POWER ELITES AND STATE-BUSINESS RELATIONS: MALAYSIA-CHINA SELECTED BELT AND ROAD INITIATIVE PROJECTS

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ABSTRACT

This study focuses on state-state-business ties, a new phenomenon shaped by how local power elites (LPEs) collaborate with Chinese transnational corporate elites (TCEs) to implement infrastructure projects related to China's Belt and Road Initiative (BRI). These LPE-TCE links, in turn, have led to the creation of novel forms of state-business relations (SBRs), with diverse outcomes and implications. In Malaysia, these state-state-business ties, forged by both countries for their respective business enterprises, were primarily a consequence of an interesting confluence of two major events, which took place between 2014 and 2016: 1) Malaysia's 1Malaysia Development Berhad (1MDB) scandal; and 2) the introduction of China's BRI. These events then witnessed leaders of two single-dominant parties (SDPs), the United Malays National Organisation (UMNO) and Chinese Communist Party (CCP), coming together to pursue their respective economic and political objectives. This thesis draws attention to this important and new phenomenon that offers interesting theoretical insights in both elite- and SBR-related studies. The conventional wisdom of homogenised SBRs is built on, by indicating that, in practice, state-business ties are extremely heterogeneous. This study has developed a conceptual framework that explains how state-state-business ties, forged by two countries, both led by SDPs, that control their respective enterprises, have contributed to unique SBRs, created to undertake BRI projects, which in turn are driven by specific LPE-TCE links. Case studies are employed to trace empirically why the three BRI projects in Malaysia were implemented on a non-transparent basis. These studies provide insights into how disparate forms of SBR-based institutional architecture function, not only at the federal level, but also in different states in Malaysia, with links externally to Chinese enterprises. In the process, it draws attention to the emergence of diverse types of power and inter- and intra-elite relationship issues of different LPEs, like elite unity, elite contestation, and elite settlement, which have contributed to the creation of dissimilar SBRs. This study notes that different LPEs, as key actors in the state, might have turned effective and collaborative SBRs, fashioned to implement the three BRI projects, into economic endeavours that also feature ineffective and collusive relationships, characterised by rent-seeking behaviour. This study also highlights that key UMNO elites and Chinese state-owned enterprises (SOEs) appear to be central in these novel SBRs, an issue that has had major implications for the Malaysian economy, as well as its political system.

Keywords:

Malaysia; China; state-state-business ties; single-dominant parties; power elites; state-business relations

ABSTRAK

Kajian ini menumpukan kepada hubungan negara-negara-perniagaan, fenomena baru yang dibentuk oleh bagaimana elit kuasa tempatan (LPE) bekerjasama dengan elit korporat transnasional (TCE) China untuk melaksanakan projek infrastruktur yang berkaitan dengan "Belt and Road Initiative" (BRI) China. Pautan LPE-TCE ini seterusnya menyebabkan terciptanya bentuk hubungan negara-perniagaan (SBR) yang baru, dengan hasil dan implikasi yang pelbagai. Di Malaysia, hubungan negara-negara-perniagaan ini, yang dijalin oleh kedua-dua negara untuk perusahaan perniagaan masing-masing, adalah terutamanya akibat daripada pertemuan dua peristiwa besar yang menarik antara 2014 dan 2016: 1) skandal 1Malaysia Development Berhad (1MDB) Malaysia; dan 2) pengenalan BRI China. Peristiwa ini kemudian menyaksikan pemimpin dua parti dominan tunggal (SDP), United Malays National Organisation (UMNO) dan Chinese Communist Party (CCP), berkumpul untuk mencapai matlamat ekonomi dan politik masing-masing. Tesis ini menarik perhatian kepada fenomena penting dan baru ini yang menawarkan pandangan teori yang menarik dalam kajian berkaitan elit dan SBR. Kebijaksanaan konvensional SBR yang homogenis dibina, dengan menunjukkan bahawa, dalam praktiknya, hubungan negara-perniagaan adalah sangat heterogen. Kajian ini telah mengembangkan satu rangka kerja konsep yang menjelaskan bagaimana hubungan negara-negara-perniagaan, yang dijalin oleh dua negara, yang dipimpin oleh SDP, yang mengendalikan perusahaan masing-masing, telah menyumbang kepada SBR yang unik, yang dibuat untuk melaksanakan projek BRI, yang seterusnya didorong oleh pautan LPE -TCE yang tertentu. Kajian kes digunakan untuk mengesan secara empirik mengapa tiga projek BRI di Malaysia dilaksanakan secara tidak telus. Kajian-kajian ini memberikan gambaran tentang bagaimana bentuk seni bina institusi berasaskan SBR yang berbeza berfunsi, bukan hanya di peringkat persekutuan, tetapi juga di negeri-negeri yang berlainan di Malaysia, dengan hubungan secara luaran dengan perusahaan milik China. Dalam proses in, ia menarik perhatian terhadap munculnya berbagai jenis kuasa dan masalah hubungan antara elit di kalangan LPE yang berbeza, seperti persatuan elit, persaingan elit, dan penyelesaian elit, yang telah menyumbang kepada penciptaan SBR yang tidak sama. Kajian ini menyatakan bahawa LPE yang berlainan, sebagai pelakun utama di dalam negera, mungkin telah mengubahkan SBR yang berkesan dan kolaboratif, dibuat untuk melaksanakan tiga projek BRI, kepada usaha ekonomi yang juga menampilkan hubungan yang tidak berkesan dan kolusif, yang dicirikan oleh tingkah laku “rent-seeking”. Kajian ini juga menekankan bahawa elit utama UMNO dan perusahaan milik negara (SOEs) China kelihatan seperti pusat dalam SBR yang “novel” ini, satu isu yang mempunyai implikasi besar terhadap ekonomi Malaysia, dan juga sistem politiknya.

Kata kunci:

Malaysia; China; hubungan negara-negara-perniagaan; parti tunggal yang dominan; elit kuasa; hubungan negara-perniagaan

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For Lillian, Jay Ru and Jay Sze

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1MDB	1 Malaysia Development Berhad
AEC	ASEAN Economic Community
AIIB	Asian Infrastructure Investment Bank
ASEAN	Association of Southeast Asian Nations
BCIC	Bumiputera Commercial and Industrial Community
BEE	Bumiputera Economic Empowerment
BN	Barisan Nasional (National Front)
B&R	Belt & Road
BRI	Belt and Road Initiative
CBD	Central Business District
CCCC	China Communications Construction Company Ltd.
CCM	Companies Commission of Malaysia
CCP	Chinese Communist Party
CDP	Comprehensive Development Plan
CEO	Chief Executive Officer
CGPV	Country Garden Pacificview Sdn. Bhd.
CNDRC	Chinese National Development and Reform Commission, China
CNPC	China National Petroleum Corporation
COSCO	China Ocean Shipping Company
CRCC	China Railway Construction Corporation
CREC	China Railway Engineering Corporation
DAP	Democratic Action Party
DEIA	Detailed Environmental Impact Assessment
ECER	East Coast Economic Region

ECRL	East Coast Rail Link
ENR	Engineering News Record
EPC	Engineering, Procurement and Construction
EPCC	Engineering, Procurement, Construction and Commissioning
EPF	Employees Provident Fund
EPU	Economic Planning Unit
ETP	Economic Transformation Programme
FDI	Foreign Direct Investments
FELDA	Federal Land Development Authority
FTA(s)	Free Trade Agreement(s)
GDP	Gross Domestic Product
GE12	12th general election
GE13	13th general election
GE14	14th general election
GLCs	Government-Link Companies
HSR	High Speed Rail
HSS	HSSI Engineers Berhad
ICJ	International Court of Justice
ICSB	IWH-CREC Sdn. Bhd.
IIB	Iskandar Investment Berhad
IPIC	International Petroleum Investment Co.
IRDA	Iskandar Regional Development Authority
IR	International Relations
ITT	Integrated Transport Terminal
IWC	Iskandar Waterfront City Berhad
IWH	Iskandar Waterfront Holdings Sdn. Bhd.

JV(s)	Joint-Venture(s)
KAJD	KAJ Development Sdn. Bhd.
KPRJ	Kumpulan Prasarana Rakyat Johor
LLCB	Loh & Loh Corporation Berhad
LPE(s)	Local Power Elite(s)
LRT	Light Rail Transit
LTAT	Lembaga Tabung Angkata Tentera (Armed Forces Savings Fund)
LTH	Lembaga Tabung Haji (Pilgrims Savings Fund)
M&E	Mechanical & Electrical
MACC	Malaysian Anti-Corruption Commission
MARA	Majlis Amanah Rakyat (Council of Trust for Indigenous People)
MCA	Malaysia Chinese Associations
MGS	Malaysian Government Securities
MIC	Malaysian Indian Congress
MIDA	Malaysian Investment Development Authority
MITI	Malaysia's International Trade and Industry
MM2H	Malaysia My Second Home
MO1	Malaysian Official 1
MOA	Memorandum of Agreement
MOFA	Ministry of Foreign Affairs, China
MOFCOM	Ministry of Commerce, China
MOU	Memorandum of Understanding
MRL	Malaysia Rail Link Sdn. Bhd.
MRT	Mass Rapid Transit
NEM	New Economic Model
NEP	New Economic Policy

NGOs	Non-governmental Organisations
NVP	New Vision Policy
O&M	Operations & Maintenance
OBOR	One Belt One Road
OFDI	Outward Foreign Direct Investments
PAS	Pan-Malaysian Islamic Party
PDP	Project Delivery Partner
PH	Pakatan Harapan (Alliance of Hope)
PN	Perikatan Nasional (National Alliance)
PPB	Putrajaya Perdana Berhad
PR	Pakatan Rakyat (People's Alliance)
RCEP	Regional Comprehensive Economic Partnership
REHDA	Real Estate and Housing Developers' Association of Malaysia
RMB	Renminbi
RM	Ringgit Malaysia
SASAC	State-owned Assets Supervision and Administration Commission, China
SBR(s)	State-business relations
SBUs	Strategic Business Units
SDP(s)	Single-Dominant Party (s)
SOE(s)	State-Owned Enterprise (s)
SPV	Special Purpose Vehicle
SSA	Share Sale Agreement
TCE(s)	Transnational Corporate Elite (s)
TOD	Transit-Oriented Development
UK	United Kingdom
UMNO	United Malays National Organisation

UN	United Nations
UNESCO	United Nations Educational, Scientific and Cultural Organisation
US	United States
US$	US Dollar
S$	Singapore Dollar
WTO	World Trade Organisation

CHAPTER 1: INTRODUCTION

1.1 BACKGROUND OF STUDY

In October 2013, when China's President Xi Jinping visited Malaysia, he agreed with then Prime Minister Najib Razak to forge a "comprehensive strategic partnership" to build on their normal bilateral trade ties (*Xinhua,* 5 Oct 2013). This partnership focused substantially on China's investments in Malaysia and funding of strategic infrastructure projects linked to Xi's "Belt and Road Initiative" (BRI)[1].

This new phenomenon of "state-state-business ties" by Malaysia and China, which served to forge business ties between enterprises from both countries, was primarily a consequence of an interesting confluence of two major events, which took place in Malaysia between 2014 and 2016: 1) Malaysia's 1Malaysia Development Berhad (1MDB) scandal[2]; and 2) the introduction of China's BRI. These events then witnessed leaders of two single-dominant parties (SDPs)[3], the United Malays National Organisation (UMNO) and the Chinese Communist Party (CCP), coming together to pursue their respective economic and political objectives.

[1] The BRI is an economic policy mooted by Xi Jinping in October 2013. It focuses on links with 65 countries in Asia, Europe, and Africa, which are located along the Belt & Road (B&R) routes. These countries had a combined population of 4.4 billion, and a gross domestic product (GDP) of US$21 trillion in 2013 (*Xinhua*, 9 February 2015). Under the BRI, China aims to achieve three primary objectives: 1) to utilise the excess production capacity at home and secure access to the region's energy and resources; 2) to nurture a network of economic interdependence; and 3) to seek to maintain regional stability and prosperity (*Xinhua*, 28 March 2015). While there were BRI projects implemented in other sectors, like manufacturing, digital economy, etc., in this case of Malaysia, this study focuses only on BRI projects in the property development and construction sector. This was due to the huge contract value of more than RM5 billion for each project, which potentially had a significant impact on the Malaysian economy, as well as its political system. The link of China's BRI and state-state-business ties with Malaysia will be discussed in depth in Chapter 2: Section 2.4.

[2] The 1MDB scandal broke after Malaysia's sixth Prime Minister, Najib Razak, was accused of transferring RM2.6 billion from 1MDB, a state-owned investment company, to his personal bank accounts in 2013, presumably for distribution as political funds in the 13th general election (GE13) (Wright and Clark, 2015). This scandal made Malaysia infamously known in the world as a "kleptocracy", which, by definition, is a government whose corrupt leaders use political power to embezzle or misappropriate government funds at the expense of taxpayers. The scandal then triggered widespread criticisms from Malaysians in 2014-2016, including from the then deputy Prime Minister and now eighth Prime Minister, Muhyiddin Yassin, and the fourth and seventh Prime Minister, Mahathir Mohamad. Thereafter, a number of other major financial scandals in Malaysia were also exposed (see Gomez *et al.*, 2017).

[3] In the literature (see Slater, 2003; Magaloni, 2006; Greene, 2007; Gomez, 2016; Case, 2017), SDP is defined as a long-standing ruling party with multi-party elections. An SDP state, like Malaysia, dominated by UMNO, differs slightly from a "one-party" state, like China, ruled by CCP. This is because general elections and opposition parties are allowed in Malaysia but not in China. However, for this study, both are defined as SDPs due to the authoritarian nature of these regimes.

As a result, novel forms of state-business relations (SBRs)[4] emerged in Malaysia, with a strong foreign state influence. While government-to-government projects primarily involved state-owned enterprises (SOEs) from both sides on a public-led basis, these novel SBRs were different, as they involved both Malaysian SOEs[5] and well-connected local private enterprises favoured by UMNO at either the federal or state level, working with Chinese SOEs and well-connected Chinese private enterprises favoured by CCP at either the national or provincial level, to implement BRI projects on a public-led, private-led, or private-public-led basis.

1.2 PROBLEM CONTEXT: STATE-STATE-BUSINESS TIES

When Malaysia adopted a conventional SBR form for economic development in the 1970s, it was characterised by extensive state interventions in the economy through public enterprises (Gale, 1981), leading to what was termed as bureaucratic capitalism (Jomo, 1984). These SBRs subsequently evolved in diverse ways, particularly in the 1980s-1990s, organised around the political and business interests of key political elites in UMNO, the single-dominant party (SDP) in the *Barisan Nasional* (BN, or National Front) coalition government, contributing to the phenomenon of political business (Gomez and Lafaye de Micheaux, 2017). To this end, power of the SDP was mainly concentrated in the hand of the party president-cum-prime minister (Wain, 2009; Welsh, 2016). Accordingly, UMNO's hegemony in the Malaysian political system had taken on an added guise as a "party-state" (Slater, 2003; Gomez, 2016; Case, 2017).

Between 2014 and 2016, Malaysia suffered from an economic slowdown amid the flare-up of the 1MDB scandal. This scandal resulted in different groups of "local power elites"

[4] The concept of SBRs will be elaborated in Section 1.6.
[5] In Malaysia, SOEs are also referred to as government-linked companies (GLCs). This will be elaborated in Chapter 2: Section 2.3.1.

(LPEs)[6], namely political, business, and royal elites, who had vested commercial interests with the private sector at either the federal or state level, desperately looking for new sources of foreign direct investments (FDI). This was meant to stimulate speedy economic recovery, as well as to overcome the political crisis that unfolded because of this controversial issue[7].

This strong state-LPE nexus, already ingrained in Malaysia since the implementation of the New Economic Policy (NEP)[8] in the 1970s, had deeply shaped government policy-making processes in subsequent years. In this regard, BRI projects in Malaysia that served to achieve the goals of different LPEs at either the federal or state level were simultaneously in line with the Malaysian government economic policy, given that power was essentially concentrated in the office of UMNO leaders.

In China, its state-driven economy was primarily organised around the single-dominant CCP, which controlled different types of Chinese "transnational corporate elites" (TCEs)[9], who included SOEs and well-connected private enterprises. Both types of enterprises were expected by their government to drive its large outward investment initiative (de Graaff and van Apeldoorn, 2018). Accordingly, CCP's hegemony in the Chinese political system had taken on an added guise as a party-state as well (Zang, 2012).

In early 2015, when China was confronted with an economic slowdown, due to excess production capacity at home, the Chinese government accelerated its overseas funding

[6] The concept of LPEs will be elaborated in Section 1.6.
[7] Subsequently, a number of other major financial scandals in Malaysia related to the Majlis Amanah Rakyat (MARA), Lembaga Tabung Angkata Tentera (LTAT), Lembaga Tabung Haji (LTH), Federal Land Development Authority (FELDA), etc., were also exposed (see Gomez *et al.*, 2017). These scandals too undermined the inflow of FDI, in addition to the infamous 1MDB scandal.
[8] The New Economic Policy (NEP) was a social re-engineering and affirmative action programme implemented in 1971 by the BN. It had a two-pronged strategy: 1) to eradicate poverty regardless of race; and 2) to restructure society to achieve economic parity between ethnic groups (Means, 1992). In 1991, the NEP was replaced by the New Development Policy (NDP), and later the New Economic Model (NEM), but since then it had evolved into many other forms (see Chapter 2: Section 2.3.1).
[9] The concept of Chinese TCEs will be elaborated in Section 1.6.

and investment activities. This resulted in a switch of CCP's strategic direction in economic development, from an internal to an external focus, by building partnerships in the region. Financially well-endowed SOEs and politically well-connected private enterprises were encouraged by CCP to play the role of TCEs by embarking on an overseas market expansion drive under the BRI (de Graaff and van Apeldoorn, 2017).

This strong state-TCE nexus, already in place in China since the implementation of the "Going Out" economic policy[10] in the 2000s, in turn, had influenced government policy-making processes. As a result, BRI projects in Malaysia that served to achieve the goals of different Chinese TCEs at either the national or provincial level were in line with the Chinese government economic policy, given that power was essentially concentrated in the office of CCP leaders.

In this study, this new phenomenon of state-state-business ties which have led to the creation of novel SBR forms in Malaysia is defined as the close collaboration between different LPEs and Chinese TCEs, favoured by both the single-dominant UMNO and CCP leaderships, for the implementation of BRI projects. They were carried out by SOEs (also referred to as government-linked companies (GLCs) in Malaysia), private enterprises, or both, either on a public-led, private-led, or public-private-led basis, with ideas, interests, and actions of different LPEs and Chinese TCEs in line with economic policies of both countries.

To this end, this thesis argues that China's BRI projects in Malaysia, based on this new phenomenon of state-state-business ties, forged by two countries both led by SDPs,

[10] The "Going Out" policy was an economic strategy implemented by the Chinese government in 1999 to encourage its SOEs and well-connected private enterprises to invest overseas as well as to acquire new technologies (Buckley *et al.*, 2007). While most nations favour attracting inward foreign direct investments and supporting outward foreign direct investments only passively, China attaches importance to both inward and outward FDI, arguably due to its huge foreign reserves.

shaped how LPEs are configured and re-configured to collaborate with Chinese TCEs. These LPEs, as key actors in the state, worked with Chinese TCEs, both SOEs and well-connected Chinese private enterprises. As a result, SBRs spawned through these BRI projects and driven by specific "LPE-TCE links" had diverse forms:

- Federal LPEs in alliance with national Chinese TCEs;
- Federal LPEs-state LPEs in collaboration with national Chinese TCE-provincial Chinese TCEs; and
- State LPE in partnership with a provincial Chinese TCE.

Resource reallocation is the most direct method employed by the politically-inclined LPEs to shape economic development (DiCaprio, 2012). Different LPEs involved in different BRI projects can design different SBRs, redistributing resources in a cooperative and productive manner that generates employment and fosters new industries (Zang, 2012). Alternatively, LPEs can act in a predatory manner, redirecting resources away from national development objectives for their own benefit, rendering ineffective SBRs created by them (Leftwich, 2008).

1.3 PROBLEM STATEMENT

In the literature, "conventional SBRs" are defined as relations between domestic public and private sectors (Schneider and Maxfield, 1997; te Velde, 2010; Sen, 2013 & 2015). As Figure 1.1 indicates, studies based on a conventional institutionalist approach emphasise the competency of bureaucrats to cultivate effective SBRs to generate economic growth (Schneider and Maxfield, 1997). In this study, when two dominant parties forge state-state-business ties for their respective business enterprises to implement BRI projects, and this results in "novel SBRs" driven by different LPEs, not bureaucrats, in close collaboration with different Chinese TCEs, a key puzzle emerges: What are the outcomes and implications of these novel SBRs? In other words, are they effective from a growth-enhancing perspective (Lemma and te Velde, 2015), or do they merely result in wastage of scare resources, and how do they impact on the Malaysian economy, as well as its political system?

Figure 1.1 Problem Statement

Conventional SBRs
• Effective SBRs for economic growth based on a conventional institutionalist approach. • State-business ties focus on bureaucrats (not LPEs) as key actors in the state. • Conventional SBRs do not account for interactions of two SDPs (or influence of a strong foreign state) in promoting economic growth.

Novel SBRs
• When two SDPs forge state-state-business ties for their respective business enterprises, which shape LPE-TCE links to create novel SBRs through BRI projects, a key puzzle emerges. • "Are these novel SBRs effective from a growth-enhancing perspective or do they merely result in wastage of scare resources?"

There is little theoretical discussion of this particular issue, except for some recent empirical findings in Malaysia which indicated that such state-state-business ties do exist. According to Gomez and Lafaye de Micheaux (2017), one key feature of the Najib administration was the emphasis on state-state-business ties, primarily involving a link between Malaysian GLCs and Chinese SOEs. They claimed that a major difference in these state-state-business ties is that these new JVs not only involve local GLCs, but also serve to secure foreign investments for politically well-connected local private enterprises.

There is a need therefore to understand theoretically how state-state-business ties, forged by two countries, both led by SDPs, shape LPE-TCE ties that lead to different types of SBRs. There is also a need to trace empirically why BRI projects in the Malaysian property development and construction sector were implemented by different LPEs at either the federal or state level, in collaboration with different Chinese TCEs at either the national or provincial level, on a non-transparent basis. This study thus adds a fresh political dimension, namely state-state-business ties, not dealt with in the SBR literature.

Clearly, normal bilateral ties alone will not create specific SBRs in the forms their leaders wish. In fact, the "state" is not a monolithic entity (Higley and Burton, 1989). The extent to which it can promote economic growth also depends on the roles of LPEs and TCEs they have to engage with to implement BRI projects. In other words, close ties developed by these elites to foster economic growth, as well as for their own benefit, transcend what is typically associated with mere bureaucrats (Amsden, 2012), as advocated by the conventional institutionalist approach about effective SBRs (Schneider and Maxfield, 1997). The interdependency of state and business then reshape each other through LPE-TCE links in a reciprocal iteration (Evans, 1997).

With this problem statement in mind, as well as the theoretical and empirical gaps identified, the following research questions and objectives are formulated for the study**.**

1.4 RESEARCH QUESTIONS

1) How have newly-forged state-state-business ties, involving two countries, both led by SDPs, shaped different LPE-TCE links that, in turn, contribute to novel SBR forms?

2) In Malaysia, who were these different LPEs, what type of power did they have, where were they situated in the local power structure at both federal and state levels, and how did these factors shape novel SBR forms?

3) What were the key motivating factors for different LPEs to collaborate with different Chinese TCEs on a non-transparent basis, and what were the economic and political implications of these novel SBR forms created by them through BRI projects in the Malaysian property development and construction sector?

1.5 RESEARCH OBJECTIVES

1) To understand theoretically how newly-forged state-state-business ties, involving two countries, both led by SDPs, have shaped different LPE-TCE links that, in turn, contribute to novel SBR forms.

2) To determine empirically the identity and background of different LPEs, the type of power that they had, the location of their power in the Malaysian power structure at both federal and state levels, and how these factors had shaped novel SBR forms.

3) To determine empirically the key motivating factors of different LPEs collaborating with different Chinese TCEs on a non-transparent basis, and the economic and political implications of these novel SBR forms created by them through BRI projects in the Malaysian property development and construction sector.

1.6 POWER ELITES AND STATE-BUSINESS RELATIONS

While most studies that stress the important role of the "state" in promoting economic growth often emphasise the competency of its bureaucrats, this study seeks to move beyond the state-centric paradigm to an actor-centric paradigm. This thesis argues that politically-inclined LPEs are key actors in the state, shaped by this new phenomenon of state-state-business ties to implement BRI projects, which have contributed to different SBR forms in Malaysia, one particularly important from an elite perspective[11]. More specifically, this study attempts to add a dynamic political dimension to the mainstream literature to move beyond the conventional institutionalist approach, which tends to emphasise the competency of bureaucrats for economic growth, and views SBRs as relatively fixed and stable.

The analysis of this study is rooted in a theoretical foundation built on the concept of elites, within a political business dimension. As such, the concept of the state needs to be deconstructed further to define and explain properly: 1) the characteristics of different LPEs at either the federal or state level; 2) the type of power they have; 3) where their power is situated in the Malaysian power structure; and 4) how they are influential in exerting strong control over government decision-making processes.

<u>Local Power Elites</u>

By definition, elites in the state are a small number of people who have the capacity to influence economic and political outcomes of a country through government policy-

[11] According to Leftwich (2010), if researchers and policymakers are to engage seriously with the politics of economic development, they will need to have a much better analytical handle on the role of leaders, elites and coalitions in the developmental process, instead of only adopting emphatically "statist" approaches with their stress on bureaucrats, state institutions, and institution building in promoting economic growth.

making processes in diverse ways and to varying degrees. They play a significant role in mapping out policy issues, as well as deciding which should receive priority in relation to others. Though this definition of elites suggests a position of power, it nevertheless requires neither wealth nor a particular official title (DiCaprio, 2012). In other words, those who have the ear of policymakers also have an important degree of control over policy outcomes. Arguably, the first and most fundamental obstacle faced by scholars seeking to understand the role elites play in economic development is the absence of a commonly agreed way to identify who constitutes a member of the elite (DiCaprio, 2012). Hence, there is a need to define clearly the different groups of LPEs involved.

Elite studies[12] as an academic discipline are not new and is a long well-established field of research. For example, Michels (1911) is well-known for introducing the concept of "iron law of oligarchy" which argues that a small number of people can eventually run all the political parties primarily for their own interests. Pareto (1935), well-known for his 80/20 principle, argued about the ability of 20 per cent of the people to control 80 per cent of the wealth. Mosca (1939) is famous for highlighting that elites are an organised minority, while the masses are an unorganised majority. Domhoff (1967) argued that it matters which individuals occupy specific institutional locations, particularly in the state. Higley and Burton (1989) made a major theoretical contribution by arguing that regime stability of a country can best be understood by studying the internal relationships of its united or disunited elites.

Meanwhile, Mills' (1956) power elite theory[13] has been quite popular among many researchers (Domhoff, 2006). It argues that there are just a handful of individuals, consisting of members of three dominant LPE groups, namely political, economic, and

[12] The classical and modern elite theories will be discussed in depth in Chapter 2: Sections 2.1.1 and 2.1.2.
[13] Mills' (1956) power elite theory will be discussed in depth in Chapter 2: Section 2.1.3.

military elites, who hold the most power in influencing government's decisions in the United States (US). Today, a few more LPE groups need to be included in this list, such as managerial, educational, media, religious, scientific, judicial, or even royal elites, as far as the Malaysian context is concerned.

Historically, the political system in Malaysia has been quite receptive to views expressed by the business sector. In fact, the country is unique among developing states in the region, in terms of the extent to which state apparatuses, since the 1980s, have been characterised by close ties between political and business elites, under a long-institutionalised political business environment (Gomez, 1994). This naturally gives both political and business elites extraordinary influence over government policy-making processes.

Building on Mills' (1956) power elite theory, this thesis argues that royal elites, being an important LPE group, should also be combined with political and business elites to form the three dominant LPE groups in Malaysia. In this context, military elites are considered non-active in local politics. In terms of definitions[14], these three dominant LPE groups in Malaysia are briefly described below and, in a manner similar to those in the US as informed by Mills (1956), but subject to modifications, in order to suit the local context.

- Political Elites: Primarily UMNO leaders in control of the BN government with the ability to promulgate policies that contribute to economic growth, though also with avenues to serve their vested interests. In particular, the president of UMNO, who was also the prime minister at the federal level, had been widely known as the most powerful political elite. Likewise, at the state level, the chief minister, usually a key

[14] The deconstruction of the "state" into three dominant LPE groups, namely political, business, and royal elites, at both the federal and state levels in Malaysia, together with their detailed definitions and descriptions, will be discussed in depth in Chapter 3: Section 3.1.2.

UMNO elite and one recommended by the prime minister for states controlled by BN, is known to have some autonomy under the Constitution (Milner, 1982) to decide on land matters pertaining to property development projects.

- Business Elites: Corporate figures with close ties to political elites, allowing them to determine how policies are shaped. Some of them worked as proxies for key UMNO politicians and royalties. In particular, Malaysian Chinese business elites appeared to have captured substantial business deals in close collaboration with Chinese TCEs to implement BRI projects.
- Royal Elites: Nine of the 13 states in Malaysia are constitutionally led by Sultans. Although the role of Sultans in the government is ceremonial, the appointment of the chief ministers of these states is subject to their consent, allowing them the means to influence policy-making processes. Importantly too, due to his enormous personal wealth and potentially sound business acumen, the Sultan can exert a strong influence over state matters, including those pertaining to property development projects.

Unlike Mills' (1956) power elite theory, where the three dominant LPE groups in the US appear to be on an equal footing, business elites in Malaysia are subservient to political and royal elites. This was because the country's political system was primarily dominated by UMNO's hegemony as the SDP, since Independence in 1957 (Welsh, 2016). Meanwhile, although the Sultan's role is largely ceremonial, he can still exercise his constitutional right to select the state's chief minister of his choice (Milner, 1982).

UMNO's history is replete with a litany of intra-elite feuds, leading to various forms of elite settlement (Case, 1991; Means, 1992). These intra-elite disputes have partly contributed to changing SBR forms. For example, while UMNO was actively involved in business in the 1970s, following a contentious factional strife in 1987, party leaders resorted to using proxies to hold party assets. By the early 1990s, politicians had emerged as owners of major publicly-listed enterprises, due primarily to abuse of privatisation of SOEs[15]. Business elites were similarly divided, linked as many of them were to different political elites, a conventional state-business tie that was imperative if they hoped to secure access to government-generated rents. With the rise and fall of political elites, the presence of politicians as major corporate figures has diminished, while a number of once prominent business elites no longer feature as corporate captains. Similarly, members of royal houses who had emerged as owners of leading enterprises in the 1990s no longer command a noteworthy corporate presence, giving way to royalty whose commercial ventures are led by their business allies.

A key political factor in the implementation of BRI projects in Malaysia, based on this new phenomenon of state-state-business ties, was the positive impact of China's funding and investments to re-build elite unity in UMNO. This helped to curb further elite contestations amid the 1MDB scandal. Through different sorts of elite settlement, these intra-elite relationships had partly contributed to the creation of novel SBR forms in the country.

- "Elite Unity" - In theory, elite unity provides for a stable political regime. If elites are not united, it may lead to the breakdown of an authoritarian government (Higley and Burton, 1989).
- "Elite Contestation" - In practice, elite contestations are the norm. Elites usually are not united and often fight in pursuit of their self-interest. They tend to have little understanding about political conduct (Higley and Burton, 1989).

[15] These conventional SBR forms that emerged in the 1980s and 1990s have been assessed by Gale (1981) and Gomez (2016).

- "Elite Settlement" - It occurs when rival elite factions re-organise their relations by negotiating compromises for mutual benefit to achieve consensual elite unity (Burton and Higley, 1987).

Transnational Corporate Elites

However, an analysis of these three dominant LPE groups in Malaysia is only good at explaining issues from the internal perspective. Recently, elite studies have received renewed interest from many scholars, particularly about the transnationalisation process of corporate elites (Carroll, 2010; van Apeldoorn and de Graaff, 2012 & 2014; Heemskerk and Takes, 2015; Schneickert *et al.*, 2015; de Graaff and van Apeldoorn, 2017 & 2018). In this regard, Chinese SOEs and well-connected Chinese private enterprises (rather than individual elites), who played the key role in this process, have been defined as Chinese TCEs (de Graaff, 2014; de Graaff and van Apeldoorn, 2017 & 2018). Hence, to cater to the external perspective of this study, the same concept has been drawn on to define both Chinese SOEs and well-connected Chinese private enterprises, who in this context embarked on an overseas market expansion drive under the BRI and closely controlled by the CCP, equally too as Chinese TCEs.

Although well-connected private enterprises in China may not have state entities as their shareholders, this does not imply lack of state control. Large outward investments by these enterprises still need state approval, rather than mere registration (de Graaff and van Apeldoorn, 2018), while these enterprises appear quite subservient to the strong state. In other words, besides firm-specific objectives, these Chinese private enterprises also need to fulfil state-specific objectives before they are allowed to invest overseas. There has been little discussion in the literature of the crafting of business ties between Chinese

TCEs and LPEs to create novel SBRs from the recipient country's perspective (Hong and Lim, 2018), particularly after this new phenomenon of state-state-business ties emerged.

It is also important to note that these giant Chinese TCEs, equipped with huge resources and highly competent technical and management skills, were usually not on an equal footing with domestic business elites in their formal JVs. It is very likely that the latter would be subservient to the former during the project implementation stage. In other words, these novel SBRs created by state-state-business ties, driven by LPEs in close collaboration with Chinese TCEs, appear to be dominated by the powerful UMNO elites and the giant Chinese SOEs, with both parties probably using domestic business elites as their proxies to formalise JV partnerships only.

State-Business Relations

As stated in Section 1.2, SBRs[16] are defined as relations between domestic public and private sectors. They take the form of formal and regular coordination, or informal ad-hoc interactions. Their scope comprises the whole economy, or targeted sectors, (or in this case mega-projects), different types of firms, or policy processes (Lemma and te Velde, 2015). They involve highly organised relationships, though in others, they are loose ties between the state and business. In numerous cases, formal acts by key institutions matter most, though in others, informal arrangements, norms, and agreements dominate (Bardhan, 2005).

According to te Velde (2010), effective or collaborative SBRs fulfil a helpful role in developing the economy of a country, mainly by dealing with two concerns: 1) there are

[16] The concept of SBRs will be discussed in depth in Chapter 2: Section 2.2.

market failures, where the market alone cannot achieve an optimal allocation of resources (Stiglitz, 1996); and 2) there are state failures, where state actors like bureaucrats may not be able to address market failures on their own. In other words, effective or collaborative SBRs for economic growth are characterised by meaningful and well-constructed policies, with synergistic and productive relations between the state and business.

On the other hand, ineffective or collusive SBRs in a particular country that lacks the Weberian bureaucracy[17] are characterised by rent-seeking behaviour, with the capture of key institutions by influential LPEs, who include both political and business elites (Leftwich, 2008). When SBRs are collusive[18], mostly on an informal, ad-hoc, and predatory manner, these LPEs may use state apparatuses for particularistic benefit. In other words, they are not used for collective goals, or to improve efficiency, or to ensure economic growth of a country (Hausmann and Rodrik, 2002).

According to Fuchs and Lederer (2007), "infrastructural power" in SBRs is determined by the underlying economic structures, policies, and organisational procedures of the state over the business sector. They further claimed that "instrumental power" in SBRs is determined by the influence of key business actors over other corporate enterprises, in order to set the agenda before any interaction between the state and business takes place. Lemma and te Velde (2015) went on to argue that outcomes of SBRs are determined by three concepts:

- The "invisible-hand". In this SBR form, the role of the state is limited to providing public goods, leaving allocative decisions to the private sector. However, for this

[17] According to Evans (1997), being a Weberian bureaucrat means giving up immediate possibilities for income and informal power, in order to retain the rewards accruing to members of the organisation over the long run. For this to happen, membership of the organisation must be seen as a distinctive and value status, whereby the prospect of long-run rewards must also be clearly stated.
[18] For a more pessimistic view on SBRs, see Krueger's (1974) influential analysis of collusion and rent-seeking, which spells out in great detail the extent of economic dissipation caused by close relations between business and the state.

study, invisible-hand is defined as meaningful policies planned by the UMNO-led government, though implementation of projects is left to the private sector.

- The "helping-hand". Here, bureaucrats actively promote private sector activity, support some enterprises and eliminate others, pursue specific policies, and have close ties with private firms.
- The "grabbing-hand". In this SBR form, members of the state are less organised, as they pursue their own agenda. The government is led by politicians who are usually above the law, while political elites employ their power to extract rents.

In the context of LPEs who drive novel SBRs, potentially for their own benefit, it brings into question the adequacy of a conventional institutionalist approach, which emphasises the competency of bureaucrats in cultivating effective SBRs to generate economic growth (Wong, 2012). In fact, this argument seems to have "thin politics" (Whitfield and Buur, 2014). It fails to provide insights into key issues of how and why non-transparent deals were driven by LPEs at either the federal or state level, in collaboration with Chinese TCEs at either the national or provincial level, to implement BRI projects in Malaysia, based on this new phenomenon of state-state-business ties.

In this case, political factors must have played an important role, in addition to economic factors, which saw politically-inclined LPEs, not bureaucrats, emerging as key actors in the state for coordination purposes. According to Leftwich (2008), one of the weaknesses of a conventional institutionalist approach in analysing SBRs has been due to its overwhelming focus on economic growth. It fails to recognise the centrality, if not the primacy, of politics or political processes, both internal and external, and their interactions in shaping state goals, capacity, and developmental outcomes. There is, therefore, a need to bring back politics into the arguments of SBRs.

SBRs in Malaysia have often been subjected to political interference by different LPEs, with government policy-making processes greatly affected by them. In fact, Gomez and Lafaye de Micheaux (2017) rightly pointed out that SBRs in Malaysia have evolved in diverse forms over the years. These SBRs range from private-led (1950s and 1960s), to state-led (1970s), to public-private-led (1980s-1990s), to state-led (early 2000s), and then to state-state-led (from the late 2000s), mainly due to political considerations of UMNO in the name of fulfilling the objectives of the NEP or its many variants. Nevertheless, the evolution of SBRs in the country also serves to fulfil the political and business interests of key UMNO elites.

With this in mind, for this study, there is a need to assess the crucial role played by different LPEs at either the federal or state level, as to how they had cooperated with different Chinese TCEs at either the national or provincial level, to implement BRI projects, which led to the emergence of novel SBR forms in Malaysia. More importantly, this study aims to determine whether outcomes of these specific SBRs, created by this new phenomenon of state-state-business ties, were effective from the growth-enhancing perspective, and aligned with national development objectives. In particular, with the presence of Chinese SOEs alongside with business and royal elites in the domestic private sector, the political business dimension in Malaysia has taken on a new twist, by having a strong foreign state influence. This has resulted in conventional SBR forms becoming more complex, with major implications for its economy and political system.

1.7 SCOPE OF STUDY

Since most of China's BRI projects in Malaysia, based on this new phenomenon of state-state-business ties, are driven by LPEs, this study is limited to examining the background of key actors in the three dominant LPE groups, not the Chinese TCEs. In particular, this thesis seeks to explain how novel SBR forms were partly due to different types of power, as well as inter- and intra-elite relationship issues of different Malaysian LPEs. While it is important to know the identity of Chinese TCEs, it is beyond the scope of this study to assess empirically how they were selected for BRI projects in Malaysia. This is because of the different types of power and inter- and intra- elite relationship issues, as well as diverse forms of SBRs, of different Chinese TCEs in China. Furthermore, there has been a growing body of research that tends to over-focus on the motivations of Chinese actors as the major (if not sole) variable in crafting business ties between Chinese TCEs and LPEs for China's BRI projects from the supply side (Hong and Lim, 2018). There is, in fact, little or no emphasis on the important role played by domestic actors in recipient countries from the demand side. This big gap in the literature needs to be filled, as far as responses of domestic actors towards China's BRI projects are concerned.

This study is limited to assessing certain BRI projects in Malaysia based on state-state-business ties that incurred an "extremely huge" cost (defined in Chapter 3: Section 3.3.2 as a BRI project with more than RM5 billion in contract value)[19]. Such projects have a potentially significant impact on the Malaysian economy, as well as its political system. More importantly, the hands of powerful UMNO elites are evident in such projects. These politicians appeared to have collaborated informally with either business or royal elites. They then used certain Malaysian GLCs, or well-connected local private enterprises, as their proxies, to tie-up with Chinese SOEs, or well-connected Chinese private enterprises, as formal JV partners, to implement BRI projects on a non-transparent basis.

[19] There are, of course, smaller China's BRI projects in Malaysia, like in the manufacturing, digital economy, and renewal energy sectors. These projects are not included in this study, due to their extremely different potential impact on the Malaysian economy, as well as their limited impact on the political system, if compared to those in the property development and construction sector.

This study is limited to major economic and political events that unfolded between October 2013 and May 2018, as the key period of analysis, when this new phenomenon of state-state-business ties between two dominant parties emerged. These events happened just before the historic fall of the UMNO-led government in May 2018, when the Malaysia's 14th general election (GE14) was held[20].

1.8 RESEARCH METHODOLOGY: PROJECT CASE STUDIES

In terms of research methodology[21], this study seeks to disaggregate the scope of "business" in SBRs further, and use BRI projects as units of analysis, thus introducing a project-level perspective. According to Yin (2014: p.16), the case study approach, as an empirical inquiry, affords investigation of a "contemporary phenomenon in depth and within its real-world context". The implementation of three BRI projects in the Malaysian property development and construction sector, namely East Coast Rail Link (ECRL), Melaka Gateway, and Forest City Johor, involved different LPEs in close collaboration with different Chinese TCEs at various levels, the reason why they were selected for in-depth case studies.

The primary criterion for selecting this mix of BRI projects is due to the variations of novel and interesting SBRs they could highlight. In other words, this study intends to assess the depth and breadth of theoretical and empirical perspectives of this new phenomenon of state-state-business ties, forged by two countries, both led by SDPs, for a variety of business enterprises controlled or influenced by them. In the process, it helps

[20] During this period, a proliferation of unique SBRs related to BRI projects occurred. After BN's ouster by *Pakatan Harapan* (PH, or Alliance of Hope) during the 2018 General Election, some BRI projects like the ECRL, deeply criticised by PH, were cancelled. However, PH then realised that the Chinese had a water-tight contract with the BN government, which included a supplementary RM10.5 billion agreement to convert the single-track rail to a double-track formation. In the event this contract was terminated, a huge compensation was due. PH had no choice but to re-start the project. After Mahathir, as Prime Minister, met Xi in Beijing in April 2019, the contract was renegotiated to reduce the construction cost from RM65.5 billion to RM44 billion.

[21] The research methodology proposed for the study will be discussed in depth in Chapter 3: Sections 3.2 and 3.3.

to understand how they shape different LPEs, at either the federal or state level, to collaborate with different Chinese TCEs, at either the national or provincial level, to implement different BRI projects on a non-transparent basis. These in turn have led to the creation of novel and diverse SBR forms in Malaysia, as indicated in Table 1.1.

Table 1.1 Novel SBR Forms Driven by LPE-TCE Links for Three BRI Projects

Name of Project	LPEs		Chinese TCEs		Novel SBR Form
	Federal	State	National	Provincial	
East Coast Rail Link	X		X		Federal LPEs in alliance with national Chinese TCEs
Melaka Gateway	X	X	X	X	Federal LPEs-State LPEs in collaboration with national Chinese TCE-provincial Chinese TCEs
Forest City, Johor		X		X	State LPEs in partnership with a provincial Chinese TCE

Source: Author's own

Each case study presented in Chapter 4 relies on multiple data collection methods and different information sources. They include public documents, public interest and investigative reports, published and unpublished accounts from insiders, as well as comments on social media and scholarly works, as described in depth in Chapter 3: Section 3.4. These multiple sources of data enable a holistic and in-depth analysis to be carried out accordingly (Tellis, 1997).

1.9 SIGNIFICANCE OF STUDY

This study focuses on state-state-business ties, arguably a new phenomenon forged by two countries, both led by SDPs, which informs how LPEs are shaped to collaborate with Chinese TCEs to implement BRI projects. In Malaysia, these LPE-TCE links have led to the creation of novel SBRs, with different growth-enhancing and rentier-type outcomes, as well as diverse economic and political implications. This thesis draws attention to this important new phenomenon in state-state-business ties under the BRI which offers interesting theoretical insights in elite- and SBR-related studies. Importantly too, this study builds on the conventional wisdom of homogenised SBRs which focuses on bureaucrats as key actors in the state and argues that, in practice, such relations are extremely heterogeneous, primarily tailored to specific power and vested commercial interests of different LPEs at various levels.

This study has developed a conceptual framework that explains theoretically how state-state-business ties have created novel SBRs for a variety of business enterprises to implement BRI projects in Malaysia which are driven by LPE-TCE links favoured by leaders of two SDPs. The case study approach helps to trace empirically the identity and background of different LPEs and Chinese TCEs and why the three BRI projects in the Malaysian property development and construction sector were implemented on a non-transparent basis. In the process, it draws out fundamental differences of these novel SBR forms, in terms of growth-enhancing and rentier-type outcomes, as well as economic and political implications, as generated through the three BRI projects.

This study, when dealing with Mills' (1956) power elite theory, expands the analysis of three dominant LPE groups from an internal perspective, to include Chinese TCEs (de Graaff and van Apeldoorn, 2017) as an external factor, for the implementation of BRI projects. The elite perspective helps to situate such novel SBRs that function not only at the federal level, but also at the state level, with links externally to Chinese enterprises. This approach provides specific insights into different types of power, forms of institutional architecture, as well as inter-and intra-elite relationship issues of different

LPEs, which partly contributed to the creation of novel SBR forms at both levels. It is also important to note that, based on state-state-business ties forged by two SDPs for a variety of their business enterprises, key UMNO elites and Chinese SOEs appeared to be central in most cases, an issue that has had major implications for the political system.

In essence, this study seeks to reveal how domestic actors have played an important role in driving BRI projects, through the lens of a recipient country's perspective from the demand side. It challenges the China-centric perspective of Chinese actors from the supply side, which now prevails in the literature (Hong and Lim, 2018). This study intends to provide additional nuance by explaining how different LPEs can drive BRI projects to promote economic growth, as well as to achieve their own interests, in recipient countries ruled by authoritarian regimes similar to Malaysia. By filling all these theoretical and empirical gaps, this study can be considered as a significant contribution to knowledge.

1.10 STRUCTURE OF THESIS

Chapter 2 provides the literature review that introduces classical and modern elite theories. It argues why Mills' (1956) power elite theory is found to be suited for the study. Nevertheless, this theory is subject to modifications, in order to explain clearly the three dominant LPE groups in Malaysia. Meanwhile, the concept of TCEs (de Graaff and van Apeldoorn, 2017) is introduced to define Chinese SOEs or prominent Chinese private enterprises as an external factor. In addition, other elite-related concepts, like elite unity, elite contestation, and elite settlement (Higley and Burton, 1989), in interpreting inter- and intra-elite relationship issues of different LPEs in the local power structure, are drawn on for this study. The concept of SBRs is then introduced to explain how it can be politically linked to the theoretical foundation built on the concept of elites, within a political business dimension. It is supplemented by other SBR-related concepts, like different types of power (Fuchs and Lederer, 2007) and different features of growth-enhancing outcomes (Lemma and te Velde, 2015), in interpreting different SBR forms. It is followed by a critical review of the historical background of LPEs in Malaysia, and the diverse forms of SBRs created by them over the years. These conventional SBRs were mainly due to political considerations of UMNO, since the implementation of the NEP in the 1970s. It subsequently evolved into a new phenomenon of state-state-business ties with China, which had provided the link between conventional and novel SBRs. A brief sketch of the backdrop of China's BRI and state-state-business ties with recipient countries like Malaysia is then introduced to indicate the link between the issue of BRI and that of novel SBRs. It is followed by a brief review of the recent trend of China's investments in Malaysia, highlighting that they were mega-BRI projects, primarily implemented in the property development and construction sector.

Chapter 3 outlines the conceptual framework and research methodology proposed for this study. Here, the core theoretical foundation of the framework is built on the concept of elites, within a political business dimension. It integrates concepts extracted from key elite-related theories, which include the work of Mills (1956), de Graaff and van Apeldoorn (2017) and Higley and Burton (1989), as introduced in Chapter 2. They are then linked to the concept of state-state-business ties forged by two SDPs for a variety of their enterprises, explaining how they shape different LPE-TCE links to create novel SBRs in Malaysia. These dissimilar SBR forms have led to different growth-enhancing and rentier-type outcomes, with diverse economic and political implications. This chapter also seeks to argue that the qualitative approach of in-depth case studies is more suitable than the quantitative approach for the study, to gain useful insights into the three research questions formulated. It further describes the appropriate data collection methods selected, designed, and used for empirical works.

Chapter 4 provides findings of the three case studies. The format of these cases is similar, namely: 1) to introduce the background of each BRI project based on state-state-business ties forged by two SDPs that shaped the LPE-TCE link to create a specific SBR; 2) to determine the identity and background of different LPEs and Chinese TCEs that drove this specific SBR to implement this BRI project; and 3) to present thematic discussions on inter- and intra-elite relationship issues of different LPEs in getting things done economically and politically in the local power structure, and how they interacted with Chinese TCEs, as well as to provide a short conclusion on why different LPEs were motivated to collaborate with different Chinese TCEs to drive this specific SBR in Malaysia on a non-transparent basis.

Chapter 5 offers a critical analysis of major findings from the case studies and synthesises their results for comparison purposes. This is done by drawing out fundamental differences among the three novel SBR forms which include types of project initiative, types of power, forms of institutional architecture, modes of project funding, and features of growth-enhancing and rentier-type outcomes, with their diverse economic and political implications, that were created through the three BRI projects. This form of analysis is in line with the key themes outlined in the conceptual framework in Chapter 3.

Chapter 6 formulates the lessons learnt and conclusions by answering the three research questions for this study. Special emphasis is given to contribution to knowledge in both elite- and SBR-related studies. This thesis stresses that unlike the conventional wisdom of homogenised SBRs, which focuses on bureaucrats as key actors in the state, in practice, novel SBRs are extremely heterogeneous, primarily catered to the specific power and vested commercial interests of different LPEs closely linked to the SDP at various levels. This chapter ends with a discussion of the limitations of this study, as well as recommendations of possible areas for future research.

CHAPTER 2: LITERATURE REVIEW

2.1 STATE AND POWER ELITES

In the field of political science, a “state” can be defined as a compulsory power structure or political organisation ruled by a centralised government. It can legitimately use its force over a certain sovereign territory with people in it (Weber, 1922; Cudworth, 2007). A state is not only an institution with permanent bureaucrats, who serve as key actors in policy-making processes; it is also a government led by a temporary collection of politicians, who act to facilitate policy formulation and make decisions. In other words, government is the means through which state power is employed, realised, and exercised. Furthermore, a state also consists of actors and agencies operating at different levels, namely local, sub-national, and national. These actors have varying degrees of autonomy as well as their own interests, including to attain and maintain power in the state.

In the literature, there is no academic consensus on the most appropriate definition of the “state”. The term state essentially refers to a set of different, but inter-related, and often overlapping theories about a certain range of political phenomenon. In fact, political scientists of all ages have attempted to answer the question of how a state functions, and where power lies in a contemporary society. Over the years, many state theories have emerged. Among others[22], the elite theory of the state argues that in every society, power is wielded by just a small number of people. These people have the capacity to influence economic and political outcomes of a state, through government policy-making processes in diverse ways and to varying degrees. They play a significant role in mapping out policy issues to exert strong control over a large number of people, even make them effectively

[22] Some major state theories include Marxism (Marx and Engels, 1848), Pluralism (Dahl, 1961), and Institutionalism (Skocpol, 1979).

marginalised in economic and political affairs. Though this definition of elites suggests a position of power, it nevertheless requires neither wealth nor a particular official title (DiCaprio, 2012). In other words, those who have the ear of policymakers also have an important degree of control over government policy outcomes. They may be formal or informal, visible or hidden, but within every state, there is a tacit acknowledgement of their presence. A list of major classical and modern elite theories developed over the years is indicated in Table 2.1.

Table 2.1 List of Major Classical and Modern Elite Theories

Scholar (Year)	Country	Theoretical Concept	Basis of Argument
Michels (1911)	Germany	"Iron Law of Oligarchy"	A small group of people can eventually run all the political parties for their own interests.
Pareto (1935)	Italy	Governing and non-governing elites (Theory of Circulation of Elites)	Elite is a class of people who have the highest indices in their branch of activity.
Mosca (1939)	Italy	Ruling class & class to be ruled (Theory of Ruling Class)	Elites are organised minority, masses are unorganised majority.
Burnham (1941)	USA	Managerial elites	Emphasising the separation of ownership and control.
Mills (1956)	USA	Political, economic, and military elites (Theory of Power Elite)	Three dominant groups of power elites occupying the power apex in the US.
Domhoff (1967)	USA	Government and non-government elites	Banks & corporations dominating the US power structure.
Putnam (1976)	USA	Technocratic elites	Technocrats and not entrepreneurs or business executives who hold power.
Higley & Burton (1989)	USA	Elite variability and elite settlement (Elite Paradigm Framework)	Consensually united and disunited political elites have great impact on regime stability.
De Graaff & Van Apeldoorn (2017)	Netherlands	Transnational corporate elites (modified from neo-Marxism's TCC Theory).	Networks and "dual faces" of Chinese SOEs as TCEs.

Source: Author's own[23]

[23] Though the list is summarised by the author, the ideas are derived from the work of those major scholars cited in the list.

2.1.1 Classical Elite Theorists

The ideas encapsulated in modern elite theory have been derived from classical elite theorists like Pareto (1935) and Mosca (1939). Both were initially sceptical about Marxism (Marx and Engels, 1848), with its emphasis on the bourgeoisie or capitalist class of society. This bourgeoisie was financially wealthy, had the power to control the means of economic production, and dominated the working class in mid-nineteenth century Europe. Pareto (1935) and Mosca (1939) argued that though society can be divided into ruling elites and non-elite masses, the basis of power need not be economic. It is unlike those structural relationships between the capitalist and working classes, as advocated by Marxism.

This is because political elites are powerful in their own right, due to their exceptional political or organisational skills, though they may be poor economically. Moreover, classical elite theorists also believed that it is highly unlikely that socialist revolutions advocated by Marxism would increase the power of the working class. This is because what will ensue from such revolutions is merely a change of elites from one to the other. In other words, elites are those who have real power to lead the working class, not the improvement of the overall situation and power of the working class per se.

Among classical elite theorists, Pareto (1935) is well-known for his 80/20 principle. He viewed elites as "people with exceptional qualities", and argued about the ability of 20 per cent of the people to control 80 per cent of the wealth. According to him, the psychological and intellectual superiority of elites are key factors for them to achieve the highest accomplishments in any field. He defined two types of elites, namely governing elite and non-governing elite, and extended the idea that a whole elite can be replaced by a new one, and how one can also circulate from being an elite to a non-elite.

Mosca (1939) is famous for highlighting the sociological and personal characteristics of elites. He argued that elites are an organised minority, while the masses are an unorganised majority. He divided the world into two groups, namely the ruling class and the class that is being ruled. He then indicated that the main source of power for the ruling class (elites) is their superior internal organisation skills. These enable them to have a disproportionate influence over a vast majority of society, despite their significantly small number.

Michels (1911) introduced the concept of "iron law of oligarchy". He argued that a small number of people can eventually run all political parties, primarily for their own interests. He believed that all organisations have an element of elitism. In this regard, elites have three basic principles that help them form the bureaucratic structure of a political organisation, namely 1) need for leaders, specialised staff and facilities; 2) utilisation of facilities by leaders within their organisation; and 3) the importance of the psychological attributes of the leaders.

In short, classical elite theorists argued that elite rule is an inevitable and desirable feature of social existence. On the other hand, modern elite theorists were more interested to investigate the origins, composition, and influence of elites, mainly in the American context. They argued pessimistically that elite rule is a bad and a regrettable feature of advanced and somewhat corrupt societies. Hence, the aim of modern elite theorists, as discussed in the following section, is to go beyond the bold assertion that classical elite theorists made, namely the "inevitability of elites". In other words, modern elite theorists intend to understand how elites can influence the non-elite masses, both economically and politically, in the context of which they emerge from a somewhat different perspective.

2.1.2 Modern Elite Theorists

Among modern elite theorists, Mills' (1956) power elite theory has extended the classical elite theories with much praise, as well as criticism. It advocates that just a handful of individuals, consisting of members of three dominant elite groups, namely political, economic, and military elites, hold the most power in influencing government's decisions in the United States (US). Mills (1956) argued that these three dominant groups of local power elites (LPEs) had been generated through the process of rationalisation at work. In other words, the mechanism of elite interactions became intense and concentrated over time, channelling overall control and power into the hands of just a few of somewhat corrupt dominant LPE groups.

This macro-scale analysis by Mills (1956) sought to point out the degradation of democracy in advanced societies, and the fact that power generally lies outside the boundaries of the non-elite masses. More specifically, decisions of LPEs not only are made exclusively with their different groups' interests in mind, but that those interests are by definition not in the interests of the public at large.

Building on Mills' (1956) power elite theory, Domhoff (1967) argued that it matters which individuals occupy specific institutional locations and, in particular, the state. His view is vastly in contrast to a pluralist approach[24], which emphasises the power of "combined interest groups" (Dahl, 1961). In particular, pluralism does not believe that power is in the hands of just a few individuals in society. To defend himself against attacks by pluralists, Domhoff (1967) conducted extensive empirical study on local and national decision-making process networks, in order to illustrate the power structure in the US. He concluded that an elite group of individuals that owns and manages large income-producing properties, like banks and corporations, does indeed dominate the American power structure.

Meanwhile, looking from a different elite perspective, Burnham (1941) sought to express the movement of all functional power into the hands of professional managers, rather than politicians or businessmen. He emphasised the separation of ownership and control in an organisation, thus giving rise to the managerial elite. Likewise, Putnam (1976) saw the development of technical and exclusive knowledge among administrators and other specialist groups. It serves as a mechanism by which power is stripped from the democratic process, and slipped sideways to advisors and specialists in influencing government decision-making processes.

Putnam (1976) argued that previously entrepreneurs, businessmen, and industrial executives held the dominant power in society. However, the new trend of power structure saw scientists, mathematicians, economists, and engineers as the dominant figures of society, thus giving rise to the knowledge elite. In addition, he also suggested that "while the classical elite theorists like Mosca (1939), Pareto (1935) and Michels (1911) treated

[24] Pluralism claims that power in society is more widely dispersed among groups and classes than a class-dominance theory allows, meaning that there is no one dominant power group. It holds that power is held by the general public through the pressure that public opinion and voting put on elected officials (Dahl, 1961).

the unity of the ruling elite as axiomatic, this should be a matter for empirical investigation, rather than definitional fiat" (Putnam, 1976, p.107).

Moving away from merely conceptualising the sociological and personal characteristics of elites, Higley and Burton (1989) made a major theoretical contribution by arguing that the political regime of a country can best be understood by studying the internal relationships of its elites. Their elite paradigm framework argues that elite variability, elite arrangement, and elite behaviour have significant effects on the form and function of political regimes. Their line of argument is essentially an extension to the classical elite theories developed by Mosca (1939) and Pareto (1935).

However, Higley and Burton (1989) contended that neither Mosca (1939) nor Pareto (1935) went far in developing the idea of elite variability, as they did not focus on elite settlement as a mechanism of such variability. They further claimed that although there has been extensive research showing the importance of elite unity in determining regime form (Pareto, 1935; Mosca, 1939; Putnam, 1976; Huntington, 1984), this body of research has not been developed systematically. In particular, they found that elites are not well-defined, their origins and persistence are largely unexamined, and the consequences of their internal organisation for regime forms poorly understood.

Mann (1988) used the terms "infrastructural" and "despotic" power to identify two different ways in which a regime form acquires and mobilises its power. He argued that an authoritarian regime has to combine infrastructural and despotic power in a way that allows it maximum influence over society. He further claimed that a weak state has little chance of providing the type of institutions needed to ensure infrastructural power. Hence, it may rely on despotic power, or the power of elites, over society to maintain control.

Slater (2003) suggested that despotic power (power to decide) can also become highly personalised, even as infrastructural power (power to implement) remains highly institutionalised.

Simply put, the state is not a monolithic entity (Higley and Burton, 1989), but rather a venue for contestations among different opposing elites. Higley and Burton (1989) argued that a stable regime usually depends on consensual elite unity. If elites do not remain united, a regime is unstable, and may lead to a breakdown of an authoritarian government. This may facilitate a democratic transition, or in some cases, power reconfiguration and regime change. They concluded that disunity among elites is a generic condition in society. It tends to persist regardless of socioeconomic development and other changes in mass populations. In other words, consensual elite unity that produces regime stability is historically much rarer. Whereas elite disunity, which is the most common type, ultimately produces a series of challenges to the political process of society.

Political elites in a political party or within a coalition are consensually united when their members share a largely tacit consensus about rules and codes of political conduct, amounting to a "restrained partisanship" (Prewitt and Stone, 1973; Di Palma, 1973). They participate in a more or less comprehensively integrated structure of interactions. This provides them with relatively reliable and effective access to each other, as well as to the most central decision-makers (Kadushin, 1979; Higley and Moore, 1981). Hence, this combination of tacit consensus on rules of the game and a comprehensive integrated structure of interactions, shapes different types of political elites to view decision outcomes as a positive-sum or "politics-as-bargaining" game, rather than a zero-sum or "politics-as-war" game (Sartori, 1987, p. 224).

With agreement on the rules of the game and the decision-making access assured, these different types of political elites are prepared to accept various decisions that they do not favour in the first place. In other words, although they do expect to advance their way on other issues they consider crucial initially, these issues have to be put on hold temporarily. However, over time, most political elites will still be able to achieve their ultimate objectives. Hence, they are inclined to view the totality of decisional outcomes as a positive-sum game (Sartori, 1987, p. 229), so that institutions that process these outcomes, and the regime that controls them, are regarded as stable and worth sustaining.

In this regard, perhaps agreed rules for restrained political competitions are a hallmark of united elites, which have managed to "tame" politics (Sartori, 1995). On the other hand, if one political elite faction has gotten the upper hand, and is requiring that all who possess or aspire to hold power to conform their public utterances to the single-dominant faction's control, it follows that political elites of different factions are not united, hence politics remain "untamed" (Sartori, 1995).

According to Case (1991), elites must acknowledge the worthiness of their rivals and their claims. They have to collectively seek an allocative and rule-guided formula for accommodative interactions, in order to avoid elite contestations. Once the formula is established, consensual elite unity tends to persist strongly, weathering defections and disruptions that happen occasionally due to political crises in a ruling regime. This is because cooperative attitudes and behaviours produce reliable benefits for most elite factions, making it in their collective interest to perpetuate their game in rule-bound ways.

Meanwhile, Burton and Higley (1987) argued that elite settlement could occur when rival elite factions suddenly reorganise their relations by negotiating compromises on their most basic agreements. This helps to achieve consensual elite unity and lay the basis for regime stability. In particular, elite settlement occurs when rival elite factions enter into sustained and peaceful collaboration in electoral politics. It helps to mobilise a reliable electoral majority and win elections repeatedly. It also protects their common interests by dominating and sustaining government executive power over a long period of time.

On the other hand, the predominantly disorganised non-elite masses helplessly aware of such elite settlement is being played out behind-the-scene, but without engaging their opinion publicly. In particular, different elite factions will wield sufficient autonomy to negotiate compromises on the most urgent issues secretly for their own benefit only. More importantly, this often is done at the expense of the common interest of non-elite masses.

However, when the degree of such secret collusions among different elite factions becomes intolerable, especially due to "excessive" corruption, it is possible that non-elite masses will finally express their grievances through the democratic election process (Case, 1991). They then pronounce the "demands of the people" loudly and throw their support behind certain elites that oppose to the ruling regime to facilitate a regime change. These elites are the ones who usually refuse to compromise with ruling elites in a pre-arranged elite settlement from the beginning.

According to Yadav and Mukerjee (2016), autocrats and the political systems that they operate can eventually be felled by grassroots' resentments over excessive corruption. Meanwhile, Boix and Svolik (2013) pointed out that though distribution of political funds may help promote elite-level unity, they sometimes strain relations among political elites. This occurs when asymmetries in information suddenly lead to suspicions over excessive corruption, hoarding, queue-jumping, favouritism, and other violations of shared norms.

In short, classical elite theorists like Michels (1911), Pareto (1935), and Mosca (1939) perceived elites as having the highest indices in their branch of activity, and thus a system needed to run the socioeconomic structure of society effectively. However, modern elite theorists like Mills (1956) and Domhoff (1967) were of the opinion that such a system only supports the uppermost elites of society, who are inter-connected and work for their own selfish interests. Within this process, it leaves relatively minor matters for the middle level, and almost nothing for the common people. As a result, non-elite masses usually do not receive any benefit from the socioeconomic structure that they help to build. It thus gives a pessimistic view of how power is being distributed in a democratic society to a selected few only, which may lead to excessive corruption and moral hazard problems.

More recently, debates about corporate elites, with regard to their transnationalisation process, have received renewed interest from many scholars[25], thus introducing new perspectives to elite studies. In this regard, the concept of transnational corporate elites (TCEs) is believed to be derived from neo-Marxist theorists (Sklair, 2001; Robinson, 2004; Burris and Staples, 2012; van Apeldoorn and de Graaff, 2012), who argued that there is indeed a "transnational capitalist class" being established due to the process of globalisation. In particular, the global expansion drive of Chinese state-owned enterprises (SOEs) and well-connected private enterprises, rather than individual elites, who were closely controlled by the single-dominant Chinese Communist Party (CCP), have been defined as Chinese TCEs (de Graaff, 2014; de Graaff and van Apeldoorn, 2017 & 2018). Hence, their transnationalisation efforts are at times interpreted as emerging state-capitalism (Bremmer, 2008 & 2009; Nolke *et al.*, 2015).

[25] See Carroll (2010); de Graaff (2014); van Apeldoorn and de Graaff (2014); Heemskerk and Takes (2015); Schneickert *et al.* (2015); de Graaff and van Apeldoorn (2017 & 2018) for detailed discussions on TCEs.

To this end, de Graaff (2014) had conducted numerous empirical studies on patterns of transnational investments of two Chinese SOEs, namely China National Petroleum Corporation and its listed subsidiary PetroChina. They both played the role of TCEs in the oil & gas sector under China's "Going Out" economic policy in the 2000s. Through a network analysis, she found that Chinese directors of these two SOEs mainly had a "two faces" role in their overseas business venture, as they were intimately connected to the state. This was because a majority of them held top-level party positions in the CCP, before and during their SOE directorships. As a result, on the one hand, they directed an expansionist, transnational-type of business strategy with concomitant commercial values and interests, but on the other hand, they remained firmly tied to the state apparatuses and its different set of values and priorities.

2.1.3 Mill's Power Elite Theory

As discussed, many modern elite theorists emerged over the past decades. However, Mills' (1956) power elite theory, which skilfully integrates political, economic, and military elites as the three dominant LPE groups that hold all the power in the US, is still relevant today. His theory is widely accepted by researchers because it is viewed as a paradigm shift from classical elite theories, in terms of both theoretical and empirical contributions in power analysis. Hence, it can be considered as a revolutionary approach in understanding how a state functions, and where power lies in a contemporary society.

Despite early criticisms about the difficulty in applying Mills' theory to research LPEs empirically, Domhoff (2006) argued that this concept is still relevant in today's society and looks good after 50 years. Recently, Domhoff (2017) even presented an empirical study on social power based on a network analysis, indicating that Mills' power elite theory provides far more accurate views about the overall power structure in the US than those of Mills' opponents.

According to Mills (1956), LPEs are independent of a state's democratic election process, and thus the ordinary citizen is a relatively powerless subject of manipulation by them. However, he has been criticised for underestimating the ability of non-elite masses to mobilise and bring about regime change, while the ability of LPEs is often overstated (Milner Jr, 2015, p. 8). In practice, the rights of ordinary citizens to regime change, through general elections in a democratic society, could actually influence political elites. Nevertheless, ordinary citizens' influence over business elites is admittedly hard to apply, even though decisions taken by these business people may at times have more negative impact on economic development of a country than those taken by politicians.

Mills (1956) also claimed that although LPEs constitute a close-knit community, they are not part of a conspiracy that secretly manipulates events in their own selfish interest. Rather, they are leaders of industry, politics, and military, who can influence the government of the day to dictate public policies. More importantly, these LPEs respect civil liberties, follow established constitutional principles, and operate openly and peacefully. Though this line of argument may be true for the US, it may not be true for developing countries like Malaysia. Hence, there is a need to verify this claim empirically in this study.

Mills (1956) further argued that elite-level unity is very important for just a few dominant LPE groups to maintain their power and elite status in a society. As an individual LPE group, they will not wield absolute power. Rather, it is only through close interaction with other LPE groups that they get things done economically and politically. The close interaction among the three dominant LPE groups in the US is further reinforced by the fact that they mostly operate in the same personal network. This means that they could be born of the same upper third of the income and occupational pyramids, educated at the same preparatory schools and Ivy League universities, join the same political parties and exclusive gentleman's clubs, meet at the same business associations, or even become closely linked through inter-marriage. Because of this, they tend to share a similar political, economic, and social view (among other interests), and exchange much information or often work together in business deals. In particular, they think that this is the right thing to do, and what is right is often profitable, and there is nothing conspiratorial about it. However, the motive and rationale behind their decisions is often not apparent to those outside their social circle. In other words, society is run by another society within it on a non-transparent basis.

To this end, Mills (1956) claimed that LPEs are by no means a “closed circle”. Certainly, any person can join in, but it takes a long time for an individual to generate enough clout to promote one into the “inner circle”. Inheritance helps, but is by no means necessary or sufficient. LPEs do not rule through repression or inheritance. Rather, they rule through their privileged positions, intelligence, and influence. Each LPEs is in a position to influence, where certain people listen to or are convinced by them. Hence, they can control some aspect of how things work and are done within a society.

Mills (1956) then distinguished between an “inner core” and the “outer fringes” of LPEs. The inner core is made up of men (and women), who are “in” on major decisions in government policy-making processes. Whereas the outer members are “those who count”, meaning that their views and interests are influential and have to be considered and conciliated by those in the inner core, before any major decision is made.

Mills (1956) suggested that these different "mechanism of elite interactions" of LPEs are cumulative in nature. It implies that the more of it you have, the more you can get. He further explained that not only are they cumulative, they may individually be utilised as currency, by which another of the mechanism may be purchased. In other words, wealthy business elites find it easier than the poor to buy and gain political power. Likewise, political elites with influence find it easier than those without it to control and seize business opportunities.

For Mills (1956), coordination among these three dominant LPE groups comes from the inter-change of personnel between the triumvirate elite hierarchies. For example, the closeness of business and state officials can be seen by the ease and frequency of personnel transferring from one hierarchy to another. Mills (1956) also asserted that a good deal of the coordination comes from a growing structural integration of dominant institutions. As each of the elite domains becomes larger, more centralised, and more consequential in its activities, its integration with the other spheres becomes more pronounced.

This view seems to be influenced by Weber's (1922) ideas about bureaucratic organisation. In particular, Weber (1922) suggested that there are three types of authority in a political regime: 1) traditional authority, legitimated by the sanctity of tradition, whereby ability and right to rule is passed down, often through heredity; 2) legal authority, derived from the law and based on a belief in the legitimacy of a society's rules, and in the right of leaders to act under these rules to make decisions and set policy; and 3) charismatic authority, stemming from an individual's extraordinary personal qualities, and from that individual's hold over followers because of these qualities. In particular, due to charismatic authority, the government decision-making processes not only are enlarged and centralised, but also placed in the hands of a few LPEs from different groups, with very similar backgrounds and vested interests. The vast majority of the population are then subordinated to these different LPEs, and come to depend on them for key decisions that govern their existence.

Of the three domains of institutional power, Mills saw economic (business) elites as the most powerful. Interestingly, Mills' view on the importance of economic (business) elites among the three major institutions seemed to echo Marx's concept of the "ruling class" in a society. For Marx and Engel (1848), the ruling class refers to an autonomous social formation of wealthy families or capitalists. They not only control the means of economic production or society's wealth, but also make key decisions for the working class and society.

Nevertheless, Mills' power elite theory differs slightly from Marx's concept of the ruling class. It seeks to describe economic (business) elites as "the managerial reorganisation of the propertied classes into a more or less unified stratum of the corporate rich" (1956, p. 59). Marx's definition of ruling class is based on "the organisational structure through which it gains its attribute". It is because of this differing view of the institutional forms of power that Mills preferred the term "power elite" to "ruling class".

For Mills, while Marx's concept of class is purely economic, the concept of rule is actually political. Hence, the idea of a ruling class implies of "a theory that an economic class rules politically" (Mills, 1956, p. 60). Mills then replaced the traditional idea of a ruling class with that of the more encompassing term of "power elite". However, the importance of economic (business) elites among the three dominant institutions does not suggest that Mill's theory merely consists of economic (business) elites. Rather, they act as a primary link for the complex interactions among the three dominant LPE groups. In other words, it also includes political and military elites with consequences of their power for the rest of society. Their unique positions within an expanding capitalist system enable them not only to go beyond the ruling class mentality, but also to elevate their power status even higher. This, in turn, means that their actions and inactions have a major impact on the entire society.

Despite the popularity of Mill's power elite theory, critics are still doubtful about the existence of LPEs in merely three dominant groups in contemporary American society. Also, it is debatable whether the empirical evidence presented by Mills to substantiate the existence of these LPEs in the US is convincing. More importantly, it is not known if the model can be applied to nations that are not developed countries. To this end, Malaysia is essentially a developing country, and in many ways historically, economically, and politically different from the US.

Hence, it will be interesting to see whether the three dominant LPE groups, as defined by Mills (1956) and their many variants, are relevant in the Malaysian context. In particular, this study provides an opportunity to: 1) analyse the local power structure, whereby different LPEs are shaped by state-state-business ties to collaborate closely with different Chinese TCEs to implement mega-projects under China's Belt and Road Initiative (BRI). More specifically, two single-dominant parties (SDPs) in both countries used a variety of business enterprises under their influence or control to create novel and diverse forms of state-business relations (SBRs) in Malaysia; and 2) validate or reject Mills' (1956) power elite theory in terms of theoretical and empirical depth outside the US.

2.2 STATE-BUSINESS RELATIONS

In the literature, SBRs are defined as relations between domestic public and private sectors (Schneider and Maxfield, 1997; te Velde, 2010; Sen, 2013 & 2015). They can take the form of a formal and regular coordination or informal ad-hoc interactions. Their scope comprises the whole economy, or targeted specific sectors (or in this case mega-projects), types of firms, or policy processes (Lemma and te Velde, 2015). They involve highly organised relationships, though in others, they are loose ties between the state and business. In numerous cases, formal acts by key institutions matter most, though in others, informal arrangements, norms, and agreements dominate (Bardhan, 2005).

The past three decades have witnessed the emergence of a growing body of literature that seeks to explain the "developmental state" as an outcome of effective or collaborative SBRs. Johnson (1982) contended that in order to industrialise, a country needs a strong and capable state to lead the business sector, with an industrial policy that enhances the nation's competitiveness. He argued that key to the success of a developmental state is the existence of a powerful and talented Weberian bureaucracy, which leads businesses to contribute to the industrialisation drive. More importantly, the success of SBRs is due to a group of technocrats who devise and implement visionary long-term policies. However, it shall be under conditions that they are isolated from distributional pressures within society, as well as shielded from the interference of politicians.

Evans (1995) referred to this inter-relationship of the state and business as "embedded autonomy". He claimed that a developmental state has a bureaucratic apparatus that is autonomous as a coherent entity and remains separate from society. It has its own meritocratic rules, but is embedded in a concrete set of social ties. This binds the state to society and provides institutionalised channels for the continual negotiation and renegotiation of goals and policies (Evans, 1995: 12). Evans (1995) argued that although bureaucrats have close ties with business, they are insulated and still able to formulate and act autonomously on preferences. He further claimed that either autonomy without embeddedness, or embeddedness without autonomy, is unlikely to produce positive outcomes. This is because without autonomy, embeddedness becomes capture, and could degenerate into rent-seeking. Whereas if without embeddedness, joint projects that engage the energy and intelligence of business cannot be implemented. Hence, the state's contribution to economic growth depends on combining the two. These arms-length relationships between the state and business are in contrast to Polanyi's (1944) contention that modern market economy and modern nation-state should be understood as the single human invention he called the "market society", not as two discrete elements of the state and business.

Meanwhile, the mainstream literature takes the following elements as essential characteristics in promoting effective or collaborative SBRs for economic growth (Schneider and Maxfield, 1997): 1) transparency, where there is a flow of accurate and reliable information between the state and business; 2) reciprocity, which means there is capacity and autonomy of state actions to secure improved economic performance from the business sector in return for subsidies or other forms of state support; 3) credibility, in that the state commands credibility in the eyes of the business sector and capitalists believe what state actors say; and 4) there is mutual trust between the state and business through transparency, reciprocity, and credibility. These scholars further argued that institutionalised processes that embed these key elements in repeated interactions (Evans, 1997) between the state and business are more likely to lead to effective or collaborative SBRs, rather than informal and ad-hoc or one-off processes (Schneider and Maxfield, 1997). Such institutionalised processes are likely to be growth-enhancing by fulfilling a set of important economic functions, and resolving market and state failures common in many developing countries.

On the other hand, ineffective or collusive SBRs are characterised by rent-seeking behaviour, with the capture of key institutions by influential LPEs, who include both political and business elites (Leftwich, 2008). When SBRs are collusive mostly on an informal, ad-hoc and non-transparent basis, LPEs may use state apparatuses for particularistic benefits. They are not for collective goals, or to improve efficiency, or to ensure economic growth of a country (Hausmann and Rodrik, 2002).

According to Leftwich (2008), collusive SBRs are difficult to change because of three reasons: 1) institutional inertia hampers reform in a state agency that is poorly functioning or weakly organised, and there may be little incentive for key state actors to change their behaviour; 2) rent-seeking relations between the state and business may be retained by key actors and groups who benefit, and may oppose change; 3) associated institutional arrangements, like a culture of bribe-taking among bureaucrats for granting approvals to the business sector, may add resistance to change.

Clearly, political influence is another channel through which elites can have an impact on economic development. They can design institutional architectures specifically tailored to SBRs that serve their own interests. Although institutional architectures designed by elites may promote participation and information flow, they can also simply cement the position of a particular elite group within the governance structure (DiCaprio, 2012).

Fuchs and Lederer (2007) argued that there are two types of power in SBRs: 1) "infrastructural power", which is determined by underlying economic structures, policies, and organisational procedures of the state over the business sector; and 2) "instrumental power", which is the influence of key business actors over other corporate enterprises, in order to set the agenda before any interaction between the state and the business sector takes place.

According to Robinson (2012), there is no guarantee that all individuals and groups in society will prefer the same set of economic institutions, as different institutions lead to different income distributions. Consequently, there will be conflicts-of-interest over the choice of these institutions. In such a situation, it will be the distribution of power in society that determines what institutions are chosen. An elite group with more political or economic power will tend to secure the set of institutions it prefers.

In many developing countries, politicians or political parties may own large private business corporations through the capture of state institutions, leading to concentration of political and economic powers in their hands. This makes it difficult to distinguish between the public and private sectors (Polanyi, 1944), even though formally the state and business may have an arms-length relationship (Chingaipe and Leftwich, 2007). As a result, ineffective or collusive SBRs may become sustained or consolidated over time, even highly resistant to external reforms (Chingaipe and Leftwich, 2007).

Hence, developmental state-based studies that primarily focus on bureaucratic institutions for coordination purposes have been criticised as having "thin politics" (Whitfield and Buur, 2014), and obviously miss the impact that political factors can have on economic development. Meanwhile, bureaucratic institutions for coordination may well-serve to address operational issues in a country's economy. However, such coordination assumes that the state and business have reasonably-shared economic interests, and a fair distribution of power that makes collaboration likely. In practice, this assumption may not be true, if there are specific political interests involved. More so, when there is a major political crisis with concentration of power in the hands of just a few dominant LPE groups to extract rents for their own benefit only.

Leftwich (2010) highlighted that leaders, elites, and coalitions play an important role in the developmental process, one where an assessment of the structure of a developmental state alone cannot explain. Routley (2012) later conducted a review of the literature and summarised that key attributes of a developmental state are: 1) having a capable, autonomous, but embedded bureaucracy; 2) having a political leadership oriented towards economic development; 3) having a close and symbiotic relationship between state agencies and key industries; and 4) having successful policies that promote economic growth.

Meanwhile, Millward (2013) reviewed the economic history of SBRs, particularly in states that emerged as major economic powers in the Western world during the 19th and early 20th centuries. These countries included France, Germany, Russia, UK, US, and Japan, but he gave a rather different perspective from the mainstream literature. He argued that the scale of state interventions and the differences across major powers during the period are motivated more by political considerations of external defence and internal unification. It is not based on notions of promoting economic growth, or raising the average living standards of the people, or adhering to "laissez-faire", which commonly persists in debates about modern economic history.

Ozel (2015) investigated the "formation and sustainability of coordination-inducing institutions", in the context of economic and political transformations of Mexico and Turkey during their market transitions in the post-1980 period. She pointed out the role of political factors in determining the direction of such transformations. This led to the reconfiguration of business alliances, as well as political rivalries, in the form of interactions between the state and business. In other words, she attempted to demonstrate a dynamic political dimension, whereby "cohesiveness" vs. "fragmentation" can play crucial roles in the formation and sustainability of coordination-inducing institutions. She then argued that these roles are central to state-business alliances.

Undoubtedly, political and economic factors of a particular country are often intertwined in shaping the necessary exchange of information, reciprocity, credibility, and trust, which are foundational to effective or collaborative SBRs. If close relations between political elites and productive business elites are based on mutual benefit, the literature suggests that SBRs are likely to be growth-enhancing as well (Abdel-Latif and Schmitz, 2010; Whitfield and Therkildsen, 2011). However, it does not explain under what conditions, when close and informal relations between political and business elites are collusive in nature, they will also lead to effective SBRs for economic growth. Hence, there is a need to verify this claim empirically in this study.

In this regard, Lemma and te Velde (2015) suggested that SBR outcomes from a growth-enhancing perspective can be assessed by using three concepts: 1) "invisible-hand", where the role of the state is limited to providing public goods, but leaves allocative decisions to the private sector; 2) "helping-hand", where organised bureaucrats actively promote private sector activity, support some firms and eliminate others, pursue specific policy initiatives and have close ties with capitalists; and 3) "grabbing-hand", where bureaucrats are less well-organised, as they actively pursue their own agendas. In this context, the government is led by politicians, who are usually above the law, while political elites employ their power to extract rents.

To-date, empirical evidence of SBRs have largely been derived from the qualitative case study approach. They are notably drawn from East Asia (Johnson, 1987; Shafer, 1997; Fields, 1997), Southeast Asia (Doner and Ramsay, 1997; Doner *et al.,* 2005), Latin America (Silva, 1997; Thorp and Durand, 1997; Doner and Schneider, 2000; Schneider, 2015), Sub-Saharan Africa (te Velde and Leftwich, 2010), North Africa (Abdel-Latif and Schmitz, 2010), and South Africa (Seekings and Nattrass, 2011). Other empirical studies based on the quantitative statistical approach have also been carried out particularly for India and Africa (Cali and Sen, 2011; Cali *et al.*, 2011; Qureshi and te Velde, 2013; Lemma and te Velde, 2015). They all show that effective or collaborative SBRs can reduce policy uncertainty, increase rate of investment, as well as determine economic growth and structural transformation.

The literature highlights the importance of bureaucrats, state institutions, and business associations for coordination of economic or industrial policy. Their business objectives usually seek to exchange information and align incentives, to reduce transaction costs, and to lead to growth-oriented policy implementation. However, one study from Vietnam (Vu-Thanh, 2014) appears to be slightly different from the mainstream literature. It shows that between 1986 and 2012, the success of Vietnamese industrial development was partly determined by the important relations of political elites (rather than bureaucrats), in forging close business ties with productive capitalists to build strong reform coalitions.

Research from Hong Kong (Fong, 2014) also shows that coalitions between capitalists and political elites for business can potentially exist across borders. For example, Hong Kong business leaders had formed direct partnerships with political elites in Beijing to put pressure on Hong Kong local government to alter proposed business enabling environment reforms. Although these business links were facilitated by the unique relations between Hong Kong and Beijing, it did attest to the fact that international SBRs could be as important as national SBRs for economic development. Likewise, the Japanese government had also attempted to create stronger international SBRs between Japanese multinational corporations (MNCs) and governments in the ASEAN region. It was seen as a way to increase Japanese MNCs' influence on these governments for industrial policy reforms in Southeast Asia (Natsuda, 2008).

In essence, the SBRs literature outside Malaysia primarily argues that bureaucrats play an important role in driving business to facilitate policy-making processes for economic growth. It focuses on explaining why some SBRs are effective and more developmental than others (Whitfield and Buur, 2014). It suggests key characteristics that shape either collaborative or collusive SBRs. In this regard, collusion is often synonymous with rent-seeking activities between business and the state, with the capture of state apparatuses by influential LPEs, who include both political and business elites (Leftwich, 2008).

Hence, before proceeding further, there is a need to review and understand: 1) the historical background of different LPEs in Malaysia; 2) who are they, what are their characteristics as key actors in the state; 3) why they are influential in exerting strong control over government policy-making processes; 4) how they are linked to diverse forms of conventional SBRs that are created in Malaysia over the years; and 5) how are they related to the development of a new phenomenon of state-state-business ties with China to create novel SBRs in the country under the BRI.

2.3 POWER ELITES AND STATE-BUSINESS RELATIONS IN MALAYSIA

2.3.1 Historical Background

During the pre-Independence era, the British colonial government in Malaya adopted the "divide-and-rule" policy to shape the economic structure of the country. As a result, economic activities were based on the principle of ethnic division of labour. Bumiputera[26] involved in the economy as farmers and fishermen became economically marginalised. On the other hand, ethnic Chinese engaged in business activities was economically better off, along with the powerful expatriate business elites and capitalists (Puthucheary, 1960; Tan, 1982; Andaya and Andaya, 2001).

After Independence in 1957, the government started to play an active role in developing the economy through state intervention[27]. Key political elites in the United Malays National Organisation (UMNO), the SDP in the coalition government, struck a deal with key political elites of other ethnic minorities, particularly the Chinese. These elites aimed to agree on a national development framework, which was both growth-oriented and re-distributive in effect (Jesudason, 1989; Jomo, 1990; Crouch, 1992). The background of

[26] Bumiputera, which means "sons of the soil", is the term used in reference to ethnic Malays and other indigenous peoples, who accounted for 65 per cent of the population in Malaysia of almost 30 million in 2015.

[27] In theory, one key reason for state intervention is that the private sector may not have the capital to be efficient. The state then intervenes to reallocate resources to the most suitable projects (Evans, 1995). This form of state intervention is known as the "developmental state" (Johnson, 1982). The positive point here is that if the state apparatuses under its bureaucrats are strong, where suitable projects become nationally efficient and competitive, the economy and society would benefit through employment creation, revenue earnings, and technological improvements. The negative point would be that state interventions are not always solely to ensure economic growth, but can be abused and utilised to redirect society towards other goals set by political and business elites for their own interests. As a result, some critics argue that strong state intervention, one captured by political and business elites, can lead to moral hazard problems in the resource allocation system of society, with market behaviour greatly distorted (Haggard and MacIntyre, 1998). In short, state interventions carry the risk of misallocation of resources and rent-seeking, especially in developing countries with high level of corruptions.

different types of political elites can be traced to the influence of the colonial experience under the British, as well as the post-colonial aspirations of UMNO (Case, 1991).

In 1963, the Federation of Malaysia was formed under a constitutional monarchy[28], closely modelled after the Westminster parliamentary system, a legacy of British rule. This federation included Singapore, Sabah, and Sarawak. However, Singapore, led by Lee Kuan Yew, decided to leave Malaysia in 1965 to become an independent island-state. This was mainly due to his political differences with key UMNO elites, specifically over the issue of "Malay privilege" (Gomez *et al.*, 2013). Despite the separation, the Malaysian government still went ahead with that special provision in the new Constitution, primarily for the purpose of ethnic affirmative action.

Nevertheless, this did not overcome the problem of differences among major ethnic groups in Malaysia. In 1969, riots instigated by political elites aligned to different ethnic-based parties with vested interests broke out just after the general election. The riots happened when electoral outcomes were unfavourable to the ethnic Malays, given that the ethnic Chinese-backed Democratic Action Party (DAP) had won a majority of the seats in urban areas. A primary cause of the riots was growing socio-economic inequality between major ethnic groups. More specifically, it was between the relatively poorer ethnic Malay and the richer ethnic Chinese (Gomez *et al.*, 2013).

In 1971, the coalition government, led by key UMNO elites, decided to implement an ambitious and comprehensive 20-year social engineering plan, known as the New Economic Policy (NEP). The NEP's implementation in the early years saw increased state

[28] Malaysia's ceremonial head is the *Yang Di-Pertuan Agong* (King). The federal Parliament comprises a "Dewan Negara" (Senate) and a "Dewan Rakyat" (House of Representatives), with members of the former appointed based on recommendations by the ruling government, and the latter chosen based on general elections. The administration of the country is divided into three branches: executive, legislative, and judiciary. The Cabinet is headed by the prime minister, who controls the executive. While the executive is accountable to the legislative, the judiciary is to be independent of the executive and legislative (Gomez, 1994).

interventions driven by UMNO elites, primarily focusing on the public sector (Means, 1992). These were done through allocation of major public expenditure by public enterprises (Gale, 1981), as well as restricted procedures and licensing requirements for private business enterprises (Jomo, 1984 & 1986). In other words, SBRs in Malaysia started in a conventional manner and driven by bureaucratic institutions when the NEP was introduced. This was meant to justify extensive state intervention in the economy, as well as to redistribute corporate equity, alleviate poverty, and promote Malay entrepreneurship.

Meanwhile, various laws and regulations were introduced to increase Bumiputera participation in the economy. One important law implemented during this period was the Industrial Coordination Act, 1975. This Act stipulated that a mandatory requirement of minimum 30 per cent of equity should be allocated to Bumiputera for all firms beyond a certain size. This requirement stirred up much disappointment, particularly among the ethnic Chinese business community (Gomez, 1994). Although favoured by key UMNO elites, these measures led to increased production costs, productivity falls, and a disincentive to invest by ethnic Chinese businessmen, due to redistribution of assets away from this community (Yeoh, 2002).

The development of a mixed economy in the 1970s-1980s resulted in the concentration of power in the hands of bureaucrats (Gale, 1981; Jomo, 1984 & 1986; Saravanamuttu, 1987). In this regard, an emerging group of Malay political elites, who aspired to develop their personal wealth, relied heavily on bureaucrats and state power over which UMNO possessed an upper hand (Lim, 1985; Khoo, 1992; Crouch, 1992). Greater concentration of power within the bureaucracy, as seen in the proliferation of public enterprises, coupled with UMNO's hegemony led to these forms of state-led SBRs (Gomez, 1994).

As *Barisan Nasional* (BN)[29] was returned to power repeatedly, and UMNO's hegemony over the state apparatuses deepened, politics in Malaysia was increasingly seen as catering to the vested interests of just a few influential political and business elites. This resulted in the transfer of wealth and control over the national economy to those who were politically dominant. It also benefitted a small segment of the Malay business community, who either had close links with key UMNO elites, or acted as their proxies (Gomez, 1994). Accordingly, UMNO's hegemony as an SDP took on an added guise as a party-state (Slater, 2003; Gomez, 2016; Case, 2017).

In the mid-1980s, Malaysia began to suffer from an economic slowdown in tandem with the global recession. This resulted in low commodity prices, reduced demand for manufacturing exports, low FDI, tighter international liquidity, higher real interest rates, etc. This time around, complaints against the government grew stronger, not only from the ethnic Chinese business community, but also from the genuine Malay businessmen. The latter mainly comprised capable and influential Malay business elites from large Malay-controlled business groups. They questioned the rationale of state intervention in business and demanded a less-regulated economy.

Acknowledging the problems and limitations of the earlier state-driven industrial policy, the coalition government led by key UMNO elites introduced the Promotion of Investments Act, 1986. This Act primarily aimed to encourage privately-driven FDI in the manufacturing sector, with an emphasis on technologically-sophisticated and export-oriented production activities. This investment policy appeared to have been implemented well as the economy recovered significantly from 1987. This recovery was also due to

[29] *Barisan Nasional* (BN), or National Front, was the ruling coalition led by UMNO, then comprising around a dozen of mostly ethnic-based parties. BN was an outcome of UMNO's near loss of power in the 1969 general elections, after which nearly all major opposition parties were incorporated into this coalition (Gomez, 1994). Besides UMNO, the other two major component members in BN were the Malaysian Chinese Association (MCA) and the Malaysian Indian Congress (MIC).

the massive relocation of production facilities by the Japanese and other East Asian industrialised economies, like Korea and Taiwan, also driven by rising production cost, tighter labour supply, and stricter environmental regulation at home.

The late 1980s, as observed by Leigh (1992), was a period marked by the gradual decline of influential bureaucrats in government policy-making processes. In particular, there was a change in the composition of UMNO leaders, mainly from politicians and bureaucrats to a combination of politicians and business elites. While the latter were still heavily dependent on the former's access to government patronage, by now they had become an important part in the internal politics of UMNO. It was done through the party's extensive patronage network (Khoo, 1992; Crouch, 1992), whereby such a network allowed UMNO to accumulate and control financial resources to maintain regime stability. The distribution of government patronage to business elites by UMNO politicians had provided benefits to party supporters, as well as strengthened party loyalty (Jesudason, 1989; Crouch, 1992; Khoo, 1992).

However, close links between UMNO politicians and business elites had begun to cause bitter factional struggles, giving rise to money politics (Teh, 2002). These new and pervasive forms of public-private-led SBRs soon developed into a major political crisis, when UMNO split into two rival factions. This split was mainly due to a serious elite feud between Mahathir Mohamad, Malaysia's fourth Prime Minister, and his finance minister, Razaleigh Hamzah. This feud started because both sides believed that the ultimate control over UMNO as the SDP, and correspondingly over state apparatuses, would mean access to power and corporate wealth (Gomez, 1994). Eventually, Mahathir secured victory in a hard-fought party election in 1987. Mahathir subsequently purged his political rivals from UMNO, including Razaleigh (Case, 1991).

Consensual elite unity for power and corporate wealth not only cuts across the ruling political party, but also business groups. In Malaysia, where an electoral authoritarian regime prevailed, with the ultimate autocratic leader assuming the role of prime minister, he was able to use his power to manoeuvre consensual elite unity between the public and private sectors. He could also draw freely upon the political financing of business elites or capitalists in the corporate sector, based on diverse forms of SBRs created or dictated by him (Gomez, 1994; Gomez and Lafaye de Micheaux, 2017). In other words, autocratic leaders are often in the position to control flows of political patronage as a form of elite settlement. This would help curb further elite contestations, thus maintaining regime stability (Case, 1991). By contrast, when autocratic leaders lose their patronage resources or neglect to deploy these resources effectively, it may result in destabilising their authoritarian regimes, leading to elite contestations and leadership challenges. Furthermore, rival elite factions under these conditions may begin to mobilise mass support or collaborate with social forces to instigate replacement. They may even call for a regime change, commonly seen in developing countries.

In Malaysia, although autocratic leaders used political patronage to regulate consensual elite unity and curb further elite contestations, this kind of regulation unfortunately involved irrational state interventions at the expense of genuine economic development. For instance, Mahathir and Daim Zainuddin (who replaced Razaleigh as finance minister in the 1980s) recruited just a handful of Malay businessmen and provided them with massive state patronage to breed a loyal but entrepreneurial cohort of indigenous business elites in the corporate world (Gomez, 1994).

Mahathir and Daim also favoured a handful of Malaysian Chinese business elites, whose loyalty and operational capabilities they felt they could depend on (Gomez, 2002). In this manner, Mahathir was able to prolong his electoral authoritarian regime for 22 years (1981-2003), mainly by regulating a complex set of elite-level unity, while balancing it with great commitment to industrialisation and privatisation. Along the way, diverse forms of public-private-led SBRs were created or dictated by him, which led to the rapid economic growth in the 1980s-1990s.

However, when the NEP expired in 1990, its goals were not fully achieved, though the poverty level had dropped from 49 per cent in 1970 to 17 per cent in 1990. Meanwhile, Bumiputera shareholdings of public-listed companies had increased from 2 per cent in 1970 to 20 per cent in 1990, but still below the targeted 30 per cent (Gomez *et al.*, 2013). As such, the coalition government dominated by key UMNO elites intervened again, and the NEP continued to flourish under the guise of other development plans. These included the National Development Policy (NDP), National Vision Policy (NVP), and until recently, the New Economic Model (NEM) and the Bumiputera Economic Empowerment (BEE) Policy, both introduced by Malaysia's sixth Prime Minister Najib Razak in 2010 and 2013 respectively (Lim, 2015).

The NEP and its many variants driven by key UMNO elites was essentially favouring Malay business elites. It was specifically done through diverse forms of SBRs created or dictated by them for their own benefit, but at the expense of other ethnic groups (Ooi, 2013; Pua, 2011). For example, the privatisation programme introduced by Mahathir in 1983 saw once public-controlled monopolies transferred to private-controlled monopolies, mostly secured by a select group of influential Malay business elites, under the so-called "Malaysia Incorporated" concept (Gomez, 1994 & 2012a). These Malay business elites then injected their lucrative concessions into the stock market in a massive privatisation drive, becoming owners of huge public-listed companies overnight in the corporate sector (Gomez, 2012a).

Meanwhile, the unity of political and business elites that blurred the line of public and private sectors was further reinforced by UMNO's growing hegemony. For example, state contracts had been awarded by UMNO through direct negotiation on a "first-come-first-serve" basis to its own companies or proxies in the private sector, without going through a proper tender process (Tan, 2008). Furthermore, key UMNO elites also awarded board and management positions in SOEs to party members at the state, division, and branch levels, without any professional merit. In most instances, the modus operandi was to use political power to acquire strategic state assets or political funds, in order to further strengthen UMNO's political standing.

In an effort to achieve the unfulfilled NEP's goal of redistributing wealth equitably, the state encouraged multi-ethnic business cooperation between ethnic Chinese and Malays. This saw Malay business elites participating actively in Chinese-owned firms, through the holding of shares or directorships (Heng, 1992; Means, 1992; Jesudason, 1997). As a result, many Malay business elites became multiple directors in Chinese-owned public-listed and private firms, leading to the formation of interlocking elite directorships (Chan, 2004). These diverse forms of state-business ties were most common during Malaysia's rapid economic growth phase in the 1980s and early 1990s. As a result, numerous elite- and SBR-related studies[30] were undertaken on the nexus of key UMNO elites and different Malaysian business elites during this period.

[30] See Chapter 3: Section 3.1 for a brief review of elite- and SBR-related studies in Malaysia done by major scholars during the period of 1980s-2000s, which include the work of Tan (1982); Lim (1983 & 1985); Leigh (1988 & 1992); Gomez (1990, 1994 & 1999); Case (1991); Bowie (1991); Heng (1992); Means (1992); Sieh (1992); Khoo (1992); Crouch (1992 & 1996); Gomez and Jomo (1997); Jesudason (1989 & 1997); Searle (1999); Chan (2004); Tan (2008); and Wain (2009).

The UMNO-led government always claimed that the selected few business elites who had received rents from the state could help realise the NEP's redistributive objectives more quickly (Gomez, 1994). However, such SBRs only brought benefit to business elites, helping them to build their businesses in a relatively quick manner. Furthermore, big business growth during the 1990s had not always been productive, a key objective of privatising strategic state assets and services (Gomez, 2009). For example, not all SBRs driven by key UMNO elites through privatisation had enhanced efficiency, transparency, and cost-saving (Tan, 2008). In many instances, state intervention, which included bailout of loss-making companies, funding of unprofitable investments, etc., saw abuses of the close collaboration between UMNO elites and Malay business elites that undermined the apparent objective of the country's privatisation programme (Gomez, 2009).

Despite these seemingly unfavourable outcomes of public-private-led SBRs from the 1980s to 1990s, the biggest success of privatisation was probably its ability to achieve the NEP's goal of redistributing wealth to the Bumiputeras. This was consolidated in the Bumiputera Commercial and Industrial Community (BCIC)'s policy (Gomez, 2009), with the allocation of at least half of the shares of privatised entities to Bumiputeras. However, these kinds of economic rent distribution were not effective in accelerating industrialisation or promoting Bumiputera entrepreneurship. This was because most privatisation exercises of strategic importance, like water and power supply concessions with guaranteed recurring incomes, had been awarded to politically well-connected but inexperienced Malay business elites with favourable terms that were detrimental to the state (Tan, 2008).

A critical review of Malaysia's political economy shows that intra-ethnic Malay class changes were ultimately the main cause of failure of the privatisation programme (Tan, 2008). This was certainly in contrast to the general perception that the failure to develop a Bumiputera business class was due to the balance of economic power between Malays and other ethnic groups, particularly the Chinese (Gomez *et al.*, 2013). In other words, although the government would argue that the driving force for the privatisation programme was in response to inter-ethnic economic inefficiencies, in actual fact, it was mainly catered to changes in social and political relations of key UMNO elites. More specifically, the slow development of dynamic Malay-owned enterprises was due to intra-elite feuds among rival elite factions in UMNO, which constantly fought for their own benefit. Severe elite contestations among rival factions had facilitated the allocation of public resources away from beneficiaries of the state's redistributive policy, thus undermining the previously centralised patronage network of the NEP that aimed to eliminate inter-ethnic economic inequalities. This had led to moral hazard problems (Haggard and MacIntyre, 1998), as the political leadership of rival factions became increasingly unable to discipline their staunch supporters in exploiting state assets and services. These issues of rent-seeking[31], through cronyism and lack of state enforcement, had contributed to the failure of the privatisation programme.

On the other hand, some public-private-led SBRs driven by UMNO elites in the manufacturing sector were effective, especially in the formulation of an industrial policy to encourage MNCs to invest in Malaysia. This had attracted much FDI in the early 1990s, thus enhancing accumulation, diversification, and industrialisation, improving productive activities. More specifically, the magnitude and nature of rents provided by the state for foreign investors to relocate their massive production facilities to Malaysia did not undermine the accumulation of gross domestic product (GDP) in the "internationalised"

[31] See Krueger (1974), Tullock (1967 & 2000) and Tan (2008) for detailed discussions on collusion and rent-seeking issues.

sectors of the economy, but instead ensure rapid industrial growth (Rasiah, 1996; Jomo and Gomez, 2000).

These forms of public-private-led SBRs had also attracted massive short-term capital inflows to Malaysia in the late 1990s, fuelling the bull-run of the local stock market. However, when the Asian Financial Crisis broke in 1997, this trend was suddenly reversed and resulted in severe credit crunch. This reversal had adversely affected many public-listed firms, especially those controlled by UMNO politicians and inexperienced Malay business elites. This led to bailouts of ailing and debt-ridden major enterprises closely linked to then Prime Minister Mahathir. As a result, a serious elite feud ensued between him and his then deputy, Anwar Ibrahim, particularly over questionable bailouts, which subsequently led to the latter's sacking from public office in 1998 (Wain, 2009).

After the financial crisis, the privatisation programme was reversed in 2000 with the "re-nationalisation" of poor-performing and highly-indebted privatised firms like the UEM-Renong Group, Malaysian Airlines, STAR, PUTRA Light Rail Transit Systems, etc. (Gomez *et al.*, 2017). They were absorbed by Pengurusan Danaharta Nasional Berhad, a government special purpose vehicle set up for national asset management, following a complex bailout or debt-restructuring exercise. After the government re-nationalised these troubled firms, they now functioned as government-linked companies (GLCs)[32] (Wain, 2009; Gomez, 2012a & 2013).

By 2009, a new form of state-led SBR had emerged in Malaysia, with leading business entities in the corporate sector mainly comprising GLCs run by professionals or

[32] Thereafter, SOEs are commonly referred to as GLCs in Malaysia. They are defined as companies that have a primary commercial objective, with the Malaysian government having a direct controlling stake, not just in ownership, but also influence in the appointment of directors and senior management staff, as well as major decision-making of their operations.

managerial elites (Gomez *et al.*, 2017). These elites were mostly from the private sector and appointed by UMNO elites. Ironically, ownership and control of GLCs was back with the state, mirroring the public enterprises in the 1970s-1980s. This implied that active privatisation to transform public enterprises to private firms in the 1980s-1990s, through the public-private-led SBRs, had turned out to be a big failure (Gomez, 2012a). These SBRs were driven by a select group of Malay business elites, like Halim Saad and Tajuddin Ramli, among others. In other words, state intervention under the NEP did not increase business acumen or produce a class of dynamic Malay capitalists (Gale, 1981; Jesudason, 1989; Bowie, 1991, Khoo, 1992; Crouch, 1996; Gomez and Jomo, 1997). Rather, it perpetuated Malay dependence on the state, creating a "subsidy mindset" among businesses of just a select group of Malay business elites.

Meanwhile, well-capitalised Malaysian Chinese business elites appeared to be doing fine in the private sector, despite the two financial crises in 1998 and 2008. Though they still had to forge close ties with UMNO elites to create specific SBRs for business growth (Lim, 2015), they generally received lesser support from the state, as compared to that of GLCs (Gomez, 2009; Tipton, 2009). Overall, the Malaysian Chinese business elites were able to survive in this discriminating business environment through: 1) selective political support; 2) their strong entrepreneurial ability; and 3) their dependence on socio-economic networks that the various ethnic and clan-based trade and commerce associations provided them with, which had roots dating back to the pre-Independence era (Lim, 2015). For example, the latest indicators showed that Malaysian Chinese business elites were able to capture substantial business opportunities by collaborating closely with Chinese TCEs to implement BRI projects in Malaysia. This was mainly due to their business and social ties with China through specific clan-based trade and commerce associations.

In short, while the government's focus in the 1970s was on bureaucrats nurturing public enterprises, during the 1980s-1990s, it was on a public-private partnership between political and business elites through privatisation exercises. However, by 2000s, it had switched to GLCs controlled by the state and run by professional managerial elites, but after 2013, the government appeared to have focused on the private sector again, in addition to the use of GLCs. This was done by allowing politically well-connected local private enterprises to act as proxies to different LPEs, to collaborate closely with different Chinese TCEs, to implement BRI projects in Malaysia, based on this new phenomenon of state-state-business ties.

To this end, Gomez and Lafaye de Micheaux (2017) rightly pointed out that in Malaysia, SBRs have evolved in diverse forms over the years, from private-led (1950s and 1960s), to state-led (1970s), to public-private-led (1980s-1990s), to state-led (early 2000s), and to state-state-led (from the late 2000s), mainly due to political considerations of UMNO in the name of fulfilling the NEP's objectives and its many variants. Nevertheless, the evolution of SBRs also served to fulfil the political and business interests of UMNO elites.

Along the way, a once relatively well-functioning bureaucracy during the 1970s-1980s had come to be dominated by a particular ethnic group, who was seen as completely subservient to UMNO elites (Gomez and Lafaye de Micheaux, 2017). In fact, intra-elite feuds in UMNO have been the primary agent of change in the political system, the corporate sector, and the nexus between the state and business over the years, most obvious in 1987, 1998, 2009, and 2015 (Gomez and Lafaye de Micheaux, 2017).

Admittedly, one key concern of governments in developing countries is that, for the sake of economic growth, they must be able to continue addressing the interests of prospective investors, with regard to their ability to profit from their investments. This is true regardless whether the objective is to promote investments from domestic or foreign, private or state-owned enterprises. In other words, genuine political support for prospective investors with a strong helping-hand can turn into effective and collaborative SBRs, by reducing uncertainties and speeding up the process of investment decisions by prospective investors for economic growth.

This kind of state intervention was even more crucial when the business and political environment in Malaysia was in a bad state, especially when facing a severe economic slowdown, as in 2014-2016, amid the 1MDB scandal. Such political support would certainly help to attract new sources of FDI to stimulate economic recovery. However, there are always instances whereby political elites have mutual interests with some investors in the private sector, as they need the latter's financial support for their political survival objective (Whitfield and Buur, 2014).

In particular, although re-building elite unity to curb elite contestation (Higley and Burton, 1989) is crucial for UMNO elites to maintain regime stability, this requires a huge amount of political funds to finance elite settlement (Burton and Higley, 1987). In fact, distribution of political funds in UMNO over the decades seemed to have perpetuated elite-level unity of party leaders and warlords at the state level, given that they were essentially heading the 191 divisions that propped up the party's nationwide apparatus (Welsh, 2016). Hence, UMNO elites generally pursued the quickest way out of a major political crisis, by generating financial resources through close collaboration with prospective investors in order to remain in power (Doner *et al.*, 2005). Inevitably, economic and political factors in Malaysia during the period of 2014-2016, amid the flare-up of the 1MDB scandal, had contributed to the development of a new phenomenon of state-state-business ties with China, and provided the link between conventional and novel SBRs that were created in the country to implement a variety of mega-projects under the BRI.

2.3.2 Development of State-State-Business Ties with China

Malaysia has been China's top trading partner within the Association of Southeast Asian Nations (ASEAN)[33] since 2008. China has been Malaysia's top trading partner since 2009. Malaysia-China's trade volume reached US$102 billion in 2014, making Malaysia the third largest trading partner of China in Asia, just behind Japan and South Korea, and eighth largest in the world (MIDA, 2016). In October 2013, when China's President Xi Jinping visited Malaysia, he agreed with then Prime Minister Najib to upgrade normal bilateral trade ties to a "comprehensive strategic partnership" (*Xinhua,* 5 Oct 2013). This partnership focused substantially on China's investments in Malaysia and funding of strategic infrastructure projects linked to Xi's BRI. According to Xi, China highly valued its close relationship with Malaysia, as the latter was taking the lead to advance China's relations with other ASEAN members. He further urged the two countries to enhance strategic cooperation in order to make their relationship a fine example in the region.

Oh Ei Sun, then senior fellow at the Rajaratnam School of International Studies in Nanyang Technological University of Singapore, was of the opinion that the single most significant achievement of Xi's visit to Malaysia was the upgrading of normal bilateral trade ties to a comprehensive strategic partnership (*Xinhua*, 5 October 2013). He further claimed that China only accorded such special status to its most valued neighbours and

[33] ASEAN was formed in 1967 by Indonesia, Malaysia, the Philippines, Singapore, and Thailand to promote political and economic cooperation and regional stability. Brunei joined in 1984, shortly after its Independence from the United Kingdom, and Vietnam joined as its seventh member in 1995. Laos and Myanmar were admitted to full membership in July 1997, as ASEAN celebrated its 30th anniversary. Cambodia became ASEAN's tenth member in 1999.

friends. Hence, this could be viewed as a defining moment for both countries, as far as the development of state-state-business ties was concerned.

However, critics were sceptical about novel SBR forms that were created in Malaysia concurrently. They questioned whether China's BRI projects in the local property development and construction sector, based on state-state-business ties, could compromise the country's sovereignty and security (Chew, 2016). In fact, the rapid rise of China, predicted to surpass the US' economy in less than a decade (Jacques, 2012), had already generated much debate in the West. More importantly, this growing power shift with China's rapid rise in the region raised queries whether it could be seen as a threat or as an opportunity (Breslin, 2013; Shambaugh, 2013; Kahler; 2013; Stephens, 2014).

To this end, it appeared that there were two schools of thought in the literature of international relations (IR). On the one hand, neo-realists[34] saw the rise of China as a revisionist power, striving for regional hegemony that could lead to regional conflict (Mearsheimer, 2010). On the other hand, neo-liberals[35] saw China as a status quo power (Kahler, 2013), stressing the importance of inter-dependency between China and its neighbouring countries for trade and investments. Furthermore, they also claimed that China's rapid rise in the region should not be seen as a threat. This was because, since 2000, China had been adapting to the liberal rules of globalisation formulated by the US-dominated international institutions, like World Trade Organisation (WTO) and United Nations (UN), rather than challenging them.

[34] In the field of international relations (IR), neo-realists (Waltz, 1979) argued that states are self-interested actors, who compete for power. It is the unequal power distribution among states in the material world which ultimately defines the balance of power between them based on a zero-sum game.

[35] Neo-liberals (Keohane and Nye, 1977) in IR studies focused on the complex interdependency of states as international actors. Neo-liberalism argues that complex interdependence of states based on a positive-sum game comes closer to reality than what neo-realism would have thought. More importantly, the use of military action cannot be exercised when complex interdependence of states prevails.

Nevertheless, the above debates did not open up much space to observe the importance of an actor-centric SBR issue, where influential individuals or powerful leaders in the state were driving state-state-business ties that gave meaning to the material world. According to constructivists in the field of IR (Onuf, 1989; Wendt, 1995; Adler, 1997), it is not so much the state, but key actors in the state, comprising powerful individuals like leaders and elites, who shape and reshape the very nature of international relations. This is done through ideas, interests, interactions, and actions that give meaning to the material world. Meanwhile, van Apeldoorn and de Graaff (2014) claimed that agency and structure are mutually constituted. Agency can be understood as the ability of someone influential and powerful to act, like the role played by different LPEs in the state, whereas structure refers to the state itself, which consists of material and ideational elements.

For this study, there is a need to move beyond the state-centric paradigm to the actor-centric paradigm, underlining the value of looking beyond large-scale geopolitical shifts in the IR literature for BRI projects (Hong and Lim, 2018). In other words, this thesis seeks to argue that politically-inclined LPEs are key actors in the state, shaped by state-state-business ties to implement BRI projects, which have led to the creation of different SBR forms in Malaysia, one particularly important from the elite perspective. More specifically, this study seeks to highlight that one key political factor for Malaysia to secure the much-needed funding and investments from China for BRI projects, based on state-state-business ties, was the close nexus between the state and LPEs. As discussed, this strong state-LPE nexus helped to account for the favourable role the latter played in serving the interests of the former in a reciprocal iteration (Evans, 1997). In particular, such state-state-business ties, forged by two countries both led by SDPs, had received strong support from top leaders of UMNO and CCP, buttressed by the periodic exchange of high-level visits. These would ensure that ideas, interests and actions driven by LPEs, in close collaboration with Chinese TCEs, were implemented smoothly in line with economic policies of both countries. For example, some of these notable visits included China's President Xi to Malaysia in October 2013, China's Premier Li Keqiang to Malaysia in November 2015, and then Malaysia's Prime Minister Najib to China in November 2016 and May 2017. This implied that state-state-business ties, forged by powerful leaders of both countries, were essentially personal, whereby leaders did assume authoritative roles in the state and acted legally on its behalf.

In essence, this kind of state-state-business ties were shaped by different LPEs (rather than bureaucrats), who collaborated closely with different Chinese TCEs, to implement BRI projects in Malaysia with a strong foreign state influence. This has led to the creation of novel SBRs at the project level, which appear to be an extension to conventional SBRs. Hence, there is a need to know why LPEs were powerful and preferred over bureaucrats to act as key actors in the state to implement BRI projects, as this study will indicate.

Before proceeding further, it is necessary to provide a brief sketch of the backdrop of China's BRI and state-state-business ties with recipient countries like Malaysia, in order to indicate the link between the issue of BRI and that of novel SBRs. It is then followed by a brief review of the recent trend of China's funding and investments in Malaysia, highlighting that they were mega-BRI projects, primarily implemented in the property development and construction sector.

2.4 CHINA'S BRI AND STATE-STATE-BUSINESS TIES IN MALAYSIA

As China's funding and investments increasingly went global in the 2010s, its foreign policy witnessed a significant shift in strategy, particularly when President Xi came into power in 2012, from “keeping a low profile” to “striving for achievement” (Yan, 2014). This major shift implied that China intended to take on a more proactive role in geo-economics, as well as geopolitics. This was to protect its interests in Asia (Zeng and Breslin, 2016). While it was seen to be a rule-taker, China now wanted to assert itself as a rule-maker, or at least a rule-shaper (de Graaff and van Apeldoorn, 2018).

In 2013, Xi mooted the idea of “The China Dream”, by implementing BRI (originally known as “One Belt, One Road” (OBOR) Initiative) as “the project of the century”, during his visits to Kazakhstan and Indonesia in September and October respectively. Xi’s vision for BRI emphasised key themes like “long-term peaceful development”, “maintenance of a positive and beneficial relation with the outside world”, and “never seek hegemony or commit any act of expansion” (de Graaff and van Apeldoorn, 2018). This strategic vision, as formulated in his 2014 overview: “Governance of China”, implied that BRI was inclined towards promoting a “positive-sum game” between this emerging superpower and its neighbouring countries, based on this new phenomenon of state-state-business ties, rather than a “zero-sum game”.

Concepts like “prosper-thy-neighbour” and “community of common destiny” were frequently advocated by top Chinese leaders in their overseas trips. They aimed to alleviate anxiety in many neighbouring countries, due to China’s increasing economic influence and dominance in the region. The spread of this anxiety was perceived to be bad for China, as it made these neighbouring countries less prone to cooperate with the emerging superpower. To avoid that scenario, China emphasised engagement with them, based on mutual benefit on a “win-win” solution. By doing so, China presented the BRI as an opportunity, rather than a threat.

2.4.1 Key Objectives and Scope of BRI

By definition, the "Belt" means the land-based "Silk Road Economic Belt", while the "Road" represents the sea-based "Maritime Silk Road of the 21st Century". In 2015, under the instruction of CCP, Chinese National Development and Reform Commission (CNDRC), Ministry of Foreign Affairs (MOFA), and Ministry of Commerce (MOFCOM) jointly announced the details of an "Action Plan for BRI" (*Xinhua*, 28 March 2015). While CNDRC primarily focuses on strategic infrastructure projects, MOFA looks at diplomatic relations, and MOFCOM is more interested in trade and investments. The BRI basically rests on three key state-specific objectives: 1) to utilise excess production capacity at home and secure access to the region's energy and resources; 2) to nurture a network of economic interdependence with countries along the B&R routes; and 3) to seek to maintain regional stability and prosperity.

Although BRI was initially perceived by the West as a network of regional infrastructure projects like the Marshall Plan[36], the release of its Action Plan in 2015 indicated that its scope is actually more encompassing. It is divided into five broad categories: 1) trade and investment facilitation measures; 2) infrastructure development like railways, highways, airports, ports, telecommunications, energy pipelines, and logistic hubs; 3) industrial and sub-regional economic cooperation, primarily for overseas industrial parks and economic corridors; 4) financial cooperation; and 5) promotion of people-to-people relations.

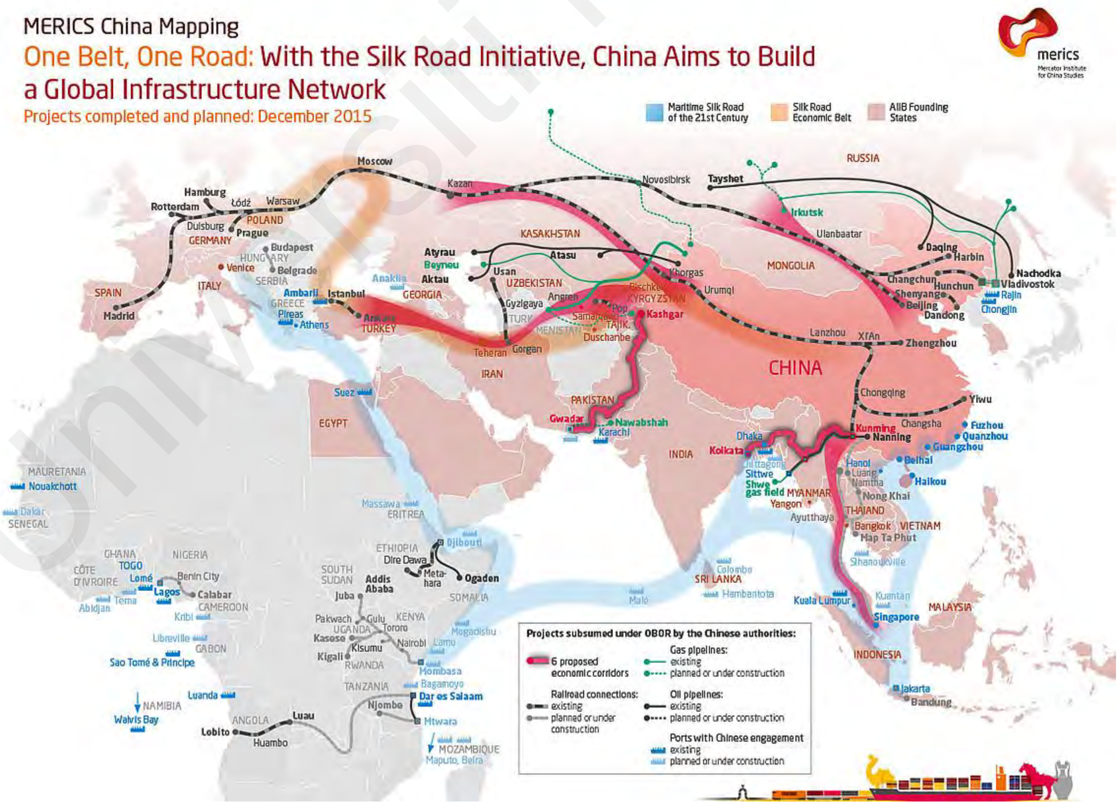
To-date, it remains unclear what is the exact definition of a BRI project (Tham, 2018). In particular, whether these categories of mega-projects, broadly formulated by China under its Action Plan, would be adapting to the liberal rules of the game, as formulated by

[36] Also known as the European Recovery Programme, it was a US aid plan to Western Europe after the devastating World War II.

international institutions like the WTO, World Bank, Asian Development Bank, etc. Alternatively, they could just be dealt with bilaterally, between China and recipient countries, on a project-by-project basis.

In terms of infrastructure connectivity that aims to enhance trade, the land-based side of the BRI will focus on constructing an ambitious new Euro-Asian land route. It is to be jointly undertaken by recipient countries along the B&R routes, in order to develop six economic corridors along the new land route. These corridors include, among others, China-Mongolia-Russia Corridor, China-Central Asia-West Asia Corridor, China-Pakistan Corridor and China-Indochina Peninsula Corridor, as indicated in Figure 2.1.

Figure 2.1 Infrastructure Network Identified Under the Belt and Road Initiative (BRI)



Source: Mercator Institute for Chinese Studies (MERICS), Germany. Extracted from CIDOB, 5/2016

The lack of an exact definition of a BRI project implies that the Chinese government is fully aware that these transnational projects, which involve extensive coordination and interfacing works at the project level, cannot be implemented alone. They must be achieved through methods such as state-state-business ties, which will compel influential LPEs in recipient countries to collaborate closely with Chinese TCEs. This also means that the latter must take into account existing international transportation networks, as well as rely on LPEs' local contacts to secure consent on land rights, in order to use the land-based route as cooperation platforms.

On the sea-based side, the BRI will focus on building more ports in recipient countries along the B&R routes, in order to provide a secure and efficient maritime network to promote regional trade, as indicated in Figure 2.1. According to industry experts, details of such port projects usually contained in the blueprints of recipient countries, indicating that since they can also serve as naval bases with strategic implications, China may be perceived as having military ambitions in the region.

Admittedly, since most emerging economies along the B&R routes lack the financial resources to develop their critical infrastructures, they may be receptive towards these rare funding opportunities presented by China. In this regard, the Chinese government had already set up three financial entities, namely the Asian Infrastructure Investment Bank (AIIB), New Development Bank, and Silk Road Infrastructure Fund, with an initial capital outlay of US$40 billion (Tiezzi, 2015). Their aim is to provide funding for major Chinese firms, especially those giant SOEs, who aspire to invest along the B&R routes.

During the "Belt and Road Forum" held at Beijing in May 2017, China pledged to pump in another US$124 billion for the implementation of strategic infrastructure projects along the B&R routes (*The Star Online*, 20 May 2017). In addition, China's US$3.52 trillion of foreign-exchange reserves, as at end of 2015, have earned very low yields in US treasury bonds. Hence, better interests can be earned by providing the necessary soft loans to recipient countries that lack the financial resources for critical infrastructure development (Tiezzi, 2015). So far, 57 countries have committed to join AIIB, making it a real international development bank which specifically caters to the development of emerging economies in Asia. It is anticipated that the AIIB will bring together Chinese money, European expertise, and the demands of Asia's emerging economies, in order to lay down the financial foundation for the implementation of BRI projects.

Meanwhile, China was also driven by its intent to enhance its relations with ASEAN. When Malaysia, its newly-forged comprehensive strategic partner in the region, assumed the chairmanship of ASEAN in 2015, this was seen as a great help for China to get ASEAN member countries to expedite negotiations of the Regional Comprehensive Economic Partnership (RCEP)[37], a 16-nation trade grouping that excluded the US (Har *et al*., 2019). The RCEP is favoured by China because it would result in an integrated regional free trade area, comprising almost half of the world's population, a third of global trade, and a quarter of the world's exports. It also provides China with a major position and platform in regional free trade, one where the US is surprisingly not a part of.

In this regard, once the sea-based and land-based infrastructures within the B&R routes are substantially enhanced, it will eventually lead to the growing of inter-connected regional economies and trade activities. In particular, ASEAN had a population of over 600 million, and a combined GDP of US$2 trillion in 2015. With the implementation of

[37] The Regional Comprehensive Economic Partnership (RCEP) is a proposed free trade agreement (FTA) between the ten member states of ASEAN, namely Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand, Vietnam, and the six Asia-Pacific states, namely Australia, China, India, Japan, South Korea, and New Zealand.

the ASEAN Economic Community (AEC)[38] in 2016, it was projected that ASEAN would become the sixth largest economic bloc in the world by 2020 (*Sin Chew Daily*, 18 November 2016). Hence, China is interested to penetrate these markets further. In fact, all the ten ASEAN members had signed free trade agreements (FTAs) with China. This has created a gigantic market of 1.9 billion people, taking into account approximately 1.3 billion of population in China (based on 2015 figure) as well.

China also needed to maintain its access to the required energy and natural resources that it sought outside the country for future economic growth. Hence, instead of forming a network of regional economic or diplomatic ties, industry experts saw the BRI as a strategic way to build more railways, oil & gas pipelines, ports and shipping lanes, etc. (see Figure 2.1). In other words, BRI is meant to secure access to China's required energy and natural resources in strategic locations and help to sustain its future growth and become a superpower in the long run (Economy and Levi, 2014).

Undoubtedly, BRI projects based on state-state-business ties will have major economic and political implications for recipient countries. If properly managed, this initiative will likely turn into an opportunity, rather than a threat. However, so far the feedback from recipient countries has been quite negative because most BRI projects, particularly in the property development and construction sector, were undertaken by Chinese TCEs, in close collaboration with influential LPEs, on a fast-track and direct-negotiation basis. They bypassed major institutions and normal procedures of a conventional project implementation approach. This was despite drawing heavy criticism from the public, on major issues such as non-transparency, weak governance, and lack of accountability.

[38] The ASEAN Economic Community (AEC) is designed to create a single market and production base within ASEAN. The AEC allows for the free movement of goods, services, skilled labour, and investment among the 10 ASEAN member nations, as well as facilitates freer flow of capital.

2.4.2 Malaysia's Attractiveness to China under BRI

Historically, Malaysia and China had prolonged maritime trade relations since Chinese Admiral Zheng He's expedition to Melaka during the 14th century. Meanwhile, according to the Chinese mapping of the sea-based route of BRI, Southeast Asia will be the first stop of the modern-day sea-based "21st Century Maritime Silk Road" that facilitates its trade expansion plan outside China (see Figure 2.2). The region is evidently crucial for the successful implementation of BRI, as far as the Chinese government is concerned (Grassi, 2020).

Figure 2.2 Land-based and Sea-based Routes of China Belt and Road Initiative (BRI)

Economist.com

Source: The Economist, 2 July 2016

Figure 2.2 indicates that Southeast Asia is located at the crossroad between the South China Sea and the Indian Ocean. It is among the world's most vibrant regions, in terms of land-based and sea-based economic activities. More importantly, Malaysia is at the centre of Southeast Asia. Thus, it could act as a gateway for China to engage its trade and investments with countries surrounding the South China Sea, as well as those along the Indian Ocean. In addition, Malaysia is one of the five founding members of ASEAN. China was also keen to penetrate further the huge market in ASEAN, by influencing its members both economically and politically.

While Malaysia's peninsula is strategically located at the centre of the region, with easy accessibility to important international maritime routes, it also comprises the crucial 900km long Strait of Malacca (Grassi, 2020). This particular strait connects East Asia with India, Middle East, and Europe, as indicated in Figure 2.2. It is one of the busiest shipping lines around the world, with over 79,000 vessels transit in 2014 (Murali, 2016). In 2015, it was reported that about 80 per cent of Chinese vessels, carrying crude oil and trading goods, passed through the Strait of Malacca (Murali, 2016).

In 2003, then China's President Hu Jintao had labelled China's over-reliance on the strait for its energy security as the "Malacca Dilemma" (Murali, 2016). It implied that Beijing had long identified such security risk associated to the strait for its energy resources requirement, even before the BRI was launched. Hence, the emerging superpower was constantly looking for alternative ways to have a strong presence in the region, in order to contain this particular risk. Analysts claimed that it is of no surprise that China was interested to fund for, or invest in, Malaysia's strategic infrastructure projects, like railways and ports, under the BRI. More specifically, it was carried out through its SOEs, in close collaboration with influential LPEs, based on state-state-business ties. This would help to protect its long-term trading and energy security interests in the region.

Meanwhile, due to Malaysia's diversified culture and multi-lingual advantages, it is quite logical that Chinese TCEs would choose Malaysia as a convenient gateway to enter ASEAN for its trade and investments in the region. Unlike other neighbouring countries, Malaysia also boasts an open and free economy, with a good legal system. It offers a competitive cost of doing business, as compared to that of Singapore, apart from being at the centre of ASEAN geographically. All these render Malaysia a perfect entry point for Chinese TCEs to penetrate the regional markets.

Importantly too, Malaysia also has Chinese vernacular schools, with a large portion of Malaysian Chinese business elites are able to converse in Mandarin. In fact, Malaysia is the only country in the world with a full-fledged Chinese education system outside of Greater China (namely China, Hong Kong, Macau, and Taiwan). This unique situation also fulfils Xi's objective of promoting people-to-people relations under the BRI, in order to enhance China's soft power in the region (*South China Morning Post,* 21 November 2016). The Malaysian government also offers attractive incentives under the "Malaysia My Second Home" (MM2H) programme for qualified foreigners to reside in the country for a period of 10 years (MIDA, 2017). All these lend Malaysia a unique advantage to attract Chinese TCEs to stay in the country. In terms of business environment, Ter Leong Yap, then President of Associated Chinese Chambers of Commerce and Industry of Malaysia (ACCCIM), argued that Malaysia is an English-speaking corporate world, which can cater to the business needs of Chinese TCEs in penetrating other similar markets in the region *(The Star Online*, 13 January 2017).

On the other hand, many Malaysian business elites had begun investing in China since the implementation of its "Open Door" policy in 1978. This was a good start for the cultivation of a close relationship between different LPEs and Chinese TCEs. Some of these Malaysian firms, especially those owned and managed by Malaysian Chinese business elites, had a long presence in China after Mahathir led a strong business delegation to the country in 1991. They played a crucial role in attracting Chinese TCEs to invest in Malaysia over the years (Gomez, 2006; Shen and Chen, 2010). In addition, Malaysia has an edge over other ASEAN countries because China is increasingly seeing Singapore as an ally to the US[39]. Grassi (2020) claimed that China feels more comfortable with Malaysia, being its new comprehensive strategic partner in the region. This would help to safeguard China's territorial and natural resource interests in the South China Sea, as well as its key strategic infrastructure projects under the BRI.

2.4.3 China's BRI Funding and Investments in Malaysia

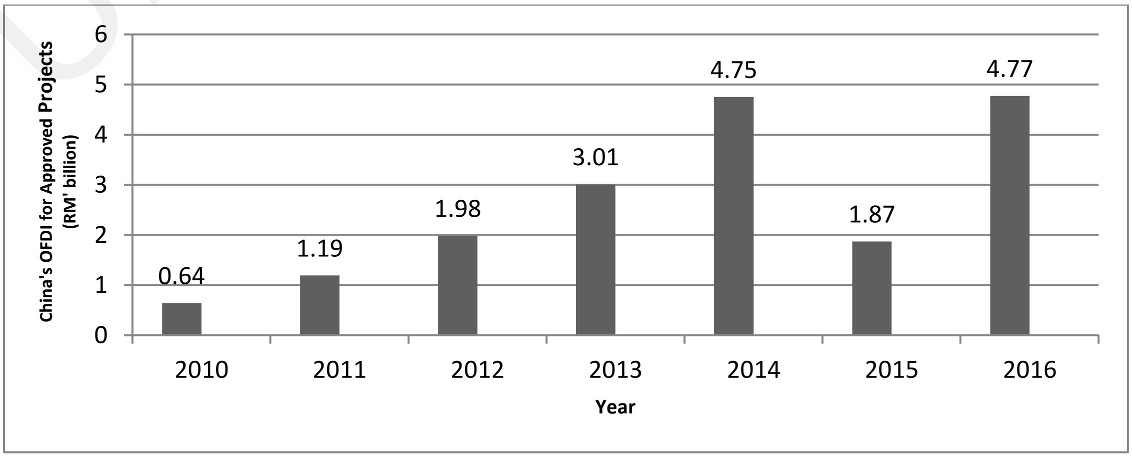
Between 2014 and 2016, China's BRI funding and investments in Malaysia took place at a time when the latter was suffering from an economic slowdown, low oil prices, and a volatile currency. More importantly, Malaysia was busy dealing with a lingering scandal at 1Malaysia Development Berhad (1MDB), a state-owned investment company. In November 2015, when China's Premier Li Keqiang visited Malaysia, he deepened normal bilateral trade ties by pursuing a number of strategic moves to support Malaysia's struggling economy. It was done through a mix of official statements of confidence, highly publicised BRI investments, and significant purchases of Malaysian Government Securities (MGS) (*The Star Online*, 29 November 2015). This friendly gesture made both geo-economic and geopolitical sense for China, in view of the economic slowdown at home, as well as in Malaysia. This would also help to ease the political tension between both countries over territorial disputes in the South China Sea. In April 2016, China's

[39] In 2016, during the trial in Hague between China and the Philippines over the disputed territorial claims in the South China Sea, Singapore was aligned with the US' views and voiced its support for the Philippines that was against China (*The Straits Times*, 1 October 2016). This was in spite of the support of most ASEAN members like Malaysia to the Chinese point of view. Worse still, Singapore was not in any way involved in the disputed claims at all.

purchase of about RM30 billion worth of MGS reinforced further its friendly gesture and solidarity. It momentarily dispelled the risk of a sudden and massive outflow of capital from Malaysia. In fact, such risk had happened earlier in September 2015, when the Malaysian ringgit dipped to a multi-year low, due to the negative sentiment of the 1MDB scandal (*The Star Online*, 11 April 2016).

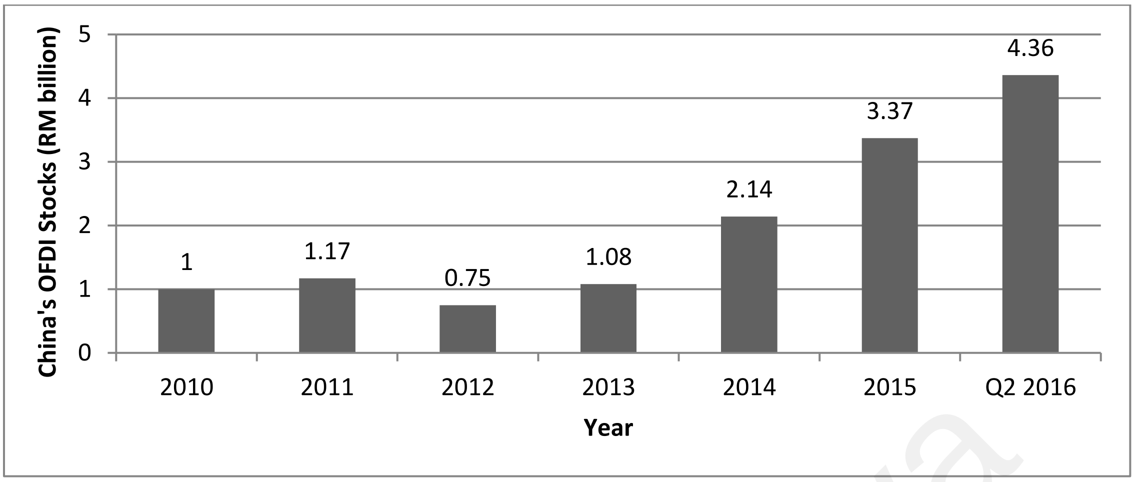
According to Oh Ei Sun (*South China Morning Post,* 21 November 2016), Malaysia was experiencing an economic slowdown in 2015-2016, as it had limited options to attract new FDI. Traditionally, Malaysia had relied on foreign investments from the West, Singapore, Japan, South Korea, and Taiwan. Since the global financial crisis in 2008, Malaysia had not been able to depend much on its traditional sources of FDI (Lim, 2015). The focus on China as one key alternative source (Bao, 2012; Khor, 2013; Lee, 2013; Lim, 2015) was understandable, given that Malaysia had been its largest trading partner in Southeast Asia since 2008 (Shen and Chen, 2010). As a result, China's outward FDI (OFDI) in Malaysia from 2010 to 2016, for both approved projects and stocks, had increased from RM0.64 billion to RM4.77 billion (see Figure 2.3) and from RM1 billion to RM4.36 billion (see Figure 2.4) respectively.

Figure 2.3 China's OFDI for Approved Projects in Malaysia from 2010 to 2016



Source: Extracted from Malaysian Investment Development Authority (MIDA) Reports, 2011-2017

Figure 2.4 China's OFDI Stocks in Malaysia from 2010 to 2016



Source: Extracted from Malaysian Investment Development Authority (MIDA) Reports, 2011-2017

In November 2016, during the Malaysia-China Business Forum held in Beijing, Malaysian and Chinese enterprises signed 14 memorandum of understandings and agreements for a variety of BRI projects, as listed in Table 2.2. This signing ceremony was witnessed by Najib and his Chinese counterpart Li. These enterprises from both sides were either state-owned or privately-owned, and favoured by leaders of UMNO and CCP. In other words, these projects would be implemented either on a public-led, private-led, or private-public-led basis from the Malaysian perspective. They worth a total of RM144 billion in contract value, with almost 60 per cent of it related to China's BRI funding and investments in the Malaysian property development and construction sector only. According to Najib, the total contract value was a historic achievement for Malaysia to secure the necessary FDI from China, especially when there was an economic downturn in 2015-2016. While FDI might not be the right term to define all the contract value involved[40], it was nevertheless equivalent to 12 per cent of the size of the country's economy in the same year, and signified a deepening of normal bilateral trade ties between both countries towards a comprehensive strategic partnership.

[40] Foreign funding in the form of soft loans for a particular project may not be strictly defined or categorised as an FDI.

Table 2.2 List of BRI Projects in Malaysia Signed in November 2016

Project Description	Contract Value (RM)
Engineering, Procurement, Construction and Commissioning (EPCC) Agreement for ECRL between Malaysia Rail Link Sdn. Bhd., China Communications Construction Company Limited, and China Communications Construction Company (M) Sdn. Bhd.	55 billion
Memorandum of Agreement for Investment, Development, and Construction of Melaka Gateway between KAJ Development Sdn. Bhd. and Powerchina International on a 50:50 basis.	30 billion
Heads of Agreement between Bandar Malaysia Sdn. Bhd. and Greenland Holdings Group Overseas Investment Company Limited for Proposed Purchase of Land and Development in Bandar Malaysia.	N/A
Heads of Agreement between Selat PD Sdn. Bhd. and CCCC Dredging (Group) Co. Ltd., with Bina Puri Holdings Berhad and CCCC Dredging involving in the Kuantan Waterfront Resort City project on 50:50 basis.	15 billion
Framework Cooperation Agreement between the State Government of Sarawak, Hebei Xinwuan Steel and MCC Overseas Limited for Proposed Development of Steel Plant in Bintulu Samalaju Industrial Park, Sarawak.	N/A
Memorandum of Agreement between KAJ Development Sdn. Bhd., Powerchina International, Yantian Port and Rizhao Port for partnership collaboration in Melaka Gateway Port.	8 billion
Heads of Agreement for Bandar Malaysia Financial Scheme between IWH-CREC Sdn. Bhd. and Industrial and Commercial Bank of China to build a regional centre in Bandar Malaysia (Iskandar Waterfront Holdings Berhad and China Railway Engineering Corporation JV on 60:40 basis).	9 billion
Memorandum of Understanding between ECER Development Council and Wuxi Suntech Power Co. Ltd. for Production of Crystalline Silicon Solar Cells and Module in Malaysia-China Kuantan Industrial Park, Pahang.	N/A
Memorandum of Agreement between BHS Industries Berhad and China Nuclear Huaxing Construction Co. Ltd. for Pekan Green Technology Park, Pahang.	N/A
China Construction Bank (Malaysia) Berhad secured banking licence from Finance Minister under Financial Services Act 2013. With initial paid-up capital of US$200 million, China Construction Bank will be able to provide infrastructure financing to support Malaysia's infrastructure development.	0.8 billion
Memorandum of Understanding between Yanming Resources Sdn. Bhd. and Fuzhou Xin Zibu Culture Communication Co. Ltd. for Growth and Development of Bird's Nest Market in China.	N/A
Memorandum of Understanding between Malaysia External Trade Development Corporation and Alibaba.com.	N/A
Research and Development Collaboration Agreement between Royal Bird's Nest, Walet Company-International Private Limited Company, and Peking University on Standardisation of Edible Bird's Nest Extract and Medical Properties for Pharmaceutical Drug Discovery.	N/A
Memorandum of Understanding between Aladdin Group Sdn. Bhd. and Suzhou Lian Cheng Yihao Information Technology Co. Ltd.	N/A

Source: Malay Mail Online, 1 November 2016

The forging of a comprehensive strategic partnership through funding and investment in BRI projects had illustrated China's distinctive approach to foreign policy. It used a mix of politico-diplomatic and economic influences to build this new phenomenon of state-state-business ties, first through a mechanism of elite interactions (Mills, 1956) between its top leaders and their Malaysian counterparts on a personal basis. These state-state-business ties under BRI were then translated into ideas, interests, and action to be driven by its TCEs in close collaboration with LPEs at the project level.

However, China's approach to BRI projects was not without risks. In particular, its support for Malaysia on the political front could backfire, if it was perceived by the public as attempting to prop up Najib's embattled administration amid the 1MDB scandal. Although Beijing's traditional non-interference policy forecloses China's involvement in the politics of other countries, this does not mean that it cannot be drawn into local narratives about political struggles of corrupt regimes. Worse still, China is in danger of being associated with domestic political interference, which could return to trouble its leaders, particularly if there is a regime change in these countries.

In this regard, novel SBR forms created in Malaysia through BRI projects were in contrast to a study by Lim (2014 & 2015), who claimed that before the introduction of BRI, Chinese SOEs actively involved in mega-infrastructure projects in the country funded by the Malaysian government usually preferred to tie-up with GLCs. However, after the launch of BRI, it appeared that Chinese SOEs' choices of local partners had varied. By now, they would also tie-up with politically well-connected, but little-known local private enterprises, rather than GLCs only, given that major funding and investments for BRI projects were provided by China. Some of these enterprises were closely linked to certain influential LPEs and Chinese SOEs, and acted as their proxies in JV partnerships.

With the involvement of little-known local private enterprises in new JVs for BRI projects, particularly in the property development and construction sector, this kind of arrangement seemed tailored for specific needs and interests of China, given that the Malaysian side lacked the bargaining power. These projects had been criticised for not being transparent in terms of project scope, definition, payment schedules, contract conditions, etc. For example, on the one hand, the huge amount of soft loans from China based on a much-inflated project cost could lead to further rise of contingent debts[41] for Malaysia, in the event that these projects prove to be commercially not viable. In addition, conditions of soft loans also came with the mandatory requirement that construction contracts for these projects must be awarded to Chinese SOEs, on an engineering, procurement, construction and commissioning (EPCC) basis, with implementation of projects under their full control. Hence, critics argued that BRI projects in the Malaysian property development and construction sector appeared one-sided. They were of little or no benefit to domestic firms, possibly even crowd them out in the long run.

In essence, China's funding and investments in Malaysia, based on state-state-business ties, had brought together different LPEs and Chinese TCEs favoured by UMNO and CCP leaderships, to create novel SBRs for different BRI projects, with potentially diverse outcomes and implications. The ideas, interests, and actions of different LPEs and Chinese TCEs were in line with economic policies of both countries, given that power was essentially concentrated in the office of leaders of the two SDPs. Nevertheless, before these dissimilar SBR forms, created through three specific BRI projects in Malaysia, can be examined empirically, a conceptual framework and research methodology are required, as outlined in Chapter 3.

[41] A contingent debt is a potential liability that may occur, depending on the outcome of an uncertain future event. A contingent debt is recorded in the accounting balance sheet if the contingency is probable, and the amount of the debt can be reasonably estimated. If both conditions are not met, the debt may be disclosed in a footnote on the financial statements, or not reported at all.

CHAPTER 3: CONCEPTUAL FRAMEWORK AND RESEARCH METHODOLOGY

3.1 CONCEPTUAL FRAMEWORK

Based on the literature review in Chapter 2: Section 2.3.1, elite- and SBR-related studies in Malaysia first commenced about five decades ago. Puthucheary (1960) pioneered the work on the ownership and control of British business elites in the Malayan economy. Gale (1981) later focused his research on the politics of bureaucrats, with an in-depth analysis of Malaysian public enterprises. Tan (1982) then studied income distribution and determination aspect in West Malaysia. Lim (1983) began to look at Malaysian business elites from the perspective of ownership and control of large domestic corporations, very much in keeping with the tradition set by Puthucheary (1960). Leigh (1988) preferred to concentrate on just Sarawak, assessing the links between politics and business in this state. Jesudason (1989) shifted the focus to include the state, Malaysian Chinese business, and foreign-owned MNCs, while Bowie (1991) preferred to examine state, society, and politics in economic transformation. Case (1991), in the same year, published his doctoral dissertation on elite relations in Malaysia and its impact on regime form. Meanwhile, Means (1992) studied political elites under the second generation of Malaysian politics, building on his earlier work that focused on the generation of the 1950s-1960s, soon after Independence. Sieh (1992) looked at the transformation of ownership and control of Malaysian business groups in the manufacturing sector. Heng (1992) investigated in-depth the evolution of Malaysian Chinese business elites. Gomez (1994) expanded the scope of ownership and control to include political elites of three major parties, working with different Malaysian business elites in the corporate sector. Searle (1999) examined rent-seeking as a form of predatory acts under Malaysian capitalism, while Chan (2004) studied interlocking directorships among Malaysian business elites from a sociological perspective. Tan (2008) analysed issues of regulation, rent-seeking, and policy failure under the Malaysian privatisation programme. Wain (2009) reviewed the nexus of political elites-GLCs under the "maverick" fourth Prime Minister, Mahathir.

Clearly, except for the work of Puthucheary (1960) and Jesudason (1989), whereby both of them had included foreign private enterprises, or MNCs, in their analyses (but still without the presence of a strong foreign state influence), all other major scholars preferred to focus their studies on domestic political and business actors. Hence, elite issues that are dealt with in this study are vastly different from theirs, as it includes Chinese TCEs (especially with the presence of a strong foreign state influence) as an external factor. In addition, unlike previous SBR-related studies that mostly focused on domestic actors, this study includes transnational business actors (see Chapter 2: Section 2.3.2), operating under the BRI, into an analysis of novel SBRs.

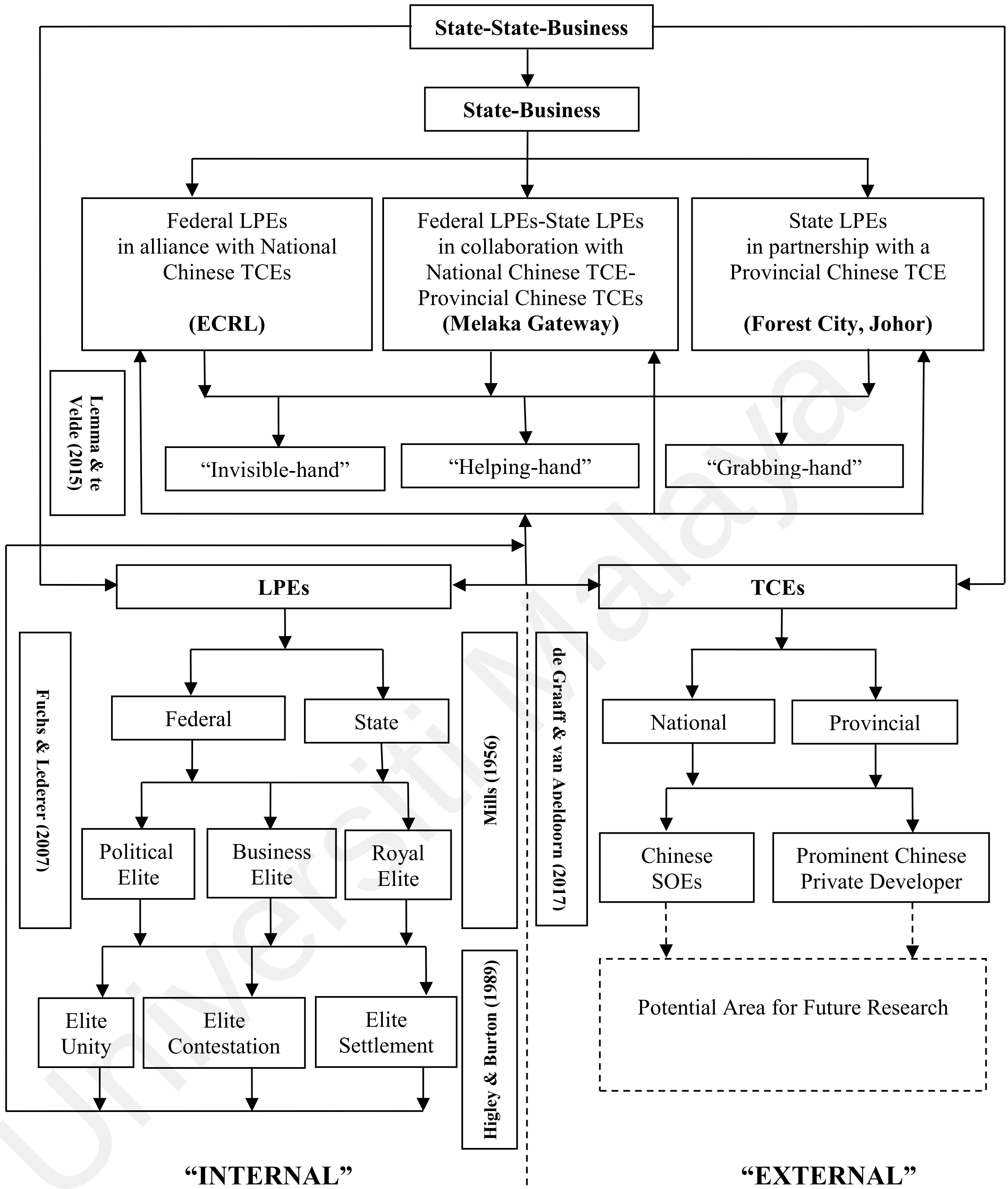
To this end, a critical analysis of key issues related to LPEs from an internal perspective, in close collaboration with Chinese TCEs as an external factor, requires a robust conceptual framework. This framework is one that is able to combine key elite- and SBR-related theories, and link them to the concept of state-state-business ties, which moves beyond the traditional single unit of analysis of LPEs at the national level, with links externally to Chinese enterprises. This framework must analyse different types of power, authority, and inter- and intra-elite relationship issues, of different LPEs at various levels, which had contributed to the creation of unique SBR forms in Malaysia, through different BRI projects, with diverse outcomes and implications.

The analysis here is rooted in a theoretical foundation built on the concept of elites, within a political business dimension. It is based on ideas extracted from key elite- and SBR-related theories, which include studies by Mills (1956), Higley and Burton (1989), and de Graaff and van Apeldoorn (2017), with relevant definitions and modifications described in Sections 3.1.2 and 3.1.3. Furthermore, different types of power (Fuchs and Lederer, 2007) in SBRs, which in turn influence different features of SBR outcomes (Lemma and te Velde, 2015), are described in Section 3.1.4.

In essence, normal bilateral ties alone will not create specific SBRs in the forms their leaders wish. The extent to which the "state" can promote economic growth still depends on the roles of LPEs and TCEs they engage with to implement BRI projects. Close ties developed by these elites to foster economic growth, as well as for their own benefit, transcend what is typically associated with mere bureaucrats (Amsden 2012), as advocated by the conventional institutionalist approach about effective SBRs (Schneider and Maxfield, 1997). This interdependency of state and business then reshapes each other through LPE-TCE links in a reciprocal iteration (Evans, 1997) (see Figure 3.1).

Each of these elite- and SBR-related theories, as reflected in Figure 3.1, will be drawn on one by one, and reviewed based on key themes outlined in the following sections. A conclusion will then be provided towards the end of Section 3.1.4, in order to justify their inter-related linkages in the proposed conceptual framework. This will serve to defend their suitability and "fit for purpose", in answering the three research questions formulated in Chapter 1: Section 1.4. This conclusion can only be made after completing the review of key elite- and SBR-related theories cited, against the research problem identified for the study, as discussed in Chapter 1: Sections 1.2 and 1.3.

Figure 3.1 Conceptual Framework



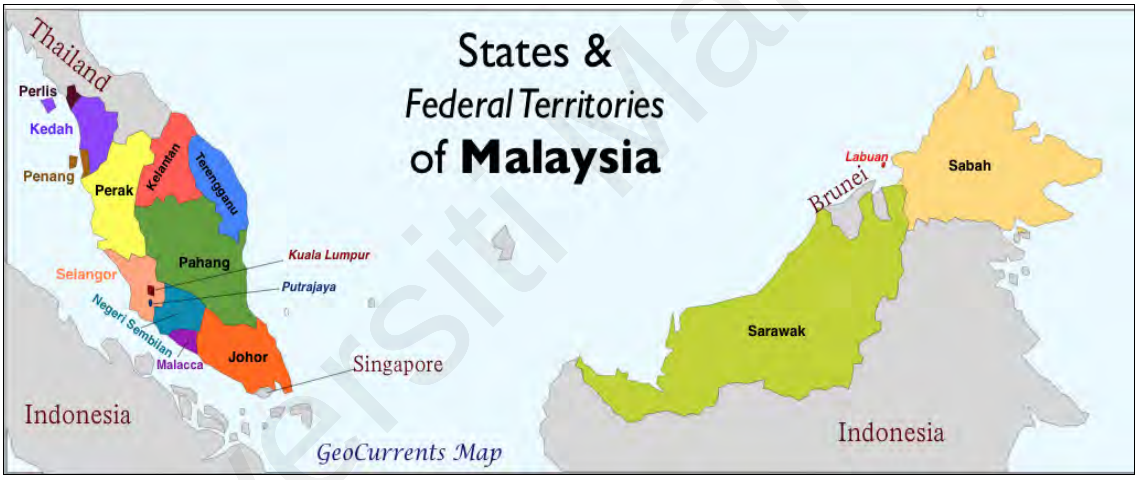
Source: Author's own[42]

[42] Though this conceptual framework is constructed by the author, the ideas here are derived from the works of Mills (1956), Higley and Burton (1989), de Graaff and van Apeldoorn (2017), Fuchs and Lederer (2007), and Lemma and te Velde (2015).

3.1.1 Single-Dominant Parties Shape LPE-TCE Links

Malaysia as a "state" is organised under a federation structure. It consists of a federal government, 13 state governments, and three federal territories. They are divided into two regions, with 11 states (Perlis, Kedah, Penang, Perak Kelantan, Terengganu, Selangor, Pahang, Negeri Sembilan, Melaka and Johor) and two federal territories (Kuala Lumpur and Putrajaya) in West Malaysia, and two states (Sarawak and Sabah) and one federal territory (Labuan) in East Malaysia, as indicated in Figure 3.2.

Figure 3.2 States and Federal Territories of Malaysia



Source: Author's own

Historically, power in Malaysia was centralised in the hands of the executive branch, led by the powerful prime minister at the federal level, who had significant control over the functions of the legislative and judiciary branches, thus blurring the concept of separation of powers (Gomez, 1994). This political structure had been criticised as largely tending to serve the political and business interests of key political elites in UMNO, the dominant party in the BN (Welsh, 2016).

While other coalition partners in BN, notably the non-Malay parties, like the Malaysian Chinese Associations (MCA) and the Malaysian Indians Congress (MIC), also participated in the cabinet on the basis of a consociational democracy[43], executive power of the cabinet was concentrated in the hands of the Malay political elites (Mohd. Azizuddin, 2009). As a result, Malaysia's political economy under an authoritarian regime was characterised by the domination of UMNO elites, who conveniently forged close ties with business elites in the private sector, generating a unique "pro-business" elite consensus that fed into the government policy-making processes (Jesudason, 1989).

In particular, the president of UMNO, also the prime minister in control of the executive branch of the federal government, had been widely acknowledged as the most powerful political elite in Malaysia. The prime minister's office was viewed as one that presided over an extensive array of institutions to facilitate mega-projects in the country that would benefit domestic business elites (Gomez, 2016; Case, 2017). Likewise, the states' chief ministers, normally key UMNO elites at the state level appointed by the prime minister, had some autonomy under the Constitution to decide on state-level property development projects that would benefit local business elites.

With the emergence of powerful UMNO elites who controlled the executive branch at both the federal and state levels, this resulted in one institution within the state apparatuses being vested with considerably more power than the others (Gomez, 1994). It appeared that the role of the SDP and the role of the state became intertwined over the years. Accordingly, UMNO's hegemony in the Malaysian political system had taken on an added guise of a party-state (Slater, 2003; Gomez, 2016; Case, 2017).

[43] Arend Lijphart (1977) claimed that a consociational democracy is essentially an agreement among top leaders of different ethnic communities in a divided society, in order to share power in a government, which involves grand coalition, segmental autonomy, proportionality and minority veto.

Key UMNO elites were able to use political power at their disposal to accumulate political funds or personal wealth. This was done through diverse SBR forms created or dictated by them, with business elites, at either the federal or state level. For example, lucrative public contracts or privatised projects had been secured by them on a direct-negotiation or "first-come-first-serve" basis, particularly during the rapid phase of economic growth in Malaysia encountered in the 1980s-1990s (Chan 2004; Tan, 2008).

Between 2014 and 2016, Malaysia suffered from an economic slowdown amid the flare-up of the 1MDB scandal. These had resulted in different LPEs, namely political, business, and royal elites, who had vested commercial interests with the private sector, either at the federal or state level, desperately looking for new sources of FDI. Such investments were imperative to stimulate economic recovery, as well as to overcome the political crisis that unfolded primarily due to the 1MDB scandal.

Powerful UMNO elites in different segments of the country then saw the business opportunities available to them under the BRI, and started to dictate the agenda on FDI flows, bypassing even leading local private enterprises and established Western MNCs. These influential UMNO elites began to collaborate informally with either business or royal elites in the private sector, using certain local GLCs or little-known local private enterprises as their proxies for business. They then collaborated with Chinese SOEs or prominent Chinese private enterprises to form formal JV partnerships to implement BRI projects in Malaysia, a process that led to the creation of novel SBR forms.

This strong state-LPE nexus that had been ingrained in Malaysia since implementation of the New Economic Policy (NEP) in the 1970s had deeply influenced government policy-making processes at either the federal or state level in subsequent years. In this regard, BRI projects in Malaysia that served to achieve the goals of different LPEs were in line with the Malaysian government economic policy, given that power was essentially concentrated in the office of UMNO leaders.

Meanwhile, although UMNO's version of conventional SBRs had emerged since the 1970s, by now it was no longer as straightforward as it was in the 1980s and early 1990s. Novel SBRs of relevance in this study had become more complex, as they not only involved close ties between UMNO elites and Chinese TCEs, but also included close ties with different LPEs, comprising domestic business and royal elites, who had personal contacts with Chinese TCEs as well.

However, since these variations in novel SBRs were primarily driven by different LPEs closely linked to UMNO at either the federal or state level, the role of UMNO as the SDP at both levels generally remained unchanged. In other words, UMNO continued to play a dominant role as the party-state to ensure different SBRs, created by this new phenomenon of state-state-business ties, were tailored to specific political and business interests of its key party elites, as well as other powerful state actors, like the royalty and business elites, who were closely linked to them for mutual benefit.

Likewise, China's state-driven economy under an authoritarian regime was primarily organised around the single-dominant CCP, which, in turn, controlled Chinese TCEs that included SOEs and prominent private enterprises in their large outward investments drive (de Graaff and van Apeldoorn, 2017). CCP's hegemony in the Chinese political system had taken on an added guise of a party-state as well (Zang, 2012).

In early 2015, the business volatility in China resulted in a switch of CCP's strategic direction in economic development from an internal to an external focus, through building partnerships in the region. This strong state-TCE nexus was already in place in China since the implementation of its "Going Out" economic policy in 2000s. BRI projects served to achieve the goals of different Chinese TCEs were simultaneously in line with the Chinese government economic policy, given that power was essentially concentrated in the office of CCP leaders.

For this study, this new phenomenon of state-state-business ties that promote China's BRI funding and investments in Malaysia, leading to the creation of novel SBRs with a strong foreign state influence, is defined as follows: It is the close collaboration between different LPEs and Chinese TCEs favoured by the single-dominant UMNO and CCP leaderships for the implementation of BRI projects in Malaysia. They were carried out by state-linked firms and well-connected private enterprises from both sides, either on a public-led, private-led, or public-private-led basis. The ideas, interests, and actions of different LPEs and Chinese TCEs are in line with economic policies of both countries.

As discussed, while most studies that stress the important role of the state in promoting economic growth emphasise the competency of bureaucrats, this study moves beyond a state-centric paradigm to an actor-centric paradigm. This thesis argues that LPEs are key actors in the state, shaped by this new phenomenon of state-state-business ties to implement BRI projects. This, in turn, has led to the creation of novel SBRs in Malaysia, one particularly important from an elite perspective.

As such, the concept of the state needs to be deconstructed further from the sociological and political perspectives, in order to define properly: 1) the characteristics of different

LPEs at either the federal or state level; 2) the types of power they have; 3) where their power is situated in the Malaysian power structure; and 4) how they are influential in exerting strong control over government decision-making processes.

3.1.2 Deconstructing the State: Background of Different LPEs and Chinese TCEs

From a review of the literature about key classical and modern elite theories of the state, in Chapter 2: Sections 2.1.1 and 2.1.2, it is evident that major scholars, ranging from Michels (1911), Mosca (1935), Pareto (1939), and Mills (1956) to Higley and Burton (1989), had formed their theoretical arguments based on studies of the power structure in developed countries. Their definitions and classifications of elites may thus not be fully applicable to developing countries like Malaysia. This is because developing countries normally have different historical, economic, and political backgrounds.

However, as discussed, Mills' (1956) power elite theory that focuses specifically on three dominant LPE groups in the US, namely political, economic, and military elites, appears suited for this study, but subject to modifications in order to reflect the local context of this research. The three dominant LPE groups in Malaysia are defined as political, business, and royal elites (see Figure 3.1). Chinese SOEs and well-connected Chinese private developers, who play the role of Chinese TCEs (de Graaff and van Apeldoorn, 2017), are treated as an external factor, as indicated in Figure 3.1. Since military elites are not active in local politics, they are not included in this study.

Unlike Mills' (1956) power elite theory, where the three dominant LPE groups in the US appear to be on an equal footing, business elites in Malaysia are subservient to political and royal elites. This was because the country's political system was one characterised by UMNO's hegemony (Welsh, 2016). While the Sultan's role is largely ceremonial, he can exercise his constitutional power to determine the state's chief minister (Milner, 1982). Without understanding the identity of these different LPEs and the key reasons that motivated them to collaborate closely with different Chinese TCEs to implement BRI projects in Malaysia, this study would fall short of the facts of what had been transpired at the project level. Moreover, these BRI projects had been awarded on a direct-negotiation basis, without going through a proper tender exercise.

Political Elites

Theoretically, political elites hold strategic positions in parties, enabling them to influence political decision-making directly, substantially, and regularly (Higley, 2008). This definition is now standard in elite studies. For Michels (1911), despite the presence of a modern democratic system of elections in voluntary political parties, individuals can still secure control of important public offices. They then use their control over these offices to consolidate their position in government for their own benefit.

Pareto (1935) later noted that political systems consist of two types of elites, ruling and non-ruling elites. Political elites could impact economic development by enabling (or failing to enable) the achievement of political consensus. They then shape the political environment and institutions of society, critical elements of stability, and respect for property rights that affect investment and innovation (Solimano and Avanzini, 2012).

In this study, political elites are defined as influential politicians primarily in the single-dominant UMNO, at either the federal or state level. UMNO elites at the ministerial level, commonly referred to as ruling elites, conveniently forge close ties with business elites to promote economic development, even after selective distribution of government-generated rents, in order to ensure they retain some legitimacy (Jesudason, 1997).

UMNO's president, also the prime minister, had been widely known as the most powerful political elite, capable of wielding enormous power in the running of the country, due to his party's hegemonic position the ruling BN coalition (Welsh, 2016). A similar situation prevailed at the state level, where BN was in power, with the chief ministers having the autonomy and legal authority to decide on land matters, pertaining to infrastructure and property development projects. The power of these chief ministers is clearly stipulated in both the National Land Code, 1965 and Country and Town Planning Act, 1976.

Hence, UMNO elites at both federal and state levels often created avenues for close collaboration with business elites, which sometimes blurred the boundaries between state and business, as their roles were inter-changeable. The basis for such collaboration was two-fold: 1) to promote economic growth; and 2) to accumulate funds for the party or personal wealth for its top leaders. However, federal- or state-level UMNO elites were usually not united, leading to intra-elite feuds which partly contributed to how conventional SBRs had evolved over the years (Gomez, 1994). Re-building elite unity among UMNO leaders and warlords through some sort of elite settlement (Burton and Higley, 1987) on a continual basis was considered crucial to curb further elite contestations, thus maintaining regime stability.

<u>Business Elites</u>

Theoretically, business elites are corporate figures or conglomerates with great skills in wealth creation, as well as resource allocation and innovation (Lim, 1983 & 1985;

Jesudason, 1989; Sieh, 1992; Heng, 1992; Chan, 2004; Solimano and Avanzini, 2012). They are critical agents for growth in an economy. They may have distinctive features, such as taking financial risks, and show a talent to realise a business opportunity generating profits (Lim, 1983; Heng, 1992).

Useem (1984) studied corporate elites in the US and UK. He defined them as those men and (a few) women in a position to exercise major influence over government policy-making processes. He discussed how corporate elites wield power and manipulate the function of political parties to their own advantage. He then highlighted multiple in-house strategies adopted by corporate elites, in the form of philanthropic activities and non-profit organisations, in order to sustain their strong position in society. He claimed that these corporate elites occupy leadership of major business associations, influence most of the media channels, and financially support political parties and candidates in their election campaigns. He referred to their grouping as an "inner circle", a term arguably borrowed from Mills' (1956) power elite theory.

In this study, business elites are defined as businesspeople who are subservient to powerful UMNO politicians and state royalties, working as their business partners or proxies. Malaysian Chinese business elites, who have actively lobbied UMNO support over the years to strengthen their business position, appear to have captured substantial business opportunities in collaboration with Chinese TCEs to implement BRI projects.

This was also because Malaysian Chinese business elites usually had a strong network of contacts with the Chinese government. Hence, they were in a position to wield some power to create an impact on the Malaysian economy, as well as its political system. Importantly too, the Chinese government, through its TCEs, depended on the network of contacts of these Malaysian Chinese business elites to link up with political elites in MCA and UMNO. This would help them access local information to give them leverage to achieve their objectives under the BRI.

However, historically, these Malaysian Chinese business elites were also having serious differences and did not function as a unified group (Lim, 1985; Heng, 1992; Gomez, 1999). Many had created business ties with different UMNO factions, leading to more elite contestations and regime instability. Meanwhile, under the BRI, Malaysian Chinese business elites seemed to be just a proxy to both powerful UMNO elites and giant Chinese TCEs. They were brought in only because of the way this new phenomenon of state-state-business ties were forged, with political elites or royal elites primarily deciding who should participate in a particular BRI project.

<u>Royal Elites</u>

Among the 13 states in Malaysia, nine (Perlis, Kedah, Perak Kelantan, Terengganu, Selangor, Pahang, Negeri Sembilan, and Johor) are constitutionally led by Malay rulers or Sultans, by hereditary. The other four (Penang, Melaka, Sarawak, and Sabah) are under appointed governors, who also function as ceremonial heads. However, these appointed governors do not enjoy the same status as the Sultans under the Constitution. Once every five years, the constitutional heads at the state level, the Sultans, convene as the "Conference of Rulers" to elect the *Yang di-Pertuan Agong*, or the King, at the federal level. The King is selected from among the nine Sultans, based on a constitutional monarchy system (Milner, 1982). The position of the Sultans is largely ceremonial with no executive significance, but they can wield significant power at the state level.

Historically, the Sultan usually surrounded himself with different types of political elites at the state level. The Sultan not only monitored their political conduct, but also provided conciliatory leadership to resolve conflicts. Although the Sultan does not hold executive power, by virtue of his ceremonial role as a monarch, he still commands the respect from the Malays, based on religion, traditions, customs, and culture (Milner, 1982).

Hence, UMNO elites at the state level are careful in building consensus with the Sultan, based on mutual benefit, as the state's chief minister could be one for him to decide. The Sultan can play the role of a "kingmaker", if he decides not to accept someone as the state's chief minister, if he feels that he is not able to work with him, particularly on issues to serve his own business interests. Moreover, although the Sultan is supposed to be above politics under the constitutional monarchy system, at times he could also exert a strong control over elite contestations among UMNO members. This can lead to contestations between the Sultan and UMNO. However, although the Sultan may have control over key UMNO elites, presumably, it is limited to his own state.

Chinese Transnational Corporate Elites

In theory, transnational corporate elites and their mobility across nations are important as carriers of knowledge, capital, contacts, ideas, creativity, and leadership (Carroll, 2010; Solimano and Avanzuni, 2012; van Apeldoorn and de Graaff, 2012). Since the unique characteristics and mobility of Chinese TCEs at the regional level is different from that of domestic business elites at the national level, their complex business ties deserve research. As discussed, numerous scholars adopting elite theory have shown renewed interest in the transnationalisation process of corporate elites (Heemskerk and Takes, 2015; Schneickert *et al.*, 2015; de Graaff and van Apeldoorn, 2017 & 2018). In this regard, Chinese SOEs and well-connected private enterprises, closely controlled by the single-dominant CCP, have been defined as TCEs, when they ventured abroad under the "Going Out" economic policy in the 2000s (de Graaff and van Apeldoorn, 2017).

To cater to the external perspective of this study, this concept has been drawn on to define Chinese SOEs or prominent private developers as TCEs (see Figure 3.1). These TCEs were closely monitored by CCP at either the national or provincial level in their overseas market expansion drive. This concept of Chinese TCEs is combined with that of LPEs, linked and shaped by state-state-business ties forged by two countries both led by SDPs. This thesis seeks to make a small paradigm shift in Mills' (1956) theory, by analysing both the power structure and SBRs in Malaysia with the emergence of BRI. This analysis moves beyond the traditional single unit of analysis from an internal perspective to include Chinese TCEs as an external factor.

Meanwhile, in the case of China as an authoritarian regime, little or no state ownership of equity of a private enterprise does not imply lack of state control or direction. Large outward investments by prominent Chinese private developers still need state approval, rather than mere registration (de Graaff and van Apeldoorn, 2018). According to Tang (2017), Beijing sought to clamp down Chinese private enterprises through capital control measures in the early 2017, to strike a balance between encouraging large outward investments to support its BRI and preventing an unbridled exodus of capital by these enterprises, which might destabilise its renminbi currency. In other words, besides firm-specific objectives, prominent Chinese private developers must fulfil state-specific objectives to be allowed to invest in massive projects overseas.

On the other hand, there is a need to differentiate the role of domestic business elites and Chinese TCEs. While Chinese TCEs normally tied up with well-connected local private enterprises linked to business elites through formal JVs, these giant Chinese TCEs, equipped with huge resources and highly competent technical skills, were not on an equal footing with domestic business elites. The latter would likely be subservient to the former during project implementation stage. In other words, these novel SBRs, based on state-state-business ties, were dominated by UMNO elites and giant Chinese SOEs, with both parties probably using domestic business elites as their proxies to formalise JVs.

3.1.3 Inter- and Intra-Elite Relationships of Different LPEs

Inter- and intra-elite relationships of different LPEs in Malaysia, to get things done economically and politically at various levels, can be understood based on the concept of elite unity, elite contestation, and elite settlement (Higley and Burton, 1989), as indicated in Figure 3.1. Consequently, inter- and intra-elite relationship issues have contributed to the creation of novel SBRs in Malaysia.

<u>Elite Unity</u>

One key political factor for BRI projects to be implemented in Malaysia, based on state-state-business ties, was primarily to leverage on the positive impact of China's investments to re-build elite unity in UMNO. Such projects would help curb further elite contestations amid the 1MDB scandal, though subsequently other financial scandals, like the Majlis Amanah Rakyat (MARA), Lembaga Tabung Angkata Tentera (LTAT), Lembaga Tabung Haji (LTH), Federal Land Development Authority (FELDA), etc., were also exposed (see Gomez *et al.*, 2017). Clearly, political interests not directly linked to the implementation of BRI projects, but helped solve another indirect but related political crisis, like the 1MDB scandal, among others, could only be achieved through elite-level unity of a few dominant LPE groups. These LPEs were favoured by the UMNO leadership simply because their actions helped maintain regime stability. Otherwise, no BRI project in Malaysia, as committed by Chinese TCEs, could materialise within such a short period.

According to Higley and Burton (1989), an authoritarian regime usually depends on consensual elite unity for political stability. Failing which, it may facilitate a democratic transition, or in some cases, power reconfiguration and regime change. In other words, elites recognise each other as rightful players in the political process. They generally regard their close collaborations as a positive-sum game, and they cooperate, often secretly, to avoid political demise (Case, 1991). Elites uniting through consensus are known as consensual elites, and the regime stability that ensues will give rise to an authoritarian government. This kind of political regime is normally led by an autocratic leader, who is able to convince a majority of elites to remain united, in order to maintain regime stability and stay in power (Higley and Burton, 1989).

To this end, elite-level unity of a political regime has been seen as key in resisting democratic change, perpetuating authoritarian rule as well (O'Donnell and Schmitter, 1986; Case, 2001 & 2002). By building elite-level unity, the strength of party organisations to withstand internal and external pressures will be enhanced (Slater, 2010). In other words, political elites, when consensually unified, can by themselves maintain a certain level of regime stability. It would also help them resist political or economic openness, as demanded by the public.

However, Higley and Burton (1989) emphasised only consensual unity of political elites as the most important condition for regime stability. There is a need to verify their claim empirically in this study and determine if regime stability was merely maintained through intra-elite relationships of UMNO elites, or if it was also dependent on inter-elite relationships of different LPEs, included party members, as well as business and royal elites.

Elite Contestation

The 1MDB scandal brought about serious elite contestations in UMNO, when then Prime Minister Najib was heavily criticised by his deputy Muhyiddin Yassin. The situation became worse when Muhyiddin, a strong party leader from Johor, was sacked by Najib in July 2015, and subsequently left the party in June 2016. Meanwhile, elite contestation between Najib and the Johor royal family had also taken place, about the same time.

There is a need to stress that elite contestations among different LPEs in this context did not necessarily mean that it had to be directly linked to the implementation of BRI projects. In fact, it could also be due to another indirect but related major political crisis, like those financial scandals mentioned above, which took place more or less at the same time. According to Higley and Burton (1989), elites are usually not united in practice. They are often in contestation because members share little or no understandings about the proprieties of political conduct and usually engage in limited interactions with each other along factional lines.

The basic situation of persons composing this elite type is one of deep insecurity and fear. They believe that all is lost if other people or factions get the upper hand. Accordingly, members of disunited elites routinely take extreme measures to protect themselves and their interests. With recent experiences of punitive measures against dissenting members and the strong belief that such measures will be implemented in the future, instilled fear and insecurity among disunited elite members. As a result, the main political consequence of elite disunity was regime instability (Higley and Burton, 1989).

<u>Elite Settlement</u>

Since major financial scandals in Malaysia, including 1MDB, were primarily centred on Najib, this had led to his action of purging his political rivals from UMNO in 2016 to remove dissent voices. This brought widespread discontent among UMNO leaders, prompting Najib to compromise and seek elite settlement. He moved to re-build elite unity with key party leaders and warlords at either the federal or state level to curb further elite contestations.

Compromises were sealed, among other ways, by allowing them to collaborate with business or royal elites in the domestic private sector, as well as with Chinese TCEs, to implement BRI projects. This form of elite settlement helped Najib greatly between 2015 and 2016, by reversing a political crisis amid the 1MDB scandal, which was initially full of "vectors of threat" (Case, 2017). It appeared that Najib had lost his control over UMNO to such an unprecedented level that he had to resort to authoritarian measures, which eventually made him even much stronger in gaining back the support of key party leaders and warlords. As such, Najib was able to fend off further challenges from within, even maintain regime stability and stay in power before the GE14.

Two common features can be observed from such an elite settlement. First, they are accomplished by speedy actions (Burton and Higley, 1987). For example, in the case of China's BRI projects in Malaysia, it appeared they were implemented on a fast-track basis, bypassing major institutions and procedures of a conventional project implementation approach. This was mainly due to an economic slowdown, amid a major political crisis triggered by business scandals, that happened concurrently and snowballing into further elite contestations in UMNO. Elite settlement required intensive efforts by dominant LPEs to find a way out of the crises quickly. This was also due to the fear that if nothing was done immediately to overcome the economic and political crises, these LPEs faced the consequence of losing their political position. They might be forced to accept concessions with rival elite factions that, in other circumstances they would not entertain. Hence, speedy elite settlements help re-build elite unity and establish a new arrangement for sharing power, thus reducing elite insecurities (Higley and Burton, 1989).

Second, elite settlement is usually accomplished by face-to-face negotiations (Burton and Higley, 1987). For example, the BRI projects appeared to be implemented primarily by just a few LPEs on a non-transparent basis, ignoring public complaints about weak governance and lack of accountability. These measures facilitated deals or rent-seeking activities through behind-the-scene discussions. In other words, these deals were based on a combination of personal intelligence and tactics to break major political deadlocks and strike crucial compromises.

Successful elite settlement depends then on secret collusions of just a handful of skilled and experienced state actors, who represent major rival elite factions, to rapidly negotiate compromises on urgent issues. O'Donnell and Schmitter (1986, p. 37) defined such elite pacts as an explicit, but not always publicly justified agreement, among a select set of key actors. It seeks to define, or better to redefine, rules governing the exercise of power, based on mutual benefit. In other words, it primarily caters to the common interests of those selected and entering into it only.

3.1.4 Outcomes of Three Novel SBRs in Malaysia

The key economic interest of Malaysia under the BRI, based on state-state-business ties, was to secure much-needed investments from China to stimulate economic recovery. In fact, there was already an ambitious plan formulated by the East Coast Economic Region (ECER)[44] Development Council to build a rail link to bridge the economic divide of the east and west coasts of peninsula Malaysia since 2007 (Tay, 2016a). Likewise, due to Malaysia's strategic location in Southeast Asia, the UMNO-led government had planned to turn Melaka into a regional maritime and tourism hub under the ETP[45], an idea mooted by Najib in 2010 (MIDA, 2016). In addition, there was a plan formulated by the federal-based Khazanah Nasional Berhad in 2006 to make Iskandar Malaysia as an alternative to Singapore, just like Shenzhen to Hong Kong in the 1990s (Ng and Lim, 2017).

China's key economic interests through the BRI, based on state-state-business ties, were to expand its markets overseas, amid a severe economic slowdown at home in early 2015. This would help off-load excess production capacity that had built up during the boom years, as well as create foreign projects for its SOEs. In addition, China intended to build people-to-people relations to enhance its soft power in the region (*South China Morning Post,* 21 November 2016), as well as to secure access to energy and natural resources for

[44] Launched on 30 October 2007 by Malaysia's fifth Prime Minister Abdullah Ahmad Badawi, ECER aimed to develop the three poorer east coast states in the peninsula. When Najib became Prime Minister in 2009, he incorporated ECER in 2010 as a major endeavour. Another key initiative was the implementation of the Malaysia-China Kuantan Industrial Park, a means to fast-forward the inflow of China's FDI to set up manufacturing plants in the east coast to help industrialise the region (see wwww.ecerdc.com.my).

[45] Launched on 21 September 2010, the Economic Transformation Programme (ETP) is a comprehensive plan mooted by Najib to propel Malaysia into a high-income nation by 2020. It aimed to increase per capita income from US$6,700 in 2009 to US$15,000 in 2020, meeting the World Bank's threshold for a high-income country (see 11th Malaysia Plan).

long-term development of the country. However, the scope of this study does not include understanding the implications of BRI projects in Malaysia from the Chinese perspective.

As discussed, SBRs are defined as relations between domestic public and private sectors. te Velde (2010) noted that effective or collaborative SBRs fulfil a helpful role in developing an economy by addressing two issues, market and state failures. Effective SBRs address market coordination and state failures through the two-way business-bureaucracy communication as this will entail exchange of information and remove constraints to growth, thus improving the investment climate and reducing policy uncertainty. Effective SBRs are characterised by meaningful or well-constructed policies, with synergistic and productive relations between the state and business.

Collaborative SBRs driven by LPE-TCE links in BRI projects help secure the necessary funding from China to ensure fast-track implementation, without having to go through time-consuming competitive tender exercises. Such SBRs also help promote efficient allocation of scare resources and prioritises removal of key obstacles to growth. This is important for less-developed or high-risk areas like the east coast which are commercially not viable, but deemed crucial for the long-term development of Malaysia.

Ineffective or collusive SBRs in a particular state that lacks a Weberian bureaucracy are characterised by rent-seeking, with the capture of state apparatuses by LPEs who include political and business elites (Leftwich, 2008). Neo-liberal accounts of SBRs, as guided under the Washington Consensus[46] on market-oriented reforms in the developing world, have perceived such close relations as negative and growth-restrictive. This is because

[46] Although the Washington Consensus on neo-liberal reforms in the developing world emphasises free markets to be led by the private sector (see Williamson, 1990), this does not mean that problems of SBRs will then be completely resolved. Though market-oriented reforms have gotten rid of potential collusions between business and the state, they have not eliminated contact altogether. In some instances, the process of reforms itself has created new rents, like in the privatisation of strategic state assets and services, where only selected elites in the private sector benefit (see Schneider and Maxfield, 1997).

rent-seeking is often linked to corruption, as well as unproductive profit-seeking. Nevertheless, against this iron law of rent-seeking, a small but important group of scholars have argued that growth-enhancing relations between the state and business are possible, even though they may be collusive. Taylor (2012), Kelsall (2013), Whitfield and Buur (2014), and Whitfield *et al.* (2015) contended that collaborative and collusive SBRs may be effective, and eventually lead to sustained economic growth. This suggests that, in some cases, rent-seeking behaviour of LPEs is not necessarily bad, wasteful, and unproductive.

Bureaucratic capacity in developing countries like Malaysia ruled by SDPs has always been inadequate, in the Weberian sense, in order to promote economic growth on its own. The state usually needs business as a source of decentralised intelligence about what is crucial to be done for the private sector. Furthermore, transformative projects that the state conceives must be implemented largely by capitalists. In other words, the state needs business as much as business needs the state to further economic growth (Evans, 1997). Along the way, collaborative SBRs, though still effective, may become collusive and degenerate into rent-seeking.

Hence, as discussed, political factors must have played an important role, in addition to economic factors, which saw politically-inclined LPEs, not bureaucrats, emerging as key actors in the state for coordination purposes. Leftwich (2009) claimed that the economic ideology of a political regime, which specifically comes with the presence of incentives for its political elites to promote economic growth, may be able to foster a much better collaborative relationship with the business sector, rather than a collusive one, leading to effective SBRs. Under such a regime, ruling elites have the disposition and capacity to use incentives productively. This will enlarge the national economic pie, rather than merely obtaining the largest slices from it for their own benefit (Booth, 2012).

Another strand of the SBR literature emphasises the so-called political survival of ruling elites (Whitfield and Buur, 2014; Whitfield *et al.*, 2015). This literature argues that if political elites are faced with severe threats from rival elites within a ruling coalition, which could affect their ultimate political survival, they would then leverage on the short-term benefit of SBRs, by working closely with capitalists to stay in power or maintain regime stability.

To do so, political elites concentrate their efforts on extracting rents from such SBRs, in order to distribute political funds to support factions for their ultimate political survival, an objective particularly in anticipation of an impending general elections. As a result, the state's democratic election process appears to have squeezed elected political elites into all sorts of exclusive relations between bureaucrats and capitalists. More specifically, this issue of bureaucratic insulation with embedded autonomy (Evans, 1995) will then shift from a dual relationship between business and bureaucracy, to a triangular relationship that also includes political elites (Whitfield and Buur, 2014). As a result, key to effective SBRs is the insulation of bureaucracy from the interference of political elites, rather than capitalists (Schneider and Maxfield, 1997).

Whitfield and Buur (2014) claimed that there are three important conditions under which such a triangular relationship may work: 1) political elites must have incentives or mutual interests in addressing investments by capitalists for economic growth; 2) political elites must support bureaucrats in achieving pockets of efficiency and fending off resistance from rival elites during the implementation stage; and 3) bureaucrats cannot be too close to capitalists in order to ensure learning and productivity in return for policy-created rents.

As discussed, Fuchs and Lederer (2007) argued that there are two types of power in SBRs, namely infrastructural power and instrumental power. Lemma and te Velde (2015) went on to suggest that outcomes of SBRs for economic growth can be determined by using three concepts, namely invisible-hand, helping-hand, and grabbing-hand. In this regard, the rationale for an effective role of SBRs to develop an economy is that, an invisible-hand model offers sub-optimal outcomes, a grabbing-hand model leads to ineffective outcomes, while a helping-hand model is an effective way for the state and business to interact.

In Malaysia, SBRs have often been subjected to political interference by different LPEs, where policy-making processes are also greatly shaped by them. As discussed, Gomez and Lafaye de Micheaux (2017) rightly noted that SBRs in Malaysia have evolved in diverse forms from the 1950s to the late 2000s, mainly in pursuit of rents introduced to fulfil the objectives of the NEP. These SBRs have evolved to also serve and fulfil the political and business interests of key UMNO elites.

In essence, this study seeks to assess the crucial role played by LPEs in close collaboration with Chinese TCEs to create specific types of SBRs to implement BRI projects in Malaysia. It further aims to determine whether such dissimilar SBRs created by this new phenomenon of state-state-business ties were effective from a growth-enhancing perspective, and aligned with national development objectives.

Through the shaping of specific LPE-TCE links, three novel SBR forms were created in Malaysia, based on state-state-business ties, as indicated by the arrow signs in Figure 3.1, in order to implement three different BRI projects, the East Coast Rail Link, Melaka Gateway, and Forest City. The variations in each SBR were partly contributed by: a) inter- and intra-elite relationships of different LPEs, namely elite unity, elite contestation and elite settlement (see arrow signs in Figure 3.1); and b) types of power for different LPEs, namely infrastructural-based or instrumental-based, both at various levels.

Although novel SBR forms are theoretically created by state-state-business ties forged by SDPs at the national level, they are actually operationalised by different LPE-TCE links at various levels, indicating that the state is not a monolithic entity (Higley and Burton, 1989). The interdependency of state and business in each SBR then reshape each other through the nexus of different LPEs in close collaboration with different Chinese TCEs, interacting as though it is in a reciprocal iteration (Evans, 1997) at the project level.

Since all three novel SBR forms were driven by different LPEs with specific power and vested commercial interests closely linked to UMNO at various levels, this would then lead to different growth-enhancing and rentier-type outcomes at the project level for each project (see arrow signs in Figure 3.1). These in turn had diverse implications for the Malaysian economy, as well as its political system.

3.2 RESEARCH METHODOLOGY

In the literature, several methods can be used in academic research, including the choice between one that is descriptive, causal, and exploratory in nature (Eriksson and Kovalainen, 2008). These three research methods differ in the way the empirical evidence is collected and analysed. A descriptive research method uses information from other studies, analyses, and observations. The causal research method strictly uses experiments and focuses on a rather structured problem, but also addresses the emergence of potential causes and effects of the problem. An exploratory research method entails the use of surveys, case studies, information from other studies, and qualitative analyses. In particular, the third method implies that a more flexible approach is needed to allow new information to be gathered, which in turn may result in new insights that change the problem statement, with a strategy to find solutions to the problem (Eriksson and Kovalainen, 2008). Since the problem of the third method is rather unstructured, it requires skills of gathering and observing adequate data in the course of research (Ghauri and Gronhaug, 2010).

The three research questions in this study are of an exploratory nature, as they focus on the theoretical interpretation of a new phenomenon, followed by reasons and motivations of a particular elite behaviour, with each novel SBR form that could be created from it empirically. It digs deeper into the reasons for this new phenomenon, and answers why it occurs the way it did (Donley and Grauerholz, 2012). Thus, the exploratory research method is useful for this study, as the purpose is to gain new insights and fill the theoretical and empirical gaps of an unexplored area. China's BRI projects, particularly those in the Malaysian property development and construction sector, based on state-state-business ties forged by two SDPs, is a new phenomenon, leading to the creation of a variety of novel SBRs. According to Ghauri and Gronhaug (2010), one of the most common tools to be used in an exploratory research is secondary data analysis, which will be discussed further in Section 3.4.1.

It is worth noting that Wedel's (2014) study of elites in her book, *Unaccountable,* turned out to be an excellent research of unaccounted modes of new phenomenon. In particular, her narrative on the structures of a new phenomenon was woven from threads drawn from media coverage, socio-political journalism, personal observation, and even satirists' performances or comment on Internet. This study, to a certain extent, shares much of her methodological philosophy, given that it is a research particularly on the politically-sensitive and secretive nature of different LPEs in Malaysia.

3.3 QUALITATIVE APPROACH

The distinction between a quantitative and qualitative research approach is that the former focuses on explanation and analysis by using statistical tools and concepts, where the collection of data is emphasised by structure, standards, and abstract models. A qualitative research provides a more critical, reflexive, and analytical approach (Eriksson and Kovalainen, 2008). It is more suitable to analyse a new and complex phenomenon, which requires in-depth study to gain insights into the research problem. Ghauri and Gronhaug (2005) suggested that qualitative research approach is useful when earlier insights about a new and complex phenomenon that is being investigated are unclear.

There are practical reasons why the qualitative research method is employed for this study. First, this new phenomenon of China's BRI projects in Malaysia is sketchy and unexplored. Second, there is relatively little information about key reasons why different LPEs were motivated to collaborate with different Chinese TCEs to implement BRI projects in Malaysia on a non-transparent basis. Hence, a qualitative research method would be more appropriate to gain profound knowledge and insights into the research problem identified for this study.

3.3.1 Case Study Method

A case study method is preferred when the research is going to answer "who", "when", "what", "how," and "why" kind of questions, with the focus is on a phenomenon where boundaries with the surrounding context are not evident (Yin, 2003). In a case study, a wide range of evidence such as interviews, documents, artefacts, and observations is used (Yin, 2003; Velde *et al*., 2004). The strength of a case study is the opportunity to use multiple sources of evidence (Thiétart *et al*., 2001; Yin, 2003). The case study method is ideal when carrying out a holistic and in-depth analysis (Tellis, 1997).

In this study, three BRI projects have been specifically selected for the chosen topic. Certainly, the case study method is the best applicable tool to tailor and respond to the research questions, due to the way they have been formulated. However, due to case-selection bias, criticism of the case study method usually focuses on the issue of generalisation. In particular, a single-case study is greatly criticised for lack of generalisability. A multiple-case study is regarded more robust than a single-case study because the evidence from multiple cases is usually considered more compelling. A multiple-case method is often used in the replication logic, so that the cases either predict similar results (a literal replication), or contrasting results, but for predictable reasons (a theoretical replication) (Thiétart *et al*., 2001; Yin, 2003).

Nevertheless, in this study, the replication logic is not applicable for assessing China's BRI funding and investments in Malaysia based on state-state-business ties. Though the nature of each BRI project is quite similar between cases, there are difficulties in drawing common conclusions from them. This is because the roles played by different LPEs and Chinese TCEs to create novel SBRs through the implementation of different BRI projects at the federal or state level are quite diverse, as the three case studies in Chapter 4 will indicate.

3.3.2 Choice of Case Studies

The key criterion in selecting specific cases for this study was that these Chinese enterprises should be among the largest SOEs or prominent private developers. In addition, they were closely monitored by CCP, before they were allowed to venture overseas in a big way. In this regard, the secondary data found through news and media reports about their funding and investment activities in Malaysia was compared and narrowed down. This helped to select the most relevant BRI projects for this study, based on the research questions formulated, and the case selection criteria adopted.

For this study, three major case studies were specifically selected, rather than touching on a wide range of smaller cases. This is because the aim of the study is to increase the ability to make in-depth findings, to analyse critically, and draw conclusions convincingly. This decision was also determined by the fact that access to relevant information on a micro-level was limited, leading to the selection of case studies primarily based on accessibility and relevance.

The three BRI projects selected for this study are defined as each project with more the RM5 billion in contract value, which thus could have a significant impact on the Malaysian economy, as well as its political system. They are briefly described below, with two of them having a combined contract value of RM85 billion. This value represents 60 per cent of the BRI deals signed up till November 2016 (see Table 2.2).

1) East Coast Rail Link (ECRL): The RM55 billion ECRL is a 688km-long railway to be constructed from Port Klang to Kelantan in two phases, with 85 per cent of the funding from state-owned EXIM Bank of China, as requested by Malaysia at the federal level. The construction works are solely undertaken by China Communications Construction Company Ltd. (CCCC), a giant Chinese SOE at the national level, as the engineering, procurement, and construction (EPC) contractor on a direct-negotiation basis with no local partner (Tay, 2016a).

2) Melaka Gateway: This RM30 billion high-value tourism, maritime, and property development project is a joint-venture (JV) between Powerchina International Ltd. (Powerchina), a giant Chinese SOE at the national level, and KAJD Development Sdn. Bhd. (KAJD), a well-connected local private enterprise at the state level (*The Star Online*, 1 September 2016). In addition, a RM8 billion deep-sea port project is a JV between Powerchina-KAJD and Shenzhen Yantian Port-Shandong Rizhao Port, two established Chinese SOEs at the provincial level (Murali, 2016).

3) Forest City, Johor: This RM400 billion property development project is a JV between Country Garden Holdings Ltd. (Country Garden), a top Chinese private developer from Guangdong, and Esplanade Danga 88 Sdn. Bhd., a well-connected local private firm at the state level (Lee, 2014).

The justification for selecting this mix of BRI projects was due to their potentially significant impact on the economy, as well as the political variations that point to novel SBRs, at the federal or state level. Moreover, thoughtful selection of these BRI projects would help provide insights into the primary focus of this study, namely different LPEs and novel SBRs. In other words, it intends to assess the depth and breadth of theoretical and empirical perspectives of state-state-business ties, forged by two countries both led by SDP, which shape how different LPEs at the federal or state level closely collaborated with different Chinese TCEs at the national or provincial level, to implement BRI projects. This had led to the creation of dissimilar SBRs in Malaysia, as indicated in Table 1.1.

The cascading effect of absolute power from the "state" to different LPEs through the strong state-LPE nexus at either the national or state level might be difficult to observe. However, their relative power and commercial interests at the project level were traceable. Useful insights can be gained from critical analyses of various ways BRI projects were driven by different LPEs as key actors in the state. In particular, the focus of this study was on the skills they employed, and the influence they had, in order to set conditions for novel SBRs to be created in Malaysia. Furthermore, the vested commercial interests of different LPEs closely linked to UMNO in these BRI projects from the rent-seeking perspective could also be inferred from: 1) the nature and type of projects they were in; 2) the political or business networks they belonged to; and 3) the types of power they had, and the positions of influence they occupied in the local power structure.

3.4 DATA COLLECTION

When conducting a research, the data needed could be found in both primary and secondary sources. The former refers to original data collected from the primary source. It is normally done by conducting interviews with a select group of people. On the other hand, data collected by someone else, where the purpose might be different from one's own, is referred to as secondary data. Secondary sources are often very important for a researcher to begin with, in order to have a first grasp of the research problem. This facilitates preliminary understanding, analysis, and explanation of the chosen area of research, before primary data collection can be carried out.

The fact that data is secondary may, however, imply that the given information is biased or amplified. This is quite common in cases where web pages of companies are used or comments in social media are referred to. Additionally, the scope, the time-period, and the related geographical location of the given information also need to be taken into account. This will determine the relevance of the secondary data. In this regard, Yeung and Liu (2008) asserted that more conventional research methodologies are not applicable to research China's funding and investment flows in Southeast Asia. This was because of the relatively recent and, in some cases, obscure activities of mainland Chinese enterprises in the region.

3.4.1 Secondary Data Sources

In this study, secondary research was carried out in advance in order to better understand the historical background of China's BRI funding and investments in Malaysia. This was also to judge whether the field of study would be feasible, by examining the data and statistics provided by the Malaysian Investment Development Authority (MIDA). This was done with the aim of gaining deeper understanding of the findings in existing studies, in order to discover in what field information was lacking, and how it could be useful for this study. The keywords used for the research were primarily China's BRI funding and investments in the Malaysian property development and construction sector. The focus was on activities and projects of Chinese SOEs, or prominent Chinese private developers, as TCEs. This had led to the findings of the most relevant secondary data, which enabled the study to be continued in this specific sector.

University library and Google were used to gain access to academic journals and books related to the research topic. Articles were sourced in local and foreign newspapers, magazines, and blogs, like *The Star Online, The Edge, New Straits Times, Sin Chew Daily, Malay Mail Online, The Sun Daily, Sarawak Report, Free Malaysia Today, Wall Street Journal, Reuters, Xinhua, South China Morning Post, The Straits Times*, etc. Information about China's BRI projects in Malaysia served as an important and complementary source of information to verify empirical evidence reflected in the three case studies.

In the search for secondary data at the firm and project levels, keywords such as CCCC, Powerchina, Sinohydro, Country Garden, East Coast Rail Link, Melaka Gateway, and Forest City were used. According to Ghauri and Gronhaug (2005), secondary data is often used as a dominant source when starting the research process, which was precisely the case while conducting this study. The secondary research helped capture some of the nature of economic and diplomatic ties under the comprehensive strategic partnership between Malaysia and China, in quantitatively accountable ways. It complemented the qualitative insights gathered from semi-structured interviews conducted later for the primary research on specific LPE-TCE links. Meanwhile, informational gathering from other sources like social media, though with exercised caution, helped broaden understanding beyond the scope and constraints of this study.

In short, the secondary data source is often known to be time-saving and provides the researcher with useful background information to better grasp the research problem, an advantage which certainly has been helpful in the writing of this thesis. This type of secondary data source contributes to comprehensive knowledge of the field of study, facilitating the ability to draw scientific conclusions.

3.4.2 Primary Data Sources

After secondary research was carried out, which provided preliminary insights into the research topic, primary data collection began by using a fieldwork research method. 26 semi-structured interviews with Chinese SOEs or prominent Chinese private developers, local construction firms, industry experts, trade associations, analysts, and politicians, were carried out between September 2017 and March 2018. In fact, many interviewees were invited initially, but unfortunately most of them declined. Meanwhile, selective industry experts, trade associations, analysts, and politicians were included in the sample of interviewees, with an aim to get a third party perspective on the pros and cons of China's BRI funding and investments in Malaysia. Briefly, the breakdown of interviewees is as follows:

- Chinese SOEs/Prominent Chinese Private Developers - 6
- Local Construction Firms - 3
- Industry Experts - 6
- Trade Associations - 2
- Political & Investment Analysts - 6
- Politicians - 3

The time when these three cases first occurred, albeit not concurrently, was in October 2013, when China's BRI was officially introduced by President Xi in Malaysia. The cut-off date was set in May 2018, just before the historic fall of the UMNO-led BN government, when the GE14 was held. Hence, the key period of analysis for this study is between October 2013 and May 2018. The implementation of these BRI projects is still on-going, after being reviewed by the *Pakatan Harapan* (PH), or Alliance of Hope, coalition government in 2018-2019, when they had ousted the BN government in the GE14[47]. However, PH suddenly collapsed in February 2020, and was replaced by the *Perikatan Nasional* (PN), or National Alliance, coalition, when writing of this thesis was almost completed.

Meanwhile, primary data collection was based on a "key informant approach". To this end, an interviewee from Chinese SOEs, prominent Chinese private developers, their local partners, or local construction firms, is defined as: 1) an informant who occupies a senior or middle management position; 2) has functional responsibility in an area which enjoys high status in accordance in the corporate sector; 3) has considerable industry experience and frequently also long tenure with the company; possesses a broad network of personal relationships; and 4) has considerable international exposure (Welch *et al.*, 2002). Core questions asked during the semi-structured interviews were aimed to answer directly or indirectly the three research questions formulated for the study. The advantages and disadvantages of the key informant approach in primary data collection are briefly summarised as follows:

<u>Advantages</u>

- They are an affordable way to gain a big picture idea of a situation.
- Information comes directly from knowledgeable people.
- Key informants often provide data and insight that cannot be obtained through other methods.
- Key informants offer confidential information not revealed in other settings.
- They allow for new and unanticipated issues and ideas to emerge.

[47] After BN's ouster by PH in May 2018, some BRI projects such as the ECRL, deeply criticised by PH, were cancelled. However, PH then realised that if this contract was terminated, a huge compensation was due. PH had no choice but to re-start the project, after Mahathir, as Prime Minister, met Xi in Beijing in April 2019, with the contract amicably renegotiated to bring down the price.

Disadvantages

- There is potential for the interviewer to unwittingly influence the responses given by key informants.
- There is a potential bias if key informants are not selected with care.
- The validity of the data can be difficult to prove.
- Systematic analysis of a large amount of qualitative data can be time consuming.

All 26 interviews were face-to-face discussions and the languages used were Mandarin and English. The interviews were supposed to be recorded, to follow Yin's (2003) recommendations for case interviews. However, brief notes were made instead, when the interviewee felt uncomfortable with it. During the course of the interviews, none of the 26 interviewees agreed to have the discussion tape-recorded or long notes taken due to the sensitivity of the matter, as these three BRI projects involved key politicians and powerful royalty in Malaysia.

The interviewees were very careful of what they said. This might also be due to their unfamiliarity and mistrust of academic-based interviews, as well as the old wisdom in the construction industry, which usually did not encourage disclosure of the real situation and project details to outsiders. Therefore, it was essential to ensure full anonymity was provided for the interviewees, with personal promises by the author, in order to achieve a highly reliable and responsive interview results as possible.

3.5 DATA ANALYSIS

The purpose of data analysis is to structure and interpret findings in order to gain insights and give a meaning to the new phenomenon observed (Marshall and Rossman, 1995). It is a process of gathering, reducing, displaying, dividing, and narrowing down relevant information, with the goal of drawing conclusions and answering research questions. The findings from the three case studies were sorted out using a data reduction method, with data selected, transformed, and interpreted to understand and create meaning of the observations. This helped to select information and provide focus for the study, which increased the ability to explain and answer the research questions, as well as identify common patterns for China's BRI projects in Malaysia. Data reduction is a process that requires accuracy and a critical approach, given that alternative explanations are likely to occur along the way (Ghauri and Gronhaug, 2005).

To overcome this risk, much effort was put into the research process to ensure that most significant data related to the study had been found. The data were then compared and interpreted from different perspectives, as a way of trying to limit biased results or missing important data, which could affect the given explanation. This was important for the three cases because they were conducted on a micro-level. As access to information and the possibility to compare cases had been rather limited, these factors might however affect the explanation and the ability to identify commonalities and differences.

To this end, the data and information format presented for each of the three case studies in Chapter 4 is similar, which includes: 1) to introduce the background of each BRI project driven by a particular LPE-TCE link, based on state-state-business ties, which had created a novel SBR form in Malaysia; 2) to determine the identity of different LPEs and Chinese TCEs that shaped this specific SBR; 3) to present thematic discussions on inter- and intra-elite relationships of different LPEs in getting things done economically and politically in the local power structure, and how they interacted with different Chinese TCEs, as well as to conclude why both parties were motivated to collaborate with each other to drive this specific SBR on a non-transparent basis. A critical analysis of the findings in Chapter 5 synthesises important data and information derived from the three case studies in Chapter 4, by drawing out fundamental differences of the three novel SBR forms, created through the three BRI projects in Malaysia. They will be discussed in a step-by-step manner, based on key themes outlined in the conceptual framework in Section 3.1.

CHAPTER 4: CASE STUDIES

4.1 EAST COAST RAIL LINK

4.1.1 Project Background

The East Coast Rail Link (ECRL) was initially proposed by the East Coast Economic Region (ECER) Development Council in 2007. It aimed to be a crucial transportation infrastructure to stimulate economic growth for the three poorer east coast states of peninsula Malaysia, namely Pahang, Terengganu, and Kelantan (Tay, 2016a). To this end, ECRL had been periodically discussed by the UMNO-led government since 1981, with initial proposal, extensive planning, financial modelling, market sensing exercises, and three feasibility studies already conducted for the project over the years (*Malaysiakini*, 9 November 2016). However, ECRL did not take off then, probably due to fiscal constraint, as the huge construction cost involved also did not justify its commercial viability.

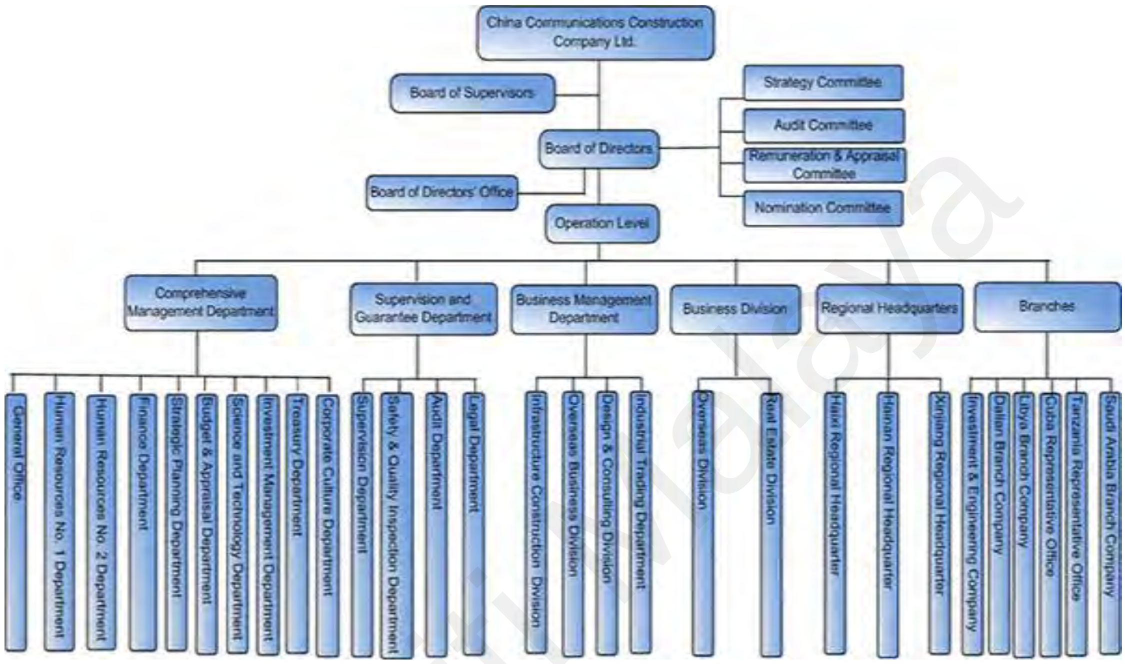
On 5 November 2016, Malaysia Rail Link Sdn. Bhd. (MRL), a special purpose vehicle (SPV) formed by the Minister of Finance Incorporated (MoF Inc.), suddenly signed a historic agreement in Beijing with China Communication Construction Co. Ltd. (CCCC), a Chinese state-owned enterprise (SOE) at the national level. In the presence of then Prime Minister Najib Razak and Chinese Premier Li Keqiang, MRL agreed to appoint CCCC as the engineering, procurement, and construction (EPC) contractor for ECRL. It was awarded for a contract value of RM55 billion, with 85 per cent of the cost to be funded by a soft loan from the state-owned EXIM Bank of China (Tay, 2016a), on a public-led basis.

SOEs like CCCC had been strongly encouraged by the Chinese government to play the role of TCEs to expand their market overseas under the BRI. Hence, MRL and CCCC were mandated to implement ECRL, based on this new phenomenon of state-state-business ties, favoured by the leaders of the single-dominant United Malays National Organisation (UMNO) and Chinese Communist Party (CCP), as it was also in line with Xi's BRI agenda (*The Straits Times*, 1 November 2016).

Based on CCCC's corporate profile in 2016, the company was listed on the Main Board of Hong Kong Stock Exchange in December 2005. It is wholly-owned by China Communications Construction Group, one of the largest SOEs established at the national level. CCCC is a merger of China Harbour Engineering Group and China Road and Bridge Corporation, with an aim to compete with Western and Japanese giants in the international construction market. Today, CCCC and its subsidiaries are principally engaged in the design and construction of transport infrastructure, like railways, ports, bridges, tunnels, etc. The group is the largest port construction and dredging firm in China, the largest container crane manufacturer in the world, and the world's second largest dredging firm in terms of dredging capacity.

Figure 4.1 outlines the organisation chart of CCCC, which indicates that it is a lean enterprise. It has only two layers of staff and line reporting structure between the top management level and various functional departments, business divisions, regional headquarters, and branches at the operation level. This implies that power and authority of the group is concentrated at the top management, a common feature for Chinese SOEs. While the description of functional departments, business divisions, regional headquarters, and branches are quite similar to that of Western MNCs, it nevertheless differs vastly in terms of having a unique "Board of Supervisors," normally filled with CCP officials, as part of the check and balance requirements under a strong state.

Figure 4.1 Organisation Chart of China Communications Construction Co. Ltd. (CCCC)



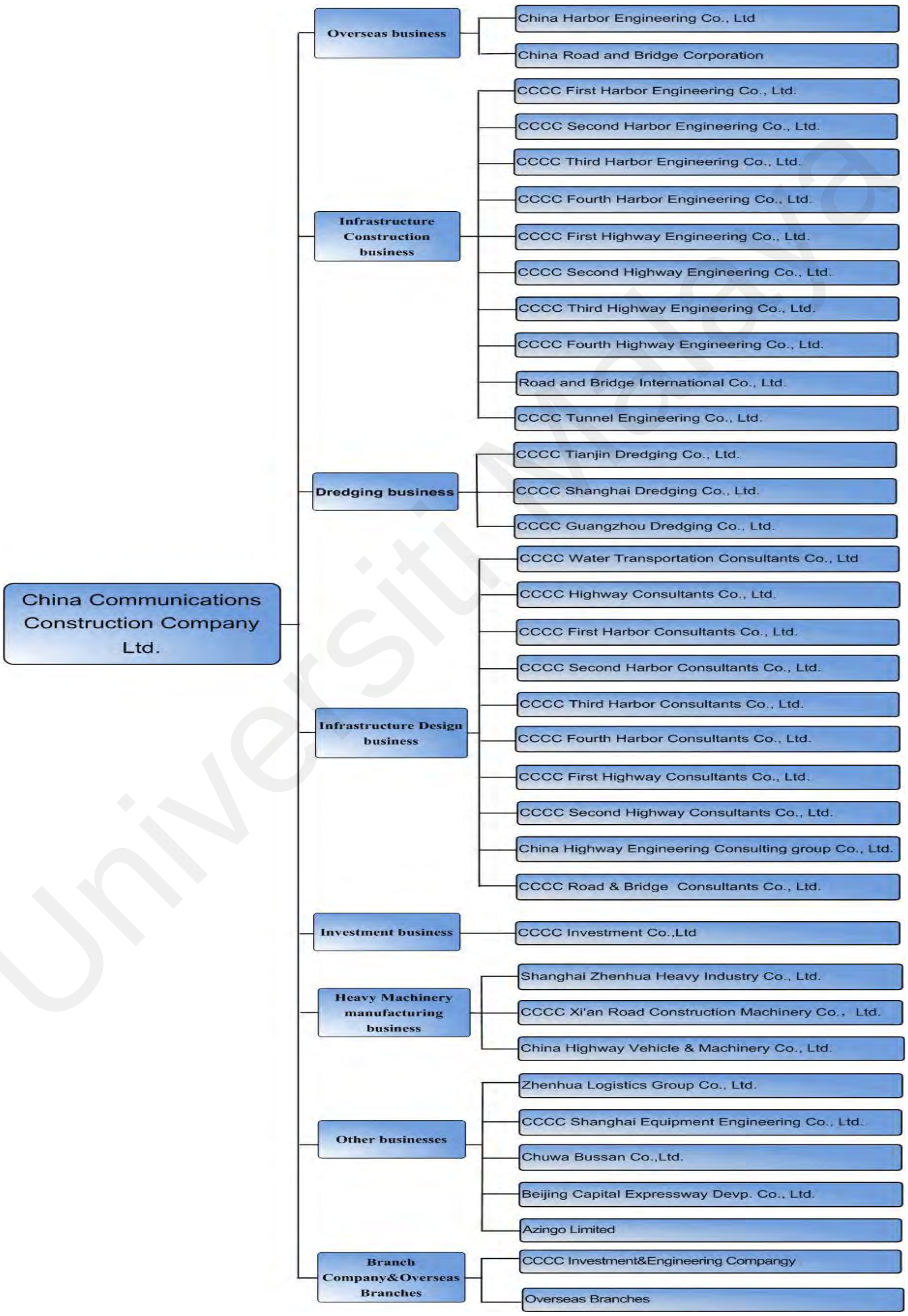
Source: Corporate Profile of China Communications Construction Co. Ltd., 2016

According to a reliable source from CCCC's Malaysia office, who spoke on condition of anonymity, the involvement of CCP officials, who had direct access to Beijing, helped the company in its decision-making process to be more efficient and effective[48]. This was reflected by their agreeing to specific terms and conditions of the engineering, procurement, construction, and commissioning (EPCC) contract for ECRL, which was tailored to the Malaysian government's specific needs. This is different from those corporate red-tapes that are commonly encountered in Western MNCs, where funding

[48] The interview was done in September 2017 with a senior staff, among the top five in CCCC Malaysia. He spoke in Mandarin and a translation of his statements are provided in the narrative.

overseas projects is usually hampered and delayed by the many tiers of reporting lines, structures, as well as numerous corporate and statutory compliances required.

Figure 4.2 SBUs and Subsidiaries of China Communications Construction Co. Ltd.



Source: Corporate Profile of China Communications Construction Co. Ltd., 2016

Meanwhile, Figure 4.2 indicates that CCCC has seven strategic business units (SBUs) and 34 wholly- or majority-owned subsidiaries. As of 31 December 2016, CCCC had 112,719 employees and total asset of RMB268 billion (US$43 billion or RM190 billion). CCCC also was a "Fortune 500 company," operating in 145 countries, ranked No. 1 as an International Contractor in Asia, and No. 2 in the world by Engineering News Record (ENR) in 2016. As of March 2017, CCCC's ongoing global order book stood at US$30 billion. Malaysia alone accounted for US$10 billion, excluding the massive RM55 billion ECRL contract.

CCCC's subsidiaries had started their operations in Malaysia in the 1980s. They were among the earliest Chinese contractors participating in the construction of local railways. Key projects completed by CCCC in Malaysia included the RM4.5 billion Penang Second Bridge[49] in 2013, with major funding from EXIM Bank of China. Other jobs completed by CCCC in the country included the Light Rail Transit (LRT) Ampang Line Extension[50] and the Bintulu Samalaju Port Breakwater and Associated Works[51] in Sarawak.

Fang Zhenru, then senior advisor at CCCC's Malaysia office, claimed that the company's years of experience and strong track record in rail-related projects in Malaysia had naturally gained the confidence of the Chinese government. Hence, it was nominated as the preferred EPC contractor for ECRL. CCCC's key subsidiaries in Malaysia had shown their adaptability in handling the Penang Second Bridge project in 2013. They collaborated with different LPEs to secure the necessary funding from EXIM Bank of China. The funding arrangement was quite similar to that of the ECRL. He further claimed that being a Chinese SOE with special ownership advantages (Buckley *et. al*,

[49] A JV with UEM, a construction and property group wholly-owned by the Malaysian government.
[50] Subcontractor to MRCB, a government-linked company (GLC) majority owned by the Employees Provident Fund.
[51] A JV with Shinyang, a major Sarawak-based public-listed group closely linked to the Sarawak state government.

2007), CCCC could shoulder all the project risks related to ECRL by itself. This SOE did not have to tie-up with local partners to spread the risks.

On the other hand, according to another reliable source from CCCC's Malaysia office, who spoke on condition of anonymity, it appeared that one Malaysian Chinese business elite, Low Taek Jho, who is well-versed in international finance and Mandarin, also played a crucial role in ECRL[52]. Low had advised Najib to secure the much-needed soft loan from China to fund the BRI project based on state-state-business ties. As discussed, the soft loan was for 85 per cent of the project cost, at 3.25 per cent interest rate, with a repayment period of 20 years, and a seven-year moratorium period. In other words, Malaysian taxpayers only had to start paying back the debts after full completion of ECRL.

4.1.2 Business Elite Jho Low in ECRL

Low Taek Jho, commonly known as Jho Low, was born into a rich business family in Georgetown, Penang, in 1981. His grandfather, Low Meng Tak, was a businessman born in Guangdong province, China. He had an interest in iron-ore mining, liquor distilleries, and real estate businesses in China and Thailand in the 1960s and 1970s (*Wall Street Journal*, 21 October 2014). Low's father, Larry Low Hock Peng, was involved in MWE Holdings Berhad, an investment holding company in Malaysia, in the 1990s. He was also chairman and shareholder of Frenken Group, a company listed on the Singapore Stock Exchange (Story and Saul, 2015). Low was the youngest of three children. He attended the prestigious Chung Ling High School and the International School (Uplands) in Penang, before moving to the elite Harrow School in the United Kingdom (UK). In England, Low developed a close friendship with Riza Aziz, the stepson of then Prime

[52] The interview was done in September 2017 with a senior staff, among the top three in CCCC Malaysia.

Minister Najib. He later enrolled in an undergraduate programme at the Wharton Business School, University of Pennsylvania in the United States (US). He continued to develop close relationships with children of Malaysian elites, as well as United Arab Emiratis, Kuwaiti and Jordanian business interests (Story and Saul, 2015). As an international financier, Low was the principal partner of Jynwel Capital, along with his older brother Szen Low. Low had cultivated working relationships with some of the world's largest sovereign wealth funds, including Abu Dhabi's Mubadala Development Company and Kuwait Investment Authority (*Free Malaysia Today*, 1 November 2014). Jynwel Capital was connected with deals including: 1) the acquisition of New York's Park Lane Hotel for US$660 million in 2013, collaborating with the Witkoff Group and Mubadala; 2) the takeover of Coastal Energy in 2014 for US$2.2 billion; and 3) the buyout of EMI's music publishing business for US$2.2 billion in 2012, collaborating with Blackstone Group, Sony Corporation, and Mubadala (*Rakyat Post*, 22 October 2014).

In 2009, when Najib became the sixth Prime Minister of Malaysia, he also assumed the post of Finance Minister, and later even held the chairmanship of the advisory panel for 1Malaysia Development Berhad (1MDB). Low, who was a close friend of Najib’s step-son, capitalised on their personal relationship for business. Being an international financier, he then became a key advisor to Najib on matters related to 1MDB’s investment activities. However, Low had never received an official position in this state-owned investment company. Low later admitted that he occasionally consulted with 1MDB and was involved in a number of transactions, connecting his own interests with those of this state-owned investment company (Story and Saul, 2015). By 2015, Najib was heavily criticised by the Opposition and rival elites in UMNO, when 1MDB reportedly incurred huge debts of RM42 billion, after just six years in operation (Wright and Clark, 2015). Low had been labelled by the *Wall Street Journal* as a conduit of, participant in, and beneficiary of questionable practices allegedly linked to misappropriated funds from 1MDB in the US (Wright and Clark, 2015).

4.1.3 Bailout of 1MDB, ECRL, and Borrowings from China

On 26 July 2016, three months before the signing of the ECRL deal in Beijing, a leaked document provided by the *Sarawak Report* revealed that the Malaysian National Economic Council, a one-stop state agency, had discussed ECRL in detail on 25 July 2016. The project was to be endorsed by the cabinet on 27 July 2016, without going through the proper parliamentary process. A full EPCC contract would then be awarded to CCCC by year end, on a fast-track and direct-negotiation basis (Lakshana, 2016).

Sarawak Report also revealed that CCCC would be entitled to a 10-year tax break, including its subcontractors and suppliers that were involved in the project. In addition, subcontract works would be controlled and decided by CCCC, given that the EPCC contract was on a lump-sum fixed price basis. In other words, CCCC had to be fully responsible for all the project execution risks. However, Fadillah Yusof, then Malaysia's Works Minister, immediately refuted *Sarawak Report,* denying that such matters had been discussed by the cabinet (*Malay Mail Online*, 26 July 2016).

On 28 July 2016, Tony Pua, an Opposition Member of Parliament, issued an official statement, citing *Sarawak Report,* that there was a plan by the UMNO-led government to double the cost of ECRL from RM30 billion to almost RM60 billion. The project to be used as an excuse for additional borrowings of about RM30 billion from China to rescue 1MDB. This was because 1MDB had huge debts with International Petroleum Investment Co. (IPIC), a state-owned investment company of Qatar (Lakshana, 2016). Pua then revealed to *The Edge,* namely upon the award of EPCC contract, CCCC would, via a nominated "credit-worthy" company, provide 1MDB with US$850 million to repay IPIC's advances. This unknown company also had to assume 1MDB subsidiaries' debts of US$4.78 billion, inclusive of interests. All these debts had been co-guaranteed by IPIC on behalf of 1MDB during the bond issue (Lakshana, 2016).

Pua claimed that these payments were meant to go towards the full settlement with IPIC, which had taken 1MDB to the London Arbitration Court in 2016, for a disputed amount of US$6.5 billion (*Reuters*, 14 June 2016). IPIC, who had co-guaranteed US$3.5 billion bond issue by 1MDB in 2013, claimed that it had never received any payment from 1MDB (*The Edge Markets*, 31 July 2016). Pua also revealed that part of the sum from the inflated cost would go towards acquiring substantial stakes in then two Jho Low-linked companies, Putrajaya Perdana Berhad (PPB)[53] and Loh & Loh Corporation Berhad (LLCB)[54], for US$244 million and US$71 million respectively (Lakshana, 2016).

The core issue of the 1MDB scandal was rooted in the controversial RM2.6 billion that had been transferred from 1MDB to Najib's personal bank accounts at AmBank Malaysia in 2013. These funds were presumably meant for distribution as political funds in the 13th General Election (GE13) by Najib, as well as to personally enrich himself (Wright and Clark, 2015). However, this money transfer was perceived as a form of corruption, triggering widespread calls within UMNO for Najib's resignation, although he categorically denied any wrongdoing.

[53] PPB was a construction outfit taken private by Petro Saudi International (PSI) in 2010. Cendana Destini Sdn. Bhd. (CD) then took over PPB in 2012 from UBG, a Sarawak-based group previously linked to the state's then chief minister Taib Mahmud. In 2010, PSI and Jho Low took over CD, UBG, and water infrastructure firm LLCB, in three privatisation exercises valued at RM1.4 billion. CD was equally owned by Arifin Hamzah and Rosman Abdullah.

[54] LLCB was founded in 1965 to provide building and civil construction services. It also engaged in residential property development. It specialised in construction of water treatment plants, water intakes, pumping stations, pipelines, reservoirs, sewerage treatment plants, and environment products.

Being the most powerful political elite in Malaysia then, and with a strong political background since young, Najib did not buckle under such pressure. Instead, he firmly handled the 1MDB scandal in an autocratic manner. This was despite being heavily criticised by, among others, Mahathir Mohamad, Malaysia's fourth Prime Minister. In fact, Mahathir was once Najib's mentor, but turned rival later. He left UMNO in 2016 to head the then Opposition front *Pakatan Harapan* (PH or Alliance of Hope). Mahathir and PH eventually forced Najib's ouster in the GE14 held on 9 May 2018.

4.1.4 Najib: Powerful Political Elite

Najib was born in Kuala Lipis, Pahang, in 1953, into a highly prominent political family. He is the eldest son of Malaysia's second Prime Minister, Abdul Razak Hussein, and the nephew of Malaysia's third Prime Minister, Hussein Onn. In 2009, Najib became the President of UMNO. Najib studied at the University of Nottingham in the UK, graduating with a Bachelor's degree in Industrial Economics in 1974. He returned to Malaysia and entered the corporate world. He served briefly as an executive in Bank Negara, the central bank, and later as public affairs manager in PETRONAS, the national oil company.

In 1976, Najib was elected as Member of Parliament for Pekan in Pahang, at the young age of 23, replacing his father, Razak, following his demise. From 1982 to 1986, he served as Pahang's Chief Minister. After entering the federal cabinet in 1986 under the Mahathir administration, he was appointed Culture, Youth, and Sports Minister. He later became Defence Minister and Education Minister respectively. He was promoted to Deputy Prime Minister in January 2004, serving under Malaysia's fifth Prime Minister Abdullah Ahmad Badawi. He later replaced Abdullah in April 2009, after BN suffered heavy losses during the GE12 in 2008. Under Najib's leadership, BN won the GE13 in 2013, though, for the first time in history, the coalition lost the popular vote to the then Opposition front, *Pakatan Rakyat* (PR or People's Alliance), led by Anwar Ibrahim, with 47.38 per cent against 50.87 per cent respectively (Ostward, 2013).

Meanwhile, in 2009, 1MDB was established by Najib as part of the government's Economic Transformation Programme (ETP). The company's Memorandum of Articles and Association indicates that 1MDB adopted a three-tier corporate structure. It included a management tier, a board of directors, and an advisory panel. The powerful Najib, being Prime Minister-cum-Finance Minister, as well as the chairman of 1MDB's advisory panel, was the sole signatory for all 1MDB's investments. This had effectively given him authority over both the management and board, to commit huge debts for 1MDB.

In January 2016, Malaysia's then attorney general, Apandi Ali, suddenly announced that the investigation by the Malaysian Anti-Corruption Commission (MACC) over the RM2.6 billion (US$681 million) transferred to Najib's personal bank account in 2013 had been closed (Mazwin and Kaos, 2016). Apandi concluded that the "payment" was not from 1MDB, but a "gift" from the Saudi royal family. He further claimed that no law had been broken and the gift did not amount to graft (Rozana *et al*., 2016). Apandi had been appointed by Najib as attorney general in August 2015, after his predecessor, Gani Patail, was abruptly sacked. It was widely speculated that Gani's dismissal was related to a charge sheet he prepared against Najib, for corrupt practices in SRC International, another wholly-owned subsidiary of 1MDB (Ramzy, 2015).

On 20 July 2016, the US Department of Justice (DOJ) launched a lawsuit to seize American assets worth over US$1 billion. These assets were allegedly obtained from US$3.5 billion of misappropriated funds from 1MDB (Hope and Wright, 2016). In this lawsuit, a Malaysian official of high ranking, who had full control over 1MDB, was referred to as "Malaysian Official 1" (MO1) (Shaffer, 2016). In September 2016, Najib was identified as MO1 by his own colleague, Rahman Dahlan[55], a key UMNO elite closely aligned with the Prime Minister (*The Star*, 1 September 2016). Rahman was then newly-appointed as Economic Planning Unit (EPU) Minister in the Prime Minister's Department and put in-charge of coordinating the ECRL.

In November 2016, Rafizi Ramli, then an Opposition Member of Parliament, alleged that MRL was created by MoF Inc. to serve as the SPV to undertake ECRL on an off-budget financing[56] basis (Tay, 2016b). He further claimed that BRI-related projects like ECRL, which could increase the national debt substantially, should have obtained parliamentary approval, instead of just a cabinet endorsement (Tay, 2016c). It appeared that Najib, who had the full infrastructural power, conveniently bypassed Parliament, as he wanted to push through the award of the EPCC contract to CCCC quickly. To this end, specific terms of this contract included an advance payment of 15 percent, which, according to one industry expert, who spoke on condition of anonymity, was historically unprecedented; the normal industry practice is 5-10 percent[57].

A check with the Companies Commission of Malaysia (CCM) revealed that MRL was only formed on 26 September 2016, with a paid-up capital of RM2. The company shareholders included two senior finance ministry officials, Ahmad Suhaimi Endut and Dr. Yusof Ismail. It appeared that both were closely linked to Najib. However, Rahman

[55] Rahman was born in Sabah in 1965 and graduated from the Sonoma University in the US. In March 2008, he was elected to the federal Parliament in the GE12, after winning the UMNO-held seat of Kota Belud in Sabah. Before being elected as an MP, he was just an ordinary UMNO official at the state level. In May 2013, after winning the same seat in the GE13, he was appointed as minister for urban wellbeing, housing, and local government by Najib. In June 2016, he was rewarded by Najib again, by becoming the powerful EPU minister, specifically overseeing ECRL, primarily due to his undivided loyalty, support, and defence rendered to the then prime minister during the peak of the 1MDB scandal in 2015-2016.

[56] Off-budget financing refers to government expenditure that is not funded through the budget. For example, the government sets up a special purpose vehicle (SPV) to construct a bridge. The SPV will likely borrow money to build the bridge on the strength of a government sovereign guarantee letter not reflected in the annual budget.

[57] The interview was done in September 2017.

quickly argued that the SPV was actually wholly-owned by MoF Inc., implying that the two senior officials were just proxies assigned by Najib.

Rahman even argued that since the soft loan from China would be taken up by the SPV, it should not be categorised as part of the national debt. Rather, this loan was merely guaranteed by the Malaysian government, through a support letter, thus termed as a contingent debt[58] (*New Straits Times*, 9 November 2016). Presumably, this off-budget financing scheme was to ensure that the self-imposed debt-to-GDP ratio[59] of 55 per cent would not be breached to avoid from being downgraded in credit ratings. As of March 2017, Malaysia's actual debt was RM664.5 billion, or 50.2 per cent of GDP. It excluded those contingent debts guaranteed by the government (Kana and Kaur, 2017).

4.1.5 ECRL's Direct-Negotiation Basis

On 7 November 2016, Pua specifically pointed out that the then CEO of ECER, Jebasingam Issac John, was quoted by news reports in April 2014 as saying that ECRL would cost about RM30 billion. The project had attracted many established local construction players like Gamuda, MMC, YTL, MRCB, UEM, and WCT, who expressed interest to participate in the tender exercise (Barrock, 2016). Hence, in November 2016, many questions emerged when the project was awarded to CCCC on a direct-negotiation basis for RM55 billion. This price was more than 80 per cent of those estimated by established local construction players, just after a short period of two and a half years.

[58] A contingent debt is a potential liability that may occur, depending on the outcome of an uncertain future event. A contingent debt is recorded in the accounting balance sheet if the contingency is probable, and the amount of the debt can be reasonably estimated. If both conditions are not met, the debt may be disclosed in a footnote on the financial statements, or not reported at all.

[59] A country's debt-to-GDP ratio is an indicator of the country's ability to pay back its debt. A low debt-to-GDP ratio indicates an economy of a country that produces and sells goods and services sufficient to pay back its debts, without incurring further debt. A ratio of over 55 per cent is generally considered dangerous as it implies a country may fail to repay its debt.

In addition, HSS Engineers Berhad (HSS), an engineering consultancy, had conducted a comprehensive feasibility study on ECRL for the government from 2009 to 2015. It disclosed that it had studied ECRL's original route of 545km, and the project cost was estimated at RM29 billion, or RM53 million per kilometre (*The Edge Financial Daily*, 17 November 2016). This implied an additional 20 per cent increase in the length of this project, from 545km to 688km, had resulted an 80 per cent increase in cost.

As a matter of comparison, Pua highlighted that, in 2003, the 329km Ipoh-Padang Besar Double-Tracking Railway in the peninsula was awarded to MMC-Gamuda Consortium for RM14.5 billion. In 2015, the 179km Gemas-Johor Baru Double-Tracking Railway was awarded to China Railway Engineering Corporation (CREC) for RM7.1 billion. These two double-tracking railways cost only RM44 million and RM39.8 million per kilometre respectively to construct (Murugiah, 2016). As compared to the 688km ECRL for a total cost of RM55 billion, which worked out to be approximately RM80 million per kilometre. ECRL was thus about 100 per cent more expensive than that of these two double-tracking railways, which are of more or less similar class and category.

In response to these criticisms, Rahman tried to justify the RM55 billion price tag by comparing ECRL with Golthard Rail in Switzerland, as well as the Madrid-Valladoid and Barcelona rail lines in Spain (Tay, 2016c). However, one industry expert, who spoke on condition of anonymity, argued that these two European projects were nearly 100 per cent passing through tunnels, and all were of high-speed rails (HSR), travelling up to 300km per hour. The ECRL had only a relatively short tunnel through the Titiwangsa Range. Moreover, it was designed as a conventional "standard gauge" single electrified rail on a double-tracking formation, with travelling speed up to 160km per hour only[60]. In this

[60] The interview was done in September 2017.

regard, China Railway Construction Group (CRCC) was awarded the 215km Padma Rail Line in Bangladesh for RM68.1 million per kilometre, and ECRL was about 34 per cent more expensive (Barrock, 2016). CCCC had constructed similar railway in Kenya for RM61.4 million per kilometre, and ECRL was 40 per cent more expensive with the same contractor. Since ECRL was awarded to CCCC on a direct-negotiation basis, the project would probably become the most expensive railway to be built in the world in its same class and category (Barrock, 2016).

The ECRL deal appeared one-sided, favouring CCCC, given that there was no competitive tender involved, and its huge cost could not be verified. Furthermore, CCCC was granted full control over implementation of the project, by taking charge of all procurement activities. To this end, 70 per cent of works would most likely be awarded to Chinese subcontractors and suppliers. Although 30 per cent of the civil works had been promised by CCCC to be allocated to Malaysian subcontractors, a reliable source from CCCC's Malaysia office, who spoke on condition of anonymity, revealed that this was not stated clearly in the EPCC contract[61].

An important question then emerged, as to whether local construction players would benefit from this project, as claimed by the government. One industry expert, who spoke on condition of anonymity, argued that the involvement of local players in subcontract works was subject to their price being more competitive than that of Chinese subcontractors and suppliers[62]. This implied that the project would probably not be able to create spillover effects that could stimulate speedy economic recovery in the short run.

[61] The interview was done in September 2017 with a senior staff, among the top three in CCCC Malaysia.
[62] The interview was done in September 2017.

Importantly too, the project would tie Malaysia into China's sphere of political influence, in terms of key strategic infrastructure projects and alternative trade routes in the region under Xi's BRI (Jaipragas, 2017). In this regard, one analyst, who spoke on condition of anonymity, claimed that since Najib's administration was increasingly dependent on China for financial support to save the troubled 1MDB, this had weakened his bargaining power with the Chinese government[63]. This argument was based on the fact that even established local construction firms like Gamuda, MMC, YTL, IJM, and UEM, who had the relevant track record in undertaking similar railway projects in Malaysia, could do the job at a much lower cost than CCCC.

4.1.6 Project Development Details

Figure 4.3 indicates the proposed alignment for the 688km long ECRL. It was designed as a standard gauge single-electrified railway on a double-tracking formation. Phase 1 consists of 524.6km of the main line, which connects the Integrated Transport Terminal (ITT) Gombak in the Klang Valley to Kota Baru in Kelantan. Phase 1 includes six spur lines totalling 65.9km, which branch out from the main line to key industrial areas in the east coast to facilitate and support petrochemical and other economic activities. Phase 2 consists of the balance 97.5km, which provides the two missing links, from ITT Gombak to Port Klang and from Kota Baru to Pengkalan Kubor. Under Phase 1, there are 22 stations, to be divided into 12 passenger-only stations, three cargo-only stations, and seven combined passenger-cargo stations, as indicated in Figure 4.3. ECRL was designed to carry 70 per cent of cargo and 30 per cent of passengers (Kana and Kaur, 2017). Based on a travelling speed of 160km per hour, it takes about four hours to travel from ITT Gombak to Kota Baru, compared to seven hours travelling by road.

[63] The interview was done in September 2017.

Figure 4.3 Proposed Locations of 22 Stations for East Coast Rail Link

Source: Malaysia Rail Link Sdn. Bhd., 2017

There are 19 tunnels totalling 48.5km to be built under Phase 1. One tunnel, 18km long, will pass through the Titiwangsa Range from Gombak in Selangor to Bentong in Pahang. It will be the longest tunnel in Southeast Asia once it is completed. Another 16km of tunnels of different length will be built under Phase 2. Hence, tunnels for the whole project is close to 65km, or 10 per cent, of the overall length. Besides tunnels, there are 80 river-crossing bridges, each over 300m long. There is also an elevated viaduct structure, 88km in length, along the coastal line from Terengganu to Kelantan. This is to mitigate floods and soft ground conditions. As a result, the total combined length of tunnels, bridges, and elevated viaduct structure, all ancillary works, comprises about 30 per cent of the 688km long railway.

Economically, the ECRL connects the less-developed east coast states of Pahang, Terengganu, and Kelantan to the developed states of Selangor and Kuala Lumpur in the Klang Valley. It also links two important ports on the east and west coasts of the peninsula, Kuantan Port and Port Klang, when Phase 2 is completed. One industry expert, who spoke on condition of anonymity, argued that the Kuantan Port-ECRL-Port Klang connectivity could ultimately act as a critical transportation link that changes regional trade routes under the BRI[64]. This new railway will enable exporters to bypass Singapore, before en-routing to other destinations (Jaipragas, 2017).

The government projected that 5.4 million passengers and 53 million tonnes of cargo would use the service of ECRL annually by 2030 (Teoh, 2017). The new rail link was expected to benefit cargo transport from key economic and industrial areas within the ECER, which include the Malaysia-China Kuantan Industrial Park (MCKIP), Gambang Halal Park, Kertih Biopolymer Park, and Tok Bali Integrated Fisheries Park. ECRL will

[64] The interview was done in October 2017.

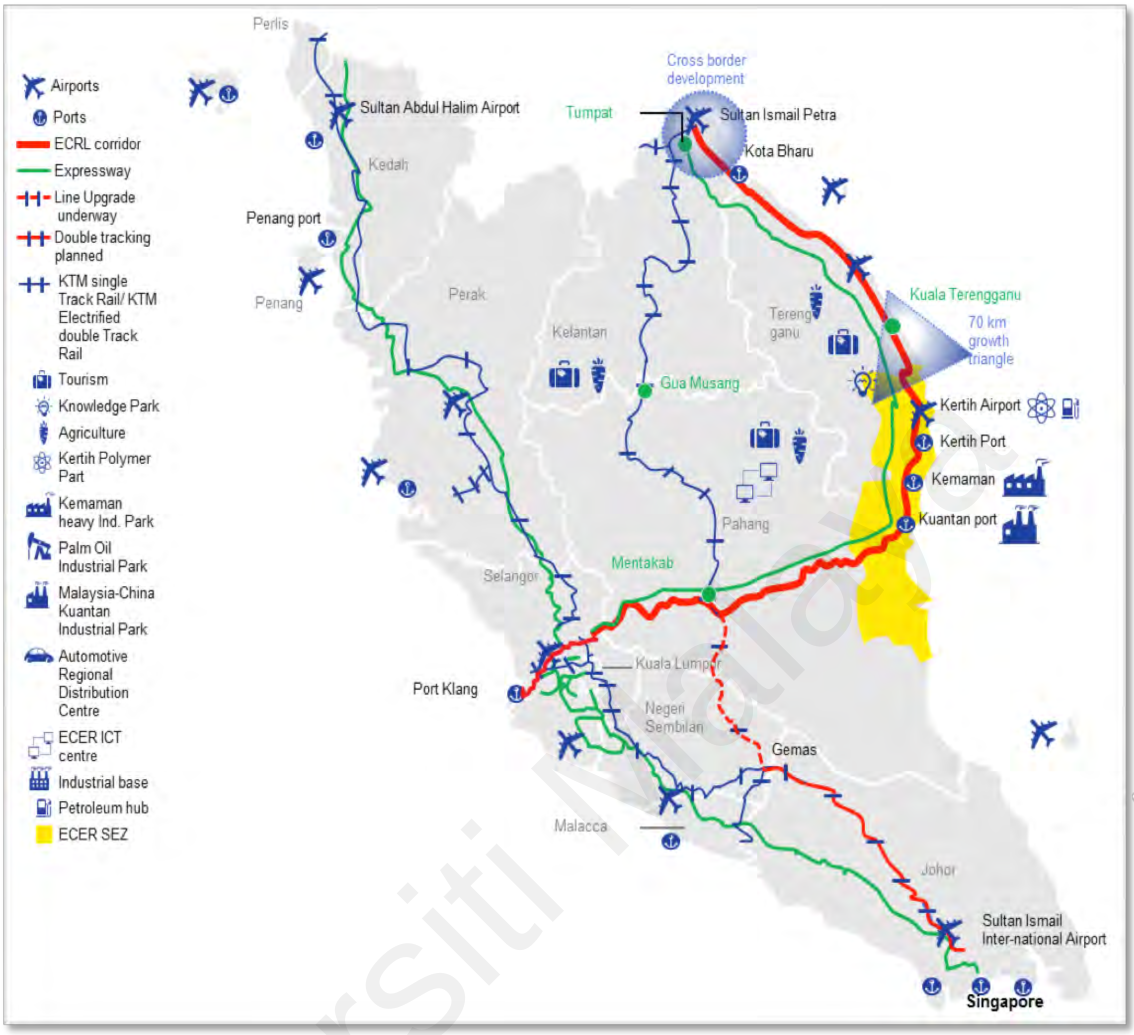
help them to use both Kuantan Port and Port Klang more efficiently. In addition, ECRL was expected to create 220,000 new jobs opportunity, due to spillover effects. It will add 1.5 per cent to the GDP, when the project is fully completed (Kana and Kaur, 2017).

However, other issues were not addressed by the government. For example, the problem of potential "traffic leakages", due to the travelling convenience associated with the use of the newly-completed East Coast Expressway. This could create competition for traffic flows and lead to the under-utilisation of ECRL. Figure 4.4 indicates that the alignment of ECRL in red is almost similar to that of East Coast Expressway in green, which in turn acts as an alternative route for end-users. The overall financial impact and commercial viability of ECRL was also not revealed, despite having an extremely high construction cost. As discussed, MRL only reported 85 per cent of the RM55 billion construction cost would be financed by a 20-year soft loan from the EXIM Bank of China, with 3.25 per cent interest, and a seven year moratorium period. It also reported that the remaining 15 per cent of the cost would be funded through an Islamic *Sukuk* programme, jointly managed by Maybank, RHB Bank, and CIMB Bank, all GLCs (Kana and Kaur, 2017).

The Opposition had been urging the government to release the feasibility study completed by HSS in December 2015, the EPCC contract signed between MRL and CCCC, as well as the "financing framework agreement"[65] signed between MRL and EXIM Bank of China in November 2016 respectively. This would help the public understand better the cost and benefit analysis of this project. However, the Opposition could not get any response from the government, even until GE14 was held.

[65] While the "EPCC contract agreement" was signed between MRL and CCCC, the "financing framework agreement" was signed between MRL and EXIM Bank of China for RM55 billion. This amount included other costs, like the bailout of 1MDB's debts with IPIC, purchase of shares in PPB and LLCB, miscellaneous public relations (PR) fees, etc., in addition to the actual EPCC cost offered by CCCC, which was revealed by *Sarawak Report* to be approximately RM29 billion.

Figure 4.4 Proposed Construction Alignment of East Coast Rail Link



Source: Suruhanjaya Pengangkutan Awam Darat (SPAD) (Land Public Transport Commission)

Meanwhile, the construction of ECRL had already started in August 2017, after the ground-breaking ceremony officiated by Najib. Phase 1 was targeted for completion in 2024, but was delayed. It aimed to create 8,000 and 6,000 job opportunities during both the construction and operational stages respectively. Technical collaborations between a Chinese University and nine local corporations were already ongoing. It intended to train 3,600 Malaysian students to become rail construction and operation specialists. Once graduated, they could either be employed by MRL as rail operation specialists or work under CCCC and its umbrella of sub-contractors as rail construction specialists. This was to facilitate technology transfer from China to Malaysia.

4.1.7 LPE-TCE Collaboration in ECRL

The thematic discussions below outline key reasons provided by industry experts, analysts, senior company officials, and politicians, who were interviewed for this project. They highlight why LPEs like Najib, Jho Low, and Rahman collaborated with Chinese TCEs like CCCC and EXIM Bank of China to implement the ECRL. This LPE-TCE link led to the nexus of "federal LPEs in alliance with national Chinese TCEs", as a novel SBR created for this project. A crucial outcome of this particular SBR, from a growth-enhancing perspective, will be further analysed in Chapter 5: Section 5.2.

<u>Promoting Economic Development in ECER</u>

ECER was a regional economic development initiative launched by the Abdullah administration in 2007. The government then considered the ECRL a key transportation infrastructure for ECER, in order to bridge the economic divide between the east and west coasts of the peninsula. It would stimulate investments, spur commercial activity, facilitate education, and boost tourism in ECER. Furthermore, it would lower transportation costs between the east and west coasts, bring down prices of goods, reduce travel time, and improve road safety.

Implementation of ECRL would open ECER to more Chinese investments in manufacturing, particularly in MCKIP. This would help improve the economic well-being of Kelantan, Terengganu, and Pahang. One analyst, who spoke on condition of anonymity, argued that UMNO probably wanted to use this BRI project to penetrate further the hearts and minds of rural Malays in the three under-developed east coast states[66]. This was because the GE14 was then around the corner, and UMNO wanted to win back control of Kelantan, a longstanding stronghold for the opposition Pan-Malaysian Islamic Party (PAS).

Stimulating Speedy Economic Recovery amid 1MDB Scandal

Between 2014 and 2016, the Malaysian economy was extremely sluggish. Being in a comprehensive strategic partnership with China since October 2013, Malaysia naturally welcomed BRI projects in the region. Meanwhile, Chinese SOEs were strongly encouraged by CCP to play the role of TCEs to expand their market overseas under the BRI, amid an economic downturn and excess production capacity at home in early 2015. There was clearly a strategic fit for both countries to implement the project. Malaysia was at the right time and place to secure a much-needed soft loan from China for ECRL, amid the 1MDB scandal.

According to a reliable source from CCCC's Malaysia office, who spoke on condition of anonymity, China was fully aware of the 1MDB's financial mess[67]. Through the state-owned CCCC, acting as TCE and closely monitored by CCP, they then seized the opportunity to work with different LPEs closely linked to UMNO, to implement ECRL on a direct-negotiation basis. State-owned EXIM Bank of China was instructed to provide a huge soft loan with an attractive interest rate as an added catalyst. The loan came with specific terms and conditions tailored to the Malaysian government's needs, which was essentially based on a much-inflated cost to rescue 1MDB.

[66] The interview was done in September 2017.
[67] The interview was done in September 2017 with a senior staff, among the top three in CCCC Malaysia.

Re-building Elite Unity

The core issue in the 1MDB scandal was rooted in the RM2.6 billion transferred to Najib's personal bank account in 2013. It was, according to Najib, meant for distribution as political funds in GE13 (Wright and Clark, 2015). However, this disclosure led to a feud between him and his deputy, Muhyiddin Yassin. The situation became worse when Muhyiddin was expelled from UMNO for openly criticised Najib. This feud created deep resentment among UMNO leaders, causing it to split into two rival factions. In order to curb further elite contestations, Najib desperately needed borrowings from China to rescue 1MDB, as well as fend-off further attacks by rival UMNO elites and the Opposition, thus maintaining regime stability before the GE14.

Despite the initial setback of the 1MDB scandal, one analyst, who spoke on condition of anonymity, observed that there were still a few dominant LPEs at the federal level, namely Najib, Low, and Rahman, who remained in close interaction. They moved to unite and responded to the rapid rise of China's BRI investments in the region, thus securing a huge soft loan for ECRL in November 2016[68]. Aiding them was Low's close association with Koay Teng Keong, a Malaysian Chinese adviser at CCCC Malaysia (Kharie, 2018).

Koay, a veteran construction industry executive, was once an executive director of a publicly-listed construction firm, Gadang Holdings Berhad, from 1997 to 2009. Koay is also the father-in-law to Jerome Lee Tak Loong, who was once an investment director at 1MDB and a non-executive director in PPB, a company closely linked to Low (Kharie, 2018). A local contractor, who spoke on condition of anonymity, confirmed that Lee was occasionally seen around the MRL office. Local contractors bidding for subcontract

[68] The interview was in October 2017 with a political analyst, who spoke on condition of anonymity.

works in ECRL revealed that they had held meetings with Lee at this office. At these meetings, Lee told them that they needed to go through him, if they wanted to get subcontract works[69]. In addition, CCCC was closely linked to George Kent as JV partners for the MRT2 system works. George Kent's major shareholder, Tan Kay Hock, was Najib's personal friend and golfing partner (*The Star*, 6 December 2014).

According to another source from CCCC's Malaysia office, who spoke on condition of anonymity, Low appeared to have met with CCCC's top management and the State-owned Assets Supervision and Administration Committee (SASAC)[70] in Beijing on several occasions[71]. At these meetings, they discussed specific terms and conditions for funding of the project. After Low found that ECRL was in line with China's BRI policy, he promptly advised Najib to influence other cabinet ministers like Rahman to push through the deal. On the other hand, one industry expert, who spoke on condition of anonymity, argued that CCCC might have leveraged on the experience of its local Malaysian office[72], to familiarise itself with the behaviour of LPEs, operating in Malaysia long-institutionalised political business environment (Gomez, 1994).

The so-called financing framework agreement between MRL and EXIM Bank of China hatched by Low was primarily meant to cover both the actual construction cost and the bailout of 1MDB's debts. Hence, there was an alleged accumulation of political funds and government-generated rents in this project by Najib. In addition, this agreement also included the cost for the purchase of shares by CCCC in two unrelated construction firms,

[69] The interview was done in October 2017.
[70] The SASAC is a special commission directly under the State Council of China. It was founded in 2003 through the consolidation of various industry-specific ministries. Following an economic reform, nearly half of China's SOEs were sold in the form of stocks. SASAC is responsible for managing the remaining SOEs, including appointing top executives and approving mergers or sales of stock and assets, as well as drafting SOE-related laws. As of 2017, SOEs controlled by SASAC had combined assets of RMB161 trillion (US$26 trillion), revenue of more than RMB23.4 trillion (US$3.6 trillion), and an estimated stock value of RMB50 trillion (US$7.6 trillion), making it the largest economic entity in the world.
[71] The interview was done in September 2017 with a senior staff, among the top five in CCCC Malaysia.
[72] The interview was done in September 2017.

PPB and LLCB, allegedly linked to Low, for US$244 million and US$71 million respectively. It appeared there was close cooperation between different LPEs to use PPB and LLCB as conduits to off-load shares to an unrelated company nominated by CCCC. This was apparently part of a complex deal to benefit certain LPEs, while there was evident accumulation of personal wealth by Low.

In essence, through the close interaction of just a few dominant LPEs (Mills, 1956), which was not apparent to those outside their "inner circle" (Useem, 1984), they managed to create a specific SBR to secure a huge soft loan from China at a much-inflated cost for ECRL. Evidently, there was elite-level unity (Mills, 1956) among these different LPEs that included Najib, Low, and Rahman, who represented the interest of Malaysia on the one side, to collaborate with Chinese TCEs like CCCC and EXIM Bank of China, who represented the interest of China on the other side, to implement the project jointly. However, the close collaboration between them on a non-transparent basis became a big issue, when there was alleged rent-seeking behaviour in the form of accumulation of political funds and personal wealth. The much-inflated cost primarily to rescue 1MDB had rendered the critical transportation link to the three east coast states to be commercially not viable, which had major economic and political implications for Malaysia. These crucial issues will be analysed further in Chapter 5: Section 5.4.

4.2 MELAKA GATEWAY

4.2.1 Project Background

Melaka is historically rich in culture, primarily due to a myriad of influences from the East and West. Besides Penang, Melaka is home to one of the two UNESCO-listed heritage sites in Malaysia (*The Star Online*, 23 September 2013). The main economic activities of Melaka included tourism and manufacturing. Melaka Gateway was originally planned by the government to be a high-yield international tourism project under the Economic Transformation Programme (ETP), launched by Najib in 2010. The ETP aimed to propel Malaysia towards a high-income nation by 2020 (MIDA, 2017).

In September 2010, KAJ Development Sdn. Bhd. (KAJD), a little-known, but politically well-connected, local contractor-cum-developer, managed to secure a concession from the Melaka state government, then led by state's Chief Minister Ali Rustam, to become the master developer for Melaka Gateway (Yeong, 2014).

In February 2018, a search with the Companies Commission of Malaysia (CCM) revealed that KAJD was only incorporated in 2007. It was majority-owned by Malaysian Chinese business elite, Siow Yoke Foong, also known as Michelle Ong, and her husband, Dr. Ong Tun Tse, an ear-nose-throat (ENT) specialist based in Johor. In 2014, the authorised and paid-up capital of KAJD was RM10 million and RM2 million respectively, with its shareholding structure as indicated in Table 4.1. Interestingly, one Bumiputera Malay, M. Yahya A. Hamid[73], also owned 0.04 per cent of shares in KAJD.

Table 4.1 Shareholding Structure of KAJD as of 31 December 2014

Name of Shareholders	Nationality	Date of Birth	No. of Shares	Percentage (%)
Siow Yoke Foong	Malaysian	01-12-1959	6,000,000	60
Dr. Ong Tun Tse	Malaysian	08-02-1953	3,997,499	39.96
M. Yahya A. Hamid	Malaysian	10-03-1955	2,501	0.04

Source: Companies Commission of Malaysia (CCM), February 2018

[73] An interview was done in October 2017 with one key MCA politician at the state level, who spoke on condition of anonymity. He claimed that Yahya was a proxy for Najib in KAJD. However, this information had yet to be supported by any documentary evidence.

4.2.2 Michelle Ong, KAJD and Melaka Gateway

Since 2007, the little-known KAJD controlled by Michelle Ong had been expanding its businesses into various segments of the state's economy. As of February 2018, KAJD was managing the Melaka Zoo and Melaka Bird Park, appointed by the UMNO-led state government. The company was also involved in the cleaning, landscaping, and beautification of Malacca River (Yeong, 2014). Based on KAJD's company profile in 2018, major construction projects undertaken by the company in Melaka included hotels, an amphitheatre, and condominiums, with the latest attraction being the "Malaysia Eye", to be erected under Phase 1 of the Melaka Gateway project.

KAJD first ventured into the property development business at the state level through the rehabilitation of commercial and residential properties in Pulau Melaka, located just next to the proposed Melaka Gateway project. Tasked by the state government, the company successfully completed over 1,400 units of strata shop lots, offices, and apartments. KAJD was the developer-cum-turnkey contractor responsible for the refurbishment, construction, marketing, and sales of the project.

After successfully rehabilitating Pulau Melaka, coupled with the experience of developing and managing numerous theme parks and tourism projects in Melaka, KAJD appeared to have gained the confidence of the UMNO-led state government under state's Chief Minister Ali Rustam[74]. The company then continued to be appointed as the master developer-cum-concessionaire for Melaka Gateway on a direct-negotiation basis, given that the project was considered as an "extension" to Pulau Melaka.

[74] The interview was done in October 2017 with one key UMNO politician at the state level, who spoke on condition of anonymity.

In February 2018, however, a search with CCM revealed that the financial performance of KAJD, for year ending 31 December 2014 (which was only tabled by the company to CCM almost three years later, on 8 August 2017), surprisingly was not impressive. It recorded an annual revenue and loss of RM6.4 million and RM6.9 million respectively (see Table 4.2). An important question then emerged, as to why a little-known and financially non-performing local developer like KAJD was selected by the Melaka state government to develop Melaka Gateway. This implied that the state government had failed to consider GLCs or leading Malaysian developers[75] with the relevant track record and required financial capacity to undertake such a massive project.

Table 4.2 KAJD Financial Information, 31 December 2014

Balance Sheet		**(RM)**
Non-Current Assets	:	8,487,328.00
Current Assets	:	46,662,148.00
Non-Current Liabilities	:	250,095.00
Current Liabilities	:	56,660,914.00
Share Capital	:	2,000,000.00
Reserves	:	0.00
Retained Earning	:	-3,761,533.00
Minority Interests	:	0.00
Income Statement		**(RM)**
Revenue	:	6,457,073.00
Profit/(Loss) Before Tax	:	-6,895,987.00
Profit/(Loss) After Tax	:	-6,930,489.00
Net Dividend	:	0.00
Minority Interests	:	0.00

Source: Companies Commission of Malaysia (CCM), February 2018

A reliable source from Sinohydro's Malaysia office, who spoke on condition of anonymity, claimed that Michelle Ong appeared to have close ties with key UMNO elites

[75] Local GLCs and leading private developers like UEM Sunrise, Sime Darby, S P Setia, IOI Property, Sunway, Mah Sing, Eco World, etc., are well-known in the Malaysian property development sector, with the relevant track record and financial capacity available to undertake such a massive project.

at the state level[76]. It seemed that Ong was acting as a proxy for them, implementing Melaka Gateway on their behalf, based on mutual benefit. On the other hand, he also claimed that Ong appeared to have close ties with key political elites in the Malaysian Chinese Association (MCA), an ethnic Chinese component party in the BN coalition government, at both federal and state levels.

Despite being speculated as closely linked to the Malay-based party, a search with CCM and KAJD's company profile in February 2018 revealed that the company was still a local entity majority controlled and managed by Malaysian Chinese professionals. There were a few Bumiputeras on its board of directors and key management staff, as indicated in Table 4.3.

Table 4.3 KAJD Board of Directors and Key Management

Name	Title of Designation
Yahya Hamzah	Chairman
M. Yahya A. Hamid	Director/Non-Executive Director
Michelle Ong @ Siow Yoke Foong	Director/Chief Executive Officer (CEO)
Dr. Ong Tun Tse	Director/Executive Director (ED)
Christie Siow	Director/ED
Dr. Siow Seng Choon	Director/ED, Special Projects
Ng Choi	ED, Development & Commercial
Yong Kiang Keen	Chief Operating Officer
Lim Kiam Teng	Chief Financial Officer
Bernard Siow	Director, Financial Strategy
Jamil Arshad	Director, Technical & Regulatory Compliance
Dr. Hasbullah Zakaria	Director, Government Affairs
Mike Willie	Operations Director, Marina
Audrey Lee	General Manager, Corporate Services
Stanley Kow	General Manager, Project Management
Izahar Hamidon	Head, Strategic Investment

Source: CCM & KAJD's Company Profile, February 2018

In September 2013, three years after securing the concession, KAJD obtained the relevant approvals to develop Melaka Gateway from both state and federal governments (Yeong,

[76] The interview was done in November 2017 with a senior staff, among the top three in Sinohydro Malaysia.

2014). In February 2014, during an official launch of the project master plan by then Prime Minister Najib Razak, KAJD announced that it had identified several foreign investors for the project. These included those from Singapore, South Korea, the United Arab Emirates (UAE), Australia, and the US. They were interested to undertake the development of commercial, residential, entertainment, and cruise components of Melaka Gateway (Yeong, 2014).

However, most of these proposed FDI fizzled out after further discussions. This incurred the wrath of Idris Haron, one key UMNO elite at the state level, who was then the state's Chief Minister, newly appointed in June 2013 to replace Ali. Idris had stated in his inaugural speech that he was serious about developing the state to become a "nautical gem" of this region (Murali, 2014 & 2015). Hence, he could not tolerate any hiatus in the proposed developments of Melaka Gateway.

4.2.3 Idris and Melaka Gateway

Idris was born in Asahan, Melaka, in 1966. He graduated with a Bachelor of Science's degree in Electrical Engineering from the University of Texas at El Paso in the US in the early 1990s. Idris became a Member of Parliament at the federal level from 2004 to 2013 and appointed as a Deputy Minister in the UMNO-led government in 2008. However, Idris left federal politics in 2013, after winning the state election in Melaka and appointed as the state's new Chief Minister. In addition, Idris was elected as a supreme council member of UMNO and became one key party elite at the state level. Meanwhile, due to his rapid rise in UMNO, Idris was speculated as someone who had the ambition to move up the party hierarchy[77]. Idris was thus serious about Melaka Gateway, as its

[77] The interview was done in October 2017 with one key UMNO politician at the state level, who spoke on condition of anonymity.

implementation would serve as an important avenue for him to raise political funds and gain the necessary support from UMNO members.

In March 2014, the new state government led by Idris promptly declared that Melaka Gateway should be recognised as a "tourism Island". This would entitle all investors for special tax incentives, free-trade economic zone, and 100 per cent foreign ownerships, accorded under the ETP as a "National Key Economic Area". In December 2014, due to Idris' leadership, Melaka successfully obtained private investments of RM4.4 billion for that year, the biggest amount ever secured in the history of the state (MIDA, 2016).

4.2.4 Chinese SOEs as TCEs

Meanwhile, due to the rapid rise of China's BRI investments in Malaysia between 2015 and 2016, Michelle Ong began to pursue Chinese SOEs as new joint venture (JV) partners for Melaka Gateway. This was shortly after the withdrawal of some potential investors from Singapore, South Korea, the UAE, and Australia. Chinese SOEs were also strongly encouraged by CCP to function as TCEs to explore new overseas market. This was in line with economic interests of both countries to implement Melaka Gateway.

In March 2015, Idris led a big delegation to Guangdong, one of the wealthiest provinces in China, for a working visit, as well as to pursue FDI for the state. This resulted in the signing of a Memorandum of Understanding (MOU) between Melaka and Guangdong to achieve a "friendly state and province" status to boost the state's economy, especially in the international tourism sector (*The Sun Daily*, 21 September 2015). A Maritime Industrial Park was also proposed for Island 4, as part of the Melaka Gateway. This Park was to be jointly developed by Guangdong Provincial Government, KAJD, and Melaka Chief Minister Incorporated, the holding company of the state Chief Minister's office.

In November 2015, when Chinese Premier Li Keqiang visited Malaysia, he reciprocated Idris' working visit to Guangdong by leading a strong team of 100 delegates to call on the state's Chief Minister. Li aimed to strengthen further bilateral trade ties and investment opportunities between China and Melaka under the BRI (Quan and Shang, 2015). This appeared to help open doors and paved the way for Chinese SOEs at both national and provincial levels to get involved in Melaka Gateway.

In September 2016, two years after the launching of the project, KAJD entered into a RM30 billion Memorandum of Agreement (MOA) with Powerchina International (Powerchina), one of the largest national-level Chinese SOEs, on a 50:50 basis. The scope of the JV comprised investment, development, and construction of Islands 1, 2, and 3, which included the tourism, commercial, residential, and maritime components of the project (*The Star Online*, 1 September 2016).

In formalising their roles and responsibilities for the JV, both parties reportedly agreed that, while KAJD would remain as the master developer and project partner, Powerchina would be fully responsible for the overall investment, development, and construction of the private-led project. This implied that KAJD's contribution to the project might not be financial. Rather, it merely acted as a landowner, who had the right over the 1,366 acres of freehold land (natural and reclaimed) allocated by the state government as economic rents. Meanwhile, it was announced that the funding of the project would be a combination of internal funds and external bank borrowings. Some of the land, especially those high-end residential and commercial components, was to be sold outright to other developers. Other parts of the project were to be jointly owned and developed with potential partners and investors.

Based on Powerchina's corporate profile in 2016, the company was a prominent SOE established by the Chinese government in September 2011. It was a merger of Sinohydro Corporation Ltd (Sinohydro), HydroChina, Sepco, and HypeC, in order to play the role of a Chinese TCE to compete with Western and Japanese giants in the international construction market. The combined group was providing a full scope of comprehensive technical services. It ranged from planning, investigation, designing, consulting, civil works construction, to M&E installation and manufacturing, in the fields of infrastructure, hydropower, thermal power, and new energy. Powerchina's business also extended into real estate, investment, finance, and O&M services.

As of January 2016, Powerchina recorded total assets of US$77.1 billion and 210,000 employees. Its annual revenue in 2015 was US$43.6 billion, with nearly 60 per cent of its business derived from overseas markets. Since its inception, Powerchina had performed 1,863 overseas projects in 116 countries, mostly in the fields of engineering and construction, design consultation, and equipment manufacturing. In 2016, Powerchina was ranked No. 200 in the "Fortune Global 500", No. 6 in the Engineering News Record (ENR)'s list of "Top 250 Global Engineering Contractors", and No. 11 in the ENR's list of "Top 250 International Engineering Contractors".

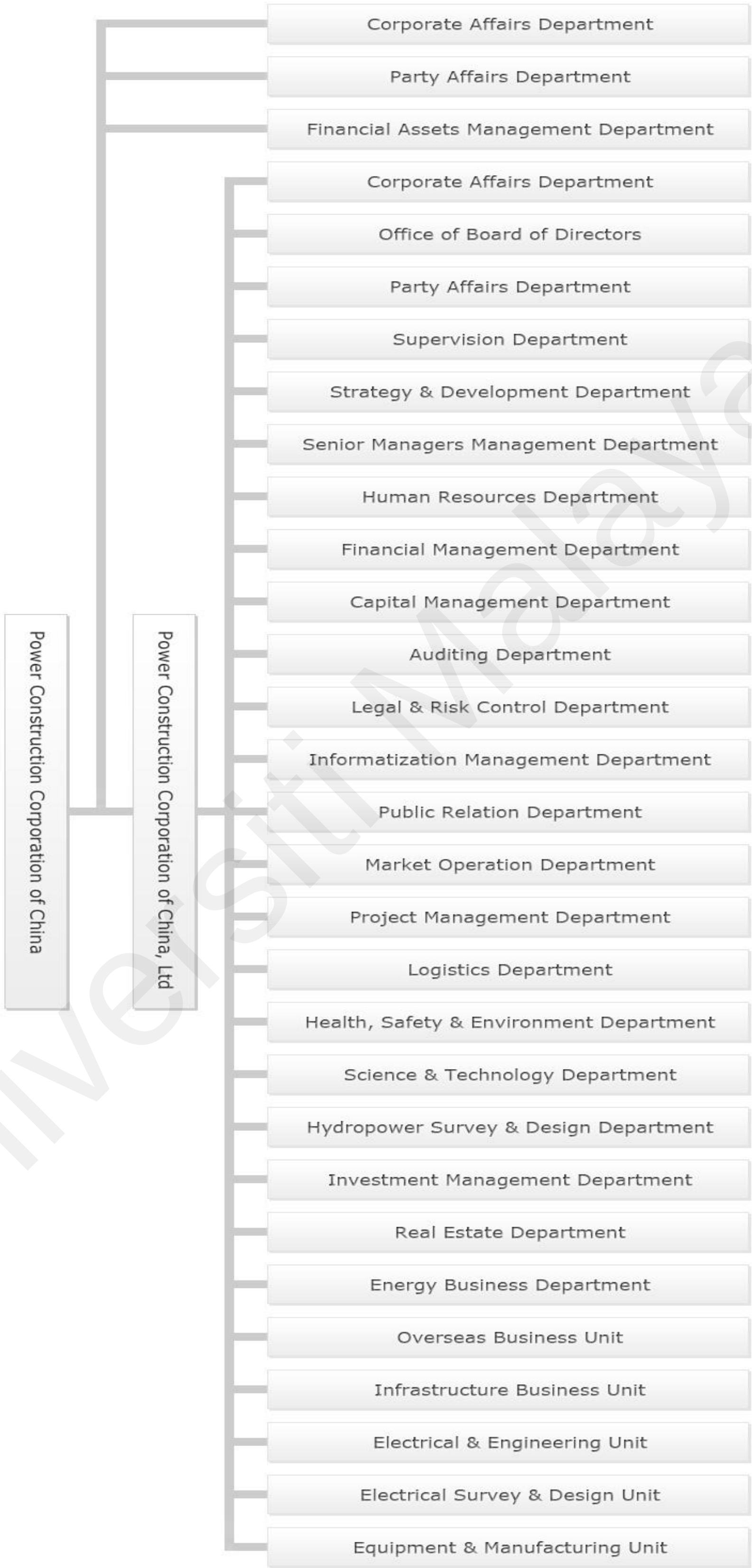
Powerchina's key subsidiary, Sinohydro, is an internationally acclaimed EPC contractor, with world-class technical capabilities in undertaking hydroelectric power plants construction. Sinohydro's operations spread over five regions, in Asia-Pacific, Africa, America, Eurasia, and West Asia-North Africa. It supervises the market development of its 116 overseas offices in 87 countries. Sinohydro is also among top Chinese SOEs with a long history in Malaysia, since the 1980s. It is actively involved in the construction of mega-infrastructure projects locally, particularly as a main civil contractor.

Major projects completed by Sinohydro in Malaysia included the 2,400MW Bakun Hydroelectric Power Plant in Sarawak[78], the New Pantai Centralised Sewage Treatment Plant in Kuala Lumpur, and the newly-established Xiamen University Malaysia Campus in Selangor. Sinohydro naturally considered Malaysia as one of its key foreign markets, with great potential for further expansion under the BRI, based on this new phenomenon of state-state-business ties. This could be done by leveraging on its parent company's huge financial resources, including in the construction of Melaka Gateway, as a main civil contractor on a direct-negotiation basis.

Figure 4.5 outlines the organisation chart of Powerchina, which indicates that it is lean, with only two layers of reporting lines between the top management and various functional departments and strategic business units (SBUs). This implies that power and authority of the group is concentrated at the top management level, a common attribute for Chinese SOEs. While the descriptions of functional departments and SBUs are quite similar to that of the Western MNCs, it nevertheless differs vastly in terms of having a unique "Party Affairs Department". It is normally occupied by key CCP officials, as part of the check and balance requirements under strong state interventions.

[78] A joint-venture between Sinohydro and Sime Darby, a local GLC, given that the project was fully funded by the Malaysian government without a soft loan from China.

Figure 4.5 Organisation Chart of Power Construction Corporation China (Powerchina)



Source: Corporate Profile of Power Construction Corporation China (Powerchina), 2016

According to a reliable source from Powerchina's Malaysia office, who spoke on condition of anonymity, the secondment of key CCP officials who had direct contact with Beijing helped tremendously in the decision-making process of the company[79]. This had facilitated Powerchina to commit huge investments in Melaka Gateway as a private-led project. This was unlike the corporate bureaucracy usually found in Western MNCs, when investments overseas were complicated or delayed by the many tiers of management functions, as well as the cumbersome corporate and statutory compliances required.

4.2.5 Melaka Gateway and Najib

In October 2016, KAJD and Powerchina suddenly entered into another MOA with two provincial-level Chinese SOEs, Shenzhen Yantian Port Group Co. Ltd. of Guangdong province (Yantian)[80] and Rizhao Port Group Co. Ltd. of Shandong province (Rizhao)[81]. The scope of this JV comprised the construction, development, and operations of the RM8 billion Melaka Gateway Port on Island 3 (*The Star Online*, 20 October 2016). However, no local GLCs or leading private firms were involved in the JV as one of the port operators.

KAJD and Powerchina claimed that they aimed to leverage on Yantian and Rizhao's technical expertise in port operations and management, as well as their extensive network of shipping lines and port alliances worldwide. An important question then emerged, as to why the UMNO-led government had allowed a few LPEs to closely collaborate with different Chinese SOEs to develop a strategic deep-sea port, which could potentially serve

[79] The interview was done in November 2017 with a senior staff, among the top three in Powerchina Malaysia.
[80] Founded in 1985, Yantian is a large-scale port industry enterprise. It is mainly engaged in port construction and operation, as well as integrated logistics and port supporting services. With total assets of RMB30 billion, its 30 affiliated companies function as a "Grand Seaport System", with the Group generating an annual profit of over RMB1.2 billion. Its annual container throughput totals 14 million TEUs, and annual cargo volume exceeds 100 million tons.
[81] Founded in 2003, Rizhao has 47 branches and subsidiaries. With total assets of RMB46 billions, the business scope of Rizhao covers four port operations, logistics & trade, construction, manufacturing, and integrated financial services. Rizhao Port was listed on the Shanghai Stock Exchange in October 2006, making it the first port company to be listed from the Shandong province. With the throughput of 335 million tonnes in 2013, Rizhao Port ranked 8th among China's coastal ports, and 11th in the world.

as a naval base. Worse still, it was not in the original master plan announced by KAJD in February 2014.

According to one analyst, who spoke on condition of anonymity, in view of China's crucial financial support for Malaysia in November 2015, namely the timely acquisitions of power assets by the state-owned China Nuclear Power from the troubled-1MDB (Chin, 2015), and also the substantial purchase of MGS to stabilise the Malaysian Ringgit, Najib wanted to reciprocate the goodwill of China. This was done by making Malaysia the earliest country in Southeast Asia to show its strong support for the implementation of BRI projects in the region[82].

Though Melaka Gateway was a private-led project, KAJD was a proxy for key UMNO elites, while Powerchina was a national-level SOE controlled by CCP; both parties had no choice but to follow instructions from leaders of the two SDPs. They had invited two experienced provincial-level Chinese port operators, Yantian and Rizhao, as JV partners for the development of a deep-sea port, in order to achieve their respective state-specific objectives. In other words, KAJD, Powerchina, Yantian, and Rizhao were mandated to implement Melaka Gateway with China's FDI as a private-led project, based on this new phenomenon of state-state-business ties of a different sort, favoured by both the single-dominant UMNO and CCP leaderships.

In October 2016, Liow Tiong Lai, then Transport Minister and a key MCA elite, officially confirmed that the tie-up between KAJD-Powerchina and Yantian-Rizhao for the Melaka Gateway Port was based on state-state-business ties endorsed by both governments. It was part of an overall port alliance agreement of 21 ports in the regional port sector

[82] The interview was done in October 2017.

entered into by Putrajaya and Beijing in 2015. This agreement would help promote bilateral trade and sea-based connectivity under the BRI, making Malaysia a regional logistics and maritime hub in the long run (Ho and Tho, 2016).

4.2.6 Liow and Melaka Gateway Port

Liow was born in Jasin, Melaka, in 1961. He graduated with a Bachelor of Science's degree in Nutrition from the Universiti Kebangsaan Malaysia in 1986. He later obtained his Master of Business Administration degree from the University of Malaya. Upon graduation, Liow joined MCA as a research assistant. He later became the press secretary and then political secretary to a former Deputy President of MCA, Lim Ah Lek, from 1989 to 1999. After two decades of steady rise in the party hierarchy, Liow was elected as MCA Youth Chief in 2005, then as a Vice-President in 2008, and later became its President in December 2013.

In 1999, Liow was elected as the Member of Parliament for Bentong in Pahang. In 2006, he was appointed Deputy Minister for Youth and Sports. Following the 12th general election (GE12) in March 2008, Liow became the Health Minister. In April 2009, Liow remained in this position after Najib assumed the sixth premiership. During the 13th general election (GE13) in May 2013, MCA suffered its worst electoral result in its entire history. This was due to a big swing of ethnic Chinese votes to the opposition. Liow himself barely survived in his seat of Bentong, winning by a mere 379 votes.

Under then MCA President, Dr. Chua Soi Lek, the party had passed a resolution that it would not take up any cabinet posts in the UMNO-led government if the party's performance in the GE13 was worse than GE12. Hence, Liow was not appointed to a cabinet position, despite winning the Bentong seat (*The Edge*, 16 May 2013). In the ensuing party election for the presidency in December 2013, Chua did not enter the contest. Liow defeated Gan Ping Sieu and Ong Tee Keat to become the new President.

Under Liow's leadership, he quickly convened an extraordinary general meeting to reverse the earlier decision by Chua. This was to allow party members to serve in the UMNO-led government. Liow contended that MCA's inclusion in the cabinet was necessary for it to serve the Chinese community more effectively. In June 2014, the cabinet was reshuffled by Najib to allow Liow to be appointed as Transport Minister. This was presumably done in the spirit of building elite-level unity among major component parties in the BN coalition, as it would help to maintain regime stability.

Immediately after, Liow began to pursue China's BRI investments in Malaysia more actively. The timing was perfect as Malaysia was going through an economic downturn in 2015-2016. It desperately needed fresh sources of FDI to stimulate economic recovery. Liow was serious about the Melaka Gateway Port and actively engaged himself at the federal level to promote this private-led project. The success of Melaka Gateway Port would then be judged as his track record as the newly-elected MCA's President, in order to impress upon the ethnic Chinese voters before GE14.

According to Liow, Malaysia was able to respond quickly to BRI projects because of the prompt action taken by both governments at the highest level (Ho and Tho, 2016). In fact, prior to that, the UMNO-led government under the advice of different LPEs had already submitted numerous port proposals for the consideration of the Chinese government. These included also other port projects in Sabah and Sarawak.

Meanwhile, in November 2015, when a port alliance agreement [83] was initiated by Liow's ministry, comprising six Malaysian federal ports[84] and ten Chinese ports[85], Chinese Premier Li quickly responded to it. He witnessed the signing ceremony between the transport ministries of both countries in the presence of then Prime Minister Najib (*Malay Mail Online*, 23 November 2015). In September 2017, another three Malaysian ports[86] and two Chinese ports[87] also committed to this agreement, making it a total of 21 ports (*The Star Online*, 6 September 2017).

Liow claimed that this agreement also aimed to promote knowledge transfer of port and container processing technology from the bigger Chinese ports to the smaller Malaysian ports. It included an advanced customs clearance system, the use of new technology to remove bottleneck and reduce paperwork to speed up trade at ports. This was because Malaysia aspired to become the regional logistics hub in the long run. He further argued that all these Chinese investments in Melaka Gateway would eventually elevate Malaysia as a prime location for international tourism, as well as for port and maritime activities in the region (Ho and Tho, 2016).

However, according to a reliable source from Powerchina's Malaysia office, who spoke on condition of anonymity, what had actually attracted the Chinese government the most,

[83] After the port alliance agreement was entered into by Putrajaya and Beijing, "The 1st China-Malaysia Port Alliance Meeting" was convened in Ningbo, China on 13 July 2016. Both parties agreed to establish the meeting mechanism for the China-Malaysia Port Alliance to strengthen communication and cooperation between ports of China and Malaysia and accelerate long-term development of the port business. Five projects under this framework were proposed, to be led by each respective port in Malaysia.

- Project 1: E-Port community exchange platform to share information database
- Project 2: Human resource training and development programs for port personnel
- Project 3: Best practices in ports and logistics industry
- Project 4: Mutual promotion efforts to support ports in both country
- Project 5: Port terminal investment, operations, and development

[84] They included Bintulu Port Authority, Johor Port Authority, Kuantan Port Authority, Malacca Port Authority, Penang Port Commission, and Port Klang Authority.

[85] They included Beibuwan Port Administration Bureau, Fujian Fuzhou Port Authority, Guangzhou Port Authority, Guangzhou Port Authority, Jiangsu Taicang Port Management Committee, Ningbo Port Company Limited, Port of Dalian Authority, Ports Administration of Shenzhen Municipality, Port & Shipping Authority of Haikou City, Shanghai International Port Group Co., Ltd, and Xiamen Port Authority.

[86] The ports included Kemaman Port, Sabah Port, and Kuching Port.

[87] The Tianjin Port and Qingdao Port.

which in turn led to its strong support for different Chinese SOEs to invest in this private-led project, was the dedicated deep-sea port[88]. It might eventually become a key component of China's strategic infrastructure projects in the region under the BRI.

4.2.7 Project Development Details

Figure 4.6 indicates that the RM30 billion Melaka Gateway was conceptualised as a premier mixed development project, set in an idyllic location to be extended from the existing Pulau Melaka (at the bottom left-hand corner). The project consists of four islands, three reclaimed and one natural, covering a total area of 1,366 acres. The specific purposes for each of the four islands were further described in Table 4.4.

Figure 4.6 Artist Impression of Melaka Gateway

Source: Company Profile of KAJD, February 2018

[88] The interview was done in November 2017 with a senior staff, among the top three in Powerchina Malaysia.

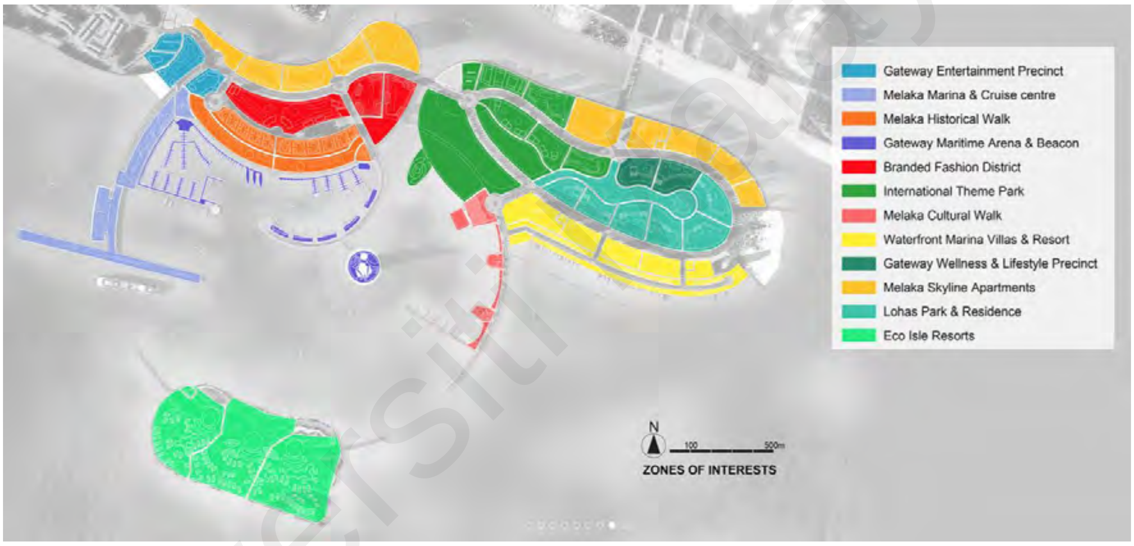
Table 4.4 Specific Purpose of Four Islands in Melaka Gateway

Name	Purpose	Description
Island 1	Tourism, Entertainment, Commercial, and Property Development (original plan)	• A waterfront lifestyle with residential apartments • Melaka International Cruise Terminal • Melaka ferry terminal catering to regional needs • Gateway marina as one of the largest private marinas in Southeast Asia • Ferris wheel, shopping mall, entertainment precincts and a world class theme park • Cultural heritage village, walkway boulevard, fashion and retail outlets • Gateway beacon tower • Health and wellness lifestyle • Education centre
Island 2	Free Trade Economic Zone (original plan)	• Serves as the premier international business and financial centre for Southeast Asia • Serves as a unique tapping point for investment and business opportunities within the region • Core of the city's economic and financial activities, e.g. banks, offshore financial institutions and trading • Waterfront residential apartments and villas • International integrated logistics services provider • Specialised business services, support and shared services • High-technology park and halal park • International zone for foreign nationals or entities
Island 3	Melaka Gateway Port (newly created)	• Strategic location along Malacca Straits • Has deep waterway of 25-30 metres • Natural island by the name of Pulau Panjang is an ideal choice for a deep-sea port facility, rather than the eco isle resorts development originally planned • Liquid cargo terminal with storage facilities, benefitting oil trading in Southeast Asia, Asian countries, Europe and the Middle East • Capable of receiving largest deep-sea vessels
Island 4	Maritime Industrial Park (newly created)	• Marine engineering & manufacturing activities (e.g. new energy vehicles, electronic communications equipment, etc.) • Container terminal and port logistics, capable of receiving vessels up to 12,000 TEUs • Bulk and break bulk terminal • Shipbuilding and ship repair services

Source: Company Profile of KAJD, February 2018

Figure 4.7 indicates that Islands 1 and 2 were originally planned in February 2014, to be reclaimed from the sea, and developed into 11 precincts. They included high-end residential, commercial, tourism, cultural, entertainment, and lifestyle components of the project. Island 3, a natural island by the name of Pulau Panjang, was initially designated as Precinct 12 in the original master plan. It was meant to be an "eco-isle resorts" development, rather than a deep-sea port, as later proposed by the Chinese SOEs. Island 4 was newly created for the Maritime Industrial Park and Break Bulk Terminal, as proposed by the Guangdong province. It was not included in the original master plan announced in February 2014.

Figure 4.7 Original Master Plan of Melaka Gateway



Source: Company Profile of KAJD, February 2018

In this regard, Island 3 inherits a deep waterway of 25 to 30 metres. One industry expert, who spoke on condition of anonymity, argued that it is an ideal choice for a deep-sea port facility[89]. According to KAJD, the port, costing about RM8 billion to construct, had been designated as a liquid cargo terminal. It would have storage facilities for liquid cargo, benefitting China's oil trading and storage activities in the Southeast Asia region. It would also serve as a regional hub for Chinese vessels to get their supplies, before continuing their voyage to the Middle East, Europe, and other destinations.

[89] The interview was done in October 2017.

Melaka Gateway Port was projected to attract 100,000 vessels annually, without having to stop by the monopoly route held by Singapore over the past centuries (Murali, 2016). It was estimated that 70 to 80 per cent of the vessels would come from China. The operations and management of the port will lead to the creation of 6,000 new job opportunities. Furthermore, the deep-sea port on Island 3 will be complemented by the newly-created Maritime Industrial Park and Break Bulk Terminal on Island 4. They will be connected by a link bridge to benefit other supporting activities, like shipbuilding, ship repair services, marine engineering, manufacturing, etc.

In October 2016, KAJD announced that the overall Melaka Gateway was scheduled for completion by 2025. Once fully operational, it is estimated to create a spillover effect of 40,000-45,000 jobs opportunities. It will also attract an additional 2.5 million tourists over a period of 12 years. It will contribute 18.5 per cent to the state's economic growth annually (MIDA, 2017).

In October 2017, Idris suddenly directed KAJD to speed up its works, as the progress of the project was way behind schedule. In particular, land reclamation works for Island 1 was supposed to be completed by 2017, but only 40 per cent was done (*The Star Online*, 4 October 2017). Idris then commented that the disappointing progress of this private-led project not only affected the state's economy in terms of domestic and foreign investments, but also tarnished Melaka's image as an international tourist destination.

4.2.8 LPE-TCE Collaboration in Melaka Gateway

The thematic discussions below indicate personal views shared by interviewees invited for this study, who were familiar with the project. They seek to explain why different

LPEs, like Idris, Liow, Michelle Ong, and Najib, were motivated to collaborate with Chinese TCEs, like Powerchina, Yantian Port, and Rizhao Port to implement the Melaka Gateway. This specific LPE-TCE link led to the nexus of "federal LPEs-state LPEs in collaboration with national Chinese TCE-provincial Chinese TCEs", as a novel SBR created for the project. A crucial outcome of this particular SBR, from a growth-enhancing perspective, will be further analysed in Chapter 5: Section 5.2.

Promoting Melaka as High-Yield International Tourism and Maritime Hub

Due to Melaka's strategic location along the Strait of Malacca (Grassi, 2020), the UMNO-led government had identified Melaka Gateway as an economically high-impact tourism, maritime, and property development hub under the ETP, launched by Najib in 2010 (MIDA, 2017). To be driven by the tourism potential of the historic Melaka, the project aimed to boost the arrival of international visitors, particularly high-yield tourists. This was to be done by providing them with world-class cruise terminal, entertainment, fashion, and hotel facilities. This required huge capital investments from the private sector, given the fiscal constraint of the state government.

The state government offered generous tax incentives, international duty-free zone, as well as 100 per cent foreign ownerships to those who wished to invest in Melaka Gateway, regardless whether local or foreign investors (MIDA, 2017). One analyst, who spoke on condition of anonymity, claimed that the "Malaysia My Second Home" (MM2H) programme had provided an added boon to high-end residential developers and expatriate home-owners[90]. Hence, it was quite natural that Melaka Gateway would attract FDI from

[90] The interview was done in October 2017.

Chinese SOEs like Powerchina that were strongly encouraged by CCP to play the role of TCEs.

Crucially too, by collaborating with local business elites like Michelle Ong of KAJD, who had close ties with key UMNO elites at both state and federal levels, Powerchina had access to good sea-front land on a freehold status for investment in high-end exclusive residential and commercial developments. These would cater to the booming tourism industry in Melaka, with a majority of tourists and property buyers expected to come from China. In addition, a natural island, Pulau Panjang, with its ideal deep natural waterway, was offered to provincial-level Chinese SOEs, Yantian and Rizhao, to develop a deep-sea port that could serve as a naval base.

Melaka had been growing its tourism sector, from 2.2 million visitors in 2000 to 12.74 million visitors in 2016 (*The Sun Daily Online*, 24 December 2016). Malaysia's tourism industry had seen a growth of 23 per cent with the arrival of mainland Chinese tourists, after the e-Visa and eNTRI programme was introduced. Malaysia had targeted to achieve eight million mainland Chinese tourists by 2020 (MIDA, 2017). Furthermore, the proposed international cruise terminal on Island 1 was expected to lead to the opening up of other cruise terminals on the east coast of the peninsula, as well as Sabah and Sarawak. This increased the potential growth of both international and domestic tourism sectors in Malaysia.

<u>Elite Feuds, Economic Problems, and 1MDB Scandal</u>

In 2016, China's BRI investments in Melaka Gateway took place at a time when Malaysia suffered from an economic slowdown amid the 1MDB scandal. Prime Minister Najib was then heavily under criticism by the Opposition and rival UMNO elites about 1MDB's huge debt burden. One analyst, who spoke on condition of anonymity, argued that it was through state-state-business ties that unflagging official support from China's top leaders for the Najib administration had somewhat subdued the impact of the 1MDB scandal.[91] This was exemplified by the timely visit of Chinese Premier Li Keqiang to Malaysia in November 2015. At the same time, he visited Idris in Melaka with a huge delegation to learn more about potential investment opportunities in Melaka Gateway (Ho, 2016). This had opened doors for Chinese SOEs at both national and provincial levels to be involved in the project. Although such support from China did not solve Malaysia's economic woes, or those of 1MDB, they provided a much-needed breathing space for the UMNO-led government before the GE14.

Nevertheless, there was a serious feud going on between Idris and Ali at the state level, since June 2013, after Idris was appointed as Melaka's Chief Minister to replace Ali. The situation became worse when the economy slowed in 2015, with UMNO also weak amid the 1MDB scandal. One key state-level UMNO politician, who spoke on condition of anonymity, claimed that Idris was among top leaders in the party who had been speculated to move up the party hierarchy, if he showed the capacity to develop Melaka. However, Idris was engaged in fierce in-fighting with Ali, who intended to wrest back the state's chief minister post from him. More specifically, Ali was also closely linked to Michelle Ong of KAJD, when the company was involved in the rehabilitation of Pulau Melaka, as well as being appointed as the master developer for Melaka Gateway in 2010[92].

[91] The interview was done in October 2017. He claimed that the timely investments by China in Malaysia Government Securities (MGS) had created a positive effect in stabilising the Malaysian ringgit currency. Such investments had also helped to alleviate fears of Western investors about the impact of 1MDB's financial exposure on Malaysia's creditworthiness. For example, Moody's, a US-based credit rating agency, subsequently announced that it did not consider the financial exposure of 1MDB would pose a "systemic threat" to Malaysia's public finances or economy (*Malay Mail Online*, 27 May 2016).
[92] The interview was done in October 2017.

Idris was serious about Melaka Gateway, as its implementation would serve as an important avenue for him to accumulate political funds and gain the necessary support of UMNO members. In order to curb further elite contestation at the state level, Najib allowed Idris to implement the project in 2016 for his own political intent to check Ali. It was done through KAJD's tie-up with Chinese SOEs, based on state-state-business ties of a different sort. This would not only help Idris to fend off threats from Ali, but also assist Najib to re-build elite unity, and gain Idris' loyalty before the GE14.

Re-building Elite Unity

According to one analyst, who spoke on condition of anonymity, the sudden withdrawal of foreign investors from Singapore, South Korea, the UAE, and Australia for Melaka Gateway in early 2015 was indeed caused by the negative sentiment of the 1MDB scandal[93]. However, a few dominant LPEs, at both state and federal levels, namely Michelle Ong, Idris, Liow, and Najib, were not discouraged by the temporary setback. In fact, Najib moved to unite ties between the state and federal levels, including by riding on the rapid rise of China's BRI investments in Malaysia, with the aid of his close cohort of political and business elites. Through political elites comprising not just Idris, but also the MCA leader, as well as business elite, Ong, the Najib administration pursued Chinese SOEs aggressively as JV partners for Melaka Gateway. This would help not just stimulate economic recovery, but served to maintain regime stability at both federal and state levels.

According to a reliable source from Powerchina's Malaysia office, who spoke on condition of anonymity, after a discussion with Chinese SOEs that were present at Chinese Premier Li's visit to Melaka in November 2015, Ong of KAJD realised that

[93] The interview was done in October 2017.

Melaka Gateway was in line with China's BRI policy[94]. Ong recognised that this private-led project was a strategic fit for both countries, as it mutually benefited them. Ong promptly informed Idris of UMNO and Liow of MCA, and both of them advised Najib to discuss further with his counterpart in Beijing, in order to implement this project jointly.

According to the same source from Powerchina's Malaysia office, after Ali ceased to be the state's Chief Minister, Ong appeared to have cultivated further ties with Idris, who in turn had the legal authority to influence government decisions on BRI projects at the state level. Likewise, Ong seemed to have close ties with key political elites in MCA, at both state and federal levels[95]. Meanwhile, Liow, then MCA President-cum-Transport Minister, had good contacts with Chinese SOEs involved in port projects.

To this end, this project was part of an overall port alliance agreement committed by Putrajaya and Beijing in 2015, where Liow's ministry had the legal authority to issue new port licenses throughout Malaysia (Ho and Tho, 2016). Najib, now desperate for new FDI sources, expected Idris and Liow to work with Ong to capture this huge investment from China. Ong, interestingly too, appeared to have close ties with Najib, through his proxy M. Yahya M. Hamid, a minor shareholder in KAJD.

Meanwhile, at that time, Najib was heavily criticised by his deputy Muhyiddin over the 1MDB scandal. Muhyiddin openly demanded that Najib explain how RM2.6 billion in 1MDB could end up in his personal bank accounts. He blamed Najib for dragging down UMNO, given that there was a "trust deficit" in him over the 1MDB scandal (Case, 2017). He warned that UMNO would lose power, if Najib did not explain the scandal to the public properly. Muhyiddin further urged Najib to step down, in order not to ruin the

[94] The interview was done in November 2017 with a senior staff, among the top three in Powerchina Malaysia.
[95] The interview was done in November 2017 with a senior staff, among the top three in Powerchina Malaysia.

chances of UMNO at the forthcoming GE14. However, this had resulted in Muhyiddin's sacking by Najib in July 2015, and subsequently his departure from the party in June 2016. Immediately after, UMNO split into two rival factions. Najib knew that his position was somewhat shaken. He then appealed to key party elites about the importance of party unity and loyalty to the leadership, in order to solidify UMNO ahead of GE14 (Case, 2017). Meanwhile, a majority of UMNO elites and warlords at the state level, like Idris, who appeared uncomfortable with the 1MDB scandal before the sacking of Muhyiddin, by now were afraid of Najib. They knew that Najib was so powerful that he could remove anyone from senior government positions. These UMNO elites and warlords had no choice but to re-build elite unity with Najib, moving also to curb further elite contestations between state and federal leaders.

However, in the public domain, implementation of Melaka Gateway on a non-transparent basis had become a big issue, with allegations of accumulation of political funds and personal wealth, particularly by Idris and Michelle Ong. One industry expert, who spoke on condition of anonymity, argued that, on the surface, this project appeared to be just a high-end tourism, maritime, and property development plan. Nevertheless, upon close scrutiny, it seemed that the UMNO-led government had allowed different LPEs to collaborate with Chinese SOEs, even to develop a strategic deep-sea port on Island 3, which potentially could be turned into a naval base[96]. This deviated greatly from the eco-isle resorts development proposed by KAJD in the original master plan.

Many questions then emerged, as to why Chief Minister Idris was willing to forego a piece of freehold land under KAJD's concession right, which was allocated for eco-tourism purposes, and allowed Chinese SOEs to develop a controversial deep-sea port

[96] The interview was done in October 2017.

that could serve as a naval base. Furthermore, the volume of shares to be owned by KAJD in this JV was unclear. Also, what would be the Chinese SOEs' scope of operations in using the deep-sea port, since the land was allocated to them on freehold status?

In response to the first question, Idris argued that the requisition for the freehold land was done in accordance with guidelines under the National Land Ordinance and the National Land Council. It was also based on the percentage of total land area to be reclaimed from the sea by the JV (Koh, 2017). More specifically, he claimed that the party who requested the land to be on freehold status was KAJD, not Chinese SOEs. In order to facilitate China's BRI investments in Malaysia, when other traditional sources of FDI from the West were drying up, Idris argued that the status of the land had to be approved as freehold. This was in addition to the provision of special tax incentives, international free-trade zone, and 100 per cent foreign ownership normally accorded to FDI for tourism projects under the ETP. He further claimed that as long as the state government still held the consent of freehold land titles, no land would be transferred to foreigners for military purposes, unless the state authority gave the final approval.

With regard to the second question on land ownership, Idris responded that one sixth of the reclaimed land for Islands 1 and 2 would be given back to the state government for free. However, he was completely silent on the ownership of natural land for Island 3. Furthermore, land to be reclaimed for Island 4 would be done in partnership between Chief Minister Incorporated of Melaka and KAJD only. He also declined to reveal the equity shareholdings between the two parties (Koh, 2017). Hence, Idris' strong support for KAJD gave rise to speculations that this little-known local private firm might just be a proxy for some state- and federal-level UMNO elites.

More questions then emerged, as to who was actually the real owner of KAJD that had benefitted substantially from such deals. Given people's concerns about the identity of KAJD's owners, one analyst, who spoke on condition of anonymity, commented that perhaps Idris should have also provided some information about Mohd. Yusof Abu Hassan [97] (also known as Yusof Soros of Melaka), the former special officer to the mayor of Melaka City. This was because he was nabbed by the Malaysian Anti-Corruption Commission (MACC) in 2017, for his involvement in illegal sand mining activities at the state level, which was under the jurisdiction of Idris, as the state's Chief Minister. In fact, it was revealed in the social media that an appointment letter was issued by Idris earlier to a specific company, jointly controlled by Yusof Soros and Mohd. Ali Mohamed to be an exclusive sand supplier for Melaka Gateway (Koh, 2017).

In essence, this point of wanting to stimulate economic recovery and unite key UMNO elites amid the 1MDB scandal had motivated just a few dominant LPEs to create a specific SBR for Melaka Gateway. They included Idris, Ong, Liow, and Najib, who represented the interest of Malaysia on the one side, to collaborate with different Chinese TCEs like Powerchina, Yantian, and Rizhao, who represented the interest of China on the other side, to implement the project jointly. However, the close collaboration between them on a non-transparent basis had become a big issue, when there was alleged rent-seeking behaviour in the form of accumulation of political funds and personal wealth. This had resulted in KAJD foregoing a piece of freehold land for Chinese SOEs to build, own, and operate a controversial deep-sea port, potentially serve as a naval base, which could have major economic and political implications for Malaysia. These crucial issues will be analysed further in Chapter 5: Section 5.4.

[97] The interview was done in October 2017. He claimed that Mohd Yusof Abu Hassan, 56, was charged in May 2017 with 11 counts of money laundering, and four counts of criminal breach of trust, involving a total amount of RM19.3 million, but he pleaded not guilty. Subsequently, MACC also seized more than RM150 million in cash, vehicles, assets, etc., and some important documents, like the sand supply exclusivity letter issued by the state's chief minister for Melaka Gateway, from him (*The Star Online*, 9 May 2017).

4.3 FOREST CITY, JOHOR

4.3.1 Project Background

More than a decade ago, Malaysia's federal government decided to implement Iskandar Malaysia, a development corridor and special economic zone, formerly known as South Johor Economic Region. This was primarily to leverage on neighbouring Singapore's fast economic growth. Iskandar Malaysia was modelled after Shenzhen in China, the neighbouring city of Hong Kong (Ng and Lim, 2017). Rising costs in Hong Kong had prompted people and factories to move out to Shenzhen in the 1990s. This in turn had transformed the latter from a fishing village to a city of 10 million people in three decades.

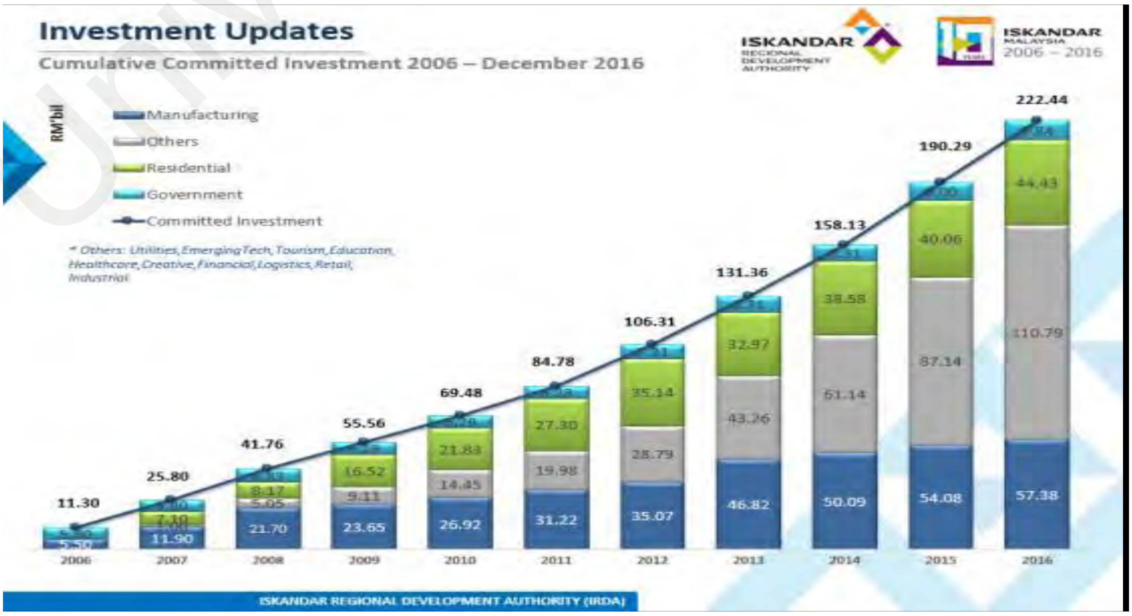
In 2006, Malaysia's sovereign wealth fund, Khazanah Nasional Berhad, was appointed by the federal government under the Abdullah administration to conduct a feasibility study for Iskandar Malaysia. It promptly unveiled a 20-year Comprehensive Development Plan (CDP), with total projected cumulative investments of RM383 billion to be secured for the specific economic zone over the next two decades. These investments were meant to develop five flagship areas, namely A) Johor Bahru City Centre; B) Nusajaya; C) Western Gate Development; D) Eastern Gate Development; and E) Senai-Skudai, as indicated in Figure 4.8. The master plan for Iskandar Malaysia was conceptualised on the basis that the five areas should be inter-connected with Singapore, through both the Johor Causeway and the Malaysia-Singapore Second Link, as well as the Singapore-Johor Bahru Ring Road, in order to form a close loop (see Figure 4.8). This would help to capitalise on the spillover effects of Singapore's fast economic growth. Since then, the amount of investments poured into the area was staggering.

Figure 4.8 Master Pan of Iskandar Malaysia, Johor

Source: Iskandar Regional Development Authority (IRDA), 2017

Figure 4.9 indicates that between 2006 and 2016, Iskandar Malaysia had attracted total cumulative committed investments of RM222.44 billion for a period of 11 years (IRDA, 2017). These investments were above the targeted amount of RM210.65 billion, as projected by Khazanah for the same period.

Figure 4.9 Iskandar Malaysia Cumulative Investments, 2006-2016

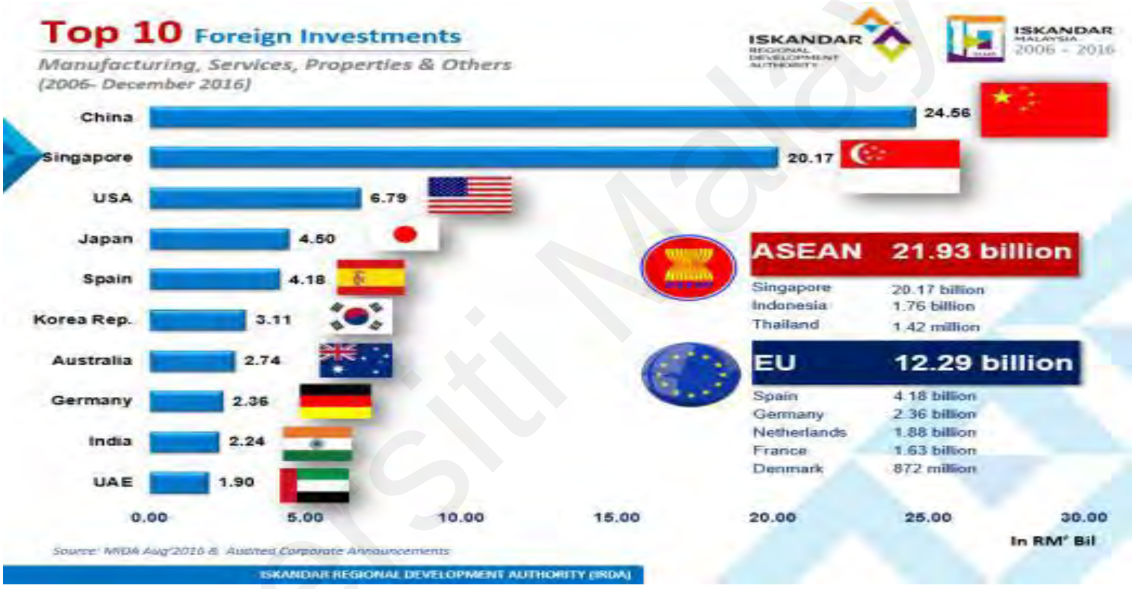


Source: Iskandar Regional Development Authority (IRDA), 2017

4.3.2 Rise of China's Investments in Iskandar Malaysia

Meanwhile, Figure 4.10 indicates that, in December 2016, China had already overtaken Singapore as the largest foreign investor in Iskandar Malaysia, with RM24.56 billion (MIDA, 2017) in cumulative investments value over the same period. These investments were mainly committed in the property development sector (IRDA, 2017).

Figure 4.10 Iskandar Malaysia Top 10 Foreign Investments 2006-2016



Source: Iskandar Regional Development Authority (IRDA), 2017

Some major land deals transacted by prominent Chinese developers within Iskandar Malaysia during the peak period of 2011-2013, with the view of carrying out property development projects in subsequent years, are indicated in Table 4.5. In particular, Guangzhou R&F Properties Co. Ltd., a Hong Kong-listed Chinese private developer, acquired four plots of vacant state land and two plots of reclaimed land, totalling 46.94 hectares, within the Johor Bahru City Centre flagship area. These state lands were bought from the Sultan of Johor in November 2013, for RM4.5 billion, or RM891 per square foot. An important question then emerged, as to why the Sultan had the right to sell prime state lands to foreign investors (*KiniBiz*, 10 June 2014). Furthermore, one analyst, who spoke on condition of anonymity, asked whether as a constitutional monarch, he should engage in commercial transactions that were in direct competition with the private sector[98].

Table 4.5 Lands Purchased by Top Chinese Developers at Iskandar Malaysia

Year	Name of Developer	Vendor/JV Partner	Land Price (RM mil)	Land Size (ha)	Location
Sept 2011	Zhuoda Real Estate	Iskandar Investment Berhad	158	7.34	Medini North
Dec 2012	Country Garden Holdings Co Ltd	Iskandar Waterfront Holdings Sdn. Bhd.	900	22.26	Danga Bay
Apr 2013	Greenland Group	Iskandar Waterfront Holdings Sdn. Bhd.	600	13	Danga Bay
Nov 2013	Guangzhou R&F Properties Co Ltd	Sultan of Johor	4,500	46.94 (4 vacant plots + 2 reclaimed plots)	Johor Bahru City Centre

Source: Extracted from The Star, 2011-2013

4.3.3 Sultan of Johor: Royal Elite

Sultan Ibrahim Ismail Ibni Almarhum Sultan Iskandar Al-Haj (Sultan of Johor) was born in 1958 of a Malay-British descent. He completed his secondary education at the Trinity Grammar School in Sydney, Australia from 1968-1970. After that, he went to *Pusat Latihan Tentera Darat* (PULADA) in Johor for basic military training, and later received further military training in the US. The Sultan also studied diplomacy and international relations, as well as attended the Fletcher School of Law and Diplomacy in Boston, Massachusetts. Subsequently, he completed courses in Southeast Asian Strategic Studies

[98] The interview was done in March 2018.

and International Laws of the Seas. In January 2010, he was proclaimed the 25th Sultan of Johor, after the demise of his father. Since then, he was often treated with a mix of respect, awe, even fear, among Johoreans (Khairul, 2014). Open criticism of him was seen as against Malay culture and traditions. Local professionals and businessmen always kept their lips pursed for fear of repercussions.

Over the last decade, with many areas in Johor undergoing land reclamation works, especially after the launch of Iskandar Malaysia, sand had become a hot commodity. A search with the Companies Commission of Malaysia (CCM) revealed that the Johor royal family was one of the biggest sand suppliers in the state (Aw, 2014). It had sand extraction business done through its wholly-owned company, Mados Sdn. Bhd. Its concessions for sea sand extraction were primarily in two areas, namely Ramunia Shoal PTD 2346 on the east and Kukup PTD 2923 on the west of Johor water respectively.

To this end, when the lucrative prime state lands were transacted in 2013 between the Sultan and Guangzhou R&F, there were growing public concerns about rent-seeking behaviour over his increased commercial dealings and business interests in Johor. The same analyst claimed that the most controversial project in the state so far would be the massive Forest City project to be driven by the Sultan with China's FDI.

4.3.4 Forest City and Chief Minister Khaled

The initial idea to develop the RM400 billion Forest City was not from the mainland Chinese side, but actually conceived by the Sultan. In November 2013, the Sultan secured the reclamation right for the 1,386 hectares of freehold land from the state government through his traditional authority. The Sultan wanted to see the development trend in Johor spreading out more evenly. This was due to the fact that most of the developments in Iskandar Malaysia, conceived by the federal government and driven by Khazanah, were concentrated on the eastern and southern parts of the state. The Sultan had some ideas to reverse this trend, by spotting a new area with great potential on the western part of Johor. He later argued that this area was an "extension" to the flagship area C of Iskandar Malaysia[99] (see Figure 4.8 and compare it to Figure 4.12).

By virtue of his status as an influential royal elite at the state level, the Sultan then invited Kumpulan Prasarana Rakyat Johor (KPRJ), a state-owned investment arm, to be his partner. They intended to look for potential investors, who could meet the necessary investment criteria like financial strength, relevant experience, etc., to develop the project jointly. Based on KPRJ's corporate profile in 2016, the company was incorporated in 1995 and wholly-owned by the state government. Over the years, KPRJ had built up a reputation as a key player in Johor's physical development. It had business activities that included property development, plantations, construction, and infrastructure.

Being a local GLC, KPRJ usually received offers from leading local developers as a strategic stakeholder in their property development projects. KPRJ currently holds a golden share in major companies like Iskandar Investment Berhad (IIB), Iskandar Waterfront Holdings Sdn. Bhd. (IWH), Iskandar Waterfront City Berhad (IWC), and Southkey City Sdn. Bhd. The chairman of KPRJ was Khaled Nordin, a key state-level UMNO elite and the newly-appointed state's Chief Minister in June 2013. Under the Constitution, Khaled was supposed to wield enormous power over land matters in Johor. This was not the case with Forest City.

[99] The interview was done in December 2017 with one key UMNO politician at the state level, who spoke on condition of anonymity.

Khaled was born in Muar, Johor, in 1958. He received his early education at Sekolah Rendah Ledang Tangkak, and later at High School Muar, before moving to English College Johore Bahru. Khaled went on to further his studies at the University of Malaya, and graduated in 1982 with a Bachelor of Law degree. Before entering politics, Khaled worked for PETRONAS, the national oil company. In the late 1980s, he worked as an adviser to Shahrir Samad, a federal minister, also a state-level UMNO elite.

In 1990, Khaled stood for general elections at the age of 31 and won the parliamentary seat of Johor Bahru. He went on to become the Member of Parliament for Johor Bahru and Pasir Gudang, from 1990-2004 and 2004-2013 respectively. In 2004, he became the Minister for Entrepreneur and Cooperative Development, and in 2008, he was appointed as the Minister for Higher Education, both at the federal level and under the Abdullah administration. After 23 years in federal politics, he moved to the Johor State Legislative Assembly during the GE13 in 2013. He won the state seat of Permas and took over the state's chief minister post from his predecessor, Ghani Othman.

4.3.5 The Tie-Up: Country Garden-Esplanade Danga 88-Forest City

Throughout 2013, the Sultan and KPRJ were actively engaging with potential investors for Forest City. The Sultan then narrowed down his choice to Country Garden Company Limited (Country Garden), a prominent Chinese private developer from Guangdong province closely linked to his business partner, Lim Kang Hoo (*KiniBiz*, 10 June 2014). In 2012, Country Garden already bought 22.26 hectares of reclaimed land at Danga Bay from IWH, a company controlled by Lim, for RM900 million, or RM376 per square foot (see Table 4.5). KPRJ was also a partner to Lim in IWH, owning about 36.87 per cent of shares in the company. The balance of 63.13 per cent was controlled by Lim, through his private vehicle, Credence Resources Sdn. Bhd.[100]

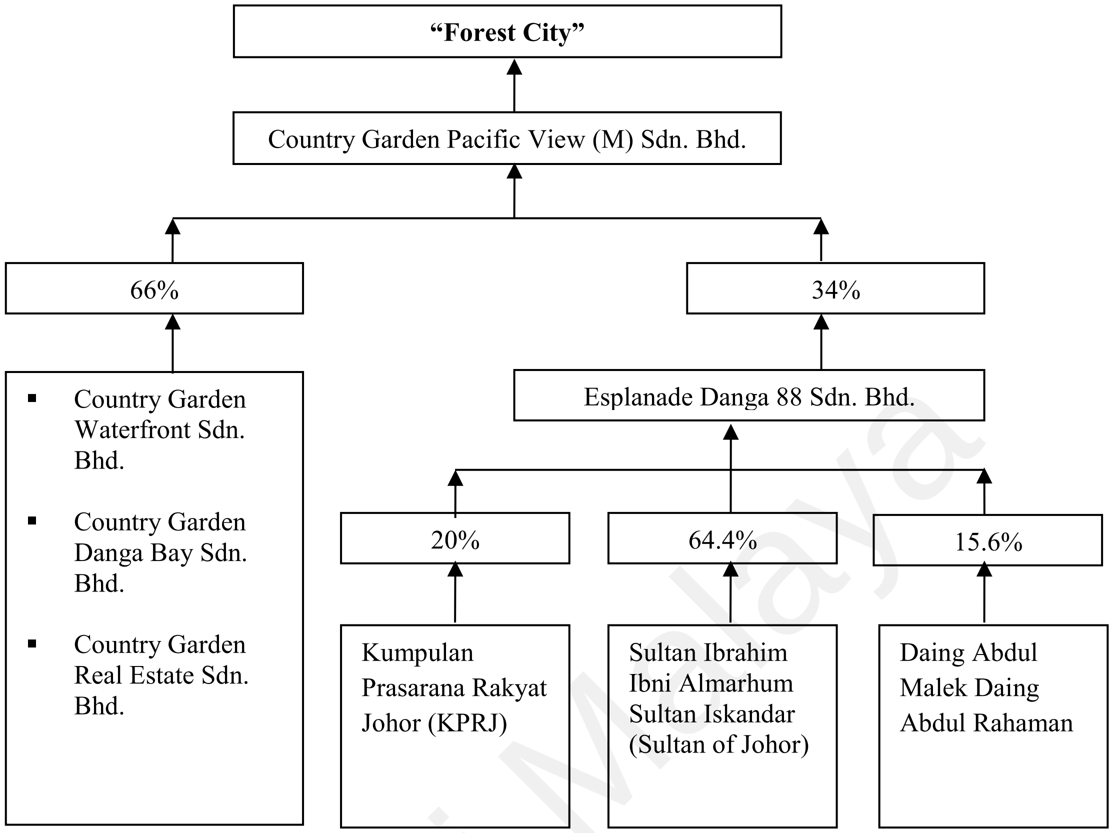
After much deliberation, Country Garden decided to tie-up with the Sultan and KPRJ to embark on yet another bigger venture than the Country Garden Danga Bay project. Hence began the story of a massive Forest City, to be developed by China, as one of the biggest smart cities in Southeast Asia under the BRI (Zhen, 2016). Country Garden claimed that it had full confidence in the Sultan, being an influential elite in the state, to render full assistance and commitment to develop the project, as and when required (Zhen, 2016).

In 2014, Country Garden and Esplanade Danga 88 Sdn. Bhd. subsequently formed a JV, known as Country Garden Pacificview Sdn. Bhd. (CGPV), on a 66:34 basis (*The Edge*, 13 October 2014), as indicated in Figure 4.11. Esplanade Danga 88 was specifically set up as an SPV for the project. However, it was only 20 per cent owned by KPRJ. The balance of 80 per cent was split between the Sultan, with 64.4 per cent, and his family friend-cum-business partner, Daing Abdul Malek Daing Abdul Rahaman (*KiniBiz*, 10 June 2014), with another 15.6 per cent. This effectively made Forest City a JV between Country Garden and the Sultan as the two dominant partners, with KPRJ and Daing holding minority stakes as co-partners to the Sultan in Esplanade Danga 88.

To this end, although Forest City was a private-public-led project, Esplanade Danga 88 and Country Garden were mandated to implement the BRI project, based on this new phenomenon of state-state-business ties of a different sort, mainly favoured by the Sultan and the CCP leadership, but with some concerns by the UMNO leadership.

[100] Based on company searches with Companies Commission of Malaysia (CCM) done in February 2018.

Figure 4.11 Shareholding Structure of Forest City, Johor



Source: The Edge, 13 October 2014.

4.3.6 Country Garden: Chinese Non-SOE

Based on Country Garden's corporate profile in 2016, the company was a mainland Chinese private developer formed in 1992 in Shunde, Guangdong. It was listed on the main board of the Hong Kong Stock Exchange in 2007. Country Garden was not a Chinese SOE, but founded by a mainland Chinese entrepreneur, Yang Guoqiang[101], who built up the company from scratch. Yang had previously worked as a farmer, and later a bricklayer at construction sites. However, in the case of China, lack of state ownership of equity of an enterprise does not imply lack of state control. In fact, large outward investments of prominent Chinese private developers like Country Garden still need state

[101] In 2005, just before the public-listing exercise of Country Garden, Yang transferred all his shares in the company to Yang Huiyan, his then 25 year-old daughter. As a result, she was declared the richest woman in Asia by *Forbes* magazine, with a net worth of US$16 billion in 2007. However, Yang still works in Country Garden and remains as its chairman and chief executive until today.

approval, rather than mere registration (de Graaff and van Apeldoorn, 2018). According to a reliable source from Country Garden's Malaysia office, who spoke on condition of anonymity, it appeared that Yang was favoured by the CCP leadership. Otherwise, Country Garden would not be allowed to venture into Forest City in a big way[102].

In terms of core business activities, Country Garden had interests in property development, construction, architectural finishes fitting, and decoration, as well as property management and hotel operations. The company was primarily involved in developing massive residential projects in China, including townhouses, condominiums, retail shops, etc. It also operated 38 five-star hotels and three four-star hotels in China. After years of expansion, Country Garden had become a global private enterprise. It began to play the role of a Chinese TCE, venturing into various international high profile property development projects, including those in Malaysia, Indonesia, and Australia.

In 2015, just eight years after its public-listing exercise in Hong Kong, Country Garden was voted one of the "Top-10 Developers in China" and a *Forbes'* "Top-30 Companies in Asia". That same year, Country Garden launched a RM1.5 billion Islamic *Sukuk Murabahah* programme in Malaysia. This programme, with a proposed tenure of 20 years, intended to raise funds for its long-term property development plan in Malaysia. Country Garden had become the first mainland Chinese developer, as well as the first Hong Kong-listed company, to tap into the ever-growing Islamic *Sukuk* market in the region.

In May 2016, Country Garden registered a market capitalisation of US$9.1 billion, ranked by *Forbes* as among the "World's 500 Largest Public-Listed Companies". In 2017, Country Garden's residential property sales had recorded RMB581 billion (US$93 billion)

[102] The interview was done in December 2017 with a senior staff, among the top five in Country Garden Malaysia.

in value, ranked number one for the first time as the top residential developer in China. It was ahead of its main competitors, like Evergrande and Vanke, as indicated in Table 4.6. To date, the company had sold residential properties to over 1,500,000 homeowners and employed about 70,000 people worldwide.

Table 4.6 China's Top Residential Developers by Contracted Sales, 2016-2017

Company Name	Contracted Sales in 2017 (RMB billion)	Contracted Sales in 2016 (RMB billion)
Country Garden	581	309
Evergrande	510	373
Vanke	502	365
Sunac	360	155
Poly China	315	210
Greenland	275	255
China Overseas Land & Investment	202	187
Longfor Properties	155	88
China Fortune	146	120
Greentown China	145	114

Source: The Guardian, 2018

While Country Garden was highly popular in China, it had just started to gain a foothold in the Southeast Asian market, primarily through Forest City, which was in line with Xi's BRI. According to Yang, if Dubai could become a sprawling city from a desert, he did not see why Johor Bahru cannot be the same. More so, the latter has such a great potential, as it is in a strategic location along the B&R routes (Wong, 2017). With an experienced eye for good locations for large-scale property development projects, Yang said he felt "really good" when he first saw the area, which is just a few kilometres away from Singapore, with property prices at least three times more expensive than that of the Forest City project.

4.3.7 Business Elites Lim and Daing

Malaysian business elite Lim was well-connected with Yang of Country Garden in the Danga Bay project. However, he was not directly involved in the Forest City project as a JV partner. In 2012, the Sultan confirmed that Lim was his close business partner during an interview with bloggers (*KiniBiz*, 10 June 2014). One analyst, who spoke on condition of anonymity, claimed that through the personal ties of Lim and Yang, in addition to the business ties of the Sultan and Lim, Yang managed to get acquainted with the Sultan. Subsequently, Yang managed to gain the confidence and trust of the Sultan, over other top Chinese developers, like Guangzhou R&F and Greenland, to be his JV partner for Forest City[103].

Although not much has been written about Lim's background, one industry expert, who spoke on condition of anonymity, claimed that Lim was born into a very poor family in Gombak, Kuala Lumpur, in 1956. Lim was also known to have little education, starting off as a rubber tapper, and later becoming a brick layer-cum-heavy machinery operator in the construction industry[104]. Coincidently, Lim's background is quite similar to that of Yang of Country Garden. This probably explained why their personal ties were so strong, reinforced further by their common entrepreneurial and elite background (Mills, 1956).

During the 1980s, Lim went on to become a civil contractor with his siblings. They undertook infrastructure works for the Federal Land Development Authority (FELDA) in Pahang, Terengganu, and Sabah, and made their fortune there. Since then, they have completed many key local infrastructure projects, establishing themselves as one of the top contractors in Malaysia. Over the years, besides controlling IWH, Lim controlled

[103] The interview was done in March 2018.
[104] The interview was done in March 2018.

other public-listed companies, namely Ekovest Berhad, Iskandar Waterfront City (IWC) Berhad, and Knusford Berhad. In these companies, he always partnered with both the state investment arm KPRJ and the Johor royal family, venturing into various segments of the state's economy. These segments included construction, highway concession, property development, and heavy machinery leasing[105].

In 2013, the Sultan's eldest son, Tunku Ismail Ibrahim, the crown prince, was appointed as chairman of Knusford, with 30.11 per cent shareholding in the company. According to the same industry expert, Lim's close business dealings with the Johor royal family started after the 1997 financial crisis. Back then, Lim took over KPRJ's debts of RM200 million, but in return he was given the lucrative land reclamation right by the state government. Consequently, IWH was formed as a public-private partnership between KPRJ and Lim to undertake land reclamation works at Danga Bay.

A reliable source in IWH, who spoke on condition of anonymity, claimed that the sand supply for all reclamation projects under the company was primarily sourced from sand concessionaires controlled by the Johor royal family[106]. As a result, IWH managed to own vast tracts of reclaimed land at Danga Bay, overlooking Singapore and centrally located at Iskandar Malaysia. It aims to transform Johor Bahru into a metropolis of the south. Since then, IWH had been selling parcels of its 1,619 hectares of prime land at Danga Bay to both local and foreign investors on a piecemeal basis (see Table 4.5).

In December 2015, Lim created major headline in the local news. His company IWH and China Railway Engineering Corporation (CREC), a national-level Chinese SOE, formed a JV, known as IWH-CREC Sdn. Bhd. (ICSB), on a 60:40 basis. ICSB aimed to enter

[105] Based on company searches with Companies Commission of Malaysia (CCM) done in February 2018.
[106] The interview was done in March 2018 with a senior staff, among the top 10 in IWH.

into a deal with 1MDB to acquire a 60 per cent equity stake in the prestigious 487 acres RM200 billion Bandar Malaysia project in Kuala Lumpur[107]. This deal was initially agreed between ICSB and 1MDB for RM7.4 billion (Razak, 2015). In June 2016, a new share sale agreement (SSA) was signed between ICSB and TRX City Berhad, another 100 per cent state-owned company under the MoF Inc.

In March 2017, Lim announced that IWH intended to take over IWC, which in turn was 26.7 per cent controlled by him, and 8 per cent owned by KPRJ (Adam, 2017). This merger scheme would see the combined IWC-IWH group as one of the biggest land owners in the region, with more than seven thousand acres of prime land in Johor. IWH held about 47.16 per cent shares in IWC, which in turn had 1,072 acres of land in Tebrau, Johor. IWH had about 3,000 acres of land in Danga Bay, which is fronting Johor Bharu and Singapore. The merger plan also entailed a proposed private asset acquisition of RM4.1 billion from four parties, including Lim and the Sultan. This would be done through issuance of new shares and redeemable convertible preference shares to the parties involved. Furthermore, IWH had planned to later inject its stake in the Bandar Malaysia project into the merged entity.

In May 2017, TRX City suddenly terminated the deal with ICSB, under the instruction of Najib. It stated that the JV had failed to meet advance payment obligations, despite having been granted repeated extensions (*The Star Online*, 3 May 2017). Immediately after, ICSB issued a statement, clarifying that it had sufficient funds and capabilities readily available to undertake the project. They were indeed complying with the terms and conditions of SSA, to ensure the smooth implementation of Bandar Malaysia (M. Hafidz,

[107] Bandar Malaysia is a mixed-use and transit-oriented development hub project located at the old Sungai Besi Airport site.

2017). In spite of this, Najib responded officially that the decision to terminate ICSB from the project was final (*The Star Online*, 18 May 2017).

The collapse of the deal naturally had a negative impact on the proposed merger of IWC-IWH, and thus the vested interests of Lim and the Sultan. This was because IWH's stake in Bandar Malaysia was considered the jewel of its crown in the merger exercise. A reliable source from CREC's Malaysia office, who spoke on condition of anonymity, claimed that CREC did not take too well to the TRX City's allegations, that ICSB was not able to make payment obligations[108]. This was because CREC was one of the largest SOEs in China, with full financial support by the Chinese government. However, according to *The Edge* (22 May 2017), Najib was quite adamant during one of the cabinet meetings in May 2017. He even stated clearly that he did not want Lim and his vehicle IWH to be involved in Bandar Malaysia, despite many attempts by high-ranking government officials to salvage Lim and CREC's position in the deal.

An important question then emerged: why was Lim suddenly out of favour, and what had he done to have aggravated Najib to that extent. According to one analyst, who spoke on condition of anonymity[109], one school of thought suggested that perhaps Najib felt not comfortable with the rise of state-level LPEs to gain a full control over a key strategic project at the federal level. This was done by capitalising on his weakness during the peak of the 1MDB scandal in 2015, when Muhyiddin and other rival elites were still in UMNO to add pressure on him. Furthermore, Lim was perceived as a close business partner to the Sultan, while Lim's IWH was 36.7 per cent owned by KPRJ, a Johor state investment arm. However, according to the same analyst, another school of thought claimed that as soon as Muhyiddin and other rival elites left the party in June 2016, Najib immediately

[108] The interview was done in March 2018 with a senior staff, among the top five in CREC Malaysia.
[109] The interview was done in March 2018.

consolidated his power in UMNO. He then used his personalised power to put all his trusted men to replace them in important positions. As a result, this had made him even much stronger in gaining back the support from key party leaders and warlords at both federal and state levels. By May 2017, Najib was so powerful that he could even ignore the influence of the Sultan on Bandar Malaysia. This was unlike in 2015, when he was so weak that he had to build elite consensus with the Sultan, and let the latter implement Forest City for his own benefit.

More importantly, Najib ruthlessly terminated the Bandar Malaysia deal without any basis. Instead, he wanted to replace CREC with Wanda, another prominent Chinese private developer from Dalian (*The Star*, 14, May 2017). He argued that Wanda had more experience and a better track record than CREC in undertaking large-scale commercial property development projects in China. Indeed, CREC was more recognised worldwide as an established contractor for high-speed rail (HSR) projects. However, one industry expert[110] , who spoke on condition of anonymity, argued that Najib changed his mind on the ICSB's deal, after Wanda was strongly recommended by his close friends, Bustari Yusof[111] and Desmond Lim[112], as the preferred developer for Bandar Malaysia.

According to a reliable source from CREC's Malaysia office, who spoke on condition of anonymity, Lim and CREC did not read Najib's move well[113]. They instead complained their grievances to then Chinese Ambassador to Malaysia, Dr. Hwang Huikang. Subsequently, Lim and CREC even went to lobby Beijing, in order to safeguard their

[110] The interview was done in March 2018.
[111] Bustari Yusof is the owner of Petra Energy, a public-listed company. He is the brother of Fadillah Yusof, Malaysia's then Works Minister. One of his companies was awarded the project delivery partner (PDP) contract for the Sarawak portion of the RM27 billion Pan Borneo Highway on a direct-negotiation basis. He was known to be one of the trusted business partners of Najib, and a close friend to Najib's wife Rosmah Mansor; both of them were colleagues many years ago at I&P, a GLC involved in property development business but later merged with S P Setia.
[112] Desmond Lim is the owner of three public-listed property development and construction companies, namely Malton, Pavilion, and WCT. His wife, Cindy Lim, was known to be a close friend of Najib's wife, Rosmah Mansor.
[113] The interview was done in March 2018 with a senior staff, among the top five in CREC Malaysia.

positions in the project. As a result, Beijing was not happy with Wanda, a prominent Chinese private enterprise, for what seemed to be a sabotage of state-owned CREC's deal in Malaysia (*The Edge*, 22-28 May 2017). Eventually, the Chinese government imposed a ban on Wanda, prohibiting it from participating in the Bandar Malaysia project. Presumably, this had incurred the wrath of Najib even more, who put all the blame on Lim, for going against his wishes in the project.

On the other hand, Daing was a key UMNO elite at the state level. He was also a close business partner to both the Sultan and Lim. Daing was known to be a long-time friend to the Sultan and his late father (*KiniBiz*, 10 June 2014). Daing was born in 1955, and graduated from the Universiti Teknologi Malaysia (UTM), with a Bachelor of Surveying (Property Management) degree in 1979. Upon graduation, Daing worked as a valuation officer under the Ministry of Finance, and attached to the Property Valuation Department in Batu Pahat, Johor. He later became a lecturer in UTM, in the Faculty of Surveying from 1979-1983, before venturing into business and politics.

Throughout his more than 30 years of experience in the business world, Daing had acquired extensive knowledge and skills in property development and construction-related fields. It included property valuation, reclamation works, and port management. He had been executive chairman of Astaka Padu Sdn. Bhd. since 2009, holding 80 per cent shares in this Johor-based property development and construction company co-founded by him in 1993. Based on Astaka Padu's company profile in 2016, it was also a major shareholder of the Singapore-listed Astaka Holdings Limited, which had a prestigious mixed development project in Johor Baru, known as the "1 Bukit Senyum". In fact, Daing had prided himself as a pioneer in Iskandar Malaysia because of another landmark project, "The Astaka". This project stands at 70-storey, consisting of 438 luxurious residential units, with a gross development value of over RM1.4 billion. It was claimed to be the tallest twin residential towers in Southeast Asia. In 2017, "The Astaka" received its topping-off ceremony to mark its completion by 2018. Surprisingly, the auspicious ceremony was graced by the state's Chief Minister, Khaled. According to one key state-level UMNO politician, who spoke on condition of anonymity, Daing was once speculated to be a potential candidate to replace Khaled as the state's chief minister, by virtue of his close ties with the Sultan[114].

Daing was also the executive vice chairman of Damansara Realty Berhad since 2014, after his company Seaview Holdings Sdn. Bhd. took over a majority stake of the company from Johor Corp Berhad, another state investment arm. From 2013-2015, Daing was also a non-executive director of Knusford, a company controlled by Lim and the crown prince. Daing had other business interests that he shared with the crown prince. These included shareholdings in Spektrum Budi Sdn. Bhd. and Spektrum Kukuh Sdn. Bhd., companies majority owned by Benalec Holdings Berhad, a Malaysian Chinese public-listed marine contractor. These companies were actively involved in land reclamation works at Pengerang and Tanjong Piai, Johor[115].

4.3.8 Project Development Details

Figure 4.12 indicates that Forest City is located near the Malaysia-Singapore Second Link. It is only about 35km from Singapore's central business district. The project consists of four islands to be reclaimed from the sea, with a total land area of 1,386 hectares, approximately three times the size of Sentosa Island in Singapore. There will be a dedicated highway connecting the four islands to the Malaysia-Singapore Second Link,

[114] The interview was done in February 2018.
[115] Based on company searches with Companies Commission of Malaysia (CCM) done in February 2018.

to facilitate quick access to Johor Bahru, Singapore, Kuala Lumpur, and other destinations in Malaysia. The total investment cost for the project was estimated at RM175 billion, arguably the single largest BRI-related investment in Johor and Malaysia so far, with a gross development value of RM400 billion, to be developed over a period of 20 years (*The Star*, 22 January 2016).

Figure 4.12 Location Map of Forest City, Johor

Source: Company Profile of Country Garden, 2018

In January 2014, land reclamation works commenced without having a proper detailed environmental impact assessment (DEIA) report in place. Hence, in May 2014, the project faced many environmental issues. The works at the junction of Singapore's and Malaysia's waters raised major concerns on both sides about its impact on the marine environment. A stop-work order was issued in June 2014. This was because the original reclaimed area allocated to the Sultan by the state government was based on a single island of about 2,000 hectares. During the planning and survey stage, however, seagrass was found in the area that needed to be preserved for the *dugong*[116]. After some studies by the technical consultant, the original single island was broken up into four smaller islands. Accordingly, total reclaimed area was also reduced from 2,000 hectares to 1,386 hectares. This would facilitate water flows in between the four islands and help to preserve the seagrass. Almost after one year of intensive technical consultation, the revised reclamation plan and the DEIA report were finally approved by the relevant authorities. In March 2015, the works re-commenced at the project site.

Figure 4.13 indicates the overall master plan for Forest City. It was designed to accommodate 700,000 people and provide 220,000 job opportunities when completed in 2035 (*Free Malaysia Today*, 6 March 2016). It focuses on sustainable development that includes residential, industrial, business, finance, tourism, culture, and entertainment components of the project

Figure 4.13 Master Plan of Forest City, Johor

Source: Company Profile of Country Garden, 2018

[116] The *dugong* is a medium-sized marine mammal. It is one of four living species of the order Sirenia, and largely dependent on seagrass communities for subsistence.

Three world-renowned consultants, namely McKinsey, Sasaki, and Deloitte, had been engaged by CGPV to provide business strategy analysis, conceptual master planning, and financial advisory services for the project respectively. Forest City will have high-rise offices, high-end service apartments and low-rise villas, high-tech industrial parks, hotels, shopping malls, international schools, golf courses, etc. It advocates the installation of environmentally sustainable planning and green building technologies, a feature not commonly seen in the Malaysian real estate sector then (Weller, 2016).

With lush green surroundings and no vehicles traversing on the ground level, CGPV intended to engage the advanced 3D multi-layered urban planning concept for Forest City. Parks and activity spaces scatter around the ground level, with only LRTs or monorails connecting the whole city. Roads, flyovers, and parking spaces were placed at two floors below the ground level, separating pedestrians from vehicles. Furthermore, the project was designed to have facades of most buildings covered with plants, creating a forest-like environment. The sky gardens and rooftop gardening system were designed to purify air, conserve rainwater, and diminish noise. In this regard, Forest City set a precedent for the construction of a green, ecological, and smart city in the region. As a result, in 2016, the project had won the "Global Human Settlement Planning and Design Award", presented by the United Nations Conference on Housing and Sustainable Urban Development.

In March 2016, the project was launched to the public, with a huge sales gallery built near the site, complete with sandy beaches and palm trees. While CGPV declined to provide the number of residential units for the project, Phase 1 comprised mainly high-end residential apartments, with average selling prices of RM1,200 (S$406) per square foot (Whang, 2016). It ranged from about RM500,000, for a 517 square feet studio unit, to about RM2.2 million, for a 1,862 square feet four-bedroom unit. However, such a steep price tag had caused some uneasiness in the Johor market. It was beyond the reach of locals, and perceived as more costly than other mature residential projects in the state.

Forest City's seemingly high selling price implied that CGPV was not targeting local buyers. Instead, one industry expert, who spoke on condition of anonymity, claimed that it was primarily focusing on mainland Chinese buyers[117]. This was because these buyers preferred to invest in Johor, rather than Singapore, due to price competitiveness. At S$406 per square foot, it was almost three times cheaper than the selling price of a similar property, just across the strait at Woodlands, in Singapore. By April 2017, 17,000 units of high-end apartments had been sold; 90 per cent of the buyers came from China (Zhen, 2017).

Meanwhile, despite the temporary setback of China's capital control measures in early 2017, which aimed to monitor the outflow of funds (Tang, 2017), surprisingly, during the same period, the progress of Forest City was not undermined. Instead, Phase 1[118] was completed ahead of schedule. Hence, Country Garden was very optimistic about the future of the project. This was because the potential growth of BRI in the region would be tremendous. In particular, mainland Chinese buyers, who intended to work, study, invest, or retire here, were attracted by the project's relatively low prices. Unfortunately, this marketing direction, whether intentionally or otherwise, had led to some severe criticism among Malaysians on the issue of freehold land and sovereignty.

Furthermore, there was no allocation of Bumiputera quota or affordable housing scheme in this project, as it fell under the newly established international zone, as designated by

[117] The interview was done in March 2018.
[118] Forest City will consist of four man-made islands. Phase 1 entails development of the first reclaimed island, while other phases include a huge industrial park. In 2019, the project had handed over more than 20,000 residential units to its buyers (*South China Morning Post*, 9 September 2019). In 2020, Country Garden said sales remained resilient and it had successfully issued three tranches of Islamic bonds (*Sukuk*) amounting to RM495 million, with AA3/Stable rating (*Free Malaysia Today*, 21 April, 2020).

the CDP. However, Ng and Lim (2017) claimed that Forest City was likely to generate a significant sources of tax revenue for the state, due to the large number of properties to be built. According to Ahmad Fairuz Othman (2017), the Johor state government was expected to earn about RM72 million from the revenue of land ownerships under Phase 1, on the basis of RM3,000 payment for each of the 24,227 lots to be sub-divided. In addition, Khaled claimed that on completion, Forest City was expected to bring in at least RM50 million of tax revenue per year for the local authority (Nabila, 2017).

4.3.9 LPE-TCE Collaboration in Forest City

The thematic discussions below based on insider information provided by industry experts, analysts, senior company officials, and politicians, who were interviewed for this project. They reveal why LPEs like the Sultan of Johor, Lim, and Daing, cooperated with a Chinese TCE, Country Garden to implement the Forest City. This LPE-TCE link then led to the nexus of "state LPEs in partnership with a provincial Chinese TCE", as a novel SBR that was created for this project. A crucial outcome of this particular SBR, from a growth-enhancing perspective, will be further analysed in Chapter 5: Section 5.2.

Iskandar: Alternative to Singapore

Iskandar Malaysia was initially planned to be like Shenzhen of China, the neighbouring city of Hong Kong, serving also as an alternative to Singapore. To this end, the Sultan claimed that Johor Bahru would become the next major city in Malaysia after Kuala Lumpur, just like New York to Los Angeles, Beijing to Shanghai, and Sydney to Melbourne (Wong and Benjamin, 2016). In addition, the Sultan strongly believed that besides Country Garden in Forest City, other big Chinese investments in Iskandar

Malaysia, like Guangzhou R&F in Princess Cove, Greenland in Danga Bay, etc. would also be key catalysts for the state's economic growth.

The Sultan then urged the state government to change its mind-set and not forever act as the backyard corridor of development for the island-state. This was because Singapore's high rental and property prices had already pushed out some offices, factories, and residents to be located in Iskandar Malaysia over the years. Meanwhile, Johor Bahru's shopping malls and amusement parks had become favourite destinations for day-trips by Singaporeans, given their strong currency advantage over the Malaysian ringgit.

In 2016, during the opening ceremony of Forest City, attended by Najib, the Sultan, Khaled, and Daing, the Prime Minister promptly announced that Forest City should be part of Iskandar Malaysia, thus recognising the project as an international duty-free zone, along with full corporate tax exemption in the first five years. There was no mandatory requirement for foreign investors to hold a specific proportion of shares in a qualified enterprise, with the balance to be allocated to Bumiputera investors. Najib also granted an "approval-in-principle" for the establishment of a dedicated Customs, Immigration and Quarantine (CIQ) unit, specifically catered to Forest City only, in order to stimulate rapid tourism development, as well as smoothen investment flows between Johor and Singapore (*The Straits Times*, 6 March 2016).

<u>Curbing Elite Contestation</u>

Nevertheless, there was a serious feud going on between Khaled and Daing at the state level, since June 2013, when Khalid was appointed as the state's Chief Minister. Although Khaled was supposed to be the most powerful political elite in Johor, he was not comfortable with another state-level leader, Daing, potentially his arch-rival competing for the chief minister's post[119]. This was because Daing was closely linked to the Sultan as his family friend and business partner, as well as a member of the Royal Court of Advisors (*KiniBiz*, 10 June 2014).

While the Sultan, as a monarch, should be above politics, with no direct involvement in UMNO's political affairs, he still had the constitutional right to pick the state's chief minister, usually one of his choice. Hence, by manoeuvring the elite contestation between Khaled and Daing, the Sultan was able to influence Khaled's position at the state level, ensuring that both of them would pledge their loyalties to him for his business interest in Forest City[120].

After the UMNO-led government lost its two-thirds majority in parliamentary seats during the GE12 in 2008 and GE13 in 2013, this SDP was severely weakened and Malay rulers started to speak out more openly on issues undermining the country (*The Edge*, 5 March 2014). In addition, due to the 1MDB scandal that was slowly surfacing in 2014-2015, the Najib administration was fiercely attacked by the Opposition and rival elites. In such a political climate, Malay rulers naturally wanted to take advantage of the situation.

In particular, they wanted to take a shot at regaining some of their powers, such as rights to state lands, veto new laws, legal immunity of royals, etc., which were curbed by the Mahathir administration in 1993. In this regard, the Sultan of Johor probably saw the vast business opportunity available to him during this crucial period, when UMNO was weak amid the 1MDB scandal[121]. Meanwhile, prominent Chinese developers also started to

[119] The interview was done in February 2018 with a key UMNO politician at the state level, who spoke on condition of anonymity.
[120] The interview was done in March 2018 with an analyst, who spoke on condition of anonymity.
[121] The interview was done in March 2018 with an analyst, who spoke on condition of anonymity.

invest aggressively in the state under the BRI. In this regard, since sand concessions[122] for reclamation works were under the purview of the state's chief minister, the Sultan naturally wanted to exert a strong control over Khaled for his own benefit. As a result, in November 2013, the Sultan successfully secured the reclamation right for the 1,386 hectares of freehold land in Forest City from the state government.

Nevertheless, the Sultan denied that he had interfered in the administration of the state led by Khaled, as widely speculated in the media. In fact, such speculation started in May 2014, when there was a public outcry over a new Housing and Real Property Board Bill initiated by Khaled (albeit unwillingly). This was because the Bill would give the Sultan sweeping executive power in the state's property development sector (*Malay Mail*, 6 June 2014). Presumably, the Sultan might want to take over some of the executive power from the state's chief minister, when reclamation works at Forest City was slapped with a stop-work order, due to some marine environmental issues. However, after the Bill was strongly objected by the Opposition, with due consideration by the Sultan, it was revised. The Bill then included an amended clause, whereby the Sultan could not act alone, but only on the advice of the state's chief minister, for matters related to the property development sector in Johor.

In October 2015, the "Conference of Rulers" also began to flex its muscle by issuing an official statement to call for a swift and transparent investigation into the 1MDB scandal. It emphasised that an "appropriate stern action" must be taken against those found to be implicated (*The Star Online*, 6 October 2015). In this regard, the Sultans' statement was not only aimed to regain their prerogatives, but also on the principle of protecting the

[122] Sand mining is governed by concession licenses issued by the Johor state government on a temporary occupation leases (TOLs) basis, with state Land Offices as the coordinating agencies. Most of these leases are within the area of coastal waters under the state jurisdiction, namely less than three nautical miles from the shore. The seabed and waters beyond this limit, up to the continental shelf boundary, falls under the federal jurisdiction. However, some of the licenses approved for sand mining by the Johor state government also include areas that should be under the federal control, thus giving rise to issues of illegal sand mining in the state.

rakyat[123] (the common people). The ceremonial rulers have traditionally been supported by a majority of rural Malays, who saw them as warrants of traditions, customs, and Islamic values. Hence, losing their mandate might accelerate the weakening of UMNO, and possibly affect the continuity of the Najib administration.

It appeared that there were elite contestations going on between the Malay rulers and UMNO led by Najib to see who would be more suitable to represent the rights of the Malay community. According to Ahmad Marthada Mohamed, then professor of politics at the Universiti Utara Malaysia, an important factor contributing to the Sultans' becoming "very vocal" was that ordinary citizens had increasingly taken to petition them to intervene in politics, though it was not allowed under the Constitution. As a result, these Malay rulers could speak out their mind without fear of retribution, unlike ordinary citizens, who might be charged if they touched on sensitive issues, like race, religion, and politics (*South China Morning Post*, 30 December 2017).

As Malaysia's economy continued to dip from 2014 to 2015, amid the flare-up of the 1MDB scandal, in early 2015, the Sultan publicly called for Najib to deal with the unstable political and economic situation. These included the free fall of the Malaysian ringgit, particularly due to the negative sentiment about the 1MDB scandal. One analyst, who spoke on condition of anonymity, claimed that the Sultan's strong statement was perceived to be a criticism of Najib, as well as an endorsement to Muhyiddin's criticism of the UMNO leader[124].

123 The interview was done in March 2018 with an analyst, who spoke on condition of anonymity.
124 The interview was done in March 2018.

In October 2015, the crown prince of Johor suddenly warned that the state had every right to secede from Malaysia, if it found a breach to the terms agreed in its membership to the Federation of Malaysia (*Free Malaysia Today*, 16 October 2015). The crown prince even uploaded to social media the Malaysia Agreement[125], concluded in 1963. According to him, under this agreement, Johor could break away from Malaysia, if its autonomy was threatened by the federal government. He went on to say that if Johor seceded from Malaysia, it would either become an independent nation, or merge with Singapore to create a "Greater Singapore".

Immediately after, two different schools of thought emerged. The same analyst claimed that, on the one hand, the displeasure expressed by the Sultan towards Najib was not really over the 1MDB scandal. Rather, it was because the Sultan wanted to add pressure on Najib for his own benefit. In particular, since Forest City was just included in the CDP for Iskandar Malaysia (*Malaysiakini,* 19 March 2015), this scare tactic could be seen as lobbying Najib to include a special CIQ for the project. On the other hand, he argued that it could be another strategy used by the Sultan to push through another BRI deal, Bandar Malaysia, due to be approved by Najib in the same year (see Section 4.3.7).

In December 2015, just a few days before the Bandar Malaysia deal was announced, the attitude of the Johor royal family towards Najib had changed completely. The Sultan suddenly pleaded with Malaysians to give Najib a chance to carry out his duties as the Prime Minister (*Free Malaysia Today,* 29 December 2015). While the Sultan admitted that there were issues to be settled, he said that the country needed to move on. This implied that Najib could have built elite consensus with the Sultan, securing an elite settlement based on mutual benefit. This would help to maintain regime stability at the

[125] This agreement combined North Borneo, Sarawak and Singapore with the existing 11 states of the Federation of Malaya in the peninsula (which gained Independence from British in 1957), with the resulting union in 1963 being named Malaysia.

state level, ensuring that Johor would still be UMNO's strong fortress at the forthcoming GE14.

In June 2016, Muhyiddin was dropped by Najib as Deputy President of UMNO, and replaced with Zahid Hamidi, a strong party leader from Perak closely aligned with Najib. There was not a single word of protest from the Sultan about the matter, although Muhyiddin was a strong party leader from Johor. The Sultan appeared to have achieved a compromise with Najib, not to interfere in state-level politics. Muhyiddin then left UMNO and joined forces with Mahathir, aligning themselves with the opposition front PH, to force Najib's ouster at the forthcoming GE14.

In April 2018, when Parliament was dissolved for GE14 to be held, the crown prince suddenly made a peculiar statement in social media. He advised the *rakyat* of Johor that "if the engine of a ship was still good, there was no need to change the ship and also the captain". He then pleaded with Johoreans to let the Sultan and him guide the captain of the ship to the right direction for the benefit of the people (*Sin Chew Daily*, 9 April 2018). Immediately after, many Johoreans responded with anger to his plead, as it implied that the crown prince was interfering in state-level politics. More specifically, he was indirectly asking Johoreans to support Najib and UMNO at the forthcoming GE14.

A few days before the Parliament was dissolved, it was reported that YTL-TH Properties JV was awarded half of the Project Delivery Partner (PDP) contract for the civil works of the Kuala Lumpur-Singapore HSR project (Intan, 2018). Interestingly, SIPP Rail Sdn. Bhd., a private company wholly-owned by the Johor royal family, appeared to be an indirect partner in the JV. Presumably, the award of the PDP contract to the JV, just before the Parliament was dissolved, could mean that another elite settlement had just been sealed by the Sultan and Najib. According to one analyst, who spoke on condition of anonymity, this could be a compensation for the failed Bandar Malaysia deal in May 2017, thus leading to the crown prince's immediate response and support for Najib and UMNO just before GE14[126].

In November 2013, when the Sultan sold six plots of prime state land to Guangzhou R&F for RM4.5 billion, it had stirred up issues of rent-seeking. This was because there were concerns that selling state lands to mainland Chinese investors was a politically insensitive move (*KiniBiz*, 10 June 2014). Ironically, IIB, the SPV entrusted by the federal government to develop "Medini Iskandar", announced earlier that it was limiting the sale of state land through a "controlled release strategy". In this regard, IIB said that the move was deemed necessary because Iskandar Malaysia was still a relatively small and fragile region. Hence, it would be too risky for the local market if Iskandar Malaysia was over-built (Khairul, 2014).

In other words, it implied that the federal-led IIB had a diverging view from the Sultan. Nevertheless, Iskandar Regional Development Authority (IRDA), the governing body that oversees and regulates Iskandar Malaysia, then co-chaired by Prime Minister Najib and Chief Minister Khaled, seemed to be very quiet about the matter. This implied that perhaps another elite settlement had been sealed by the Sultan, Najib, and Khaled. It appeared that an accumulation of personal wealth was involved in this project, by the Sultan. He was not only benefitting from the reclamation right of the 1,386 hectares of freehold land in Forest City, but also enjoying profits to be derived from CGPV as one of its dominant partners over the next 20 years.

[126] The interview was done in March 2018.

In essence, it appeared that there was elite-level unity of just a few dominant LPEs at the state level who managed to create a specific SBR to secure an FDI from China for Forest City. These LPEs included the Sultan, Lim, and Daing, who represented the interest of Malaysia on the one side, to collaborate with a Chinese TCE, Country Garden, who represented the interest of China on the other side, to implement the project jointly. However, the close collaboration among them on a non-transparent basis had become a big issue, when there was alleged rent-seeking behaviour in the form of accumulation of personal wealth. In particular, 90 per cent of the properties in this project were to be sold to mainland Chinese buyers only, potentially turning Forest City into a "foreigner's territory" in the long run, which could have major economic, political, and social implications for Malaysia. These crucial issues will be analysed further in Chapter 5: Section 5.4.

CHAPTER 5: ANALYSIS OF FINDINGS

5.1 STATE-STATE-BUSINESS TIES AND LPE-TCE LINKS

The three case studies in Chapter 4 indicate that this new phenomenon of state-state-business ties, forged by both countries for their respective business enterprises, was primarily a consequence of an interesting confluence of two major events, which took place in Malaysia between 2014 and 2016: 1) Malaysia's 1MDB scandal; and 2) the introduction of China's BRI. Though other financial scandals were also exposed concurrently, it was the 1MDB controversy that was seen as a major event, since it was labelled internationally as a kleptocracy. Meanwhile, there were other issues as well. Shortly after GE13, when Najib introduced his Bumiputera Economic Empowerment (BEE) policy, he knew that it would hamper domestic investments. Hence, there was an urgent need for him to draw in more FDI to fill the gap. In the case of Forest City, it was also much to do with FDI flows initially, rather than the 1MDB scandal, which of course acted as a catalyst later. All these events then witnessed leaders of two SDPs, UMNO and CCP, coming together to pursue their respective economic and political objectives.

However, the "state" is not a monolithic entity, as noted by Higley and Burton (1989). In practice, it consists of key actors operating at different levels. These actors have varying degrees of autonomy with different types of authority (Weber, 1922), as well as their own interests, including to attain and maintain power. In Malaysia, the empirical evidence revealed that power was not concentrated only in the single-dominant UMNO at the federal level. It was also distributed at various levels and catered to the specific power and vested commercial interests of different LPEs closely linked to the SDP. These LPEs collaborated closely with different Chinese TCEs to implement three BRI projects in

Malaysia, leading to the creation of novel SBRs, with diverse growth-enhancing and rentier-type outcomes (Lemma and te Velde, 2015). Crucial issues related to the fundamental differences of these dissimilar SBRs are discussed further in Section 5.3.

Table 5.1 summarises the rationale of state-state-business ties in shaping LPE-TCE links for three BRI projects. Unlike conventional government-to-government projects that were public-led and driven by bureaucrats, these projects implemented in Malaysia at various levels through different LPE-TCE links, based on this new phenomenon of state-state-business ties, were either public-led, private-led, or private-public-led[127] , as indicated in Table 5.1.

Table 5.1 State-State-Business Ties, LPE-TCE Links and Novel SBRs in BRI Projects

Project Name & Initiative	Rationale of State-State-Business Ties	Novel Form of SBR
East Coast Rail Link (ECRL) "Public-led"	• Federal LPEs had approached national Chinese TCEs to secure a huge soft loan for the project to promote economic growth in the three under-developed east coast states of peninsula Malaysia. • This project also catered to China's trade expansion plan in the region under the BRI, with huge cargo volumes to be transported between the South China Sea and Strait of Malacca. • This LPE-TCE link was in congruence with economic policies of both countries and favoured by UMNO and CCP leaders.	Federal LPEs in alliance with national Chinese TCEs
Melaka Gateway "Private-led"	• Federal and state LPEs had approached national and provincial Chinese TCEs to invest in the project to stimulate economic recovery and make Melaka an international tourism and maritime hub. • This project also catered to China's oil trading and storage activities in the region under the BRI, by securing the necessary energy resources. • This LPE-TCE link was in line with economic policies of both countries and favoured by UMNO and CCP leaders.	Federal LPEs-state LPEs in collaboration with national Chinese TCE-provincial Chinese TCEs

Continued

[127] These different types of project initiative were first made aware to the author during a conference in July 2019 at Sheraton Hotel, Petaling Jaya, when Prof. Edmund Terence Gomez presented his own work on China's funding and investments in Malaysia. However, for this study, they were modified slightly and determined specifically by the equity ownership of local JV partners in a BRI project.

Table 5.1 (continued)

Project Name & Initiative	Rationale of State-State-Business Ties	Novel Form of SBR
Forest City, Johor "Private-public-led"	• State LPEs had approached a provincial Chinese TCE to invest in the project to stimulate economic recovery and make Iskandar Malaysia an alternative to Singapore, just like Shenzhen to Hong Kong. • This project also catered to China's enhancement of its people-to-people relations in the region under the BRI, by creating a smart city primarily for its citizens to invest, work, study, and stay in. • This LPE-TCE link conformed to economic policies of both countries and mainly favoured by the Sultan and CCP leaders, but with some concerns by UMNO leaders.	State LPEs in partnership with a provincial Chinese TCE

Source: Author's own

In fact, this is a major finding for the study, given that this new phenomenon of state-state-business ties could create novel SBRs that were based on different types of project initiatives. They were either led by state-owned enterprises (SOEs) - referred to as government-linked companies (GLCs) in Malaysia, private enterprises, or both. In other words, these new JVs with Chinese TCEs not only involved local GLCs, but also served to secure foreign investments for little-known, but politically well-connected local private enterprises. These crucial project equity ownership issues among different local enterprises involved in the three BRI projects are discussed further in Section 5.2.

As Table 5.1 indicates, in the case of ECRL and Melaka Gateway, although one was public-led and the other was private-led, both LPE-TCE links shaped by this new phenomenon of state-state-business ties were more or less of a similar sort, though determined by two different types of SBRs that were created in Malaysia, as indicated in Section 5.2. Interestingly, both projects, when promulgated, were said to be crucial to fulfil national development objectives. In fact, it was merely an argument made by the UMNO-led government to justify their implementation, in spite of the criticisms that emerged about them. Crucially too for UMNO, these two projects were very much in line with China's BRI endeavour, as mapped out by CCP.

However, in the case of Forest City, which was private-public-led, as indicated in Table 5.1, it varied greatly from that of ECRL and Melaka Gateway. In this project, the LPE-TCE link was of a different sort, though still shaped by this new phenomenon of state-state-business ties, and in line with economic policies of both countries. More specifically, Forest City was mainly favoured by the Sultan of Johor and the CCP leadership, but with some concerns by the UMNO leadership. This was because key UMNO elites had little say in the project, given the presence of the Sultan as a key actor in the state, though a state-based GLC was involved in the project as a passive JV partner. These crucial inter-elite relationship issues among different LPEs involved in the three BRI projects are discussed further in Section 5.2.

Whether the project initiative was public-led, private-led, or public-private-led, all three BRI projects were able to take-off immediately. This was because they were specifically driven by a variety of LPE-TCE links that were shaped by this new phenomenon of state-state-business ties. This had led to novel SBRs[128] that were created in Malaysia not only in line with economic policies of both countries, but also tailored to specific power and vested commercial interests of different LPEs closely linked to UMNO at various levels.

There were clearly political factors involved, in addition to economic factors, indicating that the state needs to be deconstructed further to reveal the identity and background of these LPEs (see Table 5.2). This analysis of the state will provide insights to understand:

[128] They are termed as novel SBRs due to the important role played by different LPEs as key actors in the state to collaborate with different Chinese TCEs, based on this new phenomenon of state-state-business ties, to promote economic growth with a strong foreign state influence. These specific SBRs differ greatly from conventional SBRs under an institutionalist approach (see Schneider and Maxfield, 1997, te Velde, 2010, Sen, 2013 & 2015), as the latter usually focus on the important role played by bureaucrats as key actors in the state to promote economic growth.

1) the different types of power they had (see Table 5.3); 2) where their power was situated in the local power structure; 3) why they were influential in exerting strong control over government policy-making processes; and 4) how they had fostered state-state-business ties to create novel SBRs in Malaysia, by employing different institutional architectures that catered to their own interests, as well as for economic growth (see Section 5.2).

In this regard, the power of the "state" in SBRs can be defined as infrastructural power[129], which is determined by the underlying economic structures, policies, and organisational procedures of the state over the business sector. Likewise, the power of "business" in SBRs can be defined as instrumental power, which is determined by the influence of key business actors over other corporate enterprises, in order to set the agenda before any interaction between the state and business takes place (Fuchs and Lederer, 2007).

In fact, this is another major finding for the study, given that these two types of power in SBRs could either exist alone, or co-exist in a particular project, as indicated in Table 5.3. Nevertheless, as far as the three BRI projects were concerned, it was still this new phenomenon of state-state-business ties that determined a specific SBR to be created in Malaysia, whereby these two types of power were at play in each project concurrently.

Table 5.2 Background of Different LPEs and Chinese TCEs in BRI Projects

Name of Project	Identity and Background of Different Groups of LPEs			Name of Different Types of Chinese TCEs
	Political	Business	Royal	
East Coast Rail Link (ECRL)	• Najib Razak (UMNO, federal) • Rahman Dahlan (UMNO, federal)	• Jho Low (Jynwel Capital, federal)	No	• CCCC (SOE, national) • EXIM Bank of China (SOE, national)

Continued

[129] See Slater (2003) also for a discussion about autocratic leaders in an authoritarian regime. In particular, the enormous infrastructural power wielded by an autocratic leader could sometimes turn into personalised power, which would coerce professional bureaucrats to do dirty works for him that serve his personal interests.

Table 5.2 (continued)

Name of Project	Identity and Background of Different Groups of LPEs			Name of Different Types of Chinese TCEs
	Political	**Business**	**Royal**	
Melaka Gateway	• Idris Haron (UMNO, state) • Liow Tiong Lai (MCA, federal) • Najib Razak (UMNO, federal)	• Michelle Ong (KAJD, state)	No	• Powerchina (SOE, national) • Yantian (SOE, provincial) • Rizhao (SOE, provincial)
Forest City, Johor	• Khaled Nordin (UMNO, state) • Daing Malek Daing Rahaman (UMNO, state)	• Daing Malek Daing Rahaman (Esplanade Danga 88, state) • Lim Kang Hoo (IWH, state)	• Sultan of Johor (Esplanade Danga 88, state)	• Country Garden (Prominent private developer, provincial)

Source: Author's own

Table 5.3 Types of Power Centred on Different LPEs in Three Novel SBRs [130]

Project Name & Initiative	Novel SBR Form	Centre & Type of Power in SBR	Rationale of Centre of Power in SBR	Mix of Power for Actual Project Implementation
East Coast Rail Link (ECRL) "Public-led"	Federal LPEs in alliance with national Chinese TCEs	Najib Razak (political elite, UMNO, federal) "Infrastructural power only"	Najib's power was derived from being the hegemonic President of UMNO, as well as Prime Minister-cum-Finance Minister, with the King as the weak ceremonial head at the federal level.	Since ECRL was public-led, implementation of the project was solely dependent on Najib's infrastructural power, who decided whether to go ahead with it, and who got what.
Melaka Gateway "Private-led"	Federal LPEs-state LPEs in collaboration with national Chinese TCE-provincial Chinese TCEs	Idris Haron (political elite, UMNO, state) "Infrastructural power but co-existed with Powerchina's instrumental power"	Idris' power was consented by Najib, as he was the state's Chief Minister appointed by UMNO for Melaka, with no Sultan but an appointed governor, a weak ceremonial head at the state level.	Since Melaka Gateway was private-led, implementation of the project was dependent on Powerchina's instrumental power, though Idris' infrastructural power was still needed for authority approvals.

Continued

[130] As stated in Chapter 1: Section 1.7, the scope of this study is limited to examining the background of key actors in the three dominant LPE groups, not the Chinese TCEs. This was because different types of power in the three novel SBRs, created for the three BRI projects in Malaysia, were primarily wielded by key actors in these LPE groups, with vested economic interests at various levels.

Table 5.3 (continued)

Project Name & Initiative	Novel SBR Form	Centre & Type of Power in SBR	Rationale of Centre of Power in SBR	Mix of Power for Actual Project Implementation
Forest City, Johor "Private-Public-led"	State LPEs in partnership with a provincial Chinese TCE	Sultan of Johor (royal elite, Esplanade Danga 88, state) "Instrumental power but co-existed with Country Garden's instrumental power and Khaled's infrastructural power"	The Sultan's power was derived from being an influential ceremonial head in Johor, independent of UMNO, with Khaled as a weak chief minister at the state level.	Since Forest City was private-public-led, though implementation of the project was dependent on the Sultan's instrumental power (and also Country Garden's), Khaled's infrastructural power was still needed for authority approvals.

Source: Author's own

As Table 5.2 indicates, in the case of ECRL, it is evident that political elites Najib-Rahman and business elite Low were able to leverage on their personal network and interacted closely with each other at the federal level as just a few dominant LPEs (Mills, 1956). Their hegemonic position in the state, through Najib, helped them exert strong control over government policy-making processes. This "mechanism of elite interactions" (Mills, 1956) was fostered when Najib became Prime Minister-cum-Finance Minister in April 2009, and later also the chairman of the advisory panel for 1MDB. Low then leveraged on his personal friendship with Najib's stepson, Riza, and became a key advisor to Najib on investment matters related to 1MDB ((*The Edge*, 28 July 2016). Meanwhile, Najib was the political master to Rahman in UMNO.

On the other hand, Low was known to have a close association with a Malaysian Chinese adviser at CCCC's Malaysia office, Koay Teng Keong, whose son-in-law was once an investment director with 1MDB (Kharie, 2018). In addition, CCCC was linked to George Kent as JV partners for MRT2 system. George Kent's major shareholder, Tan Kay Hock, was a personal friend and golfing partner to Najib (*The Star*, 6 December 2014). Through such elite interactions, these LPEs could influence key aspects of how business was done, based on state-state-business ties, with Chinese TCEs, who in turn were closely controlled by CCP in their overseas market expansion drive under the BRI.

In this regard, state-state-business ties (see Table 5.1) that shaped the LPE-TCE link to create a specific SBR for ECRL were direct. They were forged by two strongmen, Najib and Xi. This had led to MRL, a federal-level Malaysian GLC, appointing a national-level Chinese SOE, CCCC, as the EPC contractor to implement ECRL, with a huge soft loan from EXIM Bank of China, another national-level Chinese SOE. In particular, the power in this SBR for the project was infrastructural-based, centred on Najib at the federal level only (see Table 5.3). This was because he was then the President of UMNO, as well as Prime Minister-cum-Finance Minister. Since ECRL was public-led, implementation of the project was solely dependent on Najib's infrastructural power, who decided whether to go ahead with it, and who got what (while business elite Low was subservient to him as his proxy).

In other words, Najib could easily buy off key party leaders and warlords, who were critical of him over the 1MDB scandal, by asking Chinese SOEs to inflate the project cost with a huge mark-up. This was also because Xi badly wanted the ECRL to go through to achieve his BRI agenda (*The Straits Times*, 1 November 2016). This SBR was thus not complicated, as it involved state-linked firms from both sides at either the federal or national level that were directly controlled by Najib and Xi. Major events leading up to the creation of "federal LPEs in alliance with national Chinese TCEs" as a novel SBR for this project, with its matrix of institutional architecture shown in Figure 5.1, are further discussed in Section 5.2.

Meanwhile, as Table 5.2 indicates, in the case of Melaka Gateway, it is evident that political elites Idris-Liow-Najib and business elite Michelle Ong were able to leverage on their personal network and interacted closely with each other as just a few dominant LPEs at both state and federal levels. This helped to exert strong control over government policy-making processes. This mechanism of elite interactions was fostered after KAJD was appointed as the master developer for the project in 2010, under the state government led by Ali Rustam. Ong then made an effort to cultivate further ties with Idris, when he replaced Ali as the state's Chief Minister in June 2013. Meanwhile, Ong also had close ties with Liow, then MCA President-cum-Transport Minister, who had good contacts with Chinese SOEs for port projects. In fact, it was the MCA that first brought in China's FDI to Melaka Gateway Port, given that Liow's ministry was in-charge of issuing new port licenses throughout Malaysia, before the project was hijacked by UMNO. Ong also appeared to have close ties with Najib, via his proxy M. Yahya M. Hamid as a minor shareholder in KAJD. Through such elite interactions, these LPEs then approached Chinese SOEs that formed part of the business delegation led by China's Premier Li Keqiang, when he visited Najib and Melaka in November 2015, to develop the project jointly (*Xinhua*, 23 November 2015).

In this regard, state-state-business ties (see Table 5.1) of a slightly different sort was forged. This LPE-TCE link created a specific SBR for Melaka Gateway that was "indirect"[131]. The link was forged by Idris, Liow, Najib, and various mainland Chinese business actors[132], who appeared to be covertly controlled by CCP. This helped a state-level local private enterprise, KAJD, to tie-up with Powerchina, Yantian, and Rizhao, national- and provincial-levels Chinese SOEs, to implement Melaka Gateway, with

[131] In the context of this study, "indirect" means that although CCP leaders were not officially present in BRI projects, they were still able to control Chinese SOEs or well-connected Chinese private enterprises covertly in their overseas venture under the BRI. In particular, well-connected Chinese private enterprises must also seek their consent before they were allowed to proceed with investing in such massive projects.

[132] It is beyond the scope of this study to examine the identity and background of these Chinese business actors.

China's FDI. The power in this SBR for the project, though still infrastructural-based, appeared to be shifted away from Najib and skewed towards Idris, as consented by Najib (see Table 5.3). Idris was a powerful state's Chief Minister, since there was no Sultan in Melaka, but an appointed governor, a weak ceremonial head. He could then decide on BRI projects for his own benefit, with Najib's consent. Nevertheless, unlike ECRL, Melaka Gateway was private-led, which implied that implementation of the project was much dependent on Powerchina's instrumental power (see Table 5.3), who decided whether to go ahead with it (while Ong was subservient to UMNO and Powerchina as their proxy), instead of relying on Idris' infrastructural power for authority approvals only.

In other words, all warring factions wanted the project to proceed, as they saw this as a tool for political financing, as well as economic growth. If Powerchina was not willing to invest, all these power plays would not matter. Hence, this SBR was not straightforward, as it involved a state-level private enterprise that was only linked to UMNO, but with national- and provincial-levels Chinese SOEs that were either directly or indirectly controlled by CCP. This made the Melaka-based SBR more complex than that of ECRL. Major events leading up to the creation of "federal LPEs-state LPEs in collaboration with national Chinese TCE-provincial Chinese TCEs" as a novel SBR for this project, with its matrix of institutional architecture shown in Figure 5.2, are discussed in Section 5.2.

As Table 5.2 indicates, in the case of Forest City, it is evident that royal elite the Sultan, business elite Lim, and political-cum-business elite Daing, were able to leverage on their personal network and interacted closely with each other as just a few dominant LPEs at the state level. This helped them to exert strong control over government policy-making processes. Furthermore, they had held interlocking equities and directorships (Mills, 1956, Useem, 1984; Mizruchi, 1996; Case, 2003; Chan, 2004) in major companies controlled by them, thus strengthening further their business positions in the state. This mechanism of elite interactions was fostered when Forest City was initially conceived by the Sultan in November 2013. He then invited his family friend and business partner, Daing, together with a state investment arm, KPRJ, whose chairman, Khaled, was the newly-appointed state's Chief Minister, to be his partners to look for investors to develop the project jointly. Through such elite interactions, these LPEs further approached the founder of Country Garden, Yang Guoqiang, who was closely linked to Lim, the Sultan's business partner in other mega-projects (like Bandar Malaysia as discussed in depth in Chapter 4: Section 4.3.7), as the co-developer for Forest City. Meanwhile, KPRJ was a key partner to Lim in IWH, the company that sold a huge tract of land at Danga Bay to Country Garden in December 2012 (see Table 4.5).

In this regard, state-state-business ties (see Table 5.1) of a vastly different sort emerged, shaped also by a specific LPE-TCE link, which led to the creation of a novel SBR for Forest City, one that was even more indirect in nature. These inter-elite links were forged by the Sultan and a mainland Chinese business actor Yang, who appeared to be covertly controlled by CCP. This had facilitated Esplanade Danga 88, an SPV formed by the Sultan, Daing, and the state-owned KPRJ, linking up with Country Garden, a provincial-level prominent Chinese private developer, to implement Forest City, with China's FDI. Interestingly too, this SBR did not involve federal- or national-level elites from Malaysia and China, as the project was run independently of them. In particular, the power in this SBR was instrumental-based (Fuchs and Lederer, 2007), and appeared to be shifted away from Najib and Khaled and skewed towards the Sultan (see Table 5.3).

In this case, the Sultan was an influential ceremonial head, with Khaled as a weak state's Chief Minister. The Sultan could decide on BRI projects for his own benefit. Nevertheless, unlike ECRL and Melaka Gateway, since Forest City was private-public-led, implementation of the project was also dependent on Khaled's infrastructural power for authority approvals (see Table 5.3), instead of relying on the Sultan's - and also Country Garden's - instrumental power only. In other words, the Sultan, who decided who got what, was obliged to include the vested interests of UMNO, via KPRJ, in Forest City, though they were subservient to him. Meanwhile, both the Sultan and Country Garden also wanted the project to go through, given the long term business gains for them.

In other words, this specific SBR was not straightforward, as it involved a state-level local private enterprise that was not only directly controlled by the Sultan, but also linked to UMNO, with a provincial-level Chinese private enterprise that was indirectly controlled by CCP. This made the Johor-based SBR far more complex than that of ECRL and Melaka Gateway. Major events leading up to the creation of "state LPEs in partnership with a provincial Chinese TCE" as a novel SBR for this project, with its matrix of institutional architecture shown in Figure 5.3, are further discussed in Section 5.2.

5.2 NOVEL SBRs, LPE-TCE LINKS, PRODUCTIVE AND RENTIER-TYPE OUTCOMES

ECRL: Nexus of "Federal LPEs in Alliance with National Chinese TCEs"

<u>Key Observation: Evolution of Conventional SBR Due to State-State-Business Ties</u>

In 2007, when an SBR was first created for ECRL, it actually started off as an invisible-hand during the planning stage under the Abdullah administration. It was driven by the ECER Development Council, with economic considerations to bridge the economic divide between the east and west coasts of peninsula Malaysia (Tay, 2016a). However, it could not take off then, partly due to fiscal constraint. In 2016, when the Najib administration made an epochal announcement that the ECRL would be revived under the BRI, based on state-state-business ties (see Table 5.1), with a huge soft loan from China, a specific SBR was created for this public-led project. It was now driven by just a few dominant LPEs closely linked to Najib. Inevitably, during implementation of the project, it evolved into one which had a grabbing-hand feature.

The political considerations surrounding ECRL commenced in 2015, when Najib was heavily criticised by his then deputy Muhyiddin over the 1MDB scandal. Although such criticism was in breach of convention of the collective responsibility of cabinet members, given that ministers airing differences in the open could turn public opinion against the government, this scandal was indeed serious for UMNO. This was because it primarily implicated Najib, with the questionable RM2.6 billion being transferred from 1MDB to his personal bank account in 2013. Presumably, it was meant for distribution as political funds in the GE13 by Najib (Wright and Clark, 2015). These corrupt practices could affect UMNO's chances in the GE14, and thus were the root cause of the problem that split key party leaders into two factions.

When autocratic leaders fail to accumulate and distribute political funds, or neglect to distribute it fairly among key party leaders, it could result in the destabilisation of their regimes. This may lead to leadership challenges or elite disunity and factionalism (Case, 1991). In the case of Najib as an autocratic leader, he did seem to be able to accumulate political funds. In fact, under him such funds were never in short supply, as evident by the generous distribution of political funds in GE13. Rather, elite contestations in UMNO started amid the 1MDB scandal, when key party leaders and warlords critical of Najib were intentionally marginalised and left empty-handed, while those supportive of him were promoted and rewarded. With no political funds available to these critical party leaders and warlords, they would then be unable to garner grassroots support before the GE14, as their supporters constantly wanted money (Welsh, 2016).

Clearly, Najib was playing games with them, aiming to remove dissenting voices in the party at the grassroots level. According to Boix and Svolik (2013), although distribution of political funds may help to promote elite-level unity, they can sometimes strain relations among key party leaders. In particular, when asymmetries in information suddenly lead to suspicions over excessive corruption, hoarding, favoritism, and other violations of shared norms.

Meanwhile, as perceptions grew more widespread over Najib's trust deficit because of the 1MDB scandal, rival elites like Muhyiddin, who saw the window of opportunity to seize power, also grew motivated. Perhaps they thought that the absolute control over the distribution of huge political funds as party president was far more important than just receiving a small portion of it (Case, 2017). Hence, this led to a serious feud between the two top leaders of UMNO in 2015. It made the political regime of this SDP unstable, one that turned into a chaotic situation. This situation became worse when there were power abuses by Najib, clearly manifested by his ruthless actions in purging Muhyiddin from UMNO in June 2016. This had resulted in widespread discontent among party members, alienating grassroots support (Case, 2017).

After Muhyiddin was expelled from the party, Najib quickly moved to unite UMNO elites to curb further elite contestations. In November 2016, he desperately needed excess borrowings from China through ECRL with a much-inflated cost to rescue 1MDB (*The*

Edge, 28 July 2016), while an avenue was created to distribute construction works to Bumiputera subcontractors potentially linked to UMNO members (*Free Malaysia Today*, 2 August 2019). This would not only help stimulate economic recovery, but also fend off further attacks by rival elites and the Opposition, thus maintaining regime stability before the GE14.

In this regard, it is evident that there was elite-level unity of just a few dominant LPEs at the federal level (see Table 5.2), namely Najib (political, UMNO), Rahman (political, UMNO), and Low (business, Jynwel Capital), to drive this specific SBR, and secure a huge soft loan from China for the ECRL. This would help promote economic growth in the three under-developed east coast states, as well as to curb further elite contestations in UMNO. This was clearly reflected in the inter-elite relationships between political elites Najib-Rahman and business elite Low, as well as the intra-elite relationships within UMNO between political elites Najib and Rahman, as highlighted in Section 5.1.

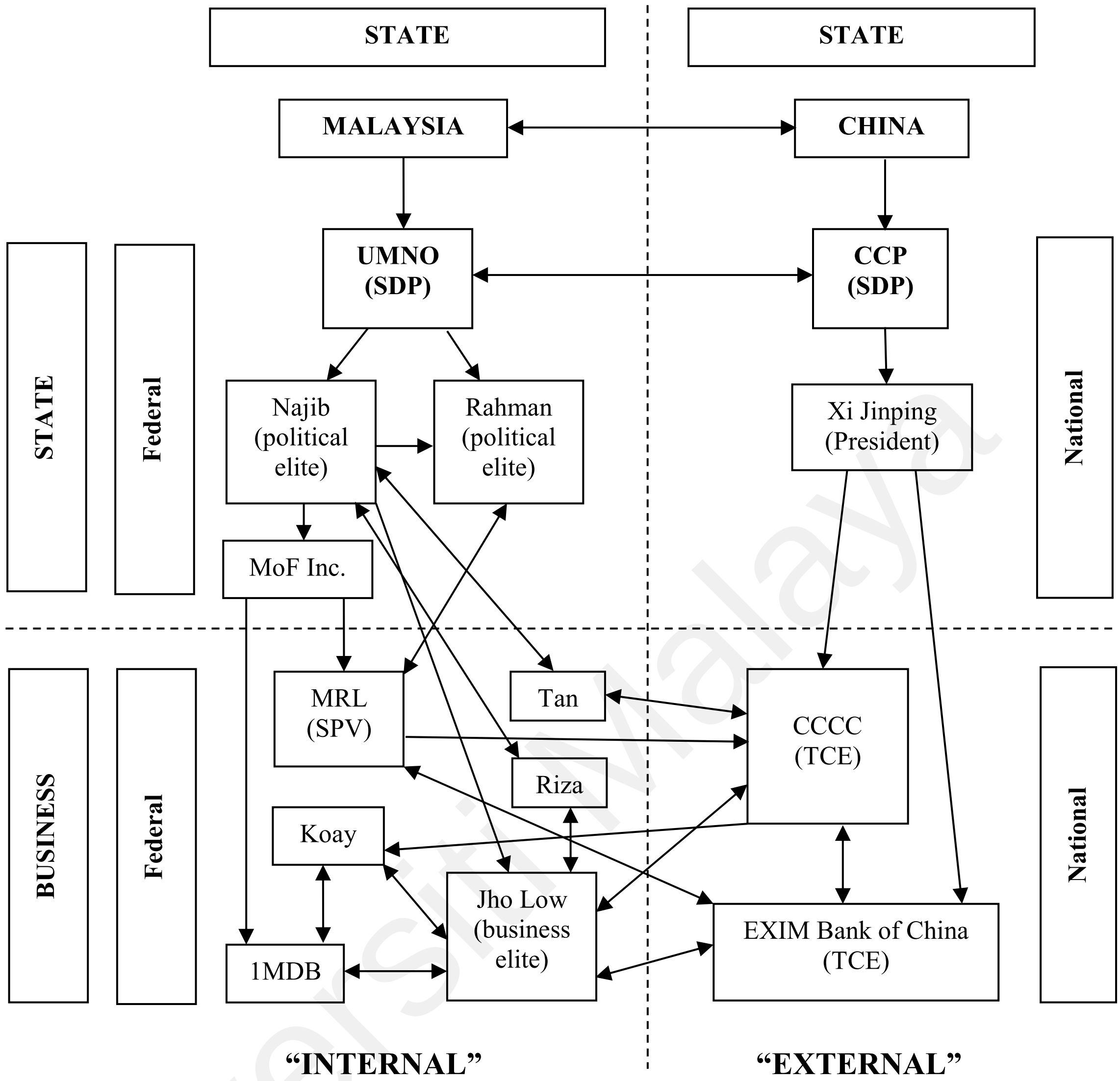
In particular, Najib was the centre of power in this SBR (see Table 5.3), and he had full control over Rahman. The latter in turn took orders from his boss to be overall in-charge of ECRL, as he was EPU Minister at the Prime Minister's Department newly appointed in June 2016. Hence, the project bypassed Parliament and key cabinet members, like Muhyiddin, who Najib could not control, as revealed later by former Youth and Sports Minister, Khairy Jamaluddin (*Malaysiakini*, 8 January 2019). These LPEs then shaped this specific SBR, leveraging on Najib's infrastructural power that was embedded in the institutional architecture employed by him (see Figure 5.1), despite being strongly objected by other key UMNO leaders on the ground. Otherwise, no BRI projects in Malaysia as committed by Chinese TCEs could materialise at the project level within such a short period.

Novel SBR with Predatory Outcome

Figure 5.1 indicates that state-state-business ties (see Table 5.1) were directly forged by two SDPs, which in turn were driven by two strongmen, Najib and Xi. Najib deployed the MRL, wholly-owned by the MoF Inc. and directly controlled by him, to engage CCCC as the EPC contractor to implement ECRL, with a huge soft loan from EXIM Bank of China (*The Star*, 1 November 2016). This had led to the nexus of federal LPEs (Najib, political; Rahman, political; Jho Low, business), in alliance with national Chinese TCEs (CCCC, SOE; China EXIM Bank, SOE), as a novel SBR form that was created in Malaysia for ECRL. This specific SBR was in congruence with economic policies of both countries and favoured by UMNO and CCP leaderships.

As Figure 5.1 indicates, this matrix of institutional architecture employed for ECRL represents a novel SBR form, based on a single-tier structure at the federal level only, one that was centred on Najib's infrastructural power as the supreme leader of UMNO. In other words, this public-led project was solely decided by him, whether to go ahead with it (see Table 5.3). This is indeed another major finding for the study, given that each SBR had shaped its own institutional architecture, with links externally to Chinese enterprises. In this regard, the SBR was dictated by Najib, who was also assisted by Jho Low and Rahman, with a very clear goal. It aimed to raise funds from China to help Najib deal with the 1MDB scandal, after going through a serious feud with his deputy Muhyiddin in 2015.

Figure 5.1 ECRL: Federal LPEs with National Chinese TCEs as an SBR Form



Source: Author's own

In addition, Figure 5.1 indicates that, to a lesser extent, Najib and Low had engaged the service of Tan and Koay as key agents to link up the two states for business in one way or the other. Nevertheless, the novel SBR form was arguably operationalised by Najib and Rahman only, primarily through their infrastructural power. In other words, it was the power and interests of just a few dominant LPEs (rather than their agents), who had used MRL as an SPV to bypass regulatory checks and push through the deal. This reflected a wider political failure on the part of the state to strengthen the governance and enforcement of its bureaucratic institutions, though the design and scope of its existing institutional architecture appeared to be appropriate and adequate.

Clearly, a reshaping of a conventional SBR form for a government-to-government project, one usually driven by bureaucrats, had occurred. With Najib's infrastructural power, he had hijacked this project to create a specific SBR, by incorporating an SPV outside the reach of Parliament, in order to serve his own agenda to rescue 1MDB, as well as to raise political funds. Meanwhile, Najib, Low, and Rahman knew that ECRL fit in well with China's BRI endeavour. This particular SBR form would probably not have been created, if the 1MDB scandal had not occurred, even state-state-business ties had been forged.

In fact, state-state-business ties between two countries had been forged earlier, when the Malaysia-China Kuantan Industrial Park (MCKIP) in Pahang was set up in February 2013. The MCKIP was built on investments by Malaysia in China in 2011, based on a similar China-Malaysia Qinzhou Industrial Park (CMQIP) set up in Guangxi Autonomous Region by Malaysian investors, who included Rimbunan Hijau, S P Setia, etc. (Khor, 2013). If this specific SBR form for ECRL was to be an outcome similar to that of MCKIP, based on state-state-business ties of that sort, it could then be termed as a helping-hand, rather than a grabbing-hand, from the growth-enhancing perspective (Lemma and te Velde, 2015), and possibly with better economic benefits for Malaysia as well. However, this did not occur, making this novel SBR form created for ECRL more complex, in terms of promoting economic growth, particularly for the three under-developed east coast states of peninsula Malaysia.

Although an invisible-hand existed with meaningful policy during the planning stage of ECRL in 2007, the outcome of this novel SBR during the project implementation stage in 2016, based on state-state-business ties, had evolved into a grabbing-hand under Najib. It was primarily a predatory act that denied a helping-hand by professional bureaucrats. The project subsequently bypassed Parliament oversight, as it was undertaken by an SPV, and listed as an off-budget financing project (*The Edge*, 7 November 2016). In other words, Najib's hegemonic control over government-generated rents, as the supreme leader of UMNO, had resulted in China's BRI funding for ECRL being centralised around him, thus increasing the likelihood of rent-seeking activities.

It also appeared that Najib's infrastructural power had emboldened Chinese SOEs to bypass bureaucratic institutions. In this case, Chinese SOEs just sought a one-stop endorsement from the Prime Minister's Department. As a result, professional bureaucrats were unable to assess the project's commercial viability. This was certainly a case where the state had failed to constrain Najib's "despotic power", which, by definition, is the range of actions that a supreme leader is empowered to take, without routine institutionalised negotiations with other key regime members (Mann, 1988, p5).

Najib had made use of his personalised power, by employing the mechanism of "packing" (Slater, 2003), to appoint personal loyalists, like Rahman, to top cabinet or bureaucratic posts. This was done by purging rival elites, thus converting institutional constraints to institutional weapons. In other words, despotic power (power to decide) can become highly personalised, even as infrastructural power (power to implement) remains highly institutionalised. Najib's iron fist had overpowered Malaysia's pre-existing iron cage of major institutions (Slater, 2003). In fact, the Prime Minister's Department was a matrix of autocracy, whereby major institutions that acted as checks to prevent the Prime Minister from gaining dictatorial control, appeared to be incapable of functioning effectively. In addition, the cabinet was not playing its proper role, but rather acting as a rubber-stamp that gave legitimacy to government policies only.

However, it can be argued that major institutions were actually not weakened in this case, but rather had been coerced by Najib to assist him to implement his own agenda. This was because Najib's despotic power had imposed an authoritarian mechanism in the cabinet, as well as bureaucratic institutions, which only rewarded loyalty among key ministers and top bureaucrats, while punishing those who stood in his way. It appeared that autocratic leaders cannot do their own dirty work, without having the infrastructural power that is embodied in the institutional architecture to execute their commands. In other words, while democratic institutions serve to keep the Prime Minister in check, authoritarian institutions do not constrain his despotic power, but supply him with the necessary infrastructural power to implement his command over potential opposing views.

<u>Extracting Rents, Financing Elite Settlement</u>

Clearly, there was accumulation of political funds, by Najib's own admission, through this project. These funds were meant to rescue 1MDB, placate critical party leaders and warlords, as well as personally enrich Najib, through additional borrowings from China with a much-inflated cost for ECRL. There was also accumulation of personal wealth by Low. Some of these funds were meant to take care of the vested interests of Najib and others, through the purchase of shares by CCCC in two unrelated firms, PPB and LLCB, both indirectly linked to Low (Lakshana, 2016).

Low's ascendance in the circle of Malaysian business elites suggested that Najib intended to rely less on established Malaysian business elites, who had previous business dealings with China, to implement BRI projects. This allowed Najib to cultivate a new breed of cronies within his inner circle, instead of using Malaysian business elites who could be linked to either the Mahathir or Abdullah administrations. Clearly, Najib was fostering new patron-client ties with new business elites like Low, Tan, Desmond Lim, Bustari, etc., in order to benefit himself from China's BRI investments in Malaysia.

Meanwhile, the implementation of ECRL also aimed to benefit both UMNO and Najib in the forthcoming GE14. This was because redirecting public resources as political rents to east coast states in the peninsula, traditionally the stronghold of opposition PAS, would substantially strengthen UMNO's chances of recapturing Kelantan in particular. Clearly, the project was expected to benefit the public economically in the long run, thus enhancing UMNO's acceptance among rural Malays, while eroding PAS' popularity in that area. In other words, with China's BRI funding for this commercial project that was not viable, Najib's potential political power in UMNO would have been enhanced. ECRL had indeed allowed Najib to re-establish his hold of power over UMNO in general, and Malaysian politics in particular, before the GE14.

On the other hand, while re-building elite unity to curb further elite contestations is crucial for an SDP to maintain regime stability, it usually requires a huge amount of political funds to finance elite settlement (Burton and Higley, 1987). Political elites generally pursue the quickest way to accumulate such funds, including through specific SBRs they create with capitalists, in order to achieve their ultimate political survival objective (Whitfield and Buur, 2014). According to Greene (2007), an incumbent SDP often survives by transforming public resources into partisan goals, primarily used to achieve political obedience among the masses, as well as political and business elites linked to them.

In this regard, elite settlement is usually accomplished by speedy actions (Burton and Higley, 1987). For example, in the case of ECRL, the empirical evidence revealed that elite settlement had been implemented primarily on a non-transparent basis, bypassing even the due parliamentary process and open tender procedures of a conventional project implementation approach (*The Edge*, 7 November 2016). This was due to the fear that if nothing was done immediately, these LPEs might face the consequence of losing their political positions, forcing them to accept larger concessions from critical party leaders and warlords that in other circumstances they would not want to compromise. In other words, re-building elite unity to curb further elite contestations that might undermine regime stability at the federal level had partly contributed to the creation of this particular SBR form for ECRL. It was conceived through state-state-business ties and characterised by a grabbing-hand feature, primarily for the purpose of money in UMNO politics, and the distribution of government-generated rents, in order to finance elite settlement.

As a counter-narrative, if the project budget was capped at the estimated RM30-35 billion (*The Edge*, 8 November 2016), rather than the much-inflated cost of RM55 billion offered by CCCC, ECRL, funded by a soft loan from China with an attractive interest rate (*New Straits Times*, 16 November 2016), could potentially serve to develop the under-industrialised region. For example, the UMNO-led government claimed that ECRL would create 220,000 new jobs due to the spillover effect, as well as add 1.5 per cent growth to the economy annually, thus benefitting Malaysia in the long run (Kana and Kaur, 2017). Of course, this was subject to major project risks, like if the expected future cargo volumes, were properly assessed and managed by professional bureaucrats with a helping-hand in the first place, in order to avoid the project from becoming a “white elephant”.

If that is the case, the nexus of "federal LPEs in alliance with national Chinese TCEs" as a novel SBR form created in Malaysia for ECRL, could then be regarded as productive too (rather than purely predatory), in spite of the rent-seeking behaviour involved[133]. This might even help to change the outcome of this novel SBR, from primarily a grabbing-hand under Najib, to also include a helping-hand from bureaucratic institutions and oversight agencies during the implementation stage. It would then prevent the project from being blocked by Najib's despotic power, with a capture of the state by just a few dominant LPEs for their own benefit only, but to the detriment of the public.

Melaka Gateway: Nexus of "State LPEs-Federal LPEs in Collaboration with National Chinese TCE-Provincial Chinese TCEs"

Key Observation: Evolution of Conventional SBR Due to State-State-Business Ties

Unlike the ECRL, a national-level project funded by the federal government, Melaka Gateway was a state-level project funded by the private sector. However, this project was under the jurisdiction of the state's chief minister for authority approvals, including those pertaining to land matters for infrastructure and property development. This project was also driven by the federal government's desire to turn Melaka into an international tourism, maritime, and high-end property hub (MIDA, 2017).

When the Melaka Gateway was first proposed in 2010, the state government was then led by Chief Minister Ali Rustam. In 2015, FDI for the project from Singapore, South Korea, Australia, and UAE were withdrawn abruptly (*The Sun Daily*, 7 February 2014) amid the 1MDB scandal. In 2016, the Melaka state government, now under a different Chief

[133] Taylor (2012), Kelsall (2013), and Whitfield and Buur (2014) contend that both collaborative and collusive SBRs may eventually lead to sustained economic growth. Furthermore, Abdel-Latif and Schmitz (2010) and Whitfield and Therkildsen (2011) also claim that collusive SBRs with rent-seeking behaviour are likely to be growth-enhancing as well.

Minister, Idris Haron, promptly announced that Melaka Gateway would be implemented with China's FDI, based on state-state-business ties, given that it was in line with CCP's BRI policy (*The Straits Times*, 16 April 2017). A specific SBR was created for this private-led project. It was now driven by a few dominant LPEs closely linked to UMNO, with evidence of a grabbing-hand feature.

The political considerations surrounding Melaka Gateway commenced in June 2013, when Idris replaced Ali as the state's chief minister. According to a reliable source, a key UMNO politician at the state level, who spoke on condition of anonymity, this change of state government leadership had resulted in a serious feud between Ali and Idris[134], though it was arguably less severe than those between Najib and Muhyiddin. The situation became worse when there was an economic slowdown in 2015 amid the 1MDB scandal, whereby UMNO was weak and Najib appeared to have lost his grip over party in-fighting at the state level. In fact, Najib was caught in between the two key state-level leaders, given that both of them were equally important to him in mobilising electoral support for UMNO in Melaka before the GE14.

In order to curb further elite contestations at the state level that might undermine regime stability, in 2016, Najib threw his support behind Idris, allowing him to implement the project. This would help Idris to check Ali, even though Ali was also closely aligned with Najib. Ali had no choice but to retreat from the in-fighting. This was either out of blind loyalty for Najib or due to a possible fear factor imposed by his political master, that if he did not do so, his position in UMNO would be in jeopardy. This had not only helped Idris to fend off threats from Ali, but also stimulate economic growth by drawing in FDI.

[134] Based on an interview in October 2017 with one state-level key UMNO politician, Idris was among top party leaders who had been speculated to move up the party hierarchy. However, he was engaged in a fierce in-fighting with Ali, who intended to wrest back the state's chief minister post from him. Ali was closely linked to Michelle Ong of KAJD, when the company was appointed as the master developer in 2010. However, Idris was serious about Melaka Gateway, as the success of it would be an important avenue for him to gain the necessary support of UMNO members ahead of Ali.

Implementation of the project would also ensure Idris' loyalty to Najib, helping the prime minister to maintain regime stability, at a time when he was encountering serious criticisms about the 1MDB scandal.

Clearly, Najib had made use of his personalised power, by employing the mechanism of "circumventing" (Slater, 2003), to allow an alternative SBR to be created by Idris, to divert influence and public resources away from Ali. This approach also aimed to ensure authoritative channels for policy implementation and political patronage distribution, flowing through Najib's loyalists, were still intact. Furthermore, Melaka Gateway Port was supported by Liow, who had personal contacts with Chinese SOEs, as the success of it would help MCA to secure ethnic Chinese votes in the GE14. All these elite relationship issues had partly contributed to the creation of this specific SBR.

In this regard, it is evident that there was elite-level unity of just a few dominant LPEs (see Table 5.2), namely Idris (political, UMNO) and Ong (business, KAJD) at the state level, as well as Liow (political, MCA) and Najib (political, UMNO) at the federal level, to drive this specific SBR, and secure the necessary FDI from China for Melaka Gateway. This was clearly reflected in the inter-elite relationships at both the state and federal levels between political elites Idris-Liow-Najib and business elite Ong, as well as intra-elite relationships within BN between political elites Najib-Idris and Liow, and also within UMNO between political elites Najib and Idris, as highlighted in Section 5.1.

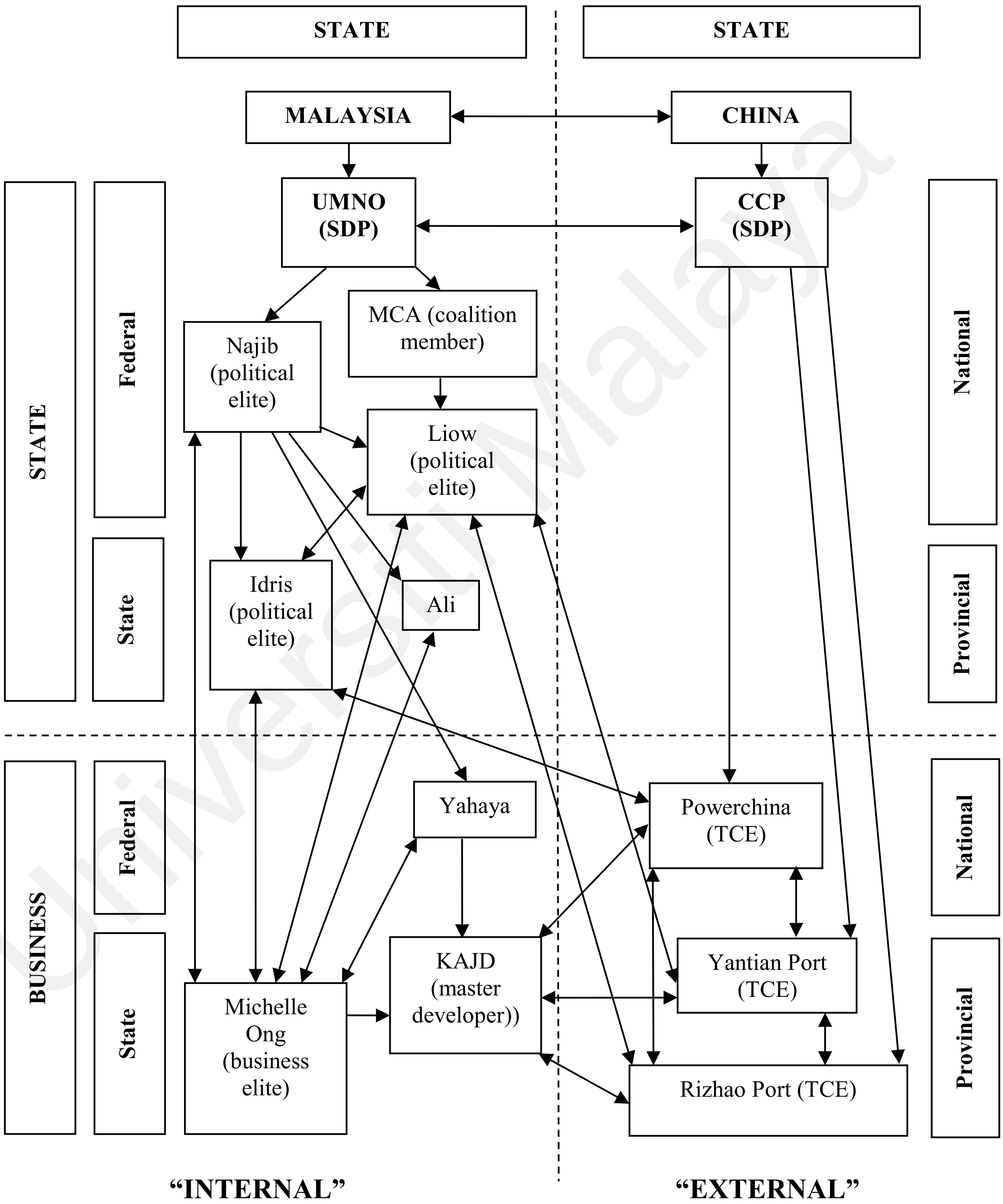
In particular, Idris was the centre of power in this SBR (see Table 5.3), and he had full control over Ong. She then took orders from the state's new chief minister to amend the original master plan of Melaka Gateway, previously submitted by KAJD to the state government led by Ali before June 2013. This was meant to accommodate a new strategic deep-sea port, in line with Xi's BRI, to be majority owned and operated by Chinese SOEs, which could potentially serve as a naval base (*The Straits Times*, 14 November 2016).

Novel SBR with Predatory Outcome

Figure 5.2 indicates that state-state-business ties (see Table 5.1) of a slightly different sort were indirectly forged by two SDPs, driven by Idris, Liow, Najib, and some mainland Chinese business actors, who appeared to be covertly controlled by CCP. This was meant to help the little-known, but politically-well connected, KAJD, tying up with Powerchina, Yantian, and Rizhao to implement Melaka Gateway, with China's FDI. This had led to the nexus of federal LPEs (Najib, political; Liow, political) and state LPEs (Idris, political; Michelle Ong, business), in collaboration with a national Chinese TCE (Powerchina, SOE) and provincial Chinese TCEs (Yantian, SOE; Rizhao, SOE), as a novel SBR form that was created in Malaysia for Melaka Gateway. This specific SBR was in line with economic policies of both countries and favoured by UMNO and CCP leaderships.

As Figure 5.2 indicates, this matrix of institutional architecture employed for Melaka Gateway represents another novel SBR form, based on a double-tier structure that cut across both federal and state levels, one rather different from that of ECRL. In the process, Najib had consented to cede some infrastructural power to facilitate a state-level leader, Idris, to create a specific SBR for this project, involving Ong of KAJD, primarily for Idris' own political interest. Najib allowed it because this specific SBR was shaped by issues involving state-level politics, the feud between Idris and Ali, which could undermine regime stability. However, since state-level UMNO leaders were largely divided, while business elite Ong was subservient to them as their proxy, the implementation of this private-led project was much dependent on Powerchina's instrumental power, instead of Idris' infrastructural power only (see Table 5.3).

Figure 5.2 Melaka Gateway: State LPEs-Federal LPEs with National Chinese TCE-Provincial Chinese TCEs as an SBR Form



Source: Author's own

In addition, Figure 5.2 indicates that, to a lesser extent, Najib had engaged the service of Yahaya as his proxy in KAJD, a method to protect his own interest to increase the avenue for accumulation of political funds. Nevertheless, this novel SBR was operationalised by Idris, Liow, Najib (rather than the proxy), and Powerchina only, primarily through their infrastructural and instrumental powers.

A reshaping had occurred of an old SBR form for Melaka Gateway, created by Ali, the previous state-level leader. This new SBR form was pushed through by Idris, with his infrastructural power and legal authority, as consented by Najib, to serve their vested political interest before the GE14. This specific SBR was shaped by a political feud between two state-level UMNO leaders, with an attempt by Idris to raise political funds, potentially to be distributed to UMNO members, and wrest power away from an existing party warlord, Ali. This was done with the aid of a federal-level leader, Najib, who also wanted to curb the power of this warlord, in order to maintain regime stability. KAJD appeared willing to deal with such politics, given the potentially high returns from this project, more so since it was funded by Chinese SOEs. Meanwhile, Najib, Idris, Ong, and Liow knew that the Melaka Gateway Port fit in well with China's BRI endeavour.

Although an invisible-hand existed during the planning stage of Melaka Gateway in 2010 with a meaningful policy in place, the outcome of this novel SBR during the project implementation stage in 2016, had turned into a grabbing-hand under Idris. There is no evidence of a helping-hand from professional bureaucrats to assess the project's commercial viability. Furthermore, Idris, with his infrastructural power and legal authority, appeared willing to forego a piece of freehold land under KAJD's concession right to be majority-owned by Chinese SOEs to build and operate a deep-sea port (*The Straits Times,* 14 November 2016).

Extracting Rents, Financing Elite Settlement

Clearly, there was accumulation of political funds in this project, particularly by Idris, a means to fend off Ali, as well as to mobilise electoral support before the GE14. There was also alleged accumulation of personal wealth in this project, particularly by Michelle Ong, through the reclamation right of 1,366 acres of freehold land allocated by the state government as economic rents. In fact, many questions emerged, as to why Najib had consented with Idris to proceed with such a controversial deep-sea port, which could potentially serve as a naval base (Teoh, 2016). In addition, Idris had expressed strong support for Ong of KAJD, who was also closely linked to Ali. This had given rise to speculations that this major shareholder of a little-known, but politically well-connected Melaka-based private enterprise, might be just a proxy for some key UMNO elites at both state and federal levels.

When this new phenomenon of state-state-business ties were forged between two countries, the political structure of Malaysia had already been shaped by how government-generated rents from mega-projects were distributed to key UMNO elites at various levels (Searle, 1999). This in turn had increased the role of “money politics” in the party (Teh, 2002; Gomez, 2012b). Specifically, political elites and warlords at the state level held considerable power to decide on the positions of top UMNO leaders at the federal level, given their party’s election system (Welsh, 2016). Hence, while the former might not have the full infrastructural power to decide on BRI projects, they had, however, the capacity to slow the implementation of such projects at the state level, if their interests were not taken care of by the latter.

Meanwhile, given the importance of general elections in Malaysia, with politicians having a finite term in office, Najib had no choice but to appeal to the support of state-level party leaders and warlords, in order to mobilise votes for UMNO to win elections repeatedly. Hence, Najib eventually supported China's FDI for Melaka Gateway as a private-led project, not only because it helped stimulate economic recovery, but also win over the support of reluctant key party leaders and warlords at the state level, like Idris, who was at the same time engaged in a feud with Ali. To prevent Idris from aligning with rival elites like Muhyiddin, clearly his political interest had to be taken care of by Najib. In addition, although Najib appeared to have achieved a compromise with state-level party leaders and warlords to muster electoral support, China's FDI for Melaka Gateway also increased the avenue of his personal wealth accumulation objective, via his proxy Yahaya in KAJD. This further enhanced Najib's financial capacity to distribute fresh rounds of political funds to party leaders at the state level before the GE14.

In other words, re-building elite unity to curb further elite contestations that might undermine regime stability at the state level had partly contributed to the creation of this particular SBR form for Melaka Gateway. It was conceived through state-state-business ties and characterised by a grabbing-hand feature of a different sort from that of ECRL, primarily for the purpose of money in UMNO politics, and the distribution of government-generated rents, in order to finance elite settlement. In fact, most of the 191 division chiefs of UMNO nationwide (warlords like Idris and Ali that could decide on the fate of UMNO supreme council members during the party's election, as well as keeping a tight rein over the party's grassroots machinery in general elections) have been part and parcel of UMNO legacy for decades (Welsh, 2016). However, according to Gomez (2016), party feuds due to factional-based patronage that led to "warlordism" could actually weaken UMNO's hegemony as the SDP in the long run. This was because disputes over the distribution of rents might cause backstabbing of party candidates during general elections, which could result in their losses to the Opposition.

As a counter-narrative, Melaka Gateway, as a private-led project, funded by an FDI from China, could still serve to promote economic growth in Melaka in the long run. For example, the subsequent operations of the Melaka Gateway Port would lead to the creation of 6,000 direct job opportunities. In addition, the Melaka Gateway project that included tourism, maritime, and property development components was estimated to create a spillover of 40,000 to 45,000 new jobs. It would also attract an additional 2.5 million tourists over a period of 12 years, contributing 18.5 per cent to the state's GDP growth annually (MIDA, 2016). Of course, this was subject to major project risks, like if the expected future cargo volumes for the deep-sea port, were properly assessed and managed by professional bureaucrats with a helping-hand in the first place, in order to avoid the project from becoming a white elephant (Teoh, 2016).

If that is the case, the nexus of "federal LPEs-state LPEs in collaboration with national Chinese TCE-provincial Chinese TCEs", as a novel SBR form created in Malaysia for Melaka Gateway, could then be regarded as productive too, rather than purely predatory, in spite of the rent-seeking behaviour involved[135]. This might even help to change the outcome of this novel SBR, from primarily a grabbing-hand under Idris, to also include a helping-hand from bureaucratic institutions and oversight agencies during the implementation stage. This would prevent the project from being blocked by UMNO and MCA politicians, with a capture of the state by just a few dominant LPEs for their own benefit only.

[135] Leftwich (2009) argued that the economic ideology of a political regime that specifically comes with the presence of selective incentives or rents for its elites to promote economic growth may be able to foster a much better collaborative relationship with the business sector, rather than a collusive one.

Forest City: Nexus of "State LPEs in Partnership with a Provincial Chinese TCE"

Key Observation: Evolution of Conventional SBR Due to State-State-Business Ties

In 2006, Iskandar Malaysia was promoted by the Abdullah administration as a special economic zone to be developed by the national sovereign wealth fund, Khazanah Nasional Berhad, with the intention of making it an alternative to Singapore (Ng and Lim, 2017). However, FDI for Iskandar Malaysia slowed, following the 2008 global financial crisis. In 2014, when the Sultan of Johor announced that Forest City should be part of Iskandar Malaysia[136], and to be implemented with China's FDI (*New Straits Times*, 29 November 2017), a specific SBR was created for this private-public-led project. Unlike ECRL and Melaka Gateway, this project was not driven by UMNO, but a few dominant LPEs reportedly linked to the Sultan (*KiniBiz Online*, 10 June 2014).

The political considerations surrounding Forest City, to accommodate the Sultan, commenced in June 2013, when Khaled was appointed as the state's Chief Minister. This appointment, in turn, had resulted in a political feud between Khaled and Daing, a state-level UMNO elite and a personal friend-cum-business partner of the Sultan (*Malaysiakini*, 17 July 2014; *New Straits Times*, 25 March 2015). Clearly, the Sultan had capitalised on the weakness of UMNO, when its state-level leaders were in a serious feud, by selecting the chief minister of his choice[137]. Through manoeuvring the elite contestation between Khaled and Daing, the Sultan was able to influence Khaled's position at the state level. This would ensure that both Khaled and Daing were still pledging their loyalties to him, to serve his business interest in Forest City. In other words, the Sultan had made use of

[136] In January 2015, Forest City was included in the Comprehensive Development Plan (CDP) for Iskandar Malaysia (*Malaysiakini,* 19 March 2015).
[137] While Khaled was seen as the most powerful UMNO elite in Johor, he was nevertheless not comfortable with Daing. This was because Daing was closely linked to the Sultan as his personal friend and business partner, as well as being a member of the Royal Court of Advisors (*Malaysiakini*, 17 July 2014).

his personalised power, by employing the mechanism of "rigging" (Slater, 2003), to leverage constitutional rules as a "kingmaker" to his own advantage, as well as forestall competition for power and business at the state level.

After the UMNO-led government lost its two-thirds majority during the GE12 in 2008 and GE13 in 2013, coupled with the flare-up of the 1MDB scandal in 2014, this SDP was in turmoil, compelling the Malay rulers to speak out on core issues undermining the country (*The Edge*, 5 March 2014). To curb these unfavourable events that could destabilise his administration before the GE14, Najib sought to re-build ties with the Sultan, as well as tone down the feud between Khaled and Daing. Clearly, elites acknowledge the worthiness of their rivals, thus always seeking a formula of accommodation that avoids further elite contestations (Case, 1991).

In this regard, it is evident that there were just a few dominant LPEs at the state level (see Table 5.2), namely the Sultan (royal, Esplanade Danga 88), Khaled (political, UMNO), Daing (political-cum-business, UMNO-cum-Esplanade Danga 88), and Lim (business, IWH), who were involved in the project in one way or the other. However, state-level UMNO elites did not function as a unified group, as Khaled was not comfortable with Daing. Hence, UMNO was unable to implement this project on its own. Instead, a key actor in the state now had shifted from state-level UMNO elites to the Sultan, who took over their role to implement the project when the SDP was weak. With the help of Lim, the Sultan was able to create a specific SBR, to secure the necessary FDI from China for Forest City, based on state-state-business ties of a different sort (see Table 5.1). This was clearly reflected in the inter-elite relationships at the state level between royal elite the Sultan and business elites Lim-Daing, as well as between royal elite the Sultan and political elite Khaled (albeit unwillingly), as highlighted in Section 5.1.

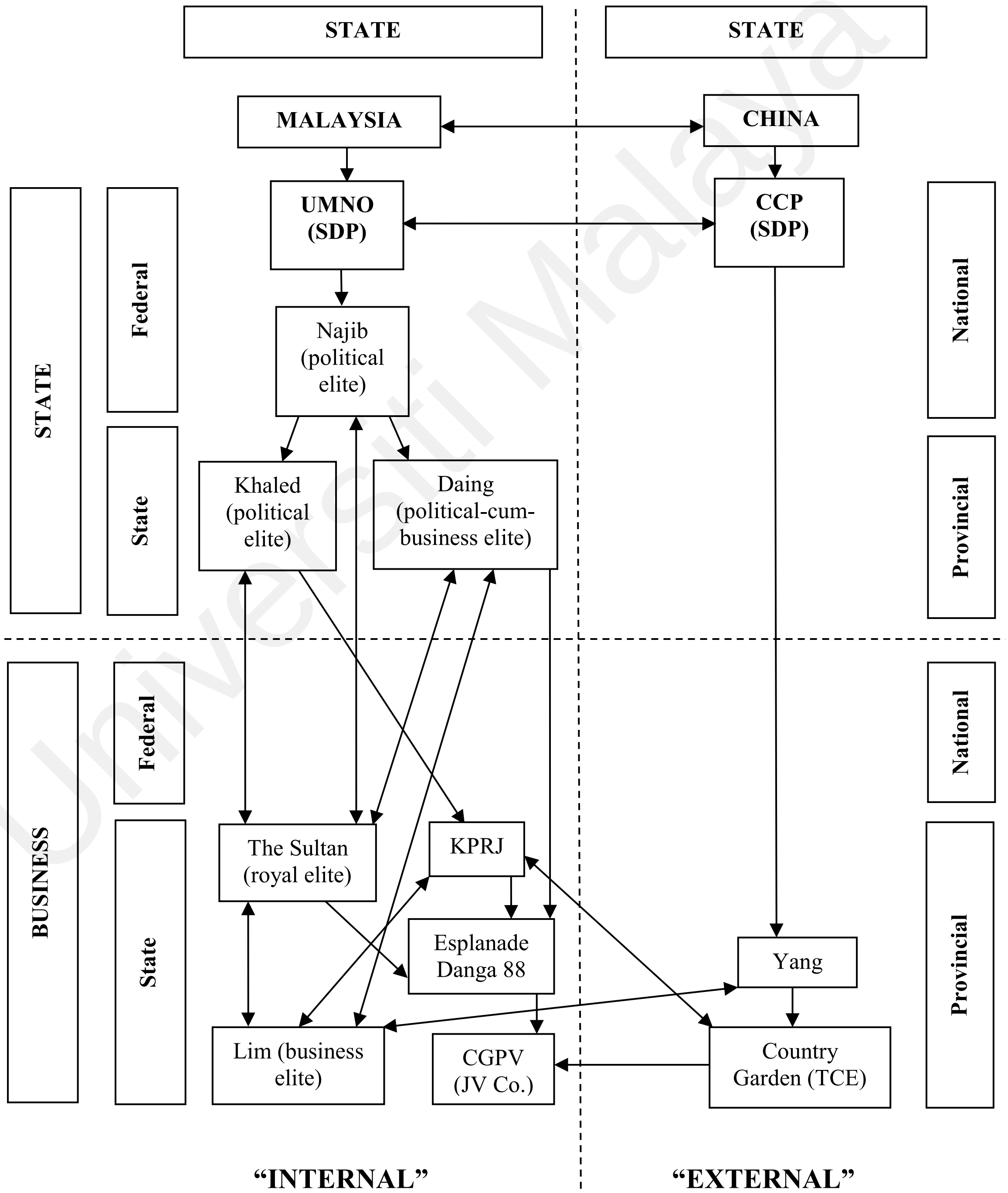
In particular, the Sultan was the centre of power in this SBR (see Table 5.3), and he had full control over his business partner, Lim. The latter then took orders from him to approach Yang of Country Garden to invest in Forest City due to their personal relationships. Furthermore, the Sultan had engaged the help of Daing, who aspired to be the next state's chief minister, to be a minor shareholder in Esplanade Danga 88, in order to protect his interests in the project by countering UMNO, via KPRJ.

Novel SBR with Predatory Outcome

Figure 5.3 indicates that state-state-business ties (see Table 5.1) of a vastly different sort were indirectly forged by two SDPs, which, in turn, were driven by the Sultan and Yang, who appeared to be covertly controlled by CCP. This was to facilitate a little-known, but well-connected local private enterprise, Esplanade Danga 88, tying up with Country Garden to form CGPV, the master developer for Forest City, with China's FDI. This had led to the nexus of state LPEs (the Sultan, royal; Khaled, political; Daing, political-cum-business; Lim, business), in partnership with a provincial Chinese TCE (Country Garden, prominent private developer), as a novel SBR form that was created for Forest City. This specific SBR conformed to economic policies of both countries, mainly favoured by the Sultan and the CCP leadership, but with some concerns by the UMNO leadership.

As Figure 5.3 indicates, this matrix of institutional architecture employed for Forest City represents another novel SBR form, based on a single-tier structure at the state level only, one that varied even more greatly from that of ECRL and Melaka Gateway. In the process, Najib, being the supreme leader of UMNO, together with Khaled, a state-level party leader, had ceded some power to the Sultan, albeit unwillingly. The Sultan then dictated the agenda, by creating a specific SBR for the project that also accommodated UMNO, via KPRJ, to set up Esplanade Danga 88 as an SPV to JV with Country Garden. With the Sultan as the major shareholder of the SPV, and KPRJ and Daing as its minor shareholders, Forest City could be implemented as a private-public-led project, but primarily for the Sultan's own benefit only.

Figure 5.3 Forest City: State LPEs with a Provincial Chinese TCE as an SBR Form



Source: Author's own

Although KPRJ, on paper, was a JV partner, it had assumed little or no decision-making power. Najib allowed it because this specific SBR was shaped by issues involving state-level politics, the feud between Khaled and Daing, which could undermine regime stability. Najib finally reached a compromise with the Sultan, through some sort of elite settlement. This had toned down the feud between Khaled and Daing and helped stimulate economic growth. This would also maintain regime stability, ensuring that Johor could still be UMNO's strong fortress at the forthcoming GE14.

Meanwhile, Khaled also gave in to the demand of the Sultan, on authority approvals for some marine environmental issues related to Forest City. This would ensure that his position as the state's Chief Minister was intact, and not be challenged by Daing, who appeared to be covertly supported by the Sultan. In other words, implementation of the project was also dependent on Khaled's infrastructural power, instead of relying on the Sultan's - and Country Garden's - instrumental power only (see Table 5.3).

In addition, Figure 5.3 indicates that, to a lesser extent, the Sultan had engaged the service of Lim as his key agent to deal with Yang, in order to link up the two states for business in one way or the other. On the other hand, the Sultan also sought the help of Daing to be his proxy-cum-minor shareholder in Esplanade Danga 88. Nevertheless, the novel SBR form was arguably operationalised by the Sultan (rather than the agent or proxy) and Country Garden only, primarily through their instrumental powers.

A conventional SBR form for a public-led project in Johor would normally fall under the jurisdiction of the state's chief minister, and usually driven by the state-owned KPRJ. However, the Sultan, with his instrumental power and traditional authority, took over the role of UMNO elites and became a key actor in the state, to implement this specific project, aided by the fact that the SDP was weak amid the 1MDB scandal, with its state-level party leaders in a serious feud. This situation contributed to a novel SBR form, with the Sultan driving Forest City expeditiously on a private-public-led basis. It was permitted by Najib in order to serve his vested political interest too before the GE14. This effectively brought Khaled and Daing under the full control of the Sultan, and turned Najib into a lame-duck UMNO supreme leader. Meanwhile, both the Sultan-Lim-Daing faction and the Najib-Khaled faction knew that Forest City fit in well with China's BRI endeavour.

Although an invisible-hand existed during the planning stage for Iskandar Malaysia in 2006 with well-constructed policy, the outcome of this novel SBR for Forest City, which the Sultan claimed that it should be part of Iskandar Malaysia, had turned into a grabbing-hand in 2014 under him. It was primarily a predatory act, though it had a productive dimension too, with more than 17,000 residential units sold by April 2017 under Phase 1 (*New Straits Times*, 29 November 2017). This was because the Sultan had secured Khaled's support to utilise his infrastructural power to obtain assistance from professional bureaucrats to get Forest City implemented expeditiously.

Extracting Rents, Financing Elite Settlement

Clearly, there was accumulation of personal wealth in this project, particularly by the Sultan. It was meant to enrich himself, through the reclamation right of the 1,386 hectares of freehold land allocated by the state government (Ng and Lim, 2017). In fact, many questions emerged, as to why a sitting monarch could leverage his political influence to be actively involved in business (in competition with the private sector), given that royalties were already entitled to remuneration and grants provided by the state (*KiniBiz*, 10 June 2014). In this regard, Najib had faced a lot of political pressure from the Sultan in 2014-2015. The Sultan had criticised Najib openly and met up with Muhyiddin twice, after he was sacked by Najib (Wong and Benjamin, 2015). This led to speculations that the Sultan might be aligned with Muhyiddin to challenge Najib in the forthcoming GE14.

To circumvent it, Najib immediately utilised his infrastructural power as the supreme leader of UMNO to instruct Khaled to offer economic rents to the Sultan through the Forest City project. Najib eventually supported China's FDI for Forest City as a private-public-led project, not only because it helped stimulate speedy economic recovery, but also win over the support of the Sultan and reluctant key state-level party leaders, like Daing. This would ensure that Johor would still be UMNO's strong fortress in the forthcoming GE14. In particular, it appeared that the rivalry between the Najib-Khaled faction and the Sultan-Lim-Daing faction finally agreed to be consensually united (Higley and Burton, 1989), after some sort of elite settlement, though they might still compete among themselves from time to time. However, a common interest for all of them was that it should not undermine regime stability, which was viewed as detrimental to their economic interests.

In other words, re-building elite unity to curb further elite contestation that might undermine regime stability had partly contributed to the creation of this particular SBR form for Forest City. It was conceived through state-state-business ties and characterised by a grabbing-hand feature of a different sort from that of ECRL and Melaka Gateway, primarily for the Sultan's personal wealth accumulation objective. As a counter-narrative, Forest City as a private-public-led project, funded by an FDI from China, could well serve to promote economic growth in Iskandar Malaysia in the long run. For example, Forest City was expected to create 220,000 jobs by 2035 (*Free Malaysia Today*, 6 March 2016), with a huge high-tech industrial park to be developed in subsequent phases that could rival Singapore. Of course, this was subject to major project risks, like if the sale of majority residential properties to mainland Chinese buyers only, were properly assessed and managed by professional bureaucrats with a helping-hand in the first place, in order to avoid the project from becoming a "foreigner's territory".

If that is the case, the nexus of "state LPEs in partnership with a provincial Chinese TCE", as a novel SBR form created for Forest City, could be regarded as productive too (rather than purely predatory), in spite of the rent-seeking behaviour involved[138]. This might even help to change the outcome of this novel SBR, from primarily a grabbing-hand under the Sultan, to also include a helping-hand from oversight agencies during the implementation stage. This would prevent the project from being blocked by the Sultan, with a capture of the state by just a few dominant LPEs for their own benefit only.

5.3 COMPARING THREE NOVEL SBR FORMS

Evidently, there were fundamental differences among the three novel SBR forms, created by different LPE-TCE links to implement three BRI projects in the Malaysian property development and construction sector, based on this new phenomenon of state-state-business ties, forged by two countries both led by SDPs for a variety of their business enterprises, as indicated along six key themes in Table 5.4.

[138] Amsden and DiCaprio (2012) claim that elites as a group, which have control over resources for economic development, also have incentive to exploit them, in ways that benefit themselves. More so, this incentive is even stronger if their hold on to these resource is only for the short-term. However, they argued that corruption is not inherent to elite status.

Table 5.4 Comparing Three Novel SBR Forms

Key Themes	Fundamental Differences Among Three Novel SBR Forms
Public-led, Private-led, and Private-public-led	ECRL: public-led, state-state-business ties were direct. Melaka Gateway: private-led, state-state-business ties were indirect. Forest City: private-public-led, state-state-business ties were vastly different, one that was far more indirect.
Different Types of Power	ECRL: power was infrastructural-based and centred on Najib. Melaka Gateway: power was infrastructural-based but shifted from Najib to Idris. Forest City: power was instrumental-based and shifted from both Najib and Khaled to Sultan.
Varied Institutional Architectures	ECRL: single-tier structure at the federal level only, within control of UMNO, thus efficient in government decision-making processes. Melaka Gateway: double-tier structure that cut across both federal and state levels, still within realm of UMNO, but not efficient. Forest City: single-tier structure at the state level only, but beyond control of UMNO. Most efficient among the three.
Funding of Projects	ECRL: soft loan from China. Melaka Gateway: FDI from China, but 1,366 acres of freehold reclaimed and natural land allocated to KAJD as rents. Forest City: FDI from China, but 1,386 hectares of freehold reclaimed land allocated to the Sultan.
Monied Politics	ECRL: shaped by Najib's need to deal with 1MDB's debts, i.e. money politics in UMNO. Melaka Gateway: shaped by political feud between Idris and Ali, i.e. also money politics in UMNO. Forest City: shaped by the Sultan for his personal wealth accumulation objective only.
SBRs, Spillovers, and Productive Outcomes	Though outcomes of all three SBRs indicated grabbing-hands, effective SBRs did exist in the short run, i.e., Forest City far more effective than ECRL and Melaka Gateway, and ECRL slightly more effective than Melaka Gateway. Spillover effects in the long run from ECRL most significant, Forest City would be considerable significant, but Melaka Gateway far less significant than ECRL and Forest City.

Source: Author's own

<ins>Public-led, Private-led, Private-public-led</ins>

In ECRL, which was public-led, state-state-business ties that shaped the LPE-TCE link were direct. The presence of UMNO in MRL, and CCP in CCCC, was explicit. Both states played an active role in determining the shape of the LPE-TCE link, creating a specific SBR form. The "state" for both countries was represented by two strongmen, Najib for Malaysia and Xi for China. It had led to MRL appointing CCCC as ECRL's contractor, with a soft loan from EXIM Bank of China. In Melaka Gateway, which was private-led, state-state-business ties were different, one that was indirect. The presence of UMNO in KAJD, and the presence of CCP in the provincial Chinese SOEs, was not explicit. Although CCP leaders were not officially present in BRI ventures, these enterprises had to seek the party's consent, before they were allowed to invest in such massive projects. Inevitably, both states were active in determining the shape of the LPE-TCE link, creating another SBR form. The state for both countries were represented by Idris, Liow, and Najib for Malaysia, and some mainland Chinese business actors, who appeared to be covertly controlled by CCP. This contributed to the little-known, but politically well-connected KAJD's tie-up with Powerchina, Yantian, and Rizhao to implement Melaka Gateway, with China's FDI. In Forest City, which was private-public-led, state-state-business ties were vastly different, one that was far more indirect. UMNO's presence, via KPRJ, in Esplanade Danga 88, though explicit, was not significant, whereas CCP's presence in the provincial-level Chinese private developer was not clear. In this LPE-TCE link, another SBR form emerged. While the state of Malaysia was represented by the Sultan, the state of China was not represented here. However, Yang appeared to be favoured by CCP, otherwise he would not have been allowed to invest in this massive BRI project. This contributed to Esplanade Danga 88's tie-up with Country Garden to implement Forest City, with China's FDI.

<u>Different Types of Power</u>

In ECRL, the power in this SBR was infrastructural-based and centred on Najib, as he was then UMNO's President, as well as Prime Minister-cum-Finance Minister. Since ERCL was public-led, implementation of the project was shaped by Najib's infrastructural power, who decided whether to go ahead with it. Only one type of power existed in ECRL.

In Melaka Gateway, the power in this SBR was also infrastructural-based, but one that was skewed towards Idris, not Najib. After Najib was weakened by the 1MDB scandal, Idris, the Chief Minister of Melaka, a state with no Sultan, secured a major say in this project, as consented by Najib. However, since Melaka Gateway was private-led, while Idris' infrastructural power for authority approvals was crucial, implementation of the project was dependent on Powerchina's instrumental power, who decided whether to go ahead with it, since KAJD was financially weak (see Table 4.2). Unlike ECRL, both types of power co-existed in Melaka Gateway.

In Forest City, the power in this SBR was instrumental-based, one that was not with Prime Minister Najib, or Chief Minister Khaled, but skewed towards the Sultan. With the Sultan's instrumental power, he had strong influence over the state government led by Khaled, after UMNO was weakened by a serious feud among its state-level leaders. The Sultan decided whether to go ahead with the project, while Country Garden agreed to this form of SBR for its long-term gains. However, since Forest City was private-public-led, implementation of the project was also dependent on Khaled's infrastructural power for authority approvals. Like Melaka Gateway, both types of power co-existed in Forest City.

Meanwhile, although the infrastructural power in ECRL and Melaka Gateway was adhering to a long-institutionalised political business environment in Malaysia since the 1980s (Gomez, 1994), predatory features prevailed, as they involved monied politics in UMNO. On the other hand, the instrumental power in Forest City appeared to be good for the project, as it was functioning outside the realm of major political institutions. UMNO's debilitating money politics was not present here. Furthermore, the rapid progress of Phase 1 on site suggested that instrumental power was far more effective than infrastructural power in promoting economic growth in the short run.

Varied Institutional Architectures

In the SBR for ECRL, a single-tier institutional architecture was employed at the federal level only, with power centred on Najib. External links to Chinese enterprises were within the full control of the Prime Minister, thus government decision-making processes were prompt. This SBR was uncomplicated, as it involved GLCs and SOEs from both sides, at either the federal or national level, directly controlled by two strongmen, Najib and Xi.

In the SBR for Melaka Gateway, with power centred on Idris, a double-tier institutional architecture was employed to cut across both the federal and state levels, with links externally with Chinese enterprises. Though still within the realm of UMNO, the SDP did not have full control over Melaka Gateway to dictate the agenda, as implementation of the project was dependent on Powerchina's instrumental power. Government decision-making processes were thus not as efficient as compared to the ECRL. This SBR was complex because it involved a state-level local private enterprise that was linked to UMNO and the MCA, working with national- and provincial-level Chinese SOEs that were either directly or indirectly controlled by CCP.

In the SBR for Forest City, a single-tier institutional architecture was employed at the state level only, with power centred on the Sultan, and beyond the control of UMNO. Although implementation of Forest City was much dependent on the Sultan's - and Country Garden's - instrumental power, Khaled's infrastructural power was still needed for authority approvals. Surprisingly, government decision-making processes were more efficient than the ECRL, because UMNO's role as the SDP was passive, rendering almost irrelevant its involvement in the project. This SBR was far more complex than those created for the ECRL and Melaka Gateway, as it involved a state-level local private enterprise that was directly controlled by the Sultan, but also linked to UMNO, with a provincial-level Chinese private enterprise that was indirectly controlled by CCP.

Funding of Projects

The ECRL secured a soft loan, instead of FDI, from China, which meant a huge outflow of funds from Malaysia in the future. It was Najib who decided whether to go ahead with this form of project funding. In Melaka Gateway, though the project was to secure an FDI from China, the reclamation right of the 1,366 acres of freehold land were allocated to KAJD by the state government as economic rents, which could be used as collateral to raise funds for the project. However, before such land could be treated as a bank security, a bridging finance was needed for land reclamation works to get the project started. Inevitably, it was Powerchina who decided whether to go ahead with this form of project funding, since KAJD's balance sheet was weak (see Table 4.2). In Forest City, though FDI from China was expected, the reclamation right of the 1,386 hectares of freehold land were allocated to the Sultan by the state government. As in the case of Melaka Gateway, before the land could be treated as a bank security, a bridging finance was needed for land reclamation works. This was dependent on the financial strength of Country Garden and the Sultan, given that the latter's financial standing was quite strong, after selling a few tracts of prime land in Johor Bahru to Guangzhou R&F for RM4.5 billion (see Table 4.5). Hence, both of them decided whether to go ahead with this form of project funding.

Different SBRs driven by different LPEs determined different sources of funding that were employed. Unlike ECRL, which was public-led, there were no major Chinese state-owned banks involved in Melaka Gateway and Forest City, since they were private-led and private-public-led. This implied that LPEs and TCEs in these two cases had to find their own sources of funding from the private sector, based on the commercial viability of their projects, though Melaka Gateway and Forest City were also crucial projects closely tied to Xi's BRI agenda.

Monied Politics

The SBR that emerged from ECRL was shaped by Najib's need to rescue 1MDB, as well as raise political funds for distribution to UMNO members to curb dissent. Subcontracts from the ECRL project could also be distributed to party members and well-connected business elites. In this SBR, Najib decided who got what, while Low, his business proxy, was subservient to him, since the project was public-led. In Melaka Gateway, its SBR was shaped by the political feud between Idris and Ali, one that served as an avenue to raise political funds to consolidate power in UMNO. Ong, their business proxy, was subservient to them, though the project was private-led. In Forest City, its SBR was shaped by the political feud between Khaled and Daing, as well as a constitutional right conferred on the Sultan (Milner, 1982), who challenged UMNO's hegemony. The Sultan decided who got what, while the state's Chief Minister Khaled was subservient to him, though the project was private-public-led.

SBRs, Productive Outcomes, and Spillovers

Although outcomes of these three SBRs had a grabbing-hand feature, which theoretically is associated with rent-seeking that would lead to ineffective and predatory outcomes, the empirical evidence revealed that they had potentially effective and productive outcomes. In the case of ECRL, an invisible-hand SBR was first created in 2007. However, it evolved into a grabbing-hand in 2016 under Najib. There appeared little helping-hand from bureaucrats to assess the project's feasibility. While the outcome of this project, in the short run, was deemed ineffective and predatory, the project, in the long run, was potentially effective. In fact, serious allegations of corruption, which deeply undermined the viability of the ECRL project, partly contributed to the collapse of the UMNO-led government in May 2018.

In Melaka Gateway, an SBR was first created with an invisible-hand in 2010. However, a preponderance of grabbing-hand features, involving key political elites at both state and federal levels, emerged in 2016. In fact, this shift from an invisible-hand to a grabbing-hand had stifled the implementation of Melaka Gateway, as Powerchina's keen interest in the project appeared to have diminished. This was also because the project was funded by the private sector and dependent on Powerchina's instrumental power only, as KAJD did not have the necessary financial strength to undertake such a massive venture by itself.

In the case of Forest City, an SBR was first created for Iskandar Malaysia with an invisible-hand in 2006. In addition, there was also a helping-hand involved for the project in 2014, as the Sultan had secured Khaled's support to exercise his infrastructural power to obtain input from professional bureaucrats to get Forest City implemented expeditiously. Consequently, the outcome of this project, in the short run, was deemed effective, though with some predatory features, due to a grabbing-hand by the Sultan. In fact, this perceived effectiveness of the project in the short run had partly contributed to the rapid progress of Phase 1, which was completed ahead of schedule, amid China's capital control measures in 2017, with more project funding successfully raised in 2020 (*Free Malaysia Today*, 21 April, 2020).

The SBR created for Forest City was far more effective for wealth accumulation of both the Malaysian and Chinese private enterprises, while the ECRL's SBR served primarily the political interests of UMNO elites to raise political funds. In Melaka Gateway, the SBR's potential of generating economic growth was undermined by the range of LPEs and TCEs involved, with state-level UMNO elites in a serious feud over control of the state government. In other words, the difference in the effectiveness of these SBRs, which provided productive outcomes in the short run, was due to a combination of factors. These included the nature of project initiative (either public-led, private-led, or private-public-led), different form of institutional architecture (either single-tier or double-tier), and different degree of control by UMNO (either full, less, or none), which, in turn, would determine the efficiency of decision-making processes in each case.

The spillover effect from ECRL was arguably the most significant in the long run, given that this rail link will cut across four states in the peninsula. The ECRL will provide crucial economic links between these states and the federal capital, as well as promote special transit-oriented development (TOD)[139] projects around major stations along the rail route. Likewise, there will be similar considerable spillover effect from Forest City in the long run. Although the high-end property development project is limited to an area of 1,386 hectares, the project also comprises a huge industrial park, which has the potential to attract much FDI. However, the spillover effect from Melaka Gateway will be far less significant than ECRL and Forest City in the long run, given that the high-end tourism and property development project is within a confined area of 1366 acres, primarily catering to the Melaka economy.

[139] A transit-oriented development (TOD) is a special type of mixed development that maximises the amount of residential, business, and leisure space within walking distance of public transport. A TOD typically includes a central transit stop, such as a train station, light rail, or bus stop, surrounded by a high-density mixed-use area, with low-density areas spreading out from this centre.

5.4 IMPLICATIONS OF NOVEL SBRs

Undoubtedly, the three novel SBRs created through China's BRI projects in Malaysia, based on this new phenomenon of state-state-business ties, vis-à-vis specific power and vested commercial interests of different LPEs closely linked to UMNO at various levels, had led to a mix of different growth-enhancing and rentier-type outcomes, namely invisible-hand, helping-hand, and grabbing-hand (Lemma and te Velde, 2015). These outcomes could have a major impact on the Malaysian economy, as well as its political system, as summarised in Table 5.5.

Table 5.5 Implications of Novel SBRs

Project Name & Initiative	Novel Form of SBR	Growth-enhancing & Rentier-type Outcomes	Implications for Malaysia
East Coast Rail Link (ECRL) "Public-led"	Federal LPEs in alliance with national Chinese TCEs	It started off as an invisible-hand, based on an economic policy formulated during the planning stage in 2007. However, Najib turned it into a grabbing-hand, with rent-seeking behaviour, during the implementation stage in 2016. This was due to the absence of a helping-hand by professional bureaucrats, as they were blocked by Najib's despotic power.	• A rail link is good for the economic and social development of the three under-developed east coast states, i.e., Kelantan, Terengganu, and Pahang. • However, it was not FDI from China as claimed by Najib, but merely an EPCC contract with BRI financing. • Much-inflated cost aimed to: 1) bailout 1MDB's debts; 2) partly fill the financial hole in 1MDB due to distribution of political funds in GE13; and 3) purchase of shares by CCCC in two unrelated companies linked to Jho Low. • EPCC contract awarded to CCCC may marginalise participation of local subcontractors and suppliers. • Economic returns not justified with huge financial risk. • May become a "white elephant" if expected huge cargo volumes are not forthcoming. • Long rail tunnelling works across the Titiwangsa Range may pose some environmental issues.

Continued

Table 5.5 (continued)

Project Name & Initiative	Novel Form of SBR	Growth-enhancing & Rentier-type Outcomes	Implications for Malaysia
Melaka Gateway "Private-led"	Federal LPEs-state LPEs in collaboration with national Chinese TCE-provincial Chinese TCEs	It was meant to be an invisible-hand project, with policy plans well-constructed in 2010. However, it evolved into a grabbing-hand by Idris, during the implementation in 2016, due to the absence of a helping-hand by professional bureaucrats, as they were being blocked by UMNO and MCA politicians.	• Malaysia may become a gateway for China's trade expansion plan with other ASEAN members in the region under the BRI. • Part of an overall port alliance agreement between both countries to make Malaysia a regional logistics hub in the long run. • Dealing with a political feud between Idris and Ali to maintain regime stability at the state level. • May compete with existing local ports for business. • May become a "white elephant", like the Hambantota Port in Sri Lanka, if the expected huge cargo volumes are not forthcoming. • Foregoing a piece of freehold land to develop a controversial deep-sea port majority owned by Chinese SOEs may have security implications, if it becomes a Chinese naval base during military conflicts. • Massive reclamation work may cause environmental issues and affect livelihood of fishermen in the nearby Portuguese Settlement and become a social problem.
Forest City, Johor "Private-public-led"	State LPEs in partnership with a provincial Chinese TCE	Conceived as an invisible-hand project, linked as it was during the planning in 2006 to Iskandar Malaysia (The Sultan later claimed that Forest City should be part of it). Though it evolved into a grabbing-hand by the Sultan, during implementation in 2014, there was also a helping-hand by professional bureaucrats, as facilitated by Khaled's infrastructural power, albeit unwillingly.	• Sudden surge in China's FDI was good for economic growth in Johor. • Dealing with the powerful Sultan and also the political feud between Khaled and Daing to maintain regime stability at the state level. • May cause oversupply of residential units at the state level and crowd out local developers. • High property prices out of reach for local buyers. Primarily catered to mainland Chinese buyers only. • May soon become a "foreigner's territory" with 700,000 people and turn into a social issue. • Influx of mainland Chinese to stay, work, study or retire in the self-contained smart city may compromise national security. • May be viewed by Malays as a show of Chinese chauvinism and turn into a political issue. • Racial and cultural tensions may be potential risks if not handled by the state government with care.

Source: Author's own

As Table 5.5 indicates, in the case of ECRL, Najib had utilised his infrastructural power (see Table 5.3) to create a novel SBR through the LPE-TCE link. This led to the shaping of an institutional architecture (see Figure 5.1) that redirected China's BRI funding to this strategic rail project, implementing it on a public-led basis. As highlighted in Section 5.2, this would allow the UMNO-led government to promote economic development in the under-developed states of Kelantan, Terengganu, and Pahang, in order to bridge the economic divide of the east and west coasts of the peninsula. It appeared that this BRI project was beneficial for the country, though the tunnelling work of approximately 18km long across the Titiwangsa Range, might cause some environmental issues under UNESCO list of natural heritage. More importantly, this project did not have to resort to huge borrowings from other international financial institutions, which normally imposed costly lending conditions for high-risk and remote areas like the east coast.

In addition, this critical rail link was strategised by Najib with a political motive in mind. It was not only intended to bring economic development to the east coast, but also to be deployed as a pre-election strategy to weaken the opposition PAS' stronghold in Kelantan. This would strengthen UMNO's political position in that area, and increase its chances of recapturing Kelantan in the GE14. Furthermore, the project also aimed to accumulate political funds for Najib to placate key UMNO leaders and warlords, who were critical of him over the 1MDB scandal, in order to remain united before facing the elections.

Furthermore, this project was meant to deal with Najib's personal financial crisis in the 1MDB scandal, amid a serious feud with his deputy Muhyiddin. It appeared that CCCC was equally comfortable with the role played by Low in linking up the two states for business. They trusted him fully that he had the required mandate from Najib to be his proxy to meet up with SASAC in Beijing to negotiate a complex deal that was also inclusive of Najib's vested interests[140]. In other words, Najib's desperate attempts in creating a specific SBR for ECRL, through a unique institutional architecture as shown in Figure 5.1, had indeed paid-off for him to maintain regime stability after Muhyiddin was sacked. This had also helped him to remain in power during the peak of the 1MDB scandal in 2015-2016, until PH forced his ouster in May 2018.

Meanwhile, although Najib claimed that the project was an FDI from China (*Malay Mail Online*, 1 November 2016), CCCC's role in this case was not as an investor, but merely an EPC contractor with BRI funding. It implied that the project was an export of construction and financial services from China, which could see a huge outflow of funds from Malaysia eventually. This kind of "off-budget financing" scheme is quite risky, and may affect the country's overall credit ratings, contributing to the increase of government's cost of funds, or even depreciating the value of the Malaysian ringgit in the future. In other words, the funding of ECRL, through a huge soft loan from China, was largely beyond the narrow scope of FDI. Crucially too, EPCC contract awarded to CCCC on a direct-negotiation basis is going to make ECRL the most expensive railway in the world (Barrock, 2016), with little or no optimisation of resources involved. This form of contract also potentially served to marginalise the participation of local subcontractors and suppliers, or even crowd them out, despite the soft loan to be fully repaid by Malaysian tax-payers, when the seven-year loan moratorium expires.

In addition, though the financial capacity of EXIM Bank of China had made ECRL plausible (which was directly backed by Xi with an attractive interest below market rate, due to their capital market imperfections at home), the costly technical requirements specified by CCCC to hide the much-inflated cost for ECRL had nevertheless rendered

[140] The interview was done in September 2017 with a senior staff among the top three in CCCC Malaysia.

the commercial project to be not viable. In other words, ECRL may become a "white elephant", if expected huge cargo volumes are not forthcoming. In fact, China never committed that it would instruct its state-owned shipping lines and their worldwide alliance to use ECRL, as their preferred land-based cargo transportation link between the South China Sea and Strait of Malacca, when the project is fully operational.

On the other hand, China might be offering this attractive soft loan as a diplomatic tool to win over Malaysia's support for being the chairman of ASEAN in 2015. This would help the superpower to deal with other ASEAN members more effectively (*South China Morning Post*, 11 August 2017). This was because Beijing's ties with some of them were strained, due to the overlapping territorial claims at Spratly Islands in the South China Sea[141]. Malaysia was also far less assertive than some of its ASEAN neighbours in defending its stake in the South China Sea. With Malaysia's growing indebtedness to China, through the borrowing of a huge soft loan for ECRL, this would make it even less assertive. In fact, the implementation of ECRL had witnessed how Xi won over Najib's support for China's manoeuvre in the region. Najib was quite reluctant to use his infrastructural power to stake a claim over the Spratly Islands. He probably feared that he might lose Xi's support to bail out 1MDB's debts. This had allowed China to secure its maritime borders in the South China Sea at the expense of Malaysia.

[141] In 2016, Beijing's relations with Singapore deteriorated after the latter openly supported the international tribunal ruling at the Hague in 2016, which was against China but in favour of the Philippines (Teoh, 2017). According to Ni Lexiong, then naval expert at the Shanghai University of Political Science and Law, the cooperation between China and Malaysia signalled Beijing's desire to reduce Singapore's influence (Wong and Lo, 2017). As stated in Chapter 2: Section 2.4.2, the Strait of Malacca was an important waterway for China. With the entry and exit of the strait controlled by Singapore, it had been able to monitor China's commercial and military access through the strait. If a military conflict between the two superpowers occurred, Singapore being a strong ally to US could immediately seal off the strait, putting China at a disadvantage. Singapore had viewed China's participation in Melaka Gateway Port as more than just economic, but with military implications as well (Teoh, 2016; Jaipragas, 2017). However, according to Xu Liping, then professor at the Chinese Academy of Social Sciences, it appeared that Malaysia's manoeuvrings pertaining to the South China Sea were still unclear, as Putrajaya valued its ties equally with Beijing and Washington (Wong and Lo, 2017). In this regard, Malaysia as a neutral state probably adopted a "hedging" and "contingent" approach with both superpowers (Kuik, 2008), in order to benefit from both sides.

In essence, ECRL, as a public-led project, based on this new phenomenon of state-state-business ties (see Table 5.1), had led to the reshaping of a conventional SBR, from an invisible-hand in 2007 to a grabbing-hand in 2016 under Najib, primarily through his infrastructural power (see Table 5.3). The unique institutional architecture that represented this novel SBR form (see Figure 5.1) had denied a helping-hand from bureaucrats, as they were blocked by Najib's despotic power (Slater, 2003). Najib was assisted by a few dominant LPEs (see Table 5.2), who had vested interests not aligned with national development objectives, in alliance with different Chinese TCEs, to push through the deal. In fact, the outcome of this novel SBR was primarily catered to: 1) Najib's need to bail out 1MDB's debts; 2) partly fill up the financial hole in 1MDB due to the distribution of political funds in the GE13; and 3) purchase of shares by CCCC in two unrelated companies linked to Low. As a result, the project was based on exaggerated political claims, unrealistic economic assumptions, and biased contractual terms[142].

It appeared that this project was part of China's political game plan under the BRI to alter regional trade routes. It aimed to connect the strategically important Strait of Malacca on the west coast with the South China Sea on the east coast[143]. In particular, it seemed that Xi had intended to prioritise ECRL, by aligning it with China's strategic interests in the region under the BRI to: 1) enhance its natural resources' access security; 2) improve its exports and connectivity; 3) help absorb its excess production capacity at home; 4) provide jobs for Chinese workers during the construction stage; 5) have a strong influence over territorial disputes in the South China Sea; and 6) facilitate an attempt to isolate Singapore (Ho, 2017).

[142] The interview was done in September 2017 with an analyst, who spoke on condition of anonymity.
[143] The interview was done in September 2017 with an industry expert, who spoke on condition of anonymity.

These unfavourable economic and political implications related to ECRL (see Table 5.5), arising from a specific SBR created by Najib, through his infrastructural power with a grabbing-hand feature, had made UMNO politically vulnerable among the electorate during the GE14. This was because the party's rent-seeking behaviour had been perceived as deeply corrupt, besides the elite splits[144] that had fractured UMNO. The latter was due to Najib's purging of key rival elites from the party, like Muhyiddin, Shafie Apdal, and Mukhriz Mahathir, who eventually joined forces with PH to challenge BN. In fact, the negative impact of ECRL was considered very serious for UMNO in the GE14, given that its supreme leader, Najib, was actively involved in the project. This had contributed to an unexpected electoral victory by PH, facilitating a regime change for the first time in the history of the political system in Malaysia.

As Table 5.5 indicates, in the case of Melaka Gateway, Idris had utilised his infrastructural power (see Table 5.3) to create a novel SBR through the LPE-TCE link. This led to the shaping of another institutional architecture (see Figure 5.2) that redirected China's FDI to this strategic port project, and implemented it on a private-led basis. As highlighted in Section 5.2, this would help turn Melaka into an international tourism, maritime, and high-end property development hub. Since Malaysia had been China's top trading partner in ASEAN since 2008 (MIDA, 2016), coupled with the upgrading of normal bilateral trade ties to a comprehensive strategic partnership in October 2013 (*Xinhua*, 5 October 2013), Malaysia certainly hoped that China would choose Melaka as the gateway for its trade expansion plan with other ASEAN members under the BRI.

In particular, the signing of a port alliance agreement between Putrajaya and Beijing in 2015 (Teoh, 2016) could actually propel Melaka to become a regional logistics and

[144] Elite splits have long been used to explain why dominant political parties collapse, and authoritarian regimes change, over a period of time (see O'Donnell and Schmitter, 1986; Crouch, 1992).

trading hub in the long run (Ho and Tho, 2016). In other words, it implied that if the intention of Chinese SOEs to build the Melaka Gateway Port was to compete with Singaporean ports for regional trades, rather than crowding out existing local ports, then the BRI project would be beneficial for Malaysia economically[145].

Furthermore, this project was meant to deal with a political situation at the state level, the feud between Idris and Ali. In fact, Powerchina was fully aware of the political in-fighting, recognising that both of them were still very loyal to Najib, in spite of the latter's 1MDB scandal. Hence, Powerchina appeared to be quite comfortable to tie-up with a little-known, but politically well-connected KAJD (rather than GLCs or leading local developers), as strongly recommended by Idris. This was partly due to KAJD's ability to strike a balance between the old and new interests of two state-level UMNO leaders in the project, despite KAJD was financially weak. Powerchina also knew that KAJD had close ties with MCA, who probably helped to quell the political storm, by negotiating with China without UMNO. In fact, MCA was the first who brought in Chinese SOEs to the project, before it was hijacked by UMNO. Hence, Najib's desperate attempts to agree with some sort of elite settlement (by allowing Idris to create a specific SBR for Melaka Gateway to check Ali) had paid-off for UMNO to maintain regime stability at the state level. This helped them remain in power temporarily during the peak of the 1MDB scandal in 2015-2016, until UMNO's fall from power in the GE14.

Meanwhile, although this project was purely an FDI from China, which could help to lessen Malaysia's financial burden greatly, the funding aspect was not so straightforward, as compared to that of ECRL. While the reclamation right over the 1,366 acres of freehold

[145] In view of Singapore preferring to keep a distance from China, due to its own political and security interests in relation to the BRI, this had created a great business opportunity for Malaysia that should not be missed, especially when both the AEC and RCEP frameworks were favoured by China (see Chapter 2: Section 2.4.2).

land in Melaka Gateway was allocated by the state government to KAJD as economic rents (which could be used as a collateral to raise funds), a bridging finance was needed for land reclamation works to start first, before such land could be treated as a bank security. The funding aspect was thus much dependent on the commercial viability of the project, as well as the financial strength of Powerchina, given that KAJD's balance sheet was weak (see Table 4.2). In other words, it was Powerchina who decided whether to go ahead with this form of financing.

Unlike ECRL, there were no major Chinese state-owned banks involved in Melaka Gateway, implying that they did not see good value in this project. In particular, China's investments in so many ports in Malaysia, like Kuantan Port[146] and Melaka Gateway Port, also seemed to lack of good commercial sense. A World Bank study commissioned in 2015 showed that there was no need for a new deep-sea port to be built along the west coast of peninsula Malaysia (Teoh, 2016). In fact, when China's shipping company, COSCO, moved its regional operations from Port Klang to Singapore in 2017, many questioned the real intention of China, that is, if it was to build another port along the Strait of Malacca (Teoh, 2017). Importantly too, there was no proper feasibility study, suggesting that the project could end up as a white elephant, like the Hambantota Port in Sri Lanka. In fact, this project in the Indian Ocean was also funded by a huge soft loan from China. However, with limited cargo coming its way, this did not make the port commercially viable (Maresca, 2017). As a result, 90 per cent shareholding of the port was eventually taken over by Chinese SOEs, to contra the defaulted soft loan. Similarly, massive reclamation works at Melaka Gateway without proper DEIA had caused some environmental damage, undermining the livelihood of fishermen at the nearby Portuguese

[146] A joint-venture between IJM Corporation Berhad, a Malaysian GLC, and Beibu Gulf Holding (Hong Kong) Co Ltd, a Chinese SOE, on a 51:49 shareholdings basis.

Settlement. These were potential major social and political issues, if the state government did not handle them with care.

In 2016, the social media suddenly uploaded two letters signed by Idris, which suggested that Melaka Gateway Port might eventually be set aside as a Chinese naval base (Koh, 2017). Although Idris defended that state-state-business ties between both countries had never included military projects, the original master plan presented by KAJD in 2014 clearly showed that the natural island was meant to be an eco-isle resorts development, not a strategic deep-sea port. Since authority approvals for the project had been issued on a fast-track basis with secrecy, presumably it had to do more with military, rather than pure commercial interests (*The Straits Times*, 14 November 2016).

Since the Najib administration had faced much political pressure at home amid the 1MDB scandal, there was the possibility of over-dependence on China's financial support to rescue this Malaysian GLC immediately[147]. In return, Chinese SOEs could capitalise on the weakness of the UMNO-led government, by seizing a piece of strategic infrastructure, the Melaka Gateway Port, for their own state-specific objective. This port would enable Xi to strengthen the position of Chinese SOEs in the Southeast Asian market, limiting the power and influence of other developed countries, like the US and Japan, in the region. Malaysia's indebtedness and dependency on China could deepen under the BRI, as Chinese SOEs might gain a foothold over large parts of Malaysia's strategic infrastructure projects, as well as majority stakes in mega-property development deals.

In essence, Melaka Gateway, as a private-led project, based on this new state-state-business tie (see Table 5.1), had led to the reshaping of a conventional SBR, from an

[147] The interview was done in September 2017 with an analyst, who spoke on condition of anonymity.

invisible hand in 2010 to a grabbing-hand in 2016 under Idris, primarily through his infrastructural power (see Table 5.3). The unique institutional architecture that represented this novel SBR form (see Figure 5.2) did not indicate any evidence of a helping-hand from bureaucrats, as they were blocked by powerful UMNO and MCA politicians. Idris was also assisted by just a few dominant LPEs (see Table 5.2), who had vested interests not aligned with national development objectives, to collaborate with different Chinese TCEs, to push through the deal. This project primarily catered to Idris' political intent to check Ali, as well as to accumulate political funds to gain electoral support. As a result, a deep-sea port was allowed to be majority-owned and operated by Chinese SOEs, which could turn into a naval base (Koh, 2017). There was no guarantee from China that it would never use the deep-sea port as a naval base during military conflicts[148].

These unfavourable economic, political, social, and security implications related to Melaka Gateway (see Table 5.5), arising from a specific SBR created by Idris, through his infrastructural power with a grabbing-hand feature, had made UMNO politically vulnerable among the electorate. This was because their rent-seeking behaviour had been perceived as deeply corrupt, for allowing a controversial deep-sea port to be built and majority owned by Chinese SOEs. Though the negative impact of Melaka Gateway was arguably limited at the state level only, and considered less serious for UMNO in the GE14, as compared to that of the federal-based ECRL, the SDP was still seen as actively involved in the project. This eventually contributed to UMNO's big loss in the GE14.

[148] According to Johan Saravanamuttu (*Straits Times*, 14 November 2016), then senior research fellow at the Rajaratnam School of International Studies in Nanyang Technological University of Singapore, there is a strategic element of the Strait of Malacca, whereby it can start with an economic presence, then develop into a naval one, because China will be obliged to ensure the safe passage of its commercial and naval ships plying the strait.

As Table 5.5 indicates, in the case of Forest City, the Sultan had utilised his instrumental power (see Table 5.3) to create a novel SBR through the LPE-TCE link. This led to another different institutional architecture (see Figure 5.3) that drew China's FDI to this smart city project, implemented it on a private-public-led basis. As highlighted in Section 5.2, this would help turn Forest City, which the Sultan claimed to be part of Iskandar Malaysia, into an alternative to Singapore. To this end, due to the negative sentiment of the 1MDB scandal, Malaysia's GDP growth rate had dipped from 6 per cent in 2014 to 5 per cent in 2015. As a result, the value of residential sales fell by 11 per cent within the same period (Mahrotri and Choong, 2016). However, by 2016, Iskandar Malaysia managed to reverse the trend, when there was a sudden surge in FDI from China, amounting to RM24.56 billion in cumulative investment value (IRDA, 2017), mainly in the property development sector. Unlike Melaka Gateway, it implied that private investors from China saw good value in Forest City. They helped to stimulate economic recovery at the state level, in spite of the negative sentiment of the 1MDB scandal. The UMNO-led government also played a proactive role by granting attractive tax incentives and other preferential treatments for private investors to develop Iskandar Malaysia (Forest City was annexed to its CDP in 2015 in order to enjoy the same benefits). For example, prominent Chinese private developers, like Country Garden, who were also closely controlled by CCP, were attracted to the MM2H programme[149], implemented since 2002, which allowed foreigners to live in Malaysia for a period of up to 10 years.

Furthermore, this project was shaped by a political situation at the state level, the feud between Khaled and Daing, as well as a constitutional right complicated by the Sultan to challenge UMNO's hegemony. Country Garden was aware of the political in-fighting,

[149] As of June 2016, Malaysia had approved 30,194 applicants under the MM2H, with mainland Chinese taking up 24 per cent of the total share of all applicants. On a year-to-year basis, mainland Chinese applicants witnessed more than 110 per cent growth in 2016, the fastest growing group among all nationalities (*The Sun Daily*, 22 March 2017).

thus appeared to be quite comfortable to form a JV that was not only inclusive of the Sultan's interests, but also to leverage on the influence of KPRJ, controlled by Khaled, who was closely aligned with Najib. This was because the right for the land to be reclaimed from the sea at Forest City were allocated to the Sultan in December 2013 by the state government led by Khaled. The subsequent submission of detailed development plans would still be subjected to his authority approvals. Country Garden thus had to strike a balance between Khaled and Daing, and to a lesser extent between the Sultan and Najib, in order not to be seen as taking side in the intense political feud being played out at the state level.

Although this project was purely an FDI from China, the funding aspect was different from that of Melaka Gateway. Despite the reclamation right over the 1,386 hectares of freehold land in Forest City were allocated to the Sultan, which could be used as a collateral to raise funds, a bridging finance was still needed for land reclamation works that had to be done, before such land could be treated as a bank security. However, unlike Melaka Gateway, the funding aspect of Forest City was dependent on the financial strength of both Country Garden and the Sultan, given that the latter's financial position was quite strong, after selling a few tracts of prime state land to Guangzhou R & F in 2013 for RM4.5 billion (see Table 4.5). Hence, both Country Garden and the Sultan decided whether to go ahead with this form of financing. In 2015, Country Garden also launched a RM1.5 billion *Sukuk Murabahah* programme in Malaysia. It aimed to raise local funding for its long-term property development plan in the country. The issuance was well-received by local Islamic financial institutions, implying that they saw good value in Forest City. In fact, Country Garden had become the first Hong Kong-listed Chinese developer to tap into the ever-growing Islamic *Sukuk* market in the region.

In April 2017, it was reported that Forest City had achieved 17,000 units of residential sale (*New Straits Times*, 29 November 2017), with 90 per cent of the purchasers coming from China[150]. Unlike Melaka Gateway, mainland Chinese buyers saw good investment opportunity in Forest City. This was because it is located nearer to Singapore, but with relatively cheaper prices, as compared to that of the same properties in the outskirt of the island-state. However, this massive development in Forest City had contradicted with the business plan of Iskandar Investment Berhad (IIB), the developer for "Medini Iskandar", and majority-owned by the federal government. As early as 2014, IIB had announced that it wanted to limit the sale of land in the special economic zone, through a "controlled release strategy". This was because the company believed that Iskandar Malaysia was still a relatively small and fragile region, and it would be too risky for the local market if it was over-built (Khairul, 2014). In other words, although the arrival of top Chinese developers spelt good news for the investment climate in Malaysia, there were serious concerns about the oversupply of residential units in Johor.

Moreover, it was not in the best interest of Johor when prominent Chinese developers built all sorts of properties without any restrictions. More specifically, the self-contained smart city, which could accommodate 700,000 people when fully completed, presumably catered to the needs of mainland Chinese only. This could well become a racial issue by certain politicians, who narrowly viewed it as a manifestation of Chinese chauvinism. There were also possible risks to racial ties between different local ethnic communities, if the state government did not handle the situation with care.

In essence, Forest City, as a private-public-led project, based on this state-state-business tie (see Table 5.1), had contributed to the reshaping of a conventional SBR for Iskandar

[150] Former Prime Minister Mahathir Mohamad had warned that Forest City might soon become a "foreigner's territory", which could compromise the nation's sovereignty (*The Star Online*, 17 January 2017).

Malaysia, from an invisible-hand in 2006, to one for Forest City with a grabbing-hand in 2014 under the Sultan, primarily through his instrumental power (see Table 5.3). However, the unique institutional architecture that represented this novel SBR form (see Figure 5.3), though with a grabbing-hand, also had a helping-hand from bureaucrats, as facilitated by Khaled's infrastructural power. The Sultan was also assisted by just a few dominant LPEs (see Table 5.2), who had vested interests not aligned with national development objectives, to collaborate with a Chinese TCE, and push through the deal.

The economic, political, and social implications related to Forest City (see Table 5.5) had made UMNO politically vulnerable among the electorate during the GE14. This was because UMNO was perceived to be extremely weak in governance, especially subservient to the institution of the monarchy. UMNO was evidently unable to contain the power and business interests of the Sultan. The negative impact of Forest City was arguably limited at the state level only, and considered less serious for UMNO in the GE14, as compared to that of the federal-based ECRL, or the state-based Melaka Gateway, given that UMNO was not actively involved in this project.

CHAPTER 6: CONCLUSIONS AND RECOMMENDATIONS

6.1 LESSONS LEARNT AND CONCLUSIONS

Research Question No. 1:

How have newly-forged state-state-business ties, involving two countries, both led by SDPs, shaped different LPE-TCE links that, in turn, contribute to novel SBR forms?

This study indicates that even when state-state-business ties are forged by two countries, both led by SDPs, the power of the "state" is not necessarily concentrated in the supreme leader of the party at the national level. It is also dispersed at various levels and caters to the specific power and vested commercial interests of different LPEs closely linked to the SDP, confirming Higley and Burton's (1989) contention that the state is not a monolithic entity. The extent to which the Malaysian state can promote effective SBRs for economic growth, through different BRI projects, is dependent on the roles of different LPEs, as well as different Chinese TCEs, and how they engage with each other on a non-transparent basis. For this reason, LPE-TCE links, though shaped by this new phenomenon of state-state-business ties, have contributed to the creation of novel SBR forms, through three BRI projects, specifically in the Malaysian property development and construction sector.

Evidently, the three specific SBRs created for these BRI projects were meant to:

1) pursue the political and economic plans of top leaders of the two SDPs, UMNO and CCP, based on mutual benefits, but for different reasons;

2) influence and alter the planning and implementation approaches of economic policies in Malaysia from originally an invisible-hand to a grabbing-hand tendency;

3) deal with a major political crisis, the 1MDB scandal, as well as the royalty issue, which could undermine regime stability at either the federal or state level; and

4) acquire favours to be distributed to key UMNO leaders, warlords, and royalty, to enhance political support, raise funds for political activities and patronage, as well as mobilise electoral votes for UMNO before the GE14.

Meanwhile, the five major findings of this study are summarised as follows:

1) The type of project initiative shaped by state-state-business ties through different LPE-TCE links for BRI projects, which had led to the creation of three dissimilar SBRs forms in Malaysia, were either public-led, private-led, or private-public-led;

2) The type of power centred in each specific SBR for the three BRI projects was either infrastructural-based, instrumental-based, or both;

3) The type of authority available in each specific SBR for the three BRI projects was either charismatic, legal, or traditional;

4) The form of institutional architecture that represented each specific SBR for the three BRI projects was either a single-tier structure, or a double-tier structure; with or without the full control of UMNO, and

5) The feature of growth-enhancing and rentier-type outcome generated by each specific SBR for the three BRI projects was either productive, predatory, or both.

In the case of ECRL, which was public-led, state-state-business ties were directly forged by Najib and Xi. This project aimed to create a specific SBR that was favoured by UMNO, in general, and Najib, in particular. This SBR helped to secure a huge soft loan from China that could serve Najib's personal agenda to rescue 1MDB, as well as to fulfil national development objectives. In addition, it helped to consolidate his political base in two ways: a) to raise additional political funds for election campaigns; and b) to bring in China's FDI to under-developed east coast states, where UMNO had political support which it needed to increase before the GE14. Crucially too, ECRL was very much in line with Xi's BRI agenda.

A novel SBR was evidently created to suit the vested interests of two strongmen, who did not have to answer to anyone else, and involved only state-linked firms from both sides. The power in this SBR was infrastructural-based (Fuchs and Lederer, 2007), centred on Najib. The single-tier institutional architecture that represented this specific SBR form was within the full control of UMNO and appeared to be viable for the project. More importantly, Najib's personalised power (Slater, 2003) had allowed MRL, an SPV, to operate outside the realm of Parliament. It had also emboldened Chinese SOEs to just seek a one-stop endorsement from the Prime Minister's Department for the speedy implementation of the project. Coordination between state-linked firms from both sides was not complicated as they were directly controlled by two strongmen, Najib and Xi. Hence, government decision-making processes for ECRL were efficient.

In the case of Melaka Gateway, which was private-led, state-state-business ties were indirectly forged by Idris, Najib, Liow, and some mainland Chinese business actors who appeared to be covertly controlled by CCP. This project also aimed to create a specific SBR favoured by UMNO, in general, and Najib, in particular, just like the ECRL. Melaka Gateway helped to secure a much-needed FDI from China that could serve Najib's personal agenda to maintain regime stability, particularly at the state level, as well as fulfil national development objectives.

However, Najib had to support a state-level leader, Idris, allowing him to implement the project to fend off his political rival, Ali. Idris then deployed a little-known, but politically well-connected local private enterprise, KAJD, to push through the deal for their own benefit. Crucially too, Melaka Gateway was in line with China's BRI endeavour. Another novel SBR was thus created for a state-level local private enterprise, linked only to UMNO, to collaborate with national- and provincial-levels Chinese SOEs, either directly or indirectly controlled by CCP.

This made the Melaka-based SBR more complex than that of ECRL. In particular, the power in this SBR, though still infrastructural-based, shifted away from Najib to Idris, as consented by Najib. Furthermore, although this double-tier institutional architecture that represented this specific SBR form was still within the realm of UMNO, the SDP did not have full control over the project. The agenda was also dictated by Powerchina. This was unlike what Najib did with Xi in ECRL, who could control CCCC. Coordination between both federal and state levels was a major issue, as there was no one-stop centre involved, unlike the Prime Minister's Department in ECRL. Idris clearly did not have absolute infrastructural power to liaise with major institutions at the federal level. Though he could still leverage on Najib's infrastructural power, it was not straightforward.

Meanwhile, KAJD was a little-known Melaka-based private enterprise, majority-owned by Ong, who was merely a business proxy for both UMNO and Powerchina. She lacked the instrumental power to undertake such a huge project by herself. Moreover, since there were too many Chinese SOEs involved in the project at both national and provincial levels, this emerged as a major coordination issue from the Chinese side. This was because provincial-level Chinese SOEs were not directly controlled by CCP. The government decision-making processes for Melaka Gateway were inevitably less efficient than that of ECRL.

In the case of Forest City, which was private-public-led, state-state-business ties were indirectly forged by the Sultan and a mainland Chinese business actor, Yang, who appeared to be covertly controlled by CCP. Unlike ECRL and Melaka Gateway, this project aimed to create a specific SBR that was not favoured by UMNO in general, and Najib, in particular. Though it still helped to secure a much-needed FDI from China that could fulfil national development objectives, key UMNO elites like Khaled had little say in the project, given the presence of the Sultan as a key actor in the state.

The Sultan then incorporated Esplanade Danga 88 as an SPV, majority-owned by him to push through the deal for his own benefit. Nevertheless, Forest City was also in line with China's BRI endeavour. A different though also novel SBR was created to involve a state-level local private enterprise, which was not only directly controlled by the Sultan, but also linked to UMNO, with a provincial-level prominent Chinese private enterprise indirectly controlled by CCP. This made the Johor-based SBR far more complex than that of ECRL and Melaka Gateway. In particular, the power in this SBR was instrumental-based, with a shift apparently away from Najib and Khaled and skewed towards the Sultan. This implied that the Sultan did not need to get any consent from state-level UMNO leaders to implement the project. This single-tier institutional architecture created for this specific SBR was most viable for the project.

The Sultan had also utilised his personalised power to influence Khaled to exercise his infrastructural power (albeit unwillingly) to set up an SPV. This had led to the use of the state's Chief Minister Office as a one-stop centre to assist the Sultan in the speedy implementation of the project. Coordination between the Sultan and Yang was straightforward, as both were seasoned businesspeople. They were primarily driven by profit-maximising strategies, similar to those adopted by Western MNCs (Amighini *et al*., 2011). The government decision-making processes for Forest City was therefore, not surprisingly, far more efficient than ECRL and Melaka Gateway. This was also because UMNO's role in this case was passive, rendering its control over the project to be almost irrelevant.

These newly-forged state-state-business ties, involving two countries both led by SDPs, to facilitate their respective business enterprises to undertake three BRI projects, were vastly different from each other. In the case of ECRL, a public-led project, the "state" for both countries was explicit, as it was represented by Najib for Malaysia and Xi for China. In Melaka Gateway, a private-led project, the state for both countries was not explicit, as it was represented by a mix of federal- and state-levels UMNO and MCA leaders for Malaysia, and a mix of national- and provincial-levels Chinese business actors, who appeared to be controlled by CCP. In Forest City, a private-public-led project, the state for both countries was not explicit, as it was represented by the Sultan, instead of state-level UMNO leaders. Furthermore, unlike ECRL and Melaka Gateway, the state for China was not represented here, though Yang appeared to have the backing of CCP, otherwise he would not have been allowed to invest in this massive project.

Clearly, under the authoritarian regime of UMNO, the private sector alone (except for the Sultan, who blurred the boundaries between public and private sectors[151]) was unlikely to undertake BRI projects by themselves. It required prompt state interventions to create the necessary SBRs that also catered to specific power and vested commercial interests of different LPEs closely linked to the SDP at various levels. This is not to suggest that such state interventions had been developmental in nature. In fact, economic policy changes in Malaysia traditionally respond to major political crises in UMNO; they are not purely based on economic considerations (Gomez, 1994). This point was clearly reflected in the three dissimilar SBRs created in Malaysia for the three BRI projects. These projects, though meant to be productive during the planning stage with an invisible-hand, were later hijacked by key UMNO elites, or royalty, with a grabbing-hand feature. They evolved into a predatory act during the project implementation stage, mostly denying a helping-hand (except for the Forest City) from bureaucrats and oversight agencies.

Research Question No. 2:

In Malaysia, who were these different LPEs, what type of power did they have, where were they situated in the local power structure at both federal and state levels, and how did these factors shape novel SBR forms?

By definition, the power of the "state" in SBRs can be termed as infrastructural power, while the power of "business" in SBRs can be termed as instrumental power (Fuchs and Lederer, 2007). In Malaysia, it is evident that the power in the two novel SBRs that were created for ECRL and Melaka Gateway was infrastructural-based, centred on two key

[151] According to Polanyi's (1944), a modern market economy and nation-state should not be understood as two discrete elements, but as the single human invention he called the "market society. This is, in contrast, to the concept of SBRs, where the state and business are defined as two discrete elements, representing public and private sectors with arms-length relationships.

UMNO elites, Najib and Idris, at either the federal or state level. While the power in the novel SBR that was created for Forest City was instrumental-based, centred on royal elite the Sultan at the state level only, which was vastly different from that of ECRL and Melaka Gateway. However, unlike ECRL, where only infrastructural power existed in the project, in Melaka Gateway and Forest City, the empirical evidence indicates that both infrastructural and instrumental powers had co-existed in each project. In this regard, there were also significant differences among them, as further elaborated below.

In ECRL, Najib's infrastructural power was derived from being the President of UMNO, as well as Prime Minister-cum-Finance Minister. In other words, he had the charismatic authority (Weber, 1922), which is stemmed from an individual's extraordinary personal qualities, and from that individual's hold over followers because of these qualities. Najib was thus able to wield enormous power to create a specific SBR for the project, since his office was presiding over an extensive array of key institutions. He was also assisted by just a few dominant LPEs, like Rahman and Low, to shape this specific SBR. These LPEs leveraged on Najib's infrastructural power, embedded in the single-tier institutional architecture at the federal level only, with links externally to Chinese enterprises. As a result, bureaucrats were unable to assess the project's viability, due to Najib's personalised power (Slater, 2003). This in turn had imposed an authoritarian mechanism that only rewarded loyalty, while punishing those who stood in his way. Clearly, only one type of power had existed in ECRL, with Najib deciding whether to go ahead with it.

In Melaka Gateway, Idris' infrastructural power was derived from being the state's Chief Minister, a key executive position appointed by Najib for those states controlled by UMNO. Melaka has no Sultan, but with an appointed governor, a weak ceremonial head. In other words, Idris had the legal authority (Weber, 1922), derived from the law and based on a belief in the legitimacy of a society's rules and in the right of leaders to act under these rules to make decisions and set policies. He had some autonomy under the Constitution to decide on state-level property development projects, since land matters are under his jurisdiction, subject to Najib's consent. Idris was assisted by a few dominant LPEs, like Liow and Ong, to shape this specific SBR. They leveraged on Najib's and Idris' infrastructural powers, embedded in the double-tier institutional architecture that cut across both federal and state levels, with links externally to Chinese enterprises. However, unlike ECRL, there was a vast difference in terms of the infrastructural power that was applicable to Melaka Gateway. Idris did not have the absolute say, but instead had to leverage on Najib's infrastructural power at the federal level. It was Powerchina's instrumental power (while Ong was merely a business proxy for both UMNO and Powerchina), rather than Idris' infrastructural power only, which would determine the implementation of this project. In other words, both types of power had co-existed in Melaka Gateway, but it was Powerchina who decided whether to go ahead with it.

In Forest City, the Sultan's instrumental power was vastly different from the two infrastructural powers in ECRL and Melaka Gateway. It was not derived from UMNO, but based on a mix of the Sultan's feudal Malay ruler status, as well as the enormous wealth he amassed through concession rights allocated by the state government over the years. In other words, he had the traditional authority (Weber, 1922), legitimated by the sanctity of tradition, where the ability and right to rule is passed down, often through heredity. Furthermore, though the Sultan did not hold an executive position, the appointment of a state's chief minister was still subject to his consent under the Constitution (Milner, 1982). He could play the role of "kingmaker", by utilising his personalised power (Slater, 2003), as derived from constitutional rules. This was done by influencing Khaled, the state's Chief Minister, in administering the state government, including those pertaining to state-level property development projects.

The Sultan was also assisted by a few dominant LPEs, like Lim and Daing, to shape this specific SBR. They leveraged on both the Sultan's instrumental power and Khaled's infrastructural power, embedded in the single-tier institutional architecture at the state level only, with links externally to Chinese enterprises. However, it was the Sultan's instrumental power - and also Country Garden's - that would determine implementation of the project, though Khaled's infrastructural power was still needed for authority approvals. In other words, similar to Melaka Gateway, both types of power co-existed in Forest City, but it was the Sultan (and Country Garden), who decided whether to go ahead with it.

The elite perspective, as informed by Mills' (1956) power elite theory, had helped to situate and provide insights into how novel SBRs were shaped by different LPEs with different types of power (namely infrastructural-based or instrumental-based), as well as authority (namely charismatic, legal or traditional). These SBRs were operationalised by different forms of institutional architecture (namely single-tier or double-tier) that functioned not only at the federal level, but also at the state level, with links externally to Chinese enterprises. In the process, it drew attention to inter- and intra-elite relationship issues of different LPEs, like elite unity, elite contestation and elite settlement, not purely due to political elites only, as noted by (Higley and Burton (1989), which could undermine regime stability at both levels. Evidently, Najib's desperate attempts in allowing dissimilar SBRs to be created (through different BRI projects undertaken by different LPEs closely linked to UMNO) had paid-off for him to maintain regime stability and remain in power temporarily. This was deemed necessary during the peak of the

1MDB scandal in 2015-2016, until the UMNO-led government unexpectedly lost its power to PH in May 2018.

It is important to note that the descriptions used to differentiate cleavages of LPEs in this study were based on group-specific attributes informed by Mills (1956). However, the empirical evidence revealed that group-specific attributes had limited explanatory power for decisions made by certain LPEs. Instead, personal attributes that these LPEs assumed were more revealing about their different hegemonic actions, rather than those given by group-specific attributes. This point was particularly reflected in the case of strongman Najib in ECRL, and the influential Sultan in Forest City. In other words, elites by nature are multi-headed and many faced (Amsden and DiCaprio, 2012). They may not share the same attributes in a specific group as claimed by Mills (1956).

In addition, although Low, Ong, and Lim were conceptually categorised as business elites in the same group, the evidence revealed that they were not sharing the same group-specific attributes, with all playing different roles in the three BRI projects. In the case of Low, though he was subservient to Najib as his business proxy in ECRL, he was given an important task by Najib to negotiate a complex deal with CCCC and SASAC in Beijing. Furthermore, as an international financier, he acted on behalf of Najib to make sure who got what, and how, by working closely with his network of international financial institutions. In the case of Ong, though she was subservient to both UMNO and Powerchina as their business proxy in Melaka Gateway, she was given an important task by UMNO and MCA to be an official JV partner to Powerchina. Furthermore, she acted on behalf of Powerchina to make sure who got what, and how. As a little-known business-woman in Melaka, who lacked the instrumental power to undertake such a massive project on her own, she had relied on the MCA to get herself into a lucrative deal with

Powerchina. In the case of Lim, though he was subservient to the Sultan and Country Garden as their business proxy in Forest City, he was tasked by the Sultan to negotiate a complex deal with Yang of Country Garden. However, he was not acting on behalf of the Sultan to make sure who got what, and how. Furthermore, as a prominent businessman, who had the instrumental power to undertake such a huge project on his own, surprisingly, he was not a JV partner to either Country Garden or the Sultan in the Forest City project. Although LPEs might have a negative image, due to their rent-seeking behaviour, there was no evidence to suggest that they had behaved in a way that was against economic development. In other words, under the authoritarian regime of UMNO, collusion may not mean a loss of state autonomy, or gain of power by business completely. Instead, although the state does cede some prerogatives through negotiated compromise, state actors like bureaucrats trade some autonomy in return for greater capacity. This helps speed up implementation of meaningful policies for economic growth. This point was reflected in the Forest City project, in particular. Hence, contrary to the classic public choice notion of rent-seeking, which view them as "unproductive" (Krueger, 1974), government-generated rents in this case were understood to be "productive". This was because they had at least contributed to economic recovery, as well as regime stability at both levels before the GE14, albeit temporarily.

In fact, this study has demonstrated that LPEs were those who initiated new ideas, created new resources, took fast actions during a major political crisis, like the 1MDB scandal, and built up the state capacity promptly to seize business opportunities under the BRI. These activities were crucial for economic development, and unlikely to be carried out by bureaucrats alone. While the key factor that motivated them to do so might be due to self-interest, the fact is without their active involvement in driving a specific SBR in Malaysia, these three BRI projects would be difficult to be implemented within a short period. In other words, contrary to Mills' (1956) assertion, not all LPEs are predatory, while some of them can actually play a constructive role in economic growth, by fulfilling meaningful policies. It also implies that their infrastructural or instrumental power is not a zero-sum game, and pragmatic use of their personal network and resources could actually benefit the state and turn them into a positive-sum game (Wong, 2012).

However, the same could not be said if these LPEs might have intentionally committed to: 1) securing huge debts with much-inflated cost that could burden Malaysian tax-payers, as in the case of ECRL; 2) foregoing a piece of freehold land to develop a deep-sea port that could turn into a Chinese naval base, as in the case of Melaka Gateway; and 3) allowing a new smart city to be built for the purchase of mainland Chinese only that could turn it into a foreigner's territory, as in the case of Forest City. These seemingly irresponsible and predatory acts, if intentionally committed by LPEs, especially through their personalised power, were certainly against meaningful policies and not aligned with national development objectives. They could have a negative impact on the Malaysian economy, as well as its political system in the long run.

Research Question No. 3:

What were the key motivating factors for different LPEs to collaborate with different Chinese TCEs on a non-transparent basis, and what were the economic and political implications of these novel SBR forms created by them through BRI projects in the Malaysian property development and construction sector?

In the case of ECRL and Melaka Gateway, the key motivating factor for different LPEs to collaborate with Chinese TCEs on a non-transparent basis was mainly due to the importance of distributing political funds and government-generated rents. This was meant to maintain regime stability at both levels before the GE14. In fact, political financing was largely a legacy of UMNO since the emergence of a close state-business nexus in Malaysia in the late 1980s (Teh, 2002; Gomez, 2012a). Political financing could also determine the type of power and form of institutional architecture applicable to each SBR for the two BRI projects.

In this regard, the two SBRs shaped by key UMNO elites, Najib and Idris, for ECRL and Melaka Gateway, though dissimilar from each other, were essentially based on their infrastructural power, in order to serve their own political agenda. More importantly, in both cases, Najib and Idris also wanted to bring in China's BRI funding and investments to stimulate speedy economic recovery and promote infrastructure development beneficial for the three under-developed east coast states and Melaka. While the infrastructural power for both projects was adhering to a long-institutionalised political business environment in Malaysia since the 1980s (Gomez, 1994), predatory features prevailed, as they involved monied politics in UMNO. Moreover, the slow progress of both projects suggested that infrastructural power was less effective in promoting economic growth in the short run, as LPEs were primarily motivated by the need to secure quick access to money to win elections, consolidate political support, and personally enrich themselves. In this regard, the literature indicates that if there is much economic growth accruing in the long run from this type of grabbing-hand projects, this is also what authoritarian governments want, in spite of being ineffective and predatory in the short run. In other words, ECRL and Melaka Gateway fulfilled both goals, namely they would help to generate economic growth in the long run, but at the same time also involved much abuse of power in the short run.

In the case of Forest City, the key motivating factor was vastly different from that of ECRL and Melaka Gateway, given that there was no political financing involved. In other words, different LPEs in Forest City centred around the Sultan primarily had one business focus in mind, namely they were interested in the money to be made, and not so much in politics. This was also because key UMNO elites played a passive role in this project, though they were given a small stake via KPRJ. This specific SBR shaped by the Sultan was independent of UMNO, and primarily based on his instrumental power, in order to achieve his personal wealth accumulation objective. However, the instrumental power in Forest City appeared to be good for the project, as it was functioning outside the realm of major political institutions. UMNO's debilitating money politics was not present here. Furthermore, the rapid progress of Phase 1 suggested that instrumental power was far more effective than infrastructural power in promoting economic growth in the short run. Unlike political elites, business elites have to register profits consistently in order to survive, suggesting that if both infrastructural and instrumental powers had been deployed properly in the first place, particularly with a helping-hand from bureaucrats and well-monitored by relevant oversight agencies, all three projects would likely have had effective economic outcomes in the long run as well.

Meanwhile, there was an expectation by top leaders of China of effective economic outcomes, since these BRI funding and investments in Malaysia had potentially synergistic spillover effects, provided that productive relations between Chinese SOEs and the domestic business sector were forged. This study also notes the use of different Chinese SOEs by CCP to play a vital role in Malaysian politics, particularly when UMNO was weak amid the 1MDB scandal. Due to this new phenomenon of state-state-business ties, which had resulted in specific SBRs driven by politically-inclined LPEs, Chinese SOEs appeared to have influenced certain LPEs to sway political decisions in Malaysia for their own benefit. This would certainly help them to secure key strategic BRI projects in the property development and construction sector, like the ECRL and Melaka Gateway Port, in order to achieve their state-specific objectives.

However, in view of China's traditional stance of non-interference in politics of host countries, this gave Najib a free hand in dealing with just a few dominant LPEs that were closely linked to UMNO for their own interests only, without being strictly scrutinised by CCP. China's close ties with politically-inclined LPEs for business in developing countries, which are ruled by authoritarian regimes like Malaysia, not only would create public resentments towards their BRI projects, but also could make the superpower vulnerable, if there is a regime change in a particular host country. This point was clearly reflected in Malaysia, when the UMNO-led government lost to PH in the GE14.

In theory, the rationale for an effective role of SBRs to develop an economy is that an invisible-hand provides sub-optimal outcomes, and a grabbing-hand leads to ineffective outcomes, but a helping-hand is an effective way in which state and business can interact (Lemma and te Velde, 2015). In ECRL, an SBR was first created with an invisible-hand in 2007. It evolved into a grabbing-hand in 2016 under Najib, primarily due to the bailout of 1MDB's debts at a much-inflated cost. There was little or no helping-hand from bureaucrats to assess the project's viability. The project's outcome in the short run was deemed ineffective and predatory, even though in the long run it was potentially productive. This perceived ineffectiveness of the project in the short run had partly contributed to the collapse of UMNO-led government in May 2018.

In Melaka Gateway, an SBR was first created with an invisible-hand in 2010 to turn Melaka into an international tourism, maritime and high-end property development hub.

However, it evolved into a preponderance of grabbing-hands in 2016 under a few key political elites at both levels, primarily due to accumulation of political funds and government-generated rents. There was no evidence of a helping-hand from bureaucrats to assess the project's feasibility. The outcome of this project in the short run was deemed ineffective and predatory, though the outcome in the long run could be effective. The project's perceived ineffectiveness in the short run partly stifled its implementation, a reason why Powerchina's keen interest in the project appeared to have diminished.

In Forest City, an SBR was first created with an invisible-hand, with its link to Iskandar Malaysia, but evolved into a grabbing-hand later under the Sultan, when he personally drove this project. Nevertheless, there was also a helping-hand involved, as the Sultan had influenced Khaled to utilise his infrastructural power to secure support from professional bureaucrats to speed up the implementation process. The outcome of this project was deemed productive, though also predatory in the short run (due to a mix of helping-hand and grabbing-hand features), with potentially effective long-term gains. The perceived effectiveness of the project in the short run had partly contributed to the rapid progress of Phase 1, which was completed ahead of schedule.

Despite these seemingly predatory acts in the short run that were being observed in the three BRI projects, as a counter-narrative, this study also notes that if major project risks were properly assessed and managed, these novel SBRs conceived through state-state-business ties could also be regarded as effective, in spite of the rent-seeking behaviour involved. If key UMNO leaders and royalties were committed to major institutional reforms and facilitated a helping-hand from bureaucrats and oversight agencies to emerge during the implementation stage, these projects would likely lead to effective economic outcomes in the long run as well.

This study indicates crucial differences of how China's BRI funding and investments in the Malaysian property development and construction sector could lead to the creation of novel SBRs with predatory acts. On the other hand, as a counter-narrative, a common point had emerged, namely a variety of these SBRs were also productive in nature, in spite of the rent-seeking behaviour. These specific SBRs had shaped the rapid progress and economic impact of some BRI projects in the country in the short run. Furthermore, the emergence of various LPE-TCE links, between different SOEs, GLCs, or well-connected private enterprises from both sides on a win-win basis, also provided profound insights into major implications of this new phenomenon of state-state-business ties in affecting the long-term economic growth of a host country, ruled by an authoritarian regime. In particular, dissimilar SBRs that were simultaneously being created in these BRI projects certainly have had a bearing on patterns and inter-dependencies of economic, political, and social changes in Malaysia.

If developmental state theory is to remain relevant in SBR-related studies, it needs to re-consider not only the narrow scope of conventional SBRs in the domestic context, but also this new phenomenon of state-state-business ties, forged by two countries both led by SDPs, in the regional context. These specific state-state-business ties will shape LPE-TCE links to create novel SBRs in a host country, with full control over their SOEs, GLCs, or well-connected private enterprises at the project level, based on key economic and political objectives of both countries for mutual benefit. This important concept of state-state-business ties essentially forms the theoretical foundation of this new developmental-thinking under the BRI, currently being promoted by China with its neighbouring countries, particularly those ruled by authoritarian regimes.

6.2 CONTRIBUTIONS TO KNOWLEDGE

The primary focus of this study is state-state-business ties, arguably a new phenomenon forged by two countries, both led by SDPs, for their respective business enterprises, which informs how LPEs collaborate with Chinese TCEs to implement BRI projects. These LPE-TCE links contribute to novel SBRs in Malaysia, with different growth-enhancing and rentier-type outcomes, as well as diverse economic and political implications. This thesis draws attention to an important new phenomenon in state-business ties (particularly with a strong foreign state influence), which can offer novel and interesting theoretical insights in both elite- and SBR-related studies. This study builds on the conventional wisdom of homogenised SBRs, which focuses on bureaucratic institutions, and argues that, in practice, SBRs are extremely heterogeneous, primarily tailored to specific power and vested commercial interests of different LPEs closely linked to the SDP at various levels.

This study attempts to add a dynamic political dimension to the mainstream literature to move beyond the conventional institutionalist approach which tends to emphasise the competency of bureaucrats for economic growth, and views SBRs as relatively fixed and stable. Furthermore, this study seeks to contribute to the literature, by adding a project-level perspective to the scope of business in SBRs, thus linking the usefulness of key theoretical concepts, in understanding complex inter-related linkages of state-state-business ties, power elites, and SBRs, within their real-world context (Yin, 2014). This study is specifically designed to analyse three China's BRI projects in the Malaysian property development and construction sector, implemented with different project initiatives, i.e. either on a public-led, private-led, or private-public-led basis.

This study has developed a conceptual framework that explains theoretically how state-state-business ties have created novel SBRs to implement BRI projects, specifically driven by LPE-TCE links favoured by two countries both led by SDPs. It helps to trace how three BRI projects were implemented in Malaysia by different LPEs at either the federal or state level, in collaboration with different Chinese TCEs at either the national or provincial level, on a non-transparent basis. In the process, it draws out fundamental differences of these specific SBRs, in terms of different types of power and authority, forms of institutional architecture, features of growth-enhancing and rentier-type outcomes, with their diverse economic and political implications, as generated through these BRI projects.

The significance of this specific framework (or relationship) of LPE-TCE links employed for this study thus indicates that transnational business activities under the BRI, though with rent-seeking behaviour, can still be productive and institutionalised to promote economic growth in a recipient country. In addition, these different LPE-TCE links forged at various levels are also quite effective in ensuring regime stability and legitimacy of an SDP during a major political crisis, albeit temporarily. However, if these LPE-TCE links are not monitored carefully by oversight agencies, they can lead to a serious state plunder, especially when there is little or no helping-hand from professional bureaucrats.

This study, when dealing with Mills' (1956) power elite theory, expands the analysis of three dominant LPE groups from an internal perspective, to also include Chinese TCEs as an external factor, for the implementation of BRI projects in Malaysia. It emphasises the complexity of novel SBRs that emerged within a political business dimension, which were essentially linked to the politically-inclined LPEs, rather than bureaucrats, as commonly advocated in the literature. Thus, this study builds on the conventional wisdom of SBRs, by moving beyond the state-centric paradigm to the actor-centric paradigm, and answering why LPEs were influential, and preferred over bureaucrats, as key actors in the state, to create specific forms of SBRs, to promote economic growth under the BRI.

This study seeks to reveal how domestic actors played an important role in responding to China's BRI projects, through the lens of a recipient country's perspective from the demand side. This is in contrast to the China-centric perspective from the supply side, prevailing in the literature (Hong and Lim, 2018). In addition, it underscores the value of looking beyond macro-geopolitical shifts of state-state relations in IR studies for BRI projects (Hong and Lim, 2018). Instead, this study provides additional nuance in explaining how different LPEs can drive China's BRI projects, based on state-state-business ties, to promote economic growth, as well as achieve their own interests, in recipient countries that are ruled by authoritarian regimes.

By filling all these theoretical and empirical gaps, this study can be considered as offering significant contributions to knowledge in both elite- and SBR-related studies.

6.3 LIMITATIONS OF RESEARCH

There are practical reasons why the qualitative approach was chosen for this study. First, the number of mega BRI projects (defined in Chapter 3: Section 3.3.2 as a BRI project with more than RM5 billion in contract value) implemented in the Malaysian property development and construction sector from October 2013 to May 2018 (defined in Chapter 3: Section 3.4.2 as key period of analysis) based on this new phenomenon of state-state-business ties (which could have a great impact on the Malaysian economy and its political system) was less than 10. Second, China's BRI projects in this particular sector in

Malaysia are relatively an unexplored area. In fact, there was little or no previous study available on why different LPEs were motivated to collaborate with different Chinese TCEs on a non-transparent basis. Hence, a qualitative case study approach, rather than a quantitative one, is more appropriate to trace these issues empirically. It helps to gain useful insights of the research problem identified. Third, three major case studies were conducted in this research, rather than touching on a wide range of smaller cases. It was aimed to increase the ability to make in-depth findings, to analyse critically, and to draw conclusions more convincingly. This decision was also affected by the fact that the accessibility to relevant primary and secondary information at a micro-level had been limited. This had led to the selection of major case studies primarily based on accessibility and relevance.

Meanwhile, as stated in Chapter 3: Section 3.4.2, during the semi-structured interviews, none of the 26 interviewees as informants agreed to the use of tape-recording due to sensitivity of the topic, as it involved key UMNO politicians and Johor royalty in Malaysia. They were being very careful of what they said. This might also be due to the unfamiliarity and mistrust of the parties towards academic-based interviews, as well as the conventional wisdom in the notorious construction industry that usually did not encourage the disclosure of the real situation and project details to outsiders. It was essential in this study to ensure full anonymity was provided for the interviewees, in order to achieve as high reliability of the interview results as possible. However, the major setback is that empirical findings presented in this thesis may be viewed as less of an "authoritative statement" in the academic sense, since the real identity of interviewees cannot be revealed. This is considered as a major limitation of the study.

The outcomes of these novel SBRs in Malaysia through just three BRI projects in the property development and construction sector primarily characterised by a grabbing-hand feature also cannot be representative of all other BRI projects in other economic sectors, like manufacturing, digital economy, renewal energy, etc., that were implemented in the country. Nor can these specific SBRs be replicated in other developing countries in the region, even similar authoritarian regimes like Malaysia, though they also actively deal with China's BRI projects for their countries' economic growth, based on state-state-business ties.

6.4 RECOMMENDATIONS FOR FUTURE RESEARCH

As stated in Chapter 1: Section 1.7, the scope of this study was limited to assessing key actors in three dominant LPEs groups from the demand side, not Chinese TCEs from the supply side, particularly on how the creation of novel SBRs through BRI projects was partly contributed by different types of power and inter- and intra-elite relationship issues of different LPEs in Malaysia. There is a need for future research to assess empirically how Chinese TCEs were selected for BRI projects in Malaysia partly due to the different types of power and inter- and intra-elite relationship issues in their own country.

Meanwhile, the scope of this study was limited to the implementation of BRI projects in the Malaysian property development and construction sector only. There is a need for research to focus on state-state-business ties that contribute to the creation of specific SBRs in other economic sectors of Malaysia, like manufacturing, digital economy, renewal energy, etc. This is important in order to make a comparative assessment of BRI projects in different economic sectors, as some of which may be very beneficial for Malaysia, in terms of promoting economic growth in the long run.

The scope of this study was limited to almost wholly analysing key economic and political interests of Malaysia during the implementation of three BRI projects based on state-state-business ties. There is a need for research on BRI projects specifically driven by LPE-TCE links for other bilateral issues, such as key strategic, military, and security interests, in order to understand properly their complex interdependencies with key economic and political interests, as well as their crucial outcomes and implications for Malaysia as a whole under the BRI.

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