

Implementation Gold Dinar: Is It Feasible?

Siti Zaiton Binti Mohd Dali
Pusat Pengajian Ekonomi
Fakulti Ekonomi Dan Pengurusan
Universiti Kebangsaan Malaysia
Email: sitizaitondali@yahoo.com

Nurshuhaida Binti Abdul Razak
Pusat Pengajian Ekonomi
Fakulti Ekonomi Dan Pengurusan
Universiti Kebangsaan Malaysia
Email: nurshuhaida_86@yahoo.com.my

ABSTRACT

This paper is focus on the study of implementation of gold dinar. It will discuss on the importance of Shariah currency, which is Gold Dinar. The objective is to understanding Gold Dinar, the importance of using Gold Dinar as currency and the relationship between Gold Dinar and economy. This paper is written in response to the announcement made by the former Prime Minister of Malaysia, saying that he wants to use the Islamic Gold Dinar in place of the American dollar for overseas trade settlements. Our former Prime Minister Dr. Mahathir Mohamad was first expressed his interest in Gold Dinar currency after Malaysia and other Asian countries were attack by the speculators in year 1997, which leads to financial crisis. It became evident the need for firms to manage foreign exchange risk. Majority individuals, firms, and businesses found themselves helpless in the wake of extreme exchange rate movements. Malaysia is among the most open countries in the world in terms of international trade and high exposure to foreign exchange risk. Which is refers to the risk faced due to fluctuating exchange rates. Gold Dinar is a perfect value keeper. It can be kept for future use, un-creatable indestructible and does not cause inflation. In addition, Gold Dinar is un-susceptible to exchange rate (Dinar Dirham Research Group 2003). In the previous economic history, the collapse of Bretton Woods in 1971, cause the world monetary system in inflationary and high volatility. Therefore, Gold Dinar in international trade is seen as a strategic move to protect the interest of nations as far as monetary stability, independence and justice are concerned. It has a solid unit of account. This paper will discuss the advantages of using gold dinar as currency and why it cannot re-implement until today.

Keywords: Implementation, Gold Dinar, Silver Dirham, Currency.

INTRODUCTION

This paper concerns with the advantages implementing of gold dinar as currency in Malaysia. The purpose of this paper is to reintroduction of the *Shariah* currency to attain full functionality as it was in the past. Kelantan Government State in Malaysia has started issuing gold dinars and silver dirhams as a currency in conjunction with the Malaysian rington. The Gold Dinar currency is compliant with Islamic *shariah* law.

Kelantan Government State has set a high financial standard by issuing these coins for daily commerce and trading activities. So far, 1,000 traders have approved to recognize the Gold Dinar currency in their transactions, including Bank Islam Malaysia. So there “there is no reason why transactions, which are *syariah* compliance, cannot be practiced in the state as it was widely used thousands of years before the fall of the Ottoman Empire”.

Our former Prime Minister Dr. Mahathir Mohamad was first expressed his interest in Gold Dinar currency after Malaysia and other Asian countries were attack by the speculators in year 1997, which leads to financial crisis (Abu Bakar et. al, 2004). It became evident the need for firms to manage foreign exchange risk. Majority individuals, firms, and businesses found themselves helpless in the wake of extreme exchange rate movements. Malaysia is among the most open countries in the world in terms of international trade and high exposure to foreign exchange risk. Which is refers to the risk faced due to fluctuating exchange rates. For example, a Malaysian trader who export oil to Thailand for

future payments in Baht. The risk of Baht depreciating against the Ringgit when the payment is made. This is because if Baht depreciates, a lesser amount of Ringgit will be received when the Baht are exchanged for Ringgit. This business look like profitable business but it can be loses due to currency fluctuation. Hence, it is crucial for businesses to manage this foreign exchange risk so that they may focus on what they are good at and eliminate or minimize a risk that is not their trade.

The Gold Dinar and the Silver Dirham are the *Shariah* currency. Gold Dinar is a perfect value keeper. It can be kept for future use, un-creatable indestructible and does not cause inflation. In addition, Gold Dinar is un-susceptible to exchange rate (Dinar Dirham Research Group 2003). In the previous economic history, the collapse of Bretton Woods in 1971, cause the world monetary system in inflationary and high volatility. Therefore, Gold Dinar in international trade is seen as a strategic move to protect the interest of nations as far as monetary stability, independence and justice are concerned. It has a solid unit of account. In addition, Gold Dinar also assists welfare and sustained economic expansion, free from fraud, exploitation, and oppression.

Tun Dr. Mahathir Mohamad suggested that, Gold Dinar currency could be used to help uniting Muslim countries due to the fact that, the value of the Islamic bimetallic currency has remained surprisingly stable in relation to basic consumable goods. Therefore, it shows that Gold Dinar value is stable over time (Mahathir, 2003).

LITERATURE REVIEW

Current time has been bursting of discussions regarding the implementation of gold dinar as medium of exchange especially when Malaysian financial crises happened. From that time onward, Malaysian's experts, included prominent economists, professors in Islamic areas (especially in the field of fiqh) and other academicians includes students put this event as their study field to be researched and solution need to be found. In this arena we have many different views regarding the implementation of Gold Dinar to be introduced as a medium of exchange.

Gold Dinar has become a symbol of resilience and strength of the Muslims that it was able to defeat other foreign currencies, thus proving strength and stability of the dinar value. It also indicated that, there is no inflation was recorded during the era of gold dinar. However, inflation was detected after the devaluation of silver and widespread inclusion of the currency. This situation occurred due to the inclusion of excess silver by European traders who bought gold for export to their country. At the same time, there was also the dumping of worthless copper currency until it was further depreciated having no value and was not even used in business dealings of buying and selling. Salmy Edawati et.al (2012).

Conferring to Z. Hasan (2007), if any of the countries, Malaysia or Pakistan - decides to buy and sell gold at a fixed price, it may set into motion international arbitrage operations, even if concealed, and may play chaos with the smooth running of the economy. As Muslim countries share among themselves a meager portion of their aggregate foreign trade are not more than 15% presumably and have an overall deficit with the rest of the world, the scheme brings us face to face with the peril of draining gold out from the Muslims to the rest of the world. The total output of the yellow metal also cannot be over looked in this context because the facts is Muslim countries only produce annually less than 10% of total output of the yellow metal.

According to A.K.M. Meera (2002) in his book *Islamic Gold Dinar* promotes an idea that returning back to the Gold Dinar is a solution for the current world financial chaos. He argues that current fiat money has capability of creating itself alone. Which means fiat money is created by the fiat money itself. On the other hand, who oppose the view of A.K.M. Meera (2002), Z. Hasan, (2008) stands that introduction of the Gold Dinar is not idea that will work. One of the reasons he poses is that gold standard does not attain internal or external stability. He also argues that money is just an instrument and what it does – good or bad – depends on how we use it (2011).

Based on the study done by Salmy Edawati (2012), with the title of *Implementation Gold Dinar as Currency*, it show that the implementation of gold dinar as currency in the economy is still not suitable because of the shortcomings in providing for physical infrastructure which is inadequate gold supply, inadequate awareness reforms and lacks political will (consensus from other nations to use gold dinar as money).

HISTORY OF GOLD DINAR AND SILVER DIRHAM

Majority believe that the Gold Dinar is actually come from the Islamic *Khalifah* world. However, the history shows that, this type of currency had been used before *Khalifah* time. According to Anwar Zainal Abidin (2002), Gold Dinar is a currency minted and used since the beginning of Islam. However, the word Dinar is not begun from Arabic word but it came from Greek and Latin or perhaps Persian word, which is “denarius”. Meanwhile, Dirham is derive from the name of silver currency *dirhams*, which used by Sasan people in Persia (Hj Anwar, 2002).

In the beginning, Silver Dirhams of the Sassanian Yezdigird III was the first dated coins that can be assigned to the Muslims. Used during the *Khalifah* Uthman. The first *khalifah*, the Dirhams to be minted is *Khalifah Abdalmalik Bin Marwan* in the year 75 (695 CE). He ordered Al-Hajjaj to issue the dirhams, and established officially the *standard of Umar Ibn al-Khattab ra*. In the year 76 he ordered the dirhams to be issued in all the regions of the Dar al-Islam.

Starting from that time, Gold Dinar and Silver Dirham coins remained as an official currency until the fall of the *Khalifah*. Since then, various different paper currencies were made in each of the new postcolonial national states created from the dismemberment of Dar al-Islam (E-Dinar Ltd). As a Muslim county, Malaysia is trying to implement the Dinar system to strengthen its financial sectors.



Gold Dinar
22k gold equivalent to 4.25 grams.



Silver Dirham
pure silver equivalent to 2.975 grams.

Umar Ibn al-Khattab established the known standard relationship between dirham and dinar based on their weights: "7 dinars must be equivalent to 10 dirhams".

NEEDS FOR GOLD DINAR AND SILVER DIRHAM AS CURRENCY

Gold Dinar and Silver Dirham are the most stable currency the world has ever seen. From the beginning of Islam until today, the value of the Islamic bimetallic currency has remained surprisingly stable in relation to basic consumable goods, for example a chicken at the time of the Prophet S.A.W , cost one dirham; today, 1,400 years later, a chicken costs approximately one dirham also. Consequently, it can be considered that in 1,400 years inflation rate is zero. These situations are different in nowadays-economic system. For example, during year 2000 the price of a chicken is RM8.00, but in year 2011, the price was increase to RM17.00. Therefore, it show that the inflation rate also increased.

If the Gold Dinar as Malaysia currency can be implement, this Islamic currency will be the biggest challenge to toward western countries especially United States of America. It is because with the implementation and the Islamic Currency such as Gold Dinar and Silver Dirham, the acceptance of use of American Dollar will be less demanded. The Statistical data launch by Bank for International Settlement shows that almost 80% of the world trade use American Dollars as a medium of exchange (Bank for International Settlement, 1998). Therefore, this situation, which is 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 Gold Dinar or Islamic currency is successfully being implemented, the dominance of the World Bank, International Monetary Fund and dependency of America Dollars will also be affected. Definitely, the western will oppose the Malaysian intention with all might, so that, they can ensure they will become the biggest authority in influencing world economy. According to Malaysia former Prime Minister, despite of the resistance from the west, Malaysia has its own reasons

why the Islamic Gold Dinar should be implemented in order to foster the Muslim economic conditions and activities. In Malaysia's, Tun Mahathir has suggest or planned adoption of the Islamic Gold Dinar to replace the United States dollar in international trade. Which is Ringgit can be remain for local transactions. Only Gold Dinar will be used as the international trade currency. By that way, it would help uniting Muslim countries and as well as to reduce the dependency of America Dollar. By that means, foreign countries who want to import Malaysia goods and services must use Gold Dinar in their transaction.

The characteristic of Gold Dinar also ensure the value of this type of currency. Gold Dinar cannot be inflated by printing more of it because it is natural resources not like fiat money where it can be printed when needed; it cannot be devalued by government decree, and unlike paper currency it is an asset which does not depend upon anybody's promise to pay. Portability and mystery of Gold Dinar are both important, but the most significant fact is that gold is an asset that is no-one else's liability.

Based on graph above, it was the case of Malaysia's and United States of America. The Malaysia Ringgit depreciated drastically against the USD within several months. As been stated before supply of fiat money can be increased freely without limit. Increase in money supply ahead of the increasing in economy's output leads to corresponding reduction in the quantity of wealth represented by currency or money. Since fiat money is used as unit of account, the changes in quantity of goods represented by currency corrupts accounting process. It is a clear case of fraud, which is exactly similar to the fraud that results due to manipulation of weights and measures. Of course and clearly it is not permissible in the divine law (*Shariah*).

Financial institution such as bank was play the important roles as intermediaries between the capital providers or depositors and the individuals, or businesses which need the capital to buy premises, automobiles and for business operations which is borrower. In return, the financial institution will charge interest rate on the loans given to the borrowers and pay fixed interest to the depositors.

Do you know the reason why the financial institution will charge the fixed interest to the borrower? One of the reasons is the paper money or fiat money deposited and lends out are subject to inflation. In other word, RM1,000 today is not the same as RM1,000 in ten or twenty years from today. This situation is cause by the value of paper money is always unstable. One of the most important goals Islam emphasizes in realizing the socio economic is stability in the value of money. We could say that, by using Gold Dinar it has no problem exists because of the manipulation of paper money or in economic term called inflation. Inflation is implicit tax, which arises from excess paper money printing.

The Gold Dinar and Silver Dirham is the currency approve by *Shariah* law of the *deen* of Islam. It is mentioned in the Qur'an, and *sunnah*, and it has been component of the history of the *muslims* from the beginning of Islam until the end of the *Khalifah*.

Abu Bakr ibn Abi Maryam reported that he heard the Messenger of Allah, may Allah bless him and grant him peace, say:

"A time is certainly coming over mankind in which there will be nothing [left] which will be of use save a dinar and a dirham."

(The Musnad of Imam Ahmad ibn Hanbal)

Allah says in the Qur'an:

And amongst the People of the Book there are those who, if you were to entrust them with a treasure (qintar), he would return it to you. And amongst them is he who, if you were to entrust him with a dinar would not return it to you, unless you kept standing over him.

Qur'an (3,75)

Qadi Abu Bakr Ibn al-Arabi,

"The benefit that can be taken from this is the prohibition of entrusting the People of the Book with goods".

"Ahkam al-Qur'an"

Qadi Abu Bakr said:

"The question concerning entrusting property is legislated by the text of Qur'an."

This means that the verse is a legal judgment of absolute legality and of the greatest significance to the *deen*.

CRITICAL SUCCESS FACTORS OF GOLD DINAR AND SILVER DIRHAM

One of the critical success factors in implementing Gold Dinar is, the Muslim countries must unite. If the Muslim countries do not unite, the accomplishment of Gold Dinar as currency will be only a dream. The Muslim countries can change the role of the America Dollar without much complication, as long as the members' are committed to pegging their currencies against the Islamic currency, which is by Gold Dinar.

There are 30 percent of Muslim countries involved in world trade. Currently, many Muslim countries use America Dollars in their import and export transactions even with neighboring country. For example, within Malaysia and Indonesia, if Malaysia exports their product to Indonesia, does Malaysian want to accept Indonesian Rupiah as the payment term or do Indonesia? Same goes with Indonesia do they want to accept our Ringgit Malaysia? Because we have, lack of confidence on each other currencies, the payment term is made in American dollar. Therefore, the viability of the proposed single Islamic currency, which is Gold Dinar turning point on the number of nations, which are willing to accept it as a medium of exchange (Business Time, April 2002).

Gold Dinar also has stable value of price. The trend of gold price always increased over the year. Gold Dinar played the role of money as a medium of exchange, in one way or another, for centuries until it lost this role in 1971 after the demise of Bretton Woods. The current scene, snowed under by financial instability, crises, and chaos, has renew interest in gold, which is again being considered as a possible route to stability.

The idea of using the gold dinar to settle mutual and multilateral trades among countries and thereby eliminate dependence on international reserve currencies and risk from foreign exchange fluctuations. The gold dinar system also reduces the multiple credit creation in the financial sector when create large amounts of national currencies through. This situation diminishes the possibility of excessive speculation and future attacks on national currencies. The existing global financial system is showing signs of worst instability, which is partly but significantly due to the fiat nature of money. Gold Dinar on the other hand, has all the characteristics of a good quality money; it is desired, highly valued for its own sake, durable, divisible, mobile, homogenous, stable and can neither be created nor destroyed.

PERFORMANCE OF GOLD DINAR

Above Table 1 and Table 2, illustrate the performance of dinar as compared to the performance of fiat currency, which is Ringgit Malaysia (RM), for critical consumer items and services (fuel and electricity). As we know, oil and electricity is basic needs in nowadays and these two items considered as inflationary item. Conclusion can be made based on the tables above is, if using fiat money which is RM, the price of this two goods is increasing by 4% for fuel and 12% for electricity from year 2000 until 2009. Therefore, it shows that there is an existing of inflation. However, if using Dinar, the prices of these two types of goods would decrease 53% and 49% respectively. It approve that dinar has its own intrinsic value and does not cause of inflation.

Table 3 above shows salary comparison paid in dinar versus paid in Ringgit Malaysia (RM). As mention before, oil and electricity prices are two inflationary items, any price increase in these two items will later give rise to prices of other daily items. This table clearly shows that dinar protect the value of salaries over time. It seems that, salaries paid in dinar increased in value over time automatically, even without annual increments. It should be noticed that the performance of dinar is much greater as compared to that of RM or other fiat money. Apparently in all tables, what appears to be a "price increase which is inflation" in RM or fiat money is merely a "price decrease" in dinar. It becomes obvious from the above tables that dinar (gold) is able to preserve their "intrinsic value", whereas the RM of other fiat money simply could not do that.

The failure of the gold standard could be related by existence of conventional financial institutions, which, lend money and charge interest to the borrowers. They are actually not just only lend and charge interest but them also creating money out of money. In order to facing the shortage supply of money in the market due to the formation of money out of money, the government has to print more money. Nevertheless, when more money is been printed at will and can be consider too

many currency in circulation, inflation will occur. In the time prior to the gold dinar only the valuable metals is been found to be reliable for money. This is because the precious metal hold value by itself and it has no inflation. This situation show that, how depending us to fiat money in order to stabilize economy.

DOES GOLD DINAR FACING ANY DIFFICULTY TO BE IMPLEMENT?

The constrain need to be facing by government in implementing Gold Dinar is the Gold Dinar is physically heavier and thus difficult to be carried around for normal daily transactions. It is metal and of cause, it is much heavier to be comparing with fiat money. It also is not portable as fiat money.

Other than that, it also may be due to its softness, the physical dinar would subject to continuing "wear and tear" process if it were to be used repeatedly among the people; be it to be done intentionally or unintentionally. It was reported during the civilization of the Roman Empire, their people would clip the precious metal from the empire's coins border in order to steal some of the value stored in the coins

The next, constraint that needs to be addressed is, would be how to identify the purity of dinar denominations. Especially in each transaction such that fraud and cheating cases would be minimize and if possible, it can be totally prevented. As we know, fiat money can be duplicate easily and trader some time cannot recognize the originality of the money when the transactions occur. The question here, it is possible that Gold Dinar cannot be copy just like fiat money.

In today's price, the value of 1 dinar is in the range of RM800-RM850 a piece, thus making it not practical for buying of small-priced items. For example, If we want to buy 1 KG of sugar, it is difficult to measure how much dinar required in order to buy the goods. Compare with fiat money, it has various range of value.

Therefore, those issues above must be properly addressed in order for dinar to be widely accepted by the public.

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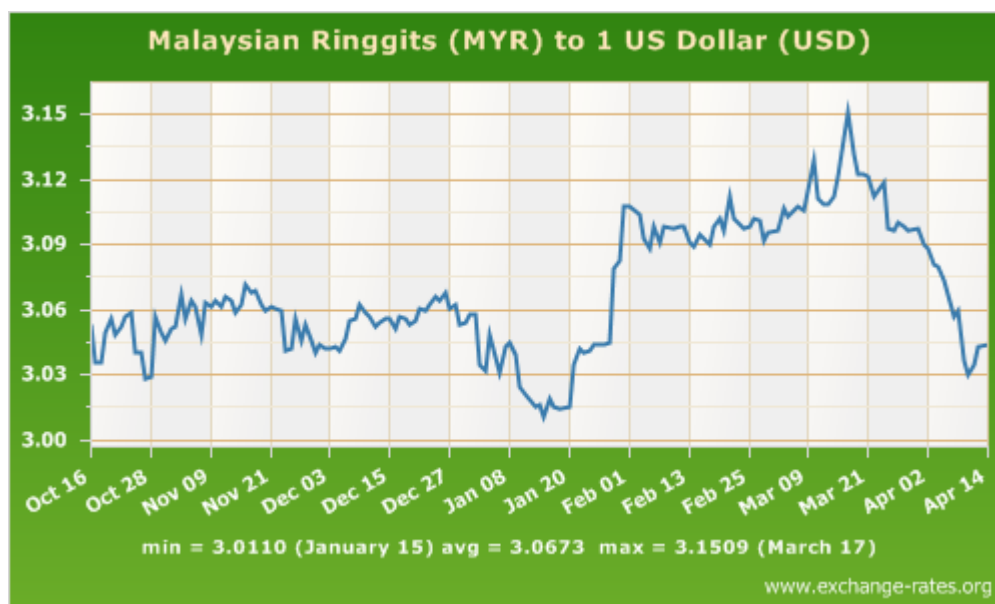


FIGURE 1: Historical Exchange Rates Between The Malaysia Ringgit (MYR) And The US Dollar (USD) Between October 2012 To April 2013



FIGURE 2: Gold Price In USD From Year 2007 To Year 2011

TABLE 1: Fuel Price Comparison in RM and Dinar

Petrol (50 liter)	RM	Dinar
2000	60.00	0.428
2009	90.00	0.178
Price Increase/decrease	+50%	-58%

Diesel (50 liter)	RM	Dinar
2000	35.50	0.253
2009	85.00	0.168
Price Increase/decrease	+139%	-34%

TABLE 2: Electricity Price Comparison in RM and Dinar

Electricity (Domestic, 300 kWh)	RM	Dinar
2000	69.40	0.495
2009	72.50	0.233
Price Increase/decrease	+4%	-53%

Electricity (Commercial, 300 kWh)	RM	Dinar
2000	864.00	6.163
2009	969.00	3.114
Price Increase/decrease	+12%	-49%

TABLE 3: Salary Comparison in RM and Dinar

Salary Paid (Malaysia)	Dinar	RM
Jan 1992	15.50	1800
Jan 2007	15.50	4968
Feb 2009	15.50	6975
Oct 2009	15.50	7838