

## INTERNATIONAL FORUM ON UNLOCKING ISLAMIC FINANCE POTENTIAL IN CPEC AND BEYOND

**T**he Centre for Excellence in Islamic Finance (CEIF), IBA held an International Forum on 'Unlocking Islamic Finance Potential in CPEC and Beyond' at IBA City Campus. The China-Pakistan Economic Corridor (CPEC), often called a 'game-changer' in this region, primarily consists of \$45 billion worth of domestic infrastructure projects planned by the government of Pakistan. IBA-CEIF, initiated in 2015 has done remarkable work; among all 3 centers in Pakistan, it is the most active.

In this Forum, the effects and impact of CPEC on the Islamic Finance industry in Pakistan were analyzed, since it provides a great opportunity for the industry to channelize excess liquidity into innovative financing instruments. High profile panelists representing the governments of Pakistan and China, Islamic Finance Experts, Academicians and Regulators discussed how this sector can capitalize on growth opportunities stemming from CPEC and related projects.

The conference commenced with recitation from the Holy Quran followed by opening remarks by Mr. Ahmed Ali Siddiqui, Director, CEIF. Welcoming the audience, Mr. Ahmed said that, 'Today's event is a continuation of CEIF's efforts to provide its strategic input and gather all stakeholders at a common platform. Moreover, this forum is a continuation of a round table conference held in December 2016. Since CPEC passes through 27 Muslim countries, it is not right to ignore its potential impact on the field of Islamic finance. We should try to get the maximum benefit from this. Keeping in mind the Pakistani culture and Muslim majority population, the onus is on us that the financing for CPEC is structured in a Sharia compliant manner. All major stakeholders have to act fast to ensure a seamless flow. Thus, it is a critical topic to be discussed.' Mr. Siddiqui also hoped that this forum will provide food for thought on how to further



make CPEC a strategic asset for Pakistan.

Dr. Farrukh Iqbal, Dean and Director, IBA, was then called on stage. With more than 30 years of management and research experience in the World Bank - across a range of countries; Dr. Iqbal has considerable experience in the field of development. He commenced his address by welcoming the audience, consisting of various distinguished persons from the SBP, Islamic banks and guests from China. He said that the work of the World Bank has essentially been related to long term financing - funds are lent for thirty plus years for development purposes. Since CPEC is a development project, Islamic finance is very critical for long term development of finance. The potential is enormous. However, it has not been properly exploited in Pakistan and neither in any other country. An exception is the Islamic Development Bank in Saudi Arabia. He further elaborated that Islamic Finance is a good instrument to use for long term development finance projects. He also congratulated the organizers for taking the initiative to hold this conference since this is an aspect, which has not been talked about.

This was followed by a keynote address by Mr. Irfan Siddiqui, President & CEO Meezan Bank. Fifteen years ago, when the idea of Islamic banking was introduced, Meezan Bank was a small bank. With the initiative of Mr. Irfan Siddiqui, Meezan Bank is now the eight largest bank in Pakistan. The first question which Mr. Siddiqui raised was whether 'CPEC would be a game-changer? In order to answer this, it is significant to understand what the CPEC is exactly. It is a project, which covers 60 countries - more than half of these are Islamic. It will also reduce the distance of Western China to Europe by 5000 km, a distance taking around 45 shipping days. Consequently, working capital requirements also reduce by one quarter. Mr. Irfan further said that China





Kong and Taiwan to the Chinese economy. Another perspective was also given which stated that Pakistan is not ready for CPEC since our banks have failed to target the population living in rural areas - only 16% of the population uses banks. However, the fact that CPEC will lead to 2-3% growth in Pakistan's GDP cannot be overlooked. Dr. Afghan voiced his apprehensions over CPEC and said the initiative focuses more on economy than benefitting the people of Pakistan and hence it should be more about the people and not only about the economy. Mr. Li on the other hand opined that CPEC's emphasis on developing infrastructure will ultimately benefit the Pakistani nation and help Pakistan

is the largest spender on tourism and if 1% of the tourism money - which the Chinese spend worldwide is invested in Pakistan than that amount will be greater than all the income earned by the tourism industry in Pakistan. It is important to understand that CPEC is not just a need of China but also Pakistan - creating a win-win situation. It is also significant for the young generation to learn Chinese since China is one of our friendliest neighbors, considering Pakistan's hostile relations with India and Afghanistan, and sanctions on Iran, which have adversely affected its economy.

Mr. Saeed Ahmed, Deputy Governor, State Bank of Pakistan, then addressed the audience. He mentioned how policymakers all over the world are taking a keen interest in Islamic banking especially after the recession of 2007. The size of the global Islamic finance industry is also approximately Rs. 2 trillion now. The right way to finance projects under the CPEC - ports, roads, motorways - is not from commercial banks, but from specifically designed products by Islamic banks such as Ijara. He also discussed the role of the SBP in encouraging Islamic banking, by allowing them to have a liquidity ratio of 14%. He also emphasized that it is also essential to sign a Memorandum of Understanding between Islamic Banks and Chinese representatives. This will bring forward new ideas and strategies, thereby stimulating the growth of the Islamic finance industry.

The last speaker of the first session was Dr. Nadeem Javaid, Chief Economist, Government of Pakistan, Ministry for Planning, Development and Reform. He stated that there are four main components of CPEC: Energy, Infrastructure Development, Economic Incentives and Industrial Cooperation. He said that CPEC will greatly lower the per unit cost of energy, incentives such as exemption from local duties and materials, whereas suspension of trade union activities, will give opportunities to investors. Therefore, designing cost-effective, Shariah compliant finance options is the need of the hour. He predicted that the economic dividends of CPEC will be so high that even India might join this project eventually.

The second session was based on the theme 'CPEC Opportunities for Islamic Finance Industry', with some of the key topics being infrastructure development, trade finance and spillover opportunities in the cement, steel and energy sectors. The panelists were Maj. Gen. (Retd.) Dr. Zahir Shah, Mr. Irfan Siddiqui, Dr. Nasir Afghan, IBA Faculty, and Mr. Li Xiaoxin (David), Deputy CEO of Industrial & Commercial Bank of China Limited. The session was chaired by Dr. Nadeem Javaid. In this session, the historical changes in China under Deng Xiao Ping were discussed along with the contribution of Hong

progress. After this, the house was opened for questions.

The third session was based on the theme 'Financing CPEC Opportunities for Islamic Finance Industry'. The panelists were Mr. Junaid Ahmed, CEO, Dubai Islamic Bank, Mr. Syed Samar Hasnain, Mr. Hasan A. Bilgrami, President & CEO Bank Islami, Mr. Mirza Saleem Baig, Head - Islamic Banking, Habib Bank Limited and Dr. Sulaiman Liu Jiujiang, Senior Partner & Co-founder, Al Sadiq Consulting. The relationship between trade finance and correspondent banking was discussed, along with the vital role of foreign currency in long term financing in today's increasingly globalized world. Dr. Sulaiman said that so far 70 projects were in the pipeline for CPEC and its significance transcended Pakistan & China as through CPEC's strategic location, we are looking to touch a 3 Billion population market, which will make it the most attractive investment hub within the region.

The fourth session based on the theme 'Product Need Assessment'. The speakers consisted of Mr. Amir Ali, SEVP and Group Head, Meezan Bank, Dr. Sulaiman Liu Jiujiang, Mufti Irshad Ahmed Aijaz, Chairman Shariah Supervisory Board, Bank Islami, Mr. Muhammad Nasir Ali Syed, and Dr. Muhammad Imran Ashraf Usmani, Group Head Product Development and Shariah. Mr. Amir Ali said there is potential in the Islamic banking industry to participate in CPEC projects. However, challenges arise when using Shariah compliant products, since profit cannot be accrued with RMB Sukuk. A bilateral agreement was also signed in 2011 between Pakistan and China consisting of Rs. 110 billion worth of projects. This was further extended in 2013. Pakistan's debt to GDP ratio is also quite high - 65%. Financing for these projects may lead to an increase. Moreover, the GDP growth rate of Pakistan is 4-5%; economic growth, transactions and the GDP growth rate will pick up to 6-7% in the next three or four years. Thus, Islamic banks should get involved actively. Additionally, Mr. Usmani spoke about how Musharakah and Mubarakah are flexible schemes, which allow accruals. Mr. Sulaiman mentioned how 40% of the Pakistan Stock Exchange has been acquired by the Chinese - this is an indicator of stronger Pak-China ties.

The conference was concluded by Mr. Siddiqui who thanked the audience, faculty members, the staff at CEIF and the sponsors. Sponsors for this forum were Bank Islami (Platinum Sponsor), Meezan Bank (Gold Sponsor) and Dubai Islamic Bank (Silver Sponsor). It was an extremely informative and enlightening session since CPEC was discussed from the lens of Islamic financing. One hopes that IBA-CEIF continues to organize such insightful sessions in the future. ●