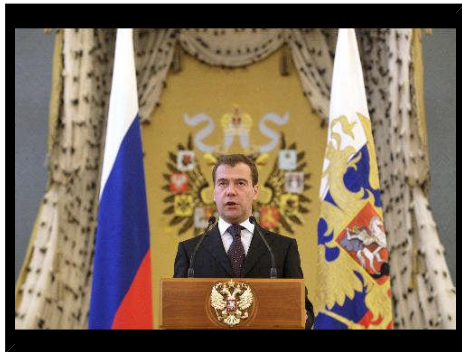





Russia, India Question Dollar Reliance Before Summit (Update2)

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By Mark Deen and Simon Kennedy



July 6 (Bloomberg) -- Russia and India said the world economy is too reliant on the U.S. dollar and called for changes in how \$6.5 trillion in currency reserves are managed, as Group of Eight leaders prepare to meet this week.

"The dollar system or the system based on the dollar and euro have shown that they are flawed," Russian President **Dmitry Medvedev** said in an interview with Corriere della Sera, repeating his proposal for a new international reserve currency.

Suresh Tendulkar, an economic adviser to Indian Prime Minister **Manmohan Singh**, said in a July 3 interview that he is

urging his nation to diversify its foreign holdings away from the dollar.

The challenge to the dollar, a linchpin of world finance and trade since 1945, underlines the shift in relative economic power toward emerging markets and away from the developed nations that spawned the global crisis.

French Finance Minister **Christine Lagarde**, speaking yesterday at a conference in Aix en Provence, France, said that "we must explore better coordination of exchange-rate policy."

Questions need to be asked about "the balance of currencies and the role of currencies in a world that has changed because of the crisis and the growing role of emerging countries," she told reporters.

Bank of France Governor **Christian Noyer** said at the same conference, "We really need to make sure there is a greater stability between the big currencies in the period to come."

Dollar Share Grows

"People know that it won't happen overnight, but the dollar will take the brunt of growing calls by such developing countries as China and Russia for a review of the single reserve currency system," said **Akira Takeuchi**, a Tokyo-based currency dealer at Chuo Mitsui Trust & Banking Co., a unit of Japan's seventh-largest banking group.

The dollar traded at \$1.3974 per euro as of 10:12 a.m. in Tokyo from \$1.3980 in New York on July 3. The U.S. currency declined to 95.72 yen from 96.04 yen. The euro fell to 133.75 yen from 134.26 yen.

For all the concerns about the dollar's role, emerging markets such as China and India remain dependent on the currency. The International Monetary Fund said June 30 the share of dollars in allocated global foreign-exchange reserves increased to 65 percent, or \$2.6 trillion, in the first three months of this year, the highest since 2007.

'Years to Come'

The creation of a supranational reserve currency has been discussed in academic circles and isn't the Chinese government's position, Deputy Foreign Minister **He Yafei** told reporters in Rome yesterday.

China expects the U.S. dollar to maintain its role for "many years to come," He said.

While Medvedev said he sees "no alternative" to the dollar or euro now, he repeated his proposal that "regional reserve currencies" be developed and again questioned the wisdom of relying on the dollar.

"In the long term, we must also think about a single unit of payment such as the International Monetary Fund's Special Drawing Rights," a unit of an account linked to a basket of currencies, he told the Italian newspaper. "We cannot be hostages to the economic situation of a single country, as is happening today with the United States."

Russia has support. India's Tendulkar said he is advising Singh to diversify India's \$264.6 billion in foreign-exchange reserves and hold fewer dollars.

'Prisoner's Dilemma'

"The major part of Indian reserves are in dollars -- that is something that's a problem for us," he said in Aix en Provence. He said big dollar holders face a "prisoner's dilemma," a reference to a problem in game theory in which a rational choice for an individual has negative consequences for a group.

The **People's Bank** of China, that country's central bank, said June 26 that the IMF should manage more of its members' reserves. China said July 2 that it will allow companies to use the yuan to settle cross-border trade and let them keep their entitlement to export tax rebates, seeking to reduce the reliance of importers and exporters on the U.S. dollar.

The dollar's role as a safe haven was highlighted last week when the currency advanced 0.5 percent against the euro, to \$1.3894, on speculation the global economic recovery is faltering.

Emerging Countries

"Some emerging countries have decided to deal more in their respective currencies and trust each other," Lagarde said in an interview yesterday. "That doesn't stop other countries from seeing the dollar, and to a lesser extent the euro, as currencies of trading if not reserve currencies."

Lagarde said that any discussion of currencies needs to encompass the dollar, the euro, the yuan and the yen and that the meetings of the Group of 20 are the right forum.

"The appropriate platform is the one in which all the major currencies are represented," she said.

Asked in Aix en Provence about currencies, European Central Bank President **Jean-Claude Trichet** said it is "extremely important" that U.S. officials remain committed to their policy of supporting a strong dollar.

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Last Updated: July 6, 2009 03:35 EDT

