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CHINA, MALAYSIA, AND THE BELT AND ROAD INITIATIVE: THE CASE OF THE EAST COAST RAIL LINK

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Since its independence in 1957, Malaysia has adopted a fairly liberal stance towards international trade and capital to drive its economy, a strategy that allowed the country to become part of the so-called newly industrializing economies (NIEs). Yet this model of economic development has come under considerable stress in recent years 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 Poland. The country is now struggling to transition towards activities that add greater value, which require increasingly sophisticated technologies and higher-quality human capital.

As Malaysia finds it increasingly difficult to attract foreign direct investment (FDI) from its 'traditional' destinations (i.e. the Western bloc, Singapore and Japan), policymakers are forced to seek alternative investment dollars outside the 'traditional' sources. In other words, 'non-traditional' FDI providers such as China and Saudi Arabia are becoming attractive partners. In the case of China, it has emerged as an attractive FDI contributor, particularly since the formulation of the Belt and Road Initiative (BRI). According to the Malaysian Investment Development Authority, China became Malaysia's largest investor in 2016, contributing an investment totalling 1.6 billion US dollars, equivalent to 17.5 per cent of total FDI inflow. Chinese FDI has eclipsed that of the Netherlands (1.1 billion), Germany (860.9 million), the United Kingdom (860.9 million), South Korea (728.5 million) and Singapore (695.4 million).

Riding on China's BRI, Prime Minister Najib Razak endorsed the East Coast Rail Link (ECRL) during his week-long visit to Beijing in November 2016. With the state-owned China Communications Construction Company (CCCC) as the main contractor and the Export–Import Bank of China as the financier (via soft loans), it is poised to better connect the relatively undeveloped states of Malaysia's east coast (Pahang, Terengganu and Kelantan) to Selangor, the country's most prosperous state. The project's importance is underlined as it was fast-tracked by the government to commence construction in July 2017, rather than in late 2017 as initially expected.

For China, the ECRL represents another landmark BRI project with a key Southeast Asian partner. The ECRL also has a geopolitical dimension, for it connects the Kuantan Port (jointly owned by a Malaysian conglomerate and Guangxi Beibu Gulf International Port Group, another Chinese state-owned enterprise) on the east coast of Peninsular Malaysia to Port Klang on the west coast. This potential land bridge could provide a

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Malaysia's Prime Minister Najib Razak (centre) looking at a model of the East Coast Rail Link with China's State Councilor Wang ong (third from left) in August 2017.
Source: Fotobernama

'significant resolution' to China's over-reliance on the Strait of Malacca, the so-called 'Malacca Dilemma'. About 80 per cent of current Chinese energy needs are met by this narrow waterway. This new network will create alternative trade routes, but with significant Chinese involvement, as China, through its state-owned enterprises, now has a direct interest in both the Kuantan Port and the ECRL itself.

However, while the ECRL looks great on paper, there are several uncertainties that could well undermine it. Firstly, it does not appear practical. While transporting a container by rail can be 20 times less expensive than by air, it is still more costly than shipping by sea. As I have recently pointed out, "moving bulk cargo via the combined sea and land route of Port Klang, the ECRL and the Kuantan Port is about 6 dollars per tonne more expensive than using the existing sea route via the Strait of Malacca. In addition, the purported shorter transit time of the ECRL of 135 hours (compared to 165 hours via Singapore and the Strait of Malacca – an 18 per cent reduction in travel time) is only advantageous for the movement of high-value and/or time-sensitive goods". Shippers of general merchandise goods are not usually interested in paying more (in the form of multiple port and rail handling fees instead of a single shipping fee) for the combined sea and land route opened up by the ECRL. There is also the issue of practicality as merchants generally want to minimize the number of parties handling their goods. After hypothetically unloading sea freight at Port Klang and transferring it onto train carriages, one still has to haul the freight over to Kuantan Port before eventually loading it onto another merchant ship. Even accounting for the advantages opened up by the shorter travel time, this represents an increase in the number of handling parties. It must be recognized that shipping technology might yet evolve in the future to facilitate the utility of the ECRL, but contemporary business practice does not promote this kind of freight movement. More prosaically, moving freight by block trains is not a perfect substitute for container vessels because of the limited capacity that block trains offer. According to the *The Straits Times*, the latest crop of London-bound trains departing from China can only carry about 200 twenty-foot equivalent units (TEUs) of goods, while a large container vessel can carry as many as 20,000 TEUs.

Secondly, the project suffers from a lack of clarity and transparency. According to Yeo Bee Yin, a Malaysian opposition lawmaker, the project has been awarded to CCCC without an open tender, so that there is a high possibility that the project will be overpriced and/or even overdesigned as there is a lack of competition. An open tender will also help to reduce rent-seeking, a long-standing issue plaguing public projects in Malaysia. In addition, the federal government has not made the ECRL's feasibility study available to the public. When queried on the subject in November 2016, Transport Minister Liow Tiong Lai promised that the feasibility study on the ECRL would be released once it was finalized. However, no specific date was given by Liow. As of today (seven months after the ground-breaking ceremony in August 2017), the feasibility study has still not been released by the Transport Minister. Without a detailed engineering and economic feasibility study being publicly released, both the practicality and cost of the ECRL will always be in doubt. The Malaysian public stands to lose even more if the ECRL does not generate enough passenger and freight volume, leading to underutilization and an exorbitant undertaking, a point raised earlier.

To sum up, the Malaysian leadership has been astute in courting China to bridge its economic challenges. The ECRL represents one such move, given its potential to better connect the relatively undeveloped east coast to the wealthier west coast. It also potentially extends the geopolitical goals of Beijing. In particular, the new routes opened up by the ECRL not only alleviate China's over-reliance on the Strait of Malacca but also foster closer trade connectivity with other economies. Nevertheless, the ECRL raises several points of concern. To this end, its apparent lack of practical application and informational gap are two glaring points.

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All of these are business risks that cannot be ignored if the project is to come to fruition. While the Malaysians, as the eventual 'owners' of the ECRL, have to be mindful of such issues, CCCC and Beijing need to understand that projects that do not add value to the recipient state (in this case, Malaysia) are bound to reinforce the perception that Chinese-led initiatives are self-serving in nature.

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