

News Release

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Belt and Road Initiative brings mutual economic benefits to Malaysia, ASEAN and China

In the wake of more isolationist political thinking in the West, with many developed economies turning inward, China is reaching out, seeking stronger trade and investment links with its economic partners.

China's Belt and Road initiative is a prime example of this reaching out policy. Under the initiative, China aims to trigger demand for materials and goods at home by investing in strategic infrastructure projects abroad, growing economic ties along its old Silk Road to Europe and along newer maritime links in and around Asia and Africa.

At its heart, the plan is to enhance global supply chains primarily through debt-financed infrastructure projects, across more than 60 countries. China expects annual trade with these countries to be worth US\$ 2.5 trillion within a decade ¹ – up from US\$ 1 trillion in 2015.²

Given the economic importance of the Association of Southeast Asian Nations (ASEAN) to China, and its geographical proximity, ASEAN's burgeoning economies are a key focus of the Belt and Road initiative.

2016 marked the 25th anniversary of the open-dialogue relationship between China and ASEAN. Economic relations between China and ASEAN economies have been growing strongly. By the end of May 2016, the two-way investment had exceeded US\$ 160 billion, with ASEAN remaining a major destination for Chinese companies.³ Bilateral trade has also increased 60 times from US\$ 7.96 billion in 1991 to US\$ 472.16 billion in 2015. ASEAN and China are seeking to double their trade value, setting a target of US\$ 1 trillion by the end of 2020.⁴

"The Belt and Road initiative will play a key role to bring together two of the world's most dynamic economic regions by strengthening economic linkages amongst the ten members of ASEAN, as well as between ASEAN member countries and China," said Mukhtar Hussain, Chief Executive Officer, HSBC Bank Malaysia Berhad.

¹ http://news.xinhuanet.com/english/2015-03/29/c_134107329.htm

² http://news.xinhuanet.com/english/2016-06/22/c_135458107.htm

³ http://news.xinhuanet.com/english/2016-07/19/c_15524666.htm

⁴ http://english.gov.cn/news/video/2016/07/26/content_281475401895761.htm

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“Strategically located in the heart of South East Asia, Malaysia with its strategic location as not only the gateway to the ASEAN market, but also a gateway to China, holds an incomparable advantage in the construction of the 21st Century Maritime Silk Road. Since the implementation of the Belt and Road Initiative, both countries have reaped the early benefits of economic investment and have pledged to build a stronger all-round strategic partnership in areas including trade, finance, port development and logistics. In fact, Malaysia continues to gain from China’s economic expansion. China has remained Malaysia’s largest trading partner for the seventh consecutive year since 2009. In fact, Malaysia’s trade with China for the first eleven months of 2016 registered a growth of 2.7% to RM216.27 billion.”

For ASEAN member countries, the initiative will help address an infrastructure deficit and lift industrial development. While the formation of the ASEAN Economic Community (AEC) a year ago is bringing Southeast Asian economies together as a single market and production base, the Belt and Road initiative will offer further integration by developing physical infrastructure and a robust trade regime. The region will be ideally positioned to sit at the centre of global value chains.

For China, it will provide a platform to develop ties with neighbouring Asian countries while fostering the development of its own extensive high-speed rail network as a means to export high-end technology and services.⁵

Efforts to boost ties have already led to practical achievements. Among the ASEAN countries, Malaysia, Thailand, Laos and Indonesia have joint Belt and Road deals with China, mainly in railway construction.

“Since the announcement of the Belt and Road Initiative, the Malaysian government has also committed to building and upgrading sea ports in a plan to establish free trade zones and industrial parks to be built near the ports. Examples are the sister port developments in Malacca-Guangdong, the Malaysia-China Kuantan Industrial Park (MCKIP) and the Qinzhou Industrial Park (QIP),” added Mukhtar.

“Malacca is also poised for more economic cooperation with China as part of the Belt and Road initiative. An investment of USD 10 billion (RMB 40 billion) from China has flowed into Malaysia for the Malacca Gateway project which consists of a deep sea port and ocean park. The project, set to become the largest private marina in South East Asia, is scheduled for completion in 2025. Malacca is also expected to receive a tourism boost following the start of direct flights between Melaka International Airport and Guangzhou, in Guangdong province, China.”

Infrastructure financing until now has been a challenge for most of ASEAN countries. With the exception of Singapore – which has a highly developed infrastructure base – and to a lesser extent Malaysia, the nations of Southeast Asia are by and large confronting major infrastructure financing deficits.

China has set up three new financial institutions to help fund the Belt and Road infrastructure goals: the Asian Infrastructure Investment Banks (AIIB), the New Development Banks and the Silk Road Fund. Between them these three institutions have a registered capital of US\$ 240 billion, and they are starting to become active investors along the Belt and Road routes.

⁵ https://en.m.wikipedia.org/wiki/High-speed_rail_in_China

In addition, more than 300 Chinese funded enterprises have been set up in 26 economic cooperation zones in eight ASEAN countries, investing a total of US\$1.77 billion by October 2016.⁶

Even these combined funding capabilities cannot fully meet Asia's immense need for infrastructure financing. The Asian Development Bank estimates that US\$750 billion a year will need to be invested in Asia between now and 2020 as developing nations strive to raise their economic productivity and deal with rising urbanisation.⁷

However, Beijing's drive and financial commitments are sizeable, and will have a significant impact.

"Implementing the Belt and Road agenda will require a high level of mutual cooperation, understanding and trust. But with careful handling of the regulatory, political and financial risks involved, it will support high-quality and long-lasting economic growth in Southeast Asia and in China," concluded Mukhtar.

Given the vital role China plays in Malaysia and ASEAN's economic future, HSBC Malaysia will be hosting the Asian & RMB Forum in Kuala Lumpur on 27 February 2017 – the Forum will review recent developments and provide strategic perspectives of the prospects for the economies and markets, and touch on the importance of China to a country like Malaysia.

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About HSBC in Malaysia

HSBC Bank Malaysia Berhad was locally incorporated in 1984 and is a wholly-owned subsidiary of The Hongkong and Shanghai Banking Corporation Limited (a company under the HSBC Group). In 2007, HSBC Bank Malaysia was the first locally incorporated foreign bank to be awarded an Islamic banking subsidiary licence in Malaysia, and HSBC Amanah Malaysia Berhad, a full-fledged Islamic bank wholly owned by HSBC Bank Malaysia, commenced operations in August 2008. HSBC in Malaysia has a network of 68 branches nationwide, of which 26 are HSBC Amanah Malaysia Berhad branches. HSBC Amanah Malaysia Berhad also has offsite ATMs established in 25 locations nationwide. In 2006, HSBC was the first foreign bank to be awarded a Takaful (Islamic insurance) license in Malaysia. HSBC Amanah Takaful (Malaysia) Sdn Bhd, a joint venture between HSBC Insurance (Asia Pacific) Holdings Limited (49% shareholding), Jerneh Asia Berhad (31% shareholding) and Employees Provident Fund Board of Malaysia (20% shareholding) commenced operations in August 2006.

⁶ http://news.xinhuanet.com/english/2016-10/08/c_135737919.htm

⁷ <http://www.adb.org/news/development-banks-private-sector-must-work-together-fill-infrastructure-gaps-says-adb-panel>

http://www.cbbc.org/cbbc/media/cbbc_media/One-Belt-One-Road-main-body.pdf and <http://www.adb.org/sites/default/files/publication/156103/adbi-wp248.pdf>