

Regional Politics and Economic Alliances: Some Comments by Francis LOH

In Nov 2016, president Xi Jinping called a meeting of world leaders to the New Silk Road Summit in Beijing. China's 'One Belt One Road' (OBOR) project and diplomacy was conducted with much aplomb and acclaimed by many leaders of developing countries in Asia and Africa. In Malaysia, however, there were mixed feelings about OBOR and how it linked to Malaysian politics.

Malaysian PM Najib Tun Razak was most enthusiastic. In May 2017, following the Summit, he signed 14 more MOUs with Chinese companies for projects totalling RM143.6 billion, 55% of Malaysia's federal budget for 2017. These were additional commitments to on-going Chinese projects in Malaysia. Many business people, Malays and non-Malays, have welcomed these MOUs.

But there have been criticism too, by Opposition leaders, CSOs, and academics too¹. There are three types of criticisms.

Too much, too fast, too soon

First, it is stated, for good reason that 'China's investments in Malaysia have grown 'too much, too fast, too soon'. For instance, it is stated that there is no need for Malaysia to build so many ports, so close to each other, at the same time. Three new ports have been announced: the Melaka Gateway Port costing RM43b; in Carey Island in the Port Klang area costing RM200m; and in Bagan Datoh RM30b, with a pipeline from Bagan Datoh on the West Coast to Bachok in Kelantan on the East Coast. The Port of Penang will also be upgraded costing RM6.3b.

Not helping Malaysia get out of the 'Middle Income Trap'

Second, it is highlighted that although Malaysia's economy is among the most open ones in the world and has always been open to FDIs, nowadays, especially in the case of the Chinese, there has been less prudence and watchfulness over foreign ownership of land and assets.

Consider the case of the Forest City. It is a USD36.2 billion project to build a city with office buildings, parks, a transit network, hotels, restaurants, shops, schools, and 250,000 housing units for an estimated 700,000 people on 4 man-made islands, covering 14 sq km, over the next 20 years. This is a 66: 34 joint venture between China's 3rd largest property development company Country Garden and Johore's little-known Esplanade Dange 88 Sdn Bhd. Apparently, sales were brisk in 2016 due to affordable prices and 'access to Malaysia's visa program for long-term stay', says an article in the South China Morning Post, but have slowed due to the Chinese government banning its citizens from converting yuan into other

¹ Former PM Dr Mahathir has been particularly scathing of two projects: the Forest City project which he claims will lead to Chinese colonisation of that part of southern Malaysia; and of the 'takeover' of the debt-ridden DRB-Hicom owned Proton national-car project, founded by Mahathir in 1983. Ironically, when Mahathir visited China in 1998, when China's automobile industry was only starting, he had presented several Protons to his Chinese counterpart. Twenty years later, Zhejiang Geely Holding Group which controls HK based Geely Automobile and Sweden's Volvo car group has agreed to acquire 49% of Proton in 2017. In 2016, the ailing Proton received RM1.5 billion in govt aid, on condition it pursues a turnaround plan and seek a foreign partner. Geely beat PSA which produces Peugeot & Citroen; Renault and Japan's Suzuki. Geely is expected to help Proton grow its sales overseas especially since it has offered its right hand drive technology to Proton.

currencies for overseas property purchases, beginning from Jan 2017. As of Feb 2017, Chinese nationals own 70 % of the homes that have been sold in Forest City². In fact, there are concerns that this project might not run its course.

There have also been other construction and infrastructure related investments like the proposed East Coast Railway line; the acquisition of 51% stake in Shell Refining for USD66.3 million. Operating out of Port Dickson, the latter will henceforth change its name to Malaysia Hengyuan Refining Co Bhd; the RM160b paid for Bandar Malaysia and the take over of Edra Energy, both linked to 1MDB (more of this below),

It has been commented that these FDIs, contrary to accepted conventions, are not going to transfer to Malaysia cutting-edge technology that will help to strengthen Malaysia's economy. In fact, Chinese acquisition of assets and investments in infrastructure and property development will contribute further to the so-called 'middle-income trap' which Malaysia has found itself stuck in for some decades now³.

Shoring up a corrupt and sinking regime?

The third and most disturbing aspect of China's FDIs is that they are also helping to enshroud fiscal mismanagement and to shore up the most corrupt regime Malaysians have ever had!

Most significant of all are the scandals surrounding 1MDB. This is the sovereign fund (or perhaps more appropriately a government-linked investment company) headed by PM Najib, that has been under investigation in 6 different countries for breach of financial regulations. In June 2017, the US Dept of Justice ordered a seizure of assets in the US which were linked to or had been acquired using 1MDB funds.

In this regard, it is disconcerting that State owned enterprise China General Nuclear Power Corp has purchased 1MDB's Edra Energy, bestowing it with RM9.83 billion in cash. Yet another purchase is the acquisition of Bandar Malaysia by yet another Chinese company for RM16 billion!

A related concern is how these FDIs have also provided the Chinese ambassador much high profile. Quite unprecedented, he has developed close ties with Chinese Malaysian shetuan and gongxis, and even with the Malaysian Chinese Association (MCA), the Chinese partner party in Najib's ruling coalition Umno-BN. He has even been present at MCA official functions. As well, it has been reported, and criticised, that party-to-party relations have developed between the CCP and the MCA, Malaysia's towkay party. Consciously or

² Country Garden, based in Guangdong, is said to be the 3rd largest Chinese developer. It has 4 other residential projects in Malaysia. The Forest City project was first launched in 2013, and then halted due to concerns from both Singapore and Malaysia on how reclamation would impact on their coastlines. The Project was then restarted in 2015. To date, only 15,000 of the 250,000 residential units, totalling USD2.6 bil had been sold by 2016. Reportedly, its Shanghai office that had opened in Oct 2016 was closed by March 2017

³ Malaysia has become quite well-known for having turned to services (62.4% of GDP in 2015) before fully developing its manufacturing sector (only 24.9% of GDP in 2015), contrary to the normal pattern of growth. To sustain its growth, Malaysia needs to move into a higher stage of technology driven industrialisation, which implies more attention given to human resource development and use of cutting-edge technology. Alas, through the use of cheap unskilled or low-skilled foreign labour, the service and construction sectors have been expanding. Consequently, foreign and local manufacturers have been reluctant to invest in new technology and to provide further training to employees. These factors have contributed towards Malaysia's middle-income trap; a side effect has been depressed wages for local labour due to access to cheap migrant labour.

unconsciously, the Ambassador and the FDIs have helped to shore up a PM whose legitimacy is being questioned at home and abroad, and the MCA, which has performed extremely poorly in the last two general elections.

Need for guiding principles to promote transparency and accountability, if not democracy

This third aspect is directly related to how the Malaysian government, though it proclaims itself to be practising Westminster parliamentary democracy, has not practised transparency and accountability. In contrast to the US Dept of Justice concluding that massive corruption had occurred in the case of 1MDB, the Malaysian PM sacked his own deputy and several other ministers when they challenged him on the 1MDB fiasco, as well as terminated the services of the previous Attorney General, the governor of Bank Negara, and the head of the Malaysian Anti-Corruption Commission, as they apparently closed in on the case.

I am concerned that we cannot expect to have either Chinese CSOs or Chinese government officials monitoring and sharing with us in Malaysia information on how these Chinese FDIs are managing themselves. As far as I am aware, the OBOR Project does not require such transparency and accountability on the part of the FDIs. In this regard it is significant that the major exposes on the 1MDB fiasco were conducted by major investigative reporters, newspapers, and monitoring government agencies in the West, which have allowed CSOs and the Opposition to follow up domestically.

In this regard, it might be important for Chinese CSOs and those in position, with support of people like us in Arena, the Global Uni of Sustainability Network, and the WSF to pressure the Chinese authorities to impose certain guidelines re: transparency, accountability, labour rights, protecting the environment and indigenous peoples, etc, as OBOR rolls out from Asia to Central Asia, to the Middle East to Africa. (This was one of the few good things about the TPPA i.e. there were guidelines on labour, gender and child rights and on sustaining the environment).

Other consequences, other Places

1. Cambodia: According to a study by the International Policy Centre, of U of Michigan, China given preferential treatment and disproportionate number of land concessions given to Chinese developers. The study reported that since 2003, more than 400,000 Cambodians have been victims of land grabs or evictions, many of these related to development projects operated by Chinese or Chinese-related companies.
2. Sri Lanka: Chinese firms initially invested in the following within just 10 years: Hambantota Port (USD1.3b); the 900MW Norochcholai Power Plant (USD1.35b); the Mahinda Rajapaksa International Cricket Stadium (700Rs million); Mattala Rajapaksa International Airport (Rs 26 billion); the Southern Expressway (Rs776 billion); Hambantota Sports Zone (Rs 15 billion), railway (Rs272 billion). Between 2008 and 2015, a total of USD\$6 billion in loans and aid were directed to Sri Lanka. Now, most of the completed projects have been abandoned or underused. The Sri Lanka government has been prepared to transfer control of several of these large projects to Chinese companies. Overall, Sri Lanka owes USD58.3 b to foreign lenders. Presently, 95.4% of govt revenue goes to debt servicing (Farrukh Saleem, Sri Lanka for sale? The News International June 4 2017)

Whither Asean vis-à-vis OBOR

There are of course many corrupt Asian and African leaders like PM Najib. With Trump's 'America First' policy, the danger is that they will increasingly look towards, even compete with one another for Chinese FDIs, trade benefits, aid and loans⁴, as well as its tourists, in order to shore up their economies and themselves politically. Some analysts who monitor the territorial disputes in the South China Sea have commented that Malaysia has been very quiet on the question although the Hague tribunal findings had rejected China's nine-dash line as having no legitimacy. Indeed, Malaysia has also been silent on China's construction of a landing strip on one of the disputed atolls, as though it has adopted a stance of 'benign neglect in respect of Chinese territorial claims'. On the contrary, Malaysia has for the first time purchased Chinese naval vessels, open one of its ports to Chinese warships and submarines, and invited the PLA to participate in joint land exercises!

Meanwhile, Duterte of Philippines has announced that he was warned by China that it was prepared to go to war on the matter. Paradoxically, even as he complained of the Chinese threat, China sold USD500 million worth of arms to his country.

And apparently, Singapore's PM Lee Hsien Lung, who was more vociferous in challenging China's territorial claims, and calling upon the US to continue to be a 'pivot in the region', was not invited to the New Silk Road Summit for global leaders.

Apparently, ASEAN is unable to act in solidarity over Chinese territorial claims in the South China Sea. Under the circumstances, and with OBOR related FDIs in the backdrop, China appears to be pushing for its so-called 'Code of Conduct' (CoC) to resolve maritime disputes. For Malaysia, this might lead to joint exploration of mineral resources in Malaysian waters, and perhaps shared sovereignty and equal rights to all resources in the South China Sea. This is not necessarily a bad thing. But there are also commentators who claim that this CoC is simply to buy time for China before it flexes its naval muscles.

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⁴ With collapse of TPPA and a pending trade war between China and US, the Chinese have pushed for its own Regional Comprehensive Economic Partnership which includes ASEAN 10, China Japan S Korea, Australia and New Zealand. Not surprisingly, Asean has become the preferred destination for Chinese manufacturers looking to relocate production overseas, rather than moving inland. Vietnam used to be favourite destination. But today Cambodia tops the list followed by Vietnam, Myanmar Bangladesh and Indonesia. Malaysia, Thailand, Philippines are lower down the list. Reasons: demographics, regional stability, govt's focus on growth, urbanisation. Chinese Banks are also following Chinese FDIs by establishing branches.