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PM: Seek consensus on Islamic banking (HL)

Kamarul Yunus in Manama (Bahrain)

MANAMA (Bahrain), Wed: Islamic countries should work together to seek a consensus on Islamic finance and banking as some doubts have been cast on some Islamic instruments, Datuk Seri Dr Mahathir Mohamad says.

The Prime Minister said there had been some doubts about whether Islamic banking in Malaysia and other countries really conform with Islamic principles.

"Here we need to reach a consensus, among the Islamic countries, as to what is permissible and what is not. We should not be so restricted (as) to make Islamic banking fail altogether," Dr Mahathir told a press conference here.

Dr Mahathir said close cooperation between Malaysia and Bahrain on the matter will be useful. "Both countries are involved in Islamic banking."

Citing Malaysia's experience, he said Islamic banking in the country has gained wide acceptance.

"We claim that Malaysia's experience is very good because Islamic banking has been accepted by not only Muslims but non-Muslims as well.

"Even companies from the West borrow from the Islamic bank in Malaysia.

"We have also extended the practices to insurance, pawn-broking and other financial activities," the Prime Minister said at the end of his two-day official visit to Bahrain, which he described as "successful".

Although Malaysia has only one Islamic bank - Bank Islam Malaysia Bhd - 49 financial institutions have been offering interest-free banking schemes introduced in 1993.

According to Bank Negara, total deposits mobilised under Islamic banking rose 47.5 per cent last year to RM7.3 billion while financing increased by 75.9 per cent to RM6.1 billion.

Malaysia is in the final stages of establishing the Syariah Advisory Council which will act as the sole authority to advise Bank Negara on Islamic banking and finance. The council will include two foreign experts on Islam.

But while Islamic banking in Malaysia has been met with acceptance, it is being criticised elsewhere, especially in West Asia, according to reports. Late last month, for example, Islamic banks in Egypt were accused by the press of "hypocrisy" for taking advantage of people's religious conviction to amass wealth.

During a dialogue with bankers earlier, Dr Mahathir said Malaysia still needs to protect its financial sector from foreign competition.

"We fear that if very big banks like those in Europe, Japan and the US have (unrestricted) access to our financial market, they would overwhelm or swallow up our banks," he said when asked to explain Malaysia's policies.

Malaysia needs time to adapt and gradually open up the financial market to foreign players in compliance with the World Trade Organisation (WTO) commitments, he added.

He said the Malaysian financial sector is currently undergoing a consolidation where banks will merge to become big enough to compete with the large foreign banks.

"The WTO advises us to open up the financial market but we are not ready for it. However, there can be reciprocal arrangements... (for example) we set up a bank in Bahrain and Bahrain in turn open one in Malaysia," he added.

Dr Mahathir, who also chaired a dialogue between Malaysian businessmen and Bahrain's chamber of commerce, said Malaysia will assist Bahrain to develop more joint ventures and investments in the country.

The Government will look into problems and suggestions voiced by the Bahraini business community with a view to enhancing closer cooperation not only bilaterally, but also with the Gulf region as a whole.

"We have to admit that we have been neglecting countries in the Gulf region. It is time for us to forge closer relations with countries in this region, including Bahrain," he added.

Dr Mahathir said there are vast opportunities for Bahraini and Malaysian businessmen to go into joint ventures and to expand trade.

"Malaysia can be a gateway for Bahrain to South-East Asia, while Bahrain can be a gateway for Malaysia to West Asia as well as the Commonwealth of Independent States," he added.

Besides trade Malaysia and Bahrain can work together in other fields, including finance and manufacturing.

"Malaysia has been investing in other countries of late although we have not really been a major exporting country. There are certain areas in which we are strong, such as in manufacturing.

"Initially we would like to test the market, to see how well-accepted Malaysian products are, and if they are accepted and the market is large enough, we would consider developing manufacturing industries in the area.

"One thing that has to be remembered is that most of the countries in the Gulf are short of workers. Industries suitable in this area are therefore technology or capital intensive. So, it requires very careful examination.

"But there may be a possibility of manufacturing certain parts here or elsewhere in the Gulf which can then be exported to Malaysia to be processed into final products," he said.

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