

A STUDY OF CHINESE CAPITAL FLOWS TO SIX COUNTRIES: **MALAYSIA**

Mitigating Governance Risks From Investment in Southeast Asia

**CENTER FOR INTERNATIONAL
PRIVATE ENTERPRISE**

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FORWARD & INTRODUCTION

Forward

CIPE works at the intersection of economic development, democracy and human rights, a unique position from which to address governance challenges posed by high-risk capital flows. In recent years, CIPE and its partners have witnessed an alarming trend: large amounts of capital invested by authoritarian regimes flowing through opaque channels into emerging markets. In these markets where governance is already weak and corruption is already rampant, high risk capital creates political and economic distortions which often do more harm than good in the recipient country. CIPE coined

the term corrosive capital to describe state-backed financing that lacks transparency and accountability flowing from authoritarian states into new and fragile democracies.

CIPE's approach to combatting the effects of corrosive capital centers on identifying specific governance gaps in countries where democratic processes are at risk. Then, working with local partners, we design and implement projects that help close these gaps, fostering collaboration and information sharing among civil society, the private sector, and lawmakers. Because the adverse governance impacts in countries that receive this capital are well-documented and the global flows of such capital are growing

exponentially, CIPE is currently expanding both its policy research and programming on corrosive capital.

This report is unique in a number of ways: (1) it presents invaluable local perspectives on how Chinese investments are being documented, perceived, and implemented in countries around the world; (2) it identifies governance gaps which permit capital inflows to exploit or exacerbate weakness in young democracies; and (3) it provides recommendations for local stakeholders to address these gaps and make the most of Chinese investments. This publication is a demonstration of CIPE's commitment to the principles of local ownership, inclusion, learning & innovation, and accountability which are essential for emerging economies to enjoy sustainable and inclusive growth.

The report represents a group effort by CIPE and its partners. The effort grew out of a long-running dialogue on Chinese investment in Southeast Asia. CIPE partners cited a lack of data and consistency in the existing literature on the governance effects of Chinese state-backed debt and investment in emerging Asian markets. This report aims to fill that information gap and illuminate the governance distortions engendered by corrosive capital.

The first step in this effort was a set of deep-dive country-specific assessments. CIPE

partnered with five think tanks and three independent researchers based in Southeast Asia to systematically study the issues. In addition, CIPE commissioned the Rhodium Group to collaborate with our partners in the development of a comprehensive dataset to track Chinese direct investments flowing into Southeast Asia.

It is CIPE's hope that this publication equips donors, implementers, policymakers, and advocates with information that makes their work more effective at managing the risks of corrosive capital. By mitigating the risks of corrosive capital, the targeted investments of CIPE's ongoing program can achieve a larger scale and aggregate impact on the resilience of markets and democracies in the face of capital flows from nondemocratic countries.



Andrew Wilson

**EXECUTIVE DIRECTOR
CENTER FOR INTERNATIONAL
PRIVATE ENTERPRISE**

Introduction

Chinese outward investments have increased substantially in recent years, especially after 2013's introduction of its Belt and Road Initiative (BRI). BRI is the most ambitious infrastructure investment effort in recent history. The effect of BRI in Southeast Asia has been a tremendous volume of capital rushing in over a very short period of time. Chinese capital (including foreign direct investment, aid, and commercial loans) offers many benefits. It contributes to economic growth, job opportunities, and better-connected infrastructure networks in local economies. However, a growing volume of evidence indicates that many forms of capital emanating from authoritarian nations have a corrosive effect on democratic institutions and private enterprise in recipient countries.

The genesis of this publication was a CIPE forum in December 2017 at which CIPE's Southeast Asian partners expressed the urgent need to fill the information gap of the impact of corrosive capital on governance distortions. Local researchers and analysts across the region have identified an absence of evidence in the existing body of work on Chinese investment projects and the impact on the local economies and communities. Additionally, researchers and scholars sought greater clarity on specific gaps in governance through which Chinese capital can flow.

This report analyzes the patterns, trends, and characteristics of Chinese investments in Southeast Asia. Against the backdrop of the rising flood of Chinese investment across the region, the report highlights common issues and shared governance risks across countries, and identifies questions requiring further study. The sizable economic interests and political intricacies of China and BRI make this research sensitive in some countries; as result, some information has been redacted from the final report.

Countering corrosive capital requires working closely with local partners in vulnerable countries. In each case, the specific governance gaps which place democratic institutions at risk must be identified. In cooperation with local partners, CIPE can then design and implement local projects to help close those gaps and reinforce democratic institutions by fostering collaboration and information sharing among civil society, the private sector, and lawmakers.

Objectives, Scope & Methodology of the Report

This report aims to answer an important policy question: How can Southeast Asian economies benefit from the Chinese investment while mitigating the associated risks? This report will provide authoritative

and up-to-date data on Chinese regional FDI and loans in chapter 1; the following seven chapters document different forms of Chinese capital flows and identify governance gaps in six countries. Chapter 2 presents the case of Malaysia which highlights issues of opaque procurement practices associated with Chinese mega projects, as well as the need to improve corporate governance of state-owned enterprises to avoid conflict of interest. In chapter 3, Chinese investments are involved in controversial price fixing in the Indonesian extractives industry. Chapter 4 demonstrates the development of evolved oversight mechanisms to screen infrastructure projects in Myanmar. In Chapter 5, Cambodia provides an illustration of what can happen in a small to mid-sized country that becomes overly dependent on Chinese investment. In Chapter 6, the authors raise environmental concerns in Vietnam. Chapter 7 discusses regulatory capture issues in the Philippines using the online gambling industry as an example. Looking into the fast-growing

Fintech industry, chapter 8 showcases risky investments and the data abuse problem in Indonesia. In all the case studies, authors examine the macro-level impact of Chinese investment, identify governance gaps, assess its initial impact. They then develop policy recommendations for key stakeholders such as businesses, governments, civil society organizations and international organizations to address these challenges and develop a streamlined, transparent, foreign investment monitoring and management process.

The scope of this report is primarily Foreign Direct Investment (FDI) from the People's Republic of China. During the research process, some authors discovered that domestic controversy centered primarily on Chinese commercial loans funding large infrastructure projects. The capital discussed in this report therefore encompasses all investments from China. Some authors focus on FDI while others place greater emphasis on other official financing such as aid and loans.



RESTORING TRUST IN THE BRI: THE STATE OF CHINESE INVESTMENT IN MALAYSIA

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Executive Summary

Chinese investment in Malaysia has significantly increased since 2013, coinciding with the launch of the Belt and Road Initiative (BRI). This includes Chinese participation in large-scale infrastructure and real estate “megaprojects,” which are characterized by significant levels of state involvement on the part of both China and Malaysia. Due to systemic weaknesses in Malaysia’s public procurement system and the poor governance of government-linked companies (GLCs), there is a risk that this influx of new investment will exacerbate preexisting problems with long-term

implications for Malaysia. Indeed, these risks have materialized in a number of cases, most notably in the corruption scandal associated with former Prime Minister Najib Abdul Razak and 1Malaysia Development Berhad (1MDB). In order to maximize the benefits and mitigate the risks of the BRI moving forward, the Malaysian government should prioritize structural institutional reform to address systemic weaknesses in public procurement and the governance of GLCs. More widely, the Malaysian government should prioritize private sector- led investment from China, which can support development of local industry and for which there is a demonstrated need or market demand.

Introduction

Malaysia, with its strategic location as an intermediary for trade between China and the West, has attracted significant investment from China in recent years. The economic relations between Malaysia and China have historically been very robust, with China consistently being Malaysia's top trade partner over the past decade, primarily due to the close proximity and long-standing relationship between the two nations. Malaysia's net Foreign Direct Investment (FDI) flow with China has grown from a mere MYR25 million in 2011 to MYR6.9 billion in 2017, a more than 276-fold increase in just six years.

This increase in the net FDI flow has been compounded by the ambitious Belt and Road Initiative (BRI). Since its introduction in 2013, the BRI has garnered more than USD1 trillion of investments into the numerous infrastructure projects in its 126 partner countries. For emerging economies like Malaysia, China's initiative to build a more interconnected land and maritime trade route can fill investment gaps for infrastructure projects. These infrastructure developments have the potential to stimulate economic growth via capital injections, job creation, and increased access to international markets.

However, globally there has been criticism of the various projects under BRI. Despite positive economic relations between

Malaysia and China, these concerns have also manifested in Malaysia as large infrastructure megaprojects have been accused of facilitating corruption and rent-seeking behavior among political leaders. May 2018 witnessed an historic general election in Malaysia, resulting in the first change of government since its independence. After the victory of the Pakatan Harapan Coalition, several megaprojects under the BRI were suspended, either temporarily or indefinitely, as they were deemed to be economically unviable or had been subject to corruption. Since the election, the new government has sought to renegotiate these projects to secure better terms for Malaysia, with some success. However, institutional reforms to address the systematic weaknesses in governance have been lacking.

In this chapter, we consider the recent growth of Chinese investment in Malaysia under the BRI and the concerns surrounding major BRI projects, and suggest how these concerns might be addressed by strengthening governance in Malaysia.

Chinese Investment in Malaysia

Chinese investment in Malaysia has grown significantly in recent years. Before 2013, Chinese investment in Malaysia was relatively low, although there were notable cases of significant investments, including

Huawei and ZTE's entry into Malaysia's telecommunications sector in 2001 and 2004, respectively, and automobile producer Chery's investment in 2008 (Tham, 2018).

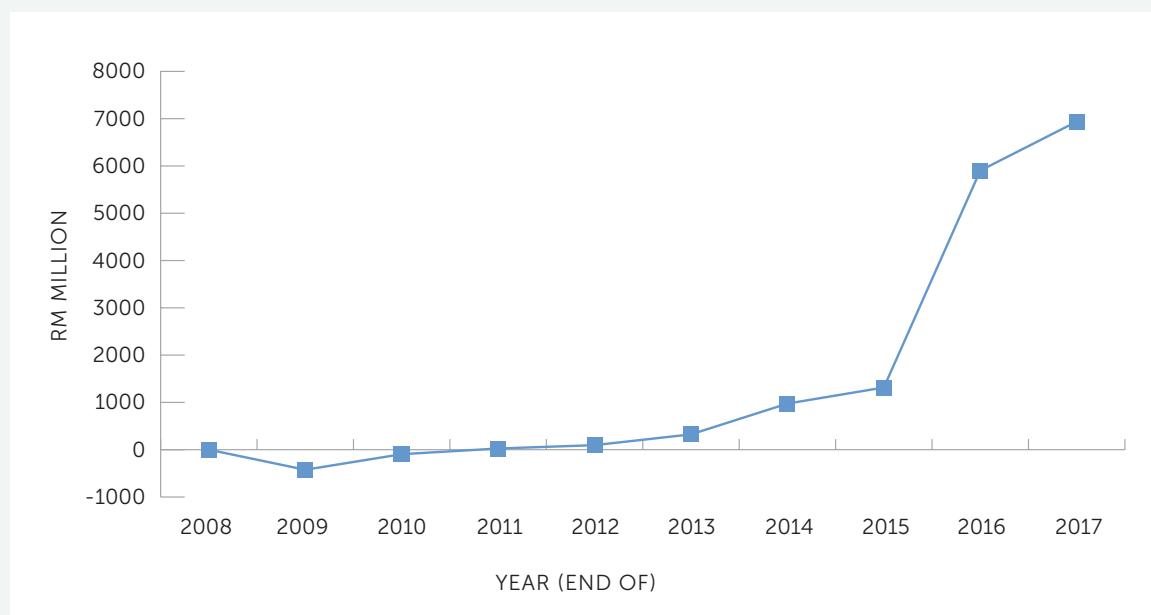
The scale of Chinese investment in Malaysia increased significantly in 2013, following the announcement of the BRI (Chart 1, PG. 42).

Despite this significant recent growth in investment, China still has some way to go to match the total investment stock of Malaysia's largest investors, including Japan and the EU (Chart 2, PG. 43), although some of the investment recorded from Hong Kong and Singapore may in fact ultimately be Chinese in origin.

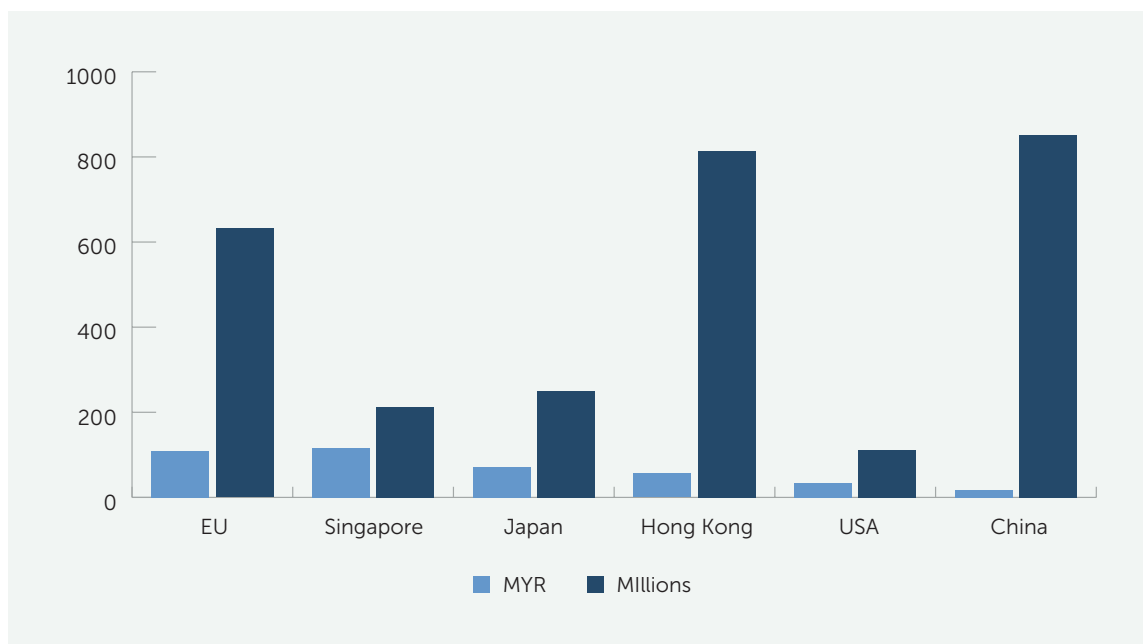
Using data prepared for this report by the Rhodium Group, we can scrutinize the investment pattern from China in more detail. In the first instance, considering acquisitions and greenfield investments, we can see that the overall profile of Chinese investment is – unsurprisingly – similar to what is reported by the Department of Statistics Malaysia (DOSM) (Chart 3, PG. 43).

Further disaggregating the Chinese investment, we can see that its nature as well as scale have changed since 2013. Chart 4 (PG. 44) provides the sectoral composition of investment. Historically, Chinese investment has centered on manufacturing, but post-2013, investment in other areas

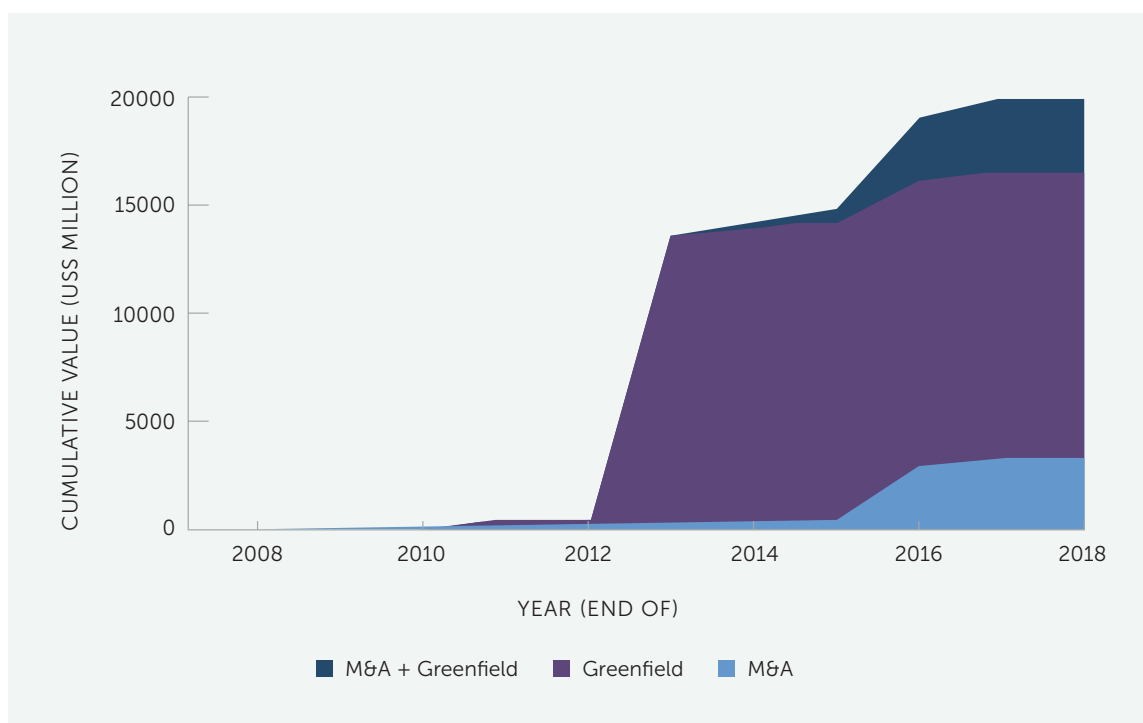
CHART 1: Net Foreign Direct Investment from China to Malaysia, 2008-2017



SOURCES: Bank Negara Malaysia and department of statistics Malaysia (2019)

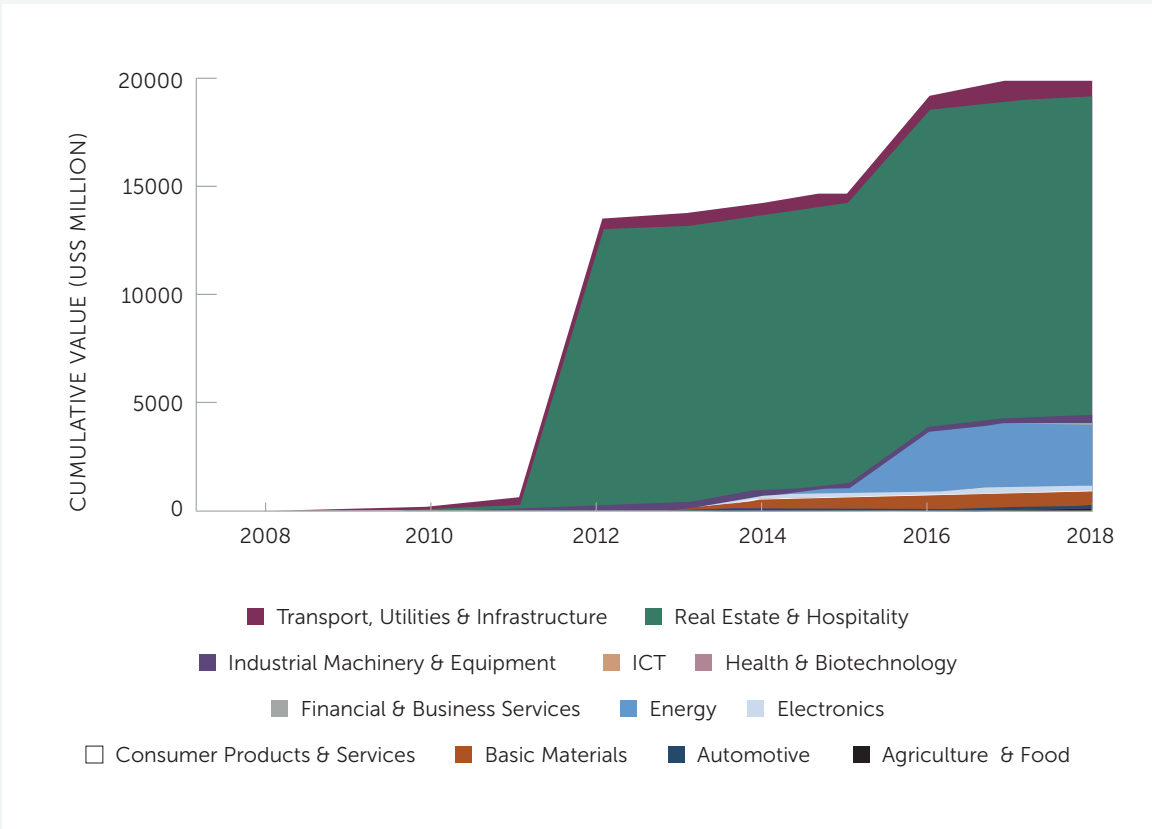
CHART 2: Foreign Direct Investment Position in Malaysia by Country, Q4 2017 (MYR, millions)

SOURCE: Department of Statistics, Malaysia (2019)

CHART 3: Chinese Acquisitions and Greenfield Investments in Malaysia, 2008-2017

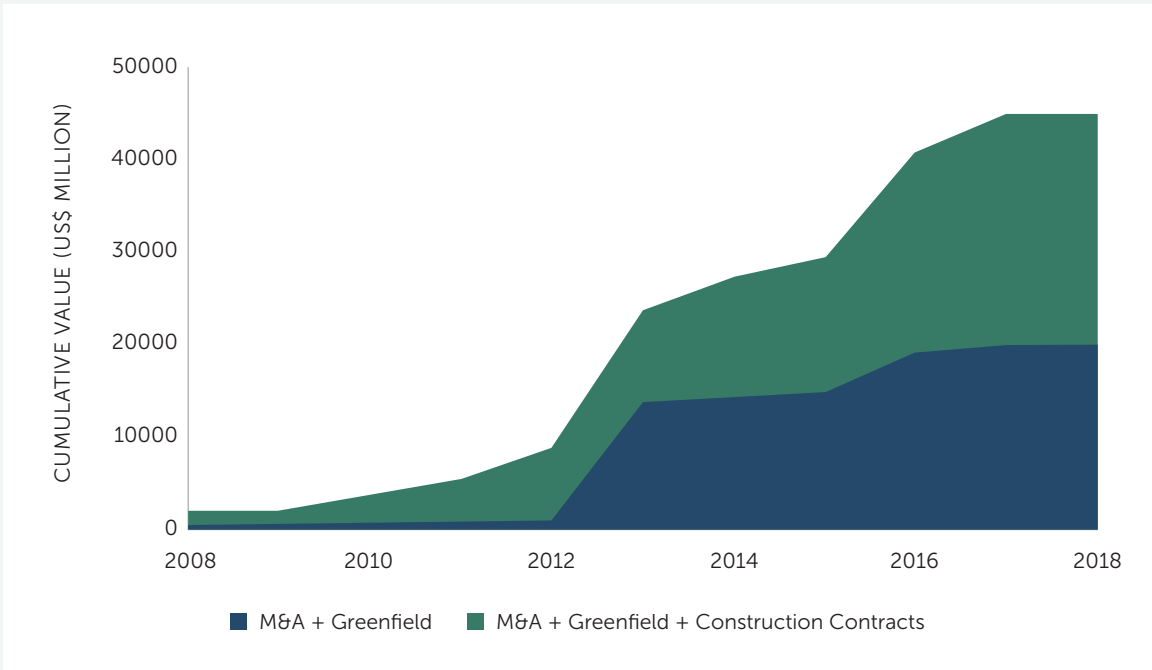
SOURCE: Author's compilation based on RHG data

CHART 4: Chinese Investment in Malaysia by Sector, 2008-2017



SOURCE: Author's compilation based on RHG data

CHART 5: Chinese Investment and Construction Contracts in Malaysia, 2008-2017



SOURCE: Author's compilation based on Rhodium Group data, American Enterprise Institute (AEI) China Global Investment Tracker Defining the BRI

has increased, particularly in the real estate and hospitality sectors. The spike in real estate investment in Chart 4 is driven by the very large Forest City Project, which has a Gross Development Value of MYR420 billion.

Chinese Contractors

The charts above focus on investments from China. Over the same time period, the presence of Chinese contractors in the construction sector has also dramatically increased. Indeed, in public discourse, the distinction between Chinese “investment” and Chinese contractors is often lost. Chart 5 (PG. 44) demonstrates significant growth in the volume of contracts awarded to Chinese contractors. The growth in contracts is greater than the increase in investment. This is very instructive in understanding some of the concern about the benefit to Malaysia from the increased presence of Chinese firms, as we discuss further below.

Charts 1 through 5 all highlight increases in the economic presence of Chinese firms (including both investments and contracts) post-2013, coinciding with the launch of the BRI in November 2013. However, there is no settled definition of which projects can be categorized as “BRI” projects, and which represent “business-as-usual” investments and contracts. The 14 Memorandums of Understanding (MoUs) signed between the Chinese government and the former Malaysian government in 2016 are often referred to in the context of the BRI and

include controversial “megaprojects” such as the East Coast Railway Link (ECRL) and the Melaka Gateway development. Broader definitions of BRI refer to investments (or contracts) which involve Chinese and Malaysian state-owned enterprises (SOEs) or government-to-government agreements, or which can be construed as being “strategic” and typically translating into investments in infrastructure. Indeed, some analysts have argued that all Chinese investment post-2013 can be considered part of the BRI, given that it is such a broad concept. The Malaysian government has established a Belt and Road Secretariat in the Ministry of International Trade and Industry (MITI) which is developing a list of officially designated BRI projects, but this list has not been made public.

There exists no clear definition of the BRI as distinct from Chinese investment more broadly. For the purposes of this chapter, we will focus on the “megaprojects” most often associated with the BRI in Malaysia and linked to the MoUs signed between the Malaysian and Chinese governments, a non-exhaustive list of which is provided in Table 1 (PG. 46-47). We have deliberately included a range of projects, including both transportation infrastructure and real estate development, to reflect the diversity of the BRI.

Various concerns have been raised regarding increased Chinese investment, particularly focused on the large-scale projects such as

TABLE 1: Examples of BRI Projects in Malaysia and Current Status

PROJECT	DESCRIPTION	CHINESE ENTITY	STATUS
Tun Razak Exchange (TRX)	Mixed Development in Kuala Lumpur (KL)	China State Construction Engineering Corporation	Ongoing
East Coast Rail Link (ECRL)	Transportation Infrastructure	China Communications and Construction Company	Suspended (May '18); restarted (Apr. '19)
Malaysia China Kuantan Industrial Park (MCKIP)	Industrial Park	Guangxi Beibu Gulf International Port Group	Completed
Penang Road & Undersea Tunnel	Transportation Infrastructure	China Railway Construction Corporation & China Harbor and Engineering Corporation	Ongoing; corruption investigation
Forest City	Mixed Development	Country Garden Holdings	Ongoing
Gemas to Johor Bahru Electrified Double Tracking Rail	Transportation Infrastructure	China Communications Construction Corporation, China Railway Engineering Corporation and China Railway Construction Company	Ongoing
Multi-Product Pipeline (MPP) and Trans-Sabah Gas Pipeline (TSGP)	Energy Infrastructure	China Petroleum Pipeline	Canceled (May '18)
Bandar Malaysia	Mixed Development in KL	China Railway Engineering Corporation	Suspended (May '17); restarted (Apr. '19)

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PROJECT	DESCRIPTION	CHINESE ENTITY	STATUS
Melaka Gateway	Mixed Development in Melaka	PowerChina International, Shenzhen Yantian Port Group and Rizhao Port Group	Ongoing

SOURCE: IDEAS (2017) Governance Concerns with BRI Projects

those in Table 1. Indeed, the issue of Chinese investment played an important role in the 14th General Election in May 2018. The ruling coalition, Barisan Nasional (BN), was unseated for the first time since Malaysia's independence by the opposition coalition, Pakatan Harapan (PH), which campaigned on a platform opposing certain China-linked projects, and which upon winning office canceled several major projects.

The projects listed in Table 1 include a mix of public procurement projects, such as the East Coast Rail Line, and greenfield investments, such as the Malaysia China Kuantan Industrial Park. Governance concerns arise in both types of projects. In general, these are pre-existing weaknesses in governance in Malaysia, but they could be exacerbated by this influx of large-scale investments, particularly those that do not impose strict governance standards.

Governance Challenges in Public Procurement Projects

There are a range of challenges relating to public procurement projects in Malaysia.

David Jones (2018) concludes that

[d]espite the advances in public procurement through E-procurement, greater accountability, clearer and more coherent rules, and attempts to tackle corruption, several weaknesses remain, many highlighted by the [Auditor General]. These include inadequate pre-planning, poor drafting of scope and specifications, and poor selection of suppliers, contractors and consultants, as well as weak supervision of projects by procuring entities and consultants.

Echoing these sentiments, Yap Swee Sung (2018) notes that

Malaysia continues to suffer from problems of wastage, over-pricing, cost overruns, delays, and sub-standard quality in the final delivery of goods, services, and works in public procurement. While some of these problems may be attributed to administrative inefficiency, inexperience, or human error in the procurement process, in many cases, they also stem from intentional manipulation and fraud in addition to existing practices of nepotism, cronyism, and corruption at the expense of taxpayers.

Many of these challenges are present in the case of BRI procurement projects. In order to assess the extent of these challenges, we refer to international best practices in governance of public procurement. In 2016, the Organisation for Economic Co-operation and Development (OECD) published a checklist for supporting the implementation of the OECD Recommendation of the Council of Public Procurement, which includes various requirements for transparency and public accountability. The Construction Sector Transparency Initiative (CoST) requires procuring entities to ensure that information about the purpose, scope, costs and execution of publicly financed construction projects is open and accessible to the public, and that it is disclosed in a timely manner. The information is intended

to be sufficient to inform stakeholders about relevant aspects of the project in an understandable and useful way. Drawing on these international guidelines and analysis of Malaysia's public procurement weaknesses, we have identified the following "key tests" of good governance to apply to the BRI procurement projects:

1. Whether the contract award was subject to **open tender**, rather than direct negotiation. Under Malaysia's own procurement rules (found in Malaysia Treasury Circular PK 2), open tender is the required method for goods, services and works over MYR500,000.
2. Whether a comprehensive **cost-benefit analysis** has been undertaken and is publicly available. The elements included in the Cost-Benefit Analysis should include a thorough needs assessment for the project, the projected feasibility and economic impact, and the long-term sustainability from a public finance perspective.
3. Whether a comprehensive **environmental impact assessment (EIA)** has been undertaken to evaluate the likely environmental impacts of the project or development, taking into account inter-related socio-economic, cultural and human-health impacts, both beneficial and adverse.

4. Whether the **contract details** are available for independent or public scrutiny, in order to assess value for money, conformity with the cost-benefit analysis, etc.
5. Whether the details of **funding sources** for the project have been fully disclosed, including any public financial liabilities undertaken or private financing involved. Crucially, this must include the extent of public financial liability in the form of loans guaranteed by the government.
6. Whether the details of **sub-contractors** have been made publicly available to assess the level of local participation on public works.
7. Whether the project has been subject to a robust **external audit**
- to assess performance and ensure compliance with the government's own procurement policy.
- In terms of the requirement for transparency and making information available in an understandable and useful way, we interpret this to mean at minimum that the information above is available for public viewing online. Table 2 (PG. 49-50) provides an assessment of these tests for three ongoing BRI procurement projects from the list of projects from Table 1. First is the East Coast Rail Line (ECRL), a railway intended to connect the East Coast Economic Region (ECER) states of Pahang, Terengganu and Kelantan to one another and to Peninsular Malaysia's West Coast and Central Region. The assessment below relates to the renegotiated terms of the ECRL announced

TABLE 2: Assessment of BRI Procurement Projects in Malaysia

GOOD GOVERNANCE TEST	EAST COAST RAIL LINE	PENANG ROAD & UNDERSEA TUNNEL	GEMAS TO JOHOR BAHRU ELECTRIFIED DOUBLE TRACKING RAIL
Open Tender	No	Yes	Yes
Cost-Benefit Analysis	Feasibility studies have been conducted but are not publicly available	Feasibility studies are still pending completion	No publicly available studies found

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GOOD GOVERNANCE TEST	EAST COAST RAIL LINE	PENANG ROAD & UNDERSEA TUNNEL	GEMAS TO JOHOR BAHRU ELECTRIFIED DOUBLE TRACKING RAIL
EIA	The EIA for the revised specification is pending	The EIA has been undertaken and approved but is not publicly available	Not found
Contract Details	Details not publicly available	Details not publicly available	Details not publicly available
Funding Sources	Federal procurement project with loan financing from EXIM Bank for which some details are available	State procurement project. Funding is reported to include land reclamation and loan financing from China; full details are not publicly available	Federal procurement project
Sub-Contractors	The full list of sub-contractors has not been made available	The full list of sub-contractors has not been made available	The full list of sub-contractors has not been made available
External Audit	The project has not been subject to an external audit	The project was investigated for corruption and subsequently cleared	The project has not been subject to an external audit

in April 2019. The main contractor for the project is the China Communications and Construction Company (CCCC), and the project is partly financed by the EXIM Bank of China. Second is the Penang Undersea Road and Tunnel, which will connect Butterworth, Seberang Perai in the east to George Town, Penang Island in the west. The project is being undertaken by a Malaysian consortium in partnership with the China Railway Construction Corporation (CRCC). Finally, we have the Gemas to Johor Bahru Electrified Double Tracking Rail project, being undertaken by a Chinese consortium consisting of CCCC, CRCC and the China Railway Engineering Corporation (CREC).

From Table 2, it is clear that the projects in question fail to meet several of the key tests for good governance of public procurement and that there is a general lack of transparency. It is important to note that these problems are not limited to BRI procurement projects and are present across the Malaysian public procurement system. However, given the scale of the BRI, it is vital that public procurement policies and practices are robust enough to mitigate the risk of corruption and abuse. In the case of ECRL, there is clear evidence that the process was abused, as discussed in more detail below. The Penang Undersea Tunnel

was investigated by the Malaysian Anti-Corruption Commission (MACC), although it has been cleared. The need for good governance in public procurement is also wider than reducing corruption – it is also about ensuring that public works represent value for money for the taxpayer.

Governance of Projects Involving Government-Linked Companies

Those BRI projects which are not examples of public procurement can loosely be considered as private investments. However, on closer inspection it is clear that there is significant public involvement on both the Chinese and Malaysian side via state-owned enterprises (SOEs) and government-linked companies (GLCs).¹

The Malaysian government maintains a significant footprint in the economy through GLCs. This can include significant shareholdings in publicly-listed companies (PLCs) and through wholly-owned unlisted entities, both at the federal and state level (Gomez, 2018). The strong presence of GLCs in Malaysia has raised several concerns due to the risks of patronage and corruption, given the lack of transparency and clear governance frameworks. Of course, this

1 In Malaysia, the term GLC is more commonly used than SOE.

is not true of all GLCs, and many are run professionally in pursuit of laudable social aims. Nonetheless, the requirement for transparency and public scrutiny is heightened when GLCs are involved in major projects, given their close relationship with the government.

In order to assess the weaknesses in governance which occur when the participation of GLCs is high, we can again turn to international best practices, in this case the management and transparency guidelines for SOEs. The 2015 OECD Guidelines on Corporate Governance of State-Owned Enterprises establishes clear guidelines for the disclosure and transparency of SOEs. These include requirements to publicly disclose and make easily available the following information:

- Enterprise financial and operating results, including where relevant the costs and funding arrangements pertaining to public policy objectives;
- The remuneration of board members and key executives;
- Board member qualifications and selection process, including board diversity policies, roles on other company boards, and independence;
- Any material transactions with the state and other related entities; and

- Any financial assistance, including guarantees, received from the state, and commitments made on behalf of the SOE, including contractual commitments and liabilities arising from public-private partnerships.

Separately, under the guidelines relating to the responsibilities of the boards of SOEs, the OECD advises that “[m]echanisms should be implemented to avoid conflicts of interest preventing board members from objectively carrying out their board duties and to limit political interference in board processes.” In the case of the BRI projects with significant GLC participation, it is clear that these standards for good governance are not being met. Figure 1 (PG. 53) illustrates the corporate structure of the Malaysia China Kuantan Industrial Park (MCKIP).

MCKIP is not a public procurement project. The development is jointly owned by a Chinese investment vehicle (Guangxi Beibu Gulf International Port Group) and a Malaysian consortium (Kuantan Pahang Holding Sendirian Berhad [Sdn Bhd]). Two of the Malaysian consortium parties (Sime Darby and IJM) are private Malaysian firms listed on the Kuala Lumpur Composite Index (KLCI), but with substantial shareholdings by government-linked investment companies (GLICs), which are in turn owned by the federal government. The third and fourth Malaysian partners Perbadanan Kemajuan

FIGURE 1: Ownership Structure of Malaysia China Kuantan Industrial Park (MCKIP)**SOURCE:** Suruhanjaya Syarikat Malaysia (2019)

Negeri Pahang (PKNP) and Perbadanan Setiausaha Kerajaan Pahang (PSK) are both enterprises wholly owned by the Pahang state government. From this, it is clear that the Malaysian government's participation in

this project is in fact quite high, despite it not being a public procurement project.

Given the strategic nature of the project, it can be argued that the high government

presence is justified. Furthermore, in the case of MCKIP, no specific allegations of corruption have been made. However, the challenge here is the general lack of transparency, particularly given the interests of publicly-owned entities and the potential financial liabilities that arise from this, which will ultimately fall on the taxpayer. In 2013, the then-prime minister announced a series of investments, including the Framework Agreement on Financing Cooperation, between China Development Bank Corporation and the master developer of MCKIP. The exact details of this framework are not publicly available, but reporting from the time claims that the agreement included MYR2.5 billion to be invested by the master developer (East Coast Economic Region, 2013). However, what is not clear is whether PKNP or PSK – part owners of the master developer – provided any investment and if so, on what terms. According to the Federal government's accounts, MYR120 million in loan guarantees are currently provided to PKNP (Penyata Kewangan Kerajaan Persekutuan, 2017). It is not clear whether these loans are linked to MCKIP or other projects. Although PKNP has a website, it does not publish annual reports or financial statements accessible to the public. Such information does not seem to be publicly available in the case of PSK either. Therefore, the participation of PKNP and PSK in MCKIP fails to meet the tests of good

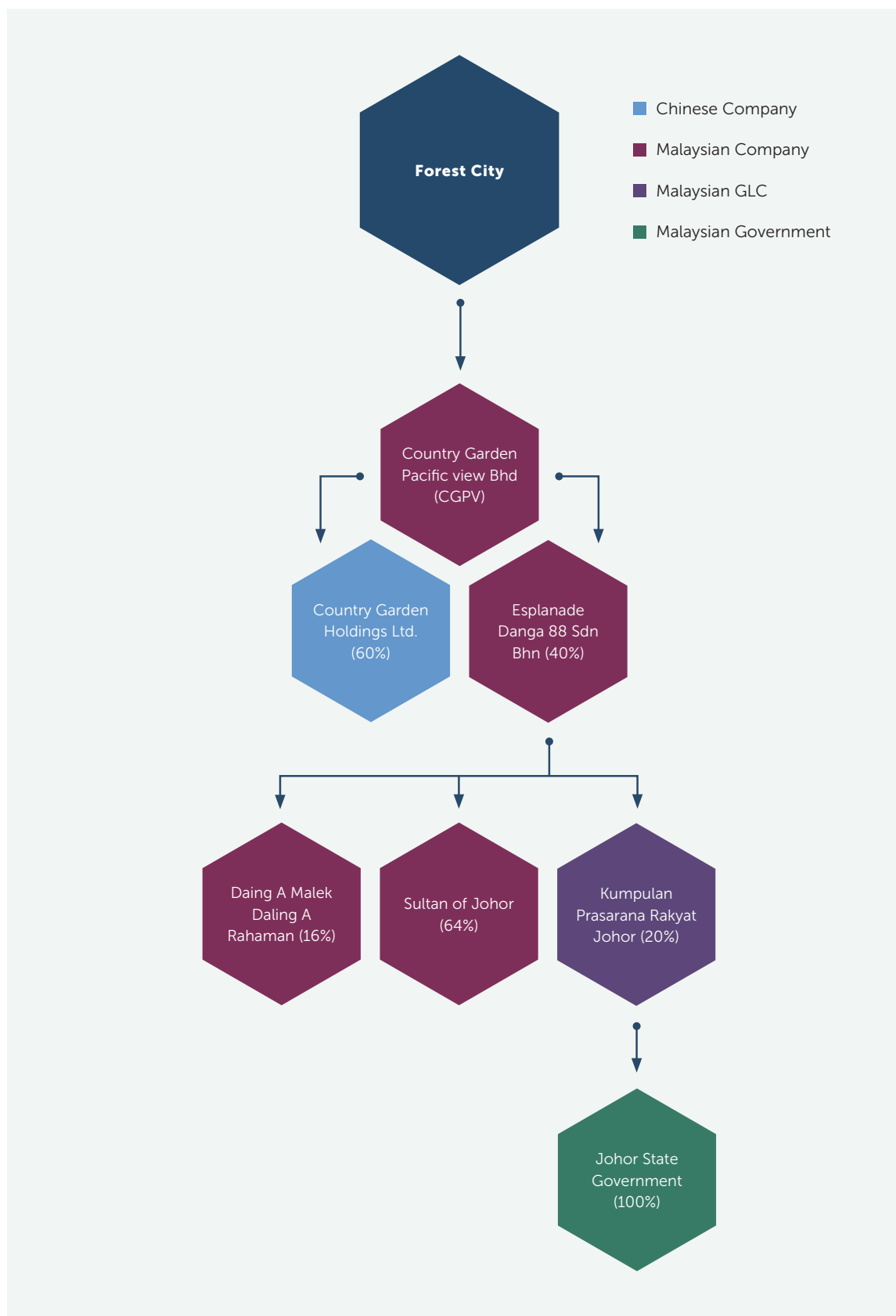
governance and transparency identified above, specifically in relation to the financial activities of publicly-owned enterprises.

A separate issue is that of conflict of interest.

PKNP is an example of a State Economic Development Corporation (SEDC), a type of entity that is present in all of Malaysia's states. The boards of the SEDCs typically include politicians, specifically the chief minister for that state, and potentially other politicians too. The Chief Minister of Pahang is a director of PKNP along with several other senior bureaucrats from the Pahang state government. Given that the Chief Minister is an elected politician, the question of a conflict of interest arises..

The fact that the Pahang state government, through PKNP and PSK, is effectively in a commercial arrangement with both local and international private enterprises could also affect the disposition of the government towards other private actors. The board composition of these entities would not seem to meet the OECD standards required to avoid conflict of interest. We have also not been able to identify any publicly available information on the remuneration of board directors, which further undermines the transparency and good governance of these enterprises.

Another example is provided in Figure 2 (PG. 55), which illustrates the ownership structure of the Forest City development,

FIGURE 2: Ownership Structure of Forest City

SOURCES: forestcitycgpv.com (2019) and Suruhanjaya Syarikat Malaysia (2019)

including the involvement of the Johor state government. Forest City is a large real estate development project in the state of Johor, close to Singapore.

In this case, concerns can again be raised over potential conflicts of interest given the involvement of publicly-owned enterprises. Kumpulan Prasarana Rakyat Johor (KPRJ) does not currently list board directors on its website, but company records filed with the Malaysian Companies Commission (Suruhanjaya Syarikat Malaysia) confirm that members of the Johor state government (both politicians and bureaucrats) are also directors of the company. The KPRJ website also does not feature any information on its involvement in the Forest City development and how this project meets its public policy objectives.

In the case of Forest City, there are not yet specific allegations of corruption. However, there have been concerns raised over the public interest of the project. For example, Rahman (2017) concludes that the project “is having a major impact on its neighboring community, Mukim Tanjung Kupang.” The report adds that, “Negative effects include reduced fishing income, increased navigational dangers, more shallow and polluted waterways, noise and dust pollution, and dangers from speeding contractors’ and construction heavy vehicles.”

The government’s direct involvement in the project raises questions over its impartiality in ensuring that environmental standards are met. Concerns have also been raised about the wider benefits to the local community, specifically the provision for affordable housing within the development. Politicians, including the recent Prime Minister Tun Dr. Mahathir, have criticized the development for deliberately targeting foreign buyers and not prioritizing affordable housing (Ong, 2019). Given the involvement of publicly-owned entities, the question of the public interest of the project should have been more clearly established.

These examples demonstrate the potential problems that can arise due to the weaknesses in public procurement and governance of GLCs. These issues, however, are illustrated most starkly in the high-profile corruption scandal surrounding the GLC 1Malaysia Development Berhad (1MDB).

Corruption: BRI and 1MDB

The former prime minister of Malaysia has been accused of large-scale corruption through embezzlement of funds via the GLC 1Malaysia Development Berhad (1MDB), which is wholly owned by the Ministry of Finance and is linked to several BRI projects. In 2016, the Sarawak Report claimed to have seen documents that showed that the price

of the ECRL had been deliberately inflated in order to allow the agreement to include Chinese purchasing of 1MDB's debts. The report includes various photographs, which are claimed to be official documents, and the testimony of whistle-blowers. These claims were reinforced in 2019 when the *Wall Street Journal* reported also having seen the documents. They showed that the agreement to pursue both the ECRL and the Trans Sabah Gas Pipeline (TSGP) was linked to deals including the purchasing of 1MDB debt.

Partly in response to these allegations and following the general election in 2018, the new government suspended a number of BRI projects, including the Multi Product Pipeline (MPP), the TSGP and the ECRL. While the MPP and the TSGP were permanently canceled, the ECRL has been renegotiated and subsequently relaunched under the new government. The principal objective of the renegotiation was to reduce the cost of the project by narrowing its technical scope. The cost was reduced to MYR44 billion from MYR65.5 billion, resulting from changes in tunnel length and quantities, shorter and fewer elevated structures, and changes in ground treatment type (Malaysia Rail Link, 2019). The overall alignment length was reduced by 48 km and the number of stations was reduced from 26 to 20. Finally, the operation of the rail line will now be a

50:50 joint venture between Malaysia Rail Link (MRL) and CCCC, sharing any potential losses from the project. The project will continue to be financed through loans from China's EXIM Bank at an interest rate of 3.5% with a seven-year moratorium on repayments. On the basis of these revised terms, the government announced in April 2019 that the project would be restarted.

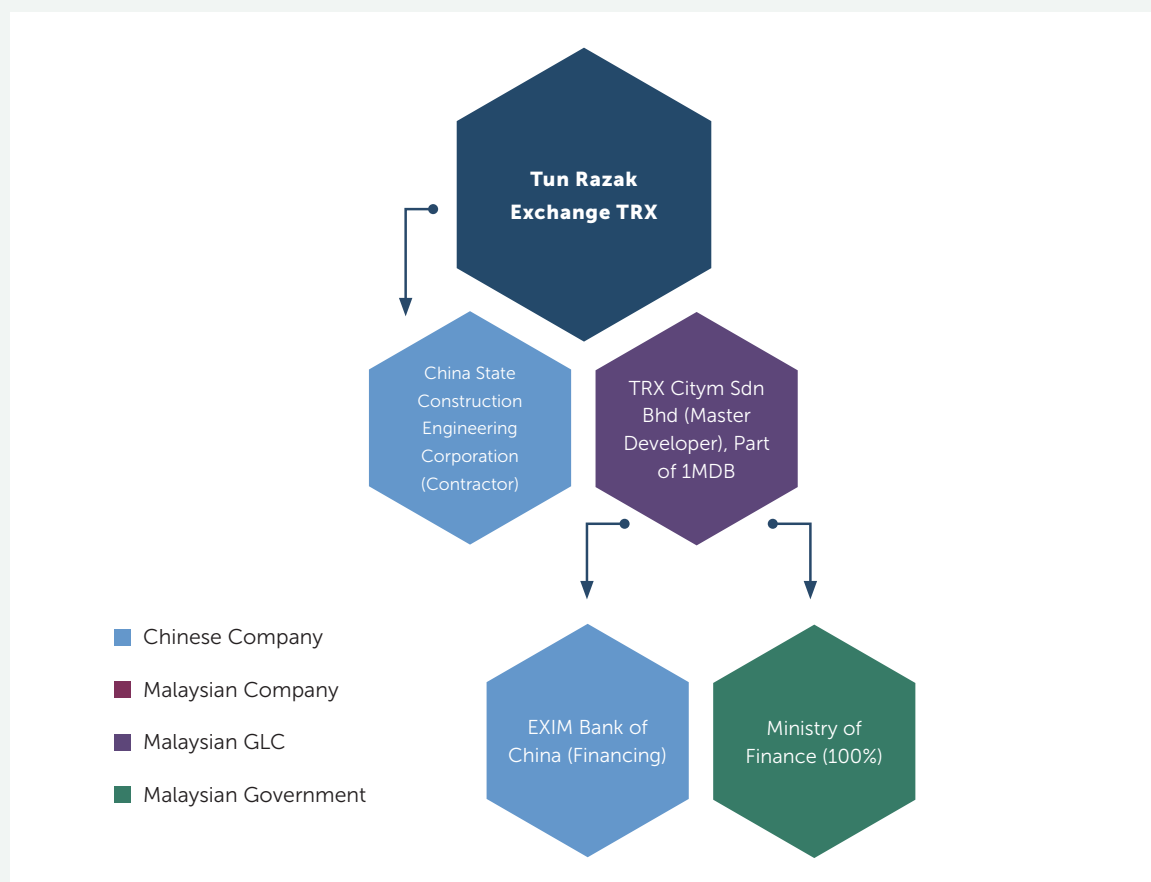
However, concerns with the project persist. As noted in Table 2, the procurement process is still lacking, including the absence of a publicly available feasibility study to demonstrate the value for money of the project. In 2016, the then-opposition MP Tony Pua referred to a feasibility study for the original ECRL project carried out by HSS Group which reportedly estimated the cost of the ECRL at MYR30 billion, when the price subsequently agreed upon with the contractor was more than MYR60 billion (Free Malaysia Today, 2016). In 2019, government adviser Tun Daim Zainuddin referred to a McKinsey study which apparently valued the original alignment at MYR47 billion (Free Malaysia Today, 2019). The lack of a common, objective evidence base undermines efforts to achieve consensus on the merits of a public work of this scale, even at the reduced price secured by the new government. Media reports refer to a feasibility report, but this has not been made widely available, stifling

the ability of civil society and the wider public to assess the underlying value for money of the project.

These concerns have been strengthened by recent revelations during the trial of the former prime minister on corruption charges. A witness statement given by the prime minister's former Special Officer Datuk Amhari Efendi Nazaruddin (2019) seems to confirm the previous allegations that negotiations over the MPP, TSGP and

ECRL explicitly included the acquisition of 1MDB's debts. This has led to renewed calls for the project to be canceled, despite the improved terms secured by the government. Indeed, the finance minister himself has recognized these concerns, but has cited wider considerations, including the importance of China as a trade partner and the cost of compensation if the government canceled the project. The government did cancel the other two projects implicated in the scandal – TSGP

FIGURE 3: Ownership Structure of Tun Razak Exchange (TRX)



SOURCE: trx.my (2019)

and MPP – but nonetheless remains in negotiation with China over the terms of these projects. According to the *New Straits Times* (Bernama, 2019), the project contractors were paid MYR8.3 billion, or 88% of the total contract value of MYR9.3 billion, even though only 13% of the projects were completed. The finance minister has recently confirmed that negotiations are ongoing, but the details cannot be disclosed owing to alleged political sensitivity (Edge Markets, 2019).

1MDB is also connected with other BRI projects. Figure 3 (PG. 58) illustrates the ownership structure for the Tun Razak Exchange, a commercial development in Kuala Lumpur. In this case, the Master Developer for the Tun Razak Exchange, TRX City Sdn Bhd, is wholly owned by the Federal Ministry of Finance. TRX City Sdn Bhd is a part of 1MDB. The development was part-financed by the EXIM Bank of China, and the China State Construction Engineering Corporation is the main contractor.

In 2018, Malaysian Finance Minister Lim Guan Eng disclosed that the federal government has, since 2012, guaranteed borrowings, extended advances, provided transfers to, and purchased land from TRX City Sdn Bhd amounting to MYR3.69 billion, of which the finance minister said MYR3.07 billion was misappropriated by 1MDB, mainly for 1MDB loan repayments. The finance minister

announced alongside this disclosure that the government would provide a further capital injection of MYR2.8 billion to prevent TRX City Sdn Bhd from declaring bankruptcy, and consequently the cancellation of the development – which would have resulted in MYR3.51 billion in compensation claims and a national embarrassment.

Public Financial Sustainability

These examples underline that when poorly governed public procurement and poorly governed GLCs are combined with large scale investment projects, such as those under the BRI, it creates significant risks which can ultimately fall to taxpayers. Specifically, we have identified three channels through which projects associated with BRI can become unsustainable from a public finance perspective:

- First, that public procurement projects are not subject to sufficient scrutiny or competition to demonstrate the underlying value for money or return on investment of the project, and can potentially lead to long-term financial costs for the taxpayer;
- Second, that the participation of GLCs can create a public financial liability, including through loans guaranteed by state and federal government; and

TABLE 3: Public Finance Exposure in BRI Projects in Malaysia

PROJECT	DESCRIPTION	PUBLIC FINANCE EXPOSURE	STATUS
Tun Razak Exchange (TRX)	Mixed Development in KL	Federal government, through participation of wholly-owned GLC; capital investment provided by the federal government. Linked to 1MDB	Ongoing
East Coast Rail Link (ECRL)	Transportation Infrastructure	Public procurement (federal); loan financing guaranteed by the federal government. Linked to 1MDB	Suspended (May '18); restarted (Apr. '19)
Malaysia China Kuantan Industrial Park (MCKIP)	Industrial Park	Pahang state government, through participation of wholly-owned GLC	Completed
Penang Road & Undersea Tunnel	Transportation Infrastructure	Public procurement (Penang)	Ongoing; corruption investigation
Forest City	Mixed Development in Johor	Johor state government, through participation of wholly-owned GLC	Ongoing
Gemas to Johor Bahru Electrified Double Tracking Rail	Transportation Infrastructure	Public procurement (federal)	Ongoing
Multi-Product Pipeline (MPP) and Trans-Sabah Gas Pipeline (TSGP)	Energy Infrastructure	Federal government, through participation of wholly-owned GLC; loan financing guaranteed by the federal government. Linked to 1MDB	Canceled (May '18)

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PROJECT	DESCRIPTION	PUBLIC FINANCE EXPOSURE	STATUS
Bandar Malaysia	Mixed Development in KL	Federal government, through participation of wholly-owned GLC	Suspended (May '17); restarted (Apr. '19)
Kuantan Port New Deep-Water Terminal	Transport Infrastructure	Capital investment provided by the federal government	Ongoing
Melaka Gateway	Mixed Development in Melaka	Public land reclamation included in the development	Ongoing

- Third, that weak governance both of public procurement and GLCs can result in corruption with a clear impact to public finances.

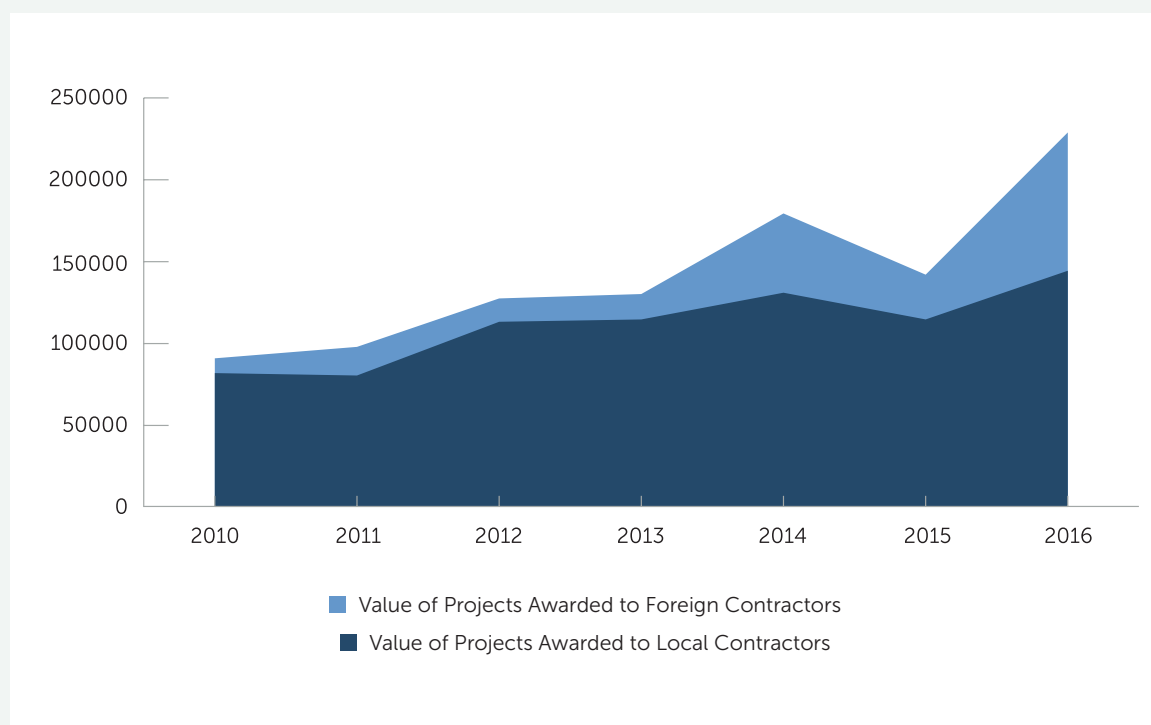
Returning to the projects listed in Table 1, we can see that public financial exposure through these channels is widely present (Table 3, PG. 60-61).

The World Bank has estimated that Malaysia, among other countries, is expected to increase its level of indebtedness as a result of BRI investment (Bandiera & Tsiropoulos, internal working paper, 2019). This underlines the importance of reform to ensure that public procurement is conducted on a value-for-money basis, with clear evidence of need; and that the

participation of GLCs is strictly monitored to ensure activities are in line with public policy objectives and conducive to public financial sustainability.

Impact on the Local Economy

Aside from the issues of governance related to public procurement and the participation of GLCs, significant attention has been given to whether or not BRI projects, such as those in listed in Table 1, have been positive for the development of the local economy. Specifically, there is a concern that the increased presence of Chinese contractors in the construction sector is “crowding out” local players. Chart 6 (PG. 62) compares the

CHART 6: Value of Projects Awarded to Local and Foreign Contractors

SOURCE: Construction Industry Development Board Malaysia (2017)

value of projects awarded to local and foreign contractors from 2010 to 2016 in Malaysia.

The percentage of contracts awarded to foreign contractors was around 12% until 2013, then grew significantly in subsequent years, reaching 37% in 2016. In terms of value, Chinese contractors represent the largest share, with 42% of the total value awarded to foreign contractors (Bandiera & Tsiropoulos, internal working paper, 2019). In other words, the growth in the value of contracts awarded to foreign contractors has not come at the expense of a decline

in the absolute value of contracts awarded to local contractors. The gains from the recent growth in total contracts awarded seems to have favored foreign contractors, in particular those from China.

This does not necessarily prove or disprove the claims of “crowding out.” In its 2017 report “China Contractors: Friend or Foe?” DBS Research argues that “[Chinese-led construction] projects are unlikely to take off without the associate funding and hence would still provide order book growth via subcontracting roles [for local

TABLE 4: Reasons Given for Not Using Local Firms

REASON	EXPLANATION
Skills	The necessary skills are not available among local firms and labor
Working Practices	Local firms and workers are not suited to the working practices of Chinese contractors
Cultural Preferences	Culinary preferences not available from local suppliers, for example
Language Barriers	Workers are required to operate in the same language or use equipment with associated language requirements (for example, manuals for equipment used in ECRL project were in Mandarin)
Insufficient Capacity of Local Suppliers	Scale of materials required necessitates importing rather than local supply
Comparative Challenges in Accessing Finance	Local firms struggle to access finance to compete

SOURCE: IDEAS (2018)

firms].” The report also notes that Chinese firms often enter the Malaysian market in a joint venture with a local firm, examples of which we have identified earlier. However, later in 2017 DBS Research updated its assessment, noting that the increased presence of Chinese firms was happening at a “heightened pace and has encroached into projects which were earmarked for local contractors.”

Identifying the impact on local industry more broadly (i.e. below the principal contractor level) is more difficult. Each of the projects

listed in Table 1 involves a range of different potential opportunities for sub-contractors and suppliers. In most cases, the government has set specific requirements for local content for 30% of the contract value. It is not possible to estimate the extent to which this condition has been met, given that we do not have access to the data on all the sub-contracts which have been awarded for any given project. It is certainly possible to identify cases where sub-contracts have been awarded and cases which suggest local firms have been overlooked (IDEAS, 2018). Table 4 (PG. 63) lists various factors

which have contributed to local firms not participating in Chinese-led projects.

The reasons listed in Table 4 include a number which can be considered legitimate business decisions. In the case of some reasons (including skills and capacity), whether or not these explanations can be justified might be contested. In the case of skills, this is particularly important as various studies have shown that the maximum benefits from FDI are derived from skill and technology transfers (Kubny and Voss, 2010). There have been several comments from industry bodies suggesting that local firms lack the necessary skills and the Malaysian government should therefore ensure Malaysian firms are positioned to participate in the more skill-intensive aspects of these projects.

Another important factor to highlight from Table 4 is the issue of financing. Chinese contractors are able to offer highly competitive financing arrangements and tolerate low margins. This is in part possible due to their support from the Chinese state. As DBS Research (2017) notes,

[Chinese contractors] enjoy strong support from the Chinese government via cheaper source of funding largely from mainland China lenders and the Export-Import Bank of China... They are also supported by the China Export and Credit Insurance Corporation

(SINOSURE) – China's policy-oriented insurance company that provides export credit insurance.

In contrast, local Malaysian small and medium-sized companies (SMEs) report challenges in securing access to credit and struggle to manage on the low margins that can emerge as a result of the highly competitive price structuring of projects by Chinese contractors.

In its 2011 study on Chinese export financing, the EU Parliament Policy Department noted that

[e]ven though there is no public information available on the financial terms offered by Chinese policy banks, anecdotal evidence shows that China usually offers more favorable financing terms than its Western competitors. For example, China's EXIM bank loans have longer grace and repayment terms as well as generally lower interest rates.

Moreover, China has not adopted the international OECD guidelines on export credit assistance, including maximum repayment terms, minimum interest payments and transparency. There is therefore a risk that this competitive financing provides Chinese firms an unfair advantage vis-à-vis local Malaysian firms.

Positive Impacts of Chinese Investments

The analysis in this chapter so far has focused on the infrastructure and real estate “megaprojects” associated with the BRI, and the risks associated with these projects. It is important to recognize that the BRI, and indeed Chinese investment in Malaysia more generally, goes beyond these projects. In particular, the manufacturing sector has exhibited greater presence of direct, Chinese firm-only investors and hence correspondingly less participation by Malaysian GLCs. Perhaps given the stronger effect of market competition and discipline on the profitability of these investments, it is possible to identify cases of Chinese manufacturing firms which have demonstrated contribution towards strengthening domestic manufacturing capacity. For example, in the solar panel industry. Malaysia has become the world’s third-largest solar photovoltaic cell (PV) manufacturer after China and Taiwan, following a MYR1.06 billion plant investment in 2016 by Longi Silicon Materials Corp, a major solar PV company from China. Apart from exports, these investments have also contributed to building a complete solar ecosystem comprising more than 200 companies from upstream to downstream activities, and from producing wafers and cells to inverters and system integrators.

Another example is the Malaysian glass manufacturing sector, which has been transformed by Chinese investment. Prior to 2016, Malaysia had always been a net importer of glass with annual spending of MYR1.5 billion in the global market. After billions of ringgit worth of investments by China’s Kibing Glass Group and Xinyi Glass Holdings Ltd., Malaysia has now become a net glass exporter to developed economies such as the United Arab Emirates, Singapore and the United States. Furthermore, in its 2016 report, the Malaysian Investment Development Authority (MIDA) also reported that MYR1.9 billion worth of glass and glassware products were manufactured for exports, contributing to more than a third of the share of Malaysia’s total manufactured exports in the non-metallic mineral industry.

These examples underline the benefits of FDI from China and the priority for Malaysian policymakers in ensuring that the benefits of the BRI can be maximized while mitigating the risks. This is also important from the perspective of Chinese policymakers and enterprises, as ultimately when these risks materialize the projects also suffer, thus reducing wider confidence in the BRI. In the case of Malaysia, in reaction to concerns about projects such as the ECRL, the overall number of projects has been reduced. The Chinese government has also indicated its desire to address these issues and to

promote good governance within the BRI. This is certainly a welcome move and is in the best long-term interests of the BRI itself.

Policy Recommendations

In light of the challenges highlighted in this chapter, CIPE proposes the following recommendations to ensure that the government of Malaysia can maximize the benefits and mitigate the risks from the BRI:

- To address the governance weaknesses in the public procurement system, the Malaysian government must include specific provisions in the forthcoming Government Procurement Act to ensure that:
 - detailed cost-benefit analyses are undertaken for major projects and that these are made public;
 - contract details are made available for public scrutiny;
 - a full list of sub-contractors engaged in a given project is made publicly available;
 - major projects are subject to mandatory audits; and
 - full details of financing arrangements for major projects are disclosed, including any publicly-backed debt guarantees.
- To address the governance weaknesses arising from the participation of government-linked companies (GLCs), it is vital that the Malaysian government ensure that:
 - All state-level development agencies should publish annual reports and detailed financial statements, detailing the participation of publicly owned entities in commercial enterprises. This must include disclosure of remuneration of company directors, any financial liabilities potentially borne by the taxpayer, and justification of the entities' activities against public policy objectives;
 - All GLCs have mechanisms in place to reduce conflicts of interest among directors, and concerted efforts to gradually reduce the commercial role of GLCs must become an imperative priority of the Malaysian government.
 - A dedicated Select Committee is established to facilitate greater parliamentary scrutiny of GLCs.
- Introducing freedom of information legislation is necessary for the Malaysian government to improve transparency and empower stakeholders to hold the government to account.

- To maximize the benefit for local industry, the government should ensure that local and foreign contractors can compete fairly on a level playing field by requiring foreign firms to abide by the OECD guidelines on export credit assistance.
- Malaysia's government should further ensure any local content requirements focus on promoting technology and knowledge transfer between foreign and Malaysian firms.

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CONCLUSION

Investments from China into Southeast Asia have contributed to economic growth and the development of the private sector in the host countries. For example, in Malaysia the solar panel and glass industries have seen leaps in growth due to Chinese investments. Yet there are also cases in Southeast Asia in which the local private sector received marginal benefit from Chinese investments. For instance, in Cambodia, the report showed that Chinese firms have little interaction with local firms and do not contribute much to the capacity and skill development of the local workforce. As a result, the spillover effect of Chinese investments on local SMEs has been limited.

Local firms in host countries seek to benefit more from investments from China. Several

authors pointed out that small businesses are concerned about being unfairly outcompeted by Chinese firms, which are supported by state-led industrial policies and cheap credit from the state.

Foreign direct investments from China sometimes goes into high risk and lightly regulated industries, such as mining, online gambling, and payday lending. In the cases of the Philippines and Indonesia, the authors documented that these investments bypass, ignore, or undermine regulations in the host countries. Problems include importing illegal workers, evading taxes, and exploring military networks which are deeply vested in the economy. Southeast Asia's young democracies have suffered from weak rule of law and lax enforcement. Chinese

investments at times exploit and exacerbate these governance gaps.

Chinese-funded megaprojects raise more concerns than traditional FDI due to a lack of transparency and the opacity of the deal-making processes. The deals are made among the ruling elites of China and the host countries without proper scrutiny or oversight. It is widely recognized that the influx of Chinese capital and contractors help to alleviate the massive infrastructure

gap in the region. To better utilize these capital inflows, the governments in Southeast Asia need to strengthen their capacity to mitigate the risks identified in this report, such as weak public procurement regulatory regimes, a lack of information on and robust oversight of BRI projects, weak governance of SOEs, and corruption.

Table 1 (PG. 198-199) lists recommendations to help mitigate risks stemming from large Chinese investment inflows:

TABLE 1: Recommendations to Help Mitigate Risk Stemming from Large Chinese Investment Inflows

PROBLEMS	SOLUTIONS
Lack of transparency in public procurement	<ul style="list-style-type: none">• Increase transparency of the public sector and public procurement process• Have clear legal regulations on public procurement• Follow public procurement international best practices, such as competitive and public bidding• Replace low-bid procurement practices with Life-Cycle Cost Analysis (LCCA) to promote quality infrastructure project• Empower civil society and interested stakeholders to advocate for greater transparency on public procurement process
Corruption	<ul style="list-style-type: none">• Strengthen anti-corruption work through institutional changes• Lawmakers should exercise oversight of loans that the government undertakes• Implement Freedom of Information act• Publicize government loan terms• Disclose ownership of companies which participate in mega infrastructure projects (especially if these companies are owned by government officials, their families, or close associates).• Provide for third party quality control/independent audit mechanism of the mega infrastructure projects• Implement PPP laws to facilitate investments and monitor PPP projects in hopes to increase transparency and accountability

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PROBLEMS	SOLUTIONS
Weak governance of state-owned enterprises	<ul style="list-style-type: none"> • Demand greater scrutiny of SOEs by lawmakers • Require disclosure of SOEs' annual reports and detailed financial statements as well as disclosure of remuneration of company directors, any financial liabilities potentially borne by the taxpayer and justification of the entities' activities against public policy objectives • Implement mechanisms for SOEs to reduce conflicts of interest among directors
Illegal worker/migration	<ul style="list-style-type: none"> • Implement better management systems for foreign workers • Improve the system of working permits and business licenses for foreign investors
Social tension, environmental degradation, land grabbing and force eviction	<ul style="list-style-type: none"> • Apply multilateral development bank (MDB) standards (such as financial feasibility, environment assessment, social and governance impact analysis) for Belt and Road Initiative loan projects • Promote Corporate Social Responsibility and corporate governance among Chinese firms
Little contribution to local private sector	<ul style="list-style-type: none"> • Provide a level playing field for local and foreign contractors by requiring foreign firms to abide by the OECD guidelines on export credit assistance • Ensure any local content requirements focusing on promoting technology and knowledge transfer between foreign and local firms

The countries of Southeast Asia should strengthen their regulatory environment to reduce the likelihood of corruption, increase transparency, enhance oversight mechanisms, and improve their public procurement framework. In addition, civil society organizations can play a more significant role as a bridge between foreign investors and local communities to spearhead inclusive dialogue among governments, local civil society, and foreign

investors before megaprojects begin so as to ensure that local voices are heard. Civil society and a free press can also help monitor foreign business behavior and promote OECD guidelines for multinational enterprises in agriculture supply chains, the extractive sector, mineral supply chains, and textile and garment supply chains to advocate for more responsible business practices.

Governments can also use regional platforms such as ASEAN to gain stronger negotiation power when advocating for more responsible investments from China.

For China

Chinese civil society is eager to work with foreign counterparts to encourage Chinese firms to engage in more corporate social responsibility and be more responsive to local communities' concerns. Chinese companies could seek Chinese civil society's assistance to try to act more responsibly and inclusively.

The Chinese government could work with Chinese companies abroad to ensure that they are abiding by guidelines released by Chinese business associations. The mining and construction industry associations from China have published guidelines that are on par with international standards. More broadly promoting and sharing these guidelines would help improve business behavior overseas.

Regarding investments with an international development purpose, China should try to employ the standards of AIIB in all its BRI projects to ensure that this new global power is also advancing development goals by acting more responsibly. Greater transparency in business engagements and MOUs between governments would help improve China's image in the region and counter a reputation of colluding with ruling elites.

Lastly, the report highlights research questions requiring further scholarly attention, including:

- Whether Chinese private firms are driven purely by the profit motive or instead act based on the policy guidelines from the state
- Whether SOEs and private firms from China respond differently to local pressure and incentives
- The extent to which China uses its economic leverage to influence host countries' domestic politics or foreign policy

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