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TA-9124 PRC: Study of the Belt and Road Initiative

National Assessment Report: Malaysia

July 2019

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Abbreviations

ADB – Asian Development Bank
AFTA – ASEAN Free Trade Area
AIIB – Asian Infrastructure Investment Bank
AMBDC – ASEAN-Mekong Basin Development Cooperation
APT – ASEAN Plus Three
ASEAN – Association of Southeast Asian Nations
BEZ – Border Economic Zone
BIMP-EAGA – Brunei Darussalam-Indonesia-Malaysia-Philippines East ASEAN Growth Area
BN – Barisan Nasional
BRI – Belt and Road Initiative
CAFTA – China-ASEAN Free Trade Area
CBEZ – Cross Border Economic Zone
CCCC – China Communications Construction Company Ltd.
CRRC – China Railway Rolling Stock Corp
DFTZ – Digital Free Trade Zone
DRC – Development Research Center
EA – Executing Agency
EAEG – East Asian Economic Group
EAS – East Asia Summit
ECERDC – East Coast Economic Region Development Council
ECRL – East Coast Rail Link
eWTP – Electronic World Trade Platform
FTZ – Free Trade Zone
GBGIPG – Guangxi Beibu Gulf International Port Group
GMS – Great Mekong Subregion
HSR – High Speed Rail
IA – Implementing Agency
ICT – information and communication technology
ICTI – Internet Content, Technology, and Infrastructure
MARD – Ministry of Agriculture and Rural Development
MCKIP – Malaysia-China Kuantan Industrial Park
MDGs – Millennium Development Goals
MOC – Ministry of Commerce
MOF – Ministry of Finance
MOFA – Ministry of Foreign Affairs
NDRC – National Development and Reform Commission
NEP – New Economic Policy
NSCP – North-South Corridor Plan
NSR – New Silk Road

OBOR – One Belt One Road
OECD – Organization for Economic Cooperation and Development
PH – Pakatan Harapan
PKR – Pakatan KeADILan Rakyat
PPP – Public Private Partnership
PRC – People’s Republic of China
QIP – Qinzhou Industrial Park
RCI – Regional Cooperation and Integration
SDGs – Sustainable Development Goals
SKRL – Singapore-Kunming Rail Link
SWG-SKRL – Special Working Group on the SKRL
SME – small and medium-sized enterprise
SOE – State Owned Enterprise
TA – Technical Assistance
WTO – World Trade Organization
UMNO – United Malays National Organization
UN – United Nations
UNESCAP – UN Economic and Social Commission for Asia and the Pacific

1. Introduction

1. This national assessment report (Malaysia) is part of the ADB Policy and Advisory Technical Assistance Study of the Belt and Road Initiative (TA-9123). The TA Study, approved on 22 June 2016 and financed by the TA Special Fund, is designed to support the Development Research Center (DRC) of the State Council's knowledge work on the Belt and Road Initiative (BRI), with special focus on exploring linkages with existing regional cooperation and integration initiatives, as well as facilitating regional policy dialogues with mainland countries of the Greater Mekong Subregion (GMS) and Malaysia. These are countries associated with the People's Republic of China (PRC)-Mainland Southeast Asia Economic Corridor listed in the Belt and Road Visions and Actions Statement.
2. The objective of this national report is twofold. Firstly, it provides assessments on the key BRI-linked, China-related connectivity projects in Malaysia. Secondly, it presents recommendations to inform future policy dialogue on aligning the BRI with national development strategies and optimizing its use as an investment tool to accelerate regional economic growth in Asia alongside other regional cooperation initiatives (RCI).
3. Methodologically, the report is prepared based on the consultant's desk research, fieldwork, and survey with non-governmental stakeholders. These research materials include research monographs, scholarly writings, government documents, policy statements, economic data, and media reports. Surveys were conducted on relevant stakeholders from non-governmental sectors, including community representatives, private firms, households, and NGOs, all across ethnic and social lines, and at both national and local levels.
4. This report proceeds in four sections. After the introduction, Section Two offers a brief overview to outline the initial conditions of Malaysian economy, with information pertinent to the TA study needed for the subsequent discussion on the country's involvement in China-funded connectivity projects, within the context of RCI and the BRI. Section Three identifies five key case studies (three detailed and two general) that are most representative of Malaysia's engagement with the BRI. Section Four provides general evaluations of the case studies. Particular attention is placed on identifying benefits and opportunities as well as potential risks of the selected BRI-linked projects. To

ensure coherent and systematic policy assessment, each case is evaluated by the United Nations Sustainable Development Goals (SDGs), as standardized, objectively verifiable indicators that facilitate comparison and synthesis.

5. On the basis of these evaluations, the report will conclude by identifying future potential to expand benefits of the BRI projects, with an eye to exploring their linkages with other existing policies and prospective programs.

2. Initial Conditions

6. This section outlines the unique initial conditions of the Malaysia national study that are relevant to the overall purpose of the TA, the context of RCI and the BRI, as well as the subsequent narrative to evaluate policy impacts.
7. Malaysia is one of the earliest and the most active Southeast Asian countries engaged in China's Belt and Road Initiative (BRI) since Chinese President Xi Jinping announced his visions of connectivity in late 2013. Over the first five years, Malaysia was the most receptive among Southeast Asian countries in embracing BRI, measured in terms of the *scope*, *scale*, and *speed* of involvement in the regional context.
8. Malaysia's BRI engagement, which covers all key domains of physical, policy, and people-to-people connectivity, is manifested through a broad scope of infrastructure projects ranging from rail transport and port development, to industrial park and manufacturing investment, and to the financial and agricultural sectors. Most of them are of big financial and operational scale. Many were initiated and concluded in a speed faster than other regional cases.
9. Although the unprecedented change of government from Barisan Nasional (BN) to Pakatan Harapan (PH) in May 2018 had brought some uncertainty to the future of BRI in Malaysia throughout the subsequent year, the presence of Chinese projects and investments remains significant. Indeed, despite Prime Minister Mahathir Mohamad's announcements to review and "cancel" the controversial big-ticket deals, i.e. the East Coast Rail Link (ECRL) and the two pipeline projects in Sabah and Malacca, several other BRI-linked infrastructure projects have made progress on the ground in various parts of the country. These include: Malaysia-China Kuantan Industrial Park (MCKIP) and Kuantan

Port expansion (both in the State of Pahang), China Railway Rolling Stock Corp (CRRC) rolling stock center in Batu Gajah (in Perak), and Gemas-Johor Baru electrified double-tracking rail project (stretching from the State of Negeri Sembilan to Johor).

10. In April 2019, the Mahathir government announced the revival of the ECRL project after a months-long, protracted renegotiation with China. It also reinstated another China-backed project, the Bandar Malaysia, the integrated transport hub that will house the terminus of the planned Kuala Lumpur-Singapore High Speed Rail Project. At the Belt and Road Forum from 25-27 April 2019 in Beijing, Mahathir expressed his full support for the BRI, adding that Malaysia will benefit from the initiative. These developments put Malaysia's engagement with the BRI back on track.

A. National Economy Overview

11. Malaysia has transformed itself from a commodity-dependent backwater into a middle-income country with the service sector accounting for half of the total output of its multi-sector economy since the 1970s. It is the third largest economy in the 10-member Association of Southeast Asian Nations (ASEAN), after Indonesia and Thailand. Its GDP per capita at current prices – RM42,228 in 2017 (Department of Statistics, Malaysia) – ranked the third in the grouping, after Singapore and Brunei.
12. As a small economy highly dependent on external factors, Malaysia has long embraced an open trade and investment regime, seeking to benefit from greater integration at both regional and global levels. As a result, Malaysia has been active since the 1990s in promoting ASEAN integration, East Asian community, and South-South Cooperation, alongside participating in a wide range of RCIs while proposing and institutionalizing region-wide connectivity initiatives such as ASEAN Plus Three (APT) and East Asia Summit (EAS).
13. Since the middle of Prime Minister Mahathir's first tenure (1981-2003), Malaysia has aimed at attaining the status of a developed nation by 2020. Since the early 1990, the vision has steered the country to accelerate industrialization, enhance connectivity, build a vast infrastructure network, and embrace the knowledge-based development thrust for enhancing its

international competitiveness and moving up the value-added production chain via, among others, developing entrepreneurial human capital base, ICT and service sector structure, as well as reorienting the public-private partnerships (*Economic Outlook 2019*, Malaysian Ministry of Finance; *Knowledge-based Economy Master Plan*, Economic Planning Unit, 2002).

- 14.** Malaysia has been China's largest trading partner in the ASEAN region for most years of the past two decades. For several years, it was China's third largest trade partner in Asia, next to Japan and South Korea. Malaysia was one of the earliest investors in China since Deng Xiaoping launched the Reform and Open Policy in 1978. On the other hand, China has been Malaysia's largest trading partner since 2008, and one of the top investors since 2014. Since Xi's launching of the BRI, Chinese foreign direct investment (FDI) in Malaysia has increased steadily (Lee 2016; Liu and Lim 2018) and has grown by over 1,000 percent from 2012 to 2015, spreading over almost every state of the federal country (Wan Saiful 2017). Chinese investments cover diverse sectors, including manufacturing, real estate, infrastructure, transport, bird's nest, and e-commerce (Tham 2018).
- 15.** The industrial sector, particularly the electrical and electronic manufacturing for exports, has been the primary source of economic growth since the 1980s. Other significant drivers of the economy include the exports of oil and gas, palm oil, as well as rubber. External demands, private consumption, and other factors have contributed to the development of the service sector and boosted overall economic growth (*The 2017 Bank Negara Malaysia Annual Report*, Malaysian Central Bank, 2018; *World Economic Outlook 2018*, International Monetary Fund, 2018; *Asian Development Bank and Malaysia Fact Sheet*, ADB, 2018).

1. Leading Sectors

Services

- Construction
- Finance
- Tourism & education
- ICT/Connectivity
- Real estate

- Transport & storage
- Trade

Manufacturing: E&E, consumer-related outputs

Energy & Mining: Oil and natural gas production

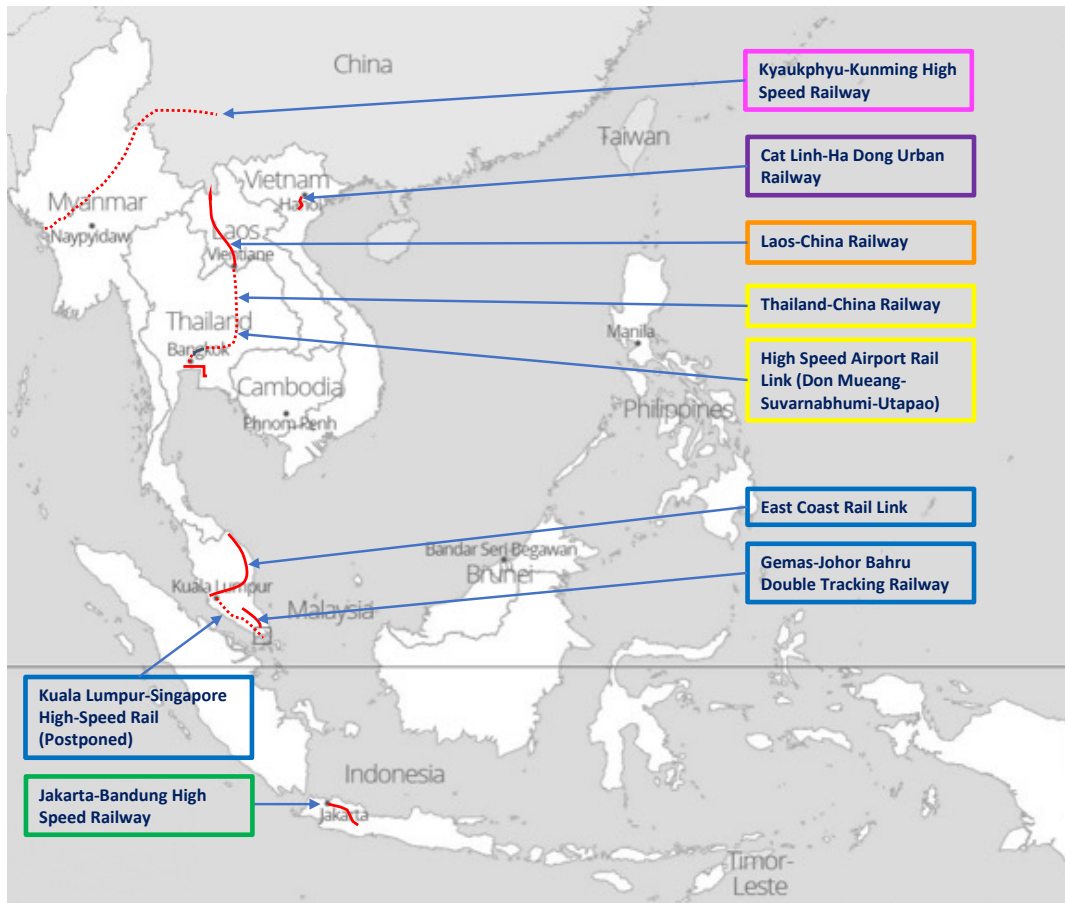
Agriculture: Agro-based outputs, incl. pal oil production

B. Review of Regional Cooperation Initiatives

16. Malaysia is the only country in this TA Study that is not a member of the Greater Mekong Subregion (GMS). However, as a founding member of the Association of Southeast Asian Nations (ASEAN), Malaysia has been actively promoting various RCIs in the wider East Asian region. These include ASEAN-Mekong Basin Development Cooperation (AMBDC), ASEAN Plus Three (APT), East Asia Summit (EAS), and Brunei Darussalam-Indonesia-Malaysia-Philippines East ASEAN Growth Area (BIMP-EAGA). In addition, Malaysia also played a leading role in proposing the Singapore-Kunming Rail Link (SKRL) in 1995 and in initiating and institutionalizing the SKRL-Special Working Group in 1996, an entity that aimed to promote rail connectivity within and across seven ASEAN countries and China.
17. Given Malaysia's geographical centrality, economic pragmatism, and ASEAN-based diplomatic activism, the country has big potentials in hosting BRI and bridging projects between other RCIs in the wider East Asian and South Asian regions. Malaysia is a peninsular occupying the southernmost land area of Eurasia in between the Indian and the Pacific Oceans and thus a vital link connecting mainland Southeast Asia and the maritime parts of the wider region. If the BRI-linked connectivity projects in Malaysia can be connected with synergies with the existing and emerging RCIs, these could further amplify the gains from wider regional connectivity.
18. A good example to illustrate the potential synergies between the BRI-related connectivity projects in Malaysia and those currently planned or constructed elsewhere in the region is the China-related rail connectivity projects in Southeast Asia (see Figure 1 below). The constructions of the Singapore-

Kunming Rail Link (SKRL) network would not be possible without the relative progress and eventual completions of the various railway projects in Malaysia.

Figure 1:
China-related Rail Projects in Southeast Asia



Source: The Author.

3. Selected Case Studies

19. This national study focuses on five case studies: (i) the East Coast Rail Link (ECRL); (ii) the Malaysia-China Kuantan Industrial Park (MCKIP); (iii) CRRC Rolling Stock Manufacturing Centre, Batu Gajah; (iv) promoting Bank of China; and (v) supporting Malaysia's bird's nest export.

20. The rationale of selecting these cases is threefold: (a) diversity of sectors or types of projects (rail transport, port, industrial park, rolling stock manufacturing center, finance, and agriculture); (b) diversity of policy context; and (c) geographical dispersion of projects (different states across the country).

21. Each of the selected case projects highlights different set of SDGs (indicated below). Each project is linked with the BRI, initiated by and negotiated between either the Malaysian and Chinese governments or between Malaysian entities and China's State Owned Enterprises (SOEs). All of the projects converge in some way with Malaysia's national development strategy. They are relevant to ADB's regional integration priorities and can entail possible linkages between the existing and potential RCI priorities.

22. In combination, the five cases represent the complexity of BRI-related dynamics in Malaysia. They maximize the scope of insights obtained in this TA, by capturing the diverse perceptions and interests of stakeholders at the local and national levels vis-à-vis the expected benefits, perceived risks, and evolving prospects of BRI projects.

23. The five case studies are as follows (each with 5 most relevant UN SDGs):

Case 1: **East Coast Rail Link (ECRL)** (locations: Connecting different parts of Kelantan, Terengganu, and Pahang States in the east coast of Peninsular Malaysia to the west coast states of Negeri Sembilan and Selangor (where Port Klang, the country's largest port is located), alongside Putrajaya, the federal administrative center) – *suspended in July 2018 but revived in April 2019 after months-long renegotiation*

Five most relevant SDGs:

- Inequality, infrastructure, economy, institutions, education

Case 2: **Malaysia-China Kuantan Industrial Park (MCKIP) and Kuantan Port Expansion** (location: Kuantan @ Pahang State)

Five most relevant SDGs:

- Infrastructure, inequality, economy, institutions, women

Case 3: **CRRC Rolling Stock Centre** (location: Batu Gajah @ Perak State)

Five most relevant SDGs:

- Consumption, economy, inequality, infrastructure, education

Case 4: Promoting Bank of China Malaysia (location: Kuala Lumpur)

Four most relevant SDGs:

- Economy, infrastructure, institutions, sustainability

Case 5: Supporting Malaysia's bird's nest exports

Four most relevant SDGs:

- Economy, food, consumption, sustainability

4. Evaluations

24. This section presents policy assessments on the selected cases of BRI-related projects in Malaysia, particularly the ECRL, MCKIP, and CRRC Rolling Stock Centre. Brief evaluations will be made on the Bank of China Malaysia as the RMB clearing bank and Malaysia's bird's nest exports to China. Based on open sources and interviews with stakeholders from different backgrounds, the study highlights some uncertainties and challenges at multiple fronts associated with each case. The study also evaluates opportunities and benefits of the cases by using the United Nations SDGs, alongside their synergies with national development programs, and potential linkages with emerging RCI.

C. Assessment Indicators

1. East Coast Rail Link (ECRL)

25. The ECRL, a project signed by Malaysia and China Communications Construction Company (CCCC) in November 2016 to build a 688km-long railway linking Malaysian east coast states of Kelantan, Terengganu, and Pahang to Port Klang in the Greater Kuala Lumpur, is marked by three features. First, the standard gauge, double-tracking railway is Malaysia's largest infrastructure project to date. Second, although ECRL has been widely viewed as China's most important BRI project in Malaysia, it is in fact Malaysia's own development plan, rather than an externally introduced program. Third, since July 2018, it had become a project with uncertain future,

when Prime Minister Mahathir – who returned to power after a stunning win in May 2018 election – suspended ECRL and two China-related pipeline deals. ECRL had since been under renegotiation, led by Mahathir’s long-time confidante Tun Daim Zainuddin, finance minister from 1984 to 1991. In addition to the rationale of avoiding a huge termination cost of RM21.78billion, the renegotiation was aimed at substantially reducing the costs and resulting in more favourable implementation terms to benefit the local economy, employment, and resource procurement.

- 26.** On 12 April 2019, after months of renegotiations, Malaysia Rail Link (MRL) and CCCC signed a Supplementary Agreement (SA), which marked the resumption of the ECRL. Under the renegotiated deal, the project cost was reduced from RM66bil to RM44bil, a 32.8% reduction.

Figure 2: Revised ECRL --

Bypassing Bentong and Gombak, Rerouting from Mentakab to Negeri Sembilan



Source: *New Straits Times*, 17 April 2019.

27. As illustrated in Figure 2 above, the length of the revived rail link will be reduced from 688km to 640km, with a realignment that will, after the three eastern states of Kelantan, Terengganu, and Pahang, reroute to the state of Negeri Sembilan and pass through Putrajaya, the federal administrative capital. The revised ECRL deal aborted the originally planned northern extension (from Mentakab going northwest to Bentong in Pahang and then southwest to Gombak in Selangor) to avoid the Klang Gates Quartz Ridge (which would have involved the construction of a 17.8km tunnel from Bentong to Gombak) and avoid the congested traffic area in Gombak.

28. The ECRL project entails impacts on both local and national development goals. Below we assess the project in terms of the five most relevant SDGs, i.e. inequality, infrastructure, economy, institutions, and education.

Figure 3:
ECRL Project Management Section 1 (Kota Bahru, Kelantan)



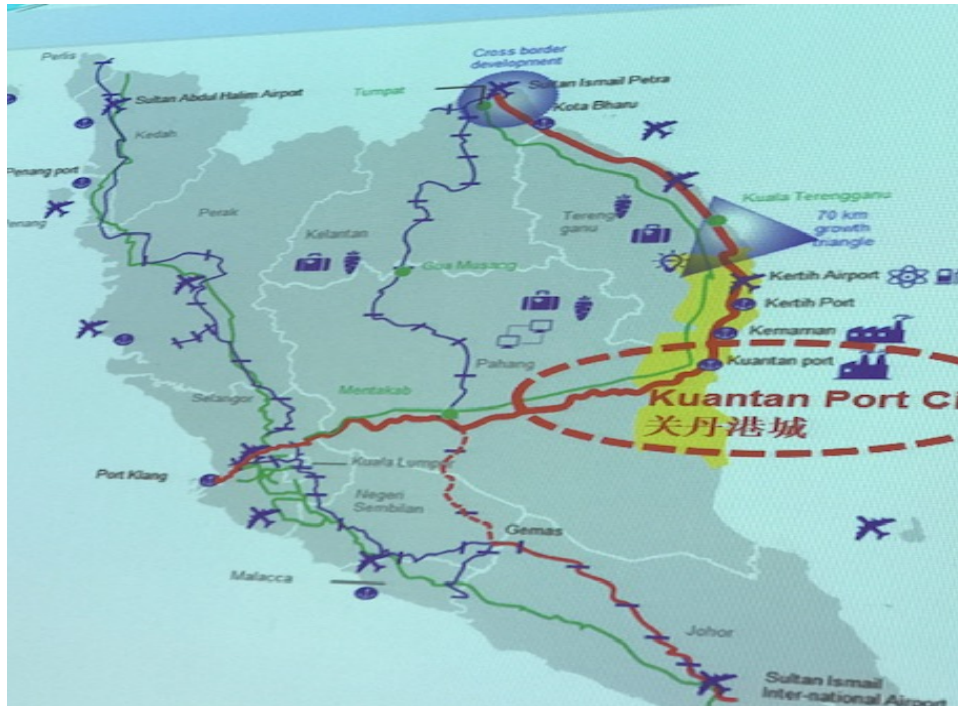
Source: The author's field research.

29. Inequality: Almost all respondents interviewed for this study expressed that ECRL would help reduce *inter-regional inequality*, i.e. the gap between the less developed east coast and the more developed west coast in Peninsular Malaysia. Some added that the planned rail line would also help reduce *inter-ethnic inequality* – the income gap between ethnic Malays and non-Malays – in the country, given that a large proportion of the rail line will pass through the three ethnic Malay-heavy states of Kelantan, Terengganu, and Pahang, all in the east coast. This view was particularly dominant among those respondents who resided in or originally hail from the area. At the ground-breaking ceremony in August 2017, the then Prime Minister Najib Razak described the establishment of ECRL as a “game changer”, a “mindset changer”, and “a catalyst for economic equality between the west and east coast as it will stimulate investment, spur commercial activities, create ample jobs, facilitate quality education and boost tourism in Pahang, Terengganu and Kelantan.” (*Bernama*, August 9, 2017) On April 15, 2019, after the revival of ECRL, Prime

Minister Mahathir said in a statement on April 15 that the renewed rail project, by providing freight and passenger transportation, attracting investments along the railway corridor, as well as generating significant employment opportunities, “will serve as a stimulus for economic growth and development, especially in East Coast States, regardless of the fact that these States are under Opposition control.” (Prime Minister’s Office of Malaysia Website, April 15, 2019) Figure 3 above shows the site entrance of the ECRL Project Management Section 1 located in Kota Bahru, Kelantan, the northernmost state, and also the poorest among Malaysia’s 13 states.

30. Infrastructure: As *a rail network* for both passenger and freight transport that spans five states (Kelantan, Terengganu, Pahang, Negri Sembilan, and Selangor) and Putrajaya the federal territory, ECRL serves as *a critical transportation link to connect the existing and expanding infrastructure hubs and spots* along the east coast facing the South China Sea (such as the Kuantan Industrial Park, Kuantan Port, Kemaman Port, and Kota Bahru near Malaysian-Thai border), with Port Klang and other developed areas around the Greater Kuala Lumpur on the west coast facing the Strait of Malacca. Several respondents from private firms and local chambers of commerce are of the view that ECRL takes best advantage of Malaysia’s unique demographic structure and geographical location between the Pacific and the Indian Oceans. Under the revived ECRL deal, the 640km trans-state rail link will intersect with key infrastructure points, thereby creating integrated transport hubs and development centres. These include the integrated zones between ECRL and Kuantan Port on the east coast (Figure 4) and between ECRL and KLIA Express Rail Link (ERL) in the Greater Kuala Lumpur on the west coast (Figure 5). There will also be a direct land bridge linking Kuantan Port to Port Klang.

Figure 4:
The Integrated Zone between ECRL and Kuantan Port



Source: The author's field research.

Figure 5:
The Integrated Zone between ECRL and ERL (KLIA Express) in Greater KL



Source: The author's field research.

- 31. Economy:** Respondents have mixed opinions on the economic impact of ECRL project. While some have expressed concerns about the financial burdens and economic viability of the project, others emphasized the need to take a long-term perspective, and envisaged ECRL as a catalyst to transform the developmental landscape and to unleash Malaysia's greater economic potentials. Before its suspension in July 2018, ECRL was seen as a promising project to promote inclusive economic growth and productive employment. In an interview in April 2018, the Chief Executive Officer of the state-owned Malaysia Rail Link Sdn Bhd (MRL) revealed the government's plan to use ECRL for spurring cargo business, attracting industrial activities along the railway, as well as facilitating transit-oriented developments around the stations (*New Straits Times*, April 30, 2018). Since the beginning of its construction, ECRL has created jobs for locals in different stations along the planned line. According to a progress report, as of April 2018, the project directly created more than 2,000 jobs in the Bentong Station, and the localisation ratio of employees was 70% (*The Star*, July 8, 2018). CCCC, the main contractor of ECRL, pledged to give priority to building materials from local firms, added that "at least 30 percent of the engineering and construction work will be undertaken by local contractors to ensure the ECRL construction benefits locals" (*Bernama*, April 19, 2018).
- 32.** Most of the respondents interviewed after the ECRL revival have expressed positive assessments on several aspects of the revised terms. For instance, they have opined that the setting up of a joint venture company between MRL and CCCC on a 50:50 stake arrangement will help enhance the long-term economic viability and sustainability of the project, because such an arrangement splits the operating and maintenance costs and risks evenly between the two countries, while allowing Malaysian entities to learn from Chinese firms. In addition, although the revived deal involves a realignment and a deferment of project completion till December 31, 2026, the revised terms also cover an arrangement where CCCC will repay RM3.1 billion to Malaysia arising from the abortive work and cancellation of the northern extension of the project (see Figure 2 and Paragraph 27).
- 33. Institutions:** While the ECRL decision was made by the Federal government, the constructions of the project inevitably involve land acquisition, a matter under the state's power. The project has thus far performed well in building inclusive institutions at the federal-state level, i.e. between the central

government in Putrajaya and the state-level authorities of the five states where ECRL spanning across. Three states are ruled by the opposition parties: Kelantan and Terengganu by the Malaysian Islamic Party (PAS, or Parti Islam Se-Malaysia), and Pahang by Barisan Nasional. Selangor (the richest state in Malaysia) has been ruled by Parti Keadilan Rakyat (PKR), an opposite party during Najib administration but a component party of the ruling PH coalition during Mahathir 2.0 administration. Negeri Sembilan is ruled by PRK since May 2018. The Chief Ministers of all three east coast states attended the ground-breaking ceremony in August 2017, and witnessed a rare moment of political harmony when Najib said: “The federal leadership is also grateful to the state governments of Kelantan, Terengganu, Pahang and Selangor for their full cooperation and support to this project, particularly in matters of land acquisition.”

- 34. Education:** The ECRL project has brought about education and learning opportunities for the youths in the less developed east coast states. The project main contractor, CCCC, has allocated RM23 million for training as part of its corporate social responsibility initiative. Since 2017, the company has collaborated with MRL and Universiti Malaysia Pahang (UMP) in offering the “East Coast Rail Link Industrial Skills Training Program” (PLKI-ECRL), which aims to train and equip up to 3,600 students from 2017-2022 with railway technology skills (*Bernama*, April 19, 2018). Hundreds of trainees have been enrolled in the degree, diploma, and certification levels program, with graduating students joining the ECRL firms (*The Sun Daily*, June 1, 2018).

Figure 6:
ECRL Project Management Section 7 (Bentong, Pahang)
-- ABORTED under the revised terms in April 2019



Source: The author's field research.

Table 1:
ECRL: Five Most Relevant SDGs

| Sustainable Development Goals (in the order of importance) | 10. Inequality | 9. Infrastructure | 8. Economy (Jobs and growth) | 11. Institutions | 4. Education |
|--|--|--|---|--|--|
| East Coast Rail Link (ECRL) | Nearly all respondents interviewed for this study expressed that the ECRL project would help reduce inter-regional inequality, i.e. the gap between the less developed east coast and the more developed west coast in Peninsular Malaysia. | As a rail network for both passenger and freight transport that spans five states, ECRL is expected to serve as a critical transportation link to connect the existing and expanding infrastructure hubs and spots along the east coast facing the South China Sea (such as the Kuantan Industrial Park, Kuantan Port, Kemaman Port, and Kota Bahru near Malaysian-Thai border), with Port Klang and other more developed areas around the Greater Kuala Lumpur on the west coast facing the Strait of Malacca. | <p>Respondents have mixed views on the economic impact of ECRL. While some have concerns over the financial burdens and economic viability of the project, others emphasized the need to take a long-term view, seeing ECRL as a catalyst to transform the developmental landscape and to unleash Malaysia's greater economic potentials.</p> <p>After the revival of ECRL in April 2019, most respondents have opined that the revised terms (e.g. the 50:50 joint venture between MRL and CCCC) help enhance economic viability of the project.</p> | The ECRL project has thus far performed well in building inclusive institutions at the federal-state level, i.e. between the central government in Putrajaya and the state-level authorities of the five states spanned by ECRL (i.e. Kelantan, Terengganu, Pahang, Negeri Sembilan, and Selangor). | ECRL has brought about education and learning opportunities for the youths in the less developed east coast states. The project main contractor, CCCC, has allocated RM23 million for training as part of its corporate social responsibility initiative. |

2. Malaysia-China Kuantan Industrial Park (MCKIP)

- 35.** First mooted as early as 2012, MCKIP is a unique case of China's BRI in Malaysia, for three reasons. First, it is the first national-level industrial park in Malaysia, as well as the first and the only BRI-linked "sister industrial park" in the region, with cross-border policy connectivity with the Qinzhou Industrial Park (QIP) in China's Guangxi Zhuang autonomous region (see Figure 7 below). Second, MCKIP is more a result of Malaysia's pull, rather than China's push. It was proposed by then Prime Minister Najib Razak when he launched the QIP in Guangxi with his Chinese counterpart Wen Jiabao in April 2012. The proposal came to fruition in a matter of months, when the two governments officiated the project in February 2013. Third, MCKIP is directly linked to another infrastructure project, the expansion of the Kuantan Port, which is developed side by side by the same partnership, i.e. IJM Malaysia and China's Guangxi Beibu Gulf International Port Group.
- 36.** Unlike ECRL that was suspended by the new Mahathir administration during the period July 2018 - April 2019, MCKIP is one of those China-related projects in Malaysia not affected by the change of federal government.

Figure 7:
Kuantan Industrial Park & Qinzhou Industrial Park



Source: The author's field research.

37. As an expanding project, MCKIP has an increasingly greater impact on both local and national development goals. Here we provide objectively verifiable assessment of the project by using five most relevant SDGs, i.e. infrastructure, inequality, economy, institutions, and women, as follows:

38. Infrastructure: MCKIP and the related Kuantan port expansion, once fully operationalized, are expected to function as a “node” for infrastructure connectivity development, both *externally* and *internally*. At the regional level, the MCKIP and Kuantan Port, both facing South China Sea, are the most direct links to the deep-water port in Qinzhou and other points in Guangxi (see Figure 7 above). In addition, Kuantan, the largest city in the east coast of Malaysia, is envisaged as the *gateway* to other centres of prosperity around East Asia for broader regional connectivity, with the potentials of bringing greater trade, investment, and job opportunities to the eastern side of the Peninsula Malaysia.

Figure 8:
Malaysia-China Kuantan Industrial Park (MCKIP) & ECRL



Source: The author's field research.

39. At the national and sub-national level, MCKIP and Kuantan Port are linked to other infrastructure projects in the east coast of the peninsula, including the ECRL (see Figure 8 above) and other connectivity plans under the East Coast Economic Region (ECER). These direct physical links all converges in Kuantan, making it the *infrastructure hub* for Malaysian eastern region. Respondents from the state-level Chamber of Commerce added that MCKIP and Kuantan Port are also proximate to Gambang halal hub, Gebeng industrial estate, and Pekan automotive hub. These hubs form an integrated cluster with potential synergizing effects that complement one another, thereby contribute to more resilient infrastructure and more sustainable industrialization in the region. Figure 9 shows MCKIP and other infrastructure development progress photo:

Figure 9:
MCKIP and Surrounding Infrastructure Developments



Source: The author's field research.

40. Inequality: Geographically, the East Coast Economic Region (ECER) covers 51 percent of Peninsular Malaysia; economically, however, it is among the poorest regions in the country. All three east coast states (Kelantan, Terengganu, and Pahang) are among the least developed areas in Malaysia. The MCKIP and Kuantan Port expansion projects are thus seen by many analysts and respondents as a *catalyst* to bring development as well as growth to Malaysia eastern corridor and to reduce *the inequality* between the region and the more developed states in the west coast. Respondents from Malay NGOs added that MCKIP and other development projects are expected to help *reduce inequality across Malaysia's ethnic groups* since the three states are all ethnic Malay-predominant,

41. Economy: Nearly all respondents gave positive assessments on the economic contributions of MCKIP and Kuantan Port. These results show a contrast to that of ECRL, on which mixed feedbacks were given. In the case of the MCKIP and Kuantan Port expansion, the anticipated economic benefits focus primarily on the production of steel as well as the processing of oil and agricultural products, considerable portions of which are aimed for exports. Indeed, most if not all observers view the two projects – the central elements of the ECER – as *potentially transformative* and *mutually complementary*. Economist Tham Siew Yean, for instance, highlights that much of the products produced at the Kuantan Park will be exported to China and other markets through the Kuantan Port. She adds that the targeted investments in energy resources as well as agriculture and tourism sectors in ECER will serve as the “hinterland” of Kuantan Port beyond Kuantan (personal communication, January 2019).

42. Figure 10 below shows the locations of Kuantan Port and the three sites of MCKIP:

Figure 10:
MCKIP & Kuantan Port Expansion



Source: The author's field research.

43. Other respondents point to the projects' broader economic benefits, ranging from attracting targeted investments and technologies, stimulating different scales of industrial and commercial ventures, to creating job opportunities and generating downstream activities for the local business community. Each of these aspects is deemed vital to *cultivating sustainable consumption and production patterns* in the less economically developed but politically crucial region. Thus far, China's Guangxi has been the most dominant investor in the Kuantan projects, although there are investors from other parts of mainland China, Hong Kong, Singapore, and Australia. The Alliance Steel (M) Sdn Bhd – a joint venture between Guangxi Beibu Gulf International Port (GBGIP) and Guangxi Sheng Long Metallurgical Co. – is the largest investor, occupying about 60 percent of MCKIP-1 with about 2,600 Malaysian employees. Figure 11 was a photography of the firm taken at the site of MCKIP. With a RM5.6 billion investment, the firm's integrated steel mill has the capacity to produce

3.5 million tonnes per year of high-carbon wire, rod, bar, and H-beam products. By July 2018, Alliance Steel's Malaysia-origin wire rod cargoes were reportedly offered at US\$580-585 per tonne CFR¹ Southeast Asia, cheaper than China-origin cargoes' US\$595-600 offer (*Fastmarkets*, July 24, 2018). Ventures like MCKIP have long-term impact on Malaysia's position in the global value chain.

Figure 11:
Alliance Steel (M) Sdn Bhd at the MCKIP



Source: The author's field research.

44. The expansion of Kuantan Port has progressed in tandem with that of MCKIP, with its Phase 1A of the New Deep Water Terminal (NDWT) operationalized in October 2018 (with 120,000 deadweight tone), and Phase 1B scheduled to be completed by mid-2019 (increased to 150,000 dwt). The authorities expect to complete Phase 2 by 2039 (*The Star*, October 15, 2018).
45. Institutions: The progress of MCKIP and Kuantan port expansion demonstrates a productive and inclusive institutional collaboration at different levels. Malaysia is a federal country, with land-related matters come under the

¹ Cost and freight is a legal term in international trade. In a contract specifying that a sale is CFR, the seller is required to arrange for the carriage of goods by sea to a port of destination and provide the buyer with the documents necessary to obtain them from the carrier.

jurisdiction of state-level authority, as noted. Infrastructure projects inevitably involve land acquisition, which often presents a test for federal-state relations. In the case of MCKIP, the land issue was less problematic since the federal government in Putrajaya and Pahang state authority in Kuantan were both controlled by the UMNO-led Barisan Nasional (BN). When the project was launched in October 2012, Najib remarked: “This is clearly demonstrated in the fast approval in obtaining a piece of vast land and pre-construction preparations including infrastructure planning to carry out the project smoothly” (*The Star*, October 11, 2012). The change of federal government in May 2019 did not change this.

Figure 12:
MCKIP Sites & Development Plans



Source: The author's field research.

46. Women: Although MCKIP's current economic activities have not brought about direct benefits to women, the developmental project and related programs may over time help empower women and promote gender equality. Respondents from local NGOs were optimistic that, this would happen when development in the east coast expanded further and created spill-over effects to related sectors, in due course generating growing job opportunities for all genders, and at all levels of job positions. Examples cited include employment opportunities in Gambang halal hub and Gebeng industrial estate.

**Table 2:
MCKIP & Kuantan Port: Most Relevant SDGs**

| Sustainable Development Goals (in the order of importance) | 9. Infrastructure | 10. Inequality | 8. Economy (Jobs and growth) | 11. Institutions |
|--|---|---|---|--|
| Malaysia-China Kuantan Industrial Park (MCKIP) & Kuantan Port Expansion | <p>MCKIP and the related Kuantan port expansion, once fully operational, are expected to function as a “node” for infrastructure connectivity development, both externally and internally.</p> <p>At the regional level, the MCKIP and Kuantan Port, both facing South China Sea, are the most direct links to the deep-water port in Qinzhou and other points in Guangxi.</p> | <p>Geographically, the East Coast Economic Region (ECER) covers 51 percent of Peninsular Malaysia.</p> <p>Economically, however, it is among the poorest regions in the country. All three east coast states (Kelantan, Terengganu, and Pahang) are among the least developed areas in Malaysia.</p> <p>MCKIP and Kuantan Port expansion promise considerable development benefits to transform these areas.</p> | <p>Almost all respondents gave positive assessments on the economic contributions of MCKIP and Kuantan Port.</p> <p>The anticipated economic benefits focus primarily on the production of steel as well as the processing of oil and agricultural products, considerable portions of which are aimed for exports.</p> | <p>The progress of MCKIP and Kuantan port expansion demonstrates a peaceful, productive, and inclusive institutional collaboration at different levels.</p> |

3. CRRC Rolling Stock Centre

47. This is one of the earliest Chinese state-linked investment ventures in Malaysia, predating the implementation of BRI by Xi's China. Back in September 2012, CSR Zhuzhou signed a memorandum with the Malaysian government to create a rolling stock plant at Batu Gajah, Perak, about 200km north of the capital, Kuala Lumpur. In 2015, China Railway Rolling Stock Corp (CRRC)'s subsidiary, the Rolling Stock Centre (Malaysia) Sdn Bhd, commenced operations and began its production in Malaysia. The RM251 million (RMB400 million) facility, CRRC's first rolling stock plant outside China, is also the first and the only train manufacturing centre in the entire Southeast Asian region. In August 2016, CRRC announced its plan to expand its operation in Batu Gajah, with an eye to explore the ASEAN market. Former Prime Minister Najib Razak described the plant as "a pivotal nerve centre in providing technical know-how and transfer of technology", alongside "generating jobs and business opportunities for the local community" (*Railway Gazette*, September 27, 2012).
48. The new PH government has also recognized the CRRC centre's contribution to Malaysia. After his visit to the Batu Gajah plant in October 2018, Deputy International Trade and Industry Minister Dr. Ong Kian Ming commended CRRC for its multifaceted roles in localizing employment and procurement, as well as creating opportunities for transfer of technology and skills. He described these as key criteria for good investment in Malaysia. The Transport Minister Anthony Loke, during his visit to the facility in January 2019, similarly acknowledged CRRC's contribution to Malaysian economy. He addressed that Chinese company's investment and expansion plan could transfer expertise and technology to help Malaysia develop its train manufacturing industry, making the country ASEAN's train manufacturing hub.
49. Below we provide assessment on the project in terms of the five most relevant SDGs, i.e. consumption, economy, inequality, infrastructure, and education.
50. Consumption: Since it began its operation in 2015, the CRRC Centre has made promising progress towards contributing to sustainable consumption and production patterns in Malaysia. The Batu Gajah plant has focused on the *manufacture, repair, and maintenance of trains*. These include trains used for Malaysia's Electric Train Service (ETS) and Light Rail Transit (LRT) Service. The plant has also contributed to the *localization of procurement* by setting up

an office dedicated to securing, supporting, and cultivating local suppliers for equipment to transportation (*China Daily*, August 17, 2016). Despite this effort, the extent of local procurement is still lower than the government's expected rate of 30 percent. As of October 2018, Malaysian firms are able to supply only 20 percent of the components to the CRRC plant (personal communication with Deputy Minister Ong, October 2018). One problem that has prevented a greater rate of local procurement of components, especially the railway equipment and related parts, is that Malaysian component suppliers *still have not achieved the required capability* (Bernama, October 3, 2018). CRRC is taking steps to increase the rate to 30 percent, by matching local suppliers with Chinese firms for technology transfer. Recent efforts include selecting a Malaysian company in Klang to provide air-conditioning components to the Batu Gajah plant.

51. Economy: Through its production plant and expansion plan, CRRC aims to turn Malaysia into *a manufacturing hub for railway and train equipment for the wider ASEAN market*, thereby contributing to an *inclusive, productive, and sustained economic growth* to Malaysia. The plant currently has an annual capacity of producing 200 carriages as well as overhauling and maintaining 150 vehicles for the Malaysian market (*The Edge*, December 7, 2018). CRRC's expansion plan is expected to double its manufacturing outputs in the coming years. Transport Minister Anthony Loke praised the CRRC venture, saying that it would allow Malaysia to export the train cars to other Southeast Asian markets, where there is a growing demand for light rail transit, metro, suburban rail, locomotive, cargo train and others (*Malay Mail*, January 3, 2019). In addition, the locomotive manufacturer has made efforts to increase local employment. The Batu Gajah center employs about 85 percent Malaysians, with more than half at the management level. These contribute to productive employment and sustainable economic growth within Malaysia.

52. Inequality: Several household respondents and private community representatives who reside in Perak, the state where the Batu Gajah town is located, opine that the CRRC facility in their locality area will help reduce the income inequality between the Perak town and the other more developed cities along the west coast of Peninsular Malaysia, especially those in the Klang Valley (the greater Kuala Lumpur) and the prosperous Penang state. The investment by China's top train maker is expected to boost local economic development in the Perak state over time by bringing rail expertise, creating

jobs, and boosting industrial activities. CRRC has also maintained presence in other states (see Figure 13 below):

Figure 13:
CRRC Presence in Malaysia



Source: CRRC Website.

53. Infrastructure: The CRRC investments – both its manufacturing centre in Batu Gajah and its maintenance facility in Seremban (54km south of Kuala Lumpur) – boost various infrastructure projects in different parts of Malaysia. Its manufacturing plant in Perak state already has the capacity to build trains for major railway, intercity line, and urban mass transit, as well as subway cars, high-speed rail, electric locomotive or even magnetic levitation train cars. It can manufacture train cars both for meter gauge and standard gauge (*China Daily*, August 17, 2016). Thus far, the CRRC centre has assembled metro trains for Kuala Lumpur’s LRT Ampang Line as well as the 160km/h inter-city Class 93 Electric Multiple Units (EMUs) for Malayan Railways Corporation (KTM), designed to serve the electrified double tracking railway. Other projects include the different stations of the ETS rail service on the west coast of

Peninsular Malaysia (*International Railway Journal*, July 13, 2015). Apart from the manufacturing plant in Batu Gajah, the CRRC Zhuzhou Locomotive Co. also owns a subsidiary, the CRRC Kuala Lumpur Maintenance Company (CKM) in Seremban (the state capital of Negeri Sembilan), a new facility that provides maintenance, repair and overhaul (MRO) for local train services, including the EMU and LRT vehicles.

54. Education: CRRC provides on-the-job training for its local employees in both Batu Gajah and Seremban to acquire knowledge and skills about trains. Some selected employees were given scholarships to China for studying locomotives and railway know-how (*Xinhua*, September 7, 2018). Respondents from local non-governmental stakeholder groups view these scholarships and related training programs positively, seeing them as a contributor to Malaysia's human capital development in an emerging industry.

Table 3:
CRRC Rolling Stock Centre: Five Most Relevant SDGs

| Sustainable Development Goals (in the order of importance) | 12. Consumption | 8. Economy (Jobs and growth) | 10. Inequality | 9. Infrastructure | 4. Education |
|--|--|---|---|---|--|
| CRRC Rolling Stock Centre | Since its operation commenced in 2015, the CRRC Centre has made promising progress towards contributing to sustainable consumption and production patterns in Malaysia. | The CRRC, through its production plant and expansion plan, aims to turn Malaysia into a manufacturing hub for railway and train equipment for the wider ASEAN market, thereby contributing to an inclusive, productive, and sustained economic growth to Malaysia. | A number of household respondents and private community representatives who reside in Perak, the state where the Batu Gajah town is located, believe that the CRRC facility in their locality area will help reduce the income inequality between the Perak town and the other more developed cities along | The CRRC investments – both its manufacturing center in Batu Gajah and its maintenance facility in Seremban (54km south of Kuala Lumpur) – boost various infrastructure projects in different parts of Malaysia. | CRRC offers on-the-job training for its local employees in both Batu Gajah and Seremban to acquire knowledge and skills about trains. Some selected employees were given scholarships to China for studying locomotives and railway know-how. |

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| | | | the west coast of Peninsular Malaysia. | | |
|--|--|--|--|--|--|

OTHER CASES:

55. Beyond physical connectivity, the Malaysian and Chinese governments have forged and benefited from their increasingly close cooperation in other connectivity domains as well. In terms of *policy connectivity*, the two countries have expanded and institutionalized their cooperation in finance (e.g. making Malaysia a major offshore Renminbi business clearing centre for the ASEAN region), agriculture (increasing Malaysia's bird's nest exports), and other areas of trade and investment. In terms of *people-to-people connectivity*, the two countries have steadily enhanced tourist and youth exchange, air traffic and flight connection, as well as cultural and educational links. Xiamen University Malaysia (XMUM), officially started in 2016, is the first overseas campus set up by a major Chinese university.

4. Promoting Bank of China Malaysia as a RMB clearing bank

56. In April 2015, the People's Bank of China appointed and authorized Bank of China Malaysia (BOCM) Ltd as the clearing bank for Renminbi (RMB) business in Malaysia, with branches facilitating trade and providing financial support for economic cooperation between the two countries.

57. Assessments in terms of five most relevant SDGs, i.e. economy, infrastructure, institutions, and sustainability are summarized as follows:

Table 4:
Promoting Bank of China Malaysia as a RMB business clearing bank

| Sustainable Development Goals (in the order of importance) | 8. Economy (Jobs and growth) | 9. Infrastructure | 11. Institutions | 17. Sustainability |
|--|---|--|--|--|
| Promoting Bank of China Malaysia | <p>The presence of a designated RMB business clearing bank in Malaysia promotes sustained and inclusive growth by allowing Malaysian financial institutions to offer competitive RMB costs to facilitate corporations in obtaining cost effective RMB trade and investment financing.</p> <p>Malaysian institutions start to issue RMB denominated bonds to tap into the vast potential of the new market. The country issued the world's first offshore RMB denominated sukuk.</p> | <p>With the majority of RMB clearing banks located in advanced economies, promoting BOCM as a RMB business clearing bank helps Malaysia's resilient position in international financial connectivity infrastructure. It strengthens Malaysia's unique role as a RMB offshore center in the ASEAN region to support the investment and trade flows between China and Southeast Asia. By collaborating with the exchange houses in the world, it helps Malaysia to further explore the sphere of emerging markets, a breakthrough in the country's global clearing and settlement network.</p> | <p>BOCM's role as a RMB clearing bank further promotes inclusive society and effective, accountable institutions. As early as 2009, Malaysia's Bank Negara Malaysia became the first central bank in ASEAN to establish a RMB swap line with the People's Bank of China. The same year, it also became the first Asian central bank to be awarded the Qualified Foreign Investor (QFII) license, which enables Malaysia to invest in China's onshore financial markets and access the China Interbank Bond Market.</p> | <p>Promoting BOCM as a RMB business clearing bank, among the first in Asia, serves to strengthen the means of sustainable implementation and strengthen global partnership. It is a recognition on the part of China about Malaysia's important roles as a key RMB offshore center, and a show of confidence and commitment on the part of Malaysia about the future trend in RMB businesses in Malaysia. It is another important milestone in Malaysia-China financial cooperation.</p> |

5. Increasing Malaysia's bird's nest exports to China

- 58.** This is among the efforts by the two sides to expand and explore ways to enhance cooperation on agriculture and other sectors. Malaysia has 60,000 bird-houses and 20,000 industry players. Policy that allows the direct sale of raw bird's nest to China will help boost the income of local farmers.
- 59.** Assessments in terms of four most relevant SDGs, i.e. economy, food, consumption, and sustainability are discussed as follows:
- 60. Economy:** Swiftlet farming is an inclusive and sustainable sector which contributes RM4.5 billion (US\$1.1 billion) to Malaysia's gross national income by 2020. Malaysia exports RM1.7 billion worth of edible nests to China, the world's major consumer of edible bird nests because of its high nutritional value and rarity. Market price of bird's nest products becomes more stable and fairer for Malaysian operators with direct exports to China than export through third countries such as Hong Kong and Vietnam. Some bird's nest product manufacturers have targeted the Muslim markets at home and overseas with Jakim certification, Malaysia's gold standard for halal food.
- 61. Food:** Bird's nest sector in Malaysia helps achieve food security and improved nutrition while promoting sustainable agriculture. Edible bird's nest is probably the most expensive animal product consumed by humans. In China, it is viewed as a nourishing and healing ingredient that boosts vitality. The birds build nests from their solidified saliva, which are later harvested for human consumption, either solid whole or formulated into beverage and ingredients. Bird's nests have traditionally been used in Chinese cuisine and medicine.
- 62. Consumption:** Sustainable swiftlet nest production and consumption patterns are key to sustainable development of the industry. Malaysia's Agriculture and Agro-based Industry Ministry signed an agreement protocol with China, the "Protocol of Inspection, Quarantine and Veterinary Hygiene Requirements for the Exportation of Raw, Uncleaned Edible Nests", which calls on the Veterinary Services Department to evaluate Malaysia's bird's nest before export to ensure they met China's standards. It also sets the standards for Malaysia's bird's

nest farmers to sell their raw nests to the Agriculture and Agro-based Industry Ministry. The ministry will then export the raw nests to China where it will be cleaned and processed in Qinzhou and then sold to the China market. Malaysia and China jointly operate a RM30 million laboratory in the Qinzhou Industrial Park, which functions as a quarantine, processing, and testing center to inspect and clean raw bird's nests from Malaysia. It is China's first bird's nest processing plant, equipped with whole production supply chain to develop Malaysia's edible bird nests into finished food products. As a result, Malaysia's bird's nest exports to China are of high quality, and fulfil the required standards set by both governments. Their quality builds a good image and branding of Malaysia's swiftlet nests in China's consumer's market.

63. Sustainability: A successful bird's nest business requires sustainable means of implementation. The modern harvesting practice of taking down nests from the beams of purpose-built multi-story structures where thousands of swiftlets roost protects both the safety of harvesters and also the survival of the species. A sustainable, productive swiftlet house involves good location, right humidity level, right building material, ideal ventilation, and suitable sound system to attract swiftlets and make the birds feel safe. Malaysian government plays an important role in the development of the bird's nests industry, chiefly by providing active monitoring and advisory services, with officials conducting visits to inspect compliance towards regulations.

Table 5:
Supporting Malaysia's bird's nest exports

| Sustainable Development Goals (in the order of importance) | 8. Economy (Jobs and growth) | 2. Food | 12. Consumption | 17. Sustainability |
|--|---|--|--|---|
| Supporting Malaysia's bird's nest exports | Malaysia has 60,000 bird-houses and 20,000 farm operators as industry players. Policy that allows the direct sale of raw bird's nest to China will help | Bird's nest sector in Malaysia helps achieve food security and improved nutrition while promoting sustainable agriculture. Some bird's nest product | Sustainable swiftlet nest production and consumption patterns are key to sustainable development of the industry. Malaysia's Agriculture and Agro-based Industry Ministry signed an agreement protocol with China, which calls on the | A successful bird's nest business requires sustainable means of implementation. The modern harvesting practice of taking down nests from the beams of purpose-built multi-story structures where thousands of |

| | | | | |
|--|--|---|---|--|
| | boost the income of local farmers. Malaysia exports RM1.7 billion worth of edible nests to China. | manufac-turers have targeted the Muslim markets at home and overseas with Jakim certification, Malaysia's gold standard for halal food. | Veterinary Services Department to evaluate Malaysia's bird's nest before export. It also sets the standards for Malaysia's farmers to sell their raw nests to the Agriculture and Agro-based Industry Ministry. The ministry will then export the raw nests to China where it will be cleaned and processed in Qinzhou and then sold to the China market. | swiftlets roost protects both the safety of harvesters and also the survival of the species. |
|--|--|---|---|--|

D. Stakeholder Engagement

- 64.** The selected cases discussed above have shown slightly varying performance on stakeholder engagement. Some projects have maintained relatively frequent interactions with certain types of non-governmental entities, whereas others have displayed little or sketchy efforts to reach out to civil society sector. These variations notwithstanding, there are some commonly shared attributes. Despite years of operation in Malaysia, the Chinese firms thus far have not exhibited an active tendency to systematically engage different types of socioeconomic groups and NGOs. Accordingly, there is no clear “modalities” of involvement by the civil society organizations in the BRI-related projects.
- 65.** Many respondents have pointed to the eight-feet tall wall of the Alliance Steel at the MCKIP as the prime example of the lack of awareness and effort by the Chinese companies to engage the public and non-governmental stakeholders. Some quarters have described it as the “Great Wall of China” in Kuantan. Some observers suggest that, while the wall is not particularly exceptional, “its apparent purpose of keeping those inside separate from the outside world has fuelled speculations among the local community” (*Malaysiakini*, October 9, 2017).
- 66.** While there are some constructive engagements between the Chinese companies and some non-governmental stakeholders, these activities are *not robust*, but rather *limited* and *selective*. The typical forms of engagement have remained mostly in training programs, local social events, and cultural

activities. Most of these engagement processes involve primarily local ethnic Chinese groups, such as chambers of commerce, clan associations, and individual business entities. Those beyond sociocultural interactions are confined to training (such as CCCC's partnership with Universiti Malaysia Pahang and MRL), site visits, and occasional local community activities.

E. Opportunities

67. This section identifies the *existing and potential opportunities* where the BRI-related projects in Malaysia could explore and expand, for the ultimate goal of maximizing benefits at the national and regional levels. Attention is placed on elaborating the multiple forms and directions of *linkages*, which could strengthen national synthesis internally and deepen regional integration externally. To this end, we first focus on the linkages between the BRI projects with national and local development programs, before turning to their external links (actual and hypothetical) with bilateral and regional initiatives. The section ends with an effort to identify linkages with other development partners, as well as an examination of the role of public-private partnerships (PPP) in terms of financial model and operational structure.

1. Linkages, Complementarities, and Synergies with Other Local and National Programs

68. ECRL and MCKIP are both rooted in Malaysia's own development programs, as noted above. Their objectives and implementations are closely aligned with Malaysia's own national and local development plans. They are the backbone components of the country's East Coast Economic Region (ECER) development strategy, among the key instruments of the national government's policy to get the country out of the Middle-Income Trap. Both projects aim at leveraging on China's BRI-related capital and technology to boost Malaysia's infrastructure connectivity, as well as creating synergies that help reduce inequality (between east and west coasts, and between ethnic Malays and non-Malays). They both intend to transform economic structure, strengthen institutions, empower women and youths, enhance localization in

employment and procurement, while complementing Malaysia's external linkages and strategies.

- 69.** Both ECRL and MCKIP are located along and within the Malay "heartland states". This makes the two BRI-related projects complementary to, and synergize with, the national government's *pro-Malay affirmative action scheme*, the New Economic Policy (NEP) and associated programs. The policy aimed at redistributing the wealth of the nation, in ways that eradicate poverty, reduce inter-ethnic income inequality, and increase Malay economic participation.
- 70.** ECRL is a manifestation of Malaysian's long pursuit of building a railway connecting its poor east coast region with the more developed west coast of peninsula. The idea of the rail project was formally proposed by the East Coast Economic Region Development Council (ECERDC) in 2007, as a critical project to stimulate economic growth in the east coast corridor. Policy deliberations, however, were believed to have taken place much earlier, going way back to the 1980s. According to a press statement in November 2016 by the then Minister in Prime Minister's Department, Datuk Abdul Rahman Dahlan, the rail project "has been periodically discussed and at various stages of planning since 1981" (*New Straits Times*, November 9, 2016).
- 71.** In comparison with ECRL, the MCKIP project is not entirely a top down policy. Prime Minister Najib credited the idea to the Federation of Chinese Associations Malaysia (FCAM), which made the proposal to the central government in 2011 (*The Star*, April 2, 2012). The President of FCAM said, "The Malaysia-China Kuantan Industrial Park can become the sister park of the one in Qinzhou. By working closely with the Qinzhou Park, such a project in Kuantan will surely bring about industrial development in Pahang." The overlap of bottom-up desire and top-down policy of transforming the east coast region is one reason why it only took two years (2011-2013) for the proposal to turn into a reality. As Malaysia's first national status industrial park, MCKIP is expected to create synergies with other integrated projects within the East Coast Economic Region Malaysia (ECER), including the ECER Special Economic Zone, as well as local development projects in Kelantan, Terengganu, and Pahang.

- 72.** At the state and local levels, the Chief Ministers of the east coast states – including those governed by the opposition parties – have firmly supported the two mega projects, describing them as initiatives that would “bring positive impact” to their own state’s development (*New Straits Times*, April 12, 2018). After the government change and policy review of ECRL since May 2018, some of the states have openly expressed their preference for the ECRL project to continue, “even at a smaller scale” (*New Straits Times*, January 5, 2019).
- 73.** The convergence of such local and national imperatives is among the domestic reasons that underpin the development and political logics for keeping and expanding the BRI projects in Malaysia.

2. Bilateral and Multilateral Regional Initiatives

- 74.** The implementation of the BRI projects in Malaysia is the culmination of the decades-long deepening bilateral relations, geopolitical cordiality, and Malaysian leader’s choice in leveraging on China’s connectivity push for the smaller country’s development needs and interests at different levels.
- 75.** Malaysia was the first ASEAN country to establish diplomatic relations with China in 1974 at the height of the Cold War. It was one of the first countries to have dispatched official delegation to Beijing in 1989 when China faced international isolation in the aftermath of the Tiananmen Incident. It was also the most active country to have engaged China into ASEAN-based institutions and multilateral processes in the post-Cold War era (Kuik 2005; 2013; 2017).
- 76.** Since the early 1990s under Mahathir’s first tenure (1981-2003), Malaysia and China had joined hands in promoting a number of regional and international initiatives. Despite their overlapping territorial claims in the South China Sea, the two countries have seen eye-to-eye on a broad range of issues, ranging from the Third World cause and Asian Values, to multipolarity and new international economic order. China supported Mahathir’s regional multilateral ideas, most notably the East Asian Economic Caucus (EAEC). It collaborated with Malaysia and others in realizing the ASEAN Plus Three (APT) in 1997, as well as in institutionalizing the East Asian Summit (EAS) in 2005, both when Malaysia was the Chair of ASEAN.

77. Malaysia's embrace of BRI and China's growing investments in Malaysia since 2014 have both served to complement and reinforce the bilateral partnership. China has been Malaysia's largest trading partner since 2009, and a leading source of FDI in recent years. Malaysia was China's largest trading partner in the ASEAN region most years over the past two decades.
78. It is true that the new Mahathir administration's (hereafter "Mahathir 2.0")'s announcements to review the controversial ECRL deal (alongside two pipeline projects in Sabah and Malacca) since May 2018 has cast a shadow over Malaysia-China relations. However, far from the distorted interpretation that the 93-year old leader is "rejecting" and "pushing back" China's BRI, Mahathir actually has allowed other China-related projects to continue (even though most of the deals were reached and implemented by Najib administration). These include the Gemas-Johor double-tracking project, the MCKIP, the CRRC Centre, as well as the Alibaba Group's Digital Free Trade Zone (DFTZ) and the Electronic World Trade Platform (eWTP). The leader repeatedly stressed that Malaysia will continue to support Beijing's BRI and welcome China's investments. Investments from Chinese private firms have continued under Mahathir 2.0. Notable examples include Alibaba's ventures as well as the Shandong-based Daiyin Textile and Garment Group's investment in Johor. Bilateral trade hit more than US\$100 billion in 2018.
79. Following the resumptions of the ECRL and Bandar Malaysia in April 2019, Malaysia and China have progressed from the current low point. They should now build on their long-held partnership, exploring new ways to expand, multiply, and leverage on their newfound connectivity cooperation.
80. Prospective bilateral and multilateral initiatives include, but are not limited to:
- a. Expanding the collaborative scope of MCKIP and Kuantan Port; linking them with the Brunei Darussalam-Indonesia-Malaysia-Philippines East ASEAN Growth Area (BIMP-EAGA), while exploring possible mechanisms in developing it as a *catalysing project* for **institutionalizing the "BIMP-EAGA Plus China"** as a new RCI;
 - b. Developing mechanisms to **substantiate Malaysia-China Port Alliance**, and **position Malaysia as the *transiting hub* of "Asian Port Coalition"** as an inclusive and transformative RCI;

- c. Deepening policy and physical connectivity between Kuantan and Qinzhou (both ports and industrial parks), and **positioning Malaysia-China Twin-Ports-and-Parks as *the logistics nodes*** for the “New International Land-Sea Trade Corridor” as a RCI, as a way to generate more trade, investment, and connectivity opportunities for regional countries (while making Malaysia a hub between maritime Southeast Asia and mainland Southeast Asia plus southwest China);
- d. Attracting and encouraging more Chinese SOEs and top private companies **to establish their regional HQs and centres of production, distribution, and R&D in Malaysia**;
- e. Exploring the possibility of constructing a pan-Peninsular Malaysia High-Speed Rail (HSR), as part of a Pan-Asia Railway linking Singapore to Kunming (elaborated below)

3. Initiatives of Other Development Partners

- 81.** Although Malaysia is not a GMS country, it has forged cooperative ties with all of the GMS countries over the past decades. Aside from ASEAN meetings, Malaysia has interacted with all GMS countries via another RCI since 1996 – i.e. the Special Working Group on the Singapore-Kunming Rail Link (SWG-SKRL) – which also involves development partners like the Asian Development Bank (ADB) and the United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP).
- 82.** This RCI must be traced back to 1995, when Mahathir proposed the idea of the Singapore-Kunming Rail Link (SKRL) at the Fifth ASEAN Summit. The following year, Mahathir pushed for the creation of a Special Working Group on the SKRL (SWG-SKRL) that includes not only seven ASEAN countries but also China. The SWG-SKRL, chaired by Malaysia, is an institutionalized meeting among transport ministries of seven ASEAN countries and China, which is held annually since 1996 to discuss the development and progress of the implementation of the SKRL project. These ASEAN countries are: Cambodia, Laos, Malaysia, Myanmar, Singapore, Thailand, and Vietnam. The meeting, which is joined by representatives from ASEAN Secretariat, ADB,

and UNESCAP, monitors respective countries' progress on developing double-tracking railways, missing links, and spur lines.

- 83.** Mahathir's SKRL proposal in the 1990s was about regular train and not high-speed rail (HSR). This was clearly due to the availability of train technology at that time and does not mean that the leader was not supportive of HSR. In addition, even though he decided to review and suspend the ECRL and the other two China-related mega-projects last year, his decisions have more to do with domestic politics and fiscal reasons. It does not imply that he is against partnering with China (or other power) on rail or other infrastructure project. In May 2018, Mahathir said he was fine with the idea of ECRL, but he also stressed what he wanted: reducing the costs significantly, resetting the terms, and renegotiating to ensure that the implementation of the project will be favourable to Malaysia.
- 84.** Neither does it mean that Mahathir is no longer interested in pan-Asian railway. During an interview last June, the leader clarified that he won't say "we will never have high-speed rail in Malaysia – there will be a need for high-speed rail in the future." Instead, he even talked about the possibility of building an HSR "right through the Peninsula" (*The Star*, June 12, 2018).
- 85.** Since the two countries are renegotiating the ECRL at a time when China is concerned that making concession to Malaysia might set precedent for other BRI partners, it is imperative for leaders of the two sides to adopt an "issue-linkage" approach. That is, instead of focusing merely on "correcting" the terms of the problematic project, both sides should put emphasis on reaching new deals (with prospective initiatives listed above) to move forward.

4. Public-Private Partnerships

- 86.** Both MCKIP and Kuantan port expansion provided opportunities for public-private partnership (PPP), allowing private sector in Malaysia to participate in the mega development projects. This helps expand the agenda for more inclusive and sustained economic growth, although the range of private participation is limited to those with close political connections.
- 87.** Kuantan Pahang Holding Sdn Bhd – the Malaysian consortium who owns 51 percent of MCKIP – is a PPP comprising IJM Land Bhd (40 percent), Sime

Darby Property Bhd (30 percent) and the Pahang state government (30 percent) through Perbadanan Setiausaha Kerajaan Pahang and Pahang State Development Corporation. IJM is a publicly listed company on Bursa Malaysia. Sime Darby is a publicly traded government-linked company. On the other hand, the Chinese consortium who owns 49 percent of MCKIP is led by the state-owned entity Guangxi Beibu Gulf International Port Group (95 percent) and Qinzhou Investment Development Co. (remaining 5 percent stake).

- 88.** In the case of the Kuantan Port, it is a privatized port managed by Kuantan Port Consortium Sdn Bhd (KPC), jointly owned by IJM Corporation Bhd (60 percent) and Beibu Gulf Holding (Hong Kong) Co. Ltd. (40 percent), with the government of Malaysia having a special rights share.
- 89.** Potential opportunities for more PPP can be expected in the BRI-related projects when greater localization in procurement is involved in each of the projects.

F. Potential Risks

- 90.** The BRI-related projects in Malaysia – notwithstanding the wide range of opportunities and perceived benefits discussed above – are mostly associated with three types of *risks*, *uncertainties*, and *challenges*. The following assessments reflect the perceptions and observations gathered from survey interviews, news reports, and secondary sources.
- 91. Financial risks and development uncertainties:** Financial burdens, debt liabilities, uncertainties in developmental returns and economic viability are among the most cited risks and challenges mentioned by the respondents and observers about ECRL (but less so for other BRI-related projects like MCKIP and CRRC Centre, which involve investments, not loans).
- 92.** This type of risks is the main reason why ECRL – the largest infrastructure project and the most controversial BRI deal in Malaysia – has been the centre of public disquiet and open criticism since the project was announced in 2016 and throughout the review and renegotiation process after the PH coalition took over in May 2018.

93. The financial risks of ECRL were highlighted most prominently by Mahathir, especially during the election campaign period, when he attacked the Najib government for borrowing large amount of loans from a foreign government. Along with the other opposition parties and pressure groups, Mahathir's Parti Pribumi Bersatu Malaysia (PPBM) criticized the ECRL for being a loan rather than an investment. China's Export-Import Bank (EXIM) provided a soft loan (at a 3.25 percent interest rate), which covers 85 percent of the projected costs, while the balance 15 percent was financed through a *sukuk* Islamic bond program by local banks. Observers and respondents commented that, as the government was required to start paying after the seventh year over a 13-year period at 3.25 percent interest per annum, the interest-servicing bill would be huge.
94. Aside from debt issue, critics of ECRL also questioned the project's *price tag*, *economic viability*, and *expected operational cost*, seeing it as an expensive venture that could become a white elephant. The project has been widely seen as overpriced. The projected cost of RM55 billion for the entire stretch of 688km-railway is translated into RM80 million or US19 million per kilometre. This is considered excessively high when compared to other railway projects, some constructed on a difficult terrain. For instance, Ethiopia's 375km Awash-Weldia railway costs RM18 million per kilometre, and Bangladesh's 215km Padma rail line is projected to cost RM68 million per kilometre (*The Star*, August 12, 2017).
95. Some experts add that ECRL is fraught with dubious economic rationale. For instance, the prominent economist Jomo Kwame Sundaram (who was later appointed by the PH government as a member of the influential Council of Elders) has from day one questioned the economic logic of ECRL, arguing that the costly project "is not economically viable". He cast doubt on the BN government justification that the rail link will carry almost 60 million tonnes of freight yearly by 2035, considering that KTM, Malaysia's rail service operator, currently only carries about six million tonnes per annum with its existing nationwide network. Jomo opined that if the massive surge in freight tonnage as projected by Najib administration does not materialise, "the project will lose even more, meaning that taxpayers for generations to come will have to massively subsidise the ECRL" (*Free Malaysia Today*, August 11, 2017).

96. Another challenge is the high operational cost in maintaining the rail network, which is estimated to be RM600 million to RM1 billion annually. The new Finance Minister Lim Guan Eng said in August 2018, “even if the rail project is completed, the operational cost will be very high”. Lim added, “This is a huge issue, and it is clear why a review is needed to avoid the government being straddled with a huge debt. It is a mega project that will result in a mega debt” (*Straits Times*, August 15, 2018).
97. ECRL also entails other types of risks and challenges, discussed below.
98. MCKIP, by comparison, is deemed by most respondents and experts as economically much more viable. Its associated risks and uncertainties are more manageable, mainly in terms of facing an imbalance investment profile. The investors in the Kuantan Industrial Park are predominantly from Mainland China. Accordingly, the project entails a long-term risk of over-dependence.
99. **Societal risks and implementation challenges:** Some of the BRI-related projects in Malaysia – most notably ECRL and the two pipeline projects suspended by the new government – suffer a spectrum of societal risks and implementation challenges. These refer to the *unfavourable public perceptions and stereotypes* about China, as well as the *bottom-up resentments* over several key aspects of the implementation of Chinese projects in Malaysia.
100. Much of these risks and challenges are rooted in the *psychological and socio-political gaps in the host country*, where the inflow of China’s capital into Malaysia has taken place *in a scale, scope, and speed far greater than most ordinary Malaysians could imagine and accept*. These emerging gaps and grassroots sentiments about China’s growing footprints in Malaysia are best captured by Nurul Izzah Anwar, Vice President of Parti Keadilan Rakyat (PKR), who described China’s investments in the multi-ethnic country as “too much, too fast, too soon” (personal communication, November 2017).
101. Prior to 2012, China was not a major investor in Malaysia. However, within few years since the launching of Xi’s BRI, Chinese investments in Malaysia have surged dramatically and widely, covering not only manufacturing and real estate, but also infrastructure, agriculture, logistics, and other service sub-sectors (Lim 2015; SERC 2017; Tham 2018).

- 102.** The perceptual gaps and societal risks vis-à-vis China's projects also have to do with *Malaysia's own domestic politics*, including inter-elite power contestation as well as the then Prime Minister Najib's own political survival in the face of the scandal surrounding the 1 Malaysia Development Berhad (1MDB), a semi-sovereign fund established in 2009. In July 2015, *The Wall Street Journal* reported that nearly \$700 million related to 1MDB was deposited into Najib's personal bank accounts. In November and December 2015, in a move widely perceived as bailing out the 1MDB, China's state-run firms made two multi-billion asset purchases from the troubled firm, including a stake in Bandar Malaysia, the terminus for the proposed HSR line between Kuala Lumpur and Singapore. Rafizi Ramli, an opposition lawmaker from PKR said, "We [now] have a prime minister who is indebted to the Chinese government." (Reuters, December 31, 2015)
- 103.** The actions by Chinese project operators matter as well. The societal and perceptual risks can be traced to *the manners by which some of the BRI projects are implemented*. For instance, at MCKIP, the Alliance Steel's eight-feet-tall wall and its practice of denying some politicians and assemblypersons from entering the site have fuelled speculations and created negative impressions among the local community.
- 104.** Observers have also commented that China has not done enough to benefit the local economy, either in terms of acquisition of components and employment. One analyst wrote, "there are anecdotal complaints from Malaysian SMEs that PRC companies procure almost everything from China, side-lining local firms" (Wan Saiful, 2017).
- 105.** To be fair, the responsibility for flawed practices associated with BRI projects sometimes lies on the government of the host country as much as Chinese project operators. Take ECRL as an example: many people in Malaysia, from leaders to respondents, have questioned the key aspects of the project's implementation, including the terms and conditions of the contract.
- 106.** For example, Mahathir described the ECRL contract as "strange" on several grounds: "the contractor must be from China" (CCCC), "the lending is from China" (EXIM), "the money is not supposed to come here but to pay the contractor in China", and "the payments to CCCC are not on the basis of work

done but according to a pre-determined timetable, which is also not normal.” (*The Edge Malaysia*, June 4, 2018) Like the two pipeline projects, while only 15 percent of the rail work was completed, nearly 90 percent of the contract was paid out to China. While Mahathir confirmed that there were suspicions that some payment made for the ECRL was used to retire 1MDB debts and to buy certain firms, the 93-year old leader repeatedly blamed the Najib government, but not China, for the deals. He however pointed to some unfairness of the arrangement: the deal was given to Chinese firm, which “used its own workers, brought everything from there”, asking so “what is there for Malaysia. We want to gain something for Malaysia” (*Today Online*, August 13, 2018).

107. The concerns about the flawed aspects of BRI project implementation do not stop at the elite level, but are shared among a number of socio-political groups and industrial players.
108. Some respondents and socio-economic entities, for example, criticized the former government for granting contracts to China without open tenders. Such implementation challenge is not only faced by ECRL, but also by other China-related projects. An instance in point was the CRRC Rolling Stock Center’s supply of train sets to Malaysia. Abdul Razak Md Hassan, the President of the Railwaymen Union of Malaya (RUM) recently went public to register his concern. Having revealed that the BN government had since 2012 spent about RM5.7 billion to buy 100 train sets without open tenders from the Chinese rail firm, he urged the new PH government “to practice open tenders to reduce the dumping of train sets from China” (*Free Malaysia Today*, January 5, 2019).
109. The MCKIP is another instance illustrating the challenges associated with implementation of BRI projects. Interviews with Kuantan-based members of local-based Chamber of Commerce indicate that, not all issues are related to China, and some are actually originated from the enforcement, or the lack thereof, of Malaysian regulations by the local authorities. For instance, some local SMEs complained about the double-standard practice by the Malaysian government agencies, with some using looser standards for Chinese firms but stricter ones for local firms (interview with, October 2018).
110. There are also those who challenge the implementation of BRI projects not for procedural reasons, but on other grounds ranging from autonomy and ethnic relations to values and environmental causes. Some Malay groups

faulted Najib for selling out Malaysia and allowing China to take over Malaysia's assets. One respondent from the Malay rights NGO Perkasa expressed that China's massive investment might affect Malay Bumiputera's business opportunities (personal communication, December 2018).

111. Political risks and policy uncertainties: Some of the above perceptual and implementation challenges have translated into political risks, posing uncertainties to BRI projects in Malaysia. This is most evidenced in the new government's decision to review and potentially revoke ECRL.

112. Given the financial burdens, debt issue, economic viability, and public perception problems surrounding the rail project, the Mahathir-led PH coalition has delivered its campaign pledge by suspending ECRL, alongside the two pipeline projects, upon coming to power. After Malaysia's months-long renegotiation with Chinese contractor CCCC, the Economic Affairs Minister Azmin Ali announced in late January 2019 that the government has terminated the project. He said the decision was "because the cost to develop ECRL is too high, and we do not have the financial capability at this moment", adding that the country "could not afford the RM500 million annual interest on the project" (*The Star*, January 26, 2019). Another cabinet member, Finance Minister Lim Guan Eng, however, made a statement the same day claiming that Azmin "may not have been updated on a decision made by Prime Minister", and that "an official statement pertaining to the status of the East Coast Rail Link (ECRL) project will only be made next week" (*Malaysiakini*, January 26, 2019).

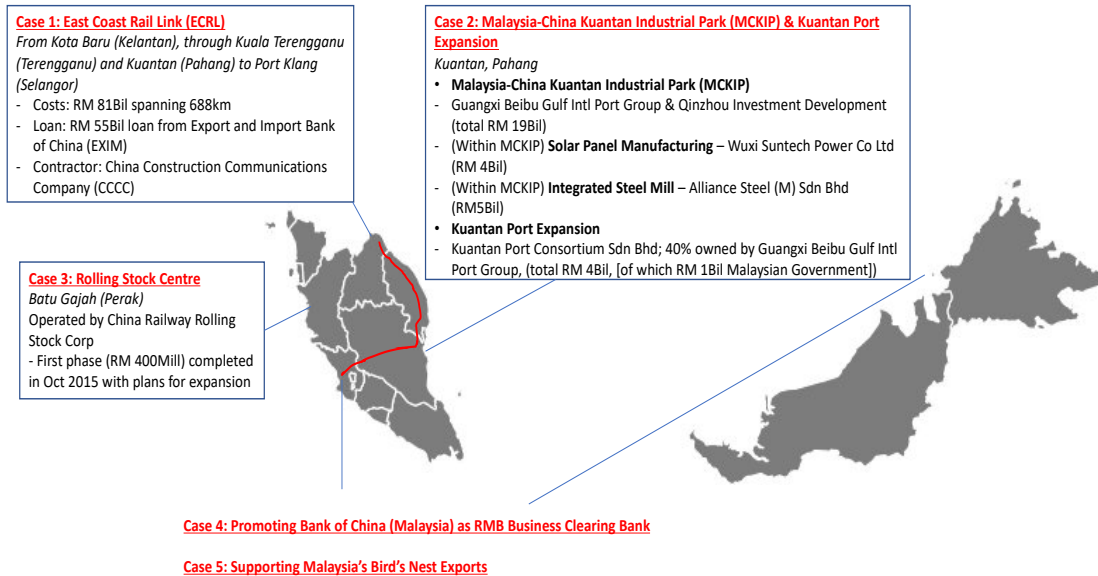
113. Although the ECRL was eventually resumed in April 2019, policy uncertainties like this may cast a shadow on other BRI-related projects in Malaysia as well as the wider bilateral cooperation.

G. Maps

114. The location of the selected BRI-linked and China-related projects in Malaysia are shown in Figure 14 below.

Figure 14:

Selected BRI-related Projects in Malaysia



Source: The Author.

5. Summary and Conclusions

115. This concluding section presents a national synthesis of the overall summary, findings, and recommendations.

OVERALL SUMMARY AND FINDINGS

116. Embracing the BRI opportunity. As a country with a longstanding tradition of engaging China bilaterally and regionally, Malaysia views the BRI largely as an opportunity to be embraced and leveraged upon. It is particularly receptive about those BRI projects that could boost its own national and local development plans, by acquiring the needed capital and technology, enhancing the overall infrastructure links and connectivity quality, reducing inequality, empowering its human capital, and ultimately, maximizing trade and investment opportunities. Both the previous BN government and the current PH-led ruling coalition share this pragmatic tendency.

- 117. Connectivity cooperation like BRI is about both (big-power) push and (smaller-country) pull.** The BRI story in Malaysia shows that connectivity cooperation is not just about big power's push, but also weaker country's pull. When the two converge, cooperation progresses (e.g. MCKIP, CRRC rolling stock center, RMB clearing center, Xiamen University Malaysia); but when one side stops its push or pull, things become stagnant (ECRL). In the case of Malaysia, the smaller country has by and large shown a clear inclination to pull in China's BRI capital and technology, not least to help fill its own development gaps. Both BN and PH governments share this pragmatic inclination.
- 118. The devil is in the implementation detail.** The new PH government, however, is more cautious about the implementation detail of the projects, especially the arrangements for financing, workers, and material acquisition. The Mahathir-led new government, since coming to power in May 2018, has repeatedly stressed that the new Malaysia *welcomes investment, but not loans*. The new administration has also *put emphasis on greater localization of employment and acquisition*, alongside productive *technology transfer*.
- 119. Inclusivity, transparency, and sustainability go a long way.** Contrasting the relative success of MCKIP and CRRC with the termination of ECRL, the BRI story in Malaysia also suggests that, those agreements and arrangements that were reached in a more inclusive and transparent manner – rather than exclusive and direct negotiation – are politically more sustainable, as they are more capable of reducing societal uncertainty and perceptual risks.
- 120. Mind the (perceptual and political) gaps.** The various societal and political risks discussed above indicate that while BRI does help bridge the developmental gap, some of the Chinese projects still fail to bridge the perceptual and political gaps. Trust deficits, stereotypes, cultural differences, and misunderstanding about China's BRI and economic statecraft have continued to prevent host countries like Malaysia from forging a closer collaboration, notwithstanding the perceived developmental benefits.

RECOMMENDATIONS

- 121. Promoting investment-based and not loan-based BRI partnership** when dealing with mega infrastructure projects. If this political desirability is

not matched by financing feasibility, then the host country (in this case Malaysia) and China should go beyond bilateral. They should explore *a more sustainable, “2+X” partnership model*, where “X” can be one or more partnering country or multinational development bank (e.g. ADB, AIIB). The benefits of such 2+X model are threefold. To host country, it reduces the political risks of facing debt liability and domestic resentment. To China, it mitigates the financial risks of bearing the losses alone. To co-investor or co-lender, it shares both returns and potential risks with its partner(s). These triple benefits make the model politically more desirable and financially more sustainable.

122. Improving implementation by optimizing the demand-supply equation in connectivity cooperation. In order to better meet with host country’s multiple demands – not only capital-investing, but also *capacity-building* and *technology transfer* – China should substantiate its supply of the desired goods in a more proactive, tailored, and responsive way.

123. Enhancing local content, by increasing local *acquisition, employment, and production of components*. For instance, in the case of CRRC locomotive manufacturing centre in Batu Gajah, one small step to increase the localization of procurement of components is for the Chinese railway car manufacturer to help train and enhance the capability of Malaysian component suppliers.

124. Engaging non-governmental stakeholders, not just office holders. To enhance social and economic inclusion, Chinese firms working on BRI projects in Malaysia should develop a more proactive, comprehensive, and constructive program to engage relevant non-governmental stakeholders on a broader basis. They should engage multi-sector NGOs and socioeconomic groups beyond the ethnic Chinese community, to ensure sufficient and significant interactions with backgrounds as diverse as possible, encompassing Malay-based entities, other socio-cultural groups, the media, as well as civil society organizations like environmentalist groups. In addition, they should conduct diverse engagement activities beyond training and sociocultural events. They should develop engagement programs in a more robust way, by partnering with a broad range of representative groups and grassroots organizations.

125. Upgrading MCKIP into an integrated economic corridor, and making it a fundamental piece of BRI in Malaysia. In light of the ECRL’s suspension

and alleged cancellation, both Malaysia and China must explore ways to establish wider, more integrated, and more impactful connectivity collaboration for long-term mutual benefits. MCKIP and the related Kuantan port expansion project are the ideal central piece for this goal, considering their steady progress, strategic location, and substantial potential in becoming a multi-purpose hub for Malaysia's future development. Nationally, a wider and more integrated economic hub in Kuantan will create more economic impetus to connect the various infrastructure and developmental dots in the east and west coast, including the existing BRI or China-related projects in Malaysia (e.g. the CRRC centre, the Alibaba's e-commerce ventures). This may become a reason for the revival of ECRL in the future. Regionally, given Malaysia's geographical centrality in the wider East Asian region, an expanded Kuantan-centred economic corridor facing the South China Sea could catalyse the interactions between the existing RCIs across the mainland and maritime Southeast Asia as well as other parts of Asia.

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7. Annex 1

126. On 25 September 2015, the 193 Member States of the United Nations adopted the Sustainable Development Goals (SDGs), a set of 17 aspirational objectives with 169 targets expected to guide development actions of governments, international agencies, civil society and other institutions over the next 15 years (2016-2030).

127. The 17 SDGs aim to end poverty and hunger while restoring and sustainably managing natural resources. They integrate the three dimensions of sustainable development – economic, social and environmental. They are indivisible – no one goal is separate from the others, and all call for comprehensive and participatory approaches. And they are universal – the 2030 Agenda is as relevant to developed as it is to developing nations.

Figure A1.1: Sustainable Development Goals for the UN Agenda 2030



128. Harmonized indicators are essential to measuring progress, and SDGs will ultimately be turned into management tools to help countries develop implementation strategies and allocate resources accordingly, measure progress towards sustainable development, and help ensure the accountability of all stakeholders in achieving the SDGs. Because all the countries participating in the current TA are signatories to the 2030 Sustainable Development Agenda, it is appropriate to use SDGs for evaluation of our RCI and BRI initiatives.

Table A1.1: United Nations Sustainable Development Goals

| | Topic | Title |
|----|-------------------|---|
| 1 | Poverty | <u>End poverty in all its forms everywhere</u> |
| 2 | Food | <u>End hunger, achieve food security and improved nutrition and promote sustainable agriculture</u> |
| 3 | Health | <u>Ensure healthy lives and promote well-being for all at all ages</u> |
| 4 | Education | <u>Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all</u> |
| 5 | Women | <u>Achieve gender equality and empower all women and girls</u> |
| 6 | Water | <u>Ensure availability and sustainable management of water and sanitation for all</u> |
| 7 | Energy | <u>Ensure access to affordable, reliable, sustainable and modern energy for all</u> |
| 8 | Economy | <u>Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all</u> |
| 9 | Infrastructure | <u>Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation</u> |
| 10 | Inequality | <u>Reduce inequality within and among countries</u> |
| 11 | Habitation | <u>Make cities and human settlements inclusive, safe, resilient and sustainable</u> |
| 12 | Consumption | <u>Ensure sustainable consumption and production patterns</u> |
| 13 | Climate | <u>Take urgent action to combat climate change and its impacts</u> |
| 14 | Marine-ecosystems | <u>Conserve and sustainably use the oceans, seas and marine resources for sustainable development</u> |
| 15 | Ecosystems | <u>Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss</u> |
| 16 | Institutions | <u>Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels</u> |
| 17 | Sustainability | <u>Strengthen the means of implementation and revitalize the global partnership for sustainable development</u> |