# THOUGHT LEADERSHIP BRIEF

# Chinese-Invested Smart City Development In Southeast Asia - How Resilient are Urban Megaprojects in the Age of COVID-19?

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Photo by Angela Tritto

## KEY POINTS

▶ The pandemic has compounded urban megaprojects' exposure to political risk

▶ The pandemic also exposed the dire shortage of hard and soft infrastructure in modern cities

▶ Governments should therefore weigh building smart city from scratch vis-à-vis improving existing urban dwellings

▶ The case of Forest City shows that built-from-scratch smart city projects targeting wealthy foreigners need to adjust and cater to the needs of the local communities to contribute to a sustainable post-pandemic future

## ISSUE

Smart cities are emerging as major engines for deploying intelligent systems to enhance urban development and contribute to the UN 2030 Sustainable Development Goals (UN SDG). In developing economies facing rapid urbanization and technological change, new cities are being built with smart technologies and ideals, complete with business districts and residential, retail, entertainment, medical, education facilities to entice businesses and talents to relocate. Governments tout the potential of such "greenfield" smart cities for innovation and sustainability. Yet such urban megaprojects are often extremely expensive, prompting governments to partner with private players such as property developers, investors, and tech firms to share the cost, and supply infrastructure and technologies.

As the centre of post-war new city development, China now also pioneers smart city initiatives, with about 500 pilot projects, over half of the world's total (Xinhua, 2018). Chinese firms, with the experience of developing new cities and urban technologies at home, aspire to expand their businesses overseas. As their aspirations align with the development interests of the emerging economy governments, Chinese firms are emerging as crucial new players in the development planning. For instance, in Southeast Asia, Chinese firms play key roles in numerous existing or planned built-from-scratch smart cities (see Table 1). Beijing's launch of the Belt and Road Initiative, and notably its "Digital Silk Road" component, provides high-level support for Chinese firms' participation. At the 2017 Belt and Road Forum, Chinese President Xi Jinping called for cooperation in "digital economy, artificial intelligence, nanotechnology and quantum computing" and "the development of big data, cloud computing and smart cities" (People's Daily, 2019).

The current COVID-19 pandemic has instilled new fanfare and uncertainty in smart city development. As the virus spreads rapidly among densely populated communities, prompting authorities to impose lock-downs and stay-at-home orders, public and private entities depend on technologies to continue operations. The pandemic also accelerates the demand for real-time data collection and analytics in the urban environment, as cities deploy solutions such as GIS-based emergency response dashboards, traffic control systems monitoring quarantine violations, or smartphone apps for location tracking and health monitoring. Yet the pandemic has also brought travel restrictions, supply chain disruptions, budget cuts and bankruptcies, project delays and cancellations, and low investor confidence. The poor pandemic preparedness in many countries also exposed the need for quality soft infrastructure, such as effective governing institutions and favourable policy environments, in complementing the hard, physical infrastructure to support the functioning of cities for all residents in times of crisis. How have the Chinese-invested built-from-scratch smart cities fared in the current pandemic? To what extent are such urban megaprojects resilient to external forces and unforeseen circumstances? This brief provides some exploratory analysis by drawing on one of the largest Chinese-invested smart city projects in Southeast Asia, the Forest City in Malaysia.

**Table 1. Key Chinese-invested Built-from-scratch Smart City Projects in Southeast Asia**

| Country | Project | Chinese Investor(s) | Project Value (in USD) | Project Start Year | Project Status |
|---|---|---|---|---|---|
| **Malaysia** | Forest City | Country Garden Group as a joint-venture partner (60%) | 4 Billion (100 Billion Est. Total) | 2013 | 1st Phase Completed in 2019 |
| **Philippines** | New Clark City | China Construction Engineering Corporation | 2 Billion (China Industrial Park) | 2016 | Initial Operation in 2019 |
| **Philippines** | New Manila Bay-City of Pearl | UAA Kinming (Filipino-Chinese Developer Consortium) | 1.48 Billion (1st Phase) | 2017 | Reclamation Contract Signed in 2019 |
| **Thailand** | Eastern Economic Corridor (EEC) | China Development Bank, Tus-Holdings, Huawei etc as partners | 54.2 Billion (Total) | 2017 | MOUs Signed in 2018 |
| **Myanmar** | New Yangon City Development | China Communications Construction Co. (CCCC) as the main partner | 1.5 Billion | 2020 | Swiss Challenge Started in 2020; Now Suspended |

Source: Tritto and He, 2020. Updated by authors.

## ASSESSMENT

Located within the Iskandar Malaysia special economic zone in Johor, Malaysia, the Forest City project aims to build four artificial islands totalling 1,386 hectares over reclaimed land with an estimated cost of USD $100 billion, hosting 700,000 people upon completion in 2035. The project started in 2014 under the management of Country Garden Pacific View (CGPV), a joint venture between Esplanade Danga 88 Sdn. Bhd, a company owned by the State of Johor and its Sultan, and Country Garden, one of the largest private real estate developers in China. To encourage investment, the Malaysian government declared Forest City as a duty-free zone and provided tax incentives for qualified companies involved in tourism, education, healthcare, and green development, with a waiver on equity restriction for foreign investors. According to Forest City, the first island was completed and in operation by 2020, hosting residential units, commercial areas, an Industrial Building System factory, hotels, golf courses, and an international school. Designed to be a "smart and green city" in partnership with leading firms such as Tencent, Huawei, Cisco, Arup, Accenture, G-Energy, Celcom and Sasaki, the project has won five Sustainable Cities and Human Settlements Awards.

As an ambitious city-building project driven by foreign investment, the Forest City case highlights that investment risks could come from external players in both home and host countries. At its inception, Forest City primarily targeted Chinese investors, touting its location as being "right next to Singapore" while offering property at a fraction of the cost in Singapore, freehold properties as opposed to leasehold properties available in China, migration through the "Malaysia Second Home Program", and high-quality lifestyle for expats and families. However, the Chinese government moved to control capital outflow into overseas real estate investment in 2017, after the Yuan suffered a volatile trading year. This led to declining interests from Chinese investors and disputes on contracted purchases, as some property buyers reportedly had to pay a penalty of 30 percent of the purchase price to cancel the purchase (Ho, 2017). Forest City was then embroiled in a political battle in Malaysia's general election in 2018, as opposition politicians including Mahathir Mohamad campaigned against then ruling party that supported the project, attacking Forest City as "building a huge Chinese city in Malaysia". After Mahathir came to power, he remarked that Forest City "cannot be sold to foreigners", while later clarifying that foreigners could invest in Forest City but should apply for residency through the Second Home program. The Minister of Housing and Local Government also criticized that "it will not be fair for the locals if Forest City only caters for foreigners" (EdgeProp,

2019). The changing political environments led to CGPV diversifying the target market to also court investors from Southeast Asia, Japan, South Korea, and the Middle East. The firm reportedly planned to offer affordable plans that "cater to the needs and tastes of locals" (EdgeProp, 2019), yet no details have been released.

The COVID-19 pandemic has magnified the challenges for megaprojects primarily catering to high-end property investors from overseas. Forest City's first phase of residential units was priced ranging from RM13,000 psm to RM18,000 psm ($399 psf to $552 psf), effectively excluding most locals from buying (Bong, 2019). Yet Malaysia's Movement Control Order (MCO) since March 2020 has barred foreigners from entering the country, leading to a halt in property tourism and a plunge in Forest City property sales, with sources saying that "sales have dropped over 90% with typically no visitors" (Kumar, 2020). In addition, many Chinese migrants living in Forest City reportedly left Malaysia due to the financial and psychological impacts of the pandemic, planning to sell their homes remotely rather than waiting to see when they would be allowed to return (He, 2020). Reclamation for the second island, planned to be Forest City's central business district and tourism zone, has reportedly slowed down considerably due to government-imposed lockdown measures (Kumar, 2020).

These recent developments have reinforced investors' aversion to risks during the pandemic, casting uncertainties on the long-term viability of building four islands through high-cost reclamation. Yet while sales to foreigners are slow to recover, local demand for new property may rebound more quickly, aided by the Malaysian government's post-pandemic home ownership campaign providing financial assistance from banks and tax agencies to local buyers (Kumar, 2020). Therefore, a prudent option could be repositioning the project for the local market, offering more affordable options for local buyers, or converting unsold properties to alternative uses for local population.

## RECOMMENDATION

How can we make current cities more resilient during pandemics? What has the pandemic taught us in terms of needs and capacity of current cities? Are these new "smart" cities pandemic-resilient? The COVID-19 pandemic has exposed the scarcity of hard and soft infrastructure of current cities, such as physical spaces, resources, human capital, tech know-how, organizational and institutional capacity to deal with these multi-scalar types of issues. Urban planners and policymakers should therefore acquire important lessons from this experience to plan for the post-pandemic future of cities.

Some fundamental considerations can also be drawn from a preliminary assessment of the megaprojects in Table 1. Apart from the Forest City, almost all have faced delays or suspensions. Some of them, such as the New Yangon City Development, have radically changed their bidding process to become more open and innovative by experimenting with the Swiss Challenge model, but have been suspended due to current political turmoil in Myanmar. Urban megaprojects in Southeast Asia have proved to be quite exposed to political risks, and the Forest City case is no exception. Ultimately, we should question whether smart cities improve the lives of ordinary citizens. If they don't, then this means they are not inclusive, nor smart, therefore we propose the following recommendations:

- National and local governments ought to develop and implement comprehensive long-term planning for smart cities by carefully assessing the need for new, built-from-scratch developments vis-à-vis improving existing urban dwellings. The pandemic has highlighted the need to prioritize investments to strengthen public services in existing cities.

- Host governments should define scopes that are financially and socially sustainable, and develop supportive governing institutions to coordinate efforts at different governance levels. The coordination and screening of foreign investments in the country should be strategically performed by both national and local governments to fit their sustainable development strategies.

- New projects should target middle-income residents and generate benefits also for the hard-hit low-income population. As the pandemic is set to increase the income gap and socio-economic inequality, host country governments should support this with relevant policies.

- Regulators need to proactively engage all interested parties and enhance information flow between local community members, governing institutions, and foreign investors to identify local concerns and address grievances in a timely and mutually acceptable manner, which in turn would help ensure project success and sustainability outcomes.
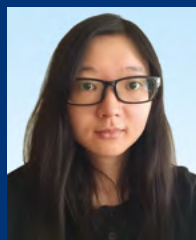
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