International Journal of China Studies
Vol. 16, No. 2, December 2025, pp. 125–151 https://doi.org/10.22452/ijcs.vol16no2.5

The Belt and Road Initiative in Malaysia: Progress, Impacts and Challenges

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Abstract

The Belt and Road Initiative (BRI), launched by China in 2013, is an extensive infrastructure programme aimed at enhancing connectivity in areas such as policy coordination, infrastructure, trade, finance and people-to-people relations. Among Southeast Asian countries, Malaysia, particularly during the tenure of former Prime Minister Najib Razak, demonstrated strong support for the BRI. Various projects have been implemented across multiple sectors, including infrastructure development, energy, industrial parks, construction, real estate, telecommunications, technology, finance, banking and tourism. However, when Mahathir Mohamad returned to power in 2018, he adopted a more cautious stance towards Chinese investments, opting to review and renegotiate key BRI projects to ease Malaysia's financial strain. The administrations of Muhyiddin Yassin and Ismail Sabri focused primarily on handling the COVID-19 pandemic and economic recovery, allowing most BRI projects to continue without interruption, a trend that has persisted under Prime Minister Anwar Ibrahim. Although Malaysia's overall approach to China remains consistent, the country's frequent changes in government—four administrations in five years—have resulted in varied responses and shifting priorities regarding BRI projects. This study examines the progress, impacts and challenges of these projects. The findings reveal that most BRI projects in Malaysia are advancing smoothly despite political changes. Impacts range from high costs to

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concerns over autonomy and policy space, while challenges include reducing dependence on China and increasing diversification to maintain active neutrality.

Keywords: *Malaysia, China, Belt and Road Initiative*

1. Introduction

China initiated the Belt and Road Initiative (BRI) in 2013, a colossal infrastructure project encompassing the overland Silk Road Economic Belt and the 21st Century Maritime Silk Road. The primary objective of the BRI is to enhance connectivity across five dimensions: policy coordination, infrastructure, trade, finance and people-to-people relations. As of June 2023, China has entered into over 200 BRI-related agreements with 152 nations and 32 global institutions across five continents. Despite its decade-long existence, BRI has faced criticism on various fronts, including concerns about debt sustainability, project viability, corruption allegations and environmental impacts. Acknowledging these concerns, the second BRI forum held in April 2019 shifted its focus toward achieving high-quality, green, clean and sustainable development. The narrative surrounding the second BRI forum was further enriched during the third BRI forum convened in October 2023. This forum placed significant emphasis on key themes such as connectivity, green growth and the digital economy. The deliberations during the third forum underscore China's evolving vision for the BRI, shifting away from large-scale traditional infrastructure projects to more sustainable and technologically advanced initiatives. Notably, China's private enterprises are now expanding their presence into sectors that were traditionally dominated by policy banks and state-controlled entities (Avdaliani, 2023).

In Southeast Asia, Malaysia has been particularly receptive to the BRI (Kuik, 2021: 256). During the administration of former Prime Minister Najib Razak, Malaysia strengthened its engagement with the BRI by signing 14 memoranda of understanding (MOUs) with China, totaling RM143.64 billion in economic deals. Various projects have been implemented across multiple sectors, including infrastructure development, energy, industrial parks, construction, real estate, telecommunications, technology, finance, banking and tourism. However, when Mahathir Mohamad returned to power in 2018, he adopted a more cautious stance towards Chinese investments, opting to review and renegotiate key BRI projects to ease Malaysia's financial strain. The administrations of Muhyiddin Yassin and Ismail Sabri focused primarily on handling the COVID-19 pandemic and economic recovery, allowing most BRI projects to continue without interruption, a trend that has persisted under Prime Minister Anwar Ibrahim. Although Malaysia's overall approach to China remains consistent, the country's frequent changes in government—four administrations in five years—have resulted in varied responses and shifting priorities regarding BRI projects.

After more than a decade of Malaysia's participation in the BRI, this study raises several key questions: what is the status of BRI projects in Malaysia? What impacts and challenges have emerged from these projects? To explore these questions, this article is structured into five sections: the introduction, the literature review on the BRI in Malaysia, the progress of BRI projects in Malaysia, the impacts of these projects, the challenges they present and concluding remarks.

2. The BRI in Malaysia: A Literature Review

The BRI has become a major subject of research in Malaysia, covering diverse angles from geopolitical implications to economic opportunities and governance challenges. Early studies, such as those by Abdul Rahman et al. (2017) and Kong (2017), approached the BRI largely from a strategic and geopolitical standpoint. These works assessed the long-term geopolitical risks, sovereignty concerns and maritime security implications for Malaysia, while acknowledging the potential economic benefits brought by Chinese investments. As Chinese projects expanded, studies began to shift focus toward economic and governance impacts. The Socio-Economic Research Centre (2017) and Lim (2018) emphasised how China's investments bolstered infrastructure connectivity but also raised alarms regarding SME displacement, governance gaps and transparency deficits. In particular, the East Coast Rail Link (ECRL) project emerged as a symbol of both opportunity and controversy. Scholars like Serina (2017) and Moser (2018) zoomed in on specific high-profile projects like Forest City, illustrating how they created environmental degradation, socio-economic dislocations and reinforced concerns over Chinese expansionism.

Meanwhile, political economy perspectives gained prominence. Loh (2018) and Liu and Lim (2019) argued that Chinese investments served domestic political interests during Najib Razak's administration, reinforcing elite capture while exposing Malaysia to governance vulnerabilities. Ngeow (2019) and Kuik (2021) introduced more nuanced analyses showing that Malaysia's engagement with the BRI fluctuated based on elite legitimation needs, with successive governments recalibrating projects without fully rejecting Chinese cooperation. The concept of host-country agency became central in explaining how Malaysia strategically navigated the asymmetry of power with China. Attention also turned to the implementation side of BRI projects. Hutchinson and Tham (2020) demonstrated that strong domestic investment coalitions determined the success of projects like the Kuantan Port Expansion, whereas weak coalitions led to the failure of initiatives such as Melaka Gateway. Studies such as those by Liang *et al*. (2021) and Tritto and Camba (2022) emphasised the localisation and adaptation of Chinese industrial park models in Malaysia, countering the narrative of straightforward Chinese replication abroad.

In parallel, research into trade and SME (small and medium-sized enterprises) participation deepened. Tham and Kam (2019) and Chin *et al.* (2021) evaluated Malaysia's Digital Free Trade Zone (DFTZ) and SME internationalisation under the BRI, showing both opportunities for market expansion and persistent barriers to competitiveness. The environmental governance of BRI projects received critical attention too, with Tham (2024) revealing a significant gap between China's green rhetoric and Malaysia's regulatory realities. Recent contributions, such as those by Zaharul (2020, 2021) and Nur Shahadah (2023), show that while Malaysia's leadership changes (from Najib to Mahathir to Anwar) caused tactical shifts in BRI engagements, the broader strategy remained one of cautious pragmatism: leveraging Chinese investments while managing domestic political, social and economic risks. Finally, analyses by Ming and Kuk (2024) indicate that fears over Malaysia's BRI-induced debt trap are overstated, arguing that Malaysia's exposure to Chinese debt remains comparatively low and manageable within its broader economic resilience.

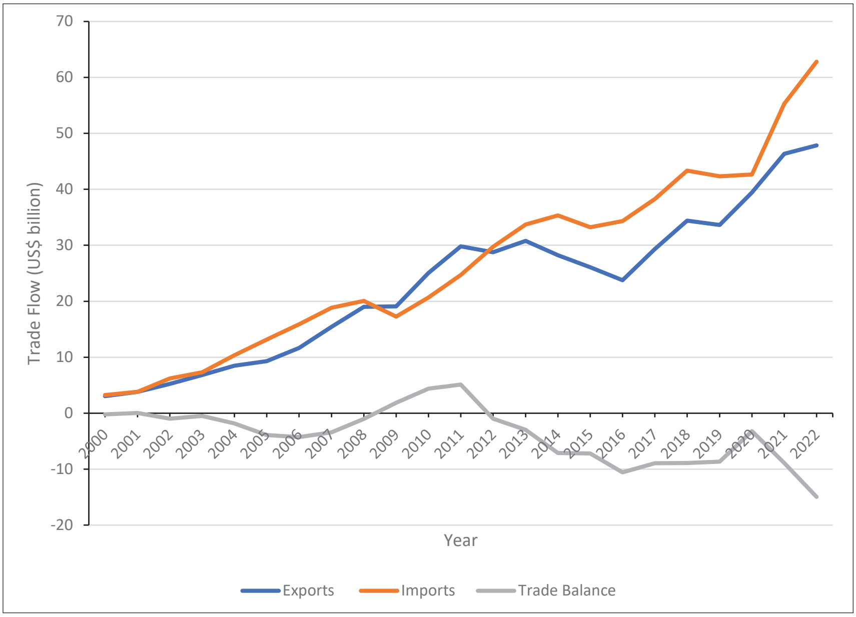
In short, the literature on the BRI in Malaysia reveals a significant trend toward recognising the complexity of Malaysia's agency in dealing with China. Rather than portraying Malaysia as a passive victim of Chinese expansionism, scholars increasingly highlight the importance of domestic political dynamics, elite strategies, governance quality and institutional capacity in shaping BRI outcomes. Over time, research has expanded from geopolitical anxieties to include political-economy perspectives, project-level analyses, trade and SME participation, environmental governance and debt sustainability evaluations.

Nevertheless, several research gaps remain. While much attention has been paid to high-profile projects and political narratives, there is limited longitudinal research tracking the long-term developmental impacts of BRI-related investments on Malaysia's industrial upgrading, technological transfer and innovation ecosystems. Environmental sustainability dimensions are emerging but still understudied, especially regarding enforcement effectiveness beyond rhetoric. Comparative analyses between Malaysia and other ASEAN countries engaging with the BRI are also emerging but they remain relatively sparse, leaving open opportunities for broader regional insights. Finally, most existing studies focus heavily on Najib and Mahathir. The post-2020 administrations—Muhyiddin, Ismail Sabri, and especially Anwar Ibrahim—are under-analysed.

3. Progress of BRI in Malaysia

Trade stands as the paramount facet of economic cooperation between Malaysia and China. Since 2009, China has held the position of Malaysia's largest trading partner, reciprocally making Malaysia one of China's principal trade allies in Southeast Asia. As illustrated in Figure 1, the bilateral trade between Malaysia and China has consistently expanded, surging from USD11.48 billion in 2002 to USD110.62 billion in 2022, marking a notable 9.64-fold increase over two decades. Throughout this period, Malaysia's exports to China have risen from USD5.25 billion to USD47.8 billion, while imports from China have escalated from USD6.23 billion to USD62.78 billion. Nevertheless, this sustained trade growth faced disruptions three times—firstly, due to the global financial crisis in 2008-2009, secondly, the economic slowdown of China during 2015-2016, and thirdly, the escalating trade and technology tensions between the US and China since 2018.

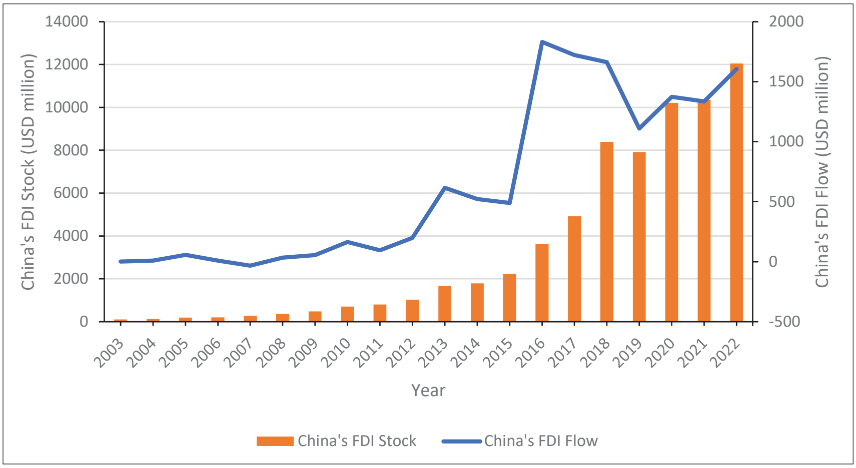
Figure 1. Malaysia's Trade in Goods with China, 2000-2022



Source: World Integrated Trade Solution

The repercussions of the COVID-19 pandemic and ensuing lockdowns were relatively modest, primarily affecting Malaysia's exports to China. This is because Malaysia was undergoing an export recovery following the COVID-19 pandemic. In 2020, exports of manufactured goods, including electrical and electronic (E&E) products and COVID-related items like protective garments, saw an increase, driven by both domestic exports and re-exports. This recovery was partially supported by the gradual easing of COVID-19 restrictions within Malaysia. Additionally, improved demand from key trading partners such as China, Japan, and Thailand also contributed to the rebound (Kam and Tham, 2021:148). From 2002 to 2022, Malaysia's trade deficit with China has widened from USD0.97 billion to USD14.94 billion. Notably, within these two decades, Malaysia only achieved a trade surplus with China from 2009 to 2011, primarily attributed to the recovery of the US and European markets post the 2008 global financial crisis and the full enforcement of the ASEAN-China Free Trade Agreement (ACFTA) in 2010.

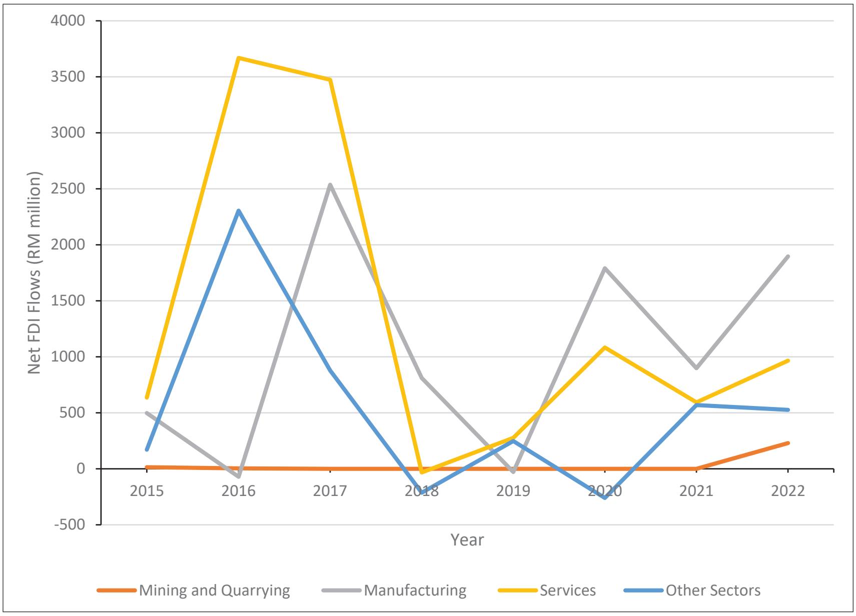
Figure 2. China's FDI Flow and Stock in Malaysia, 2003-2022



Source: Statistical Bulletin of China's Outward Foreign Direct Investment

Regarding China's Foreign Direct Investment (FDI) in Malaysia for the year 2022, China holds the fifth position in net FDI flow, ranking below the US, Singapore, Japan and Hong Kong. In terms of FDI position in Malaysia, China is placed eighth, ranking below Singapore, the US, Hong Kong, Japan, the Netherlands, Switzerland and the British Virgin Islands (Department of Statistics Malaysia, 2022). The significance of China as a source of FDI for Malaysia is evident in Figure 2, depicting a consistent rise in China's FDI flow to Malaysia from USD199 million in 2012 to USD1.61 billion in 2022. During this period, there was a notable surge in FDI flow from USD489 million in 2015 to USD1.83 billion in 2016, followed by a downward trend to USD1.11 billion in 2019 and an upward trend to USD1.61 billion in 2022. This surge can be attributed to the signing of 14 MOUs between businesses from both countries, encompassing diverse sectors such as railways, ports, real estate, steel manufacturing, finance, solar cell manufacturing, bird's nest, e-commerce, pharmaceuticals and information technology. Figure 2 further illustrates a consistent increase in China's FDI stock in Malaysia, growing from USD2.23 billion in 2015 to USD12.05 billion in 2022.

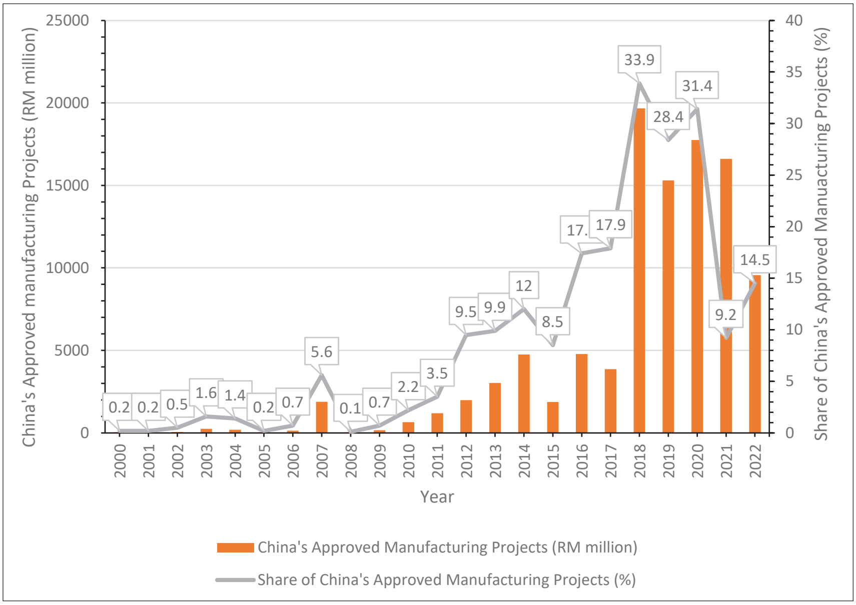
Figure 3. China's Net FDI Flow in Malaysia by Sector, 2015-2022



Source: Department of Statistics Malaysia

Figure 3 illustrates that the manufacturing and services sectors play pivotal roles as major contributors to China's net FDI flow in Malaysia. In 2022, manufacturing emerged as the primary contributor, accounting for RM1.90 billion in China's net FDI flow, followed by services with RM964 million, other sectors with RM525 million, and mining and quarrying with RM229 million. The significance of China in Malaysia's manufacturing sector is underscored by its consistent top ranking in approved manufacturing projects in Malaysia from 2016 to 2020. In 2021, China was ranked fourth, and in 2022, it secured the second position after Singapore. Examining the trend of China's approved manufacturing projects in Malaysia, Figure 4 depicts a gradual increase from RM1.19 billion in 2011 to RM3.85 billion in 2017. However, a remarkable surge occurred in 2018, reaching RM19.67 billion, and while the surge continued, it displayed a declining trend, reaching RM9.56 billion in 2022. This surge is attributed to the impact of the Malaysia-China Kuantan Industrial Park (MCKIP), initiated in 2013. As of October 2023, MCKIP has recorded a cumulative investment value surpassing RM31 billion for 21 projects, poised to generate over 14,000 job opportunities. Notably, RM14.6 billion of this investment in the MCKIP has already been realised (The Star, 7 November 2023).

Figure 4. China's Approved Manufacturing Projects in Malaysia, 2000-2022



Source: Malaysia Investment Development Authority

Regarding the progress of BRI mega projects in Malaysia, a few of these projects are already operational, while the majority are still in progress, and one project has been cancelled and later taken over by the government. Operational projects include the CRRC Rolling Stock Centre, the Digital Free Trade Zone (DFTZ), and the Proton-Geely partnership. Projects currently in progress encompass railway construction, with the ECRL achieving over 82 per cent work progress as of April 2025, and the Gemas-Johor Bahru Electrified Double-Tracking Railway reaching 92 per cent completion as of September 2023. Under the administration of Anwar Ibrahim, plans are underway to revive the Kuala Lumpur-Singapore High-Speed Rail (HSR), with a formal Request for Information (RFI) exercise set to be conducted to gauge private sector interest in undertaking the project.

In mixed-development projects, the construction progress of Forest

City only involves half of one artificial island, equivalent to 15 per cent of the total proposed area of the project as of August 2023. At this point, approximately 28,000 residential units have been completed, accommodating around 9,000 residents, significantly below its intended target of 700,000. In response to this situation, Anwar Ibrahim's administration has designated Forest City as a special financial zone, offering incentives such as a special income tax rate and multiple-entry visas. Concerning the Melaka Gateway project, it was initially cancelled in April 2021 but was subsequently revitalised and returned to its private developer by the state government in March 2022. Most of the reclamation work for the two islands has been completed, and the Melaka cruise terminal has been reinstated, while work on the other two ports is underway. As for the MCKIP, the areas known as MCKIP 1 and 2 have been fully allocated. In MCKIP 3, IJM Corporation Bhd has entered into a strategic partnership with China Harbour Engineering Company to develop the Malaysia-China Kuantan Industrial Logistics Park (MCKILP) in July 2022.

In the expansion project for Kuantan Port, known as the New Deep Water Terminal (NDWT), the initial phase was successfully finished and began operations in 2018 for Phase 1A and 2019 for Phase 1B. Currently, Kuantan Port is actively involved in planning and strategising for the development of the second phase of NDWT. In terms of ongoing projects, the Trans-Sabah Gas Pipeline (TSGP) and Multi-Product Pipeline (MPP) were initially halted by Mahathir 2.0's administration but were subsequently revived during Muhyiddin Yassin's administration and continued into Ismail Sabri's administration. Regarding Bandar Malaysia, a deal to sell a 60 per cent stake in the project to the IWH-CREC consortium was cancelled by Najib Razak's administration due to the consortium's failure to meet payment obligations. Although the project was reinstated by Mahathir 2.0's administration, the deal lapsed and the agreement was considered null and void. The project was later taken over by the government under Anwar's administration.

4. Impacts of BRI Projects in Malaysia

The first impact of BRI projects in Malaysia is the high costs incurred by the government. According to former Minister of Finance Lim Guan Eng, the ECRL is anticipated to incur an overall cost of RM81 billion, contradicting the RM67 billion asserted by former Prime Minister Najib

Razak. This discrepancy arises from the inclusion of additional factors such as land acquisition, interest, fees and other operational expenses totaling RM14 billion, which were overlooked by the previous administration. The expenditures for the pipeline projects, TSGP and MPP, stand at RM9.41 billion and RM5.35 billion, respectively. Consequently, the cumulative costs of these three projects amount to RM91 billion, with a substantial portion of the financing originating from China (Lim, 2018). The high cost of the ECRL was acknowledged by former Secretary-General of the Ministry of Investment, Trade and Industry (MITI), Dr. Rebecca Fatima Sta Maria, who stated that,

> *"...it was too expensive, over-charged by the companies involved. It made sense from the socio-economic perspective to have it but not at that price. However, I hope that we will continue because these are infrastructure projects. The gains do not come immediately. It is long-term. It is about ensuring the designs, implementation and integrity, and not thinking about the short-term gain. I think it is important to re-review and re-discuss as opposed to cancelling it," (R.F. Sta Maria, Interview, 17 January 2020).*

Dr. Rebecca's view was supported by the Deputy President of the Malaysia-China Chamber of Commerce, Joseph Lim, who believed that the ECRL project should proceed, but at a reduced cost. He argued that the original design of the project was highly sophisticated and could be scaled down to better align with Malaysia's status as a developing country. As Joseph Lim noted,

> *"...I personally think that we should carry on with the project, but at a lower cost. Somehow the original design looks very advanced. But we can [scale it down a bit more] as a developing country," (J. Lim, Interview, 9 October 2018).*

The second impact relates to governance and best practices. Contracts for the ECRL, TSGP, and MPP projects were granted to Chinese contractors without undergoing an open tender process. Specifically, both the TSGP and the MPP contracts were awarded to China Petroleum Pipeline Bureau (CPPB). Additionally, two consultancy agreements, amounting to RM312 million and RM213 million, respectively, along with a maintenance contract valued at RM476 million, were set to be awarded to Chinese companies (Lim, 2018). In the case of ECRL, the primary contract was conferred upon China Communication Construction Company (CCCC). According to former Prime Minister Tun Dr. Mahathir Mohamad,

> *"…but the cost is prohibitive, and the terms of the agreement were very much in favour of the Chinese. The contract to build is given to the Chinese. The money is borrowed from the Chinese and the payments are made in China. Because of that, the Malaysian government does not gain very much," (Mahathir Mohamad, Interview, 3 September 2023).*

In addition, payments to Chinese contractors are tied to a timeline rather than the actual progress of the work. A year after the commencement of pipeline projects, initially slated for completion within three years, the work progress for the MPP and TSGP stood at only 14.5 per cent and 11.4 per cent, respectively. However, payments made for the MPP and TSGP projects amounted to RM4.71 billion and RM3.54 billion, respectively. In total, RM8.25 billion, equivalent to 87.7 per cent of the total project value, has been disbursed to the CPPB contractor, despite an average work progress rate of only 13 per cent with two years remaining in the contract. As per the agreements, 85 per cent of the total project value was supposed to be paid out by March 1, 2018 (Lim, 2018).

Corruption is apparent in the ECRL project, particularly concerning the notorious and debt-ridden 1Malaysia Development Berhad (1MDB), a strategic development company under the control of the Prime Minister's Office (PMO) during the administration of Najib Razak. According to Amhari Efendi Nazaruddin, a special officer to Najib Razak, the ECRL, TSGP, and MPP projects were proposed by former Prime Minister Najib Razak to China as a means of bailing out 1MDB (The Edge, 4 September 2019). The claim is supported by Tun Dr. Mahathir Mohamad, who stated that,

> *"…but sometimes other factors did influence our decision. For Najib, big projects are important. He wants to make money from that. So, he was prepared to accept big Chinese investment[s], not*

> *because he wanted them, but because he wanted to make money for himself," (Mahathir Mohamad, Interview, 3 September 2023).*

The third impact is the insufficient utilisation of local content in Malaysia's construction sector, particularly in projects led by Chinese developers and contractors. Since 2013, the number of contracts awarded to Chinese contractors in Malaysia has risen significantly. The value of these projects grew from RM3.3 billion in 2013 to RM5.9 billion in 2014, RM8 billion in 2015, RM18.2 billion in 2016, and then surged to RM31 billion in 2018 and 2019 (Zaharul, 2021; The Star, 30th October 2019), making China the largest foreign contractor in Malaysia. This dominance of Chinese contractors has had limited benefits for local SMEs, as these projects often produce low levels of business linkage and local content. Former Malaysia-China Chamber of Commerce President Tan Yew Sing attributes this to several factors, including: low output from local companies; a lack of interest among local companies to bid for projects due to low tender prices and minimal profit margins; lower efficiency and slower implementation speed by local companies, often linked to differences in work culture and ethics; and the government's failure to enforce higher local content requirements for sourcing materials and labour (Zaharul, 2021).

Chinese contractors, on the other hand, have greater success in winning domestic construction tenders due to their expertise in large-scale infrastructure projects and their ability to bid competitively at low profitability, supported by financial backing from Chinese policy banks. Given this context, local stakeholders have shown interest in collaborating with Chinese counterparts, motivated by the access to markets and raw materials at competitive prices (SERC, 2017). However, Chinese entities often maintain control over the supply chain by importing skilled and unskilled labour, raw materials and machinery directly from China. For instance, in the ECRL project, former economic advisor to the Prime Minister Dr. Muhammed Abdul Khalid highlighted how local content rules were circumvented. Chinese companies in Malaysia were registered as Malaysian entities, enabling them to be classified as local partners despite their foreign origins. According to Dr. Muhammed Abdul Khalid,

> *"...if you look at the ECRL project, it is [stated] that about 30 per cent has to be local companies. How they bypass this is by*

> *incorporating Chinese companies in Malaysia. So, they become like a Malaysian company, a Malaysian partner. Even that, they do not use local companies," (M.A. Khalid, Interview, 21 November 2018).*

The fourth impact is the varied integration of green, clean and sustainable principles in BRI projects. Some initiatives actively incorporate environmentally friendly strategies in infrastructure, renewable energy and urban planning. For instance, Edra Energy has made significant strides in renewable energy, contributing to Malaysia's ambition of achieving a 20 per cent renewable energy mix by 2025. One notable project is the solar farm in Kuala Ketil, where Edra installed 180,000 photovoltaic panels over 260 acres. This large-scale solar farm is designed to generate approximately 78,400 kilowatt-hours of electricity annually. This output can power around 30,000 homes for 25 years and offset an estimated 54,000 tonnes of carbon emissions per year (Bernama, 9 September 2019). The ECRL project, initially criticised for its environmental impact, underwent substantial revisions to address sustainability concerns. Measures included the construction of tunnels and wildlife crossings, allocating RM10 million for the rehabilitation and relocation of animals affected by the project, and rerouting to avoid ecologically sensitive areas such as Batu Dam and the UNESCO-designated Gombak Quartz Ridge. Additionally, the revised alignment was designed to minimise its impact on forest reserves, water catchment zones, indigenous communities and Malay reserve lands (Tham, 2022).

While these projects actively incorporate environmentally friendly strategies, others reflect mixed progress toward sustainability goals. Although the Forest City project aims to position itself as a sustainable urban model and incorporates several green initiatives, the project initially received approval and was initiated without the implementation of a detailed environmental impact assessment (DEIA) (Serina, 2017). Despite the subsequent implementation of the DEIA by the developer and the introduction of various mitigation measures, activities such as land reclamation and the construction of the sand causeway and highway have had detrimental effects on the largest seagrass meadow in Peninsular Malaysia and a substantial portion of the mangrove swamp forest. Dr. Rebecca notes that land reclamation and other construction activities including the Melaka Gateway project, have compelled local residents to relocate from their original homes, resulting in a loss of income from fishing.

Furthermore, the Melaka Gateway project has eroded local cultural aspects rooted in the identity of village folk and fishing activities, exacerbated by the construction of the Encore Melaka Theatre, a performing arts center that exclusively showcases Chinese culture. According to Dr. Rebecca,

> *"...when it comes to Chinese investments or any other investments, we failed to do with social impact assessment. I keep saying that because some of the Chinese investments, whether in Johor (Forest City) or Melaka (Melaka Gateway), they have forced [the] displacement of people and villages, and loss of employment and loss of livelihood[s]. So, the fishermen protest[ed] us. The Chinese developers gave them a few dollars each but that is just a one-off. These people have lost their jobs permanently. The culture and the livelihoods have changed permanently. No more fishing villages. You cannot have a one-off compensation," (R.F. Sta Maria, Interview, 17 January 2020).*

The fifth impact pertains to Malaysia's sovereignty. In the energy sector, the government, through Edra Global Energy Bhd, sold 100 per cent of its energy assets valued at USD5.96 billion to China General Nuclear Power Corp. (CGN Group) in 2015. This transaction contradicted Malaysian policy, which prohibits the surrender of strategic assets such as electricity generation and supply to foreign entities beyond a 49 per cent equity limit (The Edge, 25 November 2015). In the transportation sector, IJM Corp Berhad sold a 40 per cent stake in Kuantan Port worth RM334 million to Beibu Gulf Holding (Hong Kong) Co Ltd in 2013. In the Melaka Gateway project, the third island dedicated for port development with an expected cost of RM8 billion were constructed by two Chinese companies, namely Yantian Port Group Co. Ltd and Rizhao Port Group Co. Ltd. Through the ownership and control over the interests of these two ports, as well as over the operation and management of the ECRL, China is not only able to guarantee the safe delivery of Chinese goods by going beyond Singapore and the Straits of Malacca but also strengthens China's strategic goals in Southeast Asia (Evers, 2017).

In the real estate sector, parcels of land in Iskandar Malaysia, Johor, with a total value of USD3.76 billion, were sold to Chinese firms, including Zhouda Real Estate Group, Country Garden Holdings Ltd, Guangzhou R &

F Properties Co. Ltd, and Greenland Holdings Group Ltd (China Investment Global Tracker, 2023). In Melaka, the government has sold real estate to a consortium consisting of KAJ Development Sdn Bhd and Power-China International Group Limited to develop Melaka Gateway which has a gross development value of RM30 billion. In addition, the government also signed an agreement to sell 60 per cent or RM7.16 billion of Bandar Malaysia Sdn Bhd's interest to a consortium consisting of Iskandar Waterfront Holdings Sdn Bhd (IWH) and China Railway Engineering Corporation (M) Sdn Bhd (CREC). It should be noted that these lands are sold as permanent holdings following Malaysia's liberal land policy. According to Tun Dr. Mahathir Mohamad,

> *"…these Forest City and Melaka Gateway projects are going to be fully owned by the Chinese, and they are given many privileges. For example, Forest City would be a free port, and now they have announced that it is a total free port. They can move in and out of Malaysia, in and out of Singapore, without any control by the Malaysian government. This gives this area much freedom that is not under the supervision of the Malaysian government. That is why it is not welcome. The other thing is that we see the rich Chinese acquiring more land, and this Forest City project starts with the acquisition of a huge piece of Malaysian land and given certain privileges. So, that is not good for Malaysia," (Mahathir Mohamad, Interview, 3 September 2023).*

The sixth impact relates to Malaysia's security. China's investment, especially in real estate assets will potentially create satellite cities through the Forest City project in Johor and Melaka Gateway in Melaka. The USD100 billion Forest City project is expected to house 700,000 residents although it had only around 9,000 occupants as of August 2023. These satellite cities will likely form a special diaspora of Chinese citizens and meet the needs of the Chinese population where many residential units will remain unoccupied (Evers, 2017). In addition, Chinese nationals are also expected to flood residential units for the Melaka Gateway project, which targets at undertaking real estate and commercial development on the first and second islands. According to Dr. Muhammed Abdul Khalid, the influx of large Chinese citizens into Malaysia in one place will bring imbalance to the existing Malaysian population (Zaharul, 2021).

The final impact concerns Malaysia's autonomy and policy space, particularly regarding the allocation of special investment incentives. The BRI projects such as the ECRL, MCKIP, Bandar Malaysia, Kuantan Port, and Forest City were reported to have received special investment incentives from the Malaysian government. For Bandar Malaysia specifically, the developer has been granted a 10-year tax exemption, an eight-year fixed duty exemption, exemptions from real estate profit tax and withholding tax, as well as import duty exemptions on construction materials not produced in Malaysia. According to Tun Dr. Mahathir,

> *"...the Malaysian government seems to favour the Chinese above all the other investors, and such a policy is not good for Malaysia. We must never lean on one country alone, even before we were very much in the Commonwealth, but we got away from that," (Mahathir Mohamad, Interview, 3 September 2023).*

However, this claim was refuted by Ong Chong Yi, former Chief Executive Director of CMQIP, who argued that the special incentives are not exclusive to Chinese companies. He stated,

> *"...that land for MCKIP given by the state government is a swampy land. The lands need to have treatment. The developers need to invest a lot in soil treatment. That is why it was given to them at a cheap price. There might be some incentives but that is a general incentive like tax incentives, which are given not specially to China only, but to everybody," (O.C. Yi, Interview, 9 October 2018).*

This opinion aligns with Dr. Rebecca's perspective, who further argues that the allocation of special investment incentives has been a common practice historically and depends on the level of interest the government has in the investment project. According to Dr. Rebecca,

> *"...in the previous administration, it was done bilaterally with a certain amount of political leverage and therefore they were given special preferences. But if you look at our history, we normally do that for big investments. The special incentives are not necessarily*

unusual but sometimes the government gives a little bit extra because we really want Alibaba (DFTZ project) here," (R.F. Sta Maria, Interview, 17 January 2020).

Although the allocation of incentives ultimately depends on government priorities, Chinese companies are also proactive and assertive in seeking special incentives due to their substantial financial contributions and involvement in large-scale projects like integrated developments and infrastructure. According to Khoo Siao Hooi, former Assistant Director of the Foreign Investment Promotion Division of the Malaysian Investment Development Authority (MIDA),

"…I would say it is not Malaysia giving preferential [treatment] to Chinese investors, but it is [the Chinese] who are aggressive in a way that they come in huge. They can come to Malaysia and [bring] the whole project. They prepared a list of special incentives that they want so that later, when the project kicks off, then they can promote [it] not only to China but to the whole world like what kind of incentive[s] they can offer," (K.S. Hooi, Interview, 11 October 2018).

5. Challenges of BRI Projects in Malaysia

One of the challenges arising from BRI projects is to reduce Malaysia's economic dependence on China and diversify investment sources to prevent excessive influence of external powers on the local economy and politics. According to Tun Dr. Mahathir,

"…we should source the foreign investment from numerous countries, not only from one country, because that will give that one country too much influence on the local economy. While we can accept many of the investments coming from China, we should make sure that the percentage of Chinese investment is not very high. That other countries also invest and dilute the amount of Chinese investment in Malaysia. So, there is always that fear that with Chinese investment will come with Chinese influence. And Chinese influence is a very sensitive thing for Malaysia," (Mahathir Mohamad, Interview, 3 September 2023).

The second challenge is to enhance the economic rationale for some projects. For the ECRL project, Jomo (2018) argued that the government's projection that the ECRL will transport 60 million tons of cargo annually starting in 2035 can be considered unrealistic. This skepticism is grounded in the fact that Keretapi Tanah Melayu Berhad (KTM) currently transports only approximately six million tonnes of cargo annually across its entire network. If the anticipated significant increase in cargo capacity is not realised, the project is at risk of incurring more losses, which would ultimately be shouldered by taxpayers through substantial subsidies in the future. This perspective is supported by Tun Dr. Mahathir, who stated,

> *"...well, the ECRL is something that is too early. The time has not yet come for us to build the East Coast railway system, simply because the economy on the East Coast is lower than the West Coast, and the demand for transportation is less and therefore the time has not yet reached for us to build an East Coast Railway," (Mahathir Mohamad, Interview, 3 September 2023).*

To boost demand for freight and passenger services, the Malaysian Investment Development Authority (MIDA) initiated Economic Accelerator Projects (EAPs) in 2019 to stimulate economic activities along the ECRL routes. These EAPs encompass the establishment of industrial parks, logistic hubs, Transit-Oriented Developments (TODs), and inter-modal transportation centers including dry ports (Tham & Zhang, 2021). As Malaysia's leading one-stop centre and investment promotion agency, and as a secretariat to the National Committee on Investment (NCI), MIDA implements various strategies to attract quality investment from China including the setting up of the China Special Channel (CSC) and MIDA China Team which comprises of overseas offices in Beijing, Shanghai and Guangzhou as well as a China desk at the MIDA headquarters. It also targets Chinese companies involved in the technology sector and listed in the Fortune China 500 and Global Unicorns. The monitoring and coordination of BRI projects in Malaysia are conducted by the Belt and Road Initiative National Secretariat (BRINS), a section within the Bilateral Economic and Trade Relations Division at the MITI.

The third challenge is to increase the use of local content. As stated above, local SMEs lack technical expertise and are not fully ready to supply.

The government also cannot impose local content conditions on investors because these conditions only apply to developing countries at a certain stage of development. According to Unny Sankar, former Director of the Belt and Road Initiative National Secretariat at MITI,

> *"...it will be great if the Malaysian government can impose local content requirements but due to some WTO measures, we cannot impose conditions to our investors because we are not in the list of developing countries. We have surpassed that stage. So, it is up to the government to choose the right one to align them with our Malaysia's economic plans," (U. Sankar, Interview, 8 October 2018).*

However, the government responded to this challenge by renegotiating the terms of BRI projects and loans, especially the ECRL project, when Pakatan Harapan (PH) took over the government in 2018. The government not only succeeded in reducing the project cost from RM65.5 billion to RM21.5 billion and involving the main contractor China Communications Construction Company (CCCC) in the operation and management after the completion of the ECRL project, but also increased the participation of local companies from 30 per cent to 40 per cent of the civil works. From 2017 to September 2024, the ECRL project involved more than 3,000 local companies consisting of contractors, consultants and suppliers. The value of contracts involving local companies in the ECRL project reached around RM17.07 billion, thus exceeding the target of RM10.8 billion. Meanwhile, the involvement of *bumiputera* companies reached a value of RM3.16 billion or 90.28 per cent of the target of RM3.50 billion for the ECRL civil works (Malaysia Gazette, 29 October 2024).

The fourth challenge is to enhance policy coherence and coordination. The change in governments since 2018 has led to shifts in the government's response to and priorities in several of China's projects in Malaysia, despite the overall support for the BRI. During Mahathir 2.0's administration, there were improvements to the scope of the ECRL, the revival of Bandar Malaysia with a better deal, the scrapping of TSGP and MPP, the deferral of the Kuala Lumpur-Singapore HSR, the rejection of China's investment in real estate, the assertion of autonomy in the operation and management of MCKIP, and the diversification of capital sources, especially from Japan. Muhyiddin

Yassin's administration reversed some of these measures, reinstating TSGP and MPP and modifying the ECRL scope again, including a reversion of changes to the Section C rail alignment. All BRI projects have been followed through by the administrations of Ismail Sabri and Anwar Ibrahim.

The fifth challenge is to enhance state capacities and capabilities. The lopsided agreements in some BRI projects reveal Malaysia's insufficient negotiating power to secure mutually beneficial outcomes with foreign states or institutions. Additionally, the BRI projects highlight the limited involvement of various stakeholders in the decision-making and implementation processes, including local communities, community-based organisations (CBOs), industry players, professional bodies, academics, NGOs and think tanks. In the Forest City project, while public dialogues were held with local communities, residents contested claims that interviews had been conducted with 10 per cent of the population or that focus group meetings with village representatives had occurred. The broader community was largely unaware of these proceedings (Serina, 2017). For the TSGP project, even key stakeholders such as local community leaders, civil society organisations (CSOs) and journalists were not informed in advance about the project. Village heads themselves seemed unaware of its initiation, with no visible signs of activity at the project site.

In the ECRL project in Pahang, local villagers, despite having a clear view of the ongoing development, were not directly engaged. They relied on politicians or the media for updates and information. Engagement efforts appeared to be limited to instances where the project directly impacted specific landowners, leaving the rest of the community uninformed and excluded from the process. This lack of grassroots engagement has compromised due diligence in the planning and execution of such projects. Feasibility studies and due diligence are often treated as an afterthought, typically conducted only after community complaints arise. Moreover, locals are seldom given opportunities to contribute their perspectives, and final reports are rarely made publicly accessible. In the case of the TSGP, developers bypassed state regulators during impact assessments, which is particularly alarming given the significant environmental consequences these projects often entail. The absence of comprehensive feasibility studies or public disclosure further exacerbates these concerns (Loh *et al*., 2023).

The last challenge is to uphold a position of active neutrality. In the context of US-China trade and tech tensions, the Group of Seven (G7) nations launched the Partnership for Global Infrastructure and Investment (PGII) in 2021 to support global infrastructure development. The Biden administration aims to mobilise USD200 billion for PGII over the next five years while the broader goal is to mobilise USD600 billion in global infrastructure investments by 2027, with contributions from G7 partners. In the same year, the European Union launched the EU Global Gateway to boost global infrastructure development. The programme aims to mobilise up to €300 billion in investments by 2027 to support projects in digital, energy, transport and health infrastructure, as well as education and research. These two initiatives are largely seen as a response to China's BRI, offering an alternative model for global infrastructure development that emphasises high standards, transparency, sustainability, and democratic values.

While Malaysia has yet to apply for loans from these two initiatives, Malaysia has joined the US led-Indo-Pacific Economic Framework for Prosperity (IPEF) introduced in 2022. The 14 participating countries include Australia, Brunei, Fiji, India, Indonesia, Japan, Malaysia, New Zealand, the Philippines, Singapore, South Korea, Thailand and Vietnam, collectively representing 40 per cent of the global GDP. The IPEF is seen as part of the US' strategy to counter China's growing influence in the Indo-Pacific region, particularly through the Regional Comprehensive Economic Partnership (RCEP), where China plays a central role. In 2024, Malaysia had applied for membership in and was later accepted to become a partner country of the expanding BRICS grouping, an alternative pole to the G-7 grouping of wealthy nations. These developments reflect Malaysia's challenging efforts to maintain active neutrality towards major powers.

6. Conclusion

Based on the initial questions posed, this article presents three key findings. Firstly, most BRI projects continued uninterrupted despite changes in government from Najib Razak to Anwar Ibrahim. Major BRI initiatives in Malaysia, such as the ECRL, Gemas-Johor Bahru Electrified Double-Tracking Railway, Forest City, Melaka Gateway, MCKIP, Kuantan Port Expansion Project, TSGP and MPP, are still ongoing. The CRRC Rolling Stock Centre, the DFTZ and the Proton-Geely partnership are among the three completed and operational projects. The Bandar Malaysia development project had been cancelled and reassumed by the government. Secondly, BRI projects in Malaysia resulted in several impacts including high costs, poor governance, inadequate use of local resources, and negative effects on the environment, local socio-economy, sovereignty, security, autonomy and policy space. Thirdly, Malaysia faces challenges in implementing BRI projects such as reducing economic dependence on China and diversifying investment sources, improving the economic rationale for certain projects, increasing local content, enhancing policy coherence and coordination, boosting state capacities and capabilities and maintaining a stance of active neutrality.

Malaysia's decade-long experience with BRI projects provides valuable lessons for other participating countries. Firstly, Malaysia's experience underscores the need to align BRI projects with national development objectives and strategic priorities to ensure they contribute meaningfully to long-term economic growth and social well-being. Secondly, the state must be adept at negotiating equitable terms and managing contracts effectively to safeguard national interests. Thirdly, BRI initiatives should prioritise creating opportunities for local businesses and workers, maximising economic benefits and fostering the development of local expertise. This necessitates policies that enhance local content, encourage technology transfer and support capacity building. Fourthly, environmental sustainability should be central to project planning and execution. Malaysia's efforts, such as incorporating wildlife crossings and green urban planning, illustrate how development can coexist with environmental stewardship.

Fifthly, effective stakeholder engagement is crucial for managing expectations and addressing community concerns. Limited consultation has often led to misunderstandings and project delays, highlighting the importance of inclusive processes that align with local needs and sustainability goals. Sixthly, to minimise the effects of political influence on project continuity, the establishment of an independent infrastructure commission and a dedicated public infrastructure agency is vital. These bodies can ensure consistent management and technical oversight of major infrastructure initiatives. Lastly, transparency and accountability are fundamental to preventing corruption and mismanagement. Regular audits, public reporting, and clear accountability mechanisms are necessary to foster trust and ensure proper governance of BRI projects.

Acknowledgements

This work was supported by Universiti Sains Malaysia Short-Term Grant (project number R501-LR-RND002-0000000910-0000) and Universiti Malaysia Terengganu Talent and Publication Enhancement Research Grant (project number UMT/TAPE-RG/2022/55392). The authors extend their gratitude to the International Journal of China Studies editors and the anonymous reviewers for their constructive comments on the manuscript.

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