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Dr M: US has not objected to use of gold dinar in international trade

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KUALA LUMPUR, Tues. - The United States has not objected to the move initiated by Malaysia to use the gold dinar as the alternative currency to the US dollar for international trade, Datuk Seri Dr Mahathir Mohamad said today.

The move has drawn the interest of several Arab countries.

The Prime Minister said he could not see any objection to the move, as the concept behind it was similar to that of the Bretton Woods Agreement of 1944, which set the framework for fixing the exchange rate of currencies of major trading countries against gold.

However, more time was needed before trade using gold could be realised, Dr Mahathir said. This was because of the need to understand the mechanism, pass legislation and overcome bureaucratic red tape.

At a Press conference after opening a convention on the gold dinar at the Putra World Trade Centre, Dr Mahathir, who is also the Finance Minister, said like any new idea, acceptance of trading with gold could only come with understanding and familiarity.

Islamic banking, he said, was an example of where it took some time before it was accepted as another way of doing banking.

"It is the same with the gold dinar. A great deal of interest has been shown but the mechanism has to be worked out. It will take time," he said.

Malaysia is discussing with Iran the use of gold to settle its balance of payments.

"If we are successful with Iran, then we will offer those terms to other countries. We are ready, but many countries are not that well versed with the mechanism or have problems in making a decision," Dr Mahathir said.

He also said Malaysia would raise the advantages of using the gold dinar in trade at the Organisation of Islamic Conference summit in Putrajaya in October.

This did not mean the use of the gold dinar in trade would be confined to Islamic nations or Muslims only.

"When Islamic banking was first introduced, it only involved Muslims. Now, it is accepted by non-Muslims as well. Conventional banks are offering Islamic banking services."

He said a secretariat had been established in Malaysia to co-ordinate follow-up activities on the use of gold in trade settlements.

To a suggestion that Malaysia start the ball rolling by settling its balances of payment in gold dinar, Dr Mahathir noted that this had to be agreed to first by its trading partners.

At the convention, Dr Mahathir also spoke of a way Malaysia could trade with countries unable to earn much foreign exchange.

Under a bilateral payments agreement (BPA) it had drawn up, an exporter would be paid in his local currency by his country's central or designated bank while the importer would pay in local currency to his country's central or designated bank.

At the end of an agreed period, the designated banks would contra their accounts to determine which country had a deficit in the balance of trade.

That deficit would be settled in an agreed foreign currency, such as the US dollar, euro or yen. As the deficit would be far smaller than the total trade, the need for foreign currency would be minimal.

Alternatively, the deficit could be brought forward for future trade.

Dr Mahathir added that if the gold dinar was used, then settlements

would be transacted in gold instead of a foreign currency. "But even this could be inconvenient," he said. "It would be easier to have a credit or a debit note to the value of the gold.

"Gold should be transferred only if absolutely necessary. Ideally, the gold should be held in the central banks in the form of ingots or coins of a certain purity and value to back the value of the deficit in the balance of trade."

Dr Mahathir noted that it would not be possible for all international trade to be conducted in gold dinar immediately. "For a time, the use of the so-called hard currencies such as the US dollar, euro or yen would have to continue.

"But pairs of countries could begin to use gold dinars to settle their balances of payment. It should then be possible to advance by involving a group of countries."

Dr Mahathir said the benefits of the gold-based BPA to traders and businessmen were quite apparent.

By converting commercial risk associated with trade into sovereign risk, he said such a mechanism would assume a pivotal role in enabling traders to penetrate new, non-traditional markets with greater confidence.

"The BPA process would also reduce the cost of doing business by dispensing with the need for banks to confirm letters of credit.

"At the national level, the gold-based BPA mechanism would help to diversify export markets and avoid inter-reliance on the traditional export markets.

"In the process, we could also reduce the over-dependence on foreign currencies in international trade."

Dr Mahathir said unlike hard currencies, gold was a more stable reference currency and the fluctuation in its price in any currency would be quite limited.

"Since the trade would be conducted in gold, the prices would be as stable as the price of gold.

"Speculation in gold could still take place but it would not be possible for anyone to corner the gold market simply because it would not be possible to deliver the gold upon settlement. The amount would be too big and too cumbersome for the rapid transactions of the currency traders."