

Axed Railway Raises Malaysia-Singapore Trust Deficit

Bilateral cancellation of once ballyhooed high-speed rail project runs deeper than disagreements over costs and Covid

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Not long after ringing in the new year, disappointment set in for those on both sides of the Causeway separating Singapore and Malaysia.

On January 1, the two countries announced the termination of a multi-billion-dollar high-speed rail (HSR) that would have directly linked the city-state to Malaysia's capital Kuala Lumpur.

News of the much-anticipated project's cancellation came as a blow to frequent travelers who shuttle between the two neighboring Southeast Asian states, with leaders from both sides offering conflicting explanations for why the rail link, once touted by Singapore's **Prime Minister Lee Hsien Loong** as a "game-changer" for bilateral relations, was axed.

According to a joint statement, the two countries were unable to reach a consensus on continuing the project after Malaysia's government proposed several changes to reduce costs in light of the economic impact of the Covid-19 pandemic.

Slated for completion by 2031, the rail link would have cost an estimated US\$14.9 billion to \$19.8 billion.

The 350-kilometer, or 218-mile, HSR would have cut the travel time between the two cities down to about 90 minutes from the more than four hours it now takes by car. According to official estimates, the rail link would have contributed \$5 billion in gross domestic product (GDP) to Malaysia and Singapore, as well as create 111,000 jobs by 2060.

With the growth-spurring development project stopped in its tracks, observers say the episode has eroded investor confidence in Malaysian **Prime Minister Muhyiddin Yassin's** government, which is under pressure from opposition critics as well as state governments who want the proposed HSR to continue without Singapore's inclusion.

Under the terms of a legally-binding bilateral agreement between the two countries, Malaysia is required to compensate the government of Singapore for various costs incurred in relation to the HSR, obligations that authorities in Putrajaya have said they will honor. The specific amount to be paid has not been disclosed for confidentiality reasons.

Mustapa Mohamed, Malaysia's economic affairs minister, recently stated that the total

compensation costs owed to Singapore would be “much lower” than the S\$270 million (\$204 million) spent by the city-state on the project, and that the total costs would be disclosed after the amount was finalized pending an agreement with the city-state.

Though the compensation is “not punitive in nature” but rather a reimbursement, according to the minister, those funds could conceivably become a political lightning rod at a time when spending is needed elsewhere as the country attempts to bounce back from its worst recession ever, amidst a setback for meaningful economic integration.

“What would have been a win-win situation for bilateral relations is now a situation in which Malaysia has missed out on an opportunity to boost its national economy through interconnectivity,” said Mustafa Izzuddin, a visiting professor of international relations at the Islamic University of Indonesia.

After being stuck in limbo for more than two years after the ambitious project was put on hold at Malaysia’s request, the cancellation of the HSR was not entirely unexpected. Key developments related to the rail link played out against the backdrop of major political change across three different Malaysian government administrations.

First announced in February 2013, the two countries signed a breakthrough rail agreement three years later during Malaysian **Prime Minister Najib Razak**’s tenure, stipulating that both governments would take responsibility for developing, constructing and maintaining the civil infrastructure and stations for the HSR within their own countries.

Najib and his ruling Barisan Nasional (BN) coalition were toppled at elections in 2018. The historic change of government saw the HSR put on pause, with then-premier Mahathir Mohamed’s Pakatan Harapan (PH) alliance leading an effort to review major Najib-approved infrastructure projects in a bid to curb mounting national debts.

After taking power, Mahathir said the HSR project was “not beneficial” to Malaysia and that it could cost the country 110 billion ringgit (\$27.3 billion), much higher than an earlier estimate of 72 billion ringgit (\$17.9 billion) under Najib’s government.

In September 2018, Singapore agreed to Malaysia’s proposal for a two-year postponement of the project.

Deferment of the project saw Malaysia pay S\$15 million (\$11.3 million) in abortive costs. Mahathir resigned as prime minister in February 2020, leading to incumbent Muhyiddin Yassin’s appointment under the helm of a new government, which requested to further extend the suspension period for the project from May 2020 to December 31.

As recently as November 2020, Malaysian **Finance Minister Tengku Zafrul Aziz** stated that the government intended to proceed with the HSR in light of the “positive multiplier effect” it would have on the economy. But bilateral talks appeared to be falling through by December as Muhyiddin’s government sought amendments to the 2016 agreement.

Among the changes sought were measures to allow Malaysia to appoint local contractors and consultants rather than have tenders be jointly conducted with Singapore as the deal required, and the removal of an assets company that had previously been agreed upon to supply the train system and operate the railway network, on cost-saving grounds.

Ong Ye Kung, Singapore's transport minister, said in Parliament on January 4 that Putrajaya's proposal to remove the assets company, which would have been liable to both countries, was the main stumbling block that led to the project's discontinuation and constituted a "fundamental departure" from the original agreement.

As neither country had experience running a high-speed rail line, the "centerpiece" of the HSR project was for both sides to agree to an "open and transparent international tender" for a "best in class industry player" to run the assets company, said Ong.

"This will minimize the possibility of future disagreements and disputes over the long duration of the project."

Ong also dispelled suggestions that Malaysia's proposal for the HSR to connect to Kuala Lumpur International Airport had stoked fears of Singapore losing its aviation hub status.

Instead, he said the main concern was the technical issue of the HSR sharing tracks with the existing Express Rail Link, which runs at half the proposed HSR's speed.

"Reneging on the HSR agreement may well result in a trust deficit between potential foreign investors and Malaysia," said academic Mustafa, "and may well also raise the question of whether Malaysia can still be viewed as a trustworthy and reliable partner which can rise above domestic politics."

The project's termination on mutual, non-acrimonious terms would not impact bilateral ties given that "relations between Malaysia and Singapore are on an even keel and multifaceted, defined not by the HSR project," he added, alluding to the two countries' far-reaching economic ties that span trade, investments and cross-border labor flows.

In a Facebook post, former premier Najib claimed that Muhyiddin's Perikatan Nasional (PN) government wanted to remove the assets company in order to select vendors for the HSR without the involvement of Singapore, which he described as a departure from his initial vision for both countries to be responsible for the construction of the rail link.

He added that Malaysia's economy would lose "trillions of ringgit" in benefits from the HSR project and alleged the government would go ahead with a railway line between Kuala Lumpur and the southern state of Johor, claiming that a "crony" private company has already been chosen to be the contractor and operator for the project without any tender.

Malaysia's economic affairs minister has denied these allegations and said that any form of the project would be carried out on an open tender. Mustapa has said the government plans to conduct a detailed study to explore all alternatives in the wake of the HSR's cancellation, including the viability of a domestic high-speed rail network.

State governments in Melaka and Johor, where towns and cities in and around proposed HSR stations stood to gain, have urged the government to resume the project, but with the rail service terminating in Johor rather than Singapore, which economists generally agree wouldn't be financially feasible without passengers from the wealthy city-state.

Carmelo Ferlito, an economist and chief executive officer at the Center for Market Education (CME), a non-profit think tank based in Kuala Lumpur, sees the termination of a rail link between Singapore and Kuala Lumpur, which had been one of the world's busiest flight corridors prior to the pandemic, as a lose-lose situation.

“The future of transportation in Malaysia is rail. It is not efficient or sustainable to travel within via airplanes and roads,” said Ferlito. “A cargo and passenger integrated railroad planned in accordance with commercial principles and fully funded with private capital would create a better system from a financial and environmental perspective.”

Both governments have acknowledged the benefits of a rail link and haven't ruled out discussions on a new bilateral proposal in the future, though Singapore's transport minister has said any such talks should begin “on a clean slate” after Malaysia's recompense is settled. Observers don't see a rebooted HSR project on the cards anytime soon.

“The current political leadership in Malaysia prefer to develop or enhance the domestic transport network rather than include a neighboring country Singapore in their thinking,” Mustafa told Asia Times. “I can't see the HSR with Singapore being revisited in the near future. It is as good as dead in the water.”

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