

Normalising Relations with China to benefit the Philippines

Belt and Road Initiative to increase trade and investments within the Region

Attributed to Wick Veloso, President and CEO, HSBC Philippines

China's Belt and Road initiative is being undertaken with potential to bring significant benefits to Southeast Asian economies in the form of increased trade and investments in infrastructure. Philippines would mutually benefit from the plan.

The focus on supporting the development of the flow of products and services – as outlined in China's Belt and Road initiative – is a prime example of China's 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 as far away as Africa, covering all potential points in-between.

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

And with the Philippines chairing the ASEAN in 2017, the Duterte Administration will be in a good position to build up and normalise its relationship with China faster.

This is the perfect time for the implementation of such an initiative. The Duterte Administration's foreign policy pivot toward China gives a big push to its own Philippine Development Plan (PDP) as it puts together plans, reforms, policies, and targets to build a more sustainable economy. This sends strong signals to businesses in both nations that the Philippines is now a promising participant in China's grant trade and infrastructure plan.

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. 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.

Belt and Road initiative will bring the two closer together. For ASEAN member countries, this 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 an ideal 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.

The effort has already made some practical achievements. Among the countries of ASEAN, Malaysia, Thailand, Laos and Indonesia have joint Belt and Road deals with China, mainly in railway construction.

There will be a new high-speed rail line running from southern China through Laos to Thailand's industrial eastern coast. China has given a new pledge to cash-starved Laos for the construction of a US\$6 billion railway project linking Laos' capital Vientiane to China's southern Yunnan province by 2020. Beijing has won the contract to build Indonesia's first national high-speed rail link – a US\$5.1 billion, 150 kilometre rail project connecting the capital Jakarta to Bandung, Indonesia's third-largest city. Meanwhile, the 7,000 kilometre Singapore-Kunming Rail Link is already taking shape.

While the Philippines is yet to join these countries with Belt and Road deals with China, it has started to normalise its relations with China, sending strong signals to Chinese investors looking for new growth opportunities. With infrastructure as a key sector, the Belt and Road initiative presents opportunities for government-backed funds looking for investments in big infrastructure projects and private equity funds looking for better returns abroad.

As the fastest rising power of the 21st century with the world's largest foreign currency reserve of \$3.2 trillion, China, through the Belt and Road initiative, can offer the Philippines many economic opportunities that are necessary to improve Philippine infrastructure, enhance bilateral trade, boost tourism, raise employment, alleviate poverty, and broaden social services to the Filipino people.

Infrastructure financing until now has been a challenge for most ASEAN countries. Philippines plans to continue increasing infrastructure spending to 7% by the end of its term –significantly boosting the overall contribution of investment the structure of growth in the Philippines. And with its participation in China's Belt and Road Initiative, the Philippines will be better integrated with its regional partners.

Fortunately for China's Belt and Road initiative goals, seed funding for infrastructure projects along the Belt and Road has mainly come from the Chinese government with support from the Chinese commercial banks.

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.

As the members of AIIB, Philippines signed on to the bank that aims to fund infrastructure development and stimulate economic growth in Asia. This allows the Philippine economy to gain from its participation in the bank. It will be deepening the understanding among the key players of the financial sector in infrastructure as more bankable projects are put together locally and around the region.

As more of China's Belt and Road projects are put together and funded, more infrastructure project around the ASEAN nations including the Philippines will benefit from the financing activities.

Implementing the Belt and Road agenda will require a high level of mutual cooperation, understanding and trust. With careful analysis and handling of the regulatory, political and financial risks involved, it will provide Southeast Asia and China quality and long-lasting economic growth – especially in these times of global uncertainty. As more of

China's Belt and Road projects are put together and funded, more infrastructure projects around the ASEAN nations including the Philippines will be largely benefited.

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