U.K. Sells Bonds in China's Currency, Adding Pressure on Dollar

Amid fast-growing pressure on the U.S. dollar's status as the global reserve currency, authorities in the United Kingdom this week successfully issued sovereign bonds denominated in Communist China's strictly controlled currency known as the yuan or renminbi. It was the first such bond issue in the Western world, and the largest non-Chinese bond ever sold, according to news reports. While the initial scheme was relatively small — worth about US$500 million, contrasted with about US$200 billion in yearly U.K. government borrowing — its implications for the dollar and the international monetary system could be profound in the longer term, analysts said.

The move by London is part of a broader trend that includes, among other elements, coordinated efforts by top establishment insiders from around the world to drastically re-shape the international monetary system. Essentially, the planet is gradually shifting away from the dollar as the unchallenged global reserve and moving toward a globalized currency regime run by the International Monetary Fund and other global institutions. The U.K.'s yuan-denominated bond issue came after the IMF boss said the outfit might someday move to Beijing from D.C., even as the Communist dictatorship there called for a "de-Americanized" so-called "New World Order."

According to the IMF, China's economy recently surpassed the U.S. economy as the largest in the world. While the claims are seriouly flawed, the announcement made major waves. Meanwhile, serious calls for an IMF-run planetary currency system have also grown louder around the world in recent years. Those calls feature escalating demands from governments everywhere for the expansion of the basket of currencies underpinning the IMF's proto-global currency, known as Special Drawing Rights (SDRs), to include the yuan and other currencies of totalitarian-minded regimes.

In a 2009 report, the Chinese "people's" central-bank boss, Zhou Xiaochuan, explained that "the desirable goal of reforming the international monetary system… is to create an international reserve currency that is disconnected from individual nations and is able to remain stable in the long run, thus removing the inherent deficiencies caused by using credit-based national currencies." When asked about the Communist Chinese regime's plot at a Council on Foreign Relations event, then-U.S. Treasury Secretary Timothy "TurboTax" Geithner said, "We're actually quite open to that." With this week's developments, that vision moved one step closer to becoming reality.

According to U.K. officials, proceeds from the bond issue will be used for the U.K. government's foreign-exchange reserves, adding to the U.S. dollars, euros, Japanese yen, and Canadian dollars it already holds. Analysts said the move signals the yuan's potential future as a global reserve currency. But the significance goes well beyond that. “For the U.K. it represents another attempt to become the eminent world financial center,” observed American economist Mark Thornton, a senior fellow with the Ludwig von Mises Institute. “For the U.S. it represents another small blow to the status of the dollar and U.S. financial markets.”

“The U.S. dollar has already lost its near monopoly position as a reserve currency and medium of international trade,” continued Thornton, associated with the free market-oriented Austrian school of economics. “The competitive position of the Chinese renminbi continues to improve in small ways. The question is whether this will be a multiple decade competition between the dollar and the renminbi, or whether the ‘dam will break’ like it did in WWI when the eminent currency status changed from the British pound to the US dollar.” He called the U.K. announcement the “first trickle through the dam.”

U.K. officials did not touch on the broader implications of the move. Still, U.K. Treasury chief George Osborne celebrated the sovereign renminbi bond issue as a “great success” that will supposedly “deliver value for money to taxpayers,” despite it costing more than raising the funds in other currencies. “Our long term economic plan is working, but the job isn’t done,” said Chancellor Osborne, who recently met with Communist Chinese bigwigs and other leading globalists at the secrecy-obsessed Bilderberg summit in Copenhagen. “We need to export to fast growing economies like China, and attract more investment to our shores.”

To achieve those goals, Osborne claimed, “we need to make sure China’s currency is used and traded here, as that will be not only good for China, but good for British jobs and investment too.” Claiming London was “the global center for finance,” the controversial U.K. Treasury boss also said he was “delighted” to have taken the next big step in making the city “a major global center for trading and investing the [sic] Chinese currency too.” Numerous analysts also highlighted the importance of the bond issue, which came after the U.K. sold Islamic sharia-compliant bonds this summer, in further boosting London’s role as a key center for trade in yuan.

The yuan-denominated debt, referred to as “Dim Sum bonds,” is set to mature in three years. The U.K. issue — a major step toward further internationalizing the Chinese currency — was organized by Bank of China, HSBC, and Standard Chartered. Despite being loosened considerably in recent years, the yuan still faces heavy official restrictions on convertibility and non-domestic use. Many of those impediments to its more widespread use in trade and finance outside of China, though, are expected to be axed in the coming years — making the yuan even more appealing as a potential reserve. More than a few major companies have also issued yuan-denominated bonds in recent years.

Already, the renminbi has overtaken the euro, the troubled single European currency, as the top currency used in global trade finance after the U.S. dollar, according to Bloomberg. Demand for the new bonds was strong, too, pushing down the rate from the expected 2.9 percent to 2.7 percent. The U.K. Treasury’s move “recognizes the importance of renminbi as a reserve currency,” chief executive Au King Lun with Bank of China’s Hong Kong Asset Management was quoted as saying in the *Wall Street Journal*. “Other countries have exposure to renminbi but the U.K. is the first one to issue bonds in renminbi. It’s a very significant development.”

Writing in *Forbes*, Fellow Tim Worstall at the London-based Adam Smith Institute explained another key element of the U.K. move. “The basic thought here is that in order to construct a viable bond market you want to have some sovereign issues in that currency or of that structure to act as the risk free benchmark for other issuers,” he said. “It would be entirely possible for a corporate to issue renminbi bonds in London. It’s just that no one would really have any idea how to price it: there would be no comparators. Thus such borrowing would be very expensive: uncertainty over price in financial markets tends to make the price rather high. So issue sovereign bonds and that issue or issues can act as that pricing benchmark."

Since World War II, the U.S. dollar has served as the world reserve currency. Initially, the privilege resulted from America's unchallenged global power and the currency's gold backing. When President Nixon severed the final link between the dollar and the precious metal in 1971, however, the Federal Reserve's currency maintained its dominance because oil was priced in dollars — hence the term "petrodollar." With the privately owned U.S. central bank conjuring unfathomable amounts of debt-backed dollars into existence, and with the globalist establishment increasingly working to dethrone the currency, analysts widely expect the dollar's status as the global reserve to end. It may be sudden, or it may be slow, but it will come.

The Communist Chinese regime, which originally seized power with key support from the same globalist establishment that is still helping to orchestrate its rise to what billionaire George Soros touted as the leader of the "New World Order," is playing a crucial role in the quiet de-dollarization process. From sidelining the U.S. dollar in international trade to using its propaganda organs to demand a "de-Americanized" world order, Beijing may end up being among the most important players in the demise of the dollar outside of the Federal Reserve and the U.S. government.

Of course, if and when the dollar eventually loses its status as the global reserve currency, the implications for Americans and the U.S. economy would be hard to overstate. The gargantuan trade deficits fueled by government and central-bank policy, for example, would come to a screeching halt as prices for imports skyrocketed. The outlandish borrowing and spending spree taking place in Washington, D.C., meanwhile, would also have to end abruptly unless the Fed continued printing ever-greater sums of currency and loaning it to the government (with impossible-to-pay interest attached) — fueling an even more extreme collapse in the value of the dollar. Non-financial consequences could prove even more disastrous.

The good news is that the solution to the potentially looming calamity is relatively simple: Restore sound money and force the feds to obey the U.S. Constitution. However, that will require overwhelming public pressure on Congress, which at this point does not seem likely to materialize in time.

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Alex Newman, a foreign correspondent for The New American*, is currently based in Europe. Follow him on Twitter @ALEXNEWMAN_JOU. He can be reached by e-mail at anewman@thenewamerican.com*

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