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GLOBAL ECONOMY

HK$ PEG RATE DOOMED: GURU

Financial analyst bullish on Asia despite threat of asset bubbles

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THE NATION

Hong Kong's pegged exchange rate is unlikely to survive currency speculation because of changed economic conditions, said Martin Armstrong, an international financial analyst.

"Pegged currencies never really survive because economies change constantly ... eventually it has to go," Armstrong said in an interview with *The Nation* yesterday in Bangkok.

The currency came under pressure as speculators bet that the Hong Kong Monetary Authority would be forced to abandon the currency board system that ties the unit to the US dollar.

ARMSTONG

Armstrong pointed to the past debacle surrounding the pound sterling when it was tied to the Exchange Rate Mechanism, the previous European foreign-exchange regime.

Fixed exchange rates in Thailand and other Southeast Asian nations also allowed financial crisis in 1997, he said. Thailand and others have been forced to adopt managed-float forex systems.

He also said that as capital fled Europe as a result of the sovereign debt crisis, it simply pushed the US dollar up as well as the Hong Kong dollar. If the Hong Kong dollar gets loose, he does not think it will have any major impact on the yuan or other currencies.

As large amounts of capital move into Asia, this may cause an asset bubble.

He said prices of stocks and property in some areas such as Bangkok and Singapore might become bubbles in the next four years.

However, he is upbeat about the region, believing that it will become a new global financial centre. Shanghai probably will be the key financial centre similar to what London is now.

History has shown that when capital moves, it never stays in the same city forever; for instance, it moved from Rome to Istanbul to India to China to London and then to the United States and will move back to China, he said.

It is crucial to understand the movement of capital, he said. Economic forces will be behind the rise of Asian financial power.

The Chinese policy to depend more on domestic consumer spending rather than rely largely on export is a practical one. He said the Chinese authorities had relied more on market forces while in Europe governments try to manipulate everything. "They bail out another failed bail-out," he said, and blamed politicians there for never making real reforms to rein in sovereign debts.

He said he did not expect the US economy to make a fast recovery next year partly because of political turmoil resulting from fighting between the two main parties, the Democrats and Republicans.

Small businesses will not create more jobs as they do not know what is going to happen after Tuesday's presidential election.