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Mechanics of using gold dinar

Patvinder Singh

KUALA LUMPUR, Tues. - Malaysia has worked out the mechanics of using the gold dinar as a currency for international trade, and believes that any problem arising from its usage can be resolved.

Prime Minister Datuk Seri Dr Mahathir Mohamad said the risk of speculation would be reduced to "almost nothing", and world trade would expand due to the reduced cost of business as the need to hedge would practically disappear.

"The proposal is to make this dinar a currency for international trade only. It is not meant to replace the currency of any country," Dr Mahathir said when opening the Islamic Capital Market Week and Kuala Lumpur International Islamic Capital Market Conference at the Securities Commission.

The events were organised by the Securities Commission and Asian Strategy and Leadership Institute. The Prime Minister said international trade required the determination of the exchange rates of the trading countries.

"With paper currency, there is no intrinsic value. The exchange rate is therefore arbitrary and subject to manipulation as we saw during the Asian financial crisis," he said.

Dr Mahathir, who is also Finance Minister, said gold, however, had a definite value based on demand and its value may appreciate or depreciate according to world demand and demand in a given country. He said the fluctuation would be minimal as dinar, being made of gold, would largely follow the price of gold. The local gold price would determine the exchange rate for the local currency against the dinar.

Dr Mahathir said, the price of imported goods in dinar can be computed in local currency and vice-versa for local goods to be exported.

"The dinar can be held as central bank reserve. Trade need not be paid in actual dinar but the imports and exports of a pair of 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 or exports," he said.

Meanwhile, Bernama quotes Tan Sri Nor Mohamed Yakcop, economic adviser to the Prime Minister on Financial Matters, as saying that the trading would have to be in the context of bilateral and multi-lateral agreements.

Asked how close Malaysia was in implementing the system, he said: "This is just an idea stage."

Citing an example on how the mechanism would work, he said if Malaysia entered into a bilateral payment agreement with Saudi Arabia, it would export and import with the Saudis. At the end of three months for example, there would be a net balance.

"Either you import more or export more. You only settle the balance. So, if you determine trade in gold dinar, then at the end of the three months, you just settle the small net difference; you don't settle the whole gross flow.

"And so the amount that you settle is very small, so you save on the usage of gold dinar on forex," he said.

Dr Mahathir also said Malaysia must be able to introduce indigenous Islamic financial products.

He said these financial products should meet the the risk-reward

profiles of investors and issuers, fulfil the tenets of syariah while remaining cost-effective and competitive vis-a-vis conventional products.

"If we are merely to confine our product development efforts to adaptation of products in conventional markets, the Islamic capital market will have to play a perpetual catch-up game."

Dr Mahathir said about three-quarters of the stocks on the Kuala Lumpur Stock Exchange are syariah compliant. There has been a steady increase in the percentage of Islamic debt securities relative to total debt securities in terms of the value of the funds raised.

Dr Mahathir said many large domestic companies were seeking financing through the issue of long-term Islamic papers and that Islamic banking had also started to provide money for the venture capital industry.

On Islamic unit trust, he said although it now formed only a small portion of the entire unit trust industry, he was confident it would grow. Dr Mahathir said 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 the total banking assets in 2000, the Islamic banking sector targets at least 20 per cent by 2010.

On another note, the Prime Minister said the perception that foreign direct investment resulted in capital inflow needed to be clarified as most of the time it led to the outflow of capital.

"FDI is not always about bringing in capital. More often, the capital is borrowed locally and used to pay for imported machinery etc., resulting in an outflow of capital rather than inflow.

"It is vital that the capital market efficiently allocates available funds to further generate growth and to ensure that we are not overly reliant on foreign capital even as we welcome long-term foreign capital with open arms," Dr Mahathir said.

patvinder@nstp.com.my

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