Letter

Letter: Worries over loss of dollar dominance are overdone

From Neil Shearing, Group Chief Economist, Capital Economics, London SW1, UK

YESTERDAY

Zoltan Pozsar's argument that a great power conflict between the US and China will threaten the dollar's position as the dominant international reserve currency is flawed on several counts ("Great power conflict puts the dollar's exorbitant privilege under threat", Opinion, January 20).

While Pozsar is right to argue that the global economy is fracturing into rival US and China blocs, it is not splitting down the middle. The economic heft of the countries that align with the US is far greater than those that align with China.

The bilateral trade flows between China, Russia and the Gulf countries that Pozsar suggests will eventually lead to the de-dollarisation of global trade account for only 2 per cent of world goods and services trade, according to Capital Economics' analysis of figures from the IMF.

Most trade still happens between US-aligned countries, and will continue to be denominated in US dollars. Furthermore, China's high domestic savings rate — and corresponding current account surplus — will work against the internationalisation of the renminbi on a scale sufficient to challenge the dollar.

Finally, for a currency to be widely used as an international medium of exchange, it must function as a store of value. The dollar is not the only currency that could perform this role, but any alternative would need to share similar attributes: it would have to be backed by strong and stable institutions, and issued by a central bank that operated an open capital account. The renminbi does not fit this bill.

Beijing will continue to push its allies to trade in renminbi — and its share in global transactions may continue to creep up from a low base — but this is unlikely to result in any meaningful threat to the dollar's position as the world's reserve currency.

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