

Wary of dollar, China wants super-sovereign currency

By [Global Research](#)

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Region: [Asia](#)

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** China's central bank calls for super-sovereign currency*

** Dollar's dominance has intensified risk, worsened crisis*

** IMF should manage part of its members' FX reserves*

China's central bank renewed its call on Friday for the creation of a super-sovereign reserve currency to reduce the dollar's global domination, which it said had worsened the financial crisis.

In its annual financial stability report, the central bank did not mention the dollar by name but said it was a serious defect that one currency should tower over all others.

"An international monetary system dominated by a single sovereign currency has intensified the concentration of risk and the spread of the crisis," the People's Bank of China said.

In thinly-veiled criticism of loose U.S. monetary and fiscal policies, the PBOC urged the International Monetary Fund to exercise closer supervision of the economic and financial policies of major reserve-issuing countries.

The 170-page report dusted off a call by the bank's governor, Zhou Xiaochuan, for the creation of a super-sovereign currency.

In an essay in late March, Zhou caused a stir by suggesting that the Special Drawing Right, the IMF's unit of account, could eventually displace the dollar as the principal reserve currency. [ID:nPEK184558]

Friday's report not only advocated a full role for the SDR but said the IMF should be entrusted with managing a portion of its member countries' foreign currency reserves.

"To avoid intrinsic shortcomings in using a sovereign currency as a reserve currency, we need to create an international reserve currency that is divorced from sovereign states and can maintain a stable value over the long term," the report said.

DOLLAR DILEMMA

Chinese officials have expressed growing concern in recent months that massive U.S. fiscal and monetary stimulus will generate inflation and drive down the dollar, handing Beijing big

losses on its vast portfolio of U.S. bonds.

Bankers say China holds perhaps 70 percent of its \$1.95 trillion in official currency reserves in dollars.

“When a national currency becomes the global price-setting currency for primary products, the trade settlement currency and the reserve currency, that national currency has great difficulty attending to both domestic monetary policy goals and the reserve currency needs of various countries.

“And the economic development model of debt-based consumption is most difficult to sustain,” the report said.

The PBOC also levelled criticism at international banking rules, drawn up by the Basel Committee on Banking Supervision, which it said had paid inadequate attention to the risks inherent in complex credit securities.

Oversight of derivatives had also been lax, the report said.

Turning to the domestic economy, the PBOC said the slump in global trade caused by the international financial crisis would spawn risks for China’s banks as exporters ran into difficulties.

By weighing on incomes, the crisis might also slow China’s drive to develop a consumption-led economy, the PBOC said.

The central bank also said China could face inflationary pressure in the medium- to long-term as a result of liquidity now being pumped into the global financial system, coupled with extensive deficit spending by many governments. (Reporting by Zhou Xin, Aileen Wang and Chris Buckley; Writing by Alan Wheatley; editing by Patrick Graham)

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