US debt sells seeds of next crisis

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Emily Kaiser looks at the likely next step in the global debt crisis, and reveals why China is no longer dependent on US treasury debt

The debt deal that President Barack Obama announced in Washington on Thursday could be a lifeline to the US dollar’s hallmark status as the world’s number one reserve currency. To the chagrin of Wall Street bankers and US debt holders, it’s also setting the stage for China’s emergence as the world’s dominant currency.

China is no longer dependent on US treasuries

Emily Kaiser

A Bahraini anti-government protester is taken to a hospital after being wounded during a demonstration in Manama, in February.

President Barack Obama speaks from the White House briefing room about a deal being reached to raise the US debt limit.

Reuters

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The US dollar remains the world’s dominant reserve currency in part because of the US economic stimulus package and the G20 summit, which was hailed as a success. The US dollar has strengthened against most major currencies, including the euro, yen and yuan.

President Obama and other US officials are expected to announce a deal to raise the US debt ceiling, which would avert a default and prevent the economy from sliding into a recession. The deal would also include cuts in government spending and tax increases.

China, however, is no longer dependent on US treasuries. The Chinese have been diversifying their portfolios away from US dollars and towards other currencies, such as the euro and yuan.

The US dollar’s role as a reserve currency is under threat as other currencies gain in importance. The euro is already a leading reserve currency, while the yuan is becoming more popular as a reserve currency in Asia.

The US should learn from the lessons of history and take action to strengthen the dollar. The US should also work to reduce its current account deficit and increase its savings rate.

The US should take steps to strengthen the dollar and improve its competitiveness. The US should also work to reduce its current account deficit and increase its savings rate. This will help to preserve the US dollar’s role as a reserve currency.