



**社会经济研究中心**  
**SOCIO-ECONOMIC**  
**RESEARCH CENTRE**

**The Chinese General Chamber of Commerce (CGCC)'s  
Hong Kong Summit 2017**

**Regional Economic and Financial Integration:  
Where Next?**

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# Key messages

## Malaysia remains resilient to external challenges

- Domestic demand remains the dominant driver of growth
- Macroeconomic fundamentals remain supportive of growth
- Malaysia to be more regionally and internationally integrated

## East Asia financial market: Where are we?

- Asia's economic and financial system held up well
- Macroeconomic conditions are supportive of financial market
- Rising incomes, urbanization, demographic dividends will spur demand for goods and financial services

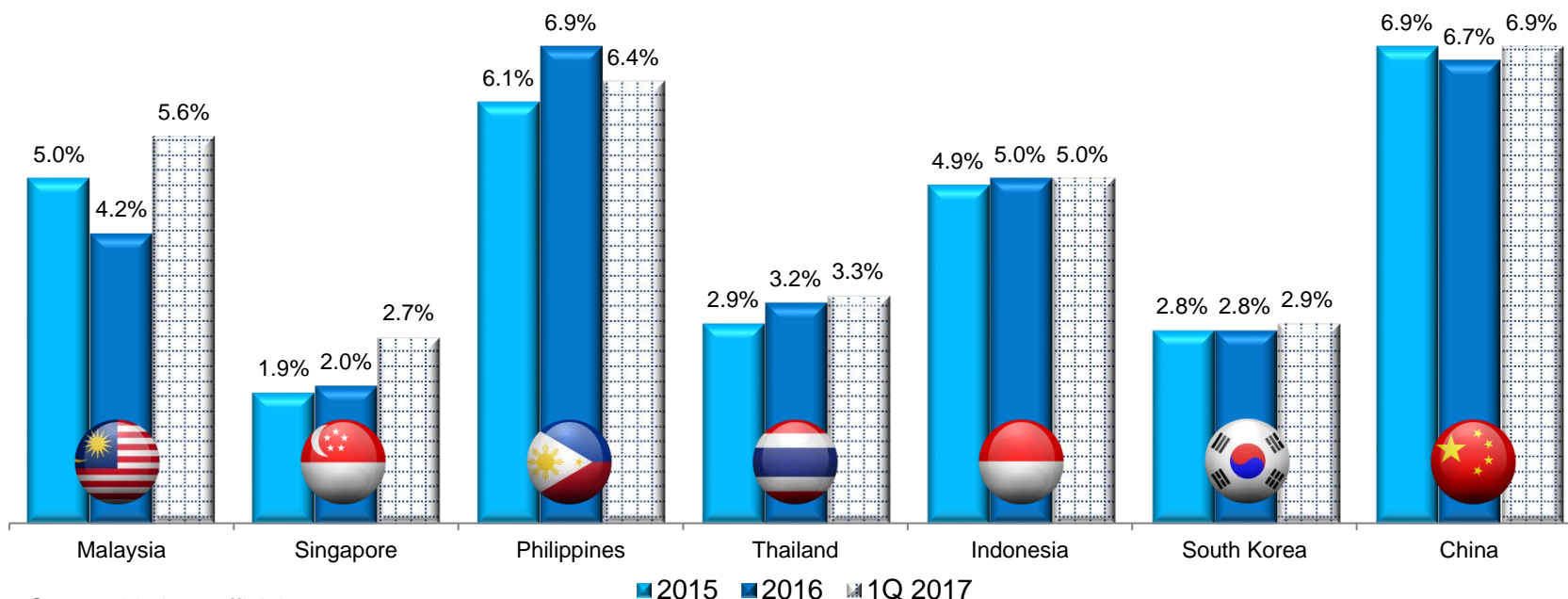
## Regional economic and financial integration: Where next?

- Regional economic & financial integration to gather momentum
- Forces shaping the dimension of integration
- Exploring business and market opportunities

# Malaysia is still among the fastest growing economies among peers

- Despite facing a challenging global and domestic economic environment, the Malaysian economy performed well.
- The economy held up strongly to grow by 5.6% yoy in 1Q17. It remains on track to attain Bank Negara Malaysia's official's target of 4.3-4.8% in 2017.
- Medium-term economic outlook remains positive (estimated 5.0% pa in 2016-20 vs. 5.3% pa in 2011-15).

Regional comparison: Real GDP growth (% YoY)

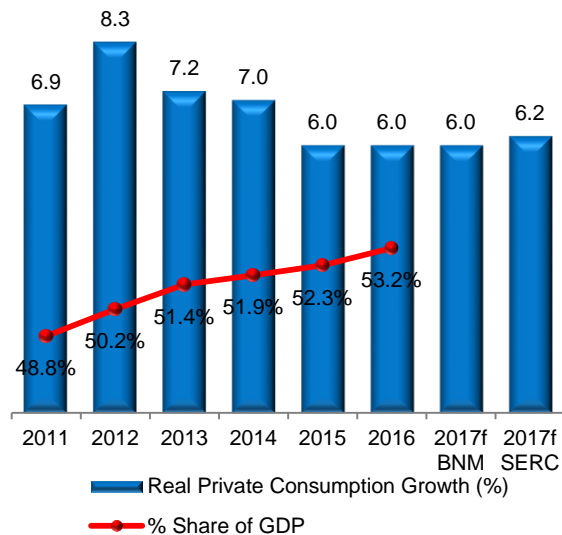


Source: Various officials

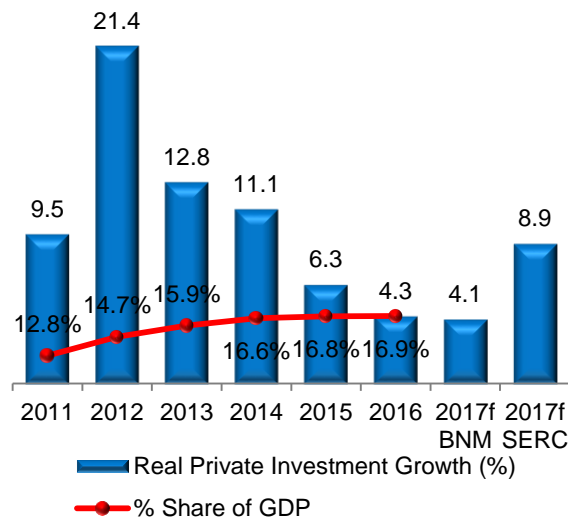
# Domestic demand is driving the economy

- Private consumption supported by continued expansion in employment and wage growth as well as income-support measures.
- Private investment grew strongly by 12.9% yoy in 1Q 2017 after trapped in lower growth trajectory since 2Q 2015.
- Exports have staged a strong recovery since Nov 2016 (21.1% in Jan-April 2017 vs. 1.1% in 2016).

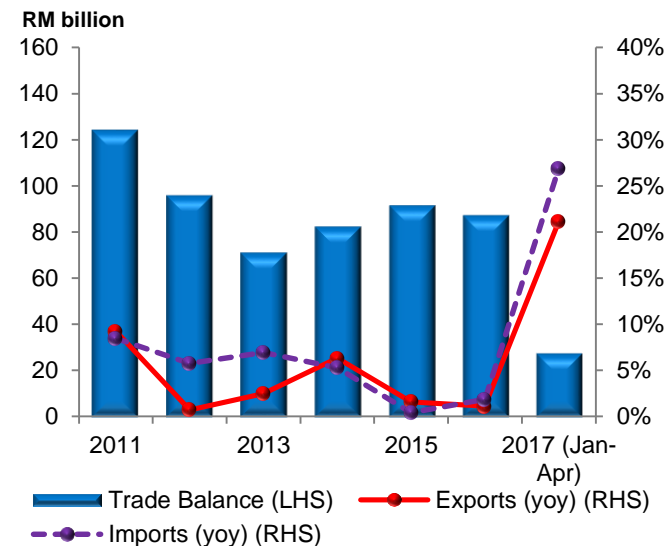
### Private consumption growth trend



### Private investment growth trend



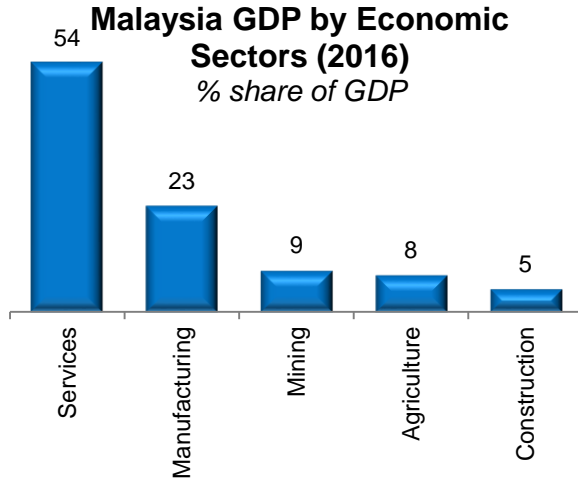
### Exports make strong comeback



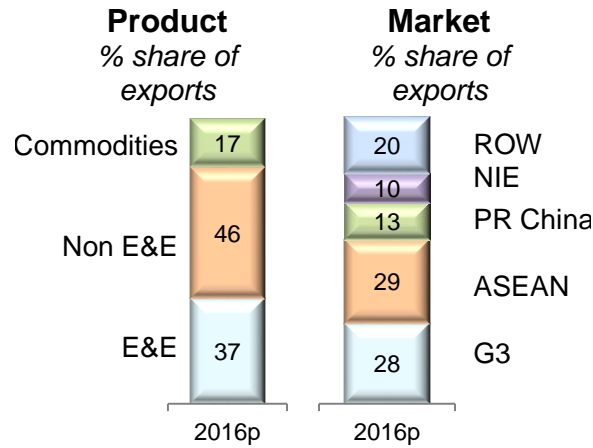
Source: Bank Negara Malaysia; Department of Statistics, Malaysia

# Macroeconomic fundamentals remain supportive of growth

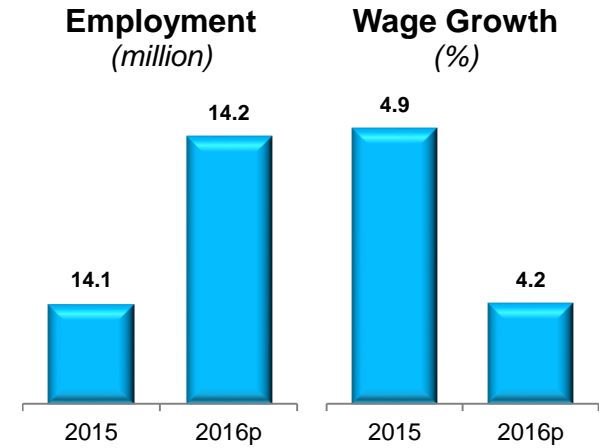
## Diversified sources of growth



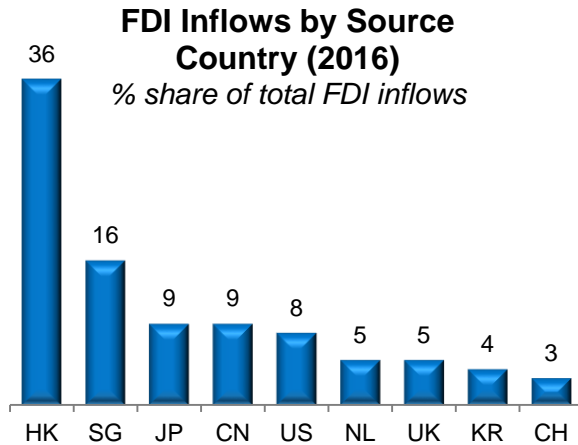
## Diversified export market and product



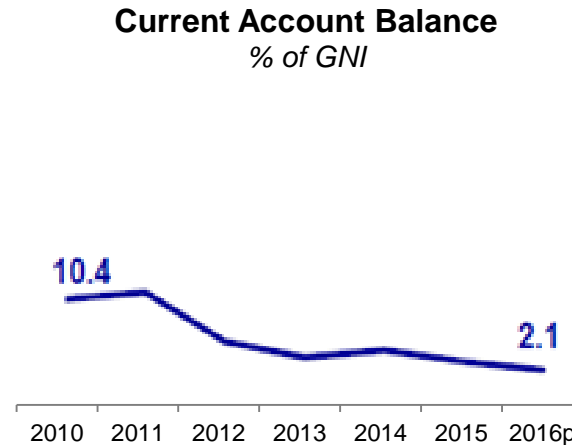
## Stable labour market conditions



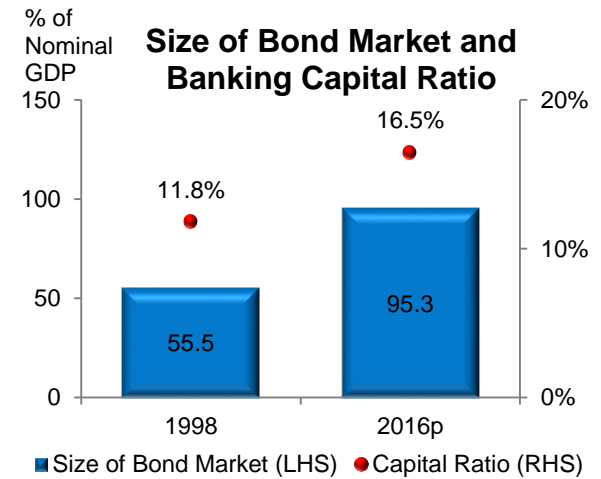
## Conducive investment destination for foreign investors



## Current account balance reflects strong investment



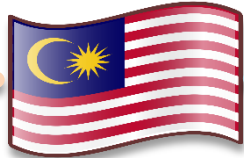
## Deeper markets and strong financial buffers



Source: Bank Negara Malaysia

# Malaysia to be more regionally & internationally integrated

- The Malaysian financial markets have grown steadily in size, breadth and depth (4.0 times GDP in 2015 to 5–6 times by 2020; % share to GDP to increase to 10-12% in 2020 from 6.4% in 2016).



To facilitate Malaysia's transformation into a high value-added and high-income economy

## Businesses

## Households

New areas of growth; innovation & entrepreneurship; modern infrastructure; internationalization of firms

High-quality & innovative retail financial services, wealth management, financial planning and retirement as well as healthcare products



## AEC

Population: 630 million;  
GDP size: US\$2.5 trillion

Malaysia has implemented 13 FTAs. Bilateral: Japan, Pakistan, New Zealand, Chile, India, Australia, Turkey

Integrated ASEAN financial markets driven by the ASEAN Economic Community (AEC) and regional or bilateral free trade agreements.



## RCEP

- Population:** 3.5 billion 48% of global population
- GDP size:** US\$422.5 trillion or 30% of global GDP
- Trade size:** US\$11.6 trillion or 27.6% of global trade

**Regional Comprehensive Economic Partnership (RCEP)** and China's One Belt One Road (OBOR) initiative. Facilitate cross-borders' capital flows and financial cooperation.



- ✓ 41% of global sukuk issuance
- ✓ 35% of global sovereign issuance
- ✓ 45% of global corporate and quasi government sukuk

Transform Malaysia as the Islamic financial hub. Strong connectivity, diversity of players & instruments, and specialization in areas with strong competitive advantage.

# Prospects of East Asian market under new normal



Region's growth rebounded in 2017, thanks to a synchronized global recovery.



China  
the world's largest economy

Source: PwC



## Challenges for policy makers

- Reverse globalization- new trade restrictions
- Persistent policy uncertainty
- Monetary policy tightening
- Sustain productivity and investment growth
- Disruptive technology trends



## Exploring business and market opportunities

- Demand driven by young demographics
- Rising income and expanding consumerism - discretionary products & services (*such as high-end consumer electronics, hotels and catering*)
- Consumption-focused businesses (*retail, food and beverages, e-commerce and logistics*)
- Green products and technologies products
- Halal products (*food, beverages, and cosmetics*)
- Wealth management and financial planning products

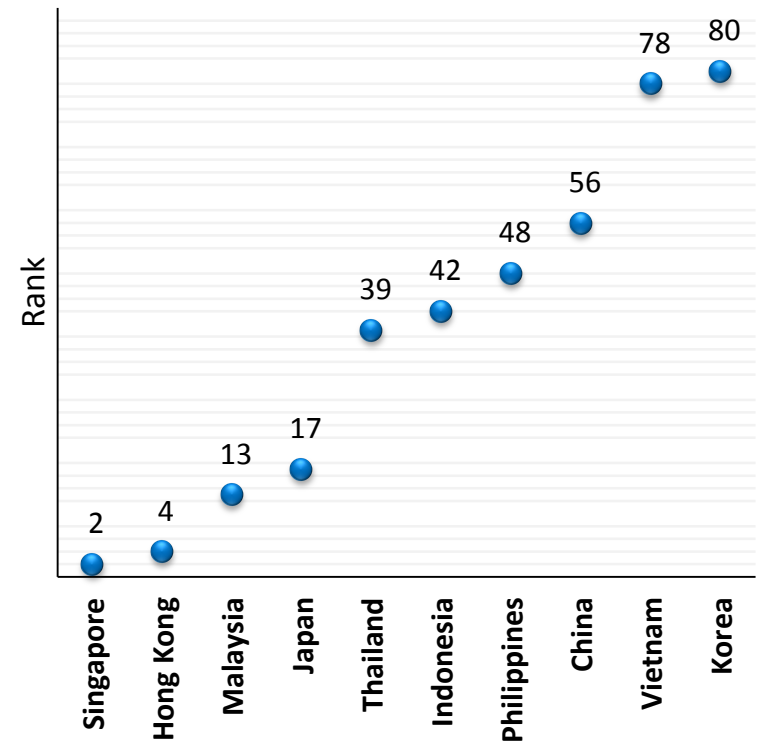
# East Asian financial markets: Where are we now?

- The pace of financial integration lagged behind trade integration.
- Two distinct camps. More sophisticated markets (Hong Kong, Singapore, Malaysia and Korea) vs. relatively “under-developed markets” - are still catching up
- There remains considerable regulatory and other barriers to greater integration.

	Country	Domestic credit provided by banking sector		Market capitalization of listed companies		Bond market capitalization	
		% of GDP					
		2010	2016	2010	2016	2010	2016
ASEAN	Malaysia	123.3	124.0	160.3	121.4	119.2	108.1
	Indonesia	34.2	33.1	47.7	45.7	18.3	25.9
	Philippines	49.2	44.8	78.8	78.7	51.2	46.3
	Singapore	80.8	132.9	273.8	215.7	76.9	98.1
	Thailand	133.5	114.9	81.5	106.4	83.5	77.6
	Vietnam	124.7	128.3*	26.0	33.0	19.1	25.7
Northeast Asia	China	142.2	156.4	66.0	65.3	51.8	66.1
	Hong Kong	195.4	204.0	1,185.0	995.8	85.4	120.4
	Japan	320.2	352.5*	67.2	100.3	268.1	215.3
	Korea	151.0	143.3	99.8	88.9	107.0	137.8

Note: \* = Data in 2015  
 Source: World Bank, IMF, ASIAN Bond Online

## Financial Market Development



Source: Global Competitiveness Index 2016-2017



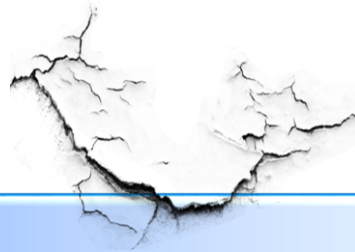
# What forces are shaping regional economic & financial integration landscape?

## Domestic



- Large & growing middle class. Rising propensity to consume.
- Recycling of Asia's surplus savings to fund infrastructure investments (about US\$8 trillion in 2010-2020 or US\$750 billion a year)

## External



- The Fed's monetary policy tightening path
- Political, regulatory and geopolitical risks
- China's OBOR initiative to reshape global economic and trade order
- Realisation of "Asian century"

## Challenges



- Innovation in information technology and FinTech enhance efficiency of finance
- Further deepening of capital market
- Freer capital mobility and liberalisation of foreign exchange administration

# East Asian financial market: Larger, higher, and stronger

- Higher incomes and more demand for goods and services, working capital, trade credits, and bonds to finance infrastructure will make Asian financial systems more complex.
- If **China's and India's capital account more open** in years to come, Asian economies will become intertwined, interconnected, and integrated.
- **Financial landscape in Asia.** Singapore vs. Hong Kong - weighing Asia's financial hubs
- **Digital financial services** are bringing access to liquidity, deposits and loans to the masses in new markets such as India and Indonesia.
- **Singapore is striving to become an Asian fintech hub**, startup and private equity. Other countries are also looking to digital financial services for growth.
- The **stock exchanges of Malaysia, Thailand, Indonesia and Philippines** are **competing** to achieve **greater market liquidity**. Explore to connect with each other to form an integrated market.
- The **bond market in some countries** need to be developed in terms of depth and breadth.
- Encourage **public-private sector collaboration and intensify networking between central banks and financial centres** for business opportunity matching.



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**谢谢**  
**THANK YOU**

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