

PRIMARY RESEARCH

# The Global Perspective of Islamic Finance and the Potential for China to Tap into the Islamic Finance Market

Fares Djafri <sup>1</sup>, Mohamad Akram Laldin <sup>2</sup>, Abdelkader Laallam <sup>3\*</sup>

<sup>1,2</sup> International Shari'ah Research Academy (ISRA), INCEIF University, Kuala Lumpur, Malaysia

<sup>3</sup> IIUM Institute of Islamic Banking and Finance (IiBF), International Islamic University, Selangor, Malaysia

## Keywords

Islamic Finance  
Development  
Challenges  
BRI  
China

**Received:** 15 December 2020

**Accepted:** 31 March 2021

## Abstract.

**Purpose:** Islamic finance is considered one of the fastest-growing segments of the global financial industry. Over the last four decades, Islamic finance has expanded globally to western and other non-Muslim countries. This paper aims to explore the potential for China to tap into the Islamic finance market and the challenges that may face the implementation of Islamic finance there.

**Methodology:** This study adopts a qualitative method of inquiry and utilizes the inductive method and content analysis to build comprehensive knowledge that would assist in exploring the significance and potential benefits that China may gain from the adoption of Islamic finance.

**Findings:** The study reveals that China has a huge opportunity to capitalize on Islamic finance for economic development, particularly in the implementation of China's Belt and Road Initiative (BRI). The paper also highlights the critical success factors for introducing Islamic finance in China, most importantly, political will. Genuine support from the government is needed for the effective introduction of Islamic finance in the country. This support should be subsequently followed by the development of the legal framework, an amendment of the laws, broad publicity to raise public awareness, and effective collaboration with international organizations.

**Significance:** To the best of the authors' knowledge, this study is among the few which highlights the potential for China to tap into the Islamic finance market. It is expected to contribute to enhancing the implementation and development of the Belt and Road Initiative (BRI).

**KAUJIE Classification:** B4, H47, I3,

**JEL Classification:** D63, G24, C83

## INTRODUCTION

Over the previous four decades, Islamic finance has expanded significantly and has a global reach. It is considered as one of the world's fastest-growing financial industries. Indeed,

\*Corresponding author: Abdelkader Laallam

†Email: [kader0991@gmail.com](mailto:kader0991@gmail.com); ORCID: <https://orcid.org/0000-0001-8473-9053>

Islamic finance is rapidly expanding to western and other non-Muslim nations (Laldin & Djafri, 2019). It is now in the stage of global integration to be adopted as an international financial system (Ahmad *et al.*, 2019; Khalili, 1997; Khan & Bhatti, 2008; Novikov *et al.*, 2020; Warde, 2000; Y-Sing, 2008). With the rapid growth of Islamic finance, many countries in the west have recently allowed the operation of Islamic banks within their respective jurisdictions. For instance, the UK is considered to be the first leading country in the west to issue *ṣukūk*-an Islamic alternative to bonds-to raise governmental revenue. Moreover, the first full-fledged Islamic bank was launched in Germany in 2017 (Bhavin & Saad, 2017). Similarly, in Japan, the authorities are considering issuing regulations that permit Japanese banks to offer Islamic banking products (Bhavin & Saad, 2017). Yet, despite the increased interest, Islamic finance's penetration in China appears to have lagged behind the rest of the world.

The reason for this emergence and rapid growth of Islamic finance could be due to the underlying principles that Islamic finance stands for. According to Chapra (2009), the resilience of Islamic finance during the 2008 global financial crisis was the result of various factors, including the risk-sharing concept with the availability of credit for primarily the purchase of real goods and services, the restriction on the sale of debt for cash at a discount, the condition to avoid excessive uncertainty (*gharar*), and the strong emphasis on ethics. These are the main principles that can help inject greater discipline into the financial system and would ultimately contribute in fostering financial stability (Noordin *et al.*, 2020).

In addition to the instability of the current financial system and its exposure to crises, the world is facing many other challenges, one of which is climate changes and it will have a large influence on the global economy (Wade & Jennings, 2016). This sudden but long anticipated challenge has promoted the notion of ethical and responsible investments in the mind of many investors. To demonstrate, the "Paris Agreement on Climate Change" and "the 2030 Sustainable Development Goals (SDGs)" mark a key turning point for a stable universe and sustainable society. The main aim of this agreements is to face climate changes, environmental degradation and to promote affordable and green energy. More crucially, the usage of "green" energy has become a key element of the united nations' SDGs, which have been included into many governments' economic growth plans. According to the Bloomberg NEF report, worldwide investment is heavily concentrated on clean and renewable energy. Investments in global green energy, for instance, have increased from USD 200 billion in 2008 to USD 332 billion in 2018. Further, inexpensive and clean energy has a direct impact on economics and social development and may contribute to various policy objectives, such as establishing new businesses and products, determining new employment opportunities, lowering polluting gas emissions and delivering reliable and affordable clean energy (Laldin, 2019).

Interestingly, Islamic finance has a lot in common with impact investment and can play a major role in addressing the problem faced by the society. It has the potential to bring added value to the efforts of mobilizing resources for realizing the SDGs. In fact, one of the current trends in Islamic finance is ensuring the sustainability of the industry and this is very much in line with the objective of *Sharī'ah* and the ethical values propagated by Islam (Laldin, 2020).

It is important to note that there are continuous efforts and numerous measures being explored to strengthen ethics and social justice in Islamic finance. This comprises different sustainable development tools such as Sustainable and Responsible Investments (SRI), Environmental, Social, and Corporate Governance (ESG), and Value-Based Intermediation (VBI), which was launched by the Malaysian Central Bank. Overall, these initiatives seek to play an essential part in environmental preservation and various socioeconomic development matters (Laldin, 2020).

Based on the above, China can benefit from embarking on the Islamic financial system by promoting ethical and sustainable investments as well as other socio-economic activities. Further, the Chinese economy is poised to reach new levels which requires huge investments in every sector to boost economic growth. Indeed, at this age featured with infrastructure investments and giant projects such as BRI, Islamic finance offers variety of flexible financing options to investors, and it presents one of the great opportunities that could be used to finance infrastructure projects, which are the main driving forces of the Chinese economy. Therefore, the main objective of this paper is to explore the potential for China to tap into the Islamic finance market and the amendments necessary to its laws in order to facilitate the development of Islamic finance there. To achieve this objective, four dimensions are taken into consideration, namely the development of Islamic finance globally, the potential for China to tap into the Islamic finance market, the role of Islamic finance in the implementation of China's Belt and Road Initiative (BRI), and the issues and challenges that may face the implementation of Islamic finance in China.

### **The Global Perspective on Islamic Finance**

In the 1980s and 1990s, which are regarded as the early stages of Islamic finance development, the industry was mostly concentrated in predominantly Muslim countries, particularly in the Middle East and South-East Asia. Ever since, the Islamic finance industry has been enjoying rapid growth worldwide. Islamic financial institutions are now present in over 80 nations around the world (Domat, 2020). After recent years of marginal increases, the Islamic financial services industry (IFSI) returned to strong growth at 14% in 2019. Global assets are expected to surpass USD 3.69 trillion by 2024 (ICD-Refinitiv, 2020; Islami Financial Services Board, 2020). Indeed, the rapid growth of Islamic finance is expanding to western and other non-Muslim countries. The reason for this emergence and rapid growth could be due to the underlying principles that Islamic finance stands for (Al-Jarhi, 2017; Chapra, 2009; Saiti *et al.*, 2014).

From just providing basic banking services in the 1990s, the Islamic finance industry has grown and expanded to develop other financial market segments such as the Islamic capital market, asset management, and Islamic insurance known as *takāful*. Since then, the Islamic finance industry has developed in providing a range of ethic-based products to corporate and retail customers, responding to the market's varying needs. Not only that, Islamic finance has proven its development through its growing interest in improving the community and preserving the environment by introducing a range of targeted financial products such as SRI *ṣukūk*, green *ṣukūk* and the like. According to the revised *ṣukūk* standards, the SRI

*ṣukūk* proceeds can be channeled towards preserving the environment and natural resources, saving energy, encouraging renewable energy use, and minimizing greenhouse gas emissions (Ahmed *et al.*, 2015; Deloitte & ISRA, 2018; Gundogdu, 2018; Kuwait Finance House, 2013; Osman, 2019). It is worth noting that the issuance of green *ṣukūk* exceeded USD 3 billion in 2019, and this is expected to increase more in the future as part of the efforts to face the challenges posed by climate changes and to meet SDGs.

According to recent reports, the Islamic banking industry is still dominating the global portfolio of Islamic financial assets, accounting for a 69% share in 2019. The *ṣukūk* industry comes next and is rapidly growing in popularity, accounting for a 19% share in 2019, as evidenced by large and more frequent issuances flowing to the market. According to RAM's *ṣukūk* Snapshot, global *ṣukūk* issuance has grown exponentially over the last three decades, recording a total issuance of USD 152.6 billion in 2020. Malaysia continued to be the top *ṣukūk* issuer with a market share of 39.2%. Saudi Arabia was in second place with a share of 20.4% (USD 6.7 billion), followed by Indonesia with 17.5% (USD 6.1 billion). The Islamic funds' sector is also growing fast with assets under management worth USD 140 billion at the end of 2019. The sector has grown by a remarkable 30% since 2018 (USD 108 billion) (ICD-Refinitiv, 2020). On the other hand, *takāful* remains a nascent industry, constituting only a 2% share of global Islamic financial assets as at the end of 2019. It is worth mentioning that the Islamic banking industry and the *ṣukūk* sector are the main players dominating and shaping the Asian Islamic financial landscape. These two sectors have driven the trajectory of robust growth in Asia during recent years, amounting for a combined value of over USD 543.8 billion, equivalent to 22.3% of total Islamic financial assets (Islamic Financial Services Board, 2020).

### **The Potential for China to Tap into the Islamic Finance Market: Opportunities**

Islamic finance is currently in the point of global integration to be embraced as an global financial system. The literature on Islamic finance has postulated that the system would stimulate economic growth and development of practicing countries (Ahmed *et al.*, 2015; Al-Roubaie & Sarea, 2019; Gundogdu, 2018; Halim *et al.*, 2017; Hassan *et al.*, 2020; Hassan & Aldayel, 1998; World Bank Group, 2016). Emerging markets such as China, whose appetite is evolving on a daily basis, would certainly benefit from huge investment opportunities in the Islamic finance industry. China's active market will also provide significant opportunities for the development of Islamic finance (Malik, 2010; Sarker *et al.*, 2019).

To elaborate, the Chinese economy is poised to reach new levels, which will require huge investments in every sector to boost economic growth. In other words, China remains the most attractive market in the world because of its sheer size and the amount of infrastructure that needs to be built and financed (Kamel, 2018). According to the OECD (2015), the urbanization pace in China is significant as millions of people are moving to cities. There are currently 15 megacities in China, and urbanization there is expected to reach 70% by 2050 (OECD, 2015). This indicates the massive need for power, housing, food, transportation, and modern infrastructure. As such, China's hunger for investments and capital is insatiable as the economy continues evolving (Malik, 2010; Sarker *et al.*, 2019). Islamic finance presents

one of the great opportunities that could be used to finance projects and infrastructure, which are the main driving forces of the Chinese economy.

Not only is China moving towards huge development in all sectors within its jurisdiction, it is involved in development globally (Kamel, 2018; Selmier, 2018). Most Chinese projects and government initiatives are related either directly or indirectly to infrastructure development, which necessitates huge fund inflows and sources of financing. *Ṣukūk* have a long and good reputation in financing infrastructure and contributing to the growth of countries where Islamic finance exists (Deloitte & ISRA, 2018). This is reflected in the rapidly increasing demand for *ṣukūk* globally. The issuance of *ṣukūk* globally has grown sharply since 2008 from a low base, soaring from USD 24 billion to USD 135 billion by end of 2013 (International Islamic Financial Market, 2020). In addition, China is concerned with the implementation and development of the Belt and Road Initiative (BRI), which is considered perhaps the most massive intercontinental project in history (Sarker *et al.*, 2019). The BRI project focuses on infrastructural investments, which *ṣukūk* could perfectly assist to finance. Recently, there have been few Chinese dealers entering the market, which is an expected trend. For instance, Sichuan development holding as a local state-owned company, has planned to raise fund via Islamic financing for USD 300 million and continue to raise further money by *ṣukūk* issuance for a total amount of USD 1 billion. The Sichuan Province, which has a multitude of infrastructure projects and is viewed as a junction of the BRI, attracts investors from the BRI initiative to explore China (Bo *et al.*, 2016). Issuing *ṣukūk* would make China more approachable to new segments of investors as well as strengthening financial interconnectivity with Muslim countries along the BRI routes. Moreover, promoting *ṣukūk* in China would extend the influence of the Asian Infrastructure Investment Bank (AIIB) globally, as the Islamic Development Bank is exploring the potential of issuing *ṣukūk* through AIIB (Bo *et al.*, 2016).

Another opportunity that China can benefit from in embarking on Islamic finance is by promoting ethical investments and social activities (Al-Jarhi, 2017; Al-Roubaie & Sarea, 2019; Saiti *et al.*, 2014; Sarker *et al.*, 2019). To illustrate, it is undoubtedly true that the world is facing many challenges such as climate change and financial crises that are hitting many economies. These sudden but long-anticipated crises have promoted the notion of ethical and sustainable investments in the minds of many investors. This has led to the rising popularity of the concept of ethical investment and related concepts such as corporate social responsibility (CSR), socially responsible investment (SRI) and sustainable development goals (SDGs), which can all play a major role in addressing the threats faced by the environment and society (Bukhari *et al.*, 2019; Osman, 2019). In the same vein, Malaysia has initiated Value-Based Intermediation (VBI), which aims to play an important role in the preservation of the environment and several socio-economic development issues.

One of the recent developments and innovations in this area pertains to socially responsible investment (SRI) *ṣukūk*, which seek to finance renewable energy and other environmentally sustainable projects. Several nations have lately seen significant growth in renewable energy investments through the use of SRI *ṣukūk*, which were launched to facilitate and encourage sustainable and responsible investing. According to (Laldin, 2019):

"Malaysia and Indonesia are among the first countries to issue this type of *ṣukūk*. In Malaysia, the first green SRI *ṣukūk*, valued at RM 250 million, was issued to partly finance large-scale solar construction in Kudat, Sabah. Following that, Quantum Solar Park Malaysia Sdn Bhd launched the world's largest green SRI *ṣukūk*, valued at RM1 billion, to fund the construction of Southeast Asia's largest solar photovoltaic plant project in three regions: Kedah, Melaka, and Terengganu. Indonesia has also recently issued USD 1.25 billion of green sovereign *ṣukūk*, whose revenues will be partly used to finance renewable energy projects" (p. 44).

Laldin (2019) mentioned that the adoption of green *ṣukūk* is attributable to several factors, namely "*the increase in renewable energy projects, particularly solar energy projects, the low capital costs, and the fact that it is a Sharī'ah-compliant instrument*" (p. 44). Besides that, Islamic finance has a lot in common with impact investment and can play a major role in addressing the problems faced by the society. It has the capacity to increase the effectiveness of efforts to mobilize resources for the sake of achieving the instruments of sustainable development. Therefore, the Chinese government may provide an enabling environment for Islamic financial institutions, which should emphasize ethical and value-based intermediation as the world is moving towards promoting ethical and sustainable investments.

Moreover, recently the Chinese government has been striving to diversify its reserves in commodities and other investments to avoid any side effects of the devaluation of the dollar, which accounts for 70% of total reserves. China prefers safe or low-risk investments to maintain its reserves in order to reduce its dependence on US treasury bills, particularly after the financial crisis that devastated the US economy in 2008 and then affected the rest of the world (Sorenson, 2007). *Ṣukūk* and other instruments of the Islamic capital market would be among the best alternatives for attracting Chinese attention towards asset-backed instruments (Bo *et al.*, 2016; Podpiera, 2006).

In addition, the Chinese government is involved in ongoing massive infrastructural projects that require macroeconomic and financial stability. For instance, the accomplishment of the BRI project requires financial stability and funds inflow, which could potentially be offered by Islamic finance instruments (Bo *et al.*, 2016; Chu & Muneeza, 2019; Selmier, 2018). The principles of Islamic finance represented in asset-based financing and risk-sharing could help in promoting better risk management by financial institutions and their clients and discourage credit booms (Al-Jarhi, 2017; Chapra, 2009; Saiti *et al.*, 2014). The Islamic financial system matches to some extent the proposal of the 1930s Chicago plan that called for full backing of bank loans. Likewise, recent studies claim that the full backing of bank loans would decrease macroeconomic instability and minimize the risk of bank runs (Al-Jarhi, 2017; Kumhof & Benes, 2014; Wolf, 2014).

Another opportunity that China can benefit from in embarking on Islamic finance is by offering different modes of financing to Small and Medium-Sized Chinese Enterprises (SMEs), microfinance and micro-insurance. Islamic finance is suitable to finance start-ups and SMEs as it stands upon the risk-sharing principle and linking credit to collateral (Al-Jarhi, 2017; Chapra, 2009; Ezeh & Nkamnebe, 2019; Islamic Research and Training Institute, 2020). Therefore, the Chinese government can capitalize on Islamic finance in contributing more

towards inclusive growth (Kammer *et al.*, 2015). China has the largest population in the world, currently 1.38 billion. Of these, 1.5% are Muslims, around 20 million of the total population. The introduction of Islamic finance and Islamic insurance (*takāful*) might also offer a huge opportunity for Muslims in China to participate in Islamic finance and Islamic insurance (*Takāful*) (Husin & Rahman, 2013, 2016).

Based on the above-mentioned facts, it is observed that China has huge opportunities to develop and expand the Islamic finance industry for the sake of supporting its fast-growing economy. Doing so would be of enormous potential benefit to China. Islamic finance has the potential to support many strategic sectors such as attracting funds inflow, infrastructure investment, financial inclusion, and so on.

### **The Role of Islamic Finance in the Implementation of China's Belt and Road Initiative (BRI)**

The Belt and Road Initiative (BRI) is a global strategy of development initiated by the Chinese government. The BRI strategy considers infrastructure investments and development across 152 different countries and international organizations located in Asia, the Middle East, Europe and Africa (World Bank Group, 2018). It was originally announced by the People's Republic of China leader Xi Jinping during official visits to Kazakhstan and Indonesia in 2013. The word "Belt" refers to the overland routes of both rail and road transportation, or the so-called "The Silk Road Economic Belt"; while the word "Road" refers to the sea routes, also called "The Maritime Silk Road of the 21st Century" (Kuo & Kommenda, 2018). The Chinese government considers BRI as "an attempt to enhance China's regional connectivity for the sake of embracing a brighter future" (Chu & Muneeza, 2019; Xinhua, 2015). Some argue that BRI is a global strategy aimed at making China the center of a trade network by extending its influence and interests over many countries, which account for more than 60 percent of the world's population (Chohan, 2018). The following figure illustrates China's Belt and Road Initiative.

The total estimated cost for all the projects that have been proposed, built or are under construction has ranged from USD 4 to 8 trillion. The vast majority of the BRI projects focus on new construction or redevelopment of trade infrastructure such as roads, ports, airports and railroads, as well as systems for generating and transmitting energy and information (Amighini, 2017; Higgins, 2018; Shaikh *et al.*, 2016). Certainly, the flow of funds and finance play a key role in such huge projects (Chu & Muneeza, 2019; Li & Jin, 2018; Yu, 2017). Islamic finance could play a crucial role in China's BRI financing strategy, considering the large Muslim population along the BRI routes, particularly in Kazakhstan, Pakistan and Iran (Bo *et al.*, 2016; Kamel, 2018). These three countries occupy a strategic position representing a significant part of the Silk Road's nodes during the trade route's existence in the medieval era (Green, 2015; Kamel, 2018; Waugh, 2007). With the unique position of Iran and Pakistan in modern Islamic economics, China should consider Islamic finance products for financing BRI-linked infrastructure projects (Bo *et al.*, 2016; Selmier, 2018).



FIGURE 1. China's Belt and Road Initiative

Furthermore, Islamic finance could play a significant role in the implementation and development of BRI, particularly through the issuance of *ṣukūk*. *Ṣukūk* can provide an ideal and practical financing platform for corporations and individuals seeking new business opportunities as well as diversifying sources of funds for construction companies. Besides that, issuing *ṣukūk* would make China more approachable to new segments of investors as well as strengthening its financial interconnectivity with Muslim countries along the BRI routes. Promoting *ṣukūk* in China would extend the influence of the Asian Infrastructure Investment Bank (AIIB) globally, as the Islamic Development Bank is exploring the potential of issuing *ṣukūk* through AIIB (Bo *et al.*, 2016). In other words, Chinese investors' involvement with *ṣukūk* would strengthen communication with Muslim countries, which might promote the interest of corporations and investors to expand their business along the BRI planned routes (Bo *et al.*, 2016; Kamel, 2018).

### Potential Issues and Challenges facing the Introduction and Implementation of Islamic Finance in China

There are a number of challenges that may confront the introduction of Islamic finance in China. The first challenge is political will. The willingness and support of the government are key to the successful introduction of Islamic finance into China's Financial market (Asutay & Mohd Sidek, 2020; Maryam *et al.*, 2019; Warde, 2000). The central bank of China and the regulator should understand that the Islamic finance system is a financial system that operates according to Islamic principles. Many countries in the west have recently allowed the operation of Islamic banks within their respective jurisdictions (Ahmad *et al.*, 2019; Novikov *et al.*, 2020). The previously cited examples of the UK, Japan and Germany are relevant in this regard. Therefore, the commitment and the support of the government are key factors to successfully introduce Islamic finance in China.

The second challenge is related to the regulatory and legal framework for accommodating

the Islamic finance system (Asutay *et al.*, 2020; Karbhari *et al.*, 2004; Muneeza, 2018, 2020; Noordin & Fares, 2016; Oseni *et al.*, 2020; Warde, 2000). Countries that intend to launch Shari'ah-compliant banking products should first create the legal framework that governs the work of Islamic financial institutions. For instance, in Malaysia, the first codifying regulatory act that facilitated the infrastructure of Islamic banking was the Islamic Banking Act (IBA) 1983. This was followed by a number of acts and regulations which allow IFIs to carry out Islamic finance businesses and services. Therefore, in order to introduce Islamic finance in China, a comprehensive legal framework should be developed including the amendment of laws to suit the implementation of Islamic finance in the country.

The third challenge that may face the introduction of Islamic finance is related to tax and regulatory impediments. Despite its enormous potential and its emergence as an alternative system to conventional banking, Islamic banks have had a limited impact so far on access to finance, as they are not dealing with most financial instruments offered on money markets (Al-Jarhi, 2017; Muneeza, 2018). As a result, regulators will have to offer a range of concessions and assistance to unlock this potential. It will be important to reduce taxes and alleviate regulatory barriers to financing Islamic banks, and to also strengthen the financial infrastructure (Kammer *et al.*, 2015).

The fourth challenge is related to the *shukūk* market. *Shukūk* are considered among the best-suited instruments for financing infrastructure due to their risk-sharing feature, which could also assist in bridging financial gaps. However, the supply of *shukūk* might also be challenging, in particular when they fall short of demand. Therefore, national regulators and authorities should concentrate on supporting true securitization, enhancing the clarity of investors' rights, and improving the issuance of regular sovereign *shukūk* for the sake of providing a benchmark and guidelines for the private sector. This is in consideration of the expectation that the increased sovereign issuance would be regulated and backed by sound public financial management (IFSB, IRTI & IsDB, 2010; Kammer *et al.*, 2015; Muneeza, 2018, 2020).

Another challenge that might confront the introduction of Islamic finance in China is the lack of awareness. Awareness is defined as individuals' passive participation and raised interest about particular issues (Bickford & Reynolds, 2002; Muneeza, 2018). Many studies assert the importance of awareness in affecting customers' perceptions about participating in new products and services (Ahmad *et al.*, 2019; Alam & Seifzadeh, 2020; Ayinde & Echchabi, 2012; Ezeh & Nkamnebe, 2019; Kaakeh *et al.*, 2018; Mohammed & Ortmann, 2005; Muneeza, 2018; Rammal & Zurbruegg, 2016). As Islamic finance is a new potential entrant to the Chinese market, the Chinese government should play a significant role in promoting Islamic finance and spread that through news, conferences, seminars and so on for the sake of reaching the masses to meet the expected results (ICD Thomson Reuters, 2017). Also, the introduction of Islamic finance in China would require joint efforts and collaboration with countries and international organizations such as IFSB and AAOIFI. These efforts would facilitate the implementation process at an effective cost and enable China to capitalize on the best practices of the industry.

Finally, the establishment of a Shari'ah committee within each Islamic financial institution

(IFI) in China would be vital for overseeing the implementation of Islamic financial operations (Muneeza, 2018). The appointment of Sharī'ah committee members is intended to provide objective and sound advice to an IFI to ensure that its aims and operations, business, affairs and activities are in accordance with Sharī'ah (Bank Negara Malaysia, 2017). Failure to establish a Sharī'ah committee would result in catastrophic challenges and issues such as Sharī'ah non-compliance risk that leads towards a chain of other financial and non-financial negative implications including reputational risk (Alhammadi *et al.*, 2020; Bank Negara Malaysia, 2017).

## Conclusion

From the above discussion, the critical success factors for introducing Islamic finance in China vary. One of the key factors is political will. The support and willingness of the government are key to the effective introduction of Islamic finance into China's financial market. This support should be followed by establishing the legal framework including the amendment of laws to suit the implementation of Islamic finance in China. A broad publicity campaign should be enacted to raise the awareness of Chinese community about Islamic finance, and there should be collaboration with international organizations in the areas of executive training and education to enable the introduction of Islamic finance and banking in the country. Further, an audit system and Sharī'ah committee should be established within each Islamic financial institution to oversee the implementation of Islamic financial operations and to regulate fatwas.

On the other hand, the introduction of Islamic finance in China would undoubtedly be one of the main driving forces of the country's economic growth through financing infrastructure projects. For instance, the implementation and development of the Belt and Road Initiative (BRI) through the issuance of *ṣukūk* will provide an ideal and real financing platform for corporations and individuals who seek new business opportunities. Besides, issuing *ṣukūk* would make China more approachable to new segments of investors regardless of strengthening financial interconnectivity with Muslim countries along the BRI routes. In other words, promoting *ṣukūk* in China would extend the influence of the Asian Infrastructure Investment Bank (AIIB) globally, as the Islamic Development Bank is exploring the potential of issuing *ṣukūk* through AIIB. Another opportunity for China to benefit from in embarking on Islamic finance is offering different modes of financing to small and medium-sized Chinese enterprises (SMEs), microfinance and micro-insurance.

## REFERENCES

- Ahmad, W. M. W., Hanifa, M. H., & Hyo, K. C. (2019). Are non-Muslims willing to patronize Islamic financial services? *Journal of Islamic Marketing*, 10(3), 743-758. doi: <https://doi.org/10.1108/JIMA-01-2017-0007>
- Ahmed, H., Mohieldin, M., Verbeek, J., & Aboulmagd, F. (2015). *On the sustainable development goals and the role of Islamic finance* (Working Paper No. 7266). World Bank Group, Washington, DC, WA. doi: <https://doi.org/10.1596/1813-9450-7266>
- Al-Jarhi, M. A. (2017). An economic theory of Islamic finance. *ISRA International Journal*

- of *Islamic Finance*, 9(2), 117-132. doi: <https://doi.org/10.1108/IJIF-07-2017-0007>
- Al-Roubaie, A., & Sarea, A. M. (2019). Green Investment and Sustainable Development: The Case of Islamic Finance. *Journal of Islamic Business and Management*, 9(1), 14-24. doi: <https://doi.org/10.26501/jibm/2019.0901-002>
- Alam, I., & Seifzadeh, P. (2020). Marketing Islamic financial services: A review, critique, and agenda for future research. *Journal of Risk and Financial Management*, 13(1), 1-19. doi: <https://doi.org/10.3390/jrfm13010012>
- Alhammadi, S., Archer, S., & Asutay, M. (2020). Risk management and corporate governance failures in Islamic banks: a case study. *Journal of Islamic Accounting and Business Research*, 11(9), 1921-1939. doi: <https://doi.org/10.1108/JIABR-03-2020-0064>
- Amighini, A. (2017). *China's belt and road: A game changer?* Edizioni Epoke, Italy.
- Asutay, M., Ayturk, Y., & Aksak, E. (2020). The effects of regulation and supervision on the risk-taking behaviour of Islamic banks. *Journal of Islamic Accounting and Business Research*, 11(9), 1953-1967. doi: <https://doi.org/10.1108/JIABR-12-2019-0222>
- Asutay, M., & Mohd Sidek, N. Z. (2020). Political economy of Islamic banking growth: Does political regime and institutions, governance and political risks matter? *International Journal of Finance & Economics*, 26(3) 1-36. doi: <https://doi.org/10.1002/ijfe.2011>
- Ayinde, L. O., & Echchabi, A. (2012). Perception and adoption of Islamic insurance in Malaysia: An empirical study. *World Applied Sciences Journal*, 20(3), 407-415.
- Bhavin, S., & Saad, Q. (2017). *The challenges facing Islamic banking*. Retrieved from <https://cutt.ly/SQD99Fj>
- Bickford, D. M., & Reynolds, N. (2002). Activism and service-learning: Reframing volunteerism as acts of dissent. *Pedagogy*, 2(2), 229-252. doi: <https://doi.org/10.1215/15314200-2-2-229>
- Bank Negara Malaysia. (2017). *Sharī'ah governance exposure draft*. Retrieved from <https://www.bnm.gov.my/index.php?ch=57&pg=144&ac=648&bb=file>
- Bo, D., Ali, E. R. A. E., & Saiti, B. (2016). *Shukūk* issuance in China: Trends and positive expectations. *International Review of Management and Marketing*, 6(4), 1020-1025.
- Bukhari, S. A. A., Hashim, F., Amran, A. B., & Hyder, K. (2019). Green banking and Islam: Two sides of the same coin. *Journal of Islamic Marketing*, 11(4), 977-1000. doi: <https://doi.org/10.1108/JIMA-09-2018-0154>
- Chapra, M. U. (2009). Ethics and economics: An Islamic perspective. *Islamic Economic Studies*, 16(1), 1-24.
- Chohan, U. W. (2018). What is one belt one road? A surplus recycling mechanism approach. In J. Chaisse & J. Gorski (Eds.), *The Belt and Road Initiative: Law, Economics, Politics* (pp. 205-219). Brill Nijhoff. doi: [https://doi.org/10.1163/97890004373792\\_010](https://doi.org/10.1163/97890004373792_010)
- Chu, J., & Muneeza, A. (2019). Belt and road initiative and Islamic financing: The case in public private partnership infrastructure financing. *International Journal of Management and Applied Research*, 6(1), 24-40.
- Deloitte & ISRA. (2018). *Shukūk in Focus: The necessity for global common practices*. Retrieved from <https://cutt.ly/tQD3rAH>

- Domat, C. (2020). *Islamic finance: Just For Muslim-Majority nations?* Global Finance. Retrived from <https://cutt.ly/QQD3d6h>
- Ezeh, P. C., & Nkamnebe, A. D. (2019). The prospects of Islamic banking in Southeast of Nigeria. *Journal of Islamic Marketing*, 11(1), 251-267.  
doi: <https://doi.org/10.1108/JIMA-03-2016-0023>
- Green, N. (2015). From the silk road to the railroad (and Back): The means and meanings of the Iranian encounter with China. *Iranian Studies*, 48(2), 165-192.  
doi: <https://doi.org/10.1080/00210862.2013.855047>
- Gundogdu, A. S. (2018). An inquiry into Islamic finance from the perspective of sustainable development goals. *European Journal of Sustainable Development*, 7(4), 381-390.  
doi: <https://doi.org/10.14207/ejsd.2018.v7n4p381>
- Halim, Z. A., How, J., & Verhoeven, P. (2017). Agency costs and corporate *ṣukūk* issuance. *Pacific-Basin Finance Journal*, 42, 83-95.  
doi: <https://doi.org/10.1016/j.pacfin.2016.05.014>
- Hassan, M. K., & Aldayel, A. Q. (1998). Stability of money demand under interest-free versus interest-based banking system. *Humanomics*, 14(4), 166-185.  
doi: <https://doi.org/10.1108/eb018821>
- Hassan, M. K., Aliyu, S., Saiti, B., & Halim, Z. A. (2020). A review of Islamic stock market, growth and real-estate finance literature. *International Journal of Emerging Markets*.  
doi: <https://doi.org/10.1108/IJOEM-11-2019-1001>
- Higgins, A. (2018). China's Ambitious New 'Port': Landlocked Kazakhstan. *New York Times*. Retrived from <https://cutt.ly/dQD3xbh>
- Husin, M. M., & Ab Rahman, A. (2013). What drives consumers to participate into family *Takāful* schemes? A literature review. *Journal of Islamic Marketing*, 4(3), 264-280.  
doi: <https://doi.org/10.1108/JIMA-04-2012-0019>
- Husin, M. M., & Ab Rahman, A. (2016). Do Muslims intend to participate in Islamic insurance? Analysis from theory of planned behaviour. *Journal of Islamic Accounting and Business Research*, 7(1), 42-58. doi: <https://doi.org/10.1108/JIABR-03-2014-0012>
- ICD Thomson Reuters. (2017). *Islamic Financial Development Report 2017: Towards Sustainability*. Retrived from <https://cutt.ly/eQD07tM>
- ICD-REFINITIV (2020). *ICD-REFINITIV Islamic finance development report: Progressing through adversity*. Retrived from <https://cutt.ly/yQD2ivm>
- IFSB, IRTI & IsDB. (2010). *Islamic finance and global finance stability*. Retrived from <https://cutt.ly/aQD2I5k>
- International Islamic Financial Market. (2020). *IIFM annual ṣukūk report 2020*. Retrived from <https://cutt.ly/FQD22DH>
- Islamic Financial Services Board. (2020). *Islamic financial services industry stability report*. Retrived from <https://cutt.ly/iQD2Z6x>
- Islamic Research and Training Institute. (2020). *Islamic Social Finance Report 2020*. Retrived from <https://cutt.ly/eQD9qPq>
- Kaakeh, A., Hassan, M. K., & van Hemmen Almazor, S. F. (2018). Attitude of Muslim minority in Spain towards Islamic finance. *International Journal of Islamic and Middle*

- Eastern Finance and Management*, 11(2), 213-230.  
doi: <https://doi.org/10.1108/IMEFM-11-2017-0306>
- Kamel, M. S. (2018). China's Belt and road initiative: Implications for the Middle East. *Cambridge Review of International Affairs*, 31(1), 76-95.  
doi: <https://doi.org/10.1080/09557571.2018.1480592>
- Kammer, M. A., Norat, M. M., Pinon, M. M., Prasad, A., Towe, M. C. M., & Zeidane, M. Z. (2015). *Islamic finance: Opportunities, challenges, and policy options*. IMF Discussion Notes, International Monetary Fund, Washington, D.C.  
doi: <https://doi.org/10.5089/9781498325035.006>
- Karbhari, Y., Naser, K., & Shahin, Z. (2004). Problems and challenges facing the Islamic banking system in the west: The case of the UK. *Thunderbird International Business Review*, 46(5), 521-543. doi: <https://doi.org/10.1002/tie.20023>
- Khalili, S. (1997). Unlocking Islamic finance. *Infrastructure Finance*, 6(3), 1-19. doi: <https://doi.org/10.1080/108003074350810891029>
- Khan, M. M., & Bhatti, M. I. (2008). Islamic banking and finance: on its way to globalization. *Managerial Finance*, 34(10), 708-725.  
doi: <https://doi.org/10.1108/03074350810891029>
- Kumhof, M., & Benes, J. (2014). *The Chicago plan revisited* (Working Paper No. 12/202). International Monetary Fund, Washington, DC, WA.  
doi: <https://doi.org/10.5089/9781475505528.001>
- Kuo, L., & Kommenda, N. (2018). What is China's Belt and Road Initiative? *The Guardian*.
- Kuwait Finance House. (2013). *Islamic finance in Asia: Development, growth and opportunities*. Retrieved from <http://www.mifc.com/?ch=55&pg=195&ac=99&bb=uploadpdf>
- Laldin, M. A. (2019). *The role of SRI sukūk in supporting SDGs*. IFN Correspondent Reports, 16(17). Retrieved from <https://cutt.ly/sQD9pJ5>
- Laldin, M. A. (2020). Ethics in the light of Maqasid Al-Shari'ah: A case study of Islamic economics and finance. In A. M. Z. Iqbal & S. Sadr (Ed.), *Handbook of Ethics of Islamic Economics and Finance* (pp. 21-47). De Gruyter Oldenbourg.
- Laldin, M. A., & Djafri, F. (2019). Islamic finance in the digital world: Opportunities and challenges (Kewangan Islam dalam Dunia Digital: Peluang dan Cabaran). *Journal of Islam in Asia*, 16(3), 283-299.
- Li, W., & Jin, D. (2018). On the design of financial products along OBOR. *The Journal of Finance and Data Science*, 4(2), 55-70.  
doi: <https://doi.org/10.1016/j.jfds.2017.10.001>
- Malik, M. R. (2010). *The potentials and challenges of introducing Islamic financial services in the Non-Muslim countries (CIS, Chaina, African Countries & Austraria)*. International Center for Education in Islamic Finance, Kuala Lumpur, Malaysia.
- Maryam, S. Z., Mehmood, M. S., & Khaliq, C. A. (2019). Factors influencing the community behavioral intention for adoption of Islamic banking. *International Journal of Islamic and Middle Eastern Finance and Management*, 12(4), 586-600.  
doi: <https://doi.org/10.1108/IMEFM-07-2017-0179>
- Mohammed, M. A., & Ortmann, G. F. (2005). Factors influencing adoption of livestock insurance by commercial dairy farmers in three zobatat of Eritrea. *Agrekon*, 44(2), 172-186. doi: <https://doi.org/10.1080/03031853.2005.9523708>

- Muneeza, A. (2018). Establishment of Islamic capital market in jurisdictions with limited Islamic financial services. *International Journal of Law and Management*, 60(2), 373-385. doi: <https://doi.org/10.1108/IJLMA-12-2016-0146>
- Muneeza, A. (2020). Short-term Shari'ah-compliant Islamic liquidity management instruments to sustain Islamic banking. *Journal of Islamic Accounting and Business Research*, 11(2), 428-439. doi: <https://doi.org/10.1108/JIABR-04-2018-0055>
- Noordin, K., & Djafri, F. (2016). Issues and challenges in introducing Islamic insurance (*takāful*) into the Algerian financial market: Lessons from Malaysia. In: Ab. Manan S., Abd Rahman F., Sahri M. (Eds.) *Contemporary issues and development in the global Halāl industry*. Springer, Singapore. doi: [https://doi.org/10.1007/978-981-10-1452-9\\_33](https://doi.org/10.1007/978-981-10-1452-9_33)
- Noordin, K., Mahaini, M. G., & Djafri, F. (2020). *Bursa Suq Al-Sila': Its development and role in facilitating commodity trading transactions*. UM Press.
- Novikov, V., Britikova, E., Yarushkina, E., & Kovalenko, L. (2020). Islamic banking in the global financial system: Current situation and global environment. Paper presented at the *5th International Conference on Economics, Management, Law and Education*, Krasnodar, Russia. doi: <https://doi.org/10.2991/aebmr.k.191225.025>
- OECD. (2015). *OECD Urban policy reviews: China 2015*. OECD Urban Policy Reviews. Paris. Retrieved from <https://doi.org/10.1787/9789264230040-en>
- Oseni, U. A., Hassanb, M. K., & Ali, S. N. (2020). Judicial Support for the Islamic Financial Services Industry: Towards Reform-oriented Interpretive Approaches. *Arab Law Quarterly*, 34, 1-23. doi: <https://doi.org/10.1163/15730255-BJA10009>
- Osman, B. A. (2019, August 22). *Harnessing the value of Islamic finance for infrastructure projects, in the context of SDGs*. *IslamicMarkets*. Retrieved from <https://cutt.ly/zQD9gy0>
- Podpiera, R. (2006). *Progress in China's banking sector reform: Has bank behavior changed?* (Working paper No. 06/71). International Monetary Fund, Washington, DC, WA. doi: <https://doi.org/10.5089/9781451863314.001>
- RAM. (2020). RAM's *ṣukūk* Snapshot. Retrieved from <https://cutt.ly/LQD38JX>
- Rammal, H. G., & Zurbruegg, R. (2016). Awareness of Islamic banking products among Muslims: The case of Australia. In T. Harrison, & E. Ibrahim (Eds.) *Islamic finance*. Palgrave Macmillan, Cham. doi: [https://doi.org/10.1007/978-3-319-30918-7\\_9](https://doi.org/10.1007/978-3-319-30918-7_9)
- Saiti, B., Bacha, O. I., & Masih, M. (2014). The diversification benefits from Islamic investment during the financial turmoil: The case for the US-based equity investors. *Borsa Istanbul Review*, 14(4), 196-211. doi: <https://doi.org/10.1016/j.bir.2014.08.002>
- Sarker, M. N. I., Khatun, M. N., & Alam, G. M. M. (2019). Islamic banking and finance: Potential approach for economic sustainability in China. *Journal of Islamic Marketing*, 11(6), 1725-1741. doi: <https://doi.org/10.1108/JIMA-04-2019-0076>
- Selmier, W. T. (2018). The belt and road initiative and the influence of Islamic economies. *Economic and Political Studies*, 6(3), 257-277. doi: <https://doi.org/10.1080/20954816.2018.1498989>
- Shaikh, F., Ji, Q., & Fan, Y. (2016). Prospects of Pakistan-China energy and economic corridor. *Renewable and Sustainable Energy Reviews*, 59(2016), 253-263. doi: <https://doi.org/10.1016/j.rser.2015.12.361>

- Sorenson, B. (2007). Ethical Money: financial growth in the Muslim world. *American University International Law Review*, 23, 647-659. doi:
- Warde, I. (2000). *Islamic finance in the global economy*. Edinburgh University Press.  
doi: <https://doi.org/10.3366/edinburgh/9780748612161.001.0001>
- Wade, K., & Jennings, M. (2016). *The impact of climate change on the global economy*. Schrodgers Talking Point.
- Waugh, D. C. (2007). Richthofen's 'Silk Roads': Toward the archaeology of a concept. *The Silk Road*, 5(1), 1-10. doi:
- World Bank Group. (2016). *Global report on Islamic finance, Islamic finance: A catalyst for shared prosperity?* Retrieved from <https://cutt.ly/MQD8wKS>
- World Bank Group. (2018). *Belt and road initiative*.  
Retrieved from <https://cutt.ly/WQD9Q1V>
- Wolf, M. (2014). Strip private banks of their power to create money: The giant hole at the heart of our market economies needs to be plugged. *Financial Times*.  
Retrieved from <https://cutt.ly/eQD9R4p>
- Xinhua. (2015, March 28). *China unveils action plan on belt and road initiative*. Chinadaily.  
Retrieved from <https://cutt.ly/oQD9IuY>
- Yu, H. (2017). Motivation behind China's 'One Belt, One Road' initiatives and establishment of the Asian infrastructure investment bank. *Journal of Contemporary China*, 26(105), 353-368. doi: <https://doi.org/10.1080/10670564.2016.1245894>
- Y-Sing, L. (2008). *More non-Muslims trying Islamic banking-OCBC*. Thomson Reuters.  
Retrieved from <https://cutt.ly/FQD9Ssj>

\*\*\*\*\*