



# GAINING GLOBAL GROUND

New investment regions are sprouting globally, underpinned by the growing popularity of Islamic investment products.

**T**HE global shift from conventional investment products to Islamic investment products termed as 'shariah-compliant products' is taking the financial world by storm. This has come about through a change in the approach of the Middle Eastern investor.

The Middle East is making a dramatic departure from a thousand years of investment tradition. This emerging market, financed by excess petro dollars, has forced global investment houses to provide investors with products that enable them to invest in shariah-compliant products which have similar performance levels to that of conventional investments.

Today, global fund houses have seen the rapid formation of new attractive investment regions. The world's most sought-after investment destinations include Middle East North Africa (MENA), the Gulf Confederated Countries (GCC) and Middle East North Africa Turkey South Africa (MENATSA).

After years of investing in the United States, Middle Eastern investors have started to explore and appreciate other country-risks and investment choices. However, the mindset and education level of investors in the GCC are increasingly varied. This has created a complexity that foreign investment houses need to understand before they can capture the petro dollars away from the local houses in the GCC and Asia.

The Middle East has been very accommodative in encouraging global investment houses to set up offices and have a physical presence with a 100% foreign equity stake. The oil wealth has also been sending upscale jobs into the GCC economies. In fact, the standard of living in Dubai, Bahrain and even Doha are now higher than that of London.

However, in order to be able to compete, there could be mergers or new subsidiaries being launched by management companies in the GCC with European and

Asian institutions.

However, this trend is not just confined to the Middle East. Elsewhere, London has been advancing its cause to become a global centre for Islamic finance in Europe, aspiring to be the 'Islamic Gateway of Europe'.

With a supportive government, a deep capital market, a population of 2.4 million resident Muslims, and with the United Kingdom hosting the largest number of Islamic banks in Europe with an estimated US\$18 billion in shariah-compliant assets, London is using its Islamic capital market industry platform to compete with New York.

Besides Europe, others strategically building Islamic platforms worth mentioning are countries in Asia, namely Malaysia, Brunei, Singapore, Japan, South Korea, Hong Kong, China, Turkey, and Indonesia and, of course, the six GCC members (UAE, Saudi, Bahrain, Qatar, Oman and Kuwait).

Recently, Malaysia introduced tax breaks and other incentives to create an Islamic haven. Since the issuance of the first global sukuk (sukuk bai bithaman ajil) from Shell MDS Sdn Bhd 13 years ago, Malaysia has prevailed to be the leader in Islamic capital market equipped with Islamic skill-sets, Islamic infrastructure and sustainable political willpower.

The biggest bond deals are shariah-compliant because the market for sukuk far exceeds that for conventional papers. Also, the first shariah-compliant structured product oversold its conventional counterpart and broke the all-time sales record for any structured product previously sold in the country.

This issuance has, however, gradually captured the interest of other jurisdictions, resulting in Malaysia's share of sukuk issuances being reduced to 62% of total global sukuk for 2009.

To date, Malaysia has consciously led the global Islamic platform with comprehensive infrastructures ranging from tertiary accreditation to Islamic court arbitration. They are:

- The Malaysian Islamic Financial Centre (MIFC) – a promotion centre to position Malaysia as an international Islamic financial hub;
- The Securities Industry Development Corporation (SIDC) – which provides training and information for capital markets to local and foreign professionals;
- The Institute of Accreditation of Islamic Finance (ICLIF) – a leadership and development programme for financial institutions as well as business corporations;
- The Islamic Financial Services Board (IFSB) – providing standardisation of global rules;
- The Financial Sector Talent Enrichment Programme (FSTEP) – a centre for training in investment, conventional and Islamic banking, insurance and takaful;
- The Islamic Banking and Finance Institute Malaysia (IBFIM) – which focuses on providing training and consultancy in the fields of Islamic banking, takaful and

- Islamic capital markets;
- The International Centre for Education in Islamic Finance (INCEIF) – a global university in Islamic finance that offers certification and post-graduate courses in Islamic finance; and
- The International Shariah Research Academy for Islamic Finance (ISRA) – a centre in shariah & fiqh muamalat research and platform of discourse among scholars, academics, regulators and practitioners.

Even so, Malaysia's competitors are catching up. Under the disciplined leadership of its Monetary Authority of Singapore (MAS), Singapore is also implementing rapid regulatory changes to capture a slice of the Islamic capital market.

Also, incentives provided by the government have been grabbed by many global fund houses to use Singapore as their base for their Islamic private banking and holistic Islamic asset management business.

Even countries without a large Muslim population want to enter the Islamic market, for example, Japan, which has been innovative in re-positioning itself to take advantage of new markets.


Whilst Japan itself has ample liquidity, its involvement in Islamic asset management is to show the world that the Japanese are innovative and able to grant value to investors on the latest investment trend. We have seen to date Japan issuing sukuk, Islamic hedge funds and Islamic ETF by Daiwa Securities in Singapore.

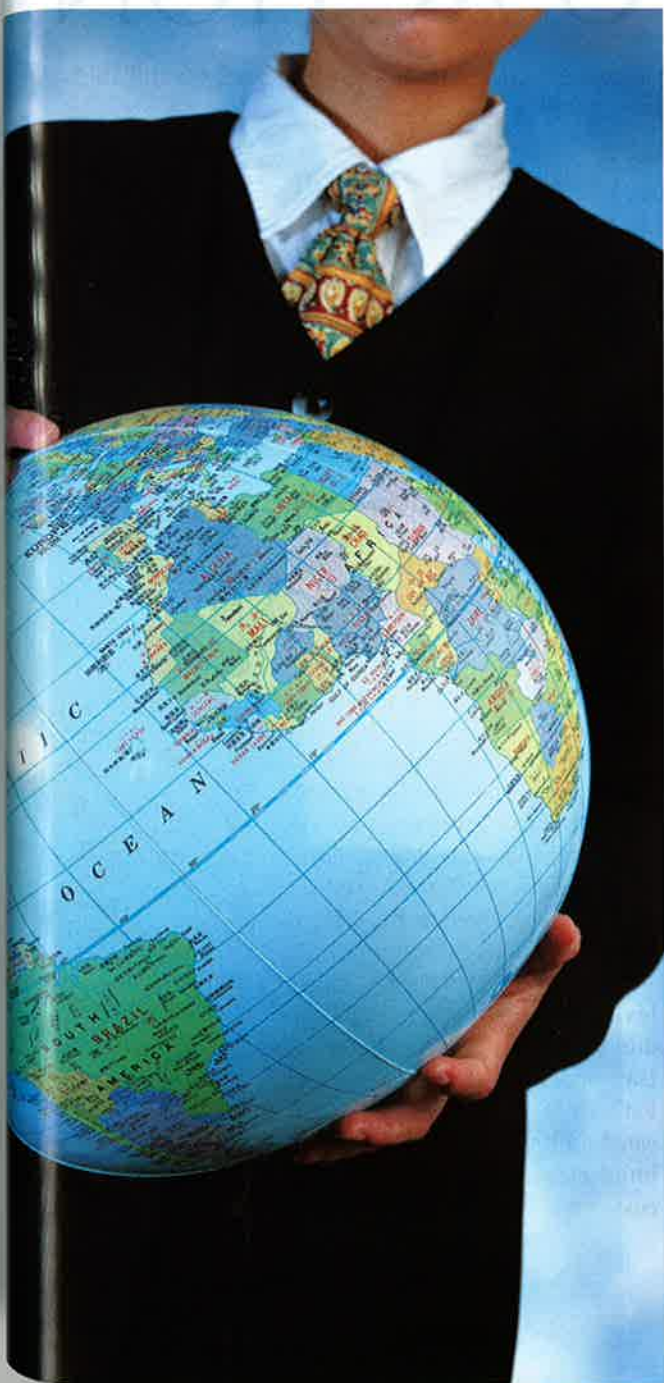
As for the most populous Muslim country, Indonesia has formalised its Islamic infrastructure and policies are beginning to enter the Islamic market space.

Indonesia has been perhaps the most proactive sovereign player in the market in 2009. In January, the Indonesian Ministry of Finance issued the country's debut sovereign retail local currency sukuk, which raised five trillion rupiah (US\$540 million) and later in April, the country launched its debut US\$500 million international benchmark sovereign sukuk which was oversubscribed by US\$3 billion.

Other countries are not to be left behind. China has initiated to structure new Islamic funds and the Hang Seng Bank of Hong Kong Bank has launched an Islamic fund in late 2007. Brunei is also on the list with the launch of the Sukuk Al-Ijarah Programme in April 2006, where the government has issued over US\$1.6 billion worth of total sukuk.

Furthermore in the long term, Iran, Turkey and Pakistan are likely to be much more active in the Islamic financial market.

With these new global investment communities, global asset management houses are positioning themselves to take advantage of the opportunities to introduce and supply more shariah-compliant products as a credible alternative to conventional investment products. 




---

The writer is chief executive of CIMB-Principal Islamic Asset Management Sdn Bhd.