WHY MALAYSIA'S ECRL PROJECT SHOULD GO ON, NEW GOVERNMENT OR NOT

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As Malaysia is plunged into a political impasse after Mahathir Mohamad unexpectedly resigned as prime minister, there are questions on whether a change in government will lead to yet another review of mega-projects, including the China-backed East Coast Rail Link (ECRL).

The US$11 billion rail project, which is part of Beijing's Belt and Road Initiative (BRI), was at first suspended, then reviewed and renegotiated, before being reinstated about a year later.

The review came after the Pakatan Harapan (PH) coalition led by Mahathir defeated the previous Barisan Nasional (BN) government in May 2018. During its election campaigns, PH had criticised China-backed projects for their opaque nature and lack of contribution to the local economy.

As the prospect of another poll hangs in the air, there are both internal and external reasons for the continuation of the ECRL, regardless of changes in leadership.

Domestically, a new administration would have to act quickly to stabilise a slowing economy from further spiralling downwards. Tourism, and its associated sectors, such as hotels, retail and restaurants, have been negatively affected by the escalating coronavirus outbreak.

One only has to look at the results of the 2018 election to know the significance that bread-and-butter issues can have in the ballot box.

In Malaysia, public investments are constrained due to the large debt incurred by the previous BN government. The country is thus dependent on domestic private investments and foreign direct investments (FDI) to generate growth. The latter has been particularly favoured for the potential technologies it can bring, especially in spurring the country up global value chains.

Unfortunately, factors including reforms in Vietnam and the impact of domestic scandals has led Malaysia to lag behind its neighbours in attracting FDI. The country's FDI inflows fell from 2016 to 2018 by US$3.7 million, while it increased for Asean as a whole by US$31.9 million, and Vietnam in particular by US$2.9 million.

With political uncertainty clouding the investment climate, Malaysia will have to continue retaining investment-friendly policies.

There are several reasons why the ECRL should continue to run.

Following protracted renegotiations, the cost of the project has been shaved from about US$20 billion, due to a shortened route that would reduce the engineering costs and construction timeline.

The new deal does not require Malaysia to pay termination fees of about US$5.4 billion (RM21.78 billion).

Unlike its first iteration, the reconfigured project includes two key aspects that increase the likelihood of generating returns.

Firstly, China has an interest in ensuring the ECRL is viable as the management, operation and maintenance of the railway is a 50-50 joint-venture. Bringing in future investment from China along the ECRL corridor will ensure the success of the project.

Secondly, it includes a memorandum of understanding between the Malaysian Investment Development Authority (MIDA) and China Communications Construction Company (CCCC) for the creation of economic opportunities along the ECRL corridor.

As part of the agreement, MIDA would create seven Transit-Oriented Developments (TODS) - integrated urban development projects surrounding transit stations, two industrial estates and one logistics hub.

Amid the ongoing US-China trade war, which has prompted some manufacturing firms to consider relocating elsewhere in the region, Malaysia’s ECRL corridor might represent an opening for them. It would also provide opportunities for Chinese firms that need to relocate their production for cost considerations and to counter China’s excess production capacity.

Meanwhile, the resurrected ECRL project has helped to keep ties cordial between Malaysia and China, which has been the Southeast Asian country’s largest trading partner since 2009. Since Beijing’s announcement of the belt and road plan, its increasing investments into Malaysia has helped to offset some of the country’s declines in FDI.

As governments change and prime ministers come and go, Malaysia cannot afford to overlook the economic logic for continuing the ECRL.

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