

Zeti Akhtar Aziz: Economic ties between China and Malaysia

Address by Dr Zeti Akhtar Aziz, Governor of the Central Bank of Malaysia, at the Launch of Industrial and Commercial Bank of China (Malaysia) Berhad, Kuala Lumpur, 28 April 2010.

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It gives me great pleasure to be here today on the official launch of Industrial and Commercial Bank of China (Malaysia) Berhad (ICBC). The establishment of ICBC in Malaysia, the largest commercial bank in the world today, represents an important development in forging stronger economic and financial ties between the People's Republic of China and Malaysia. This licence is issued pursuant to the arrangement entered into between the Government of Malaysia and the People's Republic of China in 2009, reinforcing a long-term relationship that has been strengthened over the years. The presence of ICBC, in our financial system will pave the way for increased business and investment opportunities between our two countries.

As Asia leads the global recovery and with the progressive liberalisation in the region, the economic integration of the Asian region can be expected to strengthen further. Today, intra-regional trade in Asia has increased to an average of 50% of the total exports of the region as compared to 32% in 1995. The underlying structural and demographic changes in Asia are expected to reinforce this trend. In addition, as domestic demand in the regional economies increases, it will provide further impetus to intra-regional trade and to the overall prospects for Asia. In the area of infrastructure development in Asia, the overall investment requirements for the next ten years are estimated to be about USD8 trillion.

To support these developments, the regional financial integration process in Asia needs to be accelerated and deepened. Significant progress has already been achieved in strengthening cooperation and collaboration efforts amongst regional policymakers within the Asian region to ensure that financial stability in the region is preserved. Efforts have also been taken to develop the financial markets in Asia. In addition, after a decade of financial reforms, the financial systems in Asia have emerged resilient. While the financial systems in several of the advanced economies continue to be confronted by unresolved challenges, financial systems in the region have continued to function and perform well to support private sector economic activity. Financial institutions in Asia, have in fact, continued to expand their reach within the region during this period to support and facilitate the regional financial and economic integration. As regional financial integration accelerates moving forward, this would contribute towards sustaining the future prospects of the region as it increasingly becomes an important growth centre in the world economy.

With China now becoming Malaysia's largest trading partner, Bank Negara Malaysia and the People's Bank of China have entered into a bilateral currency swap arrangement in 2009. This swap arrangement serves as a key platform to promote trade and investment linkages between both countries. In March of this year, Bank Negara Malaysia established a Reuters page for the RMB/MYR exchange rate for trade-related settlements, with 11 banking institutions offering the facility to Malaysian companies. A cost-effective arrangement is now being finalised to provide the option for exporters and importers to settle bilateral trade obligations in local currency by the middle of this year. This will complement the existing facilities that are already being provided by commercial banks in the settlement of trade in RMB.

Bank Negara Malaysia has also signed a memorandum of understanding with the China Banking Regulatory Commission in 2009 to further strengthen the framework for cooperation and collaboration between both authorities, and to promote regional financial integration. This MOU provides the platform for both regulatory agencies to share information, to ensure the enforcement of prudential rules and regulations and to undertake pre-emptive actions

towards ensuring the sound development of financial institutions operating in both the respective jurisdictions. This MOU also provides an established mechanism to enhance cooperation in areas that will be mutually beneficial for the development of the financial sector in both countries.

With respect to the performance of the Malaysian financial sector, it has demonstrated its resilience throughout the recent global financial crisis. Financial intermediation has remained intact with the banking institutions in a strong position to support the economy. This has been reinforced by fiscal and monetary measures to ensure adequate access to financing by all segments of the private sector. Malaysia has also pursued its longer term strategy to enhance the role of the financial sector in supporting the transition to become a high value-added, high income economy. Despite the challenging economic environment in 2009, key liberalisation measures were introduced as part of this strategy to enhance the longer term vision for the financial sector to facilitate this economic transformation.

Let me conclude my remarks. We look forward to ICBC's commitment and contribution towards promoting greater economic and financial linkages between China and Malaysia. We congratulate you on this historic occasion and we welcome your presence into the Malaysian financial system.