Governor's Speech at the Economic Symposium 2012: Overall Panel on "Global Policy Perspectives" United States, 1 September 2012

Keynote Address by

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It is my honour to be invited to speak on this closing panel, to discuss global policy perspectives at this year's Economic Symposium, in this magnificent environment at Jackson Hole. My remarks will focus on global policies from the perspective of a policy-maker from an emerging economy, to discuss the evolving new frontiers of global policies, the global policy spillovers in particular to emerging economies, and on the policy priorities in emerging Asia in this environment.

The global economic and financial landscape has changed tremendously over this recent two decades. Yet the underlying motivation and progress in policy-making have not reflected these changes. The disparity between policy and the new landscape has become increasingly more evident since the 2008 global financial crisis. Policy-makers have thus been challenged in preventing the build-up of the risks and imbalances prior to the crisis, arresting and containing the crisis once it had erupted, and then managing its aftermath.

At the national level, these changes are well known. Driven largely by innovation and advances in technology, we now have more highly complex and more inter-connected financial systems with financial activity that has broadened to beyond the traditional financial intermediaries. More profound are the fundamental changes associated with the globalisation of finance, which has resulted in a more connected and inter-dependent world. Since the onset of the crisis, the policy response at the national level has been extensive and on an unprecedented scale, aimed to restore the functioning of the financial system and to arrest the steep deterioration in economic activity. Monetary policy was eased substantially, with interest rates brought down swiftly to historical lows. The cumulative fiscal expansion during the period 2007-2009, amounted to close to an average of four percent of GDP. Meanwhile, financial sector policies gave priority to stabilising financial markets and restoring credit flows.

While an economic depression has been averted, monetary accommodation has continued with large scale financial market interventions to support the recovery. Fiscal policy, however, shifted to address fiscal sustainability and the increased public indebtedness, following the massive stimulus and support to the financial sector. The challenge is to achieve this consolidation, while ensuring that the economic recovery and market confidence are not undermined.

On the wide-ranging financial reforms to address the weaknesses that led to the crisis and to strengthen the resilience of the financial sector, the emphasis has been on enhancing regulation and addressing macro-financial concerns to avoid the build-up of financial imbalances. These policies have also been supported by wide-ranging changes to the legislative framework and institutional structures.

An area of policy that has not been as extensive is the cross-border dimension of policy-making, despite the growing inter-dependence between economies. The increased connectivity of the world has been exemplified by the swift spread of financial and economic shocks throughout the global economy and international financial system in 2008, and the global supply chain disruption emanating from Japan in 2011.

Despite these changes, institutional arrangements and governance for policy cooperation and coordination have yet to reach the levels that are commensurate with the degree of global economic and financial integration. While individual efforts by any single economy are vital to ensure that they do not become a source of instability to other parts of the world, they can no longer guarantee collective stability. Emerging economies that are more open and integrated with the global economy and international financial system are the most affected by these developments.

The global financial crisis forcefully demonstrated the importance of the international dimension of policy. In the early stage of the crisis, the coordinated policy rate cuts, the enhancement of U.S. dollar liquidity facilities by several key central banks, and the unprecedented and concerted fiscal expansion effort turned the tide of the global recession. The establishment of the Financial Stability Board (FSB) in 2009, together with the Basel Committee of Banking Supervision, has also been at the centre of much of the work on global financial sector reform. While this represents a positive step, the efforts remain recent and modest in an environment where the underlying changes were built up over an extended period of time, and had already become entrenched and widespread.

Challenges Arising from Global Policy Spillovers

Let me now turn to the challenges arising from the global policy spillovers, in particular to emerging economies. With cross-border inter-dependence and contagion being very much a phenomenon of this new environment, such global policy spillovers are rapidly transmitted to other parts of the world through economic and financial flows. While the repercussions of the global economic and financial disruptions have been well recognised, less discussed have been the consequences of the global policy spillovers.

Significant and continuous spillovers have emanated from the wide-ranging policies in the advanced economies, including the unprecedented monetary easing, the fiscal stimulus then consolidation, the repair and resolution of the financial sector, the initiatives to reduce public and private sector indebtedness, and the consequences of the global regulatory reforms.

The highly accommodative global monetary environment has generated higher global liquidity. While contributing to the resumption of credit flows, it has exacerbated the recent surges in capital inflows to emerging economies. These inflows have resulted in significant strengthening of currencies, rising asset prices, stronger credit growth, and for some, overheating conditions in the economy.

These inflows have, however, been punctuated by reversals in capital flows, following deleveraging activities mainly by the banking groups in the crisis-affected countries. Deleveraging by sovereigns and by households, in particular the United States, have also reinforced this trend. The deleveraging by banks was, in particular, felt in 2009, following the actions by banks in the United States to strengthen their capital positions, and more recently by banks in the Europe to meet the new capital adequacy requirements. In view of the challenging conditions for capital raising, this is being achieved, in part, by asset reduction, either by asset sales, in particular in performing economies, or the withdrawal of credit lines.

These operations not only have implications on asset prices but on currency movements, as funds from the asset disposal are remitted back to the home country. The reversal of capital flows following such deleveraging is thus accompanied by a correction in asset prices and depreciation in the currencies. For emerging economies, the more developed and liberalised the financial markets, the more significant will be the impact of such activities, and the greater will be the amplitude of the volatility in the asset prices and currency movements.

Global policy spillovers have also been transmitted to the real economy through trade and investment flows. The world economy, including emerging economies, benefitted immensely from the fiscal stimulus that

supported the economic recovery. However, as the deterioration in fiscal sustainability became a concern, the effects of the pull-back in public expenditure on growth have contributed to slowing world trade and cross-border investment activity. Emerging economies, in particular in Asia, have seen the export sector slow significantly. While foreign direct investment continues to gravitate to emerging economies, in particular to Asia, the scale of such investment activity has also moderated.

Finally, the international regulatory reforms and the unilateral initiatives in a number of the major advanced economies have also had their intended and unintended consequences. The reforms, which have focused on building a stronger global regulatory framework and raising the resilience of the banking system, are still in their early stages of implementation. While it is too early to verify the concerns raised on the new prudential standards, the call has, however, been for the need to ensure that the benefits of greater systemic resilience will exceed any costs to the efficient functioning of the financial intermediation process and to the real economy.

For Asia, the new standards contribute positively for regional financial integration, as they promote a more consistent regional approach to regulation. They also work to strengthen regional financial stability arrangements, through more robust frameworks for the oversight of systemically important financial institutions at the regional level. These reforms have, therefore, encouraged increased communication and closer coordination on financial stability developments between regulators in the Asian region.

These financial reforms are, however, not without challenges for emerging economies. In particular, the standardised regulatory prescription goes against the grain of regulation that is proportionate to risk. Other unilateral regulatory initiatives, although not being imposed outside the respective countries, are also charting a path forward that is likely to have wider ramifications, given the significant cross-border operations of the affected institutions.

Policy Priorities in Emerging Asia

Let me turn to the policy priorities in emerging Asia. While most emerging economies entered the global financial crisis from a position of strength, policy-makers continue to be challenged by the weaker global economic environment and the effects of the global policy spillovers. While the emerging economies in Asia have been affected by these external developments, most have demonstrated resilience during this period. Let me confine my remarks to the policies that have contributed to this resilience. First, it is the payoff from a decade-long of policies and financial and economic reforms following the Asian financial crisis. Second, it is having an enhanced policy toolkit and the policy flexibility to manoeuvre in this environment. Third is the increased cooperation and collaboration in Asia, in the areas of surveillance, in the assessments of the risks and vulnerabilities to the region, and in the consideration of the policy options to address many of the new challenges.

An important policy shift following the Asian financial crisis is to rebalance the economy and to diversify our sources of growth. This has involved wide-ranging policies and reforms to promote domestic demand, in particular domestic consumption and investment activities by the private sector. Accommodative macroeconomic policies were generally supported by policies and reforms to strengthen the financial system, to ensure that domestic demand was supported by the financial sector. With rising incomes, private consumption and investment activities have expanded significantly to become the major engine of growth in Asia. Cumulatively, the increase in domestic demand in the region has transformed Asia into becoming a huge consumer market. This has also prompted greater inter-regional trade which has become mutually reinforcing on growth in the region. From being export-led, domestic demand has now become an important source of growth. Asia is, therefore, now shifting from being global producers to becoming global consumers.

The wide-ranging financial reforms in several emerging economies in Asia, have resulted in financial intermediaries with strong capital and liquidity buffers, and improved risk management and governance practices. This has allowed for the financial intermediation process to continue without disruption during the recent global financial crisis. The more comprehensive regulatory frameworks have also been complemented by enhanced surveillance arrangements and a relatively more intrusive supervisory oversight. Wide-ranging policy tools, including macro-prudential policies, have been relied upon to mitigate and manage the risks emanating from excesses and the build-up of imbalances in the financial system. The opportunity was also taken by most central banks in the region to normalise interest rates once recovery had commenced. Interest rates, while still remaining accommodative, were raised from their historical lows. Finally, with more developed financial markets, shocks were now more dispersed throughout the financial system. This has allowed the financial system to better intermediate highly volatile capital flows.

Despite this, the surges and reversals of capital flows continue to present a major challenge to policy. Specific policy strategies have also been adopted to reduce the prospect of being destabilised by these flows. Financial reforms following the Asian financial crisis have transitioned financial systems in Asia towards greater market orientation and increased exchange rate flexibility. This has facilitated greater capacity to adjust to the increased volatility in the financial system. Further progress on liberalisation has also increased the potential to undertake foreign exchange transactions, including engaging in outward portfolio and direct investments abroad. This has resulted in stronger two-way capital flows, contributing to more orderly conditions in the financial markets.

Liquidity management measures, prudential regulations including macro-prudential measures, and more interventionist measures that include restrictions on such flows, have also been implemented in varying degrees to cope with the volatile capital inflows. For the most part, prudential regulations, such as the imposition of ceilings and limits on external exposures, or minimum holding periods for specified domestic instruments, but which have not discriminated according to residency, have been implemented. Overall, they have enabled the financial sector, markets and the economy to function without disruption during the period of the global financial crisis.

While policies at the national level are important, these have been complemented by a higher level of regional collaboration and cooperation. The Asian region is now well ahead in the areas of surveillance arrangements, financial safety nets and crisis management. These frameworks, which have been put in place during the good times, are also being supported by ongoing work, in the area of building a consistent regulatory environment given the increasing presence of Asian banks in each others' jurisdictions. This is reinforced by cooperation among national supervisors and in the development of arrangements for cross-border resolution.

Regional platforms have been established for structured forums for the assessment of risks and vulnerabilities to the region, to increase the prospect for pre-emptive actions to be taken. Collaborative efforts are also ongoing in the area of building regional financial infrastructure, including the financial markets and payment systems to facilitate the efficient intermediation of financial resources in the region. Collaborative efforts are also accorded to the area of anti-money laundering, to ensure the integrity of the increasingly integrated financial systems in Asia. Finally, collaboration has also progressed in the area of capacity building, to strengthen the institutional capability of the central banks in the region to deal with the new challenges of the new environment.

Finally, one of the most significant but often under-appreciated trends across most economies in these recent two decades, is the significant rise of inequality within economies. The economic crisis has worsened this trend given the conditions of high unemployment in many parts of the world. In many areas of policy-making, inequality is often not given explicit consideration. In Asia, this is being addressed at two levels – at the national level

to develop inclusive financial systems and better social safety nets, and at the regional level, for regional initiatives to be inclusive, to ensure that regardless of the stage of development, countries in the group will build up their capacity and capability to benefit from the progress of the region.

Conclusion

Let me conclude my remarks; the new global policy frontiers are now addressing the challenges of the new global economic and financial landscape. Given the more connected and inter-dependent world, the call is for strengthening the cross-border dimension of policy-making.

Asia has taken advantage of this period of relative stability to advance economic and financial integration, and to strengthen our economic potential. Asia will, however, continue to be vulnerable to external developments and future shocks. To be in a better state of readiness to withstand these eventualities, the policy priority is to build resilience. Not only having the buffers and institutional capacity, but also to come together collectively to manage the new challenges, and thus be positioned to contribute constructively to global stability and growth.

Governor's Welcoming Address at the Global Islamic Finance Forum 2012 Kuala Lumpur, 19 September 2012

Welcoming Address by

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This is a decade of profound change in the global financial landscape. The world is also being confronted by the repercussions of the ongoing global financial crisis. Despite this more challenging global financial and economic environment, Islamic finance has continued to remain on its growth trajectory. For Islamic finance, it has been a defining period. Its rapid growth and the intensification of its internationalisation in this decade is now enhancing its role in strengthening international economic linkages between different parts of the world.

It is my great pleasure and honour to welcome you this morning to this third Global Islamic Finance Forum (GIFF) 2012. First of all, let me express our gratitude to the Honourable Deputy Prime Minister of the Republic of Turkey, His Excellency Mr. Ali Babacan for accepting our invitation to deliver the Public Lecture at our gathering here today. We are most honoured by your presence and we immensely look forward to your address.

Islamic finance: Fostering global linkages

In this new era, in which the international dimension of Islamic finance has gained significance, Islamic finance has continued to demonstrate its viability and competitiveness in this more liberalised and globalised financial environment. The total Islamic financial assets size now has surpassed US$1 trillion – following unabated growth from the mid-1990s. There are now more than 600 Islamic financial institutions operating in more than 75 countries. Increasingly, existing Islamic banking institutions are expanding their operations with presence in new jurisdictions. This is resulting in increased cross border financial flows. There has also been increased international participation in Islamic financial markets.

Since the late 1990s the Sukuk market has emerged as an important form of intermediation in Islamic finance. It has been instrumental in the financing structures for infrastructure projects, investments in the utilities sectors, in particular for water and power projects, and in the services sector, in education, healthcare and transportation. Islamic finance essentially offers clear value propositions to both global issuers and investors. For issuers, there is access to new sources of funds and liquidity. And in introducing a new asset class, investors gain from portfolio diversification and new investment opportunities that are aligned to productive investment activities.

Internationalisation of Islamic finance: Mutually-reinforcing benefits

Islamic finance draws its strength from serving the real economy. An important feature of Islamic finance is that it involves financial transactions that must be accompanied by an underlying economic transaction. And when it is cross border, it will facilitate financial flows that will support international trade and investment flows. It will contribute towards bridging economies and enhancing our economic connectivity with each other.

In this current global environment in which emerging economies are demonstrating their resilience with the ability to sustain growth despite the moderation in global expansion, there is tremendous prospects for mutually reinforcing growth from increased economic connectivity. Trade among the expanding emerging economies now account for more than half of the world trade. This growing demand in emerging economies is also generating investment opportunities. In this environment, Islamic finance has an important potential to facilitate trade and investment flows that will be mutually reinforcing. In evolving Malaysia as an

Islamic financial hub, our aspiration is to be a hub that is linked to a network of other financial hubs. In so doing, it will enhance our economic linkages with other parts of the world.

The increased internationalisation of Islamic finance would thus influence the patterns of global financial and economic integration, and in particular facilitate the revival of financial and economic integration between the countries along the old silk road from Asia to Turkey and the Middle East, and Africa and to the more established financial markets and developed economies. The start of this decade has already witnessed the shifting of trade activities to the emerging economies, which now account for 63 percent or US$37 trillion of world trade as at end-2011, an increase of 17 percent from a decade ago.

While the Islamic banking sector has been important in intermediating cross border financial flows, the sukuk market has become an important segment of Islamic finance that offers a distinct platform upon which international inter-linkages are fostered. The sukuk market has demonstrated its ability to effectively intermediate funds across borders, contributing towards the efficient allocation of funds in the global financial system.The sukuk epitomises a truly global product for international fund raising and investment activities. An increasing number of multilateral agencies, sovereigns, Government agencies and corporations, including multinational corporations have relied on the sukuk market as a source of financing. And the diverse composition of the sukuk investors across continents has added further depth to the international dimension of the sukuk market. In Malaysia, the sukuk market has evolved into a multi-currency denominated sukuk market with pioneering sukukissuances in U.S dollars, Singapore dollar and the Renminbi.

Internationalisation of Islamic Finance: Key Success Factors

The new horizon that is emerging is the rapid internationalisation in Islamic finance which needs to be strongly underpinned by three key factors to ensure its sustainability. Firstly, the wide range of global supply of high-quality Islamic financial products and services that are able to meet the requirements of international businesses. In this phase of growing international transactions, Islamic finance needs to be dynamic and innovative, with an emphasis on the development of diversified and comprehensive Shariah-compliant financial solutions to meet the differentiated needs of various businesses, including the requirements of international businesses and thus facilitate cross-border investments.

Secondly, is having diverse and dynamic intermediaries and market participants that have a global focus. This includes having Islamic banking, takaful and capital market players that venture beyond domestic boundaries to tap global opportunities. Global ancillary services that are proficient in the Shariah, also have an important role in providing supportive professional services for such intermediaries and market players to effectively embark on such cross-border activities.

In addition, having the required talent is another imperative in steering the Islamic financial sector towards increased internationalisation. The new financial landscape will require world-class business talent and boards with knowledge of the risks associated with internationalisation. Greater collaboration between the industry and education service providers will be important in supporting the talent requirements of the industry in its new phase of development. Today, we will witness the signing of a Memorandum of Agreement between an industry player and an academic institution for the establishment of an Islamic wealth management research centre. This commendable effort is dedicated to producing applied research in the area of Islamic wealth management. It is envisaged to spur innovation that will bring with it global benefits and that would also contribute towards setting industry standards in this key component of the Islamic financial industry.

Thirdly, effective linkages and connections between global financial markets will be facilitated by business enablers, particularly in the area of legislation, taxation and regulation. The new global landscape of growing cross-border financial flows between regions that have national and cultural differences also underscores the need for enhanced recognition

and understanding of practices in the different jurisdictions. This imperative translates into high demands on the use of standardised documents and agreements among financial market players, so as to increase market efficiency, transparency and uniformity, as well as to reduce the cost of transactions as we strive towards seamless global inter-linkages. Standardised documentation and practices for a number of products have already been adopted between jurisdictions through bilateral and multilateral agreements. This has facilitated issuance of financial market instruments, contributing towards enhanced liquidity in Islamic financial markets and greater inter-market linkages.Greater understanding and clarity on Shariah matters, will also contribute towards convergence and harmonisation of such interpretations across jurisdictions and thus contribute towards the development of Islamic financial products and services.

Realising cross-border potentials and Bridging Economies

With its international outreach and ability to provide comprehensive financial solutions, Islamic finance beckons us with a new frontier that presents new opportunities. As we enter into a more uncertain global environment, it also promptsus to revisit strategies to enhance the resilience of Islamic finance.

The theme of this year's Global Islamic Finance Forum 2012, "Internationalisation of Islamic Finance: Bridging Economies" focuses on the international prospects surrounding the Islamic finance industry and its tremendous potential role in strengthening cross-border economic linkages. More than 500 participants from over 50 countries across the continents gather today in this Forum to explore this prospect. In its featured plenary and multi-track programmes which include the Regulators Forum, the International Shariah Scholars Forum, the Global Islamic Liquidity Management Conference and the Global Islamic Finance Taxation Forum, a new highlight is the Bridging Economies Forum that aims to discuss the Islamic finance prospects and opportunities across regions, and to explore possible market linkages that can be generated through Islamic finance. Several important signings of MoUs will also be taking place during this Forum, highlighting increased commitment and international cooperation.

Let me now conclude with an extension of our appreciation to the panel of distinguished speakers for their contribution to GIFF 2012. I would also like to once again, express our gratitude to the Honourable Deputy Prime Minister of the Republic of Turkey, His Excellency Mr. Ali Babacan for being with us today to speak at this event.

Governor's Keynote Address at the Seminar on Renminbi Trade Settlement and Investment in Malaysia: Future Prospects Kuala Lumpur, 27 September 2012

Keynote Adress by

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This decade has seen significant change in the configuration of the global economy. In this evolving global landscape, Asia is emerging as an increasingly important component of the world economy. During this period, most of the Asian economies have experienced remarkable growth, despite the most challenging environment. With rising incomes in the region, Asia has also become a huge cumulative market. This trend has in turn prompted greater intra-regional trade and investment activities. A more recent trend in the Asian region is the greater financial integration that is facilitating greater cross-border financial flows in the region that is funding productive investment activities in the region.

Following the recent global financial crisis, the most pressing challenge for the world economy is to achieve economic strength that is sustainable. While most national economies have implemented wide ranging policy measures to promote growth, equally important are the efforts to sustain world trade which will be mutually reinforcing to global growth. China's economic journey in this global shift and the growing influence of renminbi ushers us into a new exciting era. China, by its sheer size and its economic performance has significant potential to contribute to world growth. Its demand, trade and cross-border investment activities will reinforce this potential. The recent trend for the use of renminbi for settlement of trade and cross-border investment activities will facilitate this potential.

It is my great pleasure to welcome you to this Seminar on "Renminbi Trade Settlement and Investment". I would like to take this opportunity to extend a very warm welcome to our guest speakers from the People's Bank of China and the Ministry of Commerce (Mofcom) of the People's Republic of China. I also wish to welcome our panellists from the financial industry and the corporate sector that are here today to share their experiences in operating in the current challenging economic and financial environment.

The economic relationship between Malaysia and China is longstanding and grounded on strong foundations. Today, China is Malaysia's largest trading partner accounting for 14% of our country's total trade. Malaysia also ranks as China's most significant trading partner in the Asean region. Our trade with China has continued to expand, increasing by 20% annually, in this recent two decades. Our bilateral trade with China is now seven times higher than the level in the early 1990's.

Our economic relations have also evolved and expanded beyond the area of trade - into the services sector, particularly the financial sector, tourism and education. China is among the top five tourism markets for Malaysia and Chinese nationals represent the largest foreign student population in Malaysia's private universities and colleges. Bilateral investment is also gaining importance, notably with the two recent Government-to-Government agreements, involving the establishment of an industrial park in both countries. The cornerstone to the strength of our bilateral economic relations is the ability to continually harness the synergies and economic complementarities that exists between our economies.

The use of renminbi for trade settlement provides a natural hedge for businesses with renminbi obligations. It also generates cost savings and minimises exchange rate risks, in particular, it reduces the exposure to exchange rate fluctuations of a third currency. While the dollar will continue to remain an important currency for settlement of trade obligations, the

availability of renminbi would provide companies with an additional currency for such trade settlement.

The benefits to be gained can be significant given the large and increasing trade base with China which stood at RM167 billion in 2011. By undertaking the transactions in local currency, exporters and importers in China would be able to eliminate the hedging and conversion costs. The reduction in transaction costs for the exporters and importers will contribute towards more competitive pricing for both exporters and importers. The full potential benefits are however expected to be realised in stages. The benefits will rise as the trade volume settled in renminbi increases and reaches a critical volume in terms of size which will in turn allow for the realisation of economies of scale.

For the renminbi to be considered an option for both exporters and importers to settle their trade obligations in addition to the major currencies, there needs to be an efficient and cost-competitive source of financing in renminbi and the availability of a diversified investment avenue. In particular, it is recognised that discernible progress in three areas are needed to be put in place at an early stage to support the use of renminbi, that is, to improve access to renminbi liquidity, to have the supporting infrastructure and framework and to provide information on the use of the renminbi for trade and productive investment transactions. More than three years ago, in early 2009, the Bank entered into a Currency Swap Arrangement (CSA) Agreement with the People's Bank of China, which was renewed early this year with an expanded amount of RMB 180 billion. The objective is to ensure a ready supply of renminbi in the domestic financial markets to meet the demand by businesses.

An important piece of the infrastructure that was put in place in 2010 was the provision of direct quotes between renminbi and ringgit in the interbank foreign exchange market on the China Foreign Exchange Trade System (CFETS). Efforts were also made to enhance the transparency in the exchange rate between renminbi and ringgit for the trade-related settlement transactions. In March this year, the real time gross settlement system in Malaysia was expanded to include settlement services in renminbi. This serves to provide a safe and efficient clearing and settlement platform that supports trade and investment flows in renminbi.

A nationwide awareness program by the Bank in collaboration with the banking institutions and the business chambers is also creating greater awareness on renminbi for trade settlement and investment. The Bank has also participated in the Chinese interbank bond market. In 2011 alone, the size of renminbi trade settlement in Malaysia expanded by four times from the level a year ago, reflecting a growing interest in renminbi as a settlement currency.

The expansion in renminbi usage has also been underpinned by a diffusion of corporate players, both in size and across the sectors. Not only has the number of corporate players increased, but there has been a shift in relative significance in the use of renminbi as a trade settlement currency from the smaller to the larger corporations. There has also been more widespread corporate participation from a larger cross-segment of economic activities, namely the commodity based industries, manufacturing and services sectors that also includes tourism and education. There has also been an increase in the number of financial institutions participating in renminbi trade settlements. There are now 19 financial institutions that facilitated such trade settlements, double the number in 2009.

More recently, there has been an increase in the use of the renminbi as an investment and funding currency. In the first seven months of this year, renminbi deposits in the banking system had tripled. Also evident is the growing interest in raising financing in renminbi to meet funding requirements, with two issuances of offshore renminbi sukuk out of Malaysia and a renminbi bond issuance by a Malaysian corporation.

The progress made thus far, while modest, has significant potential given the significant volume of bilateral cross-border trade and foreign direct investment between our economies. Trade settled in renminbi currently

only represents slightly above 1% of Malaysia's bilateral trade with China. There is therefore a significant potential for this to increase. In addition, funding and foreign direct investment activities in renminbi have also increased with the greater awareness on the use of renminbi for the settlement of trade and direct investment transactions and on the potential to raise financing by businesses.

Important to this initiative is the access to a wider array of portfolio investment avenues in renminbi. The availability of renminbi bonds and sukuk as well as other financial products for portfolio investment will not only encourage renminbi receivables, but it will also help to build a pool of trade-driven renminbi liquidity in the Malaysian market. Another important channel that would support the use of renminbi in trade and investment is repatriation into China as foreign direct investment in real sector activities.

Raising funding in renminbi has also emerged as a further form of business in the Malaysian financial system. This has mainly been in the conventional channels by the banking institutions and the issuance of renminbi instruments in the bond and sukuk market in Malaysia. Malaysia not only has the largest debt securities market in Southeast Asia, but it is also a leading international centre for sukuk issuance. Both markets are evolving as a multi-currency bond and sukuk market. Malaysia is well positioned to realise this growth potential in renminbi bond and sukuk, given our market size and supporting infrastructure.

As the renminbi market expands, more information would be needed to provide awareness on market developments. As we transition to using other currencies for trade settlement it will also require businesses to gain new expertise, develop new arrangements and build new networks.

Let me now conclude my remarks. As Asia, and in particular, China's greater prominence in the global economy, a dynamic response is required in this new operating environment that is now before us. One of the changes that will shape the international financial system in the years to come is the wider role of the renminbi in trade and finance. While existing international reserve currencies will remain to be important, this development will represent an additional currency in the international financial system. This is an expected development as the world economy becomes increasingly multi-polar.

In a more complex and more challenging economic and financial environment that is prone to greater volatility and increased uncertainty, there will be a greater trend to diversify risks. In allowing for diversification, it will also contribute to overall global stability in the international financial system. On our part, the Bank is committed to collaborate with the Chinese authorities to facilitate the use of renminbi that is anchored on real sector activities for the mutual benefit of our economies. Today's seminar will discuss issues concerning the use of renminbi in trade and investment. In this note, I wish you all a successful and productive engagement.