

# International Monetary System Reform and Asian Monetary and Financial Cooperation

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International Monetary System Reform - Necessity and Orientation

**RMB Internationalization - A Rewarding Attempt of the International Monetary System Reform**

**Several Suggestions on Asian Monetary and Financial Cooperation**

# Necessity of the international monetary system reform

- The global financial crisis triggered by the subprime mortgage crisis has clearly indicated that: with the development of global economy and finance, the international monetary system dominated by such sovereign currencies as USD has been increasingly unstable.
- The Triffin Dilemma in the international monetary system has not been solved. The international currency issuing countries provide the international liquidity by the deficits of current items that partly play the role of the world's central bank; meanwhile, the international currencies are based on the country credit, thus lacking effective restraint on the issue.
- Due to the soft constraint of credit money in the world, the US dollar was over-issued and credit inflation arose, which not only pushed the prices of dollar-pricing financial assets, but also stimulated the US consumption. This laid the foundation for the subprime mortgage crisis and finally led to the drastic economic adjustment.
- As to the countries with trade surplus, the independence of their monetary policies were restricted, and the currency mismatch brought about inefficiency and tremendous devaluation risk of US dollar.
- Over the world, the proportion of US dollar in transactions and asset reserves is incommensurate with that of the US scale of economy; euro is unstable due to the fiscal differences of each country, and accounted for less than half of the US dollar assets of the international reserves. If the international monetary system remains unchanged, the global economy, finance and currency will become increasingly volatile.

## Reform orientation

■ Global Monetary Theory: Zhou Xiaochuan (2009) calls for gradually increasing the use of special drawing right (SDR) founded by IMF in 1969 and finally replacing the US dollar; Stiglitz (2009) states Global Reserve Fund (GRF) Assumption. GRF is an economic club formed by countries. Member country submits certain amount of domestic currency to GRF in exchange for GR at the same value, so as to separating reserve assets from current items.

■ Diversified monetary system: Barry Eichengreen (2009) and Richard N. Cooper (2009) both analyze the advantages and disadvantages of between SDR and major international currencies such as US dollar, euro, yen and GBP as international money. They support the position of USD that will not be replaced by any other currency judging from the liquidity of financial market and the convenience of currency use. However, the position of US dollar will decline and its space as international monetary will be narrowed.

■ US dollar-dominated monetary system: Dooley (2009) indicates that BW2 does not change abnormally as viewed from the international capital flow, and the system will still exist. Volcker (2009) states that US dollar, as a public product, will still bring about stability and development to the world economy in the future and benefit all countries, which, accordingly, should maintain the international currency position of US dollar.

■ **We consider that the reform of current international monetary system is very necessary, and a diversified monetary system is a more practical choice. The key problem is about how to establish the diversified monetary system.**



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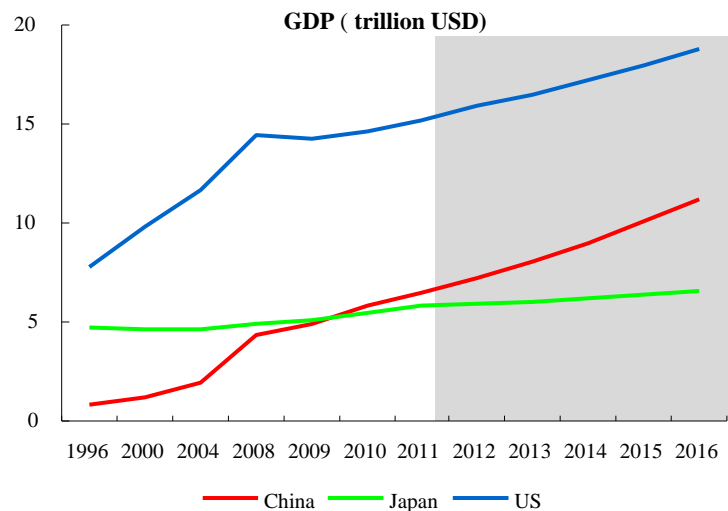
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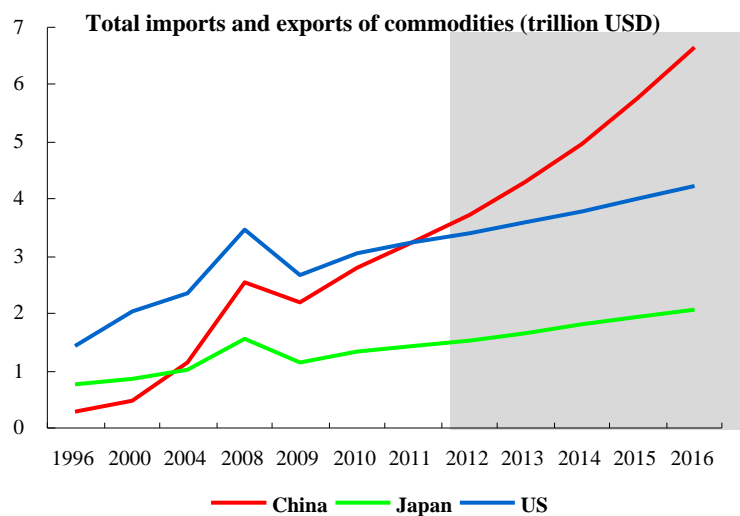
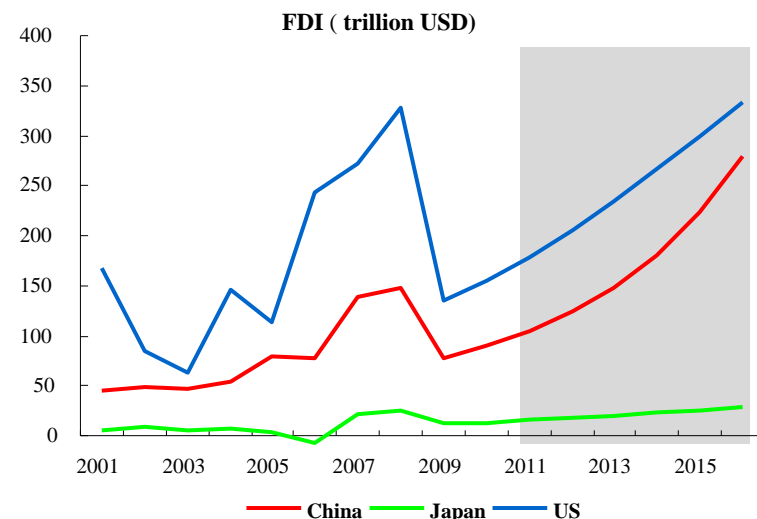


# China's economic development promotes RMB internationalization



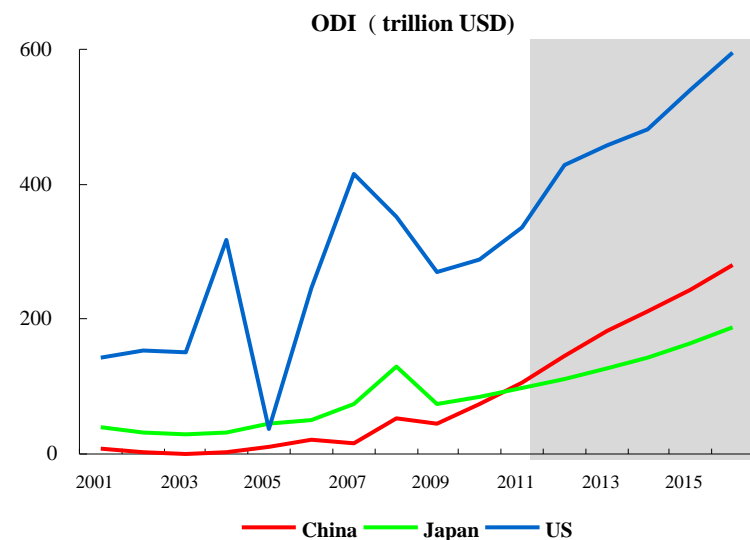
**Call from economic globalization**

**Improvement of international monetary system**



**Enhancement of China's economic power**

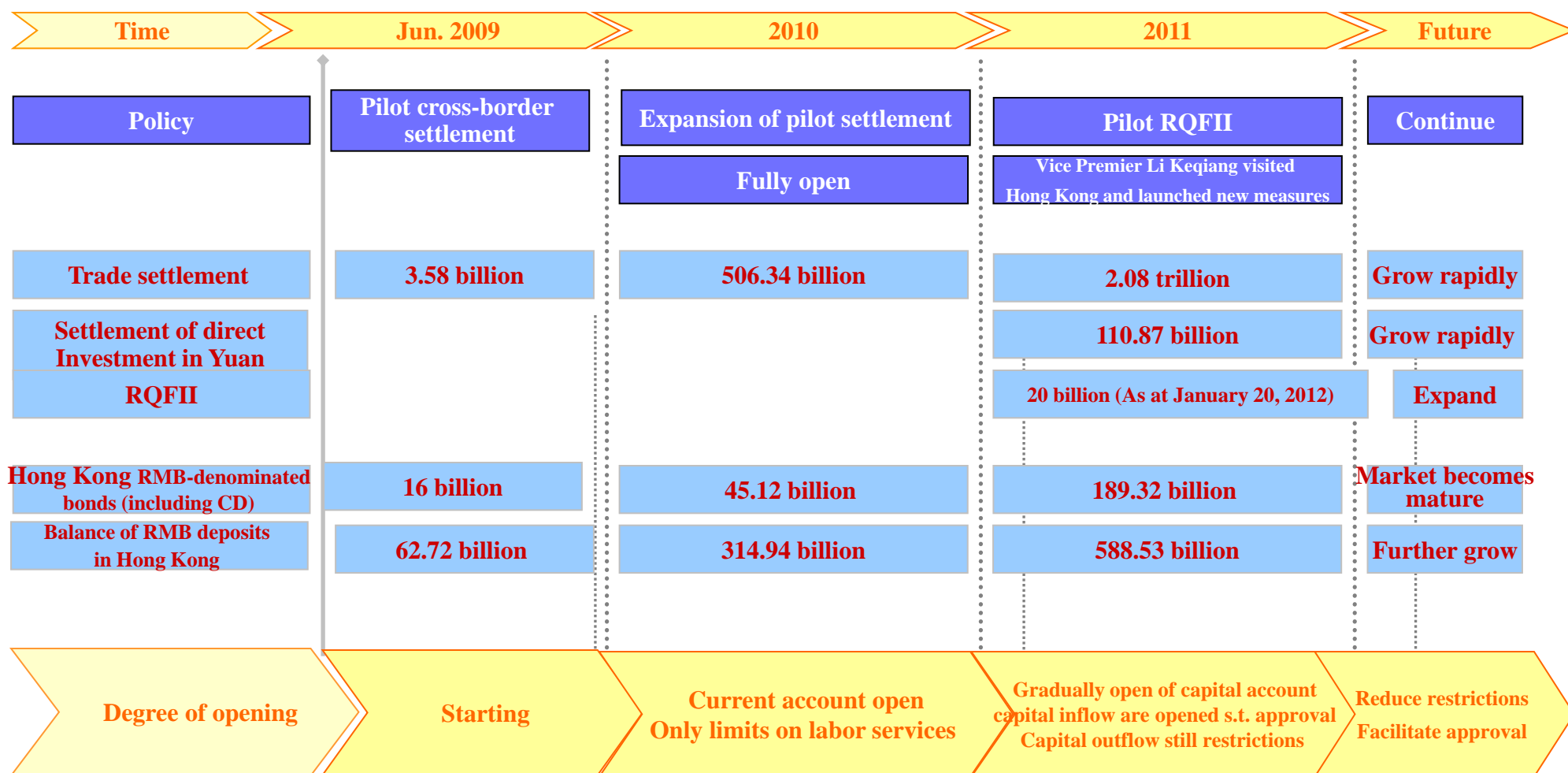
**Convenience of economic and trade activity**



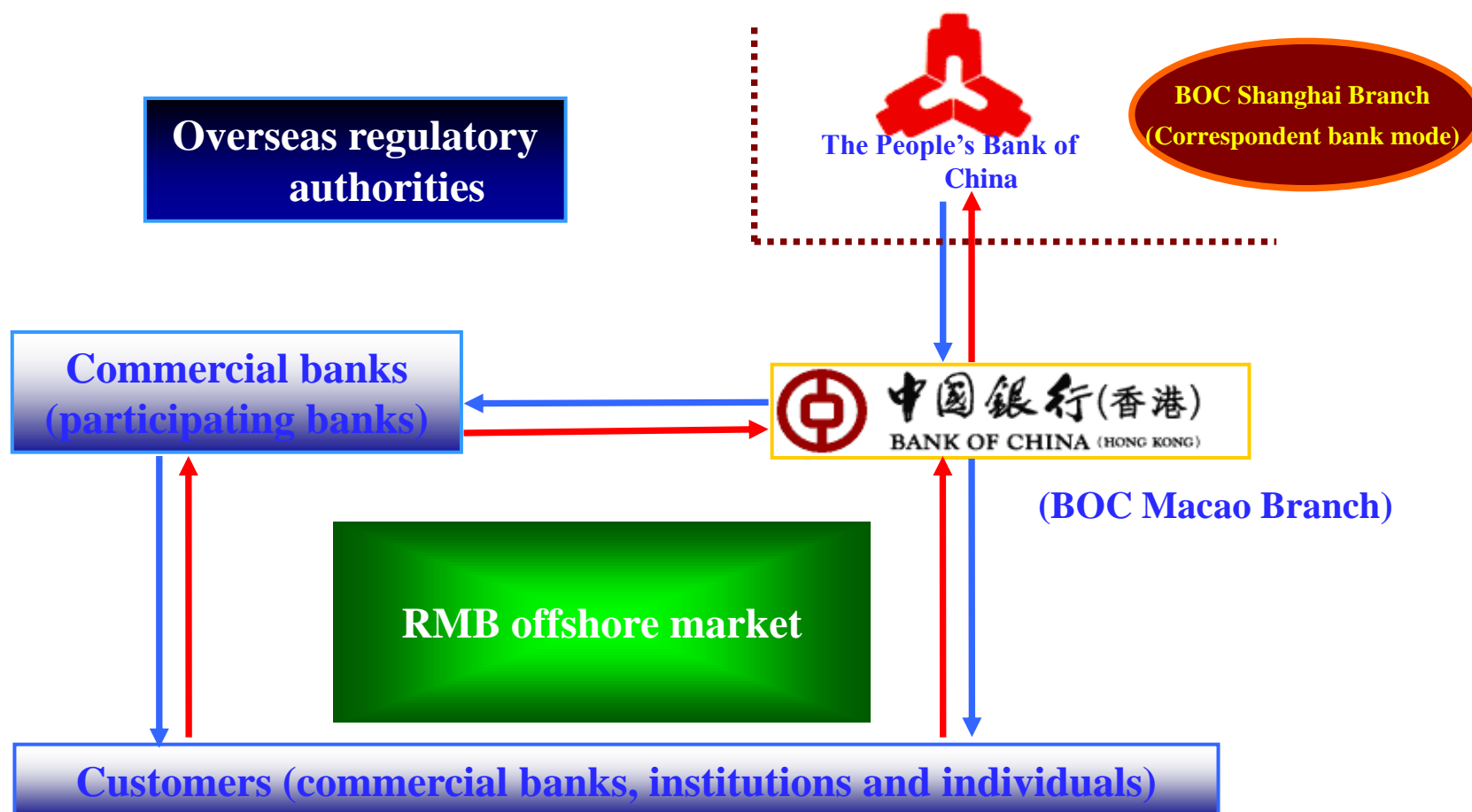
Note: Data of 2011 is estimated and data in 2012 and thereafter is predicted

Source: Strategic Development Department, BOC

# Remarkable progress has been achieved in RMB internationalization after its initiation

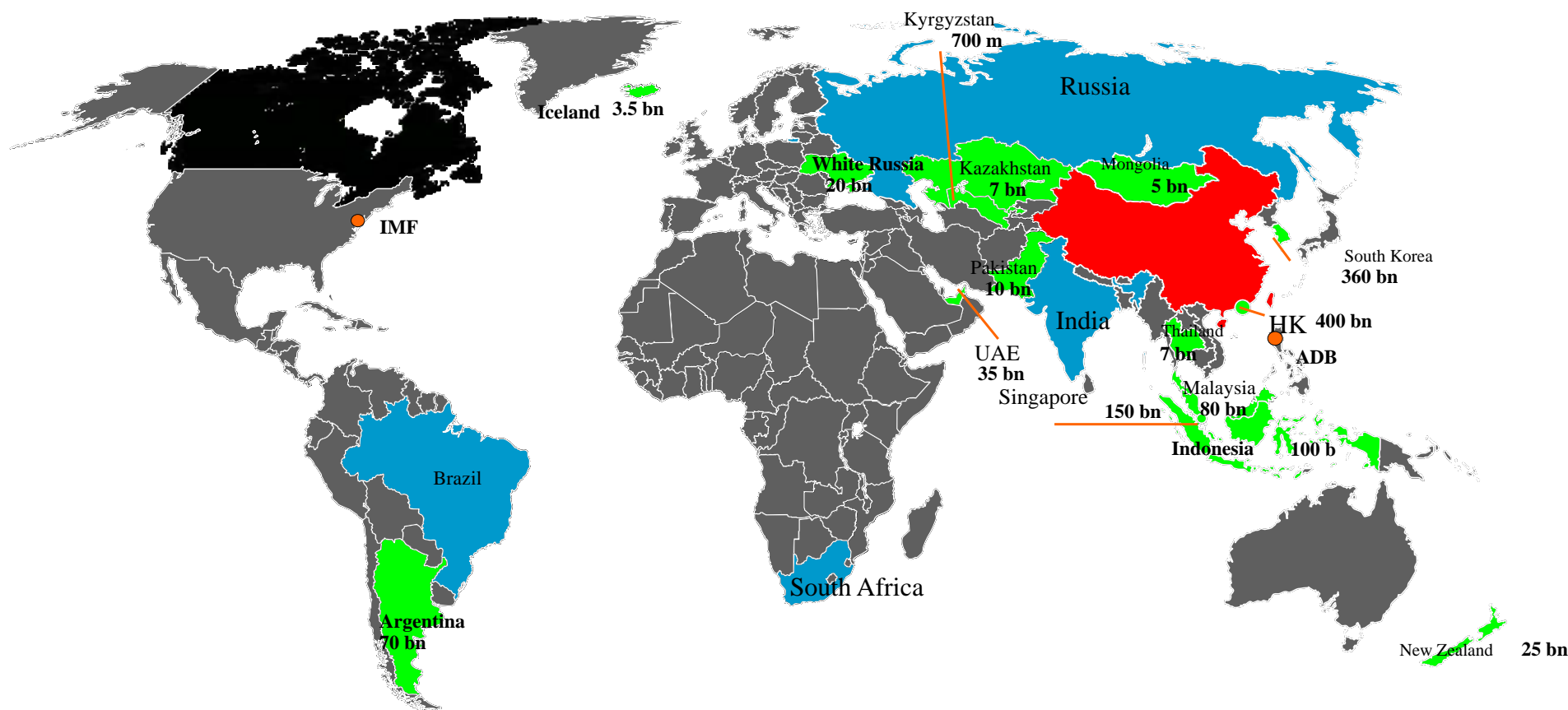


# Clearing system promotes RMB internationalization





# Intergovernmental cooperation promotes RMB internationalization



- Bilateral trade settlement in local currencies: BRICs
- Bilateral local currency swap agreement: 15 countries and regions, RMB1.3 trillion
- Other potential cooperation opportunities: IMF, ADB, etc.

Source: Strategic Development Department, BOC

# Overseas RMB market development

Existing offshore markets and clearing centers

Hong Kong  
Macao

London  
Singapore  
Chinese Taiwan

Switzerland,  
New York  
Latin America,  
Africa

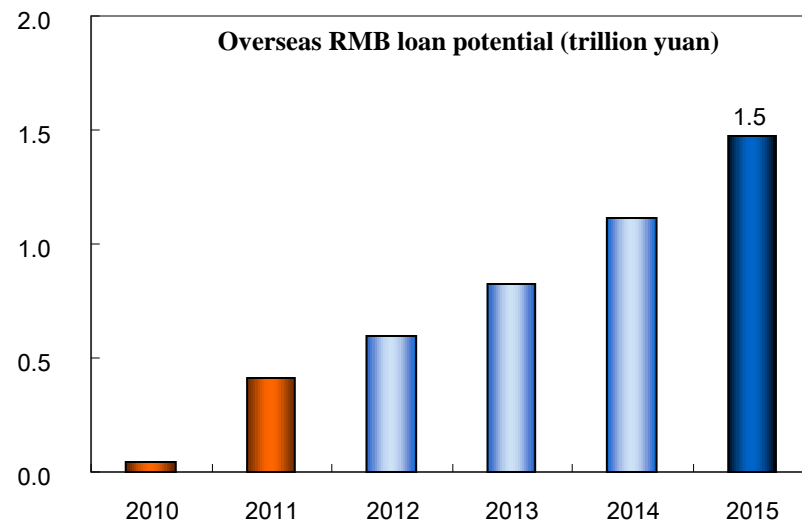
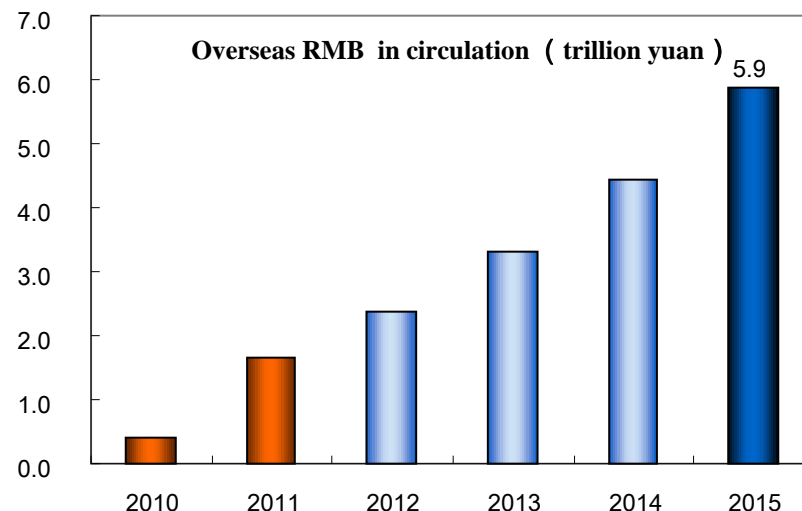
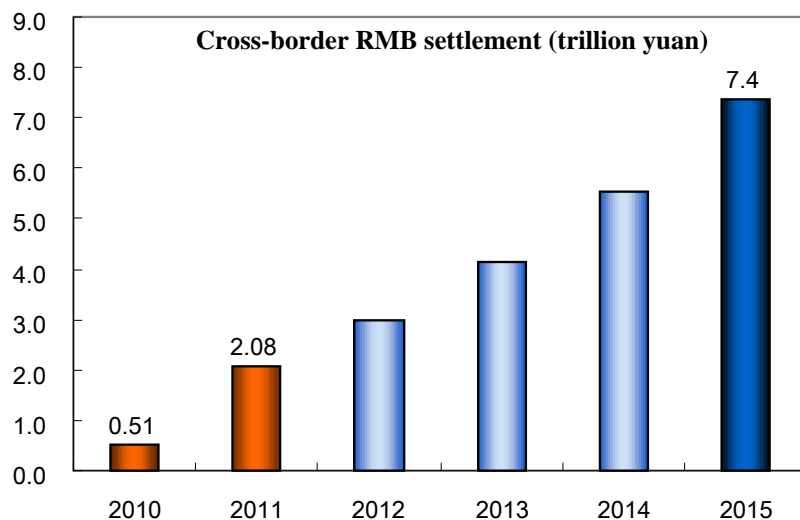
Countries and regions that intend to establish offshore market

Potential countries and regions to be offshore center in the future

# Big potentialities of RMB internationalization

## Forecast for 2015:

- Cross-border RMB settlement: 7.4 trillion yuan
- Overseas RMB in circulation: 5.9 trillion yuan
- Overseas RMB loans: 1.5 trillion yuan



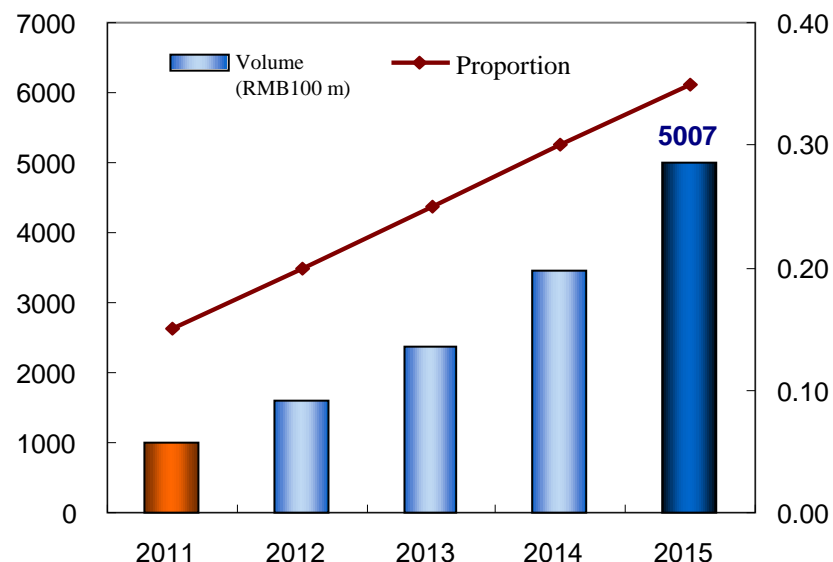
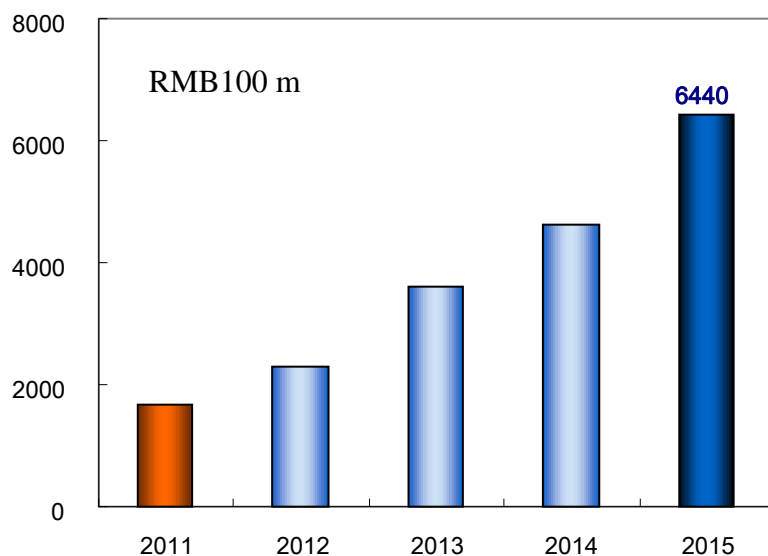
Source: Strategic Development Department, BOC

## Big potentialities of RMB internationalization (Cont.)

### Forecast for 2015:

■ Balance of overseas RMB bonds exceeds 600 billion yuan

■ RMB FDI exceeds 500 billion yuan





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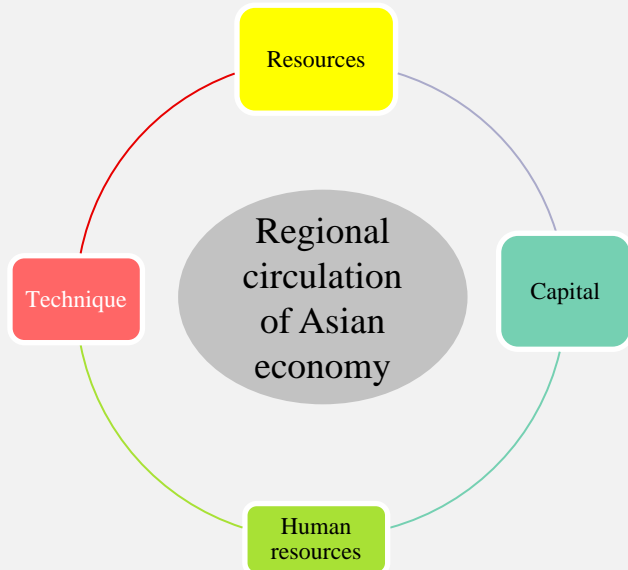
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# Asian monetary and financial cooperation

In the reform of international monetary system, the common interests of Asia are far bigger than the divisions, and therefore, Asian countries should cooperate to promote the reform. the “monetary and financial cooperation between the countries in region” should become an important breakthrough for Asia in the reform of international monetary system.

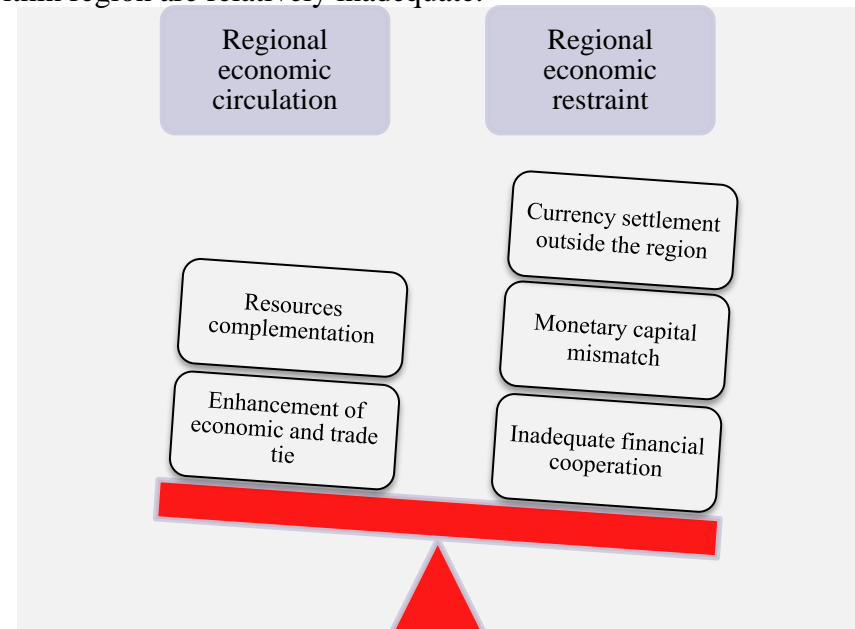
## Cooperation potentialities

- Asian countries are strongly inter-complementary in the fields of resources, capital, manpower and technology;
- Regional trade develops rapidly, and regional economic synergy and spillover effect are obvious;
- “Regional circulation of Asian economy” has big potentialities and great room for cooperation.



## Financial restraint

- Bilateral economic and trading activities are mainly priced and settled by a third party currency (US dollar);
- Asian currency reserves are overly high and mismatch of currencies outside the region is serious;
- Monetary cooperation mechanism and financial market development within region are relatively inadequate.

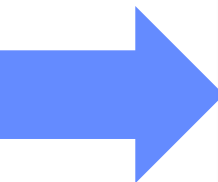


## **Suggestion 1: Aim to join the SDR basket and making SDR more useful**

Give play to the advantages of SDR



**Suggestions**



- SDR-dominated alternative accounts provide new investment channels for the foreign exchange reserves of each country;
- Reduce the scale and speed of US dollar reflux and restrain the excessive issue of US dollar;
- Avoid the drastic fluctuation of exchange rates between major currencies and stabilize the order of international financial;
- Enhance the currency's position in the international market by being the SDR basket currency .

- Gradually expanding the use of SDR cross-country;
- Establishing the alternative foreign exchange reserve in SDR;
- Appropriately including currencies of emerging countries in SDR basket;
- Constructing swap agreements between Asian currencies and SDR, and gradually achieving the goal of joining SDR basket. Fully free convertibility is not necessary as a joining precondition.

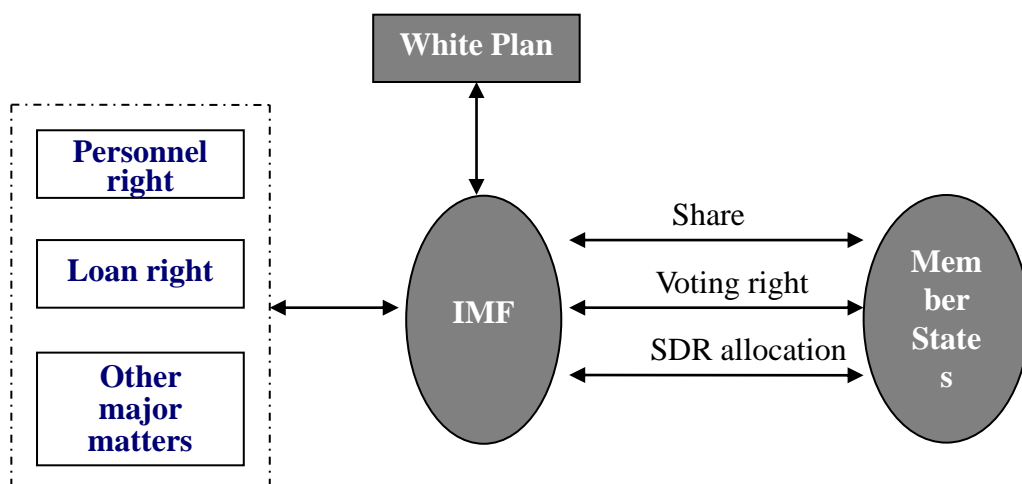
## Suggestion 2: All-round and multi-level co-operation between Asian countries and international organizations (e.g. IMF)

### Suggestion

- Appropriately increase the share and voting right of Asian emerging economies in IMF to reflect the adjustment of the global economic pattern and achieve a balance between rights and obligations in the international monetary and financial affairs.
- Increase the proportion of representatives of Asian emerging economies in the management and staff of IMF, and form an all-round and multi-level cooperation pattern with such international organizations as IMF.

### Status quo

Asian countries' position in the world economy kept escalating. In 2010, China replaced Japan as the world's second largest economy, and India and Russia also entered the list of top 10 economies in the world. However, emerging countries' voice in the IMF was quite incommensurate with their economic positions, and the voice of emerging market countries in the IMF should be enhanced.



No.	Term of Office	Name	Nationality
1	May 1946—Jun. 1951	Camille Gutt	Belgium
2	Aug. 1951—Oct. 1956	Ivar Rooth	Sweden
3	Dec. 1956—May 1963	Per Jacobsson	Sweden
4	Sep. 1963—Sep. 1973	Pierre Paul chveitzer	France
5	Sep. 1973—Jun. 1978	Johannes Witteveen	Netherlands
6	Jun. 1978—Jan. 1987	Jacques de Larosière	France
7	Jan. 1987—Feb. 2000	Michel Camdessus	France
8	May 2000—Mar. 2004	Horst Kohler	Germany
9	Mar. 2004—May 2004	Anne Krueger	The US
10	May 2004—Nov. 2007	Rodrigo Rato	Spain
11	Nov. 2007—May 2011	Strauss Kahn	France
12	Jun. 2011—Present	Christine Lagarde	France



## Suggestion 3: Strengthen bilateral swap in the region to reduce dependence on third party currencies

### Bilateral swap between China and other Asian countries

■ Due to the financial crisis in 2008, US dollar exchange rate increases volatile, and many Asian countries started to utilize other currencies in international payment and settlement, and Yuan become a good for its relative stability.

■ China's central bank successively signed currency swap agreements with countries/regions listed in the table from 2008 to 2012, effectively mitigating the exchange rate risks.

Swap object	Signing date	Swap amount (RMB100 m)	Term
South Korea	Dec 12, 2008	1800	3 years
Chinese Hong Kong	Jan 20, 2009	2000	3 years
Malaysia	Feb 8, 2009	800	3 years
Indonesia	Mar 24, 2009	1000	3 years
Singapore	Jul 23, 2010	1500	3 years
Uzbekistan	Apr. 19, 2011	7	3 years
Mongolia	May 6, 2011	50	3 years
Kazakhstan	Jun 13, 2011	70	3 years
South Korea	Oct 25, 2011	3600	3 years
Chinese Hong Kong	Nov. 22, 2011	4000	3 years
Thailand	Dec. 20, 2011	70	3 years
Pakistan	Dec. 23, 2011	100	3 years
UAE	Jan. 17, 2012	350	3 years
Malaysia	Feb. 8, 2012	1800	3 years
Turkey	Feb. 21, 2012	100	3 years
Total		1,724.7 billion	

### Suggestion

■ Firstly, expand the swap scale and maturity and encourage swap in international trade.

■ Secondly, supply Yuan to surrounding countries under capital account, and encourage Yuan to be their official foreign exchange reserves.

■ Thirdly, encourage surrounding country to invest in China's financial market and/or Hong Kong's offshore Yuan market as long as there are surplus of RMB fund after above two.

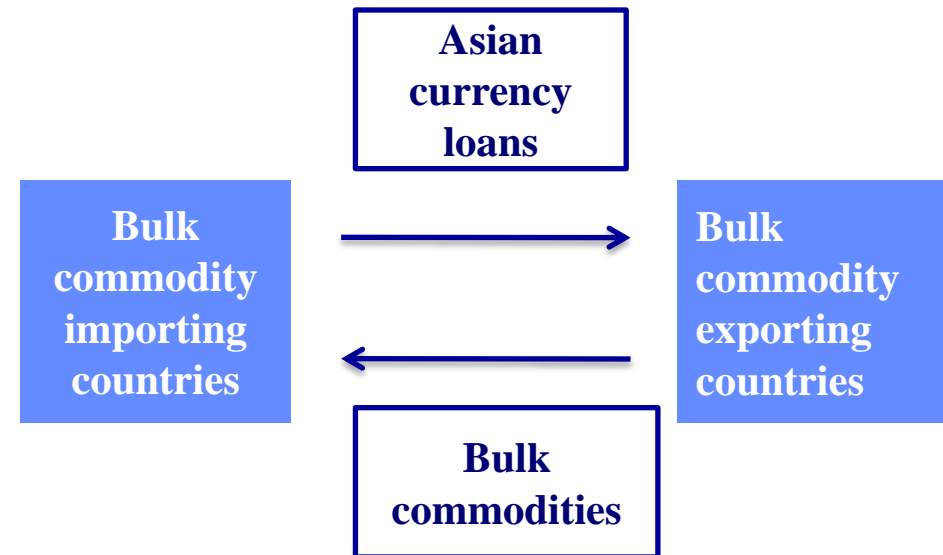
■ Fourthly, establish swap agreement framework between important material trading countries in the modes from emergency assistance to daily trading, in order to efficiently stabilize regional trade and finance.

## **Suggestion 4: Increase the use of Asian currencies in the “swap of loans for bulk commodities”**

■ Since 2009, China has signed many “loan-for-oil swap” cooperation agreements with such countries as Russia and Kazakhstan.

■ Loan-for-oil swap, actually, is a financial innovation of oil and is a quasi-spot and quasi-futures trading mode. It is a loan contract that uses oil output to repay loans, and it is a currency and resources swap agreement.

■ The mode may be applied to the trading of more bulk commodities in Asia, and Asian currencies may be used more frequently in loans.



## **Suggestion: 5: Enhance coordination and cooperation to jointly improve the financial development environment in Asia**

- The governments of Asian countries should provide preferential policy for banks in innovation of onshore/offshore investment products and increasing overseas channels;
- Host countries should provide necessary support and cooperation for the cross-border currency clearing in Asia, in terms of infrastructure, policy and rules;
- Asian countries should strengthen cooperation to jointly develop Asian bond markets;
- Enhance the exchange and cooperation between financial institutions in Asia.



**Thank You !**