The Reality Of Gold Dinar Application In Malaysia

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ABSTRACT

The idea to restore and revere the supremacy of gold dinar as a currency was initiated by Tun Dr. Mahathir Mohammad (former 4th Prime Minister of Malaysia) in the year 2001 right after the Asian currency crisis in 1997/98. The issue here is, to what extent have the people of Malaysia been using gold dinar and applying it in the monetary system 10 years after it was first initiated, and in what forms of application? Thus, this study aims to analyze the forms of gold dinar application in Malaysia and with attempts to highlight and discover all current applications of gold dinar practiced in Malaysia. This study is qualitative going by a strategic literature review approach. The result of the study shows that there have been various application of gold dinar as a currency in Malaysia and among them are: as a physical currency and electronic payment system (e-dinar), investment, reserves, pilgrimage, zakat payment, souvenir (jewelry) and as a wedding dowry. The study also provides an evidence that gold dinar has been well received by a large portion of the Malaysian community thus making the efforts to restore and revere the supremacy of gold dinar as a currency a realization.

Key words: gold dinar, Islamic currency, financial applications, economic crisis, monetary system.

Introduction

One of the main contributory causes of economic crisis is the currency instability. This can be seen beginning from the world economic recession in 1933 (The Great Depression), the Mexican peso crisis in 1995, the currency devaluation of the Asian countries (1997/98), the Russian ruble crisis in 1998 and recently the global economic crisis in 2008. The emergence of these economic crises is due to the instability of fiat currency value being used in the world economic system. This consequently leads to the suggestion of restoring gold dinar as the currency in the world monetary system (Salmy Edawati Yaacob, 2011).

Gold dinar was first used during the Roman and Persian era known as denarius. It was widely used and extensively available to the Arab land and used by the Prophet Muhammad s.a.w. (pbuh), during the era of Islamic Caliphs Al-Rashidin and thereafter until the ‘Ottoman era. The word dinar was taken after the Roman denarius gold currency and the Arabs called it ‘dinar’. The first Islamic dinar and dirham were introduced during the era of caliph ‘Abd al-Malik ibn Marwan. The Islamic gold dinar was a round coin weighs 4.25 grams of 24 carat 917 gold. The type and weight was according to the syar’ie standard measurement agreed upon by the Islamic jurists of the time. Because of this, gold dinar is associated as the currency linked to the Muslims and is referred to as the syar’ie currency or the Islamic currency today. The usage of gold dinar ended in 1924 after the fall of the Ottoman Turkish Empire (Salmy Edawati, 2009).

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After the fall of the Turkish government in 1915, that marks the end of gold dinar and silver dirham in the world financial system. According to Vadillo (2002) the world’s first modern gold dinar was minted and launched on November 7th, 2001 by the Islamic Mint in collaboration with the Thomas Cook Rostamani Exchange Company and Dubai Islamic Bank in United Arab Emirates (UAE). Gold dinar can be obtained from the branches of Thomas Cook Rostamani Exchange Company and Dubai Islamic Bank in all seven states of the UAE (Rosli Yaacob, 2007). According to Dahinden (2008) until today, there are five gold dinar factories in the world and they are in Dubai, Spain, South Africa, United Arab Emirates and Indonesia. Meanwhile, the Royal Mint of Malaysia is the first gold dinar producer in Malaysia (Utusan Malaysia, 2008, January 22nd). The Royal Mint gold dinar was launched on July 27th, 2003 in Shah Alam (Dahinden, 2008). Besides that, the Kelantan Gold Dinar (DEK) officially inaugurated its use on May 21st, 2006. DEK is under the patronage of the State of Kelantan government and managed by the Kelantan Golden Trade. The latest producer of gold dinar is Public Fine Gold International Ltd. with their first issuance of Public Gold Dinar in February 2009.

The earliest studies (after the fall of Turkish government) on the physical use of gold dinar were done by alMaqrizi (1957) during the time of the Mamluk government. Following that, there were several other studies done by Vadillo (2002), Ahamad Kameel (2002), Nuradli Ridwan Shah (2003), Zuhaimy (2003), Muhammad Nasri & Azizi (2004) and Hosein (2008). The ideas and suggestions to reintroduce the usage of gold dinar in the currency system are not new because al-Maqrizi in his book Ighathah al-'Ummah bi Kashfi al-Ghummah clearly touched on the subject of gold and silver as the Muslims currency. Al-Maqrizi who has lived during the era of the Mamluk has witnessed clearly the problems in the monetary system when the government was badly hit by inflation as a result of excessive printing of copper as loose money (fulus). Al-Maqrizi has asserted the restoration of physical gold dinar as a currency in order to avoid inflation. The copper money at that time can cause inflation because copper can easily be created and produced compared to gold and silver currency. Hence, al-Maqrizi has outlined three main factors that need to be developed in order to achieve a stable monetary system and economy of a country. The three main factors are the use of gold and silver as a currency, to avoid currency devaluation, and to limit printing of loose money (fulus).

The study by al-Maqrizi (1957) in relation to the elimination of inflation through the reusage of dinar and dirham currency was a valuable study and very important at that time because that was the era of early evolution of the transition from bimetallic system to the paper currency system. It was also different from the present era of rapid economic development. However, one cannot deny that the occurrence of currency crisis and inflation in the present era, especially the currency crisis in 1997, is the same as which was mentioned by al-Maqrizi. The 1997 currency crisis has witnessed the dumping of Asian currencies in the market which has caused sharp devaluation of these currencies. According to Tun Dr. Mahathir Mohammad (2000), the Asian currency crisis occurs due to the speculative attack on the currencies of Asian countries through short selling activities by the currency traders. This speculative attack has caused the drop in the value of Malaysian Ringgit, Thai Baht and Indonesian Rupiah. As a result, severe inflation occurs because inflation increases production costs which lead to the fall in value (Jefferson, 1977; Harris, 1975).

From that chain of events, Tun Mahathir as the Malaysian Prime Minister at that time suggested the return of gold dinar. This is because the current world monetary system has failed to fend off currency speculators attack which has resulted in sharp devaluation of many Asian countries currencies including Malaysia in 1998 (Anon, 2002a). The major currencies such as US dollars (USD) and pounds sterling can influence the local currency causing economic instability in the Middle East and Asian countries. Hence, Tun Mahathir (2005) considers gold dinar is one important mechanism to fend off the smaller countries from instability and injustice in the global economic system. Ideas and suggestions of Tun Mahathir was the starting point of movement towards the usage of gold dinar as a currency. Vadillo (2002) considers this effort as a positive indication for Malaysia in gold dinar implementation. Meanwhile, a recent study by Mohd Mazli Alias (2010) on the usage of gold dinar as a currency has highlighted a number of places in Malaysia accepting dinar and dirham in daily transactions. Among the places are the Siti Khadijah General Market in Kota Bharu, Kelantan, W. N Haji Wan Ahmad Gold Shop in Shah Alam, Steam Rice Cafe and Restaurant in Bangi, and Dr. Rosni Adam Dentist Clinic in Cheras, Selangor. Hence, the aim of this study is to analyze the form of gold dinar usage in Malaysia and to discover the existing applications of gold dinar practiced in Malaysia 10 years after it was initiated.

Current Application Of Gold Dinar In Malaysia:

To date, there are few alternatives on the usage of gold dinar proposed and implemented i.e. the use of gold dinar in the international trade, electronic payments system (e-dinar), investments, reserves, zakat payments, souvenirs (jewelry) and wedding dowry.

i) Gold Dinar in the international trade:
In the initial stage of gold dinar application, Tun Mahathir proposed for gold dinar to be used in international trade through Bilateral Payment Agreement (BPA) and Multilateral Payment Agreement (MPA). Prior to this, Malaysia has signed BPA with 24 countries and is looking forward to implement the concept of gold dinar with those countries. Tan Sri Nor Mohamed Yakcop, the then Malaysian Second Minister of Finance, was entrusted to lead this mission. The use of gold dinar in international trade (BPA) involves commitment from both countries, and so far there are already three countries showing interests and has agreed to trade with Malaysia in gold dinar i.e. Iran, Bahrain and Sudan (Anon, 2002b).

According to Tan Sri Nor’s proposal (2002), BPA involves gold dinar implementation process between two countries who agree to carry out import and export trade. The difference in the total of exports and imports between these two countries will be valued in gold dinar. As an example; Company A in Malaysia exports rubber to Company C in Saudi Arabia for a sum of USD 1 million. Company C will make payment in Saudi Riyal to the Central Bank of Saudi Arabia which would exchange it into USD for remittance to Central Bank of Malaysia (BNM). Company A will receive payment in Malaysian Ringgit from BNM. The same applies when Company B in Malaysia imports crude oil from Company D in Saudi Arabia for a sum of USD 500,000. The companies will make and receive payment in their respective currencies. The trade progress will be evaluated once in three months. After three months, Saudi Arabia owes Malaysia a sum of USD 500,000. Here, at this stage the role of gold dinar comes into picture when the outstanding balance will be valued to dinar (according to current gold prices). The clearance would be made at the Bank of England who will transfer the outstanding balance from the gold reserve account of Saudi Arabia to the gold reserve account of Malaysia equivalent to the value of dinar to USD 500,000.

Ahamed Kameel Mydin Meera (2002) supports this approach and considers it a fair system for trade surplus measured by the current price of gold is more stable than fiat money and will not penalize any country. It will also be an alternative to eliminate dependency on USD in the international trade and thus gives an advantage to small countries (Hassanudden, 2005). All countries can participate in this system despite not having a lot of dinar deposits (Ahamed Kameel, 2002).

Noradli Ridwan Shah Mohd Dali et al. (2004) also clarifies the practicality of BPA system implementation in gold dinar because it manages large scale trade transactions between exporters and importers. The goods imported will be sold in the country to the end users. Next, wholesalers and retailers will buy the goods from these importers with transactions made in local currencies and not gold, before the goods get distributed to the consumers. If the implementation of e-dinar in e-commerce receives good responses from the public, it is not impossible for the electronic payment system using gold as currency denomination will become a reality in the international trading system. He also states the characteristics of the BPA system using gold dinar as follows:

a) The central bank monitors importers and exporters.
b) Importers and exporters can make use of the banking facilities to manage their business.
c) Balance transfers do not involve physical gold, but only when it is necessary.
d) No loss in exchange and currency risk.
e) Implementation is almost similar with normal BPA except this time, gold denomination is used.
f) Its formation is according to syar’ie principles.
g) Suitable for large market importers and exporters.
h) Establish contact with free market and extends trade network together with close affiliation with banks.
i) Guaranteed payment by exporters in ringgit without debt risks.
j) Reduce cost transactions and promote international economic cooperation between countries.

However, until now this system has yet to be implemented even though its implementation was announced to inaugurate in October 2003 (Parker, 2002). According to Tun Mahathir (2005) this system cannot be implemented because the OIC countries are not ready and have no confidence to trade in gold dinar. Noradli Ridzwan Shah Mohd Dali et. al. (2004) view three key factors that prevent the OIC countries from cooperating. They are the difference in economic conditions, domestic political upheavals and limited infrastructure facilities as there are only four countries that have shown interest in using gold dinar – Malaysia, Iran, Bahrain and Sudan. The dual currency system would be used by these four countries when they trade with countries not using gold dinar. The usage of gold dinar in the international trade is still a hiccup because the community has been too well integrated with the existing system and it is difficult for them to accept the currency in the form of gold and silver.

ii) Gold dinar as electronic payment system – e-dinar (P) Ltd. and Web Dinar system

To this day, in Malaysia, there are several retail transactions conducted using the dinar unit through the electronic payment system. One of the application systems is e-dinar system developed by e-dinar (P) Ltd. while Dinar Web has started operation in September 2009.
(a) **e-dinar:**

*e-dinar* is a payment and electronic exchange system through internet. *e-dinar* operates in *e-dagang* (etrade) where online buying and selling transactions are done in gold and silver. The special feature of *e-dinar* system is that it is 100 percent supported by physical gold and silver. The unit used are *e-dinar* and *e-dirham*. The physical gold and silver which support these *e-dinar* and *e-dirham* units will always be on par value or more than the *e-dinar* and *e-dirham* units in circulation. Each *e-dinar* electronic unit is equivalent to the exact fixed weight of 4.25 grams of 24 carat pure gold (Dahinden, 2008).

Ahamed Kameel Mydin Meera (2000) considers this new innovation of gold dinar is to prevent the holding of gold everywhere, at the same time for consumer’s convenience and security reason. The credit and debit card systems will also be incorporated into the *e-dinar* electronic payment system. The holder of *e-money* account can always change the values in the form of gold. The *e-dinar* system was established in August 2000 in Labuan, Malaysia with base in Dubai Corporation, Dubai (Dahinden, 2008). Until today, *e-dinar* (P) Ltd. has about USD 10 million worth of coins in circulations all over the world and another USD 40 millions or nearly 4 tonnes of gold in *e-dinar* system (Utusan Malaysia, 2008). The physical gold and silver for the *e-dinar* system is kept by the Emirates Gold DMCC in Dubai and Embraport in Switzerland. The total number of *e-dinar* account holders as at June 2008 is 9000 with 6000 of them is active members of both *e-dinar* and *e-dirham* accounts (Dahinden, 2008).

The advantages of *e-dinar* system according to Dahinden (2008):

a) A payment system that is lawful (*halal*) and in accordance with the syarie.

b) The values of *e-dinar* and *e-dirham* are supported 100 percent by the physical gold and silver.

c) The fee imposed is only one percent of the total transactions with maximum of 0.015 (USD 1.90) for *e-dinar* transaction and 0.5 (USD 0.88) for *e-dirham*.

d) Instant payment without delay in real time, direct without involvement from the banking institution or middleman.

e) The holder of *e-dinar* account is given the choice to exchange *e-dinar* and *e-dirham* into the form of paper currency or physical gold.

f) The asset value is guaranteed against the risk of value depreciation.

Muhammad Nasri Husain & Ishak Abd Rahman (2004) suggested the use of smart card in *e-dinar* as a daily transaction tool. The value in the smart card represents the value of gold dinar in the *e-dinar* account. Consumer only needs to carry the smart card or debit card and use it in the daily business transactions. The smart card plays the same role as the today’s paper currency with the exception that it has the physical gold support in the bank.

(b) **Dinar Web System:**

Dinar Web is an online trading system that uses the value of gold dinar value in payment transactions. The main objective of this system development is to create a single online trading system according to the syarie principle and to promote the use of Islamic currency i.e. gold dinar as a *halal* transaction (Webdinar, 2011).

The dinar web system has 4 main components:

i) D2D Portal

ii) Dinar card (members registration) iii)

Gold dinar currency (top up)

iv) Dinar payment card (payment authenticity)

As a start in implementing this system, the Islamic gold dinar card (IGD) will be offered to the consumers of the Islamic Bank. The uniqueness of this card is:

i) In accordance to the syarie principles.

ii) Inflation, manipulation and speculation are non existence.

The use of IGD card for goods and services offered under the Islamic Bank will benefit both the bank and the cardholder. The value of this card can be used to purchase Islamic goods and services or to retain it as an investment. This is because gold value is not the same as the value of paper currency and inflation will not depreciate its value. On top of that, the depositors of Bank Islam would also be offered the IGD card as an alternative payment to perform pilgrimage in Makkah.
 iii) **Gold Dinar Investment:**

Gold dinar investment in Malaysia is run by the E-Qirad (P) Ltd. and the Public Fine Gold International (P) Ltd.

(a) **E-Qirad (P) Ltd.**

E-Qirad (P) Ltd. is a subsidiary of the Islamic Mint that is responsible for the minting of gold dinar in Dubai. E-Qirad appointed agents (wakala) throughout the world to handle the dinar investment (Zuhaimy Ismail 2003; Vadillo 2002). A customer who opens gold dinar saving account will be given the privilege to join gold dinar investment scheme called Islamic Hybrid Instrument (IHI). The minimum savings required to participate in this investment is 25 dinar for an individual and 100 dinar for a company or cooperative (KPMJ Gold (P) Ltd. 2006). Investors are offered two investment options offering attractive investment returns. Gold dinar investment is based on the principle of al-Mudharabah. Examples of gold dinar investment options managed by the Malay Johor Investment Cooperatives (KPMJ) are as follows (KPMJ Gold (P) Ltd. 2006):

**Option 1:**

- Capital and profit are pegged at prices they were initially acquired. This means that the investor’s price of gold will not change throughout the investment period. Investors shall not worry about changes in the world gold price.
- The rate of profit is between 8 to 9 percent per annum (minimum estimate).
- Investment period is 24 or 36 months.
- Profits are paid in ringgit on monthly basis. Profits payment starts a month after commencement of investment.
- Investment capital will be returned in ringgit at the end of investment period. Investment capital is guaranteed.

**Option 2:**

- Capital and profits depend on the current market price. Dinar prices vary according to the world current gold market price.
- The rate of profit is 11 percent per annum (minimum estimate).
- Investment period is 12 months, 24 or 36 months.
- Profits are paid in ringgit on monthly basis. Profits payment will be credited into the investor’s dinar account with KPMJ Gold.
- Investment capital will be returned in the form of gold dinar at the end of investment period. Investment capital is guaranteed (value of ringgit depends on the current gold dinar prices).

(b) **Public Fine Gold International (P) Ltd.**

A company that is actively involved in selling and buying gold for investment with attractive prices and quality 24 carat gold. It offers gold coins and gold ingots to buyers. For gold coins there are the Public Gold coin of 50 grams (24 carat gold) and the Public Gold Dinar, while for gold bars, there are 20 grams, 50 grams and 1 kg (24 carat gold). Public Gold Dinar is the newest product produced offering three denomination values of 1 dinar, 5 dinars and 10 dinars.

Gold dinar reserves as assets are also good investments compared to the normal investments that are not gold based. Investment in gold guarantees value and provides security (Zuhaimy Ismail, 2003). Umar Azmon Amir Hamzah (2002) lists 10 reasons why the community should choose gold as an investment:

i) No risk of losing all the money even though the gold market values are always changing. ii) Rate of exchange is much slower and more stable compared to other investment instruments. iii) Does not carry credit risk and is a secured asset. iv) Golds are more liquid than other available alternative assets. v) Gold is not a liability to anyone. vi) Gold has a good long term record in retaining real values. vii) Gold is a safer and guaranteed financial asset viii) A valued and stable commodity with increasing value potential ix) Used as a tool to hedge against inflation. x) An unmatched object of beauty and jewelry.
iv) Gold dinar in zakat payment, pilgrimage and wedding dowry:

Kelantan Gold Dinar (DEK) which was launched on May 21st, 2006 has given the opportunity to the Kelantan people especially and the Malaysian public generally to benefit from the advantages of gold dinar in various forms of activities such as reserves, investments, zakat payments, jewelry and wedding dowry. Kelantan is the first state in Malaysia to accept zakat payment in gold dinar form. The people of Kelantan can pay zakat and get gold dinar at all eight branches of Kelantan Islamic pawn shops (Dinar Kelantan, 2011). There are also several places in Indonesia that accept gold dinar as zakat payment by establishing wakala or special institution (Hamidi M. Lutfi, 2007). Meanwhile gold dinar as a wedding dowry has also been practiced by some community in Malaysia. In 2001 Malaysian artists M Nasir and Marlia Musa became the first couple to gold dinar as their wedding dowry (Utusan Malaysia, 2001).

Conclusion:

The Asian currency crisis in 1997 has given great wisdom to the Muslims to pursue further in their discussion of restoring monetary application to gold dinar for its intrinsic value, total fairness, and stability and with no elements of usury and *gharar*. The suggestion to the gold dinar restoration was initiated by the then Prime Minister of Malaysia, Tun Dr. Mahathir Mohamad and this issue was given the due attention by the Malaysian economists and ulamas. Eventually, the minting of gold dinar was done in Malaysia, started by the Islamic Mint, Royal Mint and currently by Kelantan Golden Trade (Kelantan Gold Dinar). The minting of gold is seen as a positive move in the realization of gold dinar restoration for it is the first step toward introducing and promoting gold dinar to the Malaysian community. When gold dinar coins start to circulate in the market, various methods of applications such as a currency, electronic payment transactions (e-Dinar and Dinar Web), zakat payments, pilgrimage transactions, investments, reserves, jewelry gifts and wedding dowry are being introduced to the public. Gold dinar development in Malaysia is considered as positive when its usages are expanding and developing with time and thus giving the evidence to this study of the growing acceptance of gold dinar by the Malaysia community simultaneously making the effort to restore and revere the supremacy of gold dinar as a currency a realization.

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