteristics of the Chinese (Chang Chak Yan 1996: 3). There have been numerous studies and observations on *guanxi*, and it is deemed to be the key to understanding

Chinese society (King 1991:). Having said this, *guanxi* is of universal significance and applies to the business world as well.

For example, *guanxi* was attributed as the key of success of DSSB in China (NST, 22/2/94). Zhang Chun Cheng of Golden Plus was quoted as saying that "*guanxi* is more important than money in China" (SCJP, 1/9/94). The success of companies in China proved that strategic business alliance with a compatible local partner will give a healthy direction to one's venture, and can assist one to maximize opportunities and minimize risk when doing business in an unfamiliar environment. Local authorities can either make things easy or difficult for foreign investors.

It was understandable why most relatively small firms failed while the Lion Group seemed do well in China. Huge conglomerates stand a better chance in two ways, firstly, because they can get access to high-level officials, secondly, due to the fact that they have the funds for maintaining such connections, which can be rather expensive. When asked of the Lion Group's secret for successful investment in China, the comment from William Cheng was very illuminating:

> You must talk with the right people. Our style is to identify the projects, go to the province, and discuss with the top government and management people.
> (Star, 29/10/95)

The logic behind his thinking is very clear; namely, that success of the Lion Group seems to be linked to the *guanxi* factor. Talking to the right people is the first thing to do, with the right way being second. Thus, it was not surprising that when the US-based Coca-Cola wanted to penetrate the China market, it looked for a local partner with strong connections – Robert Kuok, who did not have any experience in the soft drinks business (Forbes 7/97: 90-93). It is therefore not surprising that many believe that investment in China can be summed up in three words—*guanxi, guanxi and guanxi*. Perhaps the role of *guanxi* in the business world (in the context of investment in China) is best described by an HSBC advertisement:

> Head: When everybody is talking, the secret is to find out the decision-maker.
>
> Text: Find out the right window, and your business ***guanxi*** can strive for further improvement. By virtue of more than 130 years experience in China, HSBC not only understands explicitly various local government departments and enterprises, but have also built profound ***guanxi***, to help you to foresee opportunity and make a wise decision.
>
> (Appendix K)(YZHZHK, 7/9/98: 27)

III. Reasons for Failure

The six PLCs discussed in the previous chapter are not representative of the actual situation facing Malaysians in China. These examples, especially FACBI and the Lion Group are not the norm because they are relatively successful compared with the many companies that did not make it beyond negotiation and signing MoUs. Chinese investors tend to keep a low profile on their business, especially with reference to their failures. There were rumours of a famous Chinese businessman who lost tens of million in China (Forbes 1/96: 48). Furthermore, after the recent economic crisis at the end of 1997, many companies have called off their overseas investment. It is important to examine the reasons for the failures of investments in China as there are bound to be failures along side success stories.

In the final analysis of the factors contributing to the failure of investment in China over the past 15 years, one can come to the conclusion that the problem facing Malaysian companies in China are human, or subjective, rather than natural, or objective. There are not the problems of shortage of raw material or poverty, but of psychological adjustment and of subtle refinements of policy. The psychological adjustment necessary is that of moving to a new mindset of planning and organization, which are extremely difficult to deal with.

A rough estimation from Soong Siew Hoong (the Hon. Secretary General of ACCCIM) is that only 25% of the Associated Chinese Chambers of Commerce and ndustry of Malaysia (ACCCIM) members' investments in China were making noney, with the rest of them either losing money or "leaving them unsettled". This ppears to be in keeping with the situation of listed companies as explained in Chapter Three where the majority of investments in China did not go beyond the stage of igning of a MoU. A survey by the China authorities showed that 80% of Japanese nvestment in China made profit, 50% of American and European investment earned rofit while only 30% Taiwanese firm broke-even (NYSP, 26/7/95). The feedback rom interviewees' point to the following factors as contributing to the failure of nvestments in China. There are two sets—the first is related to the investor while the econd concerns conditions in China.

1) **Many Malaysian investors' judgement was clouded by eagerness.** Some acknowledged that they were too "naïve", making decisions based on gut feelings. The final decision to invest in China was based not upon detailed technical and economic feasibility studies but rather on an impression or feeling accepted by the Chinese. Most interviewees claimed that they did not look carefully into the agreement and contract. There were incidences where businessmen formed a partnership with someone who claimed to have powerful connections without verification and thus ended up with huge losses. "There has been a lot of China euphoria that overcame all common sense," asserted Robert Dewing, Managing Director of Asian Project Finance for Citicorp International Bank Ltd. (Business Week 19/12/94: 10).

2) **Lack of experience.** Overseas investments are not as simple as they seem. Although equipped with the same language, most of the businessmen had no previous experience in overseas investments. They were not familiar with China's laws, financial environment and economic direction, thus their chances of success were very limited. Strategic alliances can benefit companies, increasing their chances of success. However, the search for compatible partners can be a time-consuming process and this was hampered by the lack of experience.

3) **Political relationship between the state and business.** One year after the Malaysian Prime Minister's visit to China in 1985, news by Bernama entitled "Visit to China Generated Little Result" reported that government officials

were saying that "most of the businessmen (who joined the visit) were more interested in taking photographs with the Prime Minister" and "maybe (the businessmen) have hidden agendas besides trade" (SCJP, 27/1/87). The instance of businessmen trying to please the Prime Minister could not be denied. In 1993, Prime Minister Mahathir paid a 10 days official visit to China, heading a 290-member delegation, comprising of at least 150 businessmen. The major outcome of the trip was the signing of 36 MoUs. Unfortunately, almost all the MoUs signed during the Prime Minister's visit to China were left unsettled. The visit was publicized by the media as " the most successful delegation in my 21 year administration," in the words of the Prime Minister (Star, 22/6/93). To what extent this official visit helped to increase the Chinese vote cannot be answered in quantitative terms. However, it can be noted that the Barisan Government eventually won the general election held in the same year.

4) **Malaysian investors lack of funds and niche technology.** In most of the joint venture investments, the Chinese partner provides machinery and land while the Malaysian partner has to inject funds. After a visit to China, a construction delegation found that without niche technology and huge funds, it was virtually impossible to invest in China's construction projects (NYSP, 7/10/86). Nan Lian Holdings was once prepared to set up a big steel plant worth more than RM 100 million in Terenganu with the China Steel group (NYSP, 6/6/89). However, the project eventually fizzled out and the reason given was that both parties could not reach an agreement on fund allocation.

After the "Tiananmen Incident" of 4 June 1989, many countries stopped providing new loans and went along with the sanctions. As a result, much FDI from the West was withdrawn from China. As a consequence of this episode, business delegations from China increased nearly four-fold in search of fresh investments (Table 1.8). During this critical period, Chinese businessmen from Hong Kong, Macao and Taiwan seized the opportunity and increased their trade and investments in China. However, Malaysians did not grasp this golden opportunity to increase their investment in China, not because they did not want to, but they possessed neither sufficient funds nor the required technology that was needed badly in China.

After 1990, China has opened more sectors that were previously closed to foreigners. Investors were allowed to participate in sectors such as banking, insurance, transportation, infrastructure and telecommunications. However, such projects needed either large amount of funds or niche know-how, both which Malaysian investors do not have the edge over other investors.

In addition to the above, other factors which also contributed to failure in investments in China include:

5) **Different interpretations and lack of understanding of the regulations in China.** Most of the businessman used the existing system in Malaysia as a guideline for application in China. They eventually found themselves "trapped in pitfalls" because things just did not work out as anticipated due to different interpretations and practices. China is still learning to cope with international

business practices while unlearning what was in practice during the socialist system.

6) **Work attitude of Chinese staff.** Managers in China tend to act by their own without getting permission from the Board of Directors. They purchase items not productive to company revenue such as new company cars or machinery that are not fully utilized, which is seen by Malaysian businessman as imprudent management. One interviewee was of the opinion that "it takes time to erase the socialist system from their blood." This is because the middle management staff in China has not been trained in financial management. When someone lacks financial discipline in making decisions, failure is almost inevitable.

In addition to the problems at the management level, it was also found that ordinary Chinese workers were not efficient and diligent in their work (SCJP, 30/10/90). In other words, Chinese labourers were perceived not to be as hard-working as their counterparts in Malaysia. Although there was an abundant supply of well-educated labourers at relatively low costs, their productivity is also relatively low. Some interviewees attributed it to long-standing practices. " It is difficult to unlearn what is deep in the culture." Before the economic reforms, traditionally, wages level were decided by three main factors: the level of a worker's political consciousness, his productivity and years of experience (FEER 16/4/73: 39).

7) **Government leakage.** For much of the life of the People's Republic of China (PRC), Party and State were practically indistinguishable. "It is impossible to talk of justice in isolation from party principles. Whatever agrees with party principles is just. Whatever disagrees with party principles is unjust" as declared by a CCP committee member (FEER 22/1/72: 14). There was an almost complete overlap between Party and Government, with not only the majority of senior officials at whatever level of Government being Party Members, but also Party officials (Arthur Andersen 1993: 43). Government leakage can be seen in three ways, firstly corruption, secondly, discrepancies between the central and local governments and thirdly, lack of forward planning.

On the first matter of corruption, the Chinese Communist Party (CCP) Secretary is the most powerful man, whether at the provincial level or merely in a small town. The person usually oversees things. Many of them tend to stray away from acceptable business codes. Corruption exists everywhere but some of them tend to be overplayed. There were a number of incidents where, with a change of the CCP secretaries, there were also changes in the interpretation of business agreements. The corruption of high-ranking CCP officials was highlighted when the then Beijing City CCP secretary Chen Xitong was accused of corruption and sentenced to 16 years jail in August 1998 (NYSP, 1/8/98). The much-touted corruption probe was not a high-level purge in disguise. Chen was suspected of being involved in US$ 2.2 billion corruption and was expelled from the post in April 1995. The case proved that PRC was serious about corruption that is rampant after the economic reforms.

Investors were often confused as to which authority to deal with. Several PLCs in the KLSE assert that they had obtained licenses from the Jilin, Yunnan and Guangdong provincial governments to operate gambling businesses, only to find that the central government rejected the issue of license (NYSP, 4/8/93). Both Larut and Talam, divested of lottery operations in China and complained that there was too much red-tape (Star, 27/10/95). This lack of coordination and difference in interpretation of regulations has been found to create problems for the Malaysian investor.

With reference to the third type of leakage, Haiko used to be the only free port for Hainan Island. After investors had poured in money to develop the place, the government opened other free ports, reducing the significance of Haiko. This resulted in many office blocks being left unoccupied or even worse, halted in the middle of construction, thus causing huge losses for many businessmen.

8) **"Guanxi" is double-edged.** Humans are social beings. Interpersonal relations therefore are essential in communication. Different circumstances or space-time create and develop different modes of communication and relationships or so-called "guanxi".

However, "guanxi" or connections present both opportunities and dangers. On one hand, it is important in China to have connections with the right people to get things done. While it is useful to overcome red tape which can be suffocating, on the other hand, it may take the investors in directions that are difficult to control, or strategically useful (Vanhonacker 1997: 135). It needs money and time to produce and maintain such relationships, thus increasing cost. Furthermore, there were stories circulating around verbally that many people who had tried to "buy" guanxi ended up with great losses (Forbes 1/96: 48). The rise and fall of Chinese businessman Yiu Yat-hung, who spent vast sums of money making top-level contacts, shows the perils of relying on guanxi (FEER, 27/5/99: 26-28).

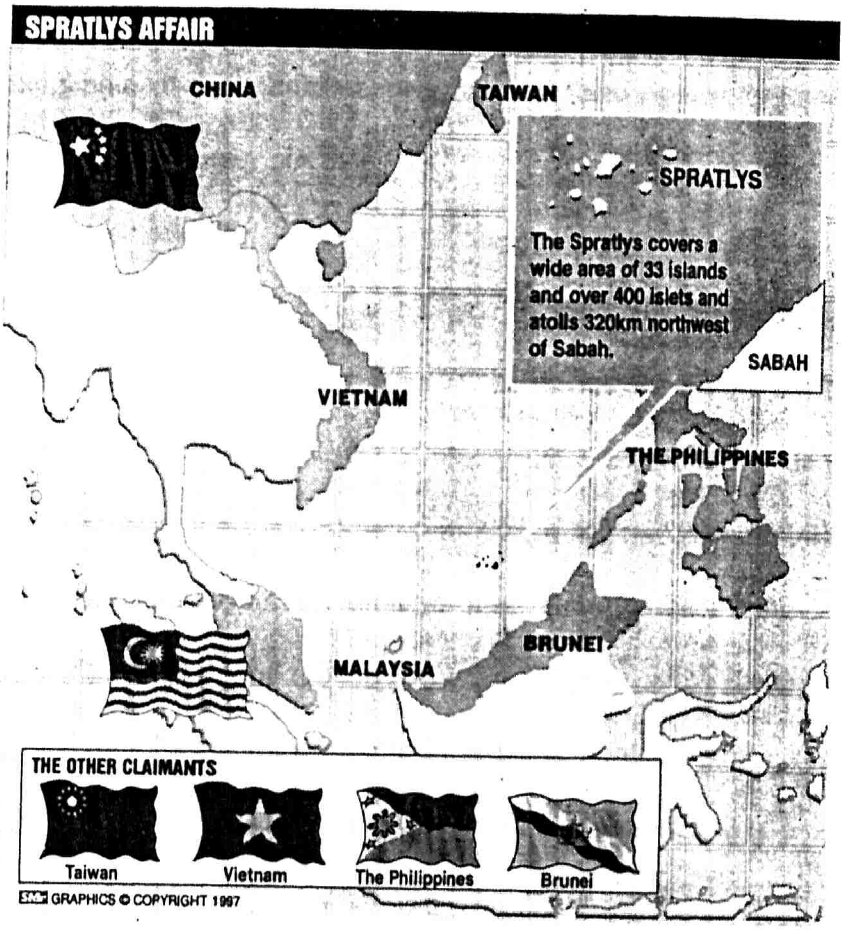
IV. Implications and Prospects of Malaysian Investment to China

The opening up of China and the road to economic reform are irreversible. Judging from the achievement of China since 1978, it is reasonable to expect China to become an important economic partner of the countries of the Asia Pacific region in the years to come. However, several issues have emerged ever since the flow of Malaysian capital to China. The greatest obstacle to the development of Sino-Malaysian economic relations is the lack of compatibility of the economic structures of both countries. Malaysian investment is largely confined to sectors related to local consumption. Malaysia also lacks of niche technology which in the long run, would be China's priority to raise the technological level of FDI. It is clear that the level and structure of Malaysian economy does not match this strategy. Thus, the role played by Malaysian investment in the PRC economy is quite limited. Generally, Malaysia's focus on China as an investment centre corresponds with the macro-trend to invest in China by the Southeast Asian countries (Ho 1995: 244). In the mid 1980's and the early 1990's, Malaysian funds were needed to speed up economic modernization.

While at the same time the Malaysian economy has reached a point where its size had become a constraint for some of the PLCs to develop further development. Thus, many companies were eager to invest abroad and many of them chose China. However, since China opened some of the sectors such as banking and insurance, which were prohibited to foreign investor, Malaysian investors are unable to compete with other foreign investors. This was followed by the cooling down of China fever and partly a result of the decrease of investment delegations from China. Conflict between both countries arises because both Malaysia and China are developing countries that need huge injections of foreign investment to boost their economies. As a result, both countries are bound to compete between each other to attract foreign investments. In fact, China attracted so much FDI that capital inflows into Asean decreased markedly. In 1993, FDI in Malaysia dropped by 60% and FDI in Thailand also declined (Sung Yun Wing 1995: 238). If China is one of Malaysia's major trading partners, it is also a potential competitor.

The second most troublesome issue encompasses the complex problem of security. China is seen as a military threat to Southeast Asia especially by Japan and the US although developments in the past 15 years has weakened their perception. However, the presence of the Chinese on the Spratlys Islands (Map 5.1) has been a source of tension in diplomatic relations between Manila and Beijing since 1995. China regards the archipelago in the South China Sea as part of its national territory. The Philippines, China, Malaysia, Taiwan, Vietnam and Indonesia have overlaping claims to the Spratlys and its accompanying maritime space is the potential burden for future economic development of the region.

Map 5.1 Spratlys Island



Source: Star, 23/8/97.

Besides, China did carry out its threat to prevent Taiwanese independence by using military force (Star, 24/10/95). However, during a keynote address titled *Towards A Relationship Of Friendship And Good-Neighbourliness Geared To The 21st Century* in Malaysia, Chinese President Li Peng has offered to shelve China's territorial claims to the Spratlys Islands. He instead proposed that the claiments jointly develop the disputed zone for economic gain to enhance ties with ASEAN (Star, 23/8/97). This was a reversal of China's original stand and can be seen as a positive move towards a peaceful settlement of the dispute. However, in the writer's view, as long as these governments have not taken action to overcome these practical problems, China's growing economic and military strength might pose a security threat to its neighbour. It is therefore hoped that trade and economic growth would nullify any potential for military conflict.

In the long run, the prospects of an increase in Malaysian investments in China does not seem as bright as claimed by some of the politicians. Given the escalating competition in China and the weaknesses of Malaysian companies, we can no longer expect PLCs to increase their investments in China at the pace of early 1990s. Nonetheless, existing Malaysian investments may have a life of their own and continue to be in China for a long time to come. To succeed in 21st century, Malaysia should strive for higher productivity levels in order to compete in the international market. In view of the good relationship between both countries, it may be opportune to stay ahead by teaming up with Chinese companies and jointly explore new frontiers.