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The Political Economy of a Rising China in Southeast Asia: Malaysia's Response to the Belt and Road Initiative

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ABSTRACT

Disputing research that depicts weak states getting overwhelmed by China's financial might, this article argues that the political elites in a relatively weak and small state such as Malaysia are adept in engaging with a rising China to advance key projects, furthering their own agenda. In the case of Malaysia, the eventual outcome of this interaction is dependent on three key conditions: fulfilment of Malaysia's longstanding pro-ethnic Malay policy, a mutual vision between the state and federal authorities, and advancement of geopolitical interests for both Malaysia and China. The article puts forward a typology illustrating various possible outcomes to examine the interconnections between key players at a time of Chinese ascendancy.

The Belt and Road Initiative from a Southeast Asian perspective

In 2013, Chinese President Xi Jinping announced a pair of initiatives, which aims to restructure the economies spanning Europe and Asia. The 'Silk Road Economic Belt' was announced in September 2013 in Kazakhstan as a program to connect China to Europe by land, with routes interlinking relevant countries. A month later, in Indonesia, President Xi announced the '21st Century Maritime Silk Road', a maritime development initiative targeting the ports of Southeast Asia, South Asia, the Middle East, East Africa, and the Mediterranean. These two Silk Road programs collectively form the 'Belt and Road Initiative' (BRI). It has become China's foremost diplomatic and economic strategy in engaging with neighbouring countries and beyond since 2013. The investment associated with the BRI has surpassed US\$1 trillion and will continue to define China's relationship with the world.¹

Although BRI is a China-driven strategy, unlike other national plans (such as developing the Western regions or *Xibu Dakaifa*) that fall within the domestic political economy of China, its operation and success (or failure) depends fundamentally upon the engagement with and response from countries alongside the BRI nations (numbering more than 60). Existing studies on BRI has focused almost exclusively on China's interests and strategies, giving little attention to the responses of small states, such as those from Southeast Asia.² Echoing Blanchard and Mohan Malik, this article reaffirms the critical role that Southeast Asia plays in the BRI for it is one of the most critical areas making up the 21st Century Maritime Silk Road.³ It goes beyond a macro-level

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¹Peter Ferdinand, 'Westward Ho—the China dream and "One Belt, One Road": Chinese foreign policy under Xi Jinping', *International Affairs* 92(4), (2016), pp. 941–957.

²See, for example, Zhangxi Cheng and Ian Taylor, *China's Aid to Africa: Does Friendship Really Matter?* (Oxford: Routledge, 2017).

³Jean-Marc F. Blanchard, 'China's Maritime Silk Road Initiative (MSRI) and Southeast Asia: a Chinese "pond" not "lake" in the works', *Journal of Contemporary China* 27(111), (2017), pp. 329–343; J. Mohan Malik, 'Myanmar's role in China's Maritime Silk Road Initiative', *Journal of Contemporary China* 27(111), (2017), pp. 362–378.

analysis, employing a meso-scale perspective to take into account diverse economic, political, ethnic interests, and more importantly, the fluid interplay among these factors.

A Southeast Asian perspective

Malaysia is a good case study to unravel the BRI in Southeast Asia because of several reasons. First, it is one of the founding members of the Association of Southeast Asian Nations (ASEAN), a multilateral platform established in 1967 to promote regional integration and cooperation. Second, as China's strategic ally, Malaysia enjoys a special relationship with China when then Prime Minister Tun Abdul Razak established diplomatic ties with Beijing in 1974. The bilateral relationship has blossomed under successive Prime Ministers, especially former Prime Minister Najib Razak (in office from 2009 to May 2018). Thirdly, Malaysia's ethnic Chinese minority (about 25% of the population) has long played a key role in advancing bi-lateral trade and investment, in spite of a state-sanctioned affirmative action policy limiting ethnic Chinese participation in various activities.⁴ Thanks to their economic success, the ethnic Chinese have often been portrayed as a bogeyman by some politicians representing the ethnic Malay population (roughly 65% of the population).⁵ At a time of China rising, the financially powerful (yet politically weak) ethnic Chinese across Southeast Asia have also been viewed as a conduit in fostering China-Southeast Asia economic ties.⁶ This makes the community influential agents to decipher whether Beijing's engagement with them represents a new mode of transnational governance.⁷

With the above as a backdrop, this article addresses the following questions: What are the key elements of the BRI in the context of the Southeast Asian political economy? How do business groups from China (both state-owned and private) undertake their operations in Southeast Asia (in general) and Malaysia (in particular)? Moreover, how do different forces in Malaysia (ruling coalition, opposition bloc, and civil society) react to the BRI, and what are their key stakes in engaging (or disengaging) with China? What are the impacts, if any, of the complex meshing of such forces on Malaysia's domestic politics and Beijing's regional politico-economic engagement? What implications can be drawn from Malaysia for a better understanding of the BRI, especially the huge opportunities that come with the initiative and its operational constraints?

This article unpacks these questions by analysing three of the most prominent BRI projects in Malaysia: East Coast Rail Link (ECRL), Bandar Malaysia, and Forest City. ECRL is orchestrated by the China Communications Construction Company (CCCC), a state-owned enterprise (SOE), with strong endorsement by Najib and several Chief Ministers. Bandar Malaysia was jointly developed by China Railway Engineering Corporation (CREC), another SOE, and parties aligned with Najib. Forest City, on the other hand, is driven by Country Garden (a private firm), in partnership with the Sultan of Johor, reflecting a rising trend of wealthy Chinese private firms venturing abroad. The article argues that domestic players in these projects are astute in co-opting their Chinese counterparts to advance their own goals. Their eventual success is dependent on three conditions: fulfilment of Malaysia's pro-ethnic Malay agenda, a common development goal between the state and federal authorities, and advancement of geopolitical interests for both Malaysia and China. As will be detailed later, ECRL's modest success (at least until the recently concluded general election in May 2018 which saw the Najib administration losing to the opposition bloc), Bandar Malaysia's failure,

⁴James Chin, 'The Malaysian Chinese dilemma: the Never Ending Policy (NEP)', *Chinese Southern Diaspora Studies* 3, (2009), pp. 167–182.

⁵Joan Nelson, 'Political Challenges in Economic Upgrading: Malaysia Compared with South Korea and Taiwan', in *Malaysia's Development Challenges: Graduating from the Middle*, eds. Hal Hill, Siew Yean Tham, and Haji Mat Zin Ragayah (Oxford: Routledge, 2012), pp. 43–62.

⁶Caroline Hau, 'Becoming "Chinese"—but what "Chinese"?—in Southeast Asia', *The Asia-Pacific Journal: Japan Focus* 10(26), (2012), pp. 1–36; Hong Liu, 'Opportunities and anxieties for the Chinese diaspora in Southeast Asia', *Current History: A Journal of Contemporary World Affairs* 115(784), (2016), pp. 311–317.

⁷Hong Liu and Els van Dongen, 'China's diaspora policies as a new mode of transnational governance', *Journal of Contemporary China* 25(102), (2016), pp. 805–821.

and Forest City's arrested development underline the need to be wary of societal contestation within the BRI recipient state as well as Beijing's geopolitical goals.

Data for this article were obtained from personal interviews with individuals who have been directly involved in China's economic engagement with Malaysia. The interviews were conducted from May 2016 to May 2017 in China, Malaysia, and Singapore, focusing on two main topics: the overall business approach of the Chinese firms and their interactions with important domestic stakeholders. It was supplemented by information gathered from two public forums (March and May 2017, respectively, in Singapore) voicing views on Chinese investment in Malaysia. To enhance the robustness of the primary data, they are cross validated with newspaper essays, published reports, and company websites in the English, Chinese and Malay languages. In certain cases, materials from personal blogs were retrieved to explore views candidly expressed but seldom heard, although they are handled with caution, given their limitations. The use of these sources of information allowed for data verification and triangulation, resulting in a clearer reading of the situation from multiple perspectives. Given the sensitive nature of the issues discussed (e.g. ethnic relations and business-state interactions), all interviewees were promised confidentiality.

The next section examines the literature on the internationalization of China. It identifies the gap in knowledge, especially the tendency to (over)focus on Chinese actors and the lack of perspectives from Southeast Asia. The third section provides a wider context by analysing the political economy of Malaysia with respect to China's growing influences in the nation. The fourth section puts forth a conceptual framework hypothesizing various possible outcomes to better analyse how Malaysia (and other states) respond to the BRI. It then focuses on the progress of the aforementioned projects (ECRL, Bandar Malaysia, and Forest City). The article then discusses interconnections between key players in the BRI recipient state and unpacks the manners in which domestic stakeholders utilize Chinese capital to further their own agendas. The last section concludes with a summary of the main arguments and suggests avenues for future research.

Studies on the Belt and Road Initiative: a critique

There has been a growing body of research analysing the motivations and impacts of China in its overseas expansion. Such studies tend to view actors within China as the major (if not, sole) variable behind China's foreign direct investment (FDI). First, much of the debate has pinpointed the Chinese state as the primary determinant undergirding the BRI.⁸ These studies emphasize policies that extend China's global reach. Callahan postulates that Beijing is utilizing new policies and institutions related to the BRI to construct a 'new regional order', weaving specific countries into a Sino-centric 'community of shared destiny'.⁹ Beeson argues that China's recent moves are presenting a formidable challenge to its immediate neighbours.¹⁰ He contends that China is adept at exploiting rifts between key Southeast Asian countries, complicating efforts to develop a common position vis-à-vis China and successfully undermining solidarity within the region.

Second, the state-centric perspective has been augmented by other studies on the multitude of actors shaping China's economy. They posit that the BRI is also driven by other Chinese players such as the SOEs, private firms, and less well-capitalized Chinese entrepreneurs. To ensure access to overseas energy supply, Beijing has been utilizing diplomatic instruments and policy banks to help its national firms—primarily the SOEs—tap into the oil and gas fields of Russia-Central Asia, Middle

⁸See, for example, Mark Beeson, 'Can ASEAN cope with China?', *Journal of Current Southeast Asian Affairs* 35(1), (2016), pp. 5–28; William Callahan, 'China's "Asia Dream": the Belt Road Initiative and the new regional order', *Asian Journal of Comparative Politics* 1(3), (2016), pp. 226–243; Hong Yu, 'Motivation behind China's "One Belt, One Road" initiatives and establishment of the Asian Infrastructure Investment Bank', *Journal of Contemporary China* 26(105), (2017), pp. 353–368; Weifeng Zhou and Mario Esteban, 'Beyond balancing: China's approach towards the Belt and Road Initiative', *Journal of Contemporary China* 27(112), (2018), pp. 487–501.

⁹Callahan, 'China's "Asia Dream": The Belt Road Initiative and the new regional order'.

¹⁰Beeson, 'Can ASEAN cope with China?'.

East-North Africa, and South America.¹¹ In agriculture, small-scale Chinese family farms have most actively expanded westward into Tajikistan, reacting much faster than the SOEs.¹²

These two strands of work, while insightful, tend to understand Chinese outward expansion mainly from the perspective of the Chinese actors, giving little attention to the responses formulated by players in the BRI recipient states who, as will be demonstrated later, harbour their own agendas in their engagement (or disengagement) with China. Without a more explicit analysis on the relevant state and non-state actors from the recipient state, the reality of the initiative is likely obscure. In Nepal, studies were conducted to unpack the manners in which Nepalese elites utilize Chinese capital and expertise to finance badly needed infrastructure. Such research illustrates how small and weak states like Nepal can advance projects of state formation and national security through a significant degree of elite agency, exploiting the geopolitical manoeuvring between its two large neighbours—China and India.¹³

Focusing on Chinese corporate expansion into Southeast Asia, Lim problematizes the concept that the Chinese state is the most important, if not the only, variable in explaining the outward investment of Chinese firms.¹⁴ He argues that firm strategies are influenced by a broad range of actors, especially those in the host economies, which collectively shape global production and dictate value capture. Using examples from the automobile and electronics sectors, he shows that only those Chinese firms adept at managing a variety of complex factors are successful in their overseas expansion. Drawing lessons from recent BRI projects in Myanmar, scholars are increasingly aware of the need to pay attention to societal contestation within the BRI recipient states and how it potentially leads to a more contested outcome, just like how Myanmar in 2011 stunned global audiences by unilaterally suspending the construction of the Myitsone Dam, China's largest hydropower project abroad then. The suspension is primarily a product of the complex socio-historical evolution of Myanmar and the resistance strategy deployed by social actors at various geographical scales such as the Kachin nationalists and Lower Myanmar's activists.¹⁵ These stakeholders—who do not normally collaborate because of competing interests—projected the construction of the Myitsone dam as a common external enemy. Such an alliance eventually built a cross-ethnic and cross-state solidarity that was strong enough to pressure Naypyidaw to suspend the project.¹⁶

Such research is sparse compared to more 'popular' literature about Chinese overseas investment under the themes of 'colonialism' and 'imperialism'. This body of literature mainly draws on case studies of Chinese firms operating in Africa, and (to a lesser extent) South America. It commonly highlights Beijing's opaque state–SOE nexus, no-strings-attached stance on human rights, and the poor corporate governance of the Chinese firms.¹⁷ The situation is exacerbated by these countries' weak organizational capacity of civil society and poor institutional setting.¹⁸ Most of these works remain relatively nascent, transitioning somewhat slowly from broad-brush approaches to more critical and nuanced research.

Therefore, a perspective from Southeast Asia is imperative to decipher the on-the-ground intricacies of the BRI. Indeed, the region's political economy, socio-cultural landscapes, and

¹¹Monique Taylor, *The Chinese State, Oil and Energy Security* (New York: Palgrave Macmillan, 2014).

¹²Irna Hofman, 'Politics or profits along the "Silk Road": what drives Chinese farms in Tajikistan and helps them thrive?', *Eurasian Geography and Economics* 57(3), (2016), pp. 457–481.

¹³Galen Murton, Austin Lord, and Robert Beazley, "A handshake across the Himalayas: Chinese investment, hydropower development, and state formation in Nepal", *Eurasian Geography and Economics* 57(3), (2016), pp. 403–432.

¹⁴Guanie Lim, 'China's "Going Out" strategy in Southeast Asia: case studies of the automobile and electronics sectors', *China: An International Journal* 15(4), (2017), pp. 157–178.

¹⁵Laur Kiiik, 'Nationalism and anti-ethno-politics: why "Chinese development" failed at Myanmar's Myitsone Dam', *Eurasian Geography and Economics* 57(3), (2016), pp. 374–402.

¹⁶*Ibid.*

¹⁷Henry Sanderson and Michael Forsythe, *China's Superbank: Debt, Oil and Influence—How China Development Bank is Rewriting the Rules of Finance* (Singapore: Wiley, 2013).

¹⁸Cheng and Taylor, *China's Aid to Africa: Does Friendship Really Matter?*

developmental trajectories are fairly good representatives of the developing world.¹⁹ This article's analysis of infrastructure development in Malaysia, Southeast Asia's fourth-largest economy, aims to redress the knowledge gap pertaining to the BRI. It also highlights the socioeconomic intricacies embedded within the BRI recipient country. It reveals how key domestic political actors have remoulded the initiative, thus challenging the China-centric angle that is hitherto dominant in the literature.

The political economy of Malaysia: ethnicity and state–federal contestation

Malaysia has successfully transformed its previously commodities-driven economy into a middle-income economy since independence in 1957. Like the other newly industrialized economies (NIEs) of Asia, it has done so by maintaining a relatively open stance towards foreign trade and investment and utilizing its low labour cost advantage.²⁰ This model of economic development, however, has come under considerable stress as Malaysia has become less appealing in the eyes of international investors following the emergence of a newer cohort of NIEs such as Vietnam and Indonesia. In particular, Malaysia's decades-old affirmative action policy, designed to redistribute income along ethnic lines, has become a stumbling block for investors.²¹ The New Economic Policy (NEP) has also alienated a significant portion of the country's ethnic minorities. Its ethnocentric nature has been exploited by the pro-Malay United Malays National Organisation (UMNO), who frequently projects the financially powerful ethnic Chinese minority as a bogeyman of the Malay community.²² If anything, the pro-Malay agenda has strengthened in recent years, in light of the failure of the UMNO-led ruling coalition to secure its customary two-third parliamentary majority over the last two decades.²³ Pandering more forcefully to the ethnic Malays, UMNO's goal is to capture enough votes from the ethnic Malay-heavy rural constituencies to overcome its loss of the (predominantly non-Malay and anti-establishment) urban seats.²⁴

As Malaysia finds it increasingly difficult to attract FDI from its 'traditional' sources (i.e. the industrialized western countries, Singapore, and Japan), policymakers are forced to seek alternative investments. China has thus emerged as an attractive FDI contributor, especially since the formulation of the BRI. The latest governmental statistics show that China became Malaysia's largest investor in 2016, contributing an investment totalling US\$1.6 billion (equivalent to 17.5% of the country's total FDI inflow).²⁵ Chinese FDI has eclipsed those from the Netherlands (11.7% of inward FDI), Germany (9.5% of inward FDI), UK (9.5% of inward FDI), Korea (8.0% of inward FDI) and Singapore (7.7% of inward FDI). Chinese investment is especially noticeable in large-scale, capital-intensive infrastructure projects. In certain cases, Malaysian Chinese business people have become useful middlemen in attracting mainland Chinese investment, mobilizing their knowledge about

¹⁹Cf. Gary Hawes and Hong Liu, 'Explaining the dynamics of the Southeast Asian political economy: state, society, and the search for economic growth', *World Politics* 45(4), (1993), pp. 629–660; Erik Kuhonta, Dan Slater, and Tuong Vu, eds., *Southeast Asia in Political Science: Theory, Region, and Qualitative Analysis* (Stanford: Stanford University Press, 2008).

²⁰Hal Hill, Siew Yean Tham, and Ragayah Haji Mat Zin, 'Malaysia: a success story stuck in the middle?', *The World Economy* 35 (12), (2012), pp. 1687–1711.

²¹Formally known as the New Economic Policy (NEP), which was imposed following racial riots in 1969, the policy provides preferential treatment to the *Bumiputera* (essentially Malay) population in almost all features of the economy such as employment opportunities and home ownership. Despite its lopsided nature, the NEP has arguably preserved the rule of the United Malays National Organisation (UMNO), its chief architect and the hegemon within the ruling administration, from August 1957 to the recently concluded May 2018 general election. See Chin, 'The Malaysian Chinese dilemma: the Never Ending Policy (NEP)'.

²²Nelson, 'Political Challenges in Economic Upgrading: Malaysia Compared with South Korea and Taiwan'.

²³James Chin, 'Malaysia: heading for Sharia domination?', *The Round Table* 105(6), (2016), pp. 737–739.

²⁴The party's failure to garner support from the ethnic minorities was not damaging, at least until the 2000s, as Malaysia's relatively high growth rate in the post-independence decades was sufficient to sway the opinions of a large enough portion of the citizenry (both Malays and non-Malays). However, since the early 2000s, a slowing economy and more intense competition from other NIEs have placed significant strain on this dynamic.

²⁵MIDA, *Malaysia Investment Performance Report: Strengthening the Growth Momentum* (Kuala Lumpur: Malaysian Investment Development Authority, 2016).

China and the domestic market as well as their intimate relationship with the ethnic Malay-dominated state institutions and government-linked corporations (GLCs).²⁶

The optimistic view on the Chinese business community has to be moderated with the politico-economic reality. More prosaically, Chinese firms almost always conform to the NEP in their cross-border investment. Studies show that Chinese capital has largely collaborated with the ethnic Malay-led GLCs rather than Malaysia's ethnic Chinese firms, particularly in the more-regulated industries (such as infrastructure and automobile manufacturing).²⁷ The success of Huawei and Zhongxing Telecommunication Equipment Corporation (ZTE) in their Malaysian ventures is not dependent on forging ties with the ethnic Chinese firms; rather, they benefit from strong compliance with the NEP. Huawei especially is adept at conducting technical and societal programs (e.g. flood relief efforts in ethnic Malay-heavy constituencies) that are widely perceived to benefit ethnic Malay stakeholders.²⁸

Notwithstanding the lopsided nature of the NEP, one also needs to consider the state–federal ties. While responsibilities and revenue sources are geared strongly towards the federal government, Malaysia's 13 states still enjoy some autonomy in matters such as land use, local public services, and religious affairs.²⁹ Nine of these states are led by ethnic Malay hereditary monarchies (also known as Sultanates). Under Malaysia's unique form of constitutional monarchy, the Sultans assume largely a ceremonial role, with executive power in the hands of the respective Chief Ministers (the heads of government).³⁰ While the Sultans are generally popular amongst the citizenry (especially the Malays), there were some high profile instances where the Sultans came up against the federal government.³¹

As Malaysia's second most populous state, Johor's relationship with the federal government is further complicated by the 2006 inception of Iskandar Malaysia, a 9,300-acre special economic zone bordering Singapore. Although Johor, the country's southernmost state, stands to benefit from the success of Iskandar Malaysia, the project is viewed as an encroachment into Johor's land use, a sphere traditionally under the remit of the Johor government.³² Furthermore, it is driven primarily by the federal government, with only limited autonomy provided to its Johorean counterpart. The dominance of the federal government vis-à-vis the Johor administration is in turn undergirded by the former's preoccupation to distribute economic growth across the country. Johor's proximity to Singapore means that there are concerns about the shift of Malaysia's centre of gravity from Kuala Lumpur to the neighbouring city-state (and Johor, to a smaller extent). This also implies that there must be some federal oversight and monitoring mechanism in place whenever major projects (such as Iskandar Malaysia) are undertaken in Johor.³³

Conceptual framework: entanglement of international politics and domestic forces

Synthesizing the above literature, this article aims to account simultaneously for the interaction of international and domestic factors by presenting a tentative framework to analyse how Malaysian

²⁶Teck Ghee Lim, 'Abdullah Badawi, the NECC and the Corporate Equity Issue: View from a Personal Connection', in *Awakening: The Abdullah Badawi Years in Malaysia*, eds. Bridget Welsh and James Chin (Petaling Jaya: Strategic Information and Research Development Centre, 2013), pp. 457–480.

²⁷Guanie Lim, 'China's investments in Malaysia: choosing the "right" partners', *International Journal of China Studies* 6(1), (2015), pp. 1–30.

²⁸Ran Li and Kee-Cheok Cheong, 'Huawei and ZTE in Malaysia: the localisation of Chinese transnational enterprises', *Journal of Contemporary Asia* 47(5), (2017), pp. 752–773.

²⁹Three other smaller territories are governed directly by the federal administrators.

³⁰The Sultans are known to exercise their influence on the state administration, sometimes incurring the wrath of the politicians. See David Seth Jones, 'Resolving the constitutional question of the Malaysian king and rulers', *Asian Journal of Political Science* 3(1), (1995), pp. 13–31.

³¹Ibid.

³²Keng Khoon Ng and Guanle Lim, 'Beneath the veneer: The political economy of housing in Iskandar Malaysia, Johor', *Trends in Southeast Asia* 3(12), (2017), pp. 1–28.

³³Ibid.

Table 1. Alignment of interests between China and the Belt and Road Initiative recipient states.

Project/analytical dimension	Intertwining of domestic ethno-political agenda with Chinese objectives	State–federal contestation	Convergence of China–Malaysia geopolitical goals
East Coast Rail Link	High	Low	High
Bandar Malaysia	Moderate	Low	Low
Forest City	Low	High	Low

actors respond to China (see Table 1). The constructs are theoretical ideal-types and serve primarily as heuristic devices, yet they potentially contribute to a better understanding of how domestic actors engage with their Chinese counterparts. Examining the interplay involving domestic ethno-political goals and Chinese interests, state–federal contestation, and convergence of geopolitical goals, Table 1 isolates and examines *three of the most crucial variables* undergirding the BRI. It is *only* when these *three variables* are *properly addressed* that the projects *can be rolled out successfully*. This *three-tiered analysis* is useful to incorporate motivations from multiple interest groups, particularly in countries operating on a federal government structure (such as Malaysia), with political power often apportioned unevenly between the central and local administrative units.

As detailed previously, ECRL, Bandar Malaysia, and Forest City are chosen because they are three of the most important BRI projects in the country. In addition to their massive capital outlay, these three projects are selected because of the differing characteristics of their proponents and the power relations involved. ECRL and Bandar Malaysia are to be constructed by large Chinese SOEs, with support from Beijing and Putrajaya (especially Najib). Country Garden, a private firm, has instead cooperated with the Sultan of Johor. Because of the pervasive influence of the Sultan, Forest City cannot be classified as a traditional private-private collaboration. Table 1 hypothesizes that ECRL has been implemented expeditiously because it simultaneously fulfils the NEP directive, minimizes state–federal contestation, and advances the geopolitical aims of both China and Malaysia. By contrast, the collapse of Bandar Malaysia, even in the absence of state–federal conflict, is attributable to its moderate conformance to the NEP and the lack of convergence between Chinese and Malaysian geopolitical goals. Notwithstanding the clout of the Sultan, Forest City has failed to make a lasting impact because it neither promotes noticeable pro-Malay policies nor the geopolitical ambitions of both China and Malaysia. Johor’s thorny ties with the central government has also undermined Forest City.

China in Malaysia: three case studies

East Coast Rail Link: remoulding regional geopolitics through China

With state-owned CCCC as the main contractor and with 85% of the construction cost financed by soft loans from Beijing, ECRL was lauded by Najib for its potential to better connect the relatively backward east coast states (Pahang [Najib’s home state], Terengganu, and Kelantan) to Selangor, the country’s most prosperous state. The improved connectivity (for passengers and freight) is expected to bridge the economic divide between both regions, a chronic issue since the British colonial era. Valued at a sum of US\$18.2 billion, ECRL has been fast-tracked by the government to commence construction in July 2017 rather than in late 2017 as initially expected.³⁴ ECRL has also been given top priority by CCCC. The SOE believes that ECRL, currently the largest railway project in Southeast Asia, will create demonstration effects that would advance its business prospects in Southeast Asia as well as other countries involved in the BRI. Liu Qitao, Director of CCCC,

³⁴Lin Say Tee, ‘Flushed with Construction Jobs,’ *The Star*, 11 March 2017 <https://www.thestar.com.my/business/business-news/2017/03/11/flushed-with-construction-jobs/> (accessed 10 January 2018).

emphasizes that ECRL's success (or failure) will directly impact how other BRI recipient countries view and approach the initiative.³⁵

The 600 km mega project boasts a strong pro-Malay undertone as almost the entire stretch of the railway passes through the three ethnic Malay-heavy states of Pahang, Terengganu, and Kelantan. Their importance to UMNO has increased further following UMNO's concerted attempt to promote an even stronger ethnic Malay agenda (*vis-à-vis* other ethnic groups).³⁶ One of UMNO's major moves was to forge an alliance with the Malaysian Islamic Party (PAS), its traditional rival in the rural east coast states. To attract more votes from the ethnic Malays (especially those from the rural constituencies), both parties have come together to advance a more hardline version of the already biased NEP. In the ground-breaking ceremony of ECRL, Najib, flanked by the Chief Ministers of the three east coast states, argued that ECRL is a 'game changer' and 'mindset changer' for the people along the railway route. He also promised that the economies of UMNO- and PAS-governed Pahang, Terengganu, and Kelantan would experience an additional annual growth of 1.5% when the project is completed as high value-added economic activities in sectors such as agriculture and tourism are stimulated.³⁷ The Terengganu Chief Minister, Ahmad Razif Abdul Rahman, was especially bullish about the project, stating that it would 'speed up the modernisation of the state' and 'transform Terengganu towards a first-class region to work and live in'.³⁸ His focus, as well as that of Najib, on the potential economic benefits of ECRL is reflective of Malaysian politics. UMNO, as the most dominant party of the governing coalition, has traditionally relied on its ability to develop the economy in securing its political legitimacy. The Chief Minister of opposition-governed Selangor was not present at this function, although the overall mood of Selangor is not to oppose ECRL, but to pressure the federal government to be more forthcoming with the public on the project's cost and financing. Nevertheless, Selangor is the smallest beneficiary of ECRL as only about 17km of the railway is planned within its territory.³⁹

Another notable aspect of ECRL is its geopolitical dimension. Upon completion, it will connect Pahang's Kuantan Port (jointly managed by a Malaysian conglomerate and Guangxi Beibu Gulf International Port Group, an SOE) to the bustling Port Klang on the west coast. This potential land bridge could provide a 'significant resolution' to China's over-reliance on the Strait of Malacca, what it calls the 'Malacca Dilemma'.⁴⁰ To put things into perspective, about 80% of current Chinese energy needs pass through this narrow waterway. This new network will create alternative trade routes, but with significant Chinese involvement as China now has a direct interest in both the Kuantan Port and ECRL itself. The project could also negatively impact Singapore's stature as the leading shipping and commercial centre of Southeast Asia. While a combined sea and land route via Kuantan Port and ECRL is estimated to cost more (in bulk cargo per tonne) than the existing sea route via Singapore, the travel time can be shortened by 30 h (18% reduction from current levels).⁴¹ The shorter travel time is useful for the movement of time-sensitive goods such as exotic food and biomedical products. Furthermore, the trade routes will help Malaysia bring back the highly valuable indirect trade between itself and China. Currently,

³⁵Xinhua, 'Malaixiya Donghaiantielu Xiangmukaigong Zhilichengwei Shifangongcheng,' ['East Coast Rail Link to Become a Model Project'] *Xinhua Silk Road*, 14 August 2017 <http://silkroad.news.cn/Company/Cases/ppjs/45238.shtml> (accessed 10 January 2018).

³⁶See Chin, 'Malaysia: Heading for Sharia domination?'

³⁷Abdul Halim Hadi, 'ECRL Bawa Limpahan Ekonomi Menyeluruh,' ['ECRL to Bring in Widespread Economic Benefits'] *Utusan Online*, 17 November 2017 <http://www.utusan.com.my/berita/nasional/ecrl-bawa-limpahan-ekonomi-menyeluruh-1.554274> (accessed 21 January 2018).

³⁸Adrian David, 'ECRL Set to Boost Terengganu Transformation Plan,' *New Straits Times*, 10 August 2017, <https://www.nst.com.my/news/nation/2017/08/266293/ecrl-set-boost-terengganu-transformation-plan> (accessed 10 January 2018).

³⁹'Three Questionable Areas of East Coast Rail Line (ECRL),' *Blog Page of Yeo Bee Yin*, last modified 2 April 2017, <http://www.yeobeeyin.com/2017/04/three-questionable-areas-of-east-coast.html> (accessed 10 January 2018).

⁴⁰Leslie Lopez, 'Malaysia's East Coast Rail Line Touted as a Game Changer,' *Straits Times*, 22 December 2016, <http://www.straitstimes.com/asia/se-asia/malaysias-east-coast-rail-line-touted-as-a-game-changer> (accessed 10 January 2018).

⁴¹Lopez, 'Malaysia's East Coast Rail Line Touted as a Game Changer'.

China–Malaysia indirect trade, estimated at about US\$66.2 billion per year, is conducted mainly through the Port of Singapore.⁴²

Bandar Malaysia: merging state capital with state capital

The second case illustrates intriguing linkages between a Chinese SOE and 1MDB, a Malaysian centrally controlled-GLC. Bandar Malaysia is a 197-ha mixed development project in the heart of Kuala Lumpur, encompassing both residential and commercial properties. Its main proponent is 1MDB, a GLC associated with Najib.⁴³ Bandar Malaysia's most important selling point is its strategic location and transit-oriented outlook. It would serve as Southeast Asia's premier transportation hub, housing the terminus of the proposed Kuala Lumpur–Singapore high-speed rail (HSR) project, providing railway linkage to several major airports in the region. Additionally, Bandar Malaysia will link up with the ambitious Pan-ASEAN Rail Transit to Bangkok and beyond. The entire project is expected to attract a total investment of US\$53.0 billion over 20–25 years.⁴⁴

As Kuala Lumpur is governed directly by the federal government and 1MDB is a centrally-controlled GLC, there is no need to navigate the complicated interests between different layers of governments, unlike the two other China–Malaysia projects. For 1MDB, it roped in a China–Malaysia consortium in December 2015, selling 60% of its stake in Bandar Malaysia to the latter.⁴⁵ The consortium is in turn 60%-owned by CREC, one of China's largest SOEs, with Malaysia's Iskandar Waterfront Holdings (IWH) holding the remaining 40% equity.⁴⁶ It is noteworthy that CREC's investment into the venture took place merely months after the *Wall Street Journal* reported that nearly US\$700 million was deposited into what are allegedly the personal bank accounts of Najib.⁴⁷ The money is alleged to have moved through government agencies, banks, and companies linked to 1MDB before ending up in Najib's personal accounts. Najib had served as Chairman of 1MDB's Board of Advisors until the entire board was dissolved in May 2016. A comprehensive report was tabled after a probe into alleged graft and mismanagement at the 1MDB. In January 2016, the newly installed Attorney General of Malaysia cleared Najib of corruption charges pertaining to such allegations.⁴⁸ For CREC, this seemingly risky decision goes against conventional economic rationale. CREC even announced the establishment of its Asia Pacific regional headquarters in Bandar Malaysia, three months after its participation in the project. Its partner, IWH, was quick to highlight Bandar Malaysia as the latest example of how the BRI generates mutual benefits for both countries. According to IWH, Bandar Malaysia can serve as a platform for aspiring Chinese firms to enter the Malaysian as well as the wider Southeast Asian markets. IWH also stated that Malaysian firms, especially the small and medium enterprises (SMEs), stand to benefit from the potential influx of Chinese capital and technology.

Nevertheless, the investment drew immediate flak from the public. Liew Chin Tiong, a vocal member of the opposition bloc, argued that CREC's investment is tantamount to bailing out the

⁴²Wah Foon Ho, 'China Projects to Hit Singapore,' *The Star*, 15 January 2017 <http://www.thestar.com.my/news/nation/2017/01/15/china-projects-to-hit-singapore-the-giant-republics-aggressive-investments-in-ports-and-rail-links-i/> (accessed 10 January 2018).

⁴³William Case, 'Stress testing leadership in Malaysia: the 1MDB scandal and Najib Tun Razak,' *The Pacific Review* 30(5), (2017), pp. 633–654.

⁴⁴Trinna Leong, 'Chinese Govt Firm to Invest \$2.7b in Bandar Malaysia,' *Straits Times*, 22 March 2016, <http://www.straitstimes.com/asia/chinese-govt-firm-to-invest-27b-in-bandar-malaysia> (accessed 10 January 2018).

⁴⁵Ibid.

⁴⁶IWH, in which low profile ethnic Chinese businessman Lim Kang Hoo owns 60% of its equity and another GLC the remaining 40%, is one of Malaysia's more successful examples of public-private partnership in recent times.

⁴⁷Tom Wright and Simon Clark, 'Investigators Believe Money Flowed to Malaysian Leader Najib's Accounts amid 1MDB Probe,' *Wall Street Journal*, 2 July 2015 <https://www.wsj.com/articles/SB10130211234592774869404581083700187014570> (accessed 26 March 2018).

⁴⁸Since taking over Putrajaya, the new administration has reinvestigated Najib's involvement in 1MDB. On 4 July 2018, Najib was charged in court with three counts of criminal breach of trust. See Channel NewsAsia, 'Former Malaysian PM Najib Razak Charged with Criminal Breach of Trust in 1MDB Probe,' *Channel NewsAsia*, 4 July 2018 <https://www.channelnewsasia.com/news/asia/najib-razak-charged-in-court-1mdb-criminal-breach-of-trust-10497402> (accessed 4 July 2018).

beleaguered 1MDB.⁴⁹ Implying that bailouts usually come with conditions, Liew even wagered that a China-led consortium would be awarded the proposed Kuala Lumpur–Singapore HSR. Liew asked if such a bailout would lead to a compromise in the country’s long-held neutrality in the face of China–US rivalry in Southeast Asia. While 1MDB was quick to stress that CREC’s involvement in the project was not in any way linked to the eventual award of the Kuala Lumpur–Singapore HSR, several reports have seemingly nullified its claim. For instance, a report notes the ‘many differences in the detailed terms’ between officers from China and Malaysia.⁵⁰ One of the largest stumbling blocks is China pressuring Malaysia that it ‘must try its best’ to help China win the proposed HSR project, in which Japanese firms are also interested. Other major disagreements centred on the ownership and operation of the HSR terminus, and the design and concept of Bandar Malaysia.⁵¹ According to Ho, the Malaysians ‘could not agree to proposals that the HSR terminus be owned by China’, as this will be ‘against national interest’.⁵²

These discrepancies weaken 1MDB’s promise to further Malaysian interest. They especially jeopardize the livelihood of the ethnic Malay populace that GLCs like 1MDB are supposed to protect. Facing such pressures, 1MDB had to abort the deal with the CREC consortium. Indeed, it was withdrawn a few days before Najib was due to attend the inaugural BRI summit in Beijing in May 2017. As if to underline his stance, Najib courted Dalian Wanda, one of China’s largest private firms, as a replacement for the consortium during the same visit. While Dalian Wanda eventually pulled out of the project because of financial difficulties and some political pressure from Beijing, Bandar Malaysia remains popular amongst other investors. At least two Japanese conglomerates, Mitsui and Daiwa, have submitted bids to take over the project.⁵³ Najib’s bold move, while primarily driven by 1MDB’s lack of relevance to the ethnic Malays as well as the geopolitical complications of excessive Chinese influence in Bandar Malaysia, is also buttressed by the (at least threefold) appreciation in value of the land beneath Bandar Malaysia and the project itself. The appreciation is largely due to a radically restructured 1MDB, clearer master plan, and already-formalized tax incentive package for Bandar Malaysia.⁵⁴

Forest city: embedding transnational Chinese capital into local politics

The third example is Forest City, a project driven by Country Garden. The firm was listed on the Hong Kong Stock Exchange in 2007 and was worth US\$20 billion as of May 2017. Country Garden selected Malaysia as its first overseas market to enter into, launching the Danga Bay project in 2012 before embarking on the significantly more ambitious Forest City in the following year. While the firm has also invested into other foreign economies, Malaysia remains its most important market.⁵⁵ Located near the Malaysia–Singapore Second Link, Forest City is the project closest to Singapore within Iskandar Malaysia. While still at an early phase of development, it eventually will take the form of four manmade islands sprawled over

⁴⁹Malay Mail Online, ‘DAP MP: China Firms Sure to Win KL–Singapore Rail Job after Role in 1MDB Turnaround,’ *Malay Mail Online*, 1 January 2016 <http://www.themalaymailonline.com/malaysia/article/dap-mp-china-firms-sure-to-win-kl-singapore-rail-job-after-role-in-1mdb-tur> (accessed 26 March 2018).

⁵⁰Wah Foon Ho, ‘Rescue Bandar Malaysia or Face Fallout,’ *The Star*, 5 May 2017, <http://www.thestar.com.my/news/nation/2017/05/05/rescue-bandar-malaysia-or-face-fallout-buyers-of-project-failed-to-meet-payment-obligations-says-fin/> (accessed 10 January 2018).

⁵¹Sumisha Naidu, ‘Capital Controls, High-Speed Rail behind Collapse of Bandar Malaysia Deal?’ *Channel NewsAsia*, 6 May 2017 <http://www.channelnewsasia.com/news/business/capital-controls-high-speed-rail-behind-collapse-of-bandar-8823716> (accessed 25 March 2018).

⁵²Ho, ‘Rescue Bandar Malaysia or Face Fallout’. The new federal administration has suspended the HSR project in late May 2018, citing cost concerns.

⁵³TODAY, ‘Tokyo Joins Beijing in Race for Bandar Malaysia Development,’ *TODAY*, 20 July 2017, <http://www.todayonline.com/world/asia/tokyo-joins-beijing-race-bandar-malaysia-development> (accessed 25 June 2018).

⁵⁴Public forum, Singapore, 25 May 2017.

⁵⁵Country Garden, *2016 Annual Report* (Hong Kong: Country Garden, 2017).

1,386 ha of land. With a projected total investment of US\$58.0 billion, it is envisioned to house 700,000 people over the next 20 years.⁵⁶

Country Garden has established a 60/40 joint venture for the development of Forest City. It owns 60% stake in the project while Esplanade Danga 88 Private Limited holds the remaining 40%. The parties behind Esplanade Danga 88 are the Sultan of Johor (64.4% stake), the Johor state government investment arm (20% stake), and Daing Malek Daing Rahman, a member of the Royal Court of Advisers to the Johor Royal Court (15.6%).⁵⁷ Country Garden's choice of joint venture partner is within expectations, considering the receptive outlook of the Johor royalty towards business.⁵⁸ The Sultan has endorsed the increasing presence of Chinese FDI in Johor: 'The Chinese investors have the confidence and foresight to believe that their money is well spent... If the Chinese are prepared to invest here, why should it be an issue?'⁵⁹

The Sultan is widely acknowledged to enjoy a good relationship with Yeung Kwok Keung, Country Garden's Chairman. In March 2017, Yeung was conferred by the former as a Dato' (a traditional ethnic Malay honorific title commonly used in Malaysia). According to Country Garden, Yeung was conferred the title for his 'outstanding contribution to the economic development of Johor and industrial collaboration between China and Malaysia'.⁶⁰ The Sultan viewed the development of Forest City as a watershed event: 'Today, the state's history has entered a new phase. At this special occasion, let us join hands to witness and promote the great friendship between Malaysia and China'.⁶¹ More specifically, Country Garden asserts that Forest City's 'informal diplomacy' has facilitated communication between Chinese and Malaysian firms, underlining its commitment to the BRI. *The People's Daily* also reports the conferment event 'as an award to the BRI project'.⁶²

Forest City's scale has not gone unnoticed and has become a contentious political issue. Mahathir Mohamad, Malaysia's longest-serving Prime Minister (1981–2003) and leader of the opposition bloc, has openly criticized the development. Mahathir harps on two interrelated issues—the outflow of capital and jobs to Chinese firms and the influx of Chinese immigrants. Mahathir's outcry over the potentially large numbers of Chinese immigrants into Forest City has become a nationwide political issue. On 6 January 2017, in his widely read blog, *Chedet*, Mahathir claimed that:

[W]e cannot allow thousands of acres to be owned, developed and settled by foreigners. If we do that literally they would become foreign enclaves... We are going to see large chunks of Malaysia being developed by the foreign buyers and being occupied by them.

He also tapped into Malaysia's decades-old ethnocentric politics by alleging that the Chinese citizens brought in through Forest City would be given identity cards, enabling them to vote in general elections and reshape Malaysia's political setting.⁶³ Mahathir's politicization of Forest City is

⁵⁶A planned population increase of 700,000 (mostly from China) is almost equivalent to 20% of the entire population of Johor in 2016 (3.6 million).

⁵⁷Nigel Aw, 'Royal Businesses—Who is Daing A Malek?' *Malaysiakini*, 18 July 2014 <http://www.malaysiakini.com/news/269133> (accessed 26 June 2018).

⁵⁸Straits Times, '10 Things to Know about the Sultan of Johor,' *Straits Times*, 20 March 2015 <http://www.straitstimes.com/asia/se-asia/10-things-to-know-about-the-sultan-of-johor> (accessed 26 June 2018).

⁵⁹Chun Wai Wong and Nelson Benjamin, 'Johor Sultan: Singaporeans will Live in Johor and Work in Singapore,' *AsiaOne*, 19 March 2015 <http://www.asiaone.com/singapore/johor-sultan-singaporeans-will-live-johor-and-work-singapore> (accessed 26 June 2018).

⁶⁰Country Garden, 'Country Garden's IECs Reopened after Upgrading,' *PR Newswire*, 20 March 2017 <http://www.prnewswire.com/news-releases/country-gardens-iecs-reopened-after-upgrading-300426007.html> (accessed 8 June 2017).

⁶¹Ibid.; 'China-Based Property Developer Country Garden Inks Agreement for Pacificview's New Project Forest City in Malaysia,' *PR Newswire*, 15 March 2017 <http://www.prnewswire.com/news-releases/china-based-property-developer-country-garden-inks-agreement-for-pacificviews-new-project-forest-city-in-malaysia-300423871.html> (accessed 8 June 2017).

⁶²The People's Daily, "'Yidaiyilu" Xiangmu Huo Baojiang: Biguiyuan Senlinchengshi Chancheng Ronghe Erciqianyue," ['Belt and Road' Project Praised: Country Garden Inks Second Phase Agreement for Forest City"] *The People's Daily*, 13 March 2017 <http://house.people.com.cn/n1/2017/0313/c164220-29141345.html> (accessed 5 December 2017). This view of linking the Forest City project with the BRI emerged repeatedly in the authors' interviews with the key management personnel of the project (Singapore, May and July, 2016; Beijing, September, 2016).

⁶³TODAY, 'Johor Sultan Slams Dr Mahathir for Playing "Politics of Fear and Race,'" *TODAY*, 16 January 2017 <http://www.todayonline.com/world/asia/johor-sultan-says-had-enough-dr-mahathirs-fearmongering-over-chinese-investors> (accessed 26 June 2018).

driven by the political agenda of his newly established *Parti Pribumi Bersatu Malaysia* (known simply as Bersatu).⁶⁴ Like the long-ruling UMNO, its electoral strategy depends largely on securing votes from the ethnic Malay populace, especially those from the rural heartlands. Mahathir's attacks on Forest City and its Chinese investors (and the Sultan of Johor, by extension) is seen as a tool to gain traction with these voters as the primarily conservative rural ethnic Malay remain wary of ethnic Chinese Malaysians and their links (whether real or imagined) with a rising China.⁶⁵

For Mahathir, Johor is of crucial significance as the state has been chosen as the base of Bersatu. By campaigning against the 'Chinese-ness' of Forest City and categorizing those involved as 'selling out the Malays', the party is hoping to win elections in Johor, the birthplace and stronghold of UMNO.⁶⁶ Indeed, merely days after the blog posting, the Sultan of Johor, in an interview, responded: '...Mahathir has gone too far with his twisting of the issue... creating fear, using race, just to fulfil his political motives'.⁶⁷ The Sultan explained that Johor cannot be choosy with whom it does business with. As if to underline the Sultan's stand, Forest City was then hit by China's latest round of capital controls, implemented in March 2017 to directly curb the outflow of funds and to stabilize the exchange rate of the Chinese Yuan (CNY). According to the *Global Times*, an influential Beijing-controlled newspaper, the capital controls are necessary to stop Chinese companies from irrational foreign investment.⁶⁸ The sectors most scrutinized are real estate, cultural, and entertainment, implying that projects such as Forest City are no longer encouraged by Beijing. To further stem capital outflows, the Chinese government banned its citizens from converting CNY into other currencies for overseas property purchases. For Country Garden, it has since closed down all its Forest City sales centres in China and pledged to refund buyers who made down-payments on properties at Forest City but are no longer able to transfer the rest of the payment out of China.⁶⁹

To prop up its hitherto China-heavy consumer base, it has been forced to market the project to clients from other economies. Sales galleries have been launched (or are being launched) in the Philippines, Indonesia, Vietnam, Thailand, Taiwan, and Dubai.⁷⁰ Nevertheless, a senior executive revealed that Country Garden faces substantial difficulties in marketing to non-Chinese consumers as its sales staffs are only experienced in selling to buyers from China. They have hardly sold to overseas buyers and can only converse in the Mandarin language, limiting their utility. It is also revealed that their sales plan remains *zhongguo* flavour (China-centric), with little attention paid to the aspirations of the target consumers.⁷¹

In short, the confluence of Malaysia's political struggle and China's financial curbs caught Country Garden by surprise, hampering Forest City's construction and sales efforts. In the meantime, a recent poll in Johor indicated that 29% of the survey subjects were unhappy with the influx of Chinese investment which was thought to have contributed to rising property prices in the state. The intertwining of politics and business through the example of Country Garden, therefore, highlights the precarious challenges of Chinese investments in a politically charged, multi-ethnic society such as Malaysia.⁷²

⁶⁴Mustafa Izzuddin, 'The Real Reason Malaysia's Mahathir is Taking on the Sultan of Johor,' *South China Morning Post*, 22 January 2017 <http://www.scmp.com/week-asia/politics/article/2064002/real-reason-malysias-mahathir-taking-sultan-johor> (accessed 26 June 2018).

⁶⁵Ibid.

⁶⁶Bhavan Jaipragas, 'Mahathir versus the Sultan: How Chinese Investment could Sway Malaysian Election,' *South China Morning Post*, 18 January 2017 <http://www.scmp.com/week-asia/politics/article/2063111/mahathir-versus-sultan-how-chinese-investment-could-sway> (accessed 25 June 2018).

⁶⁷Chun Wai Wong and Nelson Benjamin, 'Johor Ruler Slams Dr M over Chinese Investment Comments,' *The Star*, 16 January 2017 <http://www.thestar.com.my/news/nation/2017/01/16/political-spin-angers-sultan-johor-ruler-slams-dr-m-over-chinese-investment-comments/> (accessed 25 June 2018).

⁶⁸Cong Wang, "'Irrational' Overseas Investments Stop,' *Global Times*, 31 July 2017 <http://www.globaltimes.cn/content/1058921.shtml> (accessed 10 January 2018).

⁶⁹Malysiakini, 'Laporan: Pemaju Forest City Tutup Pusat Jualan di China,' ['Report: Forest City Developer Closes Sale Centers in China'] *Malysiakini*, 10 March 2017 <https://www.malysiakini.com/news/375209> (accessed 21 January 2018).

⁷⁰Ibid.

⁷¹Interview, Johor Bahru, 7 May 2017.

⁷²Kok Leong Chan, 'Tak Percaya, Tak Rasa Kesan Buat Penduduk Johor Tolak China, Raikan Singapura,' ['Distrust, Disconnect Cause Johoreans to Spurn China, Embrace Singapore'] *The Malaysian Insight*, 23 February 2018 <https://www.themalaysianinsight.com/bahasa/s/39338/> (accessed 26 February 2018).

Discussion: politics in command

The experience of CCCC, CREC, and Country Garden reveals several points. First, the decades-old NEP remains a key variable. Despite some criticisms from opposition lawmakers, ECRL was viewed positively by the leadership of the three ethnic Malay-dominated states of Pahang, Terengganu, and Kelantan. Its proposed linkage to several hitherto economically backward towns and villages dovetailed well with UMNO's strategy to more aggressively capture votes from the ethnic Malays, especially those from the rural constituencies. The pro-Malay agenda is not too evident in Bandar Malaysia and Forest City. While CREC joined forces with two formidable domestic partners in IWH (40%-owned by a GLC) and 1MDB (a GLC), the reality is that 1MDB (and Najib) has been dogged by a series of high-profile controversies, diminishing the appeal of Bandar Malaysia to the citizenry (especially the ethnic Malays).

For Forest City, it is essentially a private venture undertaken by the Johor Sultan in conjunction with Country Garden, another private firm. While Country Garden also labelled Forest City as a BRI-related project, it is *not* a project driven by the Chinese and/or Malaysian authorities, although their endorsement was readily available, evidenced by the site visits of Najib and the Chinese ambassador to Malaysia on two separate occasions. Forest City does not emphasize very strongly any pro-Malay policies as it is envisioned to welcome foreign capital and expertise. Therefore, it has come under heavy criticisms from several quarters, especially Mahathir. His strategy of targeting ethnic Malay votes from the Malay heartlands of Johor, a traditional UMNO stronghold, further necessitates the need to heighten the 'Chinese-ness' of Forest City and associate the Chinese property investors with the domestic ethnic Chinese populace. Mahathir's moves are designed to tap into the fears of the conservative ethnic Malays who often view Malaysians of ethnic Chinese descent as a 'fifth wheel'.

The contrasting fates of the three China–Malaysia projects show that the NEP has intertwined itself with China's interests. Thus, projects without a clear conformance to the NEP (whether real or imagined) are unlikely to receive mass support. This consideration reaffirms Li and Cheong's and Lim's postulation that the NEP and the need to pander to the ethnic Malay voters will likely weigh heavily onto any major policies by the political leadership, including how receptive it can be to BRI projects.⁷³ For the ethnic Chinese business community of Malaysia in general, they have not been offered opportunities to take part in high profile projects such as ECRL and Forest City. In the event that they are, they are expected to function as a 'bridesmaid' to the GLCs and even the political elites, much like how IWH has behaved in Bandar Malaysia. This finding both strengthens and weakens Hau's and Liu's assessment on the ethnic Chinese.⁷⁴ On one hand, the ethnic Chinese are appreciated for their business know-how and ties to Chinese firms, the GLCs, and politically powerful ethnic Malay politicians. Yet, Malaysia's political nuances mean that ethnic Chinese firms such as IWH have to incorporate the wishes of their ethnic Malay partners and those of the Chinese investors into the BRI projects, in addition to their own commercial calculus. While they want to take part in the BRI, they are not as well-endowed as the GLCs because the latter enjoys state patronage and access to favoured projects. Notwithstanding the collapse of Bandar Malaysia, interviews with other prominent ethnic Chinese businessmen suggests that the ethnic Chinese firms are aware of the delicate situation that they are in, and have since readjusted their business models and broadened their political networks to better accommodate the new political economic situation. If anything, their tentative optimism, captured in the excited tone of the Chairman of a prominent ethnic Chinese firm, on the prospect of more BRI projects entering Malaysia underscores their sensitivity to the ever-changing dynamics between both countries.⁷⁵

⁷³Li and Cheong, 'Huawei and ZTE in Malaysia: The localisation of Chinese transnational enterprises'; Lim, 'China's investments in Malaysia: Choosing the "right" partners'.

⁷⁴Hau, 'Becoming "Chinese"—but what "Chinese"?—in Southeast Asia'; Liu, 'Opportunities and anxieties for the Chinese diaspora in Southeast Asia'. See also Hong Liu and Yishu Zhou, 'New Chinese Capitalism and the ASEAN Economic Community', in *The Sociology of Chinese Capitalism in Southeast Asia*, ed. Yos Santasombat (New York: Palgrave Macmillan, (2019), pp.55-73.).

⁷⁵Interview, Beijing, 31 October 2016.

Second, it is important to analyse the state–federal contestation undergirding these projects. For ECRL, this contestation is mostly subdued across the four states (three on the east coast and one on the west) it is to traverse through. While these states enjoy some autonomy, especially on land matters, their governments have not opposed ECRL, except that of opposition-governed Selangor. As illustrated in the previous section, the Selangor Chief Minister is relatively receptive to the project, notwithstanding some of his colleagues’ concerns on its cost and financing terms. Indeed, the Chief Ministers of the three east coast states have welcomed the project as most of the railway will be located in their states. While it helps the federal government that the three Chief Ministers are either UMNO members (Pahang and Terengganu) or are aligned to it (Kelantan), another key factor is the manner in which Najib, in his capacity as the head of the federal government, has projected ECRL as a crucial cog in the development trajectory of both Malaysia and the east coast states. In particular, he has promised to more forcefully reduce the socio-economic gap between the east coast and the wealthier west coast of Peninsular Malaysia.

For Bandar Malaysia, state–federal contestation is absent as the project takes place exclusively in Kuala Lumpur, the country’s de facto economic capital. While not needing to consult governments at the state level is helpful in advancing the project, this factor per se is insufficient to sustain Bandar Malaysia, as the next paragraph will illustrate (in addition to the previous paragraph’s argument). The state–federal rivalry is most obvious in Forest City. Its extreme south location seems to have exacerbated the already uneasy ties between Johor and Putrajaya. The federal government, cognizant of the need to spread out economic growth across all of its states, has traditionally been wary about the southward movement of the country’s economic clout. Forest City’s emergence, coupled with the vibrancy of the rest of Iskandar Malaysia, could lead to a situation where the tail (Forest City and Johor) wags the dog (the entire country). More broadly, this observation reflects the experience of other developing economies lacking cohesive institutions to mediate differences between the central government and the local ones.

Thirdly, one needs to scrutinize the geopolitical dimension of these BRI projects. This issue is most clearly reflected in ECRL. Connecting the Kuantan Port on the east coast of Peninsular Malaysia to the bustling Port Klang on the west coast, it could resolve China’s perennial ‘Malacca Dilemma’. The new routes opened up by ECRL will also offer Malaysia a window of opportunity to bypass Singapore. The geopolitical undertone for Bandar Malaysia is just as salient. CREC has seemingly forwarded its interest as well as that of the Chinese state by securing a stake in one of Malaysia’s largest infrastructure projects in recent years. In addition, Bandar Malaysia was considered a prized BRI project because of its position as the terminus of the proposed Kuala Lumpur–Singapore HSR and a key node of the mooted Pan-ASEAN Rail Transit network, both of which are poised to be landmark infrastructure projects within Southeast Asia. Yet, subsequent reports show that the terms demanded by the Chinese (such as the request for a leeway in the bidding of the HSR project) were not acceptable to the Malaysian bureaucracy. The timing of the project’s abortion, merely days before the inaugural BRI Summit in Beijing in May 2017, also implies that the Malaysian leadership was in no mood to ‘save China’s face’. Buoyed by at least a tripling of Bandar Malaysia’s original value, Najib attempted to secure a new partner in the form of Dalian Wanda during the BRI Summit. Although Dalian Wanda scrapped its bid for Bandar Malaysia, the project is still sought after by several well-capitalized investors.

Forest City’s status as a private venture means that it is mostly devoid of geopolitical power. Despite claims of Forest City fostering China–Malaysia ties in its ‘informal diplomacy’ and the Sultan’s cordial ties with Country Garden, the reality is that Malaysia’s bilateral relationship is the purview of the federal government. Country Garden’s alliance with the Sultan of Johor does not negate the fact that he remains a ceremonial figure, albeit with some degree of political influence. For Beijing, Forest City represents the type of ‘irrational investment’ that it is curbing through capital controls. It is thus unlikely for Country Garden to receive concrete support from Beijing, at least in the near to medium term.

The geopolitical agenda of the three China–Malaysia projects can be interpreted along two interrelated dimensions. The first dimension relates to the agency of small states (such as Malaysia) in attracting and even rejecting (or at least, circumscribing) Chinese capital to meet domestic geopolitical expectations. Malaysia's experience underlines the relative inability of China in imposing its will on its BRI partners. Yet, there is also a justified concern that Malaysia is creeping towards China's sphere of influence, especially with regard to ECRL. While it is too early to label it a 'new regional order' or a new Sino-centric 'community of shared destiny', this finding does demonstrate China's capacity in exploiting the weaknesses of various Southeast Asian countries through a series of diplomacy moves combined with aid and investment packages.

Conclusion

This article has demonstrated the complicated manners in which the BRI has taken shape in Malaysia. Despite their wealth and technical expertise, Chinese firms cannot forge ahead without understanding the needs of the Malaysian stakeholders. In short, BRI projects require the cooperation (or at the very least, non-hindrance) of these players. The article has underlined the value of looking beyond large-scale geopolitical shifts and conventional literature that depicts the BRI under sweeping, uncritical themes. ECRL's partial success, Bandar Malaysia's collapse, and Forest City's arrested development shows that the BRI's success (or failure) is dependent on three key conditions: fulfilment of Malaysia's longstanding pro-ethnic Malay policy, a mutual vision between the state and federal authorities, and advancement of geopolitical interests for both China and Malaysia.

As if to underline this article's central argument, UMNO and its allies were voted out in the most recent general election on 9 May 2018. While there were several reasons leading to its rejection, the disquiet surrounding the Najib administration's management of the BRI ranks as one of the more prominent factors. Although Mahathir has stopped short of cooling ties with Beijing since assuming the Prime Ministership for the second time, it must be noted that he actively critiqued large-scale projects like Forest City and the Kuala Lumpur–Singapore HSR. Mahathir's success at mobilizing electoral support further underlines how the debates and controversies surrounding the BRI have meshed and interacted with Malaysia's complex, multi-layered politics, indirectly inducing regime change. Indeed, during his official visit to China in August 2018, Mahathir announced that ECRL would be 'deferred until such time we can afford, and maybe we can reduce the cost also if we do it differently'.⁷⁶ Mahathir's decision to shelve ECRL (and the HSR which was cancelled merely weeks after he took over Putrajaya) is widely interpreted as a cost-cutting measure, but probably its more important goal is to shrink (or at least, delegitimize) the economic base of the Najib clique. This further reinforces our argument that the BRI recipient country has its own political and economic goals that may not be in-line with the BRI objectives and when the divergence emerges, the former tends to assume a bigger role in determining the outcome. More practically, ECRL's shelving does not negate the fact that despite losing Putrajaya, UMNO and PAS have reinforced their grip on the state assemblies of the three east coast states, in addition to defeating most of Mahathir's allies vying for federal seats there. To preserve his legitimacy, Mahathir cannot afford to alienate the voters from these states. Mahathir must have also realized that the expeditiousness in which the previous federal and state authorities implemented the project implies that some segments of the Malay-heavy constituencies can (and have already) tap into ECRL's spillover effects.

What then are the region-wide implications of these case studies? Thus far, Malaysian actors have seemingly captured economic benefits from China while preserving some level of

⁷⁶Sui Noi Goh, "East Coast Rail Link and Pipeline Projects with China to be Deferred: Malaysian PM Mahathir," *Straits Times*, August 21, 2018, accessed August 22, 2018, <https://www.straitstimes.com/asia/se-asia/east-coast-rail-link-and-pipeline-projects-with-china-cancelled-says-malaysian-pm>.

independence in the face of gigantic BRI projects. The point is that the BRI is still relatively nascent and smaller states in the region certainly possess sufficient autonomy to hold and even bolster their positions. It is hoped that the framework put forth in this article as well as its arguments will contribute to the further explorations of the ways through which other Southeast Asian states have responded to the BRI and the latter's intertwining with the local political economy.

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