Handle with care
China suggests an end to the dollar era

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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
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