

# Beware the Red Dragon

China recently, overtook Singapore as the leading foreign investor in the Malaysian real estate market, attracted by mega projects such as Project Iskandar in Johor and Bandar Malaysia in Kuala Lumpur. However all is not quite as it seems. **International Business Review Asia** provides a different perspective with a precautionary view on the middle kingdom's massive investments. **Join the discussion on this topic at [internationalbusinessreview.net](http://internationalbusinessreview.net)**

## Economic Powerhouse

For more than 30 years, China has produced wealthy investors and companies thanks to the nation's implementation of global economic reforms. Today, China has grown to be Asia's leader in the global economy with outbound investments growing to phenomenal heights. Last year alone, China has had 622

M&A deals overseas, totaling of US\$ 221.7 billion (RM 948.77 billion).

The rise of the Chinese investors can be seen in the influx of investments in various industries, particularly the property and construction sectors. This is seen as great news for Malaysia as the country has formed a strong alliance with China to boost inward

investments and trade between the two countries.

According to Alliance DBS Research, based on Construction Industry Development Board (CIDB) statistics, Chinese contractors led the way with RM8 billion worth of investment in 25 projects.

"Of late, we are seeing more participation from Chinese contractors in the Malaysian market, either directly or through joint ventures with local contractors. In our view, we think China has the edge over international and local competitors with easily accessible funding and materials, cheap labour and its ability to complete projects quickly," AllianceDBS Research states.

A total of 14 agreements worth RM144 billion were signed between Malaysian and Chinese companies during Prime Minister Datuk Seri Najib Tun Razak's official visit to China last year.

## Chinese Contractors – Impact on Selected Listed Companies

Company	Building Works			Infrastructure Works
	Public Sector	Private Sector	Internal Property Business	
Gamuda			●	●
IJM		●	●	●
WCT		●	●	●
Sunway Construction	●	●	●	●
Kimlun		●		●
Muhibbah				●
Kerjaya		●	●	
Ahmad Zaki			●	●
Gadang	●		●	●
Ireka		●	●	
Mudajaya			●	●
Mitrajaya	●	●	●	●
Bina Puri			●	●

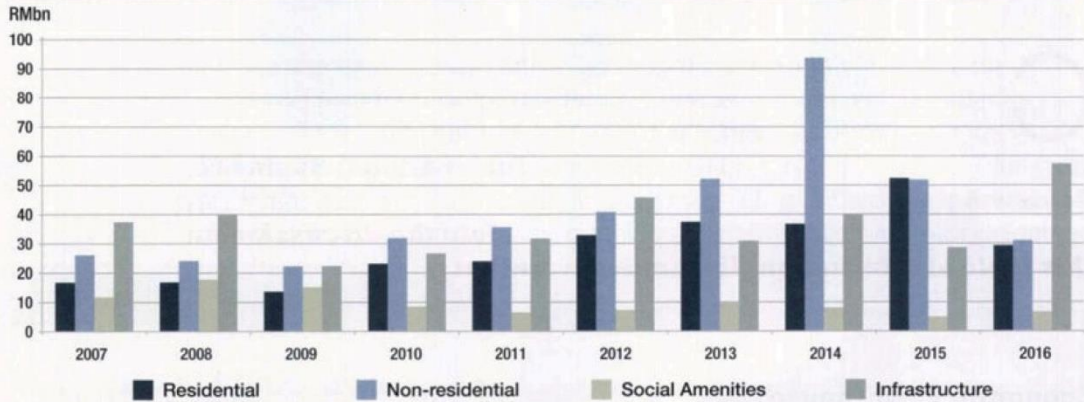
Source: AllianceDBS

*More and more companies, specifically those in the private sector are employing Chinese contractors because of their cheap labour and supplies as compared to local contractors.*

## Local Jitters

Local contractors and builders seem to have mixed reviews on the presence of these Chinese contractors in Malaysia. AllianceDBS Research states that Malaysia allows foreign companies intending to operate in Malaysia to own foreign equity holdings in a local construction

## Surge in Infrastructure Spending in 2016



Infrastructure spending surged last year, as investments poured in from China in its efforts to drive the One Belt initiative.

Source: Department of Statistics

company. This would imply that China can be treated as a local contractor, allowing crucial financing for larger projects to take off.

China too, tolerates lower margins in and with that, they are able to

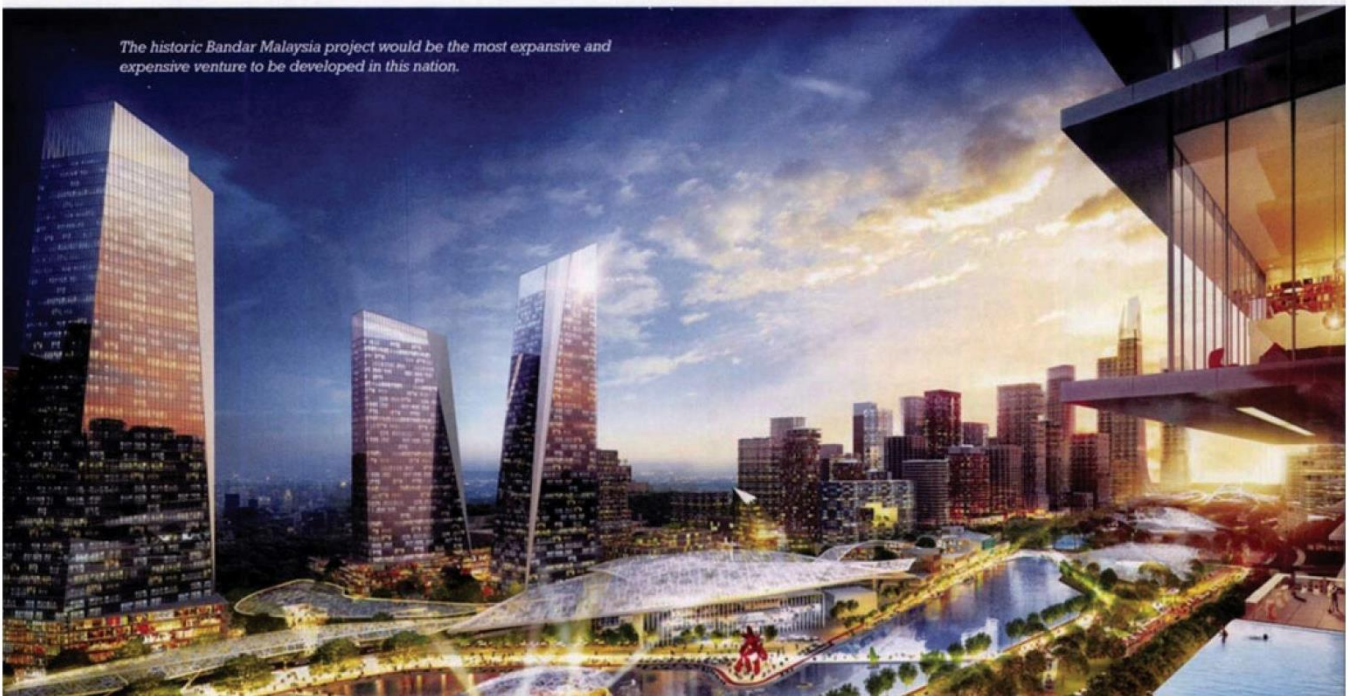
bid at a more competitive rate compared to local players. The research team also noted that China-based contractors are quite aggressive when it comes to bidding for projects in the private sector, some are even willing to accept partial payment for

residential units or even market the development overseas.

### Strict Outflows

With record levels of outbound investment last year, experts believe that China will see a

The historic Bandar Malaysia project would be the most expensive and expensive venture to be developed in this nation.



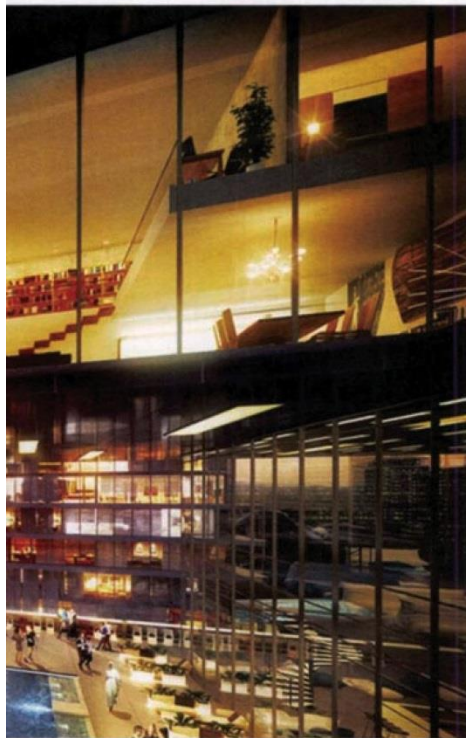
slowdown in investments abroad as its government announced measures in preventing capital flight.

Reuters reported late last year that, China would face difficulties in maintaining a stable flow of foreign investment, while sources of volatility for China's outbound investment would rise but with increased risks.

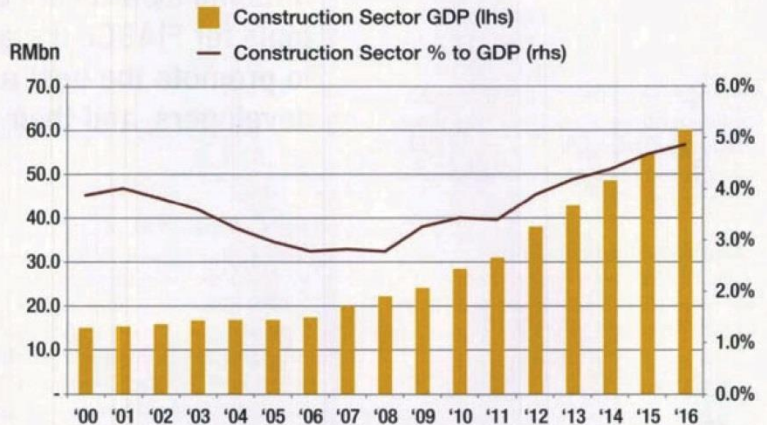
With stringent rules, experts are predicting a fall in a number of sizeable deals due to the anticipated efforts by the Chinese government to combat capital flight. This will also have a negative impact on cross-industry acquisitions.

### High Influx of Foreign Residents

Concerns are growing among local developers amid massive residential



## Construction GDP Growth



The rise of GDP growth in construction has given a significant positive outlook of Malaysia's economy with many projects set to be developed this year.

Source: Department of Statistics

and commercial development projects by China's investors and contractors. The Chinese tend to bring along labour of their own, importing their own supplies and executing projects with rapid speed and scale, something that local developers cannot compete with.

The Forest City project, one of two mega projects to be built by China-owned Country Garden will reportedly be inhabited by more than 700,000 people within two decades. Meanwhile, China Railway Group (CRG) will be taking the helm of the Bandar Malaysia development project which is expected to cost around RM180

billion. The project will host the largest underground city together with shopping malls, indoor theme parks, a financial centre, residential and commercial units and the RM8.3 billion regional headquarters of China Railway.

These massive residential and commercial developments in Malaysia are marketed solely to Chinese citizens who wish to work, reside or holiday in Malaysia. With the cost of living being relatively cheap, affordable health care and a close proximity to China and Singapore, Malaysia is a preferred destination for the Chinese middle class.

There is no doubt that with proper management from both parties, this engagement will be a roaring success, for China, which aspires to be a leading global powerhouse and Malaysia, providing a huge boost for its economy, and the residential sector in particular. **IBR**