



Globalisation of Islamic Financial Services and World City Networks

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Abstract

Islamic Financial Services (IFSs) sector is rapidly developing in the Middle East cities as well as growing in the South East Asian cities like Kuala Lumpur and Jakarta. Growth rate of this sector is notably significantly in the mainstream International Financial Centres (IFCs) such as London and New York. Currently these cities are said to be the 'command and control' centres of the global economy because they harbour producer's services firms which manage increasingly complex production networks. This paper draws an analysis of rapidly expanding IFSs sector through a study of how cities are being connected through the intra-firm networks which provide Shari'ah-compliant financial services. It is argued that a focus on the globalisation of Islamic financial services (IFS) sector may provide an alternative to hegemonic imaginations of world city-formation through its focuses on globalising economic process. The relevance of such analysis is discussed against the conceptual backdrop of the world city network literature. Based on information on the location strategies of 27 leading Islamic financial services (IFS) firms in 47 cities across the world, this study employed the methodology on 'globalisation and world city network' (GaWC). The results show that globalisation within the Muslim world follows a unique urban trajectory, thereby creating a network of powerful cities. The results also show that Middle East is at the apex of the IFSs sector and Manama is identified the hub of the IFS sector which other major cities such as Amman, Dubai, Doha, Jakarta, Jeddah, Karachi, Kuala Lumpur, Kuwait, Riyadh and Istanbul etc. are also primary nodes in the city network. Outside the Muslim world, London is increasingly profiling itself as a global Islamic financial service (IFS) hub.

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1. Introduction

Ethics in financial services refers to the inclusion of moral values in financial decisions. Since faith-based Islamic finance arguably has an obligation and not an option to be ethical and this is one way it differentiates itself from conventional finance. The attributes that people seem to associate with ethics in Islamic finance range from the minimum juristic requirements to the aspirational-avoiding industries who are involved in businesses which are against the Islamic business ethics, such as alcohol and pork, *riba* (usury) and excessive *gharar* (uncertainty). Purpose of this Islamic business ethics is to promote economic justice, widening access to finance, enhancing human welfare and caring about the environment among others. Beyond the core prohibitions, much of what may be termed Islamic ethical finance is covered in the standard, 'Corporate Social Responsibility Conduct and Disclosure for Islamic Financial Institutions' by the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI, 2008).

Globally, Islamic (ethical) finance is one of the fastest-growing segments of Islamic financial services (IFS) industry and is recognised as a vital and thriving market. While the size of IFS estimated to range climbing from \$1166bn in 2012 to \$1267bn in 2013, representing 8.67% annual growth is still a fraction of conventional financial service industry. (*The Banker*, 2013).

The cities like Amman, Ankara, Doha, Dubai, Istanbul, Jeddah, Kuwait, Kuala Lumpur, Karachi and Riyadh in the Muslim world host the largest financial and professional services. Catering to the needs of the many major transnational business firms, Islamic Banks located in these cities have been serving the need

of the financial services for urban development-urban economic growth machines-throughout the Muslim world and have begun to move closer to realising the hubs of Islamic ethical finance.

In one hand, the Islamic banking profitability is gaining momentum across key markets such as Qatar, Indonesia, Saudi Arabia, Malaysia, UAE and Turkey and is expected to exceed \$25 billion by 2018 (Ernst and Young, 2013). While the profit numbers for Islamic banks are impressive, they are still, on average, 15-19 percentage points lower than traditional banks in these markets. However, regionalization and operational transformation, which are currently underway in several leading Islamic banks, will help to close this gap. Also Malaysian and Saudi Arabia are prominent sources of shariah-compliant investment products. These two countries have the most evolved Islamic mutual fund industries in the world, with Malaysia currently hosting more than \$11bn and Saudi Arabia more than \$12bn in Shariah-compliant asset under management (AUM). This growth of IFS is increasingly being seen outside the traditional markets of the Gulf and South East Asian countries which meant that global markets participants and policy makers are increasingly paying attention to its potential (The Banker, 2013). Large UK conventional banks (e.g. Royal Bank of Scotland, Barclays Capital, HSBC, and Standard Chartered) and some large size Islamic banks in particular have been heavily involved in investing in the cities like Doha, Dubai, Istanbul, Jeddah, Kuwait, Manama and Riyadh as financial hubs through well-staffed regional headquarters in the Middle East and Malaysia. The authorities of these countries have already agreed to provide a level playing field in accordance with international standards, including regulations of foreign exchange, tax regime, business cost as well as focusing on maintaining a robust yet flexible entry standard and monitoring the markets based on Shari'ah-compliant way. In Western world, both New York and London have launched Islamic indices affiliated to their main Dow Jones, MSCI, Standard and Poor and FTSE indices, to provide a benchmark for equity prices for investment in Islamic financial institutions. Discursively, the high credibility of Islamic financial sector and its tremendous growth in the last decade have been supported by mainstream financial elites, who have developed the cities of the Gulf region as prime emerging markets and regional banks which have mobilised Islam in an Orientalist discourse to attract investment in a Shari'ah-compliant way (Siddiqi, 2011). Also, some scholars (e.g. Siddiqi, 2010; Delorenzo,2000) view the integration of ethics and values into finance as a positive development, with many investors reportedly considering Shari'ah-compliant financing, given the recent global credit crisis and fears of economic recession.

On the other hand, Islamic Finance Industry's expansion has been hampered by shortage of highly liquid, investment-grade financial insurgents that Islamic banks can trade to manage their short-term funding needs. The long waited debut \$490 million sukuk issuance in August 2013 by Malaysia International Islamic Liquidity Management Corporate (IILMC)- a body backed by central banks from the Middle East and Asia-marked a significant milestone while setting several records in process. The IILMC's current shareholders comprise nine central banks from Indonesia, Kuwait, Luxemburg, Malaysia, Mauritius, Nigeria, Qatar, Turkey, United Arab Emirates, and Jeddah based Islamic Development Bank (The Banker, 2013,p.19).

1.1 Cities in the Muslim World and their Significance

In terms of highly symbolic infrastructural developments, cities in the Muslim world in general and Gulf cities in particular, are explicitly subscribing to the idea of becoming world cities. Taking high-tech knowledge based urban economies such as London and New York as examples, urban policymakers in the Middle East aim to create an instant success story on massive infrastructural investment and simultaneous relaxation of the fiscal and judicial environment. The growing importance of the IFS sector within the urban developments in the Gulf shows that although cities are subscribing to the world city rhetoric, the actual urban processes are by no means a mirror-image of Western world city-ness. Within the Islamic sphere, cultural globalisation and integration within the world economy is increasingly mediated through Islamic forms of economic and democratic political activism. Gradually, cities of the Muslim countries are becoming at par with the cities of the developed countries in terms of infrastructure and technology based services for urban economic development. Even though the cities of the Muslim world have been an obvious victim to hegemonic world city imaginations highlighted by Massey (2007). One way to put the cities of the Muslim world on the map is to shift our analysis to the Islamic finance service (IFS) sector which has not only become a highly integrative force for the Muslim countries in and by themselves, but also in terms of the linkages between cities in the Muslim world and as well as with the rest of the world.

It may be noted that Islamic finance, unlike in interest-based conventional financial institutions, governance through board of directors and also supplemented by the Shari'ah Supervisory Board (SSB). These Shari'ah scholars of the Muslim countries are the powerful agent and key driver of city networks. Evidence found that a few high profile Shariah scholars who sit on more than ten boards of several IFSs at a time (Failaka, 2008) since they hold highly specialised knowledge and skills about Islamic laws (Shari'ah). These Shari'ah scholars lend their services, applicable in the Islamic financial service (IFS) firms and thereby exercise high levels of authority, since they interpret the rules of Shari'ah and ensure its compliance at IFS. This vintage point draws on the observation that through their multiple board memberships, Shari'ah scholars can be identified as the source of inter-city connectivity as they link up firms and regulatory bodies across cities within and outside the Muslim world.

In the spirit of 'urban entrepreneurialism', urban elites of Amman, Ankara, Doha, Dubai, Istanbul, Jeddah, Kuwait, Kuala Lumpur, Karachi, Manama and Riyadh have employed accounts of global connectivity and world city status to generate a recipe based urban form, which recently appeared to be success story, a unique safe haven for regional and international Islamic investment in the conflict-ridden Middle East particularly, and in Asia in general. These developments imply that to a certain extent, the efforts of the Muslim countries governments in promoting their cities as the international hubs for the Islamic financial markets have been successful (Bassens et al; 2010). In spite of the development of Islamic financial services in the cities of the Muslim world and major nodes in the work of IFS firms; however, cities like such as Amman, Doha, Dubai, Istanbul, Jeddah, Kuwait, Kuala Lumpur, Karachi, Manama and Riyadh have been largely ignored in the literature of conventional world city analysis or do not commonly feature in the conventional world city rankings.

1.2 Aim of this Study

The main purpose of this study is to show how the cities- hubs of Islamic finance, operating in the Muslim world are integrated in the world city network through its provision of Islamic financial business services and are thereby linked to the wider global economy. By tracking the trail of Islamic financial service (IFS) firms in an explanatory analysis, this study shows that globalisation within the Muslim world follows a unique urban trajectory, thereby creating a network of powerful cities.

The reminder of this paper is organised as follows. In the section 2 features about the geography of Islamic financial services firms (IFS) and world city network. Section 3 outlines the 'globalisation and world city network' (GaWC) methodology that has guided the data collection of this study and replication of the methodology. Section 4 provides the results with detailed assessment of linkage of the world city networks of the globalising IFS sector. The paper is concluded in the section 5 with a discussion of the main consequences and implications of the results.

2. The Geography of Islamic Financial Services Firms and World City Network

The globalising trends of Islamic Financial Service (IFS) sector firms in the Muslim world and the involvement of large 'mainstream' banks in Islamic financial markets have made it clear that the rapid growth of Islamic finance and its ethical foundations make Islamic finance an increasingly serious alternative to conventional system (Tripp, 2006; Siddiqi, 2011). In 1970s, following the establishment of Islamic Development Bank and fuelled by windfall oil money, a number of commercial, mostly Gulf based IFS firms such as the Dubai Islamic Bank, Bahrain Islamic Bank, Faisal Islamic Banks Group etc laid the basis of the now globalising sector (Bassens et al, 2010). This oil boom gave rise to 'a loosely knit interconnection, international network of Muslim members of the business community', involved in both petrochemical and financial sector, allowing them to gain experience in Western regulatory and business environments such as in London and New York and other world cities (Maurer, 2005). Since the IFS sector has evolved from a distinct Islamic economics rationale that originated in the Muslim world, the biggest part of the US\$1267 billion Shari'ah-compliant assets is evidently located in the Middle East, mainly in the field of retail services to Muslim customers. However, Islamic financial services (IFS) firms are increasingly

‘going global’, offering their products to customers in the non-Muslim countries in Europe and North America.

In order to get an idea about the basic economic geography of the globalised IFS sector, on the one hand, Table 1 provides an overview of the spatial distribution of Shari‘ah-compliant assets, both globally and within the Muslim world including Gulf (Gulf Cooperation Council, GCC) states. Based on a listing of 500 Islamic financial institutions by *the Banker-2013*, it can be seen that the biggest share (40%) of the world Shari‘ah-compliant assets is located within the non-GCC states, followed by Non-GCC and MENA (Middle East North Africa) region 38.64% , Asia region 20.9% and Sub-Saharan Africa about 1%.

Table 1. Geographical distribution of Shari‘ah-compliant assets as at 2013 and CAG Rate

Region/sub-continent	Shari‘ah-compliant assets (US\$ in billions)	Compound Annual Growth Rate 2007-2013
World regions		
GCC	496.94	18.50%
Non-GCC and MENA	489.75	17.35%
MENA Total	986.69	17.92%
Asia	248.58	12.24%
Australia/Europe/ North America	21.70	0.84%
Sub-Sahara Africa	10.36	16.57%
Global total	1267.355	16.02%
Within the GCC		
Saudi Arabia	227.27	
Kuwait	72.55	
UAE	87.42	
Bahrain	56.47	
Qatar	53.43	
GCC total	496.94	18.50%

(Source: *The Banker*, 2013, p. 10, 11))

According to the Banker special Report 2013, figures comprising the IFS ranking of the year 2013 shows ongoing high growth in both the GCC countries (27.73%) and Asia (19.24%). However, the growth of Sub-Saharan-African region declined slightly (-3.42%) although compound annual growth rate of this region remain upwards (16.57%). The highest decline was in the Australia/Europe/ America regional category (-60.33%) because of reflecting the impact of realigning the multinational bank HSBC's Shari 'ah compliant operation (Banker, 2014) The importance of the GCC states is far from surprising since the initial rise of the IFS sector was closely linked to the presence of petrodollars, which are of course plentiful in the Gulf.

Outside the GCC states, Iran has intended to make all its banking assets theoretically Shari‘ah-compliant from 1980s onward (Khan and Mirakhor, 1990). The Islamisation of the entire banking system of Iran was closely related to the Islamic revolution in 1979. The process has proved to be successful since Iran alone accounts for about US\$475.89 billion assets (at the end of 2013) which consist of 100% Iranian assets, almost nearer to the GCC states total assets. However, this study does not include Iran's Islamic banking data because of in-access of details of their operation since Iran has been barred from the operation of banking with the rest of the world by the European Union. The city of Tehran alone has the largest headquarter presence with 12 top firms, but the lion’s share of these firms are non-listed Iranian government-owned institutions: Pasargad Bank, Mellat Bank, Bank Melli and Bank Saderat. However, most of the Iranian firms generally have a domestic character, targeting national retail market.

Within the Gulf States, top cities such as Manama and Dubai are leading the way of IFS, followed by other regional centres such as Kuwait, Doha and Jeddah/Riyadh. It is noted that the Gulf firms generally have global character, targeting international market, Manama and Dubai are turntables in a more global strategy, thereby connecting other cities both inside and outside the Middle East into Islamic markets (Bassens et al; 2010). Although Manama which has been known to be a regional hub for IFS, Bahrain’s share in terms of Shari‘ah-compliant assets is relatively small (table 1). However, its importance is illustrated by the presence of not less than 15 head offices of the top 100 firms. Moreover, 10 out of the 40 companies on the Bahrain Stock Exchange are IFS firms, including top companies such as Al-Baraka Banking Group,

ABC Islamic Bank and Ithmaar Bank. To develop Manama's competitive Islamic edge, the Central Bank of Bahrain (Bahrain Monetary Agency) has introduced a regulatory framework for monitoring and supervision that reflects the specific need and concepts of Islamic ethical finance (ICMA Centre, 2008).

It may be noted that the Dubai Financial Market is a key trading place for IFS firm's stocks in the region, currently listing 13 IFS firms out of a total of 63 companies. The Emirate has also set up the Dubai International Financial Centre (DIFC), offering foreign investors an attractive fiscal and legal environment to set up their corporations. However, the Dubai International Financial Exchange (DIFX) which falls under the DIFC's authority, appears unattractive for IFS firms. Only a few IFS are listed in the DIFX- a situation which is likely due to the incompatibility of the common law-based legal environment within the DIFC and the Shari'ah orientation of the IFS firms (Caballo, 2007). But still, IFS are highly important in the Dubai market, since 12 of the 42 current DIFX listings are *sukuk*, predominantly issued to finance major infrastructure projects. For example, before the recent global financial crisis, the semi-governmental investment corporations Emaar and Nakheel were using *sukuk* to raise funds for their major real estate projects. These *sukuk* were Shari'ah-compliant asset backed notes. A common securitization technique is to sell the asset to a special purpose vehicle and then to lease them back on an *ijara* basis (ICMA Centre, 2008). The *sukuk* holders in turn receive periodic payments on a variable profit-loss basis, instead of receiving a fixed interest rate.

Outside the GCC countries, the Shari'ah compliant assets are growing fastest are Bangladesh (\$16 bn), Indonesia (\$18.9 bn), Malaysia (\$196.8 bn), Pakistan (\$7.1 bn), Switzerland (\$6.9 bn) and Turkey (\$12.2 bn). It may be mentioned here that City of Kuala Lumpur is the leader in the area of Islamic finance, holding approximately US\$67 billion of Shari'ah-compliant assets. Malaysia currently pursues a pro-active policy towards the IFS sector, especially encouraging Takaful services throughout the country via tax breaks and other de-regulatory measures already outlined in the Takaful Act of 1984 (Bekkin, 2007). According to the IMF (2007), Malaysia also hosts the largest *sukuk* market, estimated at US\$47 billion in 2007 which accounts for about two-thirds of the global Islamic bonds and represents the largest market in terms of outstanding size and number of issues. In 2008, the central bank- Bank Negara estimated the *sukuk* market at US\$100 billion which is illustrative for its tremendous growth and popularity in Malaysia. In addition, in 2008, the 834 Shari'ah-compliant stocks accounted for 855 of the stocks listed in the domestic stock exchange (Reuters, 2008). The success of the IFS market is certainly the result of the supportive role of the Malaysian authorities. For example, the Ninth Malaysia plan (2006-2010) was aimed at strengthening Malaysia's position as a global IFS hub, as a centre for origination, distribution, trading, fund, and wealth management (IMF, 2007). By making the country a global Islamic brand, Malaysia is also trying to tap liquidity from the Gulf States. Its offshore centre Labuan is developing IFS as a niche market to avoid competitive outbidding from other offshore financial centres (Abbott, 1999).

Introduction of Islamic banking in Turkey imitated a decade ago and recently Islamic finance has been growing its popularity. Notably *Turkiye Finans Katilim Bankasi* is a fully Shari'ah compliant bank whose pre-tax profit in the year 2013 was \$214 million. If one focuses on the top firms in terms of headquarters' location in the Muslim world, it appears that a relatively small number of cities plays a crucial role within these core Shari'ah compliant regions. According to the Banker (2013), the headquarters location of the top 100 firms, the IFS sector within the Middle East is anchored in a small number of cities.

A large part of the growth of Islamic finance assets has been due to the success of Islamic financial services (IFS) beyond the Middle Eastern region (Pollard and Smaers, 2007). This globalisation of the Islamic finance has occurred through the emergence of newly established fully fledged Islamic banks in the European countries such as Islamic Bank of Britain, European Islamic Investment Bank, European Finance House, UK; Bank of London and Middle East; Gatehouse Bank, London etc or through the establishment of foreign branches of mainly Gulf based Islamic banks such as Faisal Islamic Bank Geneva (a subsidiary of Manama based Ithmaar Bank), National Commercial Bank and United Bank of Kuwait branches in London; Kuwait Finance House branch in Kuala Lumpur etc. (Bassens et al, 2010).

According to the *Banker* (2008), one obvious example includes conventional banks that have decided to offer Islamic products in Muslim markets as well as at their own countries through so-called Islamic 'windows' such as HSBC through its subsidiary HSBC Amanah whose head offices situated in London. One more example relates to Western banks such as Fortis Bank (Belgian), Barclays, Citi Bank, Standard

Chartered (headquartered in London); and Deutsche Bank (headquartered in Germany) that have gained knowledge about Islamic banking and finance in Muslim countries and started to introduce these gradually in non-Muslim countries. The Fortis bank for instance, relied on the Islamic financial service concept from its Malaysian affiliate Maybank for the introduction of its Shari'ah-compliant fund into the Belgian market in the year 2007 (Bassens et al, 2010).

The exposure of global banks, often from the UK and US, with Islamic operations indicates that the growth of Islamic finance and its products are also coordinated through firms and elites operating from world cities beyond the Muslim world, such as Geneva, London, New York. In both Europe and the North America, Shari'ah-compliant products are available on retail level. However, in terms of wholesale finance, Europe clearly has the upper hand with Geneva, London and to a lesser extent Paris as IFS hubs are on the rise. In UK, the government has already made a number of legal adaptations such as the elimination of double stamp tax which previously limited the attractiveness of Islamic mortgages. Seeing the progress London has made, Geneva and Paris are keen on attracting some of the Gulf-based Islamic investment firms that are currently flowing to London. It may be noted that the Ministry of Finance of France wants to offer a more accommodating legal and fiscal framework in France (ICMA Centre, 2008).

A number of Asian financial centres such as Brunei, Singapore, Hong Kong and Jakarta are also turning their attention to the IFS markets under the shadow of the Malaysian Islamic financial market. These international financial centres are expecting to play an important role in the emerging IFS sector as well. Tokyo, capital of Japan, for example, had made it clear that it is considering to launch sukuk through the Japan Bank for International Corporation (efinancialcareer, 2008). Bangkok and Singapore have already developed a Shari'ah compliant market, although it is still very small. According to the Banker (2013) report, Thailand has about US\$4.07 billion Shari'ah-compliant assets. Furthermore, the Oil-rich Sultanate of Brunei has already refined regulatory framework and tax structure to encourage the international financial market players to operate IFS firms in Bandar Seri Begawan. As on September 2013, Brunei has \$4.97 billion Shari'ah compliant assets. Both Brunei and Singapore's reputation as stable and open financial hubs are expected to play an important role in luring investors in the Islamic financial services industry.

Although the actual size of the Islamic financial market is still small in relative terms, but the growth rate of the IFS sector and its huge potential Muslim customers based globally indicates that this could turn out to be a crucial evolution within the international financial markets. Especially within Muslim world, the IFS sector is increasingly becoming mainstream finance provider to the major development projects. At the same time, the developing retail market forms the basis for international Islamic markets driven by centres such as Dubai, Manama, Doha, Kuala Lumpur and Riyadh, where *sukuk* are being issued and to a lesser extent traded. While the IFS sector is going global to cater to Muslim customers in both Muslim and non-Muslim countries on a retail level, the wholesale Islamic financial markets are also attracting the interest of the conventional international financial centres worldwide such as Geneva and London, New York, Paris and Singapore etc.

3. Methodology

Last three decades, Islamic financial services (IFS) have been introduced beyond the regions of the Muslim world regions. This introduction occurred either through product differentiation within Western conventional as well as through the Islamic banks in the Muslim world that have gone global. In the later case, these firms established foreign branches across the world, an evolution that is largely similar to the globalisation strategies of the more commonly studied Western banks and business firms' services. This paper examines the economic geography of the globalised Islamic financial service firms with the aim of presenting an example of a decentred urban economic geography of the contemporary globalisation.

In order to address the research objective of this paper, the methodology of this section has been replicated from the methodology developed by Bassens et al (2010) and (Taylor (2001, 2004) on Globalised World City (GaWC) network formation under the same conditions of contemporary globalisation. The basic observation underlying Taylor's 'interlocking world city network' (IWCN) model is that cities are connected through partner offices of the firms. Through the linkages generated by affiliated offices, vital strategic information/knowledge- needed for the coordination of its clients' business-flows between cities. Connections between cities are thus conceived as the aggregate of such corporate links and world city

network (WCN) dynamics is therefore primarily an outcome of corporate location decisions by business service firms.

In their 'interlocking world city network' (IWCN) model, Bassens et al (2010) and Taylor (2004) start from the measurement of the institutional structure in which actual flows of email traffic, telephone calls, mobility of employees, common projects among offices, and reports etc are created and travel around as a proxy for determining the connectivity among the constituent parts. In a first step, this implies recording the presence of a firm in a city, but also estimating the importance of this presence through a standardised 'service value' V_{ij} measuring the importance of a city i to the transnational network of a service firm j . The connectivity measures in the 'interlocking world city network' (IWCN) model are based on various usages of the latter value.

In the model the first measure is the site service status C_a of a city, which is simply the aggregation of the service value across all firms:

$$C_a = \sum_i V_{aj} \quad (1)$$

The actual evaluation of a city's connectivity is based on the calculation of a series of 'interlock relations' $r_{ab,j}$ between two cities a and b in terms of firm j . This relation can be computed based on service value V_{aj} and V_{bj} firm j in both cities.

$$R_{ab,j} = V_{aj} \cdot V_{bj} \quad (2)$$

As Derudder and Taylor (2005) state that the conjecture behind conceiving this product as a surrogate for actual flows of inter-firm information and knowledge which, draw on the core ideas of spatial interaction modelling because it simply assumes that the more important the office, the more connections there will be with other offices in the firm's network. The total connectivity N_a of a city can be computed through aggregating these inter-city links $r_{ab,j}$ across all firms and all cities in the dataset:

$$N_a = \sum_{bj} r_{ab,j} \quad a \neq b \quad (3)$$

In order to make this measure independent of the number of the cities/firms in the dataset, N_a is expressed as the proportion of the highest connectivity in the dataset which means the city with the highest connectivity has a N_a of 1. It may be mentioned here that C_a and N_a rankings will obviously be interrelated since both are based on the same input data, therefore, they are not necessarily the same. The reason behind this is, that they are based on different interpretations of the meaning of the presence of an office in a city. A city assuming a higher position in the N_a ranking than in the C_a ranking is relatively more connected to other cities, because firms with a presence in this city tend on average- to be part of more extensive office networks. As a consequence, such a city may not boast a lot of offices, but tends to have offices of firm that have a substantial global presence.

Employing the above methodology, this research obtained the data about the office networks of Islamic financial service (IFS) firms that have gone global. The data were collected in three steps. Firstly, the information has been gathered as to which firms are the main translational players in the IFS sector. Secondly, we gained insight into the location strategies of these firms. Thirdly, the multifarious information about these location strategies has been standardised by summarising it in a simple 3 point scale and then taken the following three steps.

3.1 The First Step

Based on the data from the popular financial magazine, 'The Banker-2013', the main transnational Islamic financial services (IFS) firms in terms of the asset value have been identified out of its list of the "Top Islamic Financial Institutions."

For the purpose of this research, only top 100 fully fledged Islamic financial firms (except Islamic banks/firms in Iran) have been selected from the list, thus discarding conventional banks with Islamic windows such as Citibank, HSBC, and Standard Chartered etc as this would bias the results because of their extensive conventional branch network.

The Shari'ah-compliant asset values of selected IFS firms vary greatly. For example, number one ranked Al Rajhi Bank had an asset 71,302 million, second ranked Kuwait Finance House, had an asset value of US\$ 52,324 million and ranked three Malayan Bank Berhad has an asset value \$30,380.8 in 2013. A list of leading transnational IFS firms in terms of their asset value are show in the table 2.

Table 2. Leading Transnational IFS Firms in Terms of Asset Value

Sl. No	Islamic Financial Institution/Firm	Assets in Million US\$
1.	Al-Rajhi Bank, Riyadh and Jeddah	71,302.0
2.	Kuwait Finance House, Kuwait	52,324.0
3.	Malayan Banking Berhad (Maybank), Malaysia	30,380.8
4.	National Commercial Bank, Saudi Arabia	27,794.0
5.	Dubai Islamic Bank, UAE	25,967.0
6.	Bank Rakyat Berhad, Malaysia	25,902.0
7.	Abu Dhabi Islamic Bank, UAE	23,325.0
8.	Qatar Islamic Bank, Qatar	20,107.0
9.	CIMB Group Holding, Malaysia	19,263.0
10.	Al Baraka banking Group, Bahrain	19,055.0
11.	Saudi British Bank(SABB), Saudi Arabia	17,202.7
12.	AL Rayan Bank, Qatar	16,930.0
13.	Riyad Bank, Saudi Arabia	15,115.5
14.	Alinma Bank, Saudi Arabia	14,403.0
15.	BIMB Holding, Malaysia	14,358.0
16.	Bank Saudi Fransi, Saudi Arabia	14,210.0
17.	Bank Asya (Asya Katikim Bankasi) Turkey	12,106.0
18.	Emirates MBD, UAE	11,091.2
19.	Ahli United Bank, Bahrain	10,882.6
20.	Bank Pembangunan Malaysia Behrad, Malaysia	8,985.1
21.	Al Hilal Bank, UAE	8,746.6
22.	Bank Albilad, Saudi Arabia	7,940.0
23.	Qatar International Islamic Bank, Qatar	7,845.0
24.	Boubyan Bank, Kuwait	6,706.0
25.	DM Trust, Switzerland	6,569.3
26.	Faisal Bank of Egypt, Egypt	6,514.0
27.	PT Bank Syariah Mandiri, Indonesia	5,608

(Source: *The Banker*, 2013)

3.2 The Second Step

In the second step, information on the city based location strategies of the top IFS firms have been collected, following the method of data gathering strategy set out in Taylor et al. (2001). By searching the websites of each of the firms to obtain all the relevant information regarding their city-centred location strategies, including information on the location of the head office, branches, subsidiaries, affiliates and representative offices. This analysis revealed that 27 out of the 97 (excluding IFS firms based in Tehran) leading Islamic Financial Service Firms have established one or more offices in a city in another country, whereby a total 47 cities are connected in the IFS city network in that they host one or more offices of the 27 firms. The information about these 27 firms and 47 cities is used in the ensuing analysis (please see the Table 2).

3.3 The Third Step

In this step, data has been compiled on the importance of a given city to a firm's service provision such as assigning the service values V_{ij} for each city/firm pair and then employed a simple three point scoring range:

A service value of 0 means there was not an office in a given city,

A service value of 2 was given to the headquarter city,

A service value of 1 was given to all other offices (branches, affiliate, representative offices and subsidiaries).

In this process, although the end result is obviously less than perfect, but it is the most credible way to describe the office networks of leading globalised Islamic financial service firms in the absence of large-scale, readily available information on their location strategies.

4. Results

By employing global city network (GaWC) methodology developed by Bassens (2010) which has been summarised in equations (1) through (3), the measures of the cities' site services status C_a have been derived and by drawing on the aggregated interlock links $r_{ab,j}$ across all firms to calculate their total connectivity N_a . Table 3 shows an overview of the top-ranked cities in terms of total connectivity and site service status in the networks of the 27 transnational Islamic Financial Services (IFS) firms, in addition to the number of headquarters of the 97 leading IFS firms in terms of the asset value. In terms of inter-city connections of the IFS city network, results show that the size of each node varies with the total connectivity N_a of a city, while size of the edge varies with the aggregated inter-lock relations r_{ab} . For clarity, only the most important nodes ($N_a > 0.20$) and links ($r_{ab} > 0.20$) are shown in the results.

Table 3 provides one of the many possible decentred pictures of contemporary world city network formations. However, the basic outline of this IFS city network differs from the world city network identified in the global world city research of Taylor (2004). Many traditional world cities are missing in the network depicted by Taylor (2001, 2004), while new cities have appeared on the world map. It is thus clear that the Muslim world forms the core of the IFS city networks, specially the Gulf region which is being the cradle of the contemporary Islamic finance hosts the best connected cities, with Manama, Dubai and Kuala Lumpur in the top 10 city in terms of total connectivity.

According to this study, Manama is the hub of the Islamic financial service (IFS) sector, 15 out of 27 transnational IFS firms have their headquarters in the city. Although Bahrain was the first country where petrol was discovered in 1932, but now its diversification of economy away from oil, has been focused on the encouragement of foreign investment to transform Manama into an international financial centre. However, the competitiveness of Manama is based on its strategic location. Furthermore, Bahrain's tax free environment, skilled workforce and forward looking offshore financial regulatory environment has ensured Manama's unique position on the map of the world city network. It may be noted that Bahrain was one of the first countries outside the G10 to implement Basel Accord. Besides Manama's role as an offshore centre for conventional financial services, it is a crucial location for the IFS firms which can be explained through the presence of an array of organisations such as Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI), the Liquidity Management Centre (LMC), International Islamic Financial Market (IIFM) and the International Islamic Rating Agency (IIRA) (Bahrain Monetary Agency, 2008). The presence of these organisations give Manama a competitive edge as innovation is crucial in the Islamic financial sector.

Table 3. Major top-ranked cities in IFS network in terms of total connectivity

Connectivity rank	City	Number of total connectivity	Site service status	Number of head offices
1	Manama	1.00	23	15
2	Kuala Lumpur	0.82	14	11

3	Dubai	0.78	13	5
4	London	0.68	12	2
5	Jeddah and Riyadh	0.45	5	4
6	Kuwait	0.42	5	2
7	Amman	0.42	4	3
8	Jakarta	0.32	4	2
9	Doha	0.32	4	2
10	Geneva	0.32	4	2
11	Karachi	0.22	2	3
12	New York	0.21	2	0

Kuala Lumpur appears to be the most connected city, which can in part be traced back to the policies pursued by the Malaysian Government, which provide substantial support to the IFS sector. It should be noted that 11 out of 97 top Islamic financial services firms have their headquarter presence in Kuala Lumpur. The government has promoted Labuan as a offshore international financial centre in Malaysia. It has promulgated banking and Islamic finance regulations-1983, to regulate Islamic finance institutions under Shari‘ah laws. Particularly in the field of insurance (takaful), it has raised protective polices such as tax breaks and other legal measures such as the Takaful Act of 1984. However, Malaysian central bank- Bank Negara has played exemplary role with regards to regulate, promotion and growth of the Islamic banking and Takaful sector. Bank Negara Malaysia is collaborating with relevant governmental agencies and the private sector on the development of regional hubs of Islamic financial services industry. Consequently Kuala Lumpur has become a hot spot for Islamic finance services, acting as basing point for Middle Eastern IFS firms in Asia.

Dubai is a prominent city in the Middle East, holds an important place in the world city network since its world class Emirates Airlines has gone global and connected with cities all over the world. Now Dubai is also well connected with Islamic Financial Service office networks because of its promotional role in the area of Islamic financial services. The ruler of Dubai is keen on attracting foreign direct investment (FDI) flows in a wider range of sectors. Since the real estate market has been opened up for foreign investment in 2002, the Government of Dubai has encouraged home financing through its participation in the real estate giant Nakheel and Emaar Properties. Their respective subsidiaries Tamweel and Amlak Finance offer Shari‘ah-compliant schemes (Zubairi, 2005). During its enormous demand for assets-based investments has led to an inflation of real estate prices. However, the world-wide financial crisis in 2007-8, the real estate market in Dubai has been affected too. But Dubai market has been rescued with a bailing-out package offered by the ruler of Abu Dhabi. In general, Dubai based firms have an extensive network, with offices in the Europe and US. Dubai, which set up an onshore capital market designated as financial free zone DFIC in 2002 and facilitated the first major foreign currency transaction in the region in September 2005. This market is aiming to attract money not only from the Muslim countries but also from the rest of the world. Above all, Dubai has housed 5 IFS headquarters and 13 site services and therefore, city ranked 3.

Islamic financial service firms in Amman (Jordan) and Kuwait were originally embedded in a strong national context, but contemporary Amman and Kuwait based firms have an extensive border crossing networked activity, particularly in London and New York. Another city in the Middle Eastern is Doha, capital of Qatar, has set up a regional financial centre in 2006. This centre’s incentive includes zero corporate income tax for the first three years of the centre’s operation and thereafter, a rate of 10% from 2008. Doha based popular Al Jazeera TV network and state run Qatar Airways with its worldwide network have placed Doha, the capital of the State of Qatar on the world city network in the recent years. Doha is also well connected with IFS office networks.

Similarly Riyadh and Jeddah appear well connected to the Gulf. Al-Rajhi Bank scores surprisingly Middle in terms of overall connectivity. Further, Indonesia and Saudi Arabia are prominent sources of Islamic investment products. However, Bekkin’s (2007) study states that the recent government action both in Saudi Arabia and Indonesia has been aimed at the development of a parallel Islamic banking and takaful sector alongside conventional banks and insurance companies.

The most important inter-city relations in the IFS city network outside the Muslim world are London and Geneva. Apart from being a major centre for conventional financial services, London is a major hub for IFS firms. Although it has only 2 IFS headquarters of the top 97 IFS firms, the city ranks fourth in terms of site

service status and total connectivity 12. This observation is in line with the intention of the UK government and Islamic finance stakeholders to make London as a hub of the Islamic finance (EIIB, 2007).

Geneva and New York have only four and two offices of IFS firms respectively. Geneva is famous because of Darul Maal Al Islam is located in the city. On the other hand, importance of New York is not so much a result of the large presence of transnational IFS firms, but rather New York reflects the role of facilitating firms such as Dow Jones Islamic Market Indexes (DJIM), MSCI Islamic Indexes, and Standard and Poor's Islamic indexes. These indices play a fundamental role in establishing a global benchmark for Islamic investment.

Apart from generating urban networks on a global scale, Islamic financial service sector is also a factor in the creation of urban spaces themselves. As some of the cities in the Muslim world are emerging as a world cities, the growth of the IFS sector is closely interwoven with the way massive urban developments are financed. This is especially the case for business and finance centres hubs such as Doha, Dubai, Riyadh/Jeddah, Kuwait, Kuala Lumpur, Karachi, Manama and Riyadh etc which have benefited from Islamic investments to diversify their economies, increasingly being invested accordingly to the Shari'ah-compliant norms. Further, the city based IFS firms heavily rely on the Shari'ah supervisory board for their customer credibility. Many of the Shari'ah scholars end up sitting in multiple boards of IFS firms, thus setting and spreading industry standards in the world of IFS. The high profile and extremely influential Shari'ah board scholars constitute a veritable transnational Shari'ah elite that cannot be ignored in term of their contributions in making some of the cities of the Muslim world into Islamic financial hubs. This Shari'ah scholars not only exert power through traditional *fatwas*, but they actually shape the face of a globalising IFS sector through their role in product screening and innovation. From a spatial perspective, the key point is that, through their multiple board membership, individuals belonging to Shari'ah elite : (i) link up various firms and regulatory bodies, whilst simultaneously sustaining Islamic financial networks between booming cities and mainstay International financial centres and world cities outside the Muslim world and, (ii) these Shari'ah scholars can be identified as a source of transnational power to set and influence Shari'ah standards for the Islamic financial service industry (IFS) firms and regulatory bodies to which they lend their services, and for the cities from which these scholars and IFS firms operate.

5. Conclusion

The cities in the Muslim countries have never operated in a vacuum, but are shaped by the actions and decisions of powerful elites, both at intra-and inter-city levels. The spectacular rise of the cities of the Muslim countries as post-industrial sites of production, cannot be grasped without knowing their historical evaluation. For instance, the entire Middle Eastern region is now seeing an evolution towards regional integration, as the GCC is currently considering forming a monetary union. Moreover, the combination of spatial dispersal and global integration has created a new strategic role for major cities. As hubs of Islamic trade and finance, the cities like Doha, Dubai, Jeddah, Kuwait, Kuala Lumpur, Karachi, Manama and Riyadh etc. are now functioning as command points of the world economy. With this regard, this research may be put across in two different forms. Firstly, from the perspective of cities as providers of Islamic financial services (IFS), an investigation has been done in which IFS are being provided throughout the world and given the reputation of being regional financial hubs and their overall attractiveness as business location. Secondly, from the perspective of world city network (WCN) research, it provides substantial amounts of information on globalised Islamic financial services. Although this research draws on the methodology of 'mainstream' world city research and it is shown that a thorough study of IFS firm networks may counter a number of its central limitation. This paper has therefore, aimed to:

- (1) Include the understudied region of the Muslim world on the map of the urban economies study, both geographically and conceptually
- (2) Shift the focus away from Western practices in order to provide a more adequate picture of economic globalisation process in the Muslim world, and;
- (3) Use a mapping of the Islamic financial services sector to avoid pre-given standard of world city-ness.

The main findings of this paper may be summarised as follows. Firstly, while cities in the Muslim world are in general well-connected by IFS firms, it is Middle Eastern cities such as Amman, Doha, Dubai, Istanbul, Jeddah, Kuwait, Manama and Riyadh that are leading the way. Manama is the major Islamic financial market hub within the Gulf region into the global economy, and this is mainly through their strong links with London.

Secondly, some key cities outside the Muslim world appear to be becoming hot spots for the provision of Islamic financial services. Kuala Lumpur, London, Geneva, Jakarta and New York are major examples here which lead to the more general suggestion that the globalising IFS sector is becoming anchored in the conventional world cities and International financial centres. Keeping in view, it seems likely that IFS firms equally benefit from the agglomeration economies identified by Sassen (1991), so that positive spill-over effects between the Islamic and the conventional financial sector are likely. However, more research is needed to understand why IFS presence in these traditional international financial centres is becoming crucial.

Thirdly, the gradual anchoring of the IFS sector in major world cities does not result in a carbon copy of the traditional international financial system that the world city network (WCN) identified by Taylor et al. (2004). Finally this study has hinted that although economies of the Muslim world in general and Middle Eastern countries in particular have become more integrated in the world economy, the emerging capitalist form is by no means a mirror-image of its Western counterparts. Moreover, economics in the Muslim world are increasingly being interpreted through the lens of Islamic economy, thereby boosting the tremendous growth of IFS in the Middle East and beyond. At the same time, dynamics of vast natural resources of the Muslim world's economy and globalisation processes have induced highly unique trajectories of the world city formation that will provide a greater opportunity for Islamic financial integration and a level playing field for the hubs of the Islamic financial centres.

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