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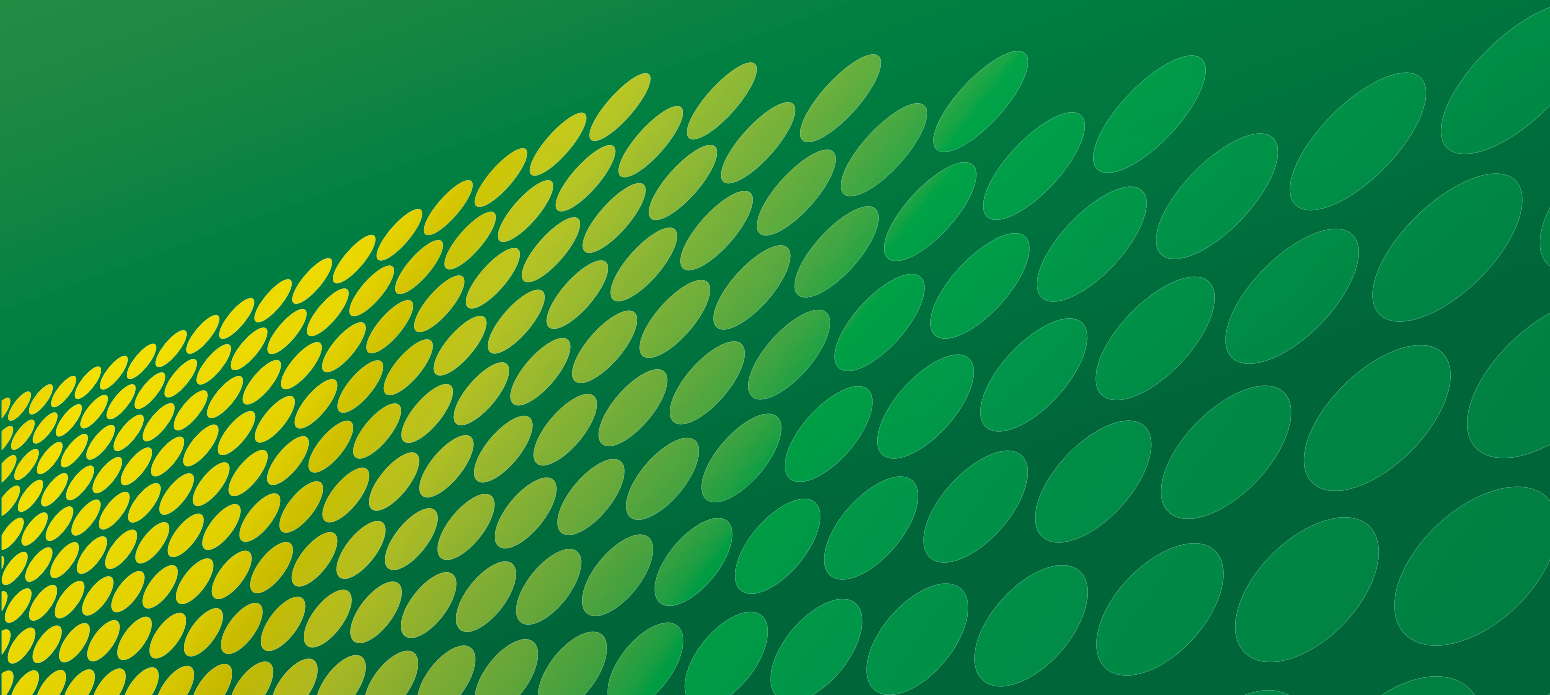


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ASIAN CURRENCY PROTECTIONISM

Who's Pegging Who?

An Examination of Asia's Currencies, Pegs, Inflation Rates
and Current Global Valuations



Asian Currency Protectionism

Who's Pegging Who? An Examination of Asia's Currencies, Pegs, Inflation Rates and Current Global Valuations

[By Chris Devonshire-Ellis, Dezan Shira & Associates]

As strains are caused in global currency relationships due to trade imbalances and the on-goings effects of the global economic crisis, the role of the U.S. dollar as a currency peg in some parts of Asia and the emergence of other regional currencies is having an impact on global trade. In this special report we look at which Asian currencies are pegged and by and to whom, including all neighbors of China and India. An executive summary appears at the completion of this data.

China: Yuan (CNY)



The Chinese yuan, or “Renmenbi” (people’s money) as it is commonly known in China is linked to a “basket” of currencies, including the U.S. dollar, Euro, British pound, Japanese yen, South Korean won, Singapore dollar, Malaysian ringgit, Russian ruble, Australian dollar, Thai baht and the Canadian dollar. However, the yuan’s performance against that basket over the past two years should have shown a depreciation of the RMB if this were truly the case. In reality, the yuan has been unofficially pegged to primarily the U.S. dollar since July 2008 at a rate of 6.83 within a minor permitted fluctuation band. The official inflation rate in China is said to be closer to 4 percent.

India: Rupee (INR)



Pegged by the Bhutanese Ngultrum at par and the Nepali Rupee at 1 INR to 1.6

NPR. In March 2009 the Indian Finance Ministry launched a public competition to select a symbol for the currency. The Indian rupee is also accepted in towns of Nepalese side of the border, while some Indian shops in the United Kingdom will also accept rupees. The rupee is commonly valued against the U.S. dollar and the British pound. The current rate against the U.S. dollar is about 46.5. Inflation in India is currently running at 11.49 percent.

Central Asia

Afghanistan: Afghani (AFN)



The Afghani has no pegs, but is commonly valued against the U.S. dollar and Pakistani rupee. The use of the Afghani in international settlements involving Afghanistan trade has now increased and taken precedence over the U.S. dollar and Pakistani rupee as the currency has stabilized. Prices in Afghanistan have been solely denominated in Afghani since October 1, 2009. The current rate against the U.S. dollar is 48.91. Unofficially, the Afghani is linked to the Indian rupee at par. Inflation is running at around 13 percent.

Kazakhstan: Tenge (KZT)



The tenge is not officially pegged, although it is constantly valued against the Russian ruble at a rate of 5 KZT to

1 RUB. Kazakhstan was the last of the CIS countries to issue its own currency, in 1991 following the breakup of the Soviet Union. The word tenge in the Kazakh language means a set of scales. The origin of the word is the Turkic word teġ, which means being equal, balanced. The current rate against the U.S. dollar is 149. Inflation is currently running at about 8.7 percent.

Kyrgyzstan: Som (KGS)



The Kyrgyzstani som is unofficially pegged to the Russian ruble at par. In the old Soviet Union, speakers of Kazakh, Krygyz and Uzbek called the ruble the som. The word som means “pure” in these languages as well as Uighur, and implies “pure gold.” Kyrgyzstan’s inflation rate is running at about 24.5 percent.

Mongolia: Togrog (MNT)



The Mongolian togrog is not pegged, although it is commonly linked to the Russian ruble. Genghis Khan appears on the higher value notes, and the founder of modern Mongolia, Sukhbarat, on the lower values. The current rate against the ruble is 47, while inflation is currently running at 8 percent.

Russia: Ruble (RUB)

The ruble is not officially pegged but remains the currency of the Russian



Federation and the two partially recognized republics of Abkhazia and South Ossetia. It is also commonly used as a benchmark to value other ex-Soviet states currencies and remains a dominant player within Central and Northeast Asia. The current exchange rate with the U.S. dollar is 30.38, while inflation is currently 9.1 percent.

Tajikistan: Sonomi (TJS)



The sonomi was introduced in 2000 and is not pegged. Tajikistan is landlocked and is the smallest nation in Central Asia by area. In 2008, the harshest winter in a quarter century caused financial losses of US\$850 million. Russia pledged US\$1 billion in aid, while Saudi Arabia sent about 10 planes carrying 80 tons of relief and emergency supplies in February and another 11 tons in March. The sonomi is commonly valued against the Russian ruble and is currently at 0.15 to the ruble. The inflation rate is currently running at 20.5 percent.

South Asia

Bangladesh: Taka (BDT)



The taka replaced the Pakistani rupee in 1972 following the civil war with Pakistan. It is not pegged but is commonly valued in comparison to the U.S. dollar. The current rate against the U.S. dollar is 69.2. The inflation rate is currently 5.39 percent.

Bhutan: Ngultrum (BTN)

The ngultrum is pegged to the Indian rupee at par. The currency was introduced



in 1974. India was key in assisting the Bhutanese government as it developed its economy in the early 1960s. When the ngultrum was introduced, it retained the peg to the Indian rupee which the Bhutanese rupee had maintained. The ngultrum does not exchange independently with other nation's currencies but is interchangeable with the Indian rupee. The inflation rate is currently about 4.9 percent.

Maldives: Rufiyaa (MVR)



The currency is pegged to the U.S. dollar at a rate of 12.8 to the U.S. dollar. The earliest form of currency used in the Maldives was cowrie shells (Cypraea moneta) and historical accounts of travelers indicate that they were traded in this manner even during the 13th century. The explorer Ibn Batuta observed that more than 40 ships loaded with cowry shells were exported each year. A single gold dinar was worth 400,000 shells. The current inflation rate is 11 percent.

Nepal: Rupee (NPR)



The Nepalese rupee is pegged to the Indian rupee at a rate of 1.6 to the Indian rupee and has maintained this position since 1993. The exchange rate to the U.S. dollar is 74.55. Inflation is running at 14 percent.

Pakistan: Rupee (PKR)

No pegs, although it was previously pegged to the U.S. dollar until 1982. It is still commonly valued against the U.S. dollar, while the Pakistani rupee



has also been pegged by the Afghani to provide security against the new Afghan currency although this has subsequently ceased in the wake of a disastrous 2008 performance by the Pakistani rupee when it lost 23 percent of its value in eight months. The current rate against the U.S. dollar is 84.07, while the inflation is running at 18.5 percent.

Sri Lanka: Rupee (LKR)



The Sri Lanka rupee is not pegged to any currency but is frequently valued against the Indian rupee and the British pound. Sri Lankan bank notes are unusual in that they are printed vertically on the reverse. The unofficial linked rate with the Indian rupee at 2 to 1 Indian rupee, while the U.S. dollar is at 114.22. Inflation is currently running at 17.5 percent.

East Asia

Hong Kong: Dollar (HKD)



The Hong Kong dollar is pegged with the US dollar in a small trading band of between 7.75 to 7.85 to the U.S. dollar, and also by the Macau Pataca at a rate of 1.03 Patacas to 1 Hong Kong dollar. It is also commonly valued against the Chinese RMB. The currency is managed by the Hong Kong Monetary Authority who maintain exchange rate stability within the framework of the linked exchange rate system. The important underpinnings of the linked exchange rate system include the strong official reserves of Hong Kong, a sound and

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robust banking system, fiscal prudence and a flexible economic structure. In this way, China's management control of the yuan position is unofficially linked directly to the U.S. dollar through the Hong Kong dollar peg, a situation that has led to some criticism of the continuation of the Hong Kong dollar peg to the U.S. dollar. Jim Rogers, a partner in George Soro's Quantum Fund, has previously said that the Hong Kong government should adopt the RMB as the official currency of the territory when the RMB becomes freely convertible. "I don't know why the Hong Kong dollar exists any more," said Rogers. "The territory has a gigantic neighbor who is becoming the most incredible economy in the world." Inflation in Hong Kong is currently about 2.2 percent.

Japan: Yen (JPY)



Japan has no currency pegs, although it is widely used as a global reserve currency and is the third most traded currency worldwide. It forms part of the IMF basket of currencies, known as the Special Drawing Rights (SDR) Valuation. The SDR is linked to a basket of currencies with 44 percent for the U.S. dollar, 34 percent for the Euro, and 11 percent each for the yen and British pound. The exchange rate for the Japanese yen is expressed in terms of currency units per U.S. dollar; other rates are expressed as U.S. dollars per currency unit. The SDR currency value is calculated daily and the valuation basket is reviewed and adjusted every five years. The SDR was created in 1969 to support the fixed exchange system. The yen is currently valued at 87.96 to the U.S. dollar, while inflation is running at -1.8 percent.

Macau: Pataca (MOP)

The pataca is pegged to the Hong Kong dollar at a rate of 1.03 to the Hong Kong dollar under the currency board system. This means it is 100 percent backed by the Hong Kong dollar, and as the Hong Kong dollar is pegged to the U.S. dollar, indirectly to the U.S. dollar



itself. The Monetary Authority of Macau has a statutory obligation to issue and redeem patacas on demand against the Hong Kong dollar at a fixed exchange rate and without limit. The name pataca was derived from the Mexican peso, or Mexican silver dollar, which was in common use throughout Asia until the early part of the last century. At the time Macau was under Portuguese rule, where the peso was known as the pataca mexicana. Macau's current inflation rate is 4.9 percent.

North Korea: Won (KPW)



Since 2001, the North Korean government abandoned the previous iconic rate of 2.16 won to the U.S. dollar (which is said to have been based upon Kim Jong-Il's birthday, February 16) and banks in the country have been issuing notes at rates closer to the black market rate. However, rampant inflation has been eroding the North Korean won's value. A report by defectors from North Korea claimed that the black market rate was 570 to China's yuan in June 2009. The North Korean won was further disrupted in December 2009 when the government effectively devalued it by a multiple of ten, making old bank notes illegal tender and issuing new notes reflecting the change. Citizens were given just a matter of days to exchange limited amounts of old notes for new at par value, leaving many with distressed savings. Bearing these very recent changes in mind, this should reflect an exchange rate of 900 won to the U.S. dollar and 131 won to the Chinese yuan. However, the black market rate for the U.S. dollar is currently about 3,000 won.

The North Korean won is intended exclusively for North Korean citizens,

and the Bank of Trade issues a separate currency for visitors, like many other socialist states such as China used to do with its old FEC system. North Korea has two varieties of foreign exchange certificates, one for visitors from "socialist countries" which are colored red, and the other for visitors from "capitalist countries" which are colored blue/green. It is illegal to take any North Korean currency out of the country, while many cross-border transactions are settled in hard currency – yuan, U.S. dollars, or rubles.

South Korea: Won (KRW)



The South Korean Won is not pegged to any currency, following the fallout from the Asian Financial Crisis. It had previously been pegged to the U.S. dollar. The won was floated on December 24, 1997 when an agreement was signed with the IMF. Shortly afterwards, the won was devalued to almost half of its value. It does however form part of the basket of currencies the Chinese yuan is said to be linked to. The current exchange rate with the U.S. dollar is 1161.43. Inflation is currently running at 2.5 percent.

Taiwan: New Taiwan Dollar (TWD)



The Taiwan dollar is not pegged to any currency, however was backed by silver reserves until 2000. It is commonly compared to the U.S. dollar and the Chinese yuan. The current exchange rate with the U.S. dollar is 33.25, while inflation is running at 3.7 percent. Taiwanese currency is not valid in mainland China.

Southeast Asia

Brunei: Dollar (BND)



The Brunei dollar is pegged with the Singapore dollar at par, and the currency is in fact managed by the Monetary Authority of Singapore. Early currency in Brunei included cowrie shells, while the current currency was introduced in 1967 following independence as a British protectorate. The Brunei dollar is accepted as “customary tender” in Singapore according to the Currency Interchangeability Agreement, although it is not legal tender there. Likewise, the Singapore dollar is customarily accepted in Brunei. The Brunei dollar is currently valued at 1.39 to the U.S. dollar. The current inflation rate is 0.4 percent.

Indonesia: Rupiah (IDR)



The rupiah is not pegged to any currency and has had a recent checkered history, losing over 80 percent of its value in the Asian Financial Crisis. It is commonly valued against the U.S. dollar. The current exchange rate is about 9,400 to the U.S. dollar. Inflation currently runs at 3.65 percent.

Laos: Kip (LAK)



The kip is not pegged to or by any other currency and is considered a least valued currency unit. The kip was reintroduced to Laos in 1952 following independence from France. The kip is valued at around 8,500 to the U.S. dollar. Inflation is running at 6 percent.

Malaysia: Ringgit (MYR)



Malaysia ceased its long held currency peg to the U.S. dollar in 2005 when the Chinese decided to revalue the yuan against a basket of currencies instead of purely a U.S. dollar peg, and consequently announced the same measures within 24 hours. The Ringgit is part of the basket of currencies the yuan is valued against, a position the Ringgit reciprocates in a managed currency basket system. The make up of the basket is a state secret but is believed to be similar, or identical to the Chinese system. The Ringgit suffered badly during the Asian Financial crisis of 1997, losing 50 percent of its value against the U.S. dollar in 12 months. World Bank estimates show that about 30 percent of all Malaysian goods are price controlled. The current exchange rate is 3.39 to the U.S. dollar. Inflation is currently running at -2.4 percent.

Myanmar: Kyat (MMK)



The Kyat is pegged by the government to the U.S. dollar, Euro, British pound, Japanese yen and the Chinese RMB, although these rates differ considerably from the reality of the black market rates on the streets. In this way, the ruling Myanmar junta buys in foreign currency from tourists at vastly inflated rates of exchange. To compare this, the official rate against the U.S. dollar is 6.69, whereas the current black market rate is at 960, a multiple of close to 150. Myanmar’s inflation rate is currently 27.3 percent.

Philippines: Peso (PHP)

The peso is not pegged to any currency, and has been floated since 1964, meaning that the currency is a physical representation of the domestic debt and whose value



directly tied to people’s perception of the stability of the current regime and its ability to repay the debt. The currency is however often valued against the U.S. dollar, and the current exchange rate is 46.14. Inflation is 0.2 percent.

Singapore: Dollar (SGD)



The Singapore dollar is currently pegged to the Brunei dollar at Par, and since 1985 has been part of a currency board – in which the Singapore dollar is allowed to float (within an undisclosed bandwidth of a central parity) against a concealed basket of currencies of Singapore’s major trading partners and competitors. This allows the Singaporean government to have more control over imported inflation and to ensure that Singapore’s exports remain competitive. All issued Singapore dollar currency in circulation is fully backed by international assets to maintain public confidence, while this basket is managed by the Monetary Authority of Singapore. The basket contents remain a state secret and are moved and re-weighted on occasion, however are believed to be close to the Chinese model. The current exchange rate to the U.S. dollar is 1.38 while the inflation rate is 2.1 percent.

Thailand: Baht (THB)



The baht is not pegged to any currency, having given up its U.S. dollar peg in 1978. A strengthening U.S. economy caused Thailand to re-peg its currency at 25 to the dollar from 1984 until 1997, when the country was seriously stung by

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the Asian Financial Crisis. The baht was subsequently floated and halved in value, although it has since risen. The current exchange rate is 33.17 to the U.S. dollar, while inflation is running at 5.1 percent.

Vietnam: Dong (VND)



The dong is not pegged to any currency and is a least valued currency. However, recent moves by China in neighboring Yunnan Province now permit interchangeable transactions between the yuan and the dong in China. The term dong is from the phrase “đồng tiền” (money) which is a cognate of the Chinese “*tong qian*.” The word refers to Chinese bronze coins which were used as currency during the dynastic periods of China and Vietnam. The current exchange rate against the yuan is 2,600 while Vietnam’s inflation is running at 2.4 percent.

Oceania

Australia: Dollar (AUD)



The Australian dollar is pegged to the Tuvaluan dollar and Kiribati dollar at par, while these island nations use Australian bank notes they do issue their own coins. The Australian dollar is the sixth most traded currency globally. The Australian dollar is popular with currency traders due to comparatively high interest rates in Australia, the relative freedom of the foreign exchange market from government intervention, the general stability of Australian economy and political system, and the prevailing view that the Australian dollar offers diversification benefits in a portfolio containing the major world currencies, especially because of its greater exposure to Asian economies and the commodities cycle. It is frequently compared to the U.S. dollar. The exchange rate with the U.S. dollar is currently 1.09 to the U.S.

dollar while inflation is running at 1.3 percent.

Papua New Guinea: Kina (PGK)



The kina is not pegged to any currency but is traditionally valued against the Australian dollar, which it replaced in 1975 at par value. The current rate against the Australian dollar is 2.30; inflation is currently running at 1.8 percent. All Papua New Guinea bank notes are issued in polymer. Papua New Guinea's inflation rate is currently 10.8 percent.

Summary

I will be the first to admit that I am not an economist, and readers are encouraged to make up their own conclusions about the statistics presented. I have also, where information is scarce, tried to supplement this with a little cultural background. However, on a more practical note, several things become apparent when comparing currencies across Asia.

Firstly, the damage caused to a lot of them during the Asian Financial Crisis in 1997. If I recall correctly, currencies were undermined initially by a run on the Thai baht, instigated in part by seemingly rapacious currency traders in the United States who bet huge amounts of money on them being unable to support their then peg to the U.S. dollar. In the short term, this succeeded, and Wall Streets financiers made billions, yet in doing so brought several Asian economies, including important ones such as South Korea and Malaysia, to their knees. In some cases these economies have not yet fully recovered. Consequently, the U.S. dollar peg that was put in place by several Asian countries to ironically protect them against currency movements was rejected by several governments, wary of being exposed to U.S. traders' avarice. The concept of the “basket of currencies,” which is gaining in popularity, is a direct result. It may also have led to a weakening of the popularity of the U.S. dollar as a global currency overall and especially in Asia. It may also be the

reason why China is so reluctant now to freely float the yuan as the United States keeps asking it to do. U.S. responsibility for the events leading up to the Asian Financial Crisis has not been forgotten in Asia.

Secondly, the calls for the Chinese currency to replace the position of the U.S. dollar seem absurd when measured up against other countries. The yuan is not as strong as the Chinese government would like to portray it as being. In fact, it is still broadly linked to the U.S. dollar despite the official peg having been moved three years ago. Had the yuan been truly linked to a basket of currencies, then the performance of the yuan against them would have been far different than it has been, when taking into consideration it's US dollar position. Economists may care to plot the value of the yuan against its apparent basket – the weighting of the basket contents of course taken into consideration – and compare that with the actual margin of trade it has performed against the U.S. dollar in comparison. A further problem for the Chinese position of the yuan is the fluctuation the U.S. dollar has had against the Euro – which has strengthened considerably against the dollar. Conversely, the path the yuan has taken against the U.S. dollar and the Euro are not aligned, leading to claims of currency manipulation. Therein lies the truth. The yuan is still heavily weighted to the U.S. dollar and is only paying lip service to its basket. The implications are multifold, not least the fact that the Chinese do not actually view the yuan as potentially capable of standing up to free movements, and that it is not as strong as its politicians would have media generally believe. The yuan is a long way from being accepted as a tracker currency by most other countries in the region; the US dollar still reigns supreme.

Thirdly, the concept of pegs seems to indicate two things: either a smaller value currency, such as the Nepali rupee, seeking some protection against the wider world by having a measure of refuge against the Indian rupee; or larger currencies, such as the Chinese yuan, simply trying to manipulate trade and engage in protectionism. China cannot justify a peg, unofficial or not, given the vast reserves the country has and the

clout it possesses. The implications for China's position are that it is acting as a small currency seeking built in protection. The question should be, protection from what? Either there are significant, inherent problems within China's banking system that are yet to come to light, or the U.S. suspicions that it is engaged in protectionism are in fact true. The stark fact is that when looking at China's position amongst Asian currencies, it alone as one of the largest has such a peg in place. It's time to join the big boys, or risk having the reluctance to join in the likes of India, Korea, Japan and Australia continue to perform freely with all the merits that brings.

In terms of the ease of obtaining data, I may also caution that China ranks poorly when it comes to transparency

and independent veracity of its financial information. The collection and publication of government information is strictly controlled and ranks alongside only the notoriously obtuse Central Asian States when it comes to transparency. China truly needs to improve this if it is not to relapse into a pre-Deng Xiaoping era of secrecy, avoidance and deliberate confusion of data. China is currently at an information crossroads, and recent signs are not encouraging in this respect. I add that if China truly wishes the yuan to take its position as a major global currency, with regional clout, it cannot achieve this without media openness and financial transparency. It remains, in summary, far from certain that the existing Government has acknowledged or even understands this truth, and this element does need to be factored in when assessing movements

or directions to international standards when applied to the Chinese currency and financial system in particular.

I hope you find this report of interest.

Chris Devonshire-Ellis
Publisher, 2point6billion.com

Comments may be directed to editor@2point6billion.com.

Note: Utmost care has been taken when providing data and statistics, and wherever possible these have been as current as could be found. However, no responsibility can be taken by the author or 2point6billion.com for any mistakes, discrepancies or incorrect data contained within this report and readers using it for base research are advised to check themselves against the data provided.

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