



## Islamic Finance in China: Current Landscape and Future Forward

Yan Hao<sup>1,2</sup>, Mohamed Hisham Haji Yahya<sup>\*1</sup>, Malisah Latip<sup>3</sup>, Muhammad Hafiz Ali<sup>4</sup>

<sup>1</sup> Department of Accounting & Finance, School of Business & Economics, Universiti Putra Malaysia, 43400 UPM Serdang, Selangor Darul Ehsan, Malaysia

<sup>2</sup> Huhhot Wuchuan County Cooperation and Exchange Center, China

<sup>3</sup> Department of Social Science & Management, Faculty of Humanities, Management & Science, Universiti Putra Malaysia, Bintulu Sarawak Campus, Nyabau Road, P.O.Box 396, 97008 Bintulu, Sarawak, Malaysia

<sup>4</sup> Faculty of Management and Business, Universiti Teknologi Mara, Rembau Campus, 71300 Rembau, Negeri Sembilan, Malaysia

**ABSTRACT** - China's foreign trade has gradually lost its advantage due to continuous rise of RMB exchange rate and the labor costs in recent years. China urgently needs to explore new international trade markets to reinvigorate its foreign trade. With the recent development strategy of "One Belt One Road", China should seize this opportunity to develop Islamic finance since most countries along the routes are Islamic countries. Islamic finance differs from traditional finance in its principles, development, products, operations, and regulation. The purpose of this article is to examine Chinese views on Islamic finance. The study conducted a survey through questionnaire. The findings show that the most ideal area to develop Islamic finance is in China's northwest region due to its cultural advantages. The survey records that respondents' reluctance towards Islamic finance mainly due to the absence of legal system and financial regulations for Islamic finance in China. Moreover, lack of talents in Islamic finance is also a major concern based on the survey. The study believes that the development of Islamic finance is conducive to the sound development of China's financial system. It strengthens economic and trade cooperation with the Islamic world, enhances the ability to attract investment, and promotes harmonious economic development of ethnic minority areas.

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## INTRODUCTION

Islamic finance is based on the teachings of the Holy Quran and Hadith. It differs from traditional finance in the concept of risk and profit-sharing. It focuses on morality, prohibits speculation, and invests in real assets (Yahya et al., 2013). According to the Islamic Financial Development Report 2019, the assets of the Islamic financial industry increased from US\$2.4 trillion in 2017 to US\$2.5 trillion in 2018, an increase of 3% (Ayub, 2020). There is a fierce competition from countries around the world for the growing Islamic financial assets, not only from other Islamic countries but also from established international financial centers, such as London and New York, Singapore and Hong Kong, China.

There are 56 ethnic groups in China, including more than ten ethnic minorities, such as the Hui, Uygur, Kazak, and Dongxiang, who are mainly Muslims. China's Muslim population is around 25 million people (Song, 2022). However, the Islamic financial industry in China still lags behind its conventional counterpart and has a great potential for development (Djafri et al., 2021). As an international financial center, Hong Kong took stock of the situation and successfully issued a Sukuk in 2007 (Yiu, 2015). However, the development of Islamic finance in

mainland China is left wanting. Although an Islamic financial service window was opened in Ningxia province in 2009, the service content is limited (Tianyao, 2019). China's hinterland is vast and rich, with only the Ningxia province providing Islamic finance. As such, Islamic finance has a big opportunity in China to serve the Muslim market and even attract foreign and domestic investments.

China initiated the 'One Belt, One Road' initiative which promotes international economic and trade cooperation (Tianyao, 2019). Most of the countries along the 'One Belt, One Road' route are Islamic countries. Islamic finance could contribute to the development of the Belt and Road initiative. In recent years, relations between developed Western countries and Islamic countries have been strained. China's image as a stable and powerful power is a good alternative investment choice for these Islamic countries.

In addition, the development of Islamic finance is conducive to promoting Chinese national unity. The economic development of ethnic minorities in China is relatively backward (Jeong, 2015). The development of Islamic finance is conducive to the growth of ethnic minorities' financial economies. Three-quarters of Chinese Muslims are located in the northwestern region of mainland China, and the development of Islamic finance can meet their needs. This is conducive to the realization of China's goal of "unity, friendship and mutual assistance among all ethnic groups". This study aims to examine the Chinese perceptions on Islamic finance. Specifically, this study intends to achieve the following objectives:

- i. To examine Chinese citizens' perceptions on Islamic finance.
- ii. To explore Chinese citizens' understanding of Islamic financial products and services.

## **LITERATURE REVIEW**

### **Development of Islamic Finance in China**

As one of the international financial centers, Hong Kong has taken advantage of the opportunity to apply for membership in the Islamic Financial Services Council and successfully launched the Islamic Fund in 2007 (Caudevilla, 2018). On the mainland side, in March 2009, the Central Committee of the Revolutionary People's Republic of China put forward a proposal on the development of Islamic finance in China at the National Committee of the Chinese People's Political Consultative Conference. In December of the same year, The Bank of Ning Xia set up the Islamic financial service window and launched three products of investment account, financial management, and mark-up trade, becoming the first pilot bank in mainland China to promote Islamic financial services, filling the gap of Islamic financial services in Mainland China (Tianyao, 2019). However, the pilot banks are very limited in terms of operation scale, service area, product types, and customer groups, which are far from meeting the financial needs of the vast Muslim population, and it is also difficult to strengthen the economic and trade cooperation with the Islamic world and attract investment to use (Tianyao, 2019).

### **Operation and Management of Islamic financial institutions**

Islamic finance is based on Islamic Shariah law. It not only meets the conventional regulatory standards of financial institutions but also meets the constraints within the Islamic framework, under the supervision of the Sharia Council. The Sharia Council is responsible for the supervision and management of Islamic financial institutions, especially in the compliance of Islamic financial products. During the 2008 global financial crisis, Islamic finance bucked the trend and captured the world's attention. This was mainly due to the risk management mechanism of Islamic financial institutions (Irfan, 2015).

### **Islamic Banking Risks**

Islam prohibits Riba, gambling, tobacco, alcohol, pornography, firearms, pork, high-risk speculation, and other things that are disallowed by Islam. Each Islamic financial institution shall have an Islamic Law Committee to supervise and guide the whole process of the financial

institution's products and operations to ensure its compliance with Islamic law and guarantee the financial services provided to Muslims (Mohamad & Sori, 2016).

Similar to their counterparts, Islamic banks are exposed to credit, market, liquidity, and operating risks. Credit risk refers to the failure of both parties in a contract to fulfil their obligations on time with both quality and quantity guaranteed. Market risk includes interest rate, exchange rate, stock price, and commodity price risks. For traditional financial institutions, forward, swap, and other financial instruments are usually used to avoid market risks, but these financial derivatives are prohibited in Islamic finance (Yahya et al., 2013). Islamic financial institutions will generally establish "profit smoothing provision, investment risk provision" and other risk funds to protect against market risks. In terms of liquidity risk, the Islamic capital market of Islamic finance is less developed (Ariffin, 2012). This contributes to the Islamic financial institutions' solvency problems. Operational risks are caused by faulty internal operating systems, personnel, computers, and emergencies. Since most of the staff in Islamic financial institutions are Muslim, who are largely bound by Islamic sharia law, the operational risk is relatively small in Islamic financial institutions (Mohamed, 2012).

The Islamic Financial Services Council (ISFB) was established in 2002 to establish unified Islamic financial standards and regulatory system. It provided guidelines, including 1) Islamic financial capital adequacy ratio, 2) supervision and inspection, 3) information disclosure, 4) risk management, and 5) corporate governance guidelines that have been established (Kenton, 2021). ISFB sets the capital adequacy ratio in line with the internationally accepted Basel Accord. In line with the second pillar of The Basel Agreement (supervision and inspection procedures), ISFB has developed supervision and inspection guidelines to cater to the characteristics of Islamic Shariah. The guidelines are mainly aimed at preventing the board of directors, the management, the staff of the supervision department, and their families from colluding and using improper means to gain profit. All of which, could harm the interests of the shareholders and investors of Islamic financial institutions (Kenton, 2021).

### **Islamic Finance in China**

Li (2018) summarized the core ideas of Islamic finance from the classical Koran and Hadith of Islam, which include the prohibition of *riba* and risk-sharing. Similarly, Ma (2012) believes that the core idea of Islamic finance; "risk-sharing and profit-sharing" has thwarted its internationalization and acceptance globally since countries are grounded in interest-based, conventional finance. Islamic finance should be reformed and innovated while preserving its religious characteristics to better integrate into the international environment. Similarly, Sui (2011) conducted an in-depth study on the thought and purpose of Islamic finance and pointed out that "*promoting good lending and prohibiting interest and ill-obtained wealth*". This is in line with promoting charity in Islam, which was conducive to the expansion and development of Islamic finance. Likewise, it impedes the acceptance and development of Islamic finance in China's interest-based, conventional financial system.

### **The Study on the Characteristics of Islamic Finance**

Lin (2006) analyzed the ideology, development process, operation, and products of Islamic finance and pointed out that the unique characteristics of Islamic finance determined its broad development prospects. But with the increasing competition, cooperation with traditional finance is inevitable. Yingmei (2014) studied the development process of Islamic banks and emphatically discussed the products of Islamic Banks based on the principle of "risk and profit-sharing". The study shows that since the September 11th terrorist attacks, Muslim countries have been looking for safe and stable investment channels as an alternative to the United States. China's four major state-owned banks can take this opportunity to open a window of Islamic financial services and strengthen cooperation with Islamic Banks.

Li and Jin (2018) focused on the thought, scale, and operation mode of Islamic finance. He

finds that Islamic finance attaches great importance to the investment of real assets, which is in sharp contrast with the western financial system. Islamic finance increases the diversity of the financial system and guarantees faster and better development of the financial industry. Qiang (2008) published a book to disseminate knowledge of Islamic finance in China. He introduced in detail the ideas, principles, characteristics, products, markets, operations, and regulations of Islamic finance. He also pointed out that the development of Islamic finance in China is conducive to the 1) improvement of resource allocation, expansion of financing channels, 2) attraction of capital from rich countries in the Middle East to participate in China's economic construction, and 3) strengthening of friendly exchanges with Islamic countries.

### **Comparative Study of Islamic Finance and Traditional Finance**

Xu and Ouyang (2011) compared the risks of Islamic finance and traditional finance in detail and analyzed the risks of these two types of banks. It is found that the risk of small Islamic Banks is less than that of small traditional banks, and the risk of large Islamic banks is less than that of 1) large and small conventional banks and 2) small Islamic banks. This is mainly due to moral constraints and the inexistence of speculative behavior. Furthermore, it is found that the risk of Islamic banking has no evident relationship with the country's macroeconomic situation. Tian et al. (2009) analyzed the governance models of both Islamic and conventional finance. It is pointed out that Islamic finance is constrained by both religion and law. They conclude that this mode of combining "soft and hard" regulation is effective, which contributes toward Islamic finance having strong anti-risk capabilities. They believe that China could combine Confucian culture with conventional finance.

Xinhua (2015) discussed the feasibility, necessity, problems, and relevant countermeasures of China joining the ranks of Islamic finance. He believes that China should use Hong Kong as a window and springboard to develop Islamic finance in the northwest of mainland China, a region with a large Muslim population. Developing Islamic finance can attract foreign Islamic capital and help the economic construction of China's ethnic minority areas. Li (2015) pointed out that China should learn from the success of Islamic finance in Malaysia. It should strengthen Islamic financial cooperation with Malaysia. For example, it allows Chinese Banks in Malaysia to open Windows of Islamic finance in mainland China. Yu (2017) suggests that China can take advantage of its Muslim northwest region<sup>1</sup> to develop its own Islamic finance industry. For the time being, China could offer Islamic financial products in Islamic countries, such as setting up Islamic financial service windows in Islamic countries.

## **METHODOLOGY**

### **Study Sample**

Muslim population amounts to 1.73% of China's total population, which approximately around 28,127,500 Muslim people (World Population Review, 2022). In this study, the probability sampling design used is the simple random technique and systematic random technique. This study is concerned in accessing information from bank customers in Huimin district, Hohhot, Inner Mongolia. Therefore, the individuals who are the customers of any banks in Huimin district will be in the population for the study. The population of this study was 394,555 respondents. The sample size is determined using the Slovin's formula, which aims to determine the number of representative samples based on the population. The prospective respondent of this study is the individual who has whichever types of accounts from any banks in Huimin districts. Additionally, this study assumes that individuals aged 18 and above will have at least a saving account from any bank and is appropriate to be included as respondents. The number of research samples was 202 respondents.

There were 116 males and 86 females among the respondents. The age distribution mainly

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<sup>1</sup> Northwest China, includes Ning Xia, Qing Hai, Xin Jiang, and other provinces and cities, taking advantage of Muslim agglomeration areas.

was between 35-49 years old, accounting for 43.56%, and the second most was between 21-34 years old, accounting for 30.2%. Among the respondents were self-employed workers who occupy the most jobs (28.71%), private employees (23.27%), other occupations (22.77%), government employees (16.83%), and students (8.42%).

## Methodology

This paper utilizes the questionnaire survey. Frankfort-Nachmias and Nachmias (1996) suggest that the structure, content, format, and order of questions in the questionnaire should be considered when formulating the questions. The questions should be answered in the shortest time and with the least effort to ensure the quality of the answers. In this study, a closed answer is adopted; that is, alternative answers to the questions are provided to the respondents. The answer to a closed question is more analytical than an open question because the answers are concentrated. The answers to open questions may vary, making it more difficult to analyze research questions. However, a major limitation of closed questions is that they limit the input from the respondents who cannot expand their answers.

The first part of the questionnaire is a multiple-choice question, which involves the respondents' demography, such as basic personal information, gender, age, religious belief, marital status, occupation, education level, and monthly income. The second part of the questionnaire asks the respondents about their views on Islamic finance in the form of a single choice. The questions include economic advantages, social compatibility, social attraction, and other aspects. The third part investigates Chinese citizens' understanding of Islamic finance. The last part of the questionnaire survey looks into Chinese people's views and opinions on Islamic finance.

## Pilot Test

The questionnaire went through several stages of development before it was distributed to the target respondents. Firstly, the questionnaire was designed and developed after reading a large number of literature and determining the research content. After perfecting the format, content, and structure of the questionnaire, the questionnaire was distributed to the proofreaders to ensure the readability of the questionnaire.

Three hundred questionnaires were randomly distributed to the customers from targeted areas 202 valid responses were received. Tables were used to summarize the data, and percentages were used to intuitively show the trend of the data. Furthermore, the exploratory factor analysis (EFA) was conducted to identify the factors that significantly influence customers' intention to adopt Islamic banking products and services.

## RESULTS

### Demographics

Of the 202 valid questionnaires, 116 were male, and 86 were female. Besides, according to the age distribution, there are 28 persons under the age of 20, 61 persons between the ages of 21 and 34, 88 persons between the ages of 35 and 49, and 25 persons aged 50 and over. This is shown in Table 1.

**Table 1:** Age and Gender of the Respondents

Respondents' Gender	Age Range of respondents				Total
	Age 20 and under	21-34	35-49	Age 50 and above	
Male	23	31	53	9	116
Female	5	30	35	16	86
Total	28	61	88	25	202

The following Table 2 represents the demographic content of the questionnaire. It includes 1) religion, 2) marital status, 3) Occupation, 4) education and 5) monthly income of the respondents.

**Table 2:** The Respondents' Demographic Information

Variables	Values	Number	Proportion
Religion	Islam	95	47.03%
	Christianity	15	7.43%
	Buddhism	11	5.45%
	Catholicism	59	29.21%
	No religion	22	10.89%
Marital status	Single	63	31.19%
	Married	139	68.81%
Occupations	Students	17	8.42%
	Government employees	34	16.83%
	Private employees	47	23.27%
	Self-employed persons	58	28.71%
	Other	46	22.77%
Education	Primary school	14	6.93%
	Middle school	45	22.28%
	College	84	41.58%
	University	47	23.27%
	Other	12	5.94%
Monthly income (RMB)	2001 - 4000	73	36.14%
	4001 - 6000	69	34.16%
	6001 - 8,000	46	22.77%
	8001 - 10,000	13	6.44%
	10,001 - 12,000	1	0.5%
	More than 12,000	0	0.00%

## Descriptive Analysis

### Chinese People's Understanding of Islamic finance

It can be seen from Table 3 that Chinese people have a low understanding of Islamic finance. Most of them have never used Islamic financial products, they believed that there was interest in Islamic financial products, and did not know about Islamic financial bonds. But most people did not think Islamic finance should invest in pork or gambling.

**Table 3:** Chinese People's Understanding of Islamic Finance

Understanding	Yes	No	Not sure
I used to buy Islamic financial products.	37.62%	35.64%	26.73%
The Islamic banking system includes an interest incentive system.	53.68%	19.01%	27.31%
Islamic banks can invest in the pork industry.	16.44%	52.67%	30.89%
Islamic banking can be as speculative as gambling.	29.00%	40.45%	30.55%
I know Sukuk.	5.81%	70.21%	23.98%

### i. Understand the Origins of Islamic banking

Table 4 shows how the Chinese people understand the origin of Islamic banking. 34.16% found out the origin of Islamic banking through the study of Islamic banking. 50.99% learnt about it

through social media, 42.57% through TV advertising, 17.82% through friends, and 13.37% were through other means.

**Table 4: Understand the Origins of Islamic Banking**

Options	Proportion
By studying Islamic banking.	34.16%
Through social media.	50.99%
Through television advertising.	42.57%
Through a friend.	17.82%
Other.	13.37%

### Factors That Encourage the Use of Islamic banking

Table 5 shows the driving force for Chinese people to choose Islamic Banks. 39.11% is to comply with the principles of Sharia law. 37.62% chose Islamic banks for the wide range of products and services and 38.12% is for better financing. 30.69% opted Islamic banks because of the reputation and reputation of the bank, and 13.86% for the good customer service. 15.84% used Islamic banking because of recommendations from family and friends and 11.39% because of mass media advertising. 10.89% are for the no-interest system and 4.46% is for low service charges.

**Table 5: Factors That Encourage the Use of Islamic Banking**

Options	Proportion
Abide by the principles of Sharia law.	39.11%
Provide a wide range of products and services.	37.62%
Better financing.	38.12%
The reputation and image of the bank.	30.69%
Good customer service.	13.86%
Recommendations from family and friends.	15.84%
Mass media advertising.	11.39%
There is no interest on loans or deposits.	10.89%
Low service charges.	4.46%

### (1) Reasons for Choosing Islamic Banks in the Future

Table 6 shows the reasons why Chinese people expect to choose Islamic Banks in the future. 44.06% indicated that if Islamic Banks outperformed traditional Banks, it would be the main reason. 41.58% said the popularity of Islamic banking would be an important reason. 36.63% indicated that the use of advanced technology would be an important reason. In order of importance, the Chinese people consider the security of deposits, reputation and image of Banks, resistance to the financial crisis, profit-risk sharing principle, avoidance of interest mechanism, compliance with Sharia law, confidentiality, and trustworthiness.

**Table 6: Reasons for Choosing Islamic Banks in the Future**

Options	Proportion
Islamic banking will be widespread and many people will use it.	41.58%
Islamic Banks will outperform traditional Banks.	44.06%
Advanced technology will be used.	36.63%
Deposits in Islamic Banks will be safer in the future.	23.76%
The reputation and image of Islamic Banks will be enhanced in the future.	23.76%
Because it is more resilient to financial crises than traditional Banks.	12.87%
Because of profit sharing and loss sharing.	8.42%
No interest is charged on loans and deposits.	7.92%
Abide by the principles of Sharia law.	7.43%
Confidentiality and trustworthiness of Islamic Banks.	5.94%

**(2) Reasons Not to Choose Islamic Banks in The Future**

Table 7 shows the reasons why Chinese people do not expect to choose Islamic Banks in the future. 39.60% said it would be the main reason if Islamic Banks were open only to Muslims. 39.60% indicated that unfamiliarity with the products and services of Islamic Banks would be an important reason. 35.15% indicated that the lack of advanced technology would be an important reason. In order of importance, the Chinese people are concerned about profit-sharing mechanisms, the high likelihood of bank failures, and the lack of proper disclosure and disclosure mechanisms.

**Table 7: Reasons Not to Choose Islamic Banks in the Future**

Options	Proportion
Unfamiliarity with Islamic banking products and services.	39.60%
Islamic Banks are only open to Muslims.	44.55%
Because of profit sharing.	28.71%
Lack of use of advanced technology and media.	35.15%
Islamic Banks are vulnerable to collapse in the future.	20.79%
There is no adequate mechanism for information disclosure and disclosure.	5.94%

**(3) I think Islamic Finance Should Be Developed in the Following Areas**

Table 8 shows the views of the Chinese people on choosing the location of Islamic Banks. 42.57% chose the northwest. 42.57% chose the southeast. 38.61% chose Beijing. 21.78% chose Shanghai. Only 11.88% opted for the central region.

**Table 8: I Think Islamic Finance Should Be Developed in the Following Areas**

Options	Proportion
In the northwest	42.57%
Beijing	38.61%
The southeast	42.57%
Shanghai	21.78%
In the middle	11.88%

**(4) I Would Like to Choose Islamic Financial Services from The Following Types of Banks**

Table 9 shows which Banks Chinese people are willing to choose Islamic financial services. Qualified international Banks made the most choices, accounting for 52.97%. The second most popular choice was China’s new state-owned Islamic bank, accounting for 46.53%. The third was a qualified Chinese state-owned bank, accounting for 40.59%. The least selective were qualified International Islamic Banks, at 20.79%.

**Table 9: I Would Like to Choose Islamic Financial Services from the Following Types of Banks**

Options	Proportion
Qualified Chinese state-owned Banks	40.59%
A qualified international bank	52.97%
China's new state-owned Islamic bank	46.53%
Qualified International Islamic bank	20.79%

**(5) What are the Possible Reasons for the Failure of Islamic Finance in Mainland China?**

Table 10 shows the reasons for the failure of Islamic finance predicted by Chinese people in mainland China. The biggest choice was insufficient government support, accounting for 50.00%. The second most popular choice was the unprofessional bank pilot, accounting for



49.01%. The third place was the development area selection failure, accounting for 39.11%. The lack of strong public support was the least selective, accounting for 26.73%.

**Table 10:** What are the Possible Reasons for the Failure of Islamic Finance in Mainland China?

Options	Proportion
Development area selection failed.	39.11%
There is not enough government support.	50.00%
The chosen bank pilot is unprofessional.	49.01%
Public support is not strong enough.	26.73%

### (6) I know the Following Islamic Terminology

It can be seen from Table 11 that the Chinese people know what professional terms of Islamic finance. Zakat, which were chosen the most, accounting for 58.91%. The second most popular choice was Riba, accounting for 53.47%. Sukuk came in third with 19.80%.

**Table 11:** I Know the Following Islamic Terminology

Options	Proportion
Riba	53.47%
Zakat	58.91%
Sukuk	19.80%

Overall, it can be observed that, although the Chinese people do not know much about Islamic finance, they are optimistic about its introduction into China.

### Reliability Analysis

In order to measure the internal consistency of a scale, Cronbach's alpha coefficient is used in this study. The alpha's value of above 0.7 indicates acceptable internal reliability (Pallant, 2010). In this study, all the constructs that are used have demonstrated excellent internal reliability, with Cronbach's alpha ranging from 0.834 to 0.884 (Table 12). This means that all items can be trusted. Cronbach's alpha value is an indication of the method's internal consistency, namely the degree of inter-correlation between one item with other items measuring the same variable. This further indicates that the higher the level of correlation between an item with another item in the construct of the variable. Variables that are mutually correlated with each other can be a factor (Pallant, 2010).

**Table 12:** Internal Reliability for the Constructs

Constructs	No. of Items	Cronbach's alpha
Economic Advantage	3	0.834
Compatibility	5	0.865
Social Desirability	4	0.836
Perceived Trust	5	0.884

### Factor Analysis

In this part of the factor analysis, the model will be analyzed. The exploratory factor analysis (EFA) is conducted in this study to identify the factors that significantly influence customers' intention to adopt Islamic banking products and services. Seventeen items are analyzed to identify the underlying structure of relationships among individual items. The Kaiser-Meyer-Olkin (KMO) measure of sampling adequacy is 0.953, greater than the recommended value of 0.6 as the minimum value for good factor analysis (Tabachnick & Fidell, 2001). The overall significance of the correlation matrix is 0.000, with the value of Bartlett's test of sphericity at 3462.717. A value of less than 0.0000 with Bartlett's test of sphericity indicates that the data

could be ideal for factor analysis (Table 13). The communalities are all above 0.3, further confirming that each item shares some common variance with other items. Given these overall indicators, factor analysis is deemed to be suitable for all 17 items.

**Table 13: KMO and Bartlett's Test**

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.953
Bartlett's Test of Sphericity	Approx. Chi-Square	3462.717
	df	253
	Sig.	.000

Principal Component Analysis (PCA) is used to identify and compute composite scores for constructs. Solutions for all these five factors are examined using the Varimax rotation of the factor loading matrix. Furthermore, using the screen test criterion, five factors are suggested for retention. All expected factors emerged fairly “cleanly”, and cross-loaded items are removed, while only items with factor loadings greater than 0.5 are included in the analysis.

Table 14 presents the four-factored solution, together with factor loadings for each item, the percentage of variance explained and internal reliability, which is measured by Cronbach's alpha. The four interpretable factors explain 56.8%, 4.3%, 3.5%, 4.53%, and 3.1% of the variance respectively. Overall, these factors explain 71.1% of the total variance, which is satisfactory as it is higher than the common consideration percentage of variance explained at 60% or less in the social science disciplines (Hair et al., 2010).

**Table 14: Rotated Component Matrix for Four Dimensions**

Item/Factor	Factor Loading			
	F1	F2	F3	F4
<b>Factor 1: Perceived Trust (56.8% variance)</b>				
If there is an Islamic financial service in mainland China, I will choose it.	0.627			
Religious identity among Muslims can guarantee a fixed customer base for Islamic finance.	0.614			
I think the introduction of Islamic finance has more advantages than disadvantages.	0.566			
I believe that the Islamic finance system deals with clients in a fairway.	0.560			
I believe that the Islamic banking products and services offered by banks comply with Shariah because each bank has its own Shariah supervisory council.	0.759			
<b>Factor 2: Compatibility (4.3% variance)</b>				
Compliance with Islamic principles is very important for me.		0.538		
My past familiarity with conventional banking allows me to participate in Islamic banking.		0.617		
I would rather earn a lower but Halal return than earn higher but non-halal interest.		0.714		
Islamic banking would fit well with the way I lead myself.		0.598		
<b>Factor 3: Economic Advantage (3.5% variance)</b>				
Islamic banking eliminates the interest element.			0.642	
Using Islamic banking meets my financial needs better.			0.624	
Islamic banking is financially superior compared to conventional banking.			0.638	
<b>Factor 4: Social Desirability (3.1% variance)</b>				
I think that Muslim society would expect that I open an Islamic bank account whenever a local bank offers one.				0.726
My friends would prefer me to obtain financing which is subjected to Islamic principles.				0.536
I think that the Muslim society would expect that I should only fulfil my financial needs in accordance with Islamic principles.				0.526

The four-factored solution demonstrates acceptable factor loadings on all factors. Factor 1 consisted of five items with factor loadings ranging from 0.560 to 0.759. This factor is labeled as “perceived trust”, which is related to the Islamic banking institutions being perceived as trustworthy, safe, and expected to serve their clients in a fairway. Factor 2 is made up of four items with factor loadings from 0.538 to 0.714 and is labeled as “compatibility”. The items included in this factor are related to the configuration of customers’ banking preferences with customers’ existing habits, needs and styles. Factor 3 consists of three items with factor loadings from 0.624 to 0.642 and is labeled as “economic advantage”. In brief, factor 3 is related to the ability of the Islamic banking product to better compete when compared against the conventional product and the customers’ perspective while observing the benefits and outcomes of using Islamic banking products and services. Finally, factor four (with three items included) is related to the influence of family members, friends, and Muslim society towards the adoption of Islamic banking. This factor is named “social desirability”, with factor loadings from 0.526 to 0.726.

Factor analysis has divided 17 items in the questionnaire into five factors or constructs that influence customers in China to use Islamic financial products and services. The first factor is perceived trust. Yannopoulou et al. (2011) claim that belief is subjective and difficult to evaluate because it is based on one’s beliefs rather than actual facts. Customers of Islamic banks think that Islamic banking is based on Shariah principles and acts ethically (Ashraf et al., 2015; Asadullah, 2016). The second factor is compatibility, which relates to how well the perception of the innovation aligns with previous experience, cultural values, and individual requirements (Rogers, 2003). Numerous studies have found the importance of compatibility factors in influencing the use of Islamic financial products such as Latip et al. (2017); Aziz et al. (2015) and Echchabi et al. (2021). The third factor is economic advantage, which refers to the advantages of using Islamic financial products. Ali and Puah (2017) found that economic advantages influenced the acceptance of Islamic banking in Pakistan. They also agreed with Yusof (1999) who believed that relative advantage was among the main drivers that led customers to use Islamic finance. The fourth factor is social desirability which refers to the influence of individuals around clients such as family and friends. Erol and El-Bdour (1989) discovered that the formation power of families and neighbors had a considerable influence on individuals’ understanding of Islamic banks and their technology. According to Metawa and Almossawi (1998), individuals’ choice of Islamic banking is impacted not only by faith, profit, and bank location but also by family and friends.

## **CONCLUSION**

Over the past 30 years since reform and opening up, China’s foreign trade and economic cooperation have always been in an important position. With the continuous rise of the RMB exchange rate and the increasing labor costs in recent years, China’s foreign trade has gradually lost its advantage. China urgently needs to explore new international trade markets, find new international trade partners and reinvigorate its foreign trade. Economic and trade contacts between China and the Islamic countries represented by the Arab region have been recorded in history since the Han dynasty. In addition to the recent development strategy of “One Belt One Road”, most countries along the routes are Islamic countries. China should seize this opportunity to develop Islamic finance.

China’s Muslim population is relatively concentrated, with 75% of them in the northwest. Due to the constraints of history, geographical location, natural environment, and other factors, its economic development is relatively behind the central and eastern regions. The degree of financial development is still to be improved. It can also be seen from the questionnaire survey that the most ideal region for the people to develop Islamic finance is the northwest region. The cultural advantages of this region and the development strategy of “western development” can stimulate the regional economy of ethnic minorities, narrow the economic differences between

ethnic groups, and promote ethnic unity.

The regulatory modes of Islamic finance vary from country to country. It can be seen from the questionnaire that people generally believe that the introduction of Islamic finance will bring great challenges to China's financial regulation. In the absence of a legal system for Islamic finance, the development of an appropriate Islamic financial regulatory system is bound to be a major challenge. Besides, China is short of Islamic finance talents, and the late start of Islamic finance will be a major challenge for the development of Islamic finance in China.

The development of Islamic finance has a history of more than half a century. Due to the influence of different cultures, environments, and histories, the development of Islamic finance varies from country to country. Although China has lost the first opportunity for development, it can learn from the experience of other countries and take a path with the least risk and the highest efficiency. Malaysia has a national population of 27 million, with Muslims accounting for about 60%. As the world's largest issuing center of Islamic bonds, Malaysia issues 2/3 of the Islamic bonds in the world every year and thus attracts international investment in Islamic finance to develop itself. Undoubtedly, Malaysia is one of the most successful countries in the development of Islamic finance in the world today. Meanwhile, the majority of Chinese Muslims live in Ning Xia, Gan Su, Qing hai, and Xin Jiang in the northwest, with a population of about 30 million. The Muslim communities in northwest China provide a broad market for the development of Islamic financial products.

The development of Islamic finance is conducive to the improvement of China's financial system and the promotion of sound development of the financial industry. To 1) strengthen economic and trade cooperation with the Islamic world, 2) enhance the ability to attract investment, 3) promote the economic development of ethnic minority areas, and 4) maintain ethnic unity and harmony. Additionally, China has the capability and infrastructure to develop Islamic finance. China's political stability, rapid economic development, rich resources, a vast market, and the value of the yuan rising create good conditions for Islamic finance investment. Although the development of Islamic finance in China also has disadvantages, such as a late start, imperfect supervision system, and lack of expertise. With meticulous planning, the influence of these constraints will be gradually eliminated or weakened.

The further development of Islamic finance in China cannot be separated from the government's support, talent cultivation, product innovation, and coordination with the traditional financial system. For the healthy, stable, and sustainable development of Islamic finance in China, the establishment of a standardized Islamic financial supervision system under the active guidance and support of the government is a guarantee. Sticking to the strategy of "going out and bringing in" to train compound Islamic finance professionals is the key; it is an inexhaustible driving force to enhance the innovative research and development capacity and management level of Islamic financial institutions. It is necessary to coordinate and complement traditional finance to realize common development.

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