

Zeti Akhtar Aziz: Enhancing financial linkages towards economic prosperity

Joint opening remarks by Dr Zeti Akhtar Aziz, Governor of the Central Bank of Malaysia, at the Joint High Level Conference on Islamic Finance: “Enhancing Financial Linkages Towards Economic Prosperity”, Jakarta, 18 July 2011.

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Bank Negara Malaysia sangat berbangga kerana dapat bekerjasama dengan Bank Indonesia dalam menganjurkan Persidangan Bersama Peringkat Tinggi Kewangan Islam bertema “Enhancing Financial Linkages Towards Economic Prosperity”.

Fokus khusus persidangan ini ke atas kewangan Islam dan perkembangannya di peringkat antarabangsa, telah memperlihatkan perkembangan pesatya sejak beberapa tahun kebelakangan ini, yang turut menyumbang kepada hubungan ekonomi dan pertumbuhan kewangan antarabangsa.

Persidangan hari ini mempertemu peserta industri, penggubal dasar dan pengawal selia, serta ahli akademia dan pakar Syariah dari Malaysia dan Indonesia untuk membincangkan peluang-peluang kerjasama. Pengukuhan jalinan kedua-dua sektor kewangan Islam kita bukan sahaja akan menyumbang dalam membangunkan serta mengukuhkan lagi industri ini, malah ia akan turut memanfaatkan secara optima sumber kewangan serantau dan juga meningkatkan keupayaan untuk mengurus cabaran semasa dalam persekitaran antarabangsa yang sentiasa berubah.

Izinkan saya mengambil kesempatan ini untuk menyampaikan penghargaan kepada Yang Terhormat Bapak Prof. Dr. Boediono, Wakil Presiden Republik Indonesia kerana sudi menyampaikan ucap tama di persidangan pada hari ini, dan merakamkan penghargaan kami kepada Duli Yang Teramat Mulia Raja Nazrin Shah, Raja Muda Perak, Malaysia yang telah mencemar duli untuk menyampaikan titah di persidangan ini.

Izinkan saya untuk meneruskan ucapan ini dalam Bahasa Inggeris.

Internationalisation of Islamic finance and its role in strengthening financial and economic linkages

Two important global trends are currently taking place. The first is the significant growth of emerging economies in the world, and the second is, the greater international integration as economies and financial systems become increasingly more connected. However, no longer is international trade solely between the emerging world and the developed world, but trade amongst the emerging world has increased immensely.

While world trade has expanded by almost four-fold, trade amongst emerging economies grew by more than ten times. In particular trade between Asia and the Middle East and Latin America is gaining traction and importance.

Similarly, cross-border financial flows are no longer concentrating between the emerging world and the developed markets, but increasingly it is between emerging economies. As financial markets and financial systems in emerging economies become more developed, greater financial flows between our economies are taking place. These trends have supported and reinforced the recovery and growth that is currently experienced in the emerging world.

The turn of this millennium has seen an acceleration in the internationalisation of Islamic finance. This is manifested by the increased number of Islamic financial institutions that are now operating beyond their own jurisdictions, and the increased international participation in Islamic financial markets. This trend is resulting in increased Shariah-compliant cross-border financial flows. With its internationalisation, Islamic finance is therefore increasingly

contributing to the more efficient mobilisation and allocation of funds across regions, and strengthening the financial and economic linkages in particular in between our emerging nations.

In this regard, the transition of Islamic finance into the mainstream of the global financial system is an opportunity for the Nusantara financial intermediaries, in particular in Indonesia and Malaysia, to open new frontiers and to participate in this trend and thereby strengthen further our economic and financial linkages. With our own respective comparative advantages, we can leverage on the complementarities between our respective economies that will bring forth synergistic effects which will in turn contribute towards expanding the markets, widen the spectrum of products and services, and enhance financial markets activities.

The Islamic Finance Agenda: enhancing linkage between Malaysia and Indonesia

The linkages and relationships have been fostered in Islamic finance by several key developments. By the private sector, it has been in terms of enhanced presence and participation in each others'™ respective financial institutions, and by practitioners, it has been in terms of practising in each others financial markets, intermediaries, and learning institutions. For policy makers and regulators, it has been in joint initiatives to create the enabling environment for effective and efficient cross-border financial business. There has been a greater sharing of technical expertise and experiences on financial markets and infrastructure development including the harmonisation of regulatory arrangements.

The development of robust financial markets and enabling environment for enhanced linkages between our markets are essential platforms to supporting our financial institutions and intermediaries for more effective business connections. The creation of counterparty banking lines between Islamic financial institutions in both countries and the development of efficient Islamic interbank money markets will aid this development.

In particular, the potential for robust liquidity management would serve as a catalyst to fully capitalise on the tremendous opportunities in the sukuk market in enhancing cross-border financial linkages. The opportunities offered in this dynamic and vibrant sukuk market in both our financial systems are further widened by the fact that the South East Asian region and that of the North Asia and the Middle East countries continue to have high surplus savings that are in search of opportunities for investment and new asset-classes for greater risk diversification and improved returns for their investments.

In addition, the participation in key international infrastructures such as the International Islamic Liquidity Management Corporation (IILM) which will provide Shariah-compliant liquid instruments would also facilitate in providing an environment that is conducive for market players to grow. This would address the challenge of building bridges between the fragmented pools of liquidity in many countries, as well as address the cross-border liquidity requirements. The effective business linkages between the market players would in turn lead to cross-pollination of talents and resources, giving rise to innovative products and services, hence creating depth and breadth to the respective national financial markets.

Another factor promoting enhanced cross-border flows relates to the issue of **recognising Shariah interpretations in the offerings of cross-border products**. The current efforts have already resulted in greater harmonisation amongst jurisdictions on the specific Shariah practices relating to Islamic finance. In our pursuit to promote understanding, greater engagements and intellectual discourse among the Shariah scholars in the region have been fostered through regional Shariah Dialogues. These dialogues have been highly constructive. In this Conference, the deliberations on Shariah during the Specialised Workshops and the engagements between Shariah advisors, would continue this process to enhance greater appreciation and understanding of our respective Shariah practices.

The ***development of human capital in Islamic finance*** is another key thrust in our efforts to develop capacity in supporting cross-border Islamic finance business. The collaboration between Malaysia and Indonesia in promoting partnerships in Islamic finance education are already taking place to expand the pool of talent and technical expertise in Islamic finance. Strategic partnerships between the International Centre for Education in Islamic Finance (INCEIF) and 7 Indonesian universities have allowed for the exchange of academic resources for the offering of specialised programmes in Islamic finance. These cross-fertilisation efforts are encouraging future collaboration between specialised training institutions from both countries which would certainly enrich the Islamic finance industry.

Conclusion

Izinkan saya untuk mengakhiri ucapan saya. Kewangan Islam kini telah berkembang pesat di serata dunia dan menjadi komponen yang semakin penting dalam sistem kewangan antarabangsa dan merupakan pengantaraan penting bagi transaksi rentas sempadan. Bagi Malaysia dan Indonesia, kewangan Islam menyediakan peluang strategik untuk meningkatkan perkongsian bagi memperkembangkan lagi kewangan Islam dan seterusnya merangsang potensi pertumbuhan kita bersama.

Berdasarkan hubungan yang kukuh antara Malaysia dan Indonesia, kerjasama dalam kewangan Islam juga mempunyai potensi untuk memacu integrasi ekonomi dan kewangan masing-masing dengan negara-negara membangun yang lain. Kewangan Islam akan menggalakkan jalinan padu untuk mengukuhkan lagi kepentingan bersama bagi mencapai kemajuan, kesejahteraan dan kemakmuran yang diinginkan.

Let us take this opportunity to share the many possibilities that are before us.

Sekian, terima kasih.