

## **Zeti Akhtar Aziz: Expanding ASEAN-EU economic links - the role of the euro**

Speech by Dr Zeti Akhtar Aziz, Governor of the Central Bank of Malaysia, at the Euro Conference - "Expanding ASEAN-EU Economic Links - The Role of the Euro", Kuala Lumpur, 14 July 2005.

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Your Excellency Ambassador Thierry Rommel, Head of the EU Commission Delegation in Malaysia,

Your Excellencies,

Distinguished Guests,

Ladies and Gentlemen,

Good morning. It is my great pleasure to welcome you to the "Euro Conference: Expanding ASEAN-EU Economic Links -- The Role of the Euro".

Bank Negara Malaysia is indeed honoured to co-host this event and would like to especially thank the European Commission for the opportunity. The purpose of this Conference is to bring together recognised experts to discuss the important issues affecting economic, monetary and financial interests in ASEAN and the EU. I believe that the exchange of ideas and views over the next two days would contribute towards an increased understanding of the developments and issues important to our respective regions. Our agenda is for the further strengthening of the close ASEAN-EU partnership that offers mutually reinforcing benefits to both regions. It is our hope that this Conference would serve as a catalyst to promote greater appreciation of the potential for an expanded ASEAN-EU economic relationship - a relationship in which trade and investment flows between our regions can be enhanced.

The ASEAN-EU partnership has developed steadily over time through a number of well-established forums. This has taken place in a global environment in which the world economies and financial systems are increasingly becoming more integrated. As a result, it can be expected that there is increased interdependence, events that take place in one part of the world will have implications on other parts of the world. This is likely to be more pronounced in the ASEAN economies and financial systems, given their openness and their high degree of integration with the global economy and international financial system. As the ASEAN and the EU continues to evolve as strategic partners, new opportunities can also be realized. An enhanced relationship will also contribute towards more effective management of the new challenges in the ever-changing global environment. Indeed, this Conference takes place at an important time when it becomes even more constructive and meaningful for our two regions to strengthen our associations, our inter-linkages and our relationships.

### **Learning from the experiences of the EU**

Ladies and Gentlemen,

The unification of Europe on many fronts is a major structural enhancement to the global economic and financial landscape. It is very likely however, that in view of our diversity and different structures and stages of development, the route for the integration process will be significantly different. It can be stated with certainty however, that integration will nevertheless occur. Indeed, the process has already commenced and it is likely to gain momentum as we advance forward. The motivation being the greater stability it brings and the increased growth potential it generates.

The European experience offers valuable insights in synchronising and pacing the integration process in the ASEAN region. The European path to integration -- based on trade integration, with the removal of restrictions on the movements of goods and all factors of production at the early stages, followed by increased monetary and financial linkages at the subsequent stages - presents ASEAN with an important reference point in our own monetary and financial integration efforts, in particular, in relation to the trade and investment liberalisation initiatives to facilitate greater regional economic integration.

## **Tremendous opportunities in ASEAN for the EU**

There is certainly much that ASEAN can learn from the EU experience. The EU is now the world's largest single market and with the introduction of the Euro. The EU has become the ASEAN's third largest trading partner. Of its total trade, the trade of the ASEAN 5 (that is, of Indonesia, Malaysia, the Philippines, Thailand and Singapore as a group) with the EU accounted for 12.4% in 2004. Meanwhile, the EU's trade with the ASEAN 5 accounts for 4.5% of the EU's total trade. Against a backdrop of sustained growth and macroeconomic and financial stability in ASEAN, there is significant potential for expanding the trading and investment links between our two regions. Focusing on the areas of complementarities would maximize the mutual benefits to be gained from the strengthened relationship.

The ASEAN Vision Statement is "to create a stable, prosperous and highly competitive ASEAN economic region in which there is a free-flow of goods, services and investments, a freer flow of capital, equitable economic development and reduced poverty and socio-economic disparities" by 2020. The ASEAN economies have for more than a decade now experienced growth that is above the global average. While this growth momentum was interrupted during the Asian currency crisis in 1997 and 1998, the ASEAN economies demonstrated their resilience to resume its strong growth within a short period of a year for many of the affected countries. Opportunities are fast emerging in our region reinforced by the more intensified regional integration that is taking place. In ASEAN, efforts are already being accelerated in the implementation of trade and investment action plans under the ASEAN Free Trade Area (or AFTA, for trade in goods), the ASEAN Framework Agreement on Services (or AFAS, for trade in services) and the ASEAN Investment Area (or AIA, for investment liberalisation).

The initiatives to enhance trade and investment flows to ASEAN have also been accompanied by efforts to strengthen monetary and financial stability. The ASEAN countries have also reinforced efforts in regional financial co-operation, including in the surveillance processes. These has brought together policy makers from the ASEAN ministries of finance and central banks to constantly engage in discussions on regional and global economic developments which have implications on the ASEAN region. In April this year, the ASEAN countries also doubled the size of its regional financing facility, the ASEAN Swap Arrangement (ASA), from US\$1 to US\$2 billion. The ASA is a further initiative to maintain regional economic and financial stability through a mechanism that provides short-term liquidity support to member countries facing temporary balance of payments difficulties.

## **Strengthened strategic partnership as a natural way forward**

Ladies and Gentlemen,

As we advance forward, both the EU and ASEAN through the rebalancing of global growth have the potential to contribute towards alleviating the imbalances in the global landscape.

The process of increased inter-linkages between our two regions has already begun. As a pre-cursor to the establishment of a Free Trade Agreement (FTA), our regions have embarked on the Trans-Regional European Union-ASEAN Trade Initiative in 2003. Work is also already underway to expand trade and investment flows through closer ASEAN-EU co-operation in trade, investment and regulatory issues, among others.

While barriers between our regions will continue to be lowered under a future FTA, it is also important to maintain coherence between liberalisation and economic stability. New areas in specific sectors of mutual interest that would complement the path to greater growth for both regions need to be explored. This would contribute towards reinforcing the sustainability and effectiveness of the ASEAN-EU partnership and, thereby, increase the potential to contribute to global economic stability.

Allow me to conclude my remarks here. Thank you for your participation in this Euro Conference. I hope the sessions ahead will challenge your thinking and present you with many new ideas and perspectives on the prospects of an expanded ASEAN-EU relationship.