

Client Alert

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Infrastructure Sector Developments in Malaysia

Introduction

The surprise victory by the Alliance of Hope coalition party in the 14th General Elections of May this year brought about a significant policy shift on foreign investment, amid calls for fairer bilateral terms.

Reviewing Focus

To promote the economic viability of the country, and introduce a new brand of fiscal prudence, the current government has committed to reduce the national debt by scrutinising a majority of previously approved infrastructure projects. To date, several rail projects, including the Kuala-Lumpur Singapore High Speed Rail (HSR) project, has been tentatively suspended, pending further review and negotiation following concerns that Malaysia has entered into disproportionately unbeneficial contracts and as to whether the country is fiscally robust to undertake such projects. However, the current government is still supportive of China's Belt and Road Initiative and has shifted its focus towards reviewing the viability of specific infrastructure projects. This can be seen with the approval of the continuation of the Rapid Transit System between Johor Bahru and Singapore, and the Light Rapid Transit Phase 3 expansion on the condition that total cost be reduced significantly.

Looking Ahead

The government has pledged that its national investment policy will prioritise high-technology industries and use energy from renewable resources. To this end, another round of open tenders for Large Scale Solar Photovoltaic projects is expected to take place sometime in 2019, and further incentives are anticipated to be introduced to promote the use of renewable energy.

In addition, public procurement - especially for large scale projects - will now only be conducted by an open tender system, instead of the previous practice which includes direct awards and limited tenders. This would increase competitiveness, ensure transparency and hopefully will generate better value from the usage of public funds.

The new coalition government has also promised to increase oil and gas reimbursement to provincial territories, potentially culminating in a shift to net revenue-sharing terms. Upstream monopoly PETRONAS has been challenged by newly-minted Sarawak oil & gas company PETROS which is seeking to acquire rights over the oil and natural gas reserves in Sarawak. Whether this would create opportunities for investors, with the potential opening up of Sarawak as a new market, remains to be seen as PETRONAS is currently seeking a court declaration on the rightful custodian of oil and gas reserves in Malaysia.

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Meanwhile, efforts by the government are ongoing to continue maintaining a good relationship with and to promote further investment from countries such as China and Singapore, who have been Malaysia's main international partners in infrastructure development in the past few years. In fact, some have been questioning whether the "Look East" policy which was introduced by Tun Mahathir back in the 1980s is being revived with his conspicuous choice of the first foreign visit being to Japan.

While it is still too early to tell the impact of the recent electoral victory by the Alliance of Hope as various stakeholders are adopting a wait and see approach, there is hope that Malaysian's infrastructure scene will continue to be vibrant in the coming years.

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