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Pegged to stability

IF something is working well, why change it? That about sums up why Prime Minister Datuk Seri Abdullah Ahmad Badawi will continue to maintain the 3.80 ringgit peg to the US dollar. Abdullah, who is also Finance Minister, considers satisfactory the current interest rates, which are conducive to business. This will reassure the private sector, whether domestic or foreign, of Malaysia's continued financial stability. The country, with Abdullah at the helm, is committed to consistent policies which are liberal, promote economic growth and in the national interest.

The currency peg was imposed to protect the country from financial turmoil at the height of the 1997-1998 regional economic crisis. The move by former Prime Minister Tun Dr Mahathir Mohamad kicked off a controversy but it has succeeded beyond expectations. Since nothing succeeds like success, the peg has now been accepted as being the right policy even by its erstwhile critics such as the International Monetary Fund.

Malaysia is not the only country with a currency peg, as China too has a fixed currency policy, with the Chinese renmimbi pegged at 8.28 to the US dollar. However, fixed currencies have of late come under renewed scrutiny in some circles, particularly among the protectionist elements in the US, although this is mainly directed against the renmimbi. Given China's enormous trade surplus with the US, there is increasing American pressure for the Chinese to float the renmimbi. In view of the risks involved in any sudden flotation, Beijing is understandably resisting and refusing to back down. And rightly so, because America's loss of jobs and closure of factories are due mainly to its lack of competitiveness in certain industries and not to any undervaluation of the renmimbi as claimed by its protectionist advocates.

It is not certain whether Sino-American trade problems, if they drag on, will one day spill over into questions raised over Malaysia's own ringgit peg. However, should that day come, Malaysia must be prepared to present itself as an exemplary proponent of a stable currency regime.