

PM: Use of dinar in world trade will reduce speculation

BT 27 MAR 2002

PRIME Minister Datuk Seri Dr Mahathir Mohamad said the Government has worked out the mechanism for using gold dinar for international trading.

He said the use of dinar, which largely follows the price of gold, will reduce the risk of speculation to almost zero.

"We have already worked out the mechanics for using the gold dinar, and any problems that arise can be resolved.

"World trade can actually expand because the cost of business will be much reduced as the need to hedge will practically disappear," he said when opening the Islamic Capital Market Conference in Kuala Lumpur yesterday.

The Islamic dinar and dirham have been part of the Islamic culture for the past 1,000 years.

According to the standard of the Muslim second caliph Umar al-Khattab, 1 dinar is equivalent to 4.24g of gold and 1 dirham to 3g of sterling silver.

Dr Mahathir said the gold dinar had only been proposed as a currency for international trading and was not meant to replace the currency of any country.

He added that international trade requires the determination of the exchange rates for the currencies of trading countries. As paper currency has no intrinsic value, the exchange rate is therefore arbitrary and subject to manipulation, like what happened during the Asian financial crisis.

Gold, however, has a definite value based on demand for the metal.

"Its value may appreciate or depreciate according to the world's demand and the demand in a given country. But the fluctuation would be minimal," he said.

He said the local gold price would determine the exchange rate for the local currency against the dinar. Thus, the price of imported goods in dinar can be computed in local currency and vice-versa for local goods that are to be exported.

Dr Mahathir also said that the dinar can be held as central bank reserve.

This way, trade need not be paid in actual dinar but the imports and exports of two trading nations- can be balanced and only the difference paid in dinar.

"This will minimise the need to move the gold dinar. In fact, the surplus or deficit can be credited or debited against future imports and exports," he said.

On the future development of the Islamic capital market in Malaysia, Dr Mahathir reminded the industry not to confine product development efforts to evaluation and adaptation of products in the conventional markets.

He said this is to prevent the Islamic capital market playing a "perpetual catch-up game" with the conventional financial system and having to continuously rely on the expertise in the conventional market to bring it forward.

"For the Islamic capital market to remain competitive, attractive and innovative, we must be able to introduce indigenous Islamic financial products; products that meet the risk-reward profiles of investors and issuers, fulfil all the tenets of the Syariah while remaining sufficiently cost-effective and competitive vis-a-vis conventional products," he said.

The Prime Minister noted that efforts to diversify Islamic financial products had been quite successful due to the relentless efforts of Islamic scholars, practitioners and academics and the support given by the Government and regulators like the Securities Commission (SC), Kuala Lumpur Stock Exchange (KLSE), Bank Negara Malaysia and Labuan Offshore Financial Services Authority.

Acknowledging the differences in opinions among scholars on the Syariah interpretation, he said there is a need to look into the possibility of some convergence of Syariah interpretations to facilitate the

progress of the Islamic capital market.

He said while the Islamic capital market is all about complying with Syariah principles, Malaysia must take advantage of progress in information and communication technology for efficiency, effectiveness and competitiveness of its products and markets.

Dr Mahathir said Malaysia had successfully replicated its earlier successes with Islamic banking and Takaful as currently, about three-quarters of the stocks on the KLSE Syariah Index are providing a benchmark for the performance of Syariah-approved securities.

There has also been a steady increase in the percentage of Islamic debt securities relative to total debt securities in terms of the value of funds raised.

Dr Mahathir said that many large domestic companies are seeking financing through the issue of long-term Islamic papers, while Islamic financing has also started to provide money for the venture capital industry.

While Islamic unit trusts currently form only a small portion of the entire unit trust industry, he is confident that the sector will grow given the increasing prosperity of the people, relative success of the Government's affirmative actions and high savings rate of 33 per cent.

In the Islamic banking sector, deposits have grown from RM4.9 billion in 1995 to RM35.9 billion in 1999.

"While total assets in the Islamic banking sector stood at only 6.9 per cent of total banking assets in 2000, the Islamic banking sector is targeted to capture at least 20 per cent of the banking market share by 2010," he said.

The two-day conference is jointly organised by the SC and Asian Strategy and Leadership Institute. It is part of the ongoing Islamic Capital Market week, which ends on March 30.