

A New Currency of Chindia and Latin America?

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ChindiaBiz



-Prashant Das
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Long before the economic crisis spread its terror claws over the world (which has led to a sudden surge in talks about a new currency); experts in international business had started envisioning the possibilities of new currencies. The happening of Euro proved that such ideas are feasible. Later, some experts felt that even China and India could consider coming up with their own currency.

The current public sentiments do not seem support the notion. The ICA Institute recently conducted an opinion poll among its newsletter subscribers soliciting their opinion on whether China and India will create a common currency of their own. Most respondents did not see a possibility. In fact, a majority of them out rightly rejected the idea.

Dr. Jagdish Sheth, an authority on this subject (and the founder of India China America Institute) was among the earliest thought-leaders to envision the possibility of a new currency coming from these emerging economies. His prediction for a new currency is supported by reasoning: “The BRIC Nations and other emerging markets want their resource assets (industrial raw materials, oil, gas) de-linked from the dollar economy since they fluctuate by the monetary and fiscal policies of the U.S. and its trade balances,” he says.



The reason we conducted the poll qualifies to be discussed in the light of a series of recent financial developments. During latter months of 2008, talks were ripe among the BRIC nations about a new gold-backed global currency. Days before the G-20 London Summit (March 2009)

Zhou Xiaochuan, the Chief of Chinese Central Bank came up with his historic proposal for a “new” world reserve currency. In June, right before the historic BRIC Summit (Moscow) Russians, the hosts followed the suite by announcing that the idea of a “supra-national currency” could be on their agenda. The Russian proposal was to create a new global currency issued by an international financial institution. A few months later, in July, the Brazilian President Lula proposed the replacement of Dollar by another currency among BRIC nations. Earlier this month (Sep 2009), UNCTAD, an UN entity became the first multinational agency to come up with the idea of replacing Dollar as the world’s reserve currency. More recently, news agencies reported that UN is backing the plan to create a new global currency.

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To dig deeper, we interviewed with experts in International Business at J Mack Robinson College of Business at Georgia State University-Atlanta. The panelists were Professors David Bruce and Pedro Carrillo (founders of the US-Latin America Trade Program at IIB-GSU). The discussion led to some interesting insights.



David Bruce

Pedro Carrillo

“I do not doubt that the (common) currency will happen sometime in future... but it has challenges and it will be an expensive idea”, says Pedro. He also points out at a larger emerging world: “The list of emerging economies is large; and includes more nations than just BRICS: South Korea, Vietnam, Turkey, Ireland...”

Certainly, Imagining a new world where all the new economies will collaborate may sound fascinating to the policy-makers of the emerging world. However, this calls for a comparable interest in each other from all the parties. That clearly does not seem to be the case; as Pedro points out, “Compared to India, Chinese have been smarter and more open when it comes to foreign policies and Free trade agreements with Latin American nations; more Latin American nations are signing up with China”.

David’s opinions are not much different: “The idea that China and India (and, maybe, Brazil) shall come up with their own common currency cannot be out rightly rejected. It is possible; but not in very near future”. He describes the pros and cons of a new currency that we list below:

Upsides of countries creating a common currency:

- A big surge will happen in the flow of exports and imports between those countries because they will have eliminated exchange-rate risk and

will have reduced the transaction costs.

- Several issues related to international business and trade could be mitigated for some countries. For example, if China created a currency that would become a major hard currency and/or a reserve currency, then when Brazil trades with China it will only have to worry about the exchange rates risk between the new currency and its own currency rather than going from Brazilian Real to US Dollars to Chinese Renminbi. This would also reduce transaction costs (e.g., bank fees).



Downsides

- Nations who have a good deal of trade outside a common currency bloc would not be able to use exchange rates as a cushion to external shocks.
- It will also affect the internal economic system of the nations. To have a common currency, countries will not be free to print money without the agreement of the other countries in the bloc. This restricts actions to foster liquidity when needed. Fiscal policy also needs to be mutually agreed upon. In those circumstances, smaller nations would probably have less influence on common policy (money supply, interest rates, spending, deficits, and taxation) than will the larger countries in the bloc.

“Will third party nations value the new currency and will they want to keep this new currency in their foreign reserves are some pertinent questions that would come in the way of a new currency,” he continues, “The benefits of a new currency will initially be

related to trade between the members of that currency bloc”.

Quoting David would sum this discussion up, “the future landscape of world economy is unclear. We do know that the Euro has become important but it is a long way from replacing the Dollar as the world’s reserve currency. Thus, a new currency could offer advantages to the nations that develop it but it will be a long time before such a currency becomes central to international commerce”.

About the Author	About ICA Institute
 <p>Prashant volunteers as the Co-Editor of ICA Institute Newsletter. He is a Doctoral Researcher in Business Administration with the Real Estate Department of J Mack Robinson College of Business, Georgia State University Atlanta.</p> <p>He has authored book chapters and papers for reputed publications and forums on wide ranging topics including International Real Estate/International Business (emerging markets), Strategy, Environment, Architecture and IT.</p> <p>Email: prashant.pkd@gmail.com Website: www.prashant-das.com</p>	 <p>The ICA Institute is a non-profit research institute working to foster research and dissemination of knowledge on the rise of China and India and their impact on global markets, global resources and geopolitics of the world. The ICA Institute's mission is to generate new perspectives on the role of market and resource driven economic development. ICA Institute fosters interaction and dialogue between academic scholars, industry leaders and policy makers on the impact of emerging economies in general and China and India in particular. Specifically, ICA Institute is positioned to be a catalyst between faculty and students in International Business and industry leaders and managers.</p> <p>Email: info@icainstitute.org Website: www.icainstitute.org</p> <p>Address: India China America Institute 1549 Clairmont Road, Suite 203 Decatur (Atlanta), GA 30033 USA</p>