2015

Australia slow to capitalise on Islamic finance opportunities

George Mickhail

*University of Wollongong, george@uow.edu.au*

Publication Details

Australia slow to capitalise on Islamic finance opportunities

Abstract
Australia has one of the most efficient and competitive ‘full service’ financial sectors in the Asia Pacific region and is situated close to the fastest-growing region in the world. The Islamic finance industry is not only growing rapidly in the world, but is also showing stability and resilience in the face of instability in the global markets. However, Australia has been slow to capitalize on the opportunity to develop and export Islamic finance services.

Keywords
islamic, australia, capitalise, finance, opportunities, slow

Disciplines
Business

Publication Details

This journal article is available at Research Online: http://ro.uow.edu.au/buspapers/815
Australia slow to capitalize on Islamic finance opportunities

By Dr George Mickhail

Australia has one of the most efficient and competitive ‘full service’ financial sectors in the Asia Pacific region and is situated close to the fastest-growing region in the world. The Islamic finance industry is not only growing rapidly in the world, but is also showing stability and resilience in the face of instability in the global markets. However, Australia has been slow to capitalize on the opportunity to develop and export Islamic finance services.

The weak demand for Islamic finance products and a small Australian market has not grown much in the last few years are primarily due to a taxation system that penalizes Shariah-based transactions. Debt finance that is Shariah compliant is primarily offered by banking institutions with Islamic capital market practices, whereas a small number of Islamic investment funds offer Islamic superannuation, property, cash, Australian and international shares.

The government’s inaction in introducing regulatory reforms to a small fragmented market is no doubt mirroring public opinion poll ratings that gauge the community’s ambivalence about Islam due to a number of Australian Jihadists joining ISIS in the Middle East, a few cases of terrorist financing and rare terrorist attacks on home soil.

Review of 2015

Regulatory changes
The signing of the China–Australia Free Trade Agreement (ChAFTA) on the 17th June was significant due to China drawing upon funding sources, especially Islamic finance, to fund its continental Silk (land and maritime) Road through Central and Southern Asia in the direction of Europe. This is a historic opportunity for the Australian Islamic finance industry to grow and capitalize on international demand when demand is weak at home. On the 30th July, the Australian Prudential Regulatory Authority, the banking regulator, signed an MoU with its counterpart in the UAE, the Dubai Financial Services Authority concerning cooperation in banking and insurance supervision (including Islamic finance).

On the 20th October, the government’s response to the Financial System Inquiry Report with its 44 recommendations and 237 submissions (including 11 submissions which referred to Islamic finance) did not make a single reference to Islamic finance. To date, there has been no response by the government regarding the unreleased Board of Taxation Report on Islamic Finance from 2011, which was subject to criticism by a number of institutions that included, among others, the Australian Stock Exchange, the Australian Bankers Association, and the Financial Services Council.

Key transactions
On the 2nd April, Amanie Advisors announced that they would target co-investments in asset leasing in the infrastructure, aircraft and property sectors in Australia, while on the 14th April, the Australia-based Waratah Resources entered into a non-binding agreement with the Malaysia-based Amanie Holdings to form a joint venture for the purpose of funding and expanding its commodity trading business. The main deal of the year was on the 26th August, when National Australia Bank (NAB) concluded its first Shariah compliant structured (Wakalah) for AU$20 million (US$14.11 million) with Crescent Wealth to fund its AU$30 million (US$21.16 million) real estate purchase in Melbourne.

Industry participants
In February, the CIMB Group of Malaysia closed down its investment banking operations in Australia, less than three years after acquiring the Royal Bank of Scotland business in Australia. Meanwhile in April, Crescent Wealth announced that it had set up an office in Malaysia.

New product developments
On the 21st September, Australian law firm Ashurst announced the development of a Shariah compliant structure that suited the Australian legal, taxation and stamp duty regimes. It builds on its experience with CIMB-Trust Capital Advisors that structured and executed a Shariah compliant real estate financing structure of a commercial property in Melbourne for one of Malaysia’s largest pension funds, Tabung Haji.

Challenges
Treasurer Scott Morrison, whose federal electoral platform was vehemently anti-Muslim, is certainly not a proponent of Islam or the Islamic finance industry. In late October, a new anti-Islam Australian Liberty Alliance (ALA) political party was launched by no other than the leading anti-Islam Dutch politician, Geert Wilders. The anti-Islam movements in Australia use social media to organize nationwide rallies that are hostile to Islam under the guise of rejecting Islamist violence, which they claim is being financed by Shariah compliant Halal products. Companies understand the unpredictable, spontaneous, and potentially viral nature of social media such as Facebook which is the largest source of news and drives more traffic to media sites than Google. Accordingly, large financial institutions do not promote their Islamic products on their websites due to concerns about reputation risk.

Preview of 2016
The lack of growth in the industry may be offset by the growing international demand for Islamic finance. A case in point is funding required by China to finance its strategic Silk Road infrastructure project, and it is increasingly being sought from Middle Eastern and Islamic countries, which opens the door for the Australian Islamic finance industry to grow and participate under the favorable conditions of ChAFTA.

Conclusion
ChAFTA will enable the Australian Islamic finance industry to fulfill China’s appetite for Islamic finance partnerships to fund its new Silk Road, which may live up to its medieval legacy in boosting entrepreneurship and spreading Islamic financial innovations along its route. China’s infrastructure-driven alliances will not only bring prosperity to its underdeveloped western part, but to Russia (its ideological partner to contain US influence in Eurasia), and to other economically vulnerable nations along its new Silk Route, which no doubt would help neutralize the existential threat of Islamist fundamentalism in the long run.

The ethical character and financial stability of Shariah compliant investments coupled with social cohesion through geo-economic alliances may bring about much-needed economic prosperity and sustainable development to a world divided by crippling national debts and the rise of the extreme right in Europe.

Dr George Mickhail is a senior lecturer at the School of Accounting, Economics & Finance, University of Wollongong, Australia. He is also a Professeur des Universités Invité, IAE Ecole Universitaire de Management d’Orléans, Université d’Orléans, France as well as a visiting professor, ISESEG School of Management, Université Catholique de Lille, France. He can be contacted at george@uow.edu.au.