

# Exchange Rate Pegs and Foreign Exchange Exposure in East Asia

*by David Parsley and Helen Popper*

## **Abstract**

This paper shows that many East Asian firms are significantly exposed to foreign exchange risk. Their exposure appears to be much more widespread than is typical for the large, western industrialized economies. The paper also shows that exchange rate pegs appear to do little to alleviate this widespread exposure against currencies other than the peg. The East Asian firms studied here are most exposed to fluctuations in the U.S. dollar, and the mark and yen are important in a few countries. The extent of their exchange rate exposure has varied, but not diminished, over the last decade. The most widespread exchange rate sensitivity (not just the most exchange rate fluctuation) occurred during the Asian Crisis period; this is evident even after accounting for the local macroeconomic conditions that affect aggregate local returns.

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