



Journal of Current Southeast Asian Affairs

LIM, Guanle (2014), The Internationalisation of Mainland Chinese Firms into Malaysia: From Obligated Embeddedness to Active Embeddedness, in: *Journal of Current Southeast Asian Affairs*, 33, 2, 59–90.

URN: <http://nbn-resolving.org/urn/resolver.pl?urn:nbn:de:gbv:18-4-7761>

ISSN: 1868-4882 (online), ISSN: 1868-1034 (print)

The online version of this article can be found at:

www.CurrentSoutheastAsianAffairs.org

Published by

GIGA German Institute of Global and Area Studies, Institute of Asian Studies and Hamburg University Press.

The *Journal of Current Southeast Asian Affairs* is an Open Access publication. It may be read, copied and distributed free of charge according to the conditions of the Creative Commons Attribution-No Derivative Works 3.0 License.

To subscribe to the print edition: ias@giga-hamburg.de

For an e-mail alert please register at: www.CurrentSoutheastAsianAffairs.org

The *Journal of Current Southeast Asian Affairs* is part of the GIGA Journal Family which includes: Africa Spectrum ● Journal of Current Chinese Affairs ● Journal of Current Southeast Asian Affairs ● Journal of Politics in Latin America ●
www.giga-journal-family.org



The Internationalisation of Mainland Chinese Firms into Malaysia: From Obligated Embeddedness to Active Embeddedness

Guanie LIM

Abstract: This paper examines the rationale by which mainland Chinese firms choose their coalition partners in their Malaysian ventures. I explore how, under certain political economic conditions, such cross-border investment and corporate tie-ups can be shaped to meet the Malaysian state's objectives. I argue that the Malaysian state has enjoyed success in the construction sector by nurturing cooperation between its carefully groomed government-linked companies and mainland Chinese firms. Government-linked companies are useful coalition partners for the mainland Chinese firms because of the crucial role the state plays in creating a largely non-competitive industry that favours government-linked companies. Outside of the construction sector, however, the state has enjoyed markedly less success in fostering cooperation between the mainland Chinese firms and the government-linked companies. Consequently, the mainland Chinese firms possess more bargaining power vis-à-vis the state when they invest in these sectors, enjoying considerable autonomy in the selection of their coalition partners.

■ Manuscript received 20 April 2014; accepted 25 July 2014

Keywords: China, Malaysia, economic globalisation, foreign direct investment, obligated embeddedness

Guanie LIM (林鑽渙) is a Ph.D. candidate and a teaching assistant at the Department of Geography, National University of Singapore. His research focuses on commodity chain analysis, ethnic Chinese business firms, and state-society relations of the East Asian economies.
E-mail: <a0092578@nus.edu.sg>

Introduction

Relatively little scholarly research has been devoted to China's outward foreign direct investment (FDI), especially vis-à-vis the large body of research detailing the country's inward FDI. Such research has only been conducted more intensively since 2004, following the rapid increase in Chinese outward FDI. The latest available information shows that China invested as much as 84 billion USD in FDI in 2012, establishing China as the world's third-largest outward investor after the US and Japan (Sauvant 2013). The increase in Chinese outward FDI is driven in large part by its firms, particularly those that have accumulated substantial managerial and technical expertise in the domestic economy following the post-1979 economic reforms. As China's economy matures in the future and more mainland Chinese firms internationalise their operations, it is reasonable to expect even more outward FDI from the country (Deng 2003).¹

Implicit in the illustration above is the importance of FDI to economic development. One of the most important factors underpinning China's economic success is its openness to the inflow of FDI, initiated by the 1979 economic reform. Malaysia is another Asian country that has relied on inward FDI to drive its economic growth. However, this model of economic development is increasingly under pressure, as Malaysia has become a net FDI exporter since 2007. In addition, it has also not been able to rely as much on its 'traditional' sources of FDI (from the Western bloc, Singapore, and Japan) as it had previously. The ensuing desperation has forced Malaysian policymakers to seek alternative sources of investment outside its traditional group of FDI contributors. To this end, China is one of the alternative sources of FDI that has been most actively targeted by these policymakers (Bao 2012; Khor 2013). The gravitation to China is understandable as Malaysia has been China's largest trading partner in Southeast Asia since 2009. Since that time, China has also emerged as Malaysia's largest trading partner overall, enjoying a 13.8 per cent share of Malaysian trade in 2012 (Khor 2013). Furthermore, Malaysian firms (especially those owned and managed by Malaysians of ethnic

1 The term 'mainland Chinese firms' is used in this paper to avoid confusion with the 'ethnic Chinese firms'. The latter refers to firms owned and/or managed by ethnic Chinese people living outside China (for example, in Hong Kong, Taiwan, Malaysia and Thailand). Within the context of this paper, 'ethnic Chinese firms' refer to those firms owned and/or managed by the ethnic Chinese populace of Malaysia, unless specifically mentioned otherwise.

Chinese origins) have been active investors in China since it liberalised its economy in 1979.

The increasing importance of Chinese FDI to Malaysia can be interpreted as a result of economic globalisation. Accompanying such economic globalisation is a popular discourse that stresses that the mainland Chinese firms are crowding out the firms of the FDI recipient countries, especially the small and medium enterprises (SMEs). Furthermore, the mainland Chinese firms, especially the large and well-capitalised state-owned enterprises (SOEs), are often accused of securing lopsided business deals from the governments of the recipient countries, which are also widely perceived as weak and unable to mediate the clout of the Chinese (Taylor 2008; Michel and Beuret 2009; Moyo 2012). In order to attract the investment dollars of the mainland Chinese firms, and the related economic opportunities that their investment generates, such as employment opportunities and cultivation of domestic supplier networks, these FDI recipient states have to reduce or abolish national regulation to accommodate the demands of the mainland Chinese firms. Further eroding the position of the FDI recipient countries is the belief that their governments have been complicit in granting overly generous commercial terms to the mainland Chinese firms, hampering their domestic economic development (see also Marston 2012).

While the above body of work has attracted its fair share of proponents and detractors, little similar research has been conducted on Malaysia, a key economic partner of China. With the intention of scrutinising the above issues in the context of Malaysia, this paper sheds light on the economic globalisation of Chinese outward FDI into the country, taking into account Malaysia's ethnocentric capitalist development model and state-society relations. I examine the identities of the coalition partners of mainland Chinese firms (the vessels of the FDI) in their Malaysian investments, analysing the similarities and differences of such cross-border cooperation across economic sectors. Based on personal interviews with individuals familiar with the investment of mainland Chinese firms in Malaysia and published reports, I argue that the investments of mainland Chinese firms into Malaysia can be shaped to meet the state's objective, under certain political economic conditions. More specifically, I show that mainland Chinese firms almost always cooperate with Malaysia's most preeminent economic actors – the government-linked companies (GLCs) – in their cross-border investments.

However, the cooperation of mainland Chinese firms with the GLCs (and, by extension, the ethnic Chinese firms and other entities; that is, non-ethnic Chinese firms and non-GLCs) is not uniform across

the economic sectors surveyed. In the construction sector, the chance to participate in lucrative construction projects has enticed mainland Chinese firms to invest into Malaysia. However, the Malaysian state, through its control of state resources (primarily land and the awarding of projects), has adopted measures to control the form that such investment can take. Specifically, its legacy and continued practice of providing the GLCs in the construction sector with preferential treatment to achieve interethnic socioeconomic parity has encouraged the mainland Chinese firms to establish commercial ties with the GLCs as their close relationship to the government confers them with some form of 'advantage' as far as the distribution of state resources is concerned. Therefore, the FDI from the mainland Chinese firms exhibits features of obligated embeddedness, as the state's unique bargaining position has allowed it to shape the industry dynamics of the construction sector. Outside of the construction sector, the state is less influential in terms of controlling access to state resources vis-à-vis the firms. The state is less successful at nurturing cooperation between the mainland Chinese firms and the GLCs, for two main reasons: the failure to establish competitive GLCs in the manufacturing sector, and the relative lack of presence of the GLCs in the more liberalised environment of the other services, agriculture, finance, and information and communication sectors. This has resulted in active embeddedness and the mainland Chinese firms having greater bargaining power vis-à-vis the state when they invest in these sectors, enjoying a considerable degree of autonomy in the selection of their coalition partners.

The remainder of this paper starts with a critique on the issues of power and bargaining between firms and host countries, showing the situations in which investments from the firms become locally embedded (or otherwise) in the hosts. It then explores this issue in the contexts of China (home country) and Malaysia (host country), focusing on the capitalist development and state-society relations of both countries. I particularly underscore the need to be sensitive to Malaysia's complex patron-client relationships, showing that despite the Malaysian state's intent in economic redistribution along ethnic lines, the process is often more complicated and the outcome less satisfactory than that envisaged by the state. The next section offers a brief analysis of Chinese investment, emphasising its impact in Southeast Asia (especially Malaysia). This is accompanied by an identification of the gap in knowledge in the corpus of literature detailing Chinese outward FDI entering Malaysia. It then describes the research methodology, before examining the major coalition partners of the mainland Chinese firms investing into Malaysia. This

is followed by a discussion of the findings. The paper concludes with a summary of the main arguments and research findings.

Theoretical Framework

While the introductory section has alluded to the power of the mainland Chinese firms and the comparative weakness of some host economies, such a viewpoint requires a more critical deliberation than it often receives. Specifically, the specific circumstances of the investment scenario need to be taken into consideration (Dicken 2011). In this paper, the specific circumstances are those of mainland Chinese firms seeking investment locations to produce and distribute their goods and services efficiently, and of a small Southeast Asian state (Malaysia) that is seeking FDI to power its economic growth, but needs to ensure that the wealth gains resulting from such growth are redistributed along ethnic lines. The firms want to maximise locational flexibility to take advantage of geographical differences in resource endowment in furthering their corporate goals, with the ultimate goal of maximising profit and, by extension, shareholder value. The ideal situation for these firms is to be able to pursue such aims without hindrance from state regulation. The state's goal is to maximise the material welfare of its society by embedding, as strongly as possible, the firms' activities within its jurisdiction so that local or national economic development could take place through direct and indirect spinoffs (Liu and Dicken 2006). Under these conditions, the mainland Chinese firms and the Malaysian state try to achieve their objectives on terms that are most favourable to them, which leads both sets of actors to engage in a bargaining process that is highly contingent on the firms' corporate strategies and the state's ability to take advantage of or counter these strategies (see Liu and Dicken 2006; Havice and Reed 2012).

Given these conditions, can Malaysia 'lure' FDI from the mainland Chinese firms? And even if it successfully does so, what types of outcomes will this type of FDI yield? To answer these and related questions, I have utilised the active and obligated embeddedness framework, postulated by Liu and Dicken (2006) in their analysis on the investments of multinational firms in China's automobile industry. According to this framework, the bargaining process between the mainland Chinese firms and the Malaysian state can be conceived as two ideal types of embeddedness: active embeddedness and obligated embeddedness. Active embeddedness represents a situation in which a firm locates localised assets and chooses to incorporate them within its operations. In cases where

these localised assets are widely available in different places, the power of investing (or otherwise) rests primarily with the firm. Likewise, the less ubiquitous the assets (or where their access is controlled by the state), the more likely the state is to enjoy a greater extent of bargaining power vis-à-vis the firms. In this situation, the firm is likely to comply with state criteria to gain access to (and use of) the desired asset. In other words, obligated embeddedness is likely to occur if two conditions are satisfied. Firstly, there must be a localised asset (for example, a huge domestic market, cheap labour pool, and abundant supply of raw materials) that is crucial to a firm and to which it needs access in order to achieve its business goals. Secondly, the state must control access to that resource and have the power to exert that control. To better understand the outward investment of mainland Chinese firms – and how it takes root in Malaysia – a more situational perspective is needed. Specifically, one must be sensitive to the capitalist development process and the political economy that prevails in the home country (China) as well as the host country (Malaysia) (see Lim 2015).

Capitalist Development: The Chinese Way

China saw little meaningful capitalist development between its establishment in 1949 and its economic reform in 1979. Upon the unification of China in 1949, the China Communist Party (CCP) organised a series of import substituting industrialisation (ISI) programmes led by newly formed SOEs. Mao Zedong, chairman of the CCP, had wanted to build a socialist economic system (in the way he saw fit), but these efforts were not particularly successful because of the low level of capital and expertise, obsolete technology, poor management system, and lack of willing buyers for such products (Pereira and Tong 2005). The situation worsened in 1960 as the Soviet Union withdrew all its advisers and discontinued aid to China after irreconcilable political and ideological disagreements emerged between the leadership of both countries (Vu 2010). Until that point, the Soviet Union had been the largest backer of the Chinese state, offering the latter advice and aid.

The desperation that ensued compelled Deng Xiaoping, China's post-Mao reformist leader, to push for a new development policy in 1979. Deng's reform centred largely on two interrelated pivots – attracting FDI and professionalising China's large cohort of SOEs. As Pereira and Tong (2005) explained, multinational firms were encouraged to invest in China, especially to form joint ventures with the SOEs, so that technological and managerial expertise could be transferred to the Chinese. Many of these SOEs were also gradually internationalised, and

some have gone on to become global brand names. Notwithstanding the success story of Deng's reform, one must also understand the broader dynamic surrounding the mainland Chinese firms, especially the SOEs. This is because many of the SOEs enjoy strong political influence and economic base in the home country, particularly in the provision of producer goods and such services as natural resource extraction, construction and machining tools (Davies 2012). Some of these SOEs also occupy monopolistic positions in China's enormous domestic market, in which predatory corporate behaviours are often observed and tolerated (Yeung and Liu 2008). Nevertheless, a large number of China's SOEs have managed to take advantage of the opportunities provided in its domestic economy, growing into large and well-capitalised multinational firms such as Haier and Bank of China Ltd. Furthermore, they have begun to invest abroad aggressively in recent years, spearheading the overseas expansion of the mainland Chinese firms. To this end, Scissors (2011) reported that SOE ownership of the country's outward FDI has averaged about 96 per cent over a seven-year period (from 2005 to 2011). The latest available survey shows that the share of SOE ownership has remained dominant, accounting for close to 90 per cent of total outward FDI in 2012 (see Cary 2013).

To improve the chances of success in overseas investment, mainland Chinese firms often enter into joint ventures with influential and well-connected firms from the host economies (see Wu 2005). This strategy is particularly common in less developed countries where corporate governance standards are comparatively weak (compared to those of developed countries), particularly in sectors of strategic importance such as mining and certain construction projects (Mensah 2010). For example, in his research on the Vietnamese construction sector, Hiep (2013) argued that mainland Chinese firms are out-competing the domestic firms as well as other international firms. In many cases, mainland Chinese firms have also formed joint ventures with well-connected Vietnamese firms to secure projects (see Marston 2012). While the Vietnamese government claims that the Chinese FDI are necessary to bring in much-needed capital and technological expertise to propel its development goals and to benefit its populace, for example through the creation of employment opportunities, Marston (2012) has shown that such claims can be problematized. Using the case study of the Chinese–Vietnamese joint venture (involving the SOEs of these two countries) to first construct mining and processing facilities and then to extract and process bauxite reserves in the Central Highlands of Vietnam, Marston argued that some Vietnamese political elites have objected to this investment as

they are wary of increasing economic dependence (both in trade and investment) on their larger neighbour. Further supporting this group of elites is popular public sentiment questioning the willingness of the Vietnamese state to accommodate the seemingly partial business practices of the Chinese SOE (at the expense of the Vietnamese economy). To this end, the Chinese SOE has been criticised for showing favouritism to goods and services providers from China vis-à-vis those from Vietnam (see also Hiep 2013).

Similar allegations have also been reported in the African countries that have attracted substantial Chinese FDI. For the construction projects funded by preferential loans and export buyer's credits from the Chinese state, the various African host economies have had little choice but to comply with the former's requirement of allowing the mainland Chinese firms leading these construction efforts to import technology, equipment and services from China (rather than the host economies) (Michel and Beuret 2009; Mensah 2010; Moyo 2012). As a result, these African countries have seen their domestic firms crowded out by the mainland Chinese firms and their cohort of subcontracting firms, limiting the positive impact of these construction projects. In Nigeria, for example, militant groups have resorted to kidnapping Chinese expatriates in an attempt to retaliate against perceived Chinese 'invasion' of their livelihood and the Nigerian state's inability (or reluctance) to properly distribute the spinoffs that the inbound Chinese FDI is supposed to generate (see Taylor 2008).

Capitalist Development: The Malaysian Way

For Malaysia, the state has played an active role in developing the economy since its independence in 1957. The interventionist stance was further solidified following the 13 May 1969 (mainly) Malay-Chinese sectarian violence – one of the darkest episodes in Malaysian history in which hundreds of people lost their lives. It is often argued that one of the primary causes of that incident was the growing socioeconomic inequality between the major ethnic groups, particularly between the relatively poorer native Malay and the richer Chinese (Gomez and Saravanamuttu 2013). To address this imbalance and to achieve national unity, the Malaysian government implemented an ambitious twenty-year social engineering plan, the New Economic Policy (NEP) in 1971 to try and eliminate poverty and achieve economic parity among the various ethnic groups. Although the NEP officially ended in 1991, it has continued under the guise of other development plans. The NEP and its successor programmes (hereafter referred to simply as the NEP) are based

on the principle of affirmative action favouring the majority *Bumiputera* (essentially Malay) ethnic group, often at the expense of other ethnic groups.

The socioeconomic means to implement the NEP are broad-based, yet one of the government's more direct measures is to employ GLCs to venture into major sectors of the economy on behalf of the ethnic Malays (Gomez 2013). Such a paradigm is epitomised by the decision made in the 1980s to implement the GLC-led ISI in heavy industries such as automobiles, steel products and cement. To ensure their success, the government imposed import quotas and high excise and import duties to shield the domestic market from foreign competition (Lee 2012). These GLCs were viewed as proxies of Malay wealth, but corporate ownership was still concentrated in the GLCs themselves rather than in the hands of individual Malays, a situation some Malays were unable to accept (Shome and Syahira 2009). In response, Mahathir Mohamad, Malaysia's longest-serving Prime Minister (1981 to 2003) stressed the need to nurture ethnic Malay businessmen in control of well-capitalised firms (not limited to the pre-existing GLCs of that time) with international reputations. Mahathir's strong emphasis on redistribution along ethnic lines indirectly meant that it was politically difficult to groom other more well-capitalised and better-managed firms that were owned by the ethnic Chinese minority for these industrialisation efforts (Studwell 2013). By selectively allocating state rents to a small group of businessmen (a majority of them ethnic Malays) who then injected these concessions into the stock market in a massive privatisation drive, the government has 'helped' these well-connected businessmen become owners of huge publicly quoted firms (Gomez 2012).

While their rise was meteoric, almost all of these well-connected Malay entrepreneurs and the firms that they headed ran into difficulties during the 1997 Asian financial crisis. The government subsequently bailed out several of these firms and renationalised key privatised projects, making them de facto GLCs (if they were not already) (Gomez 2012). Despite the subsequent re-privatisation exercise of some of the bailed out and restructured GLCs, many of them are only partially divested and continue to remain government-linked and controlled. Such extravagance is most glaring in the construction sector. To this end, Wain (2009) argued that Renong Berhad, one of Malaysia's largest construction companies (a GLC nonetheless) prior to the financial crisis, has been winning lucrative government contracts to build the country's infrastructure, such as motorways, light rail systems, housing projects, and the national fibre optic network. While it was never conclusively proven

that these contracts were won through open and competitive bidding, what was certain is that the company was closely linked to Malaysia's ruling elite. In his recent survey on the construction sector, Pua (2011) showed that the Malaysian state is still awarding costly projects and operating concessions to well-connected firms, primarily GLCs, on terms that are overly generous to them (for example, extremely lopsided financing mechanism and state land at heavily discounted prices). His analysis also weakens the pledges by the political elites to introduce transparency and accountability to the bidding of such projects. More crucially, the unsuccessful industrialisation drive of these GLCs has not only hurt the coffers of the government, but also stunted the country's manufacturing capacity, especially in the heavy industries. Nevertheless, the market power of the GLCs remains strong, particularly in the more regulated economic sectors such as construction.

Despite the above, how do the Malaysian Chinese firms manage the pro-Malay state-society relations? Jesudason (1997) showed that some of the well-capitalised ethnic Chinese firms are adept at forming political alliances with elites from the United Malays National Organisation (UMNO), Malaysia's most influential political party and the chief architect of the NEP, to grow their enterprises. Despite some close ties with the political elites, the ethnic Chinese firms generally receive comparatively less support from the state vis-à-vis the GLCs (see Pua 2011). Moreover, the ethnic Chinese firms that enjoyed state rents, at least during the Mahathir era, were required to apportion these concessions to well-connected Malay firms (and GLCs) (Gomez 2012). In the context of the manufacturing sector at least, Studwell (2013) showed that Malaysia's adoption of the NEP, especially its selection of the GLCs over the country's most successful ethnic Chinese firms in the ISI programmes, has proven to be a double-edged sword for some of these ethnic Chinese firms. While they have been overlooked in terms of state support, they are also allowed to operate with much less surveillance from the Malaysian state vis-à-vis firms enjoying state support. Their less-monitored status has provided them with a degree of freedom to pursue other kinds of business activities, usually related to their core businesses. To this end, some of the ethnic Chinese firms have indeed been hugely successful at exploiting their expertise in the manufacturing industry. For instance, Oriental Holdings Berhad (owned and managed by the Loh family) set up a plant in Penang to assemble Honda motorcycles as early as 1969. The experience gained from assembling motorcycles helped the firm expand into related manufacturing activities with greater added value, such as car assembly and the design and production of vehicle compo-

nents (Gomez 2002). However, many ethnic Chinese firms are increasingly unable to upgrade their technical and managerial know-how to compete in the more knowledge-intensive operations of newer (manufacturing-related) economic activities such as modular electrical/ electronic production and biomedical research (Henderson and Phillips 2007).

Overall, the ethnic Chinese firms are still able to thrive in this discriminating environment not only because of political support, but also because of their strong entrepreneurial ability and their recourse to the socioeconomic networks that the various ethnic- and clan-based trade associations provide them with, which have roots dating back to the pre-independence era. While the well-capitalised ethnic Chinese firms have gradually moved away from these socioeconomic networks, many of the country's ethnic Chinese firms (particularly those in industries that enjoy relatively low capital intensity, such as trading and services) are still reliant on these networks (see Jesudason 1997; Zwart 2007). In addition to Malaysian state's reliance on the GLCs to participate in the economy directly, and its ambivalence to ethnic Chinese firms, the state also courts FDI to fuel its economic growth. Apart from the sectors in which the GLCs are protected, such as automobile manufacturing and domestic construction projects, the state has generally adopted a liberal attitude towards foreign capital. As a result, foreign investors are generally not averse to investing in sectors in which the GLCs are absent or inactive. An example of this type of inward FDI-induced growth is the vibrant and export-oriented electronics sector in the northern state of Penang (Henderson and Phillips 2007).

As a result of the protection of the GLCs and the resilience of the ethnic Chinese firms, both of which were already big players in the economy prior to the 1997 Asian financial crisis, they have been able to further cement their status as the 'movers and shakers' of the economy in the years following the crisis. For the GLCs, Menon and Ng (2013) illustrated that the large and growing presence of GLCs has been crowding out private investment in the Malaysian economy since 1997. While there has not been a similar study on whether the ethnic Chinese firms have crowded out the Malaysian economy, what is certain is that many of them (particularly the well-capitalised and well-connected ones) are able to resist a government intent on wealth redistribution along ethnic lines, which is an achievement in itself. Nevertheless, the dominance of the ethnic Chinese firms is not as strong as that of the GLCs, especially in economic sectors such as construction, in which state support is a crucial factor in their success. Many of these firms are especially active in sectors

in which the GLCs are less active, such as small- and medium-scale manufacturing, trading, and services. More importantly, the significant market power of both groups of firms puts them in a good position to form commercial ties with foreign investors, primarily to acquire technology and other expertise. These Malaysian firms are often able to dictate the terms of such collaboration, expanding the business without losing much of their autonomy (Gomez 2002; Jomo 2007).

In many of the collaborations that link the GLCs and foreign capital, the Malaysian state has played a significant role in influencing the bargaining process between the GLCs and the relevant foreign firms. There is also a common perception that the state has frequently gone out of its way to help 'selected' firms (especially the GLCs) to form commercial tie-ups with foreign firms (Gomez and Jomo 1999; Jomo 2007; Pua 2011). For instance, Proton Holdings Berhad – a GLC – was established in 1985 as a 70/30 joint venture between the Heavy Industries Corporation of Malaysia Berhad (HICOM), itself a GLC, and the Mitsubishi Group of Japan (Hasan and Jomo 2007). In exchange for a protected domestic market – Proton was exempted from a 40 per cent tariff on imported knock-down car kits and paid only half of the tariff on other components (Studwell 2013: 267) – and generous royalty for the provision of technology, components, training, and other miscellaneous items, the state required the Japanese firm to transfer its expertise to HICOM and other local firms. Former Prime Minister Mahathir was also known to intervene personally at crucial moments in some of the more critical bargaining processes (Abbott 2003). Although the Malaysian state has only enjoyed mixed success (at best) in embedding the operations of Mitsubishi within its territory and promoting the technology and skills transfer to HICOM and other Malaysian entities (for example, the local content of Proton cars and other brands assembled in Malaysia increased from only 10 per cent before 1980 to over 60 per cent by 1990 (Studwell 2013: 121)), these 'bargaining chips' dangled by the Malaysian state were (and still are) extremely costly to the taxpayers. In the form of subsidies per se, it cost a total of 11–12 billion Malaysian Ringgit (MYR) (equivalent to 2.9–3.2 billion USD (based on the exchange rate of that particular period of time)) up until the mid-1990s. Meanwhile, the full cost of the Proton project is difficult to estimate (Wain 2009).

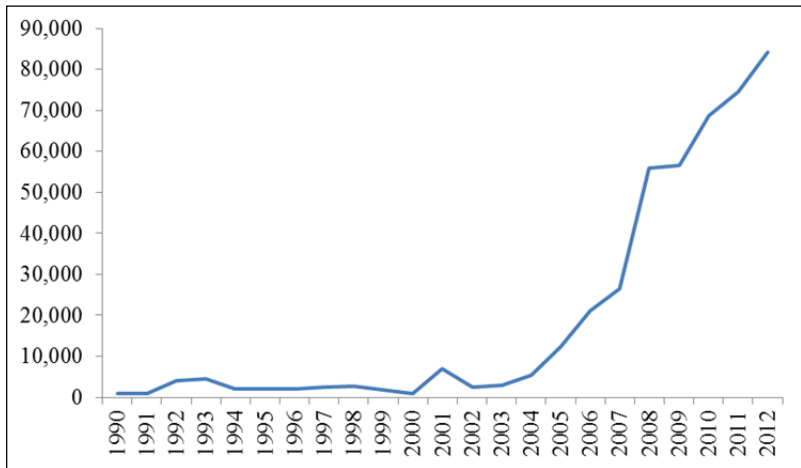
The above paragraphs have showcased the ability of mainland Chinese firms to navigate opaque business environment (for example, forging joint ventures with well-connected firms from the host countries) when they invest abroad, and the receptiveness of Malaysian (GLCs and ethnic Chinese) firms to establish alliances with foreign firms investing in

Malaysia. The above paragraphs also allude to the need to examine the political economy of the home and host countries (China and Malaysia respectively), focusing on their capitalist development process. Such a perspective sheds light on the coalition partners of mainland Chinese firms in their investment into Malaysia, and the different developmental outcome generated by such investment.

China’s Investment in Malaysia

Figure 1 depicts the outward flow of China’s FDI between 1990 and 2012. It can be observed that the outward FDI was relatively low during the 1990s, but escalated exponentially after 2000. While China remains the most attractive country in the world in terms of FDI, it has also become one of the largest investors since the turn of the century (see UNCTAD 2012).

Figure 1: China’s Outward Flow of Foreign Direct Investment at Current Prices and Current Exchange Rates, 1990–2012 (millions of USD)

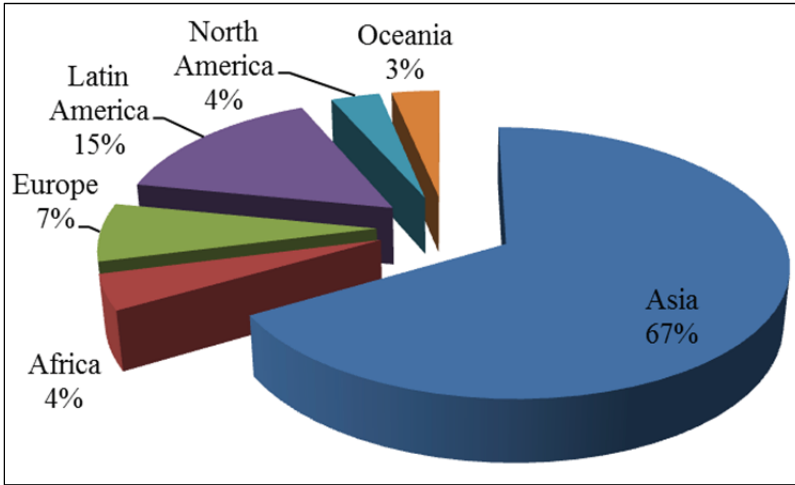


Source: United Nations Conference on Trade and Development.

Geographically, China’s outward flow of FDI is unevenly distributed across the continents, with its investments mostly going to Asia (67 per cent) and Latin America (15 per cent) (see Figure 2) between 2003 and 2012. Within Asia, Hong Kong is the largest recipient, capturing 84 per cent of Chinese outward FDI in the region. Hong Kong’s low tax and

business-friendly environment is much appreciated by investors, including those from China.

Figure 2: Geographical Distribution of China’s Outward Flow of Foreign Direct Investment, 2003–2012 (per cent)

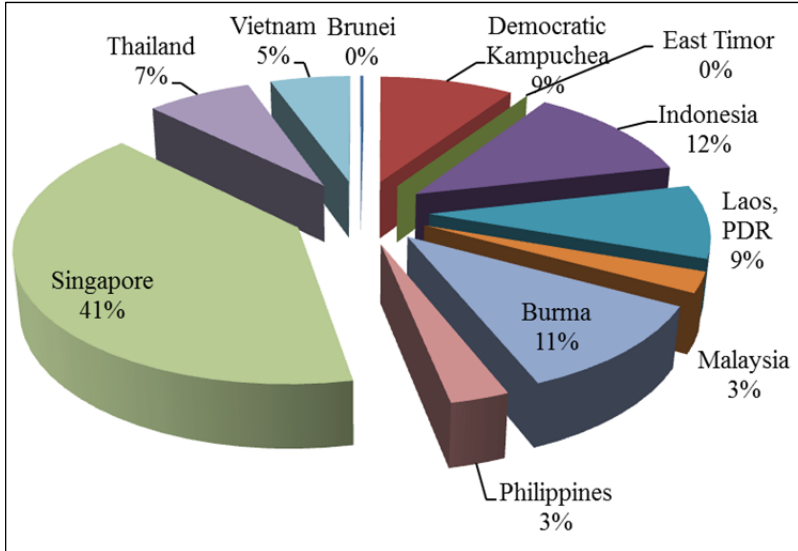


Source: CEIC Data Manager.

Within Southeast Asia, Singapore is the largest recipient of China’s outward flow of FDI, capturing 41 per cent of the market share (see Figure 3). Like Hong Kong, Singapore is a top performer in terms of attracting FDI, primarily because of a low tax and pro-business environment. It is also seen as a gateway to the surrounding ‘hinterland’ economies, such as Indonesia and Malaysia (see UNCTAD 2012). The second and third largest recipients in the region are Indonesia (12 per cent) and Burma (11 per cent) respectively, but the gap between them and the top spot is significant. Malaysia, on the other hand, is only able to garner 3 per cent of China’s outward FDI designated for Southeast Asia.

Malaysia has relied predominantly on FDI from the Western bloc, Singapore, and Japan – its ‘traditional’ sources of FDI – to drive its growth (Jomo 1994). Therefore, as noted in previous sections, mainland Chinese FDI is still relatively new and modest in value vis-à-vis those originating from the ‘traditional’ sources. More specifically, China has only started to invest more proactively into Malaysian shores since 2010 (*Business Times* 2013).

Figure 3: Geographical Distribution of China's Outward Flow of Foreign Direct Investment in Southeast Asia, 2003–2012 (per cent)



Source: CEIC Data Manager.

Predictably, there is a corresponding lack of research and empirical data on mainland Chinese outward FDI entering Malaysia. While detailed statistics on such investments are not available at this point of time, statements from the Malaysian political and commercial elites (documented in secondary sources) suggest that the mainland Chinese firms invest chiefly in the basic metal (mining and manufacturing), and construction industries (see Bao 2012; *Business Times* 2013; Lee and Ong 2013).

These two industries are also those in which Malaysia's ethnic Chinese firms and GLCs are most active at (see also Menon and Ng 2013). From this perspective, it appears that the mainland Chinese firms have decided to participate in relatively mature economic sectors, either by themselves or by cooperating with other (Malaysian) firms. However, it is difficult to articulate such a position without detailed research on the subject. The following sections provide some empirical data on Chinese outward FDI into Malaysia, unpacking this issue and the identities of the partners (if any) of the mainland Chinese firms. More importantly, those sections also explore the reasons sustaining such collaboration, and how they relate to Malaysia's political economic situation.

Methodology

This paper used a mixed method approach, comprising personal interviews with knowledgeable parties and a reliance on secondary sources, to collect and analyse data on the mainland Chinese firms investing in Malaysia and their major coalition partners. As Yeung and Liu (2008) asserted in their research on the outward FDI of mainland Chinese firms, more conventional research methodologies are inapplicable because of the relatively recent and sometimes obscure activity of mainland Chinese firms. The empirical analysis is based on primary data collected through personal interviews with parties that are familiar with the operations of mainland Chinese firms that have invested in Malaysia; namely, active members of the Klang Chinese Chamber of Commerce and Industry (KCCCI), especially those that have regular business interactions with mainland Chinese firms. In addition, officers from the Malaysian trade and investment promoting agencies were interviewed, as were political and business analysts. I also referred to secondary data published by the Ministry of Commerce (China), the United Nations Conference on Trade and Development (UNCTAD), and the CEIC Data Manager, as well as academic works (e.g., Deng 2003; Buckley et al. 2007; Taylor 2008; Yeung and Liu 2008; Wei 2010; Sutherland and Ning 2011; Davies 2012).

Thirty-six mainland Chinese firms were identified and in-depth interviews were conducted with KCCCI members, trade and investment promoting officers, and political and business analysts between November 2013 and December 2013. The perspective of these parties is important as they were well-informed on the investment strategies and the operating mechanism of mainland Chinese firms in general. These interview sessions were open-ended and semi-structured, with a focus on the main coalition partners of these firms in their investments in Malaysia. In particular, the paper explored how and to what extent cooperation with the two main players of the Malaysian economy – the ethnic Chinese firms and the GLCs – helps improve the mainland Chinese firms' access to resources and business prospects. It also analysed the sector-specific circumstances driving the internationalisation process of these firms. All of the interview sessions were conducted in Malaysia.

Throughout the research, it became apparent that many of the mainland Chinese firms surveyed were SOEs. Only 10 of the 36 firms were classified as non-SOEs.² This number is within expectations, as

2 The non-SOEs are Gansu Chamber of Commerce, Country Garden Holdings Company Ltd, Zhouda Real Estate Group, Perfect World Company Ltd, and

Chinese SOEs have traditionally played a leading role in China's overseas investment (see Scissors 2011; Cary 2013). Some of the SOEs (such as Guangxi Beibu Gulf International Port Group Ltd, Macrolink Real Estate Company Ltd, and Sinohydro Group) have also invested in more than one business venture in Malaysia. A substantial portion of the mainland Chinese firms (67 per cent) were involved in construction and manufacturing activities, while the rest of their counterparts invested in the other services, agriculture, finance, and information and communication sectors. In addition, a significant proportion of the mainland Chinese firms studied in this paper have invested in Malaysia through joint venture agreements with their coalition partners. Such a discovery is not surprising as Wu (2005) has highlighted that joint ventures are among the most popular modes of cross-border expansion for mainland Chinese firms.

To improve the reliability of the primary data provided by the interviewees, the data was cross-validated with published reports and company websites (if available). The use of these sources of information allowed for data verification and triangulation, which helped to improve data accuracy. Given that several of the themes discussed – mainly ethnic relations and business-state interactions – are considered sensitive in both China and Malaysia, the interviewees were promised confidentiality. Nevertheless, it should be noted that this research was conducted with a relatively small sample size ($n=36$) and under non-random conditions.

Findings

Based on research and qualitative interviews, Table 1 shows that mainland Chinese firms have cooperated with three major coalition partners when they invest into Malaysia: (i) ethnic Chinese firms; (ii) GLCs; and (iii) other entities (that is, non-ethnic Chinese firms and non-GLCs). For these mainland Chinese firms, their choice of coalition partners is not mutually exclusive. In other words, they cooperate with more than one party whenever the need arises. It also shows the distribution of these firms' coalition partners, across and within the economic sectors surveyed. Furthermore, mainland Chinese firms' affinity to the three types of coalition partners varies considerably between the respective economic sectors.

Hopefluent Group Holdings Ltd, Hao Yuan Investment Pte Ltd, Guangzhou R&F Properties Company Ltd, Comtec Solar Systems Group Ltd, Daiyin Textile and Garment Group, and Midea Group respectively.

Overall, half of the mainland Chinese firms prefer to cooperate with the GLCs, while one-third have collaborated with the other entities (that is, neither the GLCs nor the ethnic Chinese firms) and a further 28 per cent of firms have collaborated with ethnic Chinese firms. However, it can be observed that the preference for the three types of coalition partners is uneven from one economic sector to the other. In the construction sector, 76 per cent of the mainland Chinese firms surveyed prefer to cooperate with the GLCs. In comparison, only 18 per cent and 12 per cent of the mainland Chinese firms have collaborated with the ethnic Chinese firms and other entities, respectively. In the manufacturing sector, 43 per cent of the firms have established commercial alliances with the ethnic Chinese firms, and another 43 per cent of them have cooperated with the other entities. Only 29 per cent of the mainland Chinese firms collaborate with the manufacturing GLCs. In the other services, agriculture, finance, and information and communication sectors, 58 per cent of the mainland Chinese firms rely on the other entities as their coalition partners. Meanwhile, 33 per cent of the mainland Chinese firms have collaborated with the ethnic Chinese firms and 25 per cent with the GLCs.

Table 1: Major Coalition Partners of Mainland Chinese Firms Investing into Malaysia

No	Firm	Sector	Ethnic Chinese Firms	GLCs*	Others
1	Beijing Urban Construction Group	Infrastructure (Construction)			X
2	China Harbour Engineering Company Ltd	Infrastructure (Construction)		X	
3	China Three Gorges Project Corporation	Infrastructure (Construction)		X	
4	Export-Import Bank of China	Infrastructure (Construction)		X	
5	Gansu Chamber of Commerce	Infrastructure (Construction)			X
6	Guangxi Beibu Gulf International Port Group Ltd	Infrastructure (Construction)		X	
7	Guangxi Beibu Gulf International Port Group Ltd	Infrastructure (Construction)	X	X	
8	Sinohydro Group	Infrastructure (Construction)		X	
9	Sinohydro Group	Infrastructure (Construction)		X	

No	Firm	Sector	Ethnic Chinese Firms	GLCs*	Others
10	Agile Property Holdings Ltd	Property (Construction)	X		
11	Country Garden Holdings Company Ltd	Property (Construction)	X		
12	Country Garden Holdings Company Ltd	Property (Construction)		X	
13	Greenland Group	Property (Construction)		X	
14	Guangzhou R&F Properties Company Ltd	Property (Construction)		X	
15	Hao Yuan Investment Pte Ltd	Property (Construction)		X	
16	Macrolink Real Estate Company Ltd	Property (Construction)		X	
17	Zhouda Real Estate Group	Property (Construction)		X	
18	Aluminum Corporation of China Ltd	Manufacturing		X	
19	China South Locomotive and Rolling Stock Corporation Ltd	Manufacturing		X	
20	Comtec Solar Systems Group Ltd	Manufacturing			X
21	Daiyin Textile and Garment Group	Manufacturing			X
22	Haier	Manufacturing	X		X
23	Jinan Iron and Steel Group	Manufacturing	X		
24	Shougang Group	Manufacturing	X		
25	Perfect World Company Ltd	Gaming (Other Services)			X
26	Hopefluent Group Holdings Ltd	Property (Other Services)	X		
27	Chery Automobile Company Ltd	Trading (Other Services)	X	X	
28	Diving Best Group	Trading (Other Services)			X
29	Macrolink Real Estate Company Ltd	Trading (Other Services)			X
30	Midea Group	Trading (Other Services)	X	X	
31	TCL Corporation	Trading (Other Services)		X	

No	Firm	Sector	Ethnic Chinese Firms	GLCs*	Others
32	China Sinochem Group Corporation	Agriculture	X		
33	Bank of China Ltd	Finance			X
34	Industrial and Commercial Bank of China Ltd	Finance			X
35	Huawei Technologies Company Ltd	Information and Communication			X
36	ZTE Corporation	Information and Communication			X

Note: * Government-linked companies.

Source: Author's estimation based on interviews and secondary sources.

Discussion

The findings of this paper highlight a few salient points. Firstly, the finding about the number of mainland Chinese firms that have cooperated with the GLCs, with ethnic Chinese firms and with other entities reaffirms the perception that the GLCs play a (perhaps overly) dominant role in the Malaysian economy. Their dominance is, in turn, attributed to the history and political economic development of the country, both of which have been shaped especially by the ethnocentric NEP. Although critics have argued that the implementation of the NEP is arbitrary and often used as a vehicle for political patronage (see Gomez and Jomo 1999; Ooi 2013), it has undeniably encouraged the formation of various GLCs to promote interethnic equality (in principle, at least). The ethnic Chinese firms have also thrived, to some extent, in spite of their ethnic minority status. Although it is difficult to pinpoint any single factor for their success, it must be stressed that the more successful ethnic Chinese firms have occasionally been able to secure some form of political support. However, such support is rather limited vis-à-vis the support enjoyed by the GLCs. In view of the strong economic representation of both the ethnic Chinese firms and the GLCs and their links to the authorities, it is only logical for foreign investors (including those from China) to collaborate with these *'Di Tou She'* (the literal meaning of this Chinese business term is 'local snakes' and refers to capable local firms, usually with good connections) (personal communication, 29 November 2013). Such a development is also not surprising, given that both the ethnic Chinese firms and the Malay-centric GLCs are adept at forming commercial ties with foreign investors whenever the need arises (see Lim

2015). The mainland Chinese firms that have not depended on the GLCs and the ethnic Chinese firms are a testament to Malaysia's (somewhat selective) economic openness. However, like the ethnic Chinese firms of Malaysia, their presence is also circumscribed by the redistributive nature of the NEP, as shown below.

Secondly, the mainland Chinese firms' preference for the ethnic Chinese firms, the GLCs, and other entities is not uniform across all economic sectors. In the construction sector, for example, 76 per cent of the mainland Chinese firms have cooperated with the GLCs, compared to the 18 per cent and 12 per cent that opted for ethnic Chinese firms and other entities, respectively. This preference for the GLCs can be explained by the inherent nature of the construction sector, particularly its reliance on accessing state resources (primarily land and the awarding of projects) and the large capital outlay involved (usually accompanied by a long gestation period). Under such a scenario, it is conceivable that the mainland Chinese firms would be tempted to work with the GLCs as their close ties to the government confer them with some form of 'political advantage' as far as the distribution of state resources is concerned. More importantly, the seemingly opaque nature of Malaysian state's awarding of large and costly construction projects to a 'select' group of firms, especially the GLCs, has been well documented by some opposition lawmakers (see Pua 2011) and academics (see Gomez and Jomo 1999). Despite the state's pledge to introduce transparency and accountability to the bidding of construction projects, many of these projects have been habitually awarded to some of the GLCs that are allegedly aligned to the country's most powerful politicians, with minimal or no competition involved (Gomez and Jomo 1999).

The state also exerts a significant influence in this sector of the economy as it has been willing to provide the relevant GLCs with favourable (or lopsided) terms, particularly generous financing schemes, state land at discounted prices, and longstanding and lucrative concession agreements (Pua 2011). These issues were raised by almost all of the respondents interviewed. The situation is further exacerbated by the lack of transparency regarding the operations of these GLCs. An example is the controversy surrounding the 1Malaysia Development Berhad (1MDB), the GLC joint venture partner of the Export-Import Bank of China in the development of the landmark tower in the Tun Razak Exchange (TRX), the country's new financial district (see Table 1; Firm

No. 4).³ More specifically, opposition lawmakers and financial analysts have questioned the seemingly high debt level accumulated by the 1MDB, which reached 38.4 billion MYR (12.2 billion USD) in August 2013. This debt level is even more worrying as it has been accumulated “against a backdrop of paltry profits, derived largely from the shuffling of assets [...] and the revaluation of properties purchased at steep discounts from the government” (Lopez 2013). There is also some disquiet regarding the alleged transfer of large sums of money (about 7 billion MYR (2.2 billion USD)) to an offshore account in the Cayman Islands (see Vinod 2013).

Another infrastructure project that has generated some speculation that the GLCs are benefiting unfairly from the good relationship that they have with the state is the Malaysia-China Kuantan Industrial Park (MCKIP) (see Table 1; Firm No. 7). According to Lee and Ong (2013), a high-level Malaysia-China joint venture consortium is to spearhead the development of the MCKIP. In this joint venture, the Malaysians hold a 51 per cent equity stake in the consortium, with SP Setia Berhad (one of the largest GLCs in the construction sector) leading the Malaysian side. The Pahang state government and Rimbunan Hijau Group (an ethnic Chinese firm), the other two entities in the Malaysian consortium, are expected to play a more passive role (Khor 2013). Some of the respondents in this manuscript have noted that the Rimbunan Hijau Group is well established among Malaysia’s ruling elites (personal communication, 23 December 2013). A respondent has even branded it a ‘crony’ (personal communication, 20 November 2013). China’s 49 per cent equity in the consortium is held by Guangxi Beibu Gulf International Port Group Ltd, a SOE experienced in infrastructure projects. In addition to its involvement in the MCKIP, Guangxi Beibu Gulf International Port Group Ltd has also entered into another joint venture with IJM Berhad (another GLC) to deepen and expand the nearby Kuantan Port (see Table 1; Firm No. 6).

3 A political analyst revealed that the 1MDB is closely linked to Najib Razak (the incumbent Prime Minister) and his aides, although there is no solid evidence proving such a claim (personal communication, 10 December 2013). Officially, the entity is wholly-owned by the state via the Ministry of Finance, and it reports directly to the Prime Minister (Sidhu 2009). Some of the interviewees expressed a similar opinion on this issue, stressing that the 1MDB is an unknown quantity with minimal track record in the construction sector. They also argued that the primary reason that this GLC has secured one of the largest and highest-profile construction projects in the country is its close ties to its political masters (personal communication, 16 December 2013).

Some analyses of these two landmark infrastructure projects have suggested that both these deals are motivated not purely by economic concerns. Khor (2013) highlighted that both of these two infrastructure projects are located in Prime Minister Najib's home state of Pahang. In addition, these deals were announced in the immediate months preceding Malaysia's 13th general election, the most hotly contested elections ever and one in which the ruling coalition (headed by UMNO) suffered its worst electoral performance (winning only 133 spots in the 222-seat Parliament and losing the popular vote to the opposition). Fuelling the sentiment that these two projects were awarded to firms close to Malaysia's political elites is the speculation that these projects are linked to two other significant (but obscure) land deals. The first relates to a swap arrangement for land in China involving SP Setia Berhad, while the second land deal, at the MCKIP itself, is said to include the conversion of some state-controlled land for the use of the industrial park (Khor 2013). During the interview sessions with the respondents, none of them expressed awareness about these land deals. My own secondary research has also yielded little information on these land deals.

While this paper does not suggest any wrongdoings by the 1MDB, the Malaysian firms involved in the MCKIP consortium, and IJM Berhad, it is nevertheless difficult to convince neutral observers that their joint venture agreements to develop the landmark tower in the TRX, the MCKIP, and the Kuantan Port with their respective mainland Chinese partners, would be conducted in an arm's-length manner, in view of the allegations surrounding the GLCs (especially the 1MDB) involved in these projects. The manner in which these high-profile construction projects have been parcelled out suggests that the mainland Chinese firms are not able to choose their coalition partners freely. Mainly because of the state's ability to channel resources to some of the GLCs, the mainland Chinese firms would need to actively target the Malaysian firms (in this case, the GLCs) with the potential to win such contracts on terms favourable to the GLCs. The fact that these high-value construction projects are the almost-exclusive domain of GLCs such as the 1MDB and SP Setia Berhad also implies that the likelihood of mainland Chinese firms taking part in these projects is slim without collaboration with the GLCs. Within this context, the Malaysian state – through its control of state resources (that is, the power to award construction projects at less-than-competitive terms) and its close relationship to the GLCs – is able to enhance its bargaining position and reduce the autonomy of the mainland Chinese firms. In other words, the obligated form of embeddedness is present in the construction sector as the state has

exerted effective control over the mainland Chinese construction firms and strongly influenced the form that their involvement can take. While this observation reinforces existing research highlighting the tendency of mainland Chinese firms to form joint ventures with well-connected firms from the FDI recipient states (see Wu 2005; Mensah 2010), it does not support the argument concerning the propensity of mainland Chinese firms to dictate these investment on their own terms (cf. Michel and Beuret 2009; Moyo 2012; Hiep 2013).

Meanwhile, there is a different dynamic in the manufacturing sector, illustrated by a high incidence of alliance – 43 per cent in both cases – between the mainland Chinese firms and their Malaysian Chinese counterparts, and between the mainland Chinese firms and other entities. The proportion of mainland Chinese firms opting for the GLCs stands at a comparatively low 29 per cent. Why, then, is there such a strong preference for the ethnic Chinese firms, and the non-GLCs and non-ethnic Chinese firms? Such an outcome can be partly explained by the Malaysian Chinese firms' ability to exploit their expertise in the manufacturing industry without state support. Parallel to this development is the failure of the state to cultivate competitive and sustainable manufacturing GLCs, despite considerable resources having been allocated for such purposes (especially in the heavy industries); such points have been raised by Wain (2009) and Studwell (2013), both renowned experts on Malaysia's political economy. One business analyst revealed that most of the manufacturing GLCs underperform because they are essentially the products of a misguided industrialisation drive by the Malaysian government (personal communication, 22 November 2013). This view is echoed by a trade-promoting officer who claimed that running a manufacturing business is inherently difficult, and the ethnic Chinese firms usually outperform their GLC counterparts because the former is exposed to the realities of the marketplace and is therefore more adept at managing the operations (personal communication, 22 November 2013).

Such a situation best exemplifies Ji Kang Dimensi Sendirian Berhad and Hiap Teck Venture Berhad (both firms are owned and managed by Law Tien Seng, a prominent Malaysian Chinese entrepreneur), the joint venture partners of Jinan Iron and Steel Group and Shougang Group (both large mainland Chinese steelmakers), respectively (see Table 1; Firm No. 23 and 24). Law has been an active player in the Malaysian and Asian steel industry for a number of decades, but he was largely ignored by the Malaysian state during the country's heavy industrialisation growth during the 1980s. Ambivalence from the authorities, combined with his own entrepreneurial drive, allowed Law to explore other oppor-

tunities within and without the steel industry. According to *RM Research* (2012), Law's business portfolio has since expanded from the distribution and manufacturing in steel-related products to the mining, property investment and development, and food and beverage industries. Within the steel industry, Law's group of companies has moved from its humble beginnings in steel pipe fabrication to steadily acquire the ability to make more complex steel products. Furthermore, Law's extensive network of contacts and rich corporate experience in China has made him a good coalition partner for mainland Chinese firms (in this case, the Jinan Iron and Steel Group and Shougang Group) intending to invest into Malaysia.

In addition, both the GLCs and the ethnic Chinese firms have not been particularly active in the manufacturing of more technologically-intensive and newer types of products, such as solar wafer and modular electrical/electronic modules. Therefore, mainland Chinese firms in these areas have invested into Malaysia without needing to rely on the GLCs and the ethnic Chinese firms for their technical expertise or market knowledge. To this end, Comtec Solar Systems Group Ltd, Daiyin Textile and Garment Group, and Haier have all invested in fully-owned Malaysian subsidiaries to manufacture solar wafer, textile-related products, and household appliances, respectively, fulfilling their corporate objectives without the need for a local coalition partner (see Table 1; Firm No. 20, 21, and 22). Haier has collaborated with the ethnic Chinese firms in its distribution and sales network, while keeping its manufacturing competence in-house.⁴ This is an expected event, as the Malaysian state has generally adopted a rather liberal attitude towards industries in which the GLCs are weak at. This point was made by Henderson and Phillips (2007) in their research into Malaysia's industrial policy.

Put another way, the state's failure to cultivate competitive manufacturing GLCs – despite substantial public investments – effectively makes the choice of coalition partners a straightforward one. Unlike the situation in the construction sector, embeddedness takes an active form here: the mainland Chinese firms enjoy greater freedom in seeking out localised assets (for example, the marketing know-how of the ethnic Chinese firms and/or cheap labour sources) and incorporating them into

4 An ethnic Chinese wholesaler of household electronics goods (including Haier products) offered his assessment on Haier's twin-pronged approach in Malaysia: 'Haier is very smart. It knows that it has to depend on the trade network of the local ethnic Chinese firms. The GLCs cannot offer them this kind of market reach, especially in small towns. But, they are also afraid of us stealing their manufacturing technique, so they keep their core manufacturing activities in-house' (personal communication, 23 December 2013).

their operations. In this case, the mainland Chinese firms have been largely successful in doing this without significant obstacles from the regulatory practice of the Malaysian state. This shows that the embeddedness of their inward FDI (and the local level development opportunities that such FDI generates) is not only tempered by the host country's investment regulation, but also their own business strategies and the broader industry dynamic of their specific manufacturing activities (see Havice and Reed 2012). This observation supports existing scholarship (see Michel and Beuret 2009; Hiep 2013) that highlights the tendency of mainland Chinese firms to dictate their overseas investment on their own commercial terms, which in turn circumscribes the spinoffs that such FDI could generate for the FDI recipient states. However, there is not enough information from the current findings to determine the long-term effects of this business practice on Malaysia's manufacturing sector.

In the other services, agriculture, finance, and information and communication sectors, more than half (58 per cent) of the mainland Chinese firms rely on other entities as their coalition partners. In contrast to their counterparts in the construction (12 per cent of which cooperate with other entities) and manufacturing sectors (43 per cent of which cooperate with other entities), mainland Chinese firms participating in the other services, agriculture, finance, and information and communication sectors display a higher tendency to collaborate with non-ethnic Chinese firms and non-GLCs. Meanwhile, 33 per cent of the mainland Chinese firms have collaborated with ethnic Chinese firms and 25 per cent have collaborated with GLCs. Mirroring the cross-border cooperation pattern of the manufacturing sector, the GLCs are not the most popular choice for the mainland Chinese firms. This observation can be explained by the relative lack of presence of the GLCs in these sectors. In other words, these sectors are comparatively more open to market participation by non-GLCs. For example, the generally low capital requirement and ease of operation of the other services sector is especially attractive to the ethnic Chinese firms of Malaysia. In their collaboration with the mainland Chinese firms, they are also able to tap into the cross-border socioeconomic networks that the various ethnic- and clan-based trade associations confer them with (see Zwart 2007).

Overall, active embeddedness has taken place in the other services, agriculture, finance, and information and communication sectors. The GLCs do not possess any clear advantages over the ethnic Chinese firms and other types of firms (non-GLCs and non-ethnic Chinese firms) because of the comparatively more liberalised and open nature of these sectors. This makes it difficult for the state – through the encouragement

of joint ventures between the mainland Chinese firms and the GLCs – to capture a large share of the value that these investments generate within Malaysian territories. In other words, although the Malaysian government has managed to entice the mainland Chinese firms to embed (partially) in these sectors, it still cannot effectively ‘coerce’ them to invest beyond their core (and narrow) business goals, which has limited the potential spinoffs of such FDI (Havice and Reed 2012).

Conclusion

This paper has analysed the major coalition partners of 36 mainland Chinese firms that have invested into Malaysia. Overall, I have argued that a large portion (half) of the mainland Chinese firms have cooperated with the GLCs in their cross-border investments, while a smaller percentage have cooperated with the ethnic Chinese firms (28 per cent of all firms), and other entities; that is, neither the GLCs nor the ethnic Chinese firms (33 per cent of all firms). This reaffirms the assertion that the GLCs play a dominant role in the Malaysian economy, a role that has been attributed to the history and capitalist development of the country, both of which are shaped particularly by the ethnocentric NEP. For the GLCs, their rise and subsequent domination of the economy is a direct result of state support. Although the ethnic Chinese firms receive markedly less state support vis-à-vis the GLCs, it is still able to emerge as a useful coalition partner for the mainland Chinese firms investing into Malaysia. Despite its less dominant presence in the economy compared to the GLCs, many of the ethnic Chinese firms have consolidated their positions, excelling in less regulated sectors such as trading and services. In addition, their growth is helped by the longstanding presence of on-the-ground ethnic Chinese business network across the country and Asia at large. The sizeable contingent of mainland Chinese firms that have not depended on the GLCs and the ethnic Chinese firms in their Malaysian investment are a testament to Malaysia’s (partial) economic openness. Nevertheless, the mainland Chinese firms’ reliance on other entities is also circumscribed by the redistributive nature of the NEP.

More specifically, the preference of mainland Chinese firms for the ethnic Chinese firms, the GLCs, and other entities is not uniform across the economic sectors. The preference for the GLCs decreases from the construction sector (76 per cent) to the manufacturing sector (29 per cent), and to the other services, agriculture, finance, and information and communication (25 per cent) sectors. Such a trend highlights the close relationship between the GLCs and the government in the construction

sector, an advantage that the GLCs have exploited effectively. Their position provides them with better access (*vis-à-vis* other firms) to state resources such as land and concession agreements, major advantages in any kinds of enterprise (especially the construction sector). On the other hand, the preference for the ethnic Chinese firms increases from a lowly 18 per cent in the construction sector to 43 per cent in the manufacturing sector and 33 per cent in the other services, agriculture, finance, and information and communication sectors. It is apparent that the ethnic Chinese firms are not able to secure state support as effectively as the GLCs in the construction sector, which reduces the likelihood of cooperation with mainland Chinese firms.

Nevertheless, the lack of state support indirectly provides the ethnic Chinese firms with some freedom to expand into other less-regulated economic sectors (outside of the construction sector) in which the presence of the GLCs are comparatively weaker. Their eventual success in these sectors has made themselves worthy coalition partners for mainland Chinese firms investing into Malaysia. The preference for the other entities increases from 12 per cent in the construction sector to 43 per cent in the manufacturing sector and 58 per cent in the other services, agriculture, finance, and information and communication sectors. Mirroring the cross-border cooperation pattern of their mainland Chinese counterparts who have relied on the ethnic Chinese firms, this group of mainland Chinese firms has exploited the greater economic liberty in sectors in which the participation of the GLCs is less active.

This paper has debunked the popular view that FDI recipient states are powerless to influence the investment behaviour of firms (represented in this paper by the mainland Chinese firms). I have argued that, under specific conditions, their investment can be shaped to meet the state's objectives. In the construction sector, for instance, the prospect of participating in lucrative construction projects has enticed various mainland Chinese firms to invest into Malaysia. However, the Malaysian state, through its control of state resources (primarily land and the awarding of projects), has adopted various 'soft' measures to control the form that such investments could take. To this end, the state's legacy and continued practice of providing the GLCs in the construction sector with preferential treatment to achieve interethnic socioeconomic parity has encouraged the mainland Chinese firms to establish commercial ties with the GLCs as their close relationship to the government confers them with some 'advantage' as far as the distribution of state resources is concerned. Consequently, the FDI from the mainland Chinese firms shows obvious features of obligated embeddedness as the Malaysian

state's unique bargaining position has allowed it to shape the local-level development of the construction sector.

Nevertheless, obligated embeddedness is not detected outside the construction sector. The state has enjoyed markedly less success in nurturing cooperation between the mainland Chinese firms and the GLCs, predominantly because of two reasons: the failure to establish competitive GLCs in the manufacturing sector, and the relative lack of presence of the GLCs in the more liberalised environment of the other services, agriculture, finance, and information and communication sectors. As a result, the mainland Chinese firms possess more bargaining power vis-à-vis the state when they invest in these sectors, enjoying considerable autonomy in the selection of their coalition partners. As Havice and Reed (2012) asserted, one must be careful and contextual in conceptualising active and obligated embeddedness in research. Echoing this assertion, the different levels of embeddedness within the sectors examined in this paper illustrate that a state's control of assets located within its territory and the related local-level development are tempered by each firm's business strategy, the broader industry dynamic of the specific economic sector, and the state's political economic imperative.

References

- Abbott, Jason (2003), *Developmentalism and Dependency in Southeast Asia: The Case of the Automotive Industry*, London: Routledge.
- Bao, Chang (2012), Chinese Investors Flocking to Malaysia, in: *China Daily*, 30 October.
- Buckley, Peter, Jeremy Clegg, Adam Cross, Xin Liu, Hinrich Voss, and Ping Zheng (2007), The Determinants of Chinese Outward Foreign Direct Investment, in: *Journal of International Business Studies*, 38, 4, 499–518.
- Business Times* (2013), China Investments On the Rise Here, 5 October.
- Cary, Eve (2013), SOEs Declining Role in China's Foreign Investment, in: *The Diplomat*, 3 July.
- Davies, Ken (2012), Outward Foreign Direct Investment from China and Its Policy Context, in: *China: An International Journal*, 10, 1, 51–61.
- Deng, Ping (2003), Foreign Investment by Multinationals from Emerging Countries: The Case of China, in: *Journal of Leadership and Organizational Studies*, 10, 2, 113–124.
- Dicken, Peter (2011), *Global Shift: Mapping the Changing Contours of the World Economy*, New York: The Guilford Press.

- Gomez, Edmund Terence (2013), Nurturing Bumiputera Capital: SMEs, Entrepreneurship and the New Economic Policy, in: Edmund Terence Gomez and Johan Saravanamuttu (eds), *The New Economic Policy in Malaysia: Affirmative Action, Ethnic Inequalities and Social Justice*, Singapore: NUS Press, ISEAS Publishing, Strategic Information and Research Development Centre, 87–115.
- Gomez, Edmund Terence (2012), The Politics and Policies of Corporate Development: Race, Rents and Redistribution in Malaysia, in: Hal Hill, Siew Yean Tham, and Haji Mat Zin Ragayah (eds), *Malaysia's Development Challenges: Graduating from the Middle*, Oxford: Routledge, 63–82.
- Gomez, Edmund Terence (2002), Chinese Business Development in Malaysia: Networks, Entrepreneurship or Patronage?, in: Thomas Menkhoff and Solvay Gerke (eds), *Chinese Entrepreneurship and Asian Business Networks*, London: RoutledgeCurzon, 159–183.
- Gomez, Edmund Terence, and Kwame Sundaram Jomo (1999), *Malaysia's Political Economy: Politics, Patronage and Profits*, Cambridge: Cambridge University Press.
- Gomez, Edmund Terence, and Johan Saravanamuttu (eds) (2013), *The New Economic Policy in Malaysia: Affirmative Action, Ethnic Inequalities and Social Justice*, Singapore: NUS Press, ISEAS Publishing, Strategic Information and Research Development Centre.
- Hasan, Hasli, and Kwame Sundaram Jomo (2007), Rent-Seeking and Industrial Policy in Malaysia, in: Kwame Sundaram Jomo (ed.), *Malaysian Industrial Policy*, Singapore: NUS Press, 157–178.
- Havice, Elizabeth, and Kristin Reed (2012), Fishing for Development? Tuna Resource Access and Industrial Change in Papua New Guinea, in: *Journal of Agrarian Change*, 12, 2-3, 413–435.
- Henderson, Jeffrey, and Richard Phillips (2007), Unintended Consequences: Social Policy, State Institutions and the ‘Stalling’ of the Malaysian Industrialization Project, in: *Economy and Society*, 36, 1, 78–102.
- Hiep, Le Hong (2013), The Dominance of Chinese Engineering Contractors in Vietnam, in: *ISEAS Perspective*, 4, 1–8.
- Jesudason, James (1997), Chinese Business and Ethnic Equilibrium in Malaysia, in: *Development and Change*, 28, 1, 119–141.
- Jomo, Kwame Sundaram (ed.) (2007), *Malaysian Industrial Policy*, Singapore: NUS Press.
- Jomo, Kwame Sundaram (ed.) (1994), *Japan and Malaysian Development: In the Shadow of the Rising Sun*, London: Routledge.

- Khor, Yu Leng (2013), The Significance of China-Malaysia Industrial Parks, in: *ISEAS Perspective*, 37, 1–8.
- Lee, Cassey (2012), Microeconomic Reform in Malaysia, in: Hal Hill, Siew Yean Tham, and Haji Mat Zin Ragayah (eds), *Malaysia's Development Challenges: Graduating from the Middle*, Oxford: Routledge, 155–173.
- Lee, Regina, and Han Sean Ong (2013), Malaysia-China Kuantan Industrial Park Open for Business, in: *The Star*, 5 February.
- Lim, Guanice (2015), The Internationalization of Mainland Chinese Firms into Malaysia: Choosing the 'Right' Partners, in: *International Journal of China Studies*, (forthcoming).
- Liu, Weidong, and Peter Dicken (2006), Transnational Corporations and 'Obligated Embeddedness': Foreign Direct Investment in China's Automobile Industry, in: *Environment and Planning A*, 38, 7, 1229–1247.
- Lopez, Leslie (2013), Special Report: Debt-Laden Malaysian Fund Stirs Controversy, in: *The Edge*, 7 August.
- Marston, Hunter (2012), Bauxite Mining in Vietnam's Central Highlands: An Arena for Expanding Civil Society?, in: *Contemporary Southeast Asia*, 34, 2, 173–196.
- Menon, Jayant, and Thiam Hee Ng (2013), *Are Government-Linked Corporations Crowding out Private Investment in Malaysia?*, ADB Economics Working Paper Series, 345, 1–17.
- Mensah, Chaldeans (2010), China's Foray into Africa: Ideational Underpinnings and Geoeconomic Interests, in: *African Journal of Political Science and International Relations*, 4, 3, 96–108.
- Michel, Serge, and Michel Beuret (2009), *China Safari: On the Trail of Beijing's Expansion in Africa*, New York: Nation Books.
- Moyo, D. (2012), *Winner Take All: China's Race for Resources and What It Means for the World*, New York: Basic Books.
- Ooi, Kee Beng (2013), The New Economic Policy and the Centralisation of Power, in: Edmund Terence Gomez and Johan Saravanamuttu (eds), *The New Economic Policy in Malaysia: Affirmative Action, Ethnic Inequalities and Social Justice*, Singapore: NUS Press, ISEAS Publishing, Strategic Information and Research Development Centre, 317–334.
- Pereira, Alexius, and Chee Kiong Tong (2005), Power and Developmental Regimes in Singapore, China and Malaysia, in: *Global Economic Review: Perspectives on East Asian Economies and Industries*, 34, 1, 129–144.

- Pua, Tony (2011), *The Tiger that Lost Its Roar: A Tale of Malaysia's Political Economy*, Kuala Lumpur: Democratic Action Party.
- RM Research (2012), Initiating Coverage: Golden West Resources Ltd, 13 December.
- Sauvant, Karl (2013), Challenges for China's Outward FDI, in: *China Daily*, 31 October.
- Scissors, Derek (2011), Chinese Outward Investment: More Opportunity Than Danger, in: *The Heritage Foundation*, 3 December.
- Shome, Anthony, and Hamidon Syahira (2009), The Contradiction of Entrepreneurship through Affirmative Action: The Case of Malaysia, in: *The Copenhagen Journal of Asian Studies*, 27, 1, 38–66.
- Sidhu, Jagdev (2009), Terengganu Investment Authority to be Federal Body, in: *The Star*, 22 July.
- Studwell, Joe (2013), *How Asia Works: Success and Failure in the World's Most Dynamic Region*, New York: Grove Press.
- Sutherland, Dylan, and Lutao Ning (2011), Exploring 'Onward-Journey' ODI Strategies in China's Private Sector Businesses, in: *Journal of Chinese Economic and Business Studies*, 9, 1, 43–65.
- Taylor, Ian (2008), Sino-African Relations and the Problem of Human Rights, in: *African Affairs*, 107, 426, 63–87.
- UNCTAD (2012), *World Investment Report 2012: Towards a New Generation of Investment Policies*, Geneva: United Nations Conference on Trade and Development.
- Vinod, G. (2013), Explain 1MDB Fund Transfer to Cayman, in: *Free Malaysia Today*, 23 April.
- Vu, Tuong (2010), *Paths to Development in Asia: South Korea, Vietnam, China, and Indonesia*, New York: Cambridge University Press.
- Wain, Barry (2009), *Malaysian Maverick: Mahathir Mohamad in Turbulent Times*, Hampshire: Palgrave Macmillan.
- Wei, Ziyi (2010), The Literature on Chinese Outward FDI, in: *Multinational Business Review*, 18, 3, 73–112.
- Wu, Friedrich (2005), China Inc., International: How Chinese Companies Have Discretely Internationalized Their Operations, in: *The International Economy*, Fall 2005.
- Yeung, Henry Wai-Chung, and Weidong Liu (2008), Globalizing China: The Rise of Mainland Firms in the Global Economy, in: *Eurasian Geography and Economics*, 49, 1, 57–86.
- Zwart, Esther (2007), (Re)Creating the Comfort Zone: From Common Ethnicity towards Commonwealth: The Transnationalisation Process of Malaysian Chinese Small and Medium Enterprises, in: *East Asia*, 24, 195–211.