

The Unjust Dominance of the US Dollar Causes Havoc for Malaysia's Currency

News:

Today (26th September 2022), the value of Malaysian Ringgit (RM) slumped to the lowest level ever recorded since the 1997 financial crisis where the exchange rate of 1 USD is now equivalent to RM4.60. The depreciation RM occurred as many investors turned to safer currencies due to the uncertain global economic outlook. Economists blamed the strengthening position of the US dollar compared to currencies of most countries on the aggressive raising of interest rates by the US to attract funds to strengthen the dollar. With the continuing demand for USD, investors do not see the ringgit as a competitive currency and RM will continue to be on a weaker trend until measures are announced to boost the economy. Despite the fall in the value of ringgit, the Minister of Finance, Tengku Datuk Seri Zafrul Tengku Abdul Aziz, was seen defending the position by saying that the low value of the ringgit would increase the country's exports.

Comment:

Although the fall of the ringgit seems good for local exporters, the majority of Malaysians has to bear the negative impact. The depreciation of Malaysian Ringgit (RM) has a number of consequences, among others:

- 1) Higher cost of imported goods - Malaysia has to pay more for imported goods due to the fall in RM exchange rate.
- 2) The price of goods will generally rise - Due to the high cost of imports, the price of essential goods will also rise and Malaysia imports, including foodstuff.
- 3) Inflation – The burden of high prices is mostly felt by the lower income group. Worse, income does not increase or increases very much compared to the increase in the price of essential goods.
- 4) The purchasing power of Malaysians abroad decreases – Those who rely on local income to spend overseas will have to fork out more money when spending abroad.

Obviously, Malaysians have more to lose than gain from the weakening of RM. What is the reason for this weakening? Since the break of the Ukraine-Russia war last February, US President Biden imposed economic sanctions against Russia. The US is campaigning for countries around the world to alienate Russia economically. Since Russia is the world's leading producer of petroleum and natural gas and Ukraine is one of main producer of wheat and fertilizer, the embargo does influence the supply of oil, natural gas and food. The United Nations' Food and Agriculture Organization (FAO) reports that the global Food Price Index (FPI) averaged 159.3

points in March 2022, up 17.9 points (12.6%) from February. This obviously affects the US too and coupled with the stimulus package of USD 4 trillion after the Covid pandemic, and inflation rose to almost 9%. In order to reduce inflation quickly, the US aggressively raised interest rates for the US dollar. This in turn caused investors around the world scrambling to convert their currency into dollars and obtain lucrative profit from interest returns. The high demand for USD has caused other currencies including the ringgit to be abandoned.

Excessive demand for USD fiat money without the backing of commodities such as gold and silver has overvalued the currency. The value of fiat money is determined by the relationship between the supply and demand of the money and the stability of the government that issues it, not based on its intrinsic value. If demand increases, the value of the money goes up and can become excessive (overvalued). On the other hand, if there is too much supply, the value of the money falls to a point where it can become worthless (hyperinflation). Since the US raised interest rates, the high demand for USD caused the value of the USD to increase, while the demand for RM decreased and the value of the Malaysian ringgit also declined. This is the problem of currency exchange rates for fiat money - the dominant currency will weaken other currencies and cause international trade injustice.

Islam established gold and silver as the standard of currency. The measure of the value of goods, services and energy is all based on gold and silver standard. All forms of economic and commercial transactions are conducted on this standard. This system ensures that the currency exchange rate between countries is fixed. A fixed exchange rate will encourage an increase in international trade because traders are not afraid to compete. The problem of dependence on the dominant currency (hard currency) can be eliminated and fairness in international trade can be achieved. Until now, other countries including Russia and China have not been able to eliminate the unfair dominance of the USD in the global economy. Only with the establishment of the Khilafah (Caliphate), the Islamic currency system based on gold and silver will be implemented and end the dominance of the USD, Insha' Allah.

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