

Zeti Akhtar Aziz: Mobilising ASEAN - building the future through partnership

Keynote address by Dr Zeti Akhtar Aziz, Governor of the Central Bank of Malaysia (Bank Negara Malaysia), at the Wharton Global Forum Kuala Lumpur 2016 “Mobilising ASEAN: Building the Future Through Partnership”, Sasana Kijang, Kuala Lumpur, 11 March 2016.

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It is my very great pleasure to welcome you to Kuala Lumpur, Malaysia for the Wharton Global Forum 2016. Over the years, the Wharton community has very much recognised the potential of the ASEAN region as a growing force in the global economy. Indeed, in the recent five years, Malaysia is the third country in ASEAN to host this Global Forum (Bangkok in 2015 and Jakarta in 2012) and while central bankers have been a recurring feature at the Wharton Forum,

I do however believe that this is possibly the first time a Central Bank is the venue and host to the Wharton Global Forum. We are really delighted to have this opportunity to be the host for this year’s Wharton Forum. I am particularly pleased to welcome you to Sasana Kijang, our Central Bank’s centre of excellence for learning and international cooperation. Indeed, the word ‘Sasana’ is a Sanskrit word that means a meeting place. The building Sasana Kijang which opened its doors in 2011 was envisioned to be a global meeting place for learning, international knowledge exchange, collaboration and cooperation. Today, it has evolved to become a truly global meeting place for thought leadership and collaboration, with the presence of several international organisations in the building and the regional and international meetings that are held here. Being a Central Bank, our goal is to ultimately enhance our knowledge and capability to enable us to better serve society. This is not unlike Joseph Wharton’s vision for the Wharton School to produce graduates who would become, what he referred to as, “pillars of the state, whether in private or in public life”.

The Collective Strength of the ASEAN Region

Turning to the theme of the Global Forum – “Mobilising ASEAN: Building the Future through Partnership”. Founded almost half a century ago, ASEAN is currently one of the fastest-growing and most dynamic regions in the world. While at different stages of economic development, the ten economies of ASEAN all share immense growth potential. The region has experienced a long-term average annual growth of more than 5%, much higher than the global average, and this is expected to be sustained going forward. Collectively, ASEAN is now the sixth-largest economy in the world, with a population of 630 million and a combined GDP of USD2.5 trillion. ASEAN is also one of the centres of global trade, after the European Union, North America and China, and it is home to more than 220 global companies with annual revenues of above USD1 billion. This strong growth and economic dynamism of ASEAN are supported by its favourable demographic structure. With a young population, ASEAN has the third-largest labour force in the world, after China and India, with a fast-growing middle class given the rapidly rising affluence. By 2020, ASEAN is expected to account for more than USD2 trillion of additional consumption to the world economy.

Motivation for ASEAN Integration

A key factor that underpins the region’s potential is its progressive economic integration. ASEAN is one of the most diverse regions in the world – in terms of economic size, income level, resource endowment, economic structure, financial sector development, and economic systems. The region has therefore leveraged on its complementarities arising from this diversity. This is reflected in the increased cross-border production networks, and the significant increase in intra-regional trade and investment activities. Since 1990, ASEAN intra-regional trade has grown from 18% to 24% of its total trade, and intra-regional investment

activities have now quadrupled since 2000, from 4% to 17% of its total investment. While there has been a trend towards greater intra-regional trade and investment, financial integration in the region has not progressed as significantly. ASEAN economies have, however, now reached that stage of development whereby greater regional financial integration can further unlock our growth potential. The push for regional financial integration is to bring about a more effective intermediation of funds, bringing the excess savings from one country to be channelled into productive investments in another. The ASEAN region, having one of the highest savings rates in the world, therefore has the immense potential to meet some part of the region's massive requirements for financing, particularly for large investment projects and infrastructure development. Financial integration will facilitate channelling part of such surplus funds towards productive investment opportunities in the region. It will also allow for more efficient risk diversification of assets to include foreign assets from within the region. This will not only reduce vulnerability to external developments but will contribute to achieving more stable conditions in the regional financial markets.

ASEAN's Approach towards Greater Integration

Turning to the approach we have taken for ASEAN integration. Like most regional blocs, the integration process for ASEAN seeks to promote greater regional connectivity which will in turn expand and reinforce the region's growth potential. For ASEAN, this integration process has, however, followed its own distinct path. While ASEAN has drawn lessons from the European experience of monetary and financial integration, the approach taken by ASEAN is distinctly different in order to be consistent with the circumstances of the region. Unlike the European Union, in which the formation of a monetary union with a single currency represents a major element in realising its economic integration, the ASEAN region had come to a decision in early 2000s, based on a study by the ASEAN Central Banks that a common currency would not be pursued. This was because the ASEAN economies did not have the preconditions to achieve such a monetary union and that the effort to achieve such preconditions would involve immense costs to the economies. It was therefore concluded that the region would instead be better served by greater regional financial integration to achieve the very same objectives of a greater shared economic prosperity for the region. Additionally, in Europe, the integration process is facilitated by a more centralised governance structure led by supra-national institutions while ASEAN has built on institutional arrangements and mechanisms that would facilitate financial integration that leverages on a network of committees for the governance process. ASEAN has also adopted a more flexible path that allows member countries to participate in the financial integration process based on the state of readiness. Of particular focus is the harmonisation of regulatory standards and supervisory practices, which is reinforced by capacity building initiatives and technical assistance to bring all member states to a similar level. This inclusive approach ensures that all member states mutually benefit from the integration process. Additionally, regional cooperation in the areas of surveillance arrangements, financial safety nets, and crisis management has been intensified to secure financial stability during the integration process. While much remains to be done, significant achievements in regional financial integration have already been met in recent years. Notably, the launch of the ASEAN Banking Integration Framework (ABIF) in March 2015 and the progress made in integrating the regional capital markets and the payment and settlement systems are important milestones in this process.

Partnerships for a Successful Future

While the authorities and policy makers in ASEAN have entered into multilateral partnerships to achieve the common goal of a more promising future, so has the private sector, given the immense opportunities the more integrated region presents. This is also reinforced by the intrinsic predisposition of the DNA of the region and its people and institutions. The future of ASEAN needs to be built on the collective actions that are for the advancement of ASEAN. Businesses have already been proactive in harnessing the benefits arising from the diversity

and complementarities in the region. To date, these efforts have culminated in the launch of the ASEAN Economic Community in 2015.

In a global landscape that is constantly evolving, uncertain and complex, building effective and smart partnerships has become an imperative for the common goals that ASEAN aims to achieve. Partnerships are important because no one entity has all the solutions, answers and expertise to take full advantage of all the opportunities and synergies that are created in such partnerships.

Moving forward, building successful partnerships is an important strategy to realise the true economic potential of ASEAN. As an example, effective partnerships in the financial sector have made important contributions to institutional building in our financial systems. It allowed shared knowledge and expertise to tap into opportunities to create scale and efficiencies for the development of common infrastructure. Another area that has leveraged effectively on partnerships has been in developing the ecosystem to support start-up businesses. An example of this is the Malaysian Global Innovation & Creativity Centre (MaGIC) ASEAN Startup track which builds a community of startups within ASEAN and accelerates their time-to-market-readiness. There are also various financial technology or 'fintech' initiatives by regional financial institutions that foster partnerships to accelerate financial innovators in the region.

In 1919, an American biochemist discovered the four basic building blocks that form the DNA's iconic double helix structure. Similarly, I believe that successful partnerships are also anchored by four strong foundations in its DNA, namely **Adaptability and Responsiveness, Complementarity, Trust, and Governance**. Let me elaborate on these essential foundations for success for aspiring policymakers and entrepreneurs to reflect on.

The first base of a strong partnership is **adaptability and responsiveness**. In today's world, challenges will not be easily addressed with conventional and one-dimensional solutions. With greater interconnectedness and intensification of competition, one needs to draw on broader perspectives that can be gained from partnerships, to build the agility to manage in an ever-changing environment. In a partnership, it is important to strive for mutual respect and recognition of the differing needs, preferences and interests, and to encourage an open dialogue around them. In this, the parties involved need to be adaptable and responsive in offering pragmatic solutions that will deliver on the common goals, while respecting the respective priorities of various stakeholders.

The second base of an effective partnership is **complementarity**. ASEAN's diversity does not only manifest in terms of potential economic development, it also extends to the region's varied cultures, languages, and religions. ASEAN therefore presents a unique opportunity to tap into this diversity as a unique strength and to harness the complementarities. By working collectively, ASEAN partners can build significant collaborative advantage to exploit new opportunities and achieve shared goals. This will involve removing constraints and taking bold, even experimental, steps to push new frontiers that may not have been considered possible before.

The third base of a successful partnership is **trust**. And with trust, must come accountability. One can observe the fallout from the lack of trust in the financial markets during and after the global financial crisis, when many markets froze and fraudulent actions by financial institutions shattered the public's confidence. Trust is pivotal in any collaborative relationship. The value of trust at the individual, institutional, national, and global levels cannot be overstated. Building trust, particularly among very diverse stakeholders, is of course not easy. Therefore, partnerships will benefit from a clear commitment to stated goals that are in turn supported by accountability structures that will sustain and reinforce that commitment.

Finally, a key aspect in delivering partnership aspirations is **governance**. Partnerships will thrive and add value when they are supported with effective decision-making structures and organisational frameworks to ensure the smooth translation of ideas from conception to implementation. These factors create partnerships with real impact as they are able to fully

and sustainably utilise their specialist skills, knowledge and technological capacity in ensuring successful outcomes.

Conclusion

In conclusion, the road to a promising and sustainable future for ASEAN is not one that can be traversed in isolation, especially in a world that is becoming increasingly borderless. As we see our economies prosper, our society will also mature with our improved growth potential. However, we must bear in mind that having good 'genes' does not guarantee successful results until we come together to activate and realise our latent potential. Therefore policymakers, business community and civil society must collaborate effectively for this better future, together. On this note, I wish you an enriching, dynamic and productive Forum.