

Lim Hng Kiang: Boosting international linkages and cross-border opportunities

Opening remarks by Mr Lim Hng Kiang, Minister for Trade and Industry and Deputy Chairman of the Monetary Authority of Singapore, at the 4th World Islamic Banking Conference: Asia Summit 2013, Singapore, 4 June 2013.

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Your Excellencies, distinguished guests, ladies and gentlemen, good morning.

And to all our foreign guests, a warm welcome to Singapore.

Introduction

I am honoured to be invited to deliver the opening address for the 4th WIBC Asia Summit. Since its inauguration, I am pleased to see that the Conference has grown in participation and stature, with attendance nearly doubled since 2010.

Continued growth of Islamic Finance

When this conference convened in Singapore this time last year, one key takeaway was that the Islamic Finance industry, being well-capitalised and tied to underlying real economic activities, was presented with unique opportunities to expand further in an era of deleveraging by global financial institutions and the demand for back-to-basic investment. The need for the industry to integrate itself with global finance and strike roots in key international financial centres was also emphasised.

We have indeed seen continued strong growth in the Islamic finance industry over the past year. The Islamic Financial Services Board (IFSB) estimated that assets of the global Islamic financial services industry grew by 20.4% year-on-year to reach an estimated USD1.6 trillion as at end 2012.¹ Last year also saw a record volume of sukuk issuances globally, with sukuk issuance from more countries, and of larger size and longer tenor.

Key financial centres have continued to facilitate the development of Islamic finance within their jurisdictions. Singapore has made adjustments to our regulatory and tax regime to allow for the growth of Islamic finance since 2004. Hong Kong has recently amended its tax regulations to allow for issuance of sukuk, while the UK recently established an industry task force to facilitate further development of Islamic finance. Going forward, the broadening and deepening of economic and financial ties between Asia and the Middle East, the two major centres for Islamic finance, will also provide further impetus for future growth of Islamic finance globally.

Connectivity between Asia and the Middle East

There are three important observations to be made on the growing connectivity between Asia and the Middle East.

First, the economic relationship between the two regions has expanded beyond the energy-related sector. Asia's demand for energy exports from the Middle East will continue to remain robust as the region expands. However, non-energy trade between the two regions is also growing fast. About 40% of GCC's non-oil exports are to Asia. Saudi Arabia is the leading

¹ Islamic Financial Services Industry Stability Report 2013, Islamic Financial Services Board (IFSB).

petrochemical supplier to China's textile industry, and China's exports to the GCC are estimated to be growing by 30% annually.²

Second, financial flows between the two regions are increasing significantly. With the rapid accumulation of foreign reserves from the unprecedented oil windfall in recent years, GCC countries are looking to rebalance their portfolio of foreign investments with a greater allocation to Asia. McKinsey observed that over the period of 2002–2006, about 11% of GCC's capital outflows were to Asia. They estimated that this share could nearly double to 20% by 2020. However, Asia in turn is also investing into the Gulf, particularly in infrastructure projects in the GCC. There is now rising FDI from China and India in sectors such as construction, tourism, telecommunications, software and engineering services, garments, chemical products, and food.³

Third, there are now increased numbers of financial intermediaries to facilitate cross-border financial transactions between the two regions. Major Middle East Islamic banks have established operations in Malaysia. Leading banks from the GCC are now using Singapore as a base for expanding into East Asia and to facilitate Asian business expansion into the Middle East. Malaysian and Singapore banks are in the Middle East to seek business opportunities. Together, the presence of all these active players makes for a vibrant Islamic Finance ecosystem in Singapore.

Cross-border Islamic transactions set to take off

Going forward, in the next phase of growth, I am optimistic that we will see greater proliferation of cross border Islamic transactions. This will add a fresh boost to the growth of the global Islamic Finance industry, complementing the domestically driven growth of Islamic finance markets in Asia and the Middle East.

First, both the Middle East and Asia will continue to post robust growth relative to other parts of the world. This gives incentive for economic and financial players to participate more actively in each others' economies. The GCC economies have held up well despite weak global growth, suffering limited impact from slowdowns elsewhere in the world. IMF estimates that growth in the GCC countries will moderate slightly but remain robust at 4.0% in 2013 and 2014.⁴ Growth will be largely driven by increased domestic demand, and further spending on infrastructure to address present shortfalls and facilitate economic expansion.

IMF has projected Asia to grow by 5.7% in 2013, and 6.0% the following year, exceeding the outlook for the global economy.⁵ Growth in Asia over the medium term will be supported by continued urbanisation, favourable demographics and increased intra-Asian trade and investment.

Second, multilateral Islamic finance agencies are making steady headway in addressing issues that contribute to some fragmentation of the Islamic finance industry. Work by the IFSB in setting international standards and best practices for the industry is providing greater uniformity of regulatory environment for Islamic financial players globally. The International Islamic Financial Markets (IIFM) is collaborating with ISDA and industry players to develop standardisation of Islamic financial products, documentation and related processes that will facilitate cross-border Islamic hedging, risk management and money market activities. Efforts by the Accounting & Auditing Organisation for Islamic Financial Institutions (AAOIFI), Islamic

² "The New Silk Road: Asia and the Middle East rediscover trade and investment opportunities", Research Department, Kuwait China Investment Company (KCIC), January 2011.

³ Ibid.

⁴ "Economic growth moderates across Middle East", IMF Survey, May 21, 2013.

⁵ "World Economic Outlook", IMF, April 2013.

Development Bank and Malaysia's International Shariah Research Academy (ISRA) in research and fostering dialogue between Shariah Scholars from various jurisdictions are also narrowing the differences in views on Shariah issues in finance. As work on all these fronts progress, this will encourage greater interest internationally to participate in cross border financing and investment activities.

The prospects for cross-border Islamic finance are already very bright. We are beginning to see cross border sukuk issuance within Asia, as well as between Middle East and Asia. As early as 2010, Malaysia's Khazanah issued a S\$1.5b sukuk in Singapore, while Japan-based Nomura issued 2-year \$100m sukuk in Malaysia. Last year, taking advantage of favorable currency swap rates, Singapore listed companies Natural Resources and Golden Agri tapped the Malaysian Ringgit (MR) sukuk market. In the last two years, two GCC firms, Abu Dhabi National Energy Company and Kuwait-based Gulf Investment Corp issued MR sukuk in Malaysia. There is considerable scope to issue more such cross-border sukuk, especially to finance the large infrastructure needs in both Middle East and Asia. Already a large proportion of sukuk issued in each region are linked to infrastructure projects.⁶

Singapore's contribution

In light of these developments, I am pleased to note that Islamic financial activities in Singapore have continued to expand over the past year. In banking, Middle East banks based in Singapore have started offering Islamic window facilities for their corporate clients. Recently, Singapore-listed shipping company Atlantic Navigation, which has operations in GCC and India, signed an Islamic financing facility with a Singapore-based bank to further its business activities. Home-grown Mustafa Group is also considering an Islamic financing facility to fund its expansion into neighbouring countries.

In fund management, Securus Fund, the world's first Shariah compliant data centre fund, successfully completed its second round of fund raising earlier this year to double their capital to about US\$200m. The Fund is based and jointly managed in Singapore by Keppel Data Centre Investment Management and AEP Investment Management, which is majority-owned by the Saudi Al-Rajhi Group. With the capital increase, the Fund has since acquired quality data centres in Ireland and Netherland to add to its existing assets in Australia, Malaysia and UK. Sabana REIT, the world's largest Islamic REIT in terms of listed assets, issued the first convertible sukuk in Singapore last year. The response from investors in Asia and the Middle East has contributed to Sabana launching its S\$500m multicurrency sukuk programme in April 2013. This is Singapore's second corporate sukuk programme after City Development's S\$1b programme launched in 2010. Earlier this year, City Development issued the 7th and 8th tranches from their programme for a total amount of S\$100m. We are encouraged that more sukuk issuances are also in the pipeline. Just recently, Swiber, a major Singapore-listed company engaged in offshore EPIC (Engineering, Procurement, Installation and Construction) services in Asia Pacific, Middle East and Latin America, announced its intentions to set up a sukuk programme in Singapore in the coming months.

These developments suggest that the growth potential for Islamic finance in Singapore has yet to be fully realised, and that Singapore can play a role in giving growth of cross-border Islamic financing an even greater push. Towards this end, MAS is presently working with other government agencies and the industry to identify and address time-to market issues to further facilitate Islamic finance activities in Singapore. This includes looking into providing greater clarity and certainty in the regulatory and tax treatment to expedite the issuance of sukuk and other Islamic capital market instruments.

⁶ "Beyond Borders: The GCC and Asia could Rev up their economies – and the Islamic Finance Market", Standard & Poor's Rating Services, Sep 2012.

The need to raise competency and develop talent to support the growth of the industry cannot be overstated. Singapore Management University (SMU) has successfully completed its first Masters programme in Islamic Law and Finance; and SMU has reiterated its commitment to support efforts at growing the human capital for the Islamic finance industry. Industry players here have formed the Gulf Asia Shari'ah Compliant Investments Association (GASCIA) to promote and undertake initiatives to further grow the industry. Recently, a GASCIA member introduced Islamic finance training to a leading local Madrasah to increase the students' awareness and promote interest in pursuing a career in the industry. MAS will continue to work with industry players and training providers to ensure that we have a ready supply of talent to meet the needs of the industry as it continues to grow.

Conclusion

Singapore's success as an international financial sector stems from its high standards of regulation; deep and liquid capital market, the presence of international buy side players, and a critical mass of financial intermediaries with expertise to address a wide range of financing needs. We will leverage on these strengths to further support the growth of Islamic finance.

The growing and deepening linkages between Asia and the Middle East will present significant opportunities. I am pleased to see more players from the Middle East, Asia and other regions at today's conference. I hope you will take advantage of this event to explore new ideas to spur the further growth of cross border Islamic financing transactions between our two regions, and globally.

Thank you.