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## **Is Malaysia ready for America's renewed infrastructure foray into South-east Asia?**

The United States' increased desire to facilitate private investment into South-east Asia's infrastructure projects will be a boon for the region, and Malaysia has the opportunity to attract a good piece of the pie.

"A memorandum of understanding between Singapore and the United States - which was signed recently - saw the two countries' infrastructure agencies work together to facilitate private sector deals across the region in areas such as energy, water, waste, transportation and urban development. It follows other US announcements for infrastructure financing for the Indo-Pacific region including its July 2018 trilateral agreement with Australia and Japan<sup>1</sup>," said Patrick Burke, Chief Executive Officer, HSBC United States.

"The commercial opportunity for the region and Malaysia, in particular, will be significant and wide-ranging. Already, ASEAN is the US's fourth largest export market; trade with ASEAN supports more than half a million American jobs<sup>2</sup>; there are nearly 4,700 American companies in the region<sup>3</sup>; and South East Asia is the number one destination for US foreign direct investment in Asia<sup>4</sup>," added Patrick.

Moving forward, ASEAN presents the US with a low-cost production option, a growing consumer base, and strong trade and investment ties. According to Bank Negara Malaysia (BNM), the Malaysian economy is expected to expand by 4.3% to 4.8% in 2019 driven by domestic demand, amid the challenging global environment. Domestic demand will remain the anchor of growth, underpinned by continued expansion in private sector activity.<sup>5</sup>

"In 2018, the US remained as Malaysia's top trading nation and the US is Malaysia's third largest trading partner in the world at RM155.68 billion (US\$38.57 billion) or 8.3% of Malaysia's total trade. Exports to the US reached RM90.73 billion (US\$22.48 billion), while imports were RM64.94 billion (US\$16.08 billion), both driven by manufactured goods. In term of implemented projects, the US was the second largest investor in Malaysia in sectors such as electric and electronics, medical devices, renewable energy and aerospace, valued at RM74.01 billion (US\$21.86 billion)," said Stuart Milne, Chief Executive Officer, HSBC Malaysia Bank Malaysia Berhad.

But ASEAN is not without challenges. To illustrate the point: for all the recent speculation of a new wave of supply chain diversion to South-east Asia, the region has yet to see capital investment shift in any meaningful way.

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<sup>1</sup> <https://au.usembassy.gov/the-u-s-australia-and-japan-announce-trilateral-partnership-on-infrastructure-investment-in-the-indopacific/>

<sup>2</sup> <https://www.pacificcouncil.org/newsroom/examining-state-us-asean-relations>

<sup>3</sup> Trade & Investment, US-ASEAN Business Council, Inc., [www.usasean.org/why-asean/investment](http://www.usasean.org/why-asean/investment)

<sup>4</sup> <https://www.pacificcouncil.org/newsroom/examining-state-us-asean-relations>

<sup>5</sup> <http://www.matrade.gov.my/en/malaysian-exporters/services-for-exporters/trade-market-information/trade-statistics/173-malaysian-exporters/trade-performance-2018>

This is because foreign companies – US companies included within that – are hesitant to commit investment unless they're confident that production orders will be met and remain stable, and that South-East Asia improves its production technology, efficiency and regional integration.

Underpinning all of this is a need to improve the region's infrastructure. South-east Asia's infrastructure gaps and funding constraints are well documented and probably best summarised by the Asian Development Bank (ADB)'s estimate that developing Asia needs US\$27 trillion of investment over the next ten years. The ADB says the public sector will be able to cover less than half the cost<sup>6</sup>.

For Malaysia, the country's persistent drive to develop and upgrade its infrastructure has resulted in one of the most well-developed infrastructure among the newly industrialising countries of Asia. Malaysia has a telecommunications network served by digital and fibre optic technology, five international airports (all with air-cargo facilities), well-maintained highways and seven international seaports.

In addition, in Malaysia's Budget 2019 speech, Finance Minister Lim Guan Eng shared that a total of RM926 million will be spent on upgrading rural roads and bridges, and a further RM694 million and RM738 million will be spent on expanding the rural electricity and water supply, respectively. Most recently, the Prime Minister of Malaysia, Tun Dr Mahathir Mohamad announced that the East Coast Rail Link (ECRL) project is back on the table. The ECRL project would open up new areas for potential development along the new route and provide job opportunities for example in the construction sector as well as enabling new small businesses to grow, and tourism to flourish.

The US is not alone in wanting ASEAN to improve its infrastructure in order to make it a viable lower-end production option. Despite being in a protectionist era, China, Europe, and Japan have similar infrastructure programmes in place with the region.

To its credit, Malaysia is beginning to seek out the private sector following the government's drive to maintain fiscal discipline. The 12 strategies set out in its 2019 budget, is focused on achieving a sustainable economy. Part of that included embarking on 24 Public Private Partnerships worth RM5.2 billion. Privatisation of infrastructure assets through the world's first 'Airport Real Estate Investment Trust' (REIT). RM4 billion will be raised by selling 30% of the REIT to private investing institutions.<sup>7</sup>

According to Bank Negara Malaysia (BNM), when it comes to private investment, the segment is projected to register a growth of 4.9% in 2019 compared with a preliminary 4.5% in 2018, with the ongoing multi-year projects continuing to support investment activity, particularly in the manufacturing and services sectors.

The ongoing multi-year projects will continue to support investment activity, particularly in the manufacturing and services sectors, including capital spending in the electrical and electronics and primary-related manufacturing sub-sectors, as well as the transport, storage and communication services sub-sectors.<sup>8</sup>

But Malaysia cannot afford to rest on any laurels but instead needs to continuously offer value to provide investment including those from the US.

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<sup>6</sup> <https://www.adb.org/news/asia-infrastructure-needs-exceed-17-trillion-year-double-previous-estimates>

<sup>7</sup> [https://www.ey.com/Publication/vwLUAssets/Take\\_5\\_Budget\\_2019\\_Malaysia/\\$FILE/EY\\_Take5\\_Budget2019\\_3Nov2018\\_FINAL.PDF](https://www.ey.com/Publication/vwLUAssets/Take_5_Budget_2019_Malaysia/$FILE/EY_Take5_Budget2019_3Nov2018_FINAL.PDF)

<sup>8</sup> [http://www.bnm.gov.my/index.php?ch=en\\_press&pg=en\\_press&ac=4824&lang=en](http://www.bnm.gov.my/index.php?ch=en_press&pg=en_press&ac=4824&lang=en)

One way it can do this is by providing a ready-made framework for selecting viable and bankable projects. Here, Infrastructure Asia - a new infrastructure focused body set up to assist in facilitating and aligning regionally based expertise and capabilities with regional project requirements - has the potential to add real value.

The alternate channel is through the ASEAN Smart Cities Networks (ASCN). Launched in 2018, the ASCN was developed in response to the likely infrastructure strains that will occur from the expected 90 million people migrating to ASEAN's urban areas between now and 2030.

The ACSN is a platform for each of the region's countries to share Smart City best-practice, link member cities with private investment, and secure funding from multilateral funding institutions, including China's Asian Infrastructure Investment Board. It makes sense for the US to channel investment activity through this construct.

This is a good start but the pilot is limited to 26 cities across South-east Asia. A way Malaysia can further innovate will be to offer more projects across its satellite cities as well as widen the focus beyond 'smart' projects to sustainable infrastructure development projects generally.

"These are just three examples, there are many other areas in infrastructure development where Malaysia can take a leadership role across the region including the development of local currency capital markets, the mobilisation of US institutional funding into Malaysia's infrastructure; and the development of green financing procurement and markets," added Stuart.

"Malaysia and the US have had an evolving relationship over the past few decades and the way to galvanise it is to get behind a common cause. The sustainable development of its infrastructure, and the role of both countries within it, can be just that. Forming this partnership is a strong start but the litmus test will ultimately be based on the projects it brings to life. This is where the hard work begins and to succeed Malaysia will need to keep the project finance opportunities going."

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