



The struggle for reserve dominance

As the world economic depression seemingly abates, many nations are starting a promotional war in a bid to win the right to provide global currency reserves in their own tender

» IN THE LATEST ADVERTISEMENT OF CHINA'S CURRENCY AMBITIONS, an official suggested recently that the yuan could make up more than three percent of global foreign exchange reserves by 2020.

The yuan is not convertible for purely financial purposes, ruling it out as a reserve currency for now, but the nation has started to carve out a bigger international role for its money. A pilot scheme will start soon in Hong Kong to use the yuan to settle trade with selected companies in the southern Guangdong province; China has signed yuan swap deals totaling roughly 650bn yuan (\$95bn) since

the end of last year with six central banks; and at the end of the last quarter two foreign banks said they had won permission to float yuan bonds in Hong Kong. Zhang Guangping, vice-head of the Shanghai branch of the China Banking Regulatory Commission, acknowledged that a series of conditions would have to be met for the yuan internationalisation trend to gather momentum. China would have to gradually make the yuan convertible on the capital account; it needed a more liquid foreign exchange market; its bond markets and banking system needed to be more developed; and there had to be proper monitoring of cross-border capital flows, Zhang told a foreign exchange conference. But, hypothetically, he said there was no reason why the yuan could not account for over three percent of global reserves by 2020, the target date for Shanghai to have evolved into an international financial centre.

Stepping up

That would mean the yuan displacing the Japanese yen as the fourth-largest currency in reserve portfolios, behind the



pound, the euro and the dollar. Zhang told reporters later his target was plausible, given the rapid growth of China's economy and outbound investment and its big share of world trade.

In late March, central bank governor Zhou Xiaochuan signalled China's intention to play a greater role on the global currency stage by proposing that the dollar be eventually replaced as the dominant reserve currency by a beefed-up version of the Special Drawing Right, the IMF's unit of account.

Remember the rouble

Equally as ambitious, but nonetheless as reasonable, Russia has stated that it wants the Group of Eight leading industrial nations to agree to make the rouble a reserve currency and create a new global reserve currency, President Medvedev has announced. He said Russia wanted to set up a fairer world financial architecture to take account of the changes in the global economy and the international financial system since the 1944 Bretton Woods agreement which set up the IMF.

"We are not talking about completely tearing up the Bretton Woods agreements and creating something new in one day but we should think about how the international financial system could be made fairer," Medvedev told a news conference after meeting Italian Prime Minister Silvio Berlusconi earlier in the year. The Russian leader said the current world financial system was built on only one currency, the US dollar and restated the aims Moscow first put forward at the London G20 conference on the global financial crisis in April.

"We should strengthen the system and create a (global) reserve currency and we are not giving up on the aim of giving the rouble the status of a reserve currency," Medvedev added.

Equally, Russia wanted to see agreement on the creation of a supra-national new reserve currency because "we ought to come out of the global financial crisis as winners", he said. Berlusconi said he believed the worst of the global financial crisis was now over.

"I am sure we have overcome the worst moment of the crisis and we will see an improvement in the near future," he told a news conference, speaking through an interpreter.

Moscow and Washington have vowed to "reset" their troubled bilateral relationship, which has been dogged by

rows over anti-missile systems, the US war in Iraq, NATO expansion and policy towards Iran.

"After the change of administration [in Washington], something changed," Medvedev said. "We felt a change in the tone of the dialogue. The most important thing... is the desire and the opportunity to listen to each other's arguments and not just give out recipes [on what to do]".

Medvedev said he would discuss NATO exercises now underway in neighbouring Georgia with Obama. Russia has heavily criticised the war games in its former Soviet satellite and Medvedev again attacked them earlier in the year.

"We cannot but be worried by the NATO exercises in Georgia," he told reporters. "They create tension... I think they add nothing to European security".

Moscow and Rome have close relations and Medvedev thanked Berlusconi for Italy's support of Russia after its brief war with Georgia last August over the rebel region of South Ossetia. Berlusconi joined Russian Prime Minister Vladimir Putin to witness the signing of a series of commitments to a flagship Kremlin gas pipeline project in southeastern Europe. Medvedev praised the agreements with Italy, Bulgaria, Serbia and Greece on the South Stream gas pipeline, which is competing with a rival EU-backed scheme. ■

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WORLD FINANCE FOREIGN EXCHANGE AWARDS, 2009

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Best Broker, Mexico

BASE International

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