

Zeti Akhtar Aziz: Economic outlook and business opportunities in Malaysia

Opening remarks by Dr Zeti Akhtar Aziz, Governor of the Central Bank of Malaysia, at the 5th IFSB Summit "Economic Outlook and Business Opportunities in Malaysia", Amman, Jordan, 12 May 2008.

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It is my pleasure to welcome you to the Malaysia Country Showcase held in conjunction with the 5th Islamic Financial Services Board Summit. On behalf of the Malaysian delegation, I wish to thank you for your presence here to give us this opportunity to share with you the Malaysian business proposition and our drive to strengthen trade and investment ties between our regions. We have with us today a special panel to discuss the business potentials and opportunities in Malaysia. We are very pleased to be here in Jordan and to be given this opportunity to hold this event in this beautiful country.

The current global economic and financial environment is being confronted with new challenges and uncertainties. The financial crisis in the United States has spread to other parts of the world, increasing the prospects for a global economic slowdown. We are seeing in the global financial markets, banks continuing to de-leverage and reducing lending activities, resulting in a contraction in credit supply. Going forward, financial markets are expected to continue to be volatile. In this environment, the fear of contagion is prompting investors to spread their investment and business risks and to search for new asset classes and for markets that provide stability.

Economic and business environment in Malaysia

Malaysia has entered this period of global uncertainty from a position of strength. In 2007, the Malaysian economy expanded by 6.3 percent, the fastest pace in the past three years. This has been largely due to strong domestic demand from the private and public sectors. This is also the result of the increasingly more diversified structure of the Malaysian economy. This growth has also been achieved with relative price stability, high level of savings at 38 percent of the GDP, and a strong external balance with international reserves that is now exceeding USD120 billion. The Malaysian economy is expected to sustain a growth of 5 to 6 percent in 2008.

Malaysia has an open economy with a strong commitment to promote international trade and investment. Malaysia with a population of over 26 million is ranked among the top 20 trading nations in the world that offers a wide range of world class products. The volume of trade activities in Malaysia is now about two times the size of our economy with the ratio of trade to GNP being among the highest in the world. Not too long ago, Malaysia's total trade has breached the RM1 trillion mark or USD320 billion, reflecting the robustness of the economy. Malaysia has also been an important destination for foreign direct investment for more than a hundred years. In 2007, Malaysia was ranked the 16th most attractive destination for such investment.

Our pattern of trade and economic structure has evolved over several decades to become a highly diversified economy. The macro economic stability reinforced by the long term development plans, pro-business policies, developed physical infrastructure, conducive business environment and trained labour force, have contributed to the advancement in our trading and industrial sector. Malaysia, in particular, has become a global player in the export of several products. In the electrical and electronics sector, Malaysia is a major exporter of semiconductors, automatic data processing machines and telecommunications equipment.

While in the furniture industry, Malaysia is currently ranked among the top ten exporters of furniture in the world.

In the services sector, Malaysian companies have ventured abroad, undertaking projects in the construction of roads, ports, airports, highways, bridges, houses, commercial buildings, power generation and telecommunication, in countries of the Middle East, Africa, ASEAN and South Asia. Malaysian companies have also gained expertise in the oil and gas sector, education and healthcare. In the ICT sector, Malaysia has been ranked globally as the third most favoured location for outsourcing of business processes.

Business and investment opportunities

Trade has for many centuries been an important factor that has linked the Middle East to Asia. In the recent few years, the trade between Asia and countries in the Middle East has been on an upward trend. Today, while the world trade has on the average expanded by 10 percent over the period 2001-2005, Asia's trade with the Middle East has increased at the average rate of 24 percent. There is also increasing interest by the Middle East investors in the Asian region driven by the investment opportunities. While the US remains the major recipient of investment flows from the Middle East, Asia has surpassed the Euro region as the second most popular investment destination. Of the USD2 trillion foreign investment flows from the Middle East in 2006, USD450 billion flowed into Asia.

Malaysia is centrally located in the ASEAN region which comprises a potential market of about 570 million population and a combined GDP of more than US\$1,000 trillion. Malaysia is well positioned to provide the linkages to support investment flows in the region. The development of Malaysia as an Islamic financial hub in the Asian region has facilitated this process. In relation to this, Malaysia has become a centre for origination, distribution and trading of Islamic bonds or sukuk. It is also becoming a centre for Islamic fund and wealth management services and for international Islamic banking business, and for international takaful and retakaful business as well as a centre for Islamic finance education, training, consultancy and research.

Significant progress, in particular, has been achieved in the development of the Malaysian sukuk market. The Malaysian sukuk market has now evolved into the world's largest Islamic bond market. At the end of 2007, it accounted for about 60 percent of the global sukuk outstanding which now amounts to about USD100 billion. The sukuk market has been an important source of financing for productive investment activities, while for investors, it provides great potential for diversification into new asset classes. The issuance of sukuk has not only become a means of raising financing but it also provides access to a wider base of investors, both Islamic and conventional.

The Malaysian bond market has also been liberalised to enable non-resident corporations to raise ringgit and foreign currency denominated funds from our market. International issuers may thus issue multi-currency sukuk or alternatively have the flexibility to swap domestic currency funding into other currencies. Stamp duty exemption for ten years beginning 2007 has been granted on these instruments. There is also withholding tax exemption on income earned by non-residents for investments in ringgit and non-ringgit Islamic securities. With the growing maturity of the market, it has been able to efficiently manage significantly large size issuances. Recently, a Malaysian telecommunications company issued the largest-ever sukuk in the world market that amounted to an equivalent of USD4.7 billion. Though the size was large, the issue was two times oversubscribed, indicating the depth of the market.

As an investment destination, the Malaysian capital market offers a wide range of world class products. More than 85 percent of the companies listed on the Stock Exchange are Shariah compliant, representing about 60 percent of total market capitalization. In addition, there are about 130 Islamic unit trusts issued in Malaysia. Thirdly, there are two Shariah-compliant real estate investment trust (REIT) listed on the stock exchange – a hospital REIT and an oil palm

plantation REIT. Finally, Asia's first Islamic exchange traded fund (ETF) was issued in January 2008 valued at the equivalent of USD262.5 million. A second foreign currency tranche is expected to be launched later in the year which is open for participation of international investors.

In relation to this, Malaysia maintains a liberal foreign exchange administration regime where investors are freely able to obtain ringgit and foreign currencies to fund their investments. There continues to be free mobility of inward and outward movement of funds relating to both foreign direct investment and portfolio investments.

Having developed a comprehensive Islamic financial system that is supported by the legal, Shariah and regulatory infrastructure, the Islamic financial landscape has been liberalised with the entry of new international players. In addition, the foreign equity ceiling in Islamic financial institutions has also been raised to a maximum of 49 percent as part of the effort to promote strategic alliances. New licences are also being offered for International Islamic Banks and International Takaful Operators to conduct the full range of Islamic banking business or takaful and retakaful business in international currencies. These institutions may be established as a branch or subsidiary and are accorded a tax holiday until 2016. These entities may be 100 percent foreign owned and have the freedom on employment in these financial institutions. To facilitate foreign employment, an "executive green lane" is being accorded to expedite applications by expatriates for long-term employment.

Having a sufficient pool of best talent has been key to the development of an Islamic financial hub in Malaysia. In 2006, the International Centre for Education in Islamic Finance (INCEIF) was established as part of Malaysia's commitment to human capital development in Islamic finance. INCEIF, which has an international faculty and students from more than 40 countries, is envisaged to produce high quality Islamic finance professionals and specialists not only to meet the domestic requirements but also for the global Islamic financial industry.

The Malaysian economy has for several years now been on a steady growth path. In 2006, Malaysia launched the Ninth Malaysia Plan to be implemented in the period 2006-2010. One of the objectives of the Plan is to achieve developed nation status in 2020. While the Government has allocated USD53.4 billion for development under this plan, the economy will continue to be private sector driven. Sectors emphasised in the plan are the high-technology, knowledge-based and skills-intensive activities, and the services sector. Under the Ninth Malaysia Plan, several new growth regions have also been identified for integrated development.

The first growth area launched is the Iskandar Malaysia, a region covering 2,200 sq. km. located in the state of Johor, in the south of Peninsular Malaysia. Up to USD100 billion investments in the region are expected over the next 25 years. As at the end of April 2008, more than USD10.4 billion of investment have been committed by investors, accounting for about 70 percent of the USD15 billion investment targeted by 2010. The targeted sectors identified for development in the region are financial advisory and consulting services; creative industries; logistics; educational services; tourism related services; and healthcare.

As an international Islamic financial hub in the Asian region with a track record of almost three decades in Islamic finance, Malaysia is well positioned to promote stronger economic linkages between our two regions. Malaysia is not only already highly integrated to the ASEAN region and to the greater Asia, but also has own initiatives and exciting development projects.

On that note, it is our hope that the Malaysia Country showcase be an engaging event for the business and financial communities from this region and the Malaysian delegation. It is hoped that this greater engagement will lead to increased economic and financial ties between our regions.

Thank you.