

Malaysian Gold Dinar Initiative

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The usage of dinar was mooted out by Malaysia's fourth prime Minister, Dr. Mahathir bin Mohamad. He was known for his durability and outspoken figures on the world political stage, has been prime minister of Malaysia since 16 July 1981. Dr. Mahathir has played a pivotal role in the confident march of his people towards Vision 2020, his blueprint for Malaysia's advance towards fully developed status.

In 2001, Dr Mahathir mooted the idea of a gold payment system — the gold dinar — to settle bilateral and multilateral trades among countries and thereby eliminates foreign exchange risk. In this mode, gold is to be used as a medium of exchange and as a unit of account instead of the national currencies.

Prices of exports and imports are to be quoted in units of gold weights.

The proposal was to source for an alternative system in the wake of the uncertain economic situation because the conventional system is vulnerable to currency manipulation and speculation.

To understand why Dr. Mahathir proposed the usage of dinar in international trade, we have to look back to the Malaysian currency crisis which was happen in July 1997.

In his book "The Malaysian Currency Crisis, How and Why it happen" Dr. Mahathir explain that Malaysia is a country with strong economic growth, grew 8% plus annually, politically stable and economically resilient. Its currency was strong and its international debts are within accepted limit. Therefore Malaysia was certainly not a candidate for severe recession.

But yet in July 1997, its currency began to devalue rapidly and its stock market plunged to extremely low levels. The value of Ringgit Malaysia keeps falling and could not be arrested. Malaysians were bewildered as they found themselves suddenly impoverished.

The main reason for the falling value of Ringgit Malaysia is speculative attack by currency trader. Dr Mahathir blames on the speculators, which contributes heavily to the country's depreciating currency value thus affecting the overall national economic condition. The currency trader depreciates the currencies, not because they fear the currency they hold would depreciate and they would lose their money, but they see profit in shorting the currencies.

Dr. Mahathir understands the reason a currency can be attacked is because the currency is based on fiat money system. It is money that a government declares to be a legal tender although it is not backed by any asset.

He mentioned that currency have value because government put a value on it. For example, RM1 didn't have a value of RM1 in term of paper value. It got the value because government prints the value on it. If the government prints RM5 or RM10 on the paper, the value of the paper won't increase to RM5 or RM10. It is the government recognition and guarantee that makes the paper money got their respective value.

Lessons Learnt:

The Malaysian currency crisis in 1997-98 delivered a 5 important message.

1. Paper currencies have no real value - they are numbers printed on paper;
2. The global financial system is unstable and unjust;
3. Developing nations have little or no defense against currency speculation,
4. To defend ourselves, we must create our own trading currency of real value,
5. Gold is a safe and stable store of wealth and a globally accepted trade currency.

Gold Dinar Initiative

Dr. Mahathir courageous and successful defense of the Malaysian economy against the attacks of the currency speculators and the influence of the IMF, gave him a deep understanding of the importance of developing a common gold-based trading currency for the Muslim nations.

For the Muslim World, the Malaysian Initiative to use Gold for International Trade Settlements is a pivotal event that will offer strength and unity to the Muslim Ummah.

The 10th OIC Summit – Proposal to use gold as a trade settlement.

Malaysia has been host the 10th OIC Summit in Putrajaya in October 2003.

The proposal to use Gold as a trade settlement instrument was proposed to the attending 57 Heads of State. Bilateral Agreements commenced, developed into Multilateral Agreements which in turn will naturally evolve into a Gold Trade Bloc.

This is a platform on which all the Muslim Nations can agree and as Dr. Mahathir has stated, “…this will do more towards countering oppressions by their enemies than the futile violent retaliations.”

The use of the Gold Dinar can serve as a genuine means of unity among the OIC states, encouraging inter-OIC trade, and giving them a common trade hard currency.

The Global Effect

The Gold Dinar will mark the return of gold as a financial instrument and a true global currency. It offers the first real alternative to the other anchor currencies.

The move away from fiat paper currencies towards gold will:

- Strengthen and unify the Muslim nations
- Begin the creation a Gold Dinar Trade Bloc
- Encourage and promote inter-OIC trade
- Remove the dependence on the US dollar
- Open the way for other gold-related trade instruments and practices
- Create a just and stable global trade settlement system that can benefit all developing nations.

As Tan Sri Nor Mohamad Yacob, second Finance Minister stated, "Given this opportunity to strengthen our relationships, using the Gold Dinar, I believe it is incumbent on us as a fardhu kifayah to collectively implement this next component of the International Islamic Financial System."

The creation of an Islamic Currency will be a challenge towards the western countries especially to the United States of America because with the implementation and the acceptance of use of Dinar the American Dollar will be less demanded.

The Statistic from the Bank of International Settlement shows that almost 80 percent of the world trade uses American Dollars as a medium of exchange (1998).

The dependency of the world countries towards the American Dollar gives the capitalist an extra competitive advantage in its overall economic condition. If the Islamic Dinar is successfully being implemented, the dominance of the World Bank and International Monetary Fund will also be affected.

Definitely the western will oppose the Malaysian intention with all might. Despite of the resistance from the west, Malaysia has its own reasons why the Islamic Dinar should be implemented in order to foster the Muslim economic

conditions and activities.

In Malaysia's planned adoption of the Islamic Gold Dinar to replace the United States dollar in international trade, Ringgit would remain for local transactions. Only Dinar will be used as the international trade currency that would help unite Muslim countries, especially those under Organization of Islamic Conference (NST, 31/1/2002).

Dr Mahathir Mohamed in a press conference after addressing a public sector Workers' Day gathering at the National Institute of Public Administration (Intan) told that Malaysia's interest to use the gold Dinar for international trade is not confined to the more than 24 countries with which it has bilateral payment arrangement (Utusan Malaysia, 1/5/2002).

Initially Malaysia is trying to implement the Dinar within a small group of countries before the Dinar system could be widely accepted as a trading currency.

Resources:

1. http://www.utusan.com.my/utusan/info.asp?y=2002&dt=0629&pub=Utusan_Malaysia&sec=Muka_Hadapan&pg=mh_03.htm&arc=hive
2. <http://www.islamicmint.com/newsarticles/mahathir1.html>
3. http://www.utusan.com.my/utusan/info.asp?y=2002&dt=0923&pub=Utusan_Malaysia&sec=Muka_Hadapan&pg=mh_06.htm&arc=hive
4. <http://www.mahathir.com/malaysia/speeches/1999/1999-01-18.php>
5. http://www.utusan.com.my/utusan/info.asp?y=2002&dt=0418&pub=Utusan_Malaysia&sec=Dalam_Negeri&pg=dn_01.htm
6. http://www.utusan.com.my/utusan/info.asp?y=2002&dt=0430&pub=Utusan_Express&sec=Economy&pg=ec_02.htm&arc=hive
7. <http://thestar.com.my/news/story.asp?file=/2002/10/24/nation/sbdinar&sec=nation>
8. http://www.utusan.com.my/utusan/info.asp?y=2002&dt=1024&pub=Utusan_Express&sec=Front_Page&pg=fp_01.htm&arc=hive

9. <http://www.mahathir.com/malaysia/speeches/1997/1997-09-20.php>

10. <http://www.gata.org/node/5290/print>

11. <http://www.mahathir.com/malaysia/speeches/2002/2002-03-26.php>