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China’s Investment in the East Coast Railway Line (ECRL) Project in Malaysia as a Strategisation of Space

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ABSTRACT
The rise of China’s power has led the country to fulfil more energy supply to sustain its industrial development. However, the Straits of Malacca challenges disturbed China’s interest to transport oil from the Middle East. Hence, China chooses the BRI project to maintain the problem. This paper will try to examine China’s strategy of constructing an ECRL project in Malaysia as one of the BRI projects to be an alternative to fulfil its energy supply. This qualitative research will employ the concept of power and connectivity. The use of the ECRL Project to Strategise Chinese Interest in energy supply will also be explained to answer the research questions.

Keywords: China; Malaysia; BRI Project; ECRL project; foreign policy

Introduction
China is now seen as a new emerging power. Kristof (1993) predicted that the supremacy of the United States of America (USA) would be replaced by China because the economic growth of China is the fastest in the world along with the fastest-growing military budget. However, according to Shenkar (2006), the rapid economic growth of China is actually a new challenge for China. There are a lot of problems which follow the rise of China, such as its rising inequality of the rich and poor, pervasive corruption at many levels of business and government, massive pollution, and demographic issue.

Another big challenge that must be faced by China as a consequence of its rapid economic growth is the energy security of China. According to Zheng Bijian, the senior advisor to Former Chinese President Hu Jintao, China’s per capita water resources are a quarter of the amount of the world average, and its natural gas, copper, and aluminium resources in per capita terms are around 8.3%, 4.1%, 25.5%, and 9.7% of the respective world average (Zhao, 2008). Data from the United States Energy Information Administration (2015) showed that China is the biggest global energy user in 2011 and the world’s second-largest oil user after the USA.

Furthermore, China will need 600 million tons of crude oil a year by 2020, more than triple its expected output. It is predicted by analysts that by 2020 the country’s demand for oil will reach 11 million barrels a day, natural gas consumption will more than triple, to 3.6 trillion cubic feet annually, and coal use will grow by 76%, to 2.4 billion tons a year. China’s oil imports will account for 61% of the country’s estimated demand by 2010 and 77% by 2020. Therefore, Former Chinese Premier Wen Jiabao stated that the energy dependency of China is then becoming a national security issue (Zhao, 2008).

China has its state-owned energy companies, such as China National Petroleum Company (CNPC) which has more than two-thirds of China’s crude oil production capacity and is given responsibilities mostly in China’s North and West, China Petroleum and Chemical Corporation (Sinopec) which controls more than a half of China’s refining capacity and is the primary importing corporation for crude oil and is responsible in the South, and China National Offshore Oil Corporation (CNOOC) which tackles offshore exploration and production (Zhao, 2008).

However, China’s oil imports, mainly come from Africa and the Middle East have to go through the Straits of Malacca as the most strategic shipping route to the country. Straits of Malacca is one of the most crucial shipping waterways in the world from both an economic
and a strategic perception. It is the shortest shipping canal between the Northern Indian Ocean and the North-Western Pacific Ocean (Chia & Leng, 1987).

Over the past few years, Chinese leaders have come to view the Straits of Malacca as a strategic vulnerability (Holmes, 2007; Blumenthal, 2008; Zhang, 2011). In November 2003, Hu declared that ‘certain major powers’ were determined on controlling the strait and called for the adoption of new strategies to mitigate the perceived vulnerability. According to Hu, 80% of China’s trade passes through the 600-mile waterway including its oil imports. China is concerned about intrusions and unrestricted navigation through the straits (Sarma & Reinert, 2013). Thereafter, the Chinese press devoted considerable attention to the country’s ‘Malacca dilemma’, leading one newspaper to declare: “It is no exaggeration to say that whoever controls the Straits of Malacca will also have a stranglehold on the energy route of China” (China Youth Daily, 2004; Storey, 2006). ‘Malacca dilemma’ has become the focus of Chinese planners as well as those outside watching China’s rise (Sarma & Reinert, 2013).

China formed a project of the Belt and Road Initiative (BRI), where the ‘Belt’ refers to the Silk Road Economic Belt and the ‘Road’ to the 21st Century Maritime Silk Road (Liu & Dunford, 2016). The term ‘silk road’ has been in use since the 19th Century and refers to the traditional East-West trading network across Eurasia and the Indian Ocean region that flourished before the 16th Century. The network included both overland and maritime trading routes. By using the term silk road, the Chinese government stresses the commercial and open nature of the modern version of the network. At the same time, the term suggests memories of China’s past as a strong and prosperous country, which is a status that China is trying to reestablish under an approach that it calls ‘The Chinese Dream’ (van der Putten & Meijnders, 2015).

In 2014, President Xi Jinping declared the launch of an Asian International Infrastructure Bank (AIIB) to provide 47 billion US Dollars in seed funding for the project (Zhong, 2016). The project is financed, constructed, supplied, and sometimes operated by Chinese firms that are either state-owned or that otherwise have close relations with the Chinese government (van der Putten & Meijnders, 2015). The ambitious vision aims to resurrect the ancient Silk Road as a modern transit, trade, and economic corridor from Shanghai to Berlin. The ‘Road’ will traverse China, Mongolia, Russia, Belarus, Poland, and Germany extending more than 8,000 miles, creating an economic zone that extends over one-third of the circumference of the Earth (Zhong, 2016). Moreover, the project enables China to transport the energy supply from the oil exporting countries through the land to mainland China, such as Eurasian Land Bridge and China – Mongolia – Russia, China – Central Asia – West Asia, China – Pakistan, Bangladesh – China – India – Myanmar, and China – Indochina economic corridors (Liu & Dunford, 2016).

One of the BRI schemes is China’s investment in Malaysia’s infrastructures in China – Indochina economic corridor. In fact, China has emerged as the largest foreign investor in Malaysia in recent years. In November 2016, following the summit, fourteen MoUs worth a combined 143.6 billion Malaysian Ringgit were signed with Chinese companies, such as the East Coast Railway Line (ECRL) worth 55 billion Malaysian Ringgit, Melaka Gateway Project worth 32.6 billion Malaysian Ringgit, Trans Sabah Gas Pipeline worth 2.5 billion Malaysian Ringgit, Wuxi Suntech Power Co. Ltd. manufacturing project in the Malaysia – China Kuantan Industrial Park worth 4 billion Malaysian Ringgit, Xiamen Malaysia University worth 1.3 billion Malaysian Ringgit, and other big investment projects (Loh, 2017).

In this article, we would like to focus on the ECRL project because it has invested the most significant amount of money among other projects regarding transporting oil supply from the oil-importing countries to China. The rail line will connect the prosperous West coast of the Malaysian Peninsula and its relatively undeveloped East coast. The line will ultimately run from Port of Klang on the West coast of the Malaysian Peninsula to Port Kuantan on the East
coast and then up to the North-Eastern corner of Malaysia. By doing so, it increases the potential of the Malaysian Peninsula’s East Coast, strengthening its connection with the critical Straits of Malacca, the gateway between Southeast and South Asia, the Middle East, and Africa (Hays, 2017). Moreover, by connecting the Port of Klang to the Port of Kuantan, ECRL could perform cheaper and less risky options. Therefore, in this paper, we would like to address the issue of how is the investment of the ECRL project in Malaysia be a Chinese strategisation of space.

**ECRL Project in Malaysia and the Role of China**

Although there are a lot of countries which participate in the BRI project, one of the most interesting partnerships is with the Association of South East Nations (ASEAN) countries because China is very active in ASEAN countries. In these new markets, Chinese contractors are starting to play a vital role and compete with the more established Korean and Japanese players. In fact, Chinese contractors have established a strong presence in Malaysia, through the solid relationship between the two governments (Miu, et al., 2017).

As a destination for Malaysia’s exports, China ranks second, accounting for 10% of Malaysia’s total exports in 2016. However, as a source of imports, China tops the list, accounting for 20% of Malaysia’s total imports. An important feature of Malaysia’s trade with China is that it is not a balanced one. Malaysia imports more from China than it exports to China, resulting in an estimated deficit of 24 billion Malaysian Ringgit in 2016. Thus, economically, China gains more from trade between the two countries (Lee, 2016).

In November 2016, Malaysia and China signed 14 agreements worth 33 billion US Dollars. The most important ones are related to infrastructure and commercial development, such as the ECRL, Bandar Malaysia, and Melaka Gateway (Lee, 2016). Among a set of BRI projects in Malaysia, the most expensive is the ECRL project, which costs approximately 55 billion Malaysian Ringgit (Yong, 2017).

The mega project of ECRL of 600 kilometres-line rail line would help Malaysia maintain its National Transformation Programme (NTP) momentum. It will cut through four states, linking Klang Valley, Pahang, Terengganu, and Kelantan. It will also connect the Port of Kuantan and the Malaysia-China Kuantan Industrial Park to the West Coast. Both projects are deemed to be part of the Maritime Silk Road Initiatives (MSRI). ECRL will link many rural townships such as Port of Klang, Integrated Transport Terminal (ITT) Gombak, Bentong Mentakah, Kuantan, Kemamam, Kerteh, Kuala Terengganu, Kota Bharu and Tumpat, and is part of the larger plan to connect rural areas. The government has said that the railway link will lower transportation costs between the West and East Coasts of Peninsular Malaysia, cheapen the prices of goods and reduce travelling time (Yong, 2017). The ECRL project aims to reduce the time taken to travel from Shenzhen to Port of Klang, from 165 hours (via Singapore and Straits of Malacca) to 135 hours (via Port of Kuantan and ECRL). The ECRL project will be to alter the existing regional trade route, which runs between the Straits of Malacca and Singapore and the disputed South China Sea through Singapore (Patrick, 2017).

The project will be financed by a 20-year loan from the Export-Import (Exim) Bank of China. The Prime Minister has stated that the ECRL is expected to add 1.5% to the gross domestic product (GDP) of the three states (Lee, 2016). According to Transport Minister Datuk Seri Liow Tiong Lai, ECRL will bring huge economic development to the east coast of the peninsula and it will further enhance the longer-term potential of the East Coast Economic Region (ECER) (Rosely, 2016).

**Strategy: Power and Connectivity**

According to Freedman (2013), strategy is the art of creating power. In his article, he further detailed that the realm of strategy is one of bargaining and persuasion as well as threats
and pressure, psychological as well as physical effects, and works as well as deeds. This is why strategy is the central political art. It is about getting more out of a situation than starting a balance of power would suggest. Therefore, strategy is used as a tool to reach the power interest.

Power itself is one’s ability to affect the behaviour of others to get what one wants. There are three fundamental ways to do it: coercion, payment, and attraction. Power is divided into hard and soft power. Hard power is the use of coercion and payment while soft power is the ability to obtain preferred outcomes through attraction (Nye, 2009). However, to actually implement a state’s policy, it is difficult to use only one of them. Therefore, in 2003, Nye (2009) developed the term smart power.

Wilson III (2008) defined smart power as the capacity of an actor to combine elements of hard power and soft power in ways that are mutually reinforcing such that the actor’s purposes are advanced effectively and efficiently. The term smart power comes into account because soft power is not the solution to all problems. Nye (2009) gave an example of a North Korean dictator, Kim Jong II may like watching Hollywood films, but it does not change his decision to launch a nuclear weapons programme. Furthermore, Nye (2009) called how to combine the resources of both hard and soft power into smart power strategies as contextual intelligence. Contextual intelligence is the intuitive diagnostic skill that helps policymakers align tactics with the objective to create smart strategies.

As a new emerging economy, China also implements its smart strategies. The leadership of China has deployed power resources strategically. The individual policy choices made by Hu and his advisors have reflected a sophisticated analysis of the world as it is and they have arranged a balanced, integrated array of instruments to achieve their narrow political goals as well as to advance their national purposes. Hu’s decision to develop and consistently pursue a doctrine of “China’s Peaceful Rise” is a clear counterpoint to former US President George W. Bush’s approach which has mainly focused on the need to maintain military superiority (Wilson III, 2008). The term ‘peaceful rise’ was made up by Zheng Bijian in 2004 when he was giving a speech at a Roundtable Meeting between Bo’ao Forum for Asia and the China Reform Forum. Zheng argued that the term ‘peace’ and ‘rise’ can actually be standing together although it is a little bit contradictive. He was concerned that the rise of a new significant power is often attributed to the threat to peace (Bijian, 2004).

Power is often correlated with connectivity as connectivity, including infrastructure and projects have long been recognised as an integral element of global political and economic change as well as a reflection of new political and economic realities. Regarding the former, Sir Halford Mackinder’s seminal contribution to classic geopolitics was based on the transformative effects of railway routes (Blanchard & Flint, 2017).

Port-rail connectivity is a strategic element of port development, both in economic and competitive terms and to reduce negative externalities on people and the environment. Not only does proper rail connectivity expand the port hinterland, but it also promotes growth in capacity without affecting the port-city relationship, by linking ‘spatially’ fragmented processes without congesting the urban environment surrounding the port (Matamala, 2012). Moreover, a seaport is a country’s right hand extended to foreign lands, offering them our products and requesting theirs. It is the focus of a variety of lines of communication, ocean steamship lines engaged in coasting and foreign trade, inland waterways and railways. Its function is to bring these lines into contact and to enable them with the least possible friction and loss of energy to affect the exchange of their burdens (Clapp, 1911; Lobo-Guerrero, 2012).

**ECRL Project as Chinese Smart Power Strategy to Show Dominance in the Region**

The primary goal for China is to remain economically and militarily strong. But to be a world power, China must exercise influence outside its borders, and that means particularly
in the ring of neighbouring states that China has historically pursued to dominate. Southeast Asia is essential for China for several reasons. Perhaps the most strategically significant is that Southeast Asia, especially the mainland as opposed to the maritime states, provides potentially the most prolific and accessible region for the projection of Chinese influence. Moreover, it is an economically vibrant region in close communication with China’s coastal provinces, the powerhouse of China’s own rapid economic development. It is obviously tempting for China, therefore, to attempt to draw Southeast Asia into a recognisable Chinese sphere of influence (Stuart-Fox, 2004). China’s burgeoning economic rise has restructured industrial networks in East Asia, powering regional production for China as the final assemblage and export point to the rest of the world. The Chinese government has also tried to consolidate its economic leadership position by driving broader economic regionalism (Goh, 2011).

ECRL project itself could also be one of the Chinese attempts to perform a smart power strategy in the region. By financing the ECRL project, China can influence its power in the Southeast Asian countries while also getting the resource from the oil exporter countries. Grey (2017) argued that the project is a sign of the Chinese state’s improved influence over ASEAN member states, as well as an economic and political instrument to contest stronger diplomatic allies and have free access to the newly growing markets. Empirical evidence shows that China’s pursuit of high-speed rail dominance exceeds transportation and convenience, and goes extra into the realm of political influence and economic ties. For instance, the ECRL contract was given to China directly with no open call for international bidders and that is one of many Chinese investments in Malaysia over the past few years.

For China, the ECRL project is another expansion of its soft power in Malaysia, which also lays claim to some disputed South China Sea islands and is critical for China’s geopolitical and strategic interests. Chinese State Chancellor, Wang Yong said at the ceremony in Kuantan that the Chinese government has attached great importance to China-Malaysia relations and has always considered Malaysia as a dear neighbour and trustworthy partner who is committed to seeking mutually beneficial cooperation and common development in the country (Lee, 2017). From a such statement from China, it is proven that the close relationship between Malaysia and China is quite strategic for China it could be beneficial for both sides. Even many said that the growing closeness to China has raised eyebrows among the opponents of Malaysian Prime Minister, Najib Razak who has argued that the country has become too reliant on Chinese funds (Lee, 2017). It is then logical that China is being a sphere of influence in Malaysia.

Moreover, South China Morning Post also said that China’s relations with other countries in Southeast Asia are strained. For example, China’s relations with Singapore had even deteriorated after the city-state supported an international tribunal ruling last year that overturned China’s claims to sovereignty over most of the South China Sea. Moreover, Singapore is seen getting closer to the USA which made China reluctant to invest in Singapore (Anonymous, 2017).

With increased trade and economic development coming out of the region, it is no wonder China is eager to beat the competition and form strong connections, both politically and physically, by delivering promising projects such as ECRL. Once a brand-new rail route begins to serve a region formerly lacking in functional connectivity, the rewards are likely to pile up fast (Grey, 2017).

**ECRL Project to Strategise Chinese Interest**

The Chinese investment of 55 billion Malaysian Ringgit to construct an ECRL project will cut travel time between the East and West coasts from 12 hours on average to a mere 4 hours. As transport costs will be significantly reduced, and as places on the East coast will be well connected with Port of Klang in Selangor, business opportunities are expected to flourish
with new jobs being created along the 23 stations, improving existing towns, such as Mentakab, Chukai and Maran, and may also open new towns along the rail line (Abidin, 2017).

Malaysia relies heavily on its rail network as the main support for transporting both passengers and cargo. Rail ridership is increasing throughout the country, with a growth of 8.5% in usage between 2011 and 2015, according to statistics from Suruhanjaya Pengangkutan Awam Darat (SPAD) or Land Public Transport Commission. The annual ridership for rail throughout Malaysia stood at 230 million in 2014. The ECER is the actual significance for Malaysia’s continuous development and growth. Covering 51% of the total area of Peninsular Malaysia, it houses nearly 5 million people. ECRL was thus identified as a ‘high impact infrastructure project that will form the backbone of the region’s multimodal transport infrastructure’ by the government (Grey, 2017). Based on such information, it is known that the investment of China can build a new network for Malaysia and is beneficial for its economic growth.

The ECRL project is not only beneficial for Malaysia but also for China because China can get access to greater amounts of oil and also diversify the sources from which it imports. CNPC is most active in terms of overseas investments with about 80% of total Chinese foreign equity production. Both Sinopec and CNOOC have also increased their foreign holdings, however, and by 2008, overseas equity investments accounted for almost 30% of China’s overall oil production. Geographical diversity has been an important objective of National Oil Companies’ (NOCs) investments, while half of China’s oil imports are from the Middle East, a full 30% comes from Africa, while only 3% comes from the Asia-Pacific region (United States Energy Information Administration, 2009; Tessman & Wolfe, 2011). Therefore, by investing in the project, China can get oil supply from the oil-exporter countries faster to help maintain its energy security problem.

Conclusion

The rise of China brings consequences to the country, particularly energy security issues. As China’s economy is growing, China needs more energy supply to the country to sustain its industrial development. However, the challenges in the Straits of Malacca, which is being called as ‘Malacca dilemma’ obstruct China’s interest in easily transporting oil from the Middle East. To help maintain the problem, China formed the BRI project which is participated by more than 60 countries and one of them is Malaysia by constructing an ECRL project that links the Port of Klang to the Port of Kuantan by railway and then continued to mainland China by vessels.

Based on my analysis above, we can study that Chinese investment in the ECRL project in Malaysia is the Chinese strategisation of space by exercising its smart power and forming connectivity among China, Malaysia, and other oil exporting countries for China’s interest in oil. Smart power, as defined above is combining both hard and soft power to gain what the actor’s aim effectively and smart power involves strategic use of diplomacy, persuasion, capacity building, and the projection of power and influence. In the case of China and Malaysia, China is using Malaysia as a sphere of influence in the region by investing a big amount of money to construct the ECRL project. Based on the information provided, Malaysia becomes dependent on China and China considers Malaysia a trustworthy partner.

Not only is it an influence on the region, but China also uses Malaysia as a strategic point to deliver its energy supply from oil-exporting countries. By crossing Malaysia, China can cut the time and cost more efficiently and get freed from the ‘Malacca dilemma’. For Malaysia, construction is also beneficial because it could enhance its business in the region. Therefore, Chinese investment in the ECRL project in Malaysia is considered a strategisation of space.
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