

**Official Monetary and Financial Institutions Forum (OMFIF)  
Inaugural Meeting in Asia  
Kuala Lumpur  
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**“Asia as an Anchor of Growth in the Global Economy”**

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Distinguished Guests,

Ladies and Gentlemen,

It is my pleasure to welcome you to the Inaugural Official Monetary and Financial Institutions Forum in Asia. When we met at the Forum in March this year, the global economy was just emerging from the worst global financial crisis. Since then, most economies have a better than expected growth performance in the first quarter. Uncertainties however still remain. Several of the advanced economies are still being confronted with unresolved crisis related and structural problems that may slow their recovery over the medium term. In addition, recent developments in Europe have generated increased volatility in financial markets in most parts of the world. Despite these developments, the economies in Asia have shown a stronger resilience. While Asian economies will not be immune to these external developments, several

trends that are now prevailing in Asia will increase the prospects for a sustained recovery and for Asia to become an anchor of growth in the global economy.

2. Asia today contributes about 32% of world output<sup>1</sup> and 28% of global trade<sup>2</sup>. Based on the latest projection by the IMF, emerging Asia's growth has been revised upwards by more than one and a half percentage points to 8.5% in 2010 and that, this momentum is expected to be sustained going forward. Based on the assumption that Asia's growth would average about 7% over the next 10 years, Asia's share of global GDP is estimated to increase to 40% as Asia becomes one of the growth centres for the global economy. Asia is also a significant net exporter of capital, holding two-thirds of the world's foreign exchange reserves, and is the largest holder of sovereign bonds of the developed economies. In addition, one-quarter of the Fortune's top 500 global companies are Asian corporations. In addition to these features, structural changes are taking place in Asia. The sources of growth in Asia are becoming more diversified. There is now a shift from being an export-dependent to a more domestic demand driven growth. Asia will, over the medium term, become an increasing source of demand for the

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<sup>1</sup> Based on purchasing power parity (PPP)

<sup>2</sup> Based on merchandise trade

rest of the world. Domestic demand already accounts for more than 80% of GDP in the Asian economies. This rebalancing of global demand is thus already taking place. It is also reflected in the lower current account surplus of the region from 8.8% of GDP in 2007 to 6.5% in 2009.

3. While domestic sources of growth will gain significance, trade will continue to be important but with a distinct change in the pattern as Asia's importance as a trading block is transformed from being just a global production factory to increasingly a global consumer. This has encouraged increased intra-regional trade. Similarly, in terms of investment, intra-Asian foreign direct investment is also increasing in importance relative to FDI from traditional sources, given the large pool of savings in Asia and as the region strives towards generating investment opportunities. In addition, emerging Asia will thus not only continue to be a recipient of foreign direct investments, but will emerge as a source of FDI within the region and also to other parts of the world. These changing trends will also benefit other regions as Asia becomes an important trading and investment partner that contributes to the world growth.

## ***Structural Initiatives Undertaken within Asia to Strengthen these Trends***

### *i) Strengthening domestic demand*

4. Various reforms and initiatives are being undertaken to further support these trends. Ongoing efforts have been initiated to put in place comprehensive social safety nets in the form of schemes and programmes in areas of unemployment benefits, healthcare, education and retirement funding. These reforms will complement the existing structural factors that support domestic demand in Asia. These include the positive demographic structure, rising income levels and the growing middle class. With more than half of the world's population in the Asian region, Asia will become a large cumulative market in the world.

5. Another important initiative in Asia is the investment in infrastructure development, given its role in promoting economic growth, reducing poverty, connecting economies and enhancing linkages within Asia and with the rest of the world. The Asian Development Bank estimates that Asia will require about USD8 trillion of infrastructure investment in the next decade. Meeting this infrastructure requirement is also vital to sustain Asia's economic competitiveness. Being the highest savings region in the world, Asia has a considerable internal capacity to meet these infrastructure requirements. Based on rough

estimates, the cumulative gross national savings of the region projected for this decade is estimated to be more than USD80 trillion and more than sufficient to meet this requirement. In fact, this large infrastructure financing requirement will act as a catalyst to the current initiatives to develop Asian capital markets by deepening the bond markets and by the provision of longer debt tenures. The further efforts to develop a vibrant and integrated Asian capital market would facilitate this process and enable a more effective and efficient allocation of savings to the diverse investment needs of the region.

*ii) Intensification of regional integration efforts*

6. While Asia has made significant progress in economic integration, greater financial integration is thus being pursued more extensively to further strengthen the intra-regional linkages. Intra-regional trade has been a major contributor to the recent recovery in Asia, supporting demand for Asian products. This marks an important change in the pattern of trade of the Asian economies. Intra-regional trade has risen from an average of 32% of total exports in 1995 to an average of 50% in 2008. The growing pace of intra-regional investment flows has also gained momentum. Businesses in the region are increasingly leveraging on regional complementarities as well as taking advantage of the opportunities created by the growing markets in the region. A more

recent phenomenon is the increased efforts in pursuing financial integration. An important objective of this financial integration is to achieve greater intermediation of the funds in Asia for investment opportunities in the Asian economies. This has already commenced with the financial sector and capital account liberalisation by Asia. As a result, there is now an increased presence of Asian financial institutions across the region and greater regional participation in Asia's domestic financial markets. This will facilitate a recycling of some part of the high savings of Asia to be channelled to the different parts of the region that offer productive investment opportunities.

7. Another development is the increasing international dimension of Islamic finance. Cross border transactions are growing as more issuers from different parts of the world consider Islamic finance as an attractive alternative means for raising capital whilst international investors are also increasingly considering it as a new asset class in their investment universe. This trend is strengthening the financial linkages between Asia and the Middle East and with the other more established financial centres. Thus, increasingly, Islamic finance has become a channel for greater connectivity among emerging economies and from the developed world for international financial flows, and in so doing,

contributes towards a more efficient allocation of resources across borders.

*iii) Reform of the financial system*

8. Financial reforms continue to be undertaken to further strengthen the resilience of the regional financial system in Asia and spur the development of the regional financial markets. During the Asian Financial Crisis, while there was solidarity, each individual country worked on its own to manage the crisis. Today, extensive cooperation and collaborative mechanisms are already in place in Asia ranging from resource sharing, surveillance and peer review, and arrangements for crisis prevention, management and resolution.

9. Collectively, these ongoing reforms and initiatives that are being undertaken in Asia will position the region as a global growth centre and as an anchor of stability in the international financial system.

***Concluding remarks***

10. Asia's new role in the global economy has only just begun. The continuous dynamic evolution of Asia as greater regional economic and financial integration takes place will in the next decade contribute

towards the rebalancing of the global economy. Recognising that the world's attention will be very much focused on Asia, with high expectations for the positive contribution from the region, Asian perspectives need to be better understood. Asia also needs to participate in the creation of a global economic and financial order that is profoundly better than the one we have today.

Thank you.

Bank Negara Malaysia  
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