TALE OF TWO BELT AND ROAD INITIATIVE PORT PROJECTS IN MALAYSIA SHOWS LIMITS OF CHINESE MONEY

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Most studies of Beijing’s ambitious Belt and Road Initiative to grow global trade have focused on the goals that China seeks to achieve, oftentimes at the expense of host countries.

It is viewed through such a lens largely because of the scale of financing and number of players involved. In 2016, the Chinese government allocated more than US$900 billion to belt and road projects through facilities such as the Asian Infrastructure Investment Bank, the Silk Road Fund and the China Development Bank. A year later, President Xi Jinping committed an additional US$124 billion to the initiative.

China’s state-owned enterprises and commercial banks feature as funders in the outward investment drive, while private Chinese companies and those owned by provincial governments are also taking part.

But the trade strategy is not some unstoppable force drawing in host countries’ business and political elites without criticism, as the case of two port projects in Malaysia shows.

Both the Kuantan Port Expansion and Melaka Deepwater Port, which have similar ownership structures, demonstrate how the interests and agency of local actors matter, as they can support, co-opt, or subvert large-scale projects for their own ends.

Port support

Malaysia’s ties with China grew under the administration of former prime minister Najib Razak, and by 2018 it was the third-largest recipient in Southeast Asia of Chinese outward foreign direct investments.
Investments had grown eightfold over a five-year period and were spread across a range of sectors, from manufacturing to infrastructure and real estate to telecommunications.

The Kuantan and Melaka projects are both led by consortiums of Chinese state-owned enterprises, large local firms, and Malaysian state government-owned companies. Both are what is known as "Port-Park-City" schemes, which aim to create spillover effects from their international ports for the benefit of proximate industrial estates or urban development initiatives.

Kuantan Port – built in 1984 and originally operated by the federal government before being privatised in 1998 – is Malaysia's closest port to China, with ships taking just three days to reach it from Beibu Gulf Port in the Guangxi Zhuang autonomous region.

At present, the port is relatively small, ranking eighth nationally in terms of total cargo throughput, according to official figures.

But the Kuantan Port Consortium – majority owned by Malaysia's IJM Corporation with Hong Kong's Beibu Gulf Holding having a 40 per cent stake – plans to expand by constructing a new deep water terminal to service bigger vessels, with the total cost of the project estimated to be 3 billion ringgit (US$736.37 million), excluding the 1 billion ringgit breakwater being funded by the federal government.

Until Najib lost power in the 2018 general elections, he had prioritised the Kuantan port project – along with the accompanying Malaysia-China Kuantan Industrial Park.

Concerns that his favourable stance on Chinese investments would be reversed under his successor Mahathir Mohamad failed to materialise, despite the latter's criticisms of their size, funding structure and financial viability while on the campaign trail.

Mahathir's Pakatan Harapan government went on to indicate a positive outlook towards Chinese investment, even reinstating the controversial East Coast Rail Link after intensive renegotiations.

A new administration under Prime Minister Muhyiddin Yassin, which took power in March this year, has not changed its foreign policy stance as it has been too busy dealing with the Covid-19 pandemic and stabilising the domestic political situation.

Indeed, the new administration has continued flagship initiatives put in place during the Pakatan Harapan period such as the China Special Channel, which looks to attract investments from companies seeking to relocate away from China amid its ongoing trade war with the US.

Thus both the Kuantan port project and accompanying park have received support, either overtly or tacitly, from the top political leaders of the day and the country's economic elite.

While the state government does not have a direct economic stake in Kuantan, it stands to benefit from the jobs created through the port's expansion, as well as via economic spillovers. Furthermore, the state government does have a stake in the development of the Malaysia China Kuantan Industrial Park, which has a symbiotic relationship with the port.

Different story

The fate of the Melaka Gateway project – a 43 billion-ringgit (US$10.5 billion) facility encompassing four islands in the Malacca Strait that is slated to include Southeast Asia's largest private marina, facilities for berthing four cruise ships simultaneously, cargo terminals, a maritime hi-tech park, and a free-trade zone – is a different story.

Marketed with references to Melaka's glorious trading history and the multiple visits made to the port by Chinese Admiral Zheng He, the project was expected to revitalise the state's economy and create some 40,000 or so jobs, as well as attracting 2.5 million visitors per year and generating 1.19 trillion ringgit annually for the state government's coffers.

Launched to much fanfare in 2014, the project was backed by the Najib government and led by property developer KAJ Development Berhad, with the support of Chinese state-owned enterprise PowerChina International and three provincial government-owned companies in Malaysia.

It received high-profile visits in 2015 from members of the Guangdong provincial government, Malaysia and China's transport ministers, and Chinese Premier Li Keqiang.

Given the project’s location and scale, analysts were quick to cast the Melaka Gateway in strategic terms, portraying it “as a means for China to acquire and sustain military-strategic influence in the Strait of Malacca”, as its location on Peninsular Malaysia’s west coast meant it could be linked up with the East Coast Rail Link and Kuantan Port to form a land bridge bypassing Singapore.

Furthermore, the Gateway would enable China to surveil the Strait, a conduit for up to 80 per cent of the country’sfuel needs.

However, despite the Gateway’s purported strategic imperatives and high-profile backing from powerful China-based central and provincial SOEs, in November the Melaka chief minister’s office said its agreement with KAJ on the 43 billion ringgit project had ended.

The developer failed to complete land reclamation works on schedule and would no longer be in charge of the project, the statement said.

An analysis of the circumstances surrounding this project show they were different from the Kuantan port expansion. Despite public declarations of support, the Najib administration did not invest any funds in the initiative.

Malaysia’s sovereign wealth funds or GLCs did not acquire stakes in the project and the Pakatan Harapan government was explicitly hostile to it.

There may be several reasons for this lack of interest in the project among Malaysia’s national political elite. First, unlike Kuantan Port, Melaka Gateway is not one of the country’s seven federal ports, three of which are on the Peninsular West Coast.

In addition, an in-depth World Bank review of the port sector recommended a more intensive use of existing facilities, as opposed to dispersing traffic across a number of ports. With sound planning, improved logistics connections and a careful increase in capacity, the review argued that the current network of priority ports would be able to cater to the country’s projected needs until 2040. Building more ports would cannibalise cargo handled at other ports, it said.

Neither did the investment coalition behind the Melaka Gateway, led by PowerChina, have representation in the highest level of the political or economic elite. There was no participation by influential government-linked corporations active in the infrastructure sector such as the UEM Group or SP Setia, or, indeed, privately-owned conglomerates such as Gamuda or YTL Corporation.

It had the backing of the local political elite and the state government, but this ended up being of limited use in Malaysia's top heavy federal system. There was support of a local construction player (KAJD), but the challenge to the national economic elite that hold stakes in existing ports that would lose throughput cargo proved to be a bigger factor.

As these two examples show, domestic actors involved in BRI projects are a vital aspect of their failure or success. While China may provide the funds, these actors are the ones that provide resources, capital and an ability to navigate the local political context.

This article appeared in the South China Morning Post (SCMP) on Disember 7, 2020.