

Handle with care

China suggests an end to the dollar era

The Economist

2009.3.26

Zhou's worries

- a radical reform of the international monetary system
- dollar be replaced as the main reserve currency by a global currency
- Zhou is worried that Fed's response to the crisis—printing loads of money—will hurt the dollar and hence China's huge foreign reserves

Two flaws

The international financial system based on a single currency creates a global imbalances

- Surpluses countries place most of their spare funds in the reserve currency, and this allowed America's borrowing binge and housing bubble to persist longer

Two flaws

- America faces a trade-off between domestic and international stability.

Massive money-printing by the Fed to support the economy makes sense from a national perspective, but it may harm the dollar's value

Zhou's suggestion

- the dollar's reserve status be transferred to the SDR (Special Drawing Rights)
- It is unlikely to get off the ground