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"KEYNOTE ADDRESS BY"
YAB DATO' SRI MOHD NAJIB TUN ABDUL RAZAK
PRIME MINISTER OF MALAYSIA
AT THE GLOBAL ISLAMIC FINANCE FORUM
ON 'ISLAMIC FINANCE: OPPORTUNITIES FOR TOMORROW'
26 OCTOBER 2010
"Sustaining Growth In a Changing and Dynamic Economic Environment"

Duli Yang Teramat Mulia Raja Dr. Nazrin Shah Ibni Sultan Azlan Shah;
Raja Muda Perak Darul Ridzuan and MIFC Financial Ambassador,

Y. Bhg. Tan Sri Dato' Seri Dr. Zeti Akhtar Aziz;
Governor, Bank Negara Malaysia,

Excellencies, Ladies and Gentlemen,

Assalamualaikum Warahmatullahi Wabarakatuh and Good Morning.

1. I am pleased to welcome this distinguished audience to the second Global Islamic Finance Forum, organised by the Central Bank of Malaysia. The great gathering of minds at this event provides an opportunity to unlock the true potential of Islamic finance as a force for economic growth and wealth creation, even as we face continued global economic uncertainty. It is my earnest hope that the discourse and ideas generated at this forum will
advance Islamic finance to the next level, while helping to strengthen economic and financial cooperation among countries.

2. I would like to use this opportunity to speak briefly about the global and regional outlook, Malaysia's growth strategy, the role of Islamic finance as a driver of growth, and finally some of the challenges facing Islamic finance and the responses to those challenges.

Ladies and Gentlemen,

Global and regional developments and outlook

3. Today's theme, "*Islamic Finance: Opportunities for Tomorrow,*" is particularly relevant, as the global financial community continues to undertake significant reforms. These reforms are being designed to prevent the conditions that triggered the recent international financial crisis and to guide nations through an uncertain economic recovery.

4. For emerging and developing economies, including those in Asia, the road to a sustained recovery in the immediate term is currently overshadowed by three key

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concerns. These include the slowing of growth in advanced economies; the large and volatile capital inflows that could potentially lead to asset price inflation; and continued volatility in global financial markets. Nevertheless, in several emerging economies – particularly those in Asia – strong macroeconomic fundamentals, flexible policies and robust financial systems have put us in a better position to navigate the uncertainties and constant change in today's financial climate.

5. While immediate concerns about the sustainability of the global recovery warrant greater scrutiny, they also provide a reminder of the urgent need to address long-term issues by transforming our existing thinking and practices. There is growing consensus that emerging economies will be the primary growth engine for the global economy, today and in the years to come. But this vision of the future is not guaranteed – and it requires clear, long-term strategies. Our financial markets are becoming globally more integrated, whereby shocks in one market could rapidly transmit across the world. The financial markets are becoming globally more integrated, whereby shocks in one market could rapidly transmit across the world.

6. In this new global environment, developing economies must strive for continued resilience through a number of measures. At the most rudimentary level, we must expand efforts to develop solid macroeconomic fundamentals and a robust financial system. Second, as the recent economic shock has shown, we must explore growth strategies that spread our trade relationships across diverse markets, rather than focusing primarily on advanced economies. Ultimately, this will involve shifting the balance of growth from being export-driven to building a strong consumer base within our domestic markets. Specifically, Asia can capitalise on the rise of its large middle class, and complement this with necessary structural reforms to unleash the domestic sector's potential. Also important are closer economic integration and cooperation among developing countries, both within and across regions. Greater trade integration will allow developing countries to leverage each other's strengths to achieve sustainable growth.

7. Trade integration is only the beginning. As developing economies strengthen their trade and investment ties, they must also increase integration of their financial systems. In the case of Asia, a high savings rate is a fundamental strength that will gain prominence as the region transitions into a key global growth centre. Having more integrated financial systems will enable Asian countries to efficiently channel their large savings into a vast array of investment opportunities both within Asia and across other developing economies. It is estimated that cumulative savings in Asia will reach approximately 80 trillion US dollars over the next ten years, which in turn can fuel productive economic activity in the region.

8. This is one of the areas where I see Islamic finance playing a key role. It is clear that financial integration is being further reinforced by Islamic financing, which is expected to contribute to higher and more sustainable economic growth while encouraging greater financial and trade flows – most notably between Asia and the Middle East. The internationalisation of Islamic finance has been instrumental in forging

stronger financial ties between developed economies and the Asian and the Middle Eastern regions. Today, while world trade has, on average, expanded by 16% over the period 2004-2008, Asia's trade with the Middle East and Latin America has increased on average by about 30%. Asia's trade with other emerging economies now stands at 13% of Asia's total exports.

Ladies and Gentlemen,

Malaysia's short-term outlook and longer-term growth strategy

9. Let me now turn to the Malaysian economy, and the efforts that my Government is undertaking to transform the nation into a high-income economy. The Malaysian economy expanded strongly - by 9.5 percent - in the first half of 2010. Moving forward, however, we recognise that new challenges will emerge. Malaysia's highly open economy will be impacted by slower growth in the advanced economies. At the same time, overall economic growth is expected to remain robust, driven by continued domestic expansion, and a shift in the composition of external trade to reflect increased intra-regional trade as well as sustained demand and firm prices for commodities. Malaysia only recently revised its forecast upwards and is on track to register a remarkable growth rate of about 7 percent for 2010, and to grow between 5 and 6 percent in 2011. I am confident that with the right ingredients, Malaysia will grow at an average of 6 percent annually over the next ten years. This is both very real and achievable.

10. Amidst this changing global landscape, Malaysia is committed to ensuring that we are able to meet new challenges. This will require structural reform to adapt to an ever-changing economic and business environment. Recognising this, the Government has initiated detailed and comprehensive long-term reforms to transform Malaysia into a competitive and developed economy by 2020.

11. Yet our aspiration for Malaysia to attain high-income nation status cannot be achieved in isolation. It is equally important for growth and development to be inclusive and sustainable. Inclusiveness enables the benefits of development to be experienced by people from different backgrounds across all of our communities, while sustainability ensures that current wealth is not obtained at the expense of future generations. The Government also recognises that successful transformation requires change on the part of the private sector as well as the Government. To that end, the Economic Transformation Programme, or ETP, and the Government Transformation Programme are being implemented to chart the way forward, so we can realise our bold vision as a united nation.

12. At its core, the ETP comprises two key components – the National Key Economic Activities (NKEAs), which are the drivers of growth; and the Strategic Reform Initiatives (SRIs), the enablers of growth. They are supported by our Malaysia Plans, which chart our development over five-year periods. Each is fine-tuned through our national Budget. The ETP ultimately is a shared responsibility between the private sector and the

Government. A key underlying principle is that the private sector must serve as the primary growth engine. This requires initiative to create business opportunities, investment, and to convert innovative ideas into reality.

13. The Government, on our part, will become an active enabler of private sector-led initiatives, ensuring that the operating environment is conducive to business and market forces are functioning appropriately. Importantly, the ETP is not merely a strategic aspiration for transformation. It provides clear platforms in the form of wide-ranging investment and business opportunities across numerous identified sectors. It includes numerous measures to facilitate private sector efforts. In short, it is a roadmap to help the nation become a high-income economy that is also inclusive and sustainable.

Ladies and Gentlemen,

Islamic finance as an important driver of growth

14. Islamic finance has been identified as one of the important growth areas for the National Key Economic Activities. It is one of the fastest-growing sectors in the global financial landscape. While Islamic finance may not singlehandedly resolve all the issues in the global financial system that I highlighted earlier, I believe that it will play a significant role in fostering greater systemic stability and resilience.

15. A 2010 IMF study showed that Islamic banks contributed to financial and economic stability during the global crisis of 2008, just as the failure of other financial institutions was reaching its peak. Islamic finance requires financial transactions to be supported by real economic activity and shielded from over-leveraging. And during the recent crisis, growth in Islamic bank assets and financing doubled on average; remarkable performance when compared to that of conventional financial institutions. Islamic finance transactions are based on the principle of profit-sharing and therefore risk sharing that conforms to Shariah. This is the core principle of Islamic finance that upholds justice and equitability. Governance, risk management and transparency are therefore strongly emphasised in the arrangements, strengthening market discipline in the process.

16. Over the past decade, Islamic finance has been growing at an average rate of more than 30 percent per year. This impressive performance has greatly benefited many national economies, irrespective of faith or race, by fostering significant growth and increased employment opportunities. This is evident by the issuance of the sukuk, or Islamic bonds, by the World Bank in 2005 for the redevelopment of Aceh following the tsunami. The Kuala Lumpur International Airport in Sepang, through which many foreign delegates arrived here today, was financed by sukuk in 1996. The Government of Malaysia recently issued the second benchmark dollar sovereign sukuk for our domestic funding needs. The Government's investment arm, Khazanah Berhad, recently issued a Singapore dollar sukuk out of Malaysia through its existing multi-currency programme. The Islamic Development Bank has also closed the book-building exercise for a 500 million US dollar benchmark sukuk issue in Malaysia for developmental projects of member countries. In addition, the Dubai Government's

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Department of Finance is proposing to launch a multi-currency sukuk programme soon. Malaysia, therefore, is well-positioned as a multi-currency issuance platform for sukuk.

17. Moving forward, Islamic finance continues to present itself as a viable and competitive funding option to sustain robust economic growth in Asia. Asian countries have projected sizeable funding requirements in their long-term plan. In Malaysia, total funding of over 450 billion US dollars is required for economic transformation over the next decade. This will provide funding for a wide variety of projects – from nuclear energy to a mass railway network. The bulk of it is expected to come from the private sector, with government-linked companies and the public sector contributing the rest.

18. I am confident that some of these funding needs will be addressed through a sukuk-raising exercise as the global market picks up. Although global issuance of sukuk this year to date has fallen by about 16 percent from the same period last year, the sukuk market is set to improve as the global debt market recovers and supply increases. And, as the market continues to face a supply shortage, new issuance of sukuk may be cheaper or else met by a high take-up rate, which will also increase its attractiveness.

19. There are numerous fund-raising opportunities through the Malaysian International Islamic Finance Centre (MIFC) initiative where Malaysia offers itself as a hub for fund raising. For instance, a foreign company can engage an internationally-renowned lead arranger in Malaysia and issue a US dollar currency sukuk, with investors coming from all corners of the world. Malaysia serves as a truly international financial centre, as it has access to a wide range of players and investors and is backed by significant tax incentives. Fund-raising can also be done by setting up equity-based funds, where fund originators can create project or infrastructure funds in Malaysia and enjoy over 60 double-tax relief agreements that we have with other countries. As the world recovers from the global crisis, I wish to call upon industry players to rebuild trust with international investors, as this is most pressing concern for 2010 that needs to be addressed.

Ladies and Gentlemen,

Challenges in Islamic Finance

20. Of course, Islamic Finance is not without its challenges. Due in large part to the recent crisis, there has been an increase in the number of defaults involving a number of sukuks in the Islamic financial industry worldwide. But a significant component of an established global Islamic financial system is the dispute resolution framework, which is crucial to providing the necessary assurances and strengthening confidence in the system, especially in the event of a crisis or transaction default. As part of the effort to strengthen the dispute resolution process for the Islamic finance industry, Malaysia has

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already established a dedicated High Court in Kuala Lumpur to adjudicate all muamalat cases. As an alternative dispute resolution channel to the court system, the Kuala Lumpur Regional Centre for Arbitration has been enhanced to serve as a platform to deal with cases involving Islamic finance, particularly within the Asia Pacific region. Having adopted United Nations Commission on International Trade Law Arbitration Rules, it offers speedier settlements relative to the court's process and freedom to choose governing laws.

21. While Islamic banks have proven their resilience during the global crisis, the supply shortage of Islamic instruments has impacted the effective management of liquidity within Islamic banks. Recognising this, I understand that a proposal was made more than a year ago to form a mechanism to support cross-border liquidity management with the intent of both deepening and broadening the global Islamic finance industry. This proposal was initiated by a High Level Task Force on Liquidity Management, which was established by the Islamic Financial Services Board Council. Governor Zeti Akhtar Aziz of the Central Bank of Malaysia chaired this Task Force.

Ladies and Gentlemen,

22. Today, I am pleased to note that the IFSB has facilitated the establishment of the International Islamic Liquidity Management Corporation (IILM) as recommended by the Task Force. Its primary objective is to facilitate cross-border liquidity management by institutions offering Islamic financial services in a cost-effective manner. Malaysia is honoured to have been chosen to host the corporation. Its ultimate aim is to enhance international integration of the Islamic money and capital markets and to be better equipped to face any liquidity crisis. I wish to commend the foresight, innovation and leadership displayed by the IFSB, the Taskforce and participating parties for this breakthrough, which surely will help take Islamic finance to a higher level of development.

23. On this note, I would like conclude by congratulating the MIFC secretariat, which organised this conference, for providing a platform for thought-provoking discussions on these and many other important issues that will shape the future of Islamic finance. I wish everyone a successful and fruitful event.

24. With the recitation of Bismillahir Rahman nir Rahim, I wish to declare the 2nd Global Islamic Finance Forum 2010 open.
Thank you.

Prime Minister Office
Putrajaya
25 October 2010