



Hong Kong and Malaysia: Forging Sustainable Complementarity for the Future

Summary

Hong Kong and Malaysia are natural and fitting partners. Malaysia is an upper-middle income economy on the cusp of becoming a high-income economy; meanwhile, Hong Kong is a highly advanced, professionalised and modern open economy that has been a well-established trading, logistics and financial, and a bridge connecting China with the world.

Amidst increasing multipolarity and the rise of Asia as the centre of gravity of global supply chains, Hong Kong and Malaysia stand to gain from closer collaboration and synergy in all forms of capital – human capital, financial capital, knowledge capital, and beyond. With the third highest GDP per capita in Southeast Asia, Malaysia offers Hong Kong and Mainland Chinese corporations and high-net-worth individuals a prime destination for investment. On the other hand, Hong Kong serves as a professional service nexus serving Southeast firms at large - not only as a springboard for firms seeking to enter China, but also as a source of value-adding for entrepreneurs, talents, intellectuals, and professionals from Malaysia.

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This paper discusses that it is high time for the bilateral relationship to be strengthened, in accordance with three overarching principles:

1. First, adapting to the changing times and shifting geopolitical dynamics, by preparing both economies for an era of automation, digitalisation, decentralisation, and political uncertainty.
2. Second, embracing an egalitarian and public interest-minded approach to international collaboration.
3. Third, developing in a distinctively Asian way, in drawing upon the best of the Asian Model in carving out a growth trajectory that works for both Malaysia and Hong Kong.

This is in turn best achieved by reforms across four different dimensions, or ‘virtues’:

Firstly, interconnectivity must be ramped up, through more proactive win-win financing arrangements and synergy, which can advance both Hong Kong’s regional presence in Southeast Asia, as well as Malaysia’s ability to pursue much-needed infrastructural and transport undertakings.

Secondly, mutual accessibility needs to be enhanced, through Hong Kong and Malaysia pursuing further trade integration aimed at reducing barriers to entry, as well as enhancing measures aimed at attracting each other’s businesses and talents.

Thirdly, sustainability is crucial in ensuring that all of the proposed measures can protect the interests of the people of both regions. Malaysia should draw upon Hong Kong’s comparative advantages in green finance and ESG compliance; whilst Hong Kong should collaborate with Malaysia in exploring pathways towards the sustainable extraction and processing of critical raw materials.

Fourthly, creativity can only be unlocked through comprehensive, multi-dimensional, and meaningful exchanges between Hong Kong and Malaysia across artistic, cultural, educational, academic, and other people-to-people fronts.

The public and private sectors in Hong Kong have a key role to play across all four areas.



Introduction

Overview

For economies in Southeast Asia, Hong Kong has long served as a leading external source of capital. With its sophisticated financing services and international connectivity, ability to attract top academic and educational talents from across the world, and an unparalleled capacity to connect Northeast with Southeast Asia, Hong Kong can and must step up to doing more for the ASEAN to stay relevant in the Asian century.

Today, Malaysia is looking to undertake some of the most transformative infrastructural construction projects in its modern history, transition into a professionalised service economy. Hong Kong is well placed, with its concentration of advanced human capital and legal-financial industrial infrastructure¹, to facilitate Malaysia's modernisation efforts. Prime Minister Anwar Ibrahim's Malaysia Madani is a transformative vision - one that seeks to combine sound governance, sustainable development, with racial harmony in the country.²

With the fourth within ASEAN, highest GDP per capita in the ASEAN, Malaysia is likely join the ranks of high-income countries in the world between 2024 and 2028. The present leadership has embarked upon a project of national rejuvenation and pursuit of 'status and dignity'³.

Similarly, Hong Kong must facilitate China's 'going-out' - that is, the outbound investment and expansion - of leading Chinese companies, which would most certainly be conducive to the interests of both China and countries in which these firms expand their presence. With the growing interest of Chinese firms in Malaysia's digitalisation and advanced manufacturing industries⁴, it behooves the Special Administrative Region (SAR) to leverage on its network and unique advantages to bolster Sino-Malaysian engagement, collaboration, and synergy.



There is much that Hong Kong has going for it. It is one of the freest economies in the world with minimal trade regulations and highly efficient government institutions, fundamental openness and easiness of entry and exit and capital, and incredibly attractive, low taxation system. Yet beside serving as a gateway for Southeast Asian firms seeking to enter Mainland China - in particular the Greater Bay Area - and vice versa, the needs to explore additional value-add for countries in Southeast Asia.

Hong Kong must therefore take seriously the varied and specific interests and perspectives of businesses, investors, academics, and intellectuals in Malaysia. What do Malaysian investors, small and medium enterprises, and large corporations need? How can bilateral interactions serve the interest of all members of the Malaysian and Hong Kong publics?

Malaysia is Hong Kong's seventh largest trading partner, and its second largest in Southeast Asia. Bilateral trade had increased on an average rate of 13.6% per annum between 2016 and 2020. The recent trip by Chief Executive John Lee to Malaysia has paved the way for the consolidation of railway and property development ties between the two economies.⁵

¹ <https://www.hkma.gov.hk/eng/key-functions/international-financial-centre/financial-market-infrastructure/overview-of-financial-infrastructure-in-hong-kong/>

² <https://malaysiamadani.gov.my/>

³ <https://www.straitstimes.com/asia/se-asia/anwar-unveils-plan-to-raise-wages-boost-malaysia-s-economy-ahead-of-state-elections>

⁴ <https://www.scmp.com/economy/china-economy/article/3195198/china-malaysias-digital-economy-first-stop-value-added>

⁵ <https://www.scmp.com/news/hong-kong/hong-kong-economy/article/3229250/hong-kong-and-malaysia-sign-11-deals-including-1-involving-mtr-corporation-john-lee-wraps-week-long>



Our Vision

We propose that the Hong Kong-Malaysian relationship must be geared towards forging sustainable complementarity between the economies, the peoples, and the cultures of both entities.

There are three principles underpinning this vision:

Resilience comes from dexterity. With the advent of automation, digitalisation, artificial intelligence, and an increasingly decentralised world (e.g. Web 3.0), this is an era where dynamic economies rich in knowledge-intensive, highly skilled professionals are likely to fare better. Hong Kong is seeking to diversify its industries as it braces for unprecedented geopolitical and economic flux, whilst Malaysia is well on track on its endeavour to become a leading knowledge economy in ASEAN. Both economies would benefit from measures that enhance the diversity and quality of knowledge amongst their respective labour workforces. Indeed, labour re-skilling and diversification in employment opportunities are essential in ameliorating the socioeconomic inequalities induced by technology-induced labour displacement across both economies.

People come first. Approximately 15,000 Malaysian nationals live in Hong Kong⁶. Bilateral ties can be to the advantage of people in both Hong Kong and Malaysia. A people-centric and -first approach would ensure that the masses of both economies become more actively involved in furthering engagement and ties, which would be to their mutual benefits.

There is no single path to development. Hong Kong must position itself as a source of human, intellectual, financial, and technological capital for leading economies in the ASEAN including Malaysia to refine and adapt on their paths to modernisation.

The Four Core Visions of Complementarity

Efforts aiming at fostering complementarity in the bilateral relationship need to be geared towards four core priorities:

Firstly, Hong Kong and Malaysia should seek to deepen and widen relationships. To the former, the two economies must step up bilateral financial, information and transport (aviation) ties. Hong Kong should draw upon its unique position as a capital-raising, merger and acquisition, and private equity hub in supporting Malaysia's infrastructural projects. Hong Kong can leverage on its savvy and well-versed professionals and intermediaries to connect Mainland Chinese/Malaysian capital and investors with prospective investment opportunities in Malaysia/China, as well as providing a platform for Malaysian start-ups to raise funding from beyond China and the ASEAN.

Secondly, Hong Kong and Malaysia need to be more mutually accessible to one another. Both economies should continually lower barriers to entry and build in accommodations for businesses seeking to establish presence in one another - Malaysian firms (including and particularly SMEs) in Hong Kong in relation to Mainland Chinese and Hong Kong firms in Malaysia, potentially as their primary ASEAN headquarters and bases. The Greater Bay Area (GBA) is a market with vast potential for Malaysian producers and manufacturers; yet there needs to be much more information, significantly greater transparency, and streamlining processes in order for Malaysian firms to genuinely benefit from the region. Hong Kong should be the primary entrepot offering practical information in support of GBA-Malaysian synergy.

Thirdly, the Hong Kong-Malaysian partnership needs to be sustainable – sustained over time, and sustainable in catering to a wide range of stakeholders in the two markets, across the public, private, academic, and civil

⁶ <https://commonwealthchamberhk.com/member-countries/malaysia/>

society sectors at large. Hong Kong's comparative advantages in green finance must be fully leveraged to support Malaysia's renewable transition and electric vehicles manufacturing efforts, as well as to enable effective processing of critical raw materials in advancement of Chinese and Malaysian interests.

Fourthly, true complementarity can only come through reforms that enable both economies to become more fundamentally creative. Hong Kong can take a leaf from Malaysia's book when it comes to the astronomical successes of start-ups such as Carsome⁷ and Grab⁸, which were birthed and spurred by Malaysia's cradle of innovation; meanwhile, Hong Kong can serve as an all-encapsulating confluence of cultures, sub-cultures, ideas, and intellectual currents throughout the ASEAN, providing the platform for Malaysian creatives and artists to showcase their works to an international audience. It is through both top-down- and bottom-up-facilitated cultural interlocution and exchanges that innovation, new artforms and platform apps alike, can leap forward.

Our Proposals

Area 1: Interconnectivity

Interconnectivity encapsulates the level of financial integration and synergies between Hong Kong and Malaysia, as well as the extent to which Hong Kong can support the Malaysian government in its infrastructural developments:

Opportunities and Challenges

Malaysia. The Malaysian government has been seeking to bolster the country's infrastructural connectivity and redress regional concerns over interlinkage and transport hardware. Such infrastructural developments are due to unfold across two levels. On the national level, the incumbent administration seeks to leverage the East Coast Rail Link - backed by Chinese investment and connecting the country's Western coastal regions with the industrial park and port on the Eastern Shore - as an exemple for future cross-state

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transport infrastructure⁹. On a more local level, for instance, in Penang, the state government has sought to advance transport grid-related infrastructure and capacity improvements. Kuala Lumpur has stressed repeatedly that internal interconnectivity is instrumental for the improvement of access to economic opportunities, external markets, and investment of rural regions, especially in the north of the country¹⁰.

There are nevertheless three aspects of infrastructural development that Malaysia need to address: i) stable and transparent, potentially internationally, funding structures that can sustain the fiscal undertaking; ii) skilled technical know-how and experienced engineers who can advise competently on the implementation of these projects, and iii) legal and regulatory professionals who can see to these projects' compliance of international standards. Here, Hong Kong most certainly has a role to play, as a hub with high concentrations of skilled legal, financing, and engineering workforce.

Hong Kong can indeed aim at serving larger, more mature Malaysian-headquartered multi-national corporations seeking to go public. With Prime Minister Anwar Ibrahim spearheading an active campaign to reduce the barriers to entry for companies targetting listing on the national stock exchange, Kuala Lumpur can therefore stand to benefit from international collaborators and counsel on both fronts of securities regulation and stock exchange governance. These are dimensions where Hong Kong financial veterans

⁷ <https://www.tatlerasia.com/power-purpose/business/carsomes-eric-cheng-on-past-present-and-future>

⁸ <https://labourreview.org/grab-in-southeast-asia/>

⁹ <https://www.channelnewsasia.com/asia/malaysia-anwar-ibrahim-east-coast-rail-link-project-3159876>

¹⁰ <https://www.chinadailyhk.com/article/295435#Malaysia-China-joint-train-project-sees-another-breakthrough>

can offer both relevant knowledge and networks in facilitation of Malaysia's institutional modernisation efforts. The intricate legal regulatory regime, emitting mixed and conflicting signals across the domains of taxation, operations, and financial services, has proven to be fundamentally incomprehensible and prohibitive for foreign investors, especially in view of the relative scarcity of skilled financial professionals in the country¹¹.

There has been a significant resurgence in foreign direct investment (FDI) into Malaysia throughout the pandemic. US\$15 billion (71.4 billion ringgit) of investments have been approved in the first quarter of 2023, with FDI contributing towards 52.5% of the total investments. Hong Kong ranks as the fourth largest source of investment, at US\$600 million (2.9 billion ringgit). There is much room for improvement by streamlining processes and boosting the financial interconnectivity between Malaysia and the world at large.

Hong Kong and Mainland China. Hong Kong should seek to play a more proactive and forward-looking role as a hub for capital consolidation for large-scale developments and private-public joint financing projects. From platforming and issuing government bonds with a wider range of countries of origins, to private equity-backed infrastructural undertakings and deals, the Special Administrative Region has much potential to consolidate its role as an international financing hub, especially for ASEAN economies that are setting out on high-return, moderate-risk, and significant-overhead infrastructural construction projects. Hong Kong is in an ideal position to serve companies from Southeast Asia seeking listing.

Beijing has signalled its interest in collaborating with Malaysia over a prospective 'Asian Fund' that would mitigate against the global dominance of the USD¹²; the US\$38 billion worth of investment pledged by China in Prime Minister Anwar's recent visit to Beijing is demonstrative of the key emphasis upon fostering closer and tighter Sino-Malaysian infrastructural-financial ties¹³.

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Policy Proposals

Public and private actors in Hong Kong should:

- Strengthen financial interconnectivity and collaboration between the Hong Kong and Malaysia markets across a multitude of levels;
- Actively deepen and encourage collaboration between Hong Kong and Malaysia's stock exchanges and securities regulators;
- A concrete example is the issuance of offshore RMB-denominated securities and bonds (e.g. ETFs) on Bursa Malaysia¹⁴;
- Increase the volume of Islamic sukuk bonds issued in Hong Kong;
- Promote cross-border collaboration in financial technology innovation, through setting up bilateral dialogue mechanisms for interested stakeholders in Hong Kong and Malaysia, modelled after the ASEAN Financial Innovation Network;¹⁵
- Explore personnel exchange programmes among the Hong Kong Monetary Authority, and the Bank Negara Malaysia and the Khazanah Nasional, the Hong Kong Stock Exchange and Bursa Malaysia;
- Collaborate with the relevant authorities and agencies in Malaysia to devise targeted measures aimed at reducing the barriers to entry and transparency of the Malaysian financial markets for external investors, thereby boosting the competitiveness of the Malaysian economy;
- Leverage the Financial Services Development Council (FSDC) of Hong Kong to engage ultra-high-net-worth individuals and leading family offices in Malaysia, with the aims of facilitating their establishment of their global or regional headquarters in Hong Kong;

¹¹ <https://themalaysianreserve.com/2023/06/27/malysias-push-for-family-offices/>

¹² <https://www.bloomberg.com/news/articles/2023-04-04/malaysia-china-to-discuss-asian-fund-to-cut-dollar-dependency>

¹³ <https://asiatimes.com/2023/04/anwars-nonalignment-pays-off-big-in-beijing/>

¹⁴ https://www.hkex.com.hk/-/media/HKEX-Market/News/Research-Reports/HKEX-Research-Papers/2021/CCEO_HKrmB_202103_e.pdf?la=en

¹⁵ <https://pressroom.ifc.org/all/pages/PressDetail.aspx?ID=25043>

- Offer tailored perks (e.g. multi-usage travel visas and permits for travel throughout mainland China; personalised wealth advisors with substantial industry experience and connections with key industry and governmental actors) to Malaysian families that opt to establish a family office in Hong Kong;
- Ensure that Hong Kong can play a key role in serving Malaysian companies:
- Establish an index fund that tracks listed companies with significant exposure and presence in Southeast Asia (including Malaysia);
- Further reduce unnecessary barriers for start-ups from the ASEAN (including Malaysia) to list on the Hong Kong Stock Exchange, as well as explore the possibility for dual listings (see, for instance, the Dual Listing arrangement explored by the Indonesia Stock Exchange with the Hong Kong Stock Exchange);
- Fund and subsidise research on cross-border, decentralised finance initiatives that can serve the interests of both Malaysian and Hong Kong firms;
- Seek to connect Malaysian and mainland Chinese investors, innovators, venture capitalists, and entrepreneurs through positioning Hong Kong as a premier site for innovation finance;
- Establish a Hong Kong-Malaysian Investment Summit, through working with private sector actors and non-profit organisations invested in Hong Kong-ASEAN relations, where Malaysian and Hong Kong governmental agencies can liaise with and pitch prospective international investors;
- Work closely with existing service providers to ensure that they can provide one-stop services for Malaysian companies seeking potential listings in Hong Kong – such services can include company incorporation, provision of information and advice on requirements and procedures, as well as general accounting and financial support services;
- Via the Hong Kong Inland Revenue Department (IRD), provide more certainty on offshore claims on active income, e.g. the contested offshore claim aspects in trading profits, as well as the requirements for economic substance under the Hong Kong foreign-sourced income (FSIE) regime (for instance, on the minimum level of qualified employees and operating expenditure required).



- Strengthen Hong Kong's capacity to serve as a hub and source of capital for public-private infrastructural and industrial development projects in Malaysia:
- Establish a Hong Kong Industrial Park Zone within an existing industrial park in Malaysia, for Hong Kong-originated companies to operate within these zones and develop a distinctive ecosystem that serves as a bridge connecting Hong Kong with Malaysia;
- Work closely with mainland Chinese and Malaysian authorities in identifying gaps in digital and rural financing initiatives in Malaysia, both within and outside the Belt and Road Initiative, and seeking to address the embedded issues accordingly;
- Improve the overarching understanding of and literacy in Islamic finance in Hong Kong, through recruiting and head-hunting leading Islamic financial experts from Malaysia and elsewhere, such as the Gulf, North Africa, and the rest of ASEAN;
- Invest in strengthening Hong Kong's capacities in serving the Islamic world and halal economy, particularly in sub-segments such as Sukuk bonds, Islamic banking, Shariah counter screening, and Islamic financial technology, especially through the provision of digital platforms oriented towards halal-compliant investors, consumers, and family offices;
- Draw upon the expertise and networks of professionals who are members of the Malaysian diaspora community in Hong Kong.
- Increase the level of coordination and alignment between the Financial Services and the Treasury Bureau (FSTB) of Hong Kong with their mainland Chinese and Malaysian counterparts, on the possibility of more flexible arrangements concerning

the issuing of Malaysian governmental bonds to finance infrastructural developments;

- Position Hong Kong as a source of technical advice, and compliance support for Malaysian urban and rural development;
- Further cultivate the public-private, Malaysian-Hong Kong hybrid partnership model that exports Hong Kong's institutional knowledge and experience as a city leading in quality of infrastructure around the world;
- Draw upon the Malaysia-Hong Kong MTR collaboration over the upcoming rail project linking Johor Bahru and Singapore, as an exemplar for further collaboration between leading Hong Kong-based government-owned operators and companies, and partners in Malaysia in strengthening transport connectivity within Malaysia¹⁶;
- Potential, specific examples of such sites of collaboration include the prospective high-speed railway between Kuala Lumpur and Singapore¹⁷;
- Encourage and facilitate Hong Kong-based professionals and talents across a wide range of sectors (e.g. surveyors, lawyers, accountants, auditors) to engage and collaborate with Malaysian stakeholders in the planning, designing and implementation of infrastructure projects;
- Establish an investment taskforce - with private sector participation and involvement - for upcoming infrastructure projects in Malaysia, with a notable example being the China-Malaysia Qinzhou Industrial Park (in the case of mainland Chinese companies and investors in Malaysia)¹⁸;
- Mobilise and provide targeted resources to private-sector ventures that can provide much-needed technology (e.g. artificial intelligence-based smart city solutions) for improvement of transport and infrastructural connectivity within Malaysia;
- Provide more funding support for researchers in tertiary academic institutions in Hong Kong with a specialised focus on regional financial, transport and infrastructural connectivity within the ASEAN.

Feasibility

Having already been pivotal in supporting business development and financing in key projects such as Malaysia-China Kuantan Industrial Park (MCKIP) in the country, Hong Kong is no stranger to the unique demands and regulatory structures in Malaysia¹⁹. Indeed, Kuantan Port Consortium Sdn Bhd (KPC), jointly owned by IJM Corporation Berhad and Beibu Gulf Holding (Hong Kong) Company Limited, is a stella example. The consortium manages the Kuantan Port, which constitutes a part of the Maritime Silk Road²⁰. Many leading Hong Kong-headquartered companies have sizeable capital and financial presence in mega projects in Malaysia. These joint-ventures demonstrate the clear instrumentality of Hong Kong as a site of capital and commercial consolidation for Malaysian infrastructural ventures. Indeed, the HKEx has the largest number of Malaysian companies listing outside Southeast Asia²¹.

Another successful exemplar on the technology front can be found in MapKing, which offers smart city solutions, particularly in domains such as geo-spatial technologies, transport, smart real estate and property management. In Malaysia, MapKing had been drawing upon predictive artificial intelligence to track traffic flows and assist policymakers and individual drivers with navigating the congested traffic in urban city centres. The firm has already partnered with local ride-hailing services in the country during the COVID-19 pandemic, with notable success in improving user experience²².

Anticipated Benefits

MALAYSIA

Malaysia's booming start-up economy would benefit from both greater and easier access to capital flows, as well as the unique institutional financial knowledge and human capital that Hong Kong has to offer. Furthermore, many of the country's most preeminent

¹⁶ <https://www.scmp.com/news/hong-kong/hong-kong-economy/article/3229250/hong-kong-and-malaysia-sign-11-deals-including-1-involving-mtr-corporation-john-lee-wraps-week-long>

¹⁷ <https://www.reuters.com/business/autos-transportation/malaysia-seeks-proposals-revive-high-speed-rail-project-with-singapore-2023-07-11/>

¹⁸ <https://mcbc.com.my/cmqip/>

¹⁹ <https://www.info.gov.hk/gia/general/202210/26/P2022102600479.htm>

²⁰ <https://www.linkedin.com/company/kuantan-port-consortium-sdn-bhd/>

²¹ <https://research.hktdc.com/en/article/MTA3MjM0MjU2MA>

²² <https://asiasociety.org/hong-kong/interview-dixon-chew-president-hong-kong-malaysia-business-association>

infrastructural projects, including the upcoming developments to Eastern Malaysia and other multi-state (within Malaysia) transport undertakings, would be hugely capital-intensive; Hong Kong can offer a comparatively politically neutral and flexible site for capital consolidation for Malaysia. The mature, diversified, and increasingly international (beyond the Global North) professional services industry in the HKSAR enables the city to align Malaysian start-ups and investors with international counterparts.

Additionally, Hong Kong's experience comparative advantages in financial technology, family office regulation and management, as well as world-class infrastructure, render the city an ideal partner to Malaysia as the country proceeds with modernising both its financial industries (and the correlated compliance and regulatory sectors) and existing infrastructure in urban city centres. Through Hong Kong funding and capital, Malaysia would gain the prime opportunities to promote its Industrial Park Zones as manufacturing powerhouses and strategic powers for both Mainland Chinese and Hong Kong companies seeking alternative manufacturing locations, per 'China + 1'.

HONG KONG AND MAINLAND CHINA

China's Global Development Initiative signals a new era in the country's international development. Malaysia, with its relatively high levels of average income and development in the ASEAN, as well as its rapid urbanisation and digitalisation, is a leading destination for Chinese investments²³. There are a lot in common for Islamic finance and ESG principles. In drawing upon the insights and wisdom of Islamic finance, Hong Kong can also diversify the range of tools and financial services available.

Additionally, President Xi has affirmed that Sino-Malaysian cooperation projects are pivotal to enabling the 'harmonious co-existence among different civilisations'. As re-affirmed by Chinese Foreign Minister Wang Yi in his recent meeting with Malaysian Foreign Minister Zambry Abd Kadir in Penang, the two flagship projects of the Belt and Road Initiative (BRI)

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are the construction of the East Coast Rail Link and 'Two Countries, Twin Parks'²⁴. Both projects are likely to require intense regulatory checks and compliance enforcement, which could provide the relevant sectors in Hong Kong business opportunities that ought to be seized upon; indeed, the collaboration between Malaysia and Hong Kong's MTR system is testament to the credibility of Hong Kong operators in the region, and provides valuable insights on how the HKSAR can leverage on its professional services.

Area 2: Accessibility

Accessibility refers to the extent to which companies, businesses, and workers from Hong Kong/Malaysia can conduct business in the other economy, as well as the strength of trade integration and ties between the two economies.

Context – Opportunities and Challenges

MALAYSIA

Malaysia is amongst the top investment locations in Asia for offshore manufacturing operations on the back of its relatively low labour costs, promising digitalisation efforts and integration in global value chains²⁵. The abundance of natural resources and its geographical centrality to both ASEAN and leading sea-based trade routes also contribute towards the country's appeal.

²³ <https://www.nst.com.my/property/2023/06/919485/chinese-investors-seeking-high-quality-commercial-assets-malaysia>

²⁴ http://in.china-embassy.gov.cn/eng/zgxw/202308/t20230814_11126324.htm

²⁵ <https://www.businesstoday.com.my/2022/10/02/firms-from-developed-countries-operating-in-malaysia-is-sustainability-an-issue/>



With further reforms aimed at facilitating the consolidation of the country's vast small and medium enterprise (SME) economy – accounting for over 97% of the nation's businesses and constituting 38.2% of its GDP in 2022 - there are many opportunities for foreign investors from China, the European Union, the United States, Japan, and beyond, to establish sustainable and profitable joint-ventures with local players. Yet the opportunities that could be potentially reaped from these structural strengths could well be kneecapped by the seeming inaccessibility of the market to large, multinational corporations, given the knowledge deficiencies and lack of know-how on navigating the complex regulatory environment (as aforementioned) in the country, but also concerns over labour shortages and brain drain²⁶. How to ensure that Malaysia can reap the benefits of education and knowledge globalisation, with a growing number of students enrolling in overseas institutions, in ensuring that talents return to the country, is a key question for policymakers in the country.

As reflected in extensive conversations we conducted with industry players, in relation to the Greater Bay Area (including Hong Kong), Malaysian firms, especially SMEs, have found the 86 million-strong regional market²⁷ somewhat difficult to penetrate, owing to i) the dearth of clear, authoritative information on business opportunities, state of labour laws and market regulations, and contact points when it comes to doing

business in the region, ii) the limited number of official or semi-official channels via which SMEs can retrieve important information concerning market openings and opportunities, and iii) the secondary logistical (e.g. aviation, travel) challenges post-pandemic. Whilst issue iii) will progressively dissipate as time progresses, i) and ii) are core to attracting talents and innovations, products and services that Malaysian companies have to offer, these also render it tough for Malaysian firms to enjoy the substantial opportunities that the market affords. Given the persisting trends of 're-globalisation' and the significant growth anticipated in both the ASEAN and the Greater Bay Area, closer alignment and synergy between the two regions is an absolute must²⁸.

HONG KONG AND MAINLAND CHINA

On the fronts of trade and commerce, membership in RCEP would provide Hong Kong with significant benefits with the removal of barriers to trade, further alignment of trading and the paving of way for further streamlining of labour and talent flows within the world's largest trading pact. Bilateral trade between Hong Kong and Malaysia has also increased in volume at a pace that is unmatched by its trade with most other ASEAN economies²⁹.

Hong Kong should welcome Malaysian businesses, investors, and merchants who are interested in establishing a regional presence in Southern China, and yet who are also keen to connect with Japan, Korea,

²⁶ <https://blog.fundingsocieties.com.my/challenges-for-small-businesses-2023/>

²⁷ <https://www.bayarea.gov.hk/en/about/overview.html>

²⁸ <https://www.nst.com.my/business/2023/05/909449/malaysia-has-what-it-takes-be-tech-hub-linking-china-southeast-asia>

²⁹ <https://research.hktdc.com/en/article/MzU4MDExMDI5>

and Greater China (Northeast Asia) via the city. In the case of regional trade integration, Hong Kong's appeal in turn will depend on three critical factors: i) the manpower across professional services that play a pivotal role in the facilitation and management of and arbitration over trade flows; ii) the efficiency and infrastructure involved in trade re-importing and -exporting via Hong Kong as an intermediary, and iii) the general overhead costs, such as costs of equipment and location of operations, involved in trade.

Policy Proposals

Public and private actors in Hong Kong should:

- Continually strive to reduce the barriers to entry for Malaysian businesses and investors seeking entry into the Greater Bay Area (including Hong Kong):
- Set up a Hong Kong Economic and Trade Office (HKETO) in Kuala Lumpur, as well as expand the presence of the Trade Development Council (TDC) in Malaysia, with the possibility of establishing regional contact points and building network in larger states in Northern Peninsular (e.g. Perak) and Eastern Malaysia (e.g. Sabah);
- Coordinate with relevant mainland Chinese authorities in securing de facto long-term multi-entry visas into mainland China for select professionals, entrepreneurs, and owners of small and medium businesses;
- Conduct regular closed-room dialogues and roadshows in Malaysia to promote greater understanding of the business opportunities offered by the Greater Bay Area, as well as working more closely with private businesses in the Greater Bay Area to establish clear ports-of-call for Malaysian businesses with in the region;
- Provide additional incentives (e.g. housing subsidies, a concentrated and centralised office site for ASEAN-origin businesses) to large Malaysian corporations with multi-national presence to establish their regional headquarters in, or relocate their global headquarters to, Hong Kong;
- Establish and consolidate private market-led financing and funding platforms for small and medium enterprises (SMEs) in Malaysia, which conventionally lack access to capital due to the absence of readily available, high-value collateral assets;
- Extend the SME Financing Guarantee Scheme to Malaysian companies seeking to establish a presence in Hong Kong for the Greater Bay Area.
- Reinforce Hong Kong's positioning as a Trade 2.0 and 21st century commercial hub connecting Northeast and Southeast Asia, specialising in the financial, legal, compliance, regulatory, and technologically enhanced aspects of trade:
- Emphasise and consolidate Hong Kong's role, with the prospective accession to RCEP, as a leading legal, mediation, and arbitration hub within the RCEP community, and ensure that the SAR exercises its economic autonomy and decision-making capabilities in advancing regional interests;
- Press for further reduction in barriers to entry and alignment of trade standards within RCEP upon accession;
- Establish clearer and more flexible emergency loans arrangements to allow for the delivery of credit lines to SMEs across Malaysia and Mainland China in case of contingencies and emergencies;³⁰
- Strengthen cooperation with the Malaysian government and private sector on digitalisation initiatives, such as MyDIGITAL (per the Malaysian Digital Economy Blueprint)³¹, as well as SME digitalisation;
- Actively facilitate Mainland Chinese firms - both state-owned and in the private sector - in establishing regional presence in Southeast Asia, in or via Malaysia, through provision of information, contacts, and advice on locations and business operations in Malaysia;
- Research and develop a cohesive vision for trade integration in the 'hourglass' of the Greater Bay Area and the ASEAN;
- Develop a win-win labour and talent policy that allows for both Malaysia and Hong Kong to gain from the other's talent bases, as well as attracting talents from beyond the two economies;
- Leverage co-working spaces and job-search/ professional social media networks (e.g. LinkedIn³²)

³⁰ <https://www.scmp.com/comment/opinion/article/3157042/how-small-firms-will-benefit-simpler-integrated-trade-finance>

³¹ <https://www.malaysia.gov.my/portal/content/31187>

³² <https://digital-business-lab.com/2022/06/linkedin-marketing-insights-in-southeast-asia-2022/>

in Hong Kong and Malaysia as ‘super-connectors’ connecting/pairing Hong Kong-based companies with Malaysia-based hires, and Malaysian companies with Hong Kong-based hires for remote work;

- Offer grants to Hong Kong-based companies seeking to establish branches or regional headquarters in Malaysia to gain access to the ASEAN market;
- Facilitate early-career professional secondment opportunities - through leading by example or encouraging other companies in the private sector - across a number of industries in Hong Kong and Malaysia (e.g. six-month secondment stint in the other economy);
- Position the Northern Metropolis as a zone for attracting and housing top talents from ASEAN, especially in the professional services industry where Hong Kong has experienced a relative reduction in workforce over recent years;
- Coordinate with Malaysian authorities in advancing joint concessions for international MNCs seeking to set up regional headquarters and presence across both Hong Kong and Malaysia - effectively a form of twinning;
- Invest into targeted education and skills upgrading programmes aimed at Hong Kong’s strategic reindustrialisation, in sectors such as food technology, bio-technology, green technology, agri-technology, and semiconductors;³³
- Pursue, through more ‘satellite economic hubs’ (for both Kuala Lumpur and Hong Kong) such as the upcoming Bukit Chagar development in Johor Bahru, future-oriented projects that can bring together talents and workers from Hong Kong and Malaysia - thereby facilitating long-term ties and exchange.³⁴
- Continually strengthen Hong Kong-Malaysian aviation integration and synergy:
- Advance collaboration between the Hong Kong International Airport (HKIA) and the Kuala Lumpur International Airport (KLIA) on fronts including but not limited to skills and knowledge sharing, personnel exchange, and streamlining regulations

For Mainland Chinese companies, the volume of seasoned investors and corporations in the SAR with exposure to Malaysia, make the city an ideal intermediary between them and their Malaysian counterparts.

on re-import and -export of goods (e.g. Sabah-originated seafood);

- Actively consolidate and broaden the sources of labour supply for staff at the HKIA and hospitality sector, drawing potentially upon manpower from ASEAN countries including Malaysia;
- Deepen the existing partnerships and collaborations between the Malaysia Aviation Group and Hong Kong-based carriers, such as Cathay Pacific and Greater Bay Airlines³⁶.

Feasibility

Hong Kong is in an ideal position to serve as an entrepot and regional base for Malaysian businesses seeking to enter the Greater Bay Area. In 2020, the city was ranked third out of 190 economies in the world in terms of ease of doing business, per the World Bank annual ratings³⁷. The tax arrangements, infrastructural connectivity, and business-friendly and well-established professional service sector render the city an incredibly attractive destination for businesses aiming to expand, consolidate, or scale up and institutionalise. For Mainland Chinese companies, the volume of seasoned investors and corporations in the SAR with exposure to Malaysia, make the city an ideal intermediary between them and their Malaysian counterparts. For Northeast Asian multinational corporations aiming to gain a foothold in Malaysia, Hong Kong could also provide platforms for pitches, recruitment, and other forms of B2B liaison.

³³ <https://www.hk01.com/%E6%B7%B1%E5%BA%A6%E5%A0%B1%E9%81%93/724815/%E7%85%92%E8%AB%96%E7%B6%93%E6%BF%9F-%E5%86%8D%E5%B7%A5%E6%A5%AD%E5%8C%96-%E4%BA%94%E5%A4%A7%E7%94%A2%E6%A5%AD-%E7%82%BA%E9%A6%99%E6%B8%AF%E7%B6%93%E6%BF%9F%E5%92%8C%E5%B9%B4%E8%BC%95%E4%B8%80%E4%BB%A3%E5%89%B5%E6%96%B0%E5%A4%A9>

³⁴ <https://www.straitstimes.com/asia/se-asia/malaysia-hong-kong-plan-economic-hub-near-singapore-border>

³⁵ <https://www.malaysiaairlines.com/hk/en/news-article/2022/malaysia-aviation-group-partnership-with-hoolah.html>

³⁶ <https://www.info.gov.hk/gia/general/201910/24/P2019102400512.htm>

The ASEAN-Hong Kong, China Free Trade Agreement (AHKFTA) and ASEAN-Hong Kong, China Investment Agreement (AHKIA), signed on November 12th 2017³⁷, are testament to the volume of goodwill and deeply knitted trade relations between Mainland China, Hong Kong, and ASEAN states. Trade digitalisation and financialisation have long been touted as much-needed directions of focus for Hong Kong, as the city seeks to reboot its economy post-COVID³⁸.

Anticipated Benefits

MALAYSIA

The above raft of measures will be conducive towards Malaysian interests in at least two key ways. Firstly, in rendering China, especially the Greater Bay Area and Southern China, where Hong Kong plays an integral role in the ecosystems, more accessible and open for Malaysian businesses that has long eyed the burgeoning Chinese middle and upper-middle classes as vital expansion and growth markets. In the long run, through proactive outreach to relevant stakeholders in Malaysia, the SAR must, and can, make China more accessible to the small and medium enterprises that make up the bulk of the Malaysian economy.

Secondly, in enhancing the depth and range of ties of cooperation between Hong Kong and Malaysia, the above measures would provide an additional repository of legal and professional advisory support, as well as investment capital and managerial personnel, to support the industrial transformations that Malaysia is due to undertake over the coming years.

HONG KONG AND MAINLAND CHINA

Many of the above proposals are aimed at re-positioning Hong Kong as not only a gateway or intermediary via which Chinese and Malaysian businesses can better access the economy of the other, but also as a base where businesses are professionally served. The existing gaps in the Sino-Malaysian trade relationship, ranging from trade financing to standard enforcement and compliance, require skilled and trained professionals that operate within a common law

jurisdiction to step up to the task. Yet recruiting and cultivating more professionals with such insights and expertise are equally important, and hence the capacity-building-focused measures highlighted above.

Going forward, as noted by the 2021 report published by the 2022 Foundation helmed by Dr Victor Fung³⁹, Hong Kong must position itself as an ‘international logistics hub’ for the global supply chain ecosystem, and in order to establish a genuine ‘airport megapolis’ in the Greater Bay Area, thereby reducing the time, energy costs, and financial barriers for mainland Chinese and ASEAN companies in trading with one another. Given that over 40% of goods involved in our foreign trade is transported by air, and that we live within five-hour reach of over 50% of the world’s population, Hong Kong can lead in the domain of ‘aviation internationalisation’ as a primary contribution towards China’s continued efforts of opening-up and reform.

Area 3: Sustainability

Sustainability tracks the efforts in Hong Kong and Malaysia, aimed at redressing ecological challenges e.g. climate change, biodiversity, and habitat destruction, as well as growing awareness over philanthropy.

Context – Opportunities and Challenges

MALAYSIA

The current Malaysian administration is adamant on seeing through the National Energy Transition Roadmap as a core pillar of the Malaysia Madani vision⁴⁰. At the 10th Asia-Pacific Forum on Sustainable Development held recently, the Minister of Local Government Development Nga Kor Ming declared that Malaysia was committed to boosting its efforts to achieve the 17 Sustainable Development Goals (SDGs) to render the country a fully sustainable nation by 2030⁴¹. The government strives to focus not only on growing the pie, but also in improving the holistic well-being and quality of life of those who are less well-off. The intersection of Environmental Preservation, Social Harmony, and Governmental Accountability (ESG+)

³⁷ <https://fta.miti.gov.my/index.php/pages/view/asean-hongkong-china>

³⁸ <https://www.scmp.com/news/hong-kong/hong-kong-economy/article/3130512/hong-kong-facing-critical-moment-seizing-greater>

³⁹ <https://www.scmp.com/news/hong-kong/hong-kong-economy/article/3128655/greater-bay-area-hong-kong-should-remake-itself?module=inline&pgtype=article;http://www.2022foundation.com/article/index/Publications#>

⁴⁰ <https://ekonomi.gov.my/sites/default/files/2023-08/National%20Energy%20Transition%20Roadmap.pdf>

⁴¹ <https://www.mgtc.gov.my/2023/04/what-on-earth-day-has-malaysia-been-doing-for-sustainable-cities/>



could be said to be a reasonable interpretation of the Malaysian government's push for genuine sustainability. Indeed, sustainability is listed as a core principle in the country's Chemical Industry Roadmap 2030⁴².

Accomplishing these objectives will remain challenging for Malaysia. As highlighted by Minister for Natural Resources, Environment, and Climate Change, Malaysia is particularly susceptible to the pernicious effects of deforestation, dissipating biodiversity, and extreme weather induced by climate change. Palm oil production, illegal logging, and the rights of rural workers and villagers remain contentious issues that are work in progress for the relevant authorities⁴³. On carbon emissions, the government had pledged to cut its carbon intensity against GDP by 45% by 2030 relative to 25 years prior, and expanded the adaptation component in its 2021 revision to its Nationally Determined Contribution (NDC) - as part of the Paris Agreement⁴⁴, the government needs to demonstrate its commitment to deliver on the huge undertaking.

The current Malaysian administration has laudably embraced innovation such as new tools of green finance to help it to achieve its sustainability agenda. For one, the collaboration between Bursa Malaysia and the London Stock Exchange on a centralised sustainability reporting platform will prove to be instrumental in

helping companies appraise and reduce their carbon emissions; SMEs will also benefit from the opportunity to disclose their environmental, social, and governance (ESG) data⁴⁵ and the increased transparency and accountability that come with that. Meanwhile, more work needs to further refine aligning of ESG standards and disclosure requirements in the country, namely, Scopes 2 and 3 carbon emissions.

The renewable transition calls for the development and promotion of electric vehicles, which in turn turns on an ample supply of domestic or imported critical rare earths and metals. Malaysia possesses the largest rare earth refineries outside China - Lynas Malaysia Sdn. Bhd. (a subsidiary of the Australian firm) - as well as significant access to other strategic and critical minerals, including tin⁴⁶.

Hong Kong and Mainland China. HKEx has been at the forefront of disclosure standards. In spearheading efforts to incorporate the International Sustainability Standards (ISSB)'s disclosure standards, launched in June 2023, into listed firms' ESG reports, HKEx has been an avid advocate that ESG must be more than merely a tick-the-box exercise, indeed to be taken seriously as a directive and methodology in how corporations approach sustainability⁴⁷. It is worth noting that Hong Kong has emerged in recent years as a leading regional hub in green finance and innovation. This is further substantiated by Financial Secretary Paul Chan's proposal of fostering a green-tech ecosystem with more innovative financing arrangements, and more talent training and cultivation in conjunction with overseas and regional partners⁴⁸. Hong Kong was also a pioneer in green bonds, being the first in Asia to issue them in multiple currencies⁴⁹. With a high concentration of seasoned public policy specialists, regulators, environmentalist advocates and academics, Hong Kong stands to spearhead the movement for a more sustainable and equitable future in Asia.

⁴² <https://www.humanresourcesonline.net/malaysia-introduces-chemical-industry-roadmap-2030-listing-sustainability-as-a-core-principle>

⁴³ <https://asiafoundation.org/2015/10/07/malaysia-facing-the-challenges-of-sustainable-development/>

⁴⁴ <https://climatepromise.undp.org/what-we-do/where-we-work/malaysia>

⁴⁵ <https://www.reuters.com/business/sustainable-business/bursa-malaysia-lse-group-start-sustainability-reporting-platform-april-pm-2023-03-08>

⁴⁶ <https://www.mida.gov.my/gearing-malaysia-as-a-rare-earth-elements-rees-powerhouse/>

⁴⁷ <https://www.scmp.com/business/banking-finance/article/3226896/hong-kong-businesses-esg-planning-must-look-long-term-go-beyond-regulatory-requirements-says-cpa>

⁴⁸ <https://www.scmp.com/business/china-business/article/3211122/budget-2023-hong-kong-launches-initiatives-become-global-green-innovation-finance-centre>

⁴⁹ <https://www.regulationasia.com/hong-kong-raises-5-8b-in-asias-largest-green-bond-issuance/>

There are, nevertheless, a number of issues that need to be addressed. Firstly, the enforcement and implementation of ESG protocol in corporations needs further promotion, due to a mixture of costs, difficulties in tracking and measuring ESG performance, and a dearth of more junior ESG professionals with adequate understanding and grasp of what is demanded. The ESG talent pool needs to be expanded, with regional and international talents drawn to the city, as argued by CPA Australia in its submission to the Policy Address Team in October 2022. Secondly, Hong Kong could be more proactive in exporting its ESG best practices and insights to the rest of Asia - knowledge dissemination and co-creation is vital in ensuring that the private sectors throughout Southeast Asian and East Asian regions could, too, undertake a much-needed transition towards greater sustainable development and eco-preservation. Thirdly and finally, regional cooperation between Hong Kong and other economies in Southeast Asia - including Malaysia - on aligning and promoting an awareness and understanding of sustainability, merits more attention and targeted allocation of resources and investment.

Policy Proposals

Public and private actors in Hong Kong should:

- Increase the level, frequency, and scope of collaboration between Hong Kong's environmental policymaking and regulatory authorities and their corresponding counterparts in Malaysia, in ensuring the promotion of awareness and acceptance of the importance of environmental preservation and protection, socially responsible external engagement, and sound corporate governance (ESG+);
- Establish an international task force, headquartered in Hong Kong and represented by international experts and advisors, aimed at facilitating the renewable and decarbonisation transition of Asian countries;
- Draw upon financial experts from the Middle East and Southeast Asia (see Area 1) in devising ESG-centric principles and frameworks of Islamic finance, which can be exported to and adopted by Muslim business and financial communities;⁵⁰
- Share, through key regulatory authorities and organs, Hong Kong-generated regulatory standards, personnel, and frameworks with our Malaysian counterparts, on fronts including but not limited to corporate governance and due diligence, responsible impact investment and stakeholder engagement, as well as cultivating climate resilience;
- Seek to bring in top talents from the Malaysian ESG sector for knowledge exchange conferences, symposia, and discussions with leading players in Hong Kong, with the objective of cultivating long-lasting working relationships between ESG consultancies, advisory firms, and large corporations;
- Establish joint collaborative laboratories helmed by Hong Kong and Malaysian universities and academic faculty to conduct research into mitigating, adapting to, and responding to climate change; such strategically valuable research could receive tax reliefs on top of pre-existing grants and subsidies approved by the University Grants Committee (UGC);
- Extend subsidised scholarships and training opportunities, to be administered by the Green and Sustainable Finance Cross-Agency Steering Group, to top ASEAN financial talents, for them to enrol at and work in green finance in Hong Kong, and to pursue opportunities for students enrolled in ESG-related subjects in Hong Kong to partake in field visits and shadowing experiences in Malaysia;
- Liaise closely with the Malaysian government in lowering the barriers to entry and investment for local, homegrown Hong Kong capital, in potentially ESG-relevant or adjacent industries (including battery manufacturing and renewable energy);
- Explore joint efforts to expand Renewable Energy (RE) initiatives in view of the UN's Carbon Neutrality 2050.
- Facilitate and encourage private sector involvement in renewable transition-centered industries, mining and processing facilities, and state-owned companies in Malaysia;
- Empower and encourage private investors to engage in ESG-conscious and -centric investing decisions in Malaysia;

⁵⁰ <https://www.pwc.com/m1/en/publications/islamic-finance-and-esg-investing.html>

- Continually develop, via the FSDC, the ESG asset sector (which is due to exceed US\$50 trillion by 2025 - denoting over one-third of the projected total global assets);
- Platform pitch sessions and host regular workshops pairing mainland Chinese and Hong Kong-based investors, with Malaysia-based producers of batteries and renewable energy;
- Consult relevant stakeholders in Malaysia to establish structures where reasonable loans can be offered in supporting Malaysia's construction of renewable, sustainable infrastructure in new urban developments;
- Work closely with the governments of select Malaysian cities - including Kuala Lumpur, which has positioned itself to become a 'world-class sustainable city'⁵¹ - in devising comprehensive plans for improving their sustainability track records and ability to adapt to the extreme climate changes induced by global warming;
- Actively support and endorse efforts by private investors to establish a greater presence in Malaysia's fledgling semiconductor and microelectronics industries, drawing upon the extensive human capital and research talents available in tertiary institutions in Hong Kong;
- Develop a comprehensive, centralised database that enables mainland Chinese, Hong Kong and Malaysian companies to report and assemble all ESG-related data under disparate metric systems;
- Work closely with mainland Chinese counterparts to incorporate insights from both Hong Kong and Malaysia concerning sustainability in finance, into mainland Chinese policies on large multi-national corporations and investment regulations;
- Position Hong Kong as a premier platform with reduced barriers to entry, increasing transparency, compliance with halal finance principles, where Malaysian national and local governmental green bonds are issued, with these bonds used to fund the country's ongoing infrastructural undertakings;
- Explore the possibility for the Hong Kong Green Tech Fund (GTF) to collaborate with the Malaysian



Green Technology Financing Scheme (GTFS) in supporting green technological innovations across the two economies;⁵²

- Address the multi-faceted challenges presented to ASEAN by climate change, with the principal goal of bolstering regional climate resilience:
- Convene government-championed, biannual conferences to be followed up with closed-door dialogues and conversations among leading climate change academics, practitioners, and policymakers in Mainland China, Hong Kong, and Southeast Asia;
- Share findings and insights from the HKMA's two-year plan on embedding climate risk considerations into supervisory and investment processes, with Bank Negara Malaysia;
- Facilitate capacity-building exchange programmes between Hong Kong and Malaysia aimed at strengthening both economies' urban planning's climate resilience - areas may include: retrofitting existing infrastructure, installing resilience infrastructure, and community resilience and mobilisation in face of the risks induced by climate change;⁵³
- Establish a Hong Kong-based, designated think tank, through partnership with the academia that focusses on fostering climate change-resilient governance and public policymaking in the ASEAN;
- Position Hong Kong as the engine of high-impact philanthropy in Asia, through serving family offices and individual philanthropists in Southeast Asia;

⁵¹ <https://www.thesundaily.my/local/kl-to-be-sustainable-city-by-2026-BB1056333>

⁵² <https://www.msfi.com.my/incentives-green-technology-financing-scheme-gtfs/>

⁵³ <https://www.preventionweb.net/publication/sustainable-urbanisation-enhance-climate-resilience-malaysian-cities>

- Build upon the ‘Wealth for Good’ summit series to connect leading family businesses and donors within the Southeast Asian regions, with qualified, experienced philanthropic advisors and think-tanks, such as the Hong Kong-based Centre for Asian Philanthropy and Society;⁵⁴
- Further reduce unnecessary bureaucratic clutter and hurdles involved in the application process for tax exemption under Section 88 of the Inland Revenue Ordinance;⁵⁵
- Actively consolidate understanding of and foster closer relations with high-net-worth individuals in Malaysia, with the objective of cultivating long-lasting partnerships.

Feasibility

With the Dual Carbon Strategy proposed by China⁵⁶, which seeks to accomplish peak carbon dioxide emissions by 2030 and carbon neutrality before 2060, Hong Kong must seize upon the window to pursue more proactive, progressive policies aimed at improving the ESG record of not just our city, but also our neighbours across Asia. The HKSAR Government has exhibited outspoken initiative and commitment in this area: on the local level, Financial Secretary Paul Chan setting aside over HK\$200 million to support trials of hydrogen-electric buses and heavy vehicles, HK\$350 million for subsidised trials of electric ferries, and HK\$62 million for food waste collection to reduce methane emissions by large landfills. It is sensible for Hong Kong’s public and private sectors to allocate more funding towards targeted policy research and innovation to improve the sustainability of Hong Kong, as well as Asia at large.⁵⁷ International and regional collaboration is likely to be high on the list of priorities.

Anticipated Benefits

MALAYSIA

The above measures would bolster Malaysia’s transition towards a greener, more sustainable, and more equitable economy. Hong Kong’s seasoned and plural

The HKMA’s three-pronged approach to promote green, sustainable banking certainly has referential value and applicability beyond Hong Kong, and can be shared with Bank Negara Malaysia, amongst other interested parties, in enabling their calibration of their ESG strategy.

financial scene - with top talents and experts with practical experience navigating a multitude of markets across the world - is well-equipped for the roll-out of ESG and green innovation and financial tools. The HKMA’s three-pronged approach to promote green, sustainable banking certainly has referential value and applicability⁵⁸ beyond Hong Kong, and can be shared with Bank Negara Malaysia, amongst other interested parties, in enabling their calibration of their ESG strategy. For instance, academics and practitioners in Hong Kong could perhaps seek to play a role in advising or supporting the development of the Financial Inclusion Framework under Bank Negara Malaysia.⁵⁹

HONG KONG AND MAINLAND CHINA

As the most international city in China, Hong Kong can take seriously our mandate of becoming Asia’s, and eventually the world’s hub for sustainable finance and public policy. Hong Kong should engage proactively - as a coagulant and facilitator - regional partners in advancing strategic investments into processing facilities for raw materials required for the renewable transition, such as lithium, cobalt, and nickel (for electric batteries), as well as manufacturing facilities for solar panels, which are a highly energy-intensive process that requires careful management so as to avoid producing an excessive carbon footprint.⁶⁰

⁵⁴ <https://caps.org/>

⁵⁵ <https://asianprivatebanker.com/private-banking/pictet-three-ways-hong-kong-has-an-edge-in-philanthropy/>

⁵⁶ <https://www.ft.com/partnercontent/industrial-bank-co/innovative-financial-solutions-help-china-meet-its-dual-carbon-goal.html>

⁵⁷ <https://www.scmp.com/business/china-business/article/3211122/budget-2023-hong-kong-launches-initiatives-become-global-green-innovation-finance-centre>

⁵⁸ <https://www.hkma.gov.hk/eng/key-functions/banking/banking-regulatory-and-supervisory-regime/green-and-sustainable-banking/>

⁵⁹ <https://www.bnm.gov.my/-/dp-framework-2023-2026>

⁶⁰ <https://blog.ucsusa.org/charlie-hoffs/mining-raw-materials-for-solar-panels-problems-and-solutions/>



Area 4: Creativity

Creativity lies at the core of technological and innovation-driven collaborations, arts and cultural exchanges, and educational, people-to-people exchanges between Malaysia and Hong Kong.

Context – Opportunities and Challenges

MALAYSIA

Malaysia is home to one of the top bases for start-ups in Southeast Asia, ranked the third in the region and the forty-third in the world.⁶¹ With success stories such as Grab (originally MyTeksi) and Carsome⁶², Malaysia has no shortage of talented entrepreneurs that are buoyed by its highly strategic geographic location and centrality to the ASEAN. Notwithstanding this, as noted by the Malaysia Startup Ecosystem Roadmap 2021-2030, in

order to render the start-up economy more structurally supported, reforms are needed in a multitude of areas:

Firstly, there is a distinct dearth of private sector-driven funding, plausibly due to crowding-out by public sectoral and state-driven funding initiatives, which are important, but should be complemented and sustained by private equivalents. Secondly, Malaysia is facing an ongoing talent shortage and crunch, especially those with the needed digital savviness and skills to thrive in an era of digital economy⁶³. Thirdly, persisting obstacles to commercialisation of sound and tentatively viable ideas. Fourthly, porous and somewhat underdeveloped regulatory frameworks that cannot adequately address the interests and rights of founders and start-up workers. Fifthly, there is a lack of clear pathways to internationalisation. Whilst the MYStartup has gone some ways in redressing these issues, much remains to

⁶¹ <https://www.startupblink.com/startup-ecosystem/malaysia>

⁶² <https://www.forbes.com/sites/simranvaswani/2022/01/10/malaysian-unicorn-carsome-raises-290-million-to-fund-southeast-asia-expansion-plans/?sh=b-18f1f52c455>

⁶³ <https://www2.deloitte.com/mt/en/pages/technology/articles/mt-what-is-digital-economy.html>

be done when it comes to improving the accessibility and levelling the playing field when it comes to seed capital for innovators and entrepreneurs, as well as the exit pathways for successful start-ups⁶⁴.

On the other hand, Malaysian artists and cultural practitioners have been fervent pioneers in drawing upon technology to innovate with and preserving valuable cultural artefacts, artworks, and tradition⁶⁵. Khazanah Nasional, for instance, has been instrumental in supporting arts, heritage, and public space initiatives, working in tandem with the foundation Yayasan Hasanah and impact organisation Think City. As noted by Khazanah Managing Director Datuk Amirul Feisal Wan Zahi, ‘arts, heritage, and public spaces [...] form the core of what defines us - from the entertainment we consume to the places we spend our free time in’. Hong Kong can certainly take a leaf out of Malaysia’s book on the front of integrating finance and the arts, in ways that leave long-lasting, positive impacts on the people.

Former Minister of Tourism, Culture, and Arts Nancy Shukri had affirmed the need for the government and the private sector alike to rally behind Malaysia’s many cultural non-governmental organisations, to restore their roles as key platforms for artistic co-creation, education, and exhibition on a grassroots level. More fundamentally, there is a need to strengthen the financial support system for artists and creatives in the country.

HONG KONG AND MAINLAND CHINA

A parsimonious tax system, low tax rates, easily available funding, and broad accessibility to international markets and regional ‘circulations’, contribute towards our appeal to ambitious, innovative entrepreneurs eager to make a splash in the sprawling Greater Bay Area⁶⁶. These are all virtues that render Hong Kong an ideal destination for entrepreneurs and start-ups from Malaysia.

As for arts and culture, whilst Hong Kong is long renowned for its exceptional hardware and infrastructure - from the world-class M+ and Palace

Museum Hong Kong, to the annual fixture of the Art Basel and the Hong Kong Arts Festival, to urban renewal projects imbuing elements of street arts and contemporary Hong Kong culture - there remains a distinct need for a cogent, high-level strategy on arts and cultural exchange⁶⁷. Arts and cultural activities can serve as powerful conduits for fostering cross-cultural understanding, friendship, and relationships that can transcend political tensions, this is also one of the reasons the Hong Kong-ASEAN Foundation initiated the ASEAN Film Festival⁶⁸, with the objectives of boosting interest and awareness amongst Hong Kong’s youth, of the nuances and profundity of Southeast Asian cultures. In the meantime, more needs to be done - ideally via both educational institutes and art galleries - in promulgating greater understanding and empathy in the long run, between the peoples of Malaysia and Hong Kong.

Policy Proposals

Public and private actors in Hong Kong should:

- Strive to lower significantly the barriers to entry and participation for Malaysian start-ups in Hong Kong, and attract more late-stage, large-scale start-ups from outside Malaysia and Hong Kong;
- Develop joint start-up accelerator and incubator programmes straddling Mainland China, Hong Kong and Malaysia to provide young entrepreneurs with access to funding, mentorship, network and other resources;
- Provide funding, space and support, through the Cyberport, Hong Kong Science and Technology Parks, as well as the Northern Metropolis, for Malaysian start-ups who hire and/or partner with local youth;
- Foster closer ties between universities and academic institutions in Hong Kong and Malaysia to promote research in sectors including but not limited to health technology, bio-technology, medical technology, nano-technology and financial technology;

⁶⁴ <https://www.mystartup.gov.my/>

⁶⁵ <https://www.malaysiakini.com/announcement/583808>

⁶⁶ <https://www.startmeup.hk/wp-content/uploads/2023/01/Startup-Survey-2022.pdf>

⁶⁷ <https://www.scmp.com/comment/opinion/article/3202400/be-truly-world-class-cultural-hub-hong-kong-needs-much-more-just-hardware>

⁶⁸ <https://www.aseanfilmfest.org/>

Expedite and reduce the barriers involved in the processes to approve long-stay visas for Malaysian innovators and entrepreneurs who are seeking to relocate to Hong Kong, in exchange for reciprocal treatment by the Malaysian authorities.

- Expedite and reduce the barriers involved in the processes to approve long-stay visas for Malaysian innovators and entrepreneurs who are seeking to relocate to Hong Kong, in exchange for reciprocal treatment by the Malaysian authorities (this can be an extension of the Quality Migrant Admission Scheme);
- Establish a mentorship network and programme for entrepreneurs from disadvantaged backgrounds across Hong Kong and Malaysia, granting them access to seasoned mentors who are interested in giving back to the community;
- Encourage the convening of start-up hackathons and coding competitions bringing together talents from Mainland China, Hong Kong and Malaysia;
- Expand considerably the volume of cross-border cultural and artistic collaboration between Hong Kong, Mainland China and Malaysia:
 - Establish a bilateral agreement between Hong Kong and Malaysia to enable the exchange of artists and cultural practitioners; the agreement should cover concrete details such as visa and work permit arrangements, tax cuts and arrangements, and other support mechanisms to incentivise exchange of artistic talents (e.g. artist-in-residence exchange programmes);
 - Organise joint cultural festivals and exhibitions that celebrate the diversity of Hong Kong's and Malaysia's rich cultures. These events should include musical performances, fashion shows (e.g. the kebaya - nominated by Singapore, Brunei, Malaysia and Thailand for the UNESCO's intangible cultural heritage list), food and cultural exhibitions;
- Actively pursue the possibility for in-depth, authentic cultural exchange programmes between Hong Kong and Malaysia high school students, to promote cross-cultural understanding and people-to-people ties;
- Set up a creative fund to subsidise exclusively artistic collaborations between independent artists and small art groups in Hong Kong and ASEAN; the fund should cover grants, living expenses and venue costs for performances in Hong Kong and select, targeted destinations in the ASEAN;
- Establish in Hong Kong a Museum of Diasporic Culture and History focusing on the lived experiences and lives of ethnic Chinese immigrants in Southeast Asia;
- Foster closer ties between universities and academic institutions in Hong Kong and Malaysia to promote research on relevant fields such as cultural preservation, management, and history of arts;
- Sponsor the development of joint music and film productions between Hong Kong and Malaysia, with explicit requirements of these productions involving personnel (e.g. producers, directors, actors, or singers and composers) from both parties - in order to showcase the talents available in Hong Kong and Malaysia;
- Empower Malaysian and Hong Kong manufacturers to explore and expand the Halal-certified food and beverage (F&B) economy across Malaysia and Hong Kong;
- Increase the level of travel connectivity and tourism collaboration between the two economies;
- Seek to increase, where economically feasible, the number of direct civilian flights between Hong Kong and East Malaysia (e.g. Guching in Sarawak);
- Introduce a Global Cultural Ambassador Programme to promote Hong Kong's unique culture abroad, in countries including Malaysia. This programme can feature academics, intellectuals, artists, musicians, fashion icons and other cultural figures who can represent Hong Kong abroad;



- Develop a joint cultural and legacy preservation programme to harness the cultural heritage of Hong Kong and Malaysia; this programme should draw upon and feature initiatives that channel funding from beyond the two economies into sponsoring preservation efforts of key sites such as Melaka and Georgetown, the Lenggong Valley in Malaysia⁶⁹, or the Man Mo Temple in Hong Kong;
- Utilise Hong Kong's global marketing expertise and tourist management experience, through encouraging partnerships between Malaysian tourist sites and businesses, with their counterparts in Hong Kong;
- Co-invest in Malaysia's world-class medical facilities and hospital venues, thereby positioning Malaysia as a preferred destination for individuals from Hong Kong seeking high-quality healthcare services.
- Strengthen the level of academic and educational exchanges between Hong Kong and Malaysia:
 - Expand the Top Talent Pass Scheme school list to include additional top-tier Malaysian universities and their graduates (currently, only one Malaysian university, Universiti Malaya, is on the list)⁷⁰;
 - Offer a greater number of bonded scholarships for Malaysian students to enroll at Hong Kong universities and secondary schools; these students would be required to work in both Malaysia and Hong Kong subsequent to graduation;
 - Increase the existing number of Belt and Road Scholarships offered per year to 1,000 scholars per year, drawing upon private sector support and subsidies and donations;
 - Sponsor and subsidise faculty exchange programmes for early career researchers in Hong Kong and Malaysian universities, for working and teaching in the other region;
 - Position Hong Kong as a leading knowledge hub in Asia for the study of Sino-ASEAN relations, drawing upon the wealth of academic experts and thinkers in Malaysia as a source of insights;
 - Work closely with private and state-owned corporations in Hong Kong to offer internship opportunities for Malaysian students, with career-advancing benefits associated with these internships (e.g. potential fast-tracking in recruitment process upon their graduation);

⁶⁹ <https://iopscience.iop.org/article/10.1088/1757-899X/979/1/012008/pdf>

⁷⁰ <https://www.immd.gov.hk/eng/services/visas/TTPS.html>

- Work closely with leading non-profit organisations and foundations in hosting knowledge- and capacity-building closed-room dialogues, workshops, and conferences between leading policymakers, academics, and civil servants in Malaysia, Mainland China, and Hong Kong;
- Create a joint cultural exchange programme for young people to promote cross-cultural understanding and dialogue. This programme should feature student exchange visits, youth camps, and other initiatives that bring together young people from Hong Kong and Malaysia;
- Position Hong Kong as an Executive Education hub for Malaysia's budding entrepreneurs and executives.

Feasibility

Hong Kong has a thriving start-up ecosystem. The InvestHK 2022 Startup Survey revealed that despite the pandemic and related uncertainties, the number of start-ups had reached a record high, with a total of nearly 4,000 start-ups employing, a 6% increase on 2021 and an almost-doubling since 2018. Nearly 15,000 employees work in the start-up industry. As for arts, culture, and education, it is worth noting that Hong Kong's soft power has historically stemmed from its fundamentally internationalist outlook, significant economic and civil freedoms, and ability to draw from and synthesise both Chinese cultures and cultures from abroad, backed by private philanthropists and donors who are avid consumers and collaborators with artists. The HKSAR also houses five top-100-in-the-world universities⁷¹, and is renowned for its concentration of top-tier talents and educators.

Anticipated Benefits

MALAYSIA

Artistic and cultural, innovation, educational, and people-to-people ties have always been at the heart of the bilateral relationship between Hong Kong and Malaysia. From diasporic families that have contributed significantly to the trajectories and developments in

both economies, to icons who have built their careers across both regions, Hong Kong has long served as a platform that has helped showcase Malaysia's best to the world. The deepening of educational, people-to-people, and youth-to-youth ties will enable Malaysia to better promote its soft power and cultural legacies throughout the Greater Bay Area and the rest of China. There are few places better than Hong Kong for testing the waters in relation to the Chinese market.

When it comes to cutting-edge industries such as biotechnology and health technology, which Hong Kong is uniquely suited to advancing, given its long average lifespan, high concentration of world-class scientists and researchers, and significant levels of wealth amongst prospective consumers of such products, the proposed joint incubator and accelerator programmes will be to the advantage of aspiring entrepreneurs across Hong Kong and Malaysia, especially in trust-building and relationship-fostering.

HONG KONG AND MAINLAND CHINA

Hong Kong needs to and can bring value to the ASEAN. Hong Kong can enhance its value-adding abilities in three ways:

Firstly, by better embedding Hong Kong capital, investors, and start-up entrepreneurs within the ASEAN start-up ecosystem, anchored by Malaysia. This is critical in ensuring the rise of sustainable and successful joint ventures in the future.

Secondly, by stepping up to our mandate as a hub of Chinese-foreign cultural exchange, as highlighted by the 14th Five Year Plan. Thorough engagement and collaboration between Hong Kong and Malaysia would be pivotal in ensuring this.

Thirdly, by establishing Hong Kong as the knowledge and information gateway into China. Informal, 'Track-II', dialogues and engagements are crucial in supplementing inter-governmental communication and liaison. With the above policies, Hong Kong's private sector will almost certainly gain a larger role to play in contributing towards Sino-Malaysian relations.

⁷¹ <https://thehkhub.com/5-hong-kong-universities-in-worlds-top-100-higher-education-rankings-for-2024/>

Conclusion - The path towards sustainable complementarity

Hong Kong and Malaysia must evolve together, and it is in their mutual interest to complement each other in a sustainable and long-lasting manner. The growing relationship has highlighted four core values that should hopefully define the bilateral relationship for the decade to come.

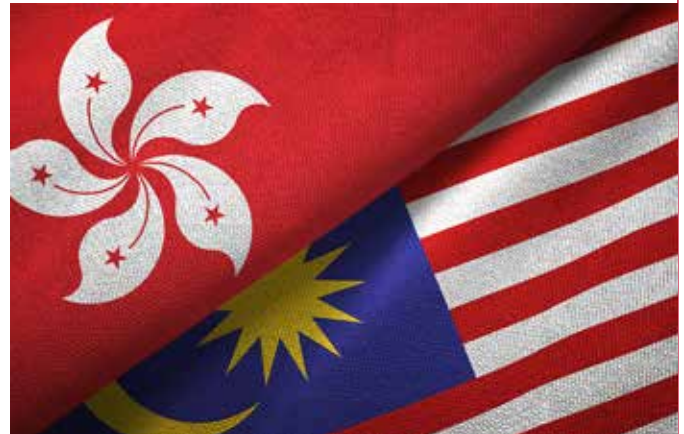
Firstly, both must become more interconnected, increasing capital flows and channelling investment into productive projects that deliver for their respective people.

Secondly, both should aim to be more accessible to the talents, businesses, and visitors from the others, in order to maximise the benefits both parties can reap from liberalising trade flows between them, via RCEP and other further agreements.

Thirdly, both can strive towards more sustainable development through leveraging each other's strengths. Hong Kong would benefit from greater access to Malaysia's abundant natural resources, whilst Malaysia can benefit from Hong Kong's lead in ESG compliance and green financing infrastructure.

Fourthly and finally, both must harness and bolster the creativity that inheres in their people. Through cultural, educational, academic, and technological exchanges, Hong Kong and Malaysia can indeed strive towards a more progressive and transformative tomorrow.

Hong Kong's future, as a nexus between China and Malaysia, Northeast Asia and Southeast Asia, shines more brightly than ever.



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The Hong Kong-ASEAN Foundation serves as a platform to strengthen relations with the ASEAN through Hong Kong. We seek to promote mutual understanding, appreciation, and to support education, research and studies in ASEAN cultural heritage, histories, customs and architecture as well as foster greater awareness of collaboration opportunities for the benefits of Hong Kong and the ASEAN.

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