# CAN DUBAI BECOME THE CAPITAL OF THE ISLAMIC ECONOMY?

**Prof Laurent Marliere** considers challenges to make Dubai the Babylon of the emerging Islamic economy.

The term Islamic economy can be considered through various angles. Minimalists would say it refers to the economies of the 57 member states of the Organisation of Islamic Cooperation (OIC) or to products defined by Sharia compliance, such as finance and food. Maximalists believe it is one segment of the global economy, which focuses on Islamic consumers, regardless of location. I personally follow the approach focused on the consumer and demand. Islam and Muslims are a global paradigm with specific needs and requirements that need to be serviced accordingly. The fact that large forums like the World Islamic Economic Forum (WIEF) hold their annual gatherings in non-Muslim countries is evidence that the Islamic economy is a worldwide phenomenon. In Asia, people tend to refer to the "Halal industry" to describe the Islamic economy.

In terms of figures, one could consider the 1,65 billion Muslims who constitute the Ummah as the market of the Islamic economy. I ponder this, as Muslims across the world are heterogeneous in their consumption habits and, besides, Islamic products could also be potentially interesting to non-Muslims.

According to an insightful survey conducted by Thomson Reuters in 2013, the global expenditure of Muslim consumers on food and lifestyle sectors was $1.62 trillion in 2012 and expected to reach $2.47 trillion by 2018. Islamic financial assets in 2012 were estimated at $1.35 trillion in total disclosed assets and growing at 15-20% a year in most core markets. This report estimates the potential value of Islamic banking assets in its core markets to be $4.1 trillion.

Islamic finance, which is one of the most mature sectors of the Islamic economy, is unable to make a real breakthrough because of the very fact that it is industry-driven and not market-driven. Financial institutions like Noor Islamic have erased the term "Islamic" from their brand, HSBC Amanah no longer offer Sharia-compliant products and services in the UAE and the UK and the Islamic Bank of Britain (IBB) encounters profitability issues.

The Islamic economy is one of the most innovative segments of the world's economy. It still needs to be conceptualised and therefore offers tremendous opportunities for an authority with sound leadership.

Dubai has proved in recent years that it has the capacity to handle financial challenges and great infrastructure projects. If the vision is backed by the righteous means both in terms of finance and knowledge, the rise of Dubai as key player of the sector can be achieved. International macro financial institutions like the Islamic Development Bank (IDB) or the World Bank should step into the project.

The world map is no longer focused on the Atlantic or the link between the US and Europe. The new planisphere is focused on the Pacific and makes Dubai a potential regional capital, a metropolis of Asia and, perhaps even the business capital of Africa, which fails to develop a secure centre. The geo-economics of Dubai makes it more accessible than Malaysia from Europe and easily reachable to the Muslim populations of Africa, the Levant, the GCC and Asia.

The Islamic economy does not solely belong to Muslims. It is a universal industry segment. Dubai has managed to combine an Eastern and Western cosmopolitan culture, which makes it easier to carry out business and trade than in other neighbouring countries.

The legal and judiciary systems in Dubai guarantee the necessary security for business and FDI.

Starting from scratch is a strength: everything can be invented! However, it would be unwise to simply mimic what others have done. Merely copying what Malaysia has done is unrealistic because the Malaysian model, although a great lesson to the world, is not a complete success since it has not managed to conquer more than a regional space! It has failed to become global.

*Dubai has proved in recent years **that it has the capacity to handle financial challenges** and great infrastructure projects.*

To become a capital, Dubai is going to need to attract new companies, corporations and investors to its soil. Tax can play a decisive role. Dubai authorities may underestimate that factor, as it appears exotic to their local daily life. However, tax pressures in the West are climbing at the same time as traditional tax havens are under scrutiny and pressured by strong political and legal measures, mainly issued by the US and the UK (Fatca legislations, etc.), whose citizens are heavy users.

In most off-shore jurisdictions, one only finds a tax haven and a beach haven. In Dubai, you find a tax haven, a beach haven and a trade haven… a real added value for many Western corporations willing to relocate.

If handled properly, and kept an "on-shore" jurisdiction, Dubai and the UAE can pretty much play the role of Luxembourg in the European Union. The GCC will increase its integration in the coming years, like the EU did. Dubai can be a competitive player in this economic union.

The development of the Islamic economy will require support services of high standards which are available in numbers in Dubai, such as law firms, audit & accounting services, banks, certificatory bodies, and brokers.

Dubai can use the professional services firms' home networks and client portfolios to facilitate the relocations of their clients to the Dubai International Financial Centre (DIFC) and elsewhere. There are 68 international law firms and 400 banks there already. There is great potential to create a spider effect boosted by tax incentives.

We live in a complex and sophisticated world. What was halal yesterday might not be today. Take the example of a fish: today, it can be raised on a fishing

farm and fed a cocktail containing pork meat, wrapped in a pack full of alcohol-based ingredients and transported in a container that carried haram products the day before. The process of halalization can become universal, as can the demand. It is linked to the supply chain of the products. Dubai becoming a logistical hub means it can take a share in a "supply chain model 2.0", tailored to the halal industry.

## What are Dubai's challenges?

A short-term or even mid-term view is problematic. If the sole aim is to make Dubai a nice-looking fiancée to present at the World Islamic Economic Forum (WIEF) in October then you risk building on sand instead of concrete. The project deserves, and requires, a long-term plan based on pillars that will explain what the Islamic economy will be in 10 or 20 years!

A myopic short-term plan to simply state that "we are the capital" is not enough. A careful strategic analysis on how to sustain this leadership position needs to be implemented.

In such a huge macroeconomic project, the micro management of smaller items can carry people away – that's what I call the camel view! But success requires a falcon view from the top down…

People need to be realistic on the calendar and agenda. It should take at least a year to create a solid roadmap. Before you build a Burj Khalifa, architects require time to plan the work of art. Otherwise, you create a mere gadget and risk disappointing or upsetting people. Many observers in the Muslim world are now looking at Dubai with a smile on their face. Will the promise be kept? What will be the outcome?

Islamic finance is a mix of money and regulations. It should be a mix of money, marketing and fewer regulations. It is likely that the Islamic economy embarks on a similar journey, where simple things are made complicated by regulators, lawyers and scholars, carrying away the one who should be the real beneficiary of the Islamic economy: the consumer!

The Islamic financial industry is struggling with its products and needs some clearly-defined directions, or strong recommendations, to address major issues: its growth and profitability.

The market positioning of the majority of Islamic products is religious, not financial. Hence, IFF (Islamic Financial Institutions) are failing to penetrate into the mass segments of the Muslim consumers, let alone attracting non-Muslim customers. The religious positioning of the products helps them attract the religious segment, which is thin and shallow. Once this segment is exhausted, institutions find it very hard to penetrate the remaining segments of the market, including the most valuable segments. Religious consumers buy conventional products because they do not see the value of the Sharia-compliance of the product.

Dubai should learn from the mistakes of the Islamic finance industry and launch a smarter paradigm.

Unlike many local observers, I do not believe that Dubai will beat London in the near future as the capital of Islamic finance. The City of London still has some assets and the historical status of world capital that Dubai has not yet achieved. But in the segment of the Islamic economy, Dubai can definitely become the leader provided that its authorities fuel the proper resources and intelligence into the project. If Dubai becomes the world capital of the Islamic economy than it can become the world capital of Islamic finance… not the other way around.

*Laurent Marliere lectures in "Marketing for the Islamic markets". He is the London-based CEO of ISFIN, a worldwide advisory present in 65 countries and focusing on the Islamic markets. He can be contacted at LM@isfin.net.*