

# China Urges New Money Reserve to Replace Dollar



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**By David Barboza**

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In another indication that China is growing increasingly concerned about holding huge dollar reserves, the head of its central bank has called for the eventual creation of a new international currency reserve to replace the dollar.

In a paper released Monday, Zhou Xiaochuan, governor of the People's Bank of China, said a new currency reserve system controlled by the International Monetary Fund could prove more stable and economically viable. A new system is necessary, he said, because the global economic crisis has revealed the "inherent vulnerabilities and systemic risks in the existing international monetary system." While few analysts believe that the dollar will be replaced as the world's dominant foreign exchange reserve anytime soon, the proposal suggests that China is preparing to assume a more influential role in the world. Russia recently made a similar proposal.

China's bold idea, released more than a week before world leaders are to gather in London for an economic summit meeting, also indicates that Beijing is worried that its huge dollar-denominated foreign reserves could lose significant value in coming years. China has the world's largest foreign exchange reserves, valued at nearly \$2 trillion, with more than half of those holdings estimated to be made up of United States Treasuries and other dollar-denominated bonds. On March 13, China's prime minister, Wen Jiabao, said he was concerned about the safety of those assets, particularly because huge economic stimulus plans could lead to soaring deficits in the United States, which could sink the dollar's value. Should China lose its appetite for Treasuries, the United States' borrowing costs could rise, making it more costly for Washington to carry out economic stimulus packages and for Americans to pay off their mortgages.

Nicholas Lardy, an economist and China specialist at the Peterson Institute in Washington, said that through its proposal, China was indicating that the dollar's long dominance was unfair, allowing the United States to run huge deficits by borrowing from abroad, and that the risks to holders of Treasuries were growing. "Chinese are quite concerned that the large U.S. government deficits will eventually lead to inflation, which will erode the purchasing power of the dollar-denominated financial assets which they hold," Mr. Lardy said. "It is a legitimate concern." The timing of the Chinese announcement, analysts said, could also be aimed at giving Beijing more leverage to negotiate with the United States and other nations in London on trade and on proposals about how to stabilize the global economy.

But China is cautious when it discusses buying or selling Treasuries, for fear of sending a signal that could significantly affect currency markets. So in a separate announcement on Monday, China said it would continue to buy Treasuries, something the United States has encouraged. In Mr. Zhou's essay, published in English and Chinese on the central bank's Web site, he said the international community should consider expanding the International Monetary Fund's Special Drawing Rights.

Such a proposal has been suggested before by developing countries. But the United States has always been wary that this could be inflationary and affect the central role of the dollar. Special Drawing Rights are based on the value of the dollar, euro, pound and yen, but have been little used except as an accounting entry by international organizations. Mr. Zhou said the goal of reforming the international monetary system was to "create an international reserve currency that is disconnected from individual nations and is able to remain stable in the long run."

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