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China's transformation has positive impact on Malaysia
Peter Wong, Deputy Chairman and Chief Executive, The Hongkong and Shanghai Banking Corporation Limited explains this

Within our lifetimes, China has transformed from an agrarian collective farmer-based economy to a world-beating digital and consumption-led powerhouse, driven by smartphone wallet shoppers.

This year marks the 40th anniversary of China's economic reform and opening. It is said that a long journey begins with a single step – and so on 18th December 1978, China espoused its 'open-door' policy declaring a new 'turning point' in its economic management and trajectory. Over the period, it has evolved from being strictly centrally-planned, export-oriented and state-led to one that is more market-led and domestic consumption focussed.

China's gross domestic product (GDP) has achieved an average 10 per cent annual growth rate in the last 40 years – three times the rate in the United States over the same period.[1] Its GDP per capita increased from US$156 in 1978 to US$8,123 in 2016; thus lifting more than 800 million people out of poverty.[2] The US' GDP per capita was US$ 57,638 in 2016 by comparison, indicating there is still growth in the China story ahead.

The wider world including Malaysia has been benefited. In 1974, Malaysia was the first Southeast Asian country to establish diplomatic ties with China. China's relationship with Malaysia has grown significantly over the past 40 years. China has been Malaysia's largest trading partner since 2009, and is currently the country's biggest foreign investor. Last year, total bilateral trade between Malaysia and China grew by 20.6 per cent to RM290.65 billion from RM240.9 billion in 2016.[3] China continues to be the top foreign direct investment source for Malaysia with the value of investments at RM3.9 billion in 2017.[4]

Today, China is the world's largest economy on a purchasing power parity basis. It is the world's largest manufacturer exporter and holder of foreign exchange reserves. And China is actively aiming for a leadership role in globalisation and in combating climate change.

From reform and opening to a global engagement voyage
In the late 1970s, China began addressing the imbalance in its economy by the de-collectivisation of agriculture. At that time, farming was the foundation of the national economy. This involved implementing the contract responsibility system in agriculture, by which farmers were able to retain surplus over individual plots of land rather than farming for the collective. The government established township and village enterprises (TVEs) which achieved remarkable results in increasing supplies of food and other consumer goods.

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[2] https://data.worldbank.org/indicator/NY.GDP.PCAP.CD?locations=CN-US-IN-ID&view=chart

[3] http://www.matrade.gov.my/en/about-matrade/media/news-clippings/4204-malaysia-china-bilateral-trade-up-20-6-pct-in-2017

[4] http://www.mida.gov.my/home/5844/news/media-release--malaysian-investment-performance-report-2017/

Throughout the 1980s, China began to expand in international trade and allowed foreign direct investment (FDI) into the country. The most noticeable symbols were the four Special Economic Zones (SEZs), which were created in 1980 – in Shenzhen, Zhuhai, Xiamen and Shantou. From then, the absolute size and proportion of FDI into China rose significantly, reaching US$126 billion in 2016.[5]

Thereafter, China gradually opened up coastal and border cities, major cities in the hinterland, and finally the rest of China. This has attracted labour-intensive manufacturing industries from advanced economies to China. Today, the SEZ model has evolved to a new breed of 11 Free Trade Zones across the country, which now act as sandboxes for future reform on a national scale, in particular in services and innovation reform.

A key phase of reform sought to change the country's economic system is improving the governance of State-Owned-Enterprises (SOEs), introducing a gradual liberalisation of prices and fiscal decentralisation and establishing a fully-fledged modern banking system.

SOE reform has aimed for the enlargement of enterprise autonomy, reducing government intervention, creating market institutions, opening up more industrial sectors to competition from private enterprises and converting the economy from an administratively driven, planned economy to a price-driven market economy. Beijing is continuing to streamline and modernise its state-owned sector and create conglomerates capable of competing globally.

In order to fulfil China's commitment to the WTO to liberalise financial markets for foreign participation by the end of 2006, the Chinese government accelerated financial reforms at the end of 2003.[6] The reforms focussed on the main areas of China's financial services – banking, securities and insurance. This included diversifying banks' equity structures, enhancing banks' corporate governance, introducing a prudential regulatory regime and transforming state-owned banks into joint-stock banks. Key securities companies were restructured, whilst reforms in the insurance sector also progressed.[7]

China has recognized the importance of a high-functioning financial system for improved allocation of resources within the economy. The government has instituted a number of reforms in recent years. Bank deposits and lending rates have now been fully liberalized. Commercial banks can now set these rates freely, though the PBoC still sets reference rates to guide banks. An explicit bank deposit insurance programme has been in operation since May 2015.

Another key phase of reform is focussing on what is known as China's Going Out policy.

Through a cautious and gradual approach over the past 40 years China's capital account is becoming increasingly open in de facto terms. Chinese authorities have been opening China's capital account via tightly controlled programmes such as QDII/QFII (Qualified Domestic Institutional Investor/Qualified Foreign Institutional Investor), and the recent Stock and Bond Connects to allow more foreign participation in China's capital markets.

Malaysia has been focussing on China's market all this while. In November 2015, Malaysia was allocated a RQFII quota of 50 billion yuan allowing qualified institutions in the country to mobilise offshore RMB to gain direct exposure to the Chinese financial markets and contribute to the development of the RMB market in Malaysia. Last year, HSBC facilitated a large Fund Management Company's application for the first Malaysia RQFII license, demonstrating the company's continued leadership in helping global investors access to Chinese markets. Meanwhile,HSBC supported the issuance of the first 'Belt and Road Initiative' Panda bond, benefiting from Bond Connect.

Significant progress has already been made to internationalise the renminbi. Just over a decade ago, renminbi usage was largely confined to mainland China. Today, more than 10 per cent of China's trade is settled in the currency. Today, various cross-border schemes allow foreign investors to buy stocks and bonds in mainland China.

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[5] http://www.mofcom.gov.cn/article/tongjiziliao/v/201702/20170202509836.shtml
[6] https://www.imf.org/external/pubs/ft/wp/2006/wp0671.pdf
[7] http://www.worldbank.org/content/dam/Worldbank/document/WB-Chinas-Financial-Sector-Assessment-Report.pdf

The renminbi's role as a reserve currency is also gradually appearing. The currency was formally included in the International Monetary Fund's Special Drawing Rights (SDR) basket on 1 October 2016, joining the US dollar, the euro, the yen and the pound. Foreign exchange reserves held in renminbi assets were US$85 billion in 2016 – 0.78 per cent of the total. The number of central banks investing in renminbi have jumped from 3 in 2013 to 45 in 2017. In addition, the MSCI announced last year that it will include Chinese A-shares in its Emerging Markets Index and the MSCI ACWI Index, beginning in June this year.

China has now emerged as a major FDI-originating country as well. The Go Out policy was initiated in 1999[8], which has resulted in the country's non-financial Outbound Direct Investment (ODI) rocketing from less than US$1 billion in 2000 to US$170 billion in 2016.[9] [10]

Moreover, the country has taken the lead in creating multilateral banks and funds to support in its grand Belt and Road Initiative (BRI) – the Asian Infrastructure Investment Bank, the New Development Bank and the Silk Road Fund, with hundreds of billions of capital held amongst them. These entities and funds will plug the gaps in Asian developing countries' US$26 trillion infrastructure financing needs between 2016 and 2030.[11]

Malaysia stands to benefit from China's BRI infrastructure investment drive. This is evidenced by China's involvement in major Malaysian rail projects such as the East Coast Rail Link (ECRL) and the Kuala Lumpur-Singapore high-speed rail (HSR) project. Meanwhile, a strategic partnership between the State of Melaka and the Chinese province of Guangdong aims to promote the development of various projects that will help establish Melaka as a strategic port and hub along the Belt and Road route.

A "Digital Free Trade Zone" between China and Malaysia has been also established. This virtual platform, due to take effect in 2019, will connect businesses, manage cargo authorizations and assist in customs. A brick-and-mortar facility in the Malaysian capital will also help with logistics.

A new era of transition

China's 'reform and opening' efforts have allowed it to enter an era of new economic growth, with consumption, innovation and green energy leading the way. But major challenges still lie ahead for China.

Almost 40 years ago, China took a drastic step to tackle problems with its enormous population. Now the country is facing the challenge of coping with an ageing population. This will create more demand on insurance, healthcare, medical and wealth management products which need a diversified financial system. In addition, making the economy sustainable and green is critical, not only for the people and the environment, but also for a sustainable economy in the long term.

As a key driver of global trade and investment, China is positioning itself at the centre of Asia's economic growth by increasing regional connectivity through its Belt and Road Initiative. This will help turn Asia into the dominant global economic force, providing an estimated 52 per cent of global GDP by 2050.[12] As a result, China is expected to overtake the United States as the world's largest consumer market and economy in every measure. And this growing influence could become positive energy to bring greater prosperity to other countries.

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[8] http://www.gov.cn/node_11140/2006-03/15/content_227686.htm

[9] http://economists-pick-research.hktdc.com/business-news/article/Research-Articles/China-Takes-Global-Number-Two-Outward-FDI-Slot-Hong-Kong-Remains-the-Preferred-Service-Platform/rp/en/1/1X000000/1X0A804W.htm

[10] http://english.mofcom.gov.cn/article/newsrelease/policyreleasing/201701/20170102503092.shtml

[11] ADB Report: Meeting Asia's Infrastructure Needs

[12] Asia 2050: Realizing the Asian Century - Asian Development Bank

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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.

The Hongkong and Shanghai Banking Corporation Limited

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