Belt & Road: China's Malacca dilemma

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Once the key pillar of China's Belt & Road initiative, the Malaysian opposition's election victory in May (2018) has raised questions about Beijing's strategy going forward.

Chinese President Xi Jinping's $4 trillion initiative, launched in 2013, has been coming under increasing criticism as "debt book diplomacy". In April, International Monetary Fund managing director Christine Lagarde warned in a speech in Beijing that Belt & Road initiatives could lead to a "problematic" increase in debt for the recipient country.

The issue has now come to a head in Malaysia, which had been a central pillar of solving Beijing's so-called Malacca Dilemma – or its dependence on the Singapore maritime trade route.

The election victory of the opposition party in Malaysia, led by former prime minister Mahathir Mohamad, was in part provoked by resentment over Chinese infrastructure investments.

Keeping to his campaign promises, Mahathir has pledged to review all infrastructure deals negotiated by his predecessor Najib Razak in an effort to cut the country's debt burden. "I've been informed that our debt is actually M$1 trillion, but today we were able to study and look for ways to reduce this debt," Mahathir said shortly after taking office in late May.

Some, including the Kuala Lumpur–Singapore high speed rail (KL-SG HSR) and the 40km MRT3 line in Kuala Lumpur have already been cancelled.

The fate of more controversial projects – mostly Belt & Road ventures – remain unclear after Mahathir said he would review and renegotiate the terms.

China's "Malacca dilemma"

Beijing has sought to reduce its dependence of its trade through Singapore's port in the Malacca Straits since 2003. Solving the so-called "Malacca dilemma" remains a pillar of Belt & Road.

One of those pillars is now at risk of being cancelled, however. The M$43 billion ($10.6 billion) Malacca Gateway port development was originally launched in 2014 by a joint venture between Malaysia's KAJ Development and PowerChina. The plan was to build four new terminals on artificial islands off the coast of Malacca, just 200km north west of Singapore, the world's second busiest port.

Malacca Gateway had been dogged by criticism about its economic viability from its inception. Further questions were raised after Singapore in April 2017 lured away Ocean Alliance – the world's largest container shipping consortium – from Malaysia's principal maritime gateway, Port Klang near Kuala Lumpur.

Others appear to be safe from being axed altogether, but only because construction has already started or is near completion. Mahathir has vowed, for example, to renegotiate the financing terms of the controversial East Coast Rail

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Link, which has allegedly been linked to transactions to cover the debt of scandal plagued state infrastructure fund 1Malaysia Development (1MDB).

The East Coast Rail Link itself is part of wider Belt & Road venture to link Port Klang on the west coast to a deep sea port being developed in Kuantan on the east coast. Development of the deep sea port by IJM and China's Guangxi Beibu Gulf International Port is scheduled to be completed this year.

"It's a crazy idea to bypass Singapore's port and the Malacca strait," one regional development banker told *IJGlobal*. "And one example of economic viability not being a consideration for Belt & Road."

In the meantime, the investigation into 1MDB in Malaysia has picked up pace and the fate of the renegotiations remains unclear. Beijing for its part has signaled that it may put up a fight.

"The Chinese government will also take concrete measures to safeguard the interests and rights of Chinese enterprises," according to a comment published this month (June 2018) in China's Global Times, a state-owned tabloid which is widely considered to be advocating the government's position.

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