ANALYSIS

GLOBAL AND REGIONAL ORDER

THE BELT AND ROAD INITIATIVE IN MALAYSIA

China's Geopolitics and Geoeconomics Challenged by Democratic Transformation

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Before Malaysia's historic change of government in May 2018, Chinese investments were concentrated in big infrastructure projects generally viewed as part of the Belt and Road Initiative (BRI).

In recent years, China has exported its surplus factories to Malaysia in order to reduce excess industrial capacity at home. Aiming to gain control of regional and global value chains, it has also exported Chinese technological standards.

After a democratically legitimised government replaced Malaysia's authoritarian system, BRI investments had to readjust from a powerholder to a stakeholder approach.

FRIEDRICH EBERT STIFTUNG

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INTRODUCTION

»The One Belt One Road Initiative, also known as the ›New Silk Road‹, is not an historical allusion to trade under Marco Polo but rather a geostrategic brainchild to allow China to enforce its order – commercially, geographically, geopolitically and in the end, possibly also militarily.«

Sigmar Gabriel, then-German Foreign Minister, addressing the Foreign Policy Forum of the Körber Stiftung, 5 December 2017

THE BELT AND ROAD INITIATIVE

Four years before Gabriel's speech, in September 2013, China's President and General Secretary of the Communist Party of China (CPC) Xi Jinping announced that the People's Republic of China (PRC) was planning a cooperative land-based »Silk Road Economic Belt«. Some months later, in the Indonesian capital of Jakarta, he proclaimed a »21st Century Maritime Silk Road«. The two initiatives aim to stimulate economic development and »win-win« cooperation, and also strengthen participating countries' »connectivity«.[1] Chinese politicians avoid using terms like »geostrategic« and »geopolitics«, and focus instead on the BRI's mutual economic benefits.

In the German language, the entire project is usually referred to as »The New Silk Road« and in English, as the »Belt and Road Initiative« (BRI). »Belt« refers to overland corridors leading from China to the European continent, while »Road« refers to shipping routes between South Asia, Africa and Europe.

THE DIGITAL SILK ROAD

Besides creating maritime roads and land-based belts, for the past two years, Beijing has been equally concerned with building a »Digital Silk Road« within Asia, and from Asia to Europe and Africa. In 2017, at the First BRI Forum in Beijing, Xi Jinping announced that China is pursuing innovative development and seeks to develop the digital economy. He called for increased cooperation in the fields of e-commerce, artificial intelligence, nanotechnology and quantum computing, and for cloud computing and smart cities to be further developed so as to turn them into a »Digital Silk Road of the 21st century«.

Building a Digital Silk Road means opening new high-tech industrial parks – that are attractive locations for Chinese firms – in neighbouring countries. Once the necessary infrastructure is in place, Chinese subsidiaries and joint ventures can then produce future technologies and try to create favourable conditions for investment. Chinese decision-makers regard Chinese subsidiaries as the backbone for the future economic development of the other countries participating in the BRI. Beijing considers that, ideally, value chains should be reorganised by leading Chinese digital companies.

LINKING »MADE IN CHINA 2025« AND »INTERNET PLUS«

The BRI combines China's foreign and economic policy goals and demonstrates how a regional power can develop into a global superpower. A continuation of Beijing's »Go-Global Strategy«, it fits into China's neighbourhood policy as well as into its centennial goal of making China the top industrial nation by 2049 – 100 years after the PRC was founded. The BRI industrial and digital components fit neatly with China's grand strategic plan of 2015 to upgrade its manufacturing capabilities, known as »Made in China 2025«, and its complementary »Internet Plus« initiative, which uses information technology in conventional industries.

China's strategy for the fourth industrial revolution is partly inspired by the German concept, Industry 4.0, regarding the computerisation of manufacturing, and especially digitalisation, that was introduced in 2011. The Chinese strategy includes a 30-year plan to economically and industrially transform the country: China should be a leading manufacturer by 2025, reach an »intermediate level amongst the world's manufacturing powers« by 2035 and become the »world's leader in manufacturing« by 2049.

1 Cf. President Xi Jinping Delivers Important Speech and Proposes to Build a Silk Road Economic Belt with Central Asian Countries (7.9.2013) in: https://www.fmprc.gov.cn/mfa_eng/topics_665678/xjpfwzysiesgjtfhshzzfh_665686/t1076334.shtml.

In the process, »Made in China« will become a hallmark of product excellence. The BRI is intended to help China transform from being the world's factory to its leader in services and technology. With it, China is pressing ahead to establish its own technological and regulatory standards in third markets. In the medium term, institutions and codes of conduct are shaped in the interests of Chinese businesses, and path dependencies are consolidated. Thus far Chinese companies have had to pay handsomely to American and European technology patent holders; the BRI aims to boost profit rates by creating its own.

Internet Plus, the second aspect of China's transformational plan, was presented at the same time as Made in China 2025 but rarely gets as much media attention. The initiative aims to fully exploit the Internet's economic potential, especially for services and e-commerce – for example, the nationwide distribution of smartphone payment systems by Alibaba and Tencent, China's most important tech players. It also includes the taxi-like services (UBER and Didi) and bike sharing (Mobike) that are rapidly gaining popularity in many cities, and other services offered in the sharing and gig economies.

With its strategic goal-setting and USD 100 billion already spent – from a total budget nine times greater – in 130 participating countries with two thirds of the world's inhabitants, the BRI is the worlds largest geopolitical and geoeconomic project. The BRI shows China's will to abandon its decades-long foreign-policy restraint and wish to help shape globalisation and regional development. At the same time, the BRI expresses Beijing's efforts to realise its own imperial ambitions by countering the USA's hedging strategy through »rebalancing«.

Recently, however, an increasing number of reports are predicting a reduction in funding for the BRI. Aside from China's mounting public debt, its trade war with the USA is afflicting the economy, while the hoped-for financial contributions from countries participating in BRI projects have largely failed to materialise.

FINANCING

BRI projects are financed through Chinese state banks including the Export-Import Bank of China, which supports foreign trade and investment, the China Development Bank, and the four largest state-owned commercial banks: the Bank of China, China Construction Bank, the Industrial and Commercial Bank of China and the Agricultural Bank of China. Other commercial banks are also involved. Additional resources are provided by more than 20 newly established investment funds, with the Silk Road Fund, established in 2014, contributing USD 40 billion.

In order to include foreign investors and create a counterweight to the Bretton Woods System, China created new multilateral institutions. In 2014, the New Development Bank (originally called the BRICS Bank) was founded with Brazil, India, Russia and South Africa to provide funds for BRI projects, primarily in the field of renewable energy.

For Europeans, the Asian Infrastructure Investment Bank (AIIB), founded in 2015 with start-up capital of USD 100 billion for BRI projects, is particularly relevant. Germany and 18 other EU member states sit on the bank's management and supervisory boards. Japan and the USA demonstratively did not join and pressured European countries, including Germany, to refrain as well.

While Beijing spent decades strategically planning the BRI (like its earlier Go-Global Initiative), China's foreign presence and investments are actually determined by competing actors from government, political parties, provinces, cities, state-owned enterprises (SOEs) and private companies – as well as by individual actors who mostly pursue their own commercial interests and those of their areas of competency. The BRI should be understood as an open process: There is no official list of all the projects. Evaluations of the BRI should make note of this.

The partly uncontrolled and inflationary attribution of BRI projects often makes it difficult to identify which investments are part of the initiative. Since Malaysia, too, has no official list of BRI investments, I discuss high-profile projects.

As part of the »China-Indochina Peninsula Economic Corriodor«[2] (Figure 1), Southeast Asia is of major importance to the BRI – on land via the planned high-speed rail routes and on the oceans for the shipping lanes.

Malaysia's centrality in Southeast Asia and the Association of Southeast Asian Nations (ASEAN), as well as its location at the midpoint of maritime and overland East-West trade routes make it pivotal to the BRI.

Bordering on the South China Sea to the east, with the Strait of Malacca, the shortest link between three oceans, to the west, Malaysia is strategically important to the 21st Century Maritime Silk Road. The Strait of Malacca is one of the world's key maritime trade routes and one of its most heavily travelled waterways. Between 20 and 25 per cent of global ocean trade and up to 80 per cent of China's energy resources are shipped between Peninsular Malaysia and the northeast coast of Sumatra.

Its location in the heart of ASEAN, which with 640 million inhabitants is expected to become the world's fifth largest economic sphere by 2022, along with its link to the Eurasian landmass, make Malaysia key to the overland Silk Road Economic Belt, a complementary and hybrid component of the BRI that is to be flanked by economic corridors and new industrial zones. With annual exports of almost USD 66 billion, Malaysia is Southeast Asia's largest exporting country. Malaysia and Singapore dominate the region's semi-con-

2 The China-Indochina Peninsula Economic Corridor is a land corridor that is intended to improved connectivity within Southeast Asia and expand trade between China and ASEAN countries.

Figure 1
BRI economic corridors

Source: Map from Google.com adapted by Yunarto Goh (Awen), FES Indonesia

ductor supply chain – while China's lack of a chip industry considerably weakens its economy. Malaysia is therefore to be reckoned with in the competition for control of regional and global value chains and regional and global standards (infrastructure, transport, industry, data processing, digital economy and urbanisation). Despite its relatively small population of 32 million people, Malaysia is a geopolitical and geoeconomic lynchpin state.

Malaysian-Chinese relations have developed historically. Malaysia is China's most important ASEAN trading partner, while the PRC has been Malaysia's most important trading partner for the last decade, and since 2016, its biggest investor. Chinese investments in Malaysia have grown significantly since Beijing's announcement of the BRI in 2013 and the PRC's Asian neighbourhood policy and investments in Malaysia's state investment fund, 1Malaysia Development Berhad (1MDB). Beijing maintained excellent relations with the government of Prime Minister Najib Tun Razak (in office from 2009 to 2018), signing contracts for major BRI projects for decades to come. Chinese SOEs and private businesses invested heavily, assuming that Najib's ethno-nationalist United Malays National Organisation (UMNO), which had ruled since independence in 1957, would long remain in power. But in May 2018, Malaysia surprised Beijing, Chinese investors and the rest of the world with its first change of government for more than 60 years.

2

A HISTORIC CHANGE OF POWER IN MALAYSIA

Contrary to all predictions and despite the Najib government's manipulations, the opposition *Pakatan Harapan* (PH, Alliance of Hope) won a historic victory during the night of 9–10 May 2018. After 61 years, during which Prime Minister Najib's UMNO party had become increasingly authoritarian, its rule was ended.

The three main factors for the success of the opposition alliance were[3]:

1. The revelation of the largest corruption scandal in Malaysia's history, with PM Najib Razak in the leading role: As many as USD 4 billion of taxpayer funds had been misappropriated from 1MDB. (Back in 2013, almost USD 700 million had been discovered in Najib's private accounts.) After Najib lost the election, he was charged with more than 40 cases of corruption and money laundering.

2. The most spectacular political comeback of the decade in the person of Dr Mahathir Mohamad, who has come to be regarded as the father of modern Malaysia. The PH Chair helped defeat Najib by convincing Malays, the country's indigenous and Muslim majority population, in key UMNO strongholds to switch to the PH. From 1981 to 2003, Mahathir had been prime minister for the Barisan Nasional (BN, National Front) coalition of mainly centrist and right-wing parties. In 2018, at nearly 93 years, Mahathir again became PM of Malaysia – and the world's oldest head of government.

3. The reorganisation of the opposition in the run-up to the elections, in which Mahathir reconciled with his long-time political nemesis Anwar Ibrahim (People's Justice Party, PKR). In March 2016, Mahathir had signed the Malaysian Citizens' Declaration with other former UMNO members who had been ousted by Najib, as well as with PKR representatives and Lim Kit Siang of the Democratic Action Party (DAP, a social-democratic, urban party dominated by ethnic Chinese that was the largest opposition). It was especially difficult for Lim Kit Siang to ally with Mahathir because both he and his son Lim Guan Eng, the DAP General Secretary – who later became Finance Minister – had been imprisoned during Mahathir's first term. Intensive persuasion was needed within the DAP to convince party functionaries and the base to forge an alliance of convenience with their former foe Mahathir, whose UMNO had always battled the DAP. Like Najib, Mahathir had criticized the DAP for being anti-Malay and anti-Islam. The Citizen's Declaration's main demand was the removal of Najib through non-violent, legal means. In September 2016, with other UMNO renegades, Mahathir had founded the new opposition party *Malaysian United Indigenous Party* (BERSATU).

Ultimately, the momentous political and personal decisions that created the PH alliance of convenience paid off. But after an emotionally charged election day, Najib refused to concede defeat and the Sultan of Malaysia found it necessary to interview all the opposition leaders before he finally administered the oath of office making Mahathir (transitional) PM of the new PH government – at 10 pm on 10 May 2018.

3 Cf. Grassi, Sergio / Nowak, Nurman (2018): *Der Malaysische Traum. Historische Wende in Malaysia*, Friedrich-Ebert-Stiftung (June 2018).

3

CHINA'S DIPLOMATIC ROLLER COASTER RIDE IN MALAYSIA

In May 2018, the historic change of power in Putrajaya, Malaysia's federal administrative centre, surprised everyone – including decision-makers in Beijing. Until then, China had clearly positioned itself with the BN coalition and Najib; its embassy in Kuala Lumpur had even recommended how Malaysians should vote. There are numerous indications that Najib concluded very unfavourable deals with Beijing amounting to at least USD 34 billion in order to close 1MDB's financial gap that was created by his embezzlement. Some observers say these deals aided and abetted money laundering.

China's foreign policy institutions, which had avoided contact with the opposition *before* the election, were keen to balance allegiances after it. In August 2018, China's Foreign Minister and State Councillor Wang Yi visited Kuala Lumpur and held difficult talks lasting 90 minutes with Mahathir. Then the Chinese Foreign Ministry announced that »China-Malaysia relations are standing at a new historical starting point«.[4]

During Mahathir's first post-election visit to Beijing two weeks later, he spoke bluntly about the former Malaysian government's corruption and irresponsibility, as well as about China's new colonialism. The Mahathir government announced that several major Chinese projects agreed under Najib – the East Coast Rail Link as well as the Multi-Product Pipeline (MPP) and the Trans-Sabah Gas Pipeline (TSGP), valued at USD 23 million – would be discontinued. Before the elections, Mahathir had said he wanted to stop construction of the USD 100 billion Forest City. He termed the projects overpriced, and said they created no local jobs and would bankrupt Malaysia. Malaysia suddenly stopped being the BRI showpiece in Southeast Asia. Coming on the heels of negative headlines from Sri Lanka[5] the BRI's reputation suffered globally.

Before the 2018 elections, the Chinese Communist Party (CPC) had maintained exclusive relations with the BN coalition, and especially the nationalist Malay UMNO party and the Malaysian Chinese Association (MCA); these were continued after the elections. Prior to the elections, the CPC had no relations with the largest opposition party, the DAP, although it represented the interests of Malaysians of Chinese origin. However, since the elections, the CPC has been busy making contacts at the executive level, although these have not yet been institutionalised. In August 2018 DAP Chair Tan Kok Wai was named the Special Envoy of Malaysia to China.

In July 2018, on the alternative news website *Malaysiakini*, Guo Yezhou, Vice Minister of the CPC's International Department (the second most important mainstay of Chinese foreign policy after the foreign ministry) announced the opening of relations with all major political parties in Malaysia.[6] The website of the Chinese Embassy in Malaysia features a speech by the Chinese Ambassador Bai Tian that is tellingly entitled, »To Build Roads or to Build Walls, the Choice is Yours« – in which he touts the achievements and prospects for BRI projects in Malaysia.[7] In October 2018 Malaysian media reported on an exchange programme of the Chinese Embassy in Malaysia for young leaders who, among other things, had been allowed to visit technology parks in China.[8] In January 2019, in celebration of the two countries' 45 years of diplomatic relations, the Embassy released a song called »You are here for me for life« – in the Bahasa Malay and Mandarin languages.[9]

These are excellent examples of how, in the wake of Malaysia's historic change of power, Beijing is trying to use soft power to create a more positive image of the PRC in the minds of important Malaysian actors and the general public.

4 Cf. Malaysian Prime Minister Mahathir Mohamad Met with Wang Yi (1.8.2018); http://www.chinaembassy-fi.org/eng/zxxx/t1582272.htm.

5 When Sri Lanka's government was unable to service loans for constructing the port of Hambantota, as compensation it had to transfer its operating rights for 99 years to investor China Merchants Port Holdings in a debt-for-equity deal. This is strongly reminiscent of past actions of colonial powers, such as those of Great Britain in Hong Kong.

6 Cf. Guo Yezhou, Opening up a new chapter in China-Malaysia relations (30.7.2018); https://www.malaysiakini.com/news/436548.

7 Cf. Ambassador Bai Tian, To Build Roads or to Build Walls, the Choice is Yours – Ambassador's Speech on Malaysia-China Outlook Forum 2019 held by Star Media Group (11.7.2019); https://www.fmprc.gov.cn/mfa_eng/wjb_663304/zwjg_665342/zwbd_665378/t1680313.shtml.

8 Cf. Exchange and Fellowship Programme Hosts 30 Malaysian Youths In China (25.10.2018); https://www.borneotoday.net/exchange-and-fellowship-programme-hosts-30-malaysian-youths-in-china/.

9 Cf. Tashny Sukumaran, You are here for me for life: Beijing releases song marking 45 years of diplomatic ties with Malaysia (28.1.2019); https://www.scmp.com/news/asia/southeast-asia/article/2183975/you-are-here-me-life-beijing-releases-song-marking-45-years.

They also clearly show how China's Malaysia policy has begun to change from a powerholder to a stakeholder approach.

THE GEELY AND PROTON CARMAKERS COOPERATION

During his first visit to Beijing in August 2018, PM Mahathir held talks with representatives of the Southern Chinese carmaker Zhejiang Geely Holding Group to reach agreement about continuing cooperation with the Malaysian automobile group Proton. Mahathir was particularly keen on the joint venture because it concerned Malaysia's »national car«, his pet project that had nearly failed during his first term in office. By 2017, Geely had acquired 49.9 per cent of the ailing car manufacturer's shares from the Malaysian conglomerate DRB-Hicom. Since mid-2019, X70, a Proton SUV based on Geely's successful Boyue model has been manufactured in Tanjung Malim (70 kilometres to the north of Kuala Lumpur).

Proton Chair Syed Faisal praises the two countries' cooperation in car manufacturing and supports Malaysia being used as China's gateway to the 650 million consumers in ASEAN countries. »We have seized the opportunity of the Belt and Road Initiative to step up our efforts overseas,« said Victor Yang, Geely's Vice President of Communications in 2019.[10]

Yang Xueliang, Vice President of the Geely Auto Group, explained that the concern's »going out« strategy »has been upgraded from exporting products to exporting technologies, talents, standards and capital as well. […] China's auto industry is supposed to integrate into BRI construction and the global industrial chain and join the global competition and cooperation to bring more benefits to customers.«[11]

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10 Cf. Fusheng, Li (2019): Geely steps up efforts in BRI market, in: *China Daily* (26.3.2019); http://www.chinadaily.com.cn/a/201903/26/WS5c998f0ea3104842260b2936.html.

11 Cf. Chinese car enterprises export products, technology, capital, in: *People's Daily Online* (3.4.2019); http://en.people.cn/n3/2019/0403/c90000-9563491.html.

4

BRI INFRASTRUCTURE PROJECTS

THE EAST COAST RAIL LINK

Right after the Malaysian elections, the new PH government announced it was going to withdraw from the East Coast Rail Link (ECRL), setting alarm bells ringing in Beijing. Without requiring any public tender, the Najib government had awarded Chinese investors the largest Malaysian-Chinese infrastructure deal: a 640-kilometre-long high-speed rail route that runs from the Malaysian-Thai border along the coast, connecting the southern part of Peninsular Malaysia with the western harbour of Port Klang and the Strait of Malacca (Figure 2).

The ECRL is key to mitigating Beijing's difficulties regarding the Strait of Malacca.[12] Former Malaysian PM Najib had raved that the ECRL was a »game-changer« that would connect the economically backward east coast of the peninsula with the comparatively prosperous west coast.[13] After the elections, the project was renegotiated.

During the month-long negotiations, Beijing repeatedly stressed the project's significance for its relations with Malaysia. Finally, in April 2019, a breakthrough was announced. Key points in the new deal were the cost reduction from USD 16 billion to 10.6 billion and a slightly different route. The ECRL is scheduled for completion in December 2026. A supplementary agreement was also signed for the China Communication Construction Company (CCCC) to participate in operation and maintenance and bear half of the operation, management and maintenance costs. The Malaysian government's chief negotiator was Mahathir's close confidant and former Finance Minister Daim Zainuddin, who also seems to be a key player in other matters concerning China.

China considers that since the ECRL is the largest railway project in Southeast Asia, its success will send an important message to the entire region. On the Chinese side, the project is mainly financed by the Export-Import Bank of China.

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12 Peking views Singapore as a US stronghold and fears that in case of conflict, the Americans would block the Strait of Malacca.

13 Cf. Najib: »ECRL the game changer to the east coast!«, 11.4.2018; https://www.thestartv.com/v/najib-ecrl-the-game-changer-to-the-east-coast.

Figure 2
Proposed route of the East Coast Rail Link (ECRL)

Source: Map from Google.com adapted by Yunarto Goh (Awen), FES Indonesia

BANDAR MALAYSIA

A second BRI project that is important for both Beijing and Malaysia is the mixed-use transport-oriented development hub in Kuala Lumpur, Bandar Malaysia, which has an investment volume of USD 34 billion. Prior to December 2015 the project was wholly owned by the Malaysian investment fund 1MDB, which then sold 60 per cent of its shares to the Malaysian-Chinese consortium IWH–CREC, composed of the Malaysian Iskandar Waterfront Holding (IWH) that holds 60 per cent of the acquired shares and the China Railway Engineering Corp (CREC) that holds the rest.

However, in 2017, under the Najib government, the project was terminated because of fundamental differences. While *The Wall Street Journal* identified them as Chinese government's capital controls, the Malaysian *Star* reported that Kuala Lumpur did not want to honour some of the Chinese inves-

Figure 3
Planned high-speed rail tracks from Southern China to Southeast Asia

Source: Map from Google.com adapted by Yunarto Goh (Awen), FES Indonesia

tors' demands that impinged on key Malaysian concerns. Citing an anonymous source, *The Star* wrote that the Chinese wanted the high-speed train line between Kuala Lumpur and Singapore to be commissioned without a public tender.[14]

Bandar Malaysia was originally to become one of the world's largest underground cities – with a finance centre, indoor theme parks, numerous shopping facilities, residential buildings and the most important railway hub in Southeast Asia.

Part of an ambitious Chinese government project, the Singapore-Kunming Rail Link (SKRL) will run from the southern Chinese city of Kunming (Yunnan Province) through Laos and Thailand to Kuala Lumpur and Singapore, with other routes leading to Vietnam, Myanmar and Laos (Figure 3). Originally awarded to the Chinese-Malaysian consortium of CREC and the Malaysian company IWH, in April 2019 the contract was revived by Malaysia's new government soon after it had reached agreement on the ECRL. However, the extension to Singapore was postponed for at least two years.

The Malaysian-Chinese consortium had to additionally agree to build 10,000 affordable housing units and a public park, and use more local subcontractors. In addition, important members of the PH government are campaigning for freight trains to be added to the passenger train route to China. In a personal letter to Chinese President Xi Jinping, Mahathir made the case for using large Chinese-made trains to transport goods from China through Malaysia to Europe.

THE SECOND BRI FORUM USED PALM OIL AS LUBRICANT

In April 2019, after solutions had been found for two large BRI projects, Mahathir visited Beijing under much improved conditions and took part in the Second BRI Forum. He pledged support to the BRI in a meeting with the Chinese Politburo's three most powerful men, President Xi Jinping, Premier Li Keqiang and the National People's Congress Chair Li Zhanshu.

While Mahathir was in Beijing, another important memorandum of understanding (MoU) was signed in which China pledged to buy an additional 1.9 million tonnes of palm oil from Malaysia over the following five years. Malaysia was hoping that this would help compensate for the expected drop in exports to Europe. The world's second largest producer of palm oil (after Indonesia), Malaysia claims that the EU's decision to phase out the use of palm oil in bio fuels by 2030 hurts its economy and threatens jobs. The Malaysian government never tires of pointing out that as many as 600,000 local jobs (mostly done by Malays) depend on palm oil production and/or trade.

Observers view Beijing's agreement to purchase palm oil as a very important lubricant for reviving major BRI projects like the ECRL. Malaysia's Minister of Primary Industries Teresa Kok (DAP) described China's concessions as a great relief »after the EU's many attacks« on one of Malaysia's key industries. Earlier – after the newly elected PH government had announced its intention to terminate the ECRL and Bandar Malaysia projects – Beijing had let it be known through informal channels that Malaysia should expect cuts in Chinese palm oil purchases and fewer Chinese tourists.

FOREST CITY

Not yet revived is the Forest City real estate investment project, a futuristic new town in the jungle of Johor Province that borders Singapore. A project of Country Garden, a privately owned real estate company on the Chinese Mainland, in cooperation with the Sultan of Johor,[15] its four artificial islands were to be home to 700,000 wealthy residents.

In December 2017, six months before the elections, candidate Mahathir had got worked up on the campaign trail and expressed hopes that the jungle reclaimed for Forest City

14 Cf. Ngeow, Peter (2019): Economic Cooperation and Infrastructure Linkage between Malaysia and China under the Belt and Road Initiative, in: Fanny M. Cheung / Ying-yi Hong (eds.): *Regional Connection under the Belt and Road Initiative: The Prospects for Economic and Financial Cooperation*, pp. 164–191.

15 Country Garden set up a joint venture with a 60:40 ratio to build Forest City. The private firm holds 60 per cent of the project shares; Esplanade Danga 88 Private Limited controls the remaining 40 per cent. Esplanade Danga 88 is backed by the Sultan of Johor (64.4 %), Johor State Government Investment Arm (20 %) and Daing Malek Daing Rahman, a member of the Royal Court of Advisers to the Johor Royal Court (15.6 %).

Figure 4
The Futuristic New Town of Forest City

Source: http://forestcitycgpv.com/

»will truly become a forest. Its residents will consist of baboons, monkeys and so on«.[16] In August 2018 – three months after the elections – PM Mahathir asserted that foreigners would not be allowed to buy property in the new town. Yet he said the apartments in Forest City were being constructed exclusively for foreigners – that is, prosperous Mainland Chinese – because Malaysians can't afford to pay those prices. Since the USD 100 billion real estate project really was intended for wealthy customers from the PRC who were promised a modern city with shipping connections – at Malaysian prices – right next door to the exclusive city-state of Singapore, this sounded the death knell for the mega construction project. Even if Forest City is not generally considered part of the BRI, on its website it is praised as being »amid an already-robust backdrop of a consolidating ASEAN community and China's ›Belt and Road‹ initiative«.[17]

In September 2018 Mahathir announced that foreigners could indeed invest in Forest City but that would not automatically get them permanent residency in Malaysia. As a result, the main target group has dropped away and there are no alternative buyers in sight: The planned Chinese enclave of Forest City is a ghost town.

PIPELINE PROJECTS

It appears that two BRI pipeline projects that the PH government had cancelled right after the elections (along with the ECRL) are unfinished: the 600-kilometre-long Multi-Product Pipeline (MPP) that was to connect Malacca/Port Dickson with Jitra in Kedah State and the 662-kilometre-long Trans-Sabah Gas Pipeline (TSGP), that was supposed to run from Kimanis Gas Terminal to Sandakan and Tawau in Sabah State on the island of Borneo.

These two projects, with a total value of USD 2.3 billion, are allegedly connected to the 1MDB scandal. Malaysia's new government complained that only 13 per cent of the work had been completed – but 90 per cent of the estimated costs paid. Finance Minister Lim stated that no construction work at all had been done. In July 2019 Malaysian media reported that USD 243.5 million had been seized from the Chinese SOE China Petroleum Pipeline Engineering (CPPE). In October 2019, Malaysian and international media reported that Malaysia's lead negotiator for China and Mahathir confidant Daim Zainuddin was able to recoup USD 2 billion from Beijing in connection with the pipeline projects.

16 Cf. Jun Soo Wern, Mahathir launches bitter attack on Forest City project (30.12.2017), in: https://www.freemalaysiatoday.com/category/nation/2017/12/30/mahathir-launches-bitter-attack-on-forest-city-project/.

17 https://forestcitycgpv.com/.

5

OTHER MAJOR CHINESE (BRI) PROJECTS IN MALAYSIA

MALACCA GATEWAY

The future of the Malacca Gateway project, initiated in 2016 by the Malaysian and Chinese governments, remains unclear, as does its original objective. Costing up to USD 10 billion, the project was to include construction of a cruise ship terminal and a deep-sea port on the geostrategically important Malacca Strait, and be developed by the Malaysian KAJ Development Sdn Bhd (KAJD), a medium-sized local construction company that is well connected to UMNO, and a consortium of the Chinese companies Power China International,[18] Shenzhen Yantian Port Group and the Rizhao Port Group.

Four artificial islands were also part of the plan: two to be used for tourists, a third to store fuel for refuelling and the fourth for a container terminal and maritime industry park. The fourth island was to be jointly developed by the Malaysian state of Malacca and the Chinese province of Guangdong, which said it would use Malacca Gateway to ship products from the Malacca-Guangdong Industrial Park. Malacca Gateway is presented as part of an intensified cooperation between ports in Malaysia and China in the »Malaysia-China Port Alliance« that is intended to strengthen the two countries' bilateral trade, logistics and maritime transport.

However, to be able to seriously compete for transhipment with the more modern ports in the Malaysian city of Klang and Singapore, Malacca Gateway needs a rail connection. Furthermore, Malaysian authorities claim that the country's eight major ports can cover demand until 2040 – which means that unless Malacca Gateway is going to be connected to the Bandar Malaysia high-speed rail line, investing in Malacca State does not make much sense economically.

There are also persistent rumours that before Malaysia's change of government, the Chinese had planned to use the Malacca deep-sea port for military purposes. In July 2018 the Malaysian Transport Minister Anthony Loke (DAP) criticised the lack of progress on Malacca Gateway. After an October 2018 report that KAJD had lost its licence, the following May Malaysian media reported that the company had successfully appealed the decision and was authorised to continue to work on the project. Whether any – and if so, which – Chinese companies will be involved in the future is unclear. What is obvious is that the project is well behind schedule.

KUANTAN PORT

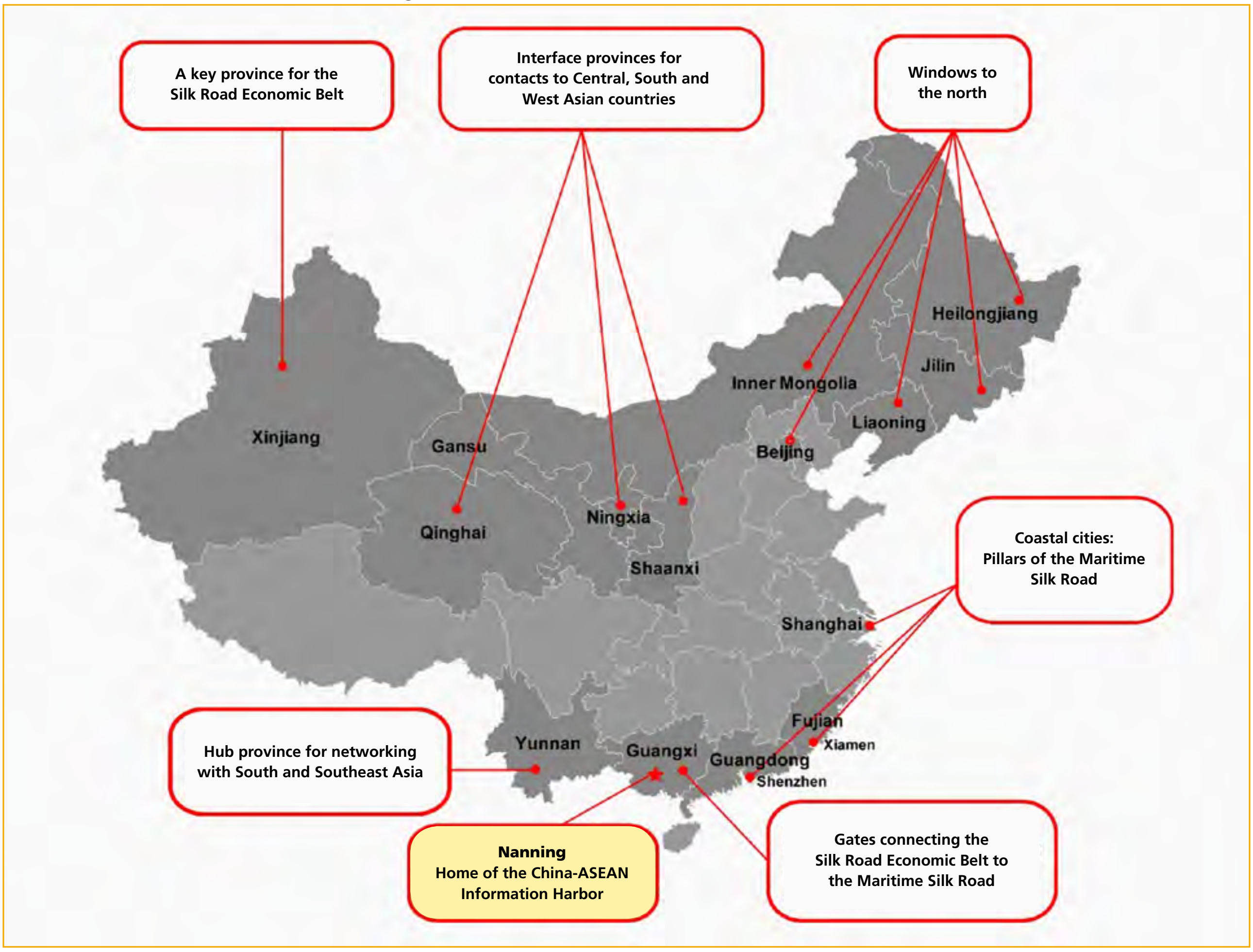
Kuantan Port is the only port on Malaysia's east coast. Because it borders on the South China Sea and is the port closest to China and Vietnam, it has great strategic importance. In May 2016, the Malaysian government granted the port's request to become a special economic zone. Enlarging Kuan-

Figure 5
Kuantan Port

Source: Map from Google.com adapted by Yunarto Goh (Awen), FES Indonesia

18 Power China International is a consortium of numerous big Chinese state companies such as Sinohydro and the Hydro China Group. Sinohydro is the company where China's former president Hu Jintao made his career.

Figure 6
China-ASEAN Information Harbor in Nanning



Source: Map from China showing provinces – Single Color by FreeVectorMaps.com; adapted by Yunarto Goh (Awen), FES Indonesia

tan Port and spending USD 2 billion on a deep-sea terminal for 200,000-tonne ships is intended to boost Malaysia's east coast economy. Kuantan is also close to shipping routes in the South China Sea that make it easy to trade with Shanghai, Shenzhen and Hong Kong. The Malaysia-China Port Alliance will stimulate cooperation between the Chinese ports of Dalian, Ningbo, Qinzhou, Guangzhou, Fuzhou, Xiamen, Hainan, Taicang, Tianjin and Qingdao with the Malaysian ports of Klang, Melaka, Penang, Johor, Kuantan, Bintulu, Kemaman, Sabah and Kuching. A Malaysian conglomerate and the Chinese Guangxi Beibu Gulf International Port Group, a Chinese SOE, are enlarging Kuantan Port.

In the future, the Kuantan deep-sea port is to be connected to the rail network via the ECRL and thus, to Malaysia's west coast (Figure 5). It will connect to Malaysia's most modern port in Klang and to the country's capital city and business metropolis, Kuala Lumpur. Malaysia is hoping that the new deep-sea port in Kuantan will help make Malaysia more competitive with Singapore, the largest logistics hub in Southeast Asia and the world's second largest container port. Containers are to be unloaded in the port of Klang, transported on ECRL trains to Kuantan and from there, shipped to China and Vietnam. Kuantan could become an alternative hub for ASEAN-China trade.

RARE EARTH MINING IN KUANTAN AND PERAK

One project that has been little discussed publicly is the rare earth mining in Kuantan by the Australian company Lynas, the largest of its type outside China. The Chinese-American trade war could increase this project's significance for the USA as well as for Japan, which has already suffered from a Chinese ban on rare earth exports. There is talk about whether China, the world's largest miner of rare earth elements, which are required for high-tech manufacturing including computer chips, is retaliating by cutting its exports. In late November 2019, Malaysian media reported that Perak State government had signed an MoU with the Chinese company Chinalco GXNF Rare Earth Development to explore the potential of its rare earth metals.

MALAYSIA-CHINA KUANTAN INDUSTRIAL PARK AND ITS SISTER PARK IN QINZHOU, PRC

In 2012, the governments of Malaysia and China opened the China-Malaysia Qinzhou Industrial Park (CMQIP), their first joint industrial park, in Nanning. China has defined the capital of Guangxi Province as the main gateway to the ASEAN countries (Figure 6).

Only a few months later, the governments of the two countries agreed to establish the Malaysia-China Kuantan Industrial Park (MCKIP), believing there would be synergy effects with Chinese investments in the 10-kilometre distant port of Kuantan. The 12.3 km^3 industrial park is a joint venture between Malaysian and Chinese conglomerates (51:49 per cent). Of the Chinese 49 per cent, Guangxi Beibu Gulf holds 95 per cent and the Qinzhou Investment Development Co Ltd. the rest. MCKIP has room for 347 companies, including a steel mill, an aluminium plant, a tyre company, and solar cell, battery and food manufacturers. Between 80 and 90 per cent of the products are made for export.

In June 2019, Chinese and Malaysian media reported agreement on intensified cooperation between the two »sister parks« in Malaysia and China.[19] The aim is to boost trade between the countries, promote investment, develop industrial clusters and improve the management of regional value chains. Deputy Minister of International Trade and Industry Ong Kian Ming (DAP) pointed out that USD 1.8 billion investment in the steel plant had created 3,800 local jobs. According to Malaysian Foreign Minister Saifuddin Abdullah (PKR), MCKIP is intended to become the industrial hub of Malaysia's east coast.

CHINA-ASEAN INFORMATION HARBOR

Besides getting CMQIP, Nanning has also become the home of the China-ASEAN Information Harbor (CAIH), the main hub for China's digital networking with the ASEAN region. Eventually, CAIH will link the information and communication sectors of all ASEAN countries with China. A video on the CAIH website explains: »The China ASEAN Information Harbor is the provider of an internet+ ecosystem with Chinese standards.«[20]

CAIH has five main sectors: the Industrial Internet, Government and Enterprise Management, Smart City, New ICT and Financial Services. CAIH is intended to systematically distribute Chinese standards for all these sectors throughout the ASEAN region. One project that is particularly germane to Malaysia is the construction of a »Cloud Computing Center« to be coordinated by CAIH.

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19 Cf. More Chinese firms show interest to invest in Malaysia (14.6.2019), in: https://www.thestar.com.my/business/business-news/2019/06/14/more-chinese-firms-show-interest-to-invest-in-malaysia/.

20 Cf. the website of the *China-ASEAN Information Harbor*: http://www.caih.com/?lang=en_US.

6

ALIBABA, HUAWEI, A SMART CITY AND AN ARTIFICIAL INTELLIGENCE PARK

ALIBABA

Tellingly, the first high-ranking guest from the PRC to visit Malaysia after the June 2018 elections to warm up the relations was Jack Ma, founder of the digital trade and communications platform Alibaba. China's wealthiest man pointed out that every relationship has its highs and lows. He also declared that Alibaba is keen on investing more in Malaysia, and especially wants to promote young Malaysians' competencies – which would help his company operate globally.

Back in November 2017 the Alibaba founder had launched the first e-World Trade Platform (eWTP) hub outside China and expressed his hope that it would help people benefit from a modern Silk Road. »For human beings the first globalisation was the Silk Road (...) [T]oday in the Internet [age], I think we should transfer the Silk Road to an e-road,« said Ma at the e-WTP inauguration in Kuala Lumpur.[21]

In late June 2020, the »Kuala Lumpur International Airport (KLIA) Aeropolis Digital Free Trade Zone (DFTZ)« is going to be inaugurated. This Malaysian government project to support e-commerce for small and medium-sized entrepreneurs from Malaysia and China is being realised in collaboration with SME Corp Malaysia, Malaysia External Trade Development Corp, Malaysia Digital Economy Corp and Alibaba.

HUAWEI

During his second visit to Beijing in April 2019, PM Mahathir met with Huawei founder Ren Zhengfei and others, and made a high-profile statement: He would continue to collaborate with the Chinese tech giant Huawei and not bow to pressure from the USA. In a battle for global technology leadership, the Trump Administration had targeted Huawei and urged the whole planet to shun the Chinese company.[22]

In an August 2019 speech at the Malaysia-China Belt and Road Forum in Kuala Lumpur, Malaysia's Minister of Finance and DAP General Secretary Lim stressed how delighted he was that Huawei had located its regional hub in Malaysia, and has 2,500 employees throughout the country. Lim said Malaysia hopes that cooperation with Huawei, the leader in 5G technology, will help the country implement Industry 4.0 technology to drive its economic growth. Malaysia also seeks to learn from China about sectors such as robotics, cloud computing and artificial intelligence (AI).

Malaysian and international media reported in October 2019 that the Malaysian telecom giant Maxis had made a deal with Huawei for provisioning the country's 5G network. The commercial rollout of the new technology was announced for 2021–2022. Although Huawei was chosen because of its technological leadership, cost efficiency also played an important part in the decision: A huge amount of Huawei technology is already installed in Malaysia's 4G networks.

China considers the sale of 5G technology hugely significant, as Premier Li Keqiang pointed out in his annual work report of March 2017. The China Academy of Information and Communications Technology estimates that by 2030, 5G technology will contribute CNY 6.3 trillion to China's economic output.[23] To reach this target, Chinese investments amounting to USD 400 billion are planned for the next 10 years.

SMART CITIES

Mahathir and Huawei boss Ren Zhengfei underscored their interest in jointly developing smart cities. China wants to export its smart city models and Chinese technology with the help of companies like Huawei, Alibaba and CloudWalk Technology (a specialist in facial recognition). Besides exporting Chinese norms and standards for urbanisation with its technology, the collaboration allows China's heavily sponsored AI industry to benefit from the collection and utilisation of globally processed data.
Experience worldwide shows that real estate and technolo-

21 Cf. Jaipragas, Bhavan (2017): Alibaba launches Malaysian hub for electronic world trade platform – and plans a ›new Silk Road‹, in: *South China Morning Post* (2.3.2017); https://www.scmp.com/business/companies/article/2081154/alibaba-launches-malaysian-hub-electronic-world-trade-platform.

22 Cf. What's at stake in Trump's war on Huawei: control of the global computer-chip industry, in: *The Conversation* (1.10.2019); https://theconversation.com/whats-at-stake-in-trumps-war-on-huawei-control-of-the-global-computer-chip-industry-124079.

23 Approximately USD 900 billion.

gy companies generally dominate smart-city development, and that data collection is always an issue. Since half of all smart cities are either in China or use Chinese technology, it is unlikely that data protection will be given greater priority in future smart cities. It is also to be expected that Chinese norms and values will be exported with Chinese urbanisation models and technologies.

In January 2018, Alibaba and the Kuala Lumpur city council agreed to cooperate on the »City Brain« with the e-commerce giant's cloud computing arm using big data and AI to make administration and transport more efficient in Malaysia's capital. Kuala Lumpur is the first city outside of China to use this technology, which is also going to be applied to other Malaysian cities.

AI PARK

At the Second BRI Forum in Beijing in April 2019, Malaysia concluded a deal for its first AI hub or »park«, with the Chinese firm SenseTime investing USD 1 billion. The high-tech park's key AI solutions will include computer vision, speech recognition and natural language processing. The park is to be constructed by China Harbor Engineering, G3 Global, a Malaysian jeans manufacturer that is developing its own AI business and SenseTime.[24] Developers maintain that the AI park will foster local AI talent and develop a commercial AI ecosystem in Malaysia.

24 SenseTime is the world's first AI unicorn.

7

CONCLUSION

Critical observers point out that no matter what they cost, huge infrastructure projects like the ECRL, Bandar Malaysia, Malacca Gateway and the deep-sea port in Kuantan will especially benefit China geopolitically and geoeconomically since they are key elements in Beijing's strategy for opening new spaces and spheres of influence, mitigating difficulties posed by the Strait of Malacca and gaining a foothold in Southeast Asian markets.

Before the 2018 elections and change of government, one of the main objectives of BRI projects in Malaysia was to reduce the excess capacity of Chinese factories using comparatively simple technology. In China, this was euphemistically called »international industrial capacity cooperation«. Hu Huaibang, former Chair of the China Development Bank, stated that the most important goal of the BRI was supporting Chinese economic reforms and elevating Chinese industry to a higher level. China must stop being the »world's factory« for cheap manufacturing, and should move low-tech production to other countries and reduce excess industrial capacity at home. According to Hu, China should promote domestic industries like mechanical engineering, high-speed trains, power generation and telecommunications.[25]

However, public statements like his often fail to mention that entrenched structures are retarding reform of the unprofitable SOEs and provincial firms that create excess capacity. In the PRC, Chinese companies are increasingly – and successfully – being forced to comply with high standards of occupational health and safety and environmental protection. Abroad, however, these companies revert to their old ways. Malaysia has shown how the BRI-financed Chinese lenders' lack of transparent bidding and credit standards creates problems, especially in countries with democratic deficits. Nevertheless, Malaysian experts on China reject the charge that Chinese investors intentionally set a debt trap.

Following on statements about »international industrial capacity cooperation« Portugal's former Minister for European Affairs Bruno Maçães argues that the BRI's main aim is to bring global value chains along cross-border infrastructure connectivity projects and the industrial enterprises that migrate with them under Chinese control. This is certainly true for Malaysia. China is attempting – gradually and region by region – to transform itself from the world's cheap-goods factory into an economy based on high tech and innovation that produces high-quality items. The Made in China 2025 strategy reads: »We will strive to transform China into the global manufacturing leader before the centennial of the founding of the new China, which will lay the foundation for the realisation of the Chinese dream to rejuvenate the Chinese nation.«[26]

To this end, Beijing's design is to control complete value chains: from the acquisition of raw materials and data to industrial and digital production processes and distribution (supported by e-commerce platforms and digital payment services) and transport by rail and/or ship. The BRI is intended to help Beijing achieve its centennial aim of becoming the world's leader of value chains by establishing companies that have their own technological norms and standards and by reorganising global supply chains. Ensuring a good return on investment in BRI projects means encouraging participating countries to adopt Chinese standards for infrastructure development, transportation, finance, industry, digital economy, urbanisation and data management – under the direction of leading Chinese companies.

A practical example is the fairly successful sale of high-speed Chinese trains in Asia. Particularly in Southeast Asia, Alibaba's growing influence through the spread of e-commerce markets is significant. Also key for Beijing is the continued expansion of the 5G protocol of the Huawei »backbone enterprise«, as well as its urbanisation standards for smart cities. New systems solutions from leading Chinese tech companies are intended to bind customers to Chinese standards for the long term, guarantee follow-up orders and generate licence fees. Chen Zhaoxiong, China's Vice Minister of Industry and Information Technology says the Digital Silk Road will »construct a community of common destiny in cyberspace«.[27]

25 Cf. Maçães, Bruno (2019): *Belt and Road – A Chinese World Order*, London: Hurst & Company, pp. 97–98.

26 Cf. State Council of the People's Republic of China (2015): Made in China 2025, 7.7.2015; http://www.cittadellascienza.it/cina/wp-content/uploads/2017/02/IoT-ONE-Made-in-China-2025.pdf.

27 Cf. Moody, Andrew / Yu Cheng, Digital Silk Road forges strong links (7.5.2017); https://www.chinadaily.com.cn/business/4thwic/2017-12/05/content_35207841.htm.

China's influence and investments in Malaysia have grown over time. Former Malaysian PM Najib's authoritarian and totally corrupt regime offered Beijing great opportunities for »win-win« projects that in fact were not mutually beneficial: China was the double-winner. In Najib's Malaysia – like under earlier regimes in Sudan, Angola and Zimbabwe – Chinese investors easily secured exclusive access to the corrupt government and its elites without the need to share any ideological, values-based or cultural references with them. Prior to the 2018 elections, the Chinese made no effort to nurture contacts with Malaysian opposition parties, alternative media or trade unions.

Ironically, it was Najib's ethno-Malay party UMNO, that had long accused the Chinese dominated DAP of sacrificing the interests of the Malay people to Chinese profit-seekers, which was ready to sell off the Malaysian economy to Beijing. Chinese foreign policy-makers and certain Chinese companies completely miscalculated the one-sided support of a thoroughly corrupt government. They will surely learn from the PR disaster in Sri Lanka. Following Malaysia's unexpected power shift, Beijing has become eager to establish new contacts with political parties, young leaders and alternative media such as *Malaysiakini* – as well as to enhance its soft power and shift its approach from a powerholder to a stakeholder. Beijing pragmatically and cleverly revised its diplomacy in just one year.

Chinese investors' self-interested cooperation with the Najib government has not been forgotten. Yet instead of continually making accusations, members of Malaysia's new government confidently formulate their goal as helping Beijing to behave »benignly« and responsibly.

China's economic clout means that the PH government cannot forgo good relations with its largest trading partner and investor. In 2017, DAP National Political Director Liew Chin Tong, now Deputy Minister for Defence, wrote that Malaysia will continue to welcome Chinese investments that are in line with its national interests. As early as 2017, Liew had characterised the Najib government's serial sell-off of strategic infrastructure – including ports on the Malaysian peninsula – as highly problematic. Liew has long been campaigning for more technology and knowledge transfer, as well as a guarantee that PRC investments will create good jobs in Malaysia.[28] The PH government aggressively communicates its endeavour to profit from Chinese technology in order to modernise production methods, raise Malaysia's real net output ratio and climb up the value-added chain. Malaysia is eager to be part of the Digital Silk Road.

Recent developments in Malaysia have shown that the BRI's global success depends on Beijing's diplomatic skills in communicating and implementing the initiative as a real win-win project.

28 Cf. Liew, Chin Tong (2017): 5 areas for caution in accepting investments from China, in: *FMT News* (13.1.2017); https://www.freemalaysiatoday.com/category/opinion/2017/01/13/5-areas-for-caution-in-accepting-investments-from-china/.

RECOMMENDATIONS FOR EUROPEAN AND GERMAN FOREIGN POLICY-MAKERS

Still closer collaboration between the Asian and European economic regions is possible. Thus far, the European Union has been exporting 35 per cent of its goods to Asia, which in turn accounts for 45 per cent of EU imports. Many parts of Asia have a lot of catching up to do in terms of infrastructure, connectivity and broadening the industrial base. At the same time, demands for technology and knowledge transfer are growing.

Much is to be said for maintaining diversified trade relationships with countries in the Asian growth region – besides the largest countries like China, Germany's most important trading partner, and India – and investing more in Southeast Asian countries like Malaysia. Even if Germany is already Malaysia's most important European trading partner and Malaysia is the second largest importer (after Singapore) of German goods amongst ASEAN countries, relations should be deepened: With regard to connectivity Malaysia is in the middle of Southeast Asia and ASEAN, between the Global East and the Global West, and its infrastructure compares favourably with the rest of the region. The country has a well-educated multilingual workforce, is a highly attractive holiday destination and most importantly, has had a democratically legitimised government since May 2018.

Not least, the PH government has stated that it does not wish to submit to the influence of either superpower. Influential members of the Malaysian government have made clear that they do not want to primarily receive infrastructure and low-tech excess capacity but want to exchange high-tech and know-how. They are very open to intensifying relations with Europe and Germany.

No single European country can offer a quantitative alternative to the BRI. However, a united European Union can instead offer reliable quality and financing under market economy, sustainability and good governance criteria – along with some parts of the digital communications infrastructure that plays a critical role in a modern economy. The »EU Connectivity Strategy« for linking Europe and Asia announced in September 2018 contains good starting points. It should be rapidly developed. The »European-Japanese Connectivity Partnership« signed in late September 2019 is also highly promising: In it, Brussels and Tokyo agree to invest in such areas as transport and the digital industry, applying sustainability guidelines and transparent bidding procedures.

European and German foreign policy-makers should work with the Pakatan Harapan government of Malaysia, which has learned from the 1MDB scandal, to promote fair and transparent tendering for infrastructure projects. As a founding member of the AIIB and its largest non-regional stockholder, Germany should commit to high environmental, labour and social standards and push for transparency and accountability. The EU should continue to promote connectivity with ASEAN and support the Master Plan on ASEAN Connectivity 2025[29] – also with regard to shared sustainability standards. With regard to digital connectivity, European and German foreign policy-makers should work with Malaysia's democratically legitimised government to build a free and open Internet.

Europe, and Germany in particular, should not attempt to compete with China to develop Asian infrastructure quantitatively. Instead, they should focus on cooperating with emerging Asian countries like Malaysia in the industrial and future technologies sectors. Germany can offer Industry 4.0 technology and relevant vocational training through its dual educational system, which is received with open arms in Malaysia.

In many sectors of automotive and mechanical engineering, including their digital networking, Germany remains more technologically advanced than China. The USA-China trade war and the additional tariffs imposed on Chinese high-tech products could create competitive advantages for Germany, which can sell German technology wherever new industrial zones are created in connection with the BRI. Besides investing in future technologies and industrial production in countries like Malaysia, German foreign policy-makers and German industry should also propose new cooperative projects for Industry 4.0 vocational training.

German and European export credit and investment guarantees must be expanded in order to compete with China's numerous financing instruments for projects in the industrial and technological sectors. In the long run, European venture-capital funds are needed to further stimulate investment in future technologies and sectors and build European »champions«.

European and German foreign policy-makers should not underestimate the anger of Malaysian and Indonesian decision-makers in all political camps regarding the EU's intention to restrict the use of palm-oil-based bio fuels. In Malaysia, where over 600,000 jobs are dependent on the export of palm oil, the government has threatened to halt negotiations over Malaysia-EU and ASEAN-EU free trade agreements and lodge a complaint at the World Trade Organization (WTO). Creating a »Palm Oil OPEC« and boycotting EU products are also being discussed. In November 2019, Malaysia, Indonesia, Thailand, Columbia, Brazil, Nigeria und Honduras agreed to work more closely to fight anti-palm-oil initiatives. Here again, Beijing is having the last laugh because it knows how to cleverly exploit such differences for its strategic benefit and is offering to generously purchase additional amounts of palm oil from countries like Malaysia.

German policy-makers and their Malaysian counterparts should advocate the holistic, inclusive and people-centred urban development concept of the socially integrative city, in which the »smart« city is the component concerned with innovation and communications. Twinning European and German cities with cities in Malaysia and other Asian countries (sister cities) can create attractive platforms for debating these issues, sketching alternatives and connecting people.

Progressive German and European foreign policy-makers should remain wary of their economic interests blinding them to a deteriorating political culture: That is what created problems for Beijing. In this regard, the 17 December 2015 Resolution of the European Parliament, among others, which condemned human rights violations under the Najib government, was significant. The EU ambassadors' meeting with the opposition PH in January 2018, as well as the Progressive Alliance's mission of solidarity with the PH in Kuala Lumpur in March 2018, were also politically credible and sustainable.

Brussels and European countries like Italy that are anticipating major BRI investments in their strategic infrastructure should carefully study – and learn – from Malaysia's experience.

29 The ASEAN Connectivity Master Plan of 2010 included Cambodia, Laos, Myanmar, Thailand, Vietnam, Indonesia, Philippines, Malaysia, Brunei and Singapore.

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LIST OF FIGURES

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THE BELT AND ROAD INITIATIVE IN MALAYSIA

China's Geopolitics and Geoeconomics Challenged by Democratic Transformation

Before Malaysia's historic change of power in May 2018, the Chinese primarily invested in major infrastructure projects such as deep-sea ports and railway lines that were regarded as part of the Belt and Road Initiative (BRI). These projects reflect China's wish to abandon decades of foreign policy reticence and play a greater role in global and regional developments.

In recent years industrial parks have been built in various parts of Malaysia, demonstrating the BRI's aim to reduce China's own excess industrial capacity by exporting Chinese factories. At the same time, Beijing is striving for total control of regional and global value chains along cross-border projects on infrastructure connectivity – and the industrial companies that migrated with them. To accomplish this by the People's Republic of China centenary in 2049, the BRI has to support global-lead companies that set their own standards for value chains and technology.

Chinese state-owned enterprises and privately owned businesses planned their Malaysian investments assuming that Prime Minister Najib Razak and his increasingly authoritarian ethno-nationalistic United Malays National Organisation, that had ruled since independence in 1957, would long remain in power. However, in May 2018, Malaysia surprised the Chinese government and the rest of the world with its first change of power for 60 years. The switch from a corrupt and authoritarian regime to a democratically legitimised government meant that BRI investments had to be adjusted. The new Malaysian government insists on receiving more technology and knowledge transfers from Beijing and an end to huge infrastructure projects and the exportation of Chinese excess industrial capacities. China's foreign policy-makers are now making big efforts to revise their use of soft power in Malaysia.

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