



NORTH-HOLLAND

Journal of Asian Economics 11 (2000) 403–430

**JOURNAL
OF
ASIAN ECONOMICS**

Exchange-rate policy in East Asia after the fall: how much have things changed?

Gan Wee Beng*

*Economics Department, Monetary Authority of Singapore, 10 Shenton Way, Singapore 079117,
Republic of Singapore*

Received 1 April, 2000; received in revised form 1 August 2000; accepted 1 October 2000

Abstract

This paper evaluates the changes in the exchange-rate policies of East Asian economies in the aftermath of the currency crisis and the process in which the exchange-market stability was re-established. The empirical analysis evaluates the changing roles of the yen and the US dollar in the currency baskets, the shifts in the volatility of the underlying macroeconomic fundamentals and their implications on exchange-rate management, the exchange-market perception of credibility and risk of the postcrisis exchange-rate regimes, and the process of reversion to fundamental values after the massive currency depreciation.

The analysis shows that after the abandonment of the quasi-dollar peg, the yen had gained a greater weight in the currency baskets and the greater flexibility in which the exchange rates are being managed serve to accommodate the greater volatility in the macroeconomic fundamentals. The improvement in the macroeconomic conditions and the greater credibility that has been acquired by the regional monetary authorities had allowed the exchange market to stabilize and enabled the exchange rates to revert back to their fundamental values. © 2001 Elsevier Science Inc. All rights reserved.

JEL classification: E6, F3

Keywords: East Asia; Exchange rate; Yen

* Corresponding author. Tel.: 65-2299294; fax: 65-2299328.

E-mail address: wbgan@mas.gov.sg

1. Introduction

It has been almost 2.5 years since the East Asian currency crisis broke out after the devaluation of the Thai baht on July 2, 1997. Financial market stability has been restored and economic growth has resumed with considerable vigor in most of the East Asian economies. One key aspect of the postcrisis agenda to reform the international financial architecture involves finding an appropriate exchange-rate regime for the individual countries that would make it less vulnerable to future devaluation crisis. The quasi-US dollar peg that was adopted by some of the East Asian countries had been singled out by some observers as a major contributory factor in precipitating the currency crisis. The dollar peg has been blamed for causing the overvaluation of the currencies (Ito et al., 1998; Edwards, 1999; Eichengreen, 1999) and for encouraging excessive unhedged foreign currency borrowing through provision of implicit guarantee on exchange-rate stability (Eichengreen & Hausman, 1999).

This study is concerned with the conduct of exchange-rate policy in East Asia in the aftermath of the currency crisis and the process whereby exchange-market stability was restored. The paper focuses on the changes in the relative weights of the yen and the dollar in the currency baskets of the East Asian economies, the overall degree of exchange-rate flexibility in response to the volatility in the underlying macroeconomic fundamentals, and the foreign-exchange-market perception of the credibility and risk of the postcrisis exchange-rate regimes. Analyzing how market expectations shift over time is crucial to understanding how the East Asian currencies has been able to achieve relative stability in a comparatively short period of time following the outbreak of one of the most devastating currency crises in the annals of modern economic history.

The rest of the paper is organized as follows: Section 2 evaluates how the East Asian exchange rates against the dollar varied in response to changes in the yen–dollar exchange rate before and after the outbreak of the currency crisis. Section 3 is concerned with the degree of exchange-rate flexibility shown by the East Asian currencies following the exit from the quasi-dollar peg and how much the variability in the exchange rates reflects attempts by the authorities to cope with the volatility of the underlying macroeconomic fundamentals. Section 4 presents evidence on the foreign-exchange-market perception of the postcrisis exchange-rate regime in terms of exchange-market expectation of future depreciation and exchange-rate uncertainty. Section 5 seeks an understanding of how the exchange rates moved back to their fundamental values, thereby achieving relative stability over a rather short period of time, even for those currencies that had experienced massive collapse. Section 6 provides a summary of our findings and outlines the conclusions.

2. The yen, US dollar, and the exchange-rate policy in East Asia

It is now part of the conventional wisdom that a major contributory factor to the currency crisis in East Asia was the overvaluation of the regional currencies as a result of being closely pegged to the US dollar (Ito et al., 1998; Edwards, 1999). A study by Frankel & Wei (1994) on the exchange-rate policy of nine East Asian countries during the period 1979 to mid-1992 has shown that the weight that was attached to the dollar in the currency baskets of most East

متن کامل مقاله

دریافت فوری ←

ISIArticles

مرجع مقالات تخصصی ایران

- ✓ امکان دانلود نسخه تمام متن مقالات انگلیسی
- ✓ امکان دانلود نسخه ترجمه شده مقالات
- ✓ پذیرش سفارش ترجمه تخصصی
- ✓ امکان جستجو در آرشیو جامعی از صدها موضوع و هزاران مقاله
- ✓ امکان دانلود رایگان ۲ صفحه اول هر مقاله
- ✓ امکان پرداخت اینترنتی با کلیه کارت های عضو شتاب
- ✓ دانلود فوری مقاله پس از پرداخت آنلاین
- ✓ پشتیبانی کامل خرید با بهره مندی از سیستم هوشمند رهگیری سفارشات