



JAKARTA POST FORUM REPORT

THE WORLD GREETED 2009 WITH MUCH UNCERTAINTY WITH THE ECONOMIC DOWNTURN. THE QUESTIONS OF WHEN WILL IT END AND WHAT ARE ITS ULTIMATE EFFECTS COME IN THE MINDS OF GOVERNMENT LEADERS AND BUSINESS COMMUNITY. QUICK ACTION TO TACKLE THE FINANCIAL, FOOD AND ENERGY CRISES IS NEEDED.



The World Islamic Economic Forum (WIEF) continued its mission to provide a platform to gather Heads of State and Government, Ministers, Captains of Industry, entrepreneurs, and reputable academics across the globe to discuss and explore practical opportunities for progress through partnership with its 5th Forum since 2005.

The 5th WIEF held in the capital city of Jakarta, Republic of Indonesia, themed “Food and Energy Security & Stemming the Tide of the Global Financial Crisis”, from 1-4 March 2009, illustrated the commitment for businesses in addressing the issues

confronting not only the Muslim world but the world in general.

The Forum gathered a record number of 1,728 delegates with 77 corporate leaders from 38 countries. Many organisations from various fields attended the Forum to tackle the global financial crisis, food and energy security, and address the role of SMEs in development as well as highlighting the prospects of green technology.

Over 85 Speakers from around the world shared their knowledge to discuss issues

ranging from the current instability in the global financial markets; the increasing need for green technology; the undertaking in the food crisis and the calling to invest in the youth and women. With the crises deepening across the globe, it is hoped that the Forum would encourage more investments in utilising Muslim resources – be it natural or human resources. By providing the opportunity to share knowledge and establish business networks, the Forum will strive to remain as an important international business platform where the business sectors of the Muslim world meet for business opportunities, interact with government leaders, and act as a hub where policy proposals on economic development can be formulated.

After two days of sharing issues and possible resolutions, delegates of the 5th

World Islamic Economic Forum endorsed and adopted the key findings of the Jakarta Declaration. The Jakarta Declaration among other things recommended delegate countries to reduce regulatory barriers such as food subsidies, which would hinder sustainable food production and trade; develop policies to ensure a proper balance between food production for human consumption and energy usage; support energy conservation and carbon emission reduction programs; reinforce efforts for research and development of non-carbon fuels and other alternative energy sources; call for effective regulations in the global financial industry to mitigate risk and failure; and support the establishment of Islamic Banking training centres with harmonized standards in order to expand shariah compliant finance instruments such as micro-credits.

The Jakarta Declaration also addressed the pre-forum topics of the WIEF Businesswomen Network (WBN) and the WIEF Young Leaders Network (WYN), by recommending the continuation of the “Training Program for Women Entrepreneurs” under the WIEF-UiTM International Centre, the continuation of the Nurses Training Programme and the Midwife Training Programme to serve as a platform for entrepreneurship development in rural areas as well as the expansion of the WYN Scholarship, Mentorship and Internship programmes to facilitate young leaders into entrepreneurship positions.



WYN INTERNSHIP AND SCHOLARSHIP PROGRAMME

The WYN Internship Programme has thus far received more than 50 applications from various countries such as Indonesia, Oman, Algeria, Pakistan, Nigeria, Palestine, Philippines, Somalia and Switzerland.

We have secured the participation of a total of 5 corporations for the Internship Programme. They are CIMB Group, Ethos & Company, Sime Darby, Rio Tinto and Al Ghurair Group. The full applications have been sent to these partner corporations for review and out of that,

several interviews have been conducted. A student from Indonesia, graduating in Agriculture from the Bogor Agriculture University has successfully secured an internship placement in Sime Darby in the plantation sector this year.

The WYN Scholarship Programme has attracted interest from Telekom Malaysia Foundation which has agreed to participate by offering scholarships to 2 Malaysian students to pursue studies at the Multimedia University in Cyberjaya.



MAKING A PRESENCE AT THE IDB MEETING IN ASHGABAT

On the 2-3 June 2009, the WIEF Foundation represented by the Managing Director and the Director of Editorial and Business Development, attended the 34th Annual Meeting of the Board of Governors of the Islamic Development Bank (IDB) in Ashgabat, Turkmenistan, where a speech was delivered by the Managing Director.

In his speech, the Managing Director gave an introduction of WIEF Foundation, its relationship with the IDB, initiatives under WIEF, and the upcoming 6th WIEF in KL. The speech was delivered in full view of the Board of Governors meeting, the highest policy making body in the IDB. The WIEF Foundation was also given

the opportunity to distribute some of its publications such as the Jakarta Forum Report, WIEF Corporate Profile and the 6th WIEF brochure. The event was highly successful as it gave the Foundation great exposure to the highest body in the IDB, through the delivered speech and the distributed publications.

ISLAMIC FINANCE IN THE NEW WORLD ORDER

- Badliyah Abdul Ghani, CEO of CIMB Islamic

THE DEVELOPMENT OF ISLAMIC FINANCE IN THE WORLD TODAY IS DEEMED BY MANY AS AN EVENT THAT IS CLEARLY RESHAPING THE WORLD'S ECONOMIC AND POLITICAL STRATA.

For the last 50 years a huge paradigm shift has been experienced that strengthened international financial linkages between Islamic countries and broadening economic interactions between Islamic countries and other countries in a Shariah compliant manner.

Islamic finance has helped bring greater economic prosperity to many and rightly so as it is meant to contribute towards a more optimum allocation of wealth across borders and amongst the world's population. At last, there is a real chance to see the nearly 2.0 billion Muslim able to participate more in the world's economic activities together with everyone else on equal footing.

Islamic finance is a comprehensive financial system that adheres to the way of life as expounded in the Quran (the words of Allah) and the Hadith (the words, actions and acknowledgements of Prophet Muhammad), known as Shariah. It was the financial system of the known world developed under the reign of the

Muawiyad and the Abbasid Empires (the Middle East) from the year 661 to 850 and it continued to be a vibrant and significant financial system of the known world spearheaded by great human civilisations in Andalusia (Spain) until the year 1031, in Granada until the year 1492, in the Malacca Sultanate (1511) and in the Ottoman (Turkey) until the year 1918. It is a system which has existed for more than 1,425 years but somewhat subdued in the last 500 years due to Muslim and their countries, the centres of these great human civilisations being colonised by foreign powers. The world is only slowly relearning what is available under the system in the last 80 years since these empires, broken into smaller Islamic countries, achieved independence from the occupying powers. Malaysia being the centre of Islamic finance throughout the empire of the Malacca Sultanate has been at the forefront of modern day development of Islamic Finance.

Like many Islamic countries newly independent from colonial powers,

Malaysia took upon herself to rebuild and develop the Islamic finance industry way back in the 1960s immediately after obtaining independence from Great Britain in 1957. The Islamic finance industry was introduced and developed purely from a developmental agenda perspective. The growth of oil wealth in Islamic countries has no influence whatsoever in this agenda though some would say it acted as a catalyst for the agenda. At a time of adverse political and economic environment the Malaysian Government boldly decided to build the industry through trial and error. The effort was received with absolute cynicism globally and utter disbelief locally. It has been a great 46-year journey and the world is now seeing the regulatory, legal and legislative model established in Malaysia used as a model for industrial development globally.

The first successful Islamic financial institution in the new world order is the Tabung Haji or Pilgrimage Fund established in 1963 in Malaysia. This

multi-billion dollar entity is an Islamic finance juggernaut that has helped build Islamic economic activities in Malaysia and elsewhere in the world. The second successful Islamic financial institution is the Islamic Development Bank that was legally established in Malaysia in 1975 by the Malaysian Government but was later headquartered in Jeddah, Saudi Arabia when other Islamic countries joined the bank, transforming it into an international and multilateral financial institution. These two institutions were then followed by the establishment of the Abu Dhabi Islamic Bank, Bank Islam Malaysia Berhad and many others. There are now over 300 Islamic financial institutions globally in more than 50 countries in 6 different continents.

Islamic finance as an industry in the new world order has evolved over the years and its activities includes the Islamic banking sector, Islamic money market, Islamic debt and equity capital market, asset management industry, wealth management, non-banking financial activities such as takaful, waqf, etc, the Islamic structured products and derivatives market and many other activities that are integral for a successful financial market. Its evolution can be charted in the diagram on the above right:

Islamic finance should not be seen merely as something religious. A Muslim when deciding to do Islamic Finance may be doing it because of his or her religious



belief as provided under Shariah within the ambit of Aqidah (i.e. Man and God relationship) However, when Islamic Finance activities are undertaken by the Muslim or anyone else for that matter the activities are in fact purely

and USD3 trillion globally in the next 3 to 4 years respectively. Like its conventional counterpart, Islamic finance is also affected by the global financial and economic crisis arising from the US sub-prime meltdown. Though Islamic finance was not directly

| Category (non exhaustive list) | 1960s | 1970s | 1980s | 1990s | 2000s |
|--------------------------------|--|--|---|--|--|
| Area | <ul style="list-style-type: none"> Asia Pacific Gulf/Middle East | <ul style="list-style-type: none"> Asia Pacific Gulf/Middle East | <ul style="list-style-type: none"> Asia Pacific Gulf / Middle East | <ul style="list-style-type: none"> Asia Pacific Gulf / Middle East | <ul style="list-style-type: none"> Gulf / Middle East Asia Pacific Europe / Americas Global Offshore Market |
| Institutions | <ul style="list-style-type: none"> Savings Institution Private Equity Firm | <ul style="list-style-type: none"> Savings institution Private Equity Firm Development Bank Commercial Bank Investment Management Company | <ul style="list-style-type: none"> Savings institution Private Equity Firm Development Bank Commercial Bank Investment Management Company Takaful | <ul style="list-style-type: none"> Savings institution Private Equity Firm Development Bank Commercial Bank Investment Management Company Takaful Merchant Bank Brokers/Dealers | <ul style="list-style-type: none"> Savings institution Private Equity Firm Development Bank Commercial Bank Investment Management Company Merchant Bank Brokers/Dealers Investment banks E-Commerce |
| Products | <ul style="list-style-type: none"> Savings product Private equity investment | <ul style="list-style-type: none"> Savings product Private equity investment Banking products Funds | <ul style="list-style-type: none"> Savings product Private equity investment Banking products Funds Takaful products | <ul style="list-style-type: none"> Savings product Private equity investment Banking products Funds Takaful products Interbank products Domestic bonds Shariah compliant stocks Islamic stockbroking Islamic derivatives | <ul style="list-style-type: none"> Savings product Private equity investment Banking products Funds Takaful products Interbank products Domestic bonds Shariah compliant stocks Islamic stockbroking Islamic derivatives Hedge funds Islamic REITs |

Source: International Organisation of Securities Commission (IOSCO)'s Islamic Capital Market Task Force Report 2004

commercial activities that falls within the ambit of Muamalat (ie. Man and Man relationship). Many consumers of Islamic finance globally are in fact non-Muslim. Since commercial activities impact on public interest and market integrity, Islamic Finance must therefore be regulated to protect the interest of the consuming public and to protect the systemic integrity of the overall financial market. Unfortunately not many Islamic countries have a comprehensive legislative, regulatory, legal and Shariah framework to govern Islamic Finance activities. Malaysia with 46 years of developmental history in Islamic Finance is seen by many as the one country that has the most comprehensive framework in the world and it is hoped that other Islamic countries would emulate it.

Notwithstanding, the global Islamic financial market has grown significantly over the years at an estimated average growth rate of 15% to 20% per annum. Current size of Islamic funds managed by financial institutions is estimated at USD1.5 trillion with Islamic assets estimated at USD750 billion. By 2010, Islamic assets will breach the USD1 trillion mark and it is expected that Islamic funds and assets will grow to circa USD4 trillion

impacted by the crisis as the industry was not directly involved in the US sub-prime market it has been equally affected by the liquidity crunch and the general slowdown in economic activities as well as the consequential failures in certain economic sector such as the real estate. In spite of this, Islamic finance is still enjoying double digit growth.

With lessons learnt from the failures in the conventional "riba based" financial market, Islamic finance is expected to play a bigger role in the global financial market space. Financial regulators in major financial centers affected by the financial crisis are now studying Islamic finance to see how its underlying principle of Shariah can help mitigate the crisis facilitating greater awareness of the industry's viability and value proposition. The global Islamic finance industry has evolved from a mere faith-based (tauhid) to a business driven industry for all communities as is facilitated under Shariah. Through natural evolution, the world is now seeing more and more Islamic Finance products becoming very competitive and efficient both in terms of structure and pricing. As Islamic Finance grows globally, the platform is set for the world to have a robust and resilient Islamic economy.

Nuts and Bolts:

Tackling the Cost of Doing Business

- Fazil Irwan Som, Director of Editorial and Business Development, WIEF Foundation



ONE OF THE KEY DETERMINANTS OF GREATER INTEGRATION IN TRADE AND INVESTMENT IN THE MUSLIM WORLD IS, UNDOUBTEDLY, THE COST OF DOING BUSINESS.

In fact, the most compelling explanation why funds prefer to find its way to non-Muslim markets is because of the lower cost of doing business. This not only includes the tariff and non-tariff measures, but also includes a vast array of concessions and means of doing business. The cost of communication is one such factor. We all know for a fact that there are various ways in which we can communicate with people in Europe and North America for a nominal cost, if not for free, if one is accustomed to Voice Over Internet Protocol (VOIP) softwares. This brings down the cost of doing business substantially.

Take another example of shipping goods. From the UPS Worldwide Zone Chart on 2009 Shipping Rates, we can analyse 3 clusters of pricing, out of the

many pricing categories. The developed countries of Europe are clustered in Zone 401, the developed countries of Asia are typically clustered in Zone 409 and the main countries of the Muslim world are clustered in Zone 405. The chart shows clearly that the cost of shipping goods to the Muslim world is substantially much higher than to the countries in Asia and Europe. Several factors can come into play here. We can look at the scenario from a supply and demand perspective, namely that the lower pricing would indicate a higher volume of trade transaction in the countries in question due to economies of scale. But what facilitates the volume of trade? The answer goes back to the same thing - the cost of doing business. It is the tariff and non-tariff measures, which inevitably would hit the shipping industry, and that is the primary cause of the hike

in price of shipping in the Muslim world viz. Europe and the developed economies of Asia.

The solution of high pricing in the movement of goods and services across borders is the integration of markets and the diminishing of trade barriers. This is probably why the EU serves the European market well by making it more attractive to invest and trade with a bigger market, and makes it less expensive to do so. Despite having less of a regional bloc than the Europeans, the economies of Japan, Singapore, Taiwan, Hong Kong still benefited from lower pricing due to their liberalised economies and lower barriers to trade.

Therefore clearly there is much to do to make the economies of the Muslim world competitive. For starters, the cost of doing business has to go down. And this would invariably mean that Muslim countries need to look at the bigger picture.

The Muslim world is a dichotomy of the haves and have-nots, and the disparity is huge. On one side, there are the rich countries in the Gulf whose wealth is attributed almost solely to the proceeds from oil and gas. These economies are bestowed with a natural resource in their own backyard which has an inelastic demand. The implication of that is huge. They do not have to innovate; they just have to sell their oil. And being an inelastic good, the demand for oil will not dissipate, at least not for another few decades. This has repercussions not only on how their economies work, but also on how the labour force develops. Oil proceeds are converted into sovereign wealth funds which then look for lucrative berths to

UPS Express Freight® Worldwide Zone Chart

To and From Destinations Worldwide - 2009 Rates

| Destination | Zone |
|----------------------|------|
| Argentina* | 406 |
| Australia | 404 |
| Austria | 403 |
| Belgium | 401 |
| Brazil* | 406 |
| Chile* | 406 |
| China | 412 |
| Columbia* | 406 |
| Costa Rica* | 406 |
| Czech Republic** | 407 |
| Denmark | 403 |
| Dominican Republic** | 402 |
| Ecuador* | 406 |
| Finland | 403 |
| France | 401 |
| Germany | 401 |
| Greece | 403 |
| Guatemala* | 406 |
| Hong Kong | 409 |
| Hungary | 407 |
| India | 404 |
| Ireland | 401 |
| Italy | 401 |
| Japan | 409 |

| Destination | Zone |
|----------------------|------|
| Kuwait | 405 |
| Malaysia | 404 |
| Mexico | 484 |
| Netherlands | 401 |
| New Zealand | 404 |
| Norway | 403 |
| Peru* | 406 |
| Phillipines | 404 |
| Poland | 407 |
| Portugal | 403 |
| Saudi Arabia | 405 |
| Singapore | 409 |
| South Africa | 408 |
| South Korea | 404 |
| Spain | 403 |
| Sweden | 403 |
| Switzerland | 403 |
| Taiwan | 409 |
| Thailand | 404 |
| Turkey | 405 |
| United Arab Emirates | 405 |
| United Kingdom | 401 |
| Venezuela* | 406 |

reap more returns. In a nutshell, these economies are concerned mainly with depositing their petrodollars in competitive economies.

On the other side of the fence, we have the developing and the under-developed economies of the Muslim world. The main problem with a bulk of these economies is the lack of infrastructure and institutions that can give a healthy return to inward investments.

The financial demographics is telling. We have a significant portion of the Muslim world struggling to lure inward investment, and a select few (the rich ones) preferring to channel their investment into other competitive economies outside the

fold. The centrifugal pattern is indeed a cause of concern.

The significant happenings in the past few years, from 9/11 to the recent financial crisis, have done much to shift the focus of the sovereign funds away from the conventional markets and into blue ocean territory. This meant that economies of the Muslim world particularly, are given a new lifeline.

This is the time when these economies can buck up and impress upon the sovereign funds that they deserve to have a piece of the pie. To do so, several measures need to take place. For starters, trade barriers need to be brought down significantly. And yes, they are coming down. According

to a study carried out by the Islamic Centre for Development of Trade (ICDT) in collaboration with the United Nations Conference on Trade and Development (UNCTAD), the global impact of the TPS-OIC (Trade Preferential System-Organization of Islamic Conference), intra-OIC will increase by about 53%. The study prepared by the UNCTAD and the ICDT are based on the hypothesis of a free trade area (removal of all customs duties and taxes of equivalent effect on intra-OIC trade).

The findings of the study, at the export level, suggest that exports of Turkey are expected to increase by USD6.7 billion, followed by Malaysia with USD3.7 billion, Indonesia with USD3.2 billion, the GCC countries with USD2.7 billion, North Africa except Morocco with USD1.5 billion, Morocco with USD1 billion, Bangladesh with USD179 million, Uganda USD21 million and Mozambique with USD2 million. The value of intra-OIC trade could increase by USD19 billion, the value of which will accede to the Preferential Tariff Scheme (PRETAS).

The realisation of this intra-trade goal would substantially contribute to the lowering of cost of doing business in the Muslim world. This is of course a chicken and egg issue i.e. to stimulate intra-trade, the cost of trading between countries has to go down accordingly. But we need to start somewhere. Therefore the OIC initiative is something that needs to be commended and supported by every tier of the Muslim business community. We need to work towards that objective. For all you know, the Muslim world might even get to Zone 401 or 409 in the next few years. The future is a bright one, we just need to capitalise on it.

| Zones | 484 | 401 | 402 | 403 | 404 | 405 | 406 | 407 | 408 | 409 | 412 | 420 | 421 |
|--------------------|--------|--------|--------|--------|--------|--------|---------|---------|---------|--------|--------|--------|--------|
| 151-999 lbs | | | | | | | | | | | | | |
| Price per Pound | \$3.60 | \$5.89 | \$6.62 | \$7.04 | \$8.53 | \$8.84 | \$10.78 | \$14.19 | \$15.16 | \$5.83 | \$7.82 | \$6.35 | \$6.97 |
| 1,000 lbs. or more | | | | | | | | | | | | | |
| Price per Pound | \$3.31 | \$5.42 | \$6.09 | \$6.48 | \$7.85 | \$8.13 | \$9.92 | \$13.05 | \$13.95 | \$5.36 | \$7.19 | \$5.84 | \$6.41 |

UPS Express Freight®
To and From Destinations
Worldwide - 2009 Rates

6th WIEF

THE 6TH WIEF WILL TAKE PLACE IN KUALA LUMPUR, MALAYSIA ON THE 18-20 MAY 2010 AT THE KUALA LUMPUR CONVENTION CENTRE, DUBBED THE "BEST CONVENTION CENTRE IN ASIA" BY CEO INDUSTRY AWARD 2009.



The event is expected to bring together Heads of State and Government, Captains of Industry, and emerging entrepreneurs from the Muslim and non-Muslim world to discuss relevant topics of the day, in particular the challenges that concern the Muslim world in the wake of the current global business climate. Special focus is given to country-specific sessions in which

selected countries will be accorded the opportunity to showcase investments and business potentials in their respective local economies, and also industry-specific sessions to address challenges and propose solutions. The Forum also emphasises on maximising networking opportunities for delegates and sponsors through specially designed matchmaking sessions.

CORPORATE MEMBERS



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