

# How Did the Global Financial Crisis Misalign East Asian Currencies?\*

Eiji Ogawa<sup>1</sup>

Zhiqian Wang<sup>2</sup>

## Abstract

The global financial crisis affected exchange rates among the US dollar, the euro and the Japanese yen. Also East Asian currencies seemed to be affected by the crisis. This paper investigates how East Asian currencies are affected by the global financial crisis. We employ the methodologies of  $\beta$ -convergence and  $\sigma$ -convergence to examine misalignments or divergence of East Asian currencies in terms of the AMU Deviation Indicator adjusted by the Balassa-Samuelson effect in different sample periods. The empirical results show that East Asian currencies *did* diverge in most of the sample periods especially after late 2005. Active international capital flows such as yen carry trade also affected movements of East Asian currencies. The empirical results tell us that the global financial crisis widened exchange rate misalignments of East Asian countries. We conclude that it is necessary to establish a surveillance system within East Asian area for purposes of prevention and early detection of intra-regional exchange rate misalignments. Also, it is important to carry out policy coordination to reduce intra-regional exchange rate misalignments occurred among East Asian currencies.

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<sup>1</sup> Professor, Graduate School of Commerce and Management, Hitotsubashi University and Faculty Fellow, Research Institute of Economy, Trade and Industry. Corresponding author, address: 2-1, Naka, Kunitachi, Tokyo, 186-8601, Japan; tel: (81)42-580-8859; fax: (81)42-580-8747; e-mail: eiji.ogawa@r.hit-u.ac.jp

<sup>2</sup> Graduate Student, Graduate School of Commerce and Management, Hitotsubashi University.