hough there is no ...
nenting "the biggest macroeconomic stimulus the ...
y the end of next year. — M. Ziauddin

Move for a new internatio

By Mahmud Ahmed

HINA'S proposal to replace dollar with a new international reserve currency is gain- wide support though it is expected to happen any e soon.

he Chinese move has coincided h the recommendation of the UN nmission of Experts to substitute greenback with a currency other n a national unit.

The Chinese proposal supported by ssia, has surfaced in the thick of in- rnational battle to overcome finan- al meltdown and global economic re- ssion.

"The central idea is that the current ystem of depending on a single cur- ency and the political and economic nanagement of that currency is vola- ile. It is inequitable because the poor people are lending to the US at low in- terest rates. In a global economy, you need to have a global currency and that's what we have proposed", says the head of the UN Commission and an eminent economist Joseph Stiglitz. He adds "There is something wrong with the dollar and balance sheet of the US Fed."

According to the IMF figures, the share of euro in the fast shrinking international reserves is rising while that of the dollar is falling simultaneously. In the last quarter of 2008, the dollar's share fell to 64 per cent from 64.4 per cent while that of euro went up to 26.5 per cent from 25.6 per cent.

Covering about two-third of the world's foreign exchange reserves, the IMF data shows that these have plummeted from nearly $7.01 trillion in the second quarter of 2008 to $ 4.2 trillion in the fourth quarter. The dollar's composition has dropped to $2.69 trillion .It only indicates that an over-leveraged financial system driven by shadow banking and derivatives, much of which has fallen apart, is fast shrinking, resulting in global recession. China wants to replace the dollar with the IMF-supervised basket of currencies. When the Fund created the SDR in 1969, it was visualised as an international reserve currency to support global economic activity. But this did not happen.

The United States is opposed to the move as its national currency will lose its position as the dominant reserves currency, and it would have difficulty in financing its fiscal and current account deficits. But Joseph Stiglitz says: "no one thinks it would happen overnight"

Russia wants a more .equitable international financial system that does not create and perpetuate global economic imbalances.The defenders of the Ango-Saxon model think that the SDR will not be widely accepted as a store of value and means of exchange.

The key issue is to make a beginning because the dollar's future is bleak while the US is piling up debts and indulging in excessive money printing to finance its fiscal stimulus in total disregard of its impact on countries holding large dollar reserves.

Given the level of US fiscal and trade deficits and falling value over the medium and long- term, the dollar does not deserve to remain as the main global reserve currency. Only radical measures can help to solve the deepening economic crisis, the worst since the Great Depression.

China and Russia represent the views of the developing world and emerging markets particularly those with huge trading surplus, and dollar reserves,(now declining). In a statement at the "UN Dialogue on The World Financial and Economic Crisis", the Geneva-based South Centre, an inter-government think tank of developing countries stated that " one major source of financial instability is the currency of a single country(United States). It says an alternative international reserves system based on the SDRs needs to be established."

The volatility in the global finance system, anchored on a dollar and suffering from organic failures, has forced developing countries to keep large stocks of foreign reserves at a very high cost in a bid to manage a stable exchange rate, which is required for .sustained economic progress.

The greenback is losing its status as a reserve currency, store of value and as medium for exchange(for trade and investment financing) because of the weak fundamentals of the US economy. Over the years, the American external accounts have been financed by foreign debts and excessive printing of the dollar. Many see this situation worsening.

With the deepening economic recession and rising US protectionism exports from countries like China is plummeting, ...
from which the ...
accounts could ...
al appetite for ...
The volatility ...

onal currency

World. Eco.
Currency

ıg , reducing dollar reserves h the US trade and current ould be financed. The glob- e for US debt is drying up. ility in capital flows, exchange and interest rates which hurt economic developmentand spur speculative activities, need to be curbed. The exchange and interest rates adjustments have helped fire-fighting in the short-term but stalled long- term solutions to more important structural economic imbalances. The dollar-driven global markets are a part of the problem and no longer a solution.

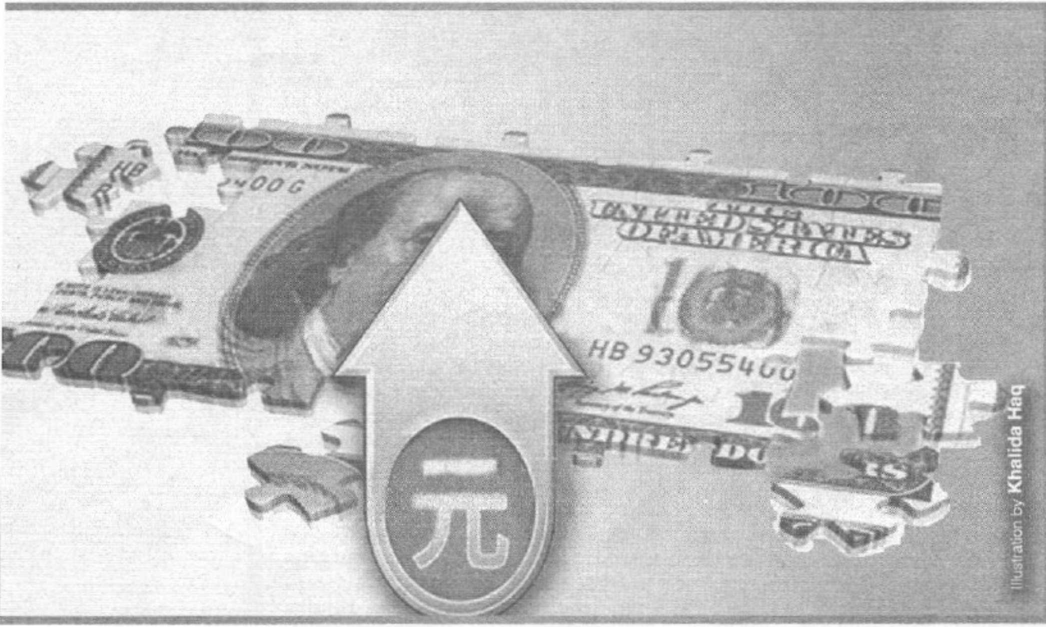

Illustration by Khalida Haq