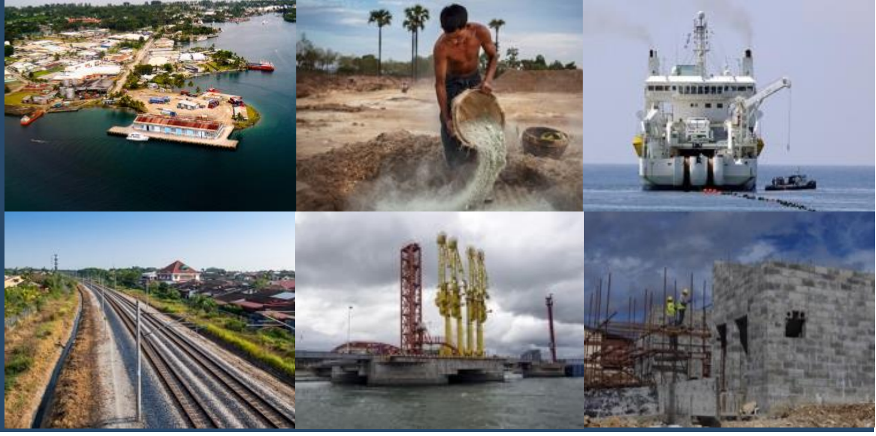
BRI MONITOR



POLICY BRIEF: BRI PROJECTS DELIVER LOW ROI IN MALAYSIA

BRI Monitor is a joint initiative started by think tanks in Asia and the Pacific to track the impact of China's Belt and Road Initiative projects. A key aim is to promote transparency and accountability around the terms and full costs to countries and communities. With support from the Center for International Private Enterprise, BRI Monitor partners developed a new methodology to assess the level of disclosure about various infrastructure projects and contract data. This can help identify governance gaps that make countries vulnerable to corrosive capital situations.

LOW RETURN ON INVESTMENTS: THE BELT AND ROAD INITIATIVE IN MALAYSIA

China's flagship Belt and Road Initiative (BRI) has provided countries with an alternative for funding infrastructure projects without the screening and compliance requirements standard to similar projects built by Western multilateral and bilateral institutions. However, opaque contracts and noncompetitive tendering and procurement practices have reduced the return on investment (ROI) of BRI projects for participating countries, by raising costs relative to an open and transparent process.

When governments overpay for infrastructure or pick projects that don't boost economic growth, they often create financial troubles for themselves. As of late 2023, BRI loans are a significant contributor to the global rise in debt distress. According to the International Monetary Fund, more than half of all low-income developing countries are now in, or at high risk of, debt distress. Even so, China has largely refused to participate in multilateral debt relief talks, and most of the $78 billion of BRI loans that were renegotiated between 2020 and the first quarter of 2023 featured loan extensions but not reductions in the value owed. Of the few instances of Chinese loan forgiveness, most relief has been concentrated among a few countries that have high exposure to Chinese debt, such as Angola and Pakistan.

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Rising debt burdens have led some countries to rethink the expected ROI of their BRI projects. In Malaysia, many projects were suspended or cancelled when a new ruling party came to power in 2018. Delays and corruption allegations had contributed to inflated costs that called into question the projects' value. While some have been revived with lower price tags, others remain in limbo. Malaysia's experience illustrates some of the ways in which BRI agreements produce suboptimal returns for host nations. The Melaka Gateway is an example of a major BRI project that is unlikely to add much value to Malaysia's economy, because similar facilities already built are underutilized.

A preliminary feasibility study might have illuminated this and other issues, but the Gateway's developers declined to conduct one—a problem that is far from unique among BRI projects. Other

*BRI Monitor founding members include the Institute for Democracy and Economic Affairs (IDEAS) in Malaysia, Future Forum in Cambodia, Institute of National Affairs (INA) in Papua New Guinea, Sandhi Governance Institute in Myanmar, and Stratbase ADR Institute for Strategic and International Studies (ADRi) in the Philippines. To view their latest research and sign up for newsletters and briefs, visit **brimonitor.org** or email **contact@brimonitor.org**.*

projects in Malaysia have been caught up in allegations of money laundering related to the 1MDB corruption scandal, in which former Prime Minister Najib Razak and his political associates were convicted of money laundering, embezzling, and other charges.

Both the East Coast Rail Link and the Trans-Sabah Gas Pipeline featured secretive contracts concealing financing arrangements that have served as vehicles for criminal or potentially criminal activity. These opaque agreements have cost the Malaysian people millions of dollars. When democratically elected governments mismanage public funds so egregiously, entirely shielded from public view, public faith in democracy itself can erode.

INSUFFICIENT ECONOMIC RATIONALE: MELAKA GATEWAY

The Melaka Gateway is a planned integrated seashore development project conceptualized as a maritime center that would host the largest private marina in Southeast Asia. The Gateway aims to revive Melaka's status as an international trading hub and revitalize the regional economy. Even so, the project's economic feasibility has been repeatedly questioned due to the underutilization of Malaysia's existing ports and marina. For instance, a 2016 World Bank report concluded that Malaysia's economy would be better served through increased usage of the country's existing ports, which operate at around 70 percent capacity. The project's plan to develop new luxury residential and commercial areas was also met with negative responses, with residents citing the oversaturation of unsold condominiums and shopping complexes in Melaka.

No rigorous financial feasibility study was conducted during the project's conception, and the absence of public details about the Gateway's financing arrangements, ownership, and land concession procurement process makes it impossible to determine whether a sound rationale does—or ever did—exist. The available analyses, however, suggest that the return on investment for this expensive project is expected to be lower than what the ROI for improving existing facilities in Melaka would be, raising questions about why Malaysia's authorities have allowed the Melaka Gateway to proceed.

VULNERABILITY TO MONEY LAUNDERING: TRANS-SABAH GAS PIPELINE

The Trans-Sabah Gas Pipeline (TSGP) is a $969.9 million petrochemical and gas pipeline project implemented by China Petroleum Pipeline Bureau, a subsidiary of the Chinese state-owned enterprise China Petroleum Pipeline Engineering Corporation (CPPE). The project is owned by Suria Strategic Energy Resources (SSER), a company wholly owned by Malaysia's Ministry of Finance.

In 2018, the Ministry of Finance revealed that the TSGP may have facilitated money laundering by Razak and associates.[5] According to the allegations, the contract for the TSGP was among a series of lucrative deals given to Chinese state-owned enterprises in exchange for a Chinese government bailout of debts related to the 1MDB scandal. The allegations triggered criminal investigations in multiple countries, as well as a civil suit brought by the U.S. Department of Justice to recover $1 billion in stolen money. It was the largest case of its kind brought by the department's Kleptocracy Asset Recovery Initiative.[6]

> ***"The project is emblematic of how secrecy clauses that prohibit the publication of BRI loan details allow corrupt officials to inflate costs and misuse funds at the Malaysian people's expense."***

The money laundering scheme could explain the Malaysian Ministry of Finance's 2018 discovery that SSER had paid the contractor MYR8.3 billion ($1.98 billion at the time), representing 88 percent of the total contracted value, for the TSGP and another pipeline, even though only 13 percent of the work for the two projects had been completed. Because the Malaysian government guaranteed loan repayment, it was responsible for repaying the money regardless of whether CPPE actually built the pipeline. The TSGP was officially terminated in September 2018 due to the corruption allegations and then-ongoing investigation. The project is emblematic of how secrecy clauses that prohibit the publication of BRI loan details allow corrupt officials to inflate costs and misuse funds at the Malaysian people's expense.

KEY RECOMMENDATIONS

These BRI Monitor case studies from Malaysia highlight some of the pitfalls associated with the opaque and noncompetitive processes endemic to BRI projects. Insufficient economic rationale, vulnerability to corruption, and a lack of accountability and transparency contribute to project failures and reduce return on investment. Safeguards need to be put in place by both donors and host countries to ensure full project transparency and guarantee that projects are justified by strong public demand and a feasible economic rationale.

Changes in Malaysia's government have shed light on some of the structural shortcomings of BRI projects as new governments gain insight into the opaque terms, costs, and governance gaps of these agreements upon taking office. To address these issues, the Malaysian government should establish institutions that address gaps in project oversight by promoting transparency and enabling continuity through changes in political leadership.

An independent infrastructure commission and a special agency for public infrastructure could close governance gaps in the country, and the U.K.'s National Infrastructure Commission (NIC) and Infrastructure and Project Authority (IPA) are examples of state bodies that could serve as a template. Bipartisan parliamentary committees could also serve as a venue for consulting both ruling party and opposition representatives on changes to infrastructure projects and soliciting public input, thereby improving transparency and limiting the risk of delays resulting from unexpected pushback.

Infrastructure projects should also include stringent financial feasibility and risk assessments before their approval. These assessments should include an evaluation of the project developers' experience and capacity to deliver on their proposal to avoid awarding contracts to dubiously qualified companies. Both donors and host countries should implement and safeguard their own regulatory requirements to this end. By taking the lessons learned from BRI challenges in Malaysia, project investors, developers, managers, and governing bodies can work together to ensure greater rigor, feasibility, profitability, and transparency—the building blocks for constructive, rather than corrosive, capital.

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