

THE MIGHTY GREENBACK WILL STAY MIGHTY

There was a time, not that very long ago, when many people, throughout the world, considered the euro as being the biggest competitor to the US dollar as the preeminent medium of exchange, internationally.

Such a dream has, now, been relegated to history because the euro, which is the official, common currency and sole legal tender of the 17-nation eurozone, has fallen from grace due to a number of difficulties, the financial failures of Greece, Spain and Portugal, being the most-publicized problem nations of this cozy club over the past few years.

Today, it appears that the only likely medium of exchange to be able to challenge the dominance of the US dollar as the world's reserve currency is the renminbi, the official currency of the People's Republic of China (PRC).

But such an eventuality is a long way down the road, at least 10 years, hence, in the opinion of **TARGET** ().

For today's world, the US dollar has the pole position, in the vernacular of the racetrack, all to itself. Here are some of the most-important reasons for this medium, making such a statement.

The Important Required Attributes

The US dollar is considered by most countries as being the most-desirable medium of exchange for international settlement. A number of currencies of the world – including the Hongkong dollar – are pegged to the US dollar at a fixed rate of exchange.

Somewhere in the neighborhood of 60 percent of official, foreign-exchange reserves are denominated in US dollars.

About 50 percent of international transactions are invoiced in US dollars. Investors opt, where possible, to have the American greenback as the medium of exchange for private use.

With the shrinking of the economy of Japan, the yen has fallen from grace and it is unlikely to recover for some time to come.

As for Great Britain, the pound sterling has gone the way of the economy: Down.

There are three widely acceptable attributes that determine international demand for a specific currency, causing it to be labelled as the world's reserve currency.

(A '*reserve currency*' is defined as a currency, held by a country as part of its reserves, allowing it to make international payments. In days of yore, the gold exchange standard was used, but, in today's world, it no longer holds much, or any, sway.)

The first attribute for the high demand for a specific medium of exchange is, of course, widespread confidence in the future ability of that currency to be exchanged for any currency or for goods and/or services.

The political stability of a country is of paramount importance for high demand for its currency to be maintained over time.

The next attribute that has been widely identified is '*convenience*'.

If a currency is not easily convertible into another currency, then, it is deemed as being '*inconvenience*' and, as such, it is highly unlikely to be in high demand: There has to be reasonable liquidity in a currency before it can achieve the status that international businesses require in the event that that medium of exchange is likely to be held over an extended period of time.

Along with convenience goes an acceptable degree of certainty that the market value of the currency will remain stable if it cannot appreciate vis-à-vis the currency of the origin of the purchaser.

The final attribute is that the currency must be able to have access to extensive transactional networks. In short, there must be currency convertibility.

Which Currencies Qualify?

Confidence in a currency requires, inter alia, not only political stability, but, also, a government's determination to keep the lid on inflation.

One has noted that, in the eurozone, there have been many questions that have been raised in respect of political stability, especially in Greece, the economy of which is in shambles with, periodically, that government, passing round begging bowls to the European Central Bank and the International Monetary Fund in order to save the country from defaulting on its obligations to international lenders.

Italy, one of the largest economies of the eurozone, is another problem area. Spain is yet another.

In international terms, Italy is the eighth-largest economy of the world and the fourth-largest economy in Europe. As for Spain, it is the twelfth-largest economy of the world and the fourth-largest economy of eurozone.

The PRC, with its spectacular rise to international prominence since the early 1980s, its economy, spurring passed that of Japan's, causing it to take the Number Two Slot in the world, has political stability to be sure, but questions are constantly being raised as to the ability of the politburo to maintain its present firm hold as it has done so over the past 63 years.

What is the probability of this communist state, being able to continue to satisfy, to an even greater extent, the demands of the 1.30 billion human population?

Since the early 1950s, the PRC has stabilized inflation by government intervention in select domestic markets, using the tried-and-true measures of force of arms when all else failed, claiming that, for the benefit of all, such measures were required.

One aspect of the PRC is the present lack of a free, well-developed capital market. This is, as **TARGET** has stated, the second-required attribute that this medium has labelled as '*convenience*'.

It is likely to take the PRC one decade or more to accept the concept of non-interference in a capital market (when it is ready for the establishment of such a market, that is) if the renminbi is to qualify as a contender to the present position that the US dollar holds, internationally.

Sooner or later, however, the PRC will emerge from its cocoon, overtaking the US as the largest, single economy of the world, and, then

With the euro not even in the running to attempt to topple the US dollar from its international perch, the only question is:

How long can the US dollar maintain its supremacy as the world's most sought-after currency?

The US dollar is used in many capitals of the world, especially where international transactions require a currency in which there is widespread confidence, where the currency, vis-à-vis most other mediums of exchange, is stable, and where the convenience factor is prevalent.

Conclusion

The US dollar is quite likely to remain as the world's strongest currency for the next decade, at least.

The PRC's renminbi will, always, be nipping at the heels of the American greenback, but, at this time, it may be too early to try to forecast what will happen by 2023.

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