



Tapping the Middle Eastern dollar

How can Hong Kong benefit from Islamic finance opportunities in China? *Timothy Kwai* finds out

While Hong Kong is preparing to introduce Islamic bonds to capture the wealth of Middle Eastern investors, Shenyang, the largest city in northeastern China, is wasting no time to tap this lucrative market.

When Hong Kong Chief Executive Donald Tsang visited the northeastern Chinese provinces before the Beijing Olympics in July, Shenyang was already actively seeking opportunities with various parties in Malaysia.

Shenyang is aspiring to become the second Tianjin in China as it speeds up the opening of its financial sector to foreign participation.

As part of its 11th five-year plan, Shenyang is building its financial and insurance sectors, and developing Islamic finance is a part of it. The city

is seeking to become a regional capital market to serve northeast China and Inner Mongolia and to offer services such as the regulated transfer of property titles, creditors' rights, equities and intellectual property.

Shenyang now has nine foreign-invested financial institutions and four insurance companies operating there, but it wants 30 foreign-invested financial institutions by 2010 alongside branches of all mainland commercial banks.

Malaysia, considered a leader in Islamic finance, signed an agreement with Shenyang in January to train Shenyang's financial professionals. About 100,000 Muslims live near Shenyang in China's northeastern region. Shenyang and Malaysian officials have also agreed to set up

a 120-hectare Islamic financial community in the Chinese city in order to attract financial institutions from the Gulf.

Shenyang has a liberal government and a population of 7.2 million people who enjoy a higher average income than people in other parts of China. Hong Kong has a sound financial and legal system and if the cities position themselves well to Muslim states, they can market each others' advantages.

Because charging interest is banned under Islamic finance rules, banks use people's deposits for investment – mostly in real estate and industry – to generate profits for depositors. Hong Kong can provide a wide range of investment products for Islamic-compliant investors. But real estate and industry in Hong Kong are

very developed so the territory might fare better if it can work with other mainland cities that may offer more exciting opportunities for Muslim investors.

Hong Kong investors can also consider setting up factories in Shenyang, famous for its pharmaceutical industry, to produce *halal* products (those that are permissible under Islamic laws) to meet a demand for items from food and medicines to cosmetics and tissue paper. Shenyang has a number of pharmaceutical manufacturers based there with reputed institutes like the Shenyang Pharmaceutical University.

At the same time, training for

Hong Kong finance professionals needs to be strengthened because most lack an understanding of basic principles of Islamic finance.

The Hong Kong Institute of CPAs has offered CPD courses on Islamic finance to accounting professionals here. Meanwhile, the Hong Kong Institute of Banks and other accounting and securities bodies are also working with authorities in Bahrain and Malaysia to develop relevant courses.

The Hong Kong government can work with universities to set up a centre for Islamic finance to research and train people. It might consider giving financial institutions tax

incentives for products such as Islamic funds, Islamic real estate investment trusts, or REITS, Islamic bonds and Islamic insurance and reinsurance.

In addition, the Hong Kong Monetary Authority can allow the subsidiaries of banks in Hong Kong to operate Islamic finance windows. The authority, however, will have to issue guidelines for the banks on disclosure and risk standards for Islamic financial services.

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