News Release

11 July 2017

Belt and Road's financial market implications on Malaysia

Much of the attention around China's Belt and Road Initiative tends to focus on the *physical* infrastructure -- the railway lines, ports and highways that will be constructed in its name. But the sheer scale of what's required means Belt and Road also has important *financial* implications that matter to investors in Malaysia and elsewhere.

Announced in 2013, Belt and Road will galvanise infrastructure construction as far afield as South East Asia, the Middle East, Africa and Europe. Already, there has been significant Chinese investment in major Malaysian infrastructure projects. For example, a strategic partnership between the State of Melaka and the Chinese province of Guangdong aims to promote various projects that will help develop Melaka as a strategic port and hub along the Belt and Road route.

Meanwhile, the RM8.9 billion Double Tracking Rail Project initiative -- a continuation of the Singapore-Kunming Rail Link (SKRL) -- involves the upgrading of 197 km of rail tracks from Gemas (near Melaka) to Johor Bahru. The SKRL is also one of the key drivers for Malaysia's High Speed Rail project that will connect Malaysia and Singapore.

Altogether Malaysia plans to invest RM469 billion (US$109 billion) in infrastructure through 2030. The government's 11th Malaysia Plan aims to strengthen infrastructure to boost productivity and support economic expansion.

Asia-wide, according to Asian Development Bank estimates, about RM112 trillion (US$ 26 trillion) needs to flow into infrastructure between 2016 and 2030 as developing nations aim to raise productivity and deal with growing urbanisation and the impact of climate change. That amounts to RM7.3 trillion (US$ 1.7 trillion) a year.[1]

"Financing this colossal need for transport, telecoms and energy infrastructure is going to require all available sources of private and public sector capital," said Mukhtar Hussain, CEO, HSBC Malaysia.

"But it will also generate a broad spectrum of opportunities for local and international investors and stimulate capital markets development in many Asian markets where bank lending still tends to dominate financing," Mukhtar added.

While the need for infrastructure spending is not new, Beijing's Belt and Road push has added an extra sense of urgency. It has intensified the appetite to begin projects, and to get them financed.

"Infrastructure projects by their very nature are large, complex, often multi-decade ventures that can involve different kinds of funding over their lifetime," Mukhtar said. "So Belt and Road fundraising will need to come from the full range of sources, including bridge financing from banks; equity capital from governments, funds and public and private equity markets; and longer-term bond issuance both from the private sector and public-sector institutions like the AIIB."

This is good news for investors right now – be they sovereign wealth funds in Asia or asset managers in Europe, Japan or America. Interest rates and yields remain at all-time lows following the global financial crisis.

1. As of Feb 2017: https://www.adb.org/news/asia-infrastructure-needs-exceed-17-trillion-year-double-previous-estimates

In this context, infrastructure projects and the stable, long-term returns they tend to provide are increasingly attractive in the eyes of investors who are looking to diversify their holdings.

Sovereign wealth funds, for one, have been deploying more of their assets to global infrastructure investments, especially in Asia.

At the same time, the savings of Asia's middle classes – including in Malaysia -- are growing rapidly, and these savers are looking for yield. The steady return potential of infrastructure investment will be a good fit, especially as many of these savers are getting older and need to plan for their retirement.

Meanwhile, the expected growth in capital-raising activity is also good news for the development of some of the smaller markets along the Belt and Road. Many emerging-market local-currency bond markets have grown rapidly in recent years. In light of this, the Malaysian bond and sukuk market also continues to play a major role in supporting economic growth through the financing of business expansion and infrastructure development. Malaysian bonds have seen strong demand from local and foreign investors who have been searching for higher-yielding assets after building up significant cash positions over time. Foreign interest for example resulted in RM6.8billion and RM10.1billion of inflows to domestic debt markets this year in April and May respectively. According to analysts, this is premised largely on a stronger ringgit which can be attributed mostly to Bank Negara's foreign exchange hedging measures introduced in April.

Still, the market remains small relative to the size of the economy it serves – let alone compared with the US$40-trillion-plus U.S. bond market. A boost Belt-and-Road-related issuance, as well as continued reforms, could give markets like Malaysia the depth and breadth that will make them more attractive to international capital and domestic retail investors. It will also help reduce reliance on bank lending and expand financing options for private companies.

Mukhtar concluded, "Last but not least, increased capital-market activity could – we hope – prompt more cross-border regulatory coordination among markets in South-East Asia or central Asia, for example. More cohesion in areas like documentation, taxation, foreign exchange regulation and credit ratings could lend critical mass to what is at present a fragmented landscape of many relatively small and illiquid markets."

-- ENDS—

Media enquiries:

Marlene Kaur	+603 2075 3351	marlenekaur@hsbc.com.my
Joanne Wong	+603 2075 6169	joanne.p.m.wong@hsbc.com.my
Rhia George	+603 2075 6043	rhia.sarah.george@hsbc.com.my

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.

The Hongkong and Shanghai Banking Corporation Limited

The Hongkong and Shanghai Banking Corporation Limited is the founding member of the HSBC Group, which serves more than 37 million customers through four global businesses: Retail Banking and Wealth Management, Commercial Banking, Global Banking and Markets, and Global Private Banking. The Group serves customers worldwide from around 4,000 offices in 70 countries and territories in Europe, Asia, North and Latin America, and the Middle East and North Africa. With assets of US$2,416bn at 31 March 2017, HSBC is one of the world's largest banking and financial services organisations.