

China calls for reform of global monetary system



Apr 26 04:26 PM US/Eastern

China called Sunday for reform of the global currency system, dominated by the dollar, which it said is the root cause of the global financial crisis.

"We should attach great importance to reform of the international monetary system," Chinese Vice Finance Minister Li Yong told the spring IMF/World Bank Development Committee meeting in Washington.

A "flawed international monetary system is the institutional root cause of the crisis and a major defect in the current international economic governance structure," Li said, according to a statement.

"Accordingly, we should improve the regulatory mechanism for reserve currency issuance, maintain the relative stability of exchange rates of major reserve currencies and promote a diverse and sound international currency system."

As the world's main reserve currency, US dollars account for most governments' foreign exchange reserves and are used to set international market prices for oil, gold and other currencies.

As the issuer of the key reserve currency, the United States also pays less for products and can borrow more easily.

Li did not name the dollar but in late March the People's Bank of China Governor Zhou Xiaochuan said he wanted to replace the US unit which has served as the world's reserve currency since World War II.

"The outbreak of the crisis and its spillover to the entire world reflected the inherent vulnerabilities and systemic risks in the existing international monetary system," Zhou said, suggesting the International Monetary Fund could play a greater role.

Zhou's remarks sparked uproar and concern since China has the world's largest forex reserves at 1.9 trillion dollars. China became the world's top holder of US Treasury bonds last September, and currently holds around 800 billion dollars, according to official US data.

Beijing has voiced increasing concern over its massive exposure to the US dollar as the global crisis has steadily deepened but after some tense exchanges, the issue appears to have eased in recent weeks.

The role of the dollar gets caught up in Washington's own complaints that China unfairly keeps the value of its own currency undervalued so as to promote its exports.

The resulting massive US trade deficit with China is one of the main global imbalances which the US government says has to be removed to set the world economy back on a more sustainable growth track.

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