



## New study says US dollar still overvalued against Asian currencies



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WASHINGTON (AFP) - Export-driven Asian economies are concerned about losing competitiveness as their currencies strengthen against a depressed US dollar but a new study says the greenback is still significantly overvalued against the regional units.

The Chinese yuan needs to rise by about 30 percent against the dollar and the Japanese yen should strengthen by about 20 percent, said the study by the respected Washington-based Peterson Institute for International Economics.

It said that a number of other Asian currencies also needed to appreciate substantially so that desired increases of the yuan and yen amount to much less on a trade-weighted average basis -- under 20 percent for the Chinese currency and only about five percent for the Japanese unit.

"The Asian currencies that should appreciate most are the Singapore dollar, the Chinese renminbi (yuan), the Malaysian ringgit, the New Taiwan dollar, and the Japanese yen," said the report by the institute's experts William Cline and John Williamson.

Cline was a former US Treasury official and ex-chief economist at the Institute of International Finance while Williamson was formerly with the World Bank and International Monetary Fund.

The report said "there remain significant undervaluations of a number of Asian currencies against the dollar and against several other advanced-country currencies including the euro, the British pound and the Canadian dollar.

"The long-standing overvaluation of the dollar in terms of those three currencies has now ended, however, and may even have mildly overshot," it said.

The depreciation in the effective exchange rates of the euro and pound "should come largely from the appreciations of a number of Asian currencies," according to the report "New estimates of fundamental equilibrium exchange rates."

The Singapore dollar was identified with the Swiss franc as experiencing the "biggest undervaluations."

Export-charged Asian economies have always been worried that any exceptional strengthening of currencies will undermine export competitiveness over their main regional competitors, and dampen economic growth.

A rising threat of inflation fueled by recent sharp jumps in oil and food prices has made exchange rate management a bigger challenge for Asian central banks, experts said.

On average, according to the new study, the dollar was now overvalued by less than 10 percent. It has declined by almost 25 percent since early 2002.

John Lipsky, the IMF's deputy managing director, also said that the currencies of many current account surplus countries, including China, remained "substantially undervalued, despite a small appreciation in real effective terms.

"The lack of adjustment in the currencies of several economies with inflexible exchange rate regimes and large external surpluses has not been supportive of an adjustment in global imbalances," he said.

The imbalances are reflected partly by huge current account surpluses in Asian economies and the opposite in the United States and several other developed nations.

The IMF's view is that the substantial dollar depreciation so far is helping to bring down the US current account deficit, and has moved the greenback close to its "medium-term equilibrium level."