

**SPECIAL ADDRESS BY
HIS ROYAL HIGHNESS
RAJA NAZRIN SHAH
CROWN PRINCE OF PERAK, MALAYSIA
AT THE
JOINT HIGH LEVEL CONFERENCE ON ISLAMIC FINANCE
BY BANK NEGARA MALAYSIA & BANK INDONESIA
DATE: 18 JULY 2011 TIME: 9.00 AM
VENUE: SHANGRI-LA HOTEL,
JAKARTA, INDONESIA**

Bapa Profesor Dr. Boediono,

Hadirin dan Hadirat sekalian

Assalamualaikum Warahmatullahi Wabarakatuh

Salam Sejahtera.

Alhamdulillah, diangkat kalimah kesyukuran ke hadrat ILAHI yang telah melimpahkan segala rahmat dan dengan izin dari Nya juga, Konferensi Kewangan Islam peringkat tertinggi, anjuran bersama Bank Indonesia dan Bank Negara Malaysia dapat dilangsungkan di Kota Jakarta. Atas nama delegasi dari Malaysia, Beta menzahirkan penghargaan yang tinggi kepada Bapa Profesor Dr. Boediono, wakil Presiden Republik Indonesia, kerana dalam kesibukan tugas negara, Bapa Boediono tetap mempamerkan komitmen yang tinggi, memilih untuk hadir demi menjayakan Konferensi ini. Bersandarkan kejayaan signifikan yang telah dicapai dalam bidang kewangan Islam oleh Indonesia dan Malaysia sejak kebelakangan ini, amatlah bertepatan untuk pertemuan minda di kalangan para pemikir tertinggi dalam bidang kewangan di antara kedua negara kita, dapat dilangsungkan, dalam hasrat bersama untuk memperkukuhkan usaha dalam industri yang sangat pesat berkembang ini. Diyakini, Konferensi ini akan turut

dapat memperkuat hubungan erat yang telah sedia terjalin di antara pihak-pihak yang berkaitan dari kedua negara kita untuk menggariskan pendekatan yang lebih mantap dalam usaha melonjakkan prestasi kewangan Islam yang penuh berpotensi.

2. The theme of this conference is “Enhancing Financial Linkages towards Economic Prosperity”. I am heartened by the desire to build strong and lasting bridges between Indonesia and Malaysia in the field of Islamic finance. Collaboration has been a key feature in Islamic finance since its inception in the 1960s. Cross-border and inter-institutional collaboration has been responsible for the innovations and improvements that have occurred in the industry. With the increasing internationalisation of Islamic finance, such collaboration is expected to intensify. It is only by combining the strengths of individual players that the full benefits of Islamic finance can be spread and felt. There are already many fine examples of meaningful collaboration taking place in the industry, and I would like to highlight a few recent efforts.

3. First, the Islamic Financial Services Board (IFSB) and the Islamic Development Bank (IDB) came together last year to establish the Islamic Financial Stability Forum. The Forum aims to generate dialogue and engagement on the role and relevance of Islamic finance in promoting global financial stability; and to examine the financial architecture of the Islamic financial industry in the post crisis environment. It is worth mentioning here that the Islamic Development Bank and the Islamic Financial Services Board are themselves exemplars of cooperation; for the Islamic Development Bank, between the 56 members of the Organisation of Islamic Cooperation (OIC); and for the Islamic Financial Services Board, between regulatory and supervisory authorities, inter-governmental organisations, associations and market players operating across 43 jurisdictions.

4. Second, the recently established International Islamic Liquidity Management Corporation (IILM) is a product of collaboration between 12 central banks and two multilateral organisations to address liquidity management. The Corporation was born out of the need to provide *Shariah*-compliant financial instruments to facilitate effective liquidity management solutions. The International Islamic Liquidity Management Corporation also promotes greater investment flows across borders, as part of the initiative to support the growing international dimension of Islamic finance and its increasing role in the international financial system.

5. Third, Bank Negara Malaysia has undertaken the development of *Shariah* Parameter References since 2009, with the cooperation of local and international *Shariah* boards, *Shariah* research institutions, academicians and industry practitioners. These Parameter References are aimed at achieving convergence and harmonisation of global Islamic financial practices based on the *Shariah*.

Ladies and gentlemen,

6. Indonesia and Malaysia share a long relationship. Our geographical proximity facilitated the sharing of common linguistic roots, religion and cultural practices among our people. Our countries are also linked through our vibrant bilateral trade and investment.

7. Indonesia is Malaysia's seventh most important trading partner. Our bilateral trade increased approximately five-fold over the last 12 years, from 3.1 billion US dollars in 1999 to around 15 billion US dollars last year. Indonesia is also a very important investment destination for Malaysia.

8. According to Citigroup Forecast, by 2050, five of the ten largest economies in the world will be in Asia, and Indonesia will be the fourth largest¹. According to

¹ Citigroup Forecast, 2011. (1st – India; 2nd – China; 4th – Indonesia; 9th Japan; 10th – Egypt)

PwC Forecast, Indonesia is among the E7 emerging economies, whose joint output is poised to be “neck and neck” with that of the advanced G7 economies by 2019².

9. In addition, the ASEAN region is forecast to have a 300-million-strong middle class by 2015. This translates to a high savings and investment base, heightened consumer demand and accelerated growth. The creation of an ASEAN Economic Community by 2015 is also likely to see far greater external and intra-ASEAN trade and financial linkages and the opportunity to tap a vast market for goods and services built on rising income levels. Our relatively young population will support the further development of our financial sectors and provide the demographic dividend to propel economic growth.

10. Against this backdrop, Islamic finance is strategically positioned to expand its role and presence. The regulatory and legal framework are established in both our markets. Our Islamic financial institutions already operate in each other’s markets, thus reinforcing the linkages between the two centres. Annual growth of the industry has averaged at around 40 percent in Indonesia and 20 percent in Malaysia over the last few years. The question that remains is if the industry is able to capitalise on the forecasted growth of our economies, which is expected to be rapid.

11. There are several mutually beneficial ways in which the Islamic financial centres of Indonesia and Malaysia can cooperate. Because Islamic finance presently represents just a small percentage of our financial markets, it has the potential to shoulder a bigger portion of the financial intermediation to support the robust trade and investment flows between our two countries.

12. In both Indonesia and Malaysia, Islamic finance also presents viable and competitive funding options for our ambitious economic development

² PwC Forecast, 2010. (Brazil, Russia, India, China, Mexico, Indonesia and Turkey)

programmes. In Malaysia, a total funding of over 450 billion US dollars is required for the economic transformation planned to take place over the next decade, aimed to elevate the country to high-income status. Indonesia's recently unveiled Economic Master Plan for the next 15 years requires investments in excess of 900 billion US dollars, and is expected to turn Indonesia into one of the world's ten largest economies by 2030.

13. Given these transformation plans, Islamic finance is well suited to fulfilling the unmet demand for productive capital. A strong relationship between our financial centres will enhance our capacity to deliver products, services and value beyond the reach of each country individually. There is especially the need for capital to support and encourage entrepreneurship. In the Indonesian Economic Master Plan, the agricultural, fisheries, natural resources and manufacturing sectors feature strongly as drivers of growth. These sectors, involved with real production and real assets, provide a natural collateral base for Islamic financing. Savings can be channelled through the Islamic financial system to support their development, creating businesses, jobs and real economic wealth.

14. In addition, Islamic finance, which is founded upon the principles of social justice, can do a great deal to particularly serve the needs of lower-income groups. In the face of rapid economic development and urbanisation, those in the lower-income groups will have to struggle with rapidly rising food and property prices. Urban poverty is becoming a nagging issue. Such imbalance constitutes a barrier to stronger and broader based economic development.

15. In this regard, the Indonesian and Malaysian Islamic financial centres can come together to explore ways to promote greater economic inclusiveness. For example, we can look into developing productive *Shariah*-based instruments, such as micro-financing tools, incorporating *Qardhul Hassan* (or benevolent loans), *Zakat* and *Sadaqah* to channel financing to and facilitate economic

participation by the lower income groups. The fruits of development need to be spread more widely and equitably.

16. Finally, there remains the need to create a deep pool of human capital to support and inform this ever-evolving industry, whether in the form of collaborative programmes or in the form of discourse among scholars and practitioners. Both our countries, and indeed the global Islamic finance industry, stand to gain from collaboration in talent-development. Malaysia has developed the International *Shariah* Research Academy (ISRA) and the International Centre for Education in Islamic Finance (INCEIF). INCEIF has been receiving tremendous support from Indonesia, where Indonesian students represent the majority of its foreign student body.

17. Jakarta adalah kota besar kepada sebuah negara besar yang telah mengukir pelbagai peristiwa besar dan mencatat pelbagai sejarah besar. Semoga konferensi yang mempertemukan tokoh dan cerdik pandai kewangan di bumi Jakarta ini, akan turut melakar sejarah besar, menghasilkan penemuan-penemuan yang bakal mencipta kejayaan besar dalam bidang Kewangan Islam. Sama-sama kita berdoa, sama-sama kita berusaha ke arah menjadikan Kewangan Islam sebagai platform meningkatkan jalinan kerjasama erat di antara institusi kewangan kedua negara, sekali gus turut mempererat lagi hubungan di antara rakyat dan negara kita bersama. Gurindam Melayu lama ada mencatatkan, *'Kalau roboh Kota Melaka – Papan di Jawa kami dirikan'*. Itu adalah gurindam lama, betapa pilunya rumpun bangsa di Melaka setelah robohnya kota Melaka – lalu meletakkan harapan untuk membangun semula di tanah Jawa. Kita padamkan cerita lama. Kita tulis cerita baru. Hari ini kita tidak lagi mahu melihat papan di Jawa hanya didirikan selepas robohnya kota di Melaka. Di sebaliknya, kita sewajibnya menyemaikan azam untuk sama-sama, serentak dan selari, membangunkan Kota Melaka dan sama-sama mendirikan

papan di Jawa dengan mengukir cerita sukses dalam bidang Kewangan Islam.
Semoga usaha kita mendapat berkat - dilimpahi rahmat.

Wabillahitaufik walhidayah

Wassalammualaikum warahmatullahi wabarakatuh.