

**VIABILITY OF ISLAMIC PROJECT FINANCING FOR  
THE BELT AND ROAD INITIATIVE**

**BY**

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## ABSTRACT

Infrastructure development provides impetus for economic growth; however, it requires huge funding, yet tend to generate long-term and lower revenues. Significant financial allocations for infrastructure development projects under the Belt and Road Initiative (BRI, Silk Road Economic Belt and the 21st Century Maritime Silk Road), introduced by China in 2013, is gathering substantial momentum and making positive economic impact for 70 participating host countries including 27 Muslim-majority countries. They are expected, through their proactive involvement, to gain substantial economic benefits. Moreover, the participating Muslim countries are mostly having lower levels of local economic and infrastructure development. Although China is willing to invest, it is evident that China alone is not able to finance all the projects; and hence, the participation of host Muslim countries is inevitable. Despite having many BRI projects in Muslim-majority countries and the existing funding gap for cross-border project financing, the role of Islamic finance (IF) is virtually non-existent. This is the underlying issue to be analysed and expanded in this study. There are some issues and challenges hinder BRI's potential to prosper. The most important one is the huge funding gap. Meanwhile, IF is showing rapid growth worldwide. Despite this growth of IF and the increasing financing needs of BRI projects, the role IF plays in BRI project financing is still inexistent. The theoretical proposition of IF proclaims that after removing the Shari'ah prohibitions (*riba*, *may'sir*, *gharar*) from conventional financial practices, savings and investments by Muslims at aggregate level could be boosted, as hypothesized by many Muslim economists. Therefore, this thesis presents how Islamic Project Financing (IPF) can better facilitate BRI projects in Muslim countries, especially Pakistan and Malaysia. Qualitative semi-structured open-ended in-depth personal expert interviews are conducted on a 'one-on-one' basis as research methodology to gather valuable insights provided by six experts from Greater China, Malaysia, and Pakistan to analyse how IF can help to address some of the issues and challenges of BRI whilst providing it with new growth avenues. Moreover, a "content analysis" approach has been employed to analyse gathered data. The results indicated that Hong Kong's ready IF regulatory and legal framework, together with the recent internationalization of the Chinese Renminbi (RMB) offer possibilities of issuing Offshore-RMB (CNH) denominated *Istisna'*-*Ijarah* Sukuk in Hong Kong/Kuala Lumpur to facilitate BRI project financing and partially fulfil the financing gap of BRI projects. In addition, it is suggested that China should further relax its capital controls and provide better regulatory and tax frameworks for the adoption of IPF for BRI; Malaysia should avoid flip-flopping in government policies for BRI projects; and Pakistan should convince China to allocate certain percentage of IPF for the China-Pakistan Economic Corridor (CPEC) projects. This study adds to the existing literature on Islamic banking and finance by proposing a viable structure for Sukuk issuance based on *Istisna'* and *Ijarah*. This structure is expected to fill not only the financing needs of Muslim countries in BRI, but also help Chinese infrastructure development firms to cater for the issues of Chinese capital controls and divergence between CNY and CNH.

## ملخص البحث

يوفر تطوير البنية التحتية قوة دافعة للنمو الاقتصادي؛ ومع ذلك، فإنه يتطلب تمويلًا ضخماً، ولكنها تميل إلى توليد إيرادات طويلة الأجل وأقله. المخصصات المالية الضخمة لمشاريع تطوير البنية التحتية في إطار مبادرة الحزام والطريق (BRI)، الحزام الاقتصادي لطريق الحرير وطريق الحرير البحري للقرن الحادي والعشرين، التي قدمتها الصين في عام ٢٠١٣، تكتسب زخماً مادياً وتحديث تأثيراً اقتصادياً إيجابياً لـ ٧٠ دولة مضيفة مشاركة بما في ذلك ٢٧ دولة ذات أغلبية مسلمة. ومن المتوقع أنها تكسب فوائد اقتصادية كبيرة من خلال مشاركتها الاستباقية. بالإضافة إلى ذلك، فإن معظم الدول الإسلامية المشاركة لديها مستويات منخفضة من الاقتصاد المحلي وتطوير البنية التحتية. على الرغم من أن الصين مستعدة للاستثمار، فمن الواضح أن الصين وحدها غير قادرة على تمويل جميع مشاريعها؛ وبالتالي، فإن مشاركة الدول الإسلامية المضيفة أمر لا مفر عنه. على الرغم من وجود العديد من مشاريع BRI في البلدان ذات الأغلبية المسلمة وفجوة التمويل الحالية لتمويل المشاريع عبر الحدود، فإن دور التمويل الإسلامي غير موجود عملياً. هذه هي القضية الأساسية التي سيتم تحليلها في هذه الدراسة وتوسيعها في الأطروحة الحالية. إن هناك بعض القضايا والتحديات يمنع BRI من الازدهار المحتمل. وتتمثل أهم هذه التحديات في فجوة التمويل الضخيم. من خلال ذلك، يشهد التمويل الإسلامي في جميع أنحاء العالم نمواً سريعاً. على الرغم من نمو التمويل الإسلامي والاحتياجات التمويلية المتزايدة لمشاريع البنية التحتية عبر الحدود لـ BRI، فإن الدور الذي يلعبه التمويل الإسلامي في تمويل مشاريع BRI لا يزال غير موجود. يدعي الاقتراح النظري للتمويل الإسلامي أنه بعد إزالة المحظورات الشرعية (الربا، والميسر، والغرر) من الممارسات المالية التقليدية، يمكن رفع المدخرات والاستثمارات من قبل المسلمين على المستوى الكلي، كما افترض العديد من الاقتصاديين

المسلمين. لذلك، تقدم هذه الأطروحة كيف يمكن لتمويل المشاريع الإسلامية (IPF) أن يسهل بشكل أفضل مشاريع BRI في الدول الإسلامية وخاصة باكستان وماليزيا. تُجرى المقابلات الشخصية المتعمقة شبه المنظمة والمفتوحة النوعية على أساس "واحد لواحد" كمنهجية بحثية لجمع رؤى قيمة مقدمة من ستة خبراء من الصين الكبرى وماليزيا وباكستان لتحليل كيف يمكن للتمويل الإسلامي أن يساعد لمعالجة بعض القضايا والتحديات التي تواجه BRI مع تزويدها بسبل نمو جديدة. بالإضافة، تم استخدام منهج "تحليل المحتوى" لتحليل البيانات التي تم جمعها. أشارت النتائج إلى أن الإطار القانوني والتنظيمي للتمويل الإسلامي الجاهز في هونغ كونغ جنبًا إلى جنب مع التدويل الأخير للرميني الصيني (RMB) يوفران إمكانيات لإصدار الاستصناع- صكوك الإجارة في هونغ كونغ / كوالالمبور لتسهيل تمويل مشاريع BRI وسد فجوة تمويل مشاريع BRI جزئيًا. بالإضافة إلى ذلك، يُقترح أن على الصين تخفف ضوابطها على رأس المال وتوفر أطر تنظيمية وضريبية أفضل لاعتماد IPF لمبادرة BRI؛ يجب على ماليزيا تجنب التقلبات في السياسات الحكومية لمشاريع مبادرة BRI؛ ويجب على باكستان إقناع الصين بتخصيص نسبة معينة من IPF للمشروعات الممر الاقتصادي الصيني الباكستاني (CPEC) تضيف هذه الدراسة إلى الدراسات الموجودة حول الصيرفة والتمويل الإسلامي من خلال اقتراح هيكل قابل للتطبيق لإصدار الصكوك بناءً على عقدين بارزين متوافقين مع الشريعة (أي الاستصناع ثم الإجارة). من المتوقع أن يفي هذا الهيكل ليس فقط بالاحتياجات التمويلية ل الدول الإسلامية في BRI ولكن أيضًا يساعد شركات تطوير البنية التحتية الصينية على التعامل بكفاءة مع قضايا ضوابط رأس المال الصيني والاختلاف بين الرميني المحلي (CNY) والرميني الدولي (CNH).

## APPROVAL PAGE

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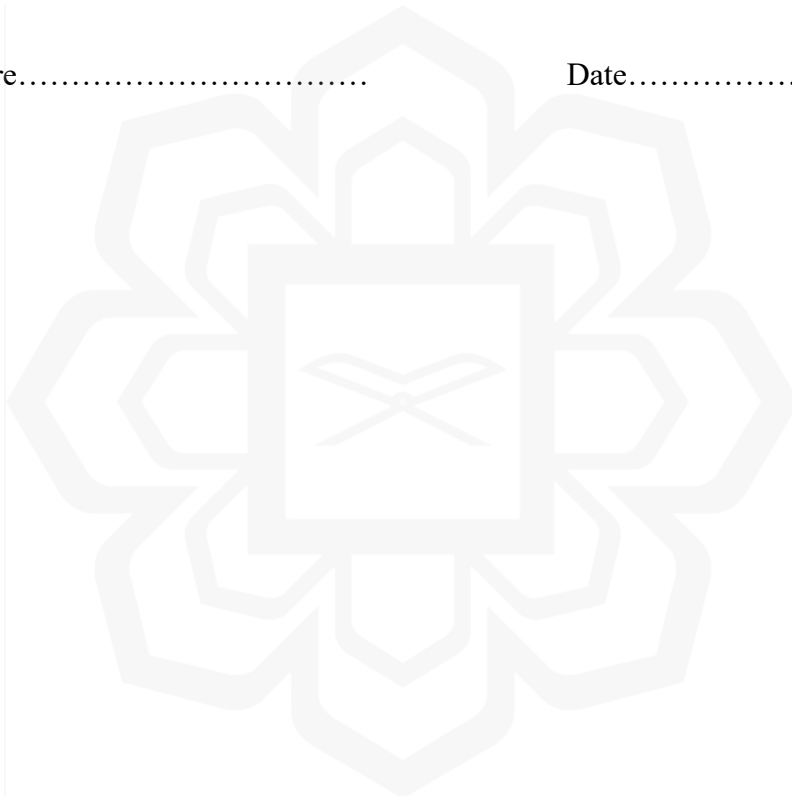
## DECLARATION

I hereby declare that this thesis is the result of my own investigations, except where otherwise stated. I also declare that it has not been previously or concurrently submitted as a whole for any other degrees at IIUM or other institutions.

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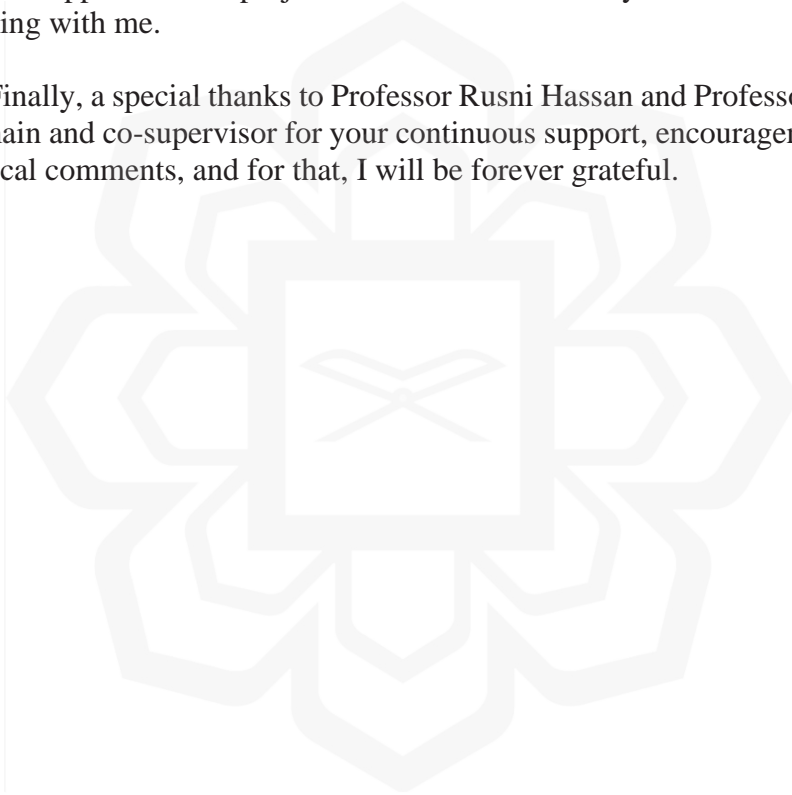
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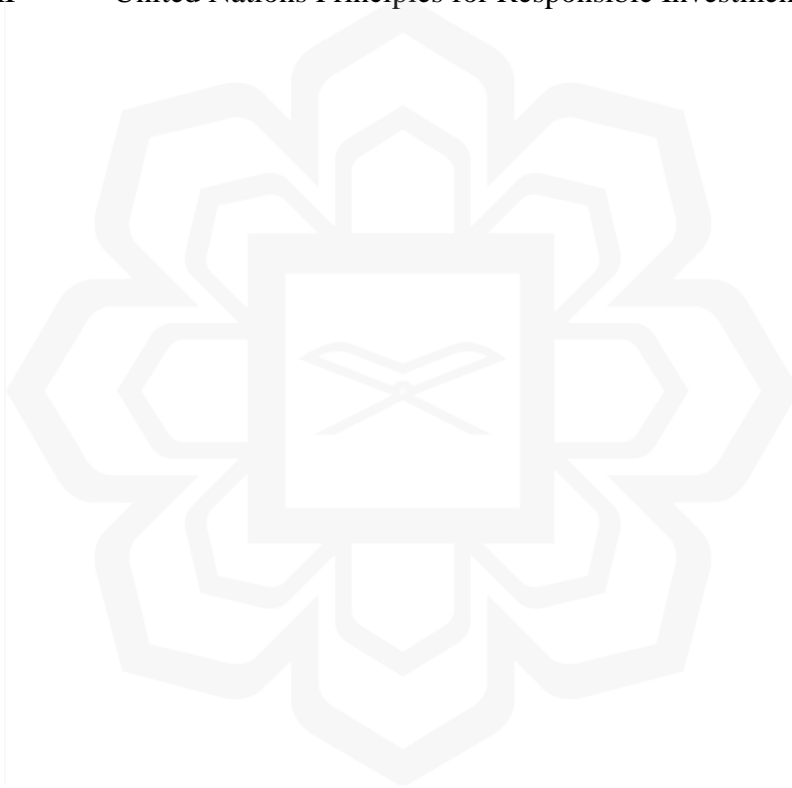
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## LIST OF ABBREVIATIONS

AAOIFI	Accounting and Auditing Organization for Islamic Financial Institutions
ABS	Asset Backed Securities
ADB	Asian Development Bank
AIIB	Asia Infrastructure Investment Bank
ASEAN	Association of Southeast Asian Nations
BCIM-EC	Bangladesh-China-India- Myanmar Economic Corridor
BIS	Bank for International Settlements
BNM	Bank Negara Malaysia
BOT	Build-Operate-Transfer
BRNN	Belt and Road News Network
CIPEC	China–Indochina Peninsula Economic Corridor
CIS	Commonwealth of Independent States
CMREC	China-Mongolia-Russia Economic Corridor
CNH	Offshore-RMB
CNY	Onshore-RMB
CPEC	China Pakistan Economic Corridor
DIFC	Dubai International Financial Centre
ECRL	East Coast Rail Link
ESG	Environmental, Social, and Governance
EXIM Bank	Export Import Bank
EU	European Union
FDI	Foreign Direct Investment
FOREX	Foreign Exchange
G2G	Government to Government
GCC	Gulf Cooperation Countries
GDP	Gross Domestic Product
GFC	Global Financial Crisis
GIFR	Global Islamic Finance Report
HKMA	Hong Kong Monetary Authority
ICBC	Industrial and Commercial Bank of China
ICD	Islamic Corporation for the Development of Private Sector
IDB	Islamic Development Bank
IFIs	Islamic Financial Institutions
IFSB	Islamic Financial Services Board
IPF	Islamic Project Financing
IPO	Initial Public Offer
MARC	Malaysian Rating Corporation Berhad
MENA	Middle East and North Africa
NELR	New Eurasian Land Bridge
NPL	Non-Performing Loan
OECD	Organization for Economic Co-operation and Development
OIC	Organization of Islamic Cooperation
PBUH	Peace Be Upon Him
PE	Private Equity

PF2	Private Finance 2
PFI	Private Finance Initiative
PPP	Public Private Partnership
PRC	People Republic of China
RAM	Ratings Agency Malaysia
REIT	Real Estate Investment Trust
RMB	Renminbi
SC	Securities Commission (Malaysia)
SAC	Shari'ah Advisory Council
SBP	State Bank of Pakistan
SPV	Special Purpose Vehicle
SRF	Silk Road Fund
SRI	Socially Responsible Investing
SWIFT	Society for Worldwide Interbank Financial Telecommunication
UN-PRI	United Nations Principles for Responsible Investment



# CHAPTER ONE

## INTRODUCTION

### 1.1 INTRODUCTION

The BRI (Belt and Road Initiative) or OBOR (One Belt One Road) is an infrastructure development project initiated by the Chinese government in 2013 involving almost 70 nations from Central Asia, Southeast Asia, the Middle East, South Asia, Africa and Europe (Kuo & Kommenda, 2018; Wang et al., 2020). According to economic theories, transportation infrastructure positively affects GDP. This implies that the Chinese government and participating BRI countries should collaborate to magnify and improve their transportation infrastructure, especially railway systems (Yii et al., 2018). However, on the contrary, there is a huge funding gap in financing BRI cross-border infrastructure projects (Chen et al., 2018), and according to the Asian Development Bank Report, the investment gap for BRI projects is expected to rise to 730 billion USD per year (Eder, 2018). Among the 70 participating BRI nations, 25 are Muslim-majority countries, however, the role of Islamic modes of financing in funding BRI cross-border infrastructure projects is virtually absent, even in Muslim nations and leading countries in Islamic finance such as Malaysia and Pakistan (Makhdoomi, 2017; Selmier, 2018). This chapter aims to provide the background of the current study by developing a link between BRI cross-border infrastructure project financing, economic development in participating nations as a consequence of BRI, and filling the existing funding gap with Islamic modes of financing. The underlying issue has been further elaborated in the problem statement. Based on these discussions, proper research objectives, and consequently, the corresponding research questions, have been developed. This section also explains how these questions will be answered and objectives will be achieved by determining the methodology adopted for analysis in this dissertation. Moreover, the scope and limitation of the dissertation are also expounded. How this study could benefit different stakeholders such as investors, banking institutions, policy makers and governments, has also been discussed in this chapter.



## 1.2 BACKGROUND OF THE STUDY

Belt and Road Initiative (BRI), Silk Road Economic Belt and the 21st-Century Maritime Silk Road was proposed by China's President Xi Jinping in 2013 (Constantinescu et al., 2018; Djankov, 2016). The BRI aims to build a trade and infrastructure network connecting Asia with Europe and Africa along the ancient Silk Road trade routes (Gracia et al., 2016; Ruta et al., 2016). According to the People's Bank of China, as of May 2019, China and Chinese financial institutions had so far invested/financed more than 440 billion USD in the BRI projects. The initiative has achieved a significant number of early harvest results and won support from more than 100 countries and international organizations, with nearly 50 cooperation agreements signed between governments (Brown et al., 2007). China's trade volume with the Belt and Road countries reached 6.3 trillion yuan (917 billion USD) in 2016, up 0.6 percent from 2015, according to the Ministry of Commerce of PRC (People's Republic of China) (De Soyres, 2018, 2019). Dozens of Economic and trade cooperation zones were established along the routes with billions of USD investments, generated over 1 billion USD in tax revenue, and more than tens of thousands of jobs in those BRI countries. In the spirit of regional connectivity, China is working in aviation, power, rail, road, and telecommunications projects with participating countries. The initiative has not only boosted trade and investment between China and economies along the routes but offered a solution to global economic difficulties (Dunford, 2019; Ferdinand, 2016; Hutzler, 2015).

The Silk Road or Silk Route was an ancient network of trade routes connecting East and West, stretching from the Korean peninsula and Japan to the Mediterranean Sea. Although the term (i.e., Belt and Road / BRI / OBOR "One Belt One Road") is new, the Silk Route derives its name from the lucrative trade in silk (spices and horses) carried out along its length, beginning during the Han dynasty (207 BCE – 220 BCE) (Constantinescu et al., 2018; ACCA, 2017). The Han dynasty expanded Central Asian sections of the trade routes around 114 BCE, mostly through missions and explorations of the Chinese imperial envoy, Zhang Qian. The Chinese took great interest in the safety of their trade products and extended the Great Wall of China to protect the route. Trade on the Silk Route played a significant role in the development of the civilizations of China, the Goguryeo Kingdom (Korea), Japan, the Subcontinent, Persia, Europe, the

Horn of Africa, and Arabia, opening long-distance political and economic relations between the civilizations (Sagi and Engelberth, 2018). Though silk was certainly the major trade item exported from China, many other goods were traded, such as beliefs, syncretic philosophies, and various technologies. Diseases, most notably plague, also spread along the route. In addition to economic trade, the Silk Route was also a route for cultural exchange among the civilizations. The leading traders during antiquity included the Chinese, Arabs, Turkmens, Indians, Persians, Somalis, Greeks, Syrians, Romans, Georgians, Armenians, Bactrians, and (from the 5th to the 8th century) the Sogdians (Hahm and Raihan, 2018; Kamel et al., 2018; Kuo and Kommenda, 2022).

After the inception of BRI in 2013, a tremendous potential for trade growth has been anticipated for China. China's total value of trade with countries along the Belt and Road Initiative routes reached around 953.59 billion USD in 2016, accounting for 25.7 percent of the country's total foreign trade volume, according to a Big Data report released in China. The report shows that China's exports to countries along the routes have maintained growth momentum since 2011, hitting a value of 587.48 billion USD in 2016, the highest in recent years. The report also reveals that Southeast Asia is China's largest export destination and the largest source of imports. Malaysia remains to be one of China's largest trading partners along the routes (ACCA, 2017).

On the other hand, Islamic finance (IF) has experienced vigorous growth in the last three decades. Its expansion is remarkable considering the market capitalization, growth of IF institutions, and the variety of IF products (Aziz, 2019). The Islamic banking industry generated strong growth with CAGR of 20.4% during 2007- 2012, the period where conventional finance market was affected by Global Financial Crisis (GFC) 2007-2009 (Hussain and Turk, 2016; Iqbal, 2017). This resilience reveals that Islamic finance is more systemically stable by nature as compared to conventional finance (Chapra, 2009). Although the development was mainly contributed by Muslim-majority countries like Malaysia, Pakistan, Indonesia, Saudi Arabia, UAE etc., Islamic finance drew attention from Muslim-minority western and Asian countries such as UK, Singapore, Japan, Luxemburg, Germany, South Africa, Greater China etc. to establish appropriate Islamic finance infrastructure to facilitate Islamic capital flow and investment in infrastructure and industrial development (Sekoni, 2015; Kammer et al., 2015). Among 70 participating countries in BRI, 27 countries (13 Core-BRI, and 14

non-Core BRI) are Muslim countries; however, the share of Islamic finance in BRI cross-border project financing is still negligible (IFF, 2017; Chu and Muneeza, 2019).

### **1.3 STATEMENT OF THE PROBLEM**

China proposed the BRI to improve regional connectivity as a Eurasia continent-wide measure. BRI is expected by many to facilitate a paradigm shift for the global economic development and stimulate economic globalization, especially for the countries along the routes. Moreover, scholars also opined that the internationalization of the RMB can play a crucial role in BRI. The initiative is expected to deliver a 'win-win platform' for China and all member countries along its routes. Almost 70 Eurasian countries are involved in the initiatives, where 27 are Muslim countries. Furthermore, 13 (out of 27) are categorized as core-BRI countries. Core BRI countries are likely to enjoy higher positive economic impact of the said initiative (De Soyres et al., 2018). However, gaps in terms of policy and infrastructure in BRI countries may hinder trade flows and foreign direct investment (FDI) (Joao, 2017). New infrastructures may help address these issues; however, they are costly. It is expected that BRI infrastructure may increase trade flows and reduce trade costs, but the huge funds required for new infrastructure could outweigh the anticipated benefits for some countries (De Soyres et al., 2019). Along with these strengths and weaknesses, BRI needs to consider environmental, operational, social, governance, and debt sustainability issues as well. Therefore, the positive economic benefit for all countries in the long run is almost obvious; however, the required funding gap, among others, is a crucial issue and hindrance to its potential (Dunford, 2019).

Long-term financing, mainly from China, will be the main source of project financing of BRI projects at the initial stage. It is challenging to fulfil this demand funded by foreign currencies alone (Dollar and Euro, etc.) (Sagi and Engelberth, 2018). According to the Asian Development Bank report, in the next ten years, the investment gap for the BRI project is expected to rise to 730 billion USD per year. Moreover, BRI database MERICS (Mercator Institute for China Studies) disclosed that China, in the last 5 years, has invested more than 90 billion USD in BRI infrastructure projects, excluding projects that are in the planning phase or under-construction (Eder, 2018).

However, the exponentially increasing financing needs for BRI projects and the hope of host countries for funds inflow from China to build infrastructure can create obstacles for future BRI progress. Moreover, the non-existence of any prior assets for many BRI cross-border projects diverts the funding method from on-balance sheet method to off-balance sheet method where the creditworthiness of creditor cannot be assessed by existing assets. For off-balance-sheet financing, the expected future cash flows are extremely important to mitigate default risk. This is because of the diversity in risk profile of the on-balance sheet and off-balance sheet financing methods. In an on-balance sheet financing, the creditor may easily access the financial health of potential debtor by looking at the assets and liabilities appearing on the balance sheet. While on the other hand, in an off-balance sheet method, the financed project doesn't appear on the balance sheet; and hence, a creditor could guess the probability of repayment only by future cash flows generated by the debtor (Esty, 2004b). Meanwhile, the market for Sukuk (Islamic debt/equity instruments for fundraising) is expanding over time. These Sukuk are issued based on real assets where an issuer is obliged to work and generate cash flows which can be utilized for coupon (non-interest profit or rentals) payments. Therefore, the probability of expected cash flows (i.e., the likelihood of cash generation by the underlying asset of Sukuk) increases in Sukuk financing as compared to debt (bond) financing, and hence, this increased probability makes Sukuk feasible for cross-border project financing (Lu, 2014). This is because, in project financing, the creditworthiness of the debtor is not accessible through its balance sheet position, but through the probability of generation of future cash flows. In this regard, Sukuk (as an Islamic project financing instrument) may fulfil the financing needs of BRI projects, especially in countries like Malaysia and Pakistan, where the IF industry is systemically significant (Bo et al., 2016).

Despite the current and expected funding gaps, along with the participation of 27 Muslim countries in BRI, the share of Islamic finance in BRI is negligible. For instance, there were 16 proposed mega-projects under China Pakistan Economic Corridor (CPEC) which is a pilot of BRI, yet IF is not significant here despite the fast-growing IF industry in Pakistan (Makhdoomi, 2017). Islamic finance is offering both debt and equity-based instruments to meet the demands of a diversified range of customers. Its relevance in these Muslim countries and the cross-border projects involving China justifies the introduction of Islamic finance for these projects. This will

also help address some of the issues and enhance economic development for all countries along the routes, especially China and major Muslim countries like Malaysia and Pakistan (Norfani et al., 2017). Furthermore, what can be done to facilitate the adoption of Islamic Project Financing (IPF) in BRI? This thesis attempts to identify the current issues and challenges, as well as recommend some IPF instruments and suggest how Shari'ah-compliant financing tools can help to finance cross-border BRI projects in Malaysia and Pakistan, and to fill current and projected future investments gaps and improve the sustainability of the projects.

#### **1.4 RESEARCH OBJECTIVES**

The aim of this thesis is to identify the issues pertaining to the adoption of Islamic project financing in BRI cross border projects and propose some viable structures of Islamic project financing for these projects. Therefore, this study serves the following specific objectives:

1. To elaborate the significance of BRI for the participating countries.
2. To analyze current issues and challenges facing the BRI.
3. To undertake a critical assessment of the suitability of Islamic finance instruments for BRI in addressing the issues and challenges.
4. To assess and propose suitable Islamic finance instruments (Sukuk structure) to better facilitate BRI cross-border projects in Pakistan and Malaysia.

#### **1.5 RESEARCH QUESTIONS**

Based on research objectives above, the following research questions are proposed:

1. What is the economic significance of the BRI for China as well as other participating countries?
2. What are the current issues and challenges in the way of the BRI to prosper?
3. How suitable are Islamic financial products for BRI project financing? And why has Islamic finance not contributed much in BRI projects?

4. Which Sukuk Structure (either based on debt or equity financing) is most suited for BRI project financing in Pakistan and Malaysia?

## **1.6 SCOPE AND LIMITATIONS**

This study initially identifies the significance of BRI for China, Pakistan, and Malaysia in detail; and points out some economic implications for other core and non-core BRI members as well as globally. Almost 69 countries (excluding Mainland China) are expected to benefit from the BRI, where 25 are expected to gain more economic advantage. Out of these 25 core-BRI countries, 13 are Muslim countries (De Soyres et al., 2019; Baniya et al., 2019). Malaysia and Pakistan are eminent emerging IF markets and both countries have potentially growing Islamic banking system, duly supported, and regulated by Bank Negara Malaysia (BNM) and State Bank of Pakistan (SBP). Moreover, both countries are active and core members of the BRI. It is anticipated that 46 billion USD will be invested in China Pakistan Economic Corridor (CPEC) under BRI. Meanwhile, an investment of 96 billion USD is also projected for BRI projects in Malaysia (Liu and Lim, 2019; Irshad, 2015). These investments require financing resources from Pakistan, Malaysia, and China as well as other countries because China may not be able to finance these projects alone, and China is not the sole beneficiary. The use of IF based on the Shari'ah in financing these projects has a strong potential to attract new resources and liquidity from Muslim majority countries like Pakistan, Malaysia, and the Middle East, as these countries and regions have a considerable share of IF in their domestic banking systems and capital markets (Chu and Muneeza, 2019).

Although the scope of this thesis includes BRI and Islamic project financing, it is limited to Pakistan and Malaysia. These two are core BRI countries; both have significant domestic Islamic capital markets and enjoy close economic ties with China with multiple ongoing BRI projects (Hong and Guan, 2019; Renoylds et al., 2018). This study also attempts to introduce a CNH denominated offshore-RMB Sukuk because: firstly, it is difficult for Islamic finance to grow in Mainland China for several reasons such as, (a): reluctance of Chinese authorities to comply to the Shari'ah rulings of Islamic finance, (b): legal barriers to introducing Islamic financial practices, (c): existence of a tax system that is not meant for Islamic financial products at all, (d):

incomplete liberalization of Chinese financial markets, and (e): restrictions on free movement of capital in and out of mainland China (Sun, 2013). These issues will be discussed in detail in the next chapter. Secondly, Hong Kong has issued Sukuk previously. Hence, offshore-RMB CNH denominated Sukuk is well suited for Islamic cross border financing for BRI projects. A limited and very brief view of literature is captured in this study as the topic under discussion is new and lacks time-proven research. Likewise, few experts (the author managed to get two from Pakistan, two from Malaysia, and two from China/Hong Kong) were available for interviews with strong theoretical basis of Islamic finance as well as practical experience in structuring Islamic financial products and policy making. The old Silk routes had long-lasting influences on the values, principles, social life, and history, and sometimes, were also responsible for the spread of diseases. Thus, its revival (i.e., BRI) is arguably related to many religious, demographic, geopolitical, political, and economic issues. However, this study limits its scope only to the economic implications of BRI for China, Pakistan, and Malaysia (Kamel et al., 2018; Ferdinand, 2016). Furthermore, Islamic finance provides a diversified range of underlying contracts for Shari'ah-compliant financial products, however due to the long-term infrastructure nature of these BRI projects, this study will focus on debt/equity-based Istisna'-Ijarah Sukuk as a proposed method of Islamic project financing for BRI projects.

## **1.7 RESEARCH METHODOLOGY**

Qualitative research method like "semi-structured in-depth expert interviews" and "content analysis" are used to gather and analyze the responses collected from the perspective expert interviewees, for the recommendation purpose. Interviews with industrial leaders and policymakers and relevant bodies in major Muslim countries like Malaysia and Pakistan help gather recommended policy/regulatory changes and identify possible ways that Islamic finance can facilitate BRI cross-border project financing in Pakistan and Malaysia, from any of two sides of the project financing perspective, i.e., Debt (Sale contracts) financing and Equity (Musharakah / Mudharabah contracts). Data obtained from the interviews is analyzed through coding and interpretation for the purpose of policy/regulatory recommendations. The study used an inductive approach of scientific analysis and content analysis approach to analyze the

information gathered. Candidate subject-matter-expert interviewees from Pakistan, Malaysia, and China/Hong Kong are interviewed to share their Islamic finance development experience in terms of developing regulations and project financing solutions.

## **1.8 SIGNIFICANCE OF THE STUDY**

China is the largest consumer market in the world, with a population of 1.403 billion (2016), whilst maintaining the fastest growth rate in the world consumer market (Gracia et al., 2018). Historically, China and Muslim countries have long economic, trade, cultural and political connections. The history of this relationship can be traced back more than thousands of years ago. The interaction and cooperation between China and the major OIC countries like Malaysia, Pakistan, Indonesia, Turkey, Iran, Saudi Arabia, and Nigeria etc. have grown extensively, especially after 2009 with the internationalization of the RMB, and 2013 when the BRI was launched together with the Silk Road Fund and Asia Infrastructure Investment Bank (AIIB) (Reynolds et al., 2018; Selmier, 2018; & He, 2014). The potential for economic cooperation between China and Muslim countries have not been fully explored despite the BRI, where most of these countries are strategically located, as the two largest populated entities together accounted for almost half of the world population (the population of China and OIC is 1.4 and 1.6 billion respectively).

Take Malaysia as an example; the ties with China began with the visit of Admiral Cheng Ho from the Ming Dynasty to Malacca in the early 1400s AD (ACCA, 2017). This visit started an energetic, harmonious, and long-lasting connection between China and many other countries. In terms of economy and trade, the Silk Road was widely used by the traders in both regions. These connections can be revived vis-à-vis the BRI. This initiative aims to redirect the China's domestic surplus production capacity and capital for regional infrastructure development to improve trade and connectivity with ASEAN, Central Asian, MENA (the Middle East and North Africa region) and European countries. Anticipated cumulative investment over an indefinite timescale is estimated between 4 trillion USD to 8 trillion USD (Djankov, 2016; & Constentinescu, 2018). The BRI provides huge potential opportunities for Islamic