The proposed New Forex Game

From Discussion Purposes

Version 1

Lawrence Tseung in Feb 2018

Contents

1. What is wrong with the existing system (a)?

- Allows USA to dominate and crash other Nations at its discretion
  - Acceptable if USA uses that dominance to help other Nations rich.
  - Unfortunately, USA uses that dominance to preserve its power and causes suffering to Other Nations (Iraq, Afghanistan, Libya, Asian Nations, Syria etc.)
  - Many African Nations remain poor, ignorant and under-developed.
- Forex Systems are unregulated Casinos
  - Speculation took priority over the role of International Trade
  - Governments forced to gamble as they need to keep stable Exchange Rates.
  - Governments must keep USD as Settlement and Reserve Currency so that they can buy oil or other commodities.

1. What is wrong with the existing system (b)?

- USD is not linked to Gold. It keeps its dominance because of its link to oil (Petrodollar or Black Gold-Dollar)
- USA Military Power is key:
  - Nations not accepting the fact are likely to be destroyed. (Iraq, Libya)
  - Large Hedge Funds (e.g. George Soros) can destroy the economy of other Nations (Asian Financial Crisis in 1997)
- Forex System kept unregulated as it suits the propose of USA?
  - Blame goes to the Private Entities (East India Company in Colonial Days?)
- USA can print USD and buy, buy, buy.
  - Other Nations provide Natural Resources or Industrial Goods and keep the thin-air USD or US Treasury Bills.

1. What is wrong with the existing system (c)?

- The claim is that “Market Forces” will provide a fair Exchange Rate.
- In reality, the Entities having more USDs control the Market.
- The many Forex Casinos can set their own rules.
  - They offer different Leverages (1:20 to 1:200 and up).
  - They can influence the Exchange Rates by self trading.
- The ignorant (including China) can lose heavily.
  - China introduced the “Anti-Cyclic Factor” to define the Off-shore RMB (CNH) Exchange Rate to its liking – stopping the drain of over 1 trillion USD reserve.
- The smart can make much money (similar to Card Counters in Black Jack before the change of rules).

2. What should be the goal of a Forex System (a)?

- To facilitate International Trade including:
  - Travel
  - Investment
  - Meaningful Economic Activities
- Help Under Developed Nations rich
  - Improve the living standards
  - Improve the knowledge and skills
- Enable Nations or Individuals to keep their Wealth in a Meaningful Way.
- Money can be printed but reckless printing should be prevented.

2. What should be the goal of a Forex System (b)?

- China used International Investment and Trade to learn technology, technology and technology.
- Germany, Japan, Asian Tigers developed via the orders from USA.
  - When USA buys, Meaningful Economic Activities are generated.
  - The Global Money supply must increase for all to get wealthy.
  - Money (capital) is never a scarce resource as it can be created from thin-air.
- Many ignorant Nations print money recklessly.
  - Instead of stimulating the economy, it retards the economy.
  - When citizens lose faith in the Currency, the incentive to earn goes away.
- A good Forex System should increase **Modern Wealth** – the quality and quantity of **Meaningful Economic Activities.**

3. Essence of the New Forex System (a)

- As a Counter Balance to the existing system.
- Competition between the two Camps:
  - USA and Allies as one camp
  - Russia+China and Allies as another
  - Goal is compete to help Under Developed Nations Rich
- No more total Military Dominance (and freedom to destroy Nations)
- Once accepted into a Camp, Currencies will be rigidly pegged.
  - Does not matter which is the base currency. All Nations are effectively equal.
  - Nations not obeying “rules” will be “kicked out”.
  - The “kicked out” Nations can use another Nation’s currency to trade.

3. Essence of the New Forex System (b)

- USA and Allies can keep the existing Forex System.
  - They can float their own currencies.
  - When they float one currency in the Russia+China Camp, they effectively float all currencies in that Camp.
- The Gambling in the USA Camp can still proceed.
- The Gambling in the Russia+China Camp is stopped.
  - Currency Attack is virtually impossible.
  - Attack on a “kicked out” Nation is possible.
- Currency Swap within the Russia+China Camp can proceed.
  - But will become meaningless as currencies are rigidly pegged.

3. Essence of the New Forex System (c)

- It is impossible to go back to Gold as the standard as the amount of currency in use is huge.
- It is unfair to link Currency to Physical Commodities such as oil.
- **THE CURRENT STATE OF LINKING CURRENCY TO CREDIBILITY NEEDS TO BE KEPT.**
  - USA lost its credibility via wars and currency attacks.
  - USA became a debtor Nation.
  - USA lost its status as the Number One Trading Nation.
- China becomes more credible via its win-win, one-belt-one-road initiative and position as the Number One Trading Nation.

3. Essence of the New Forex System (d)

- Every Individual on Earth is equal and should receive:
  - Sufficient food, clothing for physical comfort.
  - Education to take advantage of the many scientific progresses.
  - Freedom to achieve his best without causing suffering to others.
- The Europeans took advantage of earlier Industrialization and
  - Conquered and enslaved other Nations.
  - Tried to keep other Nations poor so that they could keep their dominance.
- Japan was the first Asian Nation to Industrialize.
  - The Asian Tigers followed.
  - The China Dragon is now awaken.

3. Essence of the New Forex System (e)

- The unfair rules established by the West must be:
  - Understood, dissected, and thoroughly analyzed.
  - Treated as Third Class and improved to Second or First Class.
- The Forex Exchange Rules are particularly unfair.
  - Grew into a 5 Trillion USD Daily Market for Speculators or Gamblers.
  - Used to destroy the economy of Nations (Even if these Nations work hard and produce goods and services like the Asian Nations before 1997).
  - Forex Casinos tempt Gamblers with leverages of 1:20, 1:200 and up.
- A good description of the unfairness (in Chinese) is available in:
  - https://www.youtube.com/watch?v=w_soOx1alqs

3. Essence of the New Forex System (f)

- To help Developing Nations, much Relationship Selling will take place.
  - A Developing Nation may have produced rice at higher cost and lower quality.
  - Normal Market Competition will lower its chance of making profit.
  - In Relationship Selling, the rice will be bought to ensure profits and efforts will be focused on improving quality and cost.
  - The rice can be donated to charitable organizations or converted to other uses.
- Thin-air Money can be used to build Infrastructures and to develop Economies.
- Use Big Data to discover possible over or under production of products. Adjust appropriately.

3. Essence of the New Forex System (g)

- Cashless Society is coming.
- Keeping Cash as a measure of wealth will become meaningless.
  - Herds lost its role as measurement of wealth long ago.
  - Gold lost most of its role as it is difficult and dangerous to carry around.
  - Many Paper Currencies lost their role as some Governments recklessly print or increase the Money Supply.
- Modern Wealth of a Nation is the quality and quantity of Meaningful Economic Activities.
- Wealth of Individuals is to provide themselves with comfort and
  - Responsibility to help others less fortunate!

4. The Replacement Steps (a)

- The First Step is for Russia and China to come to an agreement.
  - An alliance between Russia and China will deter USA from thinking about wars.
  - **Win-win, plan together, work together and enjoy the fruits together.**
  - Currency Swaps and trading in own currencies will be the initial phase.
  - Currency Exchange Rates are effectively pegged in Currency Swaps.
- The Second step is to increase the Russia-China Trade massively.
  - It acts as an example to other Nations.
  - It builds confidence and credibility.
  - A rigid peg essentially unites the two Nations economically.
  - Rules will be formalized and tested.

4. The Replacement Steps (b)

- The third step is slowly get other Nations involved.
  - One good way is bilateral Currency Swaps so that other Nations see the benefits of a Stable and Rigidly Pegged Exchange Rate.
  - There is no need for a Common Currency (Lesson of the Euro).
  - Price in one pegged currency is extended to other pegged currencies.
  - Every Trading Partner is carefully screened before formally joining the Camp.
- The fourth step is to iron out the bugs in the New Rules.
  - Expect attacks and sabotage from the USA Camp.
  - Heavily promote the success of the many Developing Nations.
  - Set up Internet Forums and physical conferences to discuss and improve.

4. The Replacement Steps (c)

- The fifth step is to compete with the USA and Allies Camp.
  - Set up G4 or G5 Internet communication is key.
  - The Chinese Experience is – if a city wants to be rich, build a road first.
  - The better interpretation is - build the Infrastructures first.
- Infrastructure Projects cannot be run by profit orientated Enterprises.
  - Many will not make profits (e.g. Schools, hospitals)
  - Many require total planning (Dams, roads, High Speed Trains, airports etc.)
  - Many require skills and knowledge from many disciplines not available within a Nation.
- One-belt-one-road addresses Infrastructure Project Problems.

4. The Replacement Steps (d)

- The Sixth Step is to create Banks such as Asian Infrastructure Investment Bank to replace or supplement World Bank and IMF.
- Money can be created from Thin Air. The Russia+China Camp can create a new Currency or use any existing currency to fund the Developing Nations.
  - The use of existing currencies can be rotated (sometimes RMB, Ruble).
- China can use its experience of elevating every citizen from poverty to demonstrate the use of Internet, Infrastructures and big Data.
- Experiments on Cashless Societies must be conducted and analyzed.
- Can Russia+China Camp win? (Even losing will benefit the World!)

5. The Final Outcome

- Every Nation will be developed.
  - Capital, Knowledge, Technology, Human Labor are not scarce resources.
  - When a Nation wants to become wealthy and remain wealthy, the best strategy is to help other Nations wealthy.
  - This is the spirit of True Globalization.
- Wars, even regional wars, will be prevented.
- Information will be shared even with the other Camp.
  - Internet will spread the knowledge.
  - Individuals will be exposed to similar knowledge and opportunities.
- Win-win will be accepted as the Norm.

6. It is only Third Class, Improve it to Second or First Class

- This is the first attempt to define the New Forex Rules.
- It should be treated as basis for further discussions.

7. Comment (a) What is “Anti-Cyclic Factor”

- This is a factor introduced by the Chinese Government on CNH rates.
- Previously, China used the Mid-Point USDCNH value of the previous day as the default CNH exchange rate for that day.
- To keep the CNH exchange stable, China participated in the Foreign Forex Casinos and lost over 1 trillion USD Reserve in 2015-16.
- In April 2017, China added the “Anti-Cyclic Factor” to the CNH rate.
  - Effectively allowed China to specify the rate independent of “Market Forces”.
  - China did not need to gamble in the Foreign Forex Casinos any more.
  - If China gambles, it is a “sure win” as China knows the rate on the next day!
- Many Forex Casinos stopped trading USDCNH.

7. Comment (b) What is “Elevating all from poverty?”

- China set a deadline to lift every citizen from “poverty” by 2020.
- Definition of poverty is having income less than RMB2,300 per year.
- One simple way is to put RMB2,300 or less into the Bank Account of every citizen earning less than that level.
- One proposal is to give every poor adult a smart phone:
  - Deposit cash to ensure every citizen has income of RMB 2,300 minimum
  - Use Big Data to identify sources of possible revenue.
  - Use Relationship Selling to provide additional opportunities.
- Set up “Bonds” with interest tied to the GDP development of the poor regions. Principal will be guaranteed!

7. Comment (c) Needs Economy vs Excess Economy

- If there were not enough food, some eat well, some half starving, the Nation is clearly in "Needs Economy".
- If citizens have basic necessities satisfied and look for ways to invest their money, the Nation is in "Excess Economy".
- The general principle applies to other goods and services
  - Housing, Education, Health Care
  - Entertainment, Travel
- In Needs Economy, focus on real material production.
- In Excess Economy, focus on derivatives and other forms of gambling.

7. Comment (d) Sure-Win Businesses

- Some people heard the term “sure-win businesses” and dismissed it.
- Governments can print money.
- If Governments support a business with money and policy, the business will always make a profit. The business will be sure-win.
- An example is the “Silver Bonds” for Senior Citizens from the Hong Kong Government.
    - One must be 65 years or older to buy.
    - Maximum is HK$1m, minimum is HK$10K.
    - Principle and a two percent interest is guaranteed. More if inflation rises.
- Such Bonds are sure-win so long as Hong Kong Government survives.

7. Comment (e) Sure-Win Businesses

- Can developing a Minority Race region in China become a sure-win business?
- A private entity can partner with the Government to develop hotels, malls, tourist attractions, etc.
- Can focus on Minority Race customs and non-polluted environment.
- Government can send tourists (e.g. fund Retirees to visit and stay?)
- **Government uses its capability to print thin-air money to stimulate Meaningful Economic Activities!**
- Is that a sure-win business?

7. Comment (f) Sure-Win Businesses.

- In one-belt-one-road, can China+Nation X issue Bonds guaranteeing principal and with interest linked to GDP increase of Nation X?
- The Bonds can be used to develop the various projects in the Special Economic Zones of Nation X.
- Citizens and buyers of such Bonds will be interested in the progress.
  - It is not the normal return on Investment.
  - It is Governments guaranteeing return to stimulate Meaningful Economic Activities!
- There will be no lack of capital or interest in such sure win-win projects.