

Dr M: Islamic banking superior to Western kind
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Outspoken ex-prime minister Dr Mahathir Mohamad on Tuesday blamed Western lending practices for the world's financial problems and hailed Islamic banking as a "superior" model.

Mahathir told a conference on Islamic finance in Singapore that the 2008 global financial crisis was sparked by excessive lending by Western banks.

Islamic banks, in contrast, are constrained because every deal needs to be backed by a real asset under the principles of Sharia law, he said.

"So if you make a comparison, the Islamic system is in many ways superior to the conventional banking system," said Mahathir, one of the best-known political figures in the Muslim world.

"The conventional banking system is much more open to abuse than the Islamic banking system," added the former leader, who steered Malaysia through the 1997-98 Asian financial crisis and stepped down as prime minister in 2003.

"So far, the Islamic banks have not been involved in the present crisis except those perhaps who dabble in the money markets in the West," he said.

"Islamic banking is almost immune to these kinds of crook deals."

Islamic banking fuses principles of Islamic law, known as Sharia, and modern banking methods. Islamic funds are banned from investing in companies associated with tobacco, alcohol or gambling.

Islamic banks more prudent

Sharia-based finance also bans interest, which is seen as usury, and risks are shared between the creditor and borrower.

"The conventional bank lends 30 times the amount of money that they have but the Islamic bank, because they have to participate in taking the risk, they will have to be much more careful," Mahathir said.

Mahathir, 85, attacked the Federal Reserve's controversial decision to pump an extra 600 billion dollars into the US economy.

"Do you think that they have this money with them that they have it in their vault kept there, 600 billion dollars to be issued whenever someone needs money?" said Mahathir.

"No, they don't have but they can give the money, 600 billion dollars, simply because they can create money."

On the prospects of Islamic finance, Mahathir said the industry can grow further especially in Southeast Asia which includes Indonesia, the world's largest Muslim-majority country with almost 240 million people.

He urged Muslims in Southeast Asia to tap business opportunities offered by Islamic finance.

"With Islamic banks being available, there is capital which is now accessible to conscientious Muslims who do not want to be involved with interest," said Mahathir.

"Whether Islamic banking prospers or not depends very much on the ability of the Muslims firstly to do business, to understand business."

Assets of Islamic financial institutions increased five-fold to around one trillion US dollars between 2003 and 2009, according to credit watchdog Moody's Investors Service.

It has estimated the full potential of the industry at five trillion dollars or more.

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