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Melaka Gateway Port: An Analysis

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Introduction

This issue brief aims at analysing China's geo-economics and geostrategic intentions as manifested in its generous assistance to Malaysia for development of the Melaka port project. The issue brief also intends to study the impact of this project upon another key player within the area, namely, Singapore, especially since the Melaka port project will, by design impact Singapore's established position as the pre-eminent maritime hub in the Southeast Asia in general and the Malacca Strait in particular.

Map.1: Geographical location of Melaka Gateway Project/ Source: Author

The Melaka port project is a subset of the Melaka Gateway Project. It is a mixed development project set in Malaysia, within the strategically important Strait of Malacca. The project seeks to develop a consolidated port covering 1,366 acres of land, by linking three artificial islands and one natural island. Once complete, it will include a deep sea port as well as commercial and residential property expansions. While the entire project is targeted for completion by 2025, the port per se is due to be operational by 2019, and is expected to overtake Singapore as Southeast Asia's main shipping hub.

The Project

The Melaka Gateway Project was officially launched by the Prime Minister of Malaysia, Najib Razak, on 7 February 2014, as a national venture that was a part of the larger Economic Transformation Programme (ETP) by the Government of Malaysia. This strategically important project will be anchored upon the natural island of Pulau Panjang, which has a deep sea port facility with a depth of 25–30 meters. The project envisages the development of Pulau Panjang along with the creation, by reclamation, of three additional, artificial islands off Malacca's coast, at a cost of RM 30 billion.[1] These three are needed to set the port suitably into the Strait of Malacca. The project commenced in 2015, and is intended to be completed by 2025. Table.1 shows the intended utilisation of all four islands. Singapore's *Strait Times* claims that these artificial islands will enjoy freehold status.[2]

Nature of the Island	Description
Artificial	Tourism, Entertainment, Commercial and Property development
Artificial	Free Trade Economic Zone
Natural	Melaka Gateway Port
Artificial	Maritime Industrial Park

Table.1: The Melaka Gateway Project

The development of Melaka port is a subset of this project and is appreciated to involve a 99-year concession, at a cost of RM 8 billion. It is a joint venture between the Malacca State Government's KAJ Development Sdn Bhd, and the Chinese energy company, Power China International.

Economic Objectives

Malaysia, which has received more than US$ 200 billion worth of Chinese infrastructure and real estate investment, is a principal partner in China's "Belt and

Road" initiative (BRI).[3] The BRI (earlier known as the 'One Belt One Road' [OBOR] project) had been launched by President Xi Jinping in 2013 and focuses upon 65 countries in Asia, Europe, and Africa, with a combined population of 4.4 billion, and a combined GDP value of US$ 21 trillion. Evidently, the Melaka Port project aligns perfectly with the BRI; therefore, it is natural for China to invest in it on such a large scale.

Map.2: Major Ports of Malaysia

(Source: Website of Kuantan Port, MMC Corporation Berhad, UOB-Kay Hian Research/Anjelina Patrick)

It is clear that the competition offered to Malaysia by Singapore is so substantive that Malaysia needs to develop and significantly upgrade its infrastructure so as to boost its own economy. China's low-interest funded project (sometimes known as 'debt-trap diplomacy', especially after the experience of Sri Lanka vis-à-vis the port of

Hambantota) and China's infusion of technology are perceived by Kuala Lumpur to be necessary to revitalise Malaysia's slowing economy.[4]

Map. 3: Malaysia: Port Klang, Melaka Port, and, PTP Port

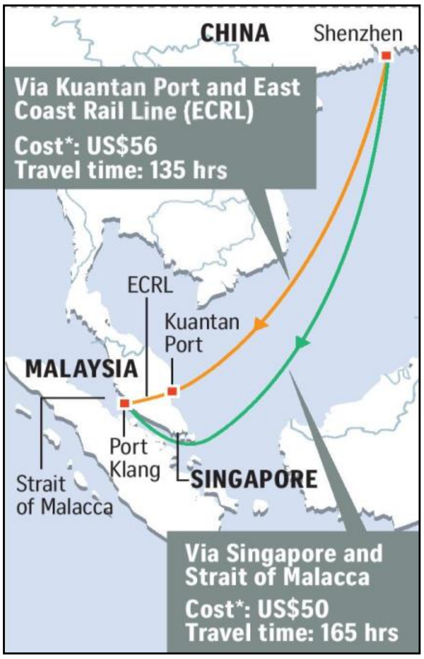
Oddly, however, there is simultaneously an ongoing capacity expansion underway at Malaysia's two main international ports, namely, the Port of Tanjung Pelepas (PTP) and Port Klang, which, as may be seen in Map 3, bracket Port Melaka, lying to its north and south, respectively.

Map. 4: Planned Expansion of Malaysia's Port Klang towards Carey Island

Moreover, Port Klang, the largest port in Malaysia, is set to expand towards Carey Island, as depicted in Map 4. The proposed expansion is worth RM 200 million, which the Malaysian authorities justify by averring that Port Klang has reached its full capacity and is in desperate need of expansion. However, this is refuted by the World Bank which, in 2015, stated that "a new port on the west coast of Malaysia is not necessary, as the existing facilities are not reached its full capacity". Further, Port Klang's multi-cargo terminal, Westports (Port Klang is subdivided into three terminals, viz., Northport, Southpoint and Westports) will raise its capacity to 16 million TEU over the next decade, while Northport will invest in new equipment to increase its own capacity to 5 million TEU by 2018.[5]

Similarly, Malaysia's Port Tanjung Pelepas (PTP), which is located just 100 nm south of Melaka, is expected to receive an investment of more than RM 8.6 billion to enable it to double its capacity to 22 million TEU by 2030.[6] Currently, this port serves as many as 26 shipping lines and has already made investments that would permit it to serve Maersk's Triple-E mega vessels.[7] The expansion is taking place not by building new berths, but by acquiring new equipment such as bigger quay cranes, rubber-tyred gantries (RTGs), and the replacement of PTP's existing equipment.[8]

Apart from these port developments on the west coast of the Malaysian peninsula, numerous ports on the east coast are also being expanded. One such expansion is that of the Kuantan Port which, along with Port Klang, complements the RM55 billion Chinese-funded East Coast Rail Line (ECRL) project. The ECRL project aims to reduce the time taken to travel from Shenzhen to Port Klang, from 165 hours (via Singapore and Strait of Malacca) to 135 hours (via Kuantan Port and ECRL). The ERCL will to alter the existing regional trade route, which runs between the Straits of Malacca and Singapore, and the disputed South China Sea, through Singapore. At present, millions of tonnes of sand are being dredged from the disputed South China Sea in order to expand the Kuantan Port. Further evidence of China's deepening footprint in Malaysia may be seen in the fact that the Chinese firm Guangxi Beibu International Port Group already owns 40 per cent of the port.



Map 5: Shenzhen Port to Port Klang

(Source: Malaysian Logistic Executives/Government Officials - Straits Time Graphics)

In economic terms, it is important to note that China is entering Malaysia as both an investor as well as a contractor. The massive presence of Chinese workers, both skilled and unskilled, showcases China's dominance over Malaysia's infrastructure-related supply chain. In 2014, a large number of Chinese construction companies in Malaysia imported equipment and other supplies (such as steel) from China, valued at almost RM 883 million.[9] This will have significant domestic implications, as this trend, which is continuing unabated, will lead to an imbalance in the Malaysian business and labour markets.

Geopolitical/Strategic Objectives

China's interest in the Malacca Strait is not merely to restore its historical legacy (one that can be traced back to Admiral Zheng He's voyages in the early 1400s) but also to provide China with a favourable geopolitical position in the Strait, as well as being a measure to safeguard its single-point commodity-vulnerability (oil) amidst the growing tensions in the region. Thus, even while the economic viability of these projects is highly questionable, they nevertheless demonstrate Beijing's desperate need to secure the Straits of Malacca and Singapore.

Due to these high-security stakes, the question that arises is: which of the three Malacca Strait littorals will end up with the most control over the Straits and the enormous volume of cargo that flows through them? The three littoral countries—Malaysia, Indonesia, and Singapore—have jointly affirmed their sole right to maintain security in the Strait of Malacca, prompting the formation of the Malacca Strait Patrols (MSP). Indeed, the rationale for keeping the right to security confined to the littoral states was to keep the Strait of Malacca from becoming a big-power flashpoint.[10] However, the ability of these countries to actually do so has been questioned now and then, due to their own competing territorial claims.

In the past, China has deployed its marines to protect its maritime interests overseas. Gwadar port in Pakistan is an example of this, wherein China rapidly increased the number of its marines from 20,000 to one lakh.[11] The Gwadar and Melaka are both deep-sea ports, one next to the Strait of Hormuz, and the other in the Malacca Strait, and sit astride vital oil routes. Thus, the Melaka Gateway Project seems to principally be a means for China to acquire and sustain military-strategic influence in the Strait of Malacca.

Beijing is also involved in a "port alliance" with Malaysia, which will fast-track trade by reducing customs bottlenecks at both ends. This port alliance was shaped in November 2015, during Chinese Premier Li Keqiang's official visit to Malaysia. According to the Chinese envoy to Malaysia, Huang Huikang, "The port alliance will serve not only as a maritime network between the two countries, but also the bond of trade, business, and tourism".[12] Under this port alliance, fifteen Chinese ports — Dalian, Shanghai, Ningbo, Qinzhou, Guangzhou, Fuzhou, Xiamen, Shenzhen, Hainan, Taicang, Kemaman, Sabah, Kuching, Tianjin and Qingdao — will collaborate with six Malaysian ports — Port Klang, Malacca, Penang, Johor, Kuantan, and Bintulu.

The Singapore Factor

Massive investments by China in Malaysia have caught regional attention, especially in Singapore. At present, the Melaka Port Project and the ECRL Project aim to replace Singapore as the main trading port in South East Asia, by diverting billions of dollars-worth of trade from Singapore. It is, therefore, important to incorporate Singapore in the existing equation along, with Malaysia and China.

China's irritation towards Singapore has grown after its Prime Minister expressed support for the ruling against China's claims in the South China Sea by the Permanent Court of Arbitration (PCA) in The Hague. China has rejected the ruling outright[13] and this has polarised the region. Singapore also has military ties with self-governing Taiwan, in the form of exercises, due to geographical space constraints in Singapore itself. Apart from these, Singapore's growing closeness with the USA on the matters of defence also contributes to China's growing irritation.

Singapore's outlook towards both the South China Sea and Taiwan has led it to face some punitive economic aggression from China. Singapore, however, is already taking steps to face up to the future Chinese-funded competition of Malaysia's Melaka Port. Towards this end, Singapore has decided to fast-track the concentration of all its container handling activities at Tuas. (The idea of a Tuas-Mega Port had been proposed by Singapore's Economic Strategies Committee as far back as 2010.) According to the Transport Minister of Singapore, Lui Tuck Yew, Tuas Port is appropriate as it "shelters deep waters and is in close proximity to the country's major industrial areas and international shipping routes".[14] Upon its completion, the port will be able to handle up to 65 million TEU of containerised cargo per year, and will nearly double the current capacity of 35 million TEU.[15]

Conclusion

Melaka Port and the port alliance between Malaysia and China marks a significant upgrade in the bilateral relations between Malaysia and China. Operationalisation of the Melaka Gateway Project in general and that of Melaka Port in particular, could lead to significant flows of Chinese trade and energy through Malaysia. Apart from providing Beijing with a favourable geopolitical position, operationalisation of the Melaka Port would be an economic tool with which China can dissuade or even punish Singapore for its closeness with US and Taiwan. Moreover, the enhanced trade flows resulting from the operationalisation of the Melaka Port and the ECRL projects will inevitably drive Beijing to take measures to ensure the safe passage of its trade-flows in the region, and this will probably lead to the establishment of Chinese naval presence in the territorial waters of Malaysia.

Malaysia's over-dependence on China may lead to serious repercussions on its existing economy. If China withdraws or stops its current investment in the Melaka port, it will immediately turn into an unaffordable white elephant. This is because, unlike other Malaysian ports, the hinterland markets are insufficiently developed and will probably be unable to sustain the port.

Apart from ports, China's investment in other sectors in Malaysia demonstrates that Melaka will primarily be used as an insurance for China's energy requirements and to facilitate its Maritime Silk Route as part of Beijing's BRI. Finally, these huge investments of China in Malaysia offer telling examples of how geopolitical interests can override economic factors as drivers of port-development.

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