

# **Islamic Financial Thought and Chinese Moslem's Financial Behaviour**

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*There are the nearly 20 million Moslem people in China and the religious doctrine, canon and traditional economic values of Islam have an extremely deep influence on their minds. Could we find a new way that could not only favour the religious emotion of the Moslem masses, at the same time, but also fit socialist market economic development? The success of HeZhou Moslem's Financing Company and QingHai Moslem financial Business as well as their obvious economic profits brought about has given the positive answer this question by their own development. That is to say, the existing difference and contradiction could be properly coordinated and handled as long as we explore actively in our economic practise. The Chinese Moslem's banking business (Financing practise) will be characterized by the following features in the future:*

*First, the necessity of the Government support. Second, the main relations of the Moslem's financial institutions with the non-religious economic behaviours. Third, its main business spheres in the dense Moslem communities in the west and, especially, in the northwestern regions. Fourth, Chinese Moslem's financial Business will strengthen its contact with the global Islamic banks. The fifth, its scale will be relatively smaller than the China's traditional financial system. Therefore, it could only be the supplementary to Chinese main financial system.*

*Islamic financial thought mainly come from the warn of prohibiting on "ribā" that means regard interests as very important in Qur'ān .In the long Middle Ages, from the warn of prohibiting on "ribā", Islamic law make strict limits on the behaviours such as paying the interests to borrow money, usury and*

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*being incorrect of barter. The contemporary Moslem that has combined the system of modern bank and created the system of bank free of interest, explained a whole set of modern Islamic financial theory. Islamic financial thought, theory, order, regulations that is playing vital part on social economic behaviour of the Chinese Moslem.*

## 1. Outline of Islamic Financial Thought

The Islam advocates obtaining wealth through the work and buying and selling at reasonable prices, object to engaging in speculation and profiteering and practising usury. The Qur'ān regulate clearly that Allah permits to buy and to sell, but forbid usury,<sup>1</sup> encourage creditors to give up great profits that he owed or offer debtors with extended time<sup>2</sup> and require people give up repeat and double interest, otherwise they will receive penalty of agony in the next life.<sup>3</sup>

*Hadīth* further emphasizes the prohibition of the interest. Prophet hates the persons who gain interest (*ribā*), use interest, and persons who write and persons who witness. He said that their alliance cheats, without exception and crime.<sup>4</sup>

Islamic law (Sharī'ah) established in the foundation of Qur'ān and *Hadīth* put emphasis on the ban of interest prohibition clearly.

In the traditional Islamic society, the Moslems mostly abide by the ban of this interest prohibition.

With the west economic policies adopted during the process of moving towards modernization of Islamic country, the great deal of banks that can embody western financial theory and financial mode by paying interest appeared in the Islamic country. This kind of banking system conflicts with relevant regulations and values of Islam. Since 1950's, Islamic economists and Moslem's entrepreneurs have been finding a kind of financial theory and financial working entity that could not only adapt to modern economic development, but accord with some relevant regulations of Islam.

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<sup>1</sup> Qur'an, 2:275.

<sup>2</sup> Qur'an, 2:280.

<sup>3</sup> Qur'an, 4:161.

<sup>4</sup> Hadith, Chinese language, Read Kelichen in translation, middle volume, page 356.

Islamic bank appeared in Pakistan in the fifties and introduced to Egypt at the beginning of the sixties, but all meet with the setback. Since the seventies, the reconstruction of Islam in Moslem's country appeared and financial campaign of Islam was one of the important components. Combining the experiences and lessons of economic construction of every countries after war, according to Islamic traditional economic thought, Moslem's economists put forward the comparatively systematic modern Islamic financial theory, which became the important part of the modern Islamic economic theory. Its main contents as follows:

## 2.1 The Theory of Prohibition on “*ribā*”

### (1) *the understanding of ribā's meaning*

“*ribā*” is originally means usury interest prevailed in Arabia before Islam period. The Qur’ān has many regulations on forbidding “*ribā*”. The meaning of “*ribā*” is a disputable issue in the Islamic academic field. “*ribā*” refers to the usury in the way of narrowly-defined understanding and any kind of interest in the way of more broadly-defined understanding of any kind interest. Even other people said that “*ribā*” include the any income obtaining through taking risks, cheating and other some improper means, such as gambling, speculating and lending money for interest and so on. Now the more unified view is that “*ribā*” refers to all kinds of interest.

### (2) *The recognition to ribā's harmfulness*

The Western Economics think the interest is the basic power to stimulate all kind of financial activity. In the condition of not having interest, the bank won't unable to gather the funds, the corporation won't unable to gain the investment loan, the fund won't unable to circulate and the financing activity will disappear. At last, the whole economic activity will be paralyzed. Moslem scholars who don't agree to this kind of view, pointed out the *ribā*'s harmfulness from the principle of the Qur’ān and the *Ḥadīth*. When analyzing *ribā*'s harmfulness, scholars had different emphasis, but incline to assure that the interest is such a kind of unearned income that just encourage people to give up honest work, live the parasitic life by don't work with gaining the profit, which make people become corrupt and degenerate and make the social structure destroyed. Some western economists regard the interest as a kind of reward that can be postponed consuming. That is to say to regard all money and time as the goods, so the interest is their price. While the pious Moslem think that the

growth of the wealth only can be realized through hard working and money is just itself and cannot offer extra more money. And one's proper income should only reflect his contribution to the society and money is not the goods and the time itself has no value. Then, the interest is unreasonable. Other scholars point out that only the poor will borrow money. "*ribā*" cause the poor to be getting poorer and the rich to be getting richer, which would expand the disparity between the poor and the rich and violate Islamic spirit. There were other points that *ribā*'s dealings make the amount of currency that circulate in the market to increase under ground of no basic. This kind of increased currency isn't through the increase of products. With the result that it aggravate the pressure of the inflation.

## **2. The Theoretical Principle of Islamic Bank**

It is a imperative problem that modern Islamic economists must solve that how to set up modern Islam's financial principle which can not only meet modern economy but accord with the Islamic regulations and the financial institution question of Islam. They first carried on research and criticized on western popular financial theory.

First, Criticize the credit distribute theory of western bank.

Islamic economists think that the credit and wealth are in direct ratio in the traditional banking system and the banker must have a large amount of wealth in order to make the customer's trust. Equally, the customer must have enough property to assure that they can gain the bank's trust. This ways of getting the credit by showing the wealth is absolutely antipathetic the advocated spirit of living simple life, trusting each other and willing to help others of Islam. According to the idea of Islam, Islamic scholars think that a real Moslem should be honest and should receive great trust too. And he does not need property to prove his own quality. However, under the condition of traditional banking system, owing to lack the guarantee ability the bank demands, a lot of small and medium-sized enterprises don't get the loans the bank can offer. While, the big enterprise is apt to get more loans because it is influential. It is unreasonable and it is the one of the reasons making wealth and power concentrate more and more too. A lot of Moslems demand to change the traditional credit distribution system. Because they think the distribution of credit should benefit to the majority of the society, so that people should be encouraged to

live life according to the Islamic principle. The credit should not come from the property, but the hope and the ability to contribute to the society.

Second, object to viewing the interest as the currency price.

The financial theory prevailing in the Western countries at present is to regard currency as a kind of special goods that can changeable. The interest rate regarded as the price mechanism of the goods is actually the currency own market price. From the view of traditional Islamic regulations, Islamic economists object to this kind of theory. They think only the tangible products have using value through working produced and bring about product value and price as goods being put into market circulation. Whereas the in definite currency capital is unable to be regarded as goods. If that is, there isn't value and price too, let alone regarding the interest form as price mechanism.

Third, object to the View of Surplus Value of Marxist political economy.

Islamic economists think that the capitalist has the right to obtain certain "reward", but the obtained reward is not because they possess money-capital, but because they take part in investing and managing and undertake the risk, namely merit and accomplishment which each one would pay in the Qur'an.<sup>5</sup> So, lending money for interest and drawing the profit do not take risks should be forbidden. While, the profits gained by investing and managing is totally legal.

Fourth, thinking the injustice of the current debt-credit relation applied in the world at present.

Islamic economists think this kind of debt-credit relation is advantageous to the credit side and disadvantageous to the debit side. No matter how the work consequence it is, the debit must repay the interest on schedule, but the credit side does not take risks and lucrative forever. Therefore, the fixed interest rate is not advisable. And floating interest rate depending on the supply-demand relationship of the market and the government's policy may cause debt-credit both sides suffer unexpected attack. So it is further inadvisable.

On the basis of criticizing, studying western popular financial theory, Islamic economists tries hard to combine financial principle of Islam with modern economic

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<sup>5</sup> Qur'an, 53:39.

theory and bring up the unique modern Islam's financial theory and basic principle of the financial institution:

First, both sides of debt-credit take risks and divide profits altogether.

In order to apply for the development of modern economy and accord with the Islamic regulation of prohibition of interest, the Islamic economist advocates establishing a kind of co-relation between bank and customer. That is the bank uses the customer's deposit for investing and managing, so that both sides take risks and divide returns of investment altogether. Through sharing returns of investment, the profits of both sides have been satisfied. This kind of financial principle through return of investment substituting for the interests, is known as the Islamic finance "free of interest", have already put into effect in lots of Islamic countries now.

Second, advocate the proper the deposit behaviour

The Islamic scholars think that the deposit is for satisfied future consumption and guarantee plan expenses and prevent causing poverty-stricken economic condition from accident, but it is a improper behaviour to deposit for interest.

Third, distinguish fixed interest with floating interest.

Since the seventies, because the inflation rate soars, the traditional financial theory has received enormous impact. In order to meet the new situation, Islamic economists had proposed a new principle that is the prohibition of the interest is only suitable for "the net interest", and isn't suitable for "empty interest" (floating interest) producing because of inflation, in case that the bank suffers unnecessary losses.

### **3. Financial Behaviour of the Modern Chinese Moslem**

Islamic basic financial thought and principle have been introduced above. Then, how are the financial behaviour and practise in the contemporary Chinese Moslem's society? There are nearly 20 million Moslems now in China. The regulation of Islamic prohibition of collecting the interest has certain influence on the financial behaviour of the Moslem with pious faith in the Chinese Moslem's compact community. The most Moslem masses in Moslem's compact community have certain recognition in the regulation of Islamic prohibition of interest (*ribā*) through explanation and promotion by religious man and introduction by the Chinese

Moslem's scholars. So, a lot of people among them observe the Islamic regulation, object to usury and bank interest, and never deposit and loan in the bank. But some Islamic personages think what Islamic forbidden is usury, and bank account can get the interest and the Treasury bill's exchanging can bring the interest. So some Moslems even go to bank to save and loan. On the influence of the non-Islamic atmosphere around, the most Moslems living dispersedly in city go to the bank to save and loan. But generally speaking, lots of Moslem masses in the compact community hold a contrary opinion in the behaviour of reaching bank to save to draw the profits. "A Moslem in MinHe county in Qinghai said that he once deposited money in the bank because of afraid of losing, and then while withdrawing deposit, he returned all the income interest to the bank's assistant and left in a hurry. Some Imams appreciate this kind of behaviour."<sup>6</sup> However, in today's commodity economic life, the question of the interest is difficult to avoid after all. In order to solve the contradiction between Islamic canon and reality, some Moslems in China have living in concentrated communities adopted a certain changeable methods:

### **3.1 Islamic Financial Principle and HeZhou Moslem's Financing Company**

#### **3.1.1 Birth of Moslem's financing company of HeZhou**

HeZhou, ancient name of Hui Nationality of Moslem 's autonomous state of GanSu LinXia, is one of places that Islam prevails in China. There are more than 810,000 the masses believing in Islam in all state, accounting for 53.62 percent of the total population of all state and 63 percent of the total number of person believing in Islam in GanSu Province. Because main denominations of Chinese Islam originated here, it can be rated " small Mecca " of China. It is one of the most remarkable characteristics of LinXia that Islamic religious atmosphere is extremely strong. After reform and opening-up, with the development of commodity economy, the life of the Moslem masses is getting richer gradually and the Moslem individual operator have accumulated certain amounts of funds. It is reported that in the later stage of the eighties, there are more than 200 of private funds excess more than 100,000 yuan in LinXia and a little excess more than million yuan. Among them, the majority are Moslems. According to the routine, with the development of commodity economy,

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<sup>6</sup> WenYuanNan: *Islam and West-North Moslem's social life*, The Qinghai People Publishing, Xining,China . 1994, p. 183.

the scale of trade of the goods will be expanded day by day, the fund flows will become more frequent horizontally and the turnover of the fund is getting faster and faster. And this will have important meaning to further development of the commodity economy in LinXia. But because restrained from the financial principle of Islam, the pious Moslem masses resent the practise of booking interest of ordinary credit organization. The ones that opened an account only accounted for 13% of the total amount in the bank and the rate of holding cashes and depositing in the bank is 6:1. It is caused a large number of idle money difficult to use according to the normal methods for economic development. In order to alleviate this contradiction, some Moslems merchants had explored and tried actively. In the September 1984, Moslem ZhanLiangMa of the LinXia city opened a bank named "convenient for people bank" and Moslem YiLiLa opened the folk credit department. But for failing to reflect the characteristic of free of interest, they didn't get the extensive support of the personages of Islam circle and the Moslem masses. With the further developing reform and opening-up, consulting some methods of the foreign "Islamic bank", some entrepreneurs of Moslem proposed bravely advice of establishing financial organization which accord with Moslem's characteristics. With the help and support of government and the superior financial department, in the February of 1987, a nongovernmental financial organization which satisfied with the Moslem's demands and offer service specially for collectively and private industry and commerce---Hezhou Moslem's financing company is established formally.

### **3.1.2 Properties, Running Methods and Organizational Management of HeZhou Moslem's Financing Company.**

In order to meet the demands of small quantity of individuals and national merchants of little collective and the investing direction changefully, the company's property is defined as the co-operated organization owned by collective ownership, which is managed by the country, collective, personal three partnership in the joint venture, implementing independent accounting, assuming sole responsibility for its profits or losses, pay taxes according to regulations and self-development. Under the approval of branch of Gansu Province of the People's Bank of China, the company became financial enterprises with legal personality. Its running method is to establish a kind of cooperation between bank and customer, which both sides manage together, take risks together and share the return of investment altogether. It

not only respected the habit that Islam masses do not need the interest, but also embodied the principle of sharing material benefits together. Also consulting the business method and principle of the international Islamic financial institution, it replaced the deposit interests of National bank with "the interest rate of deposit", "the shared profit margin of loans" and "the rate of venture capital". The so-called "the interest rate of deposit" is in the basic of the size of "the deposit accumulating and counting" formed in the account, according to the current, fixed deposit interest rate regulated by national bank, to calculate to give deposit family reasonable reward (30% cash or material objects) "the rate of venture capital" is according to profit's the degree of risk and the state of management of each different trade, in different period, to confirm the fund profit rate and then according to it to confirm the shared loan rate having a range of certain change, drawing 10% "the rate of venture capital" shared in the management together for customer achieving profits. So loans and deposits of financing of Company don't appear and pay in the form of interest, and neither is a financing activity of having no cost. The rules of the financing company regulate that in the basic of the size of "the deposit accumulating and counting" formed in the account, according to the level of deposit interest rate, the index of price, money elasticity in the market and making profits of the company, to give deposit family reasonable reward. Because of managing venture, the profits of company's stock should higher than the general deposit income. According to the managing procedure of stock and bond, getting attention to the folk capital's characteristic of ethnic areas, it is confirmed that the maximum amount of the annual dividend of collective and individual and bonus doesn't exceed the fixed deposit of this unit one year in the bank, or it's the 2.5 times of the resident individual's fixed deposit interest one year, maybe about 11.9 percent. For instance, confirming dividend as 9% of annual interest rate first, on the basis of assuring to have a level equal to financial bond interest rate offered by the national bank, sharing profits will be carried on again if there are surpluses. From the after-tax profits, taking our 50% as the common reserve funds, 5% as the public welfare funds, 10% as the risking funds and 35% of it to shareholders as bonus, the whole stock income is about equivalent to 11% of the rates per annum of the bank. According to the size of the profits, the degree of risk and the state of management of each different trade, in different period, the loan of company confirm the fund profit rate which can confirm loan shared of company. The shared rate can fluctuate, such as for the project that

have high profits, the sharing rate can be high, for small business man and the project that market needed but the profits is low, the shared rate can be low too and for the poor household taking it as livelihood and also having tiny funds and very small earnings, some can just charge the principal at the expired date, free of interests.

For the capital of the financing company, the national bank accounted for 30%, minority market pooled 30% collectively and raising capital by floating shares from society accounted for 40%. In this way, the advantages of the interests of different ownership were combined together organically through the share and the relation of restricting each other between operator, owner and administrator were being set up. The People's Bank participates in the country by shares, not regarding making profits as object, grasps some stocks and has very important positions inside the company. The People's Bank sent representatives to join and hold the leadership position in the board of directors and supervisory board of the company, in order to cheque on company's great decision and sent someone to guide the financial administration of the company and delimit the business scope. To deposit loan business was brought into the plan of local credit, giving in the deposit ready money according to the deposit reserve rate of urban credit department to local the People's Bank. In the same time the company formulate and submit the operational activity situation of credit according to stipulated time to local the People's Bank. The company deals with the concrete business at ordinary time, which assure the autonomy of the company.

The organization management organization of the financing company is the supreme organ of state power of the company is member's representative assembly of the share, which also elected the members of the board of supervisors and board of directors. The board of directors hold representative assembly every year and its every member assume office every three years, responsible for the daily vocational work of the company in an all-round way by the manager under the leadership of board of directors. The duties of the board of directors are responsible for carrying out the policy of the party and every resolution of board of executive directors, and report every work of our company to the representative assembly of the share regularly. The President is a leader who presides over routine of the company and has the right to decide the development and examination of company's main business lines and has the right to the decision the rewards, punishments, recruiting, resigning

from office and retiring of company. The board of supervisors is a control organization of the company, made up by the representative assembly of the share. Its duty is to cheque every resolution implementation to national financial policy, the policy and share member's representative assembly of board of directors and to cheque management, property financial administration, serve style etc. While going wrong, the company put forward corrected the handling suggestion and necessarily bring up questions to the board of directors, President and company manager office. And the President and company's manager should accept the questions in time and put forward the suggestion of improving, supervised and carried out by the board of supervisors. There are business personnel that amount to 18 while establishing the company.

### **3.1.3 The Management State of HeZhou Moslem's Financing Company.**

The company got support from Islamic personage after opened. The Moslem masses sent the money to the company and became a shareholder one after another. The company raised 1,570,000 Yuan and added up to 28,514,000 savings, including 54 of collective that added up to 13,205,000 savings and 413 of current that added up to 10,376,000 savings. It was up to more than 3 million Yuan when reaching the highest balance of deposits and in the year's end the balance was 1,300,000 Yuan. It granted several loan totally 20,811,000 Yuan in the first year, including 1,173,030,000 Yuan of 352 self-employed workers, 4,385,000 Yuan of 16 collectively owned industries and 4,759,000 Yuan of collective merchandising concerns. The loans of 70% lent the industrial and commercial families of minority market and 30% lent the industrial and commercial families who suffered usury and weren't uneasy to get the loan from the national bank. According to the regulation of the rules, under the conditions of insisting on the time limit of the commercial loan from one week to three months, the time limit of the industrial loan can extend to one year. From the situation of retrieving the loan, except that a few had not returned particularly the loan on schedule, the others were all regained in time and still had no any a errors of account. Because the business of the deposit and loan to develop constantly, the amount of businesses had been improving from 49 deals daily from the opening rising to 280 deals in 1988 and cash receipts and payments amount were from 85,000 Yuan daily originally rising up to 160,000 Yuan after one year. During the time that is nearly one year, about 1300 millions output value supported directly

and submitted 156,000 Yuan capital reserve. By the end of 1987, 19,390,000 Yuan was withdrawn, that was 22,190,000 Yuan was invested and only 2,800,000 Yuan was thrown. The company utilizing nongovernmental fund to serve for the individuals and pools the industry and commerce, gave play to the supplementary function of the national credit office, had done the beneficial try for solving the contradiction of the fund of short supplying in the economic development of Linxia. 54919 Yuan was the business income in the whole year of 1987, while the real business income of book is 469458 Yuan. Among them the profits that should collect but not overdue was 136415 Yuan. It was 259333 Yuan that totally paid the profits, 152823 Yuan of bonus that should pay and 86413 Yuan of profits at the end of the year. According to the stipulations of rules, for realized profits the common reserve funds of 43206 Yuan was drawn on the basic of 5%, the public welfare fund of 4320 Yuan was drawn on the basic of 5%, 8641 Yuan risking money was drawn on the basic of 10% and 152823 Yuan of the sharing bonus on the basic of 35%. It is proved that it is an effectual method that substituting the deposit and loan interest of national bank with "the interest rate of deposit", "the shared profit margin of loans" and "the rate of venture capital" in concentrated communities of Moslems in Linxia.

The company got the good social and economic advantages.

First of all, promote the development of commodity economy of field of circulation of Linxia.

The company raised the fund actively in 1987, supporting the individual trade company of Linxia to buy the goods of short supplying in the market in time, which guaranteed the market supply and curb inflation. Such as minority market of Linxia taking advantages of the financing company's fund, accelerated the turnover of the funds, which made the business scope multi-level and lateral link relatively develop too, becoming the powerhouse of the competition in the field of circulation of Linxia. The financing company has also given play to the special function of folk credit, which made the folk activity frequent usury suppressed and the interest rate of the specific usurer drops to below 15% present from more than 20% original. No matter it is borrowing and lending money directly or indirectly, the folk commerce buying on credit temporarily and the marketable securities collateralizing or discounting etc, their interest rate is reduced greatly, which had suppressed different forms of phenomena of practising usury. For instance, the gaining sharing rate of the

company only accounted for 25% of net income of business unit in 1987. If converted bank rate, it was nearly shut mensal interest 9% in selling the commerce in batches and nearly 11% in the retail trade, which was greatly lower than the private borrowed money interest rate and generally praised by the masses, especially supporting some self-employed workers who can extricate themselves from a predicament to continue getting richer. Such as Mt. YongfuMa, self-employed worker of Hui minority, through the usury borrowing money originally, the interest made profits little high, which made the business stayed cool for a time. Since granting more than 120,000 Yuan loan successively from the financing company, his business received the remarkable economic result.

Second, Support and develop local processing industry, especially the development of the township enterprise.

Financing Company has insisting on putting social benefit and economic benefits first. To a profitable one, it will offer support, standing by much to loan and quick to accept when investing and to a poor, benefits acting with caution, standing by little to loan and slowly to put when investing, regaining the loan with the low profit rate sometimes. The company supported 18 collectives and individual operator successively in nearly one year after opened, such as the plain cheese factory of Linxia, mirror factory of glass craft and processing factory specializing in processing the leather, washing the hair of Guanghe county etc. The company granted the loan successively and added up to 438700 Yuan and the value of industrial output supported directly was up to 28 million Yuan, played a positive role for the development of the economy of Linxia.

#### **3.1.4 Characteristic of Moslem's Financing Company of HeZhou.**

HeZhou Moslem's financing Company is the result of Chinese Moslem's society. Receiving enlightenment and influence of the bank of foreign Islam, the company has many aspects in common, but it has its own characteristics. It is the Islamic bank with characteristic of Chinese: (1) Hezhou Moslem's financing company is a component of the finance system of Chinese market economy and it must totally accept the guidance and restraint of the financial policy, opinion and rule of law of Chinese market economy. (2) It is under the direct leadership of Chinese Government. For instance, the People's Bank sent representatives to join and hold

the leadership position in the board of directors and supervisory board of the company to cheque on company's great decision. (3) Economic structure is unique. The financing company is made up of country, collective, individual, three kinds of economic force, which of them publicly-owned economic compositions reaching to a certain degree. (4) Financing company and minority market mutually combining and relying on each other made the finance and trade integrated. The minority market of Linxia is a folk trader's group raised funds in pooled by state-run, collective and individual, belonging to the merchandising concern of the shareholding system. It opened formally in August of 1987 and the management variety was up to more than 6700 kinds and it had already established the relation of purchasing and selling with 24 provinces and cities since the beginning of the 1990s. 30% of the share of HeZhou Moslem's financing company is processed by minority market of Linxia collectively. The market and financing company are two brands, but a set of groups. The minority market is supported by Moslem's financing company, has enhanced its economic strength. (5) Business of financing Company basing on the folk, mainly to serve small-scale collective industrial and commercial enterprises (mainly is township enterprise) and individual industry and commerce manage family, had given play to the role of picking up the neglected and to supply the deficient. For example, after opened the company, more than 20 million Yuan loan of last year to all the self-employed worker and collective industrial and commercial enterprises. (6) The financing company not only supported the development of Moslem's economy, but also supported the economic development of the non-Islamic believer. This is also one of the characteristics. For instance, self-employed worker HuaFeng of the Han nationality, deals in general merchandise which was few profit and suffered loss so that unable to continue. In this circumstance, the financing company supported it immediately that granting 29000 Yuan loan, extricating his working from a predicament quickly and making a profit instead of suffering a loss in one or two months. HuaFeng had already become the able person who good at managing now. In a word, combining law of value, material benefits principle, Islam spirit and financial policy of the country together organically, the financing company played a positive role in the course of developing market economy with Chinese characteristics.

### **3.2 Qinghai Province Moslem's Financial Business**

Such Moslem's nationalities as Hui, Salar, DongXiang etc. That believes in Islam amounting to 710,000 people in QingHai Province, distributed in the agricultural area in the east of QingHai to the east of Sun and Moon mountain mainly. In the past 20 years, because implementing reform and opening-up and the national religious policy, the energy of engaging in trade of Moslems of QingHai by the enormous suppressed was released, which made commercial trade get prosperous day by day. A great deal of Moslem businessmen and entrepreneurs who have much funds were getting stronger. However, the financial thought and regulation of Islamic prohibits on interest by the pregnant of History already became the national commerce habit that Moslems must abide by in financial field. Though national commercial economy had been developed rapidly in the past 20 years, because the savings account interest forbidden by Islam, the Moslem masses unwilling to deposit the cash in the bank, which made a sum of considerable idle money loss in the folk. Investigated and calculated according to the branch bank of QingHai Province, every self-employed worker nearly has cashes of 7000 Yuan and there are 2400 million Yuan if 60,000 self-employed workers of the whole province keep the cash of 4000 Yuan of the each household, accounting for 30% of the currency in circulation of the whole province. Calculated according to the total population of QingHai Province, there were at least 10,000 individual merchants in 710,000 Moslems in the whole province and the funds that they operate by themselves was above 40 million too. These fund in considerable quantities was neither inconvenient in normal turnover nor had caused loss to the society and individuals too. In order to guide this considerable fund containing in the underground into the regular field of circulation and make it give full play to the use value, meeting the needs development of market economy and regional national economy, under the stimulus of new the new economic situation and guidance of government correctly, QingHai Moslem's financial business with locality national characteristics began to have momentum of sprouting. On January 27, 1989, the first Moslem's savings house in Xi'Ning of QingHai opened, and then established Moslem's savings bank in country of MingHe, HuaLong and DaTong. March 27 of the same year, "The committee of deposit promoting of the city's Xi'ning" was established, which made up of well-known figures, ethnic minority industrial and commercial entrepreneurs and concerned directors of Moslems of city's Xi'ning. The new young type of the

financial business had carried on beneficial exploration in developing unique national financial industry.

### **3.2.1 Formulation and development of the financial industry of the Moslem in QingHai Province.**

According to the nature of Moslem's number is big and most of them is trader in QingHai, rationing funds of Moslems flowing and promoting the development of national economy, since 1989, five Moslem's savings houses were established gradually in QingHai province and still established "The committee of deposit promoting of the city's Xi'ning". On Jan 27, 1989, the first Moslem's savings house of QingHai province—Moslem savings House of industry and commerce bank of city of Xi'ning was set up. It just opened 4 hours and received 2345 Yuan of deposit. On March 28, 1989, China Construction Bank Moslem Savings House of Hui Autonomous County of Hualong was established and by the end of 1990, the depositor was up to 451 and savings were 403572 Yuan. And on June 28, 1989, Industrial Bank of China Moslem Savings House of Hui Autonomous County of Hualong again, by the end of 1990, it was 637 depositors and savings were 463000 Yuan. In 1989 Bairam, Industrial Bank of China Moslem Savings House of DaTong Hui-Tu Autonomous County and by the end of 1990, depositors war up to 3100 and savings were 3140000 Yuan. On June 4, 1989, China Construction Bank Moslem Savings House of MinHe Hui-Tu Autonomous County and by the end of the year of 1989, the savings were up to more than 600,000 Yuan just in half a year and by the end of 1990, depositors was up to more than 930 and savings were 1350000 Yuan, having a net increasing of one time.

At the same time, on Mar 17, 1989, "The committee of deposit promoting of the city's Xi'ning" was established, which made up of well-known figures, ethnic minority industrial and commercial entrepreneurs and concerned directors of Moslems of city's Xi'ing. The director members of this committee is served as by the president of Islam Association of province and more than 80 people of DongGuan large temple dean of Islam are the committee member of Xi'ning. The establishment of the promoting committee, had erected a bridge between the Moslem masses and Industrial and Commercial bank of Xi'ning, which not only had expanded the influence of Moslem's depositing but also improved its popularity. After opening one year, Xi'ning Moslem Savings House's individual closing family

transferring account was up to 63 and deposits were more than 400,000 Yuan. Handling 15 drafts successively, the amount of money was more than 400,000 Yuan and handling the business of transferring account 320 among the same city, the amount of money was up to more than 3 million Yuan. Granting the loan of operating fund was 116,000 Yuan totally. By the beginning of 1991, there already had 18 mosque's the funds of helping each other meeting and other funds already, who having opened deposit account of zero depositing and whole drawing in Moslem's savings house and the balance of deposits was up to 280,000 Yuan (among them, 10,000 dollars and 9,000 Hongkong dollars). Nearly 20 mosque's dean person mobilized 100 households of individual commerce to go to Moslem's savings house to set up accounts in two years. Xi'ning and Da'tong two Moslem savings house had a net deposit increasing of 3,500,000 Yuan in two year, among them depositor of Moslem accounting for more than 80%. By 1990, the balance of deposits of Xi'ning's Industrial and Commercial bank already having been up to 858,710,000 Yuan, relatively having a net increase of 163,350,000 yuan by the beginning of this year and overfulfilling the task of 86% of increasing deposits, had created the highest lever of the volume of increasing deposit annually. Among them, Xi'ning and Da'tong two savings house had a net increase of 2,200,000 Yuan in that year. The increase of the savings account of the Moslem, had not only strengthened the credit funds power of the Industrial and Commercial bank, but had opened up a new channel of gathering the money, and also played a positive role of withdrawing currency from circulation, stabilizing the finance and stabilizing economy for country.

### **3.2.2 The nature of QingHai's Moslem Finance Industry**

(1) Diversification of the financing business of and pluralism of the financing person's structure.

The persons who engage in trade are very common in the Moslem in QingHai. And the number of self-employed entrepreneurs of the east district of Xi'ning was up to more than 3000 alone. According to the preliminary investigation, the number of individual taxi of the east area of Xi'ning is up to more than 300, among them Moslem accounting for more than 90% in DoGuan region. And the number of Moslem individual stand is up to more than 4000. Xi'ning Moslem Savings house adopting deposit policy of " deposit voluntarily and withdraw freely and keep secret

for depositor", make great efforts to expand the business field, except for handling the traditional business of the bank, such as term deposit, current deposit, convenient both term and current, fix deposit by instalments, taking the place of paying out wages, inflation-proof saving deposit and so on, still setting up personal special counter to offer service of handling individual remit and P.O.(postal Order), traveler's cheque, keeping cash, free exchange, exchanging money and individual's a small quantity loan etc, which put forth effort solve Moslem masses a series of pressing problems, such as depositing and withdrawing difficultly. In order to facilitate depositors further and improve working efficiency, the savings house installed the computer in May of 1989 to deposit money, which had advantages of quickness, keeping secret and insurance. By the first half of 1990, the balance of deposits of the computer was up to 2,040, 000 Yuan. Meanwhile, it also run the deposit business of the foreign currency, which have U.S. Dollar, Hongkong dollar, Japanese Yen, pound, West Germany mark, Mark, Canadian Dollar etc. Depositors can choose U.S. Dollar or Hongkong dollar freely to account to calculate by the day of foreign exchange quotation and the deposit divides into fixed and current two kinds. The all people who deposit in this savings house can be gained carrying foreign currency card if they want to go abroad. Different from generally savings bank, it still run the business of transferring and settling, which facilitated trader of more Moslems.

Moslem's depositor can be divided into three kinds from structure on the whole. The first is national workers who earn the salary. This kind of depositors although more, deposit amount of money very little. They had faint religious consciousness and pay attention to the interest. Their purpose of the deposit lies in taking care of "many a little makes a nickel" and "fixed deposit by instalment" to make family's capital construction. The second is the mosque. Among the whole city numerous mosque, Xi'ning DoGuan Islamic big temple take the lead in running the collective family of fixed deposit by instalments first, storing more than 90 Yuan per month and the balance of deposits was up to more than 1100 Yuan totally in one year. Inspired by Doguan big temple example, Garden mountain, Water City Gate, Woods Lane, FuQiangZia lane and Lin house etc more than ten mosques established accounts successively, having already stored more than 48,000 Yuan. Participating in deposit money in the mosque, though the amount of money is not big and do not need the interest, but more steady, have played a driving role to Moslem's deposit of

the whole province. The third is a large businessman of Moslems. The depositor depositing is to be for try to get safe. They don't care about interest and one deposit amount can be up to several tens of thousands of Yuan. This sum of deposit is large in amount of money, but highly liquid, unstable, often changing with fluctuations of the financial quotations of the world.

(2) The government's support and versatility about Islamic regulation in deposit interest.

The deposit undertaking of Qinghai Moslem has got the government's energetic support. Supreme leader KeshengYin of Qinghai Province three arrived Xi'ning Moslem's savings bank to inspect and work successively. He inscribed with "runs the multiple business and develop minority economy" while inspecting for the second time on May 8, 1990. And make comments and instructions in a letter from the masses: "Considering the characteristic of Moslem's savings bank, from the view of serving the Moslem masses better, whether could expand a little more functions of the savings house?" Xi'ning City Industrial and Commercial bank pay much attention to Moslem deposit and it already has hold two shift responsibility annual meetings, which summarize experience in time and solicit religion personage's advice and purpose to promote Moslem's deposit undertaking year by year extensively.

According to the spirit of Islam prohibit eating the interest, for better to offer the best financial business service to people who believing in Hui, Salar, Doxiang and Baoan of Islam, the Moslem savings house changed the current method of the bank, with the principle that "the deposit is lottery-attached and substitute interest with reward" and adopted sharing out bonus, granting condolence products, bonus or prizing material object etc methods to make the Moslem deposit money does not present in the form of interest again. To the interest that can't really be returned, accumulate it and apply it to the cause of the public good of ethnic minority or to set up national education fund, supporting the national educational undertaking.

(3) Minority nationalization of the personnel and relevant service style of financial institution.

Moslem savings house proposed the principle of "use people of Moslem, the Moslem's money, run the Moslem's thing ". Most of directors of Moslem's savings

bank are the Moslem of Hui, and is furnished with the Moslem's business personnel of Hui. On environment assign, Xi'ning Moslem Savings house adopted a pattern according with customs of Moslem masses and write deposit sorts, such as " fixed ", " current " and "fixed and current freely" with Arab in door glasses and windowpane. Decorated the savings house with Moslem "Mecca day room " hanging blanket and Doguan big temple oil painting of Islam. In serving terms, Imam was engaged to teach Moslems daily expressions which would be applied to the counter service. Also drew the distribution map of east area mosques of the city at the same time to make every mosque of the east area of the city very clear. The savings house specially set up a depositor's reception room which include sofa, tea table, telephone, tea, deposit propagate album, Moslem's magazines and pictorials on the inside in order to make Moslem's important clients no longer worry that the deposit is exposed and remove various kinds of qualm. After established one year, the savings bank received more than 500 depositors successively in this reception room and handled the deposit nearly a million Yuan. Once a Moslem who carrying 100,000 cash reached Xi'ning Moslem savings bank and he just stand out of the counter with much of misgivings and have no any words about deposit. Under this situation, the worker of savings bank invited him into the reception room, through talking warmly, made him know about relevant details and throw away misgivings, deposited 100,000 Yuan cash in this savings bank once only.

#### **4. Getting Positive Support of Religious Circles.**

The members of the committee of deposit promoting most came from the mosque, individual industrial and commercial enterprises and were social well-known figures basically, which have extensive representativeness. Many imams engaged the undertaking of Moslem and adopted various forms, such as utilizing the chance of teaching Val's or embedding the country fair or resident's family to promote the truth of "thrift and frugality, beneficial to nation and people" and the principle of Moslem's deposit, advising the Moslem masses to relieve their mind from misgivings and arousing them the national self-reliance consciousness of "promote industry with commerce, boot nation by industry" and established its long-range goal of developing national industry. According to the incomplete statistics, the committee member participating in propaganda activity in initial two years set out more than 1000 person accounting for 30%. Because the Moslem

masses stubborn ideas began to turn about, the Moslem depositors increased day by day.

### **5. A Little Thinking about Contemporary Chinese Moslem's Financial Business**

(1) The development of Qinghai Moslem deposit made a sum of considerable interest money turn into the expansion funds of national education, having strengthened the intellectual investment of the Moslem of Qinghai. Under the circumstance of national fiscal restraint and very limited education funds, just hundreds of Yuan may be much useful for quite difficult minority school. Therefore, Minghe and Xi'ning Moslem savings house establishing the nation education funds was a very insightful realistic *modus operandi*.

(2) Benefit to “promote industry with commerce, boot nation by industry”.

The east of Qinghai on the centre of Huang Water basin has always been the Moslems gathering place, which “boot tribe by commerce” and uphold trade. By contrast, the commerce was well off now, while industry lags behind. It was extremely uneven of fund's distribution and had presented the situation of economic lopsided development. In order to change this situation and transmit commercial surplus funds to industrial production by credit agency, it is only to rely on the financial institution with national characters to make commercial funds, industry's fund and credit funds combine together, forming enormous monetary fund strength, going the way of “promote industry with commerce, boot nation by industry” and promoting the rapid development of Moslem's national economy. Just like what XiMingNiu who is the president of the Industrial and Commercial bank of Xi'ning said: “It was proved that the practise of the committee of deposit promoting of the city's Xi'ning that established one year, it is a good form that bank, mosque, national merchant set out from country and the Moslem masses' fundamental interests, did their best to absorb the savings account and strengthen funds power. It is also a good method found in deepening reform, totally according with the market condition of our city and apply to the needs of Moslems masses liberalizing funds and developing economy. It was right of developing Moslem deposit and it has strong vitality and a very wide development prospects.”

(3) Guide "black market" progressively into the right path, avoiding the confusion of the financial market.

A large number of idle fund gathering in the market, had formed the unreasonable distribution of the supply and demand of the fund. On one hand the financial demand was strained and the contradiction was obvious, on the other hand the fund was left unused. However, Islam Objects to idle fund and advocate circulate ever and again. This situation has led to the prevalence of folk usury activity outside of bank and the most of existence of "very rich" person. This situation not only made the usury activity seize the opportunity to resume but also offered the crime chance to persons who engaged in playing the market, reselling currency for profiteering illegally and selling forged note, which upset the financial market. According to the investigation, the individual taxi in the management office handling east of city's lease had already been up to more than 300 in Xi'ning and the area of DoGuan Moslem accounted for more than 90%. These cars mostly were imported car and costly. The money of purchasing these cars at least 10,000 Yuan was lend in the form of usury from society. Because of the implementation of the open policy, the number of pilgrim going to Saudi Arabia in the Moslem of Qinghai increased year by year, so that the foreign currency demand heavy. But country could only solve 40 according to regulation, other majority got through "black market" transaction. This part of foreign currency obtained from black market, was not only higher than state-set price by one to twice time, but also out their cost, even forged note appeared every year and pilgrims were hurt deeply. Meeting this situation, since 1991, Xi'ning Moslem savings house has been offered service of appraising true and false of U.S. Dollar to the pilgrim freely, met with Moslem's warm acceptance and attacked the activity of selling the counterfeit money on the black market too. The establishments of Moslem Financing Company of LinXia and Moslem Savings House of QingHai Province, had certain inhibition to usury activity of city of LinXia.

In a word, the birth of Chinese Moslem's financial circle and its obvious economic benefit had important theory study and social practise value. In the general meaning, the modern bank was in favour of gathering the idle funds of society and collecting social investments to plunge into product aspect through offering deposit certain interests. The bank giving to the operator through the loan, helped to an advance of production. Practise had proved that the bank played and more and more

important role in developing China's contemporary market economy. But it is contradictory between the regulation of prohibiting the interest of Islam and the development of China modern financial cause obviously. How to solve this contradiction? There are the nearly 20 million Moslems masses in China and the religious doctrine, canon and traditional economic values of Islam have an extremely deep influence on their minds, so taking denying easily or the "mass criticism" in the past would injure their national sentiments and produce the bad result. Of course it is impossible to cancel the financial system of playing an important role in modern economy either. Could we find a new way to give attention to the religion emotion of the Moslem masses, at the same time to apply for socialist market economic development? The birth of HeZhou Moslem's Financing Company and QingHai Moslem financial business, and obvious economic benefits which they produced, had already answered this question from practise. That is to say, we can coordinate the difference and contradiction properly as soon as we can explore actively in the economic practise.

## **6. Prospect of Chinese Moslem's Banking Business**

There are nearly 20 million Moslems. The practise of the Moslem's financial company of GanSu Province and QingHai province, have not yet appeared in the province where other area that Moslems collected communities in China. For example, the foremost Hui Moslems collecting province, Chinese Hui Nationality Autonomous Region, Ningxia and the foremost Uygur Nationality Moslems collecting province, Chinese Uygur Nationality Autonomous Region, Xinjiang, have not set up similar and versatile financial organization. With the further development of the market economy in the west of China, the further development of Chinese Moslem's economy, and further enhancement of the intercommunion between Chinese Moslem and globe Moslem's social economy, Chinese Hui Nationality Autonomous Region and Chinese Uygur Nationality Autonomous Region, Xinjiang will face this question, and will find out a kind of versatile way to solve the problem that like this. The methods of Qinghai and Gansu will most likely become methods that they can draw lessons from. Alternative, the more rigid and thorough system of the World Islamic bank will be accepted by them.

But no matter what method it is, the Chinese Moslem's banking business will all reflect such several characteristics in the future: First, it is necessary that the support

of Chinese Government. Second, such Moslem's financial structure mainly relate to the non-religious economic behaviours. Third, its main business scope lies in western especially west-north Moslem compact community. Fourth, Chinese Moslem's Banking Business will strengthen the contact with the globe Islamic bank. The fifth, its scale will be smaller relative to China's traditional financial system. It only will be the supplement of Chinese main financial system.

**COMMENTS**

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