

**THE U.S. DOLLAR vs THE EURO vs THE RENMINBI:
A CRISIS OF CONFIDENCE**

It is hardly a secret: The Government of the People's Republic of China (PRC) is gravely concerned about its \$US2 trillion, locked up in US dollar-denominated securities.

For people who have never seen such a figure before, \$US2 trillion looks like this: \$US2,000,000,000,000,000,000 in the United Kingdom; and, \$US2,000,000,000,000 in the United States of America and most of North America.

It is a lot of money, probably sufficient, in fact, to purchase New Zealand, if not Australia and New Zealand combined.

The PRC Government has valid reasons for its concerns about the safety of its hope chest, locked in US-dollar denominated securities.

The US Government has, repeatedly, stated that the PRC Government's investments in US Treasuries and other US securities are as good as gold.

TARGET () would take issue with these statements.

The more that the US Government makes such statements, the more that one has to ponder the reason for the constant repetitions of the chorus of the same old song.

The facts of this matter are simple to understand: The US Government is scared out of its wits should the friendly relations between the PRC and the US get strained, resulting in the PRC Government, starting to liquidate some or all of its positions in US, dollar-denominated securities.

Still on the subject of US dollar-denominated securities, what is often conveniently forgotten, also, is that Japan holds about \$US1-trillion worth of US-dollar denominated securities.

The Government of Japan, as with the Government of the PRC, cannot be too happy with its lot, too.

But what is the alternative to the US dollar as the world's major reserve currency?

There have been many suggestions, from having a basket of the world's currencies, formerly known as '*the snake*' (when first promulgated, some decades ago), but now, popularly known as Special Drawing Rights, as replacement for the US dollar, each international currency in '*the snake*' to have been assigned agreed fixed weights, to employing the euro to replace the US dollar's role, to consideration that the renminbi could act as the currency of choice for international transactions.

The US Government will aggressively act to keep the US dollar as the reserve currency of the world, both for economic and for political reasons.

Today, the US dollar ranks as the world's premier international reserve currency: The US Government wants to maintain the US dollar's dominance as well as its international prestige.

More than 60 percent of global, foreign-exchange reserves are held in US dollars, as well as more than half of global private wealth; more than 66 percent of world trade is invoiced in US dollars.

The implications of the US dollar, falling off its international tree, are horrendous and mind-boggling.

It would be unthinkable, at this stage in the history of the PRC, for the renminbi to take the place of the US dollar because, inter alia, the renminbi is not an international, convertible currency and, as such, it is hardly appropriate for it to become the currency, used in the international exchange of goods and services.

In any event, as has become only too obvious, over the past few decades, that the Government of the PRC is determined to maintain capital controls in place in the Middle Kingdom, thus governing the exchange rate of the renminbi vis-à-vis other currencies.

This, alone, will constrain the international use of the renminbi.

The time for the currency of the PRC to evolve and to take its place on a similar plateau to the US dollar is not yet appropriate.

It is not yet time.

But its day may well come, after all, the PRC is the second-largest economy of the world, today, having replaced the Japanese economy as far back as December 2008.

The essence of an international currency as the world's choice as a reserve currency embodies such major facets as

1. Stability
2. Efficiency
3. International trust
4. Liquidity
5. Low transaction costs
6. Transparency
7. Predictability

Such a medium of international exchange must engender reliability in respect of the unit's accountability.

It must be an efficient transaction medium and, most important, a stable store of value.

For a basket of select international currencies – Special Drawing Rights, if you will – to replace the US dollar is technically extremely complicated and it is unlikely, ever, to get off the drawing board.

This leaves only the euro as a potential replacement for the US dollar as the preferred medium of exchange for international transactions.

The Middle East, especially the oil-rich countries, mostly members of The **Organisation of Petroleum Exporting Countries (OPEC)**, are not at all happy when they see the US dollar's exchange rate rise and fall in the manner of a proverbial international yo-yo.

Some OPEC members are refusing to accept US dollars in exchange of oil and are demanding euros, instead.

For those OPEC countries that stubbornly stay faithful to the US dollar, they have suffered high inflation; this has caused the market value of their real estate to rise to unimaginable heights.

The economies of these countries are in for a rude awakening as soon as the inflationary bubble bursts.

As the US dollar rises and falls, it tends, insidiously, to affect the economies of most countries of the world.

This has become a sore point for economists who note that such currency instability is a major cause of inflation in many countries, especially those that have pegged their currency the US dollar.

And so, what to do?

The euro appears to be the best choice as an alternative for the US dollar as the world's new reserve currency.

But such a determination is fraught with political landmines not to mention economic turmoil in the short term.

With eurozone in recession and unlikely to recover for the next year or so, it seems unlikely that serious consideration can be given to having the euro replace the US dollar as the preferred international medium of exchange.

The present situation, however, cannot go on forever in the same way that the US Government cannot just continue to print more and more dollar bills in order to keep the wheels of its industry churning, flooding the markets of the world with Yankee paper until, eventually, its value is seriously eroded ... along with the US dollar's credibility.

In short, at this stage of the game, there appears to be no solution to the current problems – which is a horrible situation for everybody.

The status quo must remain as far as the US dollar is concerned — like it or lump it.

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