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THE PROGRESS OF CHANCING INTERNATIONAL RESERVE MONEY

Master's Thesis

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PREFACE

I am indebted to my all professors for their support and trust on this project. I would like to express my sincere gratitude to my project supervisor Prof. Dr. Ümit Erol for his inspiration in the selection process of project topic and his guiding and help throughout the project.

Seda YALÇINKAYA

ABSTRACT

THE PROGRESS OF CHANGING INTERNATIONAL RESERVE MONEY

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Stock Market and Finance
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After the collapse of the Bretton Woods system and subsequent economic crises, it became evident that it is necessary to create a stable and sustainable international monetary system. Many countries preferred to increase their foreign currency reserves in order to minimize the effects of the post Bretton Woods economic crises. However, the dollar as reserve money have started to be questioned because of the weakenening of American economy, increasing foreign debt, and political and military factors. As a result of this self-questioning, the countries which seek for alternative reserve currencies directed towards Euroso that they attempted to diversify their reserve currencies. Altough the share of dollar in the world reserve currency tends to decrease due to the rise of alternative currencies, the dollar is maintained its leading and crucial role in the international trade thanks to pricing of raw materails and petroleum by dollar. Therefore it is not expectable that any alternative currency can substitute or displace the privilege position of the dollar in the short run. However, the projects regarding one monetary system and one world, and return to the gold standard, or projects such as Venus that supported the shift from monertary-based economies to resource-based economies may be alternative solutions to recent monetary crises in the long run. The establishment of a new and systematic monetary union in harmony with accelarating financial integration and with minimum costs might protect the economies from risks of the deepening crises of recent decades.

Keywords: International reserve Money, Monetary system

ÖZET

ULUSLARARASI RESERVE PARA DEĞİŞİM SÜRECİ

Yalçınkaya, Seda

Sermaye Piyasaları ve Finans
Tez Danışmanı: Prof. Dr. Ümit EROL

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Bretton Woods Sistemi'nin çökmesinin ardından gelen krizler sonucu sürdürülebilir bir uluslar arası para sisteminin gerekliliği gözler önüne serilmiştir. Ülkeler bu krizlerden minimum seviyede etkilenmek adına döviz rezervlerini arttırma yolunu seçmişlerdir. ABD ekonomisinin zayıflaması, fazlalaşan dış borçlarla, bunlara eklenen siyasi ve askeri nedenler rezerv para olarak doların sorgulanmaya başlamasına neden olmuştur. Bunun üzerine alternatif rezerv para arayışına giren ülkeler euro'nun da kullanılmaya başlanmasıyla birlikte döviz rezervlerini çeşitlendirmiştir. Doların dünya rezervleri içerisindeki payı bu alternatif para birimleriyle birlikte azalsa da, petrol ve hammaddelerin fiyatlandırılmasının dolarla yapılmasıyla uluslar arası ticarette kilit rol oynayan Amerikan dolarını yakın bir gelecek için ikame edebilecek bir para birimi bulunmamaktadır. Ancak tek para sistemi ve tek dünya, altın standardına dönüş veya para bazlı ekonomiden kaynak bazlı ekonomiye geçişi destekleyen Venüs Proje'si gibi olasılıklar uzun vadede özüm yolu için birer alternatiftir. Hızlaşan mali entegrasyon sürecine uyumlu olarak yeni ve sistematik bir parasal birliğinin en az maliyetle kurulması dünyayı daha da derinleşmeye doğru giden krizler riskinden koruyacaktır.

Anahtar Kelimeler: Uluslararası rezerv para, Monetary sistem

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1. INTRODUCTION

Despite the process of globalization in the world economy, the international monetary system have not been globalized in the same amount and an integration between them could not be provided as well. Thanks to the technological advances and increasing international relations of trade among countries reached to a degree that any country cannot remain indifferent to the economies of other countries. The growth rate of countries, their natural resources and economic indicators are important elements in determining the balances in the world economy. In this context, the nature and the amount of reserves held by countries are the most important factors in determining their places in the world economy.

Especially, it is required to have foreign exchange reserves for developing countries in order to survive and to be affected at minimal levels from financial crises. This study is intended to examine the position of dolar in international reserves and its possible position in the future. First of all, the theories on this issue will be mentioned by addressing the concept of optimum currency area. Then, the early stages of the Bretton Woods system, and the transition to the Bretten Woods system as the first steps towards the hegemony of dolar will be explained.

The gold standard until the First World War and the Great Depression expereinces of the countries whose national currencies bounded with gold showed the world the necessity of an international monetary system. The Bretton Woods systems was designed for these pruposes and led to the improvment in the national economies and the increase in the levels of welfare. However, since these countries could not expereince the same level of development and they had influeced negatively from the cold war the Bretton Woods system had collapsed.

The second part of the study will be dealt with the emergence of the dolar by defining the international reserve currencey, and with the factors that contributed to the debates around dollar during its era of hegemony and period of its crisis.

The remaining parts of the thesis devoted to the investigation of alternative reserve currencies against the dollar as reserve currency such as the euro, Amero, pound, yen currencies. We will study the characteristics of these alternative currencies and the approaches of different countries to these alternatives.

In particular, we will consider with the establishment of European monetary union and common currency, the euro, the transformations of foreign exchange reserves in the developing countries, and the impacts of these changes on the world economy in general. Later, the developments in world economy after the transformations in reserve money and the responses of the developed and developing countries to these developments will be investigated.

The last part will be devoted to the issue of the single currency system and the single world that has been discussed by the economists for a long time and that seems to be debated in subsequent years. In this regard we will deal with views of researchers of the issue and we will give information on Venus project as well. In the conclusion, we will discuss the prospective position of dolar as a reserve money in the future and we will question whteher alternative reserve currencies can substitute dolar or not.

2. THE THEORY OF OPTIMUM CURRENCY AREA AND BRETTON WOODS SYSTEM

2.1. OPTIMUM CURRENCY AREA

2.1.1. The Concept of Optimum Currency Area

The volume of international trade and financial transactions have increased in a great deal of amount with the rise number of countries after II. World War. As only 65 curriencies existed in 1947, the number became 196 in 2001 (Alesina A, Barro R, Tenreyro 2003, p.301). On the other hand, it is known that political boundaries aren't always at odds with currencies.

A lot of definitions could be taken into can sideration about Optimum Currency Area (OPS). According to Ertürk (1991, p.17), The Monetary Union has been defined as that union member countries and their currency exchange rates should be fixed to each other in a manner irrevocably Parallel to the formation of these and consequently countries should have a single curriency and a single Central Bank up to parallel conditions. In other words, the monetary union means on establishing the unity of foreing curriencies and passing to single currecy and cleaning all the preventations oven capital movements and current accounts (Tuncay, Ö 2001, p. 46). The real goal is to set the management of common adminitaration of Money policies and foreign exchange policies. As it can easily be seen have, there are 2 main elements in Optimum Currency Theory;

1) Common Monetary Policy
2) The Common Foreign Currency Policy (Exchange)

In addition, a monetary union must provide the following features for optimum utilization (Utkulu, U 2005, p.110).

a- The exchange rate union,
b- Establishment of common funds,
c- Economic policy coordination (coordination / harmonization),

d- Public reserve management and a single central bank,
e- The single monetary.

The concept and the theory of Optimum Currency Area was first studied by economist Mundell and his study has lately been basis of later articles. The theory explains the advantages and disadvantages of monetary union has lately been enriched by Mc. Kinno, Kenen, Backgammon and Ricci.

Mundell (1961), has named the size of rezion which maximize the difference between positive and negative effects over monetary union as “optimum currency area" what is targeted here to provide the lowert cost of full employment, balance of payments and price stability. The size of OCA is related to macro-economic structure which supplies inner and ovten balance. OCA isneither as little as a city nor as big as apace (Tavlas, S 1993, p.32). OCA is an area where a single currency is accepted and a common monetary policy applied (Frankel, Jeffrey, A. 1999, p. 215).

Despite of the fact that there are different monetary areas, each monetary area is not OCA. So to be a OCA, any single monetary area shold contain belowed criteria defined by Mundell. (Mundell, 1961)

a- Openness / size of the economy,
b- Product diversity,
c- Similarity of inflation rates,
d- Economic integration.

2.1.2 The Benefits of OCA

OCA has plenty of benefits fort he unity in which it exists. However it would be better to notify the most beneficial aspects before we discuss (Sakallı, G 2011);

a- The close economical structures of Union Members
b- The symmetrical shocks that Union Member Countries generally face

c- Substantial trade between member countries that can provide the streght against possible shocks.

According to these explanations the monetary union will provide the greatest benefit,

a- If intra-industry trade between member countries share in total foreign trade is large,
b- If labor mobility that is the basis of macroeconomic harmony between countries is provided by the flexibility of real wages,
c- If the share of foreign trade in gross domestic product (GDP) is large,
d- If member countries aer in an harnory in appliying fiscal policies.

Due to OCA,foreign currency rates are stabilized and the probability of instability and uncertanbility is eleminated. Thus, the capital movements among member countries and liberalized and an enteznation is set. So the effect of negative speculations oven currency rates dicreases.

Mundell focused on 2 articles stating the benefits of Common Monetary Area (Ricci, R.A 1997, P.9).

1) Elemination cost of transaction
2) Better use of money.

The use of many currencies weaken the dinstictions of being an agent of exghange because the conversion of currencies to each other is costly.

With cost of transactions, saves are supplied in currecy reserves and it become easier to provide transperency in markets with monetary union and single currency. Because a price stability is achieved though a common monetary policy installed. Through all benefits it can be said that CMA enniches the volüme of trade amongst member countries.

Shortly, member countries facing economic sense and close to each other are not very much affected by possible shocks and they make maximum use of OCA.

2.1.3. Costs of Optimum Currency Area

The cost of the optimum currency area is makro level because of macro-economic equilibrium. The firs cost which is related to OCA is the transition cost mostly seen when to stant common currency. It consists of the legal administrative and hardware costs that appean when printing and introduction of common currency. In addition, the fact that any country is in different level stages of development and progress and synchranation will also rise the cost.

The adoption of a common currency, countries have lost the possibility of running an independent monetary policy, including monetary union countries, inflation, growth rate and unemployment rates are affected in different ways, such as values, and also suffers in some countries.

In addition, the Common Monetary Field criteria, the level of openness, factor mobility etc. important elements affecting the cost of monetary union countries (İkv 2000, p.11).

Philips curve, is very different for each country. This position also includes unemployment and inflation. Together with the costs arising in the OPS may strain to a different location. Moreover, for a country to have adopted a new currency area is also very costly to return (A.g.e.s 2010, p.308).

2.2. EVALUATION OF THE TRADITIONAL OPTIMUM CURRENCY AREA THEORY

Theory of Optimum Currency Area is consist of ensuring stability in countries where a single currency is accepted and fixed exchange rate system is applied (Yüksel, B 2001, pp 7-8).

The basis of Optimum Currency Area searched a field where the common currency functions can easily be applied. Mundell, who was first on agenda, has investigated the effects of facton mobility on economic structure. As a result of the analysis, countries with similar economic structure and factor mobility should use fixed exchange rate between and flexible exchange rate system with outside Word countries.

Mc Kinnon (1963) mentioned the differences between open and closed economies. According to Mc Kinno, tradable goods, ie, exported and imported goods, the rate of non-tradable goods are relatively more open economies. The countries with this type of economy shold use fixed exchanged rate with outside World and closed economy countriesshould prefer flexible exchange rate as well.

Kenen (1969) has pointed that countries that will be member of CCA should have a high production diversification and argued that countries with specialling in production will be effected by exogenous shocks as asymmetrical.

Ingram (1969), emphasized that it has the importance of the financial characteristics in determining the size of the Optimal Money Area. If a high degree of integration of financial markets, changes in exchange rates need not be expressed (Özer, I 2007, p.82).

According to Ishiyama (1975), similar rates of inflation are important components of the Theory of Optimum Currency Area. The inflation rates getting away from each other affects negatively the purchasing power of the two countries.

In summary, as we evaluate OCA as a whole countries with open economy where factor mobility is so high should come together and establish an optimism region.

Optimal Currency Area has been revisited in 1980s and at the begining of 1990s. Later, Willet (2001) has put forward that it is not possibile to answer when and which currency system should be implemented (Willet, T 2001, p.4).

Evaluation of Optimum Currency Area theories is closely related to economies of asymmetric reactions to shocks. For this reason, the first touch on the concept of asymmetric shocks will be in place. Asymmetric shocks, whether positive negative y-island country, according to another region or country, disproportionately affecting the shock (Şimşek, H 2005, p.53). OPS is an important area of this study in the literature that make up the balance of trade shocks and exchange rate adjustments, will be established. Optimum Currency Field of the countries in the 2000s developed the theory of interiority that must be met before the criteria as to reduce the number and the corresponding decrease in the cost of the Theory of Optimum Currency Area development has accelerated.

2.3. BRETTON WOODS SYSTEM

2.3.1. Previous Terms of Bretton Woods System

As we study Bretton Woods previous stanting from 1890's, the concept we meet is the concept of gold standarts (Seyidoğlu, H 1996, p.492).

A non stop use of Gold S tandart was in use from 1870's to the first World war (1914). It is one of two intentional standart that have been used throughtout history. In this system without regolatory ruler of Central Banks, all parities could be preserved and currency fluctuations have been realized in margins that dissave gold entering and ezisting points. In this system there are two important rules of gold;

a- To regulate payment instability between countries
b- To be a value basis that all national currencies depend on (Grubel, H 1977, pp 425-432)

Gold system was finish accepted as Western Europe in 1870 and joined in USA system in 1879. To express the idea that lies on this system that any country quarentees to buy and sell gold regarding how much gold reserve it was. Any exchange of currencies depend on gold(www.ekodialog.com, 2011).

During World War I, countries like Germany, French, Russia have stopped the exchange of their national currencies into gold and forbidden gold export. Can suquently, Gold standart has started to loose the efficiency of general use.

The period between 1914-1918, is called “Period of Crisism”. The debts taken during war years have destroyed economies of countries affected by war and the level of gold reserves have changed to the disadventage of European Countries and an unbalanced situation has occured. This was because of huge amount of gold entry into USA.

The European countries that lost gold reserves have shorten their expenditures. With the closing of New York stock-exchange in October 1929, the economical collapse has started in USA. Thus a period of critisism has spreaded to entire World.

They have devaluated thir currencies to protect gold reserve they rest have, and so, no significiant development in international Money system has been dedected in this period.

The reality that no commonmonetary system has been created during the period of between two wars has resulted in the birth of Bretton Woods system.

2.4 THE BIRTH OF BRETTON WOODS SYSTEM

The economical troubles experienced in USA and England during and post war years have created the neccecity of an international monetary system. As a result of studies and nesealiches, a meeting was held in USA, welcoming 44 counties delepetions and an international monetary system called Beretton Woods system was accepted(Turan G, 1980, pp. 88-89).

Regarding the decisions set during meeting the basic parity was declared 35 dollars USA for 1 ons of gold and the first structures of IMF and World Bank were introduced.

In this system, which appeared in search of alternative systems to collepsed Gold system in period between two wars, the increase of wealty level of member countries and new regulations of their international trade have taken place (Şişman M. 2008, p.68)

Up to regulations in Bretton Woods system USA dollar has become second convertible currency. This theaty has given member countries a right to regulate their currencies against USA dollar when an unitability occurs. By another words, member countries have been given a change to interence currency market to stabilize their currencies. Thus, a country with a gap in its economy can cheapen export and risen import prices and have an opportunity to consulate instability.

After accepting the system, countries have bought funds in turns of gold. Canada, in 1945, Germany, French and Italy, in 1958 declared full convertability but developingcountries were so long not able to convert their currencies because of economic instability.

2.5. PROBLEMS CREATED BY BRETOON WOODS SYSTEM AND IT'S COLLAPSE

In 20 years after the system started, it achieved a success but some problems have occuredsince all countries were not equally developed and crisis tendencier were so high.

In the years between 1950-1958, the value dollar has decreased because of plentifulness and caused a lot of discussion as it was not previously declared. Additionally some countries, like Japan have started to buy gold again with the dollars they earned[21]. This can be clarified as a negative occurance against Bretoon Woods System.

USA dollar was first devalued in 1971 by percent 9 and later in 1973 by percent 5 against gold. Since these regulations have not met expectations, countries with strung economies have given up stability their currencies into dollar. Devaluated USA dollar has been left to fluctuate.

Additionaly, with emerging Euro markets in Europe the dolllar was sold and gold was invested in mostly France. Also the though conditions caused by Vietnami warand higher inflation have resulted in collapse of Bretton Woods System.

Bretton Woods was so stable may also reflect the possibility that shocks to the United States and the rest of the World were quite limited in this preiods.

Despite the fall of Bretton Woods System, IMF and World Bank have survived so far and these instations provide resourses to developing countries.

2.6. INTERNATIONAL MONETARY FUND (IMF)

IMF, founded in the period while searches were started to stabilize breaking economies during Second World War, aim at solutions for economical problems of member countries. Including Turkey, 44 countries entered Bretton Woods conference in 1-22 July and IMF was established it started its functions in 27 December 1945 and has 185 members by the year 2007(Seyidoğlu H., 2001, pp.540-541)

IMF targets are clarified as to supply international monetary cooperation, help to development for international trade, support to found multi-sided payment system, help financialy to countries having troubled payment balances taking precautions for pay-backs. Since 1970 almost all developing countries have taken financialy aids from IMF. A treaty between IMF and member countries is signed through the supply of payment balance and closing public debts. IMF supplies funds over so low interest to member countries and they protect their currencies(Bardo M. 1991, p.83).

IMF support are determined relating to the quota of member country. This quato is calculated by a formulawhich measures economic performance in previous 5 years for member country and is reviewed inevery 5 years. In 1969, IMF constitued SDR (Special Drawing Rights) which is a calculation unit and a mean of reserve. It is a unit consisting of Euro, Japanese Yen, England Pound and USA Dollar and proceduces between IMF and member countries are calculated over this unit(Erdinç Z 2007, p.18).

It is not a currency. Countries have 2 ways to convert SDR's to currencies(Barno J. Robert and Lee J.W, 2005p.1245).

a- By willing exchange between countries
b- By IMF demand of buying SDR from countries with weak external balance(www.imf.org, 2011)

Table 2.1: **The IMF Reserve Position**

	2007	2008	2009	2010	2010Q2	2010Q3	2010Q4	2011Q1	2011Jan	2011Feb
World	13.732,9	25.100,9	38.676,1	48.808,0	44.984,8	47.230,7	48.808,0	74.665,4	53.708,0	53.648,4
Develop Economies	9.326,0	18.105,5	27.442,9	34.529,8	32.385,2	33.947,2	34.529,8	55.186,2	36.951,6	36.813,2
Developing Countries	4.406,9	6.995,5	11.233,2	14.278,2	12.599,6	13.283,5	14.278,2	19.479,1	16.756,4	16.835,2
Developing Asia	1.293,5	2.509,7	4.539,0	6.648,4	5.499,0	6.109,1	6.648,4	9.805,2	8.094,4	8.094,5
Europe	557,1	1.087,2	1.748,8	1.798,0	1.749,0	1.749,2	1.798,0	2.115,5	1.835,1	1.835,2
Middile East and Nort Africa	1.456,8	2.031,7	2.563,7	2.663,5	2.610,2	2.638,5	2.663,5	3.477,2	3.317,5	3.342,5
Middle Saharan Africa	91,1	101,9	105,6	117,4	115,0	115,1	117,4	129,4	123,1	123,1
Western Hemisphere	1.008,4	1.264,9	2.276,0	3.050,8	2.626,4	2.671,6	3.050,8	3.951,8	3.386,2	3.439,9

Resource: IMF . Data extracted from IMF Data warehouse on: 6/10/2011 6:49:52 PM

3. THE DEFINITION OF INTERNATIONAL RESERVE AND DEBATES AROUND THE DOLLAR AS RESERVe MONEY

3.1. INTERNATIONAL RESERVE MONETARY SYSTEM

3.1.1. The Introduction and Speciafications of International Reserve Money

In ternational reserves play a great role in stabilizing their locations in global economy. For this reason, international reserve definations have been made by clifferent peope. Regarding Niehan's definitions international reserves is a system that backs-up other economical unit change(Erdinç A.g.e.s. 2004, p.5).

For another defination, international reserve Money is a mean of Money supply and can be used to terminate disstability between supply and demand of foreign currencies[28]. Up to these defiations, international Money reserve is a mean of payment which can be used to meet financial responsibilities.

İnternational reserve Money has tree main fatures. The common account unit, common intervene mean and keeping value of international reserve. The firt feature makes it possible to decrease the cost of supplying information about international services and goods[29]. At this concept, the valur of a lot of goods are named on USA dollar. The second feature decreases the cost of mutual procedure. To convert a national currency into international reserve Money is rather easy. The third feature is that international reserves are measures of official reserves sprecifically regarding public sector. With another explanation protectily future prices of goods is a sign of relying on international reserve.

The purpose of holding international reserve Money is based on the idea that it is a precaution against economical crisis. When insufficient amont of export is realized, import is continuosly supplied by international reserve Money.

When we have a look at global reserve interaction, we can observe that the currency reserve is increasing but gold reserve is decreasing.

Table 3.1: Total Reserves (excluding gold-SDR Millions)

	2007	2008	2009	2010	2010Q2	2010Q3	2010Q4	2011Q1	2011Jan	2011Feb
World	4.272.07	4.807.977	5.445.794	6.259.142	5.933.27	6.020.262	6.259.142	6.382.033	6.283.282	6.318.404
Develop Economies	1.563.05	1.650.133	1.929.920	2.172.041	2.143.074	2.155.844	2.172.041	2.176.435	2.166.167	2.159.522
Developing Countries	2.709.02	3.157.843	3.515.874	4.087.100	3.790.654	3.864.417	4.087.100	4.205.599	4.117.115	4.158.882
Developing Asia	1.353.53	1.652.734	1.970.773	2.368.292	2.134.786	2.189.797	2.368.292	2.450.925	2.394.900	2.425.400
Europe	502.519	479.016	499.078	548.094	537.685	556.327	548.094	571.508	551.619	560.213
Middile East and Nort Africa	479.124	600.841	594.682	657.938	632.701	626.796	657.938	657.321	655.044	651.484
Middle Saharan Africa	92.090	102.021	101.553	102.060	103.373	101.292	102.060	103.043	102.102	102.152
Western Hemisphere	281.754	323.232	349.787	410.931	382.327	390.420	410.931	422.802	413.665	419.846

Resource: International Financial Statistics, IMF data

Table 3.2: **Gold Reserves**

	2007	2008	2009	2010	2010Q2	2010Q3	2010Q4	2011Q1	2011Jan	2011Feb
World	960,48	960,36	977,21	981,76	982,14	982,59	981,76	986,53	981,45	982,91
Develop Economies	712,43	703,71	700,19	699,97	700,16	700,00	699,97	699,98	699,99	699,99
Developing Countries	140,18	149,20	175,43	175,22	171,94	174,38	175,22	179,14	175,49	175,70
Developing Asia	46,32	47,12	68,69	69,11	69,07	70,02	69,11	69,43	69,34	69,17
Europe	31,06	33,43	37,81	42,63	39,65	41,14	42,63	43,23	42,68	42,58
Middile East and Nort Africa	37,45	43,19	43,19	43,19	43,19	43,19	43,19	43,19	43,19	43,19
Middle Saharan Africa	6,69	6,70	6,75	6,75	6,75	6,75	6,75	6,75	6,75	6,75
Western Hemisphere	18,66	18,76	18,98	19,33	19,07	19,06	19,33	22,32	19,32	19,80

Resource: International Financial Statistics (IFS)

3.1.2. The Significance of Reserve Money and Effecting Macroeconomic Factors

International reserves are value units particularly for official reserves, that is, protecting future prices of goods can be accepted as a trust in international reserve. Why reserve Money is hold that it is a precaution against economical crisis.

For a country it is critical to determine the level of reserve, because no criteria nor level is defined as enough and this is so important for developing country to have a reserve. On the other hand for IMF, to determine reserve level is curious to calculate financial gap(Letho T. 1994, p.8).

There are macroeconomic factors determining a country's reserve level and these factors change up to each country's economic structure. An applied currency policy and openness are major factors to determine reserve level.

Direct foreign investments can be realized by state planning association. These investment can both be used for enriching currency reserve and decreasing the production cost. Later in 1990's, and in 2000, after crisis, private capital turned to developing countries as portfolio flows or dicet investment. It can beseen below;

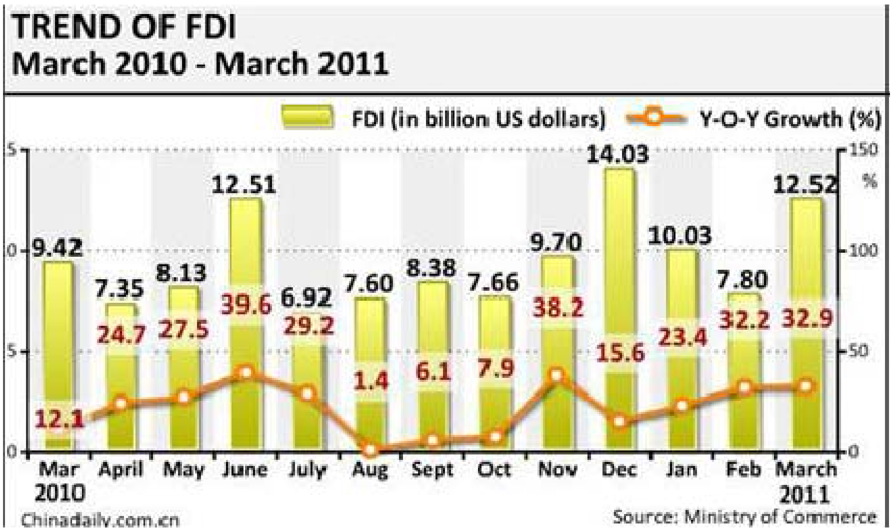
Table 3.3: Net-emerging and Developing Countries Global Capital Flow ($ billion)

Years	1996	1997-1999	2000	2001	2002	2003	2004	2005	2006	2007
Private Capital Flows	**204.1**	**117.1**	**75.0**	**80.5**	**90.1**	**170.1**	**243.6**	**253.7**	**233.8**	**607.2**
Direct Investment	116.0	162.4	171.3	186.3	157.2	166.2	188.7	259.8	250.1	309.9
Portfolio Flows	88.4	52.0	15.9	-78.7	-92.2	-13.2	16.4	-19.4	-103.8	48.5
Other Capital Flows	-0.3	-97.3	-112.2	-27.1	25.1	17.1	38.5	13.3	87.5	248.8
Official Flows	21.1	20.9	-33.9	0.9	-0.6	-50.0	-70.7	-109.9	-160.0	-149.0
Changes of Reserve	-87.9	-72.8	-135.7	-124.0	-194.8	-363.3	-509.3	-595.1	-752.8	-1236.2
Current Account	-45.0	-27.3	124.8	86.6	130.3	224.9	297.2	517.3	698.0	738.1
Net Capital Flows	137.3	65.2	-94.6	-42.6	-105.3	-243.2	-336.4	-451.3	-679.0	-778.0

Resource: IMF (2008)

If we have a look at China, we can see that it has given a special interest to foreign investments. The number of foreign comparies established in China between January and March 2011 has increased to 5937(Özbek D 1999, p.128).

Chart 3.1: Foreign Direct Investment in China



Resource: Ministry of Commerce

Inflation and GDP are too factors that effect reserve Money. In developing countries the increase of reserve Money occurs when inflation increases plus developing(Yaman B. 2001, p.53). By another words there is a positive tie between the rise in reserve Money and inflation. It has been dedected and concluded that money supply and reserve modals regarding to a study on the regration a change of 1 unit in money supply can cause a change of 4.752 unit in GDP(TÜSİAD 2011, p.15). On the other hand, a change in whole GDP effects the percentage of use of money. According to stuyies held so far have shown that a rise of percent 1 in GDP of an accepted country in the world can cause a rise of percent 1.33 in ,t's reserve s in World Bank.

3.1.3. International Reserve Strategies and IMF

Specially at the last 10 years, private capital has flown to developing countries from develped countries thanks to direct capital flows or portfolio flows(Altınkemer M. 1996, p.114).

Table 3.4: Developing countries' international reserve changes (in billion $)

Years	2000	2003	2006	2007
Asia	320.7	669.7	1,489.1	2,108.4
China	168.9	409.2	1,069.5	1,531.4
India	38.4	99.5	171.3	256.8
Russia	24.8	73.8	296.2	445.3
Brezil	31.5	49.1	85.6	180.1
Meksixo	35.5	59.0	76.3	86.6
Africa	54.0	90.2	221.3	282.7

Resource:www.imf.org/external/np/sta/cofer/eng/cofer.pdf

As it can be understood in the chart a serious amount of rise in reserve levels in developing countries. We can observe that China has 3 billion dollars of reserve with percent 24 increase comparing last year and 1 billion dollars in Japan(Ekinci A 2002, p.12). Depending that rise China has the highert inflation rate of percent 5.4.

Table 3.5: **Utilization of Reserve Money (%)**

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
USD Dollar	71.0	71.1	71.5	67.0	65.7	65.9	66.9	65.4	64.1	64.1	62.0	61.2
Euro	17.9	18.2	19.1	23.7	25.1	24.8	24.0	25.1	26.3	26.5	27.5	26.5
British Pound	2.9	2.8	2.7	2.8	2.7	3.3	3.6	4.3	4.6	4.1	4.3	4.0
Japanese Yen	6.4	6.1	5.0	4.3	3.9	3.8	3.6	3.0	2.9	3.1	3.0	3.6
Swiss Franc	0.2	0.2	0.2	0.4	0.2	0.1	0.1	0.2	0.2	0.1	0.1	0.1
Develop Countries	62.2	62.1	60.0	58.9	57.5	54.4	49.0	44.0	37.3	36.9	37.7	34.4
Developing Countries	37.8	37.9	40.0	41.1	42.5	45.6	51.0	56.0	62.3	63.1	62.3	65.6

Resource:www.imf.org/external/np/sta/cofer/eng/cofer.pdf

As we study on the chart above it can early be concluded that dollar is still being mostly used as reserve money despite Euro. Another coclusion is that reserve money share of developing countries is getting higher in whole reserve when we check IMF policeies on this issue we can comprehend that it supports international reserve saving s and gives credit to consulate reserve losses(Paincheira J 2005, p.5). These policies can be taken into 4 sections; Reserve share policies, credit share policies, emergencey policies, debt and debt service policy. Member countries make benefit of IMF depending on their joining quotas. SDRs that was created as reserve drawing and used as a mean of debts amoung member countries, that is, countries debts are over SDR.

While almost entire world is suffering from economical crisis: IMF has separeted 250 billion dollars to finance its members(C. F. Bergsten 2004). With the help of this savings each member increases its international reserve.

3.2. THE DOLLAR AS INTERNATIONAL RESERVE

3.2.1. Introduction of Dollar As reserve Money

The emerge of dollar as international reserve money is based on social, political and military factories. As a very powerful country after the war; USA was in better conditions than european countries. The european countries have started searches for their broken economies and prepared a base for Bretoon Woods conference. Dollar has been accepted as international reserve money unit. USA has risen economically and jeopolitically. Therefore the stable rise in USA economy has resulted in trust over USA dollar.

USA has gained both economical and political strenght on markets keeping its currency internationaly valid. The biggest adventage it has that it can determine its monetary policies independently. The other advantage is seigniorage revenue that is it has goods and services without any cost(Denizbank Ekonomi Bülteni 2011, p.15). Anually 8.7 billion dollars, gained by priting money for no exchange.

Additionaly, as an reserve money, USA dollar let USA be able to take debts over its own currency so that it could behave free from IMF. Including oil, a lot of goods prices have been set over dollar.

According to Barry Eichengreen, in order to understand the importance of dolar as reserve currency, it is need to understand its past. There is three reason for this. First of all, the availability of derivative instruments which embrass dolar exchange rate risk is ascendent. This feature makes the dolar the most popular currency for central banks and governments.

The other reason why the dolar the most convenient currency, is the tendency of flocking to dolar especially in the crises. Finally, the countries like Switzerland or Austrialia which are too small for their currencies to account for financial transactions(Gottselig G 2009, p.9).

Under the light of all developments dollar today has been most wanted currency, being national currency of 16 countries and Latin American countries out of USA. On the other hand, economies like in China and Russian have been depended upon USA dollar and this situation can supply USA a big advantage.

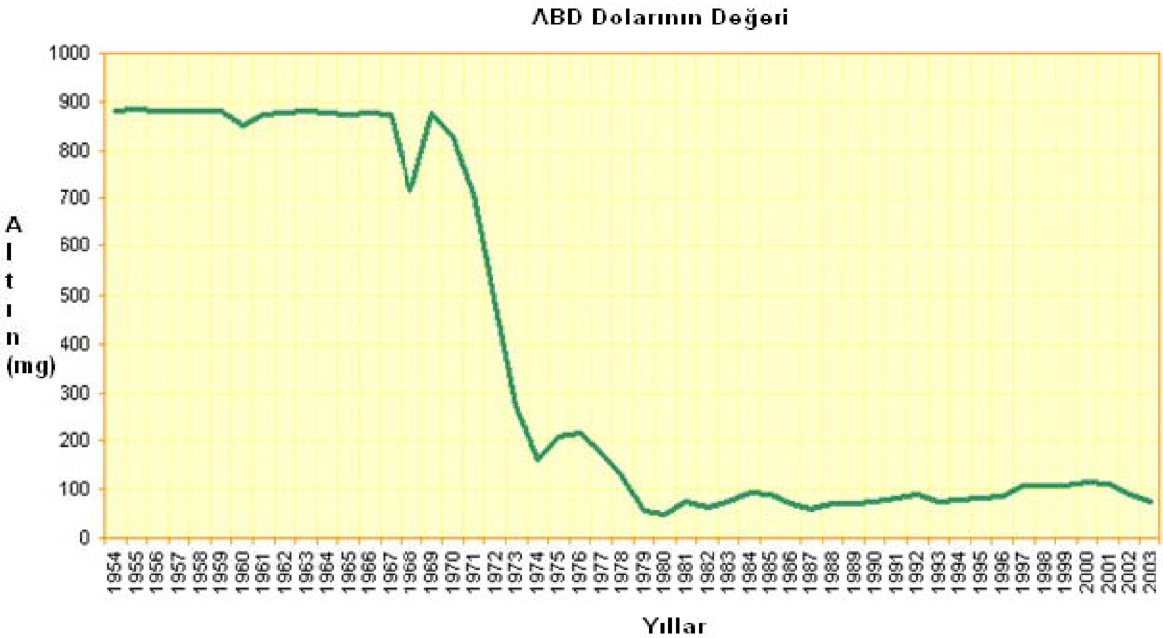
3.2.2. The Factors That Behind The Debates Around Dollar

In the years between 1950-1959 USA had gaps in each year but succeed in financing hem because it had enough amount of gold stocks. In 1960s it last half of its stocks but, this was underestimated. Instead of rising gold prices Private Drawing Rights were also insufficient to tolerate over gold demand.

In 70’s dollar has lost its credibility in a big extend and there has been a capital flow to Europe from America. Another reason fort his is that Germany mark and Japanes yen have gained power at this period. USA and England have heritated in devalıining their currencies.

The British Central Bank has started to convert its reserves to gold and was followed by different central banks in Europe and dollar system was wounded. As an example fort his situation we were able to buy 900mg of gold with a single dollar but after collapse of system, in 1974, we could only buy 150mg of gold with a dollar(Osmanov, E 2011, p.12). Later than distrurt over dollar, in the midst of 1970’s the relation between reserve money and gold has weakened.

Figure 3.1: Dollar's purchasing power over the years in terms of gold



Resource: www.ekopolitik.org/images/cuts_files/091121174023.pdf

In 1990’s USA experienced very strong economies due to dollar and September 2001 attacks have destroyed it. Since then, USA economic gaps have rapidly increased every year and insufficint policies and bigger budget gaps have resulted in worse conditions. With economic instability; running tendency from dollar has begun and USA has had no attempts to prevent his currency.

Thus, China, whose national currency is bound on dollar, has risen its competition strenght on markets and reached in a position with higher advantage. All other countries have accepted that USA and its currency have bad effects over global economy.

3.2.3. 2008 Depression and Its Effects

After the depression in 2008, dollar’s credibility as being international reserve money, has been in danger some countries, especially Russia and India, have internogated the

feature of dollar being international reserve money. These countries have decided to enrich their reserve money in different currencies.
The president Hu Cintao, of China that has most dollar reserve in the world, has stated that dollar should be transferred to SDR, created by IMF, a syntethic money unit(Eichengreen B. 2011, p.2)

By another look, USA’s external debt which has started tor ise in 1980’s, reached 10 billion dollars. Budget performance has also been an important factor determining distrust over USA dollar. By the dateof September 30, 2009, USA budget gap was calculated as 1.750 billion dollar.

Adding all aconomical reasons lie upon political and military reasons on the base of distrust. USA has started Iraq and Afghanistan war sfter September II attacks but war unable to complete soon enough and its military forces were also interogated. This has put USA dollar at risk.

According to the a new report by the World Bank, the domination of dolar as single reserve currency will end by 2020(Ünal A.,Övenç G 2010, p.7). Six major economies such as Brazil, China, India, Indonesia, South Korea, and Russia will help to finish the single currency. For example; China’s Yuan will play an important role for a multi-currency.

Although all these developments have increased the distrust over USA dollar as international reserve money, it is still the most valid and powerful currency. Additionaly the lost value in dollar has cheapen USA’s goods and decreased its often trade gaps from 695.6 billion dollars in the first 8 mounth in 2008, to 357 billion dollar in 2009(Ünal, A.g.e.s, p.9).

Unlike a lot of criticism over dollar, it is not obvious which curreny is replaced with USA dollar thank to significant amount of dollar reserves in some countries and the fact that no country will soon reach the same big economy as USA, no international reserve money unit is foreseen.

3.2.4. The Troubles Experienced in USA and Their Effects On Dollar

Because of its economic and political power, USA dollar is firstly used as reserve money unit globally. Therefore, in 2007-2008, with the deppression in USA decrease in economy has triggered economical and political distrust in the country.

3.2.4.1. The Weakness in Production

Later than depression in USA, a fall in employment capacity was experienced and national share decreased. For this reason, in 2010, the whole debt of USA will be more than national income.

In USA, industrial manufacturing production is so important because it fullfils percent 75 of whole industrial production. The share of manufactoring production was percent30 in 1953 and became percent 12.1 in 2005 and showed a significant decrease in 2008 and 2009(en.mercopress.com,2011). It is declared that manufactuaring production is active when data is over so and stable when below 50. The manufactuaring index that fell after deppression in USA had an tendency of increase in August 2009, reaching 52.9 after 1.5 years(Ünal A.g.e.s, p.15).

Up to declaration published by institute for supply management in USA, manufactoring index has started rising with employment and the rise of production. It was percent 61.4 in January 2011 and fell to percent 61.2 in March. Contraductly the index was 51.7 in Agust, 2010 in China and reported 52.9 in January 2011.

By decreasing in value in dollar as national currency, import an USA has rapidly risen. USA USA has reached is the biggest country in the world fun both import and export.

From 1994 to 2008 in USA; import increased by the rate of percent 120 and export dounled. Besides its import from Chinas increased at the rate of percent 400.

By the year 2009, a volume of 2.7 billion dollar for its export and import. Total export was 1.1 billion dolalr and total import 1.6 billion dollar(Erol,Ü p.2).

Table 3.6: General Foreign Trade of the United States

YEARS	EXPORT	CHANGE%	İMPORT	CHANGE %
2004	817.905.600	-	1.525.268.480	-
2005	904.339.456	10,6	1.732.320.768	13,6
2006	1.037.029.248	14,7	1.918.997.120	10,8
2007	1.162.538.112	12,1	2.017.120.768	5,1
2008	1.299.898.880	11,8	2.164.834.048	7,3
2009	1.056.931.968	-18,7	1.603.565.952	-25,5

Resource: Trademap/ITC.

3.2.4.2. USA Debts and Their Effect

With the value lost of sollar USA has increased its mport and also increased budget gap and debts. According to information given by USA government in 2008, all the debts was 9.9 billion dollars and became 11.8 billion dollars in 2009 13.5 in 2010 and 15.4 in 2011(www.istenhaber.com,2001). On one side widering tax and spending policies and on the other side military and economic factors have pushed USA into a very bad situation.

USA has been planing to finans its debts by only taking new debts. And consequently USA has come to a point where it can not pay its debts on time and this has been a reason of worrying for countries with dollar reserve because these figures takes USA into a category in which Irleand and Portugal stand but not into a category Greece is in.

Chart 3.2: Forecasts for the U.S. Budget and Debt

Resource:www.ımf.org.tr

Graphics above Show IMF’s expectation till 2016 conridering the continutiy in USA politics. Weaken datas about USA economy hav erisen worries on dollar(İTKİB 2010, p.18).

3.3. ALTERNATIVE RESERVE CURRENCY UNIT

3.3.1. SDR as a Reserve Currency Unit

A view to international reserve seeking is the special drawing right (SDR) which is especially focused by Zhou Xiaochuan who is the chairman of Chinese Central Bank. People's Bank of China was published a statement by the Central Bank Governor Zhou Xiaochuan on 23 March 2009. In this paper, instead of the dollar used by the IMF SDRs special drawing rights that are being offered for introduction into the world's reserve currency.Zhou Xiaochuan stated in an article idea, better to understand the special drawing rights, must examine the brief history.

3.3.1.1. The History of the SDR (Special Drawing Rights)

Together with an inclining of Bretton Woods system to collapse was created a currency called SDR like the bancor it’s stil being valid in conjunction. Special drawing rights (SDRs) is created by the decision of the IMFon paper and a non-international reserve.The main feature of SDR is defined as paper gold, is gratuitous, and as a means of payment to accept the will of him is that the power of the members of the IMF. SDR, a reserve was created as a tool for change as a legal tool, can not be defined as money or a credit tool. It is an asset for those with SDRs. However, one is not an obligation to[49]. While taking account of the national currency on the calculation of the SDR of six industrialized countries, since 1981 the U.S. dollar, German mark, Japanese yen, French franc and British pound average weights were taken with the five largest national currency. The advent of the euro in 1999, the SDR value of the U.S. dollar today (44%), Euro (34%), Japanese yen (11%) and British pounds sterling (11%) was redefined as a basket of four currency(Uras, G). According to the calculation of the SDR weights of the countries in the world trade shall be revised every 5 years. The current composition of the SDR in 1996, according to a recent arrangement shown in the table below. Allocation of SDR to the members of IMF, as for is made by IMF determined quota rates. Allocation process, the unpaid interest and interest to members of the IMF fails to offer cost-free opportunity to gain an asset. The amount of SDR in the hands of the members exceeds the amount allocated by the IMF, in the hands of the members have the right to earn interest on the SDR. The IMF can't allocate its SDR.

Table 3.7: SDR Currency

Tuesday, November 30, 2010				
Currency	Currency amount under Rule O-1	Exchange rate [1]	U.S. dollar equivalent	Percent change in exchange rate against U.S. dollar from previous calculation
Euro	0.4100	130.260	0.534066	-1.071
Japanese yen	184.000	8.383.000	0.219492	0.346
Pound sterling	0.0903	155.280	0.140218	-0.398
U.S. dollar	0.6320	100.000	0.632000	
1.525.776				
U.S.$1.00 = SDR			0.655404[2]	0.366[3]
SDR1 = US$			152.578[4]	

Resource: **http://www.imf.org/external/np/fin/data/rms_sdrv.aspx**

There are two types of allocation of SDRs. General SDR allocations result from a global long-term necessity directed to strengthen existing reserve assets. Despite a five-year assessment of the overall allocation, the allocation of SDRs in this way the decision was only twice so far. The total amount of these, the first allocation of 9.3 billion, were distributed during 1970-1972. The amount of cumulative SDR allocations, has distributed 21.4 billion SDRs in the second allocation period 1979-1981(Yülek M 2011, p.13).

In an environment that all moneys change including the dolar, while the value of SDR remained constant this brought it a function it has became an international value Standard. Today in determining the amount of international debt and receivables from SDR to a large extent are used. Various official international financial institutions have embraced the value of the SDR as a measure of value. In the meantime, exported to the territory, especially the Euro bond market bonds are removed, depending on the SDR.

3.3.1.2. Zhou Xiaochuan Proposal

Zhou proposes to enhance the use of the SDR as a reserve asset and to make it usable as an invoicing and settlement currency in international trade and financial transactions. He proposes:

1) “to make the SDR convertible into other currencies;
2) to promote the use of the SDR for commodity pricing, investment and corporate book-keeping;
3) to create SDR-denominated tradable financial instruments;
4) to update the formula used for the allocation of new SDRs by the IMF
5) to update the valuation base of the SDR by including other currencies in its base (presumably including the renminbi); and
6) to promote confidence in the value of the SDR by shifting from a purely unit-of-account system to a system that is backed by real assets such as a reserve pool”.

Mr Zhou’s plan could win support from other emerging economies with large reserves. However, it is unlikely to get off the ground in the near future. It would take years for the SDR to be widely accepted as a means of exchange and a store of value. The total amount of SDRs outstanding is equivalent to only $32 billion, or less than 2% of China’s foreign-exchange reserves, compared with $11 trillion of American Treasury bonds.There are also big political hurdles. America would resist, because losing its reserve-currency status would raise the cost of financing its budget and current-account deficits. Even Beijing might want to rethink the idea. Mr Zhou praised John Maynard Keynes’s proposal in the 1940s for an international currency, the “Bancor”, based on commodities. But as Mark Williams of Capital Economics says, central to Keynes’s idea was that a tax be imposed on countries running large current-account surpluses, to encourage them to boost domestic demand.The use of SDRs to meet the demands of member countries to become a reserve currency and enlargement to provide a complete article stressed, emphasis giving a greater role in SDRs.This new practice for many years the U.S. dollar will remain the most crucial component of the SDR, and see that it will continue to serve as a reserve currency.

In general, when we looked at Mr. Zhou’s proposal then we see that there are some difficulties and incentive lacks. The width is important to use foreign exchange reserves in the market. More specifically, the foreign exchange market intervention in foreign exchange reserves that can be used only if the liquid does the trick. The use of SDR, SDR banks should choose to use. This also means that the SDR-based deposit and the SDR-based loans available. To be an international reserve currency to the SDR, the SDR system requires that bonds denominated in those currencies of countries that support and demand for these bonds have come. More powerful in order to ensure the functioning of the system should be established in the foreign exchange market is a liquid.

The US government can easily make dollar entry to the market by monetising. In this context, if you are experiencing a shortage of foreign exchange market under the umbrella of the IMF SDR removal and should relieve markets. Formation and entry into force of this system is best done for a long period and contains the legal regulations. SDR currency reserve is a system that can be costly and long-time, the U.S. dollar for a long period of time shows that will continue to be the world's leading reserve currency.

3.3.2. Euro as a Reserve Currency

3.3.2.1. Transition Period for Euro

Within the period from 19th century through World War I, the British sterling in international markets, and after the World War II as evaluated those periods well U.S. dollar were dominated. Although the dollar was dominant in the 1980s, increased use of the Japanese Yen. Used in the 1990s as the dominant reserve currency, the euro, with the emergence of dollars a bipolar international monetary system has emerged.

In the period Bretton Woods system began to shake, commenced to recover economically in Europe were began seekings for a single currency as an integration movement both with economic and political aspects. Because of political union to be established, especially in Europe, the first step is to provide economic integration. In this sense, a stable economy in the European countries, currencies of member countries to sign on behalf of the merger proposal is very important.

The idea of becoming a single currency in Europe first held in the Hague Summit in 1969. The Maastricht Treatysigned in 1992with theestablishment ofEuropean economic andmonetary unionandthe waywas opened tothe birth ofthe euroas a common currency. Countriesparticipating inMonetary Unionas of1 January1999to replace thenational currency,the moneywas earmarked to becomethe name of theEuro at the Madrid Summit.

As from January 1, 1999, Germany, France, Italy, Spain, Netherlands, Belgium, Portugal, Austria, Finland, Ireland and Luxemburg, as for Greece since January 1, 1999 have made the transition to the Euro. European monetary union inflation conditions for participation of member countries, the government's financial status, such as issues related to exchange rate stability and long-term interest rates. In the past, high interest rates, high inflation and public debt, take classes in subjects such as European countries, aimed to achieve stability in the Euro and the economy.

While trade avoided from exchange rate risk with the transition to Euro, it has become encouraging to European countries. Central Bank of the single currency and a single case of transaction costs lowered, so that more efficient financial markets began to emerge.

On the other hand, while the Euro has high liquidity, cohesion, and economic forces of member countries support the view of Euro will be a rival to dollar. In addition, advocates of the euro, even when not exceed the EU's regional benefit beyond being a major international currency, according to many investigators have been.

3.3.2.2. The Comparison Between Euro and U.S Dollar as Reserve Currency

According to a study made by European Central Bank, with the beginning of usage of Euro as a common currency in Europe an increase of 80% occurred in Euro deposits of countries of former Yugoslavia, and in Turkey, Israel and Egypt increase amount was

16percent. European countries with the euro area, some of the reforms planned for the field of taxation and social. The creation of the euro, dollar has reduced its share in world reserves.

Table 3.8: **Utilization Rate of Reserve Currencies**

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Dollar	70.9	70.5	70.7	66.5	65.8	65.9	66.4	65.7	64.1	64
Euro	17.9	18.8	19.0	24.2	25.3	24.9	24.3	25.2	26.3	26.5

Source: 1995-1999, 2006-2008 IMF: Currency Composition of Official Foreign Exchange Reserves

When we look at the role of the euro on international grounds, unable to gather the necessary attention at first, but we see that acceptance between 2000 - 2004 of the years.The most recent triennial BIS survey, covering April 2004, showed the dollar still at 85 percent of all spot trades and the euro at 44 percent. Including also forwards and swaps, the dollar was involved in 89 percent of all transactions, and the euro in 37 percent (Bank for International Settlements 2005) (Olcay C. 2006, p.141).

The factors that determine the effectiveness of international currency (dollar or euro) can be listed as following:

a- The width and strength of regional economies
b- Depth and integration of financial markets
c- Exchange rate stability
d- Foreign trade volume

a- The width and strength of regional economies:

One of the factors that determine the international usage of one country’s curreny is the bigness of that country’s domestic output and the width of national economy. As a result of research in a country's total GDP, the share of world output growth of 1% means a share in the ratio of reserves held by national central banks is to increase by 0.5-1.5%.

b- The depth and integration of financial markets

The biggest role of financial markets in the economy is to provide that financial assets sell with minimum losses in value, providing liquidity to the market and minimizing the transaction costs. Thanks to financial integration is much easier to cross-border trade of financial units. In other words, financial integration in terms of investments due to market barriers created a revelation to a minimum.

For instance, after the initation of use of euro in European Union, the differences between interest rates in European Union zone have been reduced and depth in markets provided.

c- Exchange rate stability

For could providing that one country's currency is effective in international markets, one of the most important criteria is providing also exchance rate stability. One of the most important aims of established central banks also is to maintain the monetary stability in markets.

d- Foreign trade volume

To become international currency another important criteria is the volume of foreign trade and the openness of the economy. For this, the first requirement is effective foreign trade. Looking at parts of the international monetary pricing of raw materials and energy inputs, such as the U.S. dollar in terms of dollars of foreign trade provides a great advantage to have done.

Compared in terms of economic size and foreign trade volume, the Euro zone and U.S. have roughly same values, but the growth of Euro zone falled behind the growth of U.S, if confronted, because of the Euro zone has had to implement rigid financial politics in the past.

The weakness of the economy of Euro zone compared to U.S. economy in the beginning can be explained with the reflection of cyclical difference between U.S. and Euro zone economies.

3.3.2.3. Comparison of the Euro-Dollar

According to some experts as the international reserve currency euro would rival the U.S. dolar, but this expectation could not be satisfied in the short run fully, the effect of euro in the international monetary union could not become strong. The reasons may be various.

One of the most important features of national currency is also inertia. Countries benefit from the advantages of using the usual monetary union. Therefore euro must offer over these advantages. Dollar's British pound as the currency after the emergence of the world's richest economy, after ten years of international markets, the peak emergence of a process. According to Paul Krugman Sterlin it not being the most effective power because of the inertia.This break down prejudices against the euro for the currencies available on the market should provide significant advantages.This means that the euro's international role of the market outside the European Monetary Union and will determine the attitude of countries have an important share in the world reserves.

Accoding to the some economists in the United States, like Professor Paul Krugman of the Massachusetts Institute of Technology, the euro’s potential impact on American interests is overstated. Professor Krugman estimates the potential impact on the American economy is just one-tenth of a percentage point of economic growth(Birinci Y. 2001, P.72).

Another reason why the euro can not substitute dolar is the means of exchance feature of international money. An agent of change in property transactions directly with other currencies, the U.S. Dollar Euro görebilirken as an agent of change has more weight at the regional level.

In addition to this, another platform in the competition between the Euro and Dollar also is the currency of international reserve currency(Krugman, P 1994, P.32). Only 3/1 the country to be published in the United States dollar coins circulating currency in the world has made the most. However, a more regional character is based on the euro dollar. Products such as petroleum, which was a very important role in the world economy and trade in dollars made it a factor.

In terms of the effectiveness of national monetary union another important feature is the economic, social and political situation of member countries. Member countries, each with different economic structure, different from and parallel to each other, while the military power and social status of different features on a common currency although there seems to be difficult to ensure stability. Today, these differences are too self.States' insurance against the costs of bankruptcy (CDS) data for some European countries reached a record level.

A credit default swap (CDS) is a kind of insurance against credit risk. It is a privately negotiated bilateral contract. The buyer of protection pays a fixed fee or premium to the seller of protection for a period of time and if a certain pre-specified “credit event” occurs, the protection seller pays compensation to the protection buyer(CDS, 2011).

Table 3.9: **Crises of European Countries CDS**

Countries	**Most Recent**	**Status**	**Change**	**% Change**
Portugal	1.187.50	△	42.30	+3.69
İtaly	322.00	△	19.00	+6.27
Greece	2487.20	△	88.50	+3.69
Spain	538.0	△	24.40	+7.01

As also can be seen from the table, as their CDSs quite raising these European countries are in a critique level economically. Let’s examining these values also in graphics.

Portugal

Italy

Greece

Spain

Chart 3.3: CDS of European Countries

Source: http://workforall.net/CDS-Credit-default-Swaps.html#Cumulative_Probability_of_Default_CPD

By together coming economies which include such differences and irregularities established common currency’s usage as reserve brings also risks together it.

Problematic among the countries of the Euro in Italy with 12 basis points increase in CDS'si 187 point in Portugal while the CDS score increased by 20 basis points increased from 817'ye. 3032 increased by 16 basis points as of June 2011 out of Spain's CDS'si reached its highest level since January. This increase is struggling with the crisis in Greece and the CDS from 49 basis points to 1.819 as a rise.

3.3.3. Reserve Currency as a Amero

3.3.3.1. Formation of the North American Union

12 August 1992 between the United States-Canada-Mexico North American continent to include a North American Free Trade Agreement (NAFTA) was signed. This agreement aims to remove barriers to trade among themselves the three countries.CFR - Council on Foreign Relations gave the first signals about the formation of the North American Union in 2005. The three countries' leaders in Texas, American president George W. Bush, Mexican President Vicente Fox and Canadian Prime Minister Paul Martin came together and reached consensus on formation in March 2005, in Waco. This view is SSP (Security and Prosperity Partnership of North America-North America Security and Public Works) is to establish the partnership. This decision will be lifted and the boundaries between the three countries with the previously mentioned trade association formed a coalition to be converted.

Canada-Mexico and the United States economicallydependent on each other. Canada each year, earning over 300 billion in trade with America, while Mexico is the free cross-border trade with the United States carries out 90% of all trade(John Rubino,2004, P.3).

This partnership would be the beginning of America.United States dominates North America because, it has not only the largest population but it also has the highest GDP and GDP growth among the three countries. Politically, America will not give up power and allow another country to alter U.S. Monetary policy.

Table 3.10: **Some statistics for North Amerika**

	Canada	Mexico	United States
Population	34,583.000	112,336.538	312,207.000
GDP (billions US $)	1,330.272	1,567.470	14,657.800
GDP/Capita	39,057	14,430	47,284
GDP Growth	3,1	4,3	1,0
Inflation	2.7%	3.4%	3.6%
Debt/ GDP	77%	23.1%	55.9%
Invest/ GDP	19.5%	19.3%	15.20%

Source: Kerri Nyman,"The Amero, A United currency for North America"
http://economics.uwo.ca/undergraduate/undergraduatereview/undergraduatereview05/3_Nyman.pdf

Many have now heard rumblings of the "amero" , a proposed North American currency to replace the Canadian loonie, dolar and peso. The amero appears to be purely theoretical(Müfit Y 2008, p.45)

According to the planned strategy, Amero exchange rate with the existence disappeared. Thus, there would have to be converted into foreign currency to trade currencies continually.

Also show the countries and markets, currency values fluctuate against one another, aimed at preventing a sudden change that. Countries will be established with a single central bank would not be entitled to have their own independent resources.

Rather stronger in the economic field since 2001, China and the U.S. dollar with the Amero will be forced to rethink his entire investment, and would have to adjust to the new currency. Amero, undertake an important role in this respect.

3.3.4. The Yen, Pound, Swiss Franc As a Reserve Currency

The collapse of Bretton Woods, the Japanese yen has been one of the currencies that determine the value of the SDR. Very low in Total share of the total global reserve currency, use the JPY in 1999, this rate was 6.4% in 2010 to 3.6% up year[64]. Furecci (2007), many Asian countries as the Japanese Yen's adoption of the legal tender that would be more useful(Drake Bennet 2007, p.25).

Before the U.S. dollar as international reserve currency, British pounds had an important role too. During the First World War and the Second World War until the international credibility and currency movements, with a key role to play in a reserve currency, the pound is one of the currencies that make up the SDR. Today, again entering a period of growth Pound, U.S. Dollar and the Euro has its share of the world's largest third reserve currency(Al İ. 2011, p.138).

Swiss Franc franc currency used in Europe and at the same time last holds the distinction of being the reserve currency.1999 rate of 0.2 francs, while the share of international reserves in 2011, 0.1 is.Although a small share of world reserves of francs in the Swiss gold reserves have been favored by investors because of the abundance and stability(Furceri, D. 2007, pp 17-32).

Table 3.11: **Alternative Exchange Rate Changes in Reserve in recent years are the coins**

	Pound		Swiss Franc		Japanese Yen	
2005	Buying	Sales	Buying	Sales	Buying	Sales
	2.3257	2.3479	1.0256	1.0322	1.1231	1.1306
2008	2.3856	23824	1.3086	1.3170	1.6829	1.6941
2011	2.7352	2.7425	2.1116	2.1252	2.1531	2.1674

Resource: http://kur.doviz.com/arsiv/merkez-bankasi/

As shown in the table above, alternative currencies, dollar appreciated by the 2008 crisis. Nevertheless, the sovereignty of dollars in reserve funds continues.

3.4. SINGLE MONETARY SYSTEM AND THE ONE WORLD

3.4.1. International Monetary System and Sustainability

Countries outside of the international monetary system of rules for solving problems related to payments, a set of methods and applications. Organizations established for that purpose (the IMF, GATT, OECD, etc.). Not only the supply of international reserves, but also the balance of national currencies, the regulation of payment balance sheets is carefully monitored.

The developing economies of countries around the world are affected more than foreign affairs. Mundell (2001) according to the international monetary systems, the most important reason for sustained inability is possible to create the world's money. As mentioned in describing the theory of optimum currency area monetary union member countries should demonstrate similar economic structures. However, trade relations should also be intense. In other words, countries' macro-economic adaptation of the international monetary system is required. However, that has a lot of economic imbalances in the real world, this seems like a very distant reality.

The idea of optimality is complex and difficult, so we can not talk about a logical, complete model. Another idea declared that, international monetary systems can not be stable and. They cannot likely to survive over a considerable period of time. According to Richard N. Cooper, dissatissfaction with the very short run and year to year movements in real Exchange rates, combined with technological developments, which will lead to further integratin of the world economy, will force a change of monetary system. In short, a stable international monetary system that survive for all periods of time is impossible.

3.4.2. Venus Projects

By Jacque Fresco and Roxanne Meadows, launched in 1995 to develop community organization composed of resource-based economy in the entire system as described in the transition. The project is a research center established in the name of Florida, who now dominate the profit-based economic system, citing slowing down the development of humanity when the people removed from the real potential use of monetary-based economic systems will emerge and the bad effects of the world's monetary system advocates(Mc Kinnon R.1963, p.4).

The theory that was originated by Jacque fresco was resource based economy. In this system all goods and services are available without another monetary system. All resources become the common heritage of all inhabitants. Fresco said that money is only important in a society when certain resources for survival must be rationed and the people accept money as an exchange medium for the scarce resources. Money is a social convention, an agreement if you will it is neither a natural resource nor does it represent one. It is not necessary for survival unless we have been conditioned to accept it as such(Cooper R.N.1984, p.66).

The starting point is that in monetary-based systems the only important think considered is profit and maintaining a competitive edge. The humanity and evolution of people is not important. Inflation creating from monetary systems is a source of unemployment which is a vital problem of the world. With rising public concern regarding the green house effect, acid rain, polluted air and water, etc. Some companies are also beginning to realize that for sustained market presence it is in their best interest to heed social and environment concerns(www.thevenusproject.com).

According to Fresco, unequal distribution of resources though the world necessitates global trade,and so as in the past, today there is no global monetary system. Monetary systems are not sufficient for the people's survival. The solution is simple. To access to goods and services, the money is not necessary. The humanity requires resource to survive. This idea can be actualize with the new system which called replacement system.

The replacement system is a resource-based economy. As long as money is used, nations will seek to wars, hunger, unemployment etc. This global resources based economy would be gradually phased in while the monetary system is phase out.

Venus project is how much of each resource-based economy will take place-based economy, they say, and a variety of methods for this purpose the current economic, political, and political conditions in the near future due to go no further than the name of an utopian approach.

3.4.3. Single Monetary System and the One World

Negativity in the world economies, the international monetary system could not be a unity and continuity. Countries in international trade unions began to use their national currencies has been quite sore.

Mundell, the first idea about how to benefit the world by the International Monetary System in 1968, the U.S. Congress Business Committee have been made the presentation to the Sub-Committee. National platform for the confusion in the remedy offered was the idea of the creation of a world currency. Economists assume that we already had made on this issue and all countries with currency takbir Based on the fact that changes in monetary and exchange rate changes will decrease the costs claimed will emerge.

Mundell'in advocated creation of a single world currency, not the countries they continue to use their money in local economies, but between these currencies and the world benefit is to provide a full convertible. This plan fort he world currency could be actualized in three stages(Mundell R. 2005, p.474).

- Stage 1: Transition to stable changes
- Stage 2: The G-3 Monetary union based on DEY
- Stage 3: Creation of the Intor

Stage 1 could start with ceilings and floors on the G-3 curriencies. At the stage 2, three big curriencies in the world that dolar, euro and yen with specified weights make a basket of them into a unit called DEY and so, “DEY could be a platform on which to build a global currency “said Mundell.

Some researchers defend the idea of the creation of the world benefit, while others have embraced the idea of creating a realistic bulmayarak instead, the optimal currency areas. Cooper out of Mundell (2006) 'to the United States, Japan and developed European countries advocated for the development of a common currency(Cooper, R.N.2006, pp. 387-394). Furceri (2007), supporting the idea that the world's money has been thought of this idea is not that far. According to him, began to resemble each other more and more countries in the world(Furceri D. 2007, pp.17-32).

Russia has the world's money among the countries that support. In 2009, the G-20 summit in the process of globalization has proposed the creation of supra-national reserve currency.

However, against the world benefit from the Friedman (2001) and Rogeff (2001) the world in the near future the realization of the idea of money as they expressed it is not possible, at least three or four maintained that the money should be used as a reserve currency. According to these researchers, the establishment of a global central bank will manage it, even if a global government and political interests in this case states that clashes.

According to Stephan Schulmeister, the globalization of markets and enterprises has not been paralleled by a globalization of the monetary system, rather the opposite development has taken place(Rogoff, K. 2001, pp. 243-247).

The realization of the idea of world currency exchange between the cost of money is reduced, and this made it easier for foreign trade geitirir. In addition, countries need to build up foreign exchange reserves are eliminated, the economic data and contract prices will be possible to evaluate simply(Stephan Schulmeister 2000, p.3). But all this is a fact that can not be ignored as well as benefits mentioned in the political developments of these developments should not be held separately. International reserves 2 / 3 of doalr reputation as an international reserve currency is kept very warm today, the United States do not seek for any other easily predictable.

4. RESERVE MONEY SYSTEM IN DEVELOPED COUNTRIES

4.1. THE SHARES OF WORLD-WIDE PRODUCING COUNTRIES

The world economyincludes the growth rates of different economies. Developing countries increase their volume of trade between them, the course of weak external demand from developed countries have a negative effect on mitigating the effects. Therefore, developing countries, production and employment levels more quickly and have engaged in a rapid recovery period(www.tcmb.gov.tr, 2011).

According to the IMF's accounts in 2011, developed countries will grow by 2.5%, while developing countries will grow by 6.5%. This rapid growth has also increased their share of world production in developing countries. In 2010, 48% of world production in developing countries is carried out in 2011, the share of developed countries, these countries' share of production is foreseen to be more.

World Banka's prepared by the "New World Economy" according to a report by the developing countries in the period until 2025 the average growth rate of 2.3% in developed countries will grow 4.8%. During the same period the share of developing countries in global production by 36% to 45% will come from(Ömer Demir 2011). According to the World Bank, global economic growth from the year 2025 half of the next few years in Russia, Indonesia, India, South Korea, China and Brazil, with 6 of the developing countries, will provide the BRIC countries.

The share of world production is increasing in developing countries. In the 1980s, including Turkey, while 36% share of this category of countries was 45.6% in 2008.

4.2. THE RESERVES TO GDP RATIO

Accumulating foreign exchange reserves of developing countries since 1998, initiated under the supervision of the IMF policies were applied successfully(United Nation 2005, p.75). To protect themselves against fluctuations in the flow of capital to live in this country accumulates foreign exchange reserves. In 1999, reserve money was 37.8%

utilization rate for these countries in 2010 was 65.6%. In recent years, with the effect of the crises in these countries to accumulate reserves in order to attract foreign investment by directing the country is working to reduce the risks.

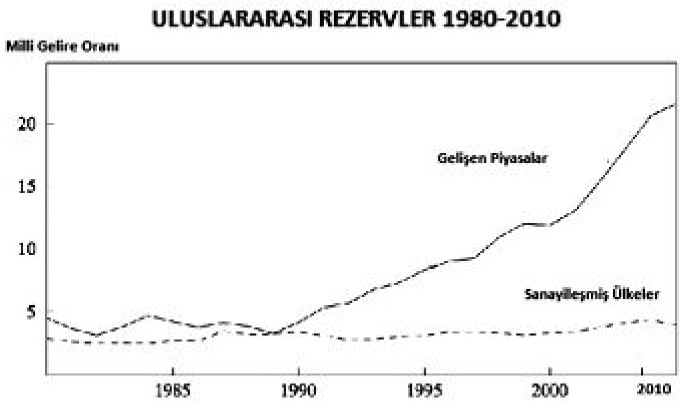


Chart 4.1: Chart of International Rezerve
Source:
http://www.tekstilisveren.org/ttsis//index.php?option=com_content&task=view&id=1050&Itemid=1

In developing countries, official reserves to be around 20% of national income is considered as the optimal point.

4.3. RELATIONSHIP OF RESERVES WITH CREDIT RATING

Credit rating, solvency power of their debt, the situation shows that the economic and political stability. Standard & Poors, Moody's and Fitch credit rating agencies at the three international credit grades. These companies look to the state's credit rating, while a number of economic indicators. These indicators are:

a- Internal / external total debt burden
b- Foreign exchange reserves
c- Monetary policy and the Cost
d- Growth, per capita income

Notes ranging from AAA to D + in a display table. Financial data for the correction of credit rating upgrade, reducing the burden of debt, the economy needs to be improved, such as reproduction of the labor force. High credit rating that allows a country to invest with confidence. As mentioned earlier, aimed at increasing foreign exchange reserves of developing countries exhibit an attitude. According to the statements from credit rating agencies to increase the reserve ratio to be positive, given the increase in credit rating.

4.4. THE IMPACT OF FOREIGN INVESTMENT RESERVE

A company's production, spreading beyond the borders of the country of the board to establish production facilities in foreign countries or the acquisition of existing production facilities is classified as foreign direct investment(Seyidoğlu H.1999, p.664). Operations of foreign firms with foreign currency return on foreign exchange will be provided indirectly to the country.

Table 4.1: Net Foreign Capital Flows to Developing Countries (Billion Dollars)

	1996	2003	2004
Net private capital flows	161.4	176.6	192.3
Net Direct Investment	128.6	151.8	165.5
Changes in Reserves (- Indicates increase)	-90.4	-291.9	-378.2

Resource: World Bank, Global Development Finance, 2005.

1980 - In the 1990s foreign capital inflows to Asian countries was the highest.During this period, foreign capital inflows to Asian countries has been a total of 162 billion dollars. Between 1990 – 2001private foreign capital investments were the highest in Latin America. Total of 528 billion dollars has been invested in these countries. However, Middle Eastern and North African countries was 156 billion dollars of investment.

By the years of 2002-2007 the highest increase seen in the Asian countries, stated that an investment of $ 618 billion.2008 - 2009 years of foreign investment decreased by the crises.To sum up the reserve along with the rise in developing countries is becoming attractive for foreign investments.However, the increase in the risk of crises and fluctuations in the economy and endanger the continuity of foreign investments(TCMB, Enflsyon Raporu,2010, p.22).

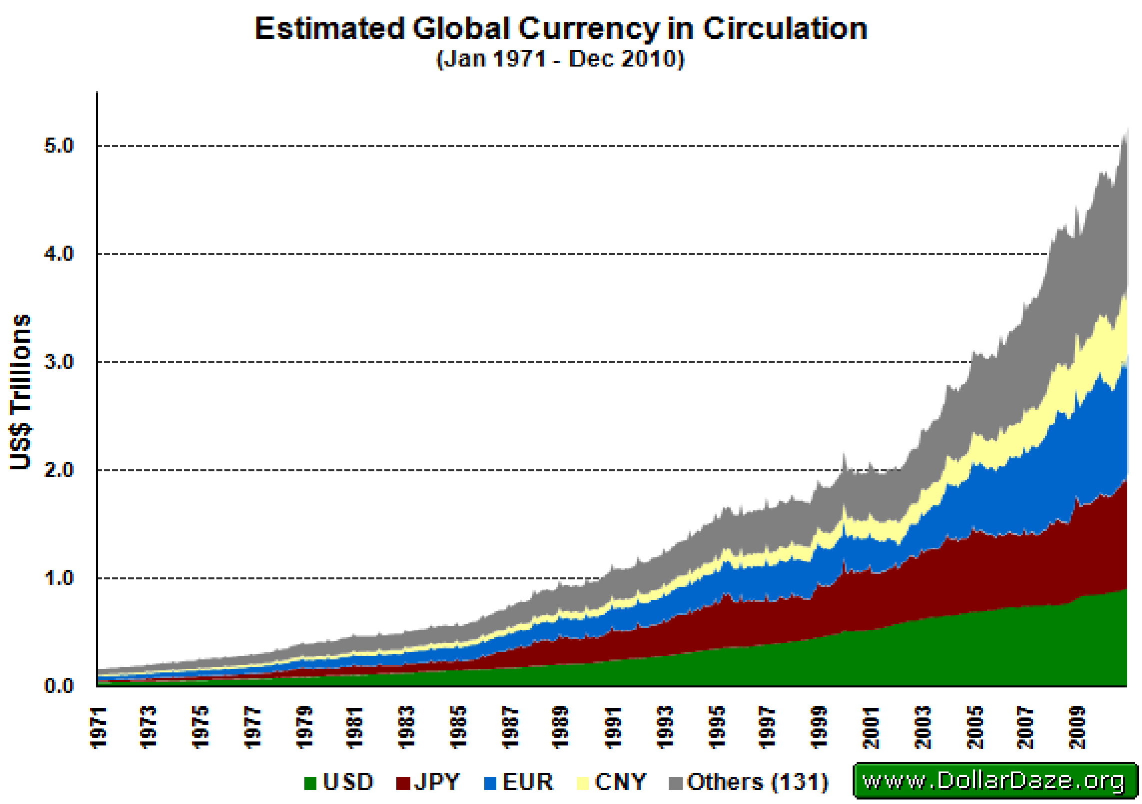
4.5. THE RELATIONSHIP BETWEEN WORLD RESERVE CURRENCY AND EXCHANGE PROCESS

4.5.1. The Amount of Money in Circulation

With paper money issued by the Central Banks by the Treasury released a coin is expressed as the sum of currency in circulation. Changing currency in circulation in the world where economies are rapidly increasing. In September 2009 to $ 4.5 billion in the world is close to the amount of paper and coin(www.dollardaze.org).

The above graph shows the growth of money supply since 1971, a year selected for the reason that the last remaining currency to be convertible to gold, the US dollar, was made inconvertible on Aug 15, 1971. Data were collected from 138 countries along with Turkey.

Chart 4.2: Estimated Global Currency in Circulation



Resource:www.dollardaze.org

Coins in circulation which has the largest share of the euro in the 24percent share of the total amount of 67.6 to 1 trillion dollars(Erol, a.g.e,s, p.2).

The total value of $ 862.3 billion in the euro and the dollar followed by the graph shown in green.In this sense, the amount of euros in circulation is the amount of dollars. However, the circulation of the euro is concentrated in its own region.Euro circulation outside the euro zone rate is about 10-20percent of the total.On the other hand, such as 50-70percent of the amount of dollars circulating in the United States a large proportion are in circulation.

4.5.2. World Trade and the Reserve Issue

U.S. Dollar continues to lose value in some countries such as China and Russia to keep reserves in dollars, giving up just being set up foreign currency baskets. For example, China in February 2008 with a trillion-dollar foreign currency reserve of U.S. dollars instead of 1:43 as the better-performing currencies, has announced the change. 82percent of China's dollar reserves, now before the dollar reserves declined to 76percent.

China to diversify foreign exchange reserves of South Korea and Japan appealed to the road. Russian Prime Minister Vladimir Putin and the national currencies in bilateral trade during talks in Beijing agreed to use more. China Yuan is now trading in Russia with rubles and the corresponding can be changed.

4.5.3. The Effect of oil and raw materials in the reserve

Although it started to lose value U.S. Dollars are dollars that the world trade in raw materials and oil is very slowed down this process. All central banks are an indispensable component of world trade because of the oil reserves of dollars are obliged to keep.

World oil production, 16.5percent flour that Saudi Arabia and the United Arab Emirates (UAE) in which the international reserve currency, the dollar reserves of $ determined that the distinction of being an agent of change.

In 2000, its oil reserves, Iraq is no longer on the dollar over the euro, not to put the stated price. Libya, Iran and Venezuela are also priced out of their oil to the euro. In addition, a large portion of the demand for oil and raw materials coming from China have increased the importance of reserves held by China's central bank.

However, the majority of world trade, particularly of wheat, cotton and raw materials such as oil pricing in dollars and dollars to the U.S. determination of a great advantage.

4.5.4. Bonds and Bills reserve in exporting Weight

From the state and also joint-stock companies to borrow money and as the same to be equal to nominal securities issued with 1 year maturity debt securities known as bonds. Bonds issued by the country's market conditions are considered when exporting.

The money used in issuing bonds and coupons must be convertible. However, due to the small volume of the market in some countries is limited, which they can issue bonds in foreign countries is an indicator of economic capacity. The size of the U.S. economy and the monetary base due to the wide range of problems experienced in this type of borrowing in dollars. For example, in Germany, the securities can mark Bundesbank'tan and requires permission. Today, with the largest share of bonds and bond issues in the world reserves of the two currencies are denominated in dollars and euros.

5. CONCLUSION

An integration in the economic field requires a fully living integration realized among the countries in social and technological area in the world. A possible integrity in the economic field first requires the establishment of a national monetary system and the ensurement of the sustainability of this system.

The gold system which had a key role in international trade throughout the 19th century and the early 20th century had left its place to Bretton Woods system. By this system a period had begun in which dollar gained a hegemonic postion in the world economy.

Due to the US deficits every year after 1950, inflexible exchange rates, and wars were the reasons that contributed to the collapse of the Bretton Woods system. After the collapse of the system, dollar was continued to use as rezerve currency even after the 2008 financial crisis.

With the decline in the value of dollar, the countries gave up to bind their exchange rates only to dollar, they had chosen the way of diversification. China was the foremost representative of this new tendency of diversification with its ever-growing economy. (Ünal,a.g.e.s. p.10). China which holds the greatest amount of dolar reserve in the world declared that the reserve status of dolar should be substituted with the a synthetic currency called SDR created by IMF .

Most of the world reserves of that country with which China holds dollar reserves, the dollar reserve currency status by the IMF created the SDR should be replaced with a synthetic suggested. In addition to the economic turmoil in the U.S. political and military power of the dollar against the course of the impact of insecurity begins. In addition to these new searches and economic turmoil, the increasing distrustfulness regarding American political and military power also influences the pace of the dolar.

In the light of these developments, before examining the future of dollar in reserve currencies, it is required to mention the position of alternative currencies. The Euro gained a vital role in international markets as an alternative to dollars and the rise of Euroe led to the decrease in dolar reserves all over the world.

Indeed, in terms of economic size and volume of trade, dollars with the same magnitudes, although the euro, the dollar fell behind in growth due to the strict financial policies. In addition, more time can be counted a new medium for the euro as the currency in use is unable to formulate fiscal policy on a regular basis. The four largest countries of the European Union, which is one of Britain's euro outside the euro zone can not be monetary and fiscal policies required for compliance has been a great disadvantage.

Thus, though it has the same sizes with the dollar in terms of economic size and foreign trade volume the growth of euro falled behind the dollar due to the rigid economical policies which applied in the euro zone. Strategy of accumulating reserves in euros between European countries, especially from the growing evidence that the reserve amount of nature. However, today, Greece, Italy, Portugal experienced great economic crisis of European countries such as the euro zone was in trouble too. Still remains to be an agent of change and inertia characteristics of the Dollar struggles with the economic imbalances of the euro common currency, the euro, at least in the near future would be too easy to substitute dollars shown. Weakness in output in the United States and the United States to become the world's largest debtor of the economic data weaken the dollar blow to the cause.

As unearthed as the alternative currency for well processing the SDR system firstly required to be established a liquid exchange rate market which is very expensive, because the exchange rate reserves in process should be liquid. Union's common currency, the Amero North American markets, the economy and doalr assumed to substitute for a serious identity was far from the currency.

In 19. century British pound lost value -which was the currency having most share in world reserves- with the appearance of dollar. In the same way as the Swiss franc and Japanese yen are still been held down in the share of dollars in international reserves, rather than less. Reserve a bit of money, both economically and politically, the country must be strong enough to give direction to the world. In this sense, as no European country or in China today has not reached this magnitude.

Another important point on the subject of international exchange rate reserves is the situation of developing countries. Increasing share of production in developing countries and their foreign exchange reserves of acceleration of the flow of foreign capital is important.

Looking at the present day with the euro currency in circulation has the highest share in 24percent. But mostly their own region, this movement is limited, whereas close to 70percent of the U.S. dollar out of circulation. Which is a very important role in international trade of oil and raw materials priced in dollars it is an important factor to be done.

Increasing speed of technological changes, changes in exchange rates, and economic imbalances prevent to be sustainable of international currency systems by urging them to change. In this respect the theory of a single currency and one world is difficult to perform. Jacque Fresco and monetary-based economy to project the resource-based economy that supports the transition from day to day so it draws attention to Venus Project.

As a result, ongoing military, political and economic power of America continues to make dollar stil the number one reserve currency. Although in recent years it has had lost value against the other currencies, it will continue to be the most used reserve currency in the short term. But lived crises and problems have had increased the need for a systematic monetary union. Return to the gold Standard, the electronic money system or another currency.. Regardless the selected direction, will be made radical changes should be supported by currently dominant countries in the world, and during this change will be appeared costs should be decreased as far as possible, this is important on behalf of avoiding from a new global economic crisis.

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