China's Malaysian investments are strategically motivated

Malaysia's strategic maritime value is likely behind a new wave of investment in the country by Chinese SOEs, writes Graham Lees

WHAT:

A group of Chinese SOEs have begun a raft of projects in and around Malacca town.

WHY:

Part of the One Belt, One Road initiative, investing in Malacca also gives China a strategic foothold on the strait.

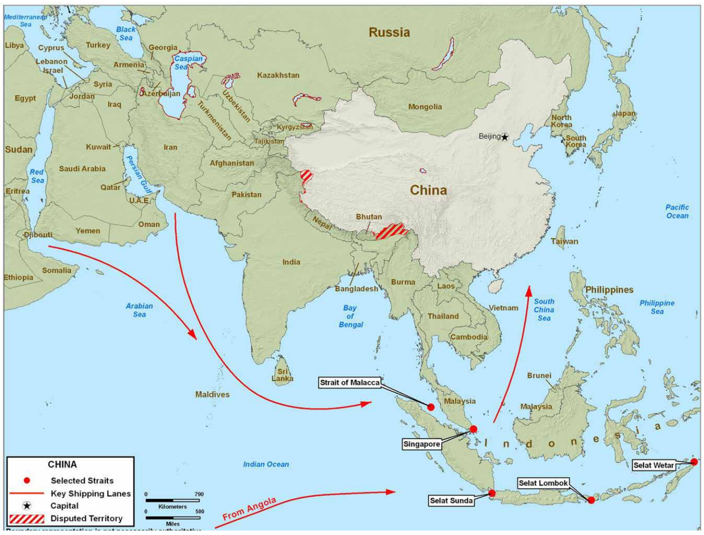
WHAT NEXT:

OBOR investment may be slowing, suggesting that further projects to fall under its umbrella will carry greater strategic significance.

CHINA'S influence in the strategic Strait of Malacca oil transit gateway is growing, with yet another state-owned enterprise (SOE) signing a co-operation agreement with Malaysia on a port development.

The Chinese are focusing on Malacca, which is located strategically at one of the narrowest points of the Strait, but is not, as yet, an important modern port. This is owing to Singapore's proximity to the southeast and Malaysia's own ports of Klang and Dickson less than 100 km further up the strait.

But it seems Malacca is destined to become a key component of China's evident intention to establish an influential base on the strait. The development is ostensibly part of Beijing's much touted One Belt, One Road (OBOR) land and sea trade programme.



Strategic importance

A group of Chinese SOEs from Guangdong on China's southern coast have already begun a raft of projects in and around Malacca town, ranging from cargo terminals to housing. Most importantly, though, the Beijing-based Power Construction Corporation of China (PowerChina) is developing a deepwater port there.

Last week it was announced that the Fujian Port Authority had signed an agreement with the Malacca Port Authority to provide technical assistance, training and promotion of port services.

These Malacca agreements form part of multi-billion dollar investments by China in Malaysia's infrastructure and state agencies.

The Beijing leadership has for a long time fretted about the narrow waterway between Malaysia and Indonesia's Sumatra Island and the risks it poses to China's energy security. Sixteen years ago China's then president, Hu Jintao, described it as the Malacca dilemma. Since then, mounting dependence on foreign oil means that about 80% of the country's crude imports transit the strait.

Beyond the broader aims of OBOR, securing an influential presence on the strait is seen by analysts as of strategic importance to improving Beijing's sense of energy security.

"Chinese port investments in Malaysia, especially in Malacca and Kuantan, provide China with a political strategic foothold in the Straits of Malacca and the western end of the South China Sea," a senior fellow at the Institute of Southeast Asian Studies' Yusof Ishak Institute in Singapore, Tang Siew Mun, told *NewsBase Intelligence (NBI)*. Kuantan is a port on Peninsular Malaysia's east coast that is being linked to Port Klang by a new fast freight railway line.

"China's foreign policy approach conflates politics with economics to the extent that economics serve the larger political end," Tang said.

Targeted investment

Chinese SOEs are stepping up their investments within Malaysia, but the targets of their spending seem to have been driven by Beijing's strategic ambitions.

China has shown little interest in Malaysia's grand plan to build in a 300,000 bpd refining and petrochemicals complex at Pengerang at the east tip of the strait opposite Singapore. Beijing has left Saudi Aramco to invest US$7 billion in the project, which aims to compete with Singapore as a regional oil hub.

Instead, Chinese SOEs are investing heavily in other Malaysian infrastructure. Some of this investment apparently rescued Prime Minister Najib Razak, whose government sovereign fund 1Malaysia Development Bhd (1MDB) had become mired in debt and controversy. Amid

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Embattled Malaysian Prime Minister Najib Razak has been under pressure to resign.

calls for Najib's resignation, two Chinese SOEs stepped in to help, the South China Morning Post said.

The China General Nuclear Power Group paid US$2.3 billion to acquire 1MDB's Edra Global Energy, which owns a string of power plants, and China Railway Construction bought into 1MDB's property portfolio for US$1.7 billion.

The CEO of Singapore business consultancy Consulus, Lawrence Chong, told *NBI* that Najib had made a very obvious pivot towards China over 1MDB and Beijing was happy to oblige because Malaysia geographically "cradles" the South China Sea, which China considers its backyard.

"China sees that ensuring open and secured sea lanes that provide resources to the vast Chinese economy is essential," Chong said. "For a number of years, from the Indian Ocean to the South China Sea, China has been working tirelessly to identify and develop strategic ports or infrastructure that can support Chinese current and long-term interests."

Debottlenecking

The head of the energy security analysis at Singapore's Energy Studies Institute, Philip Andrews-Speed, believes much of China's investment in Malaysia is driven by a slowing Chinese economy that is pushing SOES abroad to do business.

"The OBOR initiative provides a helpful framework for seeking new projects and Malaysia appears to be the most co-operative country in Southeast Asia in this respect. And, yes, such projects have the potential strategic benefit of placing Chinese interests along critical sea lines of communication," he told *NBI*.

A March report by London's Global Risk Insights (GRI) points to China's use of OBOR to drive strategic infrastructure in Pakistan that should reduce Beijing's angst about the Strait of Malacca bottleneck. The US$54 billion China-Pakistan Economic Corridor includes oil and gas pipelines to transit Middle East fuels via the Chinese-built port of Gwadar on the Arabian Sea into China's northwest Xinjiang region.

"Aside from alleviating China's dependency on an increasingly tense maritime arena, these [Pakistan] pipelines are expected to cut short the trade route for China's oil imports by more than 6,000 miles [9,660 km]," GRI said.

Some reports suggest Singapore eyes China's growing investment in Malaysia with concern. Kuala Lumpur daily The Star quoted unnamed Singapore port logistics managers earlier this year as saying that Beijing's strait port interests would eventually hurt Singapore's dominance as a regional oil transit hub. But Chong disagrees, saying: "Singapore is also a leading investor in Malaysia: hence China's investment adds significant value to our existing interests in Malaysia. When China is more invested in the region, it will also invest in [peaceful] and sustainable development."

Motives

The argument that Chinese investment brings regional stability may have merit, but a study in March by IHS Markit Maritime suggested OBOR could turn out to be "a fool's game".

"Beyond the headline numbers of multi-billion dollar investments, OBOR is an opaque concept, and industry actors from port operators to tanker owners are in the dark over how and to what extent the programme will affect their businesses, and how to develop and implement strategies to benefit from it," IHS said.

It added that the latest figures from China showed that direct investment by Chinese enterprises in OBOR target countries was less in 2016 than in 2015.

Spending may be down but it is ongoing. Beijing's investment strategies, as always, are about more than simply boosting business survival for underworked SOEs back home.

The China's government's answer to solving the "Malacca dilemma" originally lay in Myanmar and a 240,000 bpd pipeline to pump crude from Myanmar's coast to the southern Chinese province of Yunnan. The start of the pipeline's operations has been delayed for two years, however, and now Beijing is embracing other approaches to the issue of security.

Investments in 1MDB assets bind Kuala Lumpur closer to Beijing and should ensure the Chinese state has an easier time in pursuing its strategic maritime interests. If Chinese investment under the OBOR banner is slowing, then strategically valuable rather than purely economically motivated projects are likely to be the order of the day going forward.❖