Currency wars international trade

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Abstract

This paper examines the contemporary international trade and currency system to determine whether the system is appropriate for the level of knowledge, development and maturity of countries today. International trade and currencies are a key mechanism by which governments manage the livelihoods, standard of living and well-being of national economies including the relationship between countries and their peoples. Therefore, understanding how the international trade and currency system works and not just taking it at face value is important in determining whether a fair trade and currency system can be established between nations. The paper goes on to discuss what changes or reforms can be made which will enhance how countries perceive trade and one another in the currency process, currencies being the mechanism by which countries measure the value and accessibility of goods and services they exchange. It consequently, introduces the role of an Electronic Clearing House (ECH) in the international trade and currency system through which central banks would be able to enhance the trade and currency relationships between governments in order to make them more equal, more effective and relevant to the level of knowledge and development countries have attained.

Introduction[1]

It is evident that contemporary economics faces a knowledge crisis that is affecting the capacity of governments in the modern world to steer their economies toward growth. The international trade sector has not escaped this knowledge problem. Khor (10 November 2010) explains “the G20 leaders are meeting at a moment of new turmoil in the global economy. Yet important structural factors that underlie the renewed crisis are absent from the agenda of the G20 summit in Seoul. The hopes of a rapid global economy recovery have recently been dashed by the sovereign debt problems in several European countries, the gyrations in currency exchange rates, volatility in capital flows, and the war of words over ‘competitive devaluations’.”[2] No one really understands why economies don’t grow or if they do why they grow so slowly. No-one seems to understand why international trade doesn’t seem to work. There is persistent talk of more open economies, of free markets and improved cooperation between trading partners, but why is it that the mutual benefits of being trading partners do not seem to be observed in the practice of international trade? It would in fact appear as though trading partners are adversaries in a never ending war dance with exports as a sword and imports as a shield. Khor goes on to reveal, “A new South Centre report argues these recent problems reflect the lack of international mechanisms to prevent financial crises that now threaten to spill over into the trading and economic systems. The report points out that:

- There are no effective rules and regulations to bring inherently unstable international financial market and capital flows under control.

- There is no multilateral discipline over misguided monetary, financial and exchange rate policies in systemically important countries despite their strong adverse international spill-overs.

- National and international policymakers are preoccupied primarily with resolving crises by supporting those who are responsible for these crises, rather than taking measures to prevent their recurrence. Through such interventions they are creating more problems than they are solving, and indeed sowing the seeds for future difficulties.

- The IMF is being given much more capacity to bail out indebted countries – but this is misguided, because its role should be to prevent crises and there is an urgent need instead for an international debt work-out mechanism.

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[1] All the inferences and arguments of this paper are drawn from: Punabantu, Siize. (2010). “The Greater Poverty & Wealth of Nations: An Introduction to Operating Level Economics. *How every economy has the latent financial resources with which to finance the doubling of its GDP in one year at constant price.* ASG Advisory Services Group: Lusaka, [ISBN: 978-9982-22-076-7]

[2] Martin Khor, 10 November 2010, “The G20 summit dodges real reform,” The Guardian, Article historyhttp://www.guardian.co.uk/commentisfree/2010/nov/10/g20-summit-seoul-world-economy

The report, authored by Yilmaz Akyuz, the centre's chief economist, says the G20 and the IMF agenda do not include some of the most important issues, including enforceable exchange-rate and adjustment obligations, orderly sovereign-debt work-out mechanisms and the reform of the international reserves system." It is clear reforms in international trade and currency are required, the problem at hand is - *what reforms?* It is difficult to fix anything that is broken when the cause of its demise is not clearly understood. More countries may enter the G8 fold as observed in the wider G20 movement, and more representation may be found on the widened board of the IMF, but it is important to understand that unless the real problem with the international trade system is found as the nursery rhyme goes "all the kings horses and all the kings men couldn't put humpty-dumpty back together again…." Walker (23 Oct 2010) further reveals that "Finance ministers from the G20 leading economies have agreed reforms of the International Monetary Fund, giving major developing nations more of a say. At a meeting in South Korea, they agreed a shift of about 6% of the votes in the IMF towards some of the fast-growing developing countries. Those nations will also have more seats on the IMF's Board, while Western Europe will lose two seats. But the US will retain the veto it has over key decisions. Such decisions require an 85% vote - Washington holds 17% under the IMF's weighted voting system. The ministers also agreed to refrain from competitive devaluations of their currencies and move towards more market-determined currency systems. The talks in the city of Gyeongji come against a background of strains in financial markets which some have called a currency war. Much of the tension in the currency market is being blamed on the US and China, although it is not clear that either country will be restrained by the latest agreement."[3] Currencies are at the centre of disagreements on international trade, but there is still a need for the underlying economics that create the contemporary international trade system to be carefully understood.

"There is really no reason for the national currency of any nation to cross its own borders. This will sound unusual, but it can be validated. Currencies indiscriminately roaming are the first and most fundamental anomaly in the current international trade system that has not been addressed by international and domestic monetary institutions. Exchange rate deficiencies linked to international trade movements of goods and services and fluctuating exchange rates are like a disease that is allowed to cross contaminate economies rampantly infecting the progress and productivity of nations and individual industries; and dramatically raising the risks of foreign direct investment. In order to prevent the transfusion of currencies that causes global economic instability through fluctuating exchange rates, alternative approaches should be found."[4] It appears "currencies proliferating all over the globe crossing borders and running amok outside the statutory jurisdiction of central banks (CBs)[5] and an attempt to regulate them has become a poor rather than a prudent

[3] Andrew Walker, 23 October 2010), "G20 summit agrees to reform IMF", BBC
[4] Punabantu, Siize. (October 2003). "Normalising International Trade.", The Post Newspaper.
[5] A central bank does not directly control the printing, money supply and currency value of another central bank's money circulating through its economy.

application of free markets and monetary policy that has increased the vulnerability, risk and exposure of economies to instability."

As the quote above shows as early as 2003 I wrote an article about the international trade system currently in use and tried to explain why it is inadequate for governments to maintain going into the future. The current trade system may have initially begun as a simple system by which countries could exchange goods and services. However, it soon became evident that a country with a comparative or absolute advantage in a product could dominate its trading partners and make its economy wealthier at their expense. Today this expense is seen in trade deficits and currency "wars". In its ultimate form it uses currency to create a barrier to economic growth and causes government budget deficits.

Imagine a law is passed requiring every car, truck and vehicle moving on the road to drive in reverse. Drivers are either to look over their shoulders or to use their rear view mirrors to navigate through the national road network. The motive for this law is the discovery by a company called "Backtread" of a group of special types of tread on tyres that wear out more slowly if a vehicle is driven backwards. If the reader finds this requirement for navigation on roads absurd then the reader is beginning to understand how the international trade system works. The cars represent countries, driving in reverse represents the requirement that *imports* create an outflow or withdrawal of income for a country while exports create earnings or injections of income for a country. The special tread or tyres every car is encouraged to use are the "special currencies" or major internationally tradable currencies on the international market. This strange system is what is currently used in international trade to satisfy the needs of a few strong internationally tradable currencies at the expense of the global economy and the very countries that believe they gain an advantage by having these "special currencies." Let us look more closely at how awkward the contemporary international trade system really is.

"A fundamental governing principle of monetary theory is that when goods and services enter or leave a fixed medium of money supply (retention) within an economy they respectively cause an appreciation or depreciation of a currency that can be restored or regulated by increasing or decreasing money supply in proportion to goods and services in circulation. When currencies are confined to their respective borders goods and services can move against this retention. A new and well-organised international trading system based on this principle can begin with Central Banks playing a key supervisory role in the relationship between international trade and currency. In this system when external goods enter an economy they inevitably cause an imbalance between the volume of domestic currency in circulation and aggregate goods and services. In monetary terms, imported goods create a deficit effect on money supply. At the same time there are industries within an economy externalising a nation's resources by exporting goods and services creating a surplus effect on money supply. The deficit created by goods and services entering an economy can be balanced by Central Banks receiving these payments and reintroducing this liquidity using the surplus effect. This liquidity can be re-injected into the economy by paying it to domestic exporters using local currency leaving no doubts as to the cycle of monetary receipts and allocations in international trade. Hence, exports naturally pay for imports when they create a surplus in liquidity and vice versa. The economy remains balanced. Nothing could be simpler. The global trading system is thus allowed to act like an efficient self regulating organism made up of balanced self-regulated domestic macro-economies. There is less complexity, less clutter, less monetary chaos."[6]

"In this example the entry into an economy of imports empowers a Central Bank to increase liquidity, which facilitates payments to exporters in domestic currency. With this relationship there is absolutely no need for an importing country to have to source the national or domestic currency of the economy from which it imports goods and services. This is an unnecessary barrier to international trade that hurts both the exporting and the importing country. Its partner Central Bank already has the domestic currency to effect payment. In fact, no domestic currency whatsoever would need to leave its borders and no foreign currency has to enter them. For example, in this condition there are absolutely no currency exchange barriers to trade that would injure industries in the US that need export markets; the same applies to consumers and industries in Zambia that need to import and vice versa. Both Zambia and the US would face absolutely no currency reserve problems as there would be no need to hold foreign reserves in the first place. Currencies remain territorially bound and constant (retention) while goods and services move. In essence each nation's individual currency would act like a single currency that automatically transmutes itself through Central and/or Federal Bank supervision partnerships. This facilitates the tranquil movement of goods and services between economies. Commercial banks already follow this approach. Why should a commercial bank physically move money to another country when its subsidiary there already has the facility and resource to make a payment in local currency? For instance, it receives a payment in dollars in the US then instructs its subsidiary in Zambia to make the same payment in Kwacha, vice versa. If it works for commercial banks it can work for the IMF, WTO and Central Banks. The US Federal Reserve Bank (FRB) and the Bank of Zambia (BoZ), or any central bank for that matter, can have a partnership that facilitates and catalyses trade without currencies as barriers that stunt growth. This is what global partnerships are about."[7]

"In a new supervisory partnership of Central Banks supported by the WB, WTO and IMF, and the proper use of monetary policy, even if a country like Japan experienced a trade surplus it would be able to internally regulate the effects of this condition thus protecting itself, its trading partners and the global economy. At present trade deficits and surpluses uncontrollably spill over borders and translate into fluctuating internal and external exchange rates, which create a sickly and now archaic global trading system that destabilises economies. Currencies and goods run amok, hence, nations anxiously horde each other's currencies in fear of inadequate trading capacity. Within a few months global speculation or induced devaluation can wipe out the value of foreign reserves in a country despite the torturous effort of governments to build them up. Shortages in domestic currency due to it spilling over into neighbouring countries can lead to CBs having to print new money at high costs; or an economy can be destabilised by its own externalised domestic currency being

[6] Punabantu, Siize. (October 2003). "Normalising International Trade.", The Post Newspaper.
[7] Ibid.

channelled back into its economy by exports or transfers. FDI is threatened as investors fear inadequate hard currency to meet obligations. An export company cannot export because there is inadequate foreign exchange in circulation to buy raw materials which leads back to the problem of insufficient hard currency. A Zambian producer cannot purchase equipment because the economy has no foreign currency or due to the fact that a very high price has to be paid for it that deters productivity and renders growth incapable of repaying national debt. Meanwhile, across the Atlantic manufacturers in the US may sit idle and lay off workers, though warehouses are full of unsold goods, waiting to be hit by the full effect of a recession because potentially vast external markets either do not have access to the dollar, cannot acquire it, find it too expensive to buy or as it is in the case of Zambia, are standing by for copper export revenues to arrive from the LME on 56 Leadenhall Street. All this friction contributes to a global economy slowing down."[8] Xin and Rabinovitch (September 2010) write "The Chinese government's currency reserves, the world's largest such stockpile at $2.45 trillion, are held roughly in line with what was described as the global average: 65 percent in dollars, 26 percent in euros, 5 percent in pounds and 3 percent in yen…. Hu Xiaolian, a vice governor with the People's Bank of China, warned that depreciation loomed as a risk for foreign exchange reserves held by developing counties…Once a reserve currency's value becomes unstable, there will be quite large depreciation risks for assets," she wrote in an article that appeared in the latest issue of China Finance, a Chinese-language magazine published under the central bank." [9] The BBC (September 2010) reports "China pegged the value of the yuan to the US dollar in 2008 in order to keep its exporters competitive amid falling demand in the global recession."[10] Sam Coventry (September 2010) explains that "Perceiving the yen as being too expensive the Japanese government proceeded to sell off their currency - estimates on how much yen selling Japan had done in Asia varied widely. Forex dealers cited talk of 300-500 billion yen ($3.6 billion-$6 billion) although some reports put it closer to 100 billion yen. The intervention helped send the euro, Australian dollar and sterling sharply higher on the day against the Japanese currency, although traders doubted Japan had bought anything other than dollars for yen."[11]

Let's examine this process in a more simplified construct:

Why does the current design of the international trade system *not* work? Leaders and government departments need to begin to understand the real underlying faults in the international trade system. Here is a simplified explanation. If we assume for the sake of simplicity that there are only two countries in the world Country A and Country B whose net exports in the current international trade system are as follows:

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[8] Op. cit.
[9] Zhou, Xin and Simon, Rabinovitch (September 2010) "Heavy in dollars, China warns of depreciation"
[10] BBC. (15 September 2010) "China currency stance 'impeding reforms', says Geithner."
[11] Coventry, Sam. (15 September 2010) "Japanese Yen depreciation more to do with US Dollar weakness.", Economy News.

Table 1: The current international trade system

				X
Country	**Net Exports Billions**	**Net imports Billions (reverse)[12]**	**Total Billions**	**No ECH Cooperation between central banks Deficit/ Surplus Billions**
A	4	-6	10	-2
B	6	-4	10	2

These funds (X) are inaccessible to governments at the macroeconomic level as a result of the current design of the international trade system. Therefore, governments cannot reconcile trade imbalances.

At first glance there appears to be nothing wrong with the trade system in table 1. It is the system currently used globally to conduct international trade. However, leaders and government departments need to recognise that there is a glaring problem with this system and it begins with the fact that the role of central banks interacting with the trade process is almost completely missing therefore the imbalances caused by microeconomic activity of individual buyers and sellers in international trade is not being rebalanced by central banks which ideally should reconcile the currency exchanges at the macroeconomic level of trade consequently governments face trade deficits they cannot manage.

Examine column X. In this system note that Country A externalises or loses US$2 billion since it is a net importer of goods and services. What it is most important to note is that in this system the US$2 billion lost is irrecoverable by governments (at the macroeconomic level) since both currency and products move between countries bypassing central banks (see diagram 1). The only option the government in Country A has is to find the capital to build its export sector. Since currencies are not unconditionally exchangeable the producer in country A, who holds, for the sake of example, 4,500 Zambian Kwacha (ZmK) cannot exchange it for US$1. The producer must first take his or her K4,500 invest it, produce goods or services, find a market for them abroad, penetrate those markets, hope accessibility to those markets remain open, earn US$1, and place it as a reserve in the central bank. Without this fundamental process domestic currencies may be inexchangeable for hard currency. Even if the producer builds its export sector it does not control access to external markets. This is effectively a *huge* barrier to resolving the losses it is making by engaging in international trade. This barrier raises a tremendous human-rights problem which will be analysed later. If central banks around the world cooperated instead of competing against one another ZmK4,500 could by agreement be converted into US$1 unconditionally; that is without having to jump through hoops and go through the entire investment-production-export-sale-forex rigmarole. On the other hand a producer in a US dollar or Euro economy does not face this kind barrier. It is an incredible modern day human rights violation since it is a financial mechanism that blocks the individual outside the currency system from directly accessing the value or fruits of his or her labour creating an artificial scarcity that can and

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[12] Driving in Reverse; this is possibly dramatically stunting growth in contemporary international trade negatively affecting the pace of economic growth in both developed and developing countries.

does lead to varying degrees of poverty around the world. This artificial financial barrier to the capacity of persons to access the value of their labour can be as good as a concrete wall between the individual and life saving food, shelter, medicine, employment, education and so on. This is a very real barrier and the fact that it can lead to deaths, disease and the worst kind of poverty around the world suggests that all other human rights violations pale in comparison to it. There are many countries in the world accused of human rights violations, however, the current international trade system and its use of currencies as barriers to the capacity of humanity to directly access the value of its labour anywhere in the world is possibly responsible for more deaths and human suffering than the human rights violations of any one country today. It is created by the non-cooperative currency stance between central banks that creates “master” and “slave” currencies that hurt both developed and developing countries. It is possibly one of the only state sanctioned and implemented systems for discrimination or apartheid left in the world today. The majority have become so accustomed to their place in this hierarchy of superiority and inferiority they are not even aware biases in international trade and the application of currency exist.

On the other hand, Country B is a net exporter and has a surplus of US$2 billion dollars. In a *normal* international trade system an ECH would potentially use the surplus in Country B to settle the deficit in Country A creating a fair or balanced international trade system in which both net importers and net exporters benefit equally from international trade. However, it is impossible to settle the trade imbalance in the current international trade system: because there is no ECH; *both currency* and *products* move between countries bypassing central banks and therefore the capacity for trade imbalances to be equilibrated. The financial resources with which to settle trade deficits are consequently locked away from government simply due to a design flaw in the international trade system even discernable by a layperson. This represents a tremendous waste of resources of tremendous value and use to governments.

In other words countries are not just trading to be able to gain goods and services they need or to sell goods and services they can produce more competitively which is the underlying purpose of international trade, they are trading for money, that is, *hard currency* which technically is not supposed to be a key objective of international trade; whose main objective is the exchange of goods and services between countries based on what countries need or can produce more efficiently (comparative and absolute advantage). They are not even trading primarily for profit, but for *access* to goods and services in international markets and for international demand to be able to access their domestic markets. In other words they are trying to access a *human right*; the right to life and essentially the right to convert their labour into fruit able to sustain them denied them by the current international trade system and how it uses currency. However, without hard currency with which to access raw materials, equipment, goods and services in the international market governments face an *immense* and practically *impassable* barrier to domestic economic development. Governments are therefore unknowingly forced to trade for hard currency or “master” currencies, which today would be currencies like the US dollar or Euro because their national currencies have no value and are not recognised at this level of trade (there are no agreements between central banks that make national currencies unconditionally exchangeable) consequently these alternate currencies can be described as “slave” currencies.

Master currencies create a closed international trade system over which individual governments have no financial resources to control as observed in the deficit and surplus in column X. This makes the gains and losses in column X unrecognisable or irresolvable. This system is doing great harm to both developed and developing nations and needs to be reformed. One may think that by virtue of the fact that the US government controls the US dollar the current international trade system would work in the favour of the United States. Interestingly, this is not the case as the system which cannot be naturally reconciled is damaging the US economy itself which currently faces the largest trade deficit in the world. It must therefore be concluded that the problem is neither the US dollar nor the Euro, but the system in which all currencies function of which these two major currencies are merely a cog in the wheel. This system, by bypassing central banks during international trade, making one currency superior to another and therefore not unconditionally exchangeable diminishes the international trade system making it damaging to both developed and developing countries. Consequently, neither the governments of net exporters nor net importers can truly benefit from this system as they are essentially trapped in a feudal international trade system designed to compromise them all. While international trade takes place governments subject to this system whether enjoying a surplus or deficit are placed in a *precarious* position as a result of being subject to an international trade system where they are unable to control financial resources in column X in table 1, since in this system there are no financial resources created at the *governmental level* (macroeconomic) to correct the imbalance in column X.

In the current international trade system shown in Table 1 Country A finds that it is importing more from Country B than it is exporting to the same country and therefore faces a deficit of US$2 billion dollars. On the other hand Country B enjoys a surplus of US$2 billion dollars. In this archaic system:

a. The exporters (companies) in both countries earn a direct income of US$4 billion and US$6 billion respectively.

b. Country A benefits from trade more than Country C since it has a surplus of US$2 billion.

c. Country B is disadvantaged by having a deficit of US$2 billion.

d. There are no financial resources at the governmental level generated by the system with which to correct the trade imbalance since currencies bypass central banks during trade.

e. Neither Country A nor Country B can advance in international trade without one country compromising the other.

Clearly the current trade system is thought to favour countries that are able to export more efficiently and punish countries that are weaker at exporting. The reality is that its inflexibility is not only harming net importers, it is also effectively damaging to the net exporter. This is the case despite the reality that exporting countries exploit markets in importing countries to gain their advantage; this creates a strange system that is like an incurable cancer at the heart of the trade relationship between countries and governments. Furthermore, this system is locked or *closed* (see column X Table 1) in that it does not yield any funds at the governmental level capable of mitigating against deficits created between countries engaged in international trade.

However, when an ECH system is introduced currencies no longer bypass central banks when international trade is taking place (see diagram 2). The principle used is that goods move freely between countries, however, currencies remains domestic. Currencies do not need to move since central banks can debit and credit one another to facilitate trade; basically the movement of goods and services between countries (the finances in column X are unlocked as shown in column Y Table 2 by switching the system depicted in diagram 4). The result is the revenues with which to finance and reconcile the net surplus and deficit between trading countries to zero become accessible by governments, thus ensuring there are no deficits, that is, losses to either exporting or importing countries. As explained earlier, to achieve this, the international trade system has to change. In a new ECH international trade system exporters earn income from exports, but countries also earn *direct* income from imports creating a surplus with which to reconcile the deficits created by international trade. The system creates the following changes for Country A and B:

Table: 2 An ECH international trade system

					Y
Country	**Net Exports Billions**	**Net imports Billions (forward)[13]**	**Total Billions**	**Deficit**	**With ECH Cooperation between central banks: ECH Trade Direct Earnings (Billions)**
A	-4	6	10	0	2*
B	-6	4	10	0	-2#

*new revenue stream created for governments. The US$2*billion surplus is able to settle the US$2#billion deficit creating a fair international trade system.

Note that in table 2 though Country A and Country B experience a surplus or deficit at the microeconomic level neither country faces a trade deficit or surplus at the governmental, country or macroeconomic level. This means though exporters in country B are better off (earning more income) than exporters in Country A the deficit and surplus is neutralised at the country level (column Y). What this means is that even net exporters such as Germany, Japan and China whose industries are earning a good income from exports *do not lose the income they are earning* when the international trade system is changed. It means that even if China is the country with a trade surplus in Table 2 and the US is the country with the

[13] No longer driving through the international trade system in reverse, but driving forward.

trade deficit China can count on its industries still earning income from exports to the US and the US can count on its economy not being harmed by the trade deficit since the international trade between them is being reconciled by the way the new system operates.

A balance in international trade is achieved that allows the net exporter to achieve its benefits at the microeconomic level without generating harmful deficits in the countries it exports to and without incurring a deficit itself at the macroeconomic level. Technically country B is better off than country A (possibly as a result of comparative advantage), but country A is not worse off than Country B as a result of the two trading due to trading through an ECH. This is a reformation of the international trade system that is very simple to understand.

If Country A where the United States and Country B were Germany; the United States which is opening its economy to German exports would not be harmed or at a disadvantage as a result of importing more from Germany than it exports. On the other hand Germany which exports more to the United States than it imports would not lose its technical advantage in that its exporters would still earn more than exporters in the United States, however, they would do so with a clear conscience that their surplus exports are not harming the United States economy. This would generally define the relationship between all countries engaged in international trade in the new ECH trade system. It is only in this condition that international trade becomes fair trade. This provides proof that even the world's most ardent net exporters today need not fear change as they will be better off in an ECH international trade system than in the current trade system. Leaders can be able to identify advantages at these levels and progress towards a more satisfactory trade and currency system can be made. If how this simple more advantageous trade system works world leaders can work together to create a more conducive environment for international trade knowing the new system will bring positive advances without compromising their own or other countries.

What has changed between the old system and the new ECH system? The systems are entirely different. In the new system there are no "master" currencies and "slave" currencies. Progressive central banks agree their currencies are equal and unconditionally exchangeable therefore their currencies do not have to move when goods and services are exchanged between countries. This removes the effective currency barriers that prevent governments from developing their domestic economies as a result of the inaccessibility of hard currencies; what is essentially a serious *formal* violation of human rights. This violation is thrown out the window when, for example, the Zambian Kwacha (ZMK), South African Rand, Australian Dollar, Chinese Yen, United States Dollar may have different values and sovereign origins but as a result of agreements between central banks become technically no different from one another; each of these currencies becomes directly exchangeable and through cooperation and agreements between governments and their central banks become unconditionally exchangeable for the other. A person holding a Zambian Kwacha is as assured, *as a fundamental human right,* that this currency is a as good as the US dollar as surely as a person holding a US dollar is certain the US dollar is as good as the Zambian Kwacha without either sovereign country having to hold reserves of each others currency.

This bond becomes the defining relationship between all national currencies establishing *human* equality between all nations. It allows raw materials, capital equipment, goods and services to be exchanged between countries (international trade) without the need for money to move between countries and without currencies acting as a fundamental barrier to accessing these goods and services in different countries. Governments now simply debit or credit one another using an ECH as products move between their economies. There is no significant change at the microeconomic level; the banking and financial services sector which already uses electronic systems for money transfers and inter-country transactions or payments will not appear to change. However, this new process brings about a tremendous change in that column X now changes into column Y. Governments have now unlocked tremendous financial resources and created an international trade system which creates a *new revenue stream* (at the macroeconomic level) with which to correct the imbalances brought about when producers and consumers in their respective economies trade. In this new system countries with a large trade surplus, such as Germany, would be able to enjoy the benefits of having a large trade surplus without having to worry that a surplus may hurt net importers. At the governmental level the "US$2* billion" surplus is now able to balance the "US$2# billion" deficit as shown in column Y of Table 2 neutralising the negative impact of deficits and surpluses. These are financial resources the current system "locks" away and renders inaccessible to governments for this very purpose.

In a new ECH international trade system the method is changed from working or "driving" in reverse to driving forward; consequently countries harness imports or markets as a more expansive source of revenue (creating new macroeconomic revenue stream in column Y) and now use exports which are more limited (no macroeconomic revenue stream in column X) as a withdrawal of revenue. This normalisation of the international trade system creates a new revenue stream for the ECH from Country A as shown in Table 2 column Y (*). This new revenue stream which was not available in the old system is important as it provides the means for mitigating against the trade deficit (-US$2# billion) in Country B shown in Table 2 column Y. Unlike this new system the current international trade system does not naturally generate the resources to resolve deficits. In the old trade system Country A was making a loss or deficit of US$2 billion in the new system Country B has a deficit of 0 and contributes US$2 billion to the ECH. Country B in the old system was making a surplus of US$2 billion by switching systems it now has a deficit of US$2 billion, however, the ECH holds US$2 billion with which to resolve this deficit which entails both Country A and Country B can trade with each other and both have a net deficit of zero (0).

Having introduced a new ECH international trade system governments facing a deficit will soon realise that in the new ECH system neutralising a deficit is much easier than it was in the old trade system (see Table 1). In the old system when a government faced a large trade deficit it would begin to haemorrhage hard currency and to correct the problem it would have to first find the financial resources to enhance its own export infrastructure to increase exports. However, even after doing so it must then struggle to get its products into international markets it has little or no control over; for instance if Germany wanted to export cars to Japan it could face restrictions that prevent it from adequately accessing the Japanese market. If African economies want to export to the United States even if they had readily exportable products they would need processes like AGOA to facilitate penetration into those markets. These are indications of the current system being designed to work against rather than for international trade. However, in the new ECH system a country facing a deficit can simply open its economy more allowing more favourable products to enter it. In doing so it earns the additional income with which to resolve the trade deficit which is much simpler and less tedious than the current trade system. To begin with exporters on the international market are constantly looking to increase sales and would welcome an opportunity to sell more to a country facing a deficit so a government faces very little resource expenditure to exploit this. Secondly the country facing a trade deficit may not have control over markets in foreign countries which can prevent it from selling products there, but it does have control of its own domestic market and consequently there is no barrier to prevent it from opening its economy further so it can gain more income to offset a deficit; nothing could be simpler. It will soon be realised that in the ECH trade system a government may not even need to have the surplus in the ECH (Table 2 column Y) which can now be used to finance other international objectives.

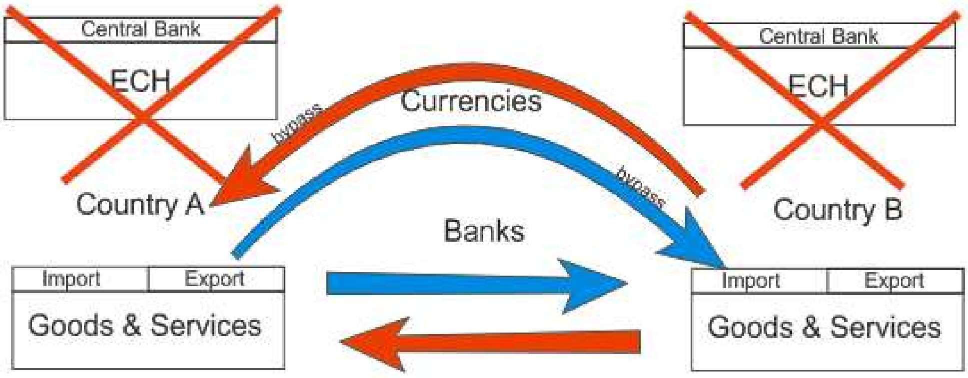

Diagram 1: Currencies bypassing central banks in international trade

As shown in diagram 1 when central banks are non-aligned, do not cooperate to function as one system as is the case today, currencies do not have *sovereign equal rights,* they are not unconditionally interchangeable and by virtue of policy they abscond from currency supervision in international trade. Consequently, money used in international trade moves freely and informally between economies using the banking system and bypassing central banks. Since currencies are unequal and are not unconditionally exchangeable what they do is bypass central banks and the equality they can bestow on money to instead export and import exploitation. This exploitation is created by the obstacles countries find when it comes to obtaining hard currency, penetrating external markets and being competitively disadvantaged on the world stage of international trade. Few economies in both developed and developing worlds can compete fairly as a result of having "slave" currencies, even fewer can be fortunate enough to become net exporters. Currencies effectively bypass supervision by central banks, however, central banks are mislead by the concept that having reserves of a "master" currency entails they are supervising and participating in currency movements. Furthermore, central banks that own "master" currency are mislead by the misperception that a "master" currency makes them more "superior"; this is no more absurd than any one race believing it is superior to another; the validity in this is that despite having "master" currencies these central banks are also just as effectively bypassed by microeconomic trade. In reality all central banks are being bypassed and the opportunity to neutralise trade imbalances is lost. As explained, lack of sovereign equality between currencies creates "master" and "slave" currencies. At the microeconomic level businesses and consumers are bypassing the economy creating an informal market that uses money as a form of open discrimination. This creates an uncivilised trade system or "piracy" over the waters of the contemporary international trade system where discrimination, barriers and the abrogated rights of citizens are bought and sold officially using currencies, their exchangeability and value. Through bypassing the central bank (ECH) it is impossible for this uncivilised system to naturally generate the revenues in columns Y Table 2 by which governments gain the capacity to balance trade deficits or surpluses and neutralise the negative externalities of trade. The cause of this flawed system is the inability of central banks and governments to foster equality, cooperate with one another on the issue of currency and manage trade through an ECH. The current trade system hurts both net exporters and net importers.

It has been demonstrated that the negative externalities of international trade can be neutralised in column Y Table 2 which generates the resources with which to restore trade imbalances being generated by international trade at the microeconomic level. It has also been shown how the pressure of imports in a new ECH system can be much more efficient at generating revenue growth for net exporting governments than harnessing exports. However, convention and modern gains from trade may tend to blind net exporters receiving minimal benefits from this system from seeing its flaws and realising that they too would be better off in a new ECH trade system.

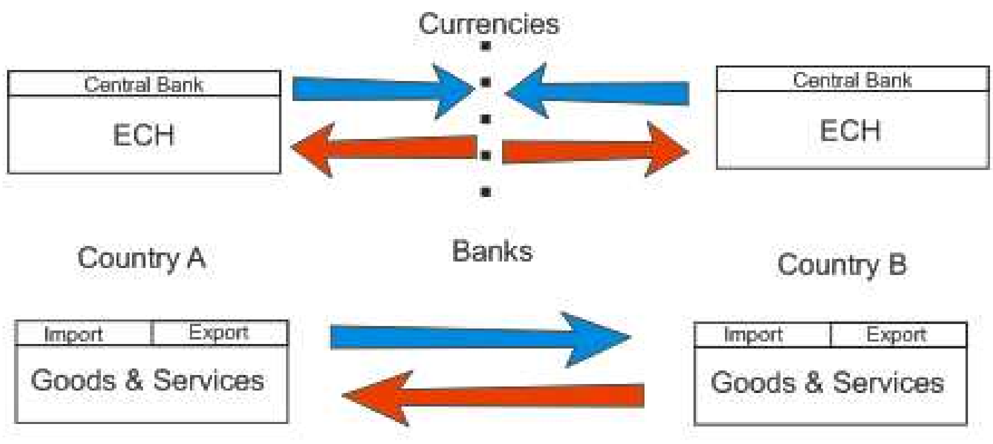

Diagram 2: ECH process

The currency trade is not very different from the slave trade if analysed from the perspective of human rights. The infamous transatlantic slave trade was built on exploitation of labour, discrimination, hegemony and inevitably a struggle between those who benefited from it and those people, states and nations who wanted it abolished. In this context the net exporter can be compared to those benefiting from the slave trade and the net importer amongst those seeking greater equality (fair trade) who would want it abolished in a society where the owners of master currencies are the sole elites allowed to own slaves (slave currencies) made to perform chores and work (climb over trade and currency barriers standing in their way) for free or nothing. In the same way the transatlantic slave trade made many exceptionally wealthy but also caused hardship, economic difficulty and great suffering for others the international trade system today creates the very same problem as some nations struggle through barriers to sustain their economies enough to provide for citizens while others enjoy either no barriers and deficits or comfortable trade surpluses and no barriers in a wholly unnecessary trade system where nations must undermine one another to survive economically as part of their conventional policy and business processes. The current international trade system may be viewed from this perspective as uncivil and uncivilised; it may make neither social nor economic sense and its limitations may make it defunct when it comes to its usefulness to commerce. In an ECH trade system unconditional equality is brought to currencies consequently bringing equality to nations and their peoples. As depicted in diagram 2 currencies become unconditionally equal, that is, unconditionally exchangeable restoring human rights at the trade and finance level. Currencies in international trade no longer bypass central banks that now cooperate through an ECH debit and credit system removing the need for currencies to cross borders. This creates the resources in column Y Table 2 through which governments have the revenue to balance trade imbalances between nations. New more efficient mechanisms become available for managing surpluses and deficits which entail governments have the option to direct freed ECH revenues to solving global problems.

Present day net exporters like China, Germany, Japan, Russia, Norway, Switzerland, Singapore, Netherlands, Kuwait, Malaysia, Saudi Arabia, Nigeria, Sweden, Korea etc may resist a new international trade system since they will feel they are already gaining a greater income from the current trade model, however, this is a perception problem rather than a real issue since their present gains cannot be greater than the potential benefits they will have from an ECH trade model. It takes less effort to pump air into a balloon than it takes to let the air out. Therefore, it makes more sense to harness letting the air out (earn income from imports) and make these pay for exports than to do the reverse which is to pump the air (harness exports) and try to make these pay for imports. Driving international trade in reverse creates a logically flawed international trade system even for net exporters.

Individual businesses and households at the macroeconomic level whose livelihood depends on exports will energetically work for profit, gains and progress (pump the balloon). Governments will on the other hand generate direct income through the ECH by allowing imports into the economy (letting the air out of the balloon) something they cannot do in the current trade system. The two processes balance each other out. The greater ease with which a government may resolve a trade deficit, for example, by making its markets more open will become apparent in a new ECH trade system. At present trade is measured as a percentage of GDP, however, in the new system it should be measured as a percentage of global rather then domestic GDP. In other words if Germany’s earnings from trade as a percentage of GDP in 2010 were 6.055%[14] then its potential earnings at parity would be the same except as percentage of global rather than domestic GDP in 2010 as the table below demonstrates.

Table 3: Earnings Comparison by Transposition

Country	*% of GDP	*GDP In billions	Earnings from trade (current system) Billions % of domestic GDP[15]	Potential Earnings from trade (ECH system) Billions % of Global GDP[16]
China	4.697	5,745.13	269.85	2,910.42
Germany	6.055	3,305.90	200.17	3,751.89
Japan	3.088	5,683.29	175.50	1,913.43

*Source: IMF 2010

The pressure of imports from the global economy attempting to enter a country (% of global GDP) will be a greater force for governments to harness than the pressure of exports from the domestic economy attempting to penetrate the global economy (% of domestic GDP). However, should all avenues fail the ECH as the balancing organisation of last resort will pay off the deficit in Country B using the macroeconomic surplus it gained from Country A. The advantages are:

a. Resources are gained by the new revenue stream with which to mitigate against deficits and thereby actually implement fair trade.[17]

b. Increased earnings in the new system: No export sector of any country in the world today, not even the world's largest net exporters such as China, Japan and Germany can compete with what they could earn by relying on exporting their domestic markets as opposed to relying on exporting goods and services. Exporters in these countries lose no income and experience no real change in their business experience as a result of the change.

c. The continuing desire of exporters to earn income in countries previously dependent on surpluses from exports continues to drive exports while the earnings from imports drive the desire for countries to have more open economies thus satisfying the demands for more open economies in international trade.

d. The ability to have both importing and exporting countries benefit equally from international trade. Country B is protected from a trade deficit in that if policy fails to

[14] IMF 2010
[15] Harnessing pumping air into the balloon.
[16] Harnessing letting the air out of the balloon.
[17] See Managing an ECH Trade System for more points on the benefits of this new system.

resolve it, it can ultimately be paid off by the surplus in Country C held by the ECH which entails neither country need incur losses as a result of international trade.

e. In this new international trade system all currencies are equal, legally exchangeable and therefore do not act as barriers to trade and development.

f. Instead of first having to invest or build its export sector Country B mitigates against the deficit of US$2 billion by using the pressure of aggregate exports in the global economy exerted on domestic markets by simply opening its economy up more by the percentage required to offset the trade deficit making deficits much easier for governments to resolve.

If Country B could easily resolve a trade deficit by simply opening up its economy more, that is, increasing and encouraging imports to enter the country what would happen to the to the US$2 billion surplus held by the ECH from the new revenue stream created from a global perspective? According to the IMF net imports and exports in the world for 2010 are as follows:

As economies become more open as a result of the ECH the number of individual companies and households engaged with exports will increase as a result of an international market that is more lucrative and persistently expanding. As shown in Table 3 periods 1 & 2 each time a country moves to open its economy to correct a trade imbalance the ECH gains income.

Table 4

Period 1

					Y
Country	**Net Exports Billions**	**Net imports Billions**	**Total Billions**	**Deficit / Surplus**	**ECH Trade Earnings**
A	-4	6	10	2	2*
B	-6	4	10	-2	-2#

Period 2

<table>
<tr><td></td><td></td><td></td><td></td><td></td><th>Y</th></tr>
<tr><th>Country</th><th>Net Exports Billions</th><th>Net imports Billions</th><th>Total Billions</th><th>Deficit / Surplus</th><th>ECH Trade Earnings from balancing</th></tr>
<tr><td>A</td><td>-6</td><td>6</td><td>12</td><td>0</td><td rowspan="2">US$2 billion</td></tr>
<tr><td>B</td><td>-6</td><td>6</td><td>12</td><td>0</td></tr>
</table>

Since imbalances are a consequence of natural variations in demand and supply they will persistently occur and governments will consistently have to manage their trade imbalances toward 0. In the meantime the ECH will benefit by making gains or losses from these corrections. It is only when a government fails to correct an imbalance that the ECH will use its surplus to enable that country to balance its trade. Table 4 shows how much an ECH would have earned in 2010 using IMF country data:

Table 5: ECH Earnings

Description	Earnings/losses Billions	Finances raised by economies becoming more open (ECH)
Net Exporters	-1,358.66	1,358.66
Net importers	1,156.40	Trade imbalance
		0
ECH Income Earned	1,156.40	

Source IMF 2010

In the scenario in Table 4 the net exporters (those in country B's position) would use the pressure of imports from the global economy and open their markets to accommodate US$1,358.66 billion worth of imports thus balancing out the deficit created by net exports. Should they do this successfully US$1,156.40 billion in cash earnings have been created by the ECH. The question that arises is what governments should do with this new income stream?

An ECH is capable of raising finances close to the income raised by governments from taxation. One recommendation for these earnings could be that they be used to fund the work of Bretton Woods Institutions (WTO, IMF, World Bank, UN, IFC) and regional international organisations promoting cooperation and peace such as the EU, AU, COMESA, SADC, ECOWAS, EAC, IGAD, ASEAN, SAARC, OAS, ACS and so on that foster greater cooperation between countries and regions and which currently depend on contributions from governments for their work. With the earnings from an ECH not only would international organisations mentioned no longer remain constrained by contributions they would have the finances to support government projects, national economies (e.g. post recession recovery) and international development without being crippled by inadequate funding. Objectives such as the Millennium Development Goals (MDG), ending poverty and greatly enhancing global development and peace would become achievable as the finances with which to achieve them would be readily available in the new system. United Nations (2010) reports that in 2005 "The UN system spends some $15 billion a year, taking into account the United Nations, UN peacekeeping operations, the programmes and funds, and the specialized agencies, but excluding the World Bank, the International Monetary Fund (IMF) and the International Fund for Agricultural Development (IFAD). Around half of this amount comes from voluntary contributions from Member States, the rest from mandatory assessments on those States. The United Nations and its agencies, funds and programmes - mainly the UN Development Programme, the World Food Programme, the UN Children's Fund and the UN Population Fund - spend some $10 billion a year on operational activities for development, mostly for economic, social and humanitarian programmes to help the world's poorest countries. In addition, the World Bank, the IMF and IFAD provide billions more annually in loans that help to eradicate poverty, foster development and stabilize the world economy."[18] An ECH if agreed between governments could potentially have raised US$1,156.40 billion in 2010 which by far exceeds the current budget for UN agencies. Some of the main challenges to implementing a new ECH system for international trade will be:

1. To clearly convince countries enjoying net exports in the old trade system they will be better off in the new ECH trade system.

2. For governments to agree their main concern is for every country to be able to enjoy a trade system freed from imbalances caused by deficits and surpluses.

3. For countries to genuinely desire fair trade to demonstrate they want this by having equal currencies.

4. For governments to genuinely want more open economies as a means for enhancing international trade.

Until this happens the design of the current international trade system will remain riddled with too many inconsistencies and half-truths.

Currencies as Barriers to International Trade

"The globalisation of money is as important to international development as free trade. In the present system major trading currencies such as the US dollar or Euro have to be obtained before countries are able to acquire imports. To do this they themselves must find exportable products and earn the foreign exchange with which to pay for imports. The capacity to produce exportable goods and services is thus a fundamental barrier to a country's capacity to acquire foreign exchange and therefore its capacity to participate in international trade. Foreign exchange, though readily available on international markets can therefore be considered a significant barrier to international trade due to the hurdles countries must overcome to be able to acquire it."[19]

"Using an ECH process, when a country imports goods and services the payments from domestic exports accrue to the Central Bank or an agency appointed by the CB to manage the ECH process. In other words imports entering a country have a positive effect on the balance of payments and are a direct source of income that accrues to government. These funds are then placed in an ECH Import Account. When a country exports goods and

[18] United Nations (2010) "Chapter 5: Is The United Nations Good Value For The Money?"
[19] Punabantu, Siize. (2010:108)

services domestic exporters are paid for their exports from funds in the ECH Import Account. Therefore, if imports exceed exports the remaining balance of trade is a surplus to add to government expenditure. Should exports exceed imports the country is not disadvantaged as its exporters are still earning income and a government is able to move toward a positive trade balance with little effort. The basic role of the ECH is not necessarily to gain profits through surpluses, but to manage the balance of trade such that imports equal exports. In this scenario currencies remain domestic whilst goods and services are allowed to move between countries."[20]

ECH Trade System[21]

No one these likes to dredge up "uneasy" ideas and periods in human history perhaps such as colonial rule and the slave trade so lets try to use the discomfort associated with these dark times and use them to try to understand the present. The current international trade system seems a relic of a bygone era in which exporters believed the markets for their products would favour their advantage over importers and domination of some kind in international trade using currency is perpetually sought; this domination can represent either currency, being a net exporter or both. Countries that are "masters" in the sense that they are net exporters will still be slaves in the sense that their currency is a "slave" currency. The current international trade system is essentially a "master-slave" system where the master who is the owner of a "master currency" who can be net importer or net exporter assumes superiority over the slave who owns a "slave-currency" and can be a net importer or net exporter. They create dependence and financial servitude that it is thought will perpetually benefit the more superior partner in a relationship where each player is expected to know and accept their place, that is, know and accept that they are either a "slave" or a "master". Countries in this system aspire to grow from being net importers to being net exporters in a life struggle for economic survival that defeats the intentions of fair trade since the inherent objective is not to have a fair system, but to become more superior or the most superior in the prevailing system. When does a system like this become fair? Is it when the slave is now the master and can take his or her turn at doing a little exploiting and make the slave work for free, nothing or for pointless reasons? Or is it when the system is changed to ensure an equal relationship prevails? The use of internationally tradable currencies that naturally block countries from accessing foreign goods is often not seen by governments. Therefore, the best analogy to use is that it is no different from a "master-slave" relationship between countries that persists to this day – no offence intended. Let us paint a picture or tell a "story" to drive this problem home. The story goes like this:

In the beginning the slave had no rights, it had no identity and therefore had no currency. In its servitude to the master currency the slave was completely dependent on the master. The master currency does not need to be converted in order to demand goods and services from the international market. It can print its currency walk into the international market and choose any goods and services it wants, and walk out. Eventually the slave rebelled and was

[20] Op. cit.
[21] Ibid.

given freedom and independence. At last it now had an identity and could place the title "currency" after its name. Despite this new freedom when the slave currency goes to the international market it is not allowed inside the international market, which is exclusive and has a large sign saying "Master Currencies Only" in bold letters at its front entrance. So the slave currency goes to a little window at the back of the shop which says "Slaves Currencies Only" where the international market system first asks the slave for proof of what work was done to justify the acceptance of the slave currency as it must first decide if the slave currency is worth anything at all, then the master currency tells the slave currency what the inferior currency is worth before it can be converted into a master currency and the requested goods and services are passed through the little international trade window at the back….The slave currency sometimes wonders why it is that with the same currency used to buy two loaves of bread yesterday will only buy an ounce of salt today even though the same effort was made to earn its own currency."

At present developing countries and a few rare developed countries queue at the little window at the back of the international market thumbing through their "currencies" and wave cheerily at developed nations who wave back as they walk proudly through the front door with the gleaming sign above welcoming them in. Everyone is cheery since everyone seems to know their role and place in the present international trade and currency system. But one day in the hot sweaty, fly infested, queue at the little window outside the international trade market one currency standing in the queue asks;

"Yaba, why is it that those countries walk in with their currencies and just take what they want? Why do we stand out here queuing by the little window counting our money, sweating and baking in the sun waiting to change our money into theirs? A currency ahead in the que joins in, "Origato, I agree. Is our money not good enough? Don't we all work just as hard to make sure this little shop is well stocked? Then how….come we stand out here all day to exchange our money in the heat just to buy or sell a few items for our people while they just print, walk in with their currency and take what they want? Is this…really..the meaning of democracy and fair trade?" Then from out the blue a gruff voice says, "Dasvidaniya, What I want to know is why there are so many net exporters in this que?" The currency far back in the queue replies, "Bwanamkubwa, Don't talk too loud…look at that currency at the back of the queue. It made noises like you and the international market shopkeeper added 20 zeros now its worth nada, the country is in chaos, people are spilling into neighbouring countries looking for work and there are no goods on shelves. See that other one further up in the queue they just told him to cut exports and devalue or they will rough him up." Another currency says, "Nao, But what gives the international market shopkeeper the right to determine what our money is worth? How is it the shopkeeper can just add zeros to our money when it suits him?" Another chips in, "Níhǎo, the master currencies can devalue and revalue as they please altering the value of all other currencies, keep your voice down or your value might become a target –smile and wave." Another says, "Ay hombre, why are we so scared of those guys." To which another responds, "Eish wena, they control the system."

Meanwhile;

A master currency approaches the huge doors to the front entrance of the international market. They automatically slide open and a huge waft of cool conditioned air from inside pours over the delegation just before the entrance. They stop for a moment and peer at the slave currencies queuing far below at the little window. One delegate says, "Blimey, have you ever seen a queue that long?" Another replies, "You'll get used to it." One delegate asks," Do you ever wonder why we walk in through the front entrance and they have to queue up at that tiny little window at the back when there is so much space inside the international market?" A delegate responds, "Golly, I have no idea when I got here this is how I found things." A delegate says, "Look, they have inferior economies that is why they have inferior currencies and must use our more superior currencies to trade. Its just the way things are and will always be – we are superior they are inferior: they can do nothing without us..I mean, were would they be without us."Another pipes in, "Why don't they just dump their inferior currencies and use ours – I hear some of them in the queue are already doing that. Look at them, sweatin an all in that heat and all those mosquitoes and flies swarming around but they still stand in that queue all day, one's got to admire that."A delegate points afar and says, "Well, I spoke to one of them recently - he was seated next to me at that international conference we had a month ago, remember they are allowed to sit next to us during conferences, we even took a photo shaking hands. Look further up, up there on them hills. That mass of poor souls waiting with empty bowls, standing with tools at the ready but no work, lying on them hospital beds – well that's who they're queuing for. Those people can do nothing until those representing them in the queue exchange their currency for ours at the little window." One delegate chips in, "If they are inferior and we are superior how is it that more than half of what we buy in this international market comes from those currencies queuing at the little window at the back? One of them even provided a loan to bail out my economy after a recent crisis." Another responds, "But why don't we get rid of the little window an' let them in with rest of us, surely it wouldn't do any of us any harm. It all seems so silly and unfair for us to be up here and them down there." Someone else says, "Do you know how complex international trade is? Do you know how tedious changing this system would be; do you know how many man hours are required, it would take forever to reform this thing – we just don't have the time or money. The WTO would never hear of it." A delegate sighs and says, "But some of those people on the hill waiting for currency to be exchanged look like they're dyin; they don't look like they can survive much longer, don't you think we should lend a hand, make our currencies unconditionally equal and create a fairer international trade and currency system even if its tedious?" to which another delegate replies, "Nah, lets just open that little window of theirs a bit wider and give them more representation." A delegate exclaims angrily, "Look we can't keep this door open much longer we'll be putting too much strain on the air conditioning!" Another delegate sighs warily, "Has no one told you yet that those currencies in the "little-window-queue" down there pay for the air conditioning. Oh look they're smiling and waving at us, smile and wave back – don't you just love how diplomacy brings us together despite our differences."

Though these sketches are a little tongue in cheek humour, the fact remains money is the sovereign means of exchange by which human beings have chosen to express the value of their labour, measure the worth of their productivity, gain access to food, water, shelter, clothing, medical treatment, education and a socio-economic existence. The barrier to development created by the international trade and its currency system can and possibly should be considered a formal violation of human rights.

Countries today with “slave” currencies are like a child born into a family of slaves. They are born with no concept of inequality in the same way leaders and countries engaged in international trade and domestic currencies today believe they are all equal. As they grow they begin to see how their family struggles and how the master’s family appears to live with greater ease and a notion of being different may begin to creep in. Then they see their parents work for free or for nothing and see the “master” give orders and begin to understand they have a lesser role in this relationship. They have seen their parents work the fields, toil day in and day out for no apparent reward other than their lives, in the same way countries must invest, produce exports, then beg to sell in some foreign markets just so that they can have hard currency which masters can sometimes obtain for nothing or receive as natural payment. As the child grows its innocence begins to fade as it begins to see “the system” and realise it is not free but a slave of international trade.

Why do enlightened sovereign nations and governments that represent billions of people today accept to create and be part of a dehumanising system that uses currencies to create a new “slave trade” based on the construct of the international trade and currency system and its application of currencies?

Let’s try to understand this problem. In terms of contemporary economics the reason is quite simple. Most economies suffer from an inferiority complex. It is a psychological problem based on perception. When the great infrastuctural achievements of developed countries using “master” currencies are observed against the weaker or less prosperous economies of “slave” currencies the difference in prosperity actually reinforces the belief that these countries are inferior. Consequently, they accept that they are inferior and accept that their currencies are inferior to “master” currencies. In reality no such superiority or inferiority exists, there are no “master” currencies and no “slave” currencies, it all has to do with how psychology affects perception. This discrimination and hierarchy between governments and their currencies only exists as a result of the psychological propensity to believe a less prosperous economy is inferior to a more prosperous economy. Consequently, this inferiority complex causes governments to shun their national currencies and regard them as inferior; so they instead work for hard currencies and this inferiority complex becomes a physical symptom which becomes evident in the creation of and admiration for foreign exchange reserves. The structural barrier to growth in these countries is reinforced by the belief that because they are inferior they must first build export sectors before they gain the “right” to receive the “master” currencies and the governments of “master” currencies believing they are superior expect the inferior economies to perform these acts of “worship” or “homage” to them before the “inferior” economies may become worthy of exchanging their “inferior” currencies for “superior” currencies. In cases where “slave” currencies fail to raise the hard currency to build export sectors the currency barrier forces them toward bankruptcy. They are then forced to borrow heavily to legitimise the value of domestic currency which cannot have real value as a result of being rendered "inferior" by the currency barrier. Economies with currencies de-legitimised by the present international trade and currency system facing the worst this system has to offer may then have no option other than to borrow to grow and as a result may easily become highly indebted poor countries seeking relief from their debt burdens through the IMF.

Countries buying goods and services from the little window at the back of the international market believe in earnest that is where and how they should trade since they perceive themselves as inferior while "master" currencies which perceive themselves as "superior" enter through the front entrance and see nothing wrong with this since the psychological perception is that they *are* superior. In essence the inferiority complex causes national currencies to build toward hard currencies for free or for *nothing*. How? If the cost of building the export sector in an economy is US$8 billion and this brings in forex reserves allowing a national currency to be traded for a hard currency at a ratio of 1:1 e.g. US$1 for $1 Zimbabwe dollar this exchange rate does not factor in that US$8 billion spent to be able to raise the forex with which to have an exchange rate at parity – 1:1. A significant proportion of US$8 billion will have to be acquired by borrowing from external markets creating a debt burden and significant proportion will be spent purchasing capital equipment from external markets. In this sense the "master" currency has made the "slave" currency work for free or for "nothing" when in fact all that was really required was for the central banks of governments to accept or agree their currencies are unconditionally equal. This would remove the prerequisite for the expenditure of US$8 billion to build an export sector that would be built by exporters looking for business and profits in external markets anyway. Governments of both developed and developing nations may need to begin to see how this system of discrimination is wasteful, dehumanising and mutually detrimental. It may be difficult to deny that a system which discriminates against sovereign currencies is one that discriminates against people. When it is sanctioned and has become conventional it officially regards people represented by "slave" or "master" currencies as inferior or superior and uses barriers or conditionalities to tamper with the capacity of the value of their labour to access international markets. Emerging economies have proven they can transform despite having "slave" currencies, however, there may often be political benefactors attending to the machinations of this growth. In addition to this, despite impressive economic progress the fact remains that even these economies remain relegated and segregated to the "slave" currency quarters. What will inevitably happen if this system goes unchecked is that "slave" currencies will one day eclipse "master" currencies and the roles will switch; the "slave" currencies of today will become the "master" currencies of tomorrow and the "master" currencies of today will become tomorrows "slave" currencies, but this will not mean a fair international trade and currency system is gained. This is why it makes sense for all economies to prescribe to the unconditional exchange of currencies and a fair international trade system where countries benefit mutually from trade. To use currencies to ask people to jump through hoops, build factories to produce goods for export, beg for access to markets and invest in non-traditional exports *before* they can access the international market could be considered dehumanising and a modern day violation of human rights. Consequently, currencies are being used to deny countries the equality with which to directly demand goods and services on the international market and if necessary use the central bank's authority over money supply to use currency instead of loans to build an economy. The fact that policy is informed by biases such as this is an aberration and a way of manipulating or exploiting unwary minds on both sides of this problem. This relationship between national currencies in international trade today is possibly no different from the slave trade or colonial era where "inferior" groups where made to work for nothing or do things which benefit their "masters" for free, when they were not allowed through the front entrance of a store but had to make purchases through a little window at the back; neither are its consequences any less dehumanising and damaging for the weaker countries in this relationship as will be discussed. A slave or subservient society can readily be transposed over and fit well into the financial construct of the current international trade system and how it uses currencies. If a chain store like Wal-Mart in the US, Harods in the United Kingdom, Shoprite in Zambia and Pick n Pay in South Africa placed a large sign at the entrance saying "Masters Only" and little window at the back saying "Servants Only" and recruited security guards and policy makers to enforce this rule what would the honest reaction be from the government and the public? If the reaction to it would obviously be swift and hostile why do modern governments in both developed and developing countries accept to function in an international trade and currency system that creates a system such as the one prevailing today? As explained it is a problem to do with psychology. If this kind of system is considered unacceptable today why then does the international trade system policed by a reputable organisation like the WTO use currencies to run international trade like a colonial and discriminatory "master-slave" system that restricts how populations in *sovereign* countries can convert their labour into value – creating "fake" or artificial barriers, favouring some while holding biases against others? Anyone who observes the workings of currencies in the international trade system and does not see this abrogation may be in a state of denial. The global practise of discriminating against sovereign currencies may be no different from the international slave trade and colonial forms of discrimination making the international trade system an affront to the very sovereignty of nations, human rights and equality. Article 4 of the Universal Declaration of Human Rights (UDHR) states, *"No one shall be held in slavery or servitude; slavery and the slave trade shall be prohibited in all their forms."*[22] The fact that sovereign nations today cannot unconditionally exchange their domestic or national currencies for hard currencies due to existing barriers is a form of slavery or servitude that keeps millions in economic suffering. Article 5 of the UDHR states, "No one shall be subjected to torture or to cruel, inhuman or degrading treatment or punishment." The discrimination created by "master" and "slave" currencies as well as the economic hardship, death and poverty caused by artificial barriers in the international trade system and how currencies are used in it can amount to *degrading treatment* and are thus contrary to Article 5 of the UDHR. The current system violates Article 23, which states "(2) Everyone, without any discrimination, has the right to equal pay for equal work. (3) Everyone who works has the right to just and favourable remuneration ensuring for himself and his family an existence worthy of human dignity, and supplemented, if necessary, by other means of social protection." The present system uses currencies to alter the value of human labour and make it unequal as it exists

[22] United Nations: The Universal Declaration of Human Rights

between countries by using artificial currency barriers to make it more difficult for some countries to convert their labour into value that can demand goods and services unconditionally on the international market; they must first invest, produce exportable goods, negotiate for those goods to enter foreign markets, and earn hard currency or become heavily indebted by seeking hard currency loans before they can access these goods and services (from the little window) while labour that earns these hard currencies directly face no such barrier to accessing goods and services in international markets. The provision of hard currency loans and forex reserves are no substitute for this form of inequality. Articles 24-27 may be violated by the fact that many countries face economic hardships as a result of the discriminatory practices observed in the application of currencies in international trade that prevent people from achieving objectives outlined in these Articles.

The contemporary international trade and currency system, as mentioned earlier, has close parallels with the slave trade and colonialism and it will take political will and a greater understanding of human rights and how this system is commercially detrimental to all countries. According to Wikipedia (2010) "In Britain, Portugal and in some other parts of Europe, opposition developed against the slave trade. Led by the Religious Society of Friends (Quakers) and establishment Evangelicals such as William Wilberforce, the movement was joined by many and began to protest against the trade, but they were opposed by the owners of the colonial holdings. Denmark, which had been active in the slave trade, was the first country to ban the trade through legislation in 1792, which took effect in 1803. Britain banned the slave trade (but not slavery itself) in 1807, imposing stiff fines for any slave found aboard a British ship (see Slave Trade Act 1807). The Royal Navy, which then controlled the world's seas, moved to stop other nations from filling Britain's place in the slave trade and declared that slaving was equal to piracy and was punishable by death. The United States outlawed the importation of slaves on January 1, 1808, the earliest date permitted by the constitution for such a ban. On Sunday 28 October 1787, William Wilberforce wrote in his diary: "God Almighty has set before me two great objects, the suppression of the slave trade and the Reformation of society." For the rest of his life, William Wilberforce dedicated his life as a Member of Parliament to opposing the slave trade and working for the abolition of slavery throughout the British Empire. On 22 February 1807, twenty years after he first began his crusade, and in the middle of Britain's war with France, Wilberforce and his team's labors were rewarded with victory. By an overwhelming 283 votes for to 16 against, the motion to abolish the slave trade was carried in the House of Commons."[23] If this article was taken and instead of slave trade, currency trade were used, by which countries are segregated into "master" and "slave" currencies the logic would remain the same. By currencies bypassing central banks (see diagram 1) the trade system is made informal or a form of piracy; and it is interesting to note that Britain declared "slaving was equal to piracy and was punishable by death" as it would undermine the competitiveness if other countries did not follow the ban. This seems directly related to the fact that the currency system in use today undermines the competitiveness of sovereign countries using "slave" currencies yet no effort is made to make currencies equal to one another. The majority of developing and emerging economies are unaware of how their

[23] Wikipedia. (2010). http://en.wikipedia.org/wiki/Atlantic_slave_trade

currencies function in a system designed to keep them in chains. The present day international trade and currency system will need the same kind of insight and political will to be changed into a more just system where the currencies of countries are unconditionally equal as are human beings.

Currency discrimination is a mistake made by biased and misinformed ideas on commerce and trade used to justify the dominion of one currency over another; since money is a global means of livelihood it is essentially no more than a sophisticated way of maintaining a system that propagates a belief in the superiority of one nationality, country or ethnic group over another with the possibility of using currency in international trade as a screening mechanism for bigotry. The restrained often cannot clearly see the shackles for what they are. The psychology that leads to these unnecessary conditionalities between countries and economies needs to be understood. The international trade system and the method for its use of currency is a relic of a bygone era that stands in the way of the ability of modern governments to grow their economies, enhance commerce and develop the socio-economic lives of their people. The underlying psychology that influences how governments perceive themselves, their economies and their people in this biased system may be the reason why it is still tolerated in international trade and how the trade system uses currencies to discriminate in the financial actions active in both developed and developing countries today. If Africa and other regions that experienced these biases no longer accept to purchase goods from the little window at the back of the store, then why would they accept to do this today in the international trade and currency system? Fundamentally, there is no difference between these two scenarios. And most importantly both developed and developing countries, many of which fought to escape discrimination, shed blood to gain independence and sovereignty must ask themselves why they create or submit themselves to a dehumanising international trade and currency system in this day and age? There is a need to look inward and understand the psychology that exposes countries to these biases without these biases being challenged. Planners need to educate themselves on international trade and the currency system as explained in Table 1 &2 as well as diagrams 1 &2: there is a better way. Countries shouldn't be driving their vehicles through the streets in reverse when it is surely detrimental to livelihoods. As demonstrated in Table 1 and 2 a new ECH international trade system can ensure equality in trade and currency that benefits importing and exporting countries alike. French President Nicolas Sarkozy recently declared the need for reform of the international monetary system. Mitchel (2010) explains "French President Nicolas Sarkozy, after a meeting with his Chinese counterpart, on Friday called for world economic powers to stop squabbling and hammer out a new international monetary system. France has set reform of the international monetary system as its chief priority for its upcoming presidency of the G-20 group of leading nations. The country's ambition is for all countries "to accept to sit around a table to lay the foundations of a new system that guarantees the stability of the world," Sarkozy said after a meeting with China's Hu Jintao. Sarkozy's push for a new monetary system comes at a time of widespread unease about the status quo, with its large pools of currency reserves, worldwide exposure to U.S. monetary policy due to the dollar's pre-eminence, and concerns over the volatility of exchange rates. "We are up against subjects of very great complexity," Sarkozy said. Rising tensions of late have raised fears of a currency war. But rather than " everyone hurling abuse at each other," nations should come together to build " the system of the 21st Century," said the French president. Separately, a French presidency official who declined to be named said the meeting here showed a "real convergence of views" on the goals to aim for and how to proceed, although both nations "are conscious of the fact that a reform of the monetary system will take time."[24] Leaders can make a real difference. Indeed the subject is complex, but even the most complex of things is fundamentally built from small parts or simple and humble ideas. By studying, for instance, Table 1 & 2 with diagram 1 & 2 it is possible for leaders to personally identify where the problems in the international trade system are. It is a human right that, for instance, a person holding a Brazilian Real, Chinese Yuan or Saudi Araban Riyal is able to demand goods and services from anywhere in the world without the Rial or Dinat having to first be exchanged for another currency and without the prerequisite of the productive processes which act as a barrier to this exchange since the productive processes themselves may be impossible to set in motion without the initial exchange or access to hard currency. The current international trade system uses currencies as an effective instrument for discrimination which is effected at national or sovereign levels consequently affecting a vast number of people. A system such as this is dehumanising and a violation of the human rights tied to labour and commerce of the people living in these countries. President Sarkozy's call for reform needs to be heard and the kind of reform required needs to be understood in the sense that leaders whose citizens are being disadvantaged by the current international trade system and its use of currencies as a barrier to development need to stand up for their people and they need to be well versed in what the real problems are in this system as described in Tables 1 & 2 to make strong arguments for reform. Leaders need to understand these Tables and diagrams themselves as it is unlikely this information is available the conventional knowledge found and taught in contemporary economics. Leaders in countries that believe they are given an advantage by this system need to recognise that this is a false advantage (as demonstrated in Table 2) and that by reforming it not only will they be better off but so too will the countries and people the current system places at great disadvantage. The fact is the present monetary and international trade system is harmful to both developed and developing countries requires that the underlying and fundamental problems in this system be understood by leaders from an ECH perspective otherwise it may prove impossible to permanently resolve them in a manner that is fair, non-discriminatory and advantageous to all sovereign governments.

The globalisation of money or currencies is as important to international development as free trade and independence of a nation. In the present system major trading currencies such as the US dollar or Euro have to be obtained before countries are able to acquire imports. To do this they themselves must find exportable products and earn the foreign exchange with which to pay for imports. The lack of capacity to produce exportable goods and services dilutes a nation's sovereignty and violates the human rights of its citizens; it is a fundamental barrier to a country's capacity to acquire foreign exchange and therefore its capacity to participate in international trade; it cannot walk straight into the international

[24] Adam Mitchell. (5 November 2010) "Sarkozy Urges New Monetary System After China Talks.", Dow Jones Newswires.

market to buy what it needs to build its economy and care for its people. It must go to the little window at the back with the appropriate sign hanging over it or it will not be served. Foreign exchange, though readily available on international markets can therefore be considered a significant barrier to international trade due to the hurdles countries must overcome to be able to acquire it.[25] For how long are sovereign nations, both developed and developing countries, going to accept to be part of an international trade system that expects them to trade from the little window at the rear of the international market, a system fought tooth and nail to escape from under the oppression and domination of colonial masters? This contemporary trade practice is a dangerous misapplication of monetary policy that that only ignorance will hide from a wary mind.

There are two possible ways of avoiding an inevitable policy conflict over monetary policy and international trade and overcoming currency barriers. The less attractive method is to attempt to create a continental currency or internationally acceptable currency owned and controlled by developed and developing countries that overcomes these barriers (basically a global currency). The more attractive method is to introduce an electronic clearing house (ECH) for facilitating international trade. An electronic clearing house for international trade entails that when goods and services are traded between countries, exported and imported goods move whilst domestic currencies stay put. This method is more practical and brings with it many new potential benefits.[26]

Using an ECH process, when a country imports goods and services the payments from domestic exports accrue to the Central Bank or an agency appointed by the CB to manage the ECH process. In other words imports entering a country have a positive effect on the balance of payments and are a direct source of income that accrues to government. These funds are then placed in an ECH Import Account. When a country exports goods and services domestic exporters are paid for their exports from funds in the ECH Import Account. Therefore, if imports exceed exports the remaining balance of trade is a surplus to add to government expenditure. Should exports exceed imports the country is not disadvantaged as its exporters are still earning income and a government is able to move toward a positive trade balance with little effort. The basic role of the ECH is not necessarily to gain profits through surpluses, but to create a fair international trade system and manage the balance of trade such that imports equal exports. In this scenario currencies remain domestic whilst goods and services are allowed to move between countries.[27]

In the conventional trade process the formula for Net Trade is as follows:[28]

Net Trade = Exports (Ex) – Imports (Im)*
Trade Surplus = Ex > Im
Trade Deficit = Ex < Im

[25] Punabantu, Siize. (2010:108)
[26] Ibid.
[27] Ibid.
[28] Ibid.

* Under the current trade system there are no direct earnings from trade gained by governments. Direct earnings are only gained by exporters. An example that may be used here is of the United States. Let us assume that in 2005 the United States, as a result of having an open economy, received US$1,036.25 bn in imports and exported US$207.25 bn. The US's current balance would be as follows:[29]

Net Trade = US$207.25bn – US$ 1,036.25bn = US$829bn (Trade Deficit)[30]

Under the current trade system the United States is punished for allowing imports by having a trade deficit of US$829bn rather than rewarded for having an open economy. This is a contradiction of free markets and open economies encouraged in the modern economy. Furthermore , there are no direct earnings.

In the trade architecture proposed by OLE the formula for Net trade (ECH Balance) is as follows:

ECH Balance (Direct Earnings) = Import Account – Export Account

ECH Balance = ImA – ExA[31]
ECH deficit : ImA<ExA
ECH surplus : ImA>ExA

Using an ECH system the US's current account would be worked out as follows:[32]

ECH Balance = ImA – ExA
Net Trade = US$ 1,036.25bn-US$207.25bn = US$829bn (Trade Surplus)

Direct Earnings = US$829 bn[33]

In this system an economy and its government is rewarded by being more open, in the US's case with US$829 bn in direct earnings. This is profit from economic trade that accrues to government.[34] The CE trade system offers no direct earning benefits of this kind as they all

[29] Op. cit. p109
[30] Ibid.
[31] The ECH Balance equation demonstrates that when imports exceed exports in an ECH system a government gains direct earnings equal to the value of the import surplus over exports. The current trade system does not offer any benefits of this kind to governments with which to finance trade balances and reconcile international trade.
[32] Ibid.
[33] These earnings accrue to the Electronic Clearing House (ECH)
[34] It accrues to the government through the ECH which uses it to finance the rebalancing of trade imbalances should domestic policy such as opening and economy more fail.

accrue to importers and exporters.[35] Using these direct earnings, which are not available in the current system the United States ECH is able settle trade imbalances.

Managing an ECH Trade System[36]

An ECH international trade system enables countries to live upto the international ideal of fair trade. Technically the Electronic Clearing House (ECH) in each country form one international body whose role is to balance trade. When countries have surplus imports the ECH receives these earnings and uses them to pay countries with surplus exports thus maintaining the international balance trade between countries.[37] An ECH international trade system should be easier for governments and the World Trade Organisation (WTO) to manage than a conventional CE trade system. When imports exceed exports this is the ideal condition in an ECH model as it enables governments to earn income directly from imports and supports free market theory and policy. However, the ultimate objective in the management of international trade is a balance between imports and exports. In a global system where some of the surpluses are shared between governments more can be done to improve international trade.[38]

When exports exceed imports and a country faces a deficit governments have better options for dealing with this problem than they have for a deficit experienced in a conventional economy. These include:[39]

- Opening up their economies more.
- Receiving funds from the ECH to mitigate against its trade losses.
- Using reserves in the treasury to finance the deficit;
- Lowering tariffs on imports;
- Creating a more open economy with fewer restrictions to the entry of imports and diversifying imports through marketing;
- Exploiting the combined volume of external exporters attempting to sell their goods and services to the country (the natural pressure of imports trying to enter the economy and exporters trying to sell their products), that is, all a government has to do is make it easier for them to penetrate;

[35] Op. cit.
[36] Ibid.
[37] When they are unable to close this gap by being more open.
[38] Ibid.
[39] Ibid.

- The Central Bank as a guarantor of last resort can make use of the import effect to increase money supply in a bid to cover the surplus, this allows imported goods to continue to enter the economy whilst it is restructured, that is, the economy is not starved of imports;

- The value of domestic currencies is expected to be less prone to appreciation and depreciation due to agreements between central banks on the flow of goods and services between countries.[40]

- Export sector businesses in export dependent countries continue to enjoy earnings from exports which are invested in the economy by these businesses making this a safer international trade system for countries heavily dependent on exports e.g. oil, natural resources, electronics, cars etc (this would include Japan, Germany, Saudi Arabia, Zambia, China etc)[41]

In a conventional (current) CE economy international trade system facing a deficit the attempts to control it can be more damaging to an economy and run counter productive to free market and open economy objectives. These objectives include:[42]

- Devaluation of the local currency to make imports appear more attractive. The consequence is an erosion of wealth held in the domestic economy;

- An increase in taxes on imports. This goes against the need for economies to be more open and less restrictive;

- Cumbersome regulations that prevent imports from entering the country even though they may qualify to do so;

- Costly, time consuming, exceedingly difficult investment in export sector to boost exports and gain hard currency;

- A single sovereign country finds its export sector challenged by the combined volume of external exporters trying to sell their good and services to the country;

- Should a country fail to gain foreign exchange it can be starved of essential imports required for growth such as capital and for social purposes such as medicines, medical equipment;

- Persistent fluctuation in the value of domestic currency due to a persistently changing balance of payments position.

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[40] Punabantu, Siize. (2010:110)
[41] Ibid.
[42] Ibid.

An ECH Trade System Allows for More Stable Currencies[43]

Essentially, in the new system, no sovereign country needs to hold foreign exchange reserves to pay for imports or to purchase goods and services in other countries. Since money does not move between economies Central Banks have to agree to recognise foreign currencies and honour foreign demand for the products a country produces. This agreement might resemble the promise made by the Governor of the CB commonly found on notes which may read *"I promise to pay the bearer on demand"* except that now as an agreement between governments it would mean I promise to pay the bearer of any currency (party to the ECH process) on demand. It allows domestic currencies to function as though they are a single currency and can remove the need for often damaging appreciation or depreciation resulting from changes in the balance of payments between aggregate exports and imports. In cases where a business, individual or tourist from anywhere in the world enters a country with foreign currency they have the express right to exchange this money into domestic currency at a bank or bureau de change. The central bank then has the duty to buy the currency from these institutions and return it to its central bank of origin. In handling this currency not only are the banks, bureau de change and the central bank handling currency, they are also essentially handling *universal human rights* expressed through currency. As long as the currency is genuine and has entered the country legitimately a central bank is charged with the responsibility of exchanging that money for local currency and returning it to its partner central bank from which the currency originated since in this new system where currencies are unconditionally equal there is no need for any country to hold foreign currency reserves.

The essential result is that it appears as though there exists a single currency between trading partners since all the currencies in the system are unconditionally equal and can behave as though they are one currency. In other words not holding foreign currency can no longer prevent a country from obtaining imports from another country (no sovereign country that needs international trade is forced to go to the little window at the rear of the international market). As long consumers and producers in a domestic economy hold sufficient local currency to demand foreign commodities and finished goods, which they can pay for via the CB they are able to naturally acquire imports. Foreign exchange (forex) is no longer a barrier to international trade.[44] With this artificial and dehumanising barrier removed universal human rights are restored via commerce and it's good for businesses. Governments can now push the development agenda on an even keel allowing international trade and currencies to lift the millions of people it is discriminating against and keeping destitute out of poverty. This works to the benefit of both developed and developing countries.

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[43] Op. cit.
[44] Ibid. p111.

Table 5: Current account balance in U.S dollars (billions)

World[45]	1990	1991	1992	1993	1994
	-107.538	-135.404	-117.39	-65.643	-63.328
	1995	1996	1997	1998	1999
	-62.596	-49.054	-1.459	-86.413	-124.336
	2000	2001	2002	2003	2004[46]
	-180.601	-175.267	-136.38	-73.041	-0.248
	2005	2006	2007	2008	2009
	34.76	209.792	310.77	210.739	216.579
	2010				
Source: IMF 2010	202.256				

In this new trade architecture a country's imports pay for its exports. In other words, in order to be able to export goods and services a country should be managed to allow or encourage imports equal to or greater than its exports in order to arrive at a positive trade balance and domestic exporters experience no revenue losses when exports exceed imports. This is much easier than building new industries to export goods and attract foreign exchange and a more open economy is directly advantageous to a government as it allows it to significantly increase the variety of goods and services available to consumers and industry.[47]

Operations of an Electronic Clearing House[48]

An Electronic Clearing House (ECH) would electronically transmit receipts (financial information) between the FRB and the ECB in real time. Hence, each central bank would know the exact credits and debits to automatically issue to domestic importers and exporters. This process would be fully automated making it appear as though money were moving between the two economies when in fact currencies remain domestic while goods flow back and forth. Importers and exporters would carry out transactions as they have always done, however, the underlying system and outcomes would be different. Any country experiencing a trade deficit, that is where exports exceed imports, has the right to zero calibrate this deficit by expanding money supply, however, it may not do so beyond

[45] World Economic Outlook Database (2010)

[46] Though the IMF begins to show a global surplus from 2004 countries cannot export more goods and services without there being a country or countries importing more of the same goods and services. It must therefore be assumed that the positive trade result must be balanced by a negative trade result. In other words if the global trade balance in 2010 was US$202.256 billion as shown in IMF data the accurate unreconciled trade deficit or balancing item for this period is –US$202.256 billion, which represents a sustained internal loss to some countries in the global economy (that is unless exports are being made to extraterrestrials on Mars and Venus). Consequently, even if the world trade balance were US$202.256 billion the ECH would be expected to have earned US$202.256 billion with which to pay it off and thereby balance current accounts between countries leading to a fair trade system.

[47]Op. cit. p112.

[48] Ibid.

zero. Zero calibration[49] is possible as it does not represent an injection of money into an economy, but the opposite, which is, an injection of goods and services through which to correct balance of payments inequalities. This kind of economic management is simply impossible in the current international trade system. As diagram 2 demonstrates currencies remain domestic while products move.[50]

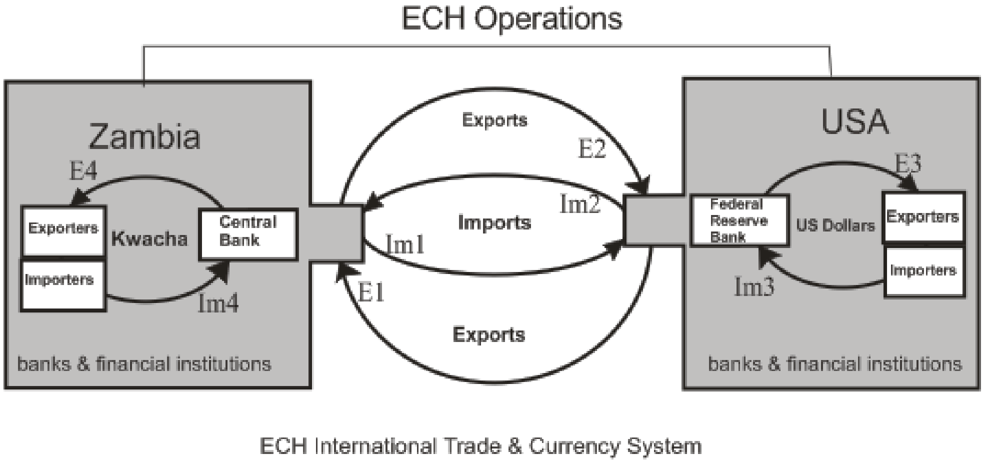
Applying an ECH to Trade: United States & Zambia[51]

In an ECH model a country enjoying a surplus means it is importing more than it is exporting and has excess revenue or earnings to manage its economy. However, a country that is facing a deficit in an ECH model is exporting more than it is importing, however, it enjoys goods and services it is owed equal in value to its deficit due to zero calibration. The country in surplus enjoys additional cash for managing its economy whereas a country in deficit enjoys the same value except that it is measured in goods and services. The current international trade model is an unfair system as countries with surpluses gain them purely at the expense of countries facing deficits with little or no genuine reprieve. In 2004 the US trade deficit was approximately US$612 billion. If the United States used an ECH for trade rather than lose US$612bn dollars as an outflow due to imports the Federal Reserve Bank (FRB) would instead earn a US$612bn injection of revenue. Even if US$612 billion were a trade surplus rather than a deficit, in the switch to an ECH system the US economy would still benefit from the US$612bn income received by its exporters and would have US$612bn for zero calibration, that is, restoring its trade balance. However, in the current international trade system a deficit of US$612bn is an actual outflow of income from the US economy with no compensation and an outright loss in which the government faces huge financial and logistic barriers to correct, whereas correcting a similar problem such as this in an ECH model is merely a repositioning using zero calibration, change of policy and marketing strategy. Fundamentally, this reveals that the current international trade system is wholly inadequate as it does not naturally provide appropriate tools for countries to mitigate trade deficits.[52]

In this new position the real advantages of international trade; more open economies and free markets begin realistically to come into play…The US trade gap would earn the United States ECH US$612 bn. This can be interpreted as the value earned from 'leasing' its domestic market out for trade (a market, like other things of value can be regarded as a resource). Rather than a deficit as is the case with the trade system used today, this value becomes a surplus or real income earned from trade.[53] Part of these funds accrue to the national ECH in the US which is a "subsidiary" of a global ECH which will use these funds to

[49] Zero calibration in an ECH model is the use of money supply to in effect reset or restore the trade balance by facilitating an injection of goods and services into an economy with a maximum reached where the value of imports equals the value of exports or zero. Since it restores or balances disparate values it takes place at no real cost to government and the economy.
[50] Op.cit.
[51] Ibid.
[52] Ibid.
[53] Ibid. p113.

mitigate against trade imbalances in the current account between trading partners ensuring no country has an unfair trade advantage over another by benefiting from a large volume exports or losing income from a large volume of imports changing the relationship between countries from the exploited and exploiter to more equal trade partnerships.



[54]

Diagram 3: ECH Operations[55]

Diagram 3 shows that: 1. When Zambia imports from the US (Im2) the Federal Reserve credits US exporters (E3) in US dollars and importers in Zambia credit the Central Bank in Kwacha (Im4). 2. When the US imports from Zambia (Im1) the Zambian Central Bank credits Zambian exporters (E4) in Zambian Kwacha and importers in the US credit the US Federal Reserve in US dollars (Im3). 3. When the US Exports to Zambia (E1) importers of these goods and services in Zambia credit the Central Bank in Kwacha (Im4) the US credits exporters in US dollars (E3). 4. When Zambia Exports to the US (E2) importers in the US receiving these goods and services credit the Federal Reserve (Im3) and the Zambian Central Bank credits exporters in Zambian Kwacha (E4). Goods and services are moving between Zambia and the US as though once currency, i.e. without either country's currency having to cross borders when the demand for external goods and services originates from the domestic economy. Commercial banks deal with credits at the retail level and handle these international payments and commissions on transactions as they have always done for local and international clients while the final reconciliation of currency flows takes place between them and central banks at the aggregate or "wholesale" level. This new ECH international trade and currency system unlocks financial resources at the governmental or macroeconomic level (see Table 1 & 2) with which to neutralise trade imbalances through an ECH that links together countries in the trade and currency system. Banks and financial institutions are facilitating these transactions therefore there appears to be little or no change in the how transactions take place at the microeconomic level. The same ECH

[54] Op. cit. (Examining how goods, services and currencies flow in this diagram allows the reader to understand how an ECH system works.)
[55] Ibid. (The movement of money at the retail level from the accounts of transactors, to commercial banks and at the wholesale level from commercial banks to the central banks and back takes place electronically.)

system would link every country bringing together central banks around the world. In this new system international trade and currencies are no longer bypassing central banks and "piracy" is taken out of international trade and how currencies are used. If the US used this system instead of a trade deficit of US$466.5 billion it would have a trade surplus of US$466.5 billion and direct earnings from trade of the same value. These ECH funds would be the back-stop for paying off deficits in trading partners thus establishing a fair trade system in which both net exporters and net importers trade without causing any damage to each others economies. This demonstrates that creating an equal international trade and currency system works to the benefit of all trading countries regardless of what stage they are in the system.

When faced with a trade surplus it is strategically easier for a country to relax import rules and restrictions and market increased consumption of desirable imports. In raising capital to offset the surplus it has the export market that exists in the international economy which is many times its size. If a government manages to do this then the US$466.5 billion raised by the ECH in US does not have to be spent on re-balancing trade and can be used to fund the work of institutions such as the UN, World Bank, IMF and other international and regional bodies engaged in development. It can also be used to support governments in times of crisis such as that recently experienced in Greece and Ireland. Even the United States is not larger than all other external economies and competitors combined. As a result the effort required to raise finance to cover a surplus in this model is far lower than the effort it would take to cut taxes on exporters or first build new industries that will increase exports to cover imports in the older model currently in use, an arduous task (barrier) developing countries are expected to engage to survive. The easy option, that is, raising import tariffs and other barriers only further decelerates international trade and it encourages more closed than open economies.[56] The fact that the design of the contemporary international trade and currency system fundamentally discourages trade, encourages countries to be more protectionist and makes trade unfair by forcing countries to work against one another when they trade defeats the objective of enhancing free trade, encouraging fair trade and more open economies espoused by the WTO. It does not make sense and it is not practical to have a contemporary trade and currency system that functions contrary to the objectives of the WTO and the governments it serves.

Without an ECH trade system governments do not have a mechanism for solving trade imbalances caused by deficits and surpluses. Annalyn Censky (14 October 2010) of CNN Money reports that "The U.S. trade gap widened to $46.3 billion in August, driven by a record-breaking deficit with its largest trading partner China. The trade balance, which measures the difference between the nation's imports and exports, widened from $42.6 billion in July, according to a government report released Thursday. Economists had expected the deficit to narrow to $44.5 billion during August, according to Briefing.com. As the U.S. trade deficit has deepened, China is running a trade surplus. On Wednesday, China announced a surplus of $16.9 billion for September, down slightly from its $20 billion surplus in August. But the

[56] Op. cit.

U.S. ran up a record-high $28 billion deficit with China in August. "The jump in bilateral trade with China to a record high will fuel growing fears of a currency war," Paul Dales, a U.S. economist with Capital Economics said in a research note. The growing imbalance between U.S. exports and imports has dragged down economic growth and also lead to more job losses in the manufacturing sector. In an effort to boost the U.S. economy, President Obama said earlier this year that he hopes to double exports in the next five years, creating an estimated two million jobs domestically."[57] This scenario illustrates an important mechanism is missing from the contemporary international trade and currency system. The absence of this mechanism can lead to hostility between governments such as "currency wars" since governments do not have the contemporary economic tools with which to reconcile deficits and surpluses that naturally arise from trade.

With an ECH trade system in place neither the United Stated nor China would need to worry about trade deficits and surpluses. Chinese exporters would be able to export to the US without the US having to worry about a trade deficit and it is likely that as a result both China and the United States will open their economies wider thus enhancing trade rather than trying to shut it down which the current trade system attempts to do as a result of having no macroeconomic mechanism for resolving trade deficits and surpluses.

Table 6: US Trade in Goods (Imports, Exports and Trade Balance) with China (2009)

				Missing:[58]
Month	Exports	Imports	Balance	ECH
Jan-09	4,159.60	24,743.50	-20,583.80	20,583.80
Feb-09	4,661.70	18,845.50	-14,183.80	14,183.80
Mar-09	5,579.30	21,224.70	-15,645.50	15,645.50
Apr-09	5,161.40	21,920.60	-16,759.20	16,759.20
May-09	5,256.00	22,734.10	-17,478.10	17,478.10
Jun-09	5,548.60	23,972.80	-18,424.20	18,424.20
Jul-09	5,269.30	25,671.10	-20,401.80	20,401.80
Aug-09	5,518.00	25,798.10	-20,280.10	20,280.10
Sep-09	5,764.30	27,893.90	-22,129.60	22,129.60
Oct-09	6,879.30	29,557.80	-22,678.50	22,678.50
Nov-09	7,374.20	27,541.70	-20,167.60	20,167.60
Dec-09	8,325.00	26,470.10	-18,145.10	18,145.10
TOTAL	69,496.70	296,373.90	-226,877.20	226,877.20
Total Trade (US/China) Imbalance = 0				

Source: US Census Bureau, Foreign Trade Statistic (2010)

[57] Annalyn Censky. (14 Oct 2010). "Trade gap widens on record deficit with China", CNN Money.

[58] As a result of there being no ECH between the Federal Reserve Bank of the United States of America and the Central Bank of China these governments lost US$226.877 billion they could have used to balance trade in 2009. This represents a tremendous loss of useful resources by the current trade system. This demonstrates that trade difficulties between countries are a policy problem concerning the poor design of the current trade system governments need to find a means to address rather than a problem with no solution.

As Table 3 clearly illustrates, what is missing from the international trade and currency system is the mechanism by which the trade balance is reconciled. In the present system the trade balance is locked and cannot be captured at the governmental or macroeconomic level as a result of there being no ECH. Consequently, trade currencies are bypassing central banks (see diagram 2) therefore there is very little the US and China or any country can do about trade imbalances. This problem increases tensions and worsens trade relations between countries. With an ECH in place imbalances generate revenues which act as a real financial back-stop for reconciling trade deficits between countries. As shown in Table 6 (last column) the US$266.877 that would be captured by the ECH balances the -US$266.877 deficit making it possible to reduce the trade imbalances between China and the US to zero (0). The two countries are able to trade without damaging each other's economies.

A new system such as the ECH system shown here can be compared to opening a tap connected to a very large water tank placed high up on a frame. Gravity and pressure exerted by the tank, in this case the global economy and trade, naturally provides the effort or energy required to mitigate against trade imbalances. It also naturally generates resources by which exports can be increased or enhanced to offset further imbalances without the resources to achieve this having to come directly from other government resources. On the other hand the current system operates in the opposite manner. Instead, economies saddled with a trade deficit have to force their exports into the global economy, this is like trying to force water back through the tap into the water tank which is already pretty full.[59] The effort or pressure required to do so becomes too high; hence, it is difficult and costly to remedy a trade deficit using the current trade system. However, using a new ECH system reverses this process, hence, it takes less effort and resources to for governments to resolve a trade imbalance; what is basically required, as shown, is to use an ECH based system to enhance free trade and a more open global market.[60]

Currencies will tend migrate even in an ECH model in circumstances where individuals carry domestic currencies abroad, especially in cross border trading areas. In order to manage this Central Banks will have in place agreements to repatriate any foreign currency received through a bank or bureau de change to its respective central bank. This further reinforces the view that all currencies are international and interchangeable. The more central banks an ECH agreement is signed with the less a country needs to rely on foreign exchange.[61]

Advantages of Using an ECH: Increased Scope for Specialisation [62]

An ECH will allow direct earnings from trade for governments in surplus, which can in turn provide valuable resources governments require for specialisation and to contribute towards improving international trade. However, there are also advantages for governments in deficit as they can now use zero calibration to restore efficiency in their

[59] Op. cit.
[60] Ibid. p113
[61] Ibid.
[62] Ibid.

economies. The current international trade system makes it impossible to accommodate zero calibration (quantitative easing) as a soft means for correcting balance of trade problems as opposed to the need to invest the export sector as required by the current trade system. At present it is difficult for countries to exploit comparative advantage and focus on producing what best suites them and the international economy as lethargy is created by the high cost of transferring labour and capital goods to alternative investments and the finances required to begin new trade based enterprises and projects may not be available. The current trade system can also discourage countries that are strong exporters from developing strong domestic markets. This is harmful not only to the exporting country but to global trade as a country's domestic markets are a part of the globe's export markets and the weaker or poorer they are the less they are able to contribute to global economic prosperity. A reduced capacity for countries to specialise and reap gains from exploiting comparative advantage in international trade retards economic growth on a global scale. For the WTO, simply put, the principle of "comparative advantage" says that countries prosper first by taking advantage of their assets in order to concentrate on what they can produce best, and then by trading these products for products that other countries produce best.[63] Under present trade architecture it is difficult for governments to exploit comparative advantage due to negative income effect caused by imports and the non-existent incentive of direct earnings from trade. This position creates both financial and structural limitations. However, direct earnings from an ECH trade process naturally provides easier access to the financial resources with which to make use of comparative advantage and enhance specialisation, a critical process current trade architecture does not readily enhance or support contrary to its purpose. Part of the surpluses realised from direct earnings from international trade can be used channelled through the WTO to reduce trade imbalances between countries. The current system does not generate direct earnings with which countries may mitigate deficits.[64]

When a government is operating on an ECH trade model it benefits from the entry of imports into its economy. Should exports exceed imports it is not a major issue; it can deploy quantitative easing to offset the trade imbalance and should ideally open its economy further and encourage more imports. Alternatively it could try to reduce the volume of exports leaving the country, however, this avenue has disadvantages in that it could affect revenues and create unemployment in this sector. To avoid having to tamper with the export sector a government should make an effort to open its citizens to a wider variety of imported goods by encouraging expos and disseminating information about imports its citizens may not have demanded in the past due to having very limited knowledge about them. For example, tourism for a country whose nationals are going abroad is an important industry, therefore, an ECH trade system is likely to see a dramatic increase in growth of the tourism sector as governments encourage their nationals to travel more frequently, whilst on the other hand this is a positive development for businesses in the travel and tourism sector as there should be a significant jump in their earnings as a result of increased activity. In other words an ECH trade model is likely to encourage

[63] WTO, Understanding the WTO: Basics, The case for open trade.
[64] Op.cit. p114

governments to be proactive about international trade, to have more open economies, to encourage travel, to take a greater interest in products it does not produce and what other countries produce as broadening the choice and taste of its citizens. Imports have economic benefit and direct financial gains for government. The current trade system does not encourage trade in this manner; it facilitates supply rather than demand in a world in which markets (demand) rather than suppliers are the driving force of industry.[65]

Foreign Exchange Less of a Barrier to International Trade[66]

At present a difficulty many developing countries face is access to foreign exchange with which to participate in international trade. It is no secret that developing countries need minerals raw materials developed countries can supply in abundance and developing countries need technology, equipment and other hugely costly capital goods to make their raw materials and minerals available yet the current trade system uses foreign exchange as an effective barrier to this trade taking place. Admittedly, a shortage of foreign exchange can be a severe economic constraint or a barrier to participation in international trade for developing countries. This can sustain a vicious cycle of slow growth and poverty. Developing countries cannot access finished goods for capital development without first gaining foreign exchange; however, to gain foreign exchange they need capital goods with which, for example, to mine abundant mineral wealth, maintain mining equipment (where overheads are high), invest in mineral resources, agriculture or tourism infrastructure. As a result a significant proportion of Africa's natural resources remain unexploited, inadequately utilised and unexplored, whilst recapitalisation and maintenance of infrastructure remains a very difficult task increasing the risks associated with large scale mining of mineral wealth. This was evident in Guinea in 2004 where the IMF stated it is[67] 'deeply concerned by the outlook for the economy in 2004 unless drastic measures are taken. The poor economic performance during the first quarter of the year, high inflation, and the shortage of foreign exchange, coupled with the difficulties in managing the main gold mine and delays in the granting of a mining operations license, could result in a contraction of the mining sector and trigger a loss of confidence that could depress the performance of the manufacturing sector, commerce, and transportation.'[68]

Better Tools for Managing Growth from International Trade[69]

The WTO has acknowledged currency shocks can reverberate through an economy causing havoc. It explains that 'in the second-half of 1999… Ghana suffered an external terms of trade shock. The prices of the country's major exports (gold and cocoa) declined at the same

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[65] Op. cit. p114.

[66] Ibid.

[67] Ibid.

[68] IMF, Guinea—2004 Article IV Consultation, Concluding Statement, Discussion of the Government Program for 2004 and the Medium Term, Assessment of the Progress Report on the Poverty Reduction Strategy Conakry, May 22, 2004.

[69] Op. cit. p115.

time as oil prices on the international market increased sharply. These developments have resulted in a shortage of foreign exchange as well as a deteriorating fiscal position. The exchange rate of the cedi has depreciated by 40% since September 1999.'[70] Though monetary intervention in response to this crisis is indicated in that the 'Central Bank has further tightened monetary policy and has increased money market interest rates to 45% to increase the attractiveness of cedi-denominated securities.' Surely would it not be more adequate to be able to develop and implement a barrier to these kinds of shocks in the form of an Electronic Clearing House (ECH) trade process? Had an ECH been in existence during Ghana's crisis the economy may have been spared the debilitating effects of these shocks rather than expend further scarce resources to mitigate against them. Circumstances such as this emphasise the need for an ECH process envisaged by this concept. Under current trade architecture trade deficits are far more difficult to manage and control. When imports exceed exports and there are foreign exchange shortages the basic options available to a country are to allow the value of its currency to fall or to manipulate various market instruments as observed in the Ghanaian case. Under the trade architecture of an ECH there are more options. In an ECH process it is much easier solve the problem of trade imbalances, one of these is using the pressure of imports attempting to enter the country that requires much less effort. Compared to an ECH international trade system, the current trade system appears brutal, medieval, exploitative of developing countries and inimical to developed countries.[71]

ECH Improves Capacity for Customs and Monetary Unions to Take Place[72]

Introducing an ECH facility for trade does not interfere in any of the operating processes of a customs union. Therefore, it is not expected to affect existing bilateral and multilateral agreements or even affect existing tariff structures. In a well designed ECH process there should be no noticeable difference in how trade is organised at the microeconomic level, however, it generates exceptional benefits gained from trade that are currently unexploited. Advantages of a monetary union are a 'reduction in transaction costs, consolidation of the single market, an end to destabilising currency shifts…, price convergence and price stability.'[73] An ECH achieves all these objectives and more; it is an ideal transitional stage for countries in a region or across regions opting to become full members of a monetary union (especially where differences in culture, language, ideology and attachment to the domestic currency may hinder progression to a single currency; the benefits can be brought forward through an ECH without having to wait for a single currency). This is the case the reason being that prior to actual use of a single currency a majority of the benefits of using a single currency are obtained (except for the sense of fraternity and common identity of a shared currency since individual countries are still using their indigenous currencies and

[70] WTO, Trade Policy Reviews: First Press Release, Secretariat and Government Summaries: Increased access to foreign agricultural markets would help Ghana's reform efforts.
[71] Op. cit. p115.
[72] Ibid.
[73] Hosford, Fraser. (1996).The EMU Illusion. University of Dublin, Trinity College

denominations). An ECH process can continue to operate even after monetary union to ensure there is an even flow and pressure of a single currency against the movement of goods and services functioning within alternate territories. An ECH has advantages over monetary union in that it is able to provide all the benefits of a single currency even for countries that are not in the same region, for example, an ECH trade process operating between Zambia and the United States would in effect create a trading environment that would make it operate as though the two countries though thousands of miles apart are using one currency; whereas a single currency between the two countries would involve significant hurdles in the present day due to the complex problems that surround the process, not just at economic, but also historic, cultural and ideological values associated with a nations currency.[74]

The primary objective of a customs union is to create a common tariff structure and ease restrictions in the movement of goods between countries. Governments closely monitor imports for valid reasons. Imports entering a country are taxed and hence are an important source of government revenue. However, the funds raised from an ECH process have the capacity to exceed revenues gained from taxing imports thus increasing the capacity of governments to introduce more flexible and import friendly regulations and procedures at ports; it also encourages the expansion of customs unions to include more countries in the region, as an ECH process significantly increases the gains from importation whilst naturally mitigating against the risks.[75]

Shared Growth[76]

In the architecture of the current trade system there is a clear division between countries benefiting from surpluses and those suffering from trade deficits. However, under ECH system even countries like Germany, already enjoying a trade surplus can benefit tremendously from an expansion of the scope for trade. For example, under the current trade system Japan, a country with one of the largest estimated export surpluses in 2010 estimated at US$166.463 billion (IMF 2010), nevertheless, under an ECH trade architecture this surplus has the potential to grow to US$1.533.77 trillion, whilst China's trade surplus has the potential to grow from estimates of US$269.87billion (IMF 2010) to US$1.635 trillion per annum (with even greater prospects for the future considering its pace of growth in GDP). In addition to this the current trade architecture only allows earnings to accrue to exporters whilst an ECH process allows governments[77] as well as private exporters to benefit from international trade (shared growth). These potential benefits can outperform earnings and gains from the current trade system and warrant further interest in this proposal. A significant difference between the proposed and current trade architecture is that these figures do not simply represent taxable surplus earnings from trade by suppliers at the

[74] Op. cit. p116.
[75] Ibid.
[76] Ibid.
[77] Through the ECH.

macroeconomic level, but the incentive for actual direct earnings which accrue to government and that can be used as part of public expenditure.[78]

Incompatibility Between Free Markets and the Current Trade System[79]

The current international trade model is an obstacle to free markets and open economies. The manner in which the CE international trade system or architecture is designed leaves much to be desired. To begin with the system is not designed to encourage international trade as is the popular belief, it encourages closed economies, yet the role of the World Trade Organisation (WTO) that oversees this system is to 'encourage' international trade and more 'open' economies. If this is true it should be recognised that the trade system used to achieve this objective is backward and what makes this entire scenario worse is that both developed and developing countries have not gained the capacity to recognise the redundancy of the international trade system and instead continue to press on with conferences, rounds and trade laws that are an attempt to sustain a patch-worked and a flawed system from a bygone era that protects a few powerful economies at the expense of the many weaker ones. International trade architecture is well past its prime and should have been completely overhauled into an ECH type of system a long time ago. Even more disturbing is that rich and powerful nations are ignorant of the fact the advantages that appear to accrue to them through the protectionist stance of the current international trade system are in fact inimical to their own economies. Under the current international trade system governments are forced to ensure there are deterrents for imports especially when the economy is threatened by a deficit, this is true even in conditions where imported products do not compete against domestic producers. The reason for this is that a deficit is a loss of income (regardless of products involved) that weakens the financial position of an economy. Where imports threaten local producers due to being competitive governments are often already too resource constrained to either restructure their export sectors or diversify. There are thus losses on several fronts; as a deficit rises the value of a currency may fall, productivity may decline and a government will have to allocate constrained resources toward countering this problem. In the trade architecture proposed by OLE there are greater resources at the disposal of government with which to manage and mitigate problems that may arise as a result of international trade.[80]

Why should a developed country export at least 10-20% (net value (-)) of its domestic market in an ECH system? In other words why should it allow its <u>net</u> import of products to grow to at least 10-20% of GDP?[81]

[78] Op. cit.
[79] Ibid.
[80] Ibid. p117.
[81] Ibid. If nearly all countries are able to open their economies further by 10-20% or higher using an ECH system this entails a *dramatic* increase in global exports to meet this demand. Neither importers nor exporters are expected to be hurt by this surge in trade since imbalances are re-balanced through the ECH or its policy framework. In essence the ECH should allow a surge in global economic growth and development.

To begin with 10%-20% per annum is the potential profit margin a government may choose to maintain for exporting its domestic market under an ECH international trade model. These surpluses are revenue earnings for the public sector to manage the economy in public interest through the ECH. So significant are these potential earnings from international trade that are untapped and go to waste in some cases, as it is with the US, they can match revenues presently earned from taxing the entire economy. The present international trade system makes no effort to exploit these tremendous potential revenue flows; they simply go to waste due to its inappropriateness for this age, inefficiency and the inherent ineffectiveness of the system. This is a serious revenue loss governments should address through the WTO.[82] Common sense shows that it is much easier to spend money than to make money, that is, it is much harder for countries find the means with which to build the infrastructure that will allow them to export goods and services. Therefore, it makes more sense if they first have the means with which to make purchases on international markets with which they can build capacity rather then build capacity with which they can make the same purchases.

Secondly....[83]

Secondly, industry, like a product, has a life cycle. There is the concept stage where an idea is formed, the seed stage where the idea is acted on, the productive stage where a product is made and sold to the domestic market, a growth stage where the product is exported, the declining stage where the technology used to produce the product is exported, and finally the retirement stage where the product is produced more cheaply in another country and imported into the economy where it originated from. This is the buy-out or cashing-in stage of the initial investment (It is the most successful stage of production). The current international trade system is very backward in that it punishes countries and producers that arrive at this stage instead of rewarding them.[84]

With an ECH system for Central Bank (CB) inter-bank operations, when an industry arrives at the buy out stage e.g. agriculture, textiles etc a government should be able to take the revenues it is earning from importing the product it once pioneered and buy-out the owners or shareholders of these industries at very lucrative prices. This enables the owners of these cash-in industries to transfer their wealth to other more advanced areas of the economy or new seed stage businesses that are at the pioneering stage. Secondly, earnings from imports gained by government through an ECH system should also provide the financing for workers in these industries to cash-in on their final success, that is, to be paid very lucrative retirement packages or benefits that enable them to either live out the rest of their lives in comfort without having to work or if they want to remain active; either retrain to enter another advancing industry or simply transfer their current skills where possible. This is not very different from selling a successful business for the right price.[85]

[82] Op. cit.
[83] Ibid.
[84] Ibid.
[85] Ibid.

More Developed Countries are Beginning to Lag Behind Under the Current Trade Model[86]

The ability to go through the industrial life-cycle outlined above is the hallmark of an advancing, well managed and productive economy. The most advanced nations today should be moving toward frontiers such as advanced transportation and propulsion systems, breakthroughs in medicine, energy, science and technology, fission, space tourism and space exploration, diamagnetism, nanotechnology and other numerous cutting edge scientific areas, what could be referred to as 'super-science'. However, the current international trade system reverses this stage of evolution. Instead more advanced economies appear to want to retrogress, go backwards, for example, regress to lower stages of production, hold onto old technologies they are no longer efficient at producing, block imports, raise tariffs or demand a fall in external supply. This stagnation is brought on by the CE current trade system. As a result both more developed and less developed economies begin to suffer and decline. The more advanced economy suffers as it begins to cling to or devolve to lower stages of economic activity and the less advanced economy suffers due to the fact that it is being blocked from evolution to higher stages.[87]

Inevitably less developed economies will catch up to and possibly eclipse more developed economies that are underfinanced, lacking in innovation and stagnant as they keep themselves from evolving. This scenario only leads to increased conflict with emerging economies and developed economies struggling to secure the same markets; markets more developed economies should have evolved out of (for example, agriculture or China, EU & US over textiles). There confrontations and squabbles also arise amongst more developed economies in strategic and general markets due to these markets being of insufficient size to accommodate them (e.g. Boeing and Airbus). These dilemmas occur when the current archaic international trade system makes imports a liability (withdrawal of income) rather than an asset (injection of income); it stunts the growth of markets and prevents workers and owners of the factors of production in more developed countries from cashing-in on technologies and industries they initially seeded and mastered. Instead they are forced into decline due to the fact that the revenues they require for transformation and advancement are subtracted instead of added to their productive resources.[88]

"World Domination" Through Currency

There comes a time when "world domination" through a superior currency or being a net exporter becomes a threat to the economic well-being of a country that owns it rather than an asset. This is a problem that the United States and the European Union will have to face

[86] Op. cit. p118.
[87] Ibid.
[88] Ibid.

in the future. A "superior" currency must inevitably become uncompetitive as countries once regarded as 3rd World or developing nations begin to transform their economies and produce goods and services more competitively. As a result the US dollar and Euro (currencies that enter the international market through the front door) by virtue of their dominance and the current design of the international trade system will begin to harm rather than protect the country or region they hail from as a result of "inferior" currencies (currencies that today make their purchases through the little window at the rear of the international market) begin to outperform their "betters" at the industrial level. The currency row between the US and China is likely to be just the beginning of this problematic issue. The powerful currencies can be likened to land owners while the rest of the world's economies are serfs who work on the land but are not allowed own it, they can live off it if they perform certain mundane tasks. Owning land can be regarded as the authority to print and mint a currency. They do not own the "land" since they have no authority to print "master" currencies and domestic "slave" currencies are not legally unconditionally interchangeable with "master" currencies unless their value is first determined by net exports; however, they cannot achieve this output since they cannot directly access (do not have the authority to print and mint) master currencies or *unconditionally* exchange their own domestic currencies for master currencies. As the "serfs" work the land to such an extent that they begin to earn higher incomes there must come a time when they begin to question why the value of their toil must be determined by a "landowner" that does not allow them the independence to *own* land. Similarly, there must come a time when developing countries (and developed countries outside the "master" currency fold e.g. Japan, China etc) begin to question how currency in the international trade system functions. History has shown that unfair and exploitative systems which do not operate fairly, but at a superficial level claim they are fair or seek fairness, do not last and it is only when those made better off or deemed more "superior" by a system make the effort to bring equality to it that a *peaceful* solution to bitter differences can be found. It makes better sense to anticipate the problems in the international trade system and begin to deliberately make changes to it such as an ECH by which peaceful solutions can be realised.

Less Developed Economies & International Trade[89]

Other economies that suffer as a result of a backward and archaic international trade system are impoverished less developed countries. These countries struggle with agriculture and barely manufacture. They export cheap raw materials and heavily import more expensive finished goods. An ECH based international trade system would allow these countries to experience higher revenue injections rather than revenue withdrawals as a result of heavy reliance on the import of finished goods. These revenues would enable them to invest in health, education, agriculture and manufacturing thus allowing them to also begin to evolve. They would no longer face foreign exchange as barrier to economic growth and would be more able to access the capital goods they require to enhance domestic productivity.[90]

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[89] Op. cit.
[90] Ibid. p119

The Current International Trade System is Biased[91]

The current international trade system is biased in favour of countries enjoying trade surpluses and master currencies. However, the governments of these countries do not realise they are losing out as the surplus is only enjoyed by exporters with no direct benefits to government. Countries facing a trade deficit on the other hand face huge obstacles to correcting the imbalance such as the need for Foreign Direct Investment (FDI), building export sector, looking for foreign exchange to build the export sector, devaluation and so on. An ECH model removes these biases and allows governments facing either surpluses or deficits to naturally cancel them out. The country facing an ECH surplus simply has more money to spend and can mitigate the surplus by spending. A country facing a deficit enjoys zero calibration meaning its deficit is in fact only a monetary deficit as it has a positive balance only it is measured in goods and services. To illustrate this simply a country with an ECH surplus is like a person who has earned US$1billion, whereas a country with a deficit is like a person who has earned US$1billion except it does not consist of cash, but goods and services. Hence the two positions naturally balance each other out creating a just international trade system with less bias and no outright losers.[92]

Emerging Economies & International Trade[93]

Emerging economies are also being punished by the current trade system. These economies are very productive and rapidly growing mainly from exports, but they find their exports are barred from entering lucrative markets as imports are a liability there instead of an asset to the economies they export to. This reduces the earning power of industries and consumers in emerging economies which in turn inevitably shrinks their demand for more advanced products and luxuries offered by more developed economies and raw materials offered by LDCs. As a result the current trade system forces the global economy to slow down and free trade to collapse instead of grow.[94]

The OLE trade system has significant benefits over the current international trade system[95]

Under the present trade system economies that experience a current account surplus resulting from increased exports are in better economic position. However, there is no significant direct benefit to government in terms of revenue other than through taxation also there are no real incentives to open their economies. There is a direct benefit for exporters who are able to access foreign markets and earn income from them, but governments do not experience similar direct gains or 'earnings'. Even if the US gained US$612bn (2004) under the current trade system as a result of a trade surplus rather than a deficit this amount is not a direct earning in that the US government is only entitled to a

[91] Op. cit.
[92] Ibid.
[93] Ibid.
[94] Ibid.
[95] Ibid.

percentage of this value gained from taxing imports; all countries enjoying surpluses in the current trade system suffer from this limitation. In the trade system designed in OLE the US$612bn deficit is converted into a direct earning. In this business model exporters and importers receive direct income and so does government through the ECH; both the private and the public sector score large earnings; whereas under the current international trade system governments generally lose access to billions of dollars each year. Transactions taking place through an ECH would be bankable and guaranteed. Even the EURO 74.4 billion earned by the EU from an export surplus in 2004 would not compare to the EURO 1.39 trillion to EURO 2.3 trillion per annum the EU could earn from advancing trade to an ECH based trade system. Furthermore, direct earnings from trade place governments in a better position to reach agreements that mitigate trade imbalances as financial concessions can be negotiated with disadvantaged countries to create fairer international trade.[96]

ELECTRONIC CLEARING HOUSE (ECH)[97]

There are many advantages to Central Banks using an Electronic Clearing House (ECH) for international trade shown:[98]

- An ECH based trade system will allow the exchange rate value of currencies to be guaranteed by central banks rather than by unpredictable and unstable forex from trade flows.[99]

- A company holding Rupees in India or Euros in Europe would be as good as holding US dollars in the US and vice versa. Currency strength fluctuations such as those seen between the US dollar and the Euro in the last few years would not take place unless appreciation or depreciation were deliberately induced for a specific purpose.

- A country could purchase international goods and have other countries purchase its goods in its own currency. In essence, though different or geographically unique, national currencies would be able to function like a single federated trade currency. This is fundamentally more useful and more important to a central bank and economy than a monetary union and where possible should precede it; planners should take note of this.

- Secondly, an ECH would allow the US government, for example, to gradually increase the trade gap to accommodate increased trade. This would allow the FRB to earn between US$1.2 trillion and US$2.4 trillion per annum to add to government reserves for the ECH balancing operations as an excess or injection gained from the

[96] Op. cit.
[97] Ibid. p120.
[98] Ibid.
[99] It would make no difference if these exchange rates were left to be determined by market forces unconditional exchangeability would still prevail.

trade gap alone. This is close to income the US government currently earns from taxation of the *entire* US economy. In other words US government revenues could double.

- An ECH is cost effective for an institutions such as the FRB to supervise. This is due to an internationally federated central bank system created through cooperation and partnership between central banks allowing credits and debits allocated between trade partners to be electronically automated to reflect and facilitate transactions (since goods and services move but currency remains domestic;). There would be no significant difference in how commercial banks, exporters and importers transact and earn income between the old and new system.

- In 2004 the EU only earned EURO 74 billion from its trade surplus using the current trade system. This may seem beneficial; however, the EU's indirect earnings through taxation only consist of a fraction of this value. In 2004 EU GDP stood at US$11.65 trillion (PPP). With an ECH the EU could relax its trade gap. Through the ECB it could earn EU governments approximately US$ 1.165 trillion and US$ 2.3 trillion per annum to include in public expenditure and for ECH operations. In other words both the US and the EU would benefit from using an ECH to catalyse trade as would other countries in the new system.

- These trade gap earnings do not impose a tax burden on either suppliers or consumers in international trade.

- Increased trade enables both developed and developing nations to enhance annual growth through an increase in the global trade market facilitated by an ECH system.[100]

Even a developed country such as Germany that relies on exports for growth will, by positioning itself appropriately, be made better off by an ECH model. The examples above use two of the most powerful economies simply for illustration and to demonstrate that the best policies should be able to stimulate growth in both developed and developing countries. China which has a large domestic market would gain much more wealth from an ECH trade system than it ever could from the present international trade and currency system. The same also applies to countries that rely heavily on the export of one major product such as the reliance on oil exports by Gulf Nations, e.g. Saudi Arabia, Kuwait etc. An ECH system does not affect the earnings of businesses exporting products such as oil, copper, gold, diamonds such as Zambia, South Africa and Botswana in the same way it does not affect individual export earnings from finished products such as electronics, cars, spare

[100] International trade in the present system is minimal at best due to the fact that governments feel threatened by opening up their economies. This is justified by the fact that imports are a withdrawal of income from an economy. In an ECH system imports become an injection of capital and a direct earning which accrues to the ECH of a government. This entails there will be a dramatic increase in trade between countries should the current inadequate trade system be reformed into an ECH trade system.

parts and so on from countries such as Japan, South Korea, Taiwan and China. Therefore, investments from traditional exports will continue to encourage growth, however, these economies will be better off in the sense that they operate in an environment with more stable exchange rates, higher levels of external demand, more open economies and where imports required to further accelerate growth are much more readily available; it is this opportunity that governments learn to exploit more effectively. International trade under an ECH model is expected to increase tremendously as countries are in a better position to take advantage of each other's products with much lower levels of financial and economic risk. An ECH is a trade system that can be set up between any two central banks e.g. South Africa and Zambia, India and Botswana, however, it is best set up as a global model with many participating countries. Creating an ECH can bring with it valuable advantages in terms of market access, growth and free trade. Ultimately the objective of international trade is neither a deficit or surplus, but a balancing out of imports and exports that contributes to global economic stability, something an ECH system for international trade would be better positioned to achieve than the current international trade system.[101]

An ECH allows for markets to have much more stable exchange rates. Stable exchange rates are useful for opening up the credit market. Fluctuating exchange rates hurt economies where the cost of borrowing is high. Interest rates on loans in foreign markets may be much lower than those experienced in a domestic economy, however, if an individual or business secures foreign loans in US dollars, for instance the cost of borrowing will vary with the exchange rate. If the local currency appreciates it will be cheaper to pay off the loan, however, if it depreciates it will be more costly to pay off. The credit market in a domestic economy often has a handful of players as a result of having to operate in a regulatory environment with stringent requirements and it may be the case that credit providers begin to operate in a cartel like manner where interest rates are high and borrowers tend to be exploited. One plausible way of countering this is to create a more open credit market. A stable exchange rate ensures that domestic credit providers are able to compete with foreign credit providers thus enhancing choice and lowering the cost of borrowing.[102]

Though creating a Global Federated Central Bank System consisting of a linkage of central banks (CBs) through an ECH to change the operating structure of global or international trade is still far off and only a concept at present, it is a system that CBs should certainly consider in planning departments and it should be reviewed at the partnership level as an area for future development since the current trade system is archaic, undesirable, is strangely inimical to the very objective it is meant to engender namely free trade, and does not make use of the benefits of electronic transactions (using an ECH) available in the 21st Century.[103]

The international trade model used today resembles a "law" that everyone has to drive their cars in reverse using the rear view mirror. It is backward and destroys positive human ethos

[101]Op.cit. p 121.
[102] Ibid.
[103] Ibid. p122.

by proliferating a diverse array of non-communicable currencies. Unfortunately governments are mislead by resourcism[104] into believing that foreign exchange as a barrier to trade protects their sovereignty and economic independence when in fact it is destroying the capacity of industries and households in their own and external economies to grow sustainably. A currency clearing and exchange system driven by 'market forces' is simply not enough and is an excuse for not implementing an ECH style system consumers and industries the world over need and are suffering due to the lack of. Domestic industries in LDCs need direct access to foreign products in DCs if they are to produce competitive products and industries in MDCs need direct access to raw materials and strong consumer markets in LDCs if they are to continually expand the sales of their products. It is not enough to merely open economies or merge markets; the trade system also needs to change. Outstanding and unreconciled economic and political division is the reason why international trade in the present system is a massive form of exploitation engaged to benefit a few countries at the expense of the many when the need for global economic unity should instead make it a massive movement toward globalisation and emancipation, not just for the benefit of any one country, government or industry as this subtracts, but for the benefit of industries, consumers and populations the world over.[105]

Conclusion

Table 3: Summary of Advantages and Disadvantages

Current International Trade System	Result		ECH Trade System	Result
Having a more open economy leads to the withdrawal of valuable hard currency from the economy	A more closed economy is more rewarding (hence the current system works against international trade)		Having a more open economy earns direct income for governments to contribute to the ECH	A more open economy is more rewarding (the ECH system works for international trade)
Exporters earn a direct income for the goods and services they export but will face smaller external markets and resistance to their export goods in those external markets.	Constrained market conditions for exporters weaken intl. trade.		Exporters earn a direct income for the goods and services they export but will find economies more open and have larger markets to export to (since allowing imports is now a benefit rather than a loss to governments).	Improved market conditions for exporters

[104] Ibid. p312.
[105] Ibid.

It does not make sense to have a trade system that requires exporters to have to sell to countries that will be hostile to imports because they are a withdrawal of income.	Driving trade in reverse.
The economy must earn or borrow hard currency before it can purchase capital equipment and human capital if it is to invest in its domestic and export industries.	This artificial barrier to international trade limits growth and creates sovereign "master" & "slave currencies.
Through central banks govts must build foreign exchange reserves to ensure the value of the domestic currency and shore against internal financial system instability e.g. inflation	Discriminating against national currencies remains a barrier to international trade
Governments face an immense challenge to raise hard currency, build export industries and beg or plead for access to markets to ensure their economies remain stable by earning hard currency. International trade "drives in reverse"	Govts use the weaker internal pressure of exports to penetrate the far greater resistance of external markets to keep their economies afloat creating highly inefficient trade platform

It makes more sense for exporters to have ever expanding markets that benefit from their products because they are an injection of income to those economies they export to.	Driving trade forward. (Normalising international trade)
The economy does not need to borrow just to have hard currency or first invest in costly industries; it can purchase goods and services directly from the international market with its domestic currency and use these to invest in the domestic and export sectors of the economy.	These "fake" barriers that play on the psychology of "slave" currencies is removed. There is Increased growth and currencies are now equal.
Governments no longer require foreign exchange to participate in international trade. Using ECH agreements between central banks they participate directly in international markets with their own currencies.	Currencies are no longer a barrier to int. trade
Governments simply widen their domestic markets to generate more revenue or close it to reduce revenue flows. They are less subservient to external markets and no longer have to "beg" to sell their goods & services in them. (Regardless of whether a country is a net importer or net exporter, the aggregate pressure of imports seeking to penetrate a domestic economy will be greater than the total exports in an economy seeking to enter the international market. It is thus wiser for both net importers and net exporters to harness imports as a source of revenue for govt and exports as a source of revenue for exporters (i.e. to stop driving in reverse and drive forward). There is no longer a primary need to plead for access to external markets to achieve *economic and financial system stability.*	Govts use the far greater pressure of imports from the external market to regulate & bolster weaker internal exports.

Currencies are not equal leading to a formal system of discrimination between sovereign countries and peoples implemented by reputable institutions.	An official system of discrimination is applied using currencies & artificial or fake barriers to international trade which can be a violation of human rights.	All national currencies are equal and unconditionally exchangeable due to the improved relationship between central banks	Equality is attained in international trade and between the peoples of different countries.
Economies and their governments become either net exporters or net importers and countries make progress at the expense of one another.	Trade deficits become common and the trade system does not create resources to neutralize them	Being a net exporter may give a country an advantage but it does not disadvantage net importers. Countries are able to trade and benefit one another in the process.	The ECH Trade system naturally generates financial resources with which to settle trade deficits

It is worthwhile noting that this trade and currency system which is governed by “master” and “slave” currencies is likely to have a lifespan limited to the length of time it takes “slave” currencies to realise they are being had by the system and that the concept of a sovereign currency or a currency created and managed by a government on behalf of its people can only become genuine in a trade system where national currencies have equal respect gained through equal or unconditional exchangeability. When governments begin to realise that the international trade and currency system may discriminate against the labour value of their people; that it can be dehumanising, degrading, and create artificial barriers that are segregative which prevents them from achieving economic development there is no reason why these governments cannot opt to disengage from the current currency system and collaborate to create one that is fair to their people and their economies. Governments that realise the present currency system could be used as means for exploiting and discriminating against their people could simply demand that it is the *sovereign right* of every government to buy and sell goods and services in its national currency without the need to maintain a foreign exchange reserve regime as a permit for accessing international markets (demand to enter the international market through the front door rather than trade through the little window at the back). They could simply refuse to be part of a currency system that undermines the values of the people they represent and where simply holding foreign currency reserves is a sign or symbol of the fact that they are not equals in a global trade system which espouses open economies and fair trade. This is why central banks establishing an ECH is a possible avenue to equality, fairness and consensus that can avoid a future currency and trade crisis.

When a system is well designed and genuinely fair then it should be able to create an environment in which all the factors within it benefit from change despite the fact that a pseudo-hierarchy may have existed in which "superiority" and "inferiority" defined how interactions took place. The contemporary international trade and currency system faces this dilemma. "Many of the problems in contemporary economics are rudimentary; that is they are very simple forms of incongruency such as the "wobble effect", expenditure fallacy, implosion and law of conservation of [financial] resources inherent in market efficiency. However, though simple, they are perception based problems which history has shown are the dilemmas humans tend to find the most difficult and complex to solve."[106] It can be difficult for a country whose currency dominates global trade to appreciate that this domination can be an impediment to its own economic and financial well-being and that by currencies being made unconditionally equal rather than "superior" or "inferior" to each other a fair international trade system that benefits all countries can be created. This once again is a problem of perception and the psychological construct that drives countries toward survival even when the direction taken may be self deprecating. Similarly, net exporters will tend to believe they already exist in an international trade system in which they are winners or beneficiaries and consequently become reluctant toward change. Perception prevents them from seeing that despite being the victors in the current trade system not only can they be better off in an ECH trade system, but so too will the countries that must suffer as net importers so that there can be victorious net exporters. The power of perception should not be forgotten. It is often found that in seeking a fairer society those who believe they will lose their foothold on the gains in the old system will attempt to defend it and struggle for it even though it is harmful to them, is clearly discriminatory, causes others unnecessary suffering and a better policy is within sight. This struggle concerning how psychology affects perception is a hallmark of human history. Governments and leaders will have to dig deep to find, understand and make the changes to the system governing international trade, currencies and economics itself if there is to be any hope for a better, brighter and more prosperous future for all humanity.

[106] Punabantu (1st October 2010:35)

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