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BOOK REVIEW

Tales from a Post-Dollar World. How America's Growing Deficit and a Euro-Renminbi Axis Could Accelerate the Demise of the Greenback

How global currencies work : past, present, and future / Barry Eichengreen, Arnaud Mehl, Livia Chitu. - Princeton: Princeton University Press, 2017. - ISBN 978-0-691-17700-7

Gaining currency : the rise of the renminbi / Eswar S. Prasad. - Oxford: Oxford University Press, 2017. - xviii, 321 p. : ill. - ISBN 978-0-19-063105-5

The Mandibles : a family, 2029-2047 / Lionel Shriver. - London: Borough Press; New York : HarperCollins, 2016. - 402 p. - ISBN 978-0-06-232824-3

The Euro, the dollar and the global financial crisis : currency challenges seen from emerging markets / Miguel Otero-Iglesias. - Abingdon; New York: Routledge, 2014. - xviii, 261 p. - (RIPE series in global political economy). - ISBN 978-0-415-72639-9

La guerre des monnaies : la Chine et le nouvel ordre mondial / Hongbing Song; traduit du chinois par Haibing Liu & Lucien Cerise; préface et adaptation de Jean-François Goulon. - Paris: Scribedit-le Retour aux sources, 2013. - 1 vol. (446 p.). - ISBN 978-2-35512-054-1

As the dominating currency of the international monetary system, the United States dollar is one of the pillars of the US-led international liberal order established after the end of World War II. Yet, a growing US deficit and repeated political deadlocks on debt negotiations combined with the ripple effects on the dollar of pressure from the emergence of competing currencies have created concerns worldwide about the safety of US Treasury securities. The creation of the euro – the common European currency – in 1999 constituted the first major challenge to the greenback. More recently, the renminbi (RMB) or yuan – the Chinese currency – is increasingly seen as a rising competitor.

Taken individually, neither the euro nor the renminbi pose a serious challenge to the predominant position of the dollar. While the renminbi still has a long way to go before becoming a full-fledged reserve currency, the euro is paying the price for the lack of political unity and a common fiscal policy among members of the eurozone. What would happen, however, if China and the eurozone were to join forces? Could a euro-renminbi axis accelerate the demise of the dollar as the world's reserve currency?

The Europeans have never explicitly stated that the euro is meant to be an alternative to the dollar for fear of alienating the US ally. Chinese leaders, on the other hand, have not hesitated to declare that their ultimate goal is to make the renminbi one of the main currencies for global trade, and to place limits on the dollar in the international monetary system. Since 2008, Chinese officials and scholars have maintained that the US is abusing its position as controller of the main reserve currency by pursuing irresponsible economic policies. In March 2009, Zhou

Xiaochuan, the governor of the People's Bank of China, explicitly called for the creation of a new international reserve currency. An op-ed by the Xinhua news agency on 22 October 2013 did not hesitate to call for a “de-Americanized” world.

Moreover, since its creation, the common European currency has been seen in Beijing as the only serious counterbalance to the dollar. Consequently, China has come to support the eurozone politically, divesting away from the dollar and in the euro. Today, euro-denominated assets represent more than one-third of China's total foreign currency reserves, the world's largest. Chinese purchases of euro-denominated assets were particularly important during the peaking of the euro crisis. Beijing's concrete pledges for the purchase of Portuguese, Irish and Greek bailout bonds auctioned by the European (Financial) Stability Mechanism (EFSF/ESM) rescue fund sent a reassuring message to markets while lending political support to Europe, China's most important export destination.

The Europeans reciprocated in kind in late 2015 by supporting the inclusion of the renminbi in the basket underlying the International Monetary Fund's unit of account, the Special Drawing Right (SDR). The announcement that the renminbi would join the US dollar, the British pound, the euro and the Japanese yen was clearly political, as few would argue that the renminbi meets the IMF's criteria for inclusion in the SDR currency basket. In fact, the US had argued for years that the renminbi should be included in the SDR only if China opened its capital account, let its currency float freely, and had a more independent central bank. None of this has happened. So the IMF's decision to add the Chinese currency to the SDR basket owes much to the United States' deference to Europe. After China established the Asian Infrastructure Investment Bank (AIIB) with the support of the Europeans in April 2015, the US agreed to drop its objections.

A Sino-European monetary axis seems to be emerging with the potential to challenge the hegemonic position of the dollar as the world's reserve currency. While most scholars have tended to shy away from these questions, a few books published in recent times shed light on some of the topics that are central to understanding whether the current liberal international order will continue to exist as it is or whether something new will emerge.

A euro-renminbi axis would challenge one of the most revered theories in IR, that is the hegemonic stability theory. This body of work maintains that the international system is more likely to remain stable if a single nation-state is the dominant world power or hegemon. It implies that the relative decline of an existing hegemon's currency diminishes the stability of the international system. Hence, the importance of assessing whether or not the hegemonic position of the dollar is being challenged. This is the argument tackled by *How Global Currencies Work: Past, Present, and Future*, written by Barry Eichengreen with Arnaud Mehl and Livia Chitu. Eichengreen, Professor of Economics and Political Science at the University of California, Berkeley, and his co-authors, respectively Principal Economist and Economist in the Directorate General International of the European Central Bank, maintain that the hegemonic role of the greenback is likely to continue, as they show that the share of dollars in the foreign-currency reserves held by central banks and governments worldwide has hardly budged since the beginning of the financial crisis. The greenback remains the dominant currency traded in foreign-exchange markets; it is still the unit in which petroleum is priced and traded worldwide. Moreover, central banks still hold US Treasury bonds because, for them, that market is the single most liquid financial market in the world.

In this picture, the geopolitical dimension matters. US diplomatic and military links encourage America's allies to hold dollars. In fact, states with their own nuclear weapons hold fewer dollars than countries that depend on America for their security needs. According to Eichengreen *et al.*, being in a military alliance with a reserve-currency-issuing country means that the share of the partner's foreign-exchange reserves held in that currency are roughly 30 percent more. The evidence thus suggests that the share of reserves held in dollars would fall appreciably in the absence of an alliance. *How Global Currencies Work* argues that governments have reason to

be confident that the reserve-currency country will make servicing the debt held by its allies a high priority. In return, those allies, by holding its liabilities, help to lower the issuer's borrowing costs. It is at this intersection of geopolitical alliances and reserve currency that the real threat to the dollar's international dominance lies. South Korea and Japan, for instance, hold about 80 percent of their international reserves in dollars. The financial behaviour of these and other countries would change dramatically, with adverse implications for the dollar's exchange rate and US borrowing costs, if America's security guarantees to Asia were to weaken. This would provide China with an opportunity to step into the geopolitical breach, giving the renminbi a greater role.

How Global Currencies Work: Past, Present, and Future is a well-researched and insightful book about the under-appreciated link between military alliances and the dollar's "exorbitant privilege". Yet, the volume fails to consider the scenario of some US allies – in this case the Europeans – challenging the dollar's reserve status. Europe is not only home to the euro, but also the continent at the forefront of the internationalisation of the renminbi as it hosts the largest number of yuan clearing banks, that is hubs where the Chinese currency can be traded. The fact that renminbi trading hubs have been set up in Budapest, Frankfurt, Luxembourg, Madrid, Milan, Paris and Prague indicates Europe's willingness to promote the use of the Chinese currency, both in transactions and as a reserve currency.

Today, almost all of Europe's central banks have accepted – or are considering accepting – China's currency as a viable reserve, following the decision by the European Central Bank (ECB) to hold foreign exchange reserves in renminbi. The ECB invested €500 million of its reserves (current total €68 billion) in RMB-denominated assets during the first half of 2017. A small amount which reflects, however, the growing acceptance in Europe of China's status as an economic superpower.

So China's currency seems to have taken the world by storm. The renminbi is well on its way to becoming a significant international currency, one that is used widely in international trade and finance. *Gaining Currency: The Rise of the Renminbi* by Eswar S. Prasad, Professor of Trade Policy at Cornell University, examines the RMB's impressive rise with China successfully adopting a unique playbook for promoting its currency. Prasad convincingly argues that China's growing economic might, expanding international influence and rising currency are all intricately connected. The book shows how China's government has tied these goals together, enabling faster progress towards each of them. There are, however, many pitfalls ahead, for both China's economy and its currency.

The book explains how the government has so far navigated its way around domestic and international dangers. Prasad maintains that after the renminbi's entry into the IMF's SDR basket, if Beijing adopts reforms that put its economy and financial markets on track, the RMB is going to become an important reserve currency over time – even though it will not be seen as a safe haven currency, one that investors turn to for safety, like the dollar. For the former head of the IMF's China Division, the RMB will erode but not seriously challenge the greenback's dominance in international finance. The hype about its inevitable rise to global dominance is thus overblown. Prasad's argument is convincing, yet it fails to account for the particular context which has enabled the RMB to emerge, that is the fact that the creation of the euro has made it easier for Chinese leaders to internationalise the RMB. Moreover, like many US scholars, Prasad seems unable to see the connections between Chinese and eurozone leaders – and their potential challenge to the dollar when acting together.

The linkages between the eurozone and China are explored in *The Euro, the Dollar and the Global Financial Crisis* by Miguel Otero-Iglesias. The author is Senior Analyst at the Elcano Royal Institute in Madrid. His book explains, amongst other things, how the gradual ascendancy of a structurally flawed currency like the euro has highlighted the weaknesses of the dollar and demonstrated that sovereignty sharing in monetary affairs is possible. Furthermore it has

shown that the international monetary system can be a multicurrency system. In particular, Otero-Iglesias sheds light on the importance of studying financial elites in China in order to understand the full impact, material and ideational, of the euro in the transformation of the international monetary system.

As Otero-Iglesias explains in the central chapters of his book, China has come to support the eurozone wholeheartedly, divesting in earnest away from the dollar and in the euro. China's diversification of its foreign reserves has accelerated since August 2011, after Standard & Poor's downgraded the credit ratings of the US federal government from AAA (outstanding) to AA+ (excellent). Sino-European financial and monetary links have deepened as a result because China began purchasing increasing quantities of eurozone bonds, in particular German *Bunds*, perceived to be safer than US Treasuries. This has come at the expense of the United States, which has had to raise the yields on its securities to attract investors. Moreover, China's diversification strategy signals that the dollar is no longer the world's only reserve currency, and this is important to Beijing, as it tries to internationalise its currency and wean itself off of its dependency on the United States' economic cycle and monetary policy. Otero-Iglesias' book is one of the few scholarly works examining the growing eurozone-China connection and as such it needs to be welcomed. Yet, by focusing on China's financial elites – and much less on the plans to internationalise the RMB – *The Euro, the Dollar and the Global Financial Crisis* fails to recognise how the Chinese currency is viewed differently in Europe and the US and the implications of this for transatlantic relations.

Whether there will be a war between the dollar and the renminbi is the subject of *La guerre des monnaies. La Chine et le nouvel ordre mondial* by Hongbing Song. Written in Chinese with the title *Huòbì zhànzhēng*, it has not yet been translated into English; the only available version in a Western language is the French one published in 2013. A pity, because the book has become a bestseller in China, where it has sold hundreds of thousands of copies and is reportedly being read by many senior level government and business leaders. In the book, the author claims a shadowy global elite will introduce a single world currency around 2024, tossing the dollar into the dustbin, condemned as it is by Washington's loose-spending policies and the waning dominance of the West. Song's intricate diagrams and claims of generations of purported conspirators guiding the world's course read like the plot of a thriller novel, and footnotes in his book suggest familiarity with America's conspiracy theories. Yet, its value lies in showing us how important sectors of the Chinese establishment believe that the US has long backed plots seeking to subjugate China, even while Beijing is the world's biggest holder of US Treasury debt.

Hongbing Song studied at the American University in Washington DC before pursuing a business career and working as a financial pundit. In the last part of his book, he claims that the RMB – allied with other currencies such as the euro (hence the title: *currency wars*) – will cause the decline of the dollar's global influence. The United States will then enter into a state of economic morass, something similar to the hyperinflation and chaos that engulfed Germany before the emergence of Nazism.

La guerre des monnaies risks being too influenced by conspiracy theories at times and fails to give substantive reasons for the demise of the dollar and the ensuing chaos. It remains, however, a book that should be read in the West, not least because it allows us to gain valuable insights into how some sectors in China view the monetary policies of the US and are preparing for an eventual collapse of the international monetary system.

Such a gloomy scenario provides the background to the last book reviewed here: *The Mandibles. A Family, 2029-2047*. This is a novel written by Lionel Shriver, an acclaimed American author. Shriver's book is a perceptive work of narrative which contains insightful forays into financial and monetary issues. Set in a dystopian future, it describes the collapse of American society through the lenses of a typical middle-class family of the East Coast. The book opens by telling the reader how entitlements have driven US national debt to unsustainable levels,

making the dollar worthless. Expansionist Keynesian economists are proven to be a “gang of charlatans”. A desperate nation renounces its debts, foreign and domestic. To refill the Treasury, the US federal government confiscates citizens’ gold, right down to their wedding rings. After the 2029 crash – the year when the story begins – the Mandibles’ fortunes go from bad to worse to destitute while they squabble among themselves, trapped in a country whose economy has shut down. Worse, the Chinese are now the ones who can impose their conditions on an impoverished America, while the Europeans stay away from a continent that has become dangerous and where public order is collapsing.

The book is science-fiction at its best. Yet, it is not too far away from what could become reality. For instance, to repay their debts to creditor nations – we hear echoes of President Trump’s electoral debates against countries such as China and Germany with which the US runs large trade deficits – and keep entitlements for its senior citizens intact, the US federal government ‘enslaves’ young Americans. Their work schedule and tax payments are now controlled through chips inserted under their skin, leaving them no escape as their movements are constantly monitored. Even fleeing abroad is not a solution, since no nation, not even Mexico, wants impoverished Americans on their territory. For young Americans, the only way out of this ‘legal’ slavery is Nevada, a territory over which the US federal government has lost authority.

Shriver’s book recounts the journey of what remains of the Mandibles family to Nevada, a sort of ‘new world’ surrounded by an America that has become an authoritarian state. Only there can the fugitives rebuild their lives and create a future according to liberal – and libertarian – values. One of the lessons of this novel is that, should the American economy and society collapse, the very country that created the liberal international order will be the one that destroys it. Luckily, this is just science-fiction. Yet, the Republican tax cuts adopted in December 2017, which are likely to increase the US deficit significantly, coupled with Trump’s policies, some of which risk undermining the US’ system of alliances and accelerate the emergence of a Europe-China axis with ripple effects on the stability of the greenback as the world’s reserve currency, could well open the door to a post-dollar world.

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