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## **BRI 2.0 needs to be a two-way street for ASEAN and China: HSBC**

Connecting China's outbound investment through an evolving Belt and Road Initiative with Southeast Asia's infrastructure needs should be a priority for Malaysia if it is to achieve greater economic resilience over the medium term, according to HSBC.

During the ASEAN Leaders' summit that took place in June, members noted the importance of foreign investment into Southeast Asia's infrastructure, technology and industrial productivity in order to maintain the region's economic growth and trade trajectory amidst global economic uncertainty.

Weaker global growth and a cyclical downturn in sectors that matter to ASEAN, including electronics, commodities and textiles, has the threat of negatively impacting Southeast Asia's export growth, regardless of trade tensions. According to HSBC Global Research, the key ways to maintain Southeast Asia's economic growth over the short to medium term will be for continued investment - either domestically or from foreign sources - or through domestic consumption.<sup>i</sup> For Malaysia specifically, according to the World Bank, policy actions should aim to strengthen fiscal buffers and facilitate private investment as well as ensuring adequate social protection for lower-income households.<sup>ii</sup>

Stuart Milne, CEO, HSBC Malaysia, said, "It's clear that ASEAN and China are natural economic partners. On the one hand, ASEAN needs to drastically improve its infrastructure and industrial capacity in order to move up the value chain. At the same time, China is increasing its outbound investment, especially in lower cost manufacturing, and strengthening its international trade links through the Belt and Road Initiative. China has made clear its commitment to ensuring that BRI projects meet international standards and attract global corporate and financial participants. This new phase of BRI should be positive for China and its partners in ASEAN."

Malaysia has a central role to play within the region as China increasingly looks outwards. Many Chinese corporates see Malaysia as a strategic gateway to ASEAN with its tactical logistics connectivity with China via ports and airports, and a very favorable business landscape.

Significantly, Malaysia-China relations continue to be strong. According to The Malaysia External Trade Development Corporation (MATRADE), in 2018, China continued to be Malaysia's largest trading partner for the 10<sup>th</sup> consecutive year since 2009. In 2018, Malaysia's trade with China also rose by 8.1% to RM313.81 billion and constituted 16.7% of Malaysia's total trade.

### **The case for BRI 2.0 in Southeast Asia**

China addressed concerns relating to some of the earlier phase of BRI projects at the Second Belt and Road Forum for International Cooperation, held in Beijing in late April. Thirty six national leaders, including those of nearly all Southeast Asia countries, attended the event, at which China addressed concerns about excessive debt and opaque structures for BRI projects as well as perceptions that the BRI is closed to non-Chinese participants. The Joint Communique emphasized "high quality Belt and Road cooperation" based on "extensive consultation, joint efforts, shared and mutual benefits."<sup>iii</sup>

The Forum demonstrated China's commitment to evolving BRI into a more, open, inclusive, sustainable and market-driven Initiative: BRI 2.0. Southeast Asia has vast infrastructure needs

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(the Asian Development Bank estimates USD1.5 trillion a year is needed across developing Asia to 2030<sup>iv</sup>), increasingly strong credentials as a manufacturing and consumer base and an established openness to strategic partnerships.

“With China having long been ASEAN’s biggest trading partner, it is no surprise that Southeast Asia was a major focus for the first phase of BRI. But the combination of BRI 2.0 and the region’s distinctive characteristics mean that the new phase of BRI could have a more profound and lasting impact on Malaysia and the ASEAN region overall,” Milne added.

Research from Fitch Solutions<sup>v</sup> shows that there are USD255 billion of pending projects (those at the stages of planning, feasibility study, tender and currently under construction) across the six largest ASEAN economies of Malaysia, Singapore, Thailand, Vietnam, Philippines and Indonesia.

In Malaysia, the recent revival of the East Coast Rail Link (ECRL) and Bandar Malaysia projects has clearly strengthened the China-Malaysia relationship. These initiatives will help to boost the Malaysian economy and the execution of these projects will provide a boost to local businesses and employment that can support Malaysia’s development and growth.

### **Southeast Asia’s pitch for BRI**

However, BRI extends around the world and Southeast Asia also needs to make the case for being a viable investment partner for Chinese projects. Key to this is jump-starting the stalled regional integration program started by the Association of Southeast Asian Nations more than a decade ago, particularly in non-tariff barriers

Areas of specific focus can include automating customs clearance across all ASEAN member states, expediting clearances for low-value shipments, introducing electronic payments for cross-border duties and taxes and harmonising goods standards across sectors among ASEAN members.<sup>vi</sup>

A recent IMF paper estimated that removing non tariff trade barriers in Asia would increase intra-regional imports by 76%.<sup>vii</sup>

“Southeast Asia will not be immune to any global slowdown so it needs to set up the necessary infrastructure to ensure resilience. The new commitment to transparency promises a new era of China/ASEAN partnerships that will benefit all parties,” Milne concluded.

HSBC’s comments also follow a June 2019 ASEAN Secretariat launch of 19 priority infrastructure projects that are crucial for building Southeast Asia’s economic connectivity and are deemed as financially viable for private investment. The 19 projects – under the banner of the *Initial Rolling Priority Pipeline of Potential ASEAN Infrastructure Projects* - with financing options and pre-feasibility studies, will be officially launched in November 2019 at the second annual ASEAN Leaders’ Summit.<sup>viii</sup> It is expected that China will be a significant partner for these projects.

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HSBC’s presence in Malaysia dates back to 1884 when the Hongkong and Shanghai Banking Corporation Limited (a company under the HSBC Group) established its first office in the country, on the island of Penang, with permission to issue currency notes. HSBC Bank Malaysia Berhad was locally incorporated in 1984 and is a wholly-owned subsidiary of The Hongkong and Shanghai Banking Corporation Limited. In 2007, HSBC Bank Malaysia was the first locally incorporated foreign bank to be awarded an Islamic banking subsidiary licence in Malaysia, HSBC Amanah Malaysia Berhad. Today, HSBC in Malaysia has a network of 68 branches nationwide, of which 26 are HSBC Amanah Malaysia Berhad branches. HSBC Bank

Malaysia offers a comprehensive range of banking and financial services including Retail Banking and Wealth Management, Commercial Banking, Global Banking and Markets, and Islamic financial solutions. HSBC Bank Malaysia has also led innovation in Malaysia by introducing Malaysia's first ATM and Electronic Touch Banking in the early 1980s.

Today, HSBC Bank Malaysia has launched innovative solutions such as HSBCnet for secure banking for businesses, Trade Transaction Tracker and Facial Recognition

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<sup>i</sup> HSBC Global Research, "Consumption Nations", 13 February 2019

<sup>ii</sup> <https://www.worldbank.org/en/news/press-release/2019/07/01/malaysias-economy-to-see-continued-growth-but-downside-risks-are-elevated>

<sup>iii</sup> [https://www.fmprc.gov.cn/mfa\\_eng/zxxx\\_662805/t1658766.shtml](https://www.fmprc.gov.cn/mfa_eng/zxxx_662805/t1658766.shtml)

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

<sup>v</sup> <https://www.bloomberg.com/news/articles/2019-06-23/china-no-match-for-japan-in-southeast-asia-infrastructure-race>

<sup>vi</sup> EU-ASEAN Business Advisory Council's Trade Facilitation paper 2018

<sup>vii</sup> IMF: The Evolving Role of Trade in Asia: Opening a New Chapter, October 2018

<sup>viii</sup> <https://asean.org/asean-identifies-potential-infrastructure-projects/>