a role in the export sales decisions. Export sales are now negotiated on deal-to-deal basis until the dust settles on the re-peg of Ringgit issue.

Chapter 5

5.00 Conclusion & Summary

In assessing the impact of a Ringgit revaluation on earnings of companies, there are more disadvantaged than advantaged sectors owing to the fact that Malaysia is essentially a net exporter country. Consensus from the market is that the benefiting sectors will be automotive and media due to the high import contents while plantation, semiconductors, manufacturing (net exporters), oil & gas, timber, and transportation will be disadvantaged where their revenues are mostly denominated in US dollars. It is noted that a 10% revaluation on Ringgit will generate a marginally 1% downgrade in 2005's overall corporate earnings.

Theoretically, an appreciation in the exchange rate of the domestic currency should result in a loss of export competitiveness but this does not hold true as the true measure of competitiveness comes from the real exchange rate, which takes into account the relative inflation and domestic costs of production. Increasing efficiency and enhancing productivity growth rather than relying on a weak currency to export will obtain competitive benefits. Accordingly, an increase in the exchange rate coupled with lower costs of production and productivity growth should lead to a stronger export sector.

The case studies revealed the following findings: -

Most of the companies interviewed felt that Ringgit's peg at RM3.80/USD promoted trade certainty that allows them to trade without the need to hedge fluctuations. The pegging had outlived its original purpose when it was put in place in 1998. However, they feel that the peg should not be changed since most companies are benefiting from it being retained. It was also found that most companies had grown complacent and ignored the needs for forward foreign exchange hedging. Some companies cited expensive transaction costs in establishing a forward contract. Some financial institutions charges a spread of between 100 – 200 basis points and requires collateral support to initiate a contract between 10% - 20% of the foreign exchange value to be hedged. 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 citied improvements on quality and service delivery to capture market share. Mitigation plans ranges from sourcing lower cost components, retaining export proceeds, gradual price hikes, gradual cost reduction, and maintaining a Ringgit costing at RM3.50 since 1998 to hamper the possible effect on re-peg of Ringgit. Over the long run, improvements in efficiency and productivity will be the keys to weathering an appreciated Ringgit. Companies interviewed felt that the present pegged exchange rate system promotes certainty hence, a favourable regime suitable for them. Some companies are toying the idea of pricing their products other than

US dollar to isolate themselves from further deteriorating US dollar and the exchange loss resulting from a subsequent re-peg of Ringgit. Ink Mfg suggested a revolutionary regime of fixed pricing in local currency (PEP/LCP) in order to discount out the headaches of exchange rate fluctuations. Since the emergence of the possibility of Ringgit re-peg, companies are taking a serious consideration of foreign exchange risks to their businesses.

Consensus agrees that the re-peg of Ringgit will be more beneficial than harm. Firstly, benefits of cheap Ringgit at 3.80/USD are slowly fading. Malaysian manufacturers are approaching full capacity and additional inputs or capacity investments (mostly imported) increase costs significantly. Secondly, a strong Ringgit is beneficial to our government's fiscal position where their debt burden of which 70% is denominated in US Dollars. A rise in Ringgit will ease capital repayment. A few large corporations as well as listed companies sourced USD funding from the capital market to take advantage of the lower financing costs as compared to local funding and the possibility of a Ringgit's appreciation. Thirdly, a stronger Ringgit will help to contain inflation pressures as a result of the higher import costs. More goods will be able to purchase from the same amount of Ringgit. Fourthly, a shift in exchange regime away from a pegged system will denote Malaysia's commitment towards further financial market liberalization. Last but not least, a repeg of Ringgit will reduce the costs of maintaining the peg at the back of a daunting rise in 'hot money' flows into the economy.

5.10 Recommendations for future researches

The case studies above are not conclusive due to its stated limitations. In depth study of the foreign exchange fluctuation risks on the specific sectors of the economy will yield a better understanding of the predicaments faced by these groups of businesses. A study on based on post re-peg of Ringgit's results will be useful to gauge the actual impact that will be reflected in their financials numerically. This study will be useful for SMEs' forward planning, trade negotiations, and foreign exchange risk management.