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# Reflections on the Reform of International Monetary System

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# Hard Choice on International Monetary System

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- Outline of the Evolution of International Monetary System
  - Gold Standard → Bretton Wood System → Jamaica Agreement → World Monetary System with the Dollar at the Core → Birth of Euro and the Emerging Pluralistic International Monetary System
  
- Intrinsic Contradiction of the World Monetary System with the Dollar at the Core: how to inject dollar liquidity into international market

# Hard Choice on International Monetary System

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## □ Dilemma with the trade account

- Sustained trade surplus for the US would result in a shortage of the dollar, while
- a persisting trade deficit with the rest of the world would depreciate the dollar.

# Hard Choice on International Monetary System

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## □ Dilemma with the capital account

- Supplying the dollar through the capital account would enhance the production capability of the rest of the world and so broaden the trade deficit.
- Introducing the investment in the US to recycle the dollar supplied through trade or capital channel would enhance the US' production capability and decrease the trade deficit and result in the contradiction above again.

# Hard Choice on International Monetary System

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## □ Dilemma with the financial account

- Preconditions for supplying the dollar through the financial account are the US investors' sufficient knowledge and risk management capability for foreign financial products, which are hard to meet.
- If the US wanted to introduce the foreign investment through financial account, they would need to provide ample financial products with the yield high enough, and the Global Financial Crisis has proven it is quite difficult.

# Hard Choice on International Monetary System

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- Dilemma with foreign national debt purchase for the US
  - Issuance of national debt by foreign countries to improve their production capability would result in the increase of their export and the US' trade deficit.
  - IF the issuance of national debt by foreign countries was limited to public welfare area, another Greek-type debt crisis may emerge.

# Hard Choice on International Monetary System

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- Triffin Dilemma and the QE2
  - depreciation of the dollar and Seigniorage: soaring gold price from 35 dollar/ounce to 1460 dollar/ounce
- The rest of the world has no choice but to accept the weakening dollar.



# Construction of a Pluralistic International Monetary System

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- ❑ Currency is backed by fiscal credit in modern economy. Monetary supply in international area should be based on the demand of real economic development. The two facts mean that non international organization is able to shoulder the function of international currency issuance.
- ❑ To solve the intrinsic contradiction of the world monetary system with the dollar at the core, a pluralistic international monetary system is necessary. Countries and economies around the world should have the choice on international currencies. The international currency issuancers should restrain their behavior and assume their international responsibilities.

# Construction of a Pluralistic International Monetary System

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- The internationalization of RMB is a long process and demands a series of preconditions:
  - exploiting the channels of foreign asset utilization against the background of sustained trade surplus;
  - pushing forward the establishment of Asian Monetary Fund;
  - implementing the bilateral and multiple currency settlement;
  - deregulating the financial account and realizing the free currency exchange under financial account;
  - carrying on financial innovation and providing sufficient financial products for international fund transaction;
  - developing intermediate institutions in credit rating, legal service, accounting and information service;
  - establishing pricing mechanism of financial products;
  - improving the capability of supervision and regulation on financial system and market.



Thank you for your attention!

