

Zeti Akhtar Aziz: Growth and development in the Asian region

Dinner address by Dr Zeti Akhtar Aziz, Governor of the Central Bank of Malaysia, at the ICLIF Alumni Association Dinner, Kuala Lumpur, 17 February 2006.

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It is my pleasure to be here this evening at this Inaugural Annual Dinner of the ICLIF Alumni Association. This occasion provides an excellent opportunity to promote greater engagement and networking among the industry leadership. This is particularly important for our region where the financial sector has experienced a pronounced transformation in the financial landscape. There will be new dimensions and new requirements for leaders and leadership capability in this new and highly challenging environment. It calls for being able to meet the new demands of the new economy, being able to perform in a more competitive environment, being able to reap the benefits of the new technologies and finally being able to operate in an environment of heightened uncertainty.

Despite these increased challenges, the world economy has entered 2006 on a stronger note. The latest indicators suggest that the global economic outlook remains favourable, with sustained growth across the major economies. While the US and China are expected to continue to experience strong growth, it is expected that the recoveries in Japan and Europe would provide additional support to global demand. This provides a positive external environment for Asia. In the Asian region, domestic demand has proved resilient with most countries experiencing a strengthening of domestic demand. Cumulatively, this rapidly expanding domestic demand has represented an important market for the region. It has also increased the pace of regional integration.

While energy prices have remained high, this is not expected to undermine the global growth momentum. Oil price increases thus far have mainly been demand-driven, and therefore, well absorbed compared to historical episodes of oil shocks. However, the tight global supply conditions that prevail have not removed the risks of higher oil prices. The inflationary trends that have emerged, has prompted the monetary authorities in a number of countries to raise interest rates. While the degree has varied across countries, these moves have primarily reflected the need to anchor expectations and limit the second-round effects of rising oil prices. This has therefore continued to allow monetary conditions to remain supportive of growth.

In view of the broadly favourable outlook for the global and regional economies, renewed attention has been focused on the prevailing imbalances in the global economy. This is a pertinent issue especially as these imbalances are expected to widen in 2006. It is recognised that reducing the global imbalances is a shared responsibility, across the major regions of the world. Several reasons have been cited as constraints to the process of adjustment. This include the relative lack of strength in domestic demand outside the US; the large gap between saving and investment in major regions of the world; and the fragmented structure of global capital intermediation that hinders surplus regions from financing productive investments within their region.

It is important to recognise the important role that Asia can have in contributing to rebalancing global growth and in so doing contribute towards global adjustment of the imbalances. In terms of economic growth, the region has consistently recorded performance that is, one-and-a-half times higher than the global average. On demographics, Asia is home to more than half of the world's population, with a young and growing workforce, and expanding middle-class in a number of countries. Robust domestic consumption and rising investment have therefore become important sources of growth. This has been supported by the rising income and increased productivity and the expansion of intra-regional trade. The increasing importance of intra-regional trade, which accounts for more than 50% of Asia's total trade, makes the region the next most integrated region after the European Union in trade. This has positioned Asia as the largest and fast-growing market in the world. In addition, the Asian region has also embarked on measures to spur its economic openness by forging free trade agreements, which would contribute to increasing the capacity of the region and the potential of the region, in addition to improving prospects for contributing towards the rebalancing of global growth and the global adjustment process.

Combined with the region's traditionally high degree of economic openness with a total trade averaging 95% of GDP in the region, it reflects Asia's potential to be a self-sustaining and mutually reinforcing the region's growth. The greater degree of economic flexibility in the region in responding

to shocks and the dynamic global conditions is a further feature that contributes towards strengthening the region's potential.

While private consumption's contribution to domestic demand is becoming increasingly more significant in the region a renewed expansion in investment is also needed to create a more sustainable growth path. Significant initiatives are already underway to increase the contribution of private investment and secure new areas of growth. These include improving the investment climate and reducing the cost of doing business. Efforts would also continue to be on-going on the priorities in the region as countries have the potential to further expand the role of domestic demand. For several of the countries in the region, a significant boost to investment is expected to stem from an expansion in physical and social infrastructure as well as from research and development activities being relocated to Asia.

On the financial front, the region's high savings rate and the pool of capital in the region for productive investments would be able to provide a boost to development of the region's financial markets. Strengthening the structure of the regional markets would facilitate the surplus savings to financing investment within the region. Significant progress has already been made in the Asian region in strengthening the financial sectors, in the banking system or the capital markets. This has increased the region's capacity to intermediate funds, especially within the region. The regional banking systems as a whole have increased their strength and ability to manage risks. This renewed resilience is being underpinned by more market-driven initiatives, improved standards of corporate governance as well as the development of the necessary infrastructure to promote the financial markets.

In this respect, regional financial ties underpin the reforms in the intermediation of capital and for re-channelling for productive investment within the region. The implementation of the Asian Bond Funds (ABF1 and ABF2) marks an important milestone in the path towards regional financial integration as part of the foreign reserves are invested in Asian sovereign bonds. Meanwhile, the introduction of ABF2 Funds as a new asset class in Asia, together with improvements to the financial infrastructure, tax and regulatory reforms, would contribute towards the broadening and deepening of regional bond markets over time. Building region-wide financial markets is relevant given that each regional market is typically small in size. Thus, inter-linked regional markets would raise the attractiveness of Asian investments to both global and regional investors.

Following these external developments, Malaysia's growth prospects are expected to strengthen in 2006. The favourable external demand would reinforce the sustained expansion in domestic demand, which is expected to be positive for both real income and employment generation. Real private consumption is therefore set to grow further, while real private investment is forecast to expand, supported by the need to undertake capacity expansion, particularly in the manufacturing and oil and gas sectors, in addition to the services sector. As a result of both supportive external and domestic demand, the economy is expected to register improved performance in 2006.

For Malaysia, the focus of policy thrusts in 2006 would be to build on the gains of 2005, ensuring fundamentals are strengthened and the flexibility of the economy is further enhanced. In this respect, the Central Bank will determine the interest rate policy to provide a sound environment for sustainable performance of the economy. Macroeconomic policy would thus continue to stress growth in an environment of price stability. Of importance, is to strengthen private sector-led growth. Further efforts will therefore be undertaken to ensure that the economic and financial structures and systems are conducive for the building of a dynamic, resilient and flexible economy.

The dynamics of growth and development in the region are reshaping our environment. Effective chief executives and corporate leaders in this new environment need to develop accordingly taking into account the new requirements. In its programs, ICLIF has focused on these new dimensions of leadership development, particularly for the financial services sector.

As a leadership development institution, ICLIF has also evolved over time by continuously reviewing the contents of its programs to match the needs of the rapidly changing environment. A review of the Global Leadership Development Program (GLDP) has now been undertaken, based on the valuable suggestions and feedback from participants, faculty, facilitators and expert panel. Refinements in the structure and content of the GLDP are expected to be introduced in the subsequent sessions and will include, among other things, new areas such as geopolitical and economic trends, corporate entrepreneurship and innovation, diversity and inclusiveness, culture and corporate social responsibility. The US part of the Summer program will also be changed. The change will bring participants closer to distinguished faculty from such renowned institutions as Stanford, UC Berkeley and UCLA.

Let me now conclude my remarks. Leadership is all about a vision for the future, setting the strategic direction for the organization and having the ability to translate the vision into results. This involves having the ability to promote the shared vision and energizing the organization to produce the results.

As I have earlier mentioned to one of the groups of the GLDP program "The quest for leadership excellence is a journey and not a destination." When we talk about enhancing leadership capability, we are talking about leaders who are continuous learners, who strive for cutting edge excellence, leaders who have strong convictions and beliefs and yet having humility and recognizing the need to reinvent themselves and in doing so become dynamic leaders pushing the frontiers of excellence and having the courage to take on the new challenges.

Thank you.