

# Exporters say strong ringgit hurts sales

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Calls for government to abandon ringgit's three-year peg to the US dollar

By **David Yong**

**KUALA LUMPUR:** Local exporters are calling for the government to abandon the ringgit's three-year peg to the US dollar, a public display rare for a country where the same political party has held power for four decades.

"The ringgit is overvalued - it needs to be corrected," said P. Subee Subramaniam, vice president of Premium Vegetable Oils Bhd. He says a slide in other Asian currencies means Indonesian and Thai rivals are cutting prices and "eating up our market share."

Exporters say that unless the peg is removed, profits and economic growth will slow.

Prime Minister Datuk Seri Dr Mahathir Mohamad says the currency isn't overvalued and the stability it offers is good for business.

Economists are evenly split as to whether Malaysia will devalue the ringgit or allow it to trade freely. Of 15 economists surveyed by Bloomberg News, eight said Malaysia would be forced to abandon the peg in the next two years.

In the end, the government may have to choose between stimulating growth and propping up the exchange rate regime, some economists say. Exports are falling, economic growth is slowing and foreign currency reserves are dwindling - all undermining support for the ringgit's dollar peg.

Local leaders are hanging tough for now. "The 1997 crisis highlights the damage that currency depreciation can do to an economy," central bank Governor Zeti Akhtar Aziz said earlier this month after announcing a decline in Malaysia's foreign reserves.

Memories of the crisis remain vivid. The region fell victim to recession after Thailand set off a wave of competitive devaluations. As currencies plunged and eco-

nomies shrank, Thailand and other countries turned to the International Monetary Fund for aid.

The Prime Minister, blaming speculators like George Soros, shunned IMF's aid and its free-market economic medicine. Instead, Malaysia pegged the ringgit at 3.8 to the dollar - down 34% from its pre-crisis level - and imposed limits on the movement of capital out of the country.

Foreign investors, who couldn't withdraw stock-market profits for 12 months, were livid. Local exporters rejoiced.

As Asian economies recovered, lifting the region's currencies, the ringgit remained weak. In the six months after the peg was adopted, the Thai baht gained 9.4%, and the Indonesian rupiah jumped 24%. That allowed local exporters of computer chips, disk drives and textiles to keep their prices low.

Now, the tables have turned. In the past year, the baht has fallen nearly 17% and the rupiah has dropped 33%.

Since the country adopted the ringgit peg, the baht is 10% weaker against the dollar and the rupiah 8% weaker. Exporters fear the worst is yet to come.

"We should consider a flexible peg," said O.K. Lee, chairman of the Federation of Malaysian Manufacturers in the Penang region, the centre of the country's electronics industry.

"The central bank has to decide who is more important to the economy - exporters or importers."

Exporters are hurting. Local shipments have fallen in four of the past five months and are expected to continue contracting. As a result, the government expects economic growth this year to fall as low as 5% from last year's 8.5%. Private forecasters are more pessimistic.

To boost the economy, Mahathir last month said the government would spend an extra US\$790 mil-

lion (RM3 million) to build schools, homes and other projects. Economists warn that the additional spending will stoke demand for imports, eroding Malaysia's trade surplus and further undermining the currency.

The combination of a strong currency and a weak local economy make foreign investments more attractive than those at home, raising the prospect that capital will flood out of the country.

Local individuals and corporations have shipped US\$8.2 billion (RM31.2 billion) abroad since May, reducing foreign currency reserves by 24% to US\$26.3 billion (RM99.9 billion), the lowest level in more than 27 months.

Malaysians are sending money abroad even though they need government permission to take out more than RM10,000 (US\$2,630). The reason is simple, said Sani Hamid, an economist at BNP Paribas Peregrine in Singapore: "Foreign assets earn higher yields."

One-year Malaysian Treasury bills yield less than 3%, while com-

parable US Treasury bills yield more than 4%. In effect, Malaysians are being paid to convert their ringgit into dollars. Some Malaysians are taking advantage of the weak Australian dollar to buy homes in Sydney and Perth, said Song Seng Wun, regional economist at Singapore brokerage G.K. Goh.

Capital outflows may create a crisis of confidence, Song says. The outflow fuels fears of a devaluation, leading to even greater capital flight as Malaysians seek to protect their savings by investing them in dollar-denominated assets.

Pitted against the proponents of devaluation are companies such as carmaker Perusahaan Otomobil Nasional Bhd, which buys engine transmissions abroad. For these companies, a strong peg means cheaper foreign parts and lower production costs.

Companies like state-owned Petroleum Nasional Bhd and electricity distributor Tenaga Nasional Bhd, which have dollar-denominated debt will also benefit from a strong currency because interest payments on their debt would rise.

A strong ringgit means consumers pay less for imported goods, which will force local producers to keep prices low. Inflation in Malaysia is less than 2%.

Some economists argue that exchange rates make little difference in the face of a world economic slowdown.

Exports won't pick up, they say, until the US economy starts to expand again, boosting demand for Asia's products.

"There's no guarantee a devaluation will help exporters when demand is falling," said Benny Lam, an economist at Dresdner Kleinwort Wasserstein in Hongkong.

Meanwhile, exporters like Subramaniam say they are trying to make do.

"I'll try to survive in other markets where I can compete," Subramaniam said. - Bloomberg