LAD CASE STUDY

Bridging Regions, Strengthening Ties: The East Coast Rail Line (ECRL) in Malaysia

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Bridging Regions, Strengthening Ties:
The East Coast Rail Line (ECRL) in Malaysia

Decision Maker

Dr. Wong Lee is a Member of Parliament and a member of the Democratic Action Party of Malaysia (DAP) based in the state of Selangor. He has been an open critic of the East Coast Rail Link (ECRL), a new Chinese-backed rail system to connect the East and West Coasts of Peninsular Malaysia and alter international trade routes in the region. Lee must balance pressures from the Malaysian parliament and executive cabinet in addition to the public sentiments of his constituents in order to represent his concerns about the ECRL and its implications for Malaysia's society and economy.

Country Background

Malaysia is a federal constitutional monarchy located in the tropics of Southeast Asia consisting of 13 states and 3 federal territories. Its population of 30 million is multi- ethnic and cultural, with half represented by ethnic Malay and the remaining represented by minorities such as the Malay Chinese, Malay Indians, and indigenous peoples (including ethnic Thais, Khmers, Chams, and those of the Sabah and Sarawak regions). Its two main land territories – Peninsular Malaysia and East Malaysia (also known as the Malaysian Borneo) are divided by the South China Sea, total 220,803 square kilometers and share sea and land borders with nations such as Vietnam, the Philippines, and Indonesia. Islam is the official religion of the Federation; the head of state is the King. The Prime Minister, who is the head of the cabinet (which holds Executive Power) and the government, is Najib Razak. PM Razak is also Malaysia's Minister of Finance.

Relationship with China

The Malaysian government's official foreign policy stance is based on principles of neutrality and peaceful relationships with other countries, particularly prioritizing the security and stability of Southeast Asia. Malaysia has pursued this foreign policy by working on developing relationships with other ASEAN nations and strengthening relationships with other Islamic states. Historically, unlike its neighbors Vietnam and the Philippines, Malaysia has taken measures to avoid conflict with its proximate regional superpower, China. In 1974, Malaysia became the first non-Communist country to form diplomatic ties with China in the region. Despite being a member of the ASEAN international community, meant to be an anti-Communist bloc in the region, Malaysia shifted from a pro-U.S. stance toward a non-aligned one to better accommodate relations with China. As early as October 2013, an agreement to increase bilateral ties through a "comprehensive strategic partnership" was officially agreed upon between these two countries.[1]

Jennifer Fei conducted interviews and prepared this case under the supervision of Francis Fukuyama of Stanford University. This case was developed solely as a basis for class discussion. It is not intended to serve as a historical record, a source of primary data, or an illustration of effective or ineffective management.

Shortly after the introduction of the Central Asian "economic belt" component of the Belt and Road initiative (BRI), Malaysia seemed to be positioned as the focal point of the initiative during President Xi Jinping's visit to Southeast Asia in October 2013.[2]

Malaysia's historic openness to an economic relationship with China has played a role in this cooperation – the government's leaders have expressed open support for BRI on various occasions, actualized through construction of various ports, industrial parks, and other economic projects such as a "digital free trade zone and allowing Chinese corporations to open regional headquarters offices in Malaysia."[3] Malaysia is the largest economic and political supporter of China in the Southeast Asian region, taking a neutral stance on territorial disputes in the South China Sea. China is also Malaysia's largest trade partner, further exacerbating an imbalanced power dynamic between the two nations. In 2014, the bilateral trade relationship between China and Malaysia amounted to $102 billion total (projected to rise to $160 billion in 2017) and accounted for 14.3% of total trade in Malaysia.[4] On the other hand, China does not want to lose Malaysia as an ally, as it is reliant on Malaysian exports such as palm oil and electronic goods.[5]

Malaysia's relationship with China is further intensified by Singapore's wariness toward China. Singapore's zero tolerance for corruption has kept China away from HSR contracts, as China will have to compete fairly against other potential financers for the project. Singapore has also been vocal on South China Sea territory disputes, and has been known to resist China on a few occasions in the past. Singapore has considerable economic leverage as a shipping and financial hub in Asia. Its financial strength is comparable to Hong Kong, and serves as a gateway for China to the entire Southeast Asia region. Foreign investors are also much more open to doing business with Singapore compared to the rest of the countries in the region.

In order to prevent ASEAN from acting cohesively, China has been known to tailor its policies to each country within the regional bloc. For example, the Chinese government has supported the Cambodian state despite major human rights issues there, and in exchange Cambodia has sided with China in South China Sea disputes. Since ASEAN decision-making is based on consensus, and because Cambodia has deviated from the popular opinion within the organization, statements against China cannot be made by ASEAN.

The Malaysian Economy

As the third largest economy in Southeast Asia, GDP growth in Malaysia has been strong for almost 50 years, averaging at 6.5% per year. Though the economy was previously dependent on natural resources and the agricultural sector, there are a handful of expanding sectors, such as science, tourism, industrial commerce, and medical tourism, that have helped Malaysia's market economy earn "newly industrialized" status (NIC). However, the state plays a significant role in economic policymaking activities. One prominent example of this is the 1991 "Vision 2020" plan written by former Prime Minister Mahathir Mohamad that outlined steps toward industrialized economic self-sufficiency by the year 2020, with an emphasis on endogenous innovation capacity development. The document declares "infrastructural underpinning" and the need for "massive investments" as crucial for "rapid, realistic, focused and market-driven" technological capabilities development. The report does not specifically mention rail or transport infrastructure.

In line with the Vision, current PM Razak has implemented two main programs: the Government Transformation Programme (addressing crime, corruption, education, inequality, rural infrastructure, urban public transportation,[6] and the cost of living) and the Economic Transformation Programme (key initiative to turn Malaysia into a "high income country" by the year 2020). In 2010, the Malaysian government unveiled investment planning worth $444 billion USD over a ten-year period, with the aim of reducing the economy's export dependency and increasing growth of both domestic demand and the services sector.[7]

In an effort to diversify its industries in a multi-sector economy, the government is seeking to transition from an agriculture-based economy to an international trade and manufacturing based economy. Another strategy to decrease Malaysia's dependence on exports is to foster its tourism sector. There is some international tension inherent in the deep ethnicity-based socioeconomic inequality as well – although Chinese Malays make up a quarter of the population, they represent 70% of market capitalization in Malaysia. Chinese businesses in Malaysia are often connected to overseas business networks in China.

Malaysian Railway Infrastructure

According to MIDA, Malaysia's infrastructure system is one of the most developed in Asia and ranked 19th in the world for the quality of its roads, ports, and air transportation infrastructure.[8] There are seven international ports located in Malaysia, with Port Klang as the largest.

There are currently 1833 km of railway lines in Malaysia, of which 767 are double tracked and electrified.[9] There are several types of existing rail transport in the country:

- Heavy rail (KTM intercity passenger and freight transportation)
- Light rapid transit (KVMRT)
- Monorail (rapid intra-city rail)
- Funicular railway line (only in Penang, called the Penang Hill Railway)
- Commuter rail service (links KL with KL International Airport)

In terms of connectivity, the current rail system joins 11 states in Peninsular Malaysia, but only Sabah State in East Malaysia (Borneo) has its own railway system. Internationally, the Malaysian rail connects with the Thai railway in the North and in the future may potentially connect with the Burma Railway, which would entail further connections to India and China.

Malaysia's geographical location serves as a significant strategic advantage for transportation and international trade. The Strait of Malacca is one of the most important shipping lanes in the world, with two of the top 20 busiest ports (Port Klang and the Port of Tanjung) located along the Malaysian coast on Pelepas. The two ports are the 2nd and 3rd busiest in Southeast Asia, after Singapore. Port Klang has a capacity of over 10.3 million TEUs.[10]

The East Coast Rail Line

The East Coast Rail Line (Malay: Landasan Kereta Api Pantai Timur) is a proposed railway infrastructure project that would connect Kuala Lumpur, the nation's capital, to Kota Bharu via the East Coast Economic Region through Pahang, Terengganu, and Kelentan states (see Appendix for alignment). The railway will be used for both passenger and freight transportation from the West Coast of Peninsular Malaysia to its East Coast, and manage 80% of world maritime trade in the Straits of Malacca, linking major economies such as India, China, Japan, and South Korea.

The railway will feature the following technical specifications: electrification via an overhead line, double tracking, standard gauges, operation by a driver, and will include a spur line, tunnel link, bridges, viaduct, depots, 23 total stations, and a signaling system. Traveling up to 200 km/h, this inter-city rail service plans to use eleven 8-car train sets for up to 600 passengers per set. Initial plans also indicate that these train sets will be built with eco-friendly and noise pollution reduction features, although information on this is not yet abundantly available. To transport cargo, the railway will use an electric locomotive with a haulage capacity of up to 45 wagons with 3500 tons of cargo. The estimated ridership of this railway service is 5.39 million people by 2030. Revenue from this project is estimated to derive from a transport ratio of 70% freight cargo business, and 30% passengers.[11] While current travel to the East Coast of peninsular Malaysia takes about 12 hours, the ECRL alignment will shorten this travel time to 4-5 hours. The Eastern cities are also currently not connected to the west coast via rail. After a full public display of the proposed alignment, SPAD reported that 97% of Corridor residents were in support of the project.

Stakeholder Involvement and Timeline

The ECRL will be owned and operated by the Malaysia Rail Link, a new special purpose vehicle created by the Malaysian Ministry of Finance. As the official owner, the MRL will implement a mixed funding scheme in the form of a public-private partnership, rather than full privatization. MRL is responsible for approving the full railway scheme. According to PM Razak during the groundbreaking ceremony at the Kota SAS station, construction was set to begin in July 2017, with full operation estimated to begin in July 2024.[12]

The timeline of the project has been as follows:

- **March 15, 2016:** SPAD (Suruhanjaya Pengangkutan Awam Darat) and ECERDC (East Coast Economic Region Development Council) conducted market interest gauging surveys to gain insight on views and ideas for the ECRL using a "Request for Information"[13] (RFI)
- **November 1, 2016**: Malaysian government signs "framework finance deal and construction agreement" valued at 13.1 billion USD, with China Construction Communications Company (CCCC) as the "builder" for Phase 1 of ECRL construction
- **March 2, 2017**: SPAD grants conditional approval for the preferred route alignment for the ECRL and announces plan for a public inspection process[14]

- **March 8, 2017**: plan displayed for public inspection for 3 months total at the SPAD head office and through a roadshow at 38 district office locations across the nation
- **May 13, 2017**: Prime Minister Razak witnessed the signing of a "Memorandum of Understanding" for the second phase of the ECRL, supplementing the November 2016 "Engineering, Procurement, Construction and Commissioning" agreement. The MOU was signed with Malaysia Rail Link Sdn Bhd[15] (MRL), China Communications Construction Company Ltd (CCCC), and China Communications Construction Company (M) Sdn Berhad[16]
- **June 2017**: Approval of final alignment

The "RFI" established by SPAD was open to "companies and consortia who are interested in participating" in the ECRL project.[17] Specific aspects of the project open for collaboration included "railway design, funding, construction, operations, and maintenance across the supply chain." The feedback received in the responses to the RFI would be used to refine business models and procurement strategies previously established by "Project Sponsors," although it is not clear who these sponsors are. The RFI is meant to be a tool to "gauge private sector interest" in the project based on "proposed business models and procurement strategies" and to ensure that such strategies are "viable, deliverable, and sufficiently applicable to the private sector."

Gamuda Berhad (an engineering and infrastructure company based in Malaysia) is rumored as a potential selection to lead the underground portion of the project due to industry expertise gained from its work on the double-track Ipo Padang Besar rail project.[18] IJM Corp Berhad, one of the largest Malay conglomerates, will likely be tasked to work on the hill-tunneling scope of the ECRL.[19] The underground and tunneling portions of the overall ECRL alignment total approximately 50km. According to CIMB research, between 10 and 30 percent of the RM 55 billion deal would be sourced to local Malay contracts, valued optimistically at around RM 16.5 billion beginning in mid-2017. It is unclear whether small and mid-sized local contracts with pre-qualifications for the rail construction project will have an equal chance to bid, and on what portion of the total project. However, according to some sources, one of the terms in the procurement contract with the CCCC entails a requirement to collaborate with "local partners" for the project.[20]

Construction Phases

The ECRL will be built in two main phases. Phase 1 will entail a route in the following order: Kota Bharu, Kuala Terengganu, Kuantan, Bentong, Gombak. The line will span a total of 600.3 km and have 23 stations. In an approximately four-hour trip, Wakaf Bharu in Kelentan will be connected to Gombak Integrated Transport Terminal (ITT Gombak) in Kuala Lumpur. ITT Gombak provides the potential to connect with the existing Kelana Jaya Line and a long-distance bus terminal. This construction phase will also include tunnel work in the Gombak-Bentong area, with the single longest tunnel spanning 18km under the Titiwangsa Mountains. Some parts of the line near the Kuala Lumpur city center in Gombak will be built underground. Construction will begin at the northern end of the rail in Kelantan.[21]

Phase 2 of construction will be much shorter, and will connect ITT Gombak to Port Klang for a total of 88km of railway. This phase alone will cost RM 9 billion (2.098 billion USD).

Proposed Public Impact

Prime Minister Najib Razak claimed that the ECRL will bridge a development gap between the east and west coastal regions of Malaysia, increasing the GDP of three east coast states in Peninsular Malaysia by "another 1.5 percent at the current rate,"[22] transforming stations along the route into "trade hubs and tourism destinations," and helping to drive economic activity for small and medium enterprises (SMEs). The eastern states, which have relied on sectors such as agriculture, will also benefit from a more rapid and efficient system of transportation, according to Razak. In a speech about the project, Razak also defended China's involvement, explicitly stating that this collaboration would not impact Malay sovereignty and "should not be politicized."[23] Moreover, he emphasized that collaboration with major economic powers such as China, Saudi Arabia, Japan, and India will be "beneficial to the country and the people."[24] The railway project related jobs in the pipeline are valued at approximately RM 200 billion based on CIMB research.[25] According to Malaysia's Minister of Transportation Datuk Seri Liow Tiong Lai, the ECRL is the "biggest single deal Malaysia (has signed) with China."[26]

The development of the ECRL will undoubtedly impact port construction along its alignment route – the East Coast Kwantan route and Port Klang will both have to increase capacity during the first phase of railway construction.

Current Economic Investment Relationship with China

Current Malaysian leadership has sought to solidify closer ties with China, its largest trade partner, in economic investments and national defense. Recently, during Prime Minister Razak's May 2017 visit to China, a series of meetings resulted in a total of USD $7.22 billion infrastructure investment projects mostly located in Malaysia, including the following agreements:[27]

- Between Johor Corporation and Siasun Robot Investment Company to build Robotics Future City in the Malaysian state of Johor (USD $3.458 billion)
- Between Yayasan Hartanah Bumiputera Sarawak, Consortium of Huanqiu Contracting and Engineering Company, and MACFeam Sdn Berhad for a methanol and derivatives complex in Tanjung Kidurong (USD $2 billion)
- Between KAJ Development and Power China, Shenzhen Yantian Port Group and Rizhao Port Group for a Melaka Gateway mixed tourism smart-city and commercial hub development (USD $6.92 billion)
- Between Agrofresh International Sdn Berhad and Dashang Company for the supply of Cavendish banana and tropical fruits (USD $1.53 billion)

Investment Package: ECRL and Complementary Projects

Another notable Chinese investment in Malaysia includes the Malaysia-China Kuantan Industrial Park, as part of the East Coast Economic Region Special Economic Zone (ECER SEZ). $145 million of the total $395 million needed to complete the project will come from the Guangxi Investment Group Co Ltd.[28] The ECRL project will be in conjunction with the Kuantan Port and the Kuantan Industrial Park in a package deal, which is typical of Chinese investment practices in the BRI project.

Bandar Malaysia Project

The Bandar Malaysia Project began in May 2011, funded by the real estate division of the state fund 1 Malaysia Development Berhad (1MDB), to create a major business district and transportation hub in Kuala Lumpur.[29] Bandar Malaysia would also serve as the terminal station for the proposed KL-Singapore High Speed Rail route. However, after 1MDB's funds misappropriation scandal, the majority of the Bandar Malaysia contract (worth MR 12.35 billion) was sold to a consortium consisting of Iskandar Waterfront City (Malaysian owned) and the Chinese state-owned China Rail Engineering Corporation (CREC).

Ultimately, the Malaysian Ministry of Finance terminated the consortium contract due to failed payment obligations and lack of regulatory approvals, which led to the return of their initial deposit. At the May 2017 Belt and Road Summit in China, it was reported that PM Razak met with leadership at the Dalian Wanda Group, one of China's largest real estate development companies, potentially keeping the contract open to Chinese investment. There is the concern that re-opening the contract with the Chinese may extend beyond the Bandar Malaysia project and include caveats for the KL-Singapore High Speed Rail project as well.

The Kuala Lumpur-Singapore High Speed Rail (HSR) Project

After its announcement in September 2010, an agreement was signed between Singaporean Prime Minister Lee Hsien Loong and PM Razak to introduce a 90-minute rail connection between Kuala Lumpur and Johor Bahru with Singapore, with a target end date in 2020.[30] Despite being in the works for many years, this project is still in the planning phase and according to an update from SPAD, will now begin construction in 2017 and aim to be completed by 2026.[31]

Several countries competed to finance the High Speed Rail project. The Chinese government offered state support to undercut the price with 0% interest; however, its safety record was viewed dubiously by the Singaporean government. Japanese financing boasted accuracy, precision, and quality with a longstanding record of safety, and all private company financing rather than state owned enterprise status. The cost breakdown offered by Japanese companies was realistic and precise as well. The Korean bid was seen as an in-between compared to its Chinese and Japanese counterparts. According to recent reports, Singapore seems to prefer the Japanese bid, out of a wariness of Chinese investment practices.

1 Malaysia Development Berhand (1MDB) Scandal

In 2015, PM Razak was accused of embezzling more than USD $700 million to his personal bank accounts from 1 Malaysia Development Berhad (1MDB), a state-owned investment fund. Amid a political and social crisis of confidence amongst Malaysians, the Chinese government (including state-owned China General Nuclear Power Corp)[32] helped relieve some of 1MDB's increasing debt with a USD $2.3 billion deal to buy some of its assets.[33] The scandal even threatened U.S.-Malaysian ties as the U.S. Department of Justice began investigations and lawsuits related to the alleged money laundering, which is now also being investigated in at least six additional countries.[34] Increased Chinese investments have spurred speculations of a Chinese bailout for 1MDB, further complicating the Sino-Malaysian economic relationship. This will likely result in increased clout for the Sino-Malaysian investment relationship, as PM Razak will need to repair his political legitimacy and reputation, and lean on Chinese investment(s) to provide evidence of economic growth to the Malaysian people.[35] After 1MDB sold its majority stake in Bandar Malaysia, the China Railway Engineering Corporation (CREC) purchased the equity stake for $2 billion.

Since the U.S. played a role in investigating the 1MDB scandal, this has pushed PM Razak away from the U.S. and towards China. Because of the recent scandal, many Western funding consortia and entities are hesitant to conduct business with Malaysia's current presidential administration due to political risk.

Criticism of Sino-Malaysian Investment Relationship

The former Malaysian PM Mahathir Mohamad has severely criticized the heavy involvement of Chinese investment in Malaysian infrastructure projects. For example, Mahathir denounced the USD $38 billion Forest City housing development project in southern Malaysia as a "foreign enclave," lamenting that "much of the most valuable land will now be owned and occupied by foreigners.[36]" Former deputy PM Muhyiddin Yassin echoes these sentiments, warning that large Chinese investment projects would drastically reduce opportunities and increase competition for local Malaysian contractors.[37] Political analysts are also concerned that the effects of Chinese investment projects will only serve to benefit the elite upper class of Malaysian society, rather than the broader population.[38] Responses to this criticism often downplay the negative effects of Chinese investment on Malaysian jobs and the economy, citing Singapore as an example of a country also heavily involved in Chinese investment but without these concerns.

Chinese Financing and the ECRL

On November 2, 2016, the CCCC released a statement confirming that the deal for phase 1 of the ECRL construction would be valued at RM 46 billion and that it had been awarded the engineering, procurement and construction management contracts for this project. Furthermore, the ECRL is estimated to cost "80% more" than other double-tracking rail proposals and twice the cost per kilometer compared to the Ipoh-Padang Besar double-tracking rail project, possibly due to higher costs of "rolling stock and land acquisition" according to an analyst at CIMB Research.[39]

The Export-Import Bank of China has provided major investment funding for the ECRL in the form of soft loans repayable over 20 years, and the construction will be handled by the Chinese state-owned CCCC. The $13b project will be 85% funded through the Exim bank, which will have 3.5% interest rate and seven-year moratorium period,[40] while Islamic bonds through Malaysian investment banks will cover the remaining 15%.[41] Additionally, a source based in China claimed that Malaysia will be required to purchase the stock for the railway later.[42] China-bound goods from the ASEAN region produced by major exporters Thailand, India, and the Middle East would move through these connected ports (Port Klang and Kuantan Port). The Malaysian government sees these Chinese foreign direct investments as very positive, since increased trade flow through Malaysia will drastically increase economic opportunities for the nation. However, critics of the BRI point to a lack of transparency in Chinese financing, as well as China's use of infrastructure and financial resources to extend soft power globally and create a web of global interdependence on Chinese financing, especially in countries where obtaining funding from Western consortia such as the World Bank has proven difficult.

The Belt and Road Initiative

This belt-road project is part of China's overall strategy to expand its own economic growth and influence, while at the same time building infrastructure to boost trade with emerging economies experiencing sluggish growth in domestic construction sectors, such as Malaysia. For example, China made a $10 billion investment in early 2015 in the Malacca Gateway project as part of the BRI program to transform the area into the largest private marina in ten years' time. The ECRL project is the most expensive infrastructure project planned between Malaysia and China,[43] and will allow China to extend its global economic influence significantly.[44]

Impact on International Trade Routes

China's investment in Malaysia's ports and rail links aims to drastically alter trade routes in Southeast Asia by diverting "hundreds of billions worth of trade from Singapore."[45] Trade for goods originally passing through Singapore's ports would bypass the island-state and go straight to the China-funded ports in Malaysia's peninsula once the ECRL begins operations.[46] However, two months after the ECRL project broke ground, two major container shipping industry consortiums – Ocean Alliance (including Chinese state-owned COSCO Shipping) and Alliance – both shifted their shipping operations from Port Klang in Malaysia to Singapore. With Singapore also working on construction for a new Tuas mega-port, the influence of ECRL on the shipping and trade patterns in the region remains uncertain.[47] Chinese-owned companies diverting shipping container business away from Malaysia despite the development of the ECRL further intensifies critics' concerns that the project will be used for Chinese political gain rather than for economic opportunities for Malaysia.

Critics of the ECRL

Critics have been skeptical of the trade diversion effects of the ECRL. Full trade diversion away from Singapore's mature port system would require robust logistics, storage, warehouse, and a banking system in addition to a rail system. Whether Malaysia will be able to accomplish establishing this sophisticated network of systems remains to be seen. Furthermore, many risks must be managed along the ECRL route, including damage, theft, and other operational hazards. Singapore's port system has the advantage of being the first mover in the region, since they already have very strong and established ports. Whether companies would forgo the Singapore route in favor of the ECRL is highly questionable at this point.

Cost Uncertainty

Critics have scrutinized the ECRL as being too fast and too big, and not transparent enough, with opposition parties expressing their discontent with the management of the project thus far. The original ECERDC estimate for the cost of the high-speed rail was projected to be "only RM 30 billion;" critics are skeptical of the inflated nature of the updated RM 55 billion cost, especially compared to the cost of other large double-tracking rail projects (see Appendix).[48] Despite the cohort of experienced railway construction contractors and companies based in Malaysia, the ECRL is rumored to only award about 30% of the total deal to local businesses, which opposition leaders also feel seems to be an afterthought in the contract.[49] There is also some concern from local companies that this 30% might somehow be subcontracted back to Chinese companies via contract clauses. However, if training and technology transfer occurs, this will be a good opportunity for Malaysian companies to learn and become more globally competitive. Moreover, there does not seem to be evidence of any opportunity to tender for the ECRL contract prior to the CCCC contract award.

A member of the opposition, Tony Pua Kiam Wee (Member of Parliament for Petaling Jaya Utara) has repeatedly criticized the financial scale of the ECRL project, often calling to attention its label as the world's "most expensive" rail project, especially compared to similar CCCC-led projects in Bangladesh and Kenya.[50] Colleagues of Wee in the Democratic Action Party (DAP) have repeatedly published articles calling for the Minister of Transportation to justify the exorbitant cost valuation of the ECRL project and provide evidence to indicate that the figures are warranted for the construction.[51] Critics within the DAP also point to the lack of fair competition in bidding for participation in the contracting and construction of the railway. Treasury General Tan Sri Dr. Irwan Serigar Abdullah has defended this position by claiming that China was offering a relatively low rate for the loan conditions compared to the international market.[52] DAP critics also suggest that the concerns of the Malaysian people are related to the lack of transparency of financing, and the possibility of capital inflow to 1MDB creditors such as the International Petroleum Investment Corporation (IPIC), which is now suing 1MDB for 6.5 billion USD (more on the 1MDB controversy below).[53]

In a media statement made in Kuala Lumpur, PM Wee said:[54]

> "Malaysia does not need another money-laundering scandal investigated by authorities all around the world to further sully our rapidly diminishing reputation while making Malaysia the kleptocratic capital of the world. The Cabinet must put a stop to this RM60 billion ECRL contract immediately so that the long-suffering Malaysian people will not be scammed again for multi-billion dollars to cover up another scam."

The RM55 cost projection is also seen as unrealistic, given the lack of land permit acquisition completion to date, and media speculation that the eventual cost could actually be up to RM70.[55] Because 46% of the proposed rail alignment (3,390 ha) would be privately owned, this will present enormous costs in the future. There is controversy following the release of the Environmental Impact Assessment (EIA), where the railway is described as a single-track railway "built on a double track formation" rather than a double track railway, raising further questions about the cost projections' accuracy.[56] Single-track railways are widely criticized because of potential safety and operational issues – trains going only in one direction and sharing tracks increases the risk of delays due to inefficiencies, as well as serious accidents.[57] Dr. Lee played an active role in questioning and pushing SPAD for clarification on the ECRL's track formation.[58] SPAD claims that they are still pushing for a double track formation in the ECRL's final form.

Dr. Wong Lee's Decision

With the upcoming election, the current administration will want to have as much done as possible for this project. Dr. Lee must consider the government's argument that the ECRL could benefit the local economy by providing unprecedented East Coast connectivity, although the cost remains high for this benefit. Furthermore, the cost will become more of an issue once debt service payments begin in a few years after the moratorium concludes. Dr. Lee must also consider the sensitive nature of geopolitics between China and Singapore: the ECRL seems to be an insurance policy for China in the region, and Malaysia is eager to take business away from Singapore. The ECRL could also be a concession "prize" for China if the Kuala Lumpur-Singapore high-speed rail contract is awarded to the Japanese.

As a member of parliament, Dr. Lee is not able to take action against PM Razak until the next general election in May 2018. With the nickname the "Father of Corruption," PM Razak's str
hold in the Malaysian parliament will be up to the ultimate test, especially with the perception within the DAP that if Razak wins the next election, he wins for life. The DAP is also involved in a side campaign to build the ECRL alignment onto the existing MRL/KTM network, while also advocating for studies on the potential synergies with existing rail infrastructure in the country. Outright opposition within parliament is difficult, as Dr. Lee must avoid racializing the issue since the DAP historically unites urban non-Malays, Chinese, and Indians. The DAP must also be careful about criticizing China's "big toys infrastructure," as the party has been attacked as anti-China on previous stances.

Dr. Lee must also consider the possibility of alternative funders for a project like this. There is no foreign interest from Western consortia, or funders like the World Bank or the Asian Infrastructure Investment Bank, who would have imposed a more stringent set of standards and investment procedures. A 1980s Japanese study found that a rail alignment project like the ECRL would be economically unsustainable and not bankable. The foreign tender process would have also deterred Chinese involvement, which prefers to handle investments without a competitive bidding process. Chinese investment in the ECRL is concessionary and part of a larger geopolitical strategy, aligning to the fact that the BRI is more than just infrastructure development.

Dr. Lee should additionally consider potential alternative projects that could use Chinese investment more urgently, including: an expansion of the existing Xiamen University, solar panel installation projects, and a digital free trade zone at low cost to Malaysian taxpayers, to name a few. Dr. Lee's priority is to attract projects that benefit Malaysians without becoming trapped by geopolitics. Keeping in mind the case of a Sri Lankan project that led to defaulting on debt repayments and a handover of a strategic port to China, Dr. Lee must advocate for investments from China that minimize the risks of the debt-trap diplomacy that the Chinese are known for.[59] Moreover, as in the case of Thailand and Indonesia, politically adverse reactions from China are likely if the Malaysian government makes the implementation of the ECRL contract difficult. Finally, if Malaysia continues to accept large concessionary funds from China such as the ECRL, its reputation on the world stage as China's puppet will persist, which could potentially strain relationships with other powerful nations in the world.

Conclusion

Against a backdrop of international financial scandals and controversial Chinese infrastructure investments in Malaysia to date, the East Coast Rail Line project is not exceptional. The Malaysia Rail Link, an entity established for the ECRL by the Malaysian Ministry of Finance, must reconcile the far-reaching terms for contracting, procurement and management written in to the Chinese ECRL investment with responding to citizen desires for opportunities for the involvement of local contractors. Furthermore, political opposition's calls for increased project transparency on the process and cost justification will remain a prevailing issue for the ECRL project, especially during the ongoing 1MDB money laundering investigations that have engulfed Prime Minister Razak and his leadership in political scrutiny. Malaysia must work to resolve these internal issues of inefficiency, lackluster productivity and corruption in order to compete as a game-changing port economy on the global stage.

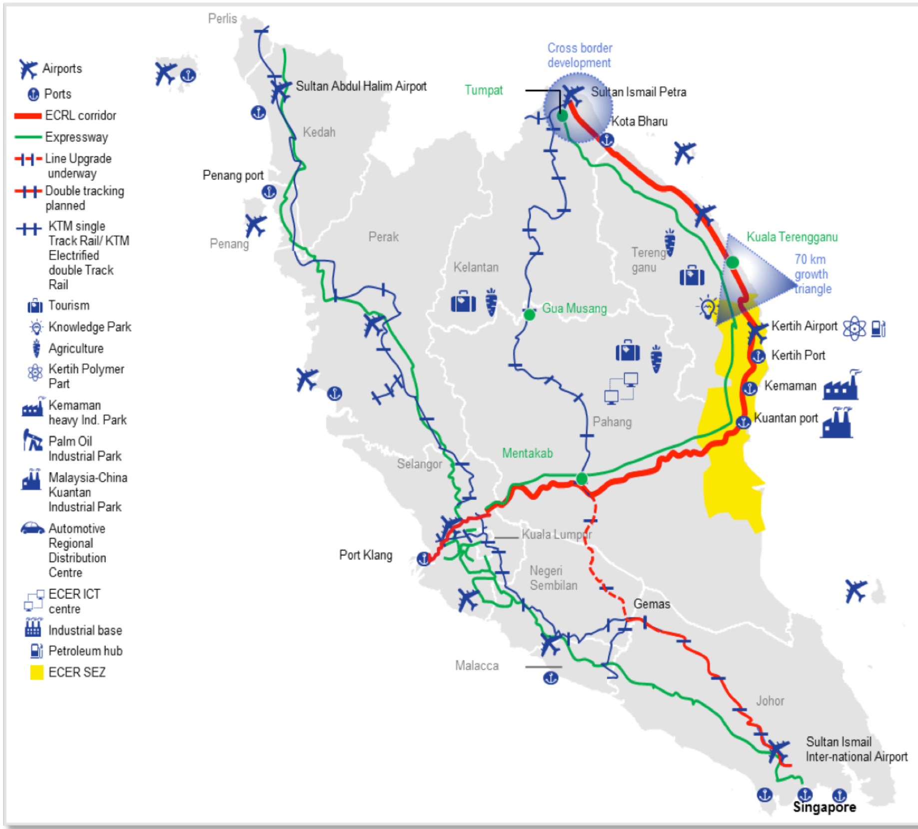
Glossary of Terms

Abbreviation	Stands for
1MDB	1 Malaysia Development Berhad
ASEAN	Association of Southeast Asian Nations
CCCC	China Communications Construction Company
DAP	Democratic Action Party
ECERDC	East Coast Economic Region Development Council
ECRL	East Coast Rail Line
MIDA	Malaysian Investment Development Authority
MoU	Memorandum of Understanding
MRL	Malaysia Rail Link
NIC	Newly industrialized country
RFI	Request for Information
SPAD	Suruhanjaya Pengangkutan Awam Darat (Peninsular Malaysia's Land Public Transport Authority)

Appendices

Figure 1: Impact on Southeast Asian Trade Routes

Figure 2: East Coast Rail Link Alignment



Source: https://www.railwaypro.com/wp/malaysia-continues-feasibility-study-ecrl-gombak-port-klang-rail-link/

Figure 3: Cost of other Double-Tracking Rail Projects

Name	Dates	Length	Contracted by	Cost
Ipoh-Padang Besar	2003	329 km	MMC-Gamuda consortium	RM 14.5 billion
Genas-Johor Bahru Link	December 2015	179km	China Railway Engineering Corporation	RM 7.1 billion
East Coast Rail Line	November 2016	620km	CCCC	RM 55 billion

Source: Democratic Action Party Malaysia. https://dapmalaysia.org/Kenyataan-Akhbar/2016/07/28/23590/

Endnotes

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