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42nd ANNUAL MEETING
ISLAMIC DEVELOPMENT BANK GROUP

Statement of the IDB Governor for the Malaysia

The 42nd Annual Meeting of the IDB Board of Governors
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Bismillahir Rahman-nir Rahim

**Your Excellency, Chairman of the Board of Governors
Your Excellency, President of the Islamic Development Bank
Governors
Esteemed Guests
Ladies and Gentlemen.**

Assalamualaikum Warahmatullahi Wabarakatuh

On behalf of the Government of Malaysia, please allow me to extend my gratitude to the Government of the Kingdom of Saudi Arabia for hosting the 42nd IDB Board of Governors Annual Meeting in this enchanting city of Jeddah. I also wish to express my appreciation to H.E. Dr. Bandar Mohamed Hamza Hajjar as well as the IDB management and staff for their relentless effort in organising this Annual Meeting.

While we meet today, global growth is expected to improve further to 3.5% in 2017 from 3.1% last year as forecasted by IMF. This is based on increasing global demand and the expectation of a recovery in trade in the emerging markets. While advanced economies continue to register favourable growth, the emerging market and developing economies remain as the growth centre for the global economy. Nonetheless, rising protectionism in some advanced countries and prolonged uncertainties in global financial markets may impact global demand and output.

As a highly open economy with total trade amounting to about USD340 billion, Malaysia is not insulated from external developments. But our strong economic fundamentals have enabled us to navigate through these challenges. It was no coincidence that Malaysia has, over several decades, demonstrated time and time again, the ability to emerge stronger from commodity price shocks, financial crisis and spill overs from disruptions generated from other parts of the world. Lessons learnt from the previous crises, notably the Asian Financial Crisis in 1997/98 and the Global Financial Crisis in 2008/09 have brought upon reforms and institutional developments that were designed to strengthen the financial system and to diversify the economy to reduce the risks of being over dependent on any particular products, sectors or trading partners.

Comprehensive fiscal reforms, particularly concerning the implementation of GST and subsidy rationalisation, further diversification of revenue base as well as enhancement on the efficiency of public sector delivery have also contributed positively to our resilience against external-driven shocks. As a result, Malaysia were able to grow continuously, registering 4.2% growth in 2016 and continuing the reduction of the fiscal deficit, as we have for the past seven years to 3.1% of GDP in 2016. The current resilience is a testament to the earlier reforms and structural adjustments undertaken by the Government over the last decades which have enabled the Malaysian economy to weather the multiple external and domestic shocks.

Your Excellencies,

We have 57 member countries, with a total population of 1.28 billion that accounts for 21% of the world population. We also have 58.5% of the world's crude oil reserves and we supply 41.5% of total world oil production. Our potential lies in our dynamic young population, growing

market potential registering USD1.13 trillion in trade in 2015 and the rich resources of our member countries. Nevertheless, in view of the prolonged volatility in commodity prices, we as a bloc of nations should proactively diversify our sources of growth beyond commodities. Indeed, there is more we must do to grow our economies, particularly in engendering greater international trade to better reap the benefits of globalisation.

Malaysia commends IDB in its relentless and continuous efforts to help reduce poverty and to bring improvements to the livelihood of millions of people in its member countries. We welcome the transformation and client-centric approach by IDB that is being planned for execution in the immediate term to achieve effectiveness towards sustainable and inclusive growth. However, for IDB to individually help member countries achieve this goal would be a rather daunting task. Hence, we encourage IDB to further collaborate with other Multilateral Development Banks (MDBs), towards expanding and hastening the development process in our member countries.

IDB has evolved over the last four decades and together with its associates, namely International Islamic Trade Finance Corporations (ITFC), Islamic Corporation for the Development of the Private Sector (ICD), Islamic Corporation for Insurance of Investments and Export Credits (ICIEC) and Islamic Research and Training Institute (IRTI) have played a significant role in their respective areas. Malaysia is pleased that infrastructure continues to be the primary focus of IDB's developmental financing. We believe this continued focus on infrastructure is in response to the significant demand from member countries to address infrastructure deficits, especially in the energy and transportation sectors. We take note of the Bank's 2016 performance and approvals of 255 operations totalling USD12.2 billion. Whilst we fully support IDB's intervention in the middle-income member countries, IDB should be mindful of any concentration risks, which are apparent in ITFC operations. As such, the best option would be to diversify its financing operations and consider co-financing with other Financial Institutions, or encourage the establishment of Non-Development Financial Institutions (NDFIs), or Sovereign Wealth Funds in member countries to participate in project financing. In that manner, IDB is not only opening opportunities to finance more infrastructure projects for our member countries but also managing its financing and sectoral risks. More importantly, this will encourage the development of other Syariah NDFIs which will eventually deepen and broaden member countries' capital markets.

We commend IDB for its non-sovereign infrastructure projects through Public-Private Partnership (PPP) totalling USD2.7 billion. This could be further enhanced as Malaysia's experience shows that PPP provides the speed and efficiency in development projects. At the same time, Infrastructure development also creates spin-off effects through the supply chain, employment and regional integration. On that score, Malaysia also is of the view that IDB and its associates should consider participating in the 'One Belt One Road' (OBOR) initiative by China. Our Central Asian member countries will stand to benefit from this initiative. Although there may be constraints in the availability of Syariah financed projects, the OIC China Forum that was organised by ICD in Beijing on 22 March 2017 indicates tremendous interest from Chinese investors on Syariah based investments.

Distinguished guests and delegates.

Today, we currently stand on the brink of a technological revolution, the Fourth Industrial Revolution that will fundamentally alter the way we live, work and relate to each other. This is an age of digital disruption, through automation, the rise of the “sharing economy”, and other technology-driven innovations that will change the world in fact, our lives in ways we are only beginning to understand.

The global economy is becoming increasingly digitized and the worldwide digital economy has been growing at an impressive rate of 10% a year, more than triple the rate of overall global economic growth. It is estimated that a 20% increase in ICT investment will result in 1% GDP growth of a country. Such technological advancements will forever change our economic landscape, much faster than we expect it to be. Indeed, this is the curve that we have to stay ahead at all times.

Malaysians have embraced the internet economy and e-Commerce in an immense way. Malaysia is now leading the e-Commerce market in the region, with a revenue of USD2.3 billion in 2015. With the launch of the world’s first Digital Free Trade Zone in March 2017, Malaysia will serve as the regional eFulfilment centre, and also become the regional hub for SMEs, marketplaces and mono brands. Realising the importance of this emerging trend, Malaysia, through Bank Negara Malaysia, established the Financial Technology (FinTech) Enabler Group in June 2016 to support innovations that will improve the quality, efficiency and accessibility of financial services in Malaysia. Further, acknowledging FinTech’s ability to enhance access to funding, the Securities Commission made history in 2015 by being a pioneer in the ASEAN region to legalise the Equity Crowdfunding, followed by being the first in the region to roll out a regulatory framework for Peer to Peer Financing (P2P).

The digital revolution also creates an enabling environment for micro and small entrepreneurs in generating business income in a phenomenal way through its outreach. It is currently a tool used by Malaysia to help low-income households to alleviate their income through programmes such as e-rezeki and e-usahawan (e-entrepreneurship). In view of this, we call upon IDB to leverage on the internet economy to help micro and small entrepreneurs in our least developed member countries to capitalise on the trading platform as a means of penetrating new markets for their goods and services. IDB should also promote greater FinTech adoption in these economies as they are vital to advance financial inclusion by making access to financial products and services more attainable to the masses. This is especially relevant to consumers that live in rural location or regions without the structures of a modern economy.

Your Excellencies.

Malaysia remains steadfast and supportive towards the role that IDB plays and is looking forward to continue working closely with IDB and other member countries. The recently signed Memorandum of Understanding between the Government of Malaysia and the IDBG reflects our continued commitment, particularly in the four strategic areas, namely cooperation in Islamic finance, reverse linkage, resource mobilisation and halal industry.

On behalf of the Government of Malaysia, I wish to extend my sincere congratulations to H.E. Dr. Bandar and his team for yet another year of excellent achievement. We wish the Bank

success and may all of us be under the blessed guidance of Allah Subhanahu Wa Ta'ala in all our future undertakings.

Waltaufik Walhidayah. Wassalamualaikum Warahmatullahi Wabarakatuh.