

PERSPECTIVE

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The Melaka Gateway Project: High Expectations but Lost Momentum?

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EXECUTIVE SUMMARY

- The Melaka Gateway Project is an ambitious maritime initiative comprising a range of port facilities, specialized economic parks, and tourist attractions.
- Launched in 2014, and promoted by the Melaka-based property developer and contractor, KAJ Development Berhad, the project secured the backing of the Najib Razak administration, as well as the buy-in of powerful China-based state-owned enterprises, including Power China International.
- Looking at the Gateway's location, potential articulation with other transport projects such as the East Coast Rail Link, and the involvement of the Chinese companies, analysts have portrayed this project as a game-changer that can allow China to acquire a strategic foothold in the region.
- Yet, five years after its launch, construction on the Gateway has fallen far behind schedule.
- Upon closer examination, the project raises a number of questions, including whether its location is all that strategic, whether its local partners are well-connected enough to acquire the necessary capital, and, indeed, if Malaysia needs another port at this point in time.

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INTRODUCTION

The Belt and Road Initiative (BRI) launched by Chinese President Xi Jinping in 2013 aims to connect China with Europe and beyond through the construction of transportation, telecommunication, and energy networks. While the land ‘belt’ extends westward from the country’s interior all the way to London, the maritime ‘road’ heads south down China’s coast, around to the Malayan peninsula and then north to Europe and west to Africa.

While South Asia and the Middle East have received the most large-scale projects under the BRI, Southeast Asia has also participated in the drive, in the form of power generation, transport infrastructure, construction and real estate initiatives.¹ In the region, Malaysia has been a high-profile member with the most investment and construction contracts with Chinese participation in 2013-2018 – at an average USD 6.7 bn per annum.²

Current large-scale projects with Chinese involvement include the revived East Coast Rail Link, the Sungai Buloh-Serdang-Putrajaya MRT line, and the (also revived) Bandar Malaysia real estate complex.³ Port projects have also had significant participation from PRC companies, including the Kuala Linggi Port expansion (RM 12.5 bn), the Penang Port refurbishment (RM 6.3 bn), and the Kuantan Port expansion (RM 4 bn).⁴

The largest and most ambitious of these is the Melaka Gateway, which envisages Southeast Asia’s largest private marina, facilities for berthing four cruise ships at a time, terminals with an estimated capacity of 8 million TEU per year, a maritime high-tech park, and a free trade zone. Marketed with references to Melaka’s glorious trading history and Admiral Zheng He’s multiple visits to its port, the Gateway is expected to revitalize the state’s economy.

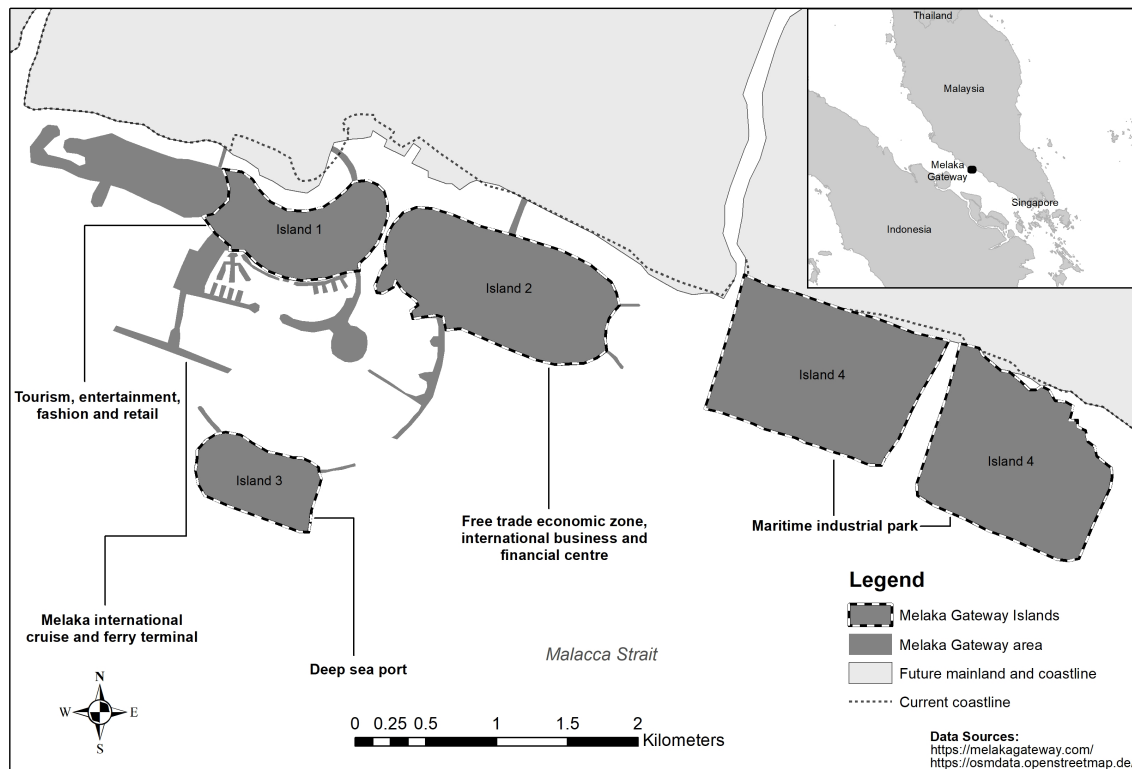
The scale and location of the Melaka Gateway has caught the attention of strategists, who have portrayed the initiative as a ‘means for China to acquire and sustain military-strategic influence in the Strait of Malacca’.⁵ According to this logic, the Gateway would enable China to exercise surveillance over the Strait, through which 80 percent of the country’s oil passes, and – when articulated with other projects like the East Coast Rail Link – enable shipments to cut across the Malayan peninsula, bypassing Singapore and reducing time as well as cost.⁶

Yet, despite its promise, the project has been plagued by setbacks. Land reclamation is running behind schedule and the port, one of the key components of the project, will not be operational this year. This Perspective will explore the question of why – despite its high-profile support and vaunted geo-strategic importance – the Melaka Gateway has yet to take off.

THE MELAKA GATEWAY PROJECT: COSTS, PLAYERS, AND TIMELINE

The Melaka Gateway project encompasses four islands in the Malacca Strait, collectively totalling some 1,500 acres. Of these islands, two are to be reclaimed, one is an extension from the shore into the sea, and one, Pulau Panjang, is an existing island. The islands vary in size, configuration, and purpose (Map One and Table One).⁷

Figure One – The Melaka Gateway Project



Source: ISEAS-Yusof Ishak Institute

Table One

Island	Size (acres)	Facilities
1 – reclaimed	212	Marina, cruise terminal, heritage esplanade, theme park, retail, condominiums
2 – reclaimed	300	Free trade zone and high technology park
3 – Pulau Panjang (existing)	98	Deepwater port, maritime high-tech park, liquid bulk terminal
4 (extension)	900	Container terminal, bulk terminal, ship-building and repair

The Gateway’s projected development cost is RM 42 billion, and is estimated to: bring in 2.5 million visitors per year; create 40-45,000 jobs; and generate RM 1.19 trillion for the state of Melaka.⁸

The Master Developer and lead for the project is KAJ Development Sdn Bhd (KAJD), a Melaka-based general contractor, labour sub-contractor, and property developer. According to the Companies Commission, the firm has three local shareholders and RM 10 million in paid-up capital.⁹ KAJD was involved in the beautification of the Melaka River, and is the majority owner of KKW Sdn Bhd, the firm operating the Melaka Zoo and Bird Park from 2012 until last year.

Riding on the tails of the BRI’s announcement, the Melaka Gateway was launched with much fanfare in February 2014. The project was quickly backed by the Najib administration,

who made it part of the country's high-profile Economic Transformation Programme the following month.

In 2015, the Melaka Gateway received the necessary licenses and approvals for the project. This included freehold status for the reclaimed islands (1, 2, and 4) and a 99-year lease for the deepwater port on Island 3.¹⁰ That year, the project also received high-profile visits from the Guangdong Provincial Government, the Ministers of Transport of Malaysia and China, and the Premier of the State Council, Le Keqiang. In 2015, the Melaka Gateway also joined the Port Alliance, a grouping of 15 Chinese and 6 Malaysian ports.

As one of the BRI's early movers, the project has attracted a range of investors, each with different expertise and varying degrees of involvement.

The most important player is PowerChina International, which has interests in Islands 1, 2, and 3. The firm is majority-owned by the State Power Investment Corporation, which is, in turn, administered by China's SASAC. Listed in Hong Kong, the Fortune 500 firm constructs, manages and owns power plants, transport infrastructure, and other infrastructure projects. While very active within China, the firm also has offices in more than 100 countries and a total contract portfolio in excess of USD 100 billion. PowerChina is establishing a growing footprint in Southeast Asia, with notable involvements in: Indonesia, with the Jakarta Bandung High-Speed Rail and Kayan River 1 Hydropower station; Myanmar, with the Kaukypu Gas Power Station; and Laos, with the Boten Special Economic Zone and Yuxi-Boten Railway.¹¹

There are also three Chinese provincial governments involved in the Gateway. Like PowerChina International, the Shenzhen Yantian Port Group and the Rizhao Port Group have interests in Islands 1, 2, and 3. The Shenzhen Yantian Port Group is a state-owned enterprise (SOE) from Shenzhen province, with a track record in port construction and operation. The Group runs Yantian Port, the largest and most profitable container port managed by a single operator.¹² The Rizhao Port Group is an SOE from Shandong province, with expertise in bulk shipping of items such as flour, soya beans and oil. The third provincial government is from Guangdong, and is the owner of SOEs such as the Guangzhou Port Group and the Guangdong Provincial Communications Group. Their stake is in Island 4, which will contain the terminal port and ship-building facilities.

The last major international player is Royal Caribbean International, which has a stake in Island 1, slated to house the international cruise terminal and marina.

Besides KAJD, the master developer, there is one other local player, Chief Minister Incorporated (CMI). Established in 2002, this management and consultancy firm is owned by the Melaka State Government and manages a portfolio of assets worth RM 380 million.¹³ CMI has a stake in Island 4, the planned terminal port and shipyard.

The stated milestones for the Gateway were as follows (Table Two), with planning and other technical work to begin in early 2016, and the whole project to complete by 2025.

Table Two – Planned Timeline of the Melaka Gateway

Time	Task/Milestone ¹⁴
January 2016	Licenses and approvals
1 st half 2016	Hydraulic works, planning, and simulations
July 2016-end 2017	Construction of islands
2018/2019	1 st Island and cruise terminal complete
2021	Port operations begin
2025	Completion of whole project

In September 2016, KAJD and PowerChina International signed a Memorandum of Agreement to work on Islands 1,2, and 3, with an estimated value of RM 30 billion.¹⁵ In May 2017, KAJD then signed an investment collaboration agreement with PowerChina International, Yantian Port, and Rizhao Port.¹⁶ And, the following month, Melaka Gateway appointed SinoHydro Ltd, a PowerChina-owned affiliate, as the engineering, procurement, and construction management contractor.

However, despite groundwork beginning in April 2017, problems begin to surface soon after. In October, the then-Mentri Besar of Melaka asked KAJD to speed up work, noting that only 40 percent of the planned reclamation had been carried out.¹⁷ In July 2018, the new Federal Minister of Transport, Anthony Loke stated that he saw ‘no sign of work’ on the project.¹⁸ Furthermore, he said that the technical approvals from the Department of Environment and the Department of Drainage and Irrigation awarded in 2016 had lapsed.¹⁹ Loke further noted that the operating licence for the port was contingent on them starting operations by 2021.²⁰

In October last year, KAJD received a letter from the Ministry stating that the licence to operate the port and cruise terminal would be revoked, which occurred in November. In response, KAJD filed a judicial review against the Minister of Transport, the federal government, and the Melaka Port Authority, claiming RM 139 billion in damages. In May this year, the Ministry of Transport allowed the appeal to take place, following which the licenses were reinstated.²¹ Land reclamation work on Island 1 has resumed.²²

THE ISSUES?

What could be causing the delays? The obvious argument is that the project is on uncertain ground following the 2018 elections and the new Pakatan Harapan administrations at the federal and state levels.

This explanation is appealing as, during the 2018 campaign, PRC-related projects were an issue. For example, Mahathir Mohamad specifically cited the Gateway and its cost, stating ‘we are very concerned, because in the first place we don’t need any extra harbour’.²³ Following the change in administration, a number of large-scale projects such as the ECRL were put on hold or renegotiated. And, the new Minister of Transport has brought up the Gateway’s lack of progress on a number of occasions.

Yet, it is important to note that problems with the project began in 2017, well before the change in government. Furthermore, the new Pakatan Harapan-led state government has

said that it has no issues with the project, but wants its goals and milestones to be met.²⁴ Consequently, it is likely that the causes for this delay lie elsewhere.

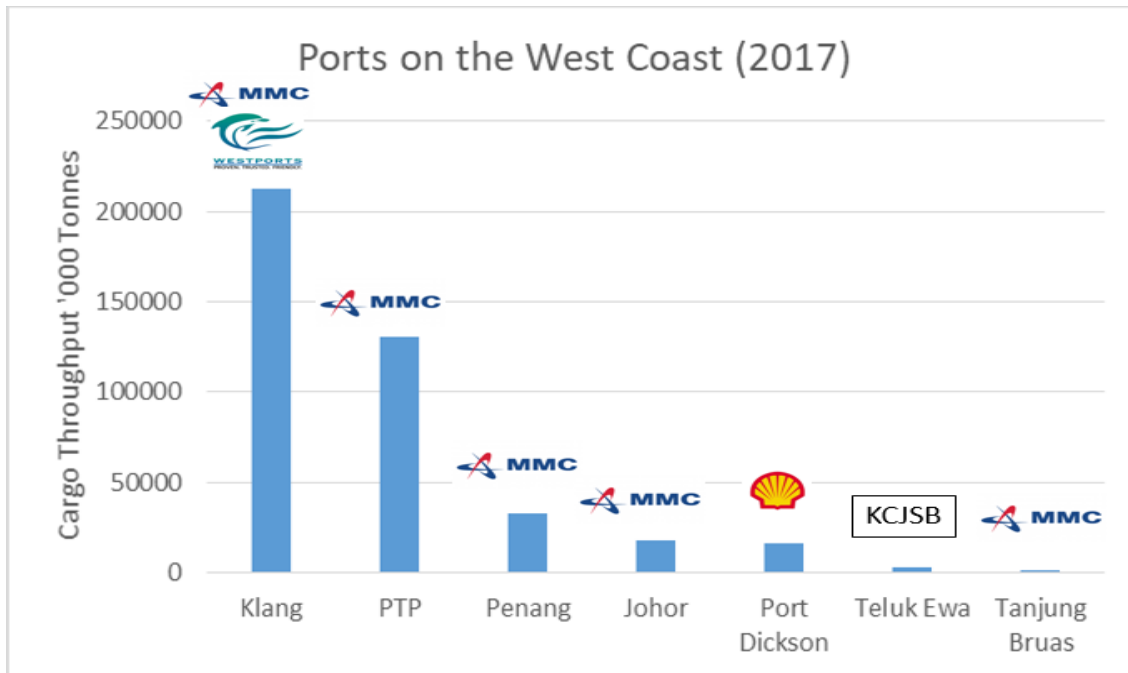
The most evident answer lies in the questionable economic feasibility of the project. At present, there is over-capacity in Malaysia's port sector, and the growth of containerized traffic through the region has plateaued. An in-depth report of the port sector by the World Bank states that, through careful capacity expansion, better connectivity and good planning, the current network of eight priority ports will be able to cater to projected needs until 2040.

At present, the three largest ports of Port Klang, Port Tanjung Pelepas (PTP), and Penang port currently handle 70 percent of current throughput. The World Bank report further recommends more intensive use of existing facilities, rather than dispersing traffic across a number of ports. In particular, it states that 'a new major hub in Peninsular Malaysia, such as for example in Malacca, would cannibalize cargo handled at both Klang and PTP and is expected to remain at low utilization levels for several years'.²⁵

This recommendation is in line with longer-term thinking within federal government policy circles. Despite high-profile support of the Melaka Gateway project, it is important to note that the Najib administration did not invest any public funds in the initiative. Indeed, there was no mention of the Melaka Gateway in the national plans released during his tenure, such as the *11th Malaysia Plan* (2016-2020), the *National Physical Plan 3* (2015-2025), or the *Logistics and Trade Facilitation Masterplan* (2015-2020).

Other complications may arise due to the Gateway's unusual collection of backers. While PowerChina and the three provincial governments are logical players in the project, the role of KAJD in a project of this size is unexpected. Virtually all important ports on the peninsular west coast are owned and operated by MMC Corporation Bhd, including the ports of Penang, Northport in Klang, PTP, Johor, and an existing port in Melaka, Tanjung Bruas (Figure Two).²⁶ Key stakeholders in MMC include Syed Mukhtar Al-Bukhary, Malaysia's richest Bumiputera, as well as key federal government-linked corporations such as PNB, and the private and public sector pension funds, EPF and KWAP.²⁷

Figure Two



Source: Ministry of Transport, Malaysia, *Transport Statistics 2017*, Table 3.1.

It is noteworthy that a maritime project of this size and scope does not have any participation from federal government GLCs or national-level business figures. While Melaka-based partners such as KAJD and CMI may be knowledgeable about the local business context, they are unlikely to be well-connected at the federal level, which may also affect their ability to secure loans from either banks or capital markets.

Furthermore, the local partner, KAJD, has hit a rocky patch of late. In 2017, the firm registered RM 183 million in assets, but RM 201 million in liabilities, as well as RM 9.8 million in losses.²⁸ And, in October 2018, its affiliate KKW lost the management rights for the Melaka Zoo and Birdpark.²⁹

OUTLOOK

At the time of writing, the reclamation work on Island 1 has resumed, and KAJD has reaffirmed its commitment to seeing the project to its completion. The large international players appear to remain committed to the project. Yet, while the project has considerable appeal and backing, and was marketed in tandem with the BRI's launch, questions remain as to its commercial viability and unusual corporate structure. Barring a restructuring, or a national-level GLC or conglomerate coming on board, it is likely that progress on the Gateway will be slow.

¹ Maybank Kim Eng Research, 'ASEAN Economics: China's Belt and Road: Tracking Investment Flows into ASEAN?', 14 June 2017.

² Maybank Kim Eng Research, 'ASEAN Economics: China's Belt and Road: Retreating or Reawakening?', 8 August 2019.

³ Knight Frank, 'Chinese Corridors in Malaysia', Knight Frank Research Reports, 2018; Hazlin Hassan, 'Malaysia reviving Bandar Malaysia project', *The Straits Times*, 20 April 2019.

⁴ Knight Frank, 'Chinese Corridors in Malaysia', Knight Frank Research Reports, 2018.

⁵ Anjelina Patrik, 'Melaka Gateway Port: An Analysis', National Maritime Foundation, 2017, p. 7.

⁶ See for example: Abdul Rahman Embong, Rashila Ramli, and HD Evers, 'One Belt, One Road (Obor) and Malaysia: A Long-Term Geopolitical Perspective', IKMAS Working Paper Series, 2017; Guanle Lim 'Resolving the Malacca Dilemma: Malaysia's Role in the Belt and Road Initiative', in *Securing the Belt and Road Initiative*, edited by Alessandro Arduino and Xue Gong, London: Palgrave Macmillan, 2018.

⁷ KAJD 'Melaka Gateway Deep Sea Port & Free Trade Zone: Presentation to Guangdong Technical Team', Powerpoint Presentation, n.d; Chester Tay, 'Melaka Gateway's master developer ropes in PowerChina for RM 30b development' *The Edge Markets*, 1 Sep 2018.

⁸ Knight Frank, 'Chinese Corridors in Malaysia', Knight Frank Research Reports, 2018; Sulhi Azman, 'Melaka Gateway remains on track – concessionaire', *The Edge Financial Daily*, 17 July 2018.

⁹ Companies Commission of Malaysia. 'Corporate Information: KAJ Development Sdn Bhd', downloaded 10 June 2019.

¹⁰ Adam Aziz, 'Port projects under scrutiny', *The Edge Financial Daily*, 13 July 2018.

¹¹ Inside International Industrials 'PowerChina arm seeks USD 175m loan from commercial banks for two Indonesia hydropower projects', 28 February 2019; Marketline News and Comment, 'PowerChina and Toshiba strengthen strategic cooperation in hydro, geothermal and thermal power systems', 26 October 2018; Inside International Industrials 'PowerChina arm seeking project funding for USD 150 m Philippines solar power project', 28 February 2019; KAJ Development Sdn Bhd, Press Release, 1 September 2016; POWERCHINA actively participates in Belt and Road construction, powerchina website.

¹² http://yantian-port.com/English/GroupProfile/AbouttheGroup/201811/t20181101_709.html, accessed 5 September, 2019.

¹³ <http://www.cmimelaka.gov.my/index.php/2014-07-15-09-59-55/2014-07-15-10-01-20/profil-cmi>, accessed 5 September, 2019.

¹⁴ KAJD 'Melaka Gateway Deep Sea Port & Free Trade Zone: Presentation to Guangdong Technical Team', Powerpoint Presentation, n.d.

¹⁵ KAJ Development Sdn Bhd, MITI Malaysia, MIDA, and PowerChina International Group Ltd Press Release, 1 September 2016. KAJ would have a 51% stake, and the two parties committed to investing the funds over the next two years.

¹⁶ KAJD Press Release, 'KAJD Signs Investment Collaboration Agreement in Beijing, China with its Three Strategic Partners on the Investment and Development of Melaka Gateway', 13 May 2017.

¹⁷ Rashidah Rahim, 'Idris asks KAJ Development to Speed Up Melaka Gateway Project', *Bernama*, 4 October 2017.

¹⁸ Adam Aziz, 'Port projects under scrutiny', *The Edge Financial Daily*, 13 July 2018.

¹⁹ Ooi Tee Ching, 'Approvals for construction of Melaka Gateway cruise Jetty have lapsed', *Business Times*, 13 July 2018.

²⁰ 'Port Projects under Scrutiny'. *The Edge Financial Daily* 13 July 2018.

²¹ Hafiz Yatim, 'Melaka Gateway Developer to resume projects, withdraws suit'. *The Edge Markets*, 29 May 2019.

²²

<https://www.facebook.com/melakagatewayhuangjinggang/photos/pcb.2292368337757867/2292367271091307/?type=3&theater>, accessed 5 September 2019.

²³ Hannah Beech, 'We cannot afford this': Malaysia Pushes Back Against China's Vision', *The New York Times*, 21 August 2018.

²⁴ Fadzli Ramli, 'Focus on Port Development to Generate State Economy, says CM'. *Bernama*, 3 June 2018. However, the new administration has looked to reduce the title of Island 1 from freehold to 99 years. Zairina Zainudin 'Melaka in Talks with KAJ Development to Change Artificial Island Status'. *Bernama*, 29 June 2018.

²⁵ World Bank Group, *Crafting Malaysia's National Ports Strategy: Summary of Final Report*, World Bank Group/EPU, 2016.

²⁶ <https://www.mmc.com.my/page19.html>, accessed 5 September 2019.

²⁷ <https://www.mmc.com.my/page11.html>, accessed 5 September 2019.

²⁸ Companies Commission of Malaysia. 'Summary of Financial Information: KAJ Development Sdn. Bhd.', downloaded 10 June 2019.

²⁹ RSN Murali, 'Melaka Takes over Zoo and Birdpark', *The Star*, 2 October 2018.

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