

China ‘Super Currency’ Call Shows Dollar Concern (Update1)

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By Li Yanping

March 25 (Bloomberg) -- China’s call for a new international reserve currency may signal its concern at the dollar’s weakness and ambitions for a leadership role at next week’s Group of 20 summit, economists said.

Central bank Governor [Zhou Xiaochuan](#) this week [urged](#) the International Monetary Fund to create a “super-sovereign reserve currency.” The dollar weakened after the Federal Reserve said it would buy Treasuries and the U.S. government outlined plans to buy illiquid bank assets

“China is concerned about the potential for a slide in the dollar as the U.S. attempts to stimulate its economy,” said [Mark Williams](#), a London-based economist at Capital Economics Ltd. The “rare” sight of a Chinese official attempting to reframe an international debate may be “a sign of China becoming more engaged,” he said.

Zhou’s comments may also signal ambitions for the yuan to play a bigger global role. The central bank this week signed a currency swap with Indonesia, adding to agreements since December with South Korea, Hong Kong, Malaysia and Belarus. It’s also preparing for trade settlement in the Chinese currency with Hong Kong, Macau and the Association of Southeast Asian Nations.

“There is concern and even frustration among top policymakers in Beijing about China’s high exposure to U.S. dollar-denominated financial assets,” said [Brian Jackson](#), senior strategist at Royal Bank of Canada in Hong Kong.

Yuan forwards rose the most in three months with traders betting on appreciation for the first time since September on speculation that the U.S. policies will weaken the dollar. The 12-month forward rate gained 0.9 percent.

Support for Dollar

U.S. policy makers testifying before lawmakers in Washington today affirmed their support for the dollar.

Treasury Secretary [Timothy Geithner](#), asked at a House Financial Services Committee hearing whether he rejected moving toward a global currency, replied, “I would, yes.”

“I would also,” said Federal Reserve Chairman [Ben S. Bernanke](#). The question was asked by Representative [Michele Bachmann](#), a Minnesota Republican.

Premier [Wen Jiabao](#) called on March 13 for the U.S. “to guarantee the safety of China’s assets.” China’s Treasury holdings climbed 46 percent in 2008 and now stand at about \$740 billion, according to U.S. government data. The nation is the [biggest holder](#) of U.S. debt.

Raising Yuan’s Status

China is promoting use of the yuan to smooth currency volatility and to serve “a long-standing interest” to raise its status to that of a global reserve currency, said [Ben Simpfendorfer](#), an economist at Royal Bank of Scotland Group Plc in Hong Kong. Such moves are not “a knee-jerk response” to the economic crisis, he said.

“If turning the Chinese yuan into a global reserve currency sounds ambitious, then encouraging its adoption as a regional reserve currency is more straightforward,” said Simpfendorfer.

G-20 leaders will gather in London on April 2 to forge a common response to the financial crisis that has spawned a global recession. The summit will discuss proposals for reforms of the International Monetary Fund.

Flexing ‘Some Muscle’

The timing of Zhou’s proposal is “the latest example of China’s policy of neo-assertiveness in world affairs,” said [Glenn Maguire](#), chief Asia economist at Societe Generale SA in Hong Kong. “China is starting to flex some muscle and generally steer the debate in China’s own direction.”

Zhou’s article highlighted the “dilemma” that countries issuing reserve currencies face in balancing their own monetary- policy goals with other nations’ demand for their money.

The global crisis raised the question of which reserve currency would secure “global financial stability and facilitate world economic growth,” Zhou said. He proposed expanding the use of the IMF’s Special Drawing Rights, which are currency units valued against a composite of currencies.

“The basket of currencies forming the basis for SDR valuation should be expanded to include currencies of all major economies, and gross domestic product may also be included as a weighting,” said Zhou.

Some economists back his case.

“The world economic landscape has been changed since the establishment of the SDR 40 years ago,” said [Ha Jiming](#), chief economist at China International Capital Corp. in Hong Kong. “Specifically, no such reserve currency would make sense without the yuan being included.”

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