THE POTENTIAL OF USING GOLD DINAR FOR INTERNATIONAL TRADE AMONG OIC COUNTRIES

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ABSTRACT

This purpose of this research was to study the possible introduction of Gold Dinar into Organization of Islamic (OIC) countries and to examine the implications of using the Gold Dinar, especially with the respect to international trade. The present study, casts light, through investigating the current usage of Gold Dinar in international trade, on the pros and cons of using Gold Dinar, and emphasizes its strengths. This research, aims to examine interest in using the Gold Dinar as well as to outline the obstacles to expanding its use. Moreover, there is also a focus on using the Gold Dinar as a payment settlement method for international trade. To achieve the objectives of this research, qualitative research methods including content analysis and interviews were used. The study utilized personal interviews with scholars, and studying books, journals, magazines, as well as the empirical analysis from the available evidence such as documents published by the IMF, UN and OIC. The study found that establishing a Gold Dinar trade bloc would encourage intra-trade among OIC members. This effect would be more robust than those generated by the currently existing economic blocs within the OIC countries. Obstacles to implementing the Gold Dinar among OIC countries included political, social, and cultural factors. However, the main obstacle was a lack of understanding and the application of the Islamic Shari'ah. Malaysia's proposal that Muslim countries use the Gold Dinar is a serious, practical idea if Islamic countries would implement it. Adopting the Gold Dinar amongst OIC countries with an Islamic fiscal policy an Islamic monetary system would lead to the amendment of international monetary relations in the direction of creating a stable and just global monetary system. The implementation of Gold Dinar would solve the problems inflation, change the value of money and bring stability to our financial obligations and transactions.

Keyword: OIC, gold, dinar, standard, trade.

ABSTRAK

Tujuan penyelidikan ini adalah untuk mengkaji pengenalan dinar emas dalam kalangan negara-negara OIC dan kesan penggunaan dinar emas ke atas ekonomi khususnya untuk perdagangan antarabangsa. Ia juga bertujuan untuk mengenal pasti penggunaan semasa dinar emas dalam ekonomi khusus untuk perdagangan antarabangsa, menganalisis kekuatan penggunaan dinar emas serta mengkaji kepentingan dan halangan dalam mengembangkan dinar emas. Selain itu ia bertujuan untuk menyiasat mekanisme dinar emas sebagai penyelesaian pembayaran bagi perdagangan antarabangsa. Kajian ini menggunakan kaedah kualitatif bagi mencapai objektif kajian. Antaranya ialah kaedah temuramah dengan alim ulama, rujukan terus kepada buku-buku, journal, majalah dan bukti statistik yang terkandung di dalam dokumen yang diterbitkan oleh IMF, UN dan OIC. Kajian ini mendapati bahawa dengan penubuhan blok perdagangan dinar emas akan menggalakkan intraperdagangan dalam kalangan anggota OIC. Kesannya adalah lebih mantap berbanding daripada yang dijana oleh blok ekonomi yang sedia ada dalam negara-negara OIC. Kajian ini juga telah mengenal pasti faktor yang menghalang penggunaan dinar emas dalam kalangan negara-negara OIC iaitu faktor politik, sosial dan budaya. Walaupun begitu, kekangan utama adalah ketiadaan persefahaman dan pengaplikasian dari segi Syariah Islam. Malaysia mencadangkan bahawa jika negara-negara Islam menggunakan dinar emas, ia adalah satu idea yang serius dan negara-negara Islam akan melaksanakannya. Walau bagaimanapun, usaha untuk melaksanakan dinar emas dalam kalangan negara-negara OIC dengan dasar fiskal dan sistem kewangan Islam akan membawa kepada pindaan hubungan kewangan antarabangsa ke arah mewujudkan sistem kewangan yang stabil dan global. Pelaksanaan Dinar Emas akan menyelesaikan masalah inflasi dan pertukaran nilai mata wang dan membawa kepada kestabilan terhadap urus niaga dan sistem kewangan.

Kata Kunci: OIC, dinar emas, standard emas, syiling emas, perdagangan antarabangsa

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LIST OF ABBREVIATIONS

1. BNM : Bank Negara Malaysia
2. BPA : Bilateral Payment Arrangement
3. CD : Central Depository
4. CDO : Commission Debt Obligation
5. CPI : Consumer Price Index
6. DEK : Dinar Emas Kelantan
7. FDIC : The Federal Deposit Insurance Corporation
8. GDP : Gross domestic product
9. GDRG : Gold Dinar Research Group
10. GDTB : Gold Dinar Trade Bloc
11. GNP : Gross National Product
12. IBFIM : Institute of Islamic Banking and Finance Malaysia
13. IDB : Islamic Development Bank
14. IIU : International Islamic University
15. IMF : International Monetary Fund
16. INCEIF : International Centre for Education in Islamic Finance
17. ISRA : Shariah Research Academy for Islamic Finance
18. MIFC : Malaysia International Islamic Financial Centre
19. MPA : Multilateral Trade Arrangement
20. OIC : Organization Islamic Country
21. OPEC : Organization of the Petroleum Exporting Countries
22. PAS : Islamic Party of Malaysia
23. PKB : Permodalan Kelantan Berhad
24. SESTRICIC : Statistical, Economic and Social Research and Training Centre for Islamic Countries
25. USM : Universiti Sains Malaysia
26. UUM : University Utara Malaysia

CHAPTER ONE

INTRODUCTION

Background of the Study

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

> *"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)*

In a claim by a Muslim scholar Ibn Khaldun in his book Muqaddimah (1989:298) that God created the two precious metals, silver and gold to serve as a measure of value for all capital accumulations. With the spread of Islam, the dinar was minted in large quantities and gradually displaced the bezant gold coin as the major international currency, circulating throughout the Muslim world and the Christian Europe as well.

Gold had played an important role as currency for many centuries in a way or another until the end of Bretton Wood's system (Imran N.Hosein, 1997). After the collapse of Bretton Wood's system, fiat money and a floating rate exchange system have taken place in the monetary system. Fiat money is created out of nothing which is by printing by the power of an issuing authority, Federal Reserve. The problem with the conventional financial system is the practicing of interest by commercial bank or we called it Riba. That is the root cause of uncertainty value paper money in this current financial system. And interest comes from commercial bank as a loan especially for car and house is widely used. Economies that look healthy one moment are seriously ill the next (Riane Eisler, 2007).

By the early 1970s, as the costs of the Vietnam War and increased domestic spending accelerated inflation, the U.S. was running a balance of payments deficit and a trade deficit, the first in the 20th century. To stabilize the economy and combat the 1970 inflation, on August 15, 1971, President Nixon “closed the gold window”, ending convertibility between US dollars and gold. The President and fifth teen advisors made that decision without consulting the members of the international monetary system, so the international community informally named it the *Nixon shock*.

The collapse of Bretton Woods, led the world monetary system in inflationary and high volatility. Paper money were no longer has been pegged to gold. So there is no intrinsic value in the money. Meaning that, the paper/fiat money that we holding leaks in value, devalued and not long lasting.

But, Gold is an ideal value keeper. It can be kept for future use and will not be obsolete like fiat money. It is uncreatable and indestructible and does not cause inflation. It is also un-susceptible to exchange rate (Dinar Dirham Research Group 2003). Thus, gold 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 stable unit of account. In many people’s mind, an international payment system based on gold, addresses both the issues of monetary stability and justice (Mahathir Mohamad, 2002). In addition, it also assists welfare and sustained economic growth, free from deception, exploitation and oppression (Hifzur Rab, 2002**)**.

The need to revisit the gold Dinar as a monetary stability has been voiced out by many scholars and ulama’s since 1970s in order to avoid riba and to provide alternative for the Muslim such as Imran N. Hosein, Director of Islamic Studies for the Joint Committee of Muslim Organizations of Greater New York and Umar Ibrahim Vadillo from Al-Murabitun. Even though the gold Dinar could provide justice and stable monetary system, the implementation is not as easy as being said.

The developing and the so called third world countries could not easily transform their system to the gold standard because developed countries would definitely oppose to the system which will make their paper money worthless. Countries using the gold dinar would use fewer US dollars in their international trade and this would lead to the further weakening of the US currency.

In order to avoid disruption in the economic order, the implementation of gold Dinar must be done part by part to ensure success especially in overcoming obstacles, such as the small amount of gold holding among Islamic countries and the minimum level of awareness regarding the usage of gold Dinar for trading transaction (Mohd Dali, Muhammad, Azizan 2004). Islamic reformers are keenly aware of the limitations of the current Western system and are actively seeking change, and oil-rich Islamic countries may have the clout to pull it off (Ellen H.Brown, 2008).

Problem Statement

As the amount of paper-money in circulation has reached its height in the last decades, side by side, taxation, unemployment, poverty and crime have increased to the same degree. Now, the dollar been circulated around the world without been pegged to gold anymore. In fact, the value of dollar is illogical. During financial downturn the US Dollar is still strong due to exchange rate system. The volatility in the currency markets still persist today, and the Muslim countries are perhaps amongst those that are most affected. World commodity prices including crude oil, natural gas, palm oil, natural rubber, rice and tea are quoted on the commodity and futures exchanges in the US dollar. Not surprisingly, many of the Muslim currencies including the Malaysian ringgit, the Saudi riyal, the Kuwaiti dinar, the UAE dirham, have traditionally been pegged to the US dollar. Malaysia was forced to go down this route in 1999, following the Asian crisis which saw the US dollar and other international currencies such as the Japanese yen and sterling sharply appreciate against the ringgit. However, pegging your currency to a strong international currency such as the US dollar has its upside and downside. (Mahathir Mohamad, 2000)

According to el-Diwany (2003), it is not impossible to abolish the pegging of currency to US Dollar in financial system, but effort must be done in order to create independent model in protecting community by having their own trading currency, market and financial system. As capitalism is dominating the financial system, it seems impossible to Islamize the system by promoting Islamic financial system as a part of it due to contradiction of both system in term of their underlying philosophical thought. He analogized the conflict by saying that, the conventional financial tree been seeded by interest, therefore it will not be able to come out a financial product even though through Islamic banking.

The nature of gold itself is constant, in fact increasing in value regardless of occurrence financial tsunami, irresponsible government or leadership crisis. The attribute of gold is to store value.

Referring to Umar Ibrahim Vadillo (2002), gold, as the most sound and stable currency in the world, is also the ideal medium for savings, because history has proved that its value in relation to other basic commodities has remained uniquely stable throughout centuries. An equally important advantage of gold is that gold is universal, identical in Britain as in China, therefore perfect for making international payments without having to rely on the unpredictable and costly exchange rates of all other paper currencies. He also affirmed that for around 2,500 years the universal currency was made up of small pieces of gold and silver called coins. They survived for two millennia despite the numerous attempts by many governments to manipulate them and replace them with their own medium of exchange. This perception of the very nature of currency and the characteristics of precious metal at the service of the economic exchange leads us to think that gold and silver will probably survive another two thousand years.

With the fall of US Dollar the entire financial system is collapsing. According to Judy Shelton (1994) when the money melts down, the entire fraudulent financial system may collapse. Thus, some may suggest returning in Gold dinar because of various reasons that will be discussed later.

In an address to an international seminar held on June 25-26, 2002 on the adoption of the Islamic dinar as the unit of currency for international trade, especially between the Muslim countries, Tun Dr. Mahathir Muhammad advocated the return of Islamic Gold Dinar. Dr. Mahathir, first mooted the idea of an Islamic gold dinar as a standard unit of currency for trade and financial transactions between the 54 member countries of the Jeddah-based trans-national Islamic Development Bank (IDB). This is in the aftermath of the currency crisis that hit the Asian countries, including Malaysia so badly in 1997.

Nevertheless, the claim that economic downturn from 2007 until 2010 is caused by massive money lending activity mainly high risk loan called Commission Debt Obligation (CDO) been repackage then sell from commercial bank have not been properly examined. Under the fiat standard we have lost 97 percent of our money’s value since the government replaced the gold standard with the Fed and to this day we still have panics and severe recessions (Paul Nathan, 2011).The literature has so far remained silent or neglected the issue. Therefore, motivated by the importance to appraise gold as the most effectives means of stabilizing currency for international trade among OIC Country is a stepping stone to overcome the impose of financial dictatorship upon mankind, this study is justified in attempting to fill this research gap.

Recent Trends in Intra-OIC Trade

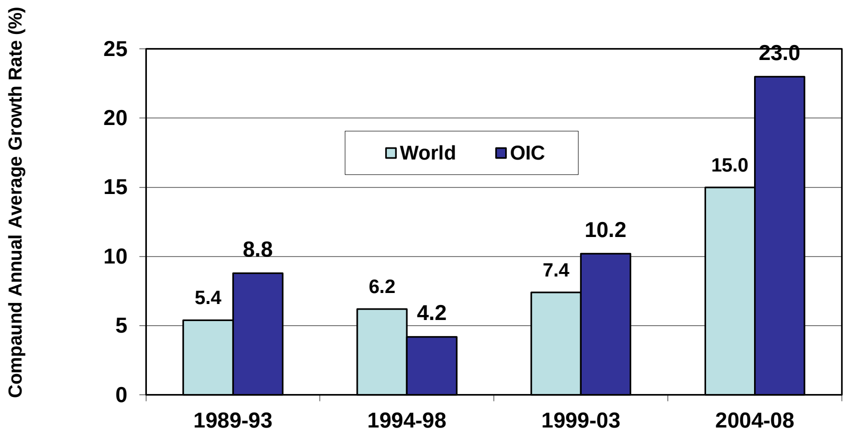

Figure 1.1
Growth in Intra OIC Trade (at current US $)
Source: IMF, Direction of Trade Statistics, March 2010

Despite the long history of the OIC, trade among the member countries (intra-OIC trade) had not shown improvement until the beginning of the 2000s. Referring to Figure 1.1 above, at the end of 1990s, during that period the growth in intra-OIC trade remained below that in total trade of OIC Countries. This was more apparent in the first half of the period when the difference between those growth rate was 3 percentage points, which lead to a decline in intra-OIC trade from 12.7% in 1989 to 11.4% in 1993. The gap almost closed in the following 5 year period with a negligible difference between the growth rates, such that the share of intra-remained around 11.8%. As displayed in Figure 1.1, the growth in trade among OIC Countries exceeded the growth in their total trade in the last decade. In the period of 1999-03, intra-OIC trade increased by 13.3% while the increase in total trade remained at 10.2%. This structure was preserved in the last five year period in 2004-08, for which those rates were 25.5% and 23.0% respectively. Consequently, the higher increase in intra-OIC trade, as would be expected, reflected into an increase in the share of intra-OIC trade. Accordingly by 2008, intra-OIC trade had increased to represent up to 16.2% of the total trade of OIC countries.

Despite the recent improvement both in volume and in percentage of intra-OIC trade, there is concern over the possibility to meet the target of 20% by 2015. Indeed, under the current conditions and given the recent growth rates in particular, it seems unlikely to reach that ratio in time. During the period from the adoption of the Ten-Year Programme of action in 2005 to 2008, total trade of OIC countries grew at an annual average of 23.7% while this rate for intra OIC trade increased from 15.3% to 16.2%. Quantitative reasoning shows that, in order for that share to reach 20% by 2015, the annual average growth in intra-OIC trade will need to exceed that in total OIC trade by at least 3.0-3.4 percentage point provided that the latter be 10% to 25% as in the last decade.

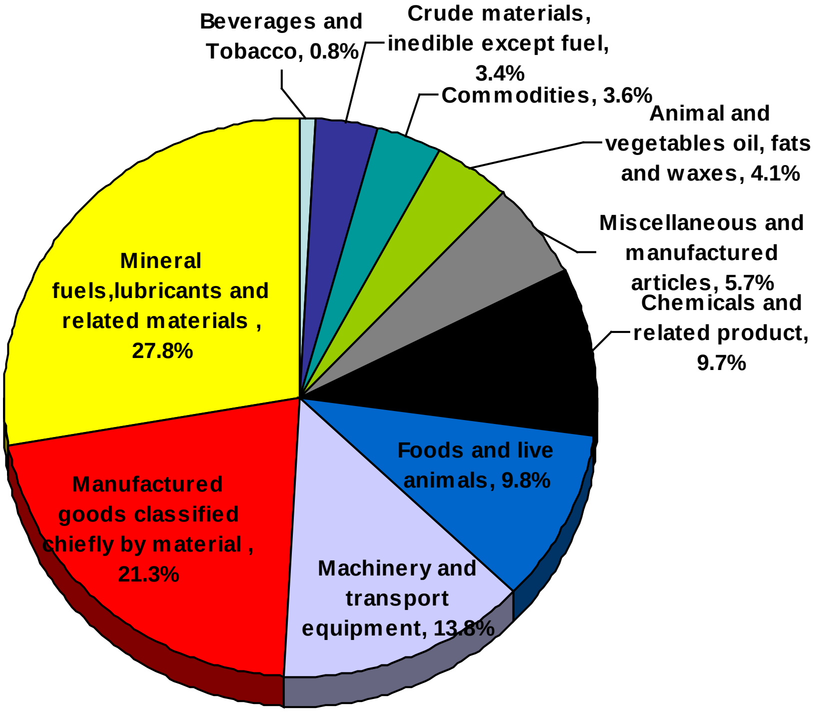

Figure 1.2
Structure of the Trade among OIC Countries, 2008
Source: Estimate from the COMTRADE database of the United Nations

It is estimated that as of 2008 as in figure 1.2, mineral fuels, lubricants, and related materials were the most traded commodity group among the OIC countries, accounting for 27.8% of the total intra-OIC trade. Manufactured goods with a share of 21.3%, was the second most-traded commodity group, followed by machinery and transport equipment that represented 13.8% of the trade. The remaining 37.1% of the trade consisted of food and live animals (9.7%), chemicals and related products (9.7%), miscellaneous manufactured articles (5.7%), animal and vegetables oils, fat and waxes (4.1%), inedible crude materials excluding fuels (3.4%), beverages and tobacco (0.8%), and other commodities (3.6%).

Closer look into details of the commodity composition of the trade among OIC countries reveals that petroleum, petroleum products and related materials are the top traded commodities, representing 17% of the total intra-OIC trade.

Although it is well known that the GCC countries are major suppliers of petroleum to the world, petroleum products, by value, were the top commodities in intra-OIC exports of member countries in Sub-Saharan Africa, Latin America and North Africa as well accounting for respectively 52%, 51% and 26% of their exports to OIC countries. Moreover, those commodities were the most imported ones from OIC countries by members in all regions except the GCC and South Asia, where they were the second-most imported commodities. For instance, almost half of the total intra-OIC imports of the members in Latin America and one third of the total intra-OIC imports of those in East Asia & Pacific and Sub-Saharan Africa consisted of these commodities.

Research Questions

As to discuss the research gap as mentioned in problem statement, the study focusing on answering these following questions:

1. What is the current volume of international trade among OIC countries?
2. What are the strengths and weaknesses of using gold dinar?
3. What is the advantages and obstacle in expanding of gold dinar?
4. What is gold dinar mechanism to be used as payment settlement for international trade among OIC countries?

Research Objectives

The objectives of this research are:

1. To investigate the current volume of international trade among OIC countries.

2. To investigate the strengths and weaknesses of using gold dinar.
3. To examine the advantages and obstacle in expanding of gold dinar.
4. To investigate the gold dinar mechanism to be used as payment settlement for international trade among OIC countries.

Limitation of the Study

Research is depended on the data in international trade transactions from year 1990 until 2008. Secondly, the study concentrated on the benefit of implementing gold dinar to economics sector in Islamic country. Thirdly, the study mainly focused on examining the views of scholars, academicians, and politician on the impact of using gold dinar to Organization Islamic Country (OIC). It also studied their views on the obstacles facing in terms of regulations and implementations especially by International Monetary Fund (IMF).

Significance of the Study

The topic is significant to the following reasons:

- Any study on Islamic economics and Finance is important and timely. Most of the books written on Islamic Gold Dinar are lacking solid reference to the global experience of Gold standard. It is natural to ask "why did the world do away with the Gold standard in the first place after experimenting with this over centuries, till as late as 1971?"
- Therefore, it would be extremely useful to examine the arguments offered against the use of gold standard and undertake a realistic assessment of the same before advocating the same for future, especially when there is no divine ruling in its favor. This study is an attempt to fill up this vacuum.

- We know that the growth created by trading and by providing services. So in order to have free, fair market and real it must be through the real people with real trading, with real commodities in real market with real money. Gold does not help the speculation, modify and manipulate of money that so called devaluation. It belongs to the real economy. The domain of the gold dinar is the real economy. As Allah said in the Quran, Surah Al-Baqarah, verse 279: “Do not diminish, make little the value of pupil’s wealth, property and services”.

Gold Standard

The **gold standard** is a monetary system in which the standard economic unit of account is a fixed mass of gold. There are distinct kinds of gold standard. First, the *gold specie standard* is a system in which the monetary unit is associated with circulating gold coins, or with the unit of value defined in terms of one particular circulating gold coin in conjunction with subsidiary coinage made from a lesser valuable metal.

Similarly, the *gold exchange standard* typically involves the circulation of only coins made of silver or other metals, but where the authorities guarantee a fixed exchange rate with another country that is on the gold standard. This creates a *de facto* gold standard, in that the value of the silver coins has a fixed external value in terms of gold that is independent of the inherent silver value. Finally, the *gold bullion standard* is a system in which gold coins do not circulate, but in which the authorities have agreed to sell gold bullion on demand at a fixed price in exchange for the circulating currency. The gold specie standard was not designed, but rather arose out of a general acceptance that gold was useful as a universal currency (Richard Lipsey 1975: 683–702). When commodities compete for the role of money, the one that over time loses the least value takes on the role. In modern times the British West Indies was one of the first regions to adopt a gold specie standard. Following Queen Anne's proclamation of 1704, the British West Indies gold standard was a *de facto* gold standard based on the Spanish gold doubloon coin. In the year 1717, master of the Royal Mint Sir Isaac Newton established a new mint ratio between silver and gold that had the effect of driving silver out of circulation and putting Britain on a gold standard.

However, only in 1821, following the introduction of the gold sovereign coin by the new Royal Mint at Tower Hill in the year 1816 was the United Kingdom formally put on a gold specie standard, the first of the great industrial powers. Soon to follow was Canada in 1853, Newfoundland in 1865, and the USA and Germany *de jure* in 1873. The USA used the Eagle as their unit, and Germany introduced the new gold mark, while Canada adopted a dual system based on both the American Gold Eagle and the British Gold Sovereign (Richard Lipsey, 1975).

The Gold Exchange Standard (1870-1914)

Towards the end of the 19th century, some of the remaining silver standard countries began to peg their silver coin units to the gold standards of the United Kingdom or the USA. In 1898, British India pegged the silver rupee to the pound sterling at a fixed rate of 1s 4d, while in 1906, the Straits Settlements adopted a gold exchange standard against the pound sterling with the silver Straits dollar being fixed at 2s 4d (Richard Lipsey, 1975).

At the turn of the century, the Philippines pegged the silver Peso/dollar to the US dollar at 50 cents. A similar pegging at 50 cents occurred at around the same time with the silver Peso of Mexico and the silver Yen of Japan. When Siam(now

Thailand) adopted a gold exchange standard in 1908, this left only China and Hong Kong on the silver standard.

During the World War I many Governments faced with the need to fund high levels of expenditure, but with limited sources of tax revenue, suspended convertibility of currency into gold on a number of occasions in the 19th century. The British government suspended convertibility (that is to say, it went off the gold standard) during the Napoleonic wars and the US government during the US Civil War. In both cases, convertibility was resumed after the war. The real test, however, came in the form of World War I, a test "it failed utterly" according to economist Richard Lipsey in his book *An introduction to positive economic (*1975*).*

In order to finance the costs of war, most belligerent countries went off the gold standard during the war, and suffered significant inflation. Because inflation levels varied between states, when they returned to the standard after the war at price determined by themselves (some, for example, chose to enter at pre-war prices), some countries' goods were undervalued and some overvalued (Richard Lipsey, 1975).

Ultimately, the system as it stood could not deal quickly enough with the large deficits and surpluses created in the balance of payments; this has previously been attributed to increasing rigidity of wages (particularly in terms of wage cuts) brought about by the advent of unionized labor, but is now more likely to be thought of as an inherent fault with the system which came to light under the pressures of war and rapid technological change. In any case, prices had not reached equilibrium by the time of the Great Depression, which served only to kill it off completely.

For example, Germany had gone off the gold standard in 1914, and could not effectively return to it as Germany had lost much of its remaining gold reserves in reparations. The German central bank issued unbacked marks virtually without limit to buy foreign currency for further reparations and to support workers during the Occupation of the Ruhr finally leading to hyperinflation in the 1920s.

The gold specie standard ended in the United Kingdom and the rest of the British Empire at the outbreak of World War I. Treasury notes replaced the circulation of the gold sovereigns and gold half sovereigns. However, legally, the gold specie standard was not repealed. The end of the gold standard was successfully affected by appeals to patriotism when somebody would request the Bank of England to redeem their paper money for gold specie. It was only in the year 1925 when Britain returned to the gold standard in conjunction with Australia and South Africa that the gold specie standard was officially ended. The British Gold Standard Act 1925 both introduced the gold bullion standard and simultaneously repealed the gold specie standard. The new gold bullion standard did not envisage any return to the circulation of gold specie coins. Instead, the law compelled the authorities to sell gold bullion on demand at a fixed price. This gold bullion standard lasted until 1931. On September 19 in 1931, the United Kingdom left the revised gold standard, (Barry Eichengreen 2008: 61). Forced to suspend the gold bullion standard due to large outflows of gold across the Atlantic Ocean. The British benefited from the departure. They could now use monetary policy to stimulate the economy through the lowering of interest rates. Australia and New Zealand had already been forced off the gold standard by the same pressures connected with the Great Depression, and Canada quickly followed suit with the United Kingdom.

Some economic historians, such as American professor Barry Eichengreen, blame the gold standard of the 1920s for prolonging the Great Depression (Barry Eichengreen, 1992). Adherence to the gold standard prevented the Federal Reserve from expanding the money supply in order to stimulate the economy, fund insolvent banks and fund government deficits which could "prime the pump" for an expansion.

Once the US went off the gold standard, it became free to engage in such money creation. Others including Federal Reserve Chairman Ben Bernanke and Nobel Prize winning economist Milton Friedman place most or all of the blame for the severity of the Great Depression at the feet of the Federal Reserve (Barry Eichengreen, 1992).

During the 1939–1942 periods, the UK depleted much of its gold stock in purchases of munitions and weaponry on a "cash-and-carry" basis from the U.S. and other nations. This depletion of the UK's reserve convinced Winston Churchill of the impracticality of returning to a pre-war style gold standard. (Ron Paul & Lewis Lerhman, 2007: 126-135).

John Maynard Keynes in his book *The Economic Consequences of Peace* (1919), who had argued against such a gold standard, proposed to put the power to print money in the hands of the privately owned Bank of England. Keynes (1919), in warning about the menaces of inflation, said, "By a continuous process of inflation, governments can confiscate, secretly and unobserved, an important part of the wealth of their citizens. By this method, they not only confiscate, but they confiscate arbitrarily; and while the process impoverishes many, it actually enriches some".

Quite possibly because of this, the 1944 Bretton Woods Agreement established the International Monetary Fund and an international monetary system based on convertibility of the various national currencies into a U.S. dollar that was in turn convertible into gold (Ron Paul, 2007).

After the Second World War, a system similar to a Gold Standard and sometimes described as a "gold exchange standard" was established by the Bretton Woods Agreements. Under this system, many countries fixed their exchange rates relative to the U.S. dollar. The U.S. promised to fix the price of gold at approximately $35 per ounce. Implicitly, then, all currencies pegged to the dollar also had a fixed value in terms of gold (Ron Paul, 2007).

Under the administration of the French President Charles de Gaulle up to 1970, France reduced its dollar reserves, trading them for gold from the U.S. government, thereby reducing U.S. economic influence abroad. This, along with the fiscal strain of federal expenditures for the Vietnam War and persistent balance of payments deficits, led President Richard Nixon to end the direct convertibility of the dollar to gold on August 15, 1971, resulting in the system's breakdown (the "Nixon Shock") (Ron Paul, 2007).

Hence, this study is focusing on using gold dinar as unit of account for payment settlement in international trade among OIC Countries as to accept gold dinar standard as a currency for it. The study explores the possibility to use gold dinar.

CHAPTER TWO

LITERATURE REVIEW

Introduction

Recently, there has been an increasing amount of publications, conferences, even a campaign, about the re-introduction of the Islamic gold dinar. The proponents of this idea, particularly active in Malaysia, advocate that this country as well as the whole Islamic world “urgently” needs to return to the Islamic gold dinar. They argue that if this return is achieved, nearly all the ills of modern economies such as rampant inflation, credit crunches, stagnation, unemployment etc., which they associate with the present paper money system, would be solved. Some scholars also argue that since the Prophet (SAW) used coins, it would be only appropriate for Islamic countries to transform their currencies into gold dinars.

This study explore the literatures and previous study on 1) the usage of gold standard, gold bullion and gold coin. 2) the study of Islamic Dinar in civilization. 3) the views of scholars towards its implementation and 4) the view of scholars who oppose the practice.

The Usage of Gold Dinar in Islamic Civilization

In the beginning the Muslims used gold and silver by weight and the dinar and dirhams that they used were made by the Persians. The first dated coins that can be assigned to the Muslims are copies of silver dirhams of the SassanianYezdigird III, struck during the Khalifate of Uthman, radiy'allahuanhu. These coins differ from the original ones in that an Arabic inscription is found in the obverse margins, normally reading "in the Name of Allah". Since then the writing in Arabic of the

Name of Allah and parts of Qur'an on the coins became a custom in all mintings made by Muslims. (Porteous, John (1969).

Under what was known as the coin standard of the Khalif Umar Ibn al-Khattab, the weight of 10 dirhams was equivalent to 7 dinars (mithqals). In the year 75 (695 CE) the Khalifah Abdal Malik ordered Al-Hajjaj to mint the first dirhams, thus he established officially the standard of Umar Ibn al-Khattab. In the next year he ordered the dirhams to be minted in all the regions of the Dar al-Islam. He ordered that the coins be stamped with the sentence: "Allah is Unique, Allah is Eternal". He ordered the removal of human figures and animals from the coins and that they are replaced with letters. This command was then carried on throughout all the history of Islam. The dinar and the dirham were both round, and the writing was stamped in concentric circles. Typically on one side it was written the "tahlil" and the "tahmid", that is, "la ilahaill'Allah" and "alhamdulillah"; and on the other side was written the name of the Amir and the date. Later on it became common to introduce the blessings on the Prophet, salla'llahualayhiwasallam, and sometimes, sentences of the Qur'an. (http://www.dinarkel.com).

Gold and silver coins remained official currency until the fall of the Khalifate. Since then, dozens of different national currencies were made in each of the new postcolonial national states created from the dismemberment of Dar al-Islam. History has demonstrated repeatedly that paper money has been a permanent instrument of default and reducing the wealth of the Muslims. In addition, Islamic Law does not permit the use of a promise of payment as a medium of exchange. (Ibid)

According to Islamic Law, The Islamic Dinar is a specific weight of 22k gold (.917) equivalent to 4.25 grams. The Islamic Dirham is a specific weight of pure silver equivalent to 3.0 grams. Umar Ibn al-Khattab established the known standard relationship between them based on their weights: “7 dinars must be equivalent to 10 dirhams.” (http://www.muslimphilosophy.com/ik/Muqaddimah/Chapter3/Toc_Ch_3.htm).

Accordance to the article the revelation undertook to mention them and attached many judgements to them, for example zakat, marriage, and hudud, etc. Therefore within the revelation they have to have a reality and specific measure for assessment (of zakat, etc.) upon which its judgements may be based rather than on the non-shari'i (other coins). Know that there is consensus (ijma) since the beginning of Islam and the age of the Companions and the Followers that the dirham of the *Shari'ah* is that of which ten weigh seven *mithqals* (weight of the dinar) of gold. The weight of a *mithqal* of gold is seventy-two grains of barley, so that the dirham which is seven-tenths of it is fifty and two-fifths grains. All these measurements are firmly established by consensus.”

In addition, according to them, Islamic dinar can be used for saving, to pay zakat and dowry as required by Islamic Law and also can be used to buy and sell as it is a legitimate medium of exchange (http://www.muslimphilosophy.com/ik/Muqaddimah/Chapter3/Toc_Ch_3.htm).

Reason Behind the Usage of Gold Dinar

After the 1997-98 financial crises, Malaysia was in particular searching for what could ensure economic stability in the international transactions for the economy in years ahead. Not a few economists understandably saw the way out in the suggestion their then Prime Minister Tun Mahathir Mohamad made in early 2003. He thought that Muslim countries must introduce Gold Dinar into the picture initially as a unit of account for settling foreign payments among themselves. As experience is gained, its use could be widened as the pivot of a full-fledged international currency acceptable to all. Articles and books were written in support of the idea. International conferences, seminars, and workshops were organized, as indicated in references, to explain and elaborate the *modus operandi* and benefits the scheme would confer. Many welcomed the measure in elation without pondering for a moment on the practical aspect of the concept, its policy implications, or its capabilities in the event of a crisis.

Reliability

The ball was formally set rolling by Meera, the leading advocate of the idea when he published his book *The Islamic Gold Dinar* in 2002. He presented a paper *The Islamic Gold Dinar; Socioeconomic Perspectives,* written with Aziz at an International Conference on Stable and Just Global Monetary System held at Kuala Lumpur the same year. This was essentially a preliminary work where the authors attempted to look .into the prospects and the challenges of introducing the Islamic old dinar as a complementary currency within and among Muslim nations. In the light of what Malaysia had experienced during the 1997-98 financial crisis (2002, p.151). Meera followed these early explorations with more elaborate analyses in 2003, and 2004. In my interview with him on 25 November2011, and one may take this as the final version of his views on the subject. Here, he blames almost all economic ills of modern capitalism on two factors (i) the institution of interest and (ii) the fiat money system churning out credit unabated. In union, the two instruments have enabled, in his opinion, the rich Western nations -- US in particular, to plunder the developing countries of their wealth unceasingly. However, elaboration of these comments is not of much relevance to our argument. Important in Meera is his claim that a return to gold could *alone* restore order in an otherwise chaotic exchange arrangement reining the world at present. As a first step in that direction, Muslim countries who are, he thought, the worst victims of the Western exploitation must introduce gold dinar as a unit of account in their payments system. They are advised to take their guidance from the facts: that (i) Islam prohibits interest in all its forms, and (ii) that gold dinar was the currency in the Muslim world until its disintegration in 1920s. The revival of gold dinar is, he seems to believe, an Islamic imperative.

The writings on gold dinar referred to above have led the deliberations on the subject in two broad directions. First is a *fiqhi* inquiry. Is the using of gold dinar (or gold) as money a Shari.ah obligation for Muslims? Second, is the fiat money system inherently more unstable compared to the gold-based exchange rates?

Haneef and Barakat (2006) present a survey of the *fiqhi* positions on the use of gold and silver as money. They find the fiqhi opinion, past and present. Divided on the issue if gold and silver could alone be *Islamic* money or it can assume other forms as well? Some of the scholars argue that only gold and silver can be used as money. Others maintain that there is no such compulsion: materials other than gold and silver could also be used as money (Haneef, Barakat, p.32). They cite the principles of *ibadah* and *maslaha* to invoke the allowance of discretion in the matter. Interestingly, even as the two *fiqhi* viewpoints are found much divergent, both are *equally* acceptable to Haneef and Barakat as they avoid taking positions (p. 32). The paper has other weaknesses also: for instance, the authors do mention that some *fuqha* allow the use of things other than gold and silver as money, but they (authors) are not categorical if the total abandonment of the use of these metals is permissible?

In turn to another point in their paper: the fact of countries using gold and silver simultaneously as money: a fact other Islamic economists also mention but do not show understanding as to when the system could or could not work. In monetary history, the system is referred to as *bimetallism*. Silver was brought in to serve as money to meet the growing shortage of gold relative to the monetary demand of the expanding economies. Under the system the coins of both gold and silver used to circulate side by side as money. The exchange rate between the two coins was fixed in the ratio of their prices announced by the mint. However, the price ratio of the two metals in the market often remained different. The metal which became relatively cheaper in the market compared to the mint ratio worked - following Gresham's law -- as *bad* money and drove the *good* money i.e. the coins of other metal, out of circulation. Thus, in practice it were the coins of just one metal – gold or silver - that remained in circulation. It was then a cumbersome system and the countries stopped using silver as standard money gold alone worked as monetary metal, especially with the drastic fall in the price of silver after the discovery of new mines in Mexico. Silver coins still circulated in many countries but not as money. Haneef and Barakat do not even mention bimetallism, let alone inform us if it was in vogue during the period when coins of both the metals circulated side by side in Muslim lands.

Seigniorage Problem of Fiat Money

This brings us to a third point: the role of seigniorage in a monetary system. The authors mention the issue and it is much talked about in Meera.s writings. He has in a recent paper written with Larbani (2006) argued that fiat money system, because of *seigniorage* plus interest, is not compatible with the objectives of the Islamic *Shari.ah* while commodity money like gold and silver alone is. After the collapse of Bretton Woods in 1971, the US dollar, like other world currencies, became a fiat currency which is backed by nothing. Since then, the world has operated under a "pure" fiat money system. Since US dollar being one of the vehicle currencies, the central banks worldwide hold US dollars as reserves. (Larbani, 2006). According to Khalid Noorshah in his article *The Islamic Gold Dinar Movement in*

Malaysia, he address the important to implement gold dinar and silver dirham in order to be free from enslavement of the banking and finance fraternity and the usurious nature of paper money, to avoid speculation and manipulation of international currency traders, freedom from the dominance of the others and oppression from developed nations and deceiving practices and intentions by the so called super powers especially the United States of America. More so because the American dollars were deemed the currency of world and in the case of oil, a currency imposed, but most importantly it was call to submit to Allah's decree where He and His poophet has declared war on the usurers (Al-Quran : Surah Al-Baqarah:297).

In a speech *The Dinar – The Way Forward*, at Putra World Trade Centre (PWTC) on 24 July 2007Tun Dr. Mahathir Mohamad said,(Federal Reserve Bank is controlling the country's financial system and US Dollar are absolutely no security features. Thus our prosperity could be undermined simply by devaluing our Ringgit against the US Dollar. Truly the International Monetary System and the banking system are not only means of financing international trade but are also instruments for exerting power over the countries of the world. Government and government leaders are really powerless. Then the rulers of the world are the men who control the Central Banks of the so called powerful countries.

According to Dr. Mahathir, with the use of gold dinar some of the power Western Banking System and the US Dollar would be diminished. With this the clout of these powerful countries would also diminish. On the other hand by refusing to use the Gold Dinar in trade, the rich Muslim countries would actually be impoverishing and weakening themselves, exposing themselves to pressures by the Western powers and as has been pointed out they would actually be financing the killing of Muslims in Palestine, Iraq and Afghanistan. Of course it will never be able to replace the old system completely. But by having an alternative will always force the original to adopt good practices. We will see less of the fraud and the manipulations. We will be able to fend off much of the oppression of the weak by the rich and strong using the valueless fiat money that they have invented. False wealth will no longer be able to rule the world.

However, It may be rewarding to begin with a look at the historical origin of the term to understand its import in the current circumstances. In origin, seigniorage meant something claimed by the sovereign or a feudal lord as his prerogative in relation to society. In the context of money, it was the percentage share of the crown in the bullion people brought to the royal mint to get converted into coins. Now-a-days the term is applied to all money, including the credit banks create. A fiat currency is money that has no intrinsic value of its own or is not backed by anything real like gold or anything of value for that matter. Fiat money can be in two forms — currency notes and coins (state-issued money) and accounting money such as cheques and electronic money which is created by commercial banks through loans. However, almost in every nation, a larger proportion of the money stock is represented by the accounting money.

As the proportion of credit money in a nation increases it has some implied loss to the economic agents. Though the credit money is created out of thin air, it is not available for free of cost. Therefore, the credit money should be repaid with some interest charges where the money needed to settle the aggregate interest in the economy does not exist in the system. Hence, the economic agents are forced to repay their loans in the form of real goods and services. In other words, when the interest amount is not existed in the system, for sure people will default on their loans and real payment of interest takes place when banks confiscate collateral or other assets of them.

Meera (2011) explains this as follows:

> *Seigniorage is the value given to fiat money over and above its intrinsic value. For example, when the bank creates RM1 million in the form of electronic money, the seigniorage is RM1 million, since the cost of creating an electronic record is negligible. On the other hand, if a RM1 coin has 20 sen of metal content in it, then the seigniorage is 80 sen. Seigniorage is the benefit obtained by the first user of the fiat money, that is, the bankers in the case of credit money, and the government in the case of currency notes and coins.*

Therefore, it is very clear that United States is gaining huge unfair benefits from their dollars (one of the vehicle currency) in terms of seigniorage. Likewise, under fractional reserve banking system, commercial banks create money out of thin air and get the same seigniorage benefits.

The Price Stability Argument

Proponents of gold Dinar argued that the use of gold as a medium of exchange provides a stable nominal anchor and, thus, ensures price stability. Bordo (1998) notes lower and less variable rate of inflation during the classical gold standard (1881-1913) as compared to the floating period (1971-1989). Meera and Aziz (2002) argued that money supply is the root cause of instability. According to them with positive interest rate, money supply will grow by default. Apparently, according to their arguments, money supply is uncontrollable in the long run. Under fiat monetary system based on fractional reserve banking and interest rate-based, money supply has a propensity to expand even if no expansionary policy is attempted by the governments. This means that, as velocity and real output are fixed, price level will continuously increase as the money supply increases. Therefore, they argued that in a fiat monetary system price level will very volatile. They further argued that, Gold Dinar will ensure price stability as the supply of Gold Dinar cannot expend by default.

According to Mansor (2006) any kind of expansion in money supply leads to a reduction in the interest rate. This reduction in interest rate guides to further growth in money supply. When the interest rate goes down, the borrowing cost or the cost of credit money becomes cheaper and hence banks will create more money to cater for the higher demand for money. In the same way, positive shocks in money supply move the market upwards. Then, stock market increase feeds back to further increase in money supply.

Harmston (1998) has further added that gold has maintained its real purchasing power in terms of commodities and intermediate products since the early days of the United States of America, since the reign of Queen Elizabeth I, and since shortly after the end of the First Republic in France. It has also maintained its value since the late 19th century in Japan and since the time of the political unification of Germany in the early 1870s.

Muhammad Anwar (2002) found the opportunities and obstacles of implementing Gold Dinar currency union in his paper presented entitled *Euro and Gold Dinar: A Comparative Study of Currency Unions* at *2002 International Conference on Stable and Just Global Monetary System* with the theme *The Viability of the Islamic Dinar* held in Kuala Lumpur. Referring to his paper, a gold dinar currency union of Muslim countries would provide stable money serving as excellent medium of exchange that would minimize speculation, promote trade and dilute social economic evils. The basic reasons for search of a stable currency are to protect assets from damages inflicted by currency speculation and loss of liquidity value due to volatility in exchange rates.

According to him, Muslim countries offer a wide diversity of production and trading patterns. Some with their oil wealth concentrate on trade and services. Others concentrate on production of primary commodities, mostly agricultural.

According to Williamson (1980:16) at least three recent studies have demonstrated that trade volume of developing countries is significantly affected by instability of exchange rates. Therefore, stability in exchange rates due to elimination of exchange costs, exchange rate risks and exchange controls through a common currency would promote beneficial trade.

Furthermore, Muhammad Anwar stated the currency union would shield financial assets of Muslims from the impact of currency devaluation and inflation (Dajani,1980:84) if the assets are held in gold dinar rather than dollar then gold dinar would be more stable than euro. Similarly, loss to Muslim individuals, institution and countries due to frequent freezing of deposits by foreign powers to serve their ulterior motives would be checked provided the deposits are recalled and deposits in a neutral and stable standard of value, gold dinar at home. These are invaluable potential benefits of gold dinar currency union, as then the capital of surplus Muslim countries would be reverted back for investment in deficit Muslim countries. Movement of private and public capital from some surplus countries to deficit countries would occur only if economic environment in Muslim countries become conducive to profitability (Nashashibi, 1980:147-48).

Moreover, Muhammad Anwar added every Muslim country must give up the idea of doing everything in isolation from other Muslim countries, otherwise a successful gold dinar currency union cannot be established. Cohen (2001:179-196) contrasting the experience of three surviving monetary unions (the CFA Franc Zone, the East Caribbean Currency Area, and the Common Monetary Area) with three that failed (the East African Community, the Latin Union, and the Scandinavian Union) concludes that even though economic and organizational factors matter, the success does not occur without political cooperation under a strong leadership. Strong cooperation and leadership are certainly lacking as evident from general failure of the Organization of Islamic Conference (OIC) to achieve its objectives.

Thus, adoption of gold dinar requires one major political decision on the part of each government: to permit their residents to use and to hold gold dinars in competition with national money. The gold dinar will only work if it were declared legal tender by the national governments, so that it could be used to pay for purchases and settlement of debts. The gold dinar may be launched as a parallel currency simultaneously at the national as well as international fronts. However, economic agents operating in the market place will determine its success (Basevi and others, 1978:41).

According to Umar Ibrahim Vadillo (2002), the economic growth is created by trading and by providing services. There is a real economy defined as real people with real trading, with real commodities, in real market with real money. The size of the speculative economy compared to the real economy is in the region of one to one hundred. The size of the speculative economies has grown enormously in the last few years. His point is that the gold does not help the speculative economy, it belong to the real economy. The domain of the gold coin is the real economy. If one is understood how the Dinar can be implemented, he or she will be able to understand which sector of the economy is most likely to profit from the introduction of this currency. To understand that, one has to go a little bit further than just the currency and he or she has to look at what the writer describes the Gold Dinar Economy, which another name for the real economy. For trading to exist, one will have to create networks of open markets. For trading to return is to bring back the markets.

Ellen Hodgson Brown quoted from Rodney Shakespeare from book *The Modern Universal Paradigm* (2007), predicted that significant monetary reform may come first in the Islamic community. Islamic reformers are keenly aware of the limitations of the current Western system and are actively seeking change, and oil-rich Islamic countries may have the clout to pull it off. In researcher opinion, it could be member of OPEC country. Besides, interest-free banking system might work. Ellen Brown found in Sweden and Denmark, interest free savings and loan associations have been operating successfully for decades. These banks are cooperatively owned and are not designed to return a profit to their owners. They merely provide a service, facilitating borrowing and lending among their members. Costs are covered by service charges and fees.

Interest-free lending would be particularly practicable if it were done by banks owned by a government with the power to create money, since credit could be extended without the need to make a profit or the risk of bankruptcy from bad loans. A truly national bank would not need to worry about going bankrupt, in fact the feature of gold is liability-proof and it would not need an FDIC to insure its deposits. It could issue loans partially to anyone who satisfied its requirements, in the same way that the government issue driver's licenses to anyone who qualifies now. A system of truly "national" banks would return to the people their most valuable asset, the right to create their own money. We would not need to pay income taxes, and we might not need to pay taxes at all.

Ellen also added a community or government banking service providing interest-free credit would just be a credit clearing agency, an intermediary that will allowed people to “monetize” their own promises to repay. People would become sovereign issuers of their own money, not just collectively but individually, with each person determining for himself how much “money” he wanted to create by drawing it from the online service where credit transactions were recorded.

Furthermore, interest charges are incorporated into every stage of producing a product, from pulling raw materials out of the earth to putting the goods on store shelves. These cumulative charges have been estimated to compose about half the cost of everything we buy. That means if interest charges were eliminated, price might be slashed in half. She also admits that gold and silver are excellent ways to store value.

Another proponent of the return of Gold Dinar is Matthias Chang (2008), has warned us on economic downturn and advise us to own gold as much as we can. He was political secretary to the former Prime Minister of Malaysia Tun Dr. Mahathir Mohamad. His advice is:

> *I don’t care how you do it. Grab as much gold as possible starting today, and from anywhere. The gold price will hit the roof in the coming months. It is not unreasonable to say that the price will hit US$800.00 and beyond.*

The other thing he notified is the consequences of holding dollar paper money and urges us to own gold. He wrote:

> *When you are holding toilet paper and still the people who believe in Uncle Sam and the wholesome goodness of the dollar, what would the insider and the smart guys do? Simple! Dumps the dollars on you and run to the only real money and ever sound store of value –* ***Gold, The Mighty Gold****. This is why Gold will shoot skywards as long as the Fed keeps looking after its members hoodwinking suckers into the stock market. Jim Willie takes the view that gold could hit $1,000 by 2008! When fiat money is being debased (to toilet paper), gold invariably react upwards! This is economics 101 for God’s sake. Don’t fall for voodoo economics from Wall Street. There is also the added factor of the puncture of the assets bubble. Then there is the credit card fiasco! People who took the toilet paper, gamble in the stock market, while the wise guys unloaded the toilet paper, took up Gold and exchanged more toilet paper (in the form of share scrips) for more Gold and*

laughing all the way to Bermuda or some other Island resort with playboy bunnies in tow!

With reference to Tarek El-Diwany *History of Banking: An Analysis* (2002), paper presented at *2002 International Conference on Stable and Just Global Monetary System.* He has the answer to some arguments against gold. His respond as below:

1) Gold is too heavy to carry around

- Technology can be used to affect transfers of unallocated gold at a warehouse using paper receipts or electronic orders.

2) Gold is not safe to carry around

- Neither is paper money, but the world doesn't stop because of it.

3) The gold stock is insufficient to replace token money

- This argument ignores the fact that the marginal price of gold increases as purchase volume increases. To buy the last ounce of gold on earth with token money would probably be impossible at any price, at which stage it could be said that the value of the world's gold stock was indeed sufficient to replace the totality of the world's token money supply.

4) Why waste effort digging for gold?

- Then why spend 21 billion euro annually on subsidies to the UK banking system so that it can produce bank money?

5) New discoveries of gold may cause large scale inflation

- Estimates of the long run average annual growth of global gold supply are between 2% to 3% per annum. Such growth is less than the growth of token money supply in every developed economy over the long term. In fact it is a large amount of token money supply that is more to be a cause of large inflation.

Table 2.1
Growth of the Global Gold Stock Versus Growth of M2 in the USA

	1915	**1950**	**1997**	**Average annual change**
Total World Gold Stock (estimated)	24,000	50,000	134,800	2.12%
US Money Supply M2 USD billions[1]	17.59	150.81	5392.9[2]	7.23%

H.C. Wainwright & Co. Economics Inc., USA;
[1] Report of US Commerce Department 1970
[2] IMF Financial Statistics Yearbook 1997

6) The price of gold is too volatile to allow its use as a monetary standard

- Despite the practice of fractional reserve banking, the standard deviation of all-period gold price returns during the precious metal currency era was lower than during the post Bretton Woods period. The gold standard exercised a restraining influence upon the wide money aggregates, and its abandonment remove this restraint.

Table 2.2
Volatility of Gold Price Returns (all possible strategies)

	Gold standard (years as shown)	Post Gold standard (1968-1996)
Britain	1.1% (1596-1968)	10.8%
France	2.3%(1820-1968)	10.5%
USA	2.0% (1796-1968)	10.5%

Source: Gold As A Store of Value, World Gold Council, Research Study No. 22, November 1998

7) Gold is incompatible with the international monetary system

- When something/currency that is not compatible to monetary system that why we need foreign exchange. The purpose of foreign exchange is to standardize it (currency). For example ringgit to dollar, it must go to foreign exchange to standardize/similarize it. That is the situation of current monetary system. A stable monetary system would be a source of strength, not weakness for the economy that adopts it. Actually existing monetary system elevate compatibility above justice. So above argument is self-defeating and always repugnant in Islam. However gold can be exchange in the market too, so nothing need to isolate a 100% reserve gold based economy unlike fractional reserve banking system.

Some commentators imply that gold money stock and reserves may leave Malaysia, creating a shortage of money and fall in output. But arbitrageurs could not achieve this result so long as the gold currency system is implemented correctly (no open dual currency system or fixed bimetallic ratios) and international traders could achieve it only if they were to run a trade surplus with Malaysia, less riskier under gold than it is now).

Referring to book *Honest Money – A Challenge to Banking* by John Tomlinson (1993), he is optimistic about gold as honest money. According to him, we must have a clear picture of the requirement sound money and sound monetary system. Money should serve three specific functions. It acts:

1- as a unit of measurement of exchange value

2- as a medium of exchange

3- as a store of exchange value for future use

The commodity used most successfully for money to date has been gold. By its very nature it is almost ideal. It is scarce. To produce a small amount of it requires a large expenditure of human energy. It is homogeneous and therefore can be divided into small amounts of identical size, quality and exchange value. It is inert: it does not physically deteriorate, so it does not inherently lose value.

Furthermore, any commodity suitable for use as money must also meet the requirements of ordinary people for their normal use in the market-place. It must be available in quantities sufficiently small for an individual to carry enough on his person to use for expected daily exchanges. The product used as money should therefore be such that it can be divided into small equal and identical lots and that small amount of it carries a relatively high exchange value. Thus a commodity which is scarce and homogenous would suit. Gold meets both these requirements.

Moreover, any commodity which is scarce will require a large expenditure of time or energy to locate and produce it. If the exchange value of money were to fall, those involved in its production should consider producing something else. The level of production would then decrease. It would fall until the demand sufficiently exceeded the supply, and then its exchange value would begin to rise. This rise would encourage more producers, and as the supply increased, its exchange value would once again to fall. Over the course of its time level of exchange value would tend to fluctuate less and less, eventually leading to price stability!

On the other hand, paper money is not a natural commodity. It is manmade. Therefore, ought to be able to control it.

Judy Shelton (1994) has identified currency chaos as an ominous threat and she issues a clarion call for a new stable international monetary order to serve the need of an open global economy and embraces the sanctity of sound and honest money as the only logical premise under which free trade and democratic capitalism can succeed around the world. According to Shelton a gold standard is not perfect but the least imperfect system because it depends on steady increases in real economic growth. But given the advantages of other systems – the corruptness of floating rates, the superficiality of pegged exchange rates, and the confusion of competitive private currencies – an international gold standard emerges as the most attractive option.

Certainly, it provides the strongest mechanism for guarding against tinkering by self-serving governments. Trading currencies is seen as some kind of specialist activity better left to the expert who operate on behalf of huge mutual funds and international banks whereas a gold standard offers a straightforward monetary rule that requires no expertise or arcane knowledge to understand. Money should be defined in precise terms so that it is worth something. She also stressed going on a gold standard constitutes the ultimate manifestation of central bank independence that removed from internal politics and managerial error. In terms of federal budget deficit, under a gold standard, the government would be put under extreme pressure to balance the budget.

If government expenditures exceeded government revenues, the difference would have to be financed the government would have to borrow to cover the shortfall. When the government borrows, it does so by creating debt instruments that provide purchasing power to their holder. People pay money to the government in exchange for the debt instruments and the government spends the money it receives, at the same time, it issue additional money claims that can be sold for funds today or redeemed in the future. Out of nothing more than a gap in the budget, the government creates purchasing power by obligating itself to pay back money in the future. This process is known as “monetizing” the debts.

What a gold standard can do is restore people’s faith in the merit of saving money. That is, it can resurrect the idea that saving is a virtue as opposed to being naïve, ill considered, and stupid. Apart from that, price distortions as associated with inflation or deflation are largely avoided under a gold standard. Business may be good or bad, profits may be high or low. But when the currency is backed by gold, individuals do not have to tally their performance against a moving monetary target. Besides, a gold standard would be particularly helpful for developing countries that desire to participate in global market on the basis of their legitimate capacity to compete, rather than through succeeding rounds of debilitating currency devaluations.

Another benefit of gold standard is it would establish objective criteria for participating in international trade and finance. It will not distinguish between well-established industrial powers and poorer developing nations. Furthermore, it would protect nations from the foibles of their own finance ministers. It would assure private citizens that their purchasing power for domestically-produced goods as well as imports could not be manhandled by ambitious government officials all too eager to correct for “market imbalances” that were likely the result of their own misguided economic policies.

A global gold standard also would provide monetary stability across borders and through time as well as carry out consistent monetary unit. A gold standard guarantees the constant value of money so that people can focus on the merits of economic and financial opportunities without being distracted by the risk of unanticipated changes in future purchasing power caused by inflation or deflation or fluctuations in the relative prices of national currencies. Moreover, a gold standard would close governments’ option to practice protectionism against trading partners through the deliberate devaluation of their domestic currency.

But if the global monetary order were determined in accordance with a classical international gold standard, no country, not even the most powerful, could dictate exchange rates by prevailing on its allies to manipulate foreign exchange markets. No Group of Seven inner circle of central banks could conspire to buy and sell each other's currencies to change the natural course of trade flows.

Another benefit of gold standard is it would be the means to achieve the monetary system that would best serve the requirements of the global economy simply because it would provide common money with permanent integrity beyond the realm of governmental tampering. A classical gold standard ensures that government officials remain true to the economic interests of their own citizens.

According to article *The Global impact of the Gold Dinar* (2003) written by Philip Judge, in year 1997, the East Asian and numerous other financial crises worldwide made apparent the vulnerability of the current monetary system and the need for a more stable and just global monetary system. In fact, since the collapse of Bretton Woods in 1971, the world monetary system has been inflationary and volatile with the absence of a stable unit of account. Gold in international trade is seen as strategic move to protect the interest of nations as far as monetary stability, independence and justice are concerned.

Clearly, when considering monetary systems, stability is an important issue, but equally important, and one that is often overlook, is the issue of justice. In many peoples mind, an international payment system based on gold addresses both these issues. Furthermore, since the last one hundred years has been major western economies steadily dismantle the classic gold standard internationally, and replace it with flexible debt-based paper monetary system. We only have to look around to see that this system has had far-reaching and destructive implications globally, on many levels. The vast majority of the population in the east understands that gold and silver are the only real money while paper is just promise to pay. Many are aware that the west has been able to simply print paper money and send it around the world to pay for its unquenchable consumer appetite for goods and services. Islamic Nations have experienced and witnessed the 1st hand currency crisis as result of the international US dollar policy.

In an article titled *Would Implementation of the Gold Dinar Affect Trade among OIC Countries*? (2009) by M. Luthfi Hamidi, he stated if the gold dinar were implemented, they could save almost 4/5 of their budget for other economic allocations. It is indeed a giant step forward that should encourage prosperity among the member countries in the gold dinar trading bloc. The establishment of a Gold Dinar Trade Bloc (GDTB) indicates a new hope for OIC members since members of this bloc would enjoy an increase of their respective intra-trade by more than 2 units. It is an initial indicator that a GDTB would be more fruitful that other existing trade blocs among OIC Countries. The model also promises the hope for OIC member countries of making enormous budget savings. Assuming that the six leading countries of OIC are to be GDTB members, the value of their intra-trade in 2002 stands at 20.5 billion dollars or almost 60 million gold dinars. Refer to Table 2.3.

Table 2.3

Total Trade of Six Leading Exporting Countries, 2002(million gold dinar)

Countries	Million Dollar		Million Gold Dinar			Approximation
	Export	**Import**	**Export**	**Import**	**Net Payment**	
	-1	**-2**	**-3**	**-4**	**(3) - (4)**	
Saudi A	4953	2260	14.286	6.5186	7.76752	7.7
UAE	5712	4527	16.475	13.0574	3.41794	3.4
Malaysia	3498	6377	10.089	18.3934	-8.30401	-8.3
Indonesia	3728	2803	10.752	8.0848	2.66801	2.7
Turkey	1168	1377	3.3689	3.97173	-0.60283	-0.6
Pakistan	1482	3197	4.2745	9.22123	-4.94664	-4.9
Total			59.247	59.247	0	0

Source: IMF, Direction of Trade Statistics Yearbook, 2003

Hence, using the gold dinar would be breakthrough that could enhance prosperity among the countries involved in the gold dinar trade bloc. He also affirmed strategies that are available to OIC members which trade among themselves.

Hence, successful implementation of the gold dinar will be the source of a new energy and confidence among OIC countries so that they have a better bargaining position to deal with their trade partners, particularly developed countries. This will produce incentives which encourage not just intra-trade but also inter-trade. Moreover, insufficient of gold reserves held by most of Islamic countries will be the most serious critical problem to be handled. To confront this shortage, former Malaysian Prime Minister Mahathir suggested that those taking part in gold dinar trade should help each other by purchasing some materials from the poorest gold reserve countries thus enabling them to participate in the trade (Mahathir, 2002). In his article Hamidi (2009) recommends two points.

(i) At the starting stage, use of the gold dinar can be restricted to facilitate trade between members of governments excluding private trade. There are two advantages in this strategy: firstly, the amount of trade will be reduced, that is, each member may hold sufficient gold stocks to sustain their respective government's trade: secondly, the administration is likely to be less complex since the trade is fully backed by the government.

(ii) The level of gold reserves can be improved by converting a significant part of the country's dollar reserves into gold. Almost all of the countries assumed to be in the gold dinar have massive reserves in dollars. Thus by converting up to half of the dollar reserve into gold, the insufficiency of gold stock to sustain trade can be met.

In the book *Gold the Once and Future Money* written by Nathan Lewis published in 2007, he verifies that it is not necessary for the government to hold gold even under a system of redeemability. The monetary authority can always buy or borrow gold on the open market. Speculators regularly buy and sell gold that they do not own. If the value of banknotes is out of line with gold, then gold and banknotes will simply cycle around and around until the problem is corrected.

Besides, under a gold standard, the gold market is an open market free of government manipulation. The managing body does not intervene in the gold market to support or suppress prices. It used to be said that a devaluing government "changed the price of gold" but actually it was the value of the currency they were changing. The expansion and contraction of the supply of currency alters that currency's value in relation to gold, but has no effect on gold itself. Gold is the thermostat of the system. When the gold market says there's too much money, money is eliminated. When the gold market says there's too little money, money is created. Just as a thermostat guides the heating and cooling of a house, it does no good to deal with the problem of a hot or cold house by jiggering the thermostat. All to often today, a gold standard is misunderstood as a system by which the gold market itself is manipulated, by buying or selling large amount of gold in sterilized intervention (i.e., without a corresponding change in the supply of money) to create a short-term aberration in the market. This is totally ineffective.

Without a change in the supply of money relative to demand, the gold/currency market will quickly return to an equilibrium point reflecting the discrepancy. If the central bank persists in buying or selling gold without adjusting its supply of currency, it will simply run out of gold reserves. This stupidity on the part of the certain central banks is not the fault of the gold standard.

The gold or dollar market accumulates all the existing information about monetary conditions into one price, in a fashion similar to the manner in which a company's stock, if it is traded widely enough, will reflect all the information available about the company. Like all market prices, the price of gold is one way the extended order transmits information. The gold market thus does away with the statisticians and bureaucrats in the same way that the stock market or the commodities market takes the place of Soviet system's central planners. The gold market, although it is commodity market is most similar to the foreign exchange market. It shows the market relation of a currency, not to another governments' currency, but to the supernatural currency of such, the gold market reacts more quickly to monetary changes that any other commodity.

Moreover, according Lewis (2007) the gold standard reinforces democracy; fiat money erodes it. Without the gold standard, the trillions of monetary agreements of the citizenry are made subject to the whims of secretive, unelected, politically insulated policy board. The evolution of money has been toward a system that is not subject to political decision making. The bimetallic gold and silver standard had to be abandoned in the late nineteenth century because the questions of profit and loss, success and failure, solvency and bankruptcy were subject to a political decision of whether of payment was allowed in gold or silver.

If government aims to break its promise with the people, it does not matter if gold has been piled to rafters in Midas's treasury. Nathan Lewis also affirmed in his book that one government has returned to the gold standard so many times over the course of history is that it is simply cheaper to do so. Because a gold standard lends monetary stability, which in turn allows economic stability, interest rates can fall to very low levels and stay there indefinitely. Interest rate that was common under the gold standard is impossible in today's environment of monetary chaos. Amsterdam had rates of around 3.5 percent during its heyday in the seventeenth century. (Nathan Lewis, p.111).

The strength of gold standard is the strength of the government's promise to uphold the integrity of the monetary system, not a commitment to dig gold out of ground and then bury it again in government vaults. If the promise is good, very little gold is needed. If the promise is broken, no amount of gold can put it back together. Gold is an element; it comes only in one form, and does not chemically combine with other elements. It does not tarnish or rust. It is highly malleable and can be pounded with hand tools into thin foils and then back into lumps. It is easy to melt, and it can be subdivided indefinitely. Because of its extraordinary density, it cannot be counterfeited, for all other metals (except for platinum, which is more valuable) are less dense and thus easily discovered (Nathan Lewis, p.117).

Unlike a cowrie shell, it cannot be crushed or broken. It is throughout the world and is present even in seawater. As a result, gold is hardly consumed, used up, or thrown away. The demand for non-monetary uses is trivial. There is no competition between monetary and industrial uses of gold. Unlike other commodities the gold futures market is never backwardated, meaning that its future value is never less than its present value. In other words, the interest rate on gold lending is always positive. Gold futures trade like currency futures. Gold is money. Gold does not have magical intrinsic value. Gold is used because it has served well through the centuries as a monetary commodity and measure of value, just as steel has been used to make machinery and copper has served to conduct electricity. That is why human continue to go great effort to dig gold out of the ground. Many people have used commodities prices indexes to get an idea if the long-term stability of gold and Roy Jastram's *The Golden Constant* is a fine example of this sort of effort.

However, there is no reason to assume that commodities index is better measure of value than gold. Gold has been chosen as the monetary Polaris because it is not subject to the kinds of market factors that affect other commodities, and long-term indexes are often heavily weighted with one commodity or another. There is no higher authority by which one can determine whether price change due to what Ludwig von Mises called "goods-induced" factor or "cash-induced" factors. The gold standard is not intended to produce stable prices according to one definition or another, but rather, stable money. Gold is the world citizenry's standard of value, and as Von Mises predicted, no government action can undo that fact, and just governments were not responsible for its creation.

Yet it can be observed today that when a currency declines in value compared to gold, inflationary phenomena appear. This is true of whatever currency is measured against the golden benchmark. Gold has been adopted as money because it works. It has defeated every challenger. Though it has been spurned by governments many times, this has never been due to a fault of gold to serve its duty as a standard of value, but because governments had other plans for their currencies beyond maintaining their stability.

Another noteworthy contribution is an historical study of the gold standard by Professor Roy W. Jastram (1977). He wrote to *Wall Street Journal:*p.32:

> *From 1972 into the 1930's Britain was on a gold standard and the United States was on either a bimetallic standard or one of gold alone. During all those years, in both countries, price inflations and subsequent deflations average sensibly to zero. The result: for both the U.K and the U.S the wholesale price index numbers at the end of gold standard were at just the level 1800.*

Jastram (1977) goes on to suggest that this is "not unpredictable because the gold standard discipline was at work". Thus he concludes that "With the money supply showing ominous signs of being out of control, serious thought must be given to a new form of monetary discipline, one which might be suggested by age-old experience." The case for as free market commodity money such as gold was trenchantly and succinctly stated by Ludwig von Mises in his book *On the Manipulation of Money and Credit* nearly sixty years ago, p.22:

> *The reason for using commodity money is precisely to prevent political influence from affecting directly the value of the monetary unit. Gold is the standard money primarily because an increase or decrease in the available quantity is independent of the orders issued by political authorities. The distinctive feature of the gold standard is that it makes changes in the quantity of money dependent on the profitability of gold production.*

Almost one-half century later, with the government-manipulated, pseudo-gold standard of the Bretton Woods system racked by inflationary spasms and on the verge of collapse, Von Mises eloquently stated his argument in *On Current Monetary Problems*, p.29-30:

> *The quantity of money is the decisive problem. The quality that makes gold fit for service as money is precisely the fact that the quantity of gold cannot be manipulated by the governments. The gold standard has one quality, one virtue. It is that the quantity of gold cannot be increased in the way that paper notes can be increased. The use of the gold standard consists in the fact that it makes supply of money depend on the profitability of mining gold, and thus checks large-scale inflationary ventures on the part of governments. Gold cannot be produced in a cheaper way by any governmental bureau, committee, institution, office, international agency, or so on. This is the only justification of the gold standard. One has tried again and again to find some method to substitute these qualities of gold in some other way. But all these methods have failed. The eminence of the gold standard is to be seen in the fact that the gold standard alone makes determination of the monetary unit's purchasing power independent of the ambitions and activities of dictators, political parties, and pressure groups.*

In short, the case for commodity money rests on the fact that it furnishes the only effective bulwark against inflation. The fundamental reason for preferring the 100 per cent gold standard to other gold-based proposals for monetary reform is that it is the only monetary systems which effect the complete separation of the government from the supply of money. Under this system, the money supply process is totally privatized: the mining, minting, certification, and storage of the money-commodity as well as the issuance of fully covered notes and deposits are carried out by private firms operating in a free market.

In thus removing all vestiges of the government monopoly over money, the pure commodity standard provides a practically inflation-proof-currency. This become clearer once it is realized that inflation occurs for no other reason than it benefits that group or institution in almost every case the national government which succeeds in arrogating to itself the legal monopoly over money creation. The virtue of the 100 per cent gold standard is precisely that it establishes a free market in the supply of money and brings about a complete abolition of the governmental monopoly in this most sensitive and vital area of the market economy.

Indeed, although he regards a pure commodity standard as ultimately undesirable because of its high resource cost, Milton Friedman is essentially in agreement with this point in *Should There Be an Independent Monetary Authority*, p.220-222. According to Friedman:

> *If money consisted wholly physical commodity, in principle there would be no need for control by government at all.*
>
> *If an automatic commodity standard were feasible, it would provide an excellent solution to the liberal dilemma of how to get a stable monetary framework without the danger of irresponsible exercise of monetary powers. A full commodity standard, for example, an honest-to-goodness gold standard in which 100 percent of the money consisted literally of gold, widely supported by a public imbued with the mythology of a gold standard and the belief that it is immoral and improper for government to interfere with its operation, would provide an effective control against government tinkering with the currency and against irresponsible monetary action. Under such a standard, any monetary powers of government would be very minor in scope.*

People acquire money in exchange for the goods and services which they themselves produce with a view to re-exchanging it for more desired goods and services at some time in the future. The performance of this medium of exchange function does not necessitate the physical destruction of the money-commodity. This fact differentiates money from consumers' goods and producers' goods i.e. capital goods and natural resources, since the latter two are used up in performing their respective function. Keynes makes a statement in *The General Theory of Employment, Interest, and Money* p.132, that, "at periods when gold is available at suitable depths experience show that the real wealth of the world increases rapidly and when but little of it so available, our wealth suffers stagnation or decline."

Under a gold standard, the supply of money does not change arbitrarily but varies directly with monetary demand, resulting in tendency to long-run stability in the purchasing power of gold. Moreover, in the short term, large fluctuation in the supply of money is precluded by the natural scarcity and durability of gold. Of course, this not to argue that the gold standard would or even should insure perfect stability in the value of money. In fact, as he has argued above, such a goal is chimerical, and all attempts to achieve in the real world will only create widespread maladjustments and instability in the economy. The point to be made, however, is that the market, when left to its own devices has chosen and will choose a commodity money whose qualities render its purchasing power sufficiently stable over time to permit market participants to realize the tremendous benefits of indirect exchange and economic calculation which accrue in the form of a tremendously broadened scope for division of labour and specialization and for capital accumulation.

The defining characteristic of such a monetary system has been incisively I identified by Milton Friedman (1976. p.34) in article *Has Gold Lost Its Monetary Role?*. In his words, “A real, honest-to-God gold standard, would be one in which gold was literally money, and money literally gold, under which transactions would literally be made in terms either of the yellow metal itself, or of pieces of paper that were 100 per cent warehouse certificates for gold.” While it is true that certain types of government intervention in the monetary system are consistent with the basic criterion of a genuine gold standard, it is equally true that no particular government policy is essential to the operation of this monetary standard. Indeed, as Friedman notes in *Journal of Money, Credit and Banking* titled *Monetary Policy: Theory and Practice* page 99, “If domestic money consists of a commodity, a pure gold standard or cowrie bead standard, the principles of monetary policy are very simple. There aren’t any. The commodity money takes care of itself.

Economist Alan Reynolds, a staunch supporter of a monetary policy based on gold price rule argues in *Testimony before the United States Gold Policy Commission* page 15,“The purpose of the gold standard is to improve the efficiency and predictability of monetary policy by providing a flexible signal and mechanism for balancing the supply of money with the demand for money at stable prices. Two other prominent supporters of a gold price rule, Arthur Laffer and Charles Kadlec state in *The Point of Linking the Dollar to Gold* p.32, that “The purpose of a gold standard is not to turn every dollar bill into a warehouse receipt for an equivalent amount of gold, but to provide the central bank with an operating rule that will facilitate the maintenance of a stable price level.” What is of overriding significance in the foregoing passages is the explicit or implicit characterization of the gold standard as a mechanism deliberately designed to implement specified policy goals, such a stable price level, that are aimed at by the government money managers.

For its is the underlying conception of the nature and role of money that is implied in this portrayal of the gold standard that ultimately and irreparably divides the modern from the traditional advocates of a gold-based monetary regime. The widely accepted goals that a successful monetary policy is supposed to achieve include: a stable value of the monetary unit or more accurately, constancy of some selected price index e.g; the CPI, the GNP deflator, or an index of spot commodity prices; the mitigation of cyclical fluctuations via the stabilization of various statistical aggregates and averages, such as the unemployment rate, the GNP index, the index of industrial production and others; the maintenance of a high rate of secular growth in real output, once more as gauged by the behaviour of selected statistical indicators and stability of real interest rates. As Lehrman explains in *Should We (and Could We) Return to the Gold Standard?*:

> *Under the gold standard there is no price for gold. The dollar is the monetary standard, set by law equal to a weight of gold. The price of gold does not exist. Under the gold standard, the paper dollar is a promissory note. It is a real claim to a real article of wealth defined by law as the standard.*

In Lehrman's proposal, Federal Reserve's notes as well as dollar-denominated demand deposits at commercial banks and other depository institutions would once more become warehouse receipts for gold, instantly redeemable for gold dollars at face value upon the demand of the bearer or depositor. Ludwig von Mises wrote in the *Theory of Money and Credit,* p.420*:*

> *The gold standard did not collapse. Government abolished it in order to pave the way for inflation. The whole grim apparatus of oppression and coercion policemen, custom guards, penal courts, prisons, in some countries even executioners had to be put into action in order to destroy the gold standard. Solemn pledges were broken, retroactive laws were promulgated; provisions of constitutions and bills of right were openly defied.*

Von Mises proceeds to demolish the deeply entrenched myth, which Lehrman appears to accept, that likens the gold standard to a political "game" where in the government players must adhere to some vaguely specified "rules of the game".

There is no doubt that this kind of work puts behind it a century of suffering and defeat for the Muslims and opens the coming age to a powerful and revived Islam. The subject matter of this research has already entered into the political discourse of the Muslims. We need to return to the Islamic Gold dinar by any possible means. We need more in-depth study to find ways or mechanisms of how to implement a Gold Dinar among Muslim countries. This study is trying to find out the answer and fill up that gap.

Gold Dinar from Western & Islamic Perspective

From website Sunni Forum, article titled Declaration of 'Ulama on the Gold Dinar, a group of ulama and imams assembled in Potsdam on 30/6/2001 to discuss the zakat and related matters. Accordance to Hajj Asadullah Yate, Imam of the Muslim community of Potsdam he spoke of the disaster inherent in the fact that the Muslims are using paper money for their transactions, since it is: not small change in the classical sense of flous minted from copper or nickel for transactions under the value of silver and gold, originally a debt, transacting with which is completely forbidden in the fiqh, and is at present a 'fiat' money of no worth at all. Second, it is even more distressing that the Muslims pay their zakat in paper money and as a personal charity, when the correct form is that zakat must be collected by zakat collectors appointed by an amir, and that it must be collected in gold and silver.

Third, he drew attention to the obligation upon amir to establish markets in which no one may reserve a place, but in which anyone who shows up there after the dawn prayer may take any place that is free for the day. No one may charge rent on such a market place nor impose a tax on the trade done there. Fourth, that we have forgotten the awqaf-endowments of Islam, one of whose essential pre-conditions is that they are properties dedicated to a purpose 'forever'. These endowments were responsible for a great deal of social welfare within the Muslim community. In response to this, Muhammad 'Amrawi spoke and said that there is no disagreement on these matters at all, and that they are all too well known in the fiqh. However, he added that this was the first time that he or any of the other assembled 'ulama have heard someone saying such things in this time. He added that all that is lacking is a practical way to implement them.

Imam Abu Sayf and Muhammad 'Amrawi both cautioned against putting the Muslims in the difficult position of telling them that the transactions they make using paper money are incorrect or that the mode in which they pay their zakat is incorrect, without first creating ways for them to transact properly, e.g. by bringing about such markets for the Muslims to trade in, and minting dinars and dirhams with which they can pay their zakat.

In terms of practical implementations, Imam Hajj Asadullah mentioned the long history of Murabitun communities minting coins in Germany, South Africa, Spain, England and Scotland. Another participant drew everyone's attention to the recent market in Dubai, which, with the support of the state of Dubai, issued gold dinars that people purchased at the door for use in the market. Muhammad al-'Amrawi said that the fatwa of Shaykh 'Illish concerning the impermissibility of paying zakat upon or with paper money is well known in this respect. He again cautioned against disheartening the Muslims, and advised that as soon as possible practical steps need to be taken to make gold dinars and silver dirhams available to the Muslims to pay zakat, and concomitantly the need for the creation of Islamic markets, as described above, in which the Muslims may use their dinars and dirhams, since there is little use in giving a poor and needy person a gold coin which he cannot spend. Again he stressed that there is no disagreement on these matters in the fiqh, but that all that is lacking is a practical programme of their implementation.

The compelling and urgent need there is to return the role of zakat with respect to the fact that it as one of the fundamental acts of worship of Islam and because of its importance from both the social and the economic points of view, and the compelling and urgent need there is to pay it according to the detailed injunctions of the shari'ah, a part of which is taking care to pay it in the currency of the shari'ah (gold dinars and silver dirhams). The compelling and urgent need there is to return to the use of the money of the shari'ah as represented by gold and silver.

The obligation there is to teach the judgements concerning the marketplace considering the fact that eating the halal depends upon that. The importance of returning respect to shari'ah authority (the amir) in its description as the one responsible for: taking the zakat, distributing it, the organization of the hisbah (supervision of market processes to see that they are free of usury and other haram transactions), and structuring the awqaf and other affairs which are its function.

Calling on Muslim 'ulama and traders to join in and embark upon returning respect for the shari'ah currency (the gold dinar and silver dirham) according to their capacities and their possibilities for doing that. And Allah is the One who grants success in doing the right thing and He is the One Who guides on the way.

Referring to article *Must Money Be limited to Only Gold and Silver?: A Survey of Fiqhi Opinions and Some Implications* written by Muhammad Aslam Haneef and Emad Rafiq Barakat (2002) survey into the issue of money in Islam. It looks views of Muslim scholars (primarily past fiqh scholars) on whether money has to be limited to gold and silver or not and discusses some implications of the findings of this brief survey on present day opinions. It also compares the views of scholars who take the position that only gold and silver can be used as money and the evidences given to support their stand with the views of those who do not limit money to only gold and silver.

According to Al-Maqrizi, the issue of debasement of money (gold and silver) first occured in the year 64 A.H. When discussing the issue of money, it must also be kept in mind that the views of scholars were also influenced by the 'state of the monetary system' of their time. By this we mean that scholars writing in the early part of Muslim history were exposed to gold and silver as the main forms of money, although some limited amounts of copper based money (fulus) were in circulation. For example, Ibn Taymiyyah (d. 728 A.H) accepted fulus as money at a time when it was not used as the as major form of money. He says: "The authority should mint the ‘*fulus’* coins (other than gold and silver) according to the just value of people’s transactions, without any injustice to them”. Ibn al-Qayyim (d. 751 AH), a disciple of Ibn Taymiyyah followed his teacher in this regard and did not limit money to one item. Hence, the problem of inflation during their time could be solved by changing the debased type of *fulus* with one of better quality. Ibn Khaldun (d. 808 A.H) and his disciple al-Maqrizi (d. 845 A.H), confined money to only “the two mineral stones” gold and silver. Al-Maqrizi says “the currency that has been used to determine prices of goods and cost of labor consists only of gold and silver”. Al-Maqrizi identifies the extensive use of *fulus* as one of the main reasons for the economic crisis in the year (806 A.H).

This predominant use of *fulus* and *its* adverse effects on the economy could explain why Al-Maqrizi took opinion of limiting money to only gold and silver for ‘major purposes/expenditures while accepting the use of *fulus* in small quantities. Since the economic and financial realities of their times saw changes in the type of dominant money used, greater attention was paid to the issue of money.

Later scholars, who give their opinion supporting the view that only gold and silver can be used as money, seem to have made their own *ijtihad* (intellectual assertion) based on their interpretation of the opinion of Abu Hanifah. These scholars would claim that since Abu Hanifah and Abu Yusuf did not view *riba* as possible on copper money, its means that Abu Hanifah limited money to only gold and silver.

The common base agreements among scholars are:

- The acceptance of gold and silver as money is by their own nature.
- Prophet Muhammad (peace be upon him) approved gold and silver as money.
- Gold and silver are relatively stable compared to other forms of money.

- It is the state responsibility to mint, regulate and supply gold and silver.
- Money is seen as a medium of exchange and measure of value rather than a commodity itself.

Hanafi scholars Abu Hanifah and Abu Yusuf; past Maliki scholars such as Ibn Nafi', al-Adawi and Shaykh "Alish, Mufti of the Maliki *madhhab* (school) in Egypt (who did not consider paper money as being 'real' money, hence *ahkam al-riba* and *al-zakah* cannot be applied to it). Shafi'i scholars such as al-Ghazali, al-Nawawi, al-Suyuti and al-Maqrizi; One of the two Hanbali schools; the views of some *tabi'in* (Followers) such as Mujahid and Nakha'i.

In addition to the above, we can find some contemporary scholars who limited money to only gold and silver such as Shaykh Ahmad al-Khatib, Shyakh 'Abd al-Rahman al-Sa'di (d. 1376 A.H), Ibn Badran, Ahmad al-Husayni (d. 1332/1914), Shaykh al-Muti'I, Shyakh Muhammad Amin al-Shanqiti (d. 1393 A.H), Taqi al-Din al-Nabhani , Muhammad Baqir al-Sadr, Muhammd Makhluf, Hassan Ayyub and Nasir Farid Wasil.

The evidence that support such view can be as follows:

1. Sunnah Taqririyyah i.e. The Prophet approved the use of gold and silver in Makkah and Madinah. This according to their view makes gold and silver as money 'hukm shar'i' and hence, only gold and silver can be used as money.
2. Mu'amalah and 'ibadah maliyyah is based on gold and silver. For example, calculation of zakah on money is based on gold and silver. Also diyah or blood money, hadd al-sariqah (theft punishment) and exchange transactions are based on gold and silver calculations.

3. Verses in al-Quran indicate that gold and silver are to be used as money. For example, al-Tawbah: 34 prohibits the hoarding of gold and silver which indicate that gold and silver function as money; Al-Imran: 75, 91 showing the function of gold as a store/measure of value; Yusuf: 20 indicating silver as a measure of value and medium of exchange: al-Kahf: 20 where silver is used as a medium of exchange.
4. Ijma' al-Sahabah (consensus of the companions of the Prophet) for example the guided caliphs (al-khulafa 'al-rashidin) also accepted gold and silver as money.
5. Gold and silver are money by nature.
6. There is a hadith reported in Ibn Majah which prohibits the destruction of the monetary system of Muslims (interpreted as gold and silver).
7. Shafi'i and Maliki scholars limit the 'illah of thamaniyyah only to gold and silver, so other thing cannot be money.
8. The fact that gold and silver are prohibited for certain other uses like ornaments for men indicate that its function is to be primarily as money.
9. In order to achieve justice (an objective of al-shariah) in the monetary system, you need stable measure of value and since gold and silver are relatively stable, they must be used as money.
10. Zakah is imposed on gold and silver in whatever form and use (except some limited amounts for jewellery). In addition, hoarding of gold and silver (iktinaz) is also prohibited. The idea here is to keep gold and silver circulation; hence, gold and silver perform the function of money.

For example, the first Caliph to mint 'standard Islamic money' was Abd al-Malik ibn Marwan in the year 76 AH (d. 86 AH). Before this, although gold and silver was used as money, it was not minted by the Islamic rulers. This means that money is an issue that is left to the authorities to decide based on the welfare of society.

According to al-Maqrizi, from a historical point of view, while there were economic crisis during the period where gold and silver were sued as money, the causes were very much ‘real’ factors. It was only with the introduction of fulus (copper based money) that created new kinds of stability and inflation where the causes were mainly monetary phenomenon (due to debasement of currency).

While gold and silver are inherently more stable, they do not guarantee stability. There is a need to also focus on proper monetary management. It is possible to have a gold and silver based system but through bad management, to have instability. The problems during the times preceding al-Maqrizi and his own time, attest to this fact.

Gold – Syariah Perspective

A clarification on the permissibility in converting the paper money to gold Dinar will be explained to avoid any confusion. According to OIC Fiqh academy resolution in a paper titled “What Shariah Experts Say. Currency Exchange”, sarf or sale of currency for currency is permitted as evidenced from the Quran in general and it includes the Quran in general and it includes the Quranic verses in which Allah permits commerce, such as “*And Allah has permitted bay (sale) while He has forbidden riba (Al Baqarah:275).*”

The verse applies to sarf, as sarf is fundamentally a sale of currency for currency. This includes Dinar and Dirham and all other fiat currencies. Evidences from Sunnah include well-known hadith (Muslim and Ahmad) where the Messenger of Allah forbids sale of gold for gold, silver for silver, dates for dates, wheat for wheat, barley for barley and salt for salt. Except for when the transaction is "like for like" (in equal amounts) and "hand to hand" (immediately transferred). If they are different in nature you can sell them as you wish as long as the transaction is in hand to hand (Muslim and Ahmad).

Jantan (2001) in his book titled "Pedoman Muamalat and Munakahat" mentioned that the sale and purchase of gold, silver, currencies, rice, wheat, salt or other essential food, if they are similar in nature must follow to the following conditions: 1.Cash, 2.Equal in weight, and 3. Agreeable weight and measurement. However if they are each different in nature for example, an exchange of gold with silver, then they should not be similar in weight (Jantan 2001). The exchange ratio should be adhered rather than exchanging them weight wise.

The evidence from Sunnah provides regulations for governing sarf transactions, thereby rendering some currency exchanges permissible and others impermissible. Therefore there is no doubt that changing gold to paper money and vice versa is permissible with certain restrictions implied by the Shariah experts.

The Opposite View of Using Gold Dinar

The debate over the re-introduction of Islamic Gold Dinar has become persistent and the arguments in favor and against are fierce. Criticisms against Gold Dinar are not only put forwarded by non-Muslims, but also Islamic economists, financial experts and practitioners in the field of finance and trade. In this section, the researcher will discuss some of the commonly held objections to Gold Dinar. Referring to article *The Case for Islamic Gold Dinar* written by Ismail Nizam, Yameen Idrees, Ahmed Shafneez & Md. Jahirul Islam in 2011, that been posted in Ismail Nizam blog (http://ismailnizam.blogspot.com), they mentioned the case against gold dinar. The arguments range from religious to economic perspectives.

Gold is not the Shari'ah Money

Murat (2010), citing Hassan (2008, p. 14), states that the inflow and outflow of gold into and out of a country would lead to inflation and depression respectively. Murat (2010) considers this as a very dangerous implication of introducing Gold Dinar, arguing that 'mercantilism' as a Europe-wide doctrine that caused many wars between nations.

Criticizing the proponents of Gold Dinar as having deficiency of knowledge and understanding of the historical period, when gold was used as money, Murat (2010) argues that the inflation was massive in Europe as well as Islamic world.

Murat (2010) believes that the money supply is never fixed in the bi-metallic system. There are two reasons, according to him, that would subject money supply to fluctuations in a bi-metallic system, namely; (1) discovery of new gold or silver and (2) debasement. Debasement arises when a government obliged to increase the money supply mints new coins with lower metal contents (Murat, 2010, p. 8). This, he argues, was the cause of inflation throughout the Europe as well as Ottoman Caliphate where gold or silver coins were used as money. Thus, Murat (2010) concluded that having gold or silver coins as the currency of a country does not in any way provide a protection against inflation.

Commenting on the argument of pro-Dinar scholars, Hassan (2008, p. 9) argues that it is not money supply that increases faster during inflation than the real income, but money incomes. With this he wishes to refute the claim of pro-Dinar voices that fiat money causes inflation.

Interest Rate Argument

The third argument posed by Murat is that the existence of both face value and intrinsic value in the coins would put the state in difficult position in managing the monetary policy. This is, as he explains, because the people would prefer to hoard coins if their intrinsic value is higher than face value to take the gains from the metal price in the commodity market. This, as argued by Murat, would have two consequences. First, the demand for coins would rise, shifting the aggregate demand curve for money to the right. Second, the coins would be melted away by the speculators, shifting the supply curve leftward. The combined effects of these two shifts are the increase in the interest rate. Another factor that causes interest rate to rise in a coinage is the relative high cost of production of coins compared to paper money (Murat, 2010, p. 14).

Hassan (2008) is of the opinion that the issue of monetary economics is to keep the money supply under control, not of being made of something valuable as a commodity. He believes the solution is not just introducing gold, but rather good management.

Gharar argument

Muslims are insignificant as a percentage of global gold production, except Indonesia which accounts for 6.6% of global gold production, and therefore, Murat believes that the Islamic Gold Dinar would give world's largest gold producers quite a substantial leverage to play havoc with the monetary system of Islamic countries. A possible collusion of the gold producers and speculation would create huge uncertainty (*gharar*).

Seigniorage – a False Appropriation

Both Murat (2010) and Hassan (2008) have attempted to refute the most important case for Gold Dinar which was put forwarded by Kameel and Larbani (2006) – the issue of seigniorage in the current monetary system. Seigniorage, as defined by Hassan (2008), is something claimed by the sovereign or a feudal lord as his prerogative in relation to society. In the case of money, seigniorage is the percentage share of the crown in the bullion people brought to the loyal mint to get converted into coins. Hassan argues that the today's extension of the term to all forms of money is inappropriate because the people do not pay for the printing of money and the purpose is not to enrich the crown.

Exchange Rate Instability

Quite contrary to the proponents of gold dinar, Hassan (2008) page 10 attempts to discredit the exchange rate stability argument of the Dinarists. In substantiating his argument, Hassan urges that the gold standard does not stabilize price levels as it does not stabilize the volume of gold and the volume of currency. He further argues that the price instability would be aggravated in a gold standard in international settings.

The Hoarding Preference

One of the classical monetary economists, Silvio Gessel, in his book titled "The Natural Economic Order" republish in 2007 argues that gold cannot function as money as follows;

> *"Gold does not harmonize with the character of our goods. Gold and straw, gold and petrol, gold and guano, gold and bricks, gold and iron, gold and hides! Only a wild fancy, a monstrous hallucination, only the doctrine of value can bridge the gulf. Commodities in general, straw, petrol, guano and the rest can be safely exchanged only when everyone is indifferent as to whether he possesses money or goods, and that is possible only if money is afflicted with all the defects inherent in our products. That is obvious. Our goods rot, decay, break, rust, so only if money has equal disagreeable, loss-involving properties can it effect exchange rapidly, securely and cheaply. For such money can never, on any account, be preferred by anyone to goods."*

The point which Silvio Gessel raised is valid when the primary role of money as medium of exchange is concerned. Money's role is to facilitate exchanges. If the money has a hoarding preference to goods, then that money would not affect exchanges because people would be hoarding that money. So, the unique feature of demurrage on money plays a predominant role in influencing money's role as facilitating exchange.

Furthermore, referring to article *Ensuring Exchange Rate Stability: Is Return To Gold Dinar Possible?* Written by Professor Zubair Hasan in 2007, he said the return to gold is neither desired nor practicable. He also said the introduction of gold money in Muslim countries is in no way in Islamic imperative and he claim the system is likely to end in a chaotic failure. According to him dinarist having one problem which is they do not stick to what they say, is it gold or gold dinar that they argue for standard at the international level? There are 4 reasons according to Zubair Hasan that gold is undesirable:

1. Return to gold standard at international level is not considered desirable or practicable for some strong reasons. These were clearly spelled out by J.M. Keynes in his position paper in 1938 quoted in Halm (1956) The managed currency system of the IMF enforced in 1946 did maintain the gold linkage of national currencies, but diluted the rules of the old game considerably. The 1978 amendments to the IMF articles specifically forbade members to express the value of their currencies in term of gold. This realization presumably is the reason why dinarists no longer talk of returning to gold standard.
2. Unless gold standard is international, there is no point in having domestic gold standard. It is found working neither as a hedge against inflation nor

as a better investment alternative. In a world conceive of as a global village, gold-link may create more problem than it may resolve, even if restricted to bilateral trade only.

3. Having gold dinar as money is not a shariah requirement; The Fiqh Academy is not opposed to the use of fiat money in Muslim countries. The dinarist may like to see confirmation on the point. The use of seigniorage notion to attack the fiat money is untenable, it is too stretchy rather inapplicable.
4. The issue in monetary economics is to keep the supply of money under control, not of its being made of something valuable as a commodity. Using gold for the purpose is akin to a blind men learning against the lamp post for rest not for illumination. Alert and efficient management of money supply with adequate credit and capital controls in place can and is delivering result for example in China and India. Manage the economy properly, keep a watch on domestic prices and build strong diversified foreign exchange reserves. You can ensure stability of both the price level and the exchange rate let it be known that fiat money is not an exclusive terrain for corruption to thrive, the history of gold standard bears ample evidence that the abuse of the system was not entirely absent then too.

International Trade

According to article *International Trade Theory* written by James E. Anderson, trade theory comprises: 1) comparative advantage fallacy 2) absolute advantage 3) Endogenous advantage and 4) bilateral trade.

Comparative Advantage

Comparative advantage means the comparison of relative price differences between nations to explain the pattern of trade. For example, compare the relative's price of wheat in term of cheese at home to the same relative price in the foreign economy in a hypothetical equilibrium with no trade (autarky) or with restricted trade. "Buy low, sell high" logic leads economist to comparative advantage theory. The country with the lower relative price of wheat is said to have a comparative advantage in wheat while the other has, symmetrically, a comparative advantage in cheese. Buy low sell high logic predicts that a country will export the good in which it has a comparative advantage.

Comparative advantage differences between nations are explained by exogenous differences in national characteristics. Labor differs in its productivity internationally and different goods have different requirement. The factor proportions theory added relative factor endowment references to the exogenous explanation of comparative advantage (Jones, 1987).

Absolute Advantage

Businessmen naturally compare the money cost of the same good in different locations to draw inferences about the direction of trade. Absolute cost advantage appears to imply that a nations import goods that are cheaper abroad and exports goods that are more expensive abroad. The absolute advantage is appropriately addresses the householder's question of which good should be purchased, the businessman's questions of how tough are my competitors? The individual businessman can appropriately take all other prices as given when contemplating his own actions, such as entering a new export market. Referring to that article, the absolute advantage is weak in mathematical sense in the case where both countries continue to produce the good.

Illustration of absolute advantage fallacy arises in popular concerns about the rapid productivity growth of China compared to the U.S. A 10% improvement in productivity will indeed secure a 10% cost advantage for the businessmen over his competitor. A 10% improvement in all Chinese productivity relative to the U.S in unlikely to change the comparative advantage because Chinese wages will rise relative to the U.S wages. Similarly, a 10% drop in all U.S productivity due to tighter environmental regulations will be unlikely to change comparative advantage because U.S factor returns will fall.

Endogenous Advantage

Many goods are traded because they simply unavailable from local production. Some kinds of availability are exogenous to the interaction of nations – diamonds and oil are found only in a few locations. Endogenous advantage normally coexists with comparative advantage but it is simpler to consider special cases independent of comparative advantage. Theory focuses on endogenous advantage resulting from economies of scale.

Trade based on scale economies features the possibility of multiple equilibria – one country will produce a good with scale economies but which nation ends up producing can be a matter of chance. Since advantage is endogenous, it appears attractive in developing countries to attempt to reverse historical head start of rich countries by starting up production behind protection and the later being able to compete on world markets. The record of success in such effort is mixed.

Bilateral Trade

The economic theory of gravity complements the preceding model by providing an explanation of bilateral trade (Anderson and van Wincoop, 2004). Gravity fits the data well and reveals important information. The model is based on four assumptions: expenditure of goods from all sources is equal to income from sales to all sources, market for all goods clear, and more restrictively, each country or region produces a unique good and all countries have the same tastes for goods.

The third assumption, products differentiated by places of origin, appears to be the most restrictive. In practice, only model of this type do at all well in fitting bilateral trade patterns. Monopolistic competition provides one explanation for why products appear to be differentiated by place of origin. Eaton and Kortum (2002) show that alternatively product shocks in a Ricardian model will select producers within product lines, resulting at the aggregate level in what appears to be two way trades. In either case, gravity end up describing trade flows. Trade flows in the model are predicted to vary with relative resistance, equal to the ratio of the direct bilateral trade cost to the product of inward and outward multilateral resistance. Multilateral resistance is an index of bilateral trade costs, inward from every source to a particular destination or outward from a particular source to every destination. Multilateral resistance is linked to a country size and thus to explaining an important aspects of trade patterns. Since borders are costly, a big country tends to have a lower multilateral resistance than does a small country because a smaller fraction of its shipment must cross borders. The size adjusted international trade of big countries will be smaller than that of small countries because big countries have higher relative resistance to its international trade. These differences can be quite dramatic, as shown by studies of US and Canadian trade (Anderson and van Wincoop, 2003). Where the U.S is about ten times larger than Canada.

The Idea of Gold Dinar

Currently, the American Dollar and Euro are some of the major international currencies used for trade settlement. Many countries demand for these currencies in order to facilitate their international trade; therefore these currencies will be kept in their international reserves. However if these currencies decrease in value, wealth of a nation will be at stake. Therefore alternative stable and just monetary system should be adapted i.e. Gold Dinar.

However, super power country such as America would not be easy with the comeback of gold Dinar because this will be a threat to the usage of US dollar as world currency. After US dollar taking the thrown of world currency from the British pound, any attempts to the comeback to the gold standard or Bretton Wood System will be drained.

But the gold Dinar is not the same as the gold standard or Bretton wood system because it is not only a medium of exchange but also the symbol of unity of the OIC countries.

With more than 1.5 billion Muslim population in the world, Dinar is not a dream but a reality as compare to EURO money today with 300 million European people only.

Furthermore, the purpose of return to gold dinar is to be free from the enslavement of the banking and finance fraternity and the usurious nature of paper money, to avoid speculation and manipulation of international currency traders, freedom from the dominance of the kuffar and oppression from developed nations and deceiving practices and intentions by the so called super powers especially the

United States of America more so because the American dollars were deemed the currency of world trading and in the case of oil, a currency imposed, but most importantly it was a called to submit to Allah's decree where He had declared war on the usurers.

The gold dinar idea started in Malaysia after the Asian monetary crisis in 1997. It opened the opportunity to the then gold dinar activist to reach out to more on their understanding of the banking and finance system and the ills of the western capitalism and also to raise again the issue of usury for public debate. The *Murabituns* took this opportunity to make contact and to present their case to the then Prime Minister of Malaysia, Dato' Seri Dr. Mahathir Mohamad through books, papers and gold dinar coins, given to him as gifts. One important document was the *White Paper on the Gold Economy* prepared by Umar Ibrahim Vadillo. When Dr. Mahathir proposed that the gold dinar be the alternative currency for international trade and national reserve, especially with Muslim countries and those countries of where Malaysia had already Bilateral Payment Arrangements (BPA), many were caught by surprise but for the dinar activist, it was exciting times.

The proposal by Dr. Mahathir marked the recognition of the gold dinar being an alternative currency but there was yet acceptance by the banking and finance fraternity and the public at large. Dr. Mahathir's proposal to use the gold dinar had the support of Iran who proposed that Malaysia set up a secretariat to provide information on the concept, however, no other country whose leaders were Muslim had publicly stated that they would support the gold dinar proposal.

With the support of Iran and many articles written by foreign journalist, economist and analyst especially in internet and the mainstream media, the matter of gold dinar had become an international issue and both the Muslims and non-Muslim waited for its implementation. For the non-Muslims, some of the saw it as a threat and pondered on how it would affect the wealth and influence of the West and its stranglehold on the present economy, while others saw it as liberating them from the present oppressive banking and financial system and its institutions.

In 2001, Shaykh Abdul Qadir as-Sufi was honored a doctor of letters by Universiti Sains Malaysia and following that, a meeting with Dr. Mahathir. After that meeting the gold dinar movement seemed set to rise with a seminar on the gold being planned. After this period, there were more believers in the gold dinar including those from the banking and financial fraternity and the academia took notice and even Bank Negara had sent representatives to follow the proceedings in seminar and conference held on the gold dinar and it became somewhat a Malaysian project.

Local universities too followed suit and took an interest in the gold dinar and started to have students especially from the school of Islamic studies, business and management writing thesis about its probable application in the present economic and financial scenario. However, when Dr.Mahathir stepped down as Prime Minister, his successor, Dato' Seri Abdullah Haji Ahmad Badawi did not show any interest in the matter of the gold dinar.

Conclusion

The 1997 Asian financial crisis and current world economic crises as latest examples, have spurred enormous interest among economists and policymakers on the subject of monetary standards, especially the Gold standard and the current fiat standard. It is argued that the Gold standard, i.e. using gold as a medium of exchange or pegging a nation's currency to the fixed price of gold, provides a stable nominal anchor and, thus, ensures price stability. Meanwhile, the current fiat system tends to breed persistent inflation. Various studies have provided support for this argument.

For instance, Bordo (1998), Peter L. Bernstein (2000), Nathan Lewis (2007), Judy Shelton (1994), notes lower and less variable rate of inflation during the classical gold standard (1881-1913) as compared to the floating period (1971-1989). Kydland and Wynne (2002) reaffirm the long-run price stability during the classical gold standard. Thus, it is not surprising that there is a mention of gold and the Gold Standard every time nations face crises. Yet, despite this benefit of gold, whether gold will make a return as the standard for monetary payment system remains controversial (Bernstein, 2000).

Among especially Muslim economists, a view to return back to Gold Dinar has re-emerged and become a topic of debate. At least three justifications have been offered for returning to Gold Dinar. The first justification lies in the belief that Gold Dinar is part of the Islamic faith (Vadillo, 2002). Accordingly, the return to Gold Dinar is a must and cannot be questioned. The second reason stresses the importance of reducing dependence on the US dollar as an international currency. Namely, Gold Dinar can provide a viable alternative to the current and dominant US currency. The final justification finds fault with current fiat and fractional reserve banking system. It is argued that, with the practice of interest rate, the current system is unjust and inherently unstable. The recurring currency and financial turbulence experienced in recent past is just a manifestation of the major weakness of the system. The foundation to this instability stems from the ability of banks to create money, which allows money supply to grow by default (Meera and Aziz, 2002). Then, through the equation of exchange and given potential output, the growing money supply can generate instability in the economy. Gold Dinar, as it is argued, is free from these weaknesses.

Among these justifications, the last seems to provide grounds for testable implications. The acceptance of the first reason suggests no debate or evaluation of the viability of Gold Dinar. However, whether Gold Dinar is part of the Islamic faith is inconclusive. Haneef and Barakat (2002) review the fiqhi opinion on the use of gold and silver as money. According to them, there are at least two opinions. One opinion views gold and silver as money obligatory, while the other allows flexibility. That is, the latter admits other forms of money. While there is a need to reduce dependence on the US dollar, returning to Gold Dinar is not imperative since there are many other international currencies such as the euro that can play that function. However, according to the third justification, the root cause of economic problems is the continuing increase in money supply facilitated by fiat and fractionally reserve banking system. Money supply is the cause of inflation, asset price bubbles and instability in the economy. In other words, money is a forcing or a causal variable. If true, then the justification for the use of Gold Dinar may have some validity. However, if money supply reacts to accommodate expansion in real activities then Gold Dinar may not be a viable form of money. The reason is that, unlike fiat money, money supply cannot be simply increased as needed under the gold standard and it depends crucially on the gold reserves (Bernstein, 1981, Mishkin and Eakins, 2003). Accordingly, it seems understanding monetary dynamics of an economy is essential for the discussion of Gold Dinar as a viable alternative system for monetary arrangement.

CHAPTER THREE

METHODOLOGY

Introduction

Research is a systematic process to find out answer or new knowledge pertaining to unresolved question or problem (Idris 2001: 1). Intractable social problem cannot be solved by a massive research effort. Research that been organized properly could bring a new discovery and knowledge to the public (Syed Arabi. 1992).

Basically, research been divided into two methods (quantitative and qualitative research). Quantitative research generates numerical data or data that can be converted into numbers. It can be noticed in terms of numbers that been accumulated by using certain methods such as questionnaire that been created in a specific order. Data obtained usually in the form of charts, tables and graphs. However qualitative research method can be trace via facts, information, statements, comments, assumptions, meanings, concepts, specifications, symbols, perceptions, metaphors and feelings. All sources of data can be in form of manuscript, newspaper, diary, picture, official and personal letter, artefact, certain people by using method of interview and researcher involve in situation that been analysed by using ethnography (Idris, 2001: 6).

Other than that, there are few types of research could be done such as library research, field research, laboratory research, model theory research, ethnography research, comparative research, possibility research and observation research (Idris, 2001: 32-37).

Debates have been on-going, tackling which method is better than the other. The reason why this remains unresolved until now is that, each has its own strengths and weaknesses which actually vary depending upon the topic the researcher wants to discuss. This then leads us to the question “Which method should be used?”

The goals of each of the two methods have already been discussed above. Therefore, if the study aims to find out the answer to an inquiry through numerical evidence, then it should make use of the Quantitative Research. However, if in the study the researcher wishes to explain further why this particular event happened, or why this particular phenomenon is the case, then he or she should make use of Qualitative Research.

Some studies make use of both Quantitative and Qualitative Research, letting the two complement each other. If your study aims to find out, for example, what the dominant human behaviour is towards a particular object or event and at the same time aims to examine why this is the case, it is then ideal to make use of both methods.

This study uses the qualitative method. According to Cassel and Simon (1994: 3-4), qualitative method in social science seeks to describe and interpret accurately the meaning of social phenomenon. This method relies on the collection and analysis of written text or spoken words. Therefore, the following methods for data collections will be followed throughout my study.

Library Research

This method of research needs author to make a library research which materials could be found such as previous literature, paper works, journals, books that related to the topic. Thus, author will seek out those sources at University Utara Malaysia Library, Kedah Public Library, University Malaya Library, University

Kebangsaan Malaysia Library, International Islamic University Malaysia Library, and Insaniah College University Library. Besides, information which related to international trade, gold dinar, fluctuation of currency, shariah principles, banking system and money in Islam were obtain through references available at Institute of Islamic Banking and Finance Malaysia (IBFIM), International Centre for Education in Islamic Finance (INCEIF) and Shariah Research Academy for Islamic Finance (ISRA). Furthermore, author also referred and found information regarding the issue from institution that directly involve with Islamic banking such as Islamic Banking and Finance Institute of Malaysia (IBFIM) and Malaysia International Islamic Financial Centre (MIFC).

Nowadays, undeniable searching information and knowledge by latest technology called internet is much easier and save time. Researcher also was trying to get updated information regarding Islamic finance, Islamic banking, trade and gold dinar through related website. Bank Negara Malaysia website also was really useful for researcher to search information on Islamic banking operation in Malaysia. Furthermore, researcher had used historic method to get knowledge on the subject of history of gold dinar, Gold dinar movement, and how the idea came to Malaysia until it grab the attention of fourth Prime Minister Malaysia, Tun Dr. Mahathir Mohamad and insist Muslim countries to implement it that shook the world as an alternative do not relying on US dollar currency. These methods were used to get clear and accurate information on gold dinar movement in Malaysia.

Field Research

The researcher conduct field research in order to get data for the study. Among the method used are:

Interview Method

This method means one kind of data collection through interview with certain individual to get information. In this research, author had structured interview and semi-structured interview with the expert. Authors also interviewed expert from other local university like Ahamed Kameel Mydin Meera that having expertise in gold dinar and scholar Maulana Imran N.Hosein. Face-to-face structured interview is considered appropriate in situations when the subject matter is highly confidential or commercially sensitive or where the respondents may be reluctant to be truthful about the issue other than confidentially in a one-on-one situation (Easterby-Smith et al., 2001). According to Morse and Richard (2002), use of semi structured interviews is appropriate when the researcher knows about the topic to frame the needed discussion in advance, as in the "Body Image" study. An interview has been claimed to be useful when one needs to supplement, validate, explain or reinterpret qualitative data obtained from the same setting (Miles and Huberman, 1994). Banyard and Miller's (1998) asserted that interview can help us to tell the rest of the story regarding the issues and problems no matter sensitive it may be.

Although, interview offers researcher with organization and comfort of preplanned questions, but also it poses challenges of presenting them to participants in such a way that invite detail and complex answers (Morse and Richard, 2002). Thus, this research is iterative rather than linear as the researcher moves back and forth between design and implementation to ensure agreement among question formulation, literature, data collection strategies, and analysis (Morse et al., 2002).

Besides, author also found opinion from Syariah Bank Negara Malaysia Committee Advisor and panel of Syariah advisor that involve with the topic research. The interview session were conducted occasionally depending on needs in getting additional information and explanation regarding certain problem. Interview session also were carry out using latest technology like email and chatting through Yahoo messenger or MSN with economist like Matthias Chang, Ellen H. Brown and Tarek el-Diwany.

The interviews have been designed to probe the following key issues so the researcher asks these questions:

1- What are the mechanisms of implementation Gold Dinar among Muslim countries?

2- What are the factors influencing the public acceptance among Muslims toward gold dinar?

3- Can Malaysia's usage of gold dinar as a payment settlement in international trade be as a platform of unity between OIC countries? In other words, can Malaysia leads the Muslim countries towards the implementation of Gold Dinar?

4- What are the obstacles in implementation of Gold Dinar?

5- Do you think the implementation of the gold dinar proposal would affect trade among OIC members, since gold is considered a more stable currency, as it is less risky than fiat money?

6- Can the implementation of Gold Dinar unite Muslims all over the world?

7- Can we use gold dinar is an alternative to fiat money as fiat money is succeptible to speculation?

8- Can the implementaion of gold dinar bring economic justice and transparency?

9- Can gold be used a solution for financial crisis?

10- Do you think gold is the Best tool of exchange?

11- Do you think Gold dinar has potential to expand globally?

12- Do you think the implementaion of gold dinar will give economic stability ?

13- Do you think gold dinar is Inflation-proof?

14- Do you think gold dinar will be increasing in value due to gold price?

15- Do you think gold is a safest means of currency if political and stability occured?

Question 1 is vital as Nuradli (2004) and friends stated the mechanism implementation of gold dinar works best when it can play role as a unit of account as payment settlement for international trade. Only the net balance remaining in the matrix of trade needs to be settled in gold. Thus it answer the often question whether existing gold reserves enough to support the growing volume of international trade. Question 2 is important as Umar (2002) mentioned that people are free to choose gold and silver as their medium of exchange. He said, now we are forced to accept the system of artificial money, whose value is determined by a complex mechanism of relationship between political and economic institutions. In this relationship, the citizen has little to say, he is merely a trusting and passive receptor. Whereby Question 3 is a must as accordance to Mahathir (2000), Muslim countries should take initiatives instead of too much relying on dollar and the financial system that been set up for their interest because gold cannot be speculated however currency can be speculated and that the cause of Asia financial crisis in 1997.

Furthermore, Question 4 is essential as Muhammad Anwar (2002) stated in his paper, the successful implementation of euro due to cooperation, committed and geographical factor among member country. However, if Muslim countries want to implement gold dinar, they should cooperate, sharing and avoid doing something in isolation for the sake member country. Whereby Question 5 is a must as accordance to M. Luthfi Hamidi (2009) if the gold dinar were implemented, they could save almost 4/5 of their budget for other economic allocations and that should encourage prosperity among the member countries.

Moreover, Question 6 and 7 is vital as according to Ahamed Kameel (2002 & 2004) by implementing gold dinar it will encourage more participating in international trade rather than be competitive in Muslim countries because gold will protect from devaluation of their domestic currency. Apart from that, Question 8 been asked as refer to Nik Mahani the sovereignty of Islam can only be brought back by circulation of wealth afforded by the use of currency that has real value which is gold dinar.

Whereby Question 9 and 10 is significant to be as asked as Ron Paul (2009) mentioned in his book after the collapse of Bretton Woods System, the currency no longer been peg to gold, expose speculator and fluctuate in value that bring instability in economy. As referring to Peter L. Bernstein (2000) gold suit best as attribute of money because it can be medium of exchange and store of value. Whereby Question 11 to 15 is important because the authors mentioned the same thing about gold standard that it can bring economic and political stability because the value is not control by the government thus it will not distinguish between well established industrial powers and poorer developing nations.

Documentation Method

Documentation method is a type of data collection by doing research on documents that related to the problem statement. The resource of those documents includes potret, autobiography, personal letters, daily note book, memory, newspaper, articles and journals. Among the document that author used to refer including conference paper presentation and document on gold dinar.

Data Analysis Method/Research

The interviews have been video-recorded where necessary, in addition to note takings. Content analysis been conducted to analyse the interview transcripts. Content analysis involves certain key phrases or words being counted, and the frequencies are the analysed (Easterby-Smith et al., 2001). In content analysis, words of the text are classified into fewer categories where each category may consist of one or several words and phrases which are classified in the same category are presumed to have similar meanings (Weber, 1990). All transcript been examined for the presence of themes or idea. During the first round of transcript examination, emerging idea and themes has been highlighted with different colours. The transcript then been subjected to second examination in order to ensure that words, phrases or themes that can be classified in the same category has been highlighted with the same colour.

A third and fourth examination has been conducted to ensure all parts of the interview transcripts are categorized accordingly. The idea and themes identified has been arranged in a table to enable scoring of the frequency with which each appeared in the transcripts. All the response to direct questions on tested variables has been reported accordingly i.e whether the respondents agreed or did not agree with the explanations offered by the interviewees. Oppenheim (1992) suggested that the researcher should report or quote some of the responses in order to give the reader some of the flavour of the replies. Stein and Mankowski (2004) reveal that researchers must use their own best judgement to interpret the participants' words. They cite Denzin (1989) about how the act of interpreting involves the transformation of participant stories into research stories as shaped by the experiences and expertise of the researcher. They add that interpreting qualitative material is deeply personal.

In this research, all information obtained was analysed according to the method as following:

Deductive Method

Means that by making conclusion based on the evidence in general to become a foundation in finding specific conclusion. This method been applied by analysing data and doing research base on critical thinking in order to find a evidence via utilizing general data and specific data. In this research, the researcher analysed information regarding implementation gold dinar as method of payment for international trade among OIC country and making conclusion regarding its practicality, benefit and consequences. (http://www.socialresearchmethods.net)

Comparative Method

Means that a conclusion made by comparing analysis base on all data and information obtained. The researcher were comparing books chosen in term of ideas that been introduce, Syariah principles, operations, implementation and problem raised and author will propose solutions back to gold dinar that will implemented for international trade payment settlement only for restricted area which is OIC Country. Book chosen is as per stated in literature review. (http://www.visionlearning.com)

Conclusion

This study attempted to find whether and how the implementation of gold dinar proposal would affect trade among OIC countries. The findings from the empirical analysis and available evidence from the literature help to answer this challenging and other important questions.

CHAPTER FOUR

THE HISTORY OF GOLD MONEY, MONEY AND ITS RELEVANCY

Introduction

This chapter aims to analyse the gold as money in term of its history and its usage in different ages. Moreover this chapter discussed the weaknesses and strength in using gold standard. This study explores those objectives through content analysis methods by analysing the views of scholars, their arguments and evidences and interview with expert.

As to answer the stated objectives above, this study focuses the discussion on the following:

i) Definition of gold money in different types of usage,

ii) Chronological history of money,

iii) Existing usage of Gold as a currency in the ordinary business of the life of different eras throughout the ages from ancient times to the present day,

iv) The Disadvantages of using gold money,

v) The Advantages of using gold money.

Definition of Gold Standard, Gold Bullion, Gold Coin and Commodity Money

In order to understand the chapter, one should understand the following terminologies:

1) Gold Standard.

2) Gold Bullion.

3) Gold Coin.

4) Commodity Money.

Gold Standard

Referring to Nathan Lewis in his book *The Once and Future Money (*2007) a gold standard shall be defined as a system that ties the value of money to the value of a fixed quantity of gold.

Few scholars discussed the practices of the gold standard which can be simplified below (Lewis (2007), Roy W.Jastram (2009) and John Tomlinson (1993)):

i. The gold standard referred to paper currencies whose value was pegged to the value of a specified amount of gold. Commonly, paper money was legally redeemable for gold on demand. When the value of paper currency fell below its gold parity, paper money (base money) was returned to its issuers, who (ideally) would then remove it from circulation. Supply was reduced, supporting the value of the currency. When the value of the paper currency rose above the gold parity, supply was increased. Thus this kind of practice can play a role as a mechanism for value-peg of the currency.

ii. One of the weaknesses of this practice is that a gold standard is not, and never has been, a system by which the amount of base money is determined by the amount of gold held by the monetary authorities. From this it can be seen that importing or exporting gold, or other such actions, are generally of little concern, since moving gold from place to place does not change its value.

iii. Other weakness point of this practice is, the modern gold standard, based on redeemable paper money, began when people decided not to hoard and protect their own gold holdings, fearing theft or other risks, and instead deposited their gold with private institutions, receiving a claim check in return. Deposit an ounce of gold; get a one-ounce claim check. It did not matter what form the check took – even the handwritten not would do- as long as it was legally binding. In Britain this began as a side business of the scrivener in the early seventeenth century. Goldsmiths, who had the facilities to store and protect large gold holdings, later took over this business, particularly after 1640. People deposited their bullion and coin with the goldsmiths and received claim checks. They gradually found that their claim checks circulated as well or better than the bullion they had deposited.

iv. Other weakness point of the system is no specific regulator to regulate the standard but created by free market. According to scholar the gold standard was created by the free market, the citizenry, and it operates to manage the supply of paper currency under a self-adjusting market system. There is no central bank, no secretive policy board, no armies of statisticians churning out spurious indexes and aggregates, indeed no discretionary monetary policy at all. The government's contribution to the system is merely to ensure that banks abide by their legal contract to honour the redemption of their bills for specie.

Gold Bullion

Gold bullion typically defined as a gold that already formed into bars, either in crude dore form (80 percent fine) as treated at the mine site, or as defined by weight and greater fineness and authenticated by the stamp of a recognized refinery (Shayne McGuire, 2010). Each of the major markets defines an acceptable measure of weight and fineness for "good delivery" in that market, with some variations. Weights range from 1 kilogram (32.151 troy ounces) to 400 ounces. When refined, gold bards generally consist of between 995 and 999 parts of gold per thousand (i.e between 99.5 and 99.9 percent fine). One carat is 41.667 parts of gold per thousand parts of alloy, so that refined bullion is close to 24 carats.

The usage of gold bullion can be understood via few practices as follows (Jonathan Spall, 2011):

i. bullion market generally serve as a conduit between large gold suppliers (such as producers, refiners, and central banks) and smaller investors and fabricators. The physical gold market is essentially a spot market, but it is complemented by the use of forward trading for the hedging of physical positions. Trading is interoffice or (off-the floor), with prices quoted by individual traders (except in the case of a fixing, when agents come together to agree on a price).

ii. Market participants comprise bullion dealers, who act as principals, adopting open positions in the market: brokers, who close their positions by either matching transactions. However, many gold houses combine these functions. Also, dealers generally either have their own refining capacity or have it available to them. However, as for Islamic point of view, the practice of forward trading of gold will definitely trigger Shariah compliant issue as any trading on gold should be done on spot. Many Shariah issues can be observed on the relations of market participants when in depth analysis on them.

Gold Coin

The term ‘coin’ typically used as a common date or generic gold or silver coin is the name given to the millions of coins that were minted in the United States roughly between 1890 and 1933, the year in which the U.S government prohibited citizens from owning gold bullion and when it stopped minting gold coins. Although several coins from this period are exceptionally rare (like the 1907 “Rolled Edge” $10 Gold Piece, of which less than 50 survive in mint state), common date coins were minted in large quantities and many survive today. A classic common date rare coin is the 1904 Liberty Head $20 gold coin, of which over six million were minted. However, only a few thousand of them survive today, and of those the ones that have been certified make up the coin’s population.

The attributes of gold coin can be understood as follows (Peter L. Bernstein, 2000):

i) A coin’s population determines its rarity, and evidently rarer coins are worth more. In the 1980s, a great number of investors were attracted to the rare coin market-many out of concern about the rising government deficit at the time and while interest diminished during the 1990s stock market boom, investment demand has risen in recent years as gold and silver have continued to climb, while the number of coins remains relatively fixed.

ii) Every time gold has rallied; rare coins have risen much faster, as buyers have entered the market to purchase the dwindling supply of coins.

Commodity Money

Commodity money is money whose or which value comes from a commodity out of which it is made. It is objects that have value in themselves as well as for use as money. (O'Sullivan, Arthur; Steven M. Sheffrin (2003): 246). Examples of commodities that have been used as mediums of exchange include gold, silver, copper, peppercorns, large stones, decorated belts, shells, cigarettes, cannabis, candy, and barley (Joseph T.Salerno, 2010).

The usage of commodity money can be understood via few practices as follows (Glyn Davis, 2005):

i) These items were sometimes used in a metric of perceived value in conjunction to one another, in various commodity valuation or price system economies. Commodity money has several problems; most notably that it requires a 'coincidence of wants'. For example, if a wheat farmer needs what a fruit farmer produces, a direct swap is impossible as seasonal fruit would spoil before the grain harvest.

ii) A solution is to trade fruit for wheat indirectly through a third, "intermediate", and commodity: the fruit is exchanged for the intermediate commodity when the fruit ripens. If this *intermediate commodity* doesn't perish and is reliably in demand throughout the year (e.g. copper or gold) then it can be exchanged for wheat after the harvest.

iii) The function of the intermediate commodity as a store-of-value can be standardized into a widespread commodity money, reducing the coincidence of wants problem. By overcoming the limitations of simple barter, commodity money makes the market in all other commodities more liquid (Sheffrin 2003).

iv) Many cultures around the world eventually developed the use of commodity money. Ancient China, Africa, and India used cowry shells. Trade in Japan's feudal system was based on the koku – a unit of rice. The shekel was an ancient unit of weight and currency. The first usage of the term came from Mesopotamia in 3000 BC and referred to a specific weight of barley, which related other values in a metric such as silver, bronze, copper etc. A barley/shekel was originally both a unit of currency and a unit of weight (Samuel Noah Kramer, 1988: 52-55).

v) From early times, metals, where available, have usually been favored for use as proto-money over such commodities as cattle, cowry shells, or salt, because they are at once durable, portable, and easily divisible. The use of gold as proto-money has been traced back to the fourth millennium BC when the Egyptians used gold bars of a set weight as a medium of exchange, as had been done earlier in Mesopotamia with silver bars. The first known ruler who officially set standards of weight and money was Pheidon. The first stamped money (having the mark of some authority in the form of a picture or words) can be seen in the Bibliothèque National of Paris. It is an electrum stater of a turtle coin, coined at Aegina Island. This remarkable coin dates about 700 BC. Electrum coins were also introduced about 650 BC in Lybia. (Glyn Davies, 1994: 172-339).

vi) Coinage was widely adopted across mainland Greece during the 6th century BC, eventually leading to the Athenian Empire’s 5th century BC, dominance of the region through their export of silver coinage. A major silver vein discovery at Laurium in 483 BC led to the huge expansion of the Athenian military fleet (Samuel Noah Kramer, 1988).

vii) It was the discovery of the touchstone which led the way for metal-based commodity money and coinage. Any soft metal can be tested for purity on a touchstone, allowing one to quickly calculate the total content of a particular metal in a lump. Gold is a soft metal, which is also hard to come by, dense, and storable. As a result, monetary gold spread very quickly from Asia Minor, where it first gained wide usage, to the entire world (Samuel Noah Kramer, 1988).

viii) Using such a system still required several steps and mathematical calculation. The touchstone allows one to estimate the amount of gold in an alloy, which is then multiplied by the weight to find the amount of gold alone in a lump. To make this process easier, the concept of standard coinage was introduced.

ix) Coins were pre-weighed and pre-alloyed, so as long as the manufacturer was aware of the origin of the coin, no use of the touchstone was required. Coins were typically minted by governments in a carefully protected process, and then stamped with an emblem that guaranteed the weight and value of the metal. It was, however, extremely common for governments to assert that the value of such money lay in its emblem and thus to subsequently reduce the value of the currency by lowering the content of valuable metal.

x) Although gold and silver were commonly used to mint coins, other metals could be used. For instance, Ancient Sparta minted coins from iron to discourage its citizens from engaging in foreign trade. In the early seventeenth century Sweden lacked more precious metal and so produced "plate money", which were large slabs of copper approximately 50 cm or more in length and width, appropriately stamped with indications of their value (Samuel Noah Kramer, 1988).

xi) Metal based coins had the advantage of carrying their value within the coins themselves on the other hand, they induced manipulations: the clipping of coins in the attempt to get and recycle the precious metal. A greater problem was the simultaneous co-existence of gold, silver and copper coins in Europe. English and Spanish traders valued gold coins more than silver coins, as many of their neighbours did, with the effect that the English gold-based guinea coin began to rise against the English silver based crown in the 1670s and 1680s. Consequently, silver was ultimately pulled out of England for dubious amounts of gold coming into the country at a rate no other European nation would share.

xii) Stability came into the system with national Banks guaranteeing to change money into gold at a promised rate; it did, however, not come easily. The Bank of England risked a national financial catastrophe in the 1730s when customers demanded their money be changed into gold in a moment of crisis (Samuel Noah Kramer, 1988). Eventually London's merchants saved the bank and the nation with financial guarantees.

Gift Economics

In the absence of a medium of exchange, non-monetary societies operated largely along the principles of gift economics. The Mesopotamian civilization developed a large scale economy based on commodity money. The Babylonians and their neighbouring city states later developed the earliest system of economics as we think of it today, in terms of rules on debt, legal contracts and law codes relating to business practices and private property. Money was not only an emergence, it was a necessity. The Code of Hammurabi, the best preserved ancient law code, was created in 1760 BC in ancient Babylon. It was enacted by the sixth Babylonian king, Hammurabi. Earlier collections of laws include the code of Ur-Nammu, king of Ur in 2050 BC, the Code of Eshnunna in 1930 BC and the code of Lipit-Ishtar of Isin in 1870 BC.(Sheila Dow 2005: 385-391). These law codes formalized the role of money in civil society. They set amounts of interest on debt, fines for wrong doing and compensation in money for various infractions of formalized law. The shekel was an ancient unit of both weight and currency (Charles F. Horne, 2007). It was first used in Mesopotamia around 3000 BC to define a specific weight of barley and equivalent amounts of materials such as silver, bronze and copper. The use of a single unit to define both mass and currency was a similar concept to the British pound, which was originally defined as a one pound mass of silver.

The Issuance of Gold Dinar by Islamic Empire

During Prophetic Era

At the time of the Prophet PBUH in the early 7th Century, the Muslims did not mint the gold dinars or silver dirhams yet. The Prophet pbuh accepted the Roman Byzantine gold solidus, also known as the bezant, and the Persian Sassanid Empire's silver dirham as the monetary standards for Muslims. In this is wisdom because these coins enabled just trade among Muslims and with non-Muslims as well (www.worldribaconference.org).

However, the gold dinar is a gold coin first issued in 77 AH (696-7 CE) by Caliph Abd al-Malik ibn Marwan. The name is derived from denarius, a Roman currency. The weight of the dinar is 1 mithqal (4.25 grams). Although there was a dictum that the Byzantine solidus was not to be used outside of the Byzantine Empire, there was some trade that involved these coins which then did not get re-minted by the emperors minting operations, and quickly became worn. Towards the end of the 7th century CE, Arabic copies of solid - dinars issued by the caliph Abd al-Malik (685-705 CE), who had access to supplies of gold from the upper Nile - began to circulate in areas outside of the Byzantine empire. These corresponded in weight to only 20 carats (4.0 g), but matched with the weight of the worn solid that were circulating in those areas at the time. The two coins circulated together in these areas for a time (John Porteous, 1969: 14-33).

During Companion Caliph

The first dated coins that can be assigned to the Muslims are copies of silver Dirhams of the Sassanian ruler Yazdegerd III, struck during the Caliphate of 'Uthman (John Porteous, 1969). These coins differ from the original ones in that an Arabic inscription is found in the obverse margins, normally reading "In the Name of Allah". The subsequent series was issued using types based on drachmas of Khosrau II, whose coins probably represented a significant proportion of the currency in circulation. In parallel with the later Khosrau-type Arab-Sassanian coins first issued under the Well-Guided Caliphs of Islam, a more extensive series was struck with Khosrau's name replaced by that of the local Arab governor or, in two cases, that of the Caliph. Historical evidence makes it clear that most of these coins bear Hijra dates. The earliest Muslim copper coins are anonymous and undated but a series exists which may have been issued during the Caliphates of 'Uthman or 'Ali. These are crude copies of Byzantine 12 pieces of Heraclius from Alexandria.

By the year 75 AH/ 695 CE Abd al-Malik had decided on changes to the coinage. A scattering of patterned pieces in silver exist from this date, based on

Sassanian prototypes but with distinctive Arabic reverses. This experiment, which maintained the Sassanian weight standard of 3.5-4.0 grams was not proceeded with and in 79 AH/698 CE a completely new type of silver coin was struck at 14 mints to a new nominal weight of 2.97 grams. Unlike the contemporary gold coinage, this figure does not seem to have been achieved in practice. The average weight of sixty undamaged specimens of 79-84 AH is only 2.71 grams, a figure very close to that for a unique coin of 79 AH struck with no mint name (as was the standard procedure for the gold Dinars produced in Damascus). These new coins which bore the name of 'Dirham', established the style of the Arab-Sassanian predecessors at 25 to 28 mm in diameter. Their design is composed of Arabic inscriptions surrounded by circles and annulets. On each side there is a three or four line legend with a single circular inscription. Outside this are three line circles with, at first, five annulets surrounding them. The side normally taken as the obverse has as its central legend the Kalima or shahada: "There is no god except Allah alone, there is no partner with Him." Around it is the mint/ date formula reading "In the Name of Allah: this Dirham was struck in (mint name e.g. Damascus) in the year (e.g. 79 AH)". The reverse has a four line central inscription taken from the Surah 112 of the Quran; "Allahu Ahad, Ahallu-Samad, Lam yalid wa lam yulad wa lam yakul-lahu kufu-an ahad"'.

The marginal legend states: "Muhammad is the Messenger of Allah, he was sent with guidance and the religion of truth to make it prevail over every other religion, averse though the idolaters may be" (Quran 9:33) The gold coins were first struck to the contemporary standard of 4.4 grams and with one or more Arabic Standing figures on the obverse and an Arabic legend on the reverse. Dated coins exist from 74 AH and are named as 'Dinars'.

These experimental issues were replaced in 77 AH, except in North Africa and Spain, by completely epigraphical designs very similar to the designs adopted for the silver pieces but with a shorter reverse legend and no annulets or inner circles. This type was used without appreciable change for the whole of Umayyad period, the coins being struck to a new and carefully controlled standard of 4.25 grams. This weight was reputed to be based on the average of the current Byzantine solidi, was called a mithqal, a term used earlier for 1/72 of a rattle. Evidence of the importance attached to the close control of the new Dinars is provided by the existence of glass weights, mainly from Egypt. They usually show the governor's name, sometimes the date but all marked with coin denomination (John, 1969).

The issues in gold from North Africa began as copies of the coins of Heraclius and his son (but with an abbreviated Kalima in Latin), the reverse 'cross on steps' losing in most cases its cross piece. Dinars, halves and thirds were struck, all to the new weight standard. Later coins are dated by indiction, from Indiction II (85/4) changing to the Hijra date in Roman numerals in 94 AH with Arabic phrases appearing in the field from 97 AH. In the year 100, North Africa came into line with the eastern issues although the mint is named as Ifriqiya. The legends are shorter and the reverse has a new central inscription: "In the Name of Allah, the Merciful, the Compassionate". This was used also on the coins from Al-Andalus, and on the half and third Dinars, most of which show no mint but may well have been struck in Al-Andalus.

The Power of Gold

Judy Shelton in her book *Money Meltdown*, asserted the most appealing feature of a global gold standard is that no nation is forced to surrender control if its money supply to a super national organization or global central bank. No nation is asked to conform to a specified budget model or to comply with a universal decree concerning the size of its domestic budget as a percentage of its gross domestic product (Shelton, 1994: 342). One nation might wish to channel a large portion of its economy through the federal budget so that national revenues are largely redistributed by the government. Another nation might wish to carry out libertarian policies, extracting from its citizens only the smallest fraction of revenues to support only the most essential government services. The point is whether the citizens of a nation choose to operate a welfare state or whether they choose to have limited government, they can still participate in the global economy on a common monetary footing (Shelton 1994: 342). The only requirement is that they abide by the rules of a gold standard. The government must (1) run a balanced budget and (2) provide for convertibility of its currency into gold on demand (Judy Shelton, 1994. p. 342).

Few scholars discussed the superiority of gold which can be simplified below:

i. An interview with Ahamed Kameel Mydin Meera[1], an adoption of a gold standard changes the nature of the relationship between private citizens and public officials. Government is much more answerable to taxpayers on fiscal issues. The constraint of having to maintain a balanced budget ensures that politician cannot commit funds without the full awareness and approval of the citizenry. Because governments are not permitted to run deficits under a gold standard, citizens must directly bear the burden of the expenditures they authorize as part of the domestic budget. If they demand high levels of spending for defence or social services, they accordingly must fund those expenses by providing sufficient tax revenues.

[1] Department of Finance, Kuliyyah of Economic Management & Science, International Islamic University Malaysia on 25 November 2011.

ii. While implementation of a gold standard in no way would force government expenditures to be low, it might well have a dampening effect on federal spending, because people who otherwise would be eager to accept the gifts proffered by politicians in the form of subsidies and transfer payment would become more discerning, knowing they would have to pick up the bill. Indeed, one of the great advantages of the gold standard, as Ludwig von Mises notes, is that it offers citizens “a form of protection against spend-thrift government.” Mises views the fiscal accountability aspect of the gold standard as an extremely positive feature, one that forces both citizens and politicians to pay more attention to budget decisions and to justify all government spending (Ludwig Von Mises, 2010).

iii. If, under the gold standard, a government is asked to spend money for something new, the minister of finance can say: “And where do I get the money? Tell me, first, how I will find the money for this additional expenditure. Under an inflationary system, nothing is simpler for the politicians to do than to order the government printing office to provide as much money as they need for their projects. Under a gold standard, sound government has a much better chance; its leader can say to the people and to the politicians: “We can’t do it unless we increase taxes” (Judy Shelton: 1994. p.343).

But under inflationary conditions, people acquire the habit of looking upon the government as an institution with limitless means at its disposal; the state, the government, can do anything. If, for instance, the nation wants a new highway system, the government is expected to build it. But where will the government get the money? (Judy Shelton, 1994).

iv. When a government is held strictly accountable by its citizens, the principles of democracy are reinforced. The government functions to serve the nation rather than as a separate bureaucratic entity with objectives of its own. Government of the people, by the people, and for the people becomes more than a philosophical ideal; it turns into a political reality with pragmatic applications for controlling the budget. For citizens who long ago dismissed any notion of self-governance, a different mindset is required. Under a gold standard, individuals assume more direct responsibility in allocating resources for the good of their nation. When transparency is restored to the budget process, the level of government spending is approved and anticipated (Judy Shelton, 1994).

v. A gold standard fixes the value of money in terms of a universally recognized commodity so that money holders have the confidence in knowing that their paper claim can be converted to a real asset at a prespecified rate. The gold standard establishes a solid foundation for making rational economic decisions and then enables individuals to exercise personal choice in pursuing their own financial and economic objectives. (Judy Shelton, 1994: p.349).

vi. Certainly, gold has always enjoyed an excellent reputation among central bankers. Central banks that reveal their holdings show impressive stashes of the barbaric metal. According to *The Economist*, they held in their possession some 35,000 tons of gold in January 1993 – equal to seventeen years' output from mines. Ironically (or perhaps not) central banks still cling to one-third of all the world's gold, even though it has been more than two decades since the official link between currencies and gold was severed. Although the central banks of Holland and Belgium generated a fair amount of publicity when they sold substantial portions of their gold reserves in 1992, the overall level of gold stocks in central bank vaults has remained remarkably stable since the middle of this century. Statistics furnished by the International Monetary Fund show that the monetary gold holdings of the world's central banks, along with official international organizations (such as the IMF) and other monetary authorities (such as the Saudi Arabian Monetary Authority), amounted to 1,000 million ounces in 1952. Some forty years later, at year-end 1991, gold holdings stood at 1,140 million ounces. (Shelton, 1994:349).

vii. Some might find it difficult to understand why central bankers, who should represent the epitome of monetary sophistication, keep an average 30 percent of their total reserves in the form of non-interest-bearing gold. On the other hand, the keepers of the world's financial system place great emphasis on price stability and sound money. Moreover, they are keen observers of history. Gold provides insurance against economic and political calamity. It is still widely regarded as a "war chest" that can be tapped in the event of global currency chaos. Gold, in that sense, is the bulwark for preserving national financial independence. (Judy Shelton, 1994).

viii. If central bankers turn to gold as the ultimate guarantor of monetary integrity, should private citizens be less demanding? Those who demean

> the monetary use of gold as a provincial vestige of the past underestimate its contemporary appeal among financial sophisticates from Basel to Beijing. No citizen should permit the purchasing power of hard-earned wages to be undermined by fiscal malfeasance or monetary manipulation. The soundness of currencies should be maintained domestically and internationally through a system of fixed exchange rates based on universal gold convertibility. This is no mere academic proposal for international monetary reform; it is a fundamental call for a new approach to financial governance based on balanced budgets, fiscal transparency, and political accountability. (Ibid)

The Disadvantages and Advantages of Gold Standard

As the immediate impacts of the financial crisis are digested, and currency devaluation emerges as perhaps the final tool to engender recovery, it is time to consider again alternatives to this unstable fiat paper regime. With the thorough discrediting of much of the world’s banking system throughout the recent crisis, there is an opportunity to re-examine the monetary pillars of western banking – including credit creation through fiat currencies that are wholly devoid of any asset backing. Can and should the world return to the Gold Standard? Perhaps it is very important to reignites this debate by setting out then refuting the main arguments cited against the Gold Standard. These arguments are distilled from the economics literature and media analysis. The arguments represent the lifecycle and scope of a contemporary gold based monetary system. We explain these arguments and counter arguments to explore whether they are still valid in light of recent and historic precedence, and whether they are insurmountable in the quest for a more stable currency in an unstable world.

The Disadvantages

There are quite a number of people who are against the return to Gold dinar. They believe that the return to gold dinar is neither desired nor practicable. They also say that the introduction of gold dinar in Muslim countries is in no way in Islamic imperative and they claim the system is likely to end in a chaotic failure. They always stating the following reasons why it is undesirable:

1. The total amount of gold that has ever been mined has been estimated at around 142,000 metric tons (Butterman, W.C.; Earle B. Amey III: 2005) and arguments have been made that this amount is too small to serve as a monetary base. The value of this amount of gold is over 6 trillion dollars while the monetary base of the US, with a roughly 20% share of the world economy, stands at $2.7 trillion at the end of 2011. (Ibid).
2. The unequal distribution of gold as a natural resource makes the gold standard much more advantageous in terms of cost and international economic empowerment for those countries that produce gold. (George J.W Goodman 1981), In 2010 the largest producers of gold, in order, are China, followed by Australia, the US, South Africa and Russia. The country with the largest reserves is Australia. (Liezel Hill 2011).
3. The gold standard acts as a limit on economic growth. (David A Myer 2010) "As an economy's productive capacity grows, then so should its money supply. Because a gold standard requires that money be backed in the metal, then the scarcity of the metal constrains the ability of the economy to produce more capital and grow." (Ibid).
4. Mainstream economists believe that economic recessions can be largely mitigated by increasing money supply during economic downturns.

(Mankiw, N. Gregory 2002). Following a gold standard would mean that the amount of money would be determined by the supply of gold, and hence monetary policy could no longer be used to stabilize the economy in times of economic recession. (Ibid). Such reason is often employed to partially blame the gold standard for the Great Depression, citing that the Federal Reserve couldn't expand credit enough to offset the deflationary forces at work in the market. (Richard H Timberlake 2005).

5. Although the gold standard has brought long-run price stability, it has also historically been associated with high short-run price volatility. (Michael D Bordo 2008). It has been argued by, among others, Anna Schwartz, that this kind of instability in short-term price levels can lead to financial instability as lenders and borrowers become uncertain about the value of debt. (Bordo, Michael D.; Robert D. Dittmar, William T. Gavin (2007).

6. Deflation punishes debtors. Real debt burdens therefore rise, causing borrowers to cut spending to service their debts or to default. Lenders become wealthier, but may choose to save some of their additional wealth rather than spending it all. The overall amount of expenditure is therefore likely to fall. (John Mauldin, Jonathan Tepper 2011).

7. Monetary policy would essentially be determined by the rate of gold production (Brad DeLong 1996). Fluctuations in the amount of gold that is mined could cause inflation if there is an increase or deflation if there is a decrease. Some hold the view that this contributed to the severity and length of the Great Depression as the gold standard forced the central

banks to keep monetary policy too tight, creating deflation. (Michael D Bordo 2008)

8. If a country wanted to devalue its currency, a gold standard would generally produce sharper changes than the smooth declines seen in fiat currencies, depending on the method of devaluation. (Megan McArdle 2007).

The first thing we should admit is that the current monetary system has a serious problems and an alternative to this system needs to be found out. If we critically examined the case against gold dinar, we can come to the conclusion that their arguments are economically and logically ill-founded. Therefore, I conclude that there is a strong economic and religious case for re-introduction of gold dinar. Such conclusion is a response or rather a refutation of the arguments of those who oppose gold dinar. At least I can provide three justifications for the returning to Gold Dinar.

The first justification lies in the belief that Gold Dinar is part of the Islamic faith. Accordingly, the return to Gold Dinar is a must and cannot be questioned. The second reason stresses the importance of reducing dependence on the US dollar as an international currency. Namely, Gold Dinar can provide a viable alternative to the current and dominant US currency.

The final justification finds fault with current fiat and fractional reserve banking system. It is argued that, with the practice of interest rate, the current system is unjust and inherently unstable. The recurring currency and financial turbulence experienced in recent past is just a manifestation of the major weakness of the system. The foundation to this instability stems from the ability of banks to create money, which allows money supply to grow by default. Then, through the equation of exchange and given potential output, the growing money supply can generate instability in the economy. Gold Dinar, as it is argued, is free from these weaknesses.

The Advantages

The arguments presented above are as the main impediments to a successful return to the Gold Standard. While the study consider that the arguments are not as strong as often presented and have argued accordingly, the main arguments for the Gold Standard must also be made, and in their own right provide a compelling argument for the required radical change. When governments and major banks have the unfettered right to print money, the result has sadly always been the same – significant increases in money supply and ultimately high inflation. This fact is the strongest argument in favor of a solid asset backed currency. As George Bernard Shaw in 1928 wrote (Michael D. Bordo 2008):

> *"The most important thing about money is to maintain its stability… You have to choose between trusting the natural stability of gold and the honesty and intelligence of members of the government. With due respect for these gentlemen, I advise you, as long as the capitalist system lasts, to vote for gold".*

Few politicians today advocate a return to the gold standard, other than adherents of the Austrian school and some supply-siders. However, some prominent economists have expressed sympathy with a hard-currency basis, and have argued against politically-controlled fiat money, including former U.S Federal Reserve Chairman Alan Greenspan (himself a former Objectivist), and macro economist Robert Barro. (Josepth T.Salerno, 1982). "*The Gold Standard: An Analysis of Some Recent Proposals*". Cato Policy Analysis. Cato Institute.) Greenspan famously argued the case for returning to a 'pure' gold standard in his 1966 paper "Gold and Economic Freedom", in which he described supporters of fiat currencies as "welfare statists" intent on using monetary policies to finance spending.

Gold as a medium of exchange it functions to facilitate trade, provide stability in transactions and not act as a hindrance to the functioning of the economy – an accusation all too often levelled at Fiat paper money, particularly with the spectre of money supply driven inflation.

1. Long-term price stability has been described as the great virtue of the gold standard (Michael D. Bordo, 2008). He stressed that the gold standard limits the power of governments to inflate prices through excessive issuance of paper currency. Under the gold standard, high levels of inflation are rare, and hyperinflation is nearly impossible as the money supply can only grow at the rate that the gold supply increases. Economy-wide price increases caused by ever-increasing amounts of currency chasing a constant supply of goods are rare, as gold supply for monetary use is limited by the available gold that can be minted into coin. (Bettina Bien Greaves, 2010). High levels of inflation under a gold standard are usually seen only when warfare destroys a large part of the economy, reducing the production of goods, or when a major new source of gold becomes available. In the U.S. one of those periods of warfare was the Civil War, which destroyed the economy of the South, while the California Gold Rush made large amounts of gold available for minting (Bettina Bien Greaves, 2010).
2. The gold standard provides fixed international exchange rates between those countries that have adopted it, and thus reduces uncertainty in international trade (Bettina Bien Greaves, 2010). Historically, imbalances between price levels in different countries would be partly or wholly offset by an automatic balance-of-payment adjustment mechanism called

the "price specie flow mechanism."Gold used to pay for imports reduces the money supply of importing nations, causing deflation and a reduction in the general price level for goods and services, making them more competitive, while the importation of gold by net exporters serves to increase the money supply, causes inflation and an increase in the general price level, making them less competitive (Bettina Bien Greaves, 2010).

3. The gold standard acts as a check on government deficit spending as it limits the amount of debt that can be issued. It also prevents governments from inflating away the real value of their already existing debt through currency devaluation (Alan Greenspan, 1966). A central bank cannot be an unlimited buyer of last resort of government debt. A central bank could not create unlimited quantities of money at will, as there is a limited supply of gold (Bettina Bien Greaves, 2010).
4. A gold standard cannot be used for what some economists call, financial repression. (Greenspan, 1966). Newly printed money can be used to purchase goods and services, and to discharge debts, at no cost to the printer. This acts as a mechanism to transfer the wealth of society to those that can print money, from everyone else. Financial repression is most successful in liquidating debts when accompanied by a steady dose of inflation, and it can be considered a form of taxation. (Carmen M Reinhart & Kenneth S Rogoff, 2008). Alan Greenspan wrote "Deficit spending is simply a scheme for the confiscation of wealth. Gold stands in the way of this insidious process. It stands as a protector of property rights. If one grasps this, one has no difficulty in understanding the statists' antagonism toward the gold standard."(Alan Greenspan, 1966)

Per John Maynard Keynes "By a continuing process of inflation, governments can confiscate, secretly and unobserved, an important part of the wealth of their citizens". (Ron Paul 2011) Financial repression negatively affects economic growth.(Ron Paul 2011).The gold standard benefits savers by preventing their savings from being devalued or destroyed through inflation, and by rewarding them with higher real (inflation adjusted) interest rates. In the US and United Kingdom, from 1945 to 1980 negative real interest rates have cost lenders an estimated 3-4% of GDP per year on average (Ron Paul, 2011).

5. Many Muslim scholars asserted that, the usage of fiat money as a medium of exchange should be replaced by another medium that would be fair and just; preferably gold. One advantage would be that the government will not be able to exercise total control over it as is the case of paper money. The government will no longer be able to issue more gold than is available as was the case with the paper currency where the government can print as much currency as it wishes. After all, how much will it cost to print a piece of paper? The value of gold will only change when a new gold mine is found but that too will not be a severe change. Moreover, the value of gold will eventually stabilize after a period of time.

Conclusion

From the perspective of world history, the victory of fiat paper currencies is relatively recent. Yet, until the last few years, discussion of the gold standard was almost banished from academic and public discourse. Given the progressivist ideology of our time, to suggest that a modern system is inferior to an older one is reactionary and therefore wrong. One of the most popular lines against the gold standard in the 1970s and 1980s was the idea that a gold dollar would be held hostage by the Soviets and their immense gold reserves. Barry Eichengreen, Richard Cooper, and many others regarded this as a conclusive argument against gold. (Barry Eichengreen, "Introduction," *The Gold Standard in Theory and History* (New York: Methuen, 1985), p. 29; and Richard Cooper, 1982, "The Gold Standard: Historical Facts and Future Prospects," in Eichengreen, 1985, p. 260). Even Richard T. Ely, founder of the American Economic Association, was sympathetic to the gold standard in his 1893 textbook. As late as the 1929 edition, Ely wrote: "With all of its shortcomings, the gold standard has the great advantage that its variations, largely the result of the play of the forces of the market, are beyond the arbitrary control of government" (Alan Greenspan, 1966).

As for the Islamic countries, nowadays they are facing a problem with the financial institutions which act 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. In return, the financial institution charge interest on the loans given to the individuals and businesses and pay fixed interest to the depositors. One of the reasons that the financial institution charge fixed interest is because the paper money deposited and lends out are subject to inflation. In other word RM10,000 today is not the same as RM10,000 five years from today as the value of paper money is always unstable.

From the discussion above, researcher found that stability in the value of money is very important in socio economic. There must be justice in economic. The problem exists because the manipulation of paper money or in economic term called inflation. Inflation destroys prosperity. Thus, gold has all the qualities of good money such as divisibility, portability, high value per unit of weight, durability and uniform quality. Secondly, gold stands as protector of property rights. The strength of gold dinar is depending on the gold standard where citizens have the right to have their paper currency redeemed in gold coins. Thirdly, another characteristic made gold a natural choice of money is because of recognizable substance that was easily portable and inherent value.

The failure of the gold standard could be concluded by existence of financial institutions which, lend money and charge interest to the borrowers. They are actually creating money out of money. In order to accommodate the shortage supply of money in the market due to the creation of money out of money, the government has to print more money. When more money is being printed at will, inflation will occur. In the ages prior to the paper money only the precious metals had been found to be reliable for money. This is because the precious metal did not inflate in value. Rais Umar, leader of the Murabitun Worldwide Movement says that "Gold itself is not a promise of payment but merchandise, a commodity. It holds value by itself and it has no inflation" (New Straits Time, 2002). International trade needs a fixed currency exchange between trading countries. Paper money does not have intrinsic value and with it, currency exchange could be done impulsively and irresponsibly. It all depends on the manipulation of the currencies as seen during the economic crisis.

CHAPTER FIVE

THE ANALYSIS IN USING GOLD DINAR AS A CURRENCY

Introduction

As the previous chapter discussed the history and the reality of the usage of gold standard in term of weaknesses and strength, Chapter Five is meant for analysing the potential of using gold dinar in economy as a currency.

The return to the gold is supported by many followers of the Austrian School of Economics, Objectivists, free-market libertarians and, in the United States, by strict constitutionalists largely because they object to the role of the government in issuing fiat currency through central banks. A significant number of gold advocates also call for a mandated end to fractional-reserve banking**.**

In 2001, Malaysian Prime Minister Mahathir bin Mohamad proposed a new currency that would be used initially for international trade among Muslim nations. The currency he proposed was called the Islamic gold dinar and it was defined as 4.25 grams of pure (24-carat) gold. Mahathir Mohamad promoted the concept on the basis of its economic merits as a stable unit of account and also as a political symbol to create greater unity between Islamic nations. The purported purpose of this move would be to reduce dependence on the United States dollar as a reserve currency, and to establish a non-debt-backed currency in accord with Islamic law against the charging of interest. However, to date, Mahathir's proposed gold-dinar currency has failed to take hold.

There are fierce debates over whether the gold dinar is better than the current system and whether it is necessary to re-introduce gold dinar by Muslim countries as an Islamic solution. In this chapter, the case of both arguments on both sides analyzed and finally refuting the cases against gold dinar.

The Strength of Gold Dinar

Various studies showed that the strength of gold dinar are as follows (Ron Paul (2010), Meera (2002) and Imran N. Hosein (2011)):

i. Gold contains quality

An interview with Imran N. Hosein[2], gold is central to the issue of restoring sound money. That's because gold emerged from within the structure of the market economy as the most important guarantor of the quality of money. It was not chosen by governments but by the market. The reason is easy to understand. Gold has all the qualities that we associate most with good money: divisibility, portability, high value per unit of weight, durability and uniform quality. The idea of sound money in most human history has been bound up with gold money.

ii. Recognizable substance

Certain characteristics made gold a natural choice as money such as recognizable substance that was easily portable and had inherent value. Some say money should serve as store of value, easily divided, scarce, and desirable. Its most important function is to act as a means of exchange to facilitate trade. Most people recognize that prices of all goods fluctuate and free market adjusts these changes quite efficiently. Some mistakenly think the value of gold is rigid and leads to "stable" prices of goods and services. Since gold supplies are limited compared to

[2] Interview with Imran N. Hosein on 3 November 2011 at 10.45 am in Idaman Sutera Condominium Gombak.

government's ability to print paper money, it indeed does give as much more stable prices. But the value of gold and silver or Federal Reserve's notes is affected by their supply and relationship to other commodities. That is why the system of bimetallism, that is, fixing the ratio of gold to silver, was not satisfactory system in our early history (Ahamed Kameel Mydin Meera, 2002).

iii. Scarcity

Another strength of gold dinar is, though gold may not be rigid in value, it becomes practical because of its scarcity and efficiency in trade. In modern economy, no matter how sophisticated it may seem or how long in operation, the more an unpredictable fiat currency serves as the reserve currency rather than a non-government entity like gold, the more fragile will be the system. Because the authorities can get away with the fraud for decades, the imbalances will continue to grow and will eventually bring the system to a halt. The more definable the unit of account is, the more smoothly and longer the economy will operate. There's too much concern about an inadequate amount of gold. This is a worry that need not be. Paper may be "elastic" in the sense of inflating and bailing out bad debts, but it also acts like a boomerang as "stretching" money supply snaps back with both inflationary and deflationary consequences (Tarek el-Diwany, 2003).

iv. Elastic

Apart from that, an interesting and good sort of way, gold is elastic. It might be said that it is flexible, efficient in dealing with all the factors that affect prices of goods and services and the value of money. It adapts

> to market forces. Its supply, unregulated, is always adequate. It serves to adjust for settling current account imbalances so much better and smother than fiat currency does. Gold became money because it had all the properties people look for in good money. Government had nothing to do with it (Hayek, 1976).

The Weaknesses of Using Gold Dinar

As discussed in the previous chapter, there are views that the gold dinar is not suitable as it may not suit current economic development as follows:

The Price Instability Argument

The second argument raised by Murat is what he (think) as the inherent price instability if gold is used as money. Murat (2010), citing Hassan (2008, p. 14), states that the inflow and outflow of gold into and out of a country would lead to inflation and depression respectively. Murat (2010) considers this as a very dangerous implication of introducing Gold Dinar, arguing that 'mercantilism' as a Europe-wide doctrine that caused many wars between nations. Criticizing the proponents of Gold Dinar as having deficiency of knowledge and understanding of the historical period, when gold was used as money, Murat (2010) argues that the inflation was massive in Europe as well as Islamic world. Murat (2010) believes that the money supply is never fixed in the bi-metallic system. There are two reasons, according to him, that would subject money supply to fluctuations in a bi-metallic system, namely; (1) discovery of new gold or silver and (2) debasement. Debasement arises when a government obliged to increase the money supply mints new coins with lower metal contents (Murat, 2010, p. 8). This, he argues, was the cause of inflation throughout the Europe as well as Ottoman Caliphate where gold or silver coins were used as money. Thus, Murat (2010) concluded that having gold or silver coins as the currency of a country does not in any way provide a protection against inflation. Commenting on the argument of pro-Dinar scholars, Hassan (2008, p. 9) argues that it is not money supply that increases faster during inflation than the real income, but money incomes. With this he wishes to refute the claim of pro-Dinar voices that fiat money causes inflation.

Gharar Argument

Muslims are insignificant as a percentage of global gold production, except Indonesia which accounts for 6.6% of global gold production, and therefore, Murat believes that the Islamic Gold Dinar would give world's largest gold producers quite a substantial leverage to play havoc with the monetary system of Islamic countries. A possible collusion of the gold producers and speculation would create huge uncertainty (*gharar*).

Seigniorage – a False Appropriation[3]

Both Murat (2010) and Hassan (2008) have attempted to refute the most important case for Gold Dinar which was put forwarded by Kameel and Larbani (2006) – the issue of seigniorage in the current monetary system. Seigniorage, as defined by Hassan (2008), is something claimed by the sovereign or a feudal lord as his prerogative in relation to society. In the case of money, seigniorage is the percentage share of the crown in the bullion people brought to the loyal mint to get

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[3] Seigniorage derived from specie—metal coins, is a tax, added to the total price of a coin (metal content and production costs), that a customer of the mint had to pay to the mint, and that was sent to the sovereign of the political area. For example, A person has one ounce of gold, trades it for a government-issued gold certificate (providing for redemption in one ounce of gold), keeps that certificate for a year, and then redeems it in gold. That person ends up with exactly one ounce of gold again. No seigniorage occurs. or instead of issuing gold certificates, a government converts gold into currency at the market rate by printing paper notes. A person exchanges one ounce of gold for its value in currency. They keep the currency for one year, and then exchange it all for an amount of gold at the new market value. see http://www.minneapolisfed.org/research/QR/QR2142.pdf

converted into coins. Hassan argues that the today's extension of the term to all forms of money is inappropriate because the people do not pay for the printing of money and the purpose is not to enrich the crown.

Obstacles of the Implementation of Gold Dinar

The OIC was establish in 1969, currently has 57 memberships. The objective of the organization at the beginning serves as a collective of Muslim voice and ensuring to safeguard and protect of interest of the Muslim world. The OIC members are from various continents such as Middle Eastern, African, Asian and European countries. They are also heterogeneous group with uneven in term of development and growth pattern. Based on Income Classification from The World Bank, out of 57 OIC members, 12.5% are high income economies, 19.6% upper middle- income economies, 40% are lower-middle-income economies and 32% are low-income economies. Most of the high income countries members are oil exporting countries with substantial growth potentials while others are among the least developed and highly indebted poor countries. Even though they are different in income, language, geographical location, races, cultural, however, as a Muslim they follow the same faith.

One of the critical success factor in implementing Dinar is the Muslim countries must be united. If the Muslim countries do not unite the implementation of Dinar will be only be a dream. For instance, the Palestinian and Israelis conflict is still not resolved because the Muslim countries are busy fighting with each other. Iraq invaded Kuwait, The Iraq and Iran war and etc. In consequence they have enough problems to deal among themselves, which make Palestine, Kosovo, Bosnia and Chechnya Muslims being dictated. Business Times states that, “the unit 10 can replace the role of the US dollar without much complication as long as the members countries are committed to pegging their currencies against the Islamic currency" (Business Times, 2001).

The fiat money would not guarantee the Islamic nation from being oppressed by the developed countries. Fiat money which does not have intrinsic value burdens the ummah especially during the crisis. Even though the supply is abundance, but with the effect of depreciation and inflation, the real purchasing power is actually small.

Malaysia initiatives to revive the comeback of gold Dinar do has some historical perspectives because gold Dinar has been used for international trade during the Malacca empire in the 16th century (Berita Harian, 2004). Even though the Gold Dinar could provide a just and stable monetary system, the implementation is not as easy being said. The developing and less developing countries could not easily transform their system to the gold standard because the developed countries would definitely opposed to the system which will make their paper money worthless.

In order to avoid disruption in the economic order, the implementation of gold Dinar must be done part by part to its successful implementations.

The awareness level regarding the usage of gold dinar for trading transactions is still at the minimum level. This is because we are used with the existing fiat money and its system especially when dealing with the time value of money imposed by the fiat money i.e interest. The creation of awareness must be done from the root levels to ensure the survivor of Dinar even Tun Mahathir Mohamad (former of Malaysian Prime Minister), encourage academicians and researchers to do research and seminars on Gold Dinar.

Fiat money does not only burden to undeveloped country in debts repayment but also troubled their economics and social welfare. For an example, the Ringgit

Malaysia values have been dropped more than 20%. Simultaneously, it also decreases society purchasing power more than 50%. We are forced to pay or exchange more money to get the same quantity of goods as before the crisis because of currency depreciation.

Effort to Promote Gold Dinar

Two of the earliest research groups were the Gold Dinar Research Group (GDRG) Universiti Sains Malaysia, Penang and Dinar Dirham Research Group, Universiti Teknologi Malaysia, Skudai, Johor.

Both these research groups not only attended, participated and propogated the matter of the gold dinar within Malaysia but were also invited to present papers to neighboring Indonesia, namely in Jakarta, Bandung, Acheh, Medan and Riau and also in various parts of Thailand.

Another research group was also established by the Malaysian Multimedia University (MMU) in Malacca, however, this group is pursuing research on the parameters that the gold dinar should be of 9.999 purity.

International Islamic University (IIU) is also actively promoting the use of the gold dinar and was the organizer of two international gold dinar seminars in 2002 and participated in other gold dinar conferences and seminars over the years.

Universiti Kebangsaan Malaysia’s Dinar Research Group is looking into how regenerate wealth through gold dinar transactions within Malaysia and with other Islamic countries, taking into accounts the architecture reality of the present financial system.

Of the two Malay Muslim political parties, members of the Islamic Party of Malaysia (PAS) had showed more interest in the gold dinar and silver dirham and had given it much support in comparison to members of UMNO even though the ruling party's president was the Prime Minister at that time.

Lead by its youth wing, during its annual general meeting, held in Kuala Krai, Kelantan on Mei 3, 1998, the wing publicly supported the gold dinar and at the AGM made a sale of RM8,000.00 worth of gold dinars. It also introduced the gold dinar to the Kelantan people at a mass gathering later that day.

The commitment was cemented on the 20th of September 2006 when the Kelantan Chief Minister, Nik Aziz Nik Mat launched Dinar Emas Kelantan (DEK), the state's own gold dinar. Although the gold coin had its own designs but its weight, measure and purity were according to the Standard of Umar al-Khattab.

Dinar Emas Kelantan is now being marketed by Permodalan Kelantan Berhad (PKB) through the Ar-Rahnu chain of pawn shops to enable the public to buy and sell the gold coin which is being promoted presently as savings, as dowry (mahar or mas kahwin), as a gift and also as a medium to pay zakat.

In 2007, PKB and Marslio International jointly organized an international seminar on the gold dinar and at this particular event, one of the speakers, Dr. Aziuddin Ahmad introduced and made popular the term dinarist to describe the many dinar activist present.

The minting of the gold dinar was deemed important and necessary because only by doing so, can the gold dinar be in the hands of the people, moreover, only having the gold dinar in its physical form, will break the psychological barrier that has been entrenched in the peoples' mind that gold and silver coins cannot replace paper money.

It came as a surprise to many when they saw and felt the gold dinar in their hands. Gone was the idea that the gold coins would be heavy and cumbersome to carry when they realized that the coin was thin and light in weight. The glitter of gold is real and so is its value. They immediately saw money in a different light.

Current usage of Gold Dinar

To date, there are few alternatives on the usage of gold dinar proposed and implemented The practical function of gold dinar in countries that currently use Islamic gold dinar is in Malaysia, Indonesia, United Arab Emirates (Dubai), United Kingdom (Norwich) and by Murabitun World Movement. There are various forms of application of gold dinar in those countries either as currency or commodity. The usage in currency such as physical currency (dinar dirham), electronic payments (e-dinar) and *zakat* payment. While, using of gold dinar in commodities aspects such as for asset of investment, savings (deposits), pilgrimage *(Hajj),* and also used as wedding gifts.

The first modern gold dinar was minted and launched on 7 November 2001 by the Islamic Mint affiliated with Thomas Cook Rostamani Exchange Company and Dubai Islamic Bank in the United Arab Emirates (UAE) (Umar Ibrahim Vadillo 2002). As of today there are five factories in the world's gold dinar in Dubai, Spain, South Africa, the United Arab Emirates and Indonesia (Dahinden, Zeno 2008). Thus, the gold dinar and dirham unit silver has moved in almost the entire world and not wonder if some of the world's countries have adopted its use as an instrument in the financial system.

The Use of Gold Dinar in Indonesia

Indonesia is among the countries that have long practicing the gold dinar as an instrument in their financial system. Of which is the payment of zakat, savings for investment, transactions as money and deposits to perform the Hajj.

- **The introduction of Ongkos Naik Haji**

  Indonesia has introduced ONH (Ongkos Naik Haji), which primarily base on gold dinar as a deposit treasure for Hajj, enabling Indonesian to realize their dream. A deposit for pilgrimage in the form of gold dinar has begun in 2000. This is been operated by ONH (www.logamulia.com. 12th Sept 2008). According to Hamidi (2007), the pilgrims ONH are involved with storing and investment activities through Gold Accumulation Scheme Plans (GAPs). Through this scheme pilgrims will obtained the multiple benefits such as profit of gold price which is always rising, profits rather than resurfacing and as a fair and safe deposits. Gold collected will be stored in the form of allocated account. If until a year or arrived during the entire period for Hajj, storage may reclaiming the co-investment of profits will contact the Custodian Bank to process the gold which is bought and stored throughout the investment period. Bank will refund the total value of investment in gold.

- **Transactions Using Dinar and Dirham**

  In Indonesia, there are some places that use transactions in dinars and dirhams as bookstores. In addition, there is a wealth Wakala (agents) or companies that manufacture and distribute the dinar and dirham. Among Wakala such as; Wakala Syauki, Wakala Adina, Wakala Griya Dinar, Wakala IMN, Wakala Ribat Jakarta, Wakala al-Kautsar MUI Depok, Gerai Dinar and more (Zaim 2005).

- **For Savings and payment of Zakat**

  In Indonesia there are also a few places that the payment of zakat is paid in Gold Dinar (Hamidi 2007). Moreover, when the dinar and dirham coins circulate more in Indonesia, the Indonesians began to believe in the advantages of the dinar and dirham, and they start saving and keep assets in the form of dinar and dirham. Wakala dinar and dirham in Indonesia also provide storage services such as savings in BADAR established under Wakala Adina (Zaim 2005).

- **Gold Dinar as an Investment**

  Investment in gold dinar was officially done in 2008 by Gerai Dinar conducted by Mr Muhaimin Iqbal (Gerai Dinar Owner and President Dinar Club, Indonesia). Gold dinar investment is based on the principle of Mudharabah Mudharib (Gerai Dinar) and Sohibul al-mal (investors). Early stages of this investment program, under Gerai Dinar Mudharib is composed of companies or Wakala printing dinars and Precious Metals-PT Antam. Profit sharing is 50% - 50% between Mudharib and Sohubul al-mal. This investment scheme gets good response among the people of Indonesia (Muhaimin 2009).

The Use Gold Dinar in Malaysia

First minting gold dinars in Malaysia was done for the first time by The Royal Mint of Malaysia (Utusan Malaysia. 2003. Jul. 29). Royal Mint for gold dinar was launched on 28 July 2003 at Shah Alam (Dahinden 2008). In addition, on May 21, 2006 Gold Dinar Kelantan has been launched and it is forged by Mariwasa Handicraft Co., Ltd and Public Fine Gold International Sdn Bhd (Dahinden 2008).

In 2006 Kelantan introduced the gold dinar, which was locally minted. In 2010, the state government issued RM2 million (S$857,000) worth of gold dinar and silver dirham coins which can be used by members of the public as an alternative currency to shop in Kelantan. Menteri Besar Datuk Nik Abdul Aziz Nik Mat said about 1,000 shops, including restaurants in the state, had agreed to accept the state-minted dinar and dirham in exchange for goods and services. New coins, including the dirham, minted in United Arab Emirates by World Islamic Mint. On 25 August 2011 Kelantanese government collected and distributed zakat from people in Kelantanese dinars and dirhams in a public ceremony officiated by Chief Minister Dato Nik Aziz Nik Mat. The **Kelantanese dinar** is a currency issued by the Government of the Malaysian state of Kelantan, which purportedly is in conformance with the concept of the Islamic gold dinar. The Kelantanese dinar is available in the form of coins of several denominations. These coins were first struck in 2006 by Mariwasa Kraftangan of Kuala Kangsar, Perak, a local producer of souvenirs and replicas of objects of art and culture, and launched by the state of Kelantan on 20 September 2006. The Government of Kelantan had suggested that the coins had the status of legal tender, and the state-issued dinar sold out quickly, with many buyers seeing the gold dinar as a better choice than fiat money.

Nik Aziz said "The use of dinar and dirham as substitutes for normal currency notes for trade is not against the law as we have followed Bank Negara regulations. The state government introduced the gold dinar currency as history had shown that the gold dinar and silver dirham were inflation-proof as the metals could retain their value in any economic situation. (The Malaysia Insider, August 12, 2010).

However, the federal Malaysian government in Kuala Lumpur denied that the Kelantanese dinar had a legal-tender status, stating that the buyers had been misled by the Kelantanese government. The only currency that is legal tender in Kelantan is the Malaysian ringgit.

The creator of the currency has launched an international campaign to bring the currency beyond the borders of Kelantan. Proponents of the currency describe it as being in accordance with the Quran and also the Sunnah of the Prophet Muhammad. The coins have a metallic composition of 22 carat gold, as required to be in conformance with the modern Islamic gold dinar. (The Malaysian Insider, August 12, 2010).

The circulation of Gold Dinar in Malaysia is used for a variety of ways introduced such as, as a currency and transaction with electronic payment (e-Dinar and Web Dinar), the payment of Zakat, Hajj affairs, investment, savings, and marriage gift.

- **The usage of Gold Dinar as a Currency**

  The Usage of gold dinar as currency in Malaysia was initiated by the state government of Kelantan. Gold dinar and silver dirham Kelantan was launched on 16 August 2010 and a thousand pieces of business premises have agreed to accept payment in the form of dinar and dirham (The Star, 19 August 2010). According to Mazli Alias (2010), the use of the gold dinar as the currency has been practiced in the market places such as Pasar Khadijah For example, a buyer who wants to buy a pair of baju batik worth RM340 a pair, the seller will check the price of gold dinar at that time through the agency distribution or any branch of the bank. If a piece of gold dinar is currently worth RM300, then the balance will be settled using Malaysian Ringgit. So it's for a pair of baju batik worth RM340 paid by the purchaser of a piece of gold dinar and RM40 to the batik cloth seller. (Mazli Elias 2010).

- **Gold Dinar For Electronic Payment Systems, E-Dinar Ltd and Web Dinar System**

  As of today, in Malaysia, there are some business transaction conducted using dinar unit through the electronic payment system. Some of the systems have been applied is the e-dinar system developed by E-Dinar Ltd. While Web Dinar became operational in September 2009. E-dinar is an electronic payment system and exchange on the Internet. E-dinar operating in e-commerce in which business is done in the online trading of gold and silver. Special e-dinar system because it is supported by 100% of the gold and silver physically. Unit used is e-dinar and e-dirham. Physical gold and silver to support the units of e-dinar and e-dirham will always be equal or greater than the value of the units of e-dinar and e-dirham in circulation. Each e-dinar electronic unit equivalent weight remains accurate and 4.25 grams of pure 24k gold (Dahinden 2008).

  The Web Dinar is the online trading system that uses the value of the gold dinar in payment transactions. The major aims of this system is to realize an online trading systems which follow Islamic principles by promoting the use of Islamic gold dinar as a lawful transaction (www.webdinar.com). This web-dinar system produces 4 main branches namely:

  i) Portal D2D

  ii) Card Dinar (Registration of members)

  iii) Gold Dinar Currency (value reload / top up)

  iv) Payment Card Dinar (verify payment)

- **Gold Dinar Investment**

  Gold dinar investment based in Malaysia is operated by E-Qirad Sdn Bhd and Public Fine Gold International Sdn Bhd. E-Qirad Sdn Bhd is a subsidiary of Mint Islamic responsible for minting gold dinars in Dubai. E-Qirad Sdn Bhd has appointed Wakala (agents) throughout the world to conduct gold dinar investment (Zuhaimy 2003, Vadillo 2002). Customers who open a savings account gold dinar investment will be given opportunity to join Islamic named Hybrid Instruments (IHI). The minimum deposit required to participate in this investment is 25 Dinar for individuals and 100 Dinar for companies and cooperatives (KPMJ Gold Sdn Bhd 2006). Investors are offered with two investment options that offer attractive investment in returns. Gold dinar investment is based on the principle mudharabah.

The Use of Gold Dinar in Norwich and the United Kingdom

Muslims in Norwich and United Kingdom has long practiced the use of gold dinar currency and silver dirham as their business transactions. Previously only a small group of independent practice in their weekly market. However, starting in May 2009 they have introduced a market-based "Open Trade Relations". The main goal of this trade is to promote a commercial alternative model (http://www.muslimsofnorwich.org.uk, March 7, 2011). The program received strong support from local producers and owners, and entrepreneurs. Maintained market-based 'open market' and held for two days at the city of Norwich. Dealers will not be charged rent the site and all the space in the market is free. There are about 20 stalls in this market and consists of food and beverage outlets, book stalls, beauty products and a massage service (Morrison 2009). The free market is a practice that is meaningful to the Muslims in particular, as when the unit is dinar and dirham practiced in real situations dinar. For example, drink stall owner, he personally gained around € 40 silver in exchange for a coffee in the next two days. However, after a week she earned around € 100 exchange value of silver coins used in the regular market. So, no wonder many Muslims in Norwich that keep the dinar and dirham as their assets (Morrison 2009).

The Use of Gold Dinar by Murabitun World Movement

The founder of the modern Murabitun movement, Abdalqadir as-Sufi (a convert to Islam). That group grew continuously, founding a learning centre in Bristol Gardens, London, in 1972, and another centre in Berkeley, California. There was a constant flow of people into Islam around Abdalqadir as-Sufi, who during that period travelled constantly in Europe and America, held talks, and published works such as The Way of Muhammad and *Islam Journal* proposing that Islam could be understood, and entered, as the "completion of the Western intellectual and spiritual tradition". He also initiated some important translations into English of classical texts on Islamic Law and Sufism, including The Muwatta of Imam Malik and the Letters of Darqawi, published as The Darqawi Way (Bewley, Abdalhaqq 2001). In 1982 Abdalqadir as-Sufi held a series of talks in America which were to become the basis of his seminal work, Root Islamic Education. He had arrived at the position that the practice of Sufism led by necessity to a full working commitment to the establishment of the social practices and structures of Islam. Around that time the communities of Muslims founded by him began to organise themselves under the leadership of Amirs, in emulation of the practice of the first Muslim communities. This period saw the emergence of communities in Malaysia, South Africa, Denmark, and the growth of a strong community in Spain. After periods in Spain and Scotland, Abdalqadir as-Sufi moved to Cape Town, South Africa in 2002, from where he offers guidance to the Murabitun movement and to the world Muslim community in general.

The political and social work of the Murabitun centres around the restoration of the “fallen pillar” of Zakat, which, it is claimed, has been abandoned on several primary counts. (Vadillo, 2007).

Principally:

1. that it must be taken by an Amir
2. that if it is on money it must be taken in gold and silver
3. that it must be disbursed immediately

As their authority for this position the Murabitun cite a wide range of sources, beginning with the Qur'anic injunction to take Zakat, the Prophetic practice of Zakat-taking, the well-known position of the Khalif Abu Bakr as-Siddiq,and the established practice among the world Muslim community which was until relatively recently the assessment and collection of Zakat by the Leader and his collectors.

This they place in contradistinction to the currently prevailing practices of voluntary self-assessment, donation to the Zakat charity of one’s choice, and the placement of Zakat donations into interim or even long-term investment funds. This, they argue, destroys the political cohesion of the Muslim community, which is based primarily on the circulation of wealth along divinely revealed lines. They also condemn Zakat investment funds as un-Islamic. Connected with their position on Zakat is their perhaps more widely known work promoting the Islamic Gold Dinar and Silver Dirham.

Conclusion

This chapter discussed the practise of using gold dinar (gold coin) throughout the system. If the benefits of the Gold Standard were to be compared with the Fiat standard, it would be inevitable that the, Gold Standard would become a global standard. Throughout the history of money and up until the First World War, the whole world operated the gold and silver standards. No other standards were known to the world until then. However, when the colonialists mastered the various styles of economic and financial imperialism, and began using currency as a means of colonialism, they established different monetary standards. They considered bank deposits and non-exchangeable banknotes, which had no reserve of gold or silver, as money, along with gold and silver. Then in time the gold/silver standards were completely dropped. Today we have witnessed that people's ability to save has been diminished over time, despite the fact that we are earning more than ever. The purchasing power of money has declined in real terms as the value of assets generally remains the same, but the amount of money required to buy hard assets (land, property, goods) is increasing. In general terms people today save very little compared to people only two decades ago. Islam put the emphasis on wealth and seeks to guard people's wealth by ensuring that its policies do not devalue money.

The Islamic system does not allow the printing of money as it pleases since all its currency must be 100% backed by gold or silver reserves. This means that the currency itself has a value relative to all assets. So this means that the value to the consumer of land will always remain in proportion to the value of gold. This creates stability and confidence in the value of the State's currency.

CHAPTER SIX

MECHANISM OF GOLD DINAR FOR INTERNATIONAL TRADE

Introduction

As we already discussed on the characteristic of gold standard and gold dinar in the previous chapters, this chapter focuses on analyzing the mechanism in international trade and potential proposing solution to use gold either as a form of gold standard and gold coin.

Therefore, this chapter divides its discussion to few subtopics as follows:

i. The Definition and overview of International Trade
ii. Advantages of Currency Unions for International Trade.
iii. International Trade among OIC Member.
iv. Recent Trends in Global Trade and the performance of OIC Countries.
v. Mechanism to Apply Gold Dinar in International Trade.

As to achieve the objective of this study in analyzing the best mechanism in implementing gold standard in international trade, this study applies content analysis through descriptive analysis method[4] where it analyses existing practices of

[4] This type of research is a data grouping that includes many particular research methodologies and procedures, such as observations, surveys, self-reports, and tests. The four parameters of research will help us understand how descriptive research in general is similar to, and different from, other types of research. Unlike qualitative research, descriptive research may be more analytic. It often focuses on a particular variable or factor. Descriptive research may also operate on the basis of hypotheses (often generated through previous, qualitative research). That moves it toward the deductive side of the deductive/heuristic continuum. Descriptive analysis methods are used to present quantitative descriptions in a manageable form. In a research study we may have lots of measures. Or we may measure a large number of people on any measure. Descriptive methods help us to simply large amounts of data in a sensible way. Each descriptive method reduces lots of data into a simpler summary. See for example, Social Research Methods by Alan Bryman (2012), or Principles and Methods of Social Research by William D. Crano, Marilynn B. Brewer. (2002).

international trade business and to find the suitable usage of gold to be implemented in it.

The Definition of International Trade

International trade is the exchange of goods and services across international borders. In most countries, it represents a significant share of GDP. While international trade has been present throughout much of history (see Silk Road, Amber Road), its economic, social, and political importance have been on the rise in recent centuries, mainly because of Industrialization, advanced transportation, Globalization, Multinational corporations, and outsourcing. In fact, it is probably the increasing prevalence of international trade that is usually meant by the term "globalization". International trade is also a branch of economics, which together with International finance, forms the larger branch of International economics. (Khosrow Fatemi, 1997).

Overview of International Trade

Traditionally trade was regulated through bilateral treaties between two nations. For centuries under the belief in Mercantilism most nations had high tariffs and many restrictions on international trade. In the nineteenth century, especially in Britain, a belief in free trade became paramount and this view has dominated thinking among western nations for most of the time since then. In the years since the Second World War multilateral treaties like the GATT and World Trade Organization have attempted to create a globally regulated trade structure. (Takashi Kamihigashi and Laixun Zhao, 2009).

Communist and socialist nations often believe in autarchy, a complete lack of international trade. Fascist and other authoritarian governments have also placed great emphasis on self-sufficiency. No nation can meet all of its people's needs, however, and every state engages in at least some trade. (Takashi Kamihigashi and Laixun Zhao, 2009).

Free trade is usually most strongly supported by the most economically powerful nation in the world. The Netherlands and the United Kingdom were both strong advocates of free trade when they were on top, today the United States, the European Union and Japan are its greatest proponents. However, many other countries - including several rapidly developing nations such as India, China and Russia - are also becoming advocates of free trade. (Takashi Kamihigashi and Laixun Zhao, 2009).

Traditionally agricultural interests are usually in favor of free trade while manufacturing sectors often support protectionism. This has changed somewhat in recent years, however. In fact, agricultural lobbies, particularly in the United States, Europe and Japan, are chiefly responsible for particular rules in the major international trade treaties which allow for more protectionist measures in agriculture than for most other goods and services.

During recessions there is often strong domestic pressure to increase tariffs to protect domestic industries. This occurred around the world during the Great Depression leading to a collapse in world trade that many believe seriously deepened the depression.

The regulation of international trade is done through the World Trade Organization at the global level, and through several other regional arrangements such as MERCOSUR in South America, NAFTA between the United States, Canada and Mexico, and the European Union between twenty five independent states. There is also the newly established Free Trade Area of the Americas (FTAA), which provides common standards for almost all countries in the American continent. (Murray C. Kemp, 2008).

Advantages of Currency Unions for International Trade

Muhammad Anwar (2002) discussed this issue in his paper at International Conference on Stable and Just Global Monetary System entitled *Euro and Gold Dinar: A Comparative Study of Currency Unions*. He stated that if a bunch of countries agree to use a single currency as their legal tender then the countries have formed a currency union. Advantages of a common currency for member countries are many including efficiency, transparency, stability and reduction in currency speculation.

The advantages of forming a currency union are similar to those of introducing a monetary exchange system over the barter system (Basevi and others, 1978, 39). The introduction of money in a barter economy has comparative advantage in transmitting information and reducing uncertainty. A currency union fees resources previously absorbed by economic agents in finding appropriate exchange rates between different currencies like the introduction of money frees resources used for finding appropriate exchange rates between goods. In other words, a common currency brings efficiency by eliminating transactions costs resulting from money changing. In a currency union there is no need to calculate prices in different currencies and to hold cash balances in different currencies. Currency transaction costs on intra-union trade are eliminated as companies save costs due to exchange rate spreads, hedging and maintenance of their exchange rate departments (Owen and Cole, 1999, 66). It reduces information costs, because with common currency it is easier to compare prices within member countries and there is no need to collect information about present exchange rates, future exchange rates and exchange market regulations in the member countries. A common currency also eliminates the risks connected with nominal exchange rate changes and exchange controls. Thus a common currency has a potential to improve the international allocation of financial capital (Lehment, 1984, 248-249).

The flexible exchange rate regime, assumed since 1971, has increased importance of currencies as financial assets, rather than as a medium of exchange. So maintaining a separate currency has become more costly because currency is subjected to unpredictable speculative attacks irrespective of the strength of economic fundamentals in a country. The costs of maintaining a separate currency will be eliminated a currency union.

Money has a stable purchasing power if price of any commodity, in terms of money, is as likely to rise as to fall (Hayek, 1984, 33). A single currency with stable purchasing power would serve the Muslim countries better as a store of value than multiple currencies, even as a medium of exchange, as socially unproductive transactions between currencies are entirely eliminated including the exchange risks that cannot be eliminated by forward operations (Basevi and others, 1978, 39).

Functioning of economic system would be more transparent because it is much easier to compare the prices when all prices are quoted in the same currency. Thus, it becomes difficult for producers of, for example, automobiles to charge different prices when a single currency allows consumers to readily compare prices across countries. Similarly, banks cannot practice unreasonable rates on deposits and loans as elimination of currency risk due to common currency encourages saver and investors to seek competitive rates elsewhere. It also makes labor unions to act sensibly otherwise labor costs comparability would encourage employers to establish plants in other locations (Eichengreen and Friedmen, 2001, 7).

High volatility, in the presence of flexible exchange rate regime, of a currency undermines the liquidity value of money. Stability in exchange value of a currency makes a currency liquid and acceptable as a means of payment. Higher the exchange rates fluctuations lower the stability of the currency (Owen and Cole, 1999, 86-87). Establishment of a currency union should eliminate speculative flows among participating countries and the cost associated with their control. It might also reduce speculative flows between the currency area and the outside world. Membership of a currency union offers the possibility of stabilizing inflation expectations (Jacobsen and Tomann, 2001, 79) and so reduces currency speculation.

The above advantages of a currency union are expected whether the common currency is of gold standard or a fiat standard. European Union has established a currency union of a fiat currency, euro, as part of their Economic and Monetary Union (EMU) project completed recently. But, Muslims are interested in a gold dinar currency union. Establishment of euro as a single currency is reviewed next before discussing feasibility of establishing a gold dinar currency union of Muslim countries.

International Trade among OIC Member

Reported in online newspaper The Nation on April 21, 2011 titled *Trades among OIC Countries very low*, OIC Secretary General Ekmeleddin Ihsanoglu mentioned that trade activities in 57-member states of Organization of Islamic Conference (OIC) constitutes about 10 per cent of the entire world trade with overall value of merchandize trade exchanges among OIC member states and other countries of the world amounting in year 2009 to $2.56 trillion. President of Jeddah-based

Islamic Development Bank (IDB) Dr Ahmad Mohammad Ali also informed OIC member states have achieved an intra-trade rate of 17 per cent and will touch 20 per cent by year 2015. This has encouraged OIC Standing Committee for Economic & Commercial Cooperation to think about setting a new goal to raise intra-trade to 30 per cent. According to an estimate, oil and oil products accounted for about 29 per cent of exports among OIC member states, industrial products 27 per cent and agricultural products 17 per cent.

The 13th Edition of OIC Expo been held at Expo Centre Sharjah from April 24-26, 2011. OIC Expo is hope to play a key role to enhance economic activities among OIC member states and help achieve intra-trade target of 20 per cent by 2015, said Saif Mohammed Al Midfa, Director General of Expo Centre Sharjah.

Private Sector Meeting for Promotion of Trade & Joint Venture Investment among Islamic States was held on sidelines of show from April 24-26 on theme SMEs in Developing Economies of OIC Countries & Role of Private Sector. Through OIC Expo, it was aimed to strengthen intra-Islamic economic and trade co-operation and in process open up better opportunities for businesses in member states, facilitate new projects, better employment generation, sharing technological know-how. It will help build effective public-private partnership mechanisms for capacity building, by enhanced networking, entrepreneurial mentorship, information exchange between and among trade policy-makers, promotion agencies, multilateral organizations as well as private sector partners. It also provided first-hand knowledge of commodities available in OIC states.

OIC is the second largest inter-governmental body after United Nations, has a membership of 57 states spread over four continents. Its observers include Bosnia &

Herzegovina, Central African Republic, Thailand, Russian Federation, and several international bodies.

Referring to Journal of Economic Cooperation 22, 3 (2001) p.79-100 titled *Trade and Labour Standards and the OIC Countries* written by Enver Hakan Konac, he affirm that majority of the OIC Countries, which mostly comprise developing countries are running trade deficit against industrialized countries. The table as below:

Table 6.1
Trade Deficit/Surplus of OIC Countries against Industrialised Countries

	1995	**1996**	**1997**	**1998**	**1999**
Algeria	-817	1523	4812	1159	2577
Indonesia	1192	2393	4101	9812	18470
Iran	3372	4156	2776	-504	1348
Iraq	-90	-84	1229	2727	6921
Kuwait	-5186	837	1392	-820	898
Libya	3490	4528	4063	938	3957
Nigeria	5494	7269	7053	2860	2974
Qatar	1036	6	1050	230	1957
Saudi Arabia	7828	12726	11934	-937	5109
United Arab Emirates	-414	201	1346	-4140	-7085
GULF COUNTRIES (Excl. OPEC Members)					
Bahrain	-1018	-1156	-876	-1053	-1179
Oman	-328	-153	-824	-1888	-369
CENTRAL ASIAN COUNTRIES					
Azerbaijan	21	-117	-30	-120	114
Kazakhstan	764	765	1003	690	533
Kyrgyzstan	45	-160	67	25	-1
Tajikistan	111	135	196	137	212
Turkemenistan	73	-309	-178	-112	-30
Uzbekistan	-55	-647	-647	-408	-631
LEAST DEVELOPED COUNTRIES					
Afghanistan	-124	-219	-111	-66	-97
Bangladesh	583	801	1044	1456	1123
Benin	-325	-247	-340	-355	-409
Burkina Faso	-200	-268	-192	-259	-228
Chad	-20	-38	-41	-12	-12
Comoros	-95	-97	-21	-22	-21
Djibouti	-170	-164	-176	-222	-218
Gambia	-63	-156	-101	-115	-105
Guinea-Bissau	-24	-32	-34	-37	-30
Maldives	-43	-9	-43	-16	-209
Mali	-301	-325	-328	-334	-337
Mauritania	49	54	51	17	42

Table 6.1 (continued)

Mozambique	-234	-190	-154	-140	-126
Niger	5	4	-24	-51	-24
Sierra Leone	-126	-158	-137	-130	-124
Somalia	-17	-12	-10	-9	-27
Sudan	-269	-332	-351	-509	-437
Togo	-192	-208	-239	-279	-246
Uganda	100	134	161	-13	4
Yemen	-297	-370	-311	-601	-1031
NORTH AFRICA (Excl. OPEC Members)					
Egypt	-5459	-6426	-6001	-7628	-7695
Morocco	-2221	-2047	-1727	-2440	-2399
Tunisia	-1703	-1725	-2219	-2155	-2390
MIDDLE EAST (Excl. OPEC Members)					
Jordan	-1691	-1997	-1956	-1854	-1831
Lebanon	-4319	-4500	-4894	-4482	-3440
Syria	147	47	433	-149	-179
Turkey	-10292	-15035	-18345	-15155	-9642
OTHER					
Albania	-615	-535	-403	-479	-477
Brunei	854	467	955	254	1116
Cameroon	578	617	549	306	343
Gabon	1342	1720	1739	992	1153
Guyana	134	163	164	148	177
Malaysia	-12945	-9365	-7750	5772	9053
Pakistan	-1183	-672	-401	1076	972
Senegal	-583	-529	-495	-736	-653
Suriname	-1	3	134	-21	138

Notes
- Data for Palestine is not available
- Minus (-) indicates deficit

Source: Derived from Exports/Imports Data in the Direction of Trade Statistics, Yearbook 2000, IMF.

This means that they purchase more from the industrialized countries. He also mentioned if the "social-clause" is put into effects, it is obvious that the export of the developing countries to the industrial countries will be curbed. In that case, he presumes two different scenarios may follow:

1. In the short term while the imports are shrinking, import will remain the same. This will widen the deficit of the developing countries against the industrialized countries. Industrial countries will gain.

2. In the long term, while the exports are shrinking, imports will shrink as well. Trade will be distorted, no party will gain.

Both the above scenarios show that the "social clause" is unacceptable. Besides, the often-mentioned comparative advantage of low-wage developing countries to lead to a narrowing in their trade deficits. Therefore, the notion "the low work standard in developing countries, on its own, is a cause of unemployment in industrialized countries due to its capacity to build unfair competition" is an incomplete and unfounded assumption. As stated earlier, it is doubtful whether the wages in developing countries would really rise, as there is too much excess labour especially in high populated countries such as China and India. If the labour cost in this countries increase, unemployment will rise in these countries and the result would be economic inefficiency.

Moreover, trade sanctions are likely to prove more effective against those countries that rely heavily on export for growth (Castro, 1995:13). The above table however shows that imposing trade sanction on developing countries which mostly have trade deficits against industrialized countries will not be as effective as the industrialized countries expect to them to be. Therefore, trade sanction will only curb the already insufficient exports of the developing countries and deteriorate the conditions, of the worker in these countries, which, in turn, will harm the industrialized countries in the long term.

Recent Trends in Global Trade and the performance of OIC Countries

According to OIC Outlook Statistical, Economic and Social Research and Training Centre for Islamic Countries published in April 2010 entitled *An Overview of the trade among OIC Countries* written by Attar Sokak, international trade has been rapidly increasing in recent two decades along with the broadest and deepest wave of globalization the world have ever seen. Estimates show that world merchandise trade exports plus imports of good amounted to $32.6 trillion in 2008, compared to $6.1 trillion in 1989. In those recent two decades, global exports increase from $3.0 trillion to $16.0 trillion while imports increase from $3.1 trillion to $16.6 trillion. Actually, most of this more than fivefold increase took place in the second half of the last decade, when world trade value grew at an annual average of 15% (Figure 6.1).

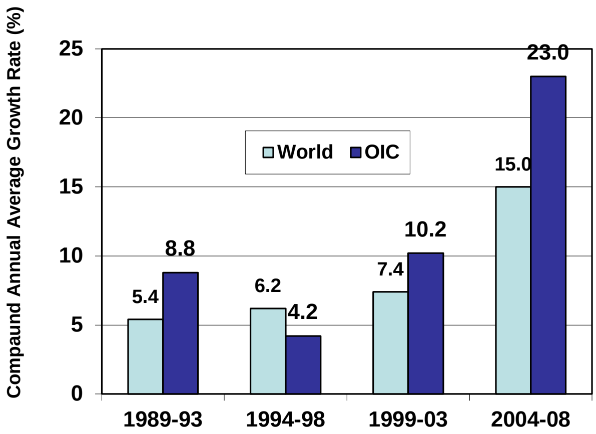

Figure 6.1
Growth in Trade (at current US $)
Source: IMF, Directions of Trade Statistics March, 2010

In the preceding five-year period of 1999-2003, the average growth rate for world trade was only 7.4%, though it was still higher than the averages in both 1994-1998 (6.2%) and 1989-1993 (5.4%).

On the other hand, the average growth for the total trade of OIC Countries was always higher than the world averages in all the five year period under consideration except in 1994-1998 (Figure 6.1). The difference was highest in the last period of 2004-2008 when the growth of OIC Countries averaged at 23%, outperforming the world average by 8.0% percentage points. Accordingly, total trade of OIC Countries reached $3.4 trillion in 2008, 4.5 times the level a decade ago and 8.5 times the level two decades ago.

Mechanism to Apply Gold Dinar in International Trade

While the Gold Dinar mechanism will apply to all Islamic countries, an important objective of the Gold Dinar proposal is also to bring about greater unity among the Islamic countries. The underlying basis of this greater sense of unity will be trade. There is a famous Chinese saying that the journey of a thousand miles begins with a first single step. The researcher do not want to exaggerate, but if we can succeed in increasing substantially the volume of trade among the OIC countries,the rest will follow. Trade could be the initial first step in the proverbial journey of a thousand mile. The scope for increasing trade among the OIC countries is tremendous,and should pose no problem for us, since Islam is closely related with trade.Islam was born in Mecca, which, at that time, was the centre of trade in the Arabian Peninsular. When Islam took root in the Arabian Peninsular, trade was the main vehicle for D'akwah activities for the spread of Islam from Andalusia in Spain to the Cape of Good Hope in Africa and to the Malay Peninsular. It is a fact that the volume of trade among Islamic countries, before the Western colonization began, was at a very healthy level. However, when the Islamic countries began to be colonized by the West,trade among Islamic countries began to deteriote. The colonized Islamic countries were ruled with the objective of supplying raw material to satisfy the needs of the Industrial Revolution that was taking place in the West at that time. Not much has changed since then, although the Islamic countries have now achieved independence.

The continued dependence of the Islamic countries on the West can be illustrated by the following:-

(i) The intra OIC trade is only 12% of the total trade of the OIC countries. In other words, the trade of the OIC countries with the non-OIC countries is 8 times the size of the intra-OIC trade.

(ii) The total volume of the trade of OIC countries is only 7% of the total international trade, although 60% of the natural resources of the world are found in the OIC countries.

(iii) Lebanon and Turkey export butter to Belgium, the United Kingdom and some other European countries, while Iran, Pakistan and Syria import butter from Europe.

(iv) Egypt is a big export of textile, but Algeria, Indonesia and Iran purchase textile from Europe.

There are many other such examples. If we can start to trade among ourselves, without using the Western countries as intermediaries, we can substantially increase the volume of such trade based and bring about greater prosperity among the OIC countries. This will create a virtuous cycle. From trade to investment is only a short step. We can use the surplus of the richer OIC countries to assist by way of long-term loans in the building of infrastructure in the less developed OIC countries. Infrastructure, in term of roads, railways etc, as I see it, is a critical necessity for growth and development of a country.

Sarji (2002), who is the chairman of Institute of Islamic Understanding Malaysia- says in the resolution of the international conference in Gold Dinar and Multilateral Trade organized by the Institute of Islamic Understanding Malaysia that, "It is important that the system of Gold Dinar be implemented part by part in the existing system because drastic actions will give impact to the several specific countries (Utusan, 2002). Such idea of implementing part by part of the Gold Dinar reflects on how our Prophet Muhammad (saw) started to introduce Islam. He began with his own family and closest friends before going on for a bigger crowd. Otherwise, the teaching of Islam would be very difficult. One of the utmost critical factors that lead to the successful implementation of the Islamic Gold Dinar is the level of acceptance among OIC members (Mohd Dali, Mohd Yusuf, Mat Husin 2002). To date, only six countries including Malaysia have shown their agreement on such implementation. Morocco, Libya, Bahrain, Sudan and Iran are reportedly among the Asian countries to have expresses keen interest in using Gold Dinar in trade. Even though there is yet empirical evidence to conclude on the overall acceptance by the OIC members, several salient factors might need to be considered.

These factors can be further segregated into economic, political as well as infrastructure facilities development. First and foremost, we need to reckon on the economic level of each OIC countries. According to the Statistical, Economic and Social Research and Training Centre for Islamic Countries (SESTRICIC, 2001), the 57 OIC Countries could be segregated into four categories, which are as follows:

i. OIC – LDC which stands for OIC Less Developed Countries namely Afghanistan, Bangladesh, Benin, Burkina Faso, Chad, Comoros, Djibouti, Gambia, Guinea, Guinea-Bissau, Maldives, Mali, Mauritania, Mozambique, Niger, Sierra Leone, Somalia, Sudan, Togo, Uganda and Yemen.

ii. OIC – MIC which stand for OIC Middle Income Countries namely Cameroon, Egypt, Guyana, Indonesia, Ivory Coast, Jordan, Lebanon, Malaysia, Morocco, Pakistan, Senegal, Surinam, Syria, Tunisia and Turkey.

iii. OIC – OEC which stands for OIC Oil Exporting Countries namely Algeria, Bahrain, Brunei, Gabon, Iran, Iraq, Kuwait, Libya, Nigeria, Oman, Qatar, Arab Saudi and UAE.

iv. OIC – TC Central Asian member countries namely Albania, Azerbaijan, Kazakhstan, Kyrgyz Republic, Tajikistan, Turkmenistan and Uzbekistan.

Table below is showing how the OIC members were economically performing in 2000 (Nuradli, 2004).

Table 6.2
OIC Countries Economic Indicators for 2000

Economic measures	OIC-LDC	OIC-MIC	OIC-OEC	OIC-TC
GDP	97.001	724.463	555.356	47.547
Total exports	13.010	242.344	240.647	15.721
Total imports	25.302	253.354	133.125	13.306

In billion USD
Source: IMF, Direction of Trade Statistic, March 2010.

The table presented above is virtually trying to prove that serious effort and considerations need to be done before any future actions could be successfully implemented. Looking at the statistics, it is learnt that there is a high level of income inequalities and a huge gap between the rich and the poor countries within the OIC community (SESRTCIC 2002).

For instance, in year 2000 total imports for least developed countries, on average was nearly twice of the figure recorded for total exports of the same year. This vividly explains that these discrepancies may constitute one of the basic factors that might hinder intra-OIC economic cooperation. Nevertheless, the findings definitely do not suggest that the implementation of gold Dinar will be unsuccessful but rather to give some idea that is vitally important for the OIC countries to stress on its economic development in moving towards using Dinar as trading currency.

According to the former Prime Minister of Malaysia Tun Dr. Mahathir Muhammad, the vulnerability of the exchange rate between local currencies and major currencies USD, Pound Sterling, Euro and Yen, has resulted in the economic instability of the countries of the Middle East and Asia. “The gold Dinar could be an important facilitating mechanism to help the smaller countries of the world move away from an inherently unstable and ultimately unjust global monetary system,” (Minews, 2002).

Moreover, it is undeniable that it is crucially essential for us to look at every aspect before implementing something that people have abandoned for so long. In the case of Gold Dinar, we need to look at not only in the economic, but also in the political point of view as well as the ability of the countries in providing infrastructure facilities, that have significant impacts on the overall achievements of a country.

There is quite a number of countries seem to have difficulties or constraints in implementing the Gold Dinar. Palestine, for instance, is unstable politically and economically. This is because it has been invaded by Israel since 1967. The Palestinians put more of their effort to defend their own country rather than to think about implementing Gold Dinar to strengthen their economy. Afghanistan since last few decades has been struggling to build up their country that has been affected from civil war, Soviet invasion and also the invasion of United States of America in the name of ‘war against the terrorists’.

Recently, the United States of America and its affiliates also in the name of ‘war against the terrorists’ have bombarded Iraq to topple its ruler. The reason of the invasion was derived from the accusation of Saddam's government of having "mass destruction weapon". In the case for Iraq, promoting the implementation of Gold Dinar would not be the main agenda. Instead providing humanitarian assistance would probably be the first agenda that the OIC countries should look into.

Apart from the OIC Countries with terrorism issues, Somalia is afflicted with poverty for years. Thus, taking into consideration of these current states, it might be impossible for them to implement the Gold Dinar while their problems remained unsolved.

On the other hand, with the advent of information technology, the implementation of Gold Dinar is rather easier for other developing OIC Countries. As proposed and currently implemented by E-Dinar Ltd, the trading could be done without physically transferring the gold to the transacting parties. Ample transactions could successfully be done by clicks of a mouse or pressing of the keyboards.

However, could all the countries under OIC afford to have such a high technology requirements that might cause them billions of dollars whilst some of them could not even provide basic necessities to their inhabitants?

Mechanism of Gold Dinar

The Malaysian government through the Central Bank of Malaysia has been promoting trade with many countries since its independence. Some of the initiatives by the Central bank of Malaysia to promote trade were by introducing

1. Export Credit Refinancing facility and Export Credit Insurance in 1977. The Central Bank of Malaysia started with giving post shipment finance to certain exporters who ventured into new market and need favorable facilities in order to undertake their export.

2. And through Export Credit Act of the Central Bank of Malaysia Company could offset export receipts against import payment. This is done in order to save the foreign exchange cost.
3. And finally through BPA system in 1988.

Bilateral Trade Patterns

As to understand the pattern the following sections discussed about the practices.

i. Bilateral Payment Arrangement (BPA)

The Central Bank of Malaysia is currently having 32 BPA agreements. The BPA could be divided into two models that are ALADI (18 countries) and POCPA model (8 countries), Iranian Model and 1 revolving credit model. The Central Bank of Malaysia claims that the BPA could act as a catalyst in promoting trade at the initial stages. As the uses of BPA progresses, the total trade using BPA will decline but the total trade between the countries actually increases. This is because as traders become more familiar and as the banks establish their corresponding banking relationship, they will move to conduct the trade through normal banking channel. Therefore the BPA is claimed to be the catalyst of the initial international trade.

The first BPA was done with the Central Bank of Iran during the Iran-Iraq war. The Iranian model at that time actually did not directly involve the central banks but they undertook the guarantee against default by the Iranian importers. In June 1990 the extended BPA was introduced to the group of South-South Countries during the G15 summit in order to promote trade among the G15 countries. Soon after G15 summit, Malaysia signed with the Central Bank of Venezuela, which was the first ALADI model being introduced where it become a favored model under

BPA system. In this model the central banks will undertake to make the payment settlement instead the importers or exporters (Merican, 2003).

Datuk Latifah Merican Cheong mentioned during her presentation at the International Conference of Gold Dinar as the International Trade Trading currency at PWTC, that some of the rationales of BPA are as follows:

a) Lack of direct corresponding banking relationships
b) High credit risk (default by the exporters)
c) Lack of mechanism to finance international trade
d) Difficulties in obtaining credit lines, at time of economic crisis
e) Lack of trade information
f) Lack of business contact (Merican 2003)

The BPA is also a trade finance mechanism whereby:

a) The traders do not require foreign exchange to settle trade because payments to exporters or importers are made in local currencies.
b) Commercial risk is converted to sovereign risk. The commercial risk would be borne by the central banks.
c) Net settlement by central banks is in mutually agreed currency i.e Gold Dinar – reduces the reliance on major foreign currencies.

According to Nor Mohamed Yakcop (2002), the Gold Dinar in the BPA system will not exist in physical form during the transfer of goods. The member countries could settle amongst themselves on the net amount due to each other at certain period of time. The transfer of goods would merely be defined in times of gold.

For example, if one gold Dinar is equivalent in other currencies, on the basis of the prevailing exchange rates (Yakcop, 2002). The process is illustrated as follows:

- BPA is where the total trade between two countries is computed over a fixed period of time and only the balance between the total value of exports and imports paid in an agreed currency (Bank Negara Malaysia). Participation is voluntary.
- Within the country a central agency would collect payments from an importer in local currency and pay an exporter also in the respective 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 central agency or Central Bank could retain the balance in order to pay for future transactions. This will eliminate the need to hold foreign currencies or the US dollar. The BPA system is illustrated in the Appendix (Bank Negara Malaysia).
- Based on the BPA framework, Central Banks of member countries will establish credit lines in gold Dinar. Member countries can settle amongst themselves the net amount due to each other at certain period of time i.e 6 months. The surplus or deficit position arising from the transactions of the member countries may also be used against future imports or exports or to be kept as balance in the gold Dinar account of the central bank (Bank Negara Malaysia).
- A Central Depository (CD) that will act as a clearing house need to be established should be BPA transforms into multilateral payment arrangement to assume the payment function and custodian of the gold

Dinar account. Therefore, the CD will monitor the net settlement and maintain gold Dinar account balances of each member country (Bank Negara Malaysia).

The Assistant Governor of Central Bank of Malaysia, Datuk Latifah Merican Cheong in her presentation in the International Convention on Gold Dinar as an Alternative International Currency mentioned that the advantages of net settlement or the BPA could be listed as follows:

1. Reduce processing and simplifies documentation. No repetitive trade documentation is required since it is not across bases.
2. Save foreign exchange cost because all trade will be settled in the local currencies.
3. Minimize cost related to managing exchange rate risk.
4. Net settlement at national level allows countries with limited foreign exchange reserves to participate actively in international trade.

In addition the BPA mechanism operates within the existing international trade and financial agreement such as WTO and IMF.

ii. Example of BPA Using Gold Dinar

Malaysia and Indonesia signed a bilateral payment arrangement, under which trade balances will be settled every three months and the trade will be dominated in gold Dinar. The value of one gold Dinar is defined as 4.25 grams of gold.

From the table shown next page, we could see that the total worth of exports is 30 million Gold Dinars and the payment of gold needed to settle the transaction is only 10 million gold Dinars can be transferred from the Central Bank of Malaysia can transfer the actual payment of 10 million ounce of gold from its custodian's account to Central Bank of Indonesia's custodian account.

Under this mechanism, a relatively small amount of 10 million gold Dinars is able to support a total trade value of 30 million gold Dinars (Yakcop, 2002). If the above bilateral trade succeeds, the countries could go in multilateral trade arrangement, which could increase the total volume of trades by using minimal amount of gold Dinar. With the BPA, the available reserves could be used for other purposes such as intervening in the market. In addition it would create greater reserves flexibility and maintain the reserves liquidity.

A suggestion from A.L.M Abdul Gafoor is to use natural resources such as oil as redemption medium to the Gold Dinar. He mentioned in a group discussion at IBFNET, “The ability to redeem the proposed currency in oil (a real commodity, unique and universally useful) will make it worth something in tangible terms, and therefore may eventually even develop into a reserve currency”. Applying this principle to our case, the 10 million gold Dinars due to Indonesia could be paid in equivalent amount of oil.

The advantage is that no gold metal (or gold Dinar) will need to be shipped from one country to another at any time. In fact, the refusal of some countries to settle their trade balances by shipping the necessary gold was one of the main reasons for the failure of the old gold standard. A similar fate to the gold Dinar could be avoided by using oils as the redemption medium.(Gafoor, 2003) This is an extension of the BPALC mechanism proposed by the Central Bank of Malaysia, because the redemption will be in oil instead of gold.

Let’s look at the example of Malaysia and Indonesia as mentioned previously. In the bilateral arrangement there appears a difference of 10 million gold Dinars that has to be remitted by the Central Bank of Malaysia to the Central Bank of Indonesia after the three months period. As suggested by Gafoor, the conversion and remittance of the 10 million gold Dinar will be in terms of oil equivalent instead of paper money or physical gold.

A favourite question being asked by the public is do we have enough gold and silver reserve to back up the Dinar and Dirham issued? The answer is to revisit the fundamental of economic theory in the demand and supply equilibrium. The price of gold will depend on the demand and supply of the gold and silver. When the demand for gold is high while the supply is low, the price of gold will increase and vice versa. In this case, the price factor will play an important role in overcoming the scarcity problem. On the other hand, if other countries have gold and Malaysia has oil, trading gold with oil will move gold into the economic system. Furthermore, hoarding gold is prohibited in Islam because it disrupts the overall economy. Gafoor suggests that the oil be used as the redemption medium to solve the scarcity problems.

The Processes of BPALC System

1. **Sale Contract**

   The Importer and Exporter will agree to sell and buy the specified goods, or products at a certain amount of money and enter into sale and purchase agreement. In the sale and purchase agreement, the nature of the products being traded will be stated in the denomination of gold.

   Example – Indonesian Importer A wants to import 5000 units of computers from Exporter B in Malaysia. The price per unit of the computer is RM3000 and the price of one gold Dinar is RM173.128. Therefore the contract price will be 17.33 Gold Dinar per unit, which totals to 86,641.09 Gold Dinar.

The gold prices will be determined at the market price on the date of the sale agreement and the importer as well as the exporter will convert the gold to their respective currencies.

2. **Nominating the importer's designated banks**

   The importer will nominate its designated bank with regards to the application of BPALC. The designated bank chosen by the importer's credit worthiness according to the 5 C's characteristics.

3. **Approval of the BPALC**

   a. Upon approval of the BPALC, the designated bank will advise the importer's central bank on the issuance of BPALC.

   b. The designated bank will also send the original BPALC to the exporter's designated bank.

4. **Confirmation of Receipts**

   a. The exporter's designated bank will inform the exporter's central bank upon the confirmation of receipts of the original BPALC from the importer's designated bank.

   b. The Exporter's designated bank will then inform the exporter upon the confirmation of receipts of the BPALC from the importer's designated bank as a signal for the exporter that the goods could be shipped to the importer.

5. **Shipping Goods**

   a. The exporter will ship the goods to the importer.

   b. The exporter will also send the related document such as bill of lading and etc to the exporter's designated bank.

6. Exporting and payment

a. Exporter designated bank upon receiving the documents from the exporter will pay to the exporter the amount of the goods shipped.

b. The exporter's designated bank will then send the documents to the importer's designated bank.

c. The exporter's designated bank will then request the amount paid to the exporter from the exporter's central bank.

d. The exporter's central bank will make the payment as requested by the exporter's designated bank.

7. Letter of Advise

a. The importer's designated bank will inform the importer that the documents have been received.

8. Good Released

a. The importer will make payment of RM 15,000,000.00 to the Importer's Designated Bank for the documents to be released in order to take the goods from the warehouse.

9. Releasing the Document to the Importer and Debit Authorization to Central Bank.

a. Upon receiving payment from the importer, the importer's designated bank will then release all the documents to the importer. The importer will be able to release the goods upon producing the documents at the warehouse.

b. Meanwhile the importer's designated bank will advise the importer's central bank to debit its account for 86,641.09 Gold Dinar.

10. **Payment between Central Banks.**

    a. The exporter's central bank would advise the importer's central bank on the total amount of trade of 86,641.09 Gold Dinar.

    b. The importer's central bank will remit payment of 86,641.09 Gold Dinar by crediting the exporter's central bank account in the gold denomination.

As for the flow of the BPALC using gold Dinar denomination, is it the same as the normal BPA except that the currency used is in gold denomination instead of paper money. This is to avoid the currency risk and the risk associated with paper money such as inflation. The importer and exporter could ensure that their sale and purchase transaction prices are stable because the gold prices do not fluctuate like the paper money.

As for the central banks of the participating countries, they have to maintain a specific amount of physical gold deposit in a custodian bank, which could be nominated from any one of the OIC countries. At the end of 6 months period, they could settle the trade balance by either shipping the gold or shipping oil instead of paper money.

Advantages of the Gold Dinar System in Bilateral and Multilateral Trade

In the interview with Ahamed Kameel Mydin Meera,[5] he has summarized that the advantages using the Gold Dinar in bilateral and multilateral payment systems as follows:

1. Substantially reduces, if not eliminates, foreign exchange risk. Accordingly, the gold dinar also removes the need for currency

[5] Department of Finance, Kuliyyah of Economic Management & Science, International Islamic University Malaysia on 25 November 2011.

derivative markets for hedging against exchange rate risk. Exchange rate is so volatile that many international investments, trade and projects are shelved simply due to the unwillingness of parties to assume the exchange rate risk. Traditionally, the currency forward, futures and options contracts have been used for managing currency risk. However, in most developing nations including Malaysia, futures and options on currencies are not available. Even in countries where currency derivative market exists, however, for example the Philadelphia Stock Exchange in the United States, not all derivatives on all currencies are traded. Derivatives are available only on select major world currencies like yen, pound sterling, Australian dollar, against the US dollar mostly. For most other currencies of the world there are no formal tools for hedging foreign exchange risk – a risk that has become immensely significant in today's global business environment. With the gold dinar, nevertheless, all countries including those without derivative market are not only costly but time consuming. It also introduces inefficiency into the market since additional transaction costs need to be incurred.

2. Unlike the forward, futures and option markets, the gold dinar does not depend on speculators for increased liquidity. By being a global currency it is capable of providing the needed liquidity without bestowing any "unfair" seignior age on any particular currency.
3. Also, unlike imperfections of hedging that are likely to occur with forward, futures and options contract due to the standardized nature of these contracts, the gold dinar does not introduce such imperfections.

4. A hedger also pays neither the initial margin nor daily variation margins as is the case with currency futures. Such margins are potential cash flow burdens on hedgers.

5. The gold dinar would reduce speculation, manipulation and arbitrage between national currencies. For example, if three countries agree to use the gold payment system, then it tantamount to the three currencies becoming a single currency. Accordingly, speculation and arbitrage among these three currencies will be reduced, if not eliminated. This "unification" of the three currencies through gold provides diversification benefits. This is like obtaining diversification through a portfolio of stocks. Individual currencies face risks that are unique to the issuer country. Political turmoil, for example, can cause a national currency to depreciate, but in a unified currency such unique risks would be diversified away. Since gold is treasured globally, it is suitable global currency that enjoys global diversification. This means that no single country's unique risk maybe significantly embedded in gold. A basket of currencies is generally less volatile than the individual currencies – an advantage the euro can be expected to enjoy. However, the gold dinar is even better than the euro to hold its value better (as it has always done).

6. The gold dinar is likely to reduce transactions costs too, since only accounting record need to be kept. Transactions can be executed by means of electronic mediums at minimal cost. In a comprehensive dinar system, one no longer needs to incur currency exchange transactions costs (i.e the different buying and selling rates for currencies) or even face exchange rate risk. This would surely encourage trade.

7. With increased trade, a smaller amount of gold is needed to support the gold system since gold would, in most cases, play the role of a unit of account. Therefore, even countries without foreign reserves can still trade.
8. With less reliance on international reserves for trade, there would be less reliance of foreign debt too.
9. With increased trade, one could expect improved unity and cooperation in education, science, technology, research, defense, etc.
10. Since in the initial model the gold dinar simply replaces foreign reserve currencies, therefore, it has few implications on the national currency.
11. Gold has held its value stable throughout history, and is also free from obsolescence.
12. With the gold dinar there would be neither creation nor destruction of money; a characteristic of fiat money that amplifies business cycles and unemployment. This also greatly reduces the possibility of future attacks on currencies.
13. There are numerous other socio-economic advantages but most important of all it promises to protect the sovereignty, wealth and culture of developing nations from the predatory forces under the pretext of globalization and liberalization, that can only result in economic and cultural colonization.
14. It basically places an "iron-grill" so that the resources and future economic production of developing nations are not easily plundered by foreign forces through the easy means of seigniorage and interest charges.

It is interesting to note that some early scholars of the past seem to have had great insight into this. Consider, for example, Al-Ghazali Ibn Khaldun and al-Maqrizi who asserted that God has created gold (and silver) to serve as a measure of all commodities. There are some important things to be wary of when implementing gold in international trade and transactions:

1. Never reschedule or revalue old trade balances and loans in terms of gold. This is very important. The gold payment system must be made applicable only for new wealth creation, new production, and new trade. It should not be applicable for past economic activities and transactions such as past trade balances and past loans. This is because, for example, past total loans are huge simply as a result of the over-creation of fiat money. These enormous loan balances cannot and should not be transformed into gold equivalent, for this would be tantamount to realizing the seigniorage of past fiat loans.
2. If exporters and importers are dealt with in national currencies while the central banks settle among themselves in gold, then the central banks must be wary of the spiral of credit creation and asset price bubbles this arrangement can bring about.

CONCLUSION

In parallel with the rapid expansion in the global trade, both exports and imports of OIC countries have been increasing rapidly, especially in recent years. The growth in total trade of the OIC countries has ever been higher than the world average in the last decade, and this has been more apparent in recent years in particular, leading to a significant increase in the share of OIC countries in global trade.

Given those improvements in intra-OIC trade it can be stated that the long history of the efforts to enhance economic and commercial cooperation among OIC member states has started to bear its outcome. A good example in this regards is the enforcement of the framework agreement on establishing a trade preferential system among the member states (TPS-OIC) and the Protocol on the Preferential Tariff Scheme for TPS–OIC (PRETAS), which is an important step towards the implementation of the agreement.

In this regards, in order to increase the overall share of intra-OIC trade, it is more important to settle incentives to direct more trade from those members with high volumes but low share of intra-OIC trade to other member countries, as they have higher weight in total intra-OIC trade. As for members with already high shares of intra-OIC trade, the contribution may be in the form of increase in their volume of total trade with other OIC countries. Thus, from my observation such as the mechanism for payment settlement among OIC countries is not purely using gold but a combination of barter system and gold standard.

CHAPTER SEVEN

RECOMMENDATION AND CONCLUSIONS

As the usage of gold has become the centre of interest from many parties, the study has able to discuss the suitability of using the gold as medium of transaction in international trade.

In a nutshell, the study has answered the questions of this research as follows.

1. As for the first and second questions where the study discussed about the current usage of gold dinar in economics specifically for international trade and the strengths of using gold dinar, the study has stressed in chapter four that;
   - A gold dinar and a silver dirham's common uses in the Islamic countries includes: (Saving them, because they are wealth in themselves, Paying zakat and dowry as established within Islamic Law, Buying merchandise from outlets, Holding accounts, and making and receiving payments as with any other medium of exchange).
   - The idea of the implementation of Gold Dinar is consider practical in the case of existence of a comprehensive development and a real unity between Muslims.
   - Moreover, the proposal of Malaysia for implementation of islamic Gold-dinar is basically a serious idea if other Muslim countries have started its implementation. However, the implementation of Islamic Gold-dinar amongst OIC countries with an Islamic fiscal policy and an Islamic monetary system will lead to the amendment of

international monetary relations in the direction of creating a stable and just global monetary system.

- The implementation of Islamic Gold-Dinar will ensure both solving the problem of inflation and bringing the stability to the financial obligations and transactions. Thus, using gold dinar as a currency is a more stable and just currency compared to paper money and has proved that using gold and silver coins as money is not a step backwards into medieval years. Therefore, if the return to Islamic Gold Dinar is achieved, nearly all the ills of modern economies such as rampant inflation, credit crunches, stagnation, unemployment etc will be solved.
- Establishing a gold dinar trade bloc will likely encourage intra-trade among OIC members. In other words, the gold dinar bloc is an economic bloc which offers to its members a trade-creating effect. This effect is more robust than those generated by currently existing economic blocs within the OIC countries.

2. With regard to the question regarding the advantages and obstacles in expanding of gold dinar the study found in chapter five that;

   - The obstacles for the establishment of Gold-dinar among OIC countries have been accumulated because of several factors; political, social, cultural and others, but the main obstacle in this respect is the absence of the understanding and application of Islamic Shari'ah.
   - The Gold-dinar movement will remain a private initiative until and unless Islamic countries realizes that the architecture of the gold dinar economy according to Islam has its own arena to enable it to prosper.

- Many secularized Muslims in the modern age fervently believe that religion should have nothing to do with economic and political life. This study introduced the Gold Dinar as a money which is located in both the blessed Qur'ān and the Sunnah of the blessed Prophet (sallalahu 'alaihi wa sallam). It shows that such money always possessed intrinsic value. It meant by that the value of the money, whatever that value might be, and regardless of changes in value that might naturally occur, was stored within the money, and was thus immune to arbitrary external manipulation and devaluation.
- The study further concluded that the monetary system created by the ruling European Judeo-Christian alliance was specifically designed to remove 'money with intrinsic value' from the money-system of the world, and to replace it with money that had no intrinsic value. Such non-redeemable paper currencies could then be devalued. When they were devalued, not only would it result in an unjust legalized theft of the wealth of those who used the devalued currency but additionally, it would become more and more expensive for such countries to repay loans which were taken on interest. Eventually these countries would be trapped with debts they could never repay, and would thus be at the mercy of those whose suspiciously large loans to them were meant to deliver precisely such control over them.

3. To answer question on the gold dinar mechanism to be used as payment settlement for international trade, the study concluded as in chapter six;

- The economic and monetary integration is correlative and equivalent in their stages whereby non of them will be realized without the presence of the other and single currency is regarded as crowing of their stages. If the OIC countries start to trade among ourselves, without using the Western countries as intermediaries, it will can substantially increase the volume of such trade based and bring about greater prosperity among the its member countries. This will create a virtuous cycle. From trade to investment is only a short step. This can be done through the use of the surplus of the richer OIC countries to assist by way of long-term loans in the building of infrastructure in the less developed OIC countries. Infrastructure, in term of roads, railways etc, as it is a critical necessity for growth and development of a country.
- There is a need for the present leaders in the Muslim world to have a paradigm shift especially in amending trade laws so that the gold dinar economy can be practiced by Muslims according to the shariah which will then enable them to submit to the decree of Allah and cleanse themselves of being usurious.
- It may be deduced that the implementation of the gold dinar proposal will be a move forward for Muslim countries, in the sense that it will bring many economic advantages. Their respective trade tends to increase. Unfortunately, the project is likely not feasible since there are insufficient gold reserves held by the members. If this can be tackled, perhaps the gold dinar would become the main tool, not just

to unite Muslim countries but also to disseminate economic cooperation and foster prosperity among them.

Recommendation and Suggestions

- Insufficient gold reserves held by most of Islamic countries will be the most serious critical problem to be handled. To confront this shortage, former Malaysian Prime minister Mahathir suggested that those taking part in gold dinar trade should help each other by purchasing some materials from the poorest gold reserve countries thus enabling them to participate in the trade (Mahathir, 2002). This probably would render a little help.

Alternatively, this study recommends two points:

- At the starting stage, use of the gold dinar can be restricted to facilitate trade between member governments excluding private trade. There are two advantages in this strategy: firstly, the amount of trade will be reduced, that is, each member may hold sufficient gold stocks to sustain their respective government's trade; secondly, the administration is likely to be less complex since the trade is fully backed by the government.
- The level of gold reserves can be improved by converting a significant part of the country's dollar reserves into gold. Almost all of the countries assumed to be in the gold dinar have massive reserves in dollars. Thus, by converting up to half of the dollar reserve into gold, the insufficiency of gold stock to sustain trade can be met.

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INTERVIEW

Interview with Imran N. Hosein on 3 November 2011 at 10.45 am in Idaman Sutera Condominium Gombak.

Interview with Ahamed Kameel Mydin Meera at Department of Finance, Kuliyyah of Economic Management & Science, International Islamic University Malaysia on 25 November 2011.