

Box 3.1**ASEAN economic linkages with Hong Kong and market potentials:
Recent developments**

The Association of Southeast Asian Nations (ASEAN)⁽¹⁾ is an economically-dynamic region. Its economic ties with Hong Kong have been close (see **Box 2.1** in the *Half-yearly Economic Report 2014*). With the Belt and Road Initiative and a Free Trade Agreement (FTA) and an Investment Agreement forged between Hong Kong and ASEAN, ASEAN's economic rise will present new opportunities to us. This box article briefly portrays its related recent developments and their possible implications for Hong Kong.

ASEAN has vast market potential, as its members collectively have a GDP size of around US\$2.6 trillion in 2016 and a population exceeding 600 million. Economic growth there has been solid, averaging 5.2% per annum in the decade from 2007 to 2016. All indicators suggest that its growth picked up in 2017 amid the synchronised global upturn⁽²⁾. With such an enviable growth record, it outpaced many developing peers outside Asia. Being at different stages of economic development with some being rich in natural resources, ASEAN members have strong complementarity and have increasingly participated in the Asian supply chains. Some less developed members have also embraced the trend of globalisation and opened up their economies. For example, Vietnam joined the World Trade Organization in 2007, and Myanmar has pushed forward economic reforms since 2011.

ASEAN has long been a close economic partner of Hong Kong (**Table 1**), being the second largest in merchandise trade and fourth largest in services trade. It accounted for 11.4% of our total value of goods trade in 2017 and 9.1% of our total value of services trade in 2016. Merchandise trade with ASEAN rose briskly by 12.4% in 2017 and cumulatively by around 70% over the past decade.

Table 1 : Hong Kong's close economic ties with ASEAN

	Value (\$Bn)	Share* (%)	Cumulative growth in ten years (%)
Trade in goods with ASEAN in 2017	936.8	11.4	70.4
<i>of which:</i>			
Goods exports to ASEAN	284.0	7.3	73.1
Goods imports from ASEAN	652.7	15.0	69.3
Trade in services with ASEAN in 2016	119.3	9.1	80.8
<i>of which:</i>			
Services exports to ASEAN	66.4	9.0	103.7
Services imports from ASEAN	52.9	9.2	58.4
Inward DI stock from ASEAN in 2016	510.1	4.0	512.4
Outward DI stock to ASEAN in 2016	277.1	2.3	211.0

Source : Census and Statistics Department.

Notes : Based on latest available figures.

(*) Refer to the share in Hong Kong's corresponding overall total.

(1) Members of ASEAN include Brunei Darussalam, Cambodia, Indonesia, Lao PDR, Malaysia, Myanmar, the Philippines, Singapore, Thailand and Vietnam.

(2) In January 2018, the IMF estimated that economic growth of ASEAN-5 (namely Indonesia, Malaysia, the Philippines, Thailand and Vietnam) picked up from 4.9% in 2016 to 5.3% in 2017.

Box 3.1 (Cont'd)

A large part of the trade flows is linked to production activities in ASEAN. Over 80% of our trade with ASEAN are raw materials, semi-manufactures and capital goods. Indeed, there are many bright spots. Our merchandise trade performance with Vietnam market stood out in the past ten years, increasing by over four times, as many Hong Kong entrepreneurs have set production plants there. Vietnam has been among the top ten markets for Hong Kong's merchandise exports since 2011, ranking the sixth in 2017. Besides, our capital goods exports to Vietnam, Indonesia, Thailand and the Philippines enjoyed stellar rises. Merchandise trade with Myanmar, though small in size, also expanded rapidly since 2012. On services, the trade value between ASEAN and Hong Kong also rose by 80.8% in the ten-year period ending 2016.

The Belt and Road Initiative encompasses ASEAN region in its southbound route. The major goal of the Belt and Road Initiative is to promote policy coordination, facilities connectivity, unimpeded trade, financial integration and people-to-people bonds between economies along the routes. The Mainland and ASEAN have already shared strong economic ties. ASEAN was the fourth largest export market in goods of the Mainland in 2017, and reciprocally the Mainland was the largest trading partner of ASEAN. By enhancing connectivity between ASEAN and other economies along the route, the Belt and Road Initiative is poised to lift economic collaborations among ASEAN, Mainland and Hong Kong to a new height.

Hong Kong has a unique role to play given our strategic geographical location and excellent platforms for various economic activities. Hong Kong is a key node between the Mainland and Southeast Asia. On merchandise trade, Hong Kong as an international trade and logistic centre has long served as an important intermediary. Around 11% of the bilateral trade in merchandise trade between the Mainland and ASEAN in 2017 were channelled through Hong Kong, and its value rising by 89.0% in the past decade. As pointed out in the Arrangement with the National Development and Reform Commission for Advancing Hong Kong's Full Participation in and Contribution to the Belt and Road Initiative in late 2017, Hong Kong will act as a two-way open platform for "going global" and together with other Bay Area cities in the Mainland to develop into a world-class city cluster to radiate the effect to economies in Southeast Asia and South Asia.

Hong Kong is indeed an ideal springboard for Mainland companies to develop ASEAN business, and for Southeast Asian firms to explore opportunities in the Mainland. Our convenient location at the Mainland's gateway, business-friendly environment, simple and low tax system and superb infrastructure put us in a vantage position to play this role. Indeed, around 60% of Mainland's outbound investment to the rest of the world in 2016 is channelled to or via Hong Kong. A total of 1 264 regional headquarters, regional offices as well as local offices were set up by Mainland enterprises in Hong Kong as of mid-2017, up by around 74% as compared to 2007. At the same time, a total of 586 regional headquarters and offices as well as local offices were set up in Hong Kong by ASEAN firms. Our inward and outward external direct investment (DI) stocks associated with ASEAN totalled \$510 billion and \$277 billion respectively at end-2016.

Filling infrastructure shortage in emerging market economies is an integral part of the Belt & Road Initiative. Infrastructure construction and upgrades, spanning such areas as transports, power, telecommunication and water supply, could help lift productivity and growth potentials, but require massive investment and professional skills to accomplish. In Southeast Asia, infrastructure investment needs were estimated at US\$210 billion annually

Box 3.1 (Cont'd)

between 2016 and 2030⁽³⁾. As a member of Asian Infrastructure Investment Bank, Hong Kong could help provide fund-raising and other related financial services, given our world-class financial markets, with a deep liquidity pool and large number of financial talents.

Beyond infrastructure financing, Hong Kong as a prominent international financial centre runs a wide range of financial services. For ASEAN or Mainland companies in pursuit of equity or debt funds to launch foreign business, our sophisticated financing platform could provide a one-stop shop, with services on offer ranging from equity-financing, loan syndication to private equity. Renminbi financing in vast scale is also available. In November 2017, the Hong Kong Exchanges and Clearing Limited opened its first overseas office in Singapore, further strengthening the financial connections between the Mainland China, Hong Kong and Southeast Asia.

For enterprises aspiring to take part in the Belt and Road Initiative, cross-border investment is almost a must, which typically entails complicated issues. For example, differences in regulatory and cultural environments, as well as insufficient market information will need to be addressed by these enterprises as they proceed with their projects. Our prowess in full-range of professional services could meet the demand. In fact, Hong Kong enterprises and professionals already have experiences participating in projects in emerging market economies along the Belt & Road. For ASEAN in particular, examples include airports in Cambodia and power plants in Thailand and Vietnam.

The FTA and the Investment Agreement between Hong Kong and ASEAN forged in November 2017 was a new milestone in trade and economic collaboration between the two sides. The Agreements will bring about legal certainty and better market access for trade as well as better investment protection. Our service providers can also enjoy national treatment, subject to listed specific exceptions. Under the FTA, many ASEAN services sectors will be liberalised. For example, Thailand will open markets in arbitration services and electronic mail services, while Indonesia will open markets in restaurant services and energy-related analysis services. On investment, Thailand, the Philippines and Vietnam will allow Hong Kong enterprises to have foreign capital participation of up to 50% or even full ownership in many service sectors. In sum, the Agreements will be a catalyst to deepen and broaden trade and investment relations between the two sides.

The Government attaches great importance to strengthening economic ties with ASEAN. The Agreements between Hong Kong and ASEAN will enter into force on 1 January 2019 the earliest, and the Government will work closely with the ASEAN member with a view to implementing the Agreements as planned. Besides, the Government will set up an Economic and Trade Office (ETO) in Thailand, the third in the ASEAN region, to step up external promotion and to enhance bilateral cooperation and investment flows. The Government will continue its efforts to expand relationship between Hong Kong and ASEAN and grasp the opportunities so arising with a view to supporting Hong Kong's long-term economic growth and development.

(3) Infrastructure investment needs of Southeast Asia estimated as in "Meeting Asia's Infrastructure Needs Report" by Asian Development Bank (2017). It refers to the amount of public and private investment in infrastructure required to sustain long-term economic growth and cope with demographic changes. The estimate is in 2015 price and has included climate mitigation and adaptation costs.