



Journal Homepage: - www.journalijar.com
**INTERNATIONAL JOURNAL OF
 ADVANCED RESEARCH (IJAR)**

Article DOI: 10.21474/IJAR01/4357
 DOI URL: <http://dx.doi.org/10.21474/IJAR01/4357>



RESEARCH ARTICLE

IS BREXIT BENEFICIAL OR DETRIMENTAL TO ISLAMIC INVESTMENTS IN BRITAIN?

P.K. Baburajan.

Higher Colleges of Technology, Faculty of General Studies, P.O. Box: 58855, Madinat Zayed Colleges, Abu Dhabi, UAE.

Manuscript Info

Manuscript History

Received: 28 March 2017
 Final Accepted: 25 April 2017
 Published: May 2017

Key words:-

European Union, Brexit, Islamic finance, investments, exchange rate volatility, real estate commodities.

Abstract

The purpose of this research was to explore the prospects of Islamic finance and investments in Britain in the aftermath of Brexit. Both primary and secondary sources of information were used in this research. While published data and online databases were used as secondary source of information, a brief survey was carried out among a sample of 80 university students of Arab/Islamic origin in the UAE to gather primary information on the perceptions and opinions of people about the impacts of the Brexit on Islamic finance and investments. The secondary data analysis reveals that although there is some degree of concern over the future prospects, Britain would continue to remain strong even after Brexit and the Islamic finance and investments will grow even stronger in the country. The Survey results also suggest that Britain would remain a strong playground for Islamic finance and investments that is unaffected by the issues emerged from Brexit. It would help open up new and improved avenues for Islamic finance and investments in Britain.

Copy Right, IJAR, 2017., All rights reserved.

Introduction:-

Whether or not Brexit is beneficial or detrimental to Islamic finance and investments in the U.K is of a serious concern and a highly debate issue among investors, scholars and policy makers in the recent times. The European Union (EU) is a constellation of 28 states, essentially from Europe, formed in 1993 aimed at collective social, economic and political goals. After about 23 years of membership, Britain decided to move out of the Union through a referendum on 23rd June 2016. Britain's exit from the EU is popularly called as "Brexit." Brexit could have several short-term and long-terms social, political and economic impacts not only in Britain and other European states, but also in other countries around the world as the U.K is the third most favorite destination for foreign direct investments in the world (IFN, 2016). Islamic finance and investment especially from the oil-rich Middle Eastern and Arab states is sizable and quite significant in the U.K (Flanagan, 2016; IFN, 2016). Currently, there are six fully-sharia complaint banks and 20 Islamic lending intuitions in the U.K. **Further, there are more than 60 institutions that provide Islamic finance courses and 22 universities that offer sharia-based undergraduate finance programs in the country (Jaffer, 2016; Brooke, 2016).** However, to what extent Brexit affects Islamic finance and investment in Britain is quite uncertain. Therefore, it is worth exploring the impact of Brexit on Islamic finance and investments in Britain.

Corresponding Author:- P.K. Baburajan.

Address:- Higher Colleges of Technology, Faculty of General Studies, P.O. Box: 58855, Madinat Zayed Colleges, Abu Dhabi, UAE.

Literature Review:-

Brexit is a much debated issue in the recent time around the world owing to its wider social, economic and political consequences. It is a matter of serious concern especially in the Islamic and Arab world as the prospects of Islamic finance and investment is quite uncertain in the aftermath of Brexit (IFN, 2016). Since Brexit being only a recent phenomenon, plentiful academic or scholarly literature, based empirical research/data, is yet to be made available. However, considerable information, opinion provided by experts, professionals and popular agencies, on the subject is available. While much of the literature suggest that Brexit will be a boon for Islamic finance and investment in the UK, there are experts who are quite apprehensive and pessimistic about its prospects.

According to the viewpoints of the consultants of a GCC-based strategic consulting agency, the Oxford Strategic Consulting group, Brexit is likely open up new avenues for improved and stronger trade relations between the GCC states and the UK. Therefore, Brexit could be a boon for Islamic finance and investments (Saxena & Zahra, 2016). The positive impacts of Brexit on Islamic finance and investment is also noted by other experts. Lawerecne, Boyd, Mabin, & Hussein (2016) considered that the aftermath of Brexit would be highly encouraging for Islamic finance and investments. The authors claimed that since the fundamentals for investment such as the laws, legal environment, and relationship with the Islamic investing nations, and the language of the host country remain unchanged, Britain's exit from the EU will create no adverse effects. At the same time the economic parameters such as commodity price, currency value, cost of cross boarder business etc. will be changed which will be in favor of more investments in Britain. Therefore, Brexit makes Britain a more attractive and favorable destination for the Islamic investors. Similar optimistic viewpoints are shared by Flanagan (2016) as well. An observation by IFN (2016) reveals that the unique opportunity provided by Britain, that was not based its membership in the EU, is the source of motivation for Islamic investors in the country. They will be attracted by the growing demand for real estate commodities in Britain which are not affected by Brexit at all. Therefore, Islamic investors' interest in investing in the British property market will continue and grow as long as the country remain an independent sovereign (IFN, 2016; Al Natoon, 2016).

However, there are experts who consider Brexit detrimental to Islamic Investment in Britain. Applebaum (2016), a Foreign affairs columnist and the Director of the Global Transitions Program, Legatum Institute in London, considered that Brexit will do no good to attract the Islamic investors. According to the author, Britons exit from the EU will create long term uncertainty and panic in the market which will not be resolved in the near future. Hence, the author pointed out that there will not be any new opportunity created for Islamic finance and investments. The investors will be driven away by the fear, uncertainty and unstable situation. They might seek alternative markets for trade and investment. It may be possible that Brexit will cease the "passporting rights" that the U.K investors may not be able to enjoy access to other EU states anymore which may keep them away from making investment in the UK (Flanagan, 2016). The above literature reveals that the prospects of Islamic finance and investment in the wake of Brexit is highly debated. However, it apparent that the investors' confidence or potential for growth overweigh the impending fears.

Methodology:-**Research question:-**

As noted before, there are great concern over the future prospects of Islamic finance and investments in Britain in the aftermath of Brexit. Hence, the major question of this research is to examine what extent Brexit is beneficial or detrimental to Islamic finance and investments in Britain. Both primary and secondary sources of information have been utilized in order to answer the above question.

Data:-

While published data and available information from the library, newspapers and online databases were used as secondary source of information, a brief survey was carried out among a sample of 80 university students of Arab/Islamic origin in the UAE to gather primary information on the perceptions and opinions of people about the impacts of the Brexit on Islamic finance and investments.

Sample and Instruments:-

The sample of the survey included 80 students from a reputed university in the UAE. The chosen sample was a convenient sample. Students who hail from the GCC/Islamic states were only included as they were the most apt candidates to provide information related to Islamic finance and investments. Those students who were attending the library in the evening hours were requested to participate in the survey on voluntary basis.

In order to facilitate the survey and ensure standardized set of information, a questionnaire was developed. A draft version of the questionnaire, based on the insights gained from literature, which was then subjected to peer review by a group of five business students. Based on the comments from the peer review, the final questionnaire was developed. The final survey questionnaire contained 10 questions that included five questions to gather general background information of respondents and five questions specially addressed to the perceived impacts of Brexit on Islamic finance and investments in Britain.

Results:-

The result of this research is presented under two headings such as the “Impact of Brexit- Secondary data analysis” and the “Impact of Brexit- Survey data analysis.”

Impact of Brexit: Secondary data analysis:-

An overview of the history of Islamic finance and investments in the UK will provide some insights on its future prospects even in the aftermath of Brexit. The below figure (Fig 1) shows that Islamic finance and investment had existed in the UK as early as 1982, even prior to the formation of European Union, and it has been steadily growing over the years. Its growth is quite strong in the recent past. Islamic investments in the UK and its steady growth was not conditional to its EU membership, hence, it is logical to assume that the Brexit may not pose any serious concern for its growth in future. Therefore, it is apparent that the British membership in the EU or its exit from the Union will not be of any significance to the growth of Islamic finance or investments.

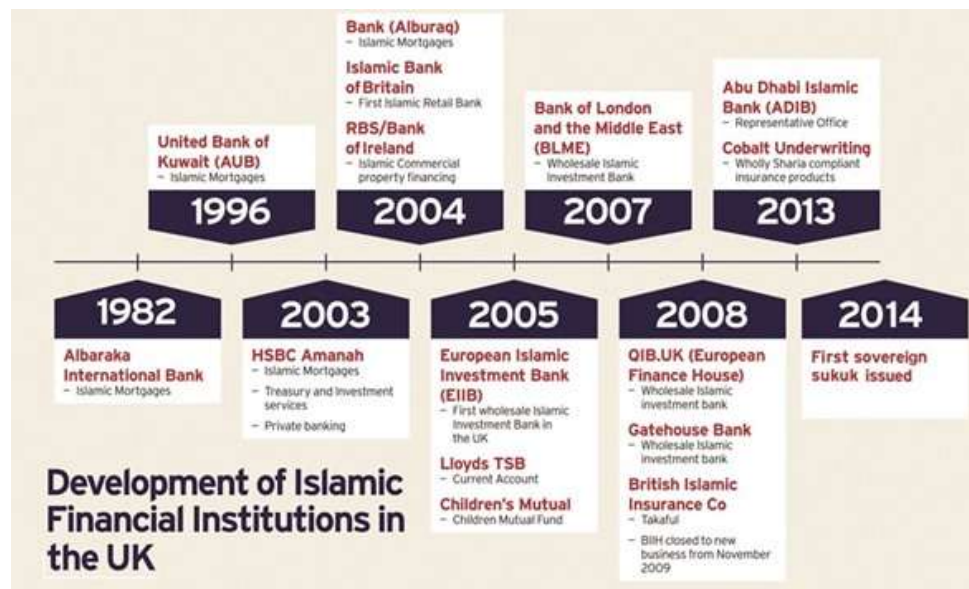


Fig 1:- History of the Growth of Islamic Finance and Investment in the UK

Source: IFAAS (2016). What a Brexit could mean for the UK's aspiring Islamic finance market. Retrieved from <http://uk.ifaas.com/brexit-mean-uks-aspiring-islamic-finance-market.html>

Saxena and Zahra (2016), the consultants at Oxford Strategic Consulting Group, consider that Brexit would be a boon for Islamic finance and investments as it will open up new avenues for improved and stronger trade relationship between the GCC states and the U.K. Since the UK is widely considered as the one of the strongest and safest economies in the world for trade and commerce, Brexit may not be able to discourage the Islamic investors. Further, the depreciation of Pound effected from the Brexit will create a still favorable situation for Islamic finance or investors as the cheaper Pound will attract more Islamic investors to make long-term and rigorous investments. The authors pointed out that there will be some degree of apprehension among the investors in the short term, but is insignificant in the long term because it is due to fear or psychological factors or ignorance which will be disappeared as they witness reality. The investors may soon become mature in about 6-12 months' period and would be happy to make long-term strategic Islamic portfolio investments (Saxena and Zahra, 2016).

Lawerecne, Boyd, Mabin, & Hussein (2016) analyzed the impact of the Brexit on Islamic finance and investment in the UK. According to the authors, Brexit makes the U.K a more attractive and favorable destination for Islamic investors because the fundamentals for investments will not be changed, at the same the economics parameters will be changed which will be in favor improved Islamic finance and investments. The Islamic finance and investments are not governed by the laws of the EU, the UK will continue offer Islamic-friendly legal environment, and the English language is comfortable for the foreign investors, all of which make no concern for Islamic investors. At the same Brexit will bring many changes that are attractive for Islamic investors. The British Pound will become cheaper that makes it attractive for most of the Middle Eastern Islamic investors whose economies are US dollar pegged. There would be potential tax reduction in the U.K in the aftermath of the Brexit that will enthruse Islamic investors. Moreover, real estate commodity price, which is the one of the prime areas of Islamic investment, is declining and the diminished market values will definitely be a pull factor for increased investment by the Islamic clients. Besides, while the demand for infrastructure improvement in the U.K will remain strong at the same time the country is likely to lose funds from the EU due to its exit, in this context, Islamic finance and investors have great potential to fill the market gap (Lawerecne, Boyd, Mabin, & Hussein, 2016). The favorable pull factors for developing sharia-compliant Islamic markets that are unaffected by the temporary fears created by the Brexit is also reported by Lynn (2016).

Flanagan (2016) argued that the widely believed fear among the Islamic investors are quite unreal as the U.K could offer excellent environment for the Islamic financial institutions to thrive. The Islamic finance and investment techniques are quite robust and there is no alternative to such products, hence, the U.K will continue to remain as an attractive destination for Islamic finance and investments. **Jaffer (2016) also claimed that the Brexit will offer new opportunity to the Sharia-complaint investments and finance in the U.K. The cheaper real estate value along with the volatility in exchange rates caused by the Brexit provides immense opportunity for Islamic investors to make increased investments in the UK.**

According to the IFN (2017), the demand for the U.K property is quite high and it is a safe haven for Islamic investors. The opportunity to invest, especially in the real estate market, is highly appealing to Islamic Investors and it will continue its growth even after Britain's exit from the EU. The Islamic investors' interest in the U.K is not due to its membership in the EU but because of attractive environment provided by the U.K. The dwindling oil price is another important motivation for the investors from the oil-rich Arab and Middle Eastern states to explore investment opportunities in the U.K. They might consider that the U.K as a safe option for investment compared to the unstable oil Arab and Middle Eastern States (Irfan, 2016). Therefore, opportunity for Islamic investment and the interest of the Islamic investors will remain strong and continue as long as the U.K remain an independent sovereign. Hence, Brexit is highly unlikely to discourage Islamic investors from investing in Britain.

The secondary data analysis reveals that Britain continue to remain strong even after Brexit and the Islamic finance and investments will grow even stronger in the country.

Impact of Brexit: Survey data analysis:-

Results of the survey on the perception and opinion of individuals on the impact of Brexit in Britain is presented in Table 1 and 2.

It can be seen from Table (1) that greatest majority of respondents belonged to age group 21-25 and 80 percent of them were males. Since this research was to investigate the prospects of Islamic finance and investment in Britain in the aftermath of Brexit, it was thought appreciate to include students from Arab/Islamic States. While 40% of the respondents were the UAE nationals, 30% of them belonged to Saudi Arabia, 20% of them hailed from Qatar and 10% of them were Egyptian citizens. Though small sample, it provided a fair spread of individuals from various GCC/Arab states. It can also be seen that the surveyed sample of respondents was mainly business students as 70% of them were studying Business programs at the university and the remaining respondents were engineering students (20%) and students of Architecture (10 %).

Characteristics	Number (%)
Age:	
20 or younger	4 (5%)
21-25	76 (95%)
Gender:	
Male	64 (80%)

Female	16 (20%)
Nationality:	
Emirati	32 (40%)
Saudi Arabia	24 (30%)
Qatar	16 (20%)
Egypt	8 (10%)
Program of study:	
Business	56 (70%)
Engineering	16 (20%)
Architect	8 (10%)
Total	80 (100%)

Table 1:- General Characteristics of respondents

The Table (2) portrays about the perceptions and opinions of respondents about the impact of Brexit on Islamic finance and investment in Britain. It is interesting to note that the entire respondents were aware about Britain's exit from the EU. Being university students and also majority of them were Business students, it is quite reasonable to assume that they all are well informed of contemporary business development around the world.

The respondents were asked three pertinent questions. They were "According to you the effect of Brexit on the economy of Britain", "What is your opinion about the prospect of Islamic banking/investment after the Brexit?", and "What you think the prospect of GCC countries regarding investment in Britain after the Brexit?" to understand the extent to which our respondents think about the prospects for Islamic finance and investment in Britain following its the exit from the EU and the responses were quite interesting. While half of the respondents felt that exiting the Union will only make Britain stronger, just one respondent considered that it will make Britain weaker. 20% of them considered that it will make is no difference to Britain, the uncertain effect was perceived by about 15% respondents and 10% of them did not have any clear idea about the effect of the Brexit on Britain.

Characteristics	Number (%)
Awareness about Brexit?	
Yes	20(100%)
No	0 (0 %)
Own Property in UK:	
Yes	8 (40%)
No	12 (60%)
Opinion about future of Britain:	
Makes Britain stronger	10 (50%)
It makes Britain weaker	1 (5%)
No effect	4 (20%)
Uncertain prospects	3 (15%)
Don't know/can't say	2 (10%)
Prospects for Islamic finance/Investment:	
Excellent prospects	11 (55%)
Makes no effect	4 (20%)
Poor effect	1 (5%)
Unpredictable	3 (15%)
Don't know/can't say	1 (5 %)
Prospects for GCC states:	
Excellent prospects	13 (65%)
Makes no effect	3 (15 %)
Poor effect	1 (5 %)
Unpredictable	1 (5%)
Don't know/can't say	2 (10%)
Total	20 (100%)

Table 2:- Awareness, Perception and Opinion about the Prospects of Islamic Finance in the U.K.

It appears that the respondents are well informed of the stable economic, social political, and legal systems prevailing in the country that perhaps made them think that Britain would continue to remain strong regardless of its EU membership. This was exactly shared by the British Prime Minister, David Cameron, in a Television Interview a week before the June 23rd referendum where he reiterated that Britain would remain strong whether it is voted to stay or exit from the EU.

With respect to the prospects of Islamic finance and investments in Britain in the aftermath of Brexit, the respondents echoed a very confident message as 55% of them indicated that the Islamic finance and investments will flourish in the post-Brexit era. While 20% of them believed that Brexit would not make any difference to the growth and development of Islamic finance and investments, 15% of them thought the future of Islamic finance and investments is quite unpredictable. A definite pessimist attitude about the prospects of Islamic finance and investments was held by only a minority of respondents, just one respondent (5 %). It appears that the majority of respondents felt that Brexit would not disturb the investment-savvy environment in the U.K. Moreover, the stability and strength of Islamic finance products and techniques to resist in uncertain conditions is also seemed to have reflected in the confident expression of the respondents. This sentiment is also shared by other professional/scholars (Irfan, 2016; IFN, 2017) who reported that the U.K is quiet robust and a highly Islamic finance-friendly state in the world. This result stands to support our stated hypothesis.

The respondents' perception about the prospects for investments for the GCC States is quite similar to that prospect of Islamic finance and investment in the UK in the post- Brexit period. It can be seen from the Table (2) that an overwhelming majority of respondents considered that the GCC States have excellent opportunity for investments in the Britain. About 15 % of them felt that Brexit makes no difference in the opportunity for investment for the GCC customers. It appears that this response is a rational reaction of people in the GCC states. On one hand they are aware of the stable conditions for investments in the Britain that are enhanced by the exchange rate volatility and declining market value of real estate commodities, which is the prime areas of foreign investment, the respondents are convinced that, in the given dwindling oil price, the Britain is safe haven for investments on the other hand. Only 5% of the respondents believed that the GCC states may not stand any good prospects in the Britain in the aftermath of Brexit.

Analysis of secondary sources of information and survey data suggest that the Britain will continue to remain a strong play ground for Islamic finance and investments that is unaffected by the issues emerged from Brexit. Therefore, both primary and secondary data support our stated hypothesis that the Brexit will open up new and improved avenues for Islamic finance and investments in Britain.

Conclusion:-

The present research, based on secondary sources of information and survey, reveals that Britain will continue to remain strong even after Brexit and the Islamic finance investments will grow stronger in the country. It is perceived as a safe haven for Islamic finance and investment. The unique political, legal and market conditions offered by the Britain will continue attracting more Islamic investors and institutions regardless of its membership in the EU. The huge demand for the U.K property will continue attracting more Islamic investments. Hence, Brexit will open up new and improved avenues for Islamic finance and investments in Britain.

References:-

1. Al Nator, B. (2016). Why Brexit widens Islamic Finance field. Retrieved from <http://thewhyforum.com/articles/why-brexit-widens-islamic-finance-field>
2. Applebaum, A. (2016). Brexit is a loud warning. *Telegram & Gazette* Retrieved from <http://search.proquest.com/docview/1799333753?>
3. Brooke, L. (2016). What Brexit means to London's aspiration as an Islamic Finance Hub. Retrieved from <http://blogs.nottingham.ac.uk/newsroom/2016/07/01/what-brexit-means-to-londons-aspiration-as-an-islamic-finance-hub/>
4. IFAAS. (2016). What a Brexit could mean for the UK's aspiring Islamic finance market. Retrieved from <http://uk.ifaas.com/brexit-mean-uks-aspiring-islamic-finance-market.html>
5. IFN. (2016). The Big Brexit — what will happen to Islamic finance if the UK leaves the EU? *Islamic Finance News Volume 13* (25). Retrieved from <http://www.islamicfinancenews.com/newsletter-issue/volume13issue25>

6. Irfan, H. (2016). What Brexit means for Islamic Finance. Retrieved from <https://www.islamicbanker.com/articles/what-brexit-means-for-islamic-finance>
7. **Jaffer, S.(2016).** Brexit and London's Role as an Islamic Banking Hub: Is the Glass Half Empty, or Half Full?*The World Financial Review*. Retrieved from <http://www.worldfinancialreview.com/?p=7570>
8. Lawrence, J., Boyd, N.R, Mabin, S., and Hussein, A. (2016). Brexit and Islamic Finance. Retrieved from <http://www.klgates.com/brexit-and-islamic-finance-07-11-2016/>
9. Lawrence, J. (2016). Brexit and Islamic Finance. Retrieved from <https://www.linkedin.com/pulse/brexit-islamic-finance-jonathan-lawrence>
10. Flanagan, B. (2016). Islamic banks in London reject Brexit fear. Retrieved from <http://www.thenational.ae/business/banking/islamic-banks-in-london-reject-brexit-fear>
11. Lynn, L.(2016). Brexit 'an opportunity' for Islamic finance. Retrieved from http://www.bridgingandcommercial.co.uk/article-desc-6366_brexit-%E2%80%98an-opportunity%E2%80%99-for-islamic-finance#.WAX9k8nIZSU
12. Saxena, A., and Zahra, N. (2016). Brexit opportunities? *TCA Regional News* Retrieved from <http://search.proquest.com/docview/1799410424?>