Zeti Akhtar Aziz: The transformation of Labuan as an International Business and Financial Centre

Speech by Dr Zeti Akhtar Aziz, Governor of the Central Bank of Malaysia, at the launch of Labuan International Business and Financial Centre, Kuala Lumpur, 28 January 2008.

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Distinguished Guests,
Ladies and Gentlemen,

It is with great pleasure that I welcome you to the launch of Labuan International Business and Financial Centre. This decade has seen the Labuan Offshore Financial Centre demonstrate its ability to adjust and reinvent itself in a rapidly changing international and regional environment. This decade has also witnessed the robustness and resilience of the Labuan Offshore Financial Centre as evidenced by its ability to continue to expand and mature even during the most challenging of periods.

The global and regional marketplace however, continues to transform, bringing with it new opportunities and challenges. To have the flexibility to benefit from the new opportunities and to have the capacity to rise to the new emerging demands and challenges, continued reassessments need to take place to rediscover new directions, build new strengths, new comparative advantages and to define our new role in this ever changing and more competitive marketplace. Today we are defining a new beginning for the Labuan Offshore Financial Centre as it positions itself for a much larger role. Your presence here today to share in this auspicious occasion is indeed appreciated.

In providing the full range of financial services, Labuan offers a total financial solution both in both conventional and Islamic finance. Labuan also has the top-ranked financial institutions that originate from more than 80 countries, including Islamic financial institutions that also originate from different parts of the world. The Labuan Offshore Financial Centre has seen steady expansion both in terms of the number of players, the diverse financial product offering and the volume of activity.

Labuan today has also become a thriving regional business centre. It is making its mark as a regional base for the oil and gas industry and as an entrepot for the regional triangle of Brunei-Sabah-Philippines. Its convenient location and excellent deep harbour are natural advantages. Its modern airport which has been enhanced has also promoted increased tourism. Being a duty free zone and a free port status has supported these activities. Growth in these peripheral commercial and economic activity in Labuan has provided the potential for Labuan to succeed as an international business and financial centre.

Labuan benefits from being centrally located in the Asia Pacific region, a region that has been one of the fastest growing regions in the world. The Asian region is also among the most open in the world in terms of international trade and investment. A more recent phenomenon is the increased intra-regional trade and investment resulting in greater regional economic integration. This has been reinforced further by increased investment flows from the Middle East to Asia. In 2006, the Asia Pacific surpassed Europe as the second largest region for investment from the Gulf Cooperative Council (GCC) with USD460 billion investment.

Despite the current financial upheavals that are occurring in the international financial system, the underlying trends in the region including the cumulative regional demand, greater regional integration and the increased appeal of the region as an investment destination have continued to present immense opportunities for Labuan as a business and financial centre.
Labuan is well positioned to tap these business opportunities. Key to the success of a business and financial centre is its competitiveness, the convenience and cost effectiveness of doing its business, its connectivity and the confidence in the centre. The Government of Malaysia has been highly committed to ensuring that Labuan has all these elements. Massive investment has been made to provide for the physical infrastructure and amenities in Labuan. This includes the modern communication links, and the business and education amenities to support Labuan’s designated role as an international business and financial centre. Recently, the Labuan International airport was enhanced further and open sky policy has been adopted to facilitate enhanced access to the island. Also, improvements have been made to the deep harbour facilities.

Increased access is however, not only limited to the physical access but also the easy access to other financial markets. This requires the infrastructure that allows for the efficient conduct of international financial transactions. Intermediaries need to be able to have easy access to participate in other jurisdictions. To facilitate this and to promote the cost competitiveness in Labuan, it is supported by a balanced regulatory regime that effectively regulates the market while facilitating market development. LOFSA, the Labuan Offshore Financial Services Authority was established ten years ago not only to put in place an effective regulatory regime and to provide the supervisory oversight, but also to focus on market development and facilitation. To further ensure a conducive business environment, it is also supported by a robust legal framework including trust laws. While Labuan has in place a business friendly tax regime it also has never been positioned as a low tax finance repository. On the contrary it has leveraged on its strengths and unique advantages to meet the market's need.

In going forward, a number of programs will be initiated. The Labuan International Business and Financial Centre (IBFC) aspires to achieve the status of being the "gold standard for holding company jurisdiction". This market has been identified as a further business driver for Labuan IBFC. Malaysia's extensive tax treaty network with over 63 countries in addition to the introduction of a more flexible tax framework supports this initiative. It was announced in the 2008 Budget that Registered Labuan offshore companies now have the option to be taxed under the Malaysian Income Tax Act 1967 or the Labuan Offshore Business Activity Tax Act (LOBATA) 1990, thus enabling businesses to structure their transactions more efficiently. The Labuan IBFC's competitiveness will be further enhanced through a revision of the pricing structure pertaining to incorporation and maintenance fee charges. There will be an annual reviews and prices will be revised in response to competitive market developments.

The Labuan IBFC will also leverage on the national strategy of the Malaysian Islamic Financial Centre by promoting Syariah-compliant trusts and foundation. These products will complement Islamic financial products and services already available in Kuala Lumpur. Efforts will also be taken to further develop Labuan's captive insurance business which has enjoyed commendable growth over the years.

**Conclusion**

Ladies and Gentlemen,

The establishment of Labuan as an international offshore financial centre in 1990 was indeed a bold step in its time. We are now seeing the payoffs from this initiative. With the transformation of Labuan as an International Business and Financial Centre, our ambition will be taken further. The new name signals that Labuan is ready to take on the much broader and larger role. The new name also represents a commitment. A commitment for the future. To demonstrate this commitment, the Government and the regulators have put in place the supportive and enabling environment to promote a more connected and more cost effective environment. Continued initiatives will also be taken to remove any impediments and obstacles to a more efficient delivery system and to advance forward the Labuan IBFC.
The responsibility for ensuring the ambitions of the Labuan IBFC to be realised, is however, a shared responsibility. The future will be for the competitive. The future will be for the cost efficient. The future will be for the creative and innovative. The future will be for those that are able to give good value propositions to their customers. Achieving this will therefore involve the industry, the market professionals and participants. With these cumulative efforts, we are confident Labuan IBFC will be another chapter of success, Insya Allah.

On that note, I thank you again for being here to witness the launching of the Labuan International Business And Financial Centre.

Thank you.