Weak yen shifts export power balance

ELAINE KURTENBACH - AP Business Writers - Associated Press

Japan's weak yen is turning the tables on its Asian exporting rival South Korea. For several years, South Korean manufacturers such as Hyundai and Samsung Electronics increased their market share at the expense of Japanese rivals partly because South Korea's currency, the won, was weak while the yen was rising against the dollar and other currencies.

That situation is now reversing. The yen's sudden slide has revived talk of a global currency war in which nations competitively devalue their currencies to get a trade advantage.

Here are some questions and answers about what the currency shifts mean for Japan, South Korea and other nations.

Q: Why is the yen weakening?

"Abenomics" gets the blame or the credit depending on perspective. That's the name given to economic and monetary policies pushed by Japan's new prime minister Shinzo Abe. He favors a massive expansion of the money supply to create inflation and jolt Japan out of its two decade slump. A stronger economy could strengthen the yen in the longer term. But for now, super easy monetary policy is a cue for the yen to fall. The U.S dollar has jumped to above 94 yen from about 80 yen before Abe's Dec. 16 election. The won, meanwhile, has climbed against the dollar and the yen. South Korea's higher interest rates compared with Japan and other developed nations have attracted foreign money, pushing up its currency.

Q: Who wins and loses?

South Korean exporters such as Hyundai Motor Co. have reported lower quarterly profits. The stronger won means overseas sales are worth less when sent back to South Korea. Exporters can increase their prices but at the risk of losing sales to competitors. For Japan, the weak yen is either boosting the profits of its brand-name companies or helping the sickly ones such as Sharp and Panasonic to reduce their losses.

Q: How does it affect economies?

Exports are about half of South Korea's economy so a stronger won can have a big impact. South Korea's central bank estimated in 2010 that a 10 percent gain in the won against the dollar would shave 0.4 percentage point from annual economic growth. And Hyundai Research Institute estimates that a 1 percent gain of the won against the yen reduces South Korea's exports by 0.9 percent. A weaker yen is partly behind Japan's higher growth forecasts and the stock market in Tokyo is booming because investors expect corporate earnings to swell.

Q: Is there any upside for South Korea?

A stronger won can help ease inflation by allowing foreign companies to sell products at cheaper prices in South Korea and by reducing import prices of gas, crude oil and raw materials that resource-thin South Korea uses to make products that it exports. South Korean shoppers might find some goods getting cheaper.

Q: Is there any downside for Japan?

Rising costs for imported energy could hurt many manufacturers. Companies that in previous years sought to neutralize the toll the strong yen was taking by moving production overseas or substituting foreign-made components for locally produced ones will find their costs rising. Ordinary Japanese could suffer reduced spending power because a strong yen had helped retailers to keep prices of imported goods down and restaurants have relied on low-cost imported foods to keep menus affordable.

Q: Could the weak yen spark a global currency war?

Opinions are divided. Economist Lim Hee-jung at Hyundai Research Institute says a currency war is far-fetched. Others say it could depend on how far the yen falls. "It is very difficult to say what is a real fair value for a currency. At the level of 90 yen you can argue it's just a correction and that Japan has a fair argument to make," says Masamichi Adachi of JP Morgan in Tokyo. "If it goes beyond 110 yen to the dollar and it is driven by policies it could be a problem."

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Elaine Kurtenbach reported from Tokyo.

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