

Forest City, Malaysia, and Chinese expansionism

Abstract

Over the past decade, an acceleration of Chinese state and private investment in urban infrastructure and real estate has transformed many skylines around the world. China's recent 'Belt and Road' scheme has further paved the way for more Chinese businesses to create mega-developments in Southeast Asia. In 2014, a private Chinese company in collaboration with Malaysia's Sultan of Johor state started construction on Forest City, a private gated luxury mega-development for 700,000 people on four reclaimed islands in the narrow strait that separates Malaysia and Singapore. While the official material for Forest City claims it is for all nationalities, it is being marketed predominantly in China and to ethnic Chinese communities in Southeast Asia. This paper investigates the broader implications for Singapore, Malaysia, and the region and makes two key arguments. First, I suggest Forest City is more than a Chinese-financed real estate development, rather it constitutes a Chinese neocolonial outpost to which Malaysia has largely conceded sovereignty and advances China's expansionist agenda. Second, Forest City challenges current geopolitical dynamics and threatens to undermine Malaysia's relationships with neighbouring countries.

Key words: urban mega-development; new city; Chinese investment; neocolonialism; Chinese expansionism; Malaysia

Introduction

As China's wealth has grown in recent decades, real estate in stable currency markets continues to be viewed by Chinese nationals as the most reliable and safe investment (Zhang and Fung 2006; Glaeser et al. 2017). The global surge of Chinese real estate investment is affecting prices and availability in cities around the world from Vancouver to Singapore to Sydney. Meanwhile, China's own real estate values continue to climb (Glaeser et al. 2017), despite the construction of hundreds of new cities with tens of millions of units in just a decade as part of a national urbanization strategy¹ (Shepard 2015). While Chinese elites have invested in foreign real estate for two decades, China's expanding middle class, increasingly priced out of domestic markets, is scrambling to find more affordable investment opportunities overseas.

While Chinese demand for real estate as an investment vehicle continues to grow, in the past several years the domestic construction of urban mega-developments has slowed or has become less lucrative and the cost of Chinese labour has increased (Tan and Yimie 2017).

¹ In 1978, 18% of China's population lived in cities. As a direct result of decades of state urbanization policies, in 2014, 54% lived in cities. By 2020, the urban population will grow by another 100 million to exceed 800 million (Yongnian, Litao, and Tong 2017).

Furthermore, provincial governments in China are confronted with various obstacles in converting state land into privately-owned land that can be developed and face difficulties raising funds domestically to finance infrastructure development (Lin and Yi 2011; Wu 2010). As a result, private and state development companies from China have sought new markets and expanded their operations to foreign countries. Over the past five years, a vast number of urban mega-developments and new cities are being financed and constructed by Chinese firms in Africa (Cain 2014; Hammond 2016; Peters 2015), the Middle East (Shepard 2017), Central Asia (Shepard 2016), Latin America (*Telesur* 2015), and South and Southeast Asia (Thiel 2011).

In keeping with this trend, Chinese investment in infrastructure and real estate in Malaysia has accelerated dramatically over the past five years (Mahrotri and Choong 2016), and in the last two years, China surpassed Singapore as the largest investor in Malaysian property (Vasagar 2017). A growing number of Chinese nationals seek to not only purchase recreational or investment properties in Malaysia but to relocate in order to enjoy an affordable yet high standard of living, cleaner air, and close proximity to Singapore's economy and cultural amenities. A number of massive Chinese projects are currently under construction in Malaysia, including residential and commercial mega-developments, and plans are underway to construct a high-speed railway from Kuala Lumpur to Singapore. The most significant Chinese project in Malaysia is Forest City, a private gated city started in 2014. Forest City is designed and constructed by Country Garden Holdings, one of the largest property development companies in China,² and ranked 273rd on the Forbes list of 500 of the world's biggest public companies.

Forest City is not unique as a project conceived as a new 'city' built from a tabula rasa. Since the 1990s, over 150 new cities are being planned or under construction, almost exclusively in emerging economies (Moser 2015), and hundreds are underway in China alone (Shepard 2015). However, while builders of the current wave of new cities aspire to attract international investment and residents, the projects are primarily created to accommodate domestic (albeit elite) populations. What sets Forest City apart from the many other emerging new cities is that it is built by a Chinese corporation to house a permanent colony of Chinese nationals in another country. Forest City marks a significant shift in typology, scale, and strategic location that

² Country Garden PacificView (CGPV) is a joint venture company between Country Garden Holdings, a publicly traded Chinese company, and Esplanade Danga 88 Sdn Bhd, a Malaysian 'state' company and associate company of Kumpulan Prasarana Rakyat Johor (KPRJ), of which the Sultan of Johor personally owns 80%.

reflects China's growing global influence and its expansionist goals, while introducing a new geopolitical dynamic among countries in the region.

This essay provides a brief overview of Forest City before turning to investigate the broader geopolitical implications of the project for Singapore, Malaysia, and the region, focusing on two key arguments. First, I suggest Forest City marks a radical departure from other Chinese-financed mega-developments in Malaysia as it constitutes a Chinese neocolonial outpost that advances China's expansionist agenda. Second, I contend that Forest City's autonomy and strategic location challenges current geopolitical dynamics, while threatening to undermine Malaysia's relationships with neighbouring countries and weaken transnational agreements.

Chinese medicine for an ailing white elephant

Forest City is being built on four reclaimed islands at the tip of the Malay Peninsula in the Johor Strait opposite Singapore (Figure 1) and is located within the Special Economic Zone (SEZ) of Iskandar Malaysia, the country's second economic development region after the Multimedia Super Corridor south of Kuala Lumpur (Bunnell 2004; Moser 2010). Iskandar Malaysia is three times the size of Singapore and is intended to both complement and compete with Singapore through fostering cross-border investments and providing amenities for companies and people attracted to Singapore but at a lower cost (Rizzo and Glasson 2012). According to the master plan, Iskandar Malaysia is to be a massive multi-use zone for international business and a variety of sectors: shipping and the expansion of several existing ports with specialized functions³; residential units for a projected population of over 3 million by 2025; a tourism sector featuring theme parks, resorts, and other facilities; healthcare and medical tourism; retail and commercial space; and manufacturing (food, electronics, chemical products).

Iskandar Malaysia was conceived as a way to transform south Johor into a sort of Shenzhen and is one example of many new ways in which urban policy and capital are circulating within Asia (Bunnell and Das 2010; Das 2015). Yet to date, Iskandar Malaysia is largely empty, highly fragmented, and car-centric. Attracting industry has been slower than expected and Iskandar Malaysia has been widely criticized as being a typical top-down state-engineered white elephant (Wah 2017). A disproportionate amount of investment is tied up in

³ Chinese investment is financing the Tanjung Pelepas Port next to Forest City, and is one of several ports Chinese state and private investors are building near Singapore in Malaysia and Indonesia (Mooney 2017).

real estate rather than business and there are signs of a housing glut (Palansamy, Chi, and Kamal 2015; Anonymous 2017). As investors from Europe and the Middle East have pulled away, Chinese investors constitute the main source of investment in Iskandar Malaysia and are widely seen as propping up and sustaining the project. Beijing's recent restrictions on outflows of capital mean that Iskandar Malaysia is particularly vulnerable if Chinese investment slows down (Hu 2017).

Figure 1: Location of Forest City within Iskandar Malaysia SEZ and the region (Source: Author)

Chinese investment is concentrated in a number of upscale gated mega-developments spread across Iskandar Malaysia constructed by either private or state Chinese companies. Forest City is by far the most expensive of Iskandar Malaysia's 60 current projects. It is the largest Chinese urban development outside of China and is expected to cost \$100 billion USD, a sum matched only by King Abdullah Economic City, a similarly ambitious new city project under construction in Saudi Arabia (Moser, Swain, and Alkhabbaz 2015).

At 20 square kilometers, Forest City is about four times the size of Central Park (Mahrotri and Choong 2016). Designed for 700,000 people, Forest City will be an unprecedented feat of engineering if completed. A massive concrete superstructure will cover the four islands, which are currently being created through dredging, and construction is forging ahead at record speed. While reclaimed land conventionally takes five years to settle and compact before it is safe to build on, creators of Forest City have developed a technique that they claim fully prepares the new land for construction after just 10 months. The surface of Forest City is advertised as car-free and reserved for gardens, pedestrians, bike trails, and recreational and commercial space, while parking and roads are hidden several storeys below the surface.

The strategic location of Forest City is its main selling point. Salespeople remind visitors that Forest City will be part of the state's 'Belt and Road' scheme that aims to connect Chinese businesses to Central Asia, Europe, Southeast Asia, and Africa by land and sea (Shepard 2016). Iskandar Malaysia will have a stop along the planned high speed railway connecting Singapore and Kuala Lumpur, and eventually onward through mainland Southeast Asia to China. On a giant map in the Forest City Sales Gallery, Iskandar Malaysia is depicted as being a stop on the

maritime route to Africa. Chinese interest and investment have breathed new life into an ailing project and enabled it to enter a new period of activity.

A Chinese neocolonial outpost in peninsular Malaysia

Forest City has been granted extraordinary and unprecedented concessions of sovereignty from Iskandar Malaysia and approved by the Malaysian state, signaling a dissembling of national territory (Sassen 2013). According to staff in the Forest City Sales Gallery, the Malaysian state will have little authority or jurisdiction over Forest City⁴, nor will it be responsible for bailing the project out if recent restrictions on capital outflows from China threaten the project (FMT Reporters 2017b). Forest City is a completely private city with no publicly-provided services. Education, health care, security, utilities, management, and so on are all privatized and cater to Chinese nationals⁵. In a particularly controversial move among Malaysians, Forest City is selling freehold properties, rather than 99-year leases, which is a standard practice in Singapore and Malaysia, particularly for foreign buyers. While the Johor government has claimed that Forest City properties are leased, billboards and salespeople at the sales gallery claim that the properties are freehold, a particularly unique and attractive feature for foreign investors. Malaysia's 'Malaysia My Second Home' (MM2H) program provides permanent resident visas to wealthy foreigners quickly and with little red tape, and purchasing a unit can further fast-track a visa, a perk prominently advertised in Forest City. Critics of the project, including former Malaysian Prime Minister Mahathir, warn that Chinese nationals in Forest City may have the legal right to become citizens after 12 years and to vote in elections (Firdaws 2017). Mahathir has publicly stated that the influx of Chinese nationals would undermine Malaysia's sovereignty, and he equates Forest City to Johor's sale of Singapore to the British 200 years ago (FMT Reporters 2017a).

⁴ The location of Forest City in a Muslim-dominated region is, according to sales staff in Forest City's Sales Gallery, the primary concern among potential Chinese buyers. Newspaper headlines about Islamic vigilantes in Malaysia raiding hotel rooms and policing morality have made their way to China and stokes fears of Muslim violence and terrorism. As a result, Forest City's developers have negotiated an agreement with Johor that allows the project to be protected solely by private police and a private coastguard.

⁵ For example, the first school in Forest City is a private Christian boarding school from the U.S., a selling point for Chinese parents who largely want a 'western' education for their children. Many other features of Forest City accommodate the preferences of Chinese investors, including aesthetics, types of housing, the use of Mandarin throughout the project, and more (Author, forthcoming).

SEZs typically have varying degrees of autonomy and independence from the rest of a country, and may have different rates of taxation, special incentives for businesses, or even a separate legal system. What sets Forest City apart is that it is an SEZ within an SEZ that has even more favourable rates of taxation, tax holidays, and other incentives than the rest of Iskandar Malaysia. Most significantly, SEZs are typically not controlled by a foreign country. For example, Shenzhen (China), King Abdullah Economic City (Saudi Arabia), Iskandar Malaysia (Malaysia), and others are zones with a high degree of autonomy yet are still national experiments run by the state. While Iskandar Malaysia has many foreign investors, the state is still in charge, the area is policed by Johor police officers, and Malaysian law is enforced. Forest City represents an unprecedented level of autonomy even for an SEZ as it is a foreign-controlled enclave. Since Malaysia police are not allowed to enter Forest City and private security are employed throughout, it is unclear what legal system will be in place, which laws will be enforced and how, what legal recourse residents will have, and how offenders will be punished.

Forest City is built in the sea on reclaimed land, yet China's success in land-grabbing and its dynamic with Malaysia can be characterized as neocolonial. The project perpetuates an uneven relationship that enriches few in Malaysia, causes vast environmental and ecological damage (Anonymous 2016), engages in unsustainable development, and privatizes resources. While Forest City is touted as a real estate project, its strategic location suggests that it is one node in China's broader expansionist agenda. Chinese-built ports and massive land reclamation projects dot the maritime route from China to the coast of East Africa, including the contested Spratly, Paracel, and Mischief Islands in the South China Sea, Forest City in Malaysia, Myanmar, Philippines, Sri Lanka, Mauritius, and Seychelles (author, forthcoming). Airfields, anti-aircraft defenses, and ports being built on some of the land reclamation projects are signs of greater militarization (*BBC News* 2017) and Xi Jinping's shift in foreign policy toward establishing a 'Sino-centric network of economic, political, cultural, and security relations' (Callahan 2016: 226). These projects point to Chinese aspirations beyond real estate, strengthening 'friendships' in the region, or opening up markets to sell Chinese goods on the pretext of reviving ancient trade ties (Winter 2016). The series of permanent Chinese bases suggest the state is engaging in a long-term strategy to secure trade routes and play a more prominent role in global affairs, often in collaboration with corporations, and largely without the consent or approval of neighbouring countries.

Undermining regional ties: Toward a new regional order

In order to compete with China and India, countries in Southeast Asia have formed various regional economic agreements in an attempt to pool resources and leverage each other's strengths.⁶ Bilateral projects such as Forest City are provocative and threaten to disrupt and undermine regional ties. First, the establishment of a permanent Chinese-controlled base less than two kilometers from Singapore (Figure 2) introduces China as a new neighbour to Singapore and apparent ally of Malaysia, a highly incendiary move about which Singapore was not consulted and over which it has expressed repeated concern (Ourbis and Shaw 2017) . Second, Forest City and China's other investments in Iskandar Malaysia hint at an effort to challenge Singapore's dominance in the region as a finance and shipping hub. Johor's collaboration with China on port infrastructure, housing, and office space appear to lay a foundation to eventually bypass Singapore's port in favour of its more submissive (and corrupt) neighbour. As such, Forest City represents an inherent contradiction. While Singapore's dominance is seen as a source of prosperity and stability for Forest City within a Muslim-majority region, the project relies on China's bilateral relations with Malaysia and weakened ties among ASEAN⁷ countries.

Figure 2: Forest City's land reclamation underway with Singapore in the background (Source: Author)

The final treaties securing Singapore's water supply from Johor expire in 2061. There are concerns in Singapore that the water treaty will not be renewed or that it could be terminated without warning, a particular concern given Johor's recent droughts and its many massive new urban developments. If Forest City reaches its intended population of 700,000, it will strain Johor's utilities and, given the Sultan's personal investment in Forest City, perhaps hasten the termination of the treaty with Singapore.

In an era of 'fast urbanism' (Datta and Shaban 2017) and the growing sense of competition between cities (Brotchie et al. 1995), Forest City offers a glimpse into an urban

⁶ E.g.: IMSGT (Indonesia-Malaysia-Singapore Growth Triangle), AFTA (ASEAN Free Trade Agreement), ASEAN Trade in Goods Agreement (ATIGA).

⁷ Association of Southeast Asian Nations

future in which China is a powerful global player with a greatly expanded territory. It is also a future in which the sovereignty of nations, or portions of a nation's territory, is eroded and national territories dissembled, where ethnicized gated cities are constructed at unprecedented scales, and global elites who circulate capital are rewarded with tax-free havens. If Country Garden Holdings and other Chinese state or private companies deem Forest City to be a success, we could see a rash of similar Chinese projects in countries that are both hungry for investment and infrastructure and at the same time institutionally too weak to resist China's advances. Given both Chinese companies' and the state's skill at sniffing out countries seduced by utopian urban development narratives⁸, we may see many more Forest Cities in coming years.

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⁸ See for example the proposed 'City of Pearl', a new luxury city built on artificial islands in Manila Bay, Philippines (Cheng 2017).

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