

The 20th Al Baraka Symposium For Islamic Economies

The Sheraton Imperial Hotel, Kuala Lumpur 25 June 2001

It is a great pleasure for me to be invited to officiate the 20th Al Baraka Symposium for Islamic Economy this morning. I am informed that this is the first time this symposium is held outside of the Middle East. We are indeed honoured that Kuala Lumpur has been chosen as the venue for this year's symposium. The significant number of eminent speakers and Syariah scholars that are gathered here will, I am sure, produce stimulating and constructive deliberations. Considering your contributions to the world of Islamic banking and finance, I'm confident that the symposium will achieve its noble objectives.

2. During the height of the great Islamic civilisation, trade was among the most important activity in wealth creation. Today in a world that is being rapidly globalised, trade has become even more important, facilitated by the advancements in information and communication technology and the greater capacity and speed of transportation. Whereas in the past trade could be carried out through the barter of goods, today the volume is such that barter is not practical any more. The goods and the services are paid for in the currencies of the world.

3. But the currencies of the different countries are not of equal value. To make payments the relative values of the currencies, i.e. the exchange rates must be determined. This is not so easily ascertained because the cost of living of different countries differ greatly and so do the inflation rates. The value in terms of purchasing power of a currency even within the country is therefore continuously changing, some more rapidly than others. This must mean that the exchange rates between the different countries must differ at different times.

4. All these make trading difficult as between the time the goods are dispatched and the goods are received the exchange rates may change and may affect the profitability of the transaction.

5. The Bretton Woods Agreement tried to overcome this uncertainty by fixing the exchange rates and fixing the value of the US Dollar against a fixed amount of gold. But very soon it became necessary to devalue the US Dollar against gold as inflation affected the price of gold and those of goods and services differently. In the other countries too the value of gold and goods did not stay static but increased or decreased at different rates.

6. Very soon some countries found it necessary to devalue their currencies in order to be competitive. For obvious reasons the devaluation had to be done without informing the public before hand about the intention. Once a major trading country devalues, the whole fixed exchange rate system of Bretton Woods was thrown into disarray.

7. The speculators then moved in and forced the Governments to allow the market to determine the exchange rates. This was fine as long as the speculators depended on the actual performance of a country's economy and trade, and therefore on the demand or lack of demand for a country's currency to determine the value in exchange rate terms of a currency. But the volume of trade between different countries, the trade balance, etc. between them and the perception of the different currency speculators made it difficult to determine the exchange rate between different countries at different times.

8. Since there was no longer a gold standard, by common understanding the US Dollar, itself unstable, was used as a standard. In the end the US Dollar became a kind of common world currency used for payment of international trade.

9. This acceptance of the US Dollar as an international currency confers on it tremendous power. The demand for US currency becomes very high and this demand must give strength to the dollar which otherwise it would not have. Its very status and use as an international currency creates certain opportunities for profitable manipulation by the unscrupulous.

10. Ordinarily there would be a need to exchange one currency into another only to pay for trade between nations. Since the US Dollar is the currency most frequently used for payment, there is always a need to change for the US Dollar. The rate of exchange between any currency and the US Dollar therefore becomes important. Since there is no gold standard and Governments can no longer fix the exchange rate, the exchange rate between a country's currency and the US Dollar has to be determined on the basis of supply and demand. Currency traders, ever in search of more profits for themselves, soon discovered that they can artificially create shortages or excess of supply of any currency at will.

11. Initially they had to hold the relevant currencies in order to do business. Today that is no longer necessary. they can offer to sell forward currencies that they don't have in the hope that their sale would push down the value of the currencies. Once the value goes down they can buy back and deliver to the earlier purchasers who had bought at the higher price.

12. If there is a need to guarantee delivery they can leverage their holdings with the big banks. The leveraging can be as high as 100 times their holdings. In other words hedge funds with capital of one billion can offer to sell as much as 100 billion. Few central banks can counter them by buying up the national currencies offered for sale by the traders.

13. From being mere money changers these currency traders have become unbeatable manipulators of the exchange rate of any currency. In the process they made billions of dollars.

14. International traders can hedge against the fluctuation in the exchange rates but this cost money and obviously increase the cost of doing business. But when currency traders actually devalue or revalue currencies within very wide ranges, hedging becomes not only expensive but very difficult for traders. The cost of trade must escalate and world trade will not be able to expand. Poor countries as usual will suffer the most.

15. Malaysia has fixed the exchange rate against the US Dollar. RM3.8 equals one US Dollar. Since 85 percent of our trade is paid in US dollar this makes trading easier. There can be no doubt that this fixed exchange rate has contributed much to the high growth of Malaysian world trade post turmoil. We are now the 17th biggest trading country in the world and we hope this year, insya-Allah, to achieve total trade of 200 billion US Dollars, of which export would be slightly bigger than imports.

16. Unfortunately since the currencies of our trading partners fluctuate against the US Dollar, their earnings or losses cannot be correctly ascertained. So far our trading partners have not been affected too much by the uncertainties in their exchange rates against the US Dollar.

17. Trade between the Islamic countries cannot be totally separated from world trade. But it would still be useful for Islamic countries to evolve a system of exchange rates which would enhance trade between them. It is entirely possible for us to devise a payment system which is not dependent on the US Dollar.

18. Malaysia had introduced what we called a "Bilateral Payments Arrangements" in which total trade between two countries are computed over a fixed period of time and only the balance between the total value of export and imports paid in an agreed currency. Within the country a central agency would collect payments from an importer in local currency and pay an exporter also in local currency. The balance between total exports and imports can be paid in the currency of the exporting country or in other acceptable currencies.

Alternatively the balance can be retained by the central agency or Central Bank in order to pay for future transactions. This will eliminate the need to hold foreign currencies or the US Dollar.

19. Obviously this bilateral payments arrangement will enable countries without foreign exchange i.e. the US Dollar to trade or to increase their trade volume. It would certainly be good for world trade. Since the introduction of the arrangements and agreements reached between Malaysia and many developing countries, trade with these countries has increased by more than 400 percent over a few years. Malaysia is ready to enter into a bilateral payments arrangement with Islamic countries in order to improve trade. The bilateral payments arrangement can be extended so that trade between more than two countries can also be settled in the same way.

20. Basically the bilateral payment arrangement is a more sophisticated form of barter trade. And barter trade is the fairest way of trading as we get the goods that we want at the price we want in local currency. We know that some goods are very cheap in one country because of over supply or lack of demand but very expensive in another country. The exporting country can get a fair price from the export of the locally cheap goods based on the acceptable price in the country where demand is better. The terms of trade would thus be fairer through barter trading. But since barter trading is cumbersome, the payment arrangements can facilitate large scale trading more effectively.

21. The Islamic countries can also create their own common currency. This should not belong to any country because it would give undue advantage to the country whose currency is accepted as the trading currency of the Islamic nations.

22. Recently there was a proposal to create a gold dinar which can have a specific value in the currencies of the different Islamic countries. All the Islamic countries must have a share in the international Islamic dinar as a trade currency and as national reserves. The dinar must be in gold and not paper. How practical this will be will have to be dealt with later when the volume of trade becomes big.

23. Effectively the use of the 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 financial architecture.

24. There has been much talk about an Islamic economic community. It is very difficult to realise this but the international Islamic dinar is quite achievable and can be the

beginning of a closer economic cooperation between the Muslim countries. Islamic banking can really take off as all the Muslim countries adopt standard practices in banking and finance, compatible with Islam.

25. However it would not be wise to reject the commercial banking practices as found today. The Muslim world would still have to trade with the rest of the world as individual countries or as a regional group 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 the businesses. It would be a mistake to suddenly change to Islamic banking. All changes are disruptive. Sudden and complete change even for the good is most disruptive of all. In all matters we Muslims must never be fanatical. Gentle evolution is far better than sudden drastic revolution. So it is for politics, so will it be for the financial systems.

26. Islam is a way of life. There is nothing that we do that is not governed by the injunctions of Islam. Certainly the economic activities of the Muslim society are governed by Islamic perceptions of what is right and what is wrong. The transaction involved in a simple sale is a contract which requires the agreement on the part of the seller to sell at a certain price and the buyer to buy at that price. Whereas an ordinary purchase need not involve a written agreement, the Quran stipulates written undertakings where the transaction is substantial, involving cash payments or credit or delayed payments. While no interest is permitted the price may be determined based on the amount of the goods involved, the time of delivery and reasonable profit. The financier in an Islamic transaction earns a part of the profit and accepts also the possibility of a loss.

27. The Al-Quran is the ultimate guide but as we all know the interpretation of Quranic injunctions differ with different people. It would not do for people involved in business and, in particular, in financial transactions to have each making his own interpretation of what he has undertaken or committed to. It is important therefore to have standard interpretations which are agreed to by everyone. If Islamic banking is to be universally accepted including by non-Muslims, the practices must be documented and standardised.

28. The Islamic Financial Services Organisation or IFSO is an institution which has been proposed to set up the specific standards and financial practices in Islamic banking. Malaysia has offered to host this institution. The setting up of this institution will help establish and maintain the soundness 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 any interest, the loss to the Muslim world is enormous. Yet there are so many Muslim countries in need of funds and they are forced to accept loans under the riba system. Thus while Muslims cannot earn interest Muslims are paying interest. In certain cases it is Muslim money which is being lent by others who earn interest on them. If we are able to set up Funds and Islamic Banks, we can not only earn from the investments but we will be reducing the burden of our poor Islamic brothers. I am sure if we are able to set up IFSO and establish the standards and practices of Islamic banking, we will all benefit. For banking in Islam is not purely for the lender to make profits at the expense of the borrower, but for both parties to benefit from the financial transaction. I believe that Islamic banking is far superior to the present commercial banking practices.

29. Globalisation is already upon us. So while the inflow of foreign capital can be beneficial to a country, its sudden outflow can destroy decades of hard work in developing a country's economy. Under present conditions globalisation can have a disastrous effect on the economies of Muslim countries, which are all developing economies. Even the richest of us are actually developing for we have little capacity except to produce and sell raw materials, principally oil.

30. Muslims must never forget that we missed the Industrial Age completely. We have practically no industrial capacity because when the Industrial Revolution was taking place we could not decide whether it was compatible with Islam or not. In the end we were left behind and found ourselves totally dependent on the industrialised countries for our needs, including of course our defence needs.

31. Today we see the rapid advance of the Information Age. Whether we like it or not it is going to have a tremendous impact on our society and on our religion. We cannot isolate or insulate ourselves from the Information Revolution and the technology which is driving it. Our economy will certainly be affected by it.

32. While we are thinking about Islamic banking, our trade and our economy, we have to learn how to deal with the information age and to acquire and make use of the technology and its applications so that we would be able to sustain ourselves and our economies.

33. This involves not just learning and mastering Information technology but in many instances the development and innovation in the applications, the software and even the

hardware by us. We have to be on guard so that our religion and our values are not undermined. Remember how the spread of socialistic ideologies actually resulted in some Muslim countries abandoning Islam because they saw the failures of Muslim countries and wrongfully attributed it to the Islamic religion rather than the wrong interpretations of Islam by their countries. We see how Muslim countries were conquered because they were materially weak and how many Muslims abandoned the religion and even became atheists.

34. We cannot afford to have our countries fail in the Information Age through our own failure to acquire the technology to protect and prosper our countries. Spiritual and religious tenets of Islam must be maintained but at the same time the economic well-being of the Muslim countries must not be behind those of the developed countries. Only with equal spiritual and material strength can we hope to sustain the Islamic way of life and Islam itself. Terrorism are mere pin pricks which achieve nothing for the ummah.

35. We all share a common belief and, to varying degrees, a common culture and tradition. There is no serious ideological conflict. Inevitably, there are political differences but none that cannot be overcome for common good. We are all part of the world with a pressing need to improve the social and economic conditions of our people. It is therefore important to ask ourselves how we can put our hands together to increase the pace of socio-economic progress of the Muslims against the background of a troubled world economy.

36. The last time the world ushered in a new millennium, the Islamic civilisation was at its peak. However, at the end of that millennium, Islamic civilisation was at its lowest ebb. In our endeavour to achieve the advancement in Islamic banking and finance, we are in fact trying to resuscitate the glorious Islamic civilisation. We still have a long way to go. We have to change our attitude if we want to avoid losing out again as we did in the Industrial Age. The road ahead for all of us will be difficult and challenging, but if we collectively as an Ummah rise to the challenges, insya-Allah we will succeed. I pray that this 3-day symposium would be able to guide us in addressing some of the pressing issues facing us.