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`Standardise practices in Islamic banking'

Ramlan Said

ISLAMIC banking can really take off if all Muslim countries adopt standard practices in banking and finance that are compatible with Islam, Datuk Seri Dr Mahathir Mohamad said.

The Prime Minister said if Islamic banking was to be universally accepted, including by non-Muslims, the practices must be documented and standardised.

While it was accepted that an Islamic economic community would be difficult to realise, he said plans to make the international Islamic dinar into a trade currency and national reserves was achievable. It could also be the beginning of a closer economic co-operation among Muslim countries.

"Effectively the use of Islamic dinar will create an Islamic trading bloc. Such a trading bloc will be a powerful voice in international trading regimes and the shaping of the new international financial architecture," he said when opening the 20th Al-Baraka symposium for Islamic Economies in Kuala Lumpur yesterday.

The three-day symposium is organised by the Dallah Al Baraka Group, which is headquartered in Jeddah.

Dr Mahathir said the proposed Islamic Financial Services Organisation (IFSO) would help establish the standards and practices of Islamic banking.

"Considering the huge amounts of money held by the Muslim countries and their being deposited outside the Muslim world where Islamic banking is not available and where they cannot earn interest, the loss to the Muslim world is enormous."

If funds and Islamic banks could be set up, he said Muslim countries would not only earn from the investments but the burden on poor Islamic nations would be reduced.

As efforts were being made towards the creation of an Islamic economic community, the Prime Minister cautioned against rejecting the commercial banking practices of today.

He said this was because Muslim nations would have to trade with the rest of the world as individual countries, regional groups or as an Islamic financial community.

"With both systems existing, there will be a choice for everyone. We have already found in Malaysia a readiness to accept Islamic banking if it suits the needs of businesses.

"It would be a mistake to suddenly change to Islamic banking. All changes are disruptive. Sudden and complete change even for the good of all is most disruptive."

Dr Mahathir said as Muslim countries talk about banking and trade and economy, they also have to learn how to deal with the information age and to make use of technology and its applications.

The Prime Minister said it would be useful for Islamic countries to evolve a system of exchange rates that would enhance trade between them, and to devise a payment system not dependent on the US dollar.

For example, he said, Malaysia had introduced the Bilateral Payments Arrangement under which total trade between two countries is computed over a fixed period of time and only the balance between the total value of exports and imports is paid in an agreed currency.

"Since the introduction of these BPAs, our trade with these countries

has increased by more than 400 per cent over a few years. Malaysia is willing to enter into such trade arrangements with other Islamic countries."

Malaysia has signed BPAs with 24 countries, one-third of them Islamic nations, he said.

Dr Mahathir said Malaysia hopes IFSO will be based in Kuala Lumpur. Bahrain has also offered to host it, "but I have spoken to the Bahrain Prime Minister and he told me that he supports the proposal for IFSO to be based in Kuala Lumpur."

The Organisation of Islamic Conference is expected to decide on the location soon, he said.