In recent years, the role of the US dollar as the world’s reserve-currency has been widely debated. The United States’ increasing and massive budget deficits have raised serious concerns about the value of the dollar in the long-term. The deficit rose to 11 per cent of gross domestic product in 2009. It exceeds the reasonable level of 5 per cent. While countries like Russia, China, France, Japan, India, Brazil, South Korea, South Africa strongly support a new world reserve currency, countries like Saudi Arabia and other emerging economies defend the dollar as the world’s main reserve currency.

Will the dollar be the dominant reserve currency in the future? Barry Eichengreen, a professor of economics and political science at the University of California, Berkeley, explores the issue in his book *Global Imbalances and the Lessons of Bretton Woods*. This book is divided into four chapters which are based on a series of Eichengreen’s public lectures. The book offers a well-organised explanation and discussion with particular interest in global imbalances, the Bretton Woods system, today’s international financial system, the collapse of the Gold Pool, revaluing China’s yuan and the role of the dollar in the future. Although some of the discussions may not be easy to understand without some basic understanding of economic theory, the book is a good read.

In Chapter 1, Eichengreen rejects contemporary economists’ view that equates today’s monetary system to the Bretton Woods system in the past. In this view, the global imbalances (US balance of payments deficits and Asian balance of payments surpluses) have little pressure on the dollar. High demand for dollar assets from fast growing export-led growth nations will prevent the dollar from depreciating. Therefore, there is no need for any adjustment in the US current account deficit. In a nutshell, the dollar will still be a main reserve currency in a decade or two.

Eichengreen’s view of the dollar is less optimistic. The stability of dollar is questionable. The dollar may not enjoy the dominant status as the world’s reserve currency as in the several past decades. Today’s world is different from that of the Bretton Woods system in 1944-1971. The members of periphery countries are larger and more heterogenous than in the 1960s (Europe and Japan). Integration in periphery economies is less advanced and regional cooperation (ASEAN+3, EMEAP and APEC) is more weakly institutionalised. Different stages of economic development and non-uniform policies make defining collective interest more difficult. Without collective action, the dollar receives less support.

The emergence of the euro as a close rival to the dollar provides foreign governments and central banks an option to diversify out of dollars to avoid capital losses. Also the creation of the Asian Bond Fund and the Asian Bond Market Initiative leaves some scope for reallocating reserve portfolios toward assets denominated in regional currencies.