

Comments of

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on

Islamic financial thought and Chinese Moslem's financial behaviour

By Tianming Liu

1. General Comments

The paper deals, with a very important development in China, mainly in two provinces with majority of Muslims. In China of 1.3 billion, only 20 millions are Muslims according to the writer. The introduction of Islamic banking practises in a socialist economy is really a great achievement. The driving force came out from the emphasis laid down in the Qur'ān and the Sunnah on prohibition of *ribā* (usury).

The writer picked up two successful Muslim financial companies. The HeZhou Muslim financial company and The Qinghai Muslim financial Business.

The author gave in part one, an outline of Islamic financial thought. The economic thinking of the west was prevailing in Muslim countries for long. Banking, it is said cannot function without interest. He refuted this approach and supported Islamic stand on *ribā*. Islam stands for the circulation of wealth. No gain can be secured without work, real production and taking risk.

Since the seventies Islamic banking system paved its way in many Muslims countries Small and medium-sized enterprises are deprived from getting loans owing to the lack of guarantee ability . Credit is not justly distributed.

An objection is made also in regarding interest as the price of currency. The debt-credit relation is advantageous to the credit side and disadvantageous to the debit side. In Islamic banking there is co-relationship between the bank and the customer. The banks invest the customer's deposits and both sides take risk and divide returns.

In part of this paper he pointed out that most Muslims in china are against *ribā*.

Thanks to Muslim thinkers and Mosques' Imams for stressing this fact, however, many Muslims in the cities are dealing with banks as depositors or as borrowers.

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The Muslims were able to form two companies to solve the question of *ribā*: The Muslim financing company of HeZhou and the Qinghai province Muslims financial business. HeZhou Muslim financing company with the support of governmental organization started its operation in Feb. 1987 in a state of mostly Muslims, of almost one million.

The capital of the company 30% belong to the national bank, minority market 30% and floating shares for the public 40%.

The company has a president and elected board of directors. But the peoples Bank (Government) have the upper hand.

The method of financing adapted is of three types.

- (a) The Interest rate of deposit and it is regulated by the National Bank. The rate depends upon the accumulation of deposits.
- (b) The shared profit margin of loans.
- (c) The rate of venture capital. Profits of operations are divided according to certain formula.

The method adopted proved it success from economic and social point. Industrial and commercial families – of minority market got the lion's share 70% while small industries and commerce received 30% of total loans.

The success of the HeZhou was attributed to .(1) the spread of Islamic Banks in Muslim countries, formed a very driving force for Muslims in China to build and Islamic finance model even in a socialist run economy .(2) Although the company is under the leadership of Chinese government, it was able to join three forces together. Government collective national groups and individuals to work jointly together for the benefit of all people, Muslims and non-Muslims alike and gave support to self-employed workers, small business and collective industrial and commercial enterprises.

2- Qinghai province Muslims financial business in Jan. 27, 1989 Muslims saving house was established in the province of Qinghai province whose population is around one million Muslim. More than five savings houses and Banks were established latter on. Because Muslims at large did not deal with *ribā* banks a huge amount of saving were accumulated and lift idle. The establishment of these banks built a bridge between Muslims and non-Muslims. Imams of mosques played very vital role in the mobilization of Muslim masses to open accounts. The saving house tried to substitute gradually the interest by new methods. The deposit is lottery attached and can get material prizes and bonuses. The remaining interest which cannot be returned is diverted to support national educational undertakings.

The contribution of the Islamic houses increased the rate of saving and accumulated wealth and small business, self employed persons and raised the economic standard of the Muslims in industry, commerce and services.

About the prospect of Chinese Muslim banking, the development of the market economy and the heroic role played by Muslim thinkers and Imams mosques is highly promising and the success of the two mentioned companies will be imitated. It is highly expected that more Islamic banks will start operating in other provinces. No doubt those china Islamic banks will strengthen their contacts with other Islamic banks in Muslim countries.

2. Specific Comments

The paper under consideration is really important paper. It sheds light on the continuous efforts of Muslims in china to adopt Islamic rules and norms concerning financial institutions in a huge country of around 1.3 billion people. The paper picked up two big provinces in which the Muslims form the majority.

However important this paper, one is entitled in making few remarks:

1. The number of Muslims in China is put around 20 millions people. This figure is highly questionable before liberation in 1949; the official estimate was 48 millions. How one can imagine that the figure went down after 60 years to just 20 millions?

Some sources estimated the number in not less than 200 million Muslims. The writer did not give any reference if this is an official estimate, and in what year. Indications lead us to the conclusion that the number of Muslims in china is in hundreds of millions.

2. The main success of the two provinces was achieved in the mobilization of accumulated savings into the newly established financial companies. It was possible thus to lend credit to trade industry notably to small business and self employed entrepreneurs. But that was made on the premises that *ribā* is *ḥarām* .yet interest is still adopted. It seems that banking laws in China dictates payments of interest compulsory on deposits. If this is the case, then it is very strange. In the Marxian communist thinking interest is considered as a tool of exploitation.
3. The respected professor did not elaborate enough to differentiate between the shared profit margin of loans and the shared rate of venture capital. Perhaps the English language did not help him much to clarify this very important point.
4. A success story is being offered, and no doubt it is highly appreciated. But we need to know more if the emphasis in directing loans to small industry commerce etc. came out as a policy of the board of the directors or it is the government policy.

5. Nothing is said if these companies and saving banks initiated its own industrial companies or shared in already established ones. It is of utmost importance that these financial companies engage themselves in the creation of real projects in industry, in trade, and in initiating houses of experience and technology expertise.
6. It seems to me that the real achievement was reached in the direction of lending rather than in direct investment of these financial companies. No doubt this is an achievement in spite of the fact that *ribā* or interest is still adopted perhaps because of existing government laws.

Hopefully with time all forms of interest - fixed or varied - will be done away with. Chinese Muslim saving houses and financial companies can produce bold model in developing ways and means to produce a real take off in initiating real and lasting development and guard against the unwelcome experience of many Islamic banks of today where the emphasizes is largely concentrated on *Al-murābaḥah* as a safe way to secure profits. By doing so the result was moving towards increasing consumption and imports of various conspicuous items, with the result of creating precarious economic base and more economic dependence without any success in producing lasting real economic development.

Finally, I find myself very indebted to our respected Chinese Muslim economist who broadened our knowledge about Muslims Financial institutions in china and gave us more hope that Islam is steering ahead in producing its own methods in meeting the needs of modern times. Islam is the only real and promising hope for mankind in the 21st century.