Revisiting the Belt and Road Initiative (BRI) in Malaysia

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Introduction

In this paper, I will take a broader definition of the BRI that encompasses all sectors rather than infrastructure alone as Chinese investments in services and manufacturing are important in Malaysia while the infrastructure needs of the country are less acute compared with other developing countries in South-east Asia (SEA). Malaysia in fact has already a well-developed transport infrastructure, with roads, rail, airports and ports that facilitate the movement of goods, people and services in the country and with the rest of the world. It should also be noted that there is also no list of designated BRI projects in Malaysia because this would need a consensus from China for the projects to be listed as BRI projects and there is no such consensus between the two countries. Hence it is not possible to assign a value or even a number to the BRI projects in the country to track its changes over time. More importantly, the projects reported on the official website of the BRI—the Belt and Road Portal run by the Chinese government[1] cover more than physical infrastructure projects and includes many sectors including education.[2] Malaysia also views China as an important source country for FDI, rather BRI projects alone. This is especially important after the East Coast Rail Link (ECRL) project has been reconfigured from a mere transportation project to a broader emphasis on the development of the ECRL corridor or the region traversed by the railway line. The ECRL corridor is to be developed with FDI, specifically FDI from China, as will be elaborated later in the paper.

The paper will first identify the pattern of Chinese foreign direct investments and involvement in the main sectors before delving into the changes since the BRI Second Forum in 2019. In particular, it will seek to explore whether there has been a distinct shift towards the new green aspired goals of the BRI such as green, clean, sustainable

[1] See https://www.yidaiyilu.gov.cn/info/iList.jsp?cat_id=11432. The website is in Chinese.
[2] See Wang Zhen 2022. Assessing the Belt and Road Initiative in Southeast Asia amid the COVID-19 Pandemic (2021-2022). https://www.iseas.edu.sg/articles-commentaries/iseas-perspective/2022-57-assessing-the-belt-and-road-initiative-in-southeast-asia-amid-the-covid-19-pandemic-2021-2022-by-wang-zheng/
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debt, including ensuring the economic and financial viability of projects, as well as the multilateralisation of BRI projects in Malaysia.

Overview of the Pattern of Chinese Foreign Direct Investments in Malaysia

Chinese investments in Malaysia were spread over many sectors and throughout the country, in the Peninsular and Sarawak and Sabah in East Malaysia. These investments are heterogeneous in nature with different ownership structure, links with the government, be it at the federal or state level, as well as different sources of finance. Due to the heterogeneity and lack of detailed secondary data for all the Chinese investments by sub-sectors, the profile in this section can only provide highlight of some of the projects in the different sub-sectors.

Overall, FDI stock from China shows that it is services, which ranks as the largest recipient, followed by manufacturing (Figure 1). Within services, significant investments include real estate projects such as Forest City project in Johor in 2015[3] and in education, the entry of the only branch campus of Xiamen University outside China. Xiamen University in Malaysia (XUM), was established in 2015, with the first batch of pioneering students admitted in February 2016.[4] The Digital Free Trade Zone (DFTZ) constitute another significant recipient of Chinese investments, focussing on logistics services.

China's interest in real estate in ASEAN, including Malaysia, has been partly motivated by the foreign investment curbs to cool down property prices in the property market of developed countries such as New Zealand, Australia, Canada and the United Kingdom (UK). Malaysia My Second Home (MM2H) initiative also attracted Chinese investors targeting on buyers from China as Chinese citizens accounted for 30 percent of MM2H's applications approved between 2012 and 2018.[5] Forest City is specifically designed to tap on Chinese interests in the real estate sector. It is a USD 100 billion joint venture between Hong Kong listed but Guangdong-based, Country Garden, and a local company that is partially-owned by the Sultan of Johor, called Esplanade Danga 88 Sdn Bhd.[6] These real estate investments can have significant environmental impact especially when land reclamation is involved.

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[3] https://www.globenewswire.com/news-release/2022/01/12/2365453/0/en/The-Ambitious-Forest-City-Project-Celebrates-its-6th-Anniversary.html#:~:text=Forest%20City%20was%20first%20created,sightseeing%20options%20for%20international%20visitors.

[4] https://www.xmu.edu.my/14685/list.htm

[5] https://www.propertygurugroup.com/news/malaysia-wooing-chinese-property-investors-back-with-new-measures/#:~:text=According%20to%202020%20data%20from,8%20billion.

[6] https://thediplomat.com/2017/08/malaysias-forest-city-and-the-damage-done/

XUM is funded through loans from Chinese lenders, with the support of the Chinese government since the mother campus is a public university, as well as some private donations. It was built at a cost of USD 27 million.[7]

The DFTZ is another notable greenfield investment from China. After Jack Ma was made advisor to develop e-commerce in Malaysia, the DFTZ was set up as a special zone dedicated to developing a whole range of services that cater to the needs of e-commerce. The DFTZ is touted by Jack Ma as a part of China's Digital Silk Road. Malaysia views it as part of the infrastructure support for the development of digital trade in the country.

In 2017, a joint venture was established between Malaysia Airport Holdings Bhd. (MAHB) (30%) and Cainiao Network, the logistics arm of Alibaba, to invest around RM800 million for the development of an e-fulfilment hub at the DFTZ.[8] In November 2020, MAHB[9] announced the commencement of the new fulfilment hub, Cainiao Aeropolis eWTP Hub, Malaysia (formerly known as KLIA Aeropolis DFTZ Park).[10] The hub spans 60 acres with 1.1 million sq. ft of warehouse space and it is expected to double KLIA's cargo volume to 1.4 million per year by 2029. It is expected to facilitate 24-hour delivery within Malaysia for e-commerce operators and create a 72-hour delivery time frame to the rest of the world.

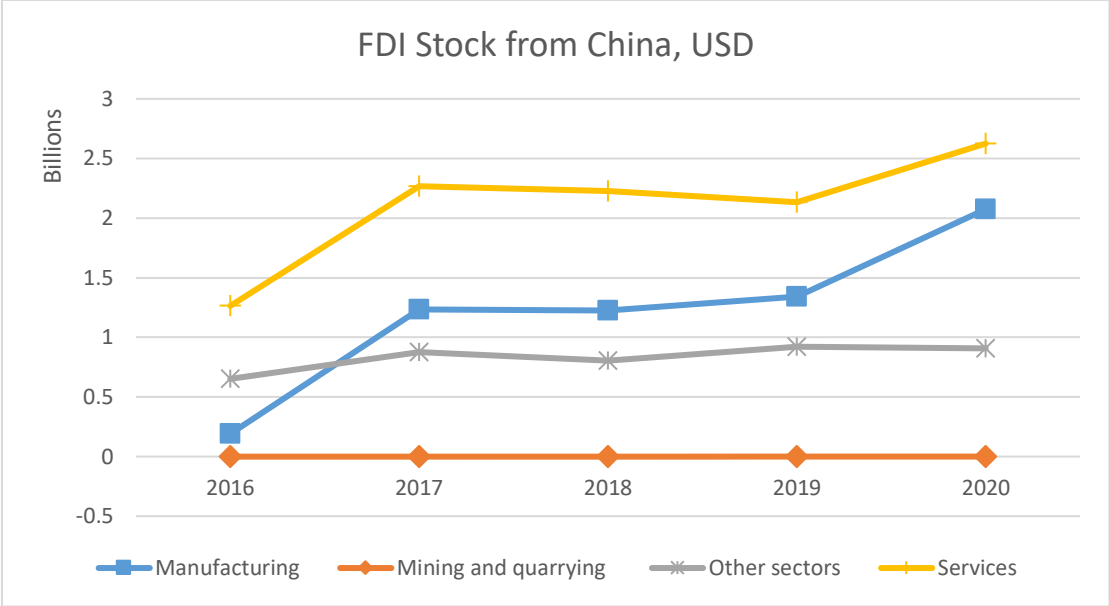
Figure 1: FDI Stock from China into Malaysia (USD billion), 2016-2020

[7] Jie, G. (2018). Xiamen University Malaysia: A Chinese Branch Campus. *International Higher Education*, (95), 9-11. https://doi.org/10.6017/ihe.2018.95.10719

[8] Gomez, E.T. et al., 2020. *China in Malaysia: State-Business Relations and the New Order of Investment Flows*. Singapore: Springer Nature.

[9] MAHB manages most of the airports in the country, including KLIA.

[10] https://www.malaysiaairports.com.my/media-centre/news/malaysia-airports-and-alibaba-announce-operation-commencement-cainiao-aeropolis



Source: Department of Statistics Malaysia

In manufacturing, China's FDI increased after BRI's announcement in 2013. In particular, China was the largest investor in the manufacturing sector (in terms of approved projects) for the five consecutive years from 2016 to 2020 (Table 4). The sudden jump in approved investments in 2021, especially from other countries led to a smaller share of Chinese investments in manufacturing. China fell to the fourth largest investor in that year. Over the period of time in Table 1, a diverse group of manufacturing projects has been approved. These projects range from the production of stainless steel, cars, battery to tyre production. Importantly, since Malaysia has a relatively small domestic market, these approved investments have an export component.

Table 1. Approved FDI, 2015-2021 (RM billion)

Approved Investments	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total FDI	59.5	64.6	36.1	59.0	54.7	80.5	82.38	64.2	208.6
FDI in manufacturing	30.5	39.6	21.9	27.4	13.9	58.0	53.9	56.6	144.7

China in manufacturing	3.0	4.75	1.9	4.7	3.9	19.7	15.3	17.8	16.6
China's Share in manufacturing (%)	9.8 (no.6)	12.0 (no.4)	8.7 (no.4)	17.2 (no.1)	28.1 (no.1)	34.0 (no.1)	28.4 (no.1)	31.5 (no.1)	11.5 (no.4)

Source: MIDA

Of particular importance are solar investments from China. Since 2011, Malaysia has aspired to develop an entire solar industry ecosystem; from research and development (R&D), design, to the production of metal silicon, polysilicon/ingots and solar wafer/cells, solar modules as well as system integrators with the use FDI. Therefore, Malaysian Investment Development Authority (MIDA) is tasked to attract FDI for the development of this ecosystem, using fiscal incentives (such as tax holidays, investment tax allowances, reinvestment allowances, import duty exemptions), and non-fiscal incentives such as a feed-in tariff scheme and a green technology funding scheme. Malaysia's relatively low electricity and labor costs added to the locational advantages for this type of investments.

In 2008, Malaysia received RM12 billion in photovoltaic (PV) industries. Four well known solar companies, First Solar, Q-Cells, Sunpower, and Tokuyama (mainly from the US, Taiwan, Germany and Japan) invested in Malaysia. Malaysia was the fourth country in the world in production of the Photovoltaic (PV) cells after China, Germany and Japan in that year. By 2009, due to FDIs, Malaysia became the third largest producer of PV after China and Germany, overtaking Japan in just a year.

In 2014, the US raised tariffs up to 165% on crystalline solar products imported from China. The imposition of these duties on the import of Chinese solar panels instigated the relocation of Chinese manufacturers to other countries such as Malaysia, Korea and Taiwan to circumvent the tariffs as well as to lower costs by seeking out the lowest-cost markets.

These push and pull factors led to the relocation of solar investments out of China into South-east Asia, including Malaysia. Penang in Malaysia benefited from the relocation as the state hosted factories run by China's JA Solar (2015), and Jinko (2015). Subsequently, Xian Longi invested in Kuching Sarawak in 2016.[11] We can therefore see Chinese investments in green energy investments even before the second BRI Forum in 2019.

[11] Miao Zhang 2021. "Beyond infrastructure: Rethinking China's foreign direct investment in Malaysia". *The Pacific Review*, 34(6): 1054-1078, DOI: 10.1080/09512748.2020.1791237

Other sectors: Energy and Port Projects

Energy

A major brownfield investment in energy is the the state-owned China General Nuclear Power Group (CGN)'s 2015 purchase of 1MDB's[12] energy assets in Edra Global Energy Bhd. for US$2.3 billion (or RM9.83 billion) in cash. The latter was Malaysia's second largest independent power producer in 2015. Edra Global consists of Edra Solar Sdn Bhd, Edra Energy Sdn Bhd, Powertek Energy Sdn Bhd, Jimah Teknik Sdn Bhd, Jimah O&M Sdn Bhd, Mastika Lagenda Sdn Bhd etc where it has operations for 13 IPP power plants in five countries, namely Malaysia, Egypt, Bangladesh, Pakistan, and the UAE. The sale was the largest announced M&A transaction in Malaysia and one of the largest in the Asian power sector.[13] It was part of 1MDB's rationalisation plans and the acquisition eliminated the systemic risk that Edra's debt represented for Malaysia's public finances and banking system.

CGN then went on to build Edra Melaka Power Plant (EMPP) in Melaka, starting construction in 2017. The plant became operational commercially in March 2022.[14] The project was funded via 80 percent debt financing and 20 percent shareholders' funds and reportedly cost about RM6.5 billion.[15] Three domestic commercial banks, with CIMB Investment Bank Bhd as the sole principal advisor and financial advisor were hired to raise RM5.28 billion for the project through sukuk financing.[16] It is, currently, the largest gas power plant with low-carbon combined cycle gas turbines in South-east Asia. The plant is capable of providing about 12 percent of the total electricity demand in Peninsular Malaysia, reportedly providing clean, stable power to four million households. It can generate approximately 19.6 billion kilowatt-hours of electricity annually in the next 21 years. Tenaga Nasional Bhd is the sole customer as it has signed a long-term power purchase agreement for 21 years upon commencement of the operation date. Thus, all the power will be supplied to the national grid.

Expansion of Kuantan Port and Melaka Gateway Project

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[12] 1Malaysia Development Berhad is an insolvent Malaysian strategic development company, wholly owned by the Minister of Finance.

[13] http://esi.nus.edu.sg/docs/default-source/doc/esi-belt-and-road-initiative-for-energy-sector-in-asean-and-singapore-trends-prospects-and-implications_sabar.pdf?sfvrsn=2

[14] https://www.globaltimes.cn/page/202203/1257361.shtml

[15] https://www.malaysiakini.com/news/401655

[16] https://themalaysianreserve.com/2017/11/13/largest-power-plant-ready-2021/

The Kuantan and Melaka projects are both led by consortiums of Chinese state-owned enterprises, large local firms, and Malaysian state government-owned companies.[17] 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 privatized 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. The port is relatively small, ranking eighth nationally in terms of total cargo throughput, in 2018.

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 RM 3 billion (US$736.37 million), excluding the RM one billion breakwater being funded by the federal government. The expansion of the port was thus financed by a sale of the equity from the Malaysian partner to the Chinese partner. The project was launched in 2013. As in all projects in Malaysia, an environmental impact assessment (EIA) must be conducted before approval. But the report cannot be retrieved at time of writing.

The new deep-water terminal is being constructed progressively in three different phases. Its Phase 1 deep-water terminal commenced operation in Q4 2018. The port's annual handling capacity is expected to double to 52 million tons when Phase 2 is completed. Kuantan Port also established the Free Trade Zone on 1 April 2019 which will facilitate the movement of transshipment cargo as goods can be imported duty-free and re-exported to the final demand destination. It will help the port to shift from its current dependence on bulk to transhipment cargo.

To date, Kuantan Port has completed its Phase 1 expansion plans. The project is essentially an expansion of *an existing profitable port* in a non-saturated part of the Peninsular Malaysia and it will be connected to the East Coast Rail Link (ECRL), which is explained in a later section of this paper.

The Melaka Gateway project – a RM43 billion (US$10.5 billion) facility encompassing four islands in the Malacca Strait is financed by the project owner's loan from China. The planned integrated seashore development project in the coastal areas of Melaka consists of four islands: two of which are reclaimed, one existing and one an extension from the shore into the sea. Island 1 is supposed to host a tourism and entertainment

[17] See Francis E. Hutchinson & Tham Siew Yean. "The BRI in Malaysia's port sector: Drivers of success and failure, *Asian Affairs*, (2021) 52:3, 688-721, DOI: 10.1080/03068374.2021.1957305

hub while Island 2 will serve as a Free Trade Zone with financial institutions.[18] Island 3 is to be developed into a deep seaport for liquid cargo while a maritime industrial park is planned for Island 4. It therefore includes the development of the region surrounding the proposed port rather than the port alone.

Launched in 2014, the project is led by a local property developer KAJ Development Berhad (KAJD), with the support of Chinese state-owned enterprise PowerChina International and three provincial government-owned companies in Malaysia. In September 2016, KAJD and PowerChina International signed a Memorandum of Agreement to work on Islands 1, 2, and 3, with an estimated value of RM 30 billion. KAJD would have a 51 percent stake, and the two parties committed to investing the funds over the next two years. In May 2017, KAJD then signed an investment collaboration agreement with PowerChina International, Yantian Port, and Rizhao Port. The following month, Melaka Gateway appointed SinoHydro Ltd, a PowerChina owned affiliate, as the engineering, procurement, and construction management contractor.

The local partner, KAJD, unfortunately hit a rocky patch in 2017. The firm registered RM183 million in assets, but RM201 million in liabilities as well RM9.8 million in losses. Since 2018, KAJD's charge of RM724.5 million to its management contractor, SinoHydro Ltd, has been outstanding.

Despite the Gateway's purported strategic imperatives and high-profile backing from powerful China-based central and provincial SOEs, in November 2020, the Melaka chief minister's office said its agreement with KAJD on the RM43 billion project had ended because the developer failed to complete land reclamation works on schedule.

Subsequently, in March 2022, the Melaka Gateway project was surprisingly reinvigorated and returned to its private developer by the state government, in an "amicable solution" to a series of lengthy legal disputes between the project owner and the state government for terminating the project in 2021. Thus, it was domestic intervention and domestic politics that led to the revival of the project. KAJD has now pledged to complete the Melaka International Cruise Terminal for Island 1, in fifteen months (or by 2023), and the project's theme park by 2025. Both infrastructures will cost RM 1.5 billion, and the project is expected to draw more FDI into the state of Melaka. There was no mention about the development of the other islands in the media statement.

Mega Projects Financed by Government Loans from China

[18] See brochure from KAJD, 2017 at https://www.msiglobal.org/wp-content/uploads/2019/12/Investment-Book_-9Sept-5.pdf

The East Coast Rail Link (ECRL) project, launched in November 2016, is deemed as China's most important infrastructure project in Malaysia. It is a 688 km long double track railway linking the less developed east coast states of Peninsular Malaysia (namely Kelantan, Terengganu, and Pahang) to Port Klang on the west coast. The project was initially costed at RM66.8 billion and it was funded with a 85% loan from EXIM Bank of China and another 15% through the issuance of a sukuk guaranteed by the Malaysian government. Hence, the Malaysian government considers this as a domestic investment project. The total project was expected to increase to RM80.9 billion after accounting for financing costs, land acquisition and other operational costs during development. The project was mired in controversies over the lack of transparency over its approval process and the large debt incurred as well as economic viability of the project.

Strategically, in the first iteration of the ECRL (or ECRL 1.0), the new rail connection could be a basis to route some goods via Malaysia instead of Singapore. It is estimated that the travel time of goods from Shenzhen to Port Klang via ECRL is reduced to 135 hours compared with 165 hours via Singapore. The business justification to build ECRL as a land bridge connecting a port on the west coast to the east coast of the Peninsular is therefore dependent on its ability to substitute some cargo going through Singapore, because of the reduction in travel time. But there is also an estimated increase in logistics cost from US$50 (RM204) to US$56 per tonne due to the need to load, unload and reload cargo. It remains unclear as to whether logistic companies will be prepared to pay a premium on the logistics costs for a saving of only one shipping day. This cast considerable concerns over the economic viability of ECRL 1.0 and its ensuing implications on the debt incurred by the government over the project.

Unsurprisingly, the project was used by Mahathir in his campaign rhetoric to vilify the Najib administration that had approved the ECRL1.0 before General Elections 2018 (GE 2018). When Mahathir returned as the Prime Minister after GE18, ECRL 1.0 and two gas projects were suspended. The ECRL was then renegotiated to avoid the huge termination cost of RM21.78billion, and to substantially reduce the costs as well as more favorable implementation terms to benefit the local economy, employment, and resource procurement.

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.

Unlike its first iteration, the reconfigured project (dubbed ECRL 2.0) 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. Secondly, the economic viability of the project has also shifted from routing cargo from Singapore towards creating

demand for passenger and cargo transportation through the development of the ECRL corridor or the land that is traversed by the rail link.

To facilitate this shift, a memorandum of understanding between the Malaysian Investment Development Authority (MIDA) and China Communications Construction Company (CCCC) was signed 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 along the ECRL corridor. The ECRL corridor aimed to attract more firms from China to relocate to Malaysia for cost considerations as well as in response to the on-going US-China trade war.

Changes since BRI Forum 2019

Revival of the ECRL project

The ECRL project is not just riddled with issues pertaining to its financial and commercial viability. It is also controversial in terms of its impact on the environment. In the initial Environmental Impact Assessment (EIA)[19] which was carried out in 2017, apart from the tunnel through the Main Range, a total of 44 tunnels as well as 27 wildlife crossings will be needed at various stretches along the original alignment to prevent forest fragmentation, as the alignment cuts through various forest reserves.[20] There were huge public concerns and outcries on the negative impact of the project on the environment especially in fragmenting the habitats, with discussions held between MRL and civil society groups such as WWF.[21]

In response to these concerns, in February 2018, China Communications Construction Company Ltd (CCCC), the main developer for the East Coast Rail Link (ECRL), allocated RM10 million for rehabilitation and relocation of animals directly affected by the project. A Memorandum of Understanding (MOU) was signed between CCCC and Natural Resources and Environment Ministry (NRE) to work with experts to

[19] In Malaysia, the use of Environment Impact Assessment (EIA) became a mandatory legislative requirement in 1988.

[20] https://www.wwf.org.my/?26826/Ensure-Environmental-Sustainability-of-the-ECRL

[21] https://news.mongabay.com/2017/08/malaysias-east-coast-rail-link-a-double-edged-sword-for-environment-wildlife/

improve its alignment and design to reduce its environmental impact by reducing forests losses, thereby preserving the habitats in the preserved forests.[22]

After the project was revived in 2019, in part to avoid the huge termination costs, its route was realigned ostensibly to reduce costs as well as the environmental impact of the project. The realignment mainly affected Section C of the route, which runs from Pahang to Port Klang in Selangor. It was redirected to avoid the water catchment area in Gombak, Selangor. The route was also re-directed south into areas that included Negri Sembilan.[23] The 2019 new alignment would no longer cut through the Main Range, thereby avoiding any possible negative impact on the Klang Quartz Ridge.[24] However, the Department of Environment at that time had not received an EIA for the new alignment, casting doubts on the environmental compliance of the new configuration.

After the change in administration in 2020, the ECRL was again realigned back to the 2017 route, reflecting the influence of domestic politics on the project. The current Minister of Transport, Wee Ka Siong, defended the change back to the 2017 alignment for several reasons related to the environment.[25] First, the 2017 EIA report for this alignment, has already been approved by the Department of Environment in 2018 and its validity was extended in 2020 to enable the Ministry to track its potential impact. Second, the Gombak Quartz Ridge, which has already been established as a United Nations Educational, Scientific and Cultural Organisation (UNESCO) Heritage Site, will be avoided as the rail line will be elevated and will traverse through an existing road to go across the Quartz Ridge. Third, the realignment will also not encroach the Batu Dam area, which is one of the main dam that supplies water to Selangor and the Klang valley. Fourth, the 2017 alignment would pass through seven forest reserve areas, with 15.22km tunnels being constructed to reduce deforestation, thereby providing greater protection for wildlife habitat. Fifth, the 2017 alignment is expected to cross only three water catchment areas between Mentakab and Port Klang while the 2019 alignment was expected to cross at least four water catchment areas.

On the social impact, 4,302 lots of land is expected to be acquired under the 2017 Alignment, lower than the 2019 alignment, which was 6,038 lots. Only two Orang Asli areas may be directly affected under the 2017 Alignment, as compared to seven under the 2019 Alignment. Similarly, the 2017 Alignment would only involve and

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[22] https://www.malaymail.com/news/malaysia/2018/02/28/china-firm-behind-ecrl-allocates-rm10m-for-wildlife-management-plan/1587133

[23] https://themalaysianreserve.com/2021/03/22/selangor-to-defend-its-stand-on-ecrl-alignment/

[24] https://www.wwf.org.my/?26826/Ensure-Environmental-Sustainability-of-the-ECRL

[25] https://www.nst.com.my/news/nation/2021/04/679781/ecrl-realignment-will-not-encroach-batu-dam (5 April 2021).

affect two Malay reserve land areas in Gombak and Rantau Panjang while the 2019 Alignment if implemented would involve and affect at least three areas, namely the Malay reserve land in Beranang, Jenderam and Dengkil.

The 2022 alignment, dubbed ECRL 3.0, was finally approved in December 2021. ECRL will now connect Kota Bahru on the east coast to Port Klang with a total distance of 665km at a higher cost of RM 50 billion and the project is expected to be completed by 2027.

Revival of the Melaka Gateway project

The negative environmental and social impact of the Melaka Gateway project has remained since the project was first introduced in 2014. KAJD claimed in its 2017[26] investment brochure that the Melaka state department and the Department of Environment (DOE) had authorised KAJD to commence reclamation based on a macro EIA that was conducted by the state in 1997, which was a considerably outdated document. A total reclaimed land area of 609 acres was apparently approved for development by the DOE in 2014. A preliminary EIA was approved by DOE for Island 3, but since that had expired in 2015, DOE had instructed KAJD to conduct a new detailed EIA which was supposed to have been completed by the end of 2017. Likewise, KAJD was supposed to conduct a new EIA for Island 4 and complete the combined EIA by the end of 2017.

Despite these statements, residents of the Portuguese settlement, the Kristang people, had protested against the land reclamation involved in the project because it had violated the minimum distance required separating the island project from the coast of the Portuguese settlement.[27] There was no social impact assessment on the impact of the reclamation on the livelihoods of the people in these settlements, who are mainly fishermen, despite the negative impact of reclamation on the maritime ecosystem. Moreover, the project permanently damages marine biodiversity and any mitigation measures will not restore the region to its original health. The project was not halted even in the face of these protests and the continued construction in 2019 further worsened the situation.

Despite the negative media and protests from civil society, the project owners have not come forth with any new measures that would address the situation since the project was revived this year.

New Investments after 2019

[26] https://www.msiglobal.org/wp-content/uploads/2019/12/Investment-Book_-9Sept-5.pdf

[27] IDEAS, 2022. BRI Monitor. Melaka Gateway. https://www.brimonitor.org/wp-content/uploads/2022/05/Melaka-Gateway.pdf

As at time of writing, there are no new Chinese investments in infrastructure projects in the country. New investments continue to be in manufacturing and real estate (Table 2).

Table 2. Selected Chinese Investments in Malaysia, 2019-2021

Year	Project name and Chinese Investor	Investment partners	Sector	Mode
2019	CORE Precious Development Sdn Bhd, Kuala Lumpur	CORE Precious is 20%-owned by WCT and the other 80% is owned by China Communications and Construction Group (CCCG)	Real estate*	Greenfield, RM1.1billion
2020	Eastern Steel coking project, Terengganu	Hiap Teck (Malaysia, 35%), Shanxi Jianlong Industry Co Ltd (60%) and e Chinaco Investment Pte Ltd (5%)	Steel**	Greenfield, value n.a.
2020	Risen Energy, Kedah	Risen Energy	Solar Energy***	Greenfield, RM42.2 billion
2021	ND Paper (Malaysia) in Bentong, Pahang	Nine Dragons Paper	Paper and Pulp Mill#	Acquisition, RM1.2 billion
2021	ND Paper Malaysia in Banting, Selangor	Nine Dragons Paper	Paper and Pulp#	Greenfield, RM1.2 billion

Source: *https://www.theedgemarkets.com/article/wct-and-chinese-partner-jointly-develop-first-residential-project-trx-worth-rm11b

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https://www.alliancebank.com.my/Alliance/media/ADBS/Trading%20Ideas/Evening-Edition-14-May-2019.pdf
***https://www.nst.com.my/business/2021/06/701876/chinas-risen-energy-picks-malaysia-first-southeast-asian-mega-plant-invest

#http://www.xinhuanet.com/english/2021-03/02/c_139778204.htm#:~:text=KUALA%20LUMPUR%2C%20March%202%20(Xinhua,(MIDA)%20said%20on%20Tuesday.

The Ministry of International Trade and Industry (MITI) in a statement in April 2022 indicated that Malaysia is still keen to attract more FDI from China to the on-going development of Malaysia-China Industrial Park in Kuantan (MCKIP), the only national park in the country with a twin park in China.[28] Malaysia's interest therefore lies more in the FDI component rather than large infrastructure projects from China.

Was there any shift towards green projects?

Based on Table 2, there is no noticeable shift towards green projects. The interest in solar investments has existed long before the BRI was initiated and it is led by push and pull factors as explained earlier. Edra Melaka Power Plant (EMPP) was started in 2017 and utilised domestic loans with the project viability guaranteed by its energy sale to Tenaga Nasional Berhad, for the national grid.

In general, all manufacturing projects must undergo EIA approval and their financial viability is dependent on the project owners. In terms of all project approvals, including investment approvals (from all countries, including China), in Malaysia, there is in general, no requirement for their source of financing to be green and from sustainable sources. Large local companies have recourse to use the emerging green sukuk market (Islamic green bond market) for raising financing. It should, however, be noted that although the green sukuk market has embraced the Green Bond Principle (GBP), it has also failed to address existing problems of greenwashing faced by green bonds governed under the GBP.[29] There is therefore no evidence of a discernible shift towards genuine green financing.

Mega projects such as the ECRL had to respond to public scrutiny and outcries on the environment and the social impact of the project. CCCC as well as MRL did rise to the occasion. Towards this end, the Ministry of Transportation has also increased its

[28] https://themalaysianreserve.com/2022/04/28/malaysia-china-sign-11-mous-for-future-projects/

[29] Liu, Felicia & Lai, Karen, 2021. "Ecologies of green finance: Green sukuk and development of green Islamic finance in Malaysia". *Environment and Planning A: Economy and Space*. 53. 0308518X2110383. 10.1177/0308518X211038349.

transparency in the way the project was conducted, by responding through the media and improving its communication with the public on a project that is of vital importance to Malaysia and China.

That is not necessarily the response of every project in the country as seen in the case of the Melaka Gateway where the project is revived without any noticeable change in transparency nor the environmental and social accountability of the project.

In general, the governance of any project, especially large-scale and expensive projects, requires both source countries of investors and builders as well as host countries to play complementary roles. Regardless of whether it is an FDI or a construction project, weak local requirements open the door for minimal safeguards from investors, contractors, and builders. This is especially the case where short-term contracts are concerned, such as engineering, procurement and construction (EPC) contracts as they do not incentivise short-term contractors to deal with the long-term social and environmental problems. For the BRI to be green, concrete measures are needed in the host economy where the projects are approved and implemented. Host countries like Malaysia must be more attentive to conduct properly the mandatory EIAs to protect the environment from future degradation. In this regard, project owners, state approval bodies and agencies need be held accountable for the approval and implementation of Chinese investment projects in the country.

On the other hand, the home country cannot just respond with mere guidelines as all policy statements which are merely guidelines, are toothless without enforced implementation by China's own regulatory bodies. Effectiveness still depends on commitment from the joint stakeholders, namely the host economies and China, to adhere to these guidelines in the negotiation and implementation phases of BRI-related projects. There are indeed opportunities to conserve and sustain the environment with green measures, but both China and host governments have important roles to play in implementing and enforcing them.

To date, there is no reported multilateralisation of the on-going large mega infrastructure projects discussed in this paper.

Have perceptions of BRI evolved in the country?

The Associated Chinese Chambers of Commerce and Industry of Malaysia (ACCCIM) funded a survey in 2017 that aimed to assess Malaysian companies' opinions and aspirations as well as challenges faced when dealing with Chinese investors.[30] The survey which was conducted among its members, found that half of the respondents have mixed perceptions about the impact of China's investment on

[30] SERC 2017. "China's investment in Malaysia: Perceptions, Issues and Prescriptions". https://www.acccimserc.com/images/researchpdf/Final---China-Investments-in-Malaysia---Perception-Issuess-and-Prescript___.pdf

Malaysia. On the positive note, respondents perceived that Malaysia's infrastructure capacity and connectivity would be substantially enhanced, and this would facilitate the expansion of trade and investment flows either in Malaysia or with China. Nevertheless, 41% of respondents opined that China's investment will pose a threat to local businesses by raising the competition bar and 22% foresaw a "crowding out" effect on domestic SMEs in terms of sourcing raw materials. Anecdotal evidence[31] indicate that local SMEs deem that they are less able to compete with the producers from China due to the latter's superior technology, size and scale of operations. There are also anecdotal evidence of local firms benefiting from increased Chinese investment as well as examples of Chinese companies favouring Chinese labour and subcontractors over local options.[32]

A more recent survey in 2021 and reported in 2022 indicated that by and large, the community perceptions of two BRI projects in Malaysia, namely China Railway Rolling Stock Corp's Rolling Stock Center (CRRC) located in Batu Gajah, Perak and the Malaysia-China Kuantan Industrial Park (MCKIP) located in Gebeng, Pahang, were on balance, positive.[33] The community deemed the two projects as having contributed towards job creation and positive economic spillovers on the local economy around these two projects. This concurs with the general feedback from previous studies and anecdotal evidence.

There was, however, dissatisfaction expressed towards land rights, as land grabbing was raised as a key issue in both cases. This is attributed to the lack of transparency in the planning and implementation of projects so that the local community is in the dark of their developments, including compensation rights of the affected community. Labor rights and employment practices were also raised as other issues of dissatisfaction. For example, Chinese national employees held higher positions within the companies. Local workers were often placed in mid-to-low skilled positions, which respondents believed limited their potential, hampered the expected skills upgrade and eventual transfer of technology. Moreover, labor regulations were not properly enforced, as found in the case of work in the large steel factory in MCKIP. There was also lack of engagement, consultation, with the public and cultural/language related conflicts.

It should be noted that Chinese workers imported from China to work in Malaysia also face adjustment problems and are often isolated from the local community by

[31] https://www.thesundaily.my/business/misif-blames-china-owned-alliance-steel-for-malaysian-industry-s-losses-cx1527411

[32] Laurence Todd Meghan Slatter 2018. "Impacts of Investment from China in Malaysia on the Local Economy", Policy Ideas 45. IDEAS, Malaysia. https://www.ideas.org.my/publications-item/policy-paper-no-53-impacts-of-investment-from-china-in-malaysia-on-the-local-economy/

[33] Merdeka Center for Opinion Research, 2022. "Social impact and community perception of Belt and Road initiative projects in Malaysia". https://asiafoundation.org/publication/social-impact-and-community-perception-of-belt-and-road-initiative-projects-in-malaysia/

having to stay at the dormitories of factories.[34] They are also subject to the same compliance of the factory to local laws in that any violation of local laws are also applied to these workers.

Thus, the positive economic contributions in terms of employment and positive spillovers on local economy continue to be maintained in these albeit small surveys and indicate a generally positive perception. But, labor issues,[35] transparency and communication with the public and cultural/language conflicts also continue to be reported, although Malaysia does not have mass protests over the use of Chinese workers in the county, as perhaps experienced in other countries.

It does not appear that there is any significant improvement nor deterioration in the perceptions towards the BRI.

Do the projects conform to SDGs and environmental goals?

In principle, investments approvals are linked to the SDG and environmental goals since Malaysia has adopted the 2030 Agenda and the 17 SDGs. Malaysia also promotes renewable energy with the provision of green investment tax allowance (GITA), Green Income Tax Exemption (GITE). Accordingly, MIDA would assess projects based on their contribution to the SDGs. However, when projects are approved, the data presented in their reports do not include compliance with SDGs. For example, in the compilation of quality projects for the year 2021, the SDG goals of each project is not reported. The emphasis is mainly on the investment value (FDI value) and employment created.

The projects would by and large contribute towards SDG 9, (Goal 9: Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation) and Goal 10 in reducing inequality. In particular, a mega infrastructure project like the ECRL would contribute towards reducing the economic development divide between the east and west coast of Peninsular Malaysia, improve connectivity and promote industrial development in the less developed east coast, thereby reducing regional inequality.

Likewise, the manufacturing projects which are scattered throughout various parts of the country can contribute towards SDG 9 and 10. Renewable energy projects like the solar projects may also contribute towards SDG 7 (affordable and clean energy).

But, not all environmental goals may be met since land reclamation projects like the Melaka Gateway continue to face unresolved problems with the local community. Similarly, Forest City also faces the same environmental challenges and negative impact on the livelihoods of the fishermen who live along the coastal areas that are

[34] https://www.themalaysianinsight.com/g/79231

[35] See for example, earlier media reports as https://mobile.twitter.com/imokman/status/1037498193930477568

being reclaimed.[36] Further detailed studies are needed to monitor the implementation of especially land reclamation projects and their impact on the environment.

Conclusion

Malaysia has hosted numerous Chinese-affiliated projects which are found in various sectors ranging from services, such as real estate and e-commerce to manufacturing and energy, as well as infrastructure. Despite having mandatory EIA requirements, some of the projects were reported to have started without having completed these requirements. In particular, projects requiring land reclamation faced considerable contestation from affected communities and civil society groups. Labor issues were also raised in some of the BRI projects, which should also include the treatment of Chinese workers in these projects.

Malaysia's experience indicate that the local partners and local regulations play an important role in regulatory compliance and the environmental sustainability of these projects. By and large, Chinese companies and owners abide by the local laws for approval purposes, while implementation and enforcement is not well examined in these projects.

There are, to date, no reported new infrastructure projects financed by China since 2019. The on-going infrastructure projects are the mega projects approved before 2019. The demand in Malaysia is, however, not for mega infrastructure projects, given the fiscal position of the country has deteriorated due to the needs that emerged with the COVID-19 pandemic. Malaysia simply cannot afford to borrow large sums of money for improving the infrastructure of the country. Rather the country aspires for more FDI to fund its development.

The ECRL, as a mega project funded by a Malaysian government-guaranteed loan from China, is under intense public scrutiny for all its environmental and social impact, besides its commercial viability. In response to this, the Ministry of Transport has increased its transparency and disclosed more information to the public pertaining to its efforts to address some of these concerns.

That is not necessarily the case for other projects that may slip the attention of the public eye. Project owners need to be held accountable for the impact of the project on the environment, be it local companies or joint ventures. In this regard, both China and Malaysia should exercise proper due diligence on the environmental, social and governance (ESG) compliance of project owners and executors of projects. While projects may lend support for some of the SDG goals, it does not imply that the project has met with **all** the necessary sustainability requirements.

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[36] See for example, Serina Rahman 2017. "Johor's Forest City faces Critical Challenges". *Trends in Southeast Asia*, 2017, no. 3. https://think-asia.org/bitstream/handle/11540/7549/TRS3_17%20%28002%29.pdf?sequence=1

There have been no discernible changes in the public's perception of BRI projects nor any reported changes in the communication of projects with the public. The need for greater transparency and effective communication with local communities continue to remain as an outstanding measure for improving the public's views of the BRI projects in the country.