

Chapter 7

PRACTICE OF ISLAMIC FINANCIAL INSTRUMENTS IN CHINA CASE STUDIES

7.1. Lin Xia Muslim Financial Company (LXMFC)

Lin Xia is a small Muslim Autonomous State in China's North-West Province of Gan Su. The population of Lin Xia is about one million of which about half are Muslims. Since the economic reform of China started in 1979, Lin Xia Muslims have successfully created more than 110 markets. Every year these markets complete multi-million yuan's transactions. Muslims are very active in business, the local government statistic shows that in every 5 Lin Xia people one is involving in some sort of business; and in every 10,000 Lin Xia people there are 128 business center and 98 specialized markets. Historically Lin Xia was the center for merchandise exchange and has very strong link with Muslim world. Lin Xia is a crucial part of the famous Silk Road, there is constant commercial and cultural exchange between Lin Xia and Muslim world. Many Lin Xia Muslims had resided in Saudi Arabia and Egypt. Up to now due to the increasing number of pilgrimages and students study in Muslim world, Lin Xia or "little Macca of China" is well known by Muslim world. Lin Xia is one of the two Hui (Muslim) Autonomous States (another one is Chang Ji Hui Autonomous state of Xing Jiang province). The strong Islamic tradition has earned itself the name of "little Macca of China". Seeing that most of local Muslims reluctant to put their money in conventional banks, the local government applied to the central government for establishing a Muslim Financial House to accommodate Muslims' financial needs. Due to its specialty, Lin Xia was granted the first license for Muslim Financial House by the people's Bank of China (central bank of China), as a result a Non-Riba investment cooperation, Lin Xia Muslim Financial Company (LXMFC) as a

result being established in 1987. LXMFC is aiming to pool the Muslim's idol money and invest them in Non-Riba, profitable projects.

The establishment of LXMFC was in conjunction with the first Muslim funded Shopping complex in Lin Xia. The Main shareholders of the said shopping complex were also the core members of the LXMFC. Initially the capital pooled from the public was invest in the shopping complex, and then with the increasing of the size of the fund the company started to finance other projects. The capital of the Muslim Financial House is raised in the form of shares, and the value of the share is depending on the profitability of the investment. The share value was calculated once a year and any withdraw of investment also conducted annually.

No need to deny, due to lack of knowledge of Islamic banking and finance, and the fact that most of the people still not fully understand the concept of such establishment; the progress of this House was rather very slow. The company's initial acknowledgement that low interest is not Riba had provoked controversial from the Muslim majority, its reputation as a result was badly damaged.

Up to now the LXMFC has being operating for 15 years. It has 7 branches and 67 staffs. Its service covers saving and financing, funds transfer, and other standard banking services. the funds mostly from the private residence about 80% while the state holds about 5% of its share.

LXMFC's share is not traded publicly, although tried very hard the researcher could not able to get its annual report and the details of its account. However, as a residence of Lin Xia the researcher has observed that Some Muslims there even refuse to accept the interest payment on their deposits paid to them by the bank. Many Muslims are doing business exactly in the form of Mudharabah and Musharakah although they do not call their partnership by those names. Their partnerships are based purely on their mutual trust or through their trusted guarantors. Such mutual trust is very crucial for Islamic

financial products. Due to the special legal-political constrain of China, the mutual trust will be the only foundation of financial cooperation among the Muslims in China. The survey result reveals that the potential market for Islamic financial products in Muslim reside areas, including Lin Xia, is very high. If there any attempt to introduce the modern Islamic financial instruments in China, Lin Xia will be the best place to start from.

7.2. Qing Hai Muslim Cultural And Economic Center

Qing Hai Muslim Cultural and Economic Center was established in 1997 by some Muslim businessmen in Qing Hai. Initially there are two funds under this center. One is educational fund and another is business fund. The educational fund is used to support Muslim students to pursue high level education in the form of Qaradha Al-Hassan or benevolent loan. The business fund operates as a trust fund, the source of the fund comes from the shareholders and the composed capital is invested in property and foreign exchanges. The majority shareholder of the center is Qing Hai Muslim Construction Corporation which is one of the largest construction companies in the region. Participation of this company has given the center an advantage to invest its fund in various profitable projects. To popularize the center's activities the center also established a Muslim library open for public. The public can borrow books from the library and in the mean time can obtain information on the center and its activities. In recent years the increasing number of Muslim students study abroad has networked the center to the outside world. There are even promises from OIC and other bodies to help the center to beef up.

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