HD The Paradox of Multi-Currencies [opinion]

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Mar 14, 2014 (Zimbabwe Independent/All Africa Global Media via COMTEX) -- In January 2014, the Ministry of Finance and the Reserve Bank of Zimbabwe (RBZ) jointly re-affirmed the continued usage of the multi-currency regime.

Zimbabwe has been using United States Dollar, South African Rand, Botswana Pula, British Pound and the Euro since 2008.

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Debatably, the RBZ, in support of the 2014 budget, added Australian dollar, Chinese Yuan, Indian Rupee and Japanese Yen in their follow-up monetary policy. This was based on the justification that trade between Zimbabwe and China, Australia, India and Japan had grown significantly.

The debate to replace the US dollar as a global currency for settling trade has been at the epicenter of economists' discussions.

This has been triggered by the significant increase in contribution to global trade by some emerging markets which include countries like Brazil, Russia, India, China, South Africa (sometimes referred to as BRICS) and some parts of Asia.

Economic indicators highlight that as of 2012, BRICS countries made up 21% of global GDP and trade flows within these nations was about US$282 billion in the same year.

Ironically, there hasn't been consensus on which currency should be adopted to settle intra-trade within this bloc. Thus in spite of the notable increase in trade within emerging markets, most currencies are still pegged to the US dollar.

Though some currencies are also pegged to the Euro, its visibility in settling global trades is still limited. Hence transactions are still settled in the US dollar making it more of a de-facto global currency.

In history, the Yen once emerged as a competitor to the US dollar but Japanese recession in the 1990s relegated its importance on the global front.

The addition of other currencies to the existing basket is commendable irrespective of it being done to encompass growing trade and investment ties with other nations. This is because it had a calming effect on investors' nerves following rumors concerning the return of the Zimbabwean dollar.

Such a confidence boosting measure was necessary as it saw the financial sector escaping a severe bank run which might have had crippling effect on the financial sector and the broader economy. However, there are few housekeeping issues that need to be addressed.

An important caveat is that the adoption of many currencies does not simultaneously translate into economic growth.

The acceptance of a currency is a function of the underlying volume of trade (import and export) between the countries involved. For example, the Pula was adopted since 2008 but transactional value is still minimal.

Activity has been concentrated in Bulawayo backed by cross-border trading since the region is closer to the Botswana border. Likewise, the Euro and Pound are part of the multicurrency basket but command an insignificant amount of trade transactions.

Apart from the US dollor, the Rand is also another dominant currency due to trade ties with South Africa.

According to the National Treasury, from January to November 2013, cumulative exports were US$3,25 **billion** with South Africa accounting for US$2,43 **billion** or 75%. While some banks had already started accepting other minor currencies like the Aussie Dollar, Yuan and Yen, it has been more of a marketing gimmick to shore up business.

Accepting these currencies is in itself a good starting point.

However, policy makers need to create mechanisms where foreign direct investment is accepted in the investor's home currency.For example, India has been negotiating with Iran to trade hydrocarbons in rupees and Yuan.

Likewise, there have been bilateral agreements between **China**, Russia and India to drop the dollar in their intra-trade. Comparably, in Zimbabwe, a change in the currency system without a proper change in the underlying business ideology is a success in theory but fails in practice. For example, to stimulate the use of the Yen in transaction settlement there is a need to first engage in bilateral trade agreements with Japan.

These agreements should include incentives and subsidies to attract trade. Thus, to promote free flow of the peripheral currencies the government through RBZ needs to play an active role in facilitating the exchange of all currencies in the basket by centralizing importation and repatriation of these currencies.

Involving the central bank reduces the barriers to acceptability of these currencies among banks and the non-transferability of value as the chain filters in the real economy.

In addition to the above, the government can commence creation of delineated tax free special zones and tax breaks or holidays in specific crippled sectors to increase trade between the countries and augment growth thus free-up the already constrained fiscus. This can be implemented under the auspices of Zim-Asset. For instance, India has 8 established Special Economic Zone (SEZ) specifically duty free for the purposes of trade **operations**, duties and tariffs.

The key template to achieve this goal is policy consistency on protection of intellectual property.The government can isolate regions with potential for growth then create such special zones.

These zones can be split in such a way that countries that enjoy distinct comparative advantages are allocated tax free zones in Zimbabwe.

This allows the country to tap in the advanced technologies of these countries to bridge the gap in the development of local sectors such as **mining**, agriculture, and manufacturing, **energy**.

For example, Brazil has comparative advantage in agriculture with the sector accounting for 90% of exports, Russia is in the **energy** sector representing three quarters of its exports - accounts for 12% of world **oil**, India is the hub of information technology economy and **China** is into manufacturing accounting for more than 50% of exports.

Lastly, South Africa stands out in Africa as a liquid **equity** market while Australia has competitive advantage in the **mining** sector. These countries can be allocated special zones in Zimbabwe's various provinces with respect to their areas of competitive advantage.

Success stories in different countries warrant the government chasing the target to create practical trade platforms and bilateral agreements.

For example, the BRICS nations, Australia, Japan among others have created economic zones in various categories like free trade zones, export processing zones, urban enterprise among others.

Closer home, Zambia created such zones which combine expedited customs and administration procedures with tax incentives, to increase investment. The recently added peripheral currencies are a plus to trade, but there is need for follow-up policies to achieve the intended results.

Notwithstanding this, the world is full of examples of countries that use a single currency but are star performers and doing just fine.

CO rbkzim : Reserve Bank of Zimbabwe

RE zimbab : Zimbabwe | china : China | safr : South Africa | india : India | africaz : Africa | austr : Australia | bots : Botswana | braz : Brazil | jap : Japan | usa : United States | apacz : Asia Pacific | asiaz : Asia | ausnz : Australia/Oceania | bric : BRIC Countries | chinaz : Greater China | devgcoz : Emerging Market Countries | dvpcoz : Developing Economies | easiaz : Eastern Asia | indsubz : Indian Subcontinent | lamz : Latin America | namz : North America | samz : South America | sasiaz : Southern Asia | souafrz : Southern Africa

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