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World Currency

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ABSTRACT

The contemporary world is undergoing continual transformations in trade and international exchange. The unrestricted movement of global currencies often contributes to a more volatile economic environment rather than stability. Particularly, developing nations frequently encounter hyperinflation and significant deficits in both trade and national financial reserves. Such circumstances commonly precipitate economic crises and impede the progress of the global economy. In view of these challenges, our scholarly research will concentrate on devising a viable new international currency. By gaining a comprehensive understanding of the current global trade dynamics, our objective is to formulate a novel international currency that can facilitate trade balance and inflation stabilization. This research paper aims to address the Triffin Dilemma, proposing the creation of a new world currency as a potential solution.

KEY WORDS: International trade, Global currency, Triffin Dilemma, World currency theory.

Introduction:

Given today's global economic and trade conditions, there doesn't seem to be an immediate major issue. However, our paper predicts that a severe recession will occur in 2029. While a recession appears inevitable, there are differing opinions on how likely and severe it will be.

As a dollar, its asset portfolio underpins the stability of the global financial system but can also mask underlying fragilities, thereby contributing to episodes of financial turbulence and systemic risk propagation. Consequently, the reliance on USD as the bedrock of economic credibility plays a pivotal role in the interconnected nature of contemporary financial markets, influencing the trajectories of economic stability and volatility on an international scale [1][2][3][4].

Triffin Dilemma

The main reasons are: First, the "Triffin Dilemma" creates conflicts between trade and balance, making it difficult to maintain an equilibrium between trade and currency issuance. This results in ongoing trade deficits and significant imbalances in the global trade balance. Second, the international balance of payments is severely imbalanced. Some countries often have a trade surplus, while others frequently run a trade deficit. Developing countries continue to export their industrial goods in exchange for financial assets from developed countries.

Imbalances in countries' balance of payments have caused issues in the world's monetary and financial systems. These problems with global currency create distortions in international liquid capital,

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leading to excess asset flows in some regions and sparking financial crises. Whether in a virtual or real economy, financial crises arise from weaknesses in the global monetary system. The globalization of capital and markets worsens these issues, causing the current monetary system to become distorted. As a result, today's currency dominates international trade, and government spending spirals out of control. This removes incentives to fix trade and fiscal imbalances. The imbalance in international trade also greatly distorts global liquidity and capital flows. Overall, these systemic flaws mainly explain why financial crises happen.

Literature Review:

Scholar Robert Modell has proposed the ECU and the Euro. It is very successful in controlling the inflation target, but the stagnation and the problem of the Triffin Dilemma still remain. In addition, according to scholars, “Nouriel Roubini” emphasizes that the root cause of economic crises lies in the imperfection of the global financial and trade system, and that all economic crises could actually be avoided [1][2]. “Nouriel Roubini” has also emphasized that the core problem stems from the imperfections in the global economic and trade systems, which may trigger future crises [3][4]. Economist Paul Krugman also notes that international economics and trade are primarily driven by comparative advantage, and there are specific flaws in today's global trade system [5][6][7]. These issues cause a country's exports and imports to become unstable, leading to economic crises worldwide [8][9][10][11][12]. The above arguments are sufficient to support the reshaping of the global monetary system proposed in this article and the establishment of a new global currency to address the current problems faced by countries worldwide. That is our innovative suggestion, the world currency.

Methodology:

This research paper is based on a systematic review of peer-reviewed studies from databases such as Google Scholar and ResearchGate, covering cohort studies and meta-analyses published from 1990 to 2000 and up to 2020. Key variables examined include international trade, global currency, convergent theory, and convergent match-up currency. These reviews will offer solid support for our economics paper proposal.

Discussion:

The Role of the International Monetary System

The current international monetary system has not kept pace with modern changes. It mainly relies on the principles of free currency, which makes it susceptible to shocks and instability. Those with foresight can also see that this could lead to greater distortions in the global economy, raising the risk of capital mobility. As a result, even if countries recognize these issues, they often overlook them because the system tends to resist change and move forward mainly due to inertia.

This is why the global monetary system needs reform. Creating a world currency not only improves the current international financial system but also helps address worldwide economic issues and liquidity shortages. Updating the world's monetary system can help correct imbalances in the global economy.

In fact, a perfect and effective global monetary system could entirely reduce and prevent financial crises. Therefore, the idea of world monetary integration aims to reform the current international monetary system. Using a single currency worldwide can lower trade risks and other transaction costs, at least in terms of economics and trade, eliminating unnecessary exchange losses.

Benefits of Global Monetary Integration and Enhancing Special Drawing Rights

Some people might wonder what will happen to the trade settlement process after the world's currencies become integrated, and how effective currency integration is in resolving issues like trade settlement. In fact, first, expand the Special Drawing Rights of the current International Monetary Fund (or establish a new World Monetary Authority) and introduce a new balanced settlement mechanism. This would allow countries with severe trade deficits to use their Special Drawing Rights (to borrow global currency) to cover other countries' expenses. When a country borrows SDRs from the World Monetary Authority, it must provide a certain level of collateral in exchange for the SDRs. This creates stronger incentives for countries to improve their export and import activities, helping international trade develop more evenly.

There are many reasons for world trade imbalances and chaos in the financial and monetary systems, and free currency is a primary reason. It is clear that a free currency is not a solution to the failures of today's monetary system, especially from the perspective of developing countries. On the contrary, free currency is a main cause of current inflation. It does not resolve the fundamental problems of the current monetary system. Instead, free currency worsens the global economic crisis and its volatility with hyperinflation.

If global integration is an irreversible trend and the overall direction. In that case, we should develop a new global currency, a new world monetary system, and a new trade settlement and pricing tool based on this to quickly reduce the risk of unnecessary exchange rate fluctuations. Instead, we should create a unified and fair currency system that transcends national sovereignty worldwide.

Because of this, establishing a new monetary system—World Currency—is a potential solution.

Suggestion:

Therefore, this research article proposes improving the current world currency system and establishing a new global unified currency and settlement system, which is the only way to create a win-win situation for all countries worldwide.

Choosing a path to establish a unified currency system and designing an aggregate currency are the only appropriate options for all countries worldwide. The design of an aggregation currency not only offers a practical solution but also enables different countries' currencies to be combined and merged into a global currency (World Currency).

This integration match-up is a practical way to establish a new world currency system. Together, we can create a more stable global currency framework that fosters fair trade and a systematic balance approach, with a world-unified fixed currency rate using a new world currency. This new currency is suitable for the world to adopt.

Convergent Currency Theory (Currency Integration)

Euro Dollar Zone	+	Asia Dollar Zone	+	USA Dollar Zone	=	New World Currency

Our new world currency framework is to utilize the ratio representative of the world's GDP contribution. First, establish a dedicated currency zone to facilitate rapid, efficient, and collateralized exchange and settlement processes. Subsequently, integrate these regional currency unions to form a cohesive and stable regional monetary frame. The next step involves consolidating

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and harmonizing the monetary policies and currency standards of individual regions into a comprehensive Global Currency System. This process is designed to foster an integrated monetary network within the geographic zone, ensuring that the valuation of the US dollar and other national currencies remains within predefined exchange rate corridors and ratios, thereby promoting currency stability. The overarching goal is to address the heterogeneity in the distribution of the international money supply by employing a ratio-based allocation mechanism. In our new world currency system, the distribution of the new world money supply is based on the ratio of the scale in the world GDP country ratio, such as proportional GDP weights, to distribute the global monetary base. This would be implemented through a new, regionally governed World Central Bank, which would oversee the issuance and management of the global currency supply, aiming to enhance international monetary stability, reduce exchange rate volatility in a unified currency, and support balanced global economic growth with a low inflation rate.

In conclusion, this research paper aims to address the Triffin Dilemma, proposing the creation of a new world currency as a potential solution. Therefore, this article concludes that enhancing the existing currency system and creating a new global unified currency and settlement system are the only viable options for achieving mutual benefits for all countries worldwide. Regarding the path selection and design plan for establishing a unified monetary system, this article suggests that aggregation is preferable and that rebuilding a new global monetary system is an urgent decision. A unified world monetary system can offer better welfare for people worldwide.

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