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Singapore may be the new financial hub

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MUMBAI: The jury is out on what the future holds for Dubai. Fund managers and high-street bankers see the fall of Dubai as a prelude to the emergence of Singapore as the undisputed financial centre of Asia.

But for diamond merchants who left Antwerp to escape the harsh Belgian laws, traders handling third-country exports to the Arab world and Africa, and slush money dealers who found Dubai more friendly than the Swiss banks, the city state has no equal. For them, it could even make sense to re-enter the Dubai property market which drew Bollywood actors as well as the Russian mafia.

“Dubai has a different charm. Many Indians, I feel, have discovered the world of numbered accounts in Dubai... besides, there’s no tax for individuals and corporates. Only foreign banks and insurance companies have to pay a nominal tax,” says Dilip J Thakkar, an expert on Fema matters.

Surely, Singapore or Hong Kong, with tax rates of 18% and 16%, respectively, can’t match this. Many, like Mr Thakkar, are betting that it will soon be business as usual. They think that investors will take haircuts, European banks (which may be holding as much as $40 billion of Dubai’s $80 billion debt) will sell a slice of their investments, and a Kazakh-style clean-up and debt write-off will get the builder’s paradise up on its feet.

But many fear the stigma would stick.

“Market forces in Dubai never work the way they do in other parts of the world. Dubai never really became a financial centre and a large part of its progress was based on what was taking place in its real estate market. It never attained the stature that was given to a market like Hong Kong,” feels Munesh Khanna, managing director of the investment bank Centrum Capital. Singapore, according to Mr Khanna, will be a major beneficiary.

It will be a bigger damage if Dubai authorities are not quick enough in striking a deal with the lenders, as this will impact capital flows to many emerging markets. The very shadow of default could make life difficult for the private sector in the entire Gulf region. Over the past few years, private firms have turned more dependent on foreign borrowing to fund their local growth, and chances are that foreign banks may trim exposure to the region.

Indeed, “increased scrutiny by foreign lenders could curtail domestic growth in the region and aggravate the credit constraints on large family groups,” said an internal note of one of the foreign banks with exposure to the region.

There is a higher possibility that investors would now prefer to operate out of more established jurisdictions, says Siddharth Shah who heads the corporate and securities practice group at the law firm Nishith Desai Associates. “What could help Singapore is its long history of a successful financial centre,” says Mr Shah.

According to Seshagiri Rao, CFO and joint MD of JSW Group, markets may not collapse dramatically, but people fear that there may be more defaults of this kind in the days ahead. While many would agree with Mr Rao that the present sell-off in the financial market is to an extent sentiment-driven, global banks are grappling with an element of mistrust and disbelief.

“Even if this does turn out to be a voluntary restructuring, the lack of clarity and ill-timing of this announcement are likely to raise the international cost of financing for the

Emirate for some time to come," says a note prepared by a large US bank. "Why did it happen? We frankly find no compelling explanation for such a move," says the note.