Print ISSN: 2288-4637 / Online ISSN 2288-4645
doi:10.13106/jafeb.2022.vol9.no3.0229

Reflections on the China-Malaysia Economic Partnership

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Received: November 30, 2021 Revised: February 06, 2022 Accepted: February 15, 2022

Abstract

The study aims to investigate whether *Musharakah* management has an impact on Chinese and Malaysian business partnerships. To estimate the relationship between Musharakah and the Sino-Malaysian partnership, this study uses a panel econometric technique namely pooled ordinary least squares. Ordinary Least Squares regression (OLS) is a common technique for estimating coefficients of linear regression equations which describe the relationship between one or more independent quantitative variables and a dependent variable. Data was retrieved from the annual reports (from 2009 to 2019) of non-financial firms listed on the stock exchange of China and Malaysia. Four partnership measures (i.e., *Musharakah*, *Mudarabah*, *Tawuruq,* and *Kafalah*) were used to estimate the impact of *Musharakah* on the Sino-Malaysian partnership. Empirical results reveal that *Musharakah* and *Mudarabah* are positively related to *Kafalah* but the relationship is statistically insignificant. Alternatively, *Musharakah* is positively and significantly related to *Mudarabah*. *Musharakah* and *Mudarabah* have a positive but insignificant relationship. The findings of this study suggest that management of partnership has a positive impact on firm partnership. Furthermore, it supports the hypothesis that improving partnership enhances *Musharakah*, which has a positive impact on the firm's partnership.

Keywords: Sino-Malaysian Relations, Economic Partnership, Islamic Economics, Finance

JEL Classification Code: F65, G2, G38

1. Introduction

The aim of this study is to examine the nature of the Islamic finance partnership between China and Malaysia. China and Malaysia have had long-standing trade associations dating back to the old Silk Road, and Malaysia has been China's most important trading partner (Ng et al.,1999). During the COVID-19 pandemic, the two countries expanded their cooperation to meet the mounting medical, humanitarian, and commercial requirements. China provides assistance to Malaysia on many fronts. Bilateral cooperation has continued during the pandemic and is expected to increase in the future. China and Malaysia have formed a strategic alliance in every sector where there are investment prospects. Many productive and important sectors are included in the Sino-Malaysian partnership to boost the business climate or gain a competitive edge within the country.

Malaysia is a key member of the Belt and Road Initiative, as well as a key country in China's trade opening to the Asia-Pacific region. Malaysia's participation in the BRI will have a positive impact on the two countries trade balance. According to Niskanen and Niskanen (2006), both countries are continually seeking methods to expand their economic cooperation. The Sino-Malaysian economic relationship has been going through a golden period for twelve years. In terms of *Mudarabah*, Malaysia provides labor while China provides capital to promote joint economic projects and opportunities. According to Olufisayo (2007), in *Musharakah*, both parties sign an agreement to deliver products, services, technology, and assets. *Musharakah* "means the relationship established under a contract by the mutual consent of the parties for sharing of profits and losses, arising from a joint enterprise or venture. Investments come from all partners/shareholders hereinafter referred to as partners."

There are many types of partnerships between China and Malaysia, differing according to their nature and form.

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According to Petersen and Rajan (1995), sometimes trade exchanges are in the form of *Shirkat-ul-Milk* and at other times it is *Shirkat-ul-Aqd*, but both aim to strengthen the partnership and increase productivity and profitability. Both Malaysia and China use restrictive and unrestrictive trading strategies to increase profitability, but these differ according to the type of product and the nature of the business. This has the greatest effect on their GCPs. According to Raheman and Nasr (2007), to be a globally competitive country in terms of trade, prospects for economic cooperation must be explored, as well as providing the workforce with the necessary knowledge, skills, and abilities, and the use of modern technology. All countries and investors face economic and financial risks, but some invest in risks that may turn into opportunities to manage the partnership efficiently and effectively.

According to Rajan and Zingals (1995), the economic collaboration between China and Malaysia is built on a win-win strategy, in which both parties share profits and losses. The terms and provisions for projects in different areas such as infrastructure, health, education, and development are agreed upon in advance because this collaboration is codified. The two countries' ongoing economic and financial cooperation and coordination strengthen and enhance their bilateral relationship. According to Shin and Soenen (1998) when a partner provides capital and the other provides labor it is a perfect application of *Musharakah*. In *Musharakah*, the partnership is codified in legal frameworks agreed upon by both parties to ensure that all business transactions are conducted smoothly and that the business is more efficient and effective.

Tawarruq is used to meet operational expenditure needs while maintaining efficient and effective business practices in terms of boosting profitability through the promotion of new and innovative technologies and the development of employee capabilities. According to Shin and Soenen (1998), China and Malaysia use the concept of *Kafalah* in their bilateral relationships, which ensures that both parties are conversant with the terms debtor and creditor from an Islamic perspective. Intensive *Mudarabah* investment increases the capital investment and has the potential to increase the profitability of the business. Most countries have good relations in terms of *Mudarabah* and *Musharakah* to increase opportunities for growth and increase economies of scale in investment.

Malaysia and China have established comprehensive strategic cooperation on all matters of mutual interest, as evidenced by the number of inter-trade transactions. This collaboration improves the quality of goods and services, allowing them to satisfy the market's expanding demands. China and Malaysia, according to Smith (1980), are working hard at all levels to promote cooperation to increase profits and establish joint ventures.

The strategic alliance between the two countries strengthens China's position in the Asia-Pacific region, and Malaysia is thus a significant contributor to China's rapid economic development. Every country in the world forms a partnership with other countries to gain a competitive advantage. China and Malaysia have a good relationship in terms of capital and labor, which helps to boost business profitability. *Musharakah* increases a business' capital and provides a significant source of capital generation, resulting in enhanced business growth and a significant influence on the money and capital markets.

2. Literature Review

2.1. Musharakah

According to Niskanen and Niskanen (2006), both countries are always looking for more business opportunities to enhance the volume of economic transactions. For more than a decade, China and Malaysia have been working to strengthen economic ties and enhance productivity and profitability. According to Shin and Soenen (1998) when countries cooperate in providing capital and labor, this is a kind of *Musharakah* and will certainly lead to economic benefit In *Musharakah*, the form of the partnership is agreed upon in advance and legal frameworks are established to organize and manage the partnership and the economic projects proposed by the parties. According to Olufisayo (2007), in *Musharakah*, both parties sign an agreement to deliver products, services, technology, and assets. *Musharkah* may raise funds for investments in various business sectors and can increase the number of partners to improve investment opportunities and thus raise business profitability in different fields. Both countries have signed a legal agreement and are committed to working together in areas related to infrastructure, health, education, and development (Molla et al., 2021). Permanent economic coordination is conducive to strengthening the bilateral partnership, which is reflected positively on the economic indicators. Some countries face obstacles in their economic partnerships, which may hinder opportunities for growth and investment, which leads them to reconsider managing the partnership with more efficiency and effectiveness.

According to Shin and Soenen (1998), the optimum use of *Musharakah* is when one partner contributes capital and the other contributes labor. In *Musharakah*, the partnership is codified in legal frameworks agreed upon by both parties to ensure that all business transactions are conducted smoothly and that the business is more efficient and effective.

2.2. Mudarabah

According to Rajan and Zingals (1995), the economic collaboration between China and Malaysia is built on a win-win strategy, in which both parties share profits and losses. The terms and provisions for projects in different areas such as infrastructure, health, education, and development are agreed upon in advance because this collaboration is codified. The two countries' ongoing economic and financial cooperation and coordination strengthen and enhance their bilateral relationship. *Mudarabah* is another type of investment that has a significant impact on the business thus generating revenue for countries. In *Mudarabah*, Malaysia provides labor and China provides capital to ensure that the two countries' economic opportunities are equal (Sheikh & Wang, 2011).

Mudarabah has a significant impact on the growth of the economy as well as on the size of business, resulting in improved business performance. It has an impact on a company's profitability, which can lead to increased capital and strengthen the partnership. It can improve investments giving the country a competitive advantage, which will be a significant source of new business. *Mudarabah's* large investment increases capital and is a great source for increasing business profitability (Rahmi et al., 2020).

2.3. Kafalah

There are many types of partnerships between China and Malaysia, differing according to their nature and form. According to Petersen and Rajan (1995), sometimes trade exchanges are in the form of *Shirkat-ul-Milk* and at other times it is *Shirkat-ul-Aqd*, but both aim to strengthen the partnership and increase productivity and profitability. *Shirkat-ul-Milk* means joint ownership of two or more persons in a particular property. This kind of "shirkah" may come into existence in two different ways: Sometimes it comes into operation at the option of the parties. For example, if two or more persons purchase equipment, it will be owned jointly by both of them, and the relationship between them with regard to that property is called "Shirkat-ul-milk." Here this relationship has come into existence at their own option, as they elected to purchase the equipment jointly. Shirkat-ul-'Aqd is the second type of Shirkah which means "a partnership effected by a mutual contract". For the purpose of brevity, it may also be translated as "joint commercial enterprise." Shirkat-ul-'aqd is further divided into three kinds: (i) Shirkat-ul-Amwal where all the partners invest some capital into a commercial enterprise. (ii) Shirkat-ul-A'mal where all the partners jointly undertake to render some services for their customers and the fee charged from them is distributed among them according to an agreed ratio. For example, if two persons agree to undertake services for their customers on the condition that the wages so earned will go to a joint pool which shall be distributed between them irrespective of the size of work each partner has done, this partnership will be a shirkat-ul-a'mal which is also called Shirkat-ut-taqabbul or Shirkat-us-sana'i' or Shirkat-ul-abdan. (iii) The third kind of Shirkat-ul-'aqd is Shirkat-ul-wujooh. Here the partners have no investment at all. All they do is that they purchase the commodities at a deferred price and sell them at the spot. The profit so earned is distributed between them at an agreed ratio.

Both Malaysia and China use restrictive and unrestrictive trading strategies to increase profitability, but these differ according to the type of product and the nature of the business. This has a significant impact on their gross corporate products (GCPs) (sales and all other revenues). According to Raheman and Nasr (2007), to be a globally competitive country in terms of trade, prospects for economic cooperation must be explored, as well as providing the workforce with the necessary knowledge, skills, and abilities, and the use of modern technology.

Kafalah has a significant impact on the market in terms of accelerating growth and improving financial performance, resulting in increased business and profitability. According to Shin and Soenen (1998), China and Malaysia use the concept of *Kafalah* which indicates that China respects the privacy of the Malaysian banking system and does not impose any banking rules on the partnership. Furthermore, China and Malaysia use the concept of *Kafalah* in their bilateral relationships, which ensures that both parties are conversant with the terms debtor and creditor from an Islamic perspective.

2.4. Tawaruq

Tawarruq is used to meet operational expenditure needs while maintaining efficient and effective business practices in terms of boosting profitability through the promotion of new and innovative technologies and the development of employee capabilities. Using *Tawarruq* both China Malaysia have a greater opportunity inside and outside the country to invest in different sectors and to achieve a competitive advantage in business, which improves business performance.

All countries have efficient control over land, labor, capital, and organization to compete in the global market to improve the performance of the business. All countries must focus on *Tawarruq* to achieve progress in the financial market; thus, *Tawrruq* will have a positive impact on the national economy.

3. Data and Research Methodology

3.1. Data

This study investigates the impact of *Musharakah* on firm partnership using the data of firms listed on the stock exchange of China and Malaysia. The data is retrieved from the annual reports of companies from 2009 to 2019. Every publicly traded firm in China and Malaysia is required to prepare its financial statements in compliance with established accounting standards. Approved accounting standards are the International Financial Reporting Standards (IFRS) issued by the International Accounting Standard Board (IASB) that have been notified under the 1984 business ordinance. After accounting for any missing data, the final sample consists of a balanced panel of firms across a ten-year period. The performance of cooperative economic projects is influenced by *Musharkah and Mudarabah* data.

3.2. Variables

Variables used in this study and their measurement are mostly based on available literature to provide a relevant comparison with earlier empirical studies based on research objectives. The study uses partnership metrics such as *Musharakah, Mudarabah, Tawuruq, and Kafalah* as a dependent variable. In addition, various control variables will be used in the model, such as the firm's size, age, and leverage, to control for firm-specific factors that may impact the relationship (Saad & Alshehri, 2021). Different variables, such as dependent, independent, and control variables, are used in this study to measure and examine the relationship between the variables. The relationship between the dependent and independent variables was used to determine if the variables had a positive or negative impact on each other, and the statistical impact of the variables was found. Control variables are used to assess the financial impact of dependent and independent variables that influence a country's economy.

3.3. Methodology

Panel data methodology is used in this study to sample contained data across enterprises and throughout time. The use of panel data greatly expands the sample size and is better suited to studying change dynamics. A panel econometric technique namely pooled ordinary least squares (OLS) will be used to estimate the relationship. Different variables are compared by using the ordinary least square method to determine the relationship among them. The results show the relationship between the variables.

4. Results and Discussion

Empirical results presented in Table 1 indicate that *Musharakah* and *Mudarabah* are positively related to the *Kafalah* but the relationship is statistically insignificant. Alternatively, *Musharakah* is positively and significantly related to the *Mudarabah*. As far as control variables are concerned firm size is positively related whereas leverage

Table 1: Results of Variables

Variables	***Musharakha***	***Mudarbah***	***Kafalah***	***Tawaruq***	***Musharakha***	***Mudarbah***	***Kafalah***	***Tawaruq***	***Musharakah***
Musharakha	1.00								
Mudarbah	0.72***	1.00							
Kafalah	0.05*	0.12*	1.00						
Tawaruq	−0.036*	-0.03*	−0.017*	1.00					
Musharakha	0.13**	0.11*	0.12*	−0.04*	1.00				
Mudarbah	0.20***	0.06*	0.15*	−0.08*	0.410***	1.00			
Kaflah	0.20***	0.03*	0.01*	−0.43***	0.00*	0.53***	1.00		
Tawaruq	−0.40***	−0.61***	0.11*	−0.07*	0.17***	0.12*	0.19***	1.00	
Musharakha	−0.08*	−0.07*	0.02*	0.08*	−0.0*	−0.06***	−0.18*	0.02*	1.00

is negatively related to the *Musharakah*. Firm age is also negatively related to *Musharakah* but the relationship is insignificant. All variables used in this study were estimated using regression to determine the positive and negative impact on each other, which will improve the performance of the variable and lead to a stronger business relationship.

Table 1 shows that the relationship between Musharakah and Mudarabah is positive, while the relationship between *Musharakah* and *Mudarabah* is insignificant; alternatively, Mudarabah is related significantly to Musharakah, although Kafalah is negative and the relationship with Musharakah is insignificant. As far as control variables are concerned firm size is positively and significantly connected to Musharakah, whereas leverage and firm age are negatively related to *Musharakah*. Leverage is significantly related to *Musharakah*, while firm age is insignificantly related.

Malaysia is China's strategic trading partner, according to Ng et al. (1999). During the COVID-19 pandemic, bilateral collaboration increased to meet critical health requirements while also ensuring the safety of the shared market economy. China has been a constant source of support to Malaysia. With its enormous market and strategic geographic location, Malaysia is a crucial country in the Belt and Road Initiative. According to Niskanen and Niskanen (2006) both China and Malaysia are always striving to generate new investment opportunities and profitable economic collaboration.

In terms of import and export, China was Malaysia's first trading partner in 2020, and the Malaysian economy will not be able to expand and grow without it. In terms of Mudarabah, Malaysia provides labor and China contributes capital to help both countries expand their business opportunities. According to Olufisayo (2007) in Musharakah, the parties enter into a joint agreement to regulate the provision of product, service, technology, assets, and liabilities.

Both Malaysia and China use restrictive and unrestrictive trading strategies to increase profitability, but these differ according to the type of product and the nature of the business. This has the greatest effect on their GCPs. According to Raheman and Nasr (2007) economic openness, creating more job opportunities, and introducing modern economic mechanisms are required to have a strong economy.

According to Rajan and Zingals (1995), the partnership between China and Malaysia is built on a win-win situation where both parties share profits as well as losses. These countries have signed a legal agreement and are committed to working together in areas related to infrastructure, health, education, and development. They jointly manage the business through an integrated partnership to enhance the structure and business of both countries as well. According to Shin and Soenen (1998), when one country provides capital and the other provides labor, *Musharakah* is enhanced, resulting in increased economic cooperation and trade exchanges. In Mudarabah, one country provides labor and the other country provides capital, whereas, in *Musharakah*, a codified agreement is reached to complete all business transactions and to have pre-agreed rules and regulations as well as operational terms and conditions to improve business efficiency and effectiveness.

5. Conclusion and Policy Implications

The study aims to investigate whether *Musharakah* management has an impact on Chinese and Malaysian business partnerships. To estimate the relationship between Musharakah and company partnership, this study uses a panel econometric technique namely pooled ordinary least squares. Data was retrieved from the annual reports of non-financial firms in China and Malaysia and listed on the Karachi Stock Exchange during 2007–2010. Four partnership measures (i.e., *Musharakah*, *Mudarabah*, *Tawuruq,* and *Kafalah*) were used to estimate the impact of *Musharakah* variables. Empirical results indicate that *Musharkah* is positively related to *Kafalah* and Tawaruq, whereas it is negatively related to *Mudarabah* but the relationship is insignificant. *Mudarabah* is significantly and positively related to *Musharakah* and *Kafalah*.

This finding indicates that the management of receivables has a positive impact on firm partnership. Moreover, it confirms the prediction that reduction in *Mudarabah* improves the accounts receivable turnover which in turn positively affects the firm's profitability. Although *Musharakah* is positively related to *Mudarabah* the relationship is insignificant. Kafalah is positively related to *Musharakah* and negatively related to *Mudarabah* but the relationship is insignificant. However, *Kafalah* is positively and significantly related to *Mudarabah*. This finding indicates that increasing the payment period increases the firm's ability to utilize creditors' money in their operation which in turn enhances the firm value. As far as control variables are concerned, a significant positive relationship is observed between firm size and *Musharakah* and *Kafalah*. Alternatively, firm size is negatively related to *Mudarabah* but the relationship is insignificant.

Malaysia is an important and strategic economic partner of China. The Sino-Malaysian partnership has been evident during the COVID-19 crisis. The Belt and Road Initiative is a strategic tool to strengthen and enhance the partnership between the two countries. Both countries are constantly exploring new opportunities for further economic cooperation. The bilateral partnership is rooted in the ancient Silk Road, and cooperation still exists today. In terms of *Mudarabah*, Malaysia provides the labor and China provides the capital to promote joint economic projects. *Musharakah* is a joint enterprise or partnership structure in Islamic finance in which partners share in the profits and losses of an enterprise. All parties involved contribute towards the financing of a venture. The parties share profits on a pre-agreed ratio while losses are shared according to each party's equity participation.

Both Malaysia and China use restrictive and unrestrictive trading strategies to increase profitability, but these differ according to the type of product and the nature of the business. This has the greatest effect on their GCPs. Some economists believe that to have a robust economy, countries must generate job opportunities, establish new economic partnerships, and provide labor with the necessary knowledge, skills, and talents, as well as the use of advanced and modern technologies.

The partnership between China and Malaysia is built on a win-win situation where both parties share profits as well as losses. These countries have signed a legal agreement and are committed to working together in areas related to infrastructure, health, education, and development. The coordination and joint work between the two countries is permanent for the smooth running of the existing and proposed projects. Under Islamic law, *Musharaka* refers to a joint partnership where two or more persons combine either their capital or labor, forming a business in which all partners share the profit according to a specific ratio, while the loss is shared according to the ratio of the contribution. *Mudarabah* means 'Travel' for undertaking business. Mudaraba is a partnership in profit whereby one party provides capital and the other party provides skill and labor. Chinese-Malaysian cooperation emphasizes Islamic finance as a method of advancing and reaping financial rewards.

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