



The Effects of the Re-pegging of Ringgit on Small and Medium Enterprises

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Abstract

On 1 September 1998 during the peak of the Asian financial crisis, Bank Negara Malaysia, pegged Ringgit at 3.80 to USD1. The pegging was initiated to curb speculative pressures to devalue the Ringgit. Since the adoption of a pegged Ringgit regime, the Malaysian economy has emerged stronger and more resilient. Lately, speculation rumours surfaced again at the back of a depreciating US Dollar coupled by fundamentally strong countries that are pegged to it. Speculative hot monies flowed into the undervalued countries to for a possible revaluation of currencies. It is opinioned that if China's Yuan succumbs to speculative pressures, it will be difficult for Ringgit's peg to hold. How will SMEs in Malaysia fare in the event of a re-peg on Ringgit? Five case studies were explored to the views on the relevance of Ringgit's peg to their businesses, detailing the short and long-term effects, as well as their mitigation plans in place. Most companies interviewed felt that Ringgit's peg at RM3.80/USD promoted trade certainty. Some companies cited expensive transaction costs in establishing a forward contract. Short-term effects on the companies are mainly reduced sales margins for net exporters while lower costs of production for net importers. Long-term effects on the companies are mainly on the need to improve other competitive advantages rather than to concentrate on pricing. Most companies cited improvements on quality and service delivery to capture market share.

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