

## **The Deceptive Rise of Malaysia's Trade Figures**

By Mohd Khairul Ramli

Recent pronouncements by the Malaysian government touting a "resurgent" economy fuelled by rising trade figures mask a concerning truth. While exports have seen a 13.3% uptick, this gain rests on a foundation of sand, built upon the depreciation of the Ringgit. This strategy may offer a fleeting illusion of prosperity in the short term, but it carries with it a dangerous undertow threatening to drag Malaysia's economy into deeper waters.

While the government celebrates a boost in exports linked to a weakening Ringgit, it's crucial to acknowledge the currency's depreciation is a double-edged sword. The ringgit depreciated to the lowest level at 4.8 against the USD, its worst reading since January 1998 during the Asian financial meltdown.

While it may benefit exporters in the short term, it also makes imports significantly more expensive, pushing up inflation, particularly for essential goods. This disproportionately burdens ordinary Malaysians by eroding their purchasing power, potentially negating any gains from increased exports. This situation underscores the need for the government to prioritize policies that not only stimulate domestic growth but also safeguard the Ringgit's stability, ensuring a more balanced and inclusive economic recovery.

The weakening Ringgit, currently hovering near a 26-year low<sup>1</sup>, demands decisive action from the government. The recent narrowing of Malaysia's trade surplus, falling from RM18.1 billion in January 2023 to RM10.1 billion in January 2024 and missing market expectations of RM13.7 billion<sup>2</sup>, paints an alarming picture. This could potentially expose Malaysia to the risk of twin deficits, both in the budget and current account, in the coming years. This scenario could further dampen investor confidence and hinder economic growth.

Beyond the immediate concerns of currency depreciation, the focus on traditional exports like palm oil and chemicals exposes another critical shortcoming – the neglect

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<sup>1</sup> <https://www.channelnewsasia.com/asia/malaysian-ringgit-falls-lowest-singdollar-currency-4136271>

<sup>2</sup> <https://www.thestar.com.my/business/insight/2024/02/28/explained-the-shrinking-surplus>

of economic diversification. This reliance on established industries fails to address the pressing need for the development of new, high-tech sectors and future-oriented fields. By clinging to outdated models, Malaysia risks being left unprepared for the ever-evolving global landscape and the inevitable economic shocks that may lie ahead.

The current trade figures also paint a misleading picture of domestic demand. The rise in imports cannot be solely attributed to the depreciation of the Ringgit. It also reflects irresponsible domestic spending policies that contribute to inflation and create an unsustainable economic bubble. The lack of a plan to control unnecessary expenditure and prioritize policies that support long-term, sustainable growth exposes a concerning lack of foresight from the government.

To navigate these complex challenges and ensure lasting economic prosperity for all Malaysians, INSAP urges the government must take decisive action. This includes:

- To strengthen the Ringgit and protect Malaysians' well-being, a multi-pronged approach is needed. First, the government should encourage the use of Ringgit for export settlements. This reduces dependence on the US dollar and insulates Malaysian businesses from its fluctuations.
- Additionally, initiatives fostering business engagement and monitoring export revenue conversion are crucial. This includes promoting the Ringgit as a viable settlement currency for international trade and implementing transparent mechanisms to ensure exporters convert their earnings back into Ringgit within a reasonable timeframe.
- By fostering domestic currency use and ensuring export earnings return to Malaysia, this strategy aims to stabilize the Ringgit and safeguard Malaysians' purchasing power in the long run.

Until the government embraces these necessary steps, the recent rise in trade figures will continue to be a deceptive illusion, masking underlying vulnerabilities and jeopardizing the long-term economic future of Malaysia. INSAP believes the time for decisive action is now, before the tide recedes, leaving the nation exposed on the shores of an uncertain future.