CHINESE CORRIDORS *in* MALAYSIA

KEY TAKEAWAYS

- China's Belt and Road Initiative (BRI), launched in 2013, aims to revive the great Silk Road linking it with Europe through billions of dollars of infrastructure investment across six economic corridors.
- Over the coming decades, the development of the built environment, whether infrastructure or logistics related and in the form of new townships or urban settlements along the Belt Road link, will be considerable.
- Malaysia, strategically positioned along the Belt Road link, offers many advantages in terms of abundant resources, good growth potentials and similarities in culture due to historical ties. The country can be China's gateway to Asean and beyond. In fact, Malaysia has seen an upsurge of BRI related investments with China emerging as one of its largest foreign investors in recent years.
- In November 2016, the Prime Minister led an entourage of government ministers and business leaders in a visitation to China and recorded new level of of bilateral relations with 14 business to business (B2B) Memorandums of Understanding (MOUs) and agreements worth RM144 billion (US$33.8 billion) in various areas such as trade and investment, development of technology parks as well as supply of goods and services.
- Further to that, another 16 government to government (G2G) MOUs and agreements were also signed and they include the RM55 billion (US$13 billion) in soft loans by China for the East Coast Rail Link (ECRL) and also the Malaysia-China Kuantan Industrial Park (MCKIP) in Pahang.
- During the Belt and Road Forum held in Beijing in May 2017, another nine B2B MOUs with total value of circa RM31 billion (US$7.2 billion) were inked.
- The close ties between the two countries have also led to the appointment of Jack Ma, founder of China's e-commerce giant – Alibaba Group, as Malaysia's digital economy adviser in late 2016 and the subsequent formation of the KLIA Aeropolis Digital Free Trade Zone (DFTZ) Park in Sepang, Selangor. The latter, Alibaba's first regional hub outside China, will be a boost to Malaysia's e-commerce roadmap.
- China's Zhejiang Geely Holding Group's entry as a strategic partner of Proton Holdings Bhd (49.9% stake), may revive the ailing national car company. Geely which also owns Sweden's Volvo Car Group, expects to make inroad into the expanding South-East Asia automobile market via the partnership.
- Moving forward, China investment will continue to transform Malaysia, particularly in the manufacturing, construction, infrastructure, property and e-commerce sectors.
- Melaka is building the RM12.5 billion Kuala Linggi International Port (KLIP), financed by belt-road funds from China. Chinese investors and contractors are also involved in the building of the RM8.9 billion Gemas-Johor double-tracking railway and the RM55 billion East Coast Rail Link (ECRL). The ECRL acts as a land bridge between Port Klang and Kuantan Port and other ports along the East Coast of the peninsula. The improvement of the local infrastructure with the involvement of the Chinese will strengthen economic, cultural and diplomatic relations between both nations.
- In the southern state of Johor, the on-going US$100 billion 'eco city' project known as Forest City, is billed as the next 'Shenzhen'. Launched in 2014, the mega project consists of four reclaimed islands spanning 2,025 hectares and is being developed by Country Garden Pacific View (CGPV), a joint venture between Guangdong-based, Hong Kong listed Country Garden and local partner, Esplanade Danga 88 over a 20-year period. Despite facing scrutiny due to its behemoth size and China's capital outflow policy, the project continues to progress albeit at a slower pace backed by its developer's strong financial and construction foundations. It has just entered its second phase. The international project with a newly opened sales gallery in Kuala Lumpur, targets global investors and homebuyers from countries / territories like the Middle East, India, Vietnam, Thailand, Japan, and Taiwan.
- China's capital control may have slowed down the inflow of Chinese private capital for investment purposes, and Malaysia is no exception. In the local property scene, we now see a trend where there are more Chinese developers making inroads into the market via joint ventures where there is less strain on capital flow compared to outright land purchase.

Allan Sim
Executive Director of Capital Markets
Knight Frank Malaysia

"The rise in China's presence across the Asia Pacific region is significant. Malaysia's strategic positioning along the Belt and Road link promises revolutionary transformations in terms of the country's real estate landscape as well as significant infrastructure projects i.e. ports, bridges, railways, etc., with extensive participation by Chinese firms. China also plays a pivotal role in developing Malaysia's digital economy, giving rise to rapid development of Malaysia's logistics and industrial sector. The team at Knight Frank Malaysia is ready and well positioned to capture this huge wave of opportunities driven by the BRI."

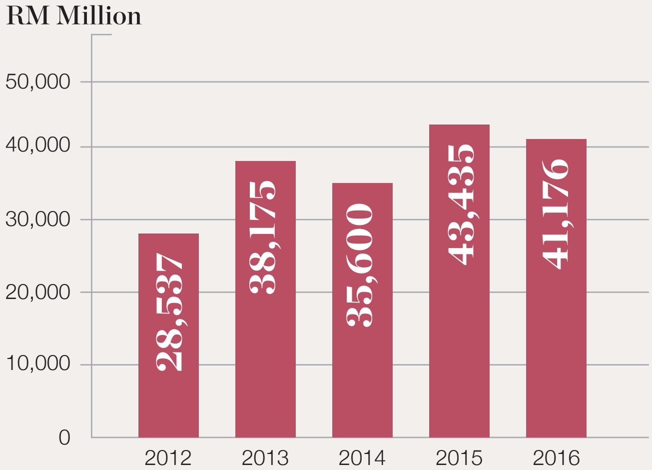
Sarkunan Subramaniam
Managing Director
Knight Frank Malaysia

"China's BRI is the catalyst that will turn the balance of power towards the east. Its BRI policy comes at a time that many of its neighbours need China's capital to boost their economy. Whilst the capital controls will slow China's private capital investments in the BRI, the State owned companies continue their plan to invest in Port and Rail infrastructure to ensure 'all roads now lead to China'. Trade as we know it will change in less than 10 years from now as a result of the BRI with China's dominance. Malaysia's strategic location in the BRI route can propel it to a key regional ally to China's BRI plan reaping economic benefits for itself in the process."

INTRODUCTION

There is no question that Foreign Direct Investment (FDI) inflows into Malaysia have been seeing a recovery of late. According to data from the Department of Statistics Malaysia (DOSM), FDI surged from RM35,600 million in 2014 to RM43,435 million in 2015. Despite significant decline in global FDI and FDI inflows to developing economies of 13% and 20% respectively in 2016, Malaysia continued to remain attractive amongst investors, recording RM41,176 million in FDI inflows, only circa 5% lower than 2015.

FDI INFLOWS TO DEVELOPING ECONOMIES



Source: *Department of Statistics Malaysia (DOSM)*

In 2016, the services sector recorded higher FDI inflows to RM20.9 billion (2015: RM12.6 billion) while for the manufacturing sector, FDI inflows declined from RM17.1 billion in 2015 to RM11.0 billion in 2016.

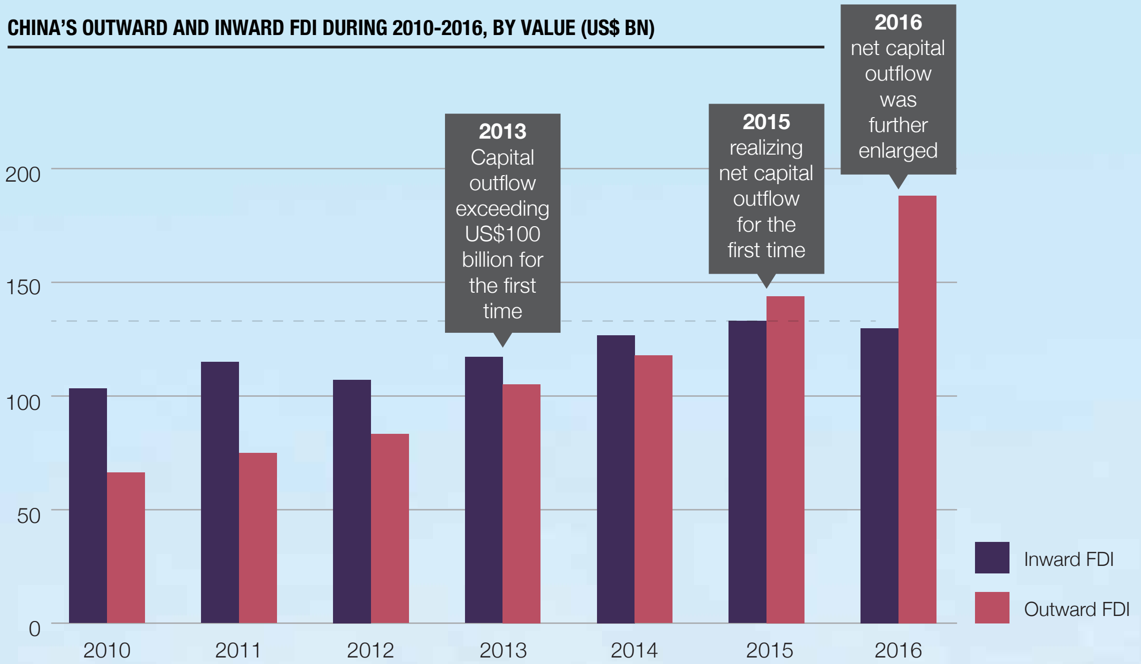
As for total approved investments, it increased circa 8% to register at RM207.9 billion in 2016 (2015: RM193.0 billion) with domestic and foreign investment ratio of 72% to 28%. The services sector led with investment of RM141.2 billion (68%), followed by the manufacturing sector with RM58.5 billion (28%).

In the manufacturing sector, China (RM4.7 billion) and the Netherlands (RM3.2 billion) were the main sources of FDI inflows, followed by Germany, the UK and Republic of Korea (source: Malaysia Investment Development Authority [MIDA]).

CHINA - *THE RISING TIDE*

China has been aggressively investing outside of its waters. In the fifth issue of an Ernst & Young (EY) report "China Go Abroad", 2016 was a record year for China's outward FDI, recording a total of US$188.8 billion. This accounts for a 30% year-on-year growth. Chinese enterprises in 2016 also announced 622 overseas mergers and acquisitions (M&As), totalling US$221.7 billion, a 147% year-on-year growth.

CHINA'S OUTWARD AND INWARD FDI DURING 2010-2016, BY VALUE (US$ BN)



Source: *EY Report - China Go Abroad (5th Issue)*

China's 13th Five Year Plan (2016 – 2020) set a shift in the country economic focus, from heavy industry and manufacturing towards more sustainable oriented economic forms through innovation, service and retail, infrastructure and overseas expansion. This creates boundless opportunities for both its domestic and foreign focused businesses.

The devaluation of the Renminbi (RMB) and stock market turbulence had also contributed to market uncertainty, which has led to investor wariness of further policy intervention. With this, Chinese investors have realised a need for diversification, in particular, overseas.

Malaysia is one of the key beneficiaries of FDI from China as part of its expansion in the region through the Belt Road Initiative (BRI).

Besides investing heavily in the country's manufacturing sector, we are also seeing significant Chinese investments in the infrastructure, logistics, construction, and real estate segments.

WHY MALAYSIA?

Strategically positioned along the Belt Road link, Malaysia can be China's new gateway to Asean and beyond - providing tremendous opportunities to access new markets and diversify local products and services. Through strong historical ties and good bilateral relations cementing close co-operations between the two countries, Malaysia continues to benefit from economic growth and the upsurge of BRI related investments.

Since 2009, Malaysia has maintained its pole position as China's largest Asean trading partner. As of 1H2017, Malaysia-China bilateral trade expanded 28% to RM139.2 billion supported by a 41% surge in exports to RM59.8 billion – mainly in the electrical & electronic (E&E) products, petroleum products, chemicals and chemical products, rubber products and liquefied natural gas (LNG) (source: Malaysia External Trade Development Corp [Matrade]).

From November 2016 till May 2017, a total of 23 business to business (B2B) Memorandums of Understanding (MOUs) totalling some RM175 billion (US$20.2 billion) were inked between the two countries in various areas such as trade and investment, development of technology parks as well as supply of goods and services. This is in addition to another 16 government to government (G2G) MOUs and agreements that include the RM55 billion (US$13 billion) in soft loans by China for the East Coast Rail Link (ECRL) and also the Malaysia-China Kuantan Industrial Park (MCKIP) in Pahang.

In the real estate segment, Malaysia continues to attract Chinese investors seeking a cheaper alternative to Australia, Hong Kong and Singapore. From 2002 till June 2017, some 9,283 Chinese citizens (or 27% of approved applications, the single biggest nationality) have been granted residency under the Malaysia My Second Home (MM2H) programme. Other foreign citizens who have benefited from this policy include 4,303 Japanese, 3,656 Bangladeshis and 2,465 British / Irish.

It is noted that many Chinese contractors are also involved in major infrastructure and construction projects across the country.

As for the tourism industry, Malaysia's visa exemption and eVisa programme for Chinese tourists in 2016 has led to a surge in visitor arrivals. China is ranked third in terms of tourist arrivals to Malaysia, after Singapore and Indonesia. The number of arrivals from China surged from 1.68 million in 2015 to 2.12 million in 2016. For the first eight months of 2017, Malaysia welcomed a total of 1.52 million visitor arrivals from China.

All in all, the above developments are positive for Malaysia as the country stands to reap enormous benefits from the successful roll-out of China's 'project of the century'.

China has continued to invest heavily in the country's manufacturing sector although we are also seeing significant Chinese investments in other market segments, notably infrastructure, logistics, construction, and real estate.

CHINESE FOOTPRINT ON *MALAYSIAN REAL ESTATE*

In the built environment, Chinese participation comes in the form of investors, developers and construction companies.

Besides the strong bilateral relations between the two countries, other pull factors that attract the Chinese interest to Malaysia include tightening of China's housing policies and its moderating economy, the BRI as well as Malaysia's strategic position within the Asia Pacific and Asean region and its proximity to Singapore, supported by a stable government, good growth potential, investor friendly guidelines, and lower entry cost for property development.

Four of the top 10 Chinese developers in 2017, by contracted sales value have made inroads onto the Malaysia property market. They are Country Garden (ranked first with 581 billion yuan); China Vanke (No. 3); Greenland Group (No. 6) and China Overseas Land & Investment (No. 7). China Fortune Land Development, ranked at eighth position and Greentown China, ranked tenth, have also indicated interest in the Malaysia property development industry including the Bandar Malaysia.

The combined sales of the top 10 Chinese developers amounted to 3.19 trillion yuan.

Sources:
Guandian Index, SCMP

Other notable Chinese developers with presence in the country are Guangzhou R&F Properties, Macrolink International Land (Malaysia) Sdn Bhd and Agile Property Holdings Ltd.

The majority of these Chinese companies have formed joint ventures with local builders to jointly undertake property developments involving resorts, mixed-use components, retail space, and residential products. However, the sheer size of selected projects has stoked overcapacity concerns amid a weak property market environment.

The following lists notable real estate projects with Chinese Companies' participation, some of which are on-going whilst others are in the planning stage.

NOTABLE REAL ESTATE PROJECTS WITH CHINESE COMPANIES' PARTICIPATION

Year	Projects / *Type of Development*	Parties	Location	Approximate Land Size (acres)	Gross Development Value (GDV) / Investment
WILAYAH PERSEKUTUAN KUALA LUMPUR					
2013	Four Seasons Place *Mixed Development*	China Railway Construction Corp (contractor) & Venus Assets Sdn Bhd	KLCC	2.7	Estimated GDV: RM3 billion (Slated for completion by end of 2017)
2014	Agile Mont' Kiara *High-End Residential*	Agile Real Estate Development (M) Sdn Bhd & PJ Development Holdings Berhad	Mont' Kiara	10	Estimated GDV: RM1.4 billion Investment: RM186 million
2015	Redevelopment of Plaza Rakyat *Serviced Apartment*	Pavillion Treasures Land Development Sdn Bhd (subsidiary of Debao Property Development Ltd) & Gabungan Tiasa Sdn Bhd (JV 82:18)	Jalan Pudu	15.3	Estimated GDV: RM6-RM8 billion Investment: RM740 million
2016	3rdNvenue *Mixed Development*	CREC Development (M) Sdn Bhd & Titijaya Land Berhad (JV 30:70)	Embassy Row, Jalan Ampang	6.06	Estimated GDV: RM2.1 billion (4 phases in 7 years)
2017	Development Land	China Vanke Co Ltd & City Centre Sdn Bhd	Jalan Raja Chulan	7.4	Purchase of Land: RM500 million
SELANGOR					
2013	Country Garden Diamond City *Township Development*	Country Garden Holdings & Malaysia Land Properties Sdn Bhd (Mayland Group) (JV 55:45)	Semenyih	Phase 1: 100 Phase 2: 158	Estimated GDV: Plot A: RM710 million Plot B: RM1.7 billion
2014	Serendah Project *Integrated Development*	Country Garden & Malaysia Land Properties Sdn Bhd (Mayland Group) (JV 55:45)	Serendah	167	Estimated GDV: RM535.92 million
2015	Paragon @ KL Northgate *Mixed Development*	MCC Overseas (M) Sdn Bhd & Harvest Court Construction Sdn Bhd & KL Northgate Sdn Bhd (developer)	Selayang	18	Estimated GDV: RM3.6 billion
MELAKA					
2014	Melaka Gateway *Mixed Development – Harbour Project*	PowerChina International Group Ltd & KAJ DevelopmentSdn Bhd (JV 49:51)	Melaka	1,366 (Melaka Gateway)	Estimated GDV: RM42 billion
JOHOR					
2012	Country Garden, Danga Bay *Integrated Development*	Country Garden Holdings	Danga Bay	57.11 (23 hectares)	Estimated GDV: RM18 billion
2013	Greenland Jade Palace, Danga Bay *Resort Hotels and Residential Developments*	Greenland Group	Danga Bay	13.96	Estimated GDV: RM2.2 billion Investment: RM600 million
2013	Danga Bay *Integrated Development*	Hao Yuan Investments Pte Ltd (Singapore-based mainly owned by mainland Chinese shareholders) & Iskandar Waterfront Holdings (IWH) (JV 60:40)	Danga Bay	~ 37 (15 hectares)	Estimated GDV: RM8 billion
2013	Princess Cove @ Tanjung Puteri (6 sites) Integrated Development	Guangzhou R&F Properties	Tanjung Puteri	116 (46.94 hectares)	Estimated GDV: RM24.5 billion
2013	Paradiso Medini (Phases 1 & 2) Luxury Condominium	Zhuoyuan Iskandar Sdn Bhd (subsidiary of Zhouda Real Estate Group) & Medini Iskandar Malaysia Sdn Bhd (JV 80:20)	Medini	Phases 1 & 2: 16	Estimated GDV Phase 1: RM400 million Phase 2: TBC Development Period: > 7 years
	Phase 3	Zhuoyuan Group		Phase 3: N/A	Estimated GDV: RM1.5 billion
2014	The M-Macrolink Medini Integrated Development	Macrolink International Land (Malaysia) Sdn Bhd	Medini (Zone B)	11.7	Not available
2014	Forest City Integrated Development	Country Garden Group & Esplanade Danga 88 Sdn Bhd (JV 66:34)	Near Tanjung Kupang (4 reclaimed islands)	5,004 (2,025 hectares)	Estimated GDV: RM420 billion Development Period: > 20 years
2015	Greenland Tebrau Bay Integrated Development	Greenland Group & Iskandar Waterfront City Berhad (JV 80:20)	Tebrau Bay,	128	Estimated GDV: RM20 billion
2015	Seafront Land (Project Name: TBC)	China Vanke Co. Ltd	Johor Bahru	~148 (60 hectares)	Investment: US$1.12 billion
2016	Central Park @ Tampoi Integrated Township	Country Garden Management Sdn Bhd & Damansara Realty Bhd (JV 70:30)	Tebrau Corridor	53	Estimated GDV: RM4.6 billion
PAHANG					
2016	Kuantan Waterfront Resort City Integrated Development	CCCC Dredging Group Ltd Bina & Puri Holdings Bhd	Kuantan	500	Estimated GDV: RM15 billion
NEGERI SEMBILAN					
2016	Seremban 2 Integrated Development	China Railway Liuyuan Group & Paramount Blossom	Seremban	77	Estimated GDV: RM650 million
SABAH					
2017	The Shore Mixed Use Commercial Development	CREC Development (M) Sdn Bhd & Titijaya Land Berhad (Joint project)	Kota Kinabalu	1.82	Estimated GDV: RM575 million (total)

Source: *Knight Frank Research / various sources*

COUNTRY GARDEN: *WHAT'S NEXT?*

Image Source:
Country Garden Pacificview Sdn Bhd

Country Garden Group is one of the first Chinese developers to debut in Malaysia with its maiden project, Country Garden Danga Bay in 2012/2013. The 57-acre integrated development with an estimated gross development value (GDV) of RM18 billion won the Asia Pacific Property Award 2014 - 2015 for Commercial Landscape Architecture, Malaysia.

To date, the group has no less than five projects in Malaysia with GDV totalling some RM445 billion.

Its mega project, the US$100 billion Forest City development, launched in 2014, is administered by Country Garden Pacificview Sdn Bhd (CGPV), a joint-venture between Guangdong-based Country Garden Holdings Co Ltd, China's third largest homebuilder, and Esplanade Danga 88 Sdn Bhd, a Malaysian company. CGPV seeks to attract diverse multinationals, investors and property companies for the development of eight key industries in Forest City - education, e-commerce, foreign investment, tourism, MICE (meetings, incentives, conferencing and exhibitions), entrepreneurship, financial services and retirement destination. Last year, the international project reportedly sold 17,000 apartments to buyers from 23 countries, including Malaysia.

The recent capital outflow restriction imposed by the Chinese government, however, has inevitably affected sales of the project, which counts Chinese buyers as its primary source of customers. To diversify its target market, the company is setting up show galleries in the Middle East, India, Vietnam, Thailand, Japan and Taiwan to attract global investors and home buyers.

Country Garden Pacificview Sdn Bhd has also recently opened a new sales gallery for its Forest City developments at UBN Tower in Kuala Lumpur to strengthen the developer's presence in the international market.

Despite facing scrutiny due to its behemoth size and China's capital outflow policy, the project continues to progress albeit at a slower pace backed by its developer's strong financial and construction foundations. The project has just entered its second phase with proposed components that will include a Jack Nicklaus designed 18-hole golf course and a 5-star hotel.

Country Garden's latest project, a joint-venture with Damansara Realty Bhd, is the 53-acre Central Park@Tampoi development in the Tebrau corridor of Johor. This low-mid to mid-price range project is targeted at the local Malaysian market.

In the short term, China's curb on capital flight may have impacted foreign investment by its home-grown companies and nationals. With Beijing's tightening of regulations leading to slower inflow of Chinese private capital, we now see more developers from China making inroads into the local development scene via joint-venture (JV) arrangements where there is less strain on capital flow rather than outright purchase of land. Vice versa, more small and mid-sized local companies continue to look to China for capital support amid the challenging property market condition. Moving ahead, we expect to see continued interest from Chinese developers partnering local developers in mixed use and township projects that target a wider pool of potential buyers, comprising more locals.

Malaysia remains on the radar of Chinese buyers whose choice of property locations includes Johor Bahru, Penang and Melaka. The country offers a good proposition for Chinese investors supported by its MM2H programme, lower entry cost of property, similarities in food, culture, and language, and well established education hubs that also include Xiamen University Malaysia Campus, China's first overseas university. The BRI is an important investment driver for Malaysia as it is being promoted by the Chinese government.

According to Juwai.com, China's largest international property website, the average price of Malaysian residential real estate that Chinese buyers are most interested in ranges between RM1.2 million and RM3 million with the majority of buyers looking for individual homes and apartments. Chinese demand for Malaysian residential property reportedly increased 138 per cent in the first half of this year compared to one year earlier, and going forward, demand is expected to continue growing.

CHINA'S CAPITAL CONTROL:

2016
Late

- China stepped up measures to stem capital outflows following sharp devaluation of its yuan currency amid a slowing economy and also to curb the rapid decline of the nation's capital reserve.

2017
August 18

- China's State Council and the National Development and Reform Commission issued new rules on overseas mergers and acquisitions where investments are categorized under three categories: banned, restricted, and encouraged. This is in line with the state policy initiatives. Examples of industries under the three categories include the following:

Banned Industries	Restricted Industries	Encouraged Industries
• Military • Gambling • Sex	• Real estate & hotels • Film & entertainment • Sports	• BRI related • Industries that improve China's technology / research & development • Oil, mining, agriculture and fishing related

2017
December

- China's capital controls have proven to be highly effective. The yuan appreciated to 6.51 against the dollar (January 2017: $1=6.94 Chinese yuan renminbi) while the country's foreign-exchange reserve posted an eleventh straight month increase to USD3.14 trillion (January 2017: USD2.99 trillion).

- In the long run, we wish to reiterate our view that the capital controls will not be a permanent measure in the Middle Kingdom, as the continuation of capital controls will prevent China from achieving its long term ambition, which is to internationalize the Renminbi and to make its financial market more international and market-oriented.
- In 2016, the renminbi joins the IMF's special drawing rights (SDR) basket, which determines currencies that countries can receive as part of IMF loans. This clearly shows that China has a strong desire to internationalize the renminbi over time and capital control will not be part of the nation's long term agenda.

BANDAR MALAYSIA: *WHO WILL LEAD?*

Image Source:
1 Malaysia Development Berhad

Bandar Malaysia, the redevelopment of the Sungai Besi Air Force base that was once Malaysia's first international airport, continues to hog the limelight. The mega development spanning 486 acres and its twin project, Tun Razak Exchange (TRX) - the new financial district for Kuala Lumpur, to be undertaken by master developer, 1Malaysia Development Berhad 1MDB will change the cityscape.

While TRX aspires to be the new icon for the financial world leveraging on Malaysia's leadership in global Islamic finance, Bandar Malaysia will involve urban redevelopment to transform the old Sungai Besi Air Force base into a sustainable liveable city.

Envisioned as a world-class city-within-a-city, Bandar Malaysia will be the country's first transit-oriented mixed-use cluster offering seamless connectivity via a high speed rail (HSR) terminus to Singapore, the Express Rail Link (ERL), KTM Komuter and Mass Rapid Transit (MRT) lines 2 and 3. The development will also strive to be a global business hub, retail lifestyle destination, creative enterprise hub and the preferred destination for Gastronomy, Learning, Entertainment and Wellness (GLEW) Tourism.

Whilst there have been significant progressions at TRX; little has changed at Bandar Malaysia since the project was unveiled in 2011. The relocation of the air force base is only scheduled to commence in December 2017.

As of 31st December 2017, the behemoth project had yet to identify a new master developer. However, the government had reiterated that a new master developer will be identified soon. Hence, it will be interesting to see if this will come into fruition in 2018.

TIMELINE

Date	Progress
December 31, 2015	1 Malaysia Development Berhad (1MDB) sold 60% of its equity in Bandar Malaysia Sdn Bhd to IWH-CREC Sdn Bhd, which is a 60:40 joint-venture (JV) between Iskandar Waterfront Holdings Sdn Bhd (IWH) and China Railway Engineering Corporation for RM7.41 billion.
March 21, 2016	China Railway Group Ltd pledged to invest US$2 billion to build a regional centre in Malaysia.
June 17, 2016	The Malaysian government agreed to provide the master developers of Bandar Malaysia and its subsidiaries with incentives such as income exemption for 10 years, exemption from stamp duty (eight years), real property gains tax (eight years), withholding tax (eight years) and exemption from import duty on selected constructed materials not manufactured locally.
May 3, 2017	TRX City Sdn Bhd announced that the Bandar Malaysia development agreement with IWC CREC Sdn Bhd has lapsed and will be inviting expressions of interest for the role of master developer of Bandar Malaysia.
May 9, 2017	China's property giant Dalian Wanda Group is considering to take a major stake in the Bandar Malaysia development.
May 14, 2017	Wanda Group's chairman reiterated that Wanda has the desire to participate in the Bandar Malaysia project during a joint press conference with Prime Minister Datuk Seri Najib Tun Razak at the Sofitel Beijing Hotel owned by Wanda Group.
July 5, 2017	The Ministry of Finance is issuing the request for proposal (RFP) for companies interested in taking part in the Bandar Malaysia project. To qualify for selection, the candidates must fulfil the following criteria: 1. Must be a Fortune 500 company 2. Have a cumulative revenue over three years of RM50 billion from entire value chain of real estate and associated business 3. Have experience in international real estate development projects
July 25, 2017	Dalian Wanda has reportedly abandoned its bid for the Bandar Malaysia project.
August 23, 2017	Treasury secretary-general Tan Sri Mohd Irwan Serigar Abdullah asserts that six companies are vying to be the master developer for the Bandar Malaysia project.

CHINESE INFLUENCE ON *MALAYSIAN INFRASTRUCTURE*

In a country's road to becoming a developed economy, infrastructure plays a vital role in that development. The lack of said infrastructure would hinder the growth of the nation. The same can be said of Malaysia. With Malaysia aiming to become a developed nation by the year 2020, much more has to be done to build up the infrastructure of the nation.

To this end, Chinese companies have seen much potential in the sector. It is a known fact that Malaysia still requires higher levels of infrastructure than it has now, in particular areas outside of Greater Kuala Lumpur.

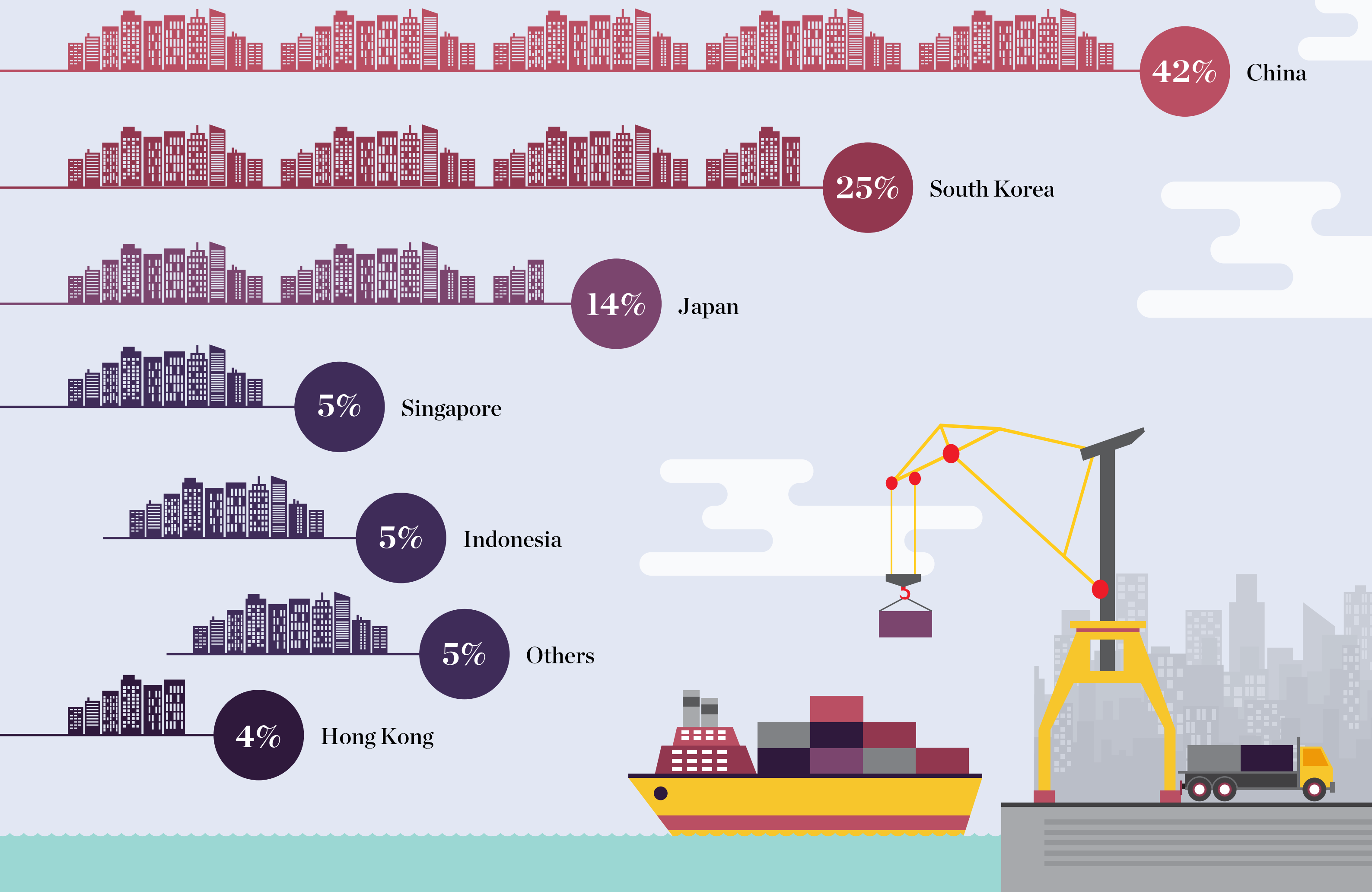
With this, development in transport infrastructure is being stepped up in the country. By 2022, the scheduled completion of some 140km rail link from the completed / on-going / proposed Mass Rapid Transit (MRT) and on-going Light Rail Transit (LRT) line 3 will greatly enhance mobility and connectivity within the Greater KL region and help transform it into a sustainable and liveable metropolis.

The proposed 350km High-Speed Rail (HSR) line, linking Kuala Lumpur and Singapore, billed as a "game changer" for both countries is a step closer to reality following the signing of the Memorandum of Understanding (MoU) between the governments of Malaysia and Singapore in July 2016. The rail project, which has a target completion date of 2026, has attracted strong interest from China-based companies and those from other countries such as Japan, South Korea, France and Germany.

Along with increased participation in the real estate sector, state-owned Chinese companies have also aggressively expanded their footprints in the country's construction sector. This is causing concern among local contractors and developers as competition heightens amid lower volume of construction contracts and competitive pricing as foreign players are at the advantage with certain incentives.

According to the Construction Industry Development Board (CIDB) statistics, foreign contractors clinched 15.4% (or RM19 billion) of total construction project value in Malaysia during the year 2015. Among foreign contractors, Chinese contractors clinched the lion share of 42% or RM8 billion.

VALUE OF PROJECTS BY FOREIGN CONTRACTORS IN % (2015)



China's participation in the infrastructure and construction industry of Asia (including Malaysia) is in line with the BRI as its future is closely tied to Asia. Another reason why Chinese firms are keen to expand in Asean is also due to the fact that they already possess a strong presence in Africa and Middle East and this makes Asean a viable destination for diversification purposes.

NOTABLE INFRASTRUCTURE PROJECTS WITH PARTICIPATION BY CHINESE COMPANIES

Timeline	Projects	Parties	Location	Brief Description
Target Completion 2024	East Coast Rail Link (ECRL)	Contractor: Communication Construction Company Ltd (CCCC) Financing: Export-Import Bank of China (EXIM)	Port Klang - Tumpat	Length / Distance: 620 km Estimated Cost: RM55 billion
Target Completion 2021	Gemas - Johor Electrified Double Tracking Rail	Contractor: A consortium of three China-based companies – China Railway Construction Corp Ltd (CRCC), China Railway Engineering Corp (CREC) and China Communications Construction Corp (CCCC)	Gemas - Johor Bahru	Length / Distance: 197 km Estimated Cost: RM8.9 billion
Target Completion 2018	Kuantan Port Expansion	IJM Corp Bhd & Guangxi Beibu International Port Group (JV 60: 40%)	Gebeng, Kuantan	Enhancement of the New Deep Water Terminal (NDQT) - Double capacity to 52 million freight weight tonnes (FWT) Estimated cost: RM4 billion
Target Completion 2020	Penang Port (Revamp)	KAJ Developments Sdn Bhd & Chinese port operators - Shenzhen Yantian Port Group Co Ltd and Rizhao Port Group Co Ltd (JV)	Penang	Improved port targeted to handle up to 100,000 ships a year Investment Value: RM6.3 billion
Target Completion 2025	Melaka Gateway	KAJ Developments Sdn Bhd & PowerChina International Group Ltd and 2 partners Shenzhen Yantian Port Group Co Ltd and Rizhao Port Group Co Ltd (JV)	Pulau Panjang, Melaka	A development which will include international cruise terminal, integrated deep sea port, container and bulk terminal, shipbuilding and ship repair, maritime industrial park and more. Total Development Cost: RM42 billion
Target Completion 2025-2027	Kuala Linggi International Port (KLIP)	Linggi Base Sdn Bhd (port's project owner: TAG Marine) & China Railway Port Channel Engineering Group Co. Ltd (JV)	Kuala Linggi, Melaka	Expansion of Kuala Linggi Port which opened in 2001 – existing facilities mainly serve the O&G industry Expansion will provide large scale servicing facilities aimed at approximately 100,000 ships a year Estimated Cost: RM12.5 billion
Expected to kick off by 2017	Robotic Future City, Johor	Johor Corp and Siasun Investment Co Ltd (JV)	Johor	To be developed on 404 hectares of land consisting of robotics factory, R&D centre and sales marketing unit. Estimated Cost:RM15 billion
Expected to kick off by 2017 to be developed over 10 years	Kedah Integrated Fishery Terminal (KIFT)	Kedah Government and Lu Hai Feng Ltd (JV)	Kedah	Terminal set to be a base for tuna fishing boats operating in the Indian Ocean. Estimated Cost: RM3 billion
Awarded 2016	MRT Line 2 Sungai Buloh – Serdang -Putrajaya (SSP) Line	China Communications Construction Company Ltd & George Kent (Malaysia) Sdn Bhd (JV: 51:49)	Klang Valley	Engineering, Procurement & Construction Contract Sum: RM1.01 billion (Work Package: trackworks, maintenance vehicles and work trains)
2017	Tun Razak Exchange (TRX)	TRX City Sdn Bhd and Gadang CRFG Consortium Sdn Bhd (Gadang Holdings Bhd JV China Railway First Group Malaysia Bhd on (JV: 51:49)	Jalan Tun Razak, KL	Major traffic dispersion and improvement job worth RM327.91 million

Source: *Knight Frank Research / various sources*

One notable fact about the RM12.5 billion Kuala Linggi International Port (KLIP) that Melaka State is building is that it is being financed by BRI funds from China. The completion of the BRI will alter trade routes in the region, which may divert hundreds of billions worth of trade from Singapore. A large part of this is due to cargo and goods within the region heading for China or vice-versa may bypass the Port of Singapore with the completion of KLIP.

The KLIP is important because the port will be able to serve maritime services such as ship repair, bunkering and maintenance, which are facilities that Pork Klang currently is unable to provide due to limitations.

Other than that, Chinese parties are already involved in the building of the Gemas-Johor double-tracking railway, as well as the highly impactful East Coast Rail Link (ECRL) project worth RM55 billion. In particular, the ECRL will act as a land bridge between Port Klang and Kuantan Port and other ports along the East Coast of the peninsula.

This connection will enable China-bound goods from Port Klang, inland and the north to be moved to Kuantan Port, without having to stopover at Singapore and taking the reverse of the same route. Malaysia-bound goods from China could stop at Kuantan Port, now being deepened and expanded, after plying the South China Sea.

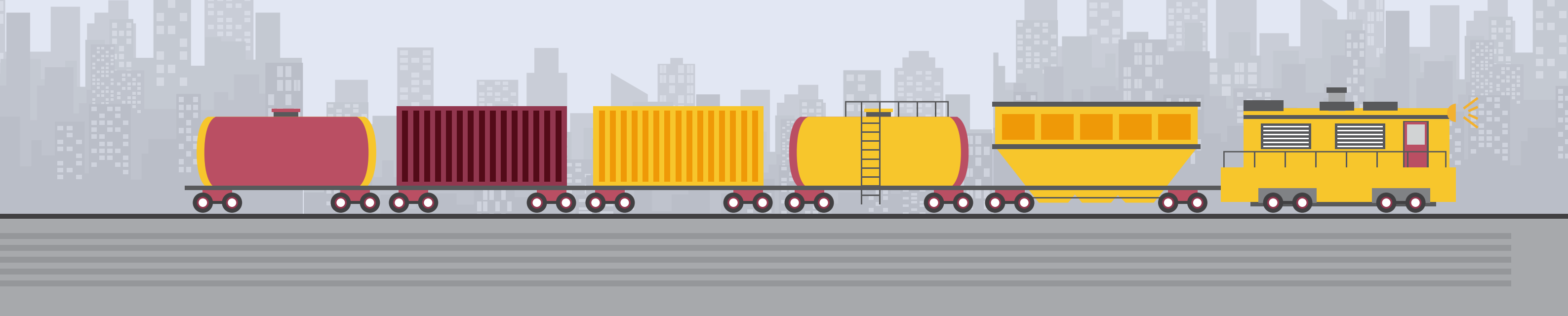
For Malaysia, the Port Klang-ECRL-Kuantan route will not only boost trade volume for the peninsula but will improve the economic and tourism landscape for the East Coast.

In August 2017, Prasarana Malaysia Bhd awarded a major contract worth RM1.56 billion, marking the start of the Light Rail Transit (LRT) line 3 project to a Chinese-German-Malaysian consortium. The consortium consisting of CRRC Zhuzhou Locomotive Co Ltd, Siemens Ltd China and Tegap Dinamik Sdn Bhd will design, supply and commission 42 six-car light rail vehicles for the 37km stretch linking Bandar Utama in Damansara and Johan Setia in Klang.

For the sector, moving forward, we will likely see China keeping a close eye on other Malaysian mega infrastructure projects, which includes the Kuala Lumpur-Singapore High Speed Rail (HSR) via Malaysia and the Pan Borneo Highway in East Malaysia. BRI related investments (BRI), which are linked to the Chinese state-owned enterprises (SOEs), are not affected by the capital control.

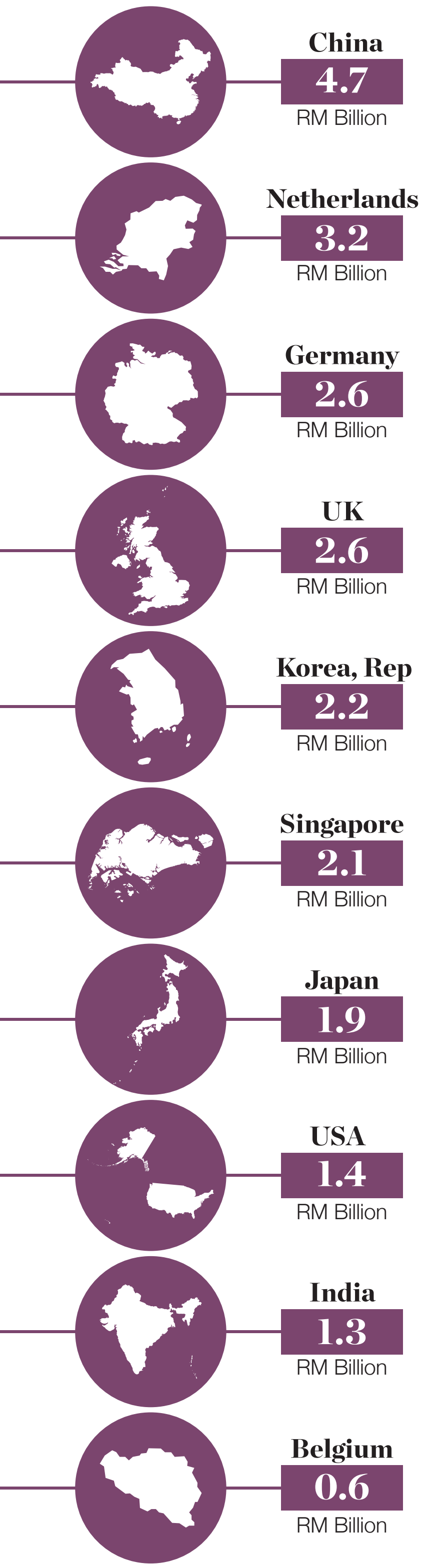
As what is consistent with most infrastructure projects of similar nature, the projects are expected to improve the connectivity, bring out socio-economic impact and a trickle-down domino effect for business. The projects will also facilitate investment particularly in fast growing and key industries such as manufacturing, renewable energy and biotechnology. Infrastructure is the foundation of which business builds upon for growth.

In addition, the improvement of local infrastructure with the involvement of the Chinese will strengthen economic, cultural and diplomatic relations between the countries.



CHINA LEADS MANUFACTURING INVESTMENTS IN MALAYSIA

MANUFACTURING: 2016 SOURCES OF FOREIGN DIRECT INVESTMENT (FDI)



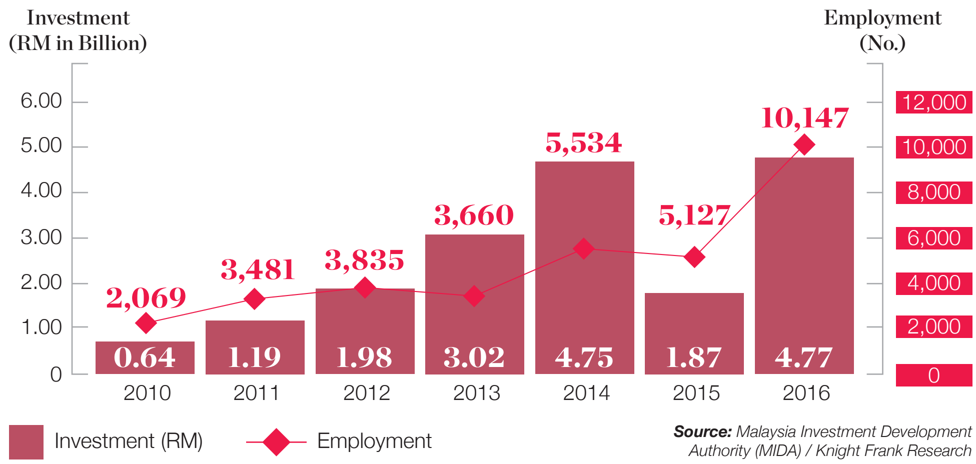
Source: Malaysia Investment Development Authority (MIDA)

Malaysia's manufacturing sector continued its strong growth momentum. In September 2017, manufacturing sales grew 11% to RM65.4 billion compared to RM59.1 billion reported a year ago. The three sub-sectors that contributed some 81% to the manufacturing sales value are the electrical & electronic products; petroleum, chemical, rubber and plastic products; and non-metallic mineral, basic metal and fabricated metal products.

In the manufacturing sector, China became the main source of FDI in 2016. Together with The Netherlands, Germany, the United Kingdom and Republic of Korea, these countries collectively contributed more than half of the country's total approved foreign investment.

In 2016, China invested a total of RM4.77 billion in 33 Malaysian manufacturing projects, compared to 2015 where the figure stands at RM1.87 billion in 17 projects. These projects are expected to generate 10,147 job opportunities. The approved investments from China made up the largest FDI for the period.

APPROVED MANUFACTURING PROJECTS WITH CHINESE PARTICIPATION, 2010 TO 2016



Source: *Malaysia Investment Development Authority (MIDA) / Knight Frank Research*

Among the manufacturing projects, the top industries with Chinese participation are the electronics and electrical products (37.2%); non-metallic mineral products (29.9%) and basic metal products (27.4%).

	2016		
Industry	**Number**	**Employment**	**Foreign Investment (RM)**
Electronics & Electrical Products	8	5,299	1,774,490,000
Non-Metallic Mineral Products	4	1,351	1,428,977,557
Basic Metal Products	1	1,660	1,307,991,280
Fabricated Metal Products	3	615	148,399,650
Wood & Wood Products	4	389	40,237,365
Paper, Printing & Publishing	3	333	24,203,144
Plastic Products	3	264	14,170,521
Chemical & Chemical Products	1	43	12,700,000
Miscellaneous	2	50	10,569,191
Transport Equipment	2	30	7,369,662
Scientific & Measuring Equipment	1	22	5,518,000
Leather & Leather Products	1	91	192,500
Total	**33**	**10,147**	**4,774,818,871**

Source: *Malaysia Investment Development Authority (MIDA) / Knight Frank Research*

Certainly, the increasing interest of Chinese investors in the Malaysian manufacturing sector has much to do with industrial parks and free trade zones. Notable on-going projects with Chinese investors are tabulated below.

NOTABLE CHINESE INVESTMENTS IN THE MANUFACTURING / UTILITY SECTORS

Year	Project Description	Parties	Location	Estimated Employment	Estimated Investment
PAHANG					
2014	3.5 million tonne capacity steel mill	Alliance Steel (M) Sdn Bhd (subsidiary of Guangxi Beibu Gulf Iron and Steel Co Ltd)	Malaysia-China Kuantan Industrial Park (MCKIP)	3,500	RM5.6 billion
2015	Clay porcelain manufacturing	Guangxi Zhongli Enterprise Group Co Ltd Group Co	Malaysia-China Kuantan Industrial Park (MCKIP)	N/A	RM2.0 billion
2015	Manufacturing of renewable energy applications	Zkenergy (Yiyang) New Resources Science & Technology Co Ltd	Malaysia-China Kuantan Industrial Park (MCKIP)	N/A	RM215 million
2016	Crystalline silicon solar cells and modules	Wuxi Suntech Co Ltd	Malaysia-China Kuantan Industrial Park (MCKIP)	5,194	RM4.0 billion
2016	Aluminium component manufacturing facility	Guangxi Investment Group Co Ltd	Malaysia-China Kuantan Industrial Park (MCKIP)	N/A	RM580 million
2016	Production of concrete panels and activated rubber particles from scrap tyres	LJ Hightech Material Sdn Bhd	Malaysia-China Kuantan Industrial Park (MCKIP)	N/A	RM1.0 billion
2014	Manufacturing Plant (Bio-stimulant for soil reconditioning)	Beijing Goldenway Biology Tech Co Ltd	Jengka	N/A	RM600 million
TERENGGANU					
2011	Steel Mill (Production Capacity 700,000 tonne)	Eastern Steel Sdn Bhd, JV Hiap Teck Venture Bhd and China Shougang Group	Kemaman Heavy Industrial Park	Unknown	RM1.8 billion
PENANG					
2015	Solar Panel Factory (PV Cells and Modules)	Jinko Solar Co Ltd	Bayan Lepas Industrial Park	Existing: 1,332 Additional 2,552	Existing: RM310 million Additional: RM482.8 million
2015	Solar Panel Factory (Solar and PV Panels)	JA Solar Malaysia Sdn Bhd	Batu Kawan Industrial Park	200	RM400 million
JOHOR					
Phase 1: 2014 Phases 2 & 3: 2016	Textile Factory	Shandong's D&Y textile and Garment Group	Sedenak Industrial Park	Phase 1: 300 Phases 2 & 3: 1100	Phase 1: RM300 million Phases 2 and 3: RM500 million
PERAK					
2013	Manufacturing and Maintenance Centre	China South Locomotive and Rolling Stock Corporation Ltd, (CSR)	Batu Gajah	800	Phase 1: RM400 million
SELANGOR					
2016	Tyre Factory	Qingdao FullRun Tyre Corp Ltd	Port Klang Free Trade Zone	N/A	RM894 million
NEGERI SEMBILAN					
2015	Construction of Halal Vaccine and Pharmaceutical Plant (for AJ Pharma Holding Sdn Bhd)	GB Asiatic Ventures Group and China Machinery Engineering Corporation (CMEC)	Bandar Enstek	N/A	GDV: RM330 million
MELAKA					
2015	Manufacturing (Clear and coated photovoltaic functional glass)	Xinyi Solar (Malaysia) Sdn Bhd of China	Melaka	600	RM379.4 million
SABAH					
2014	Wood Pulp Mill	China CEC Engineering Corporation	Sipatang	1,000	RM8.9 billion
SARAWAK					
2013	Manufacturing solar ingots and water slicing	Comtec Solar Systems Group Ltd	Sama Jaya High Tech Park	1,300	RM1.2 billion
2016	Integrated manufacturing facility (Solar ingot, water cells and modules)	Longi (Kuching) Sdn Bhd of Xi'an LONGI Materials Corporation	Sama Jaya High Tech Park	2,360	RM1.07 billion
2014	Integrated Steel Plant (Five million tonne steel plant, a cement plant, a coke oven plant, a cold rolling plant, and welded pipe plant in three phases)	Hebei Xinwuan Steel Group and MCC Overseas Ltd	Samalaju Industrial Park, Bintulu	N/A	RM13 billion
OTHERS					
Dec 2016	Purchase of a 51% equity stake in Shell Refining Company	Malaysia Hengyuan International Ltd (Owned by China's Shandong Hengyuan Petrochemical Co Ltd)	N/A	N/A	RM296 million
Feb 2016	Purchase of power assets under Edra Global Energy Bhd	China General Nuclear Power Corporation (CGN)	N/A	N/A	RM9.83 billion

Source: *Knight Frank Research / various sources*

For the sector moving forward, we predict that we will see more interest and investments coming from Chinese investors into the Malaysian manufacturing sector. This future development will be on the back of increasing bilateral relations between Malaysia and China and the BRI by the China government.

With the success current Chinese investors are seeing in the basic metal, electronics and electrical, textiles and textile products and chemical and chemical products industries, it is expected that this will entice more Chinese investors to come in, so long as operational costs, incentives among other factors remain attractive.

Malaysia's highly diversified economy, strong manufacturing foundation, developed infrastructure and connectivity, proactive government policies alongside a sound legal system will continued to create opportunities for the Chinese to invest within and beyond the manufacturing sector.

Meanwhile, the e-commerce boom will put Malaysia on the global logistics map. The appointment of Jack Ma, founder of China's e-commerce company – Alibaba Group, as Malaysia's digital economy adviser, leading to the formation of the KLIA Aeropolis Digital Free Trade Zone (DFTZ) Park in Sepang, Selangor is expected to put Malaysia on the global logistics map. Alibaba's first regional hub outside China augurs well for Malaysia's e-commerce roadmap and its related industries. It is expected to motivate more Chinese manufacturers to set up production facilities here, with further incentives and savings the driving force.

MALAYSIA: *CORRIDORS OF OPPORTUNITY*

REAL ESTATE PROSPECTS

OFFICE:
The oversupplied office market, particularly in the Klang Valley region coupled with the recent property freeze, continues to dampen prospects in this sub-sector. With negative net absorption amid rising supply, there is growing pressure on both rental and occupancy levels and this makes the office segment unattractive in the short to medium term.

RETAIL:
Similar to the office market, the retail property sub-sector is also impacted by a growing mismatch in supply and demand. The situation is exacerbated by weak consumer sentiments with shoppers cutting back on discretionary spending. With the exception of established malls which are mainly situated in prime locations, we foresee that mall operators will continue to struggle with sluggish occupancy rates and rental income.

INDUSTRIAL:
The industrial sub-sector is a bright spot in the property market – the biggest beneficiary in the e-commerce boom. With growing demand for logistics and warehousing space, there is favourable prospect for this sub-sector.

HOSPITALITY:
The prospect for the hospitality sector remains positive supported by Malaysia's thriving tourism industry. The allocation under the 2018 Budget, to further spur the growth of medical tourism industry in the country, will also be supportive of the hospitality sector.

RESIDENTIAL:
Despite the recent luxury property freeze, local demand for residential properties remains buoyant. Developers will continue to review and re-plan their proposed products to cater to the different market segments of homebuyers. Hence, the prospect for the residential sub-sector remains bright as opportunities are still present.

INFRASTRUCTURE:
The Malaysian government remains committed to develop and upgrade the country's infrastructure as the nation makes strides towards becoming a developed economy status by year 2020. The implementation of various mega-scale projects to expand existing ports and to improve the rail / transport networks, will bring much economic and social benefits to the country. There are strong foreign and local interests in these mega projects.

Office Retail Industrial Hospitality Residential Infrastructure

Most Favourable
Favourable
Least Favourable

OUTLOOK

Looking into 2018 and beyond, we expect to see greater capital inflow from China's BRI into Malaysia. Despite China's curb on capital flight, we continue to see keen Chinese interest in the country's rail and port projects as well as in other segments of the market, namely manufacturing, logistics, construction, and real estate.

According to UBS Investment Bank, Malaysia is likely the biggest beneficiary of the BRI in Asean, and second only to Pakistan in all of Asia. In its survey of Chinese corporates investing overseas, UBS found 15 to 25 per cent of 500 large Chinese corporates highlighted that they were looking to invest in Asean – and within Asean highlighted Malaysia as their most preferred destination. And of these large companies wanting to invest in Asean, 90 per cent said they were looking into investing in Malaysia.

Malaysia will continue to attract Chinese investments in the manufacturing sector supported by tariff-free access to regional markets, lower operational costs, tax incentives, amongst other factors. The recent capital control measures are not likely to adversely impact genuine investments and the projects under the G2G initiatives, such as the on-going MCKIP project.

Malaysia's highly diversified economy, strong manufacturing foundation with well-developed transport infrastructure and good connectivity, proactive government policies alongside a sound legal system will continue to create opportunities for Chinese players to invest within and beyond the manufacturing sector.

Already, there is significant existing Chinese investment in the country's major infrastructure and port projects such as the East Coast Rail Link (ECRL); Gemas-Johor Electrified Double tracks; Kuantan Port and Kuala Linggi International Port expansions. The Chinese are also looking to participate in the proposed high speed rail (HSR) project connecting Kuala Lumpur to Singapore as well as in the urban regeneration of the former Sungai Besi air force base that will house the terminus for the eagerly awaited HSR line. The multi-billion Ringgit Bandar Malaysia Project on 486 acres on prime land at the city fringe is expected to be developed over a 20 to 25-year period.

As for the residential segment in the real estate market, with the capital control measures impacting sales of properties in selected projects targeting mainly Chinese buyers, we now see developers such as Country Garden Pacificview Sdn Bhd (CGPV), shifting their focus to the wider global market to boost revenue. In the meantime, however, the growing number of Chinese citizens granted residency under the Malaysia My Second Home (MM2H) programme, the single biggest nationality, is seen as positive for the property segment. More Chinese developers are also seen to be participating in smaller and niche projects targeting the domestic market.

We believe that this curb is temporary and with more Chinese investments flowing into Malaysia due to its strategic position along China's BRI corridor, the spillover effects into various market segments will continue to benefit the country.

MALAYSIA CONTACTS
Eric Y H Ooi
Executive Chairman
+603 228 99 668
eric.ooi@ my.knightfrank.com

Sarkunan Subramaniam
Managing Director
+603 228 99 633
sarky.s@my.knightfrank.com

VALUATION
Chong Teck Seng
Senior Executive Director
+603 228 99 628
teckseng.chong@my.knightfrank.com

Keith H Y Ooi
Executive Director
+603 228 99 623
keith.ooi@my.knightfrank.com

Justin Chee
Executive Director
+603 228 99 672
justin.chee@my.knightfrank.com

RESEARCH & CONSULTANCY
Judy Ong Mei-Chen
Executive Director
+603 228 99 663
judy.ong@my.knightfrank.com

INVESTMENTS / CAPITAL MARKETS
James Paul Buckley
Executive Director
+603 228 99 608
james.buckley@my.knightfrank.com

Chelwin Soo
Associate Director
+603 228 99 737
chelwin.soo@my.knightfrank.com

INDUSTRIAL / DEVELOPMENT LAND
Allan Sim Song Len
Executive Director
+603 228 99 606
allan.sim@my.knightfrank.com

CORPORATE SERVICES
Teh Young Khean
Executive Director
+603 228 99 619
youngkhean.teh@my.knightfrank.com

RETAIL CONSULTANCY & LEASING
Rebecca Phan
Associate Director
+603 228 99 618
rebecca.phan@my.knightfrank.com

PROPERTY / FACILITIES MANAGEMENT
Matthias Loui
Executive Director
+603 228 99 683
matthias.loui@my.knightfrank.com

Natallie Leong
Executive Director
+603 228 99 638
natallie.leong@my.knightfrank.com

RESIDENTIAL SALES & LEASING
Kelvin Yip
Associate Director
+603 228 99 612
kelvin.yip@my.knightfrank.com

RESIDENTIAL PROJECT MARKETING
Dominic Heaton-Watson
Associate Director
+603 228 99 741
dominic.hw@my.knightfrank.com

PENANG BRANCH
Tay Tam
Executive Director
+604 229 3296
tam.tay@my.knightfrank.com

JOHOR BRANCH
Ricky Lee
Executive Director
+607 3382 888
ricky.lee@my.knightfrank.com

SABAH BRANCH
Alexel Chen
Resident Director
+608 8279 088
yunngen.chen@my.knightfrank.com

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