

China's generous 1MDB bid seen reaping it big returns in M'sia

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A cold battle for influence has been brewing among two global superpowers and Malaysia, like its neighbours, is caught in the middle. Where does this road take us to?

A generous winning bid from a state-owned Chinese firm for a scandal-ridden Malaysian fund's power assets will help Beijing find favour as it seeks more deals in the country and to extend its influence in Southeast Asia, financial and diplomatic sources say.

China's Southeast Asia push is widely seen as having come at a perfect time for embattled Prime Minister Najib Abdul Razak, who chairs the advisory board of state fund 1Malaysia Development Berhad (1MDB) and has been grappling with international probes and public outrage over allegations of graft at the fund.

The US\$2.3 billion (RM9.83 billion) offer from China General Nuclear Corp, a surprise winner in the bidding, and its assumption of US\$1.8 billion in 1MDB debt will result in Chinese firms having pole positions as key rail, port and road projects come up for grabs, sources said.

"Increasingly, Chinese investors will be important players not only for Malaysia but also Southeast Asia," said a person involved in the 1MDB sale process.

"They are paying good value to solve a problem. This deal will give them impetus to score big in infrastructure assets," he said. Like other sources interviewed by Reuters, he declined to be identified due to the sensitivity of the matter.

The stakes have been high for Najib to make progress in resolving the 1MDB scandal after the Wall Street Journal reported in July that investigators looking into the fund had found nearly US\$700 million was deposited into Najib's private bank account. Reuters has not verified the report.

Najib has denied taking any money for personal gain.

Strategically important

The biggest single direct foreign investment in Malaysia was far above a rival bid from Tenaga Nasional, banking sources said, and was announced just hours after Najib and Chinese Premier Li Keqiang ended bilateral talks in Kuala Lumpur. 1MDB President Arul Kanda told Reuters, however, there was no government involvement in the deal.

Beijing has been keen to improve relations with Southeast Asian countries as some of them, backed by the United States, object to China's building up of artificial islands in the disputed South China Sea.

Last week also saw Li telling businessmen in Kuala Lumpur that Chinese firms will buy Malaysian treasury bonds to help stabilise its financial markets, and Beijing offering US\$10 billion in infrastructure loans to Southeast Asia.

“Malaysia is strategically important for China because it... encircles the southern-most riches of the South China Sea,” said Oh Ei Sun, senior fellow at the S Rajaratnam School of International Studies in Singapore.

For China, the moves go hand in glove with its ambitions to develop infrastructure along its so-called 21st Century Maritime Silk Road, which extends through the Malacca Strait to India, the Middle East and East Africa.

Chinese Foreign Ministry spokeswoman Hua Chunying declined comment on the 1MDB case but said Malaysia was an important partner for China.

“China and Malaysia maintain close economic and trade cooperation. We hope to see Chinese enterprises, in line with commercial principles and on the basis of mutual benefit, legally conduct cooperation with Malaysia,” she told a regular press briefing.

Key infrastructure projects that China has said its firms will bid for include a high speed rail project between Malaysia and Singapore that could be finalised next year. The project, estimated by local media as being worth more than US\$10 billion, is also expected to attract Japanese and European bidders.

Chinese firms are also set to vie for contracts to upgrade Malaysian ports including one in Malacca, in the south and another in Kuantan, in the east, banking sources said.

Outside Malaysia, other regional targets include a US\$31 billion economic zone on China's border with Laos, as well as rail and highway projects in Indonesia and Thailand.

— **By Praveen Menon & Anshuman Daga**

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