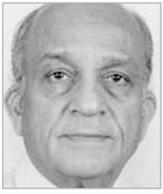


Battle of the currencies



By TK JAYARAMAN

It is not just a battle of currencies.

It is also a battle of giants: the United States, Japan and China.

China has just beaten Japan to a third place, by becoming the second-largest economy. It is next only to the United States

in terms of gross domestic product (GDP), which is the value of domestically produced output of goods and services.

All the three countries are keen to keep their exchange rates low so that their exports to the rest of world continue to remain cheap.

Exports have been a growth driver for Japan since World War II. Its exports of high-tech electronic goods, TVs, computers and automobiles have brought immense wealth to the nation.

Embracing capitalism in selective areas since the

1980s, communist China on the other hand has emerged to be the source of consumer goods produced at a much lower cost because of low wages. For the same reason, China also attracted manufacturing units from Japan and the US to be located in Shanghai and other export zones within the country, to produce consumer durables such as toasters, washing machines and refrigerators for export to the rest of the world.

The US continued to be unparalleled in exporting capital-intensive technology, besides aircrafts and



A strong yen is a big worry for the Japanese economy.

automobiles to the rest of the world, leaving the production of labour-intensive consumer goods to China.

Bone of contention

Exports have been the key driver for all the three giants. The similarity ends there.

While the US dollar and the Japanese yen are floating currencies, being subject to the market forces of supply and demand, the external value of the Chinese yuan is fixed by a decree and not by market forces.

The US dollar has been battered by the global financial crisis and by the subsequent large fiscal and trade deficits. The market forces have pushed the dollar to its lowest level since 2007: around 88 yen per dollar. On the other hand the yen value has soared. The yen has risen by 50 per cent against the dollar, by 58 per cent against the euro and 50 percent against its neighbour, the Korean won.

Export surplus of the country over its imports makes its currency go up in value. That is what happened to Japan.

If market forces were allowed to operate, we would have the same result for China. When Chinese exports exceed its imports, there would be excess world demand for the yuan and the external value of the yuan would then be rising.

China does not want it, as a rise in exchange rate would make its exports no longer attractive to foreigners.

Communist China, which would not mind the capitalist methods of production and exchange, does not like to leave the exchange rate to market forces, the hallmark of capitalism.

Did not Chairman Mao say: "The colour of the cat does not matter as long it catches the mice".

Official intervention

With a view to keeping the value of the yuan low, China has been purchasing US financial assets by trillions of dollars. That has been stopping the yuan from appreciating against the dollar. China also bought a large number of Japanese government bonds, bidding up the value of yen relative to the yuan.

Chinese action was not welcome to the US and Japan. Only last June China announced much to the relief of the US that it would allow the yuan to increase. However, market intervention by China made the yuan appreciate only by 1.9 per cent against the dollar.

As the words and action did not match, the US wants to bring in other world powers to push



The United States Treasury Secretary Timothy Geithner says the yuan is undervalued and should rise quickly.

China for trade and currency reforms. It would use a G20 summit in Seoul in November for mobilizing forces to get Beijing let the yuan strengthen faster.

Japan moves too!

As Japan too does not like Chinese intervention in the market to make the yen stronger, it had to do something of its own to weaken the yen.

Last week, its central bank sold yen to create an excess supply of yen and pushed the value of yen down.

The amount of yen sold was one trillion yen, equivalent to US\$ 11 billion, the largest in a single day so far.

The Japanese action for weakening the yen is not new. In 1995, when the US dollar was 79 yen, a record low, multilateral action by central banks was taken. This time, it is a solo action, disapproved by other central banks. A similar unilateral action to weaken the yen was done in 2004 and was severely criticized by the US central bank.

The co-ordinated action by central banks works better than unilateral action. Since the US and European Central Banks are not involved, it appears the Japanese action may not be successful.

Individual country effort is disliked.

Every country wants a weak currency. As domestic demand is weak, they believe external demand manipulated through currency depreciation can take the economy on a growth path. The word "manipulation" is strong as it amounts to deception. Oscar Wilde remarked: "Deceiving others. That is what the world calls a romance."

Dr TK Jayaraman (jayaraman.tk@usp.ac.fj) teaches at the University of the South Pacific. The views expressed are his own and do not reflect those of the USP or this newspaper.



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- Cop 15: Global Implications and Benefits for Fiji;
- Child Abduction - Fiji's International Obligations;
- Parental Consent in Medical Procedures.

Registration Forms are available upon request.

The **CLOSING DATE** for submission of registration forms and payment is on **23 October 2010**. Completed Registration Forms, together with the appropriate fees payable, must reach the Chairperson, Attorney General's Conference Committee, Office of the Attorney General, Box 2213, Government Buildings, Suva on or before that date.

Due to the limitation on places, attendees are advised to register early to avoid disappointment. Registration forms can be downloaded from www.ag.gov.fj

Legal practitioners will be eligible to apply for maximum CLE points for attending all sessions at the Conference.

For any questions and queries, please contact Ms Ann Fung or Ms Unaisi Senikarawa-Moceisuva at the Office of the Attorney General, Level 7, Suvavou House, Suva or via email ann.fung@govnet.gov.fj or unaisi.moceisuva@govnet.gov.fj, Telephone 3309866, Facsimile 3310807.



The United States blames China's undervalued yuan for damaging its economy.