

Euro at 10

**Regional Perspectives:
East Asia**

C. Randall Henning

Outline

1. Overall prospects
2. Alternative approaches
3. Recent empirical record
4. Asian regionalism

East Asia holds most of the world's foreign exchange reserves



Rank	Country	Amount (billions of USdollars)			Percent share of world total, April 2008
		2001	2005	April 2008	
1	China	212	819	1757	24.02
2	Japan	388	829	978	13.37
3	Russia	33	176	519	7.09
4	India	45	131	304	4.16
5	Taiwan	122	253	289	3.96
6	Korea	102	210	260	3.55
7	Brazil	36	53	195	2.66
8	Singapore	75	116	175	2.40
9	Hong Kong	111	124	160	2.18
10	Algeria	18	56	126	1.72
11	Malaysia	29	69	123	1.69
12	Thailand	32	51	107	1.47
13	Mexico	44	73	92	1.26
14	Libya	14	38	87	1.20
15	Poland	25	40	76	1.04

Sources: International Monetary Fund, IFS (September 2008); Central Bank of Taiwan.

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Estimates of Currency Shares in Official FX Reserves, Selected Countries

Country	Estimate			Source	Date
	Dollar	Euro	Yen		
Australia ^a	37	40	14	Reserve Bank of Australia	July 2008
China	65-70	-	-	Brad Setser	April 2008
Hong Kong	73 ^b	-	-	Hong Kong Monetary Authority	June 2007
Japan	83-89	-	-	Truman and Wong	End of 2004
Korea	65	-	-	Bank of Korea	March 2008
New Zealand	85	12	2	Reserve bank of New Zealand	June 2007
Philippines	83	10	4	Truman and Wong	End of 2004

^a RBA's "benchmark composition" is 45%, 45%, and 10% for dollar, euro, and yen respectively.

^b Reported as "dollar bloc" currencies, potentially including Canadian, Australian and New Zealand dollars.

Asian Exchange Rate Regimes



Country	IMF	Reinhart, Ilzetzi, and Rogoff
Brunei	De facto peg	Crawling band, narrow ^a
Cambodia	Managed floating ^b	Crawling peg
China	De facto peg	De facto peg
Hong Kong	Currency board	Currency board
Indonesia	Managed floating	Managed floating
Japan	Float	Free float
Korea	Float	Managed floating
Laos	Managed floating	-
Malaysia	Managed floating	Crawling band, narrow
Myanmar	Managed floating	Dual market
Philippines	Float	Crawling band, narrow
Singapore	Managed floating	Moving band ^c
Thailand	Managed floating	Moving band
Vietnam	Managed floating	Crawling peg
Australia	Float	Free float
India	Managed floating	Crawling band, narrow
New Zealand	Float	Managed floating

^a The full IMF designation is "Managed floating with no predetermined path."

^b The full R/I/R designation is "De facto crawling band that is narrower than or equal to +/-2%."

^c The full R/I/R designation is "Moving band that is narrower than or equal to +/-2%," allowing for appreciation or depreciation over time

Sources: Reinhart, C., Ilzetzi, E., and Rogoff, K. (2008). Exchange Rate Arrangements Entering the 21st Century: Which Anchor Will Hold

<http://terpconnect.umd.edu/~creinhar/Data/ERA-Annual%20fine%20class.xls>;

Reinhart, C., and Rogoff, K. (2004). "The Modern History of Exchange Rate Arrangements: A Reinterpretation." Quarterly Journal of Economics 119(1):1-48;

IMF, De Facto Classification of Exchange Rate Regimes and Monetary Policy Framework

<http://www.imf.org/external/np/mfd/er/2006/eng/0706.htm>

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Dollar dominates East Asian FX Markets

Currency Shares in Foreign Exchange Markets¹

	Total ²	Currency shares (percent) ³				
		USDollar	Euro	Yen	Pound sterling	Other ⁴
China	9.3	98.5	0.7	0.7	1.1	98.9
Hong Kong	174.6	96.1	12.8	10.4	7.4	73.2
Indonesia	2.8	93.0	11.2	8.3	2.6	84.9
Japan	238.4	84.6	18.3	71.1	6.9	19.1
Korea	33.4	92.0	6.1	11.6	4.4	85.9
Malaysia	3.4	97.1	5.9	7.0	4.9	85.1
Philippines	2.3	99.2	2.3	2.3	1.9	94.4
Singapore	230.6	88.3	27.2	25.1	13.2	46.3
Taiwan	14.6	94.6	14.5	23.7	7.5	59.6
Thailand	6.2	94.4	8.8	15.2	2.2	79.3
ASEAN+3³	715.6	89.5	18.7	35.6	8.8	47.4
Australia	169.5	91.3	17.5	10.7	7.7	72.8
India	34.1	95.8	9.3	27.7	9.7	57.5
New Zealand	12.3	94.2	10.4	4.6	3.7	87.3
ASEAN+6³	931.4	90.1	18.0	30.3	8.6	52.9
World Total³	3,988.1	86.8	36.8	17.0	14.4	44.9

¹ Spot, outright forward and foreign exchange swap transactions. Adjusted for local inter-dealer double-counting (ie "net-gross" basis).

² Daily averages, in billions of USDollars

³ Because two currencies are involved in each transaction, the sum of shares comes to 200 percent.

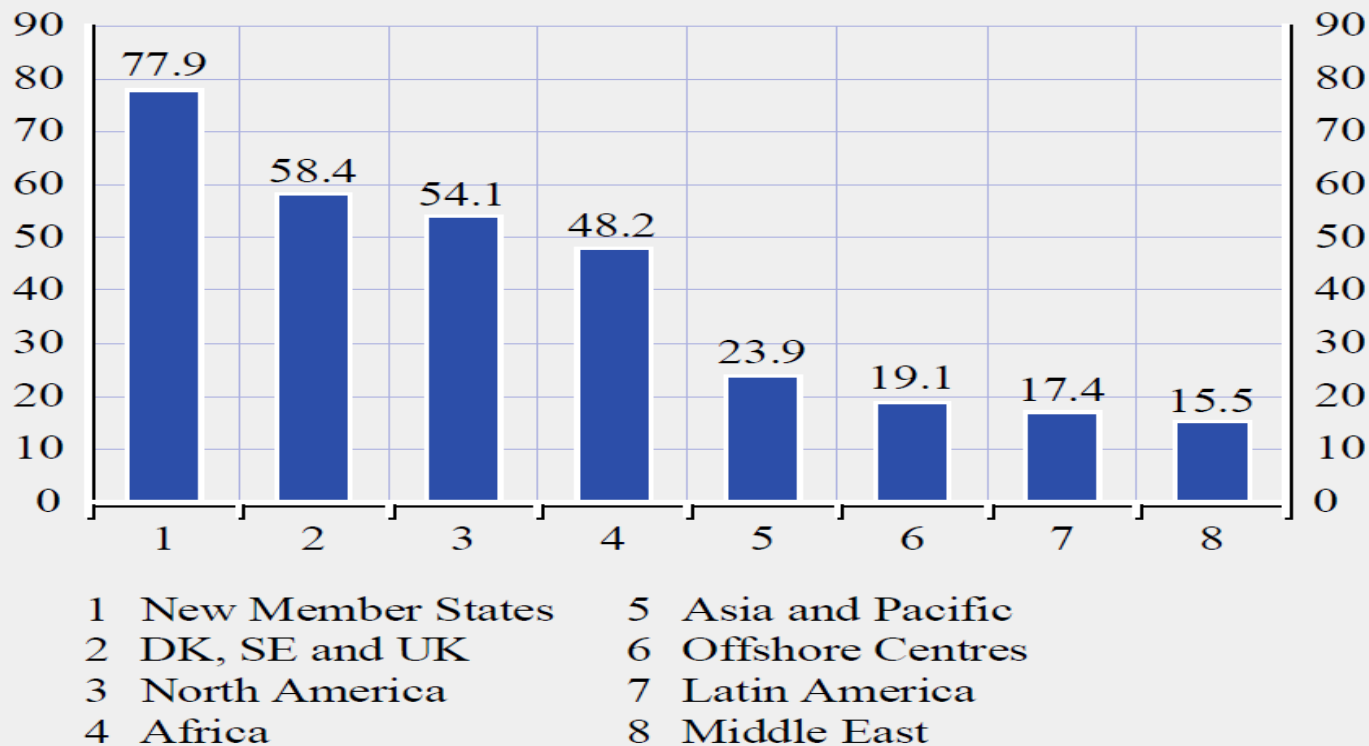
⁴ Includes all participating countries currencies other than the ones listed, major of which are Swiss franc, Canadian dollar, Australian dollar and Swedish krona

Source: BIS, Triennial Central Bank Survey 2007

Euro plays a modest role in East Asian bond market

Chart 5 Share of the euro in the stock of outstanding international debt securities in selected regions (2007 Q4)

(narrow measure, i.e. excluding home currency issuance; as a percentage of the total amount outstanding)



Sources: BIS and ECB calculations.

Euro plays small role in East Asian trade invoicing

	Exports					Imports				
	Euro	Dollar	Yen	Pound	Other	Euro	Dollar	Yen	Pound	Other
Australia(2007)	1.0	74.3	0.5	0.7	23.5 ^a	8.1	52.0	1.9	1.4	36.6 ^a
Indonesia (2007)	1.8	93.2	1.5	0.1	3.3	4.3	83.6	4.1	0.2	7.7
Japan (2007)	8.9	55.0	34.0	0.1	1.3	5.6	65.7	27.6	0.1	1.1
Thailand (2007)	3.5	80.7	6.2	0.5	9.1 ^b	-	-	-	-	-
India (1999)	7.1	85.0	-	-	7.9 ^c	8.1	84.0	-	-	7.9 ^c
Korea (2003)	7.6	84.6	5.3	0.9	1.6	6.1	78.3	14.0	0.6	1.0
Malaysia (1996) ^d	4.9 ^e	66.0	6.8	1.0	21.3 ^f	-	-	-	-	-

^a Includes Australian dollar (22.2% and 33.9% for exports and imports respectively).

^b Includes Thai Baht (6.7%).

^c Calculated as residual above the shares for euro and dollar.

^d Data refers to total trade, without the breakdown for exports and imports.

^e Share for euro is obtained by adding the share for DEM and approximated shares of other euro legacy currencies.

^f Includes Malaysian ringgit and Singapore dollar (17.8% and 3.5% respectively).

Comparison of Europe, United States and Japan, 2007

	EU-27	Euro Area	US	Japan
Population (millions)	495	320	306	128
GDP (billions \$) ¹	16,830	12,158	13,844	4,384
GDP per capita (thousands \$) ¹	34.0	38.2	45.8	34.3
Exports of goods and services (billions \$) ²	1,750	2,064	1,163	714
Imports of goods and services (billions \$) ²	1,966	2,024	2,017	622
International reserves minus gold (billions \$)	534	216	60	953
Stock market valuation ³	13.1	8.4	19.6	4.8
Bond market valuation ³	23.2	18.8	27.1	8.7
Bank assets ³	37.7	26.7	10.2	6.6

¹ GDP and GDP per capita data for EU-27 and Euro Area converted into dollars at a rate of 1.37 dollars per euro (average for 2007).

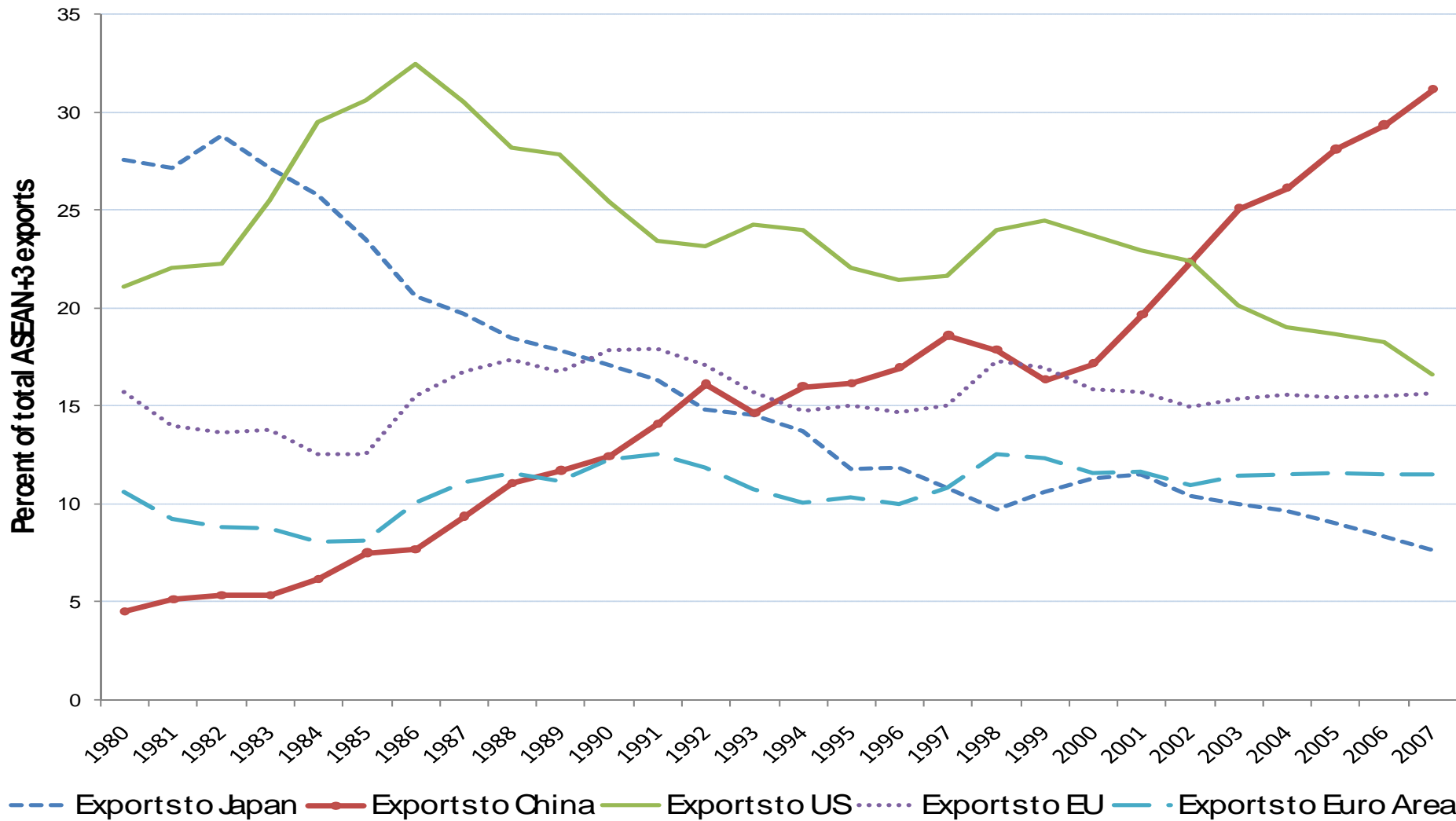
² Exports and imports data for EU-27 and Euro Area excludes intra-group trade.

³ Data for 2006.

Sources: International Monetary Fund, IFS (September 2008), Global Financial Stability Report (April 2008), World Economic Outlook (April 2008), Direction of Trade Statistics (August 2008); EUROSTAT.

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Destination of East Asian Exports



Source: International Monetary Fund, Direction of Trade Statistics

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Thank you