

Jacqueline Loh: Enhancing linkages between Asia and the Middle East

Welcome address by Ms Jacqueline Loh, Deputy Managing Director of the Monetary Authority of Singapore, at the 6th World Islamic Banking Conference Asia Summit, Singapore, 3 June 2015.

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Your Excellencies, distinguished guests, ladies and gentlemen, good morning. To all our foreign guests, a warm welcome to Singapore

Introduction

1. I am very honoured to be invited to deliver the Welcome Address for the 6th World Islamic Banking Conference Asia Summit. I am pleased that this conference continues to attract a growing number of industry professionals from Asia and the Middle East, with total attendance more than doubling since it was launched in 2010. This underscores the bright prospects for Islamic finance in Asia.

Growing Asia-Middle East connectivity

2. Trade and investment flows between Asia and the Middle East have grown substantially over the last decade, supported by strong domestic demand and investment opportunities in both regions. This growing connectivity is expected to strengthen in the coming years, notwithstanding uncertainties in the global outlook. Let me share 3 key observations.

3. Firstly, trade between the two regions continues to grow strongly. In the past decade, exports from the Gulf Cooperation Council (GCC) to Asia expanded five-fold, and growth of GCC's exports to Asia has surpassed that to the rest of the world. Asia's exports to GCC have also increased five times, registering an annual growth rate of 15% over the past ten years.

4. Secondly, inter-regional investments are growing. Investments into the GCC are being driven by several positive factors: infrastructure development to cater for its hydrocarbon sector, rapidly-growing populations, market liberalisation and diversification beyond oil and gas. A 2014 industry survey¹ by Mergermarkets highlighted that investments from Asia into the GCC would soon equal that traditionally sourced from Europe, as Asian companies become more active in the Middle East. The converse is also true. Attracted by Asia's good growth prospects, GCC investors have increased their investments not just in energy markets, but also in telecommunications, finance, and other industries in Asia. For instance, GCC state-owned oil firms have been investing in ASEAN energy sectors, while GCC Sovereign Wealth Funds (SWFs) are also showing interest in the agriculture sector across ASEAN.

5. Thirdly, continued growth of GCC and Asian economies, and an expanding network of Free Trade Agreements, will reinforce connectivity between the regions. Notwithstanding more volatile and lower oil prices, the IMF expects the GCC to expand 3.4% in 2015², and 3.2% in 2016. Asia will remain the world's fastest growing region, recording 5.6% growth in 2015, before easing slightly to 5.5% in the following year. Trade and investment linkages will be strengthened with the conclusion of trade discussions between GCC and China, Korea,

¹ Gulf Cooperation Council (GCC) Investment Outlook 2014, Mergermarkets.

² IMF Regional Economic Outlook Update for Middle East & Central Asia, May 2015.

India, Pakistan, Malaysia and ASEAN. Singapore has already concluded a comprehensive FTA with the GCC, which recognises Islamic finance in the definition of financial services.

Cross-border Islamic finance set to grow

6. The global Islamic finance industry has been on an upward trajectory in the past decade, with total assets exceeding US\$2 trillion in 2014, from US\$700 billion in 2005. Most of this demand stemmed from Middle East and Asia, and stronger trade and investment linkages between these regions will reinforce the growth momentum in Islamic finance. Looking ahead, the following key trends will also augur well for the outlook for cross border Islamic finance:

7. First, increasing wealth accumulation in the Middle East region. This will expand the pool of Islamic funds seeking diversification into foreign investments. Asia will be a key investment destination, as stronger growth prospects compared to developed economies present opportunities for higher investment returns, which would in turn, increase the demand for Shariah-compliant assets in Asian markets, including Singapore, Malaysia and Indonesia. Reflecting this trend, GCC banks have already been expanding their operations in Singapore in recent years to support the deployment of Islamic funds to corporates in the region, through Islamic bank financing, and sukuk issuances.

8. Second, more countries are boosting their Islamic finance services and capabilities, in response to the growing demand for Islamic finance solutions. Singapore, for instance, has seen a steady increase in Islamic finance activities, while Hong Kong has recently issued its second sukuk and Japan is amending its financial regulations to facilitate Islamic financing.

9. Third, there is scope to extend Islamic finance solutions to meet infrastructure financing needs in Asia and in the Middle East. In particular, the Asian Development Bank (ADB) has been working with the Islamic Development Bank (IDB) to provide Islamic infrastructure financing solutions to their member countries in these two regions. This includes developing and participating in innovative financing structures such as the Islamic Infrastructure Fund and the International Islamic Liquidity Management Corporation. The IDB is also exploring a potential link-up with the planned Asian Infrastructure Investment Bank (AIIB). This could spur the use of sukuk to fund some of Asia's infrastructure needs, and tap a growing pool of Islamic investors across the Middle East and Southeast Asia.

Islamic finance in Singapore

10. As an international financial centre and one that serves as a gateway for investments into Asia, Islamic finance is an important asset class that complements Singapore's strong conventional financing and capital market capabilities. Islamic finance activities in Singapore are broad-based, covering Islamic banking, asset management and capital markets, which mirror our conventional strengths:

- Islamic banking assets in Singapore have grown by 73% since 2010, and are increasingly cross-border in nature. Consistent with the pattern for conventional finance, Islamic banking liabilities sourced from the region are subsequently deployed to Southeast Asia and the GCC;
- Assets under management have also risen, by 22% since 2010. Singapore is home to Sabana REIT, which is the largest Islamic REIT globally by asset size. In 2013, Sabana also launched a corporate sukuk programme in Singapore to help finance its purchase of industrial properties; and
- Islamic capital market activities have also taken off, with 31 sukuk issuances over the last five years. We have more sukuk issuances than other conventional jurisdictions, with total outstanding issuance reaching a high of S\$3.8 billion in 2014, compared to S\$440 million in 2009.

11. To support the development of Islamic finance in Singapore, MAS established a Sukuk Facility in 2009 to provide SGD Islamic regulatory assets for banks undertaking Islamic finance activities here. We remain the only conventional central bank to have done so. There have been 8 issuances to-date totalling S\$600 million, supported by robust demand, with the latest issuance in November 2014 being our largest yet. Our sukuk programme has facilitated the growth of banks' Islamic finance assets in Singapore, and also encouraged corporates to issue sukuk to meet demand from financial institutions and investors.

12. Going forward, we will continue to strengthen our Islamic finance regime and capabilities to enable us to support opportunities from deepening trade and investment linkages between Asia and the Middle East, as well as infrastructure projects within the Asian region. In infrastructure for example, an estimated US\$60 billion will be needed annually until 2022 to meet the basic infrastructure needs in ASEAN alone³. The asset-backed nature of Islamic finance makes sukuk ideal for financing of infrastructure projects and would complement ongoing work by Singapore to enhance the bankability of infrastructure projects in the region and involve more capital market participants.

13. In the meantime, it will be important to continue to strengthen key foundations such as global regulatory standards and best practices for Islamic finance, and capacity building and talent development. To facilitate further growth of Islamic finance in Singapore, MAS is working with the industry and other government agencies to provide clarity and certainty in the regulatory and tax treatment for sukuk. For example, some industry players have suggested that pre-approved standardised templates for common sukuk structures could be introduced to expedite issuance.

14. Building Islamic finance expertise has also been highlighted as crucial to supporting the continued growth of the industry. The Singapore Management University's (SMU) International Islamic Law and Finance Initiative is now in its 6th year, and seeks to carry out research and develop thought leadership in Islamic law and finance, in collaboration with institutions in UK, Malaysia and Indonesia. SMU also offers a Masters in Islamic Law and Finance, and will be graduating its third cohort of students this year. In addition, Islamic finance has also been included as an eligible subject area under MAS' Finance Scholarship Programme, and industry players could look to tap on this scheme to groom promising talent.

Conclusion

15. To conclude, the deepening linkages between Asia and Middle East will continue to present significant opportunities for Islamic finance. I hope the WIBC Asia Summit will provide a useful platform for various stakeholders from Asia, Middle East and beyond, to explore new ideas and build networks to catalyse further growth. I wish all of you a fruitful conference.

³ An overview of infrastructure opportunities in ASEAN, KPMG.