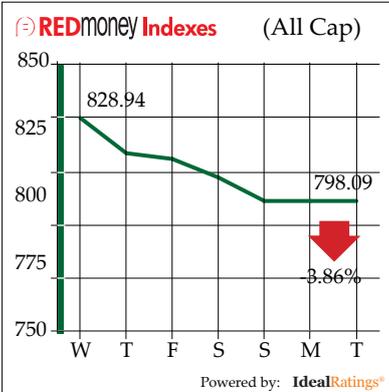


# Islamic Finance *news*

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## The New Silk Road

Economic focus is swinging from west to east and as Europe and the US continue to struggle, new investment flows and trade ties develop. The historic trading route from China to Europe, across south and central Asia and the Middle East, is once again growing in importance as trade between these regions grows in volume and significance. As these new economic realities take shape across an ancient road with strong Muslim connections, how can Islamic finance benefit this new movement?

### What is the silk route?

The old silk road refers to an ancient network of interlinking trade routes that connected Asia with the Mediterranean and European trading centers. At its peak the route extended over 6,500km, taking its name from the lucrative silk trade which originated in China and used sea and land routes across Asia, Africa and the Middle East to access its key trade markets. With the arrival of Islamic empires and Arab traders the route flourished, building trade ties that spanned the globe.

In recent years, these routes have once again begun to attract interest as a means to access promising new regional markets. Growth in trade between Asia and the Gulf in the form of real estate projects, energy supply, joint ventures and infrastructure investment have revived the old links while new partnerships are also forming.

### NSR Forum

Abradat Kamalpour, the head of emerging markets and Islamic finance at UK law firm Ashurst, is the CEO and founder of the New Silk Road Forum (NSR Forum), a medium and meeting place for participants to discuss the possibilities and opportunities of the New Silk Road. He explains that: "If you step back and look at what's happening in the global economy with the growth of the

BRIC countries, as a result of that there is also spin off and growth opportunities in neighboring countries as well. China, India, they all have to move their goods around the world in order to be able to trade. So they have to move some of these through these other countries as well. A lot of these countries are also rich in natural resources and are energy rich, so what we have going on is a boom and a lot of potential for countries from China all the way to Turkey. The Middle East is also a critical component of the trade that is going on there, and of the financing that's going on in that part of the world."

He explains that the new silk route covers a far wider remit than just China, the Middle East and Turkey. "The north/south corridor incorporates India, Iran, Azerbaijan and Turkey; while the east/west corridor includes the new rail links from China, Kyrgyzstan and Kazakhstan to Turkey.

"The countries that will really benefit the most from this are Kyrgyzstan, Turkmenistan, Kazakhstan, Iran, Turkey, Armenia, Azerbaijan, India and Afghanistan. And if you look at a lot of these countries, they are Islamic countries. So Islamic finance can have a big part to play."

*continued on page 3*

## A nod to the supporters

### Editor's Note

The growth of Islamic finance has reached a stage where the industry has not only established new, sustainable markets such as the vibrant Sukuk sector; but also a growing number of auxiliary markets that support the industry's further development, such as specialized Shariah compliant legal services and Islamic finance education.

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The Challenge Face of Islamic Banking by Gartner and ITS  
Gartner Research: Competitive Landscape: Islamic banking systems, Worldwide, 2010



## The New Silk Road

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### Middle East ties

It comes as no surprise to anyone familiar with the industry that trade between the Middle East and Asia has been growing exponentially. Between 2000 and 2010 trade between the two regions increased by over 700%, according to Farouk Soussa, the chief economist for Citibank in Dubai. Over half the region's trade is now with China, of which the majority is energy links. Oil and natural gas from Saudi Arabia, Qatar and Abu Dhabi are the primary trade ties and in 2010, 55% of Saudi crude exports went to Asia compared with just 16% to the US and 4% to Europe. In February 2012 China imported over 1.4 million barrels of oil per day from Saudi Arabia, or around 15% of total production.

Kamalpour notes that the opportunities lie not only in the physical side, but in financing this movement, building the gas pipelines, and funding the movement of energy to China and the Asian region. "It is about financing these deals – are there going to be new trade and financing hubs opening up along the way? It will play itself out as the silk road develops further."

### China-Turkey

As the countries at either end of the trade corridor, China and Turkey are the two most important trade centers for the new silk route. Although there has been friction between them in the past, strong links have developed over recent years with trade volume in 2011 increasing by 24% to US\$24.2 billion and expected to reach US\$50 billion in 2015 and US\$100 billion in 2020 (targets set by Chinese premier Wen Jiabao and Turkish prime minister Recep Erdogan in 2010). China is now the third biggest trade partner of Turkey, with a number of significant projects including a new US\$35 billion high-speed rail network connecting the two regions across central Asia and reaching as far as the UK and Spain. There are also talks to revive the pre-WW1 Berlin/Baghdad rail link as well as the old Hejaz rail network connecting Turkey with the holy cities of Islam.

### Central Asia

But it's not just the Middle East, Turkey and China that stand to benefit from the new route. While these are all already well-established trade centers, Central

Asia could be the region that stands to benefit most from its strategic location in between the two trade hubs.

Khazakhstan is the obvious focus, with its rapidly developing financial status as a regional hub for Islamic finance, its lucrative oil reserves and its developing trade status. Over the last two decades the country has become the leading regional recipient for US investment with over US\$16.5 billion from US companies flowing in.

The region has a strong trade history, serving as a hub of interlinking trade routes connecting the continents. As economic growth gathers pace, a number of new initiatives are being promoted to encourage the development of the central Asian region. The US principal deputy assistant secretary of state for south and central Asia, Geoffrey Pyatt, is quoted as saying that: "For all its progress, central Asia remains one of the least integrated areas of the world." The US state department is therefore developing its own New Silk Road initiative running through central and south Asia and based around the economic development of post-war Afghanistan. The network hopes to strengthen regional economic integration by liberalizing trade and promoting energy and infrastructure development including new roads, bridges, energy grids and pipelines.

The initiative was officially introduced in September 2011 at the UN General Assembly by US secretary of state Hillary Clinton and the foreign minister of Afghanistan, Zalmai Rassoul, as "a means of creating new trade routes between Asia and the west, facilitated by the establishment of modern highways, rail links and energy pipelines".

Significant steps have already been taken to remove trade barriers in the region. In September 2011 for example, India and Pakistan agreed a pact to normaliz trade relations for the first time in 35 years. The TAPI pipeline project is set to bring onshore natural gas from Turkmenistan across Afghanistan to markets in Pakistan and India, while other projects are being created to transmit electricity from central Asia to Afghanistan, Pakistan and India. Robert Hormats, the US undersecretary for economic, energy and agricultural affairs, noted in a recent speech that:

*continued...*

## CLOSING BELL

### Islamic megabank by year-end?

**GLOBAL:** Ahmad Mohamed Ali, the president of the IDB, which is spearheading the establishment of a Qatar-based Islamic megabank, has said that the team involved with the set-up of the bank is targeting to finalize its plans by the end of this year. The megabank will issue papers and instruments which will allow Islamic banks to buy or disinvest them," said Ahmad. ☺

### Indonesia tackles currency volatility

**INDONESIA:** The central bank, Bank Indonesia, is considering introducing new measures to ease volatility in the Indonesian rupiah. "In the region, we still suffer from turbulence from the European countries," noted Edi Setiadi, an executive director of the Shariah banking at the central bank. The authority may also announce its new rules on bank ownership by the middle of this month. ☺



### Scholarships available for the CIFP & MIF programmes

INCEIF, The Global University of Islamic Finance, is offering scholarships to outstanding candidates to undertake the Chartered Islamic Finance Professional (CIFP) programme and Masters in Islamic Finance (MIF).

Candidates applying for scholarships would have to undertake the programmes on campus full-time. Selection of candidates will be based on academic excellence, and working experience.

Both the CIFP and MIF equip students with in-depth knowledge, analytical tools and strategic perspectives to fast-track their careers in the growing Islamic finance field, be it as academics, finance practitioners or other related industry professionals.

Complete application with the relevant supporting documents must be submitted through our website [www.inceif.org](http://www.inceif.org) for both programmes.

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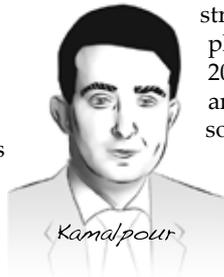
## The New Silk Road

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“Construction of new projects would create thousands of jobs across the entire panorama of Central Asia, and unlock private enterprises suppressed by the lack of reliable electricity.” He notes that the central Asian region has a lot to offer, particularly Afghanistan. “The US Geological Survey has verified that Afghanistan sits on top of at least US\$1 trillion in mineral wealth – iron, copper, gold, rare earth elements, and others. Some of these deposits are already under development, and many more will be soon. The Aynak copper and Hajigak iron-ore mines could enter into production as early as 2016, and according to World Bank projections they could each create 90,000 jobs and up to US\$500 million in annual revenue when developed.”

### Islamic finance in the new silk route

The economic opportunities are undeniable. But what role can Islamic finance play in all this? Yes, the majority of the countries along the new silk route are Muslim. But this does not necessarily mean that Islamic finance will benefit from these developments – unless it reaches out and makes a serious effort to get involved.



Kamalpour notes that as far as the NSR Forum is concerned: “There’s going to be an Islamic financing working group, because obviously a lot of these countries have big Islamic populations. A lot of deals for these countries are done via the Middle East, and it’s going to be of growing importance strategically to these countries, so we will see increasing levels of investment.”

It is true that Islamic finance is a natural fit for this kind of development, which is based around real economic assets and infrastructure projects. In addition, many of the countries along the new route, such as Kazakhstan, have expressed an interest in developing the Islamic finance industry and will be looking to the sector for funding and investment. Turkey’s Islamic finance sector has seen rapid growth along with its strengthening trade ties with the Middle East, and the country recently saw its first Sukuk issuance. Afghanistan is also looking to Islamic finance to rescue its struggling economy following the planned withdrawal of troops in 2014, and its government recently announced the potential for a sovereign Sukuk (see IFN Report ‘Afghan Sukuk: A band aid on a hemorrhage?’ p.13)

And, points out Kamalpour: “There is also an opportunity for Shariah compliant funds to invest in projects and opportunities along the route. It could offer western banks and big institutions with Islamic windows new opportunities for investment. They already have the structuring capability and they can offer investors the opportunity to invest directly in Shariah compliant opportunities.

“I think it will also work the other way, with Islamic investors from established markets going into silk route countries. That’s already happening to an extent – you have Al Hilal bank going into Kazakhstan. It’s new territory, but its territory of great interest. Some of the European investments have not gone as well as they’d hoped, given the Eurocrisis, so this is a diversification opportunity.”

The new silk route is the fastest growing trade corridor in the world, and its regional position offers Islamic finance a natural advantage. The opportunity is there and ripe for the picking.

Information on the New Silk Route Forum can be found at <http://www.nsrforum.com>.  
☺ – LM

## A nod to the supporters

### Editor’s Note

**The growth of Islamic finance has reached a stage where the industry has not only established new, sustainable markets such as the vibrant Sukuk sector; but also a growing number of auxiliary markets that support the industry’s further development, such as specialized Shariah compliant legal services and Islamic finance education.**

This development of the industry has helped Islamic finance to develop into a valuable alternative to conventional finance, doing much to spur economic growth at a time when lending does not come as easily it once did. This week, Islamic Finance *news* looks at how the industry is reaching into new markets and sectors to cement its

contribution to the global economy, beginning with our cover story on the exciting developments along the new silk route from China to Turkey.

One area of the financial industry in which Islamic finance has helped to drive momentum is offshore centers; and our issue this week looks at the links between Islamic finance and these growing regional bases in a feature by Amjad Hussain and Kathleen Bradley of K&L Gates (Doha).

We also have a contribution by Irfan Butt and Mustafa Kamal of Hogan Lovells, in association with Al Yaqoub Attorneys & Legal Advisors, who write on the future of Saudi Arabia’s secondary markets in promoting Islamic liquidity

management in the kingdom.

Meanwhile, Rafael A Morales of legal firm SyCip Salazar Hernandez & Gatmaitan writes on Islamic banking in the Philippines; while our IFN Reports cover prospects for the expansion of UK Islamic banks and Afghanistan’s planned debut sovereign Sukuk.

Our IFN Correspondents report on the industry’s developments in Jordan, Iraq and South Africa; and on Takaful in Tanzania.

Meet the Head talks to Amer Mohamed Al Jabri of Al Jazeera Finance; and our Case Study this week highlights Banque Saudi Fransi’s US\$750 million Sukuk. ☺