

A Reconnaissance of the Research on Islamic Finance in China

Dai Jian Bing, Meilan He

Hebei Normal University, China

Abstract

Islamic finance is a unique segment of the global financial system. It is inspired by the teachings of Islam, and differs a lot from other forms of financial markets in the aspects of regulations and practices. Modern Islamic finance is based on two principles: first is the overall criticism on all kinds of (Riba) interest; second is the galvanic focus on the concept of 'profit and loss sharing'. Islamic financial system took on a good risk-resistant capability during the global financial crisis in 2008. Hence, it attracted the attentions of many scholars all over the world.

This paper is a brief summary as well as a comment on the study of Islamic finance system in China. It covers the studies on the background, development, main characteristics, opportunities, and challenges of the Islamic finance system with special reference to China.

Keywords: Islamic Finance, China

1. When and Why Islamic Finance System Came into Being?

Liu TianMing and other Chinese scholars began to study the origin of Islamic finance in the 1970s. Liu narrates that the Islamic ideological revivalism in the 1970s was the perfect integration of the Islamic culture and the Western culture. Subsequently, the Islamic societies started following the modern society orbit both in the political as well as in the economic systems. Thus the Islamic finance system came into being.¹ Li YanZhi also shares the similar views that the Islamic finance system was a product of the Islamic ideological revivalism in the 1970s and it resulted from the political fluctuation and the rising political status of religious factors.² Zhang YongQing's argument is that starting from 1950s the Muslim economists began to explore a new economic development pattern. In 1963, the first interest-free bank was established in Egypt, i.e. Mt Ghamr Savings Bank.³ However, the Islamic banking was not widely successful until 1970s when the Muslim economists put forward more systematic Islamic finance theory which was based on traditional Islamic economic theory and Islamic teachings. It combined the economic development experience and lessons of various Muslim countries after the Second World War.

However, Li PengTao argues that the idea of interest-free Islamic finance system had appeared in the 1940s in the Sub-Continent. Sayyid Abul Ala Mawdudi developed Islamic economics which aimed at establishing an ideal society that would follow the model of 'golden era' of the early Islamic history. This era was based on the principle of no-exploration, no-control, no-alienation, and was free from all types of social disorders of capitalism. The main content of this kind of Islamic economics resorts to establish interest-free banking system and to restore Zakat system.⁴ In short, the Islamic finance theory originated in 1940s, germinated in 1950-60s, and grew into a system during the Islamic ideological revivalism in 1970s.

2. Studies on Islamic Finance Theory

Three Chinese scholars Ba ShuSong, Liu XianFeng, and Cui Zheng agree that the evolution process of Islamic finance is the mutual adjustment process of conventional financial system and Islam teachings and the integrated product of the both.⁵

Liu TianMing argues that Islamic finance has developed from the teachings of Islam which are characterized by rich economic thoughts, strong religious hue, welfare spirit and moral print, distinct integration of fundamentalism and flexibility, the value of unification of morality and profit, relative equalitarianism, and mercantilism.⁶

Li YanZhi points out that Islamic finance basically originated from the Holy Quran, Hadiths, and Shariah. It has adapted itself to the modern finance system and has formed a kind of finance system with bright Islamic religious community characteristics. On the other hand, Islamic finance developed into a system as a consequence of the circulation of the petro-dollars into the market.⁷

Qi XueYi puts forward that Islamic ethics and Islamic economic thoughts have permeated into each other and this has left indelible impressions on the development of Islamic finance. The principles of 'sharing loss and profit, forbidding interest and ill-gotten wealth, recommending good loan and abiding by contracts' imply in Islamic economic theory largely and manifest the welfare hue of Islam and subsequently strengthen Islam itself. However, these principles have hindered the sustainable development of Islamic finance as a side effect. Such is the dual stretching force of Islamic finance.⁸

In short, Islamic finance developed into a system on the basis of the teachings of

Islam; whereas, its economic strength came from the circulation of the petrodollars in international market.

3. The Main Characteristics of Islamic Finance

Islamic finance takes on distinct colours of religion because it is based on the teachings of Islam. Li YanZhi points out that in the current circumstances Islamic financial institution has unique advantages for survival which reflect its extensive growth in future. Islamic finance institutions will accelerate their innovation process. Its competition with the conventional financial institutions will get increasingly fierce. The two financial systems will complement each other and amalgamate in the market. However, the Islamic financial institutions may only operate as supplementary to the conventional financial institutions. It is inevitable that Islamic financial institution will stay outside the mainstream of finance mechanism and will gradually move towards conventional financial institutions.⁹

Shen XiaoMing's *Islamic Bank Readers* is about the general knowledge on Islamic finance and Islamic banks. The monograph gives a comprehensive introduction of the principles and features, origin and evolution, products and marketing, operation and supervision of Islamic banks and the challenges to be faced in its further development. The author further points out that it is very significant for China to develop Islamic banking as it will meet the Chinese Muslim population's special financial needs, improve financial resources distribution efficiency, broaden investment channels, attract Middle East countries and other Muslim countries to participate in the economic progress of China with more capital investment. This will also strengthen the economic and trading cooperation between China and the Muslim countries.¹⁰

Ba JianQun and Yi Cheng have made comparative studies on Islamic finance products and conventional finance products and summarized the features of Islamic finance products.¹¹ Qu Qiang argues in his paper that realistically speaking, Islamic finance is a new phenomenon in the global finance arena. Theoretically speaking, the Islamic finance system provides a complete opposite pattern to the sophisticated European and American financial systems.¹²

Similarly, Wang YongBao understands that Islamic finance and conventional finance differ from each other in many ways. Many tools that have survived conventional finance do not exist in Islamic finance. Islamic finance has an inherent unique principle i.e. risk sharing.¹³

In Feng Ying's opinion, the Islamic finance has four features. The first is the ban on interest. The second is the basis of real assets to ban the uncertainty. The third is the pursuit of both economic and social benefits. The fourth is forbidding fraud and sticking to the contract.¹⁴

4. The Development of Islamic Finance

Ba ShuSong, Lu Yang and Wang JingYi discover different tendencies in the development that Islamic finance is making all over the world.

The Malaysian Islamic finance industry has experienced a rapid rise and has made tremendous achievements with the support of the government.¹⁵ Xu LiPing, Wang ShouZhen, and Zou XiaoFeng have made extensive studies on the establishment of Malaysia international Islamic finance center and they are of the view that the successful development experience of Islamic finance in Malaysia is due to the government support which includes strengthening financial infrastructure construction, emphasizing the innovation in Islamic finance products, paying attention to train the Islamic finance talents, promoting Islamic finance international cooperation, and intensifying Islamic finance supervision etc.¹⁶ Luo YongKun argues that although the Islamic finance in Southeast Asian countries has been influenced by the international Islamic revivalism movement and Islamic finance development, yet it carries significant local characteristics as well. The Malaysian Islamic finance system has its own colours both in the Southeast Asian region and in the world. This is reflected through the complete Islamic finance system operating side by side with the conventional finance system.¹⁷ Cao QingFeng has introduced a systematic and complete Malaysia finance system covering Islamic banking, Islamic insurance, and Islamic capital market.¹⁸

5. Research on Islamic Finance in China

Against the background of globalization, it is very important for some regions of China to study and introduce Islamic finance. According to Zhang XiaoFeng, the Islamic finance has a less degree of impact caused by the subprime crisis due to its unique development and investment ideas. Thus, it is very significant to speed up introducing and applying Islamic finance pattern to China which will improve Chinese finance market and develop some of the ethnic group concentrated regions.¹⁹

Liu CaiYong, Huang XiaXi, Gao Yi, Xin Zhibing and some other Chinese scholars took the HUI ethnic group concentrated NingXia autonomous region as a case study. They argue that since Muslims are the majority population of NingXia region, it would be an advantage for this region to develop Islamic finance there.

Therefore, NingXia can be a Chinese region for a pilot project of introducing the Islamic finance.²⁰ Hou KeFeng and Li MuZi point out that Hong Kong, as a well-known world finance center, has made positive efforts for developing the Islamic finance. It has not only explored the opportunities but also encountered the challenges in the process of development.²¹ Zhang YongLi and Wang Bo suggest that the time is ripe for the Chinese Northwest region to develop Islamic finance against the background of Belt and Road Initiative by studying the features and the development tendencies of Islamic finance and comparing it with the advantage of the Chinese Northwest region.²² Jian MianMian, Du ChaoYun and Ye Fang have made an argument that it is helpful to construct pluralistic, multi-level, and sustainable rural finance system of wide coverage. This may be done by promoting the Islamic finance and micro credit in the rural areas of China. This will encourage both to learn from each other's operational experience targeting at bringing out products and services innovation.²³

There might be some issues to ponder while considering the development of Islamic finance in China drawing on Malaysia's successful experience in the field.. Feng ZongXian and Chen ZhiYi have conducted comprehensive literature surveys on the development of the Islamic finance especially its risk management. They have put forward an explorative strategy to pilot develop its risk management of the financial services based on their comparative studies of the Islamic banks and the conventional banking system.²⁴ Jiang YingMei points out that the development of Islamic finance in the non-Islamic countries, particularly in the UK and Singapore, has proven that the Islamic finance development is becoming increasingly competitive. In the case of China, there is more potential to open up its finance system. Some of the main hurdles are the issues related to the market access, services access, and technology access.²⁵ Xie XinFang and Liang HaiMing hint at some hitches that may hinder the development of Islamic finance in China. First is that Islamic finance is a rather new product for the Chinese finance market; Second is that Halal industry as the basis of Islamic finance is not mature enough in China; Third is that the Chinese financial institutions are not yet well prepared for managing and handling Islamic finance risks; Fourth is that the foreign Islamic capitals flowing into the Chinese market do not go through a strict and prudent supervision.²⁶

Shi JinChuan, Ren XiaoMeng, and Pan ShiYuan have made pattern studies on the formal system factors such as finance and system environment, and informal system factors such as religion. Their study shows that the system construction should be emphasized while introducing Islamic finance as this will lead to Islamic

finance playing a more efficient role in economic growth and social improvement.²⁷

At present, the majority of the countries along the Belt and Road Project (or those expressing interest to join the BR initiative) are the Muslim states and the Islamic finance assets of the globe are concentrated in these regions. Being the initiator of BR initiative, it is imperative for China to positively construct a sound finance infrastructure to adapt to the new type of finance system. Qi Meng has studied the legal regulations for Islamic finance supervision system and the mature supervision systems of Malaysia and the U.K. She proposes that a Shariah consultative committee at the central government should be set up for national supervision and a special unit or channel should be formed to settle the financial disputes. She further suggests strengthening the cooperation with the mature Islamic finance markets for the supervision and attracting and training Islamic finance talents.²⁸ Cao Ping has made a comprehensive study on the international Islamic bonds, especially on Malaysian bond pattern and characteristics. She argues that China should initiate a pilot development of Islamic bonds through more open-up policy and legal rules in line with the BR Initiative.²⁹ A few Chinese scholars such as Zhang YongLi, Wang Bo, Qi Meng and Cao Ping also have conducted some studies related to 'the Belt and Road Initiative and Islamic Finance'.

Mei YaChong finds it necessary for China to promote BR initiative by improving Chinese finance system after studying the current trends and the latest developments in Islamic finance and their impacts on the countries along the B.R.³⁰

6. Conclusion

The field of Islamic finance has attracted a number of Chinese scholars and researchers to work on. Many researchers have endeavored to explore its basic tenets, working systems, products, and processes. Some studies have reconnoitered the probabilities and possibilities this area can bring into China by comparing the operations of already flourishing markets of Islamic Finance. But, as yet, the contemporary research conducted on this topic cannot be considered as comprehensive, exhaustive, and detailed. Further study on the application of the Islamic finance theory to the actual situation in China is needed. In this regard, more case studies can be helpful rather necessary.

Reference

- ¹刘天明.伊斯兰经济思想[M].银川:宁夏人民出版社,2001.
- ²李艳枝.伊斯兰金融机构研究[D].西北大学,2004.
- ³张永庆.伊斯兰教与经济[M].银川:宁夏人民出版社,1994.
- ⁴李鹏涛.伊斯兰复兴运动中的 伊斯兰经济学[J].阿拉伯世界研究,2007(02):28-34.
- ⁵巴曙松,刘先丰,崔峥.伊斯兰金融体系形成的市场基础与金融特性研究[J].金融理论与实践,2009(06):20-24.
- ⁶刘天明.伊斯兰教经济思想特点初探[J].宁夏社会科学,1991(06): 64-70.
- ⁷李艳枝.伊斯兰金融机构研究[D].西北大学,2004.
- ⁸祁学义.伊斯兰金融思想初探[J].阿拉伯世界研究,2010(01): 61-67.
- ⁹李艳枝.伊斯兰金融机构研究[D].西北大学,2004.
- ¹⁰沈晓明.伊斯兰银行知识读本[M].中国金融出版社,2010
- ¹¹把剑群.伊斯兰银行与金融业融资方式[J].阿拉伯世界,1997(03):25-27. 易诚.伊斯兰金融产品与传统金融产品的比较[J].华北金融,2006(05):66-68.
- ¹²瞿强.伊斯兰金融的近期发展[J].国际金融研究,2008(11):39-43.
- ¹³王永宝.风险分担原则下的伊斯兰金融市场及其运作模式[J].西亚非洲,2014(02):19-44.
- ¹⁴冯颖.伊斯兰金融特点及相关借鉴探索[J].经济研究参考,2018(29):32.
- ¹⁵巴曙松,路扬,王璟怡.伊斯兰金融的全球化发展[J].西部论丛,2009(01):52-54.
- ¹⁶许利平.解析马来西亚的伊斯兰金融系统[J].东南亚研究,2004(01):17-20. 王守贞,邹晓峰.马来西亚伊斯兰金融系统发展研究[J].东南亚研究,2008(02):38-42.
- ¹⁷骆永昆.全球化背景下的东南亚伊斯兰金融[J].东南亚纵横,2010(06):50-55.

- ¹⁸曹庆锋.马来西亚伊斯兰金融体系初探[J].中国穆斯林,2015(04):17-20.
- ¹⁹张晓凤.西部民族地区引进伊斯兰金融模式探析[J].北方民族大学学报(哲学社会科学版),2009(04):48-51.
- ²⁰刘才涌,黄晓茜.马来西亚伊斯兰银行业的崛起与启示[J].亚太经济,2011(01):101-105. 高慧.宁夏引入伊斯兰保险的可行性分析[J].北方民族大学学报(哲学社会科学版),2014(02):49-53. 辛志兵.宁夏发展伊斯兰金融业务探析——基于SWOT视角[J].财经问题研究,2014(S1):100-102
- ²¹侯可峰,李木子.伊斯兰金融在香港地区的发展及其税制环境[J].国际税收,2015(03):62-66.
- ²²张永丽,王博.中国西北地区发展伊斯兰金融的前景分析——基于一带一路的视角[J].上海财经大学学报,2016,18(03):36-47.
- ²³蒋绵绵,杜朝运,叶芳.伊斯兰金融与小额信贷的比较及对我国农村金融发展的启示[J].西安财经学院学报,2017,30(01):33-38.
- ²⁴冯宗宪,陈志毅.基于风险视角的伊斯兰银行与传统银行的比较[J].国际金融研究,2011(07):74-81.
- ²⁵姜英梅.伊斯兰金融全球化发展及其在中国的发展前景[J].西亚非洲,2014(02):45-61.
- ²⁶谢新芳,梁海明.一带一路背景下我国发展伊斯兰金融的思考[J].南方金融,2016(04):55-59.
- ²⁷史晋川,任晓猛,潘士远.宗教、正式制度与经济增长——基于伊斯兰金融的理论研究[J].社会科学战线,2017(05):47-58.
- ²⁸齐萌.一带一路视角下的伊斯兰金融监管制度研究[J].上海财经大学学报,2015,17(05):106-113.
- ²⁹曹萍.一带一路背景下的伊斯兰债券发展模式研究[J].证券市场导报,2016(12):18-26.
- ³⁰梅亚冲.一带一路视角下的伊斯兰金融研究及其对中国的启示[J].北京大学学报(哲学社会科学版),2017,54(06):130-137.