Abstract—This paper investigates the existing problems of the international monetary and financial system. To solve these problems, the diversified international monetary and financial system is necessary to be constructed in terms of the following three aspects: declining status of U.S. dollar, Euro becoming the chief competitors of U.S. dollars, and rapid development of Asian economy with China at the core. This result shows the pattern of future which is like the three legs of a tripod of the United States, Europe and Asia.

Keywords—international monetary systems; international settlement; international reserve

I. INTRODUCTION

U.S. financial crisis fully revealed the deficiencies of the U.S. dollar-dominated international monetary and financial system, resulting in the demands of rebuilding the international monetary and financial system. It is necessary to build diversified international monetary structure dominated by the United States, Europe, and Asia in a parallel manner. From the perspective of reconstructing the international monetary system, this paper researches the issues of the international monetary system reform.

II. LITERATURE REVIEW

Global economic integration requires that the international monetary system behaves relatively internal autostability, which performs many functions such as providing world reserve currency, adjustable mechanism for balance of payments, lender of last resort, and the mechanism to resolve the global financial crisis. The international monetary system is suffering from dollar hegemony, exchange rate fluctuations, and the free flow of capital, resulting in the proliferation of global liquidity and the "dollar trap" presented by Krugman (2009). Mundell (2003) pointed out that evolvement of the power pattern of currency depends on the prosperity and decline of the country. Hayek (2007) proposed the idea of establishing a multi-currency. Greenwald & Stiglitz (2008) considered that three problems must be solved in the reform of international money system. The first is to reduce deficit of the reserve-currency country caused by the reserve accumulation of other countries. The second is to provide methods of dealing with surplus for the surplus countries. The last is to offer the value which is more stable than the dollar. Stiglitz (2009) proposed that the shortcut to reform the international monetary system is to replace the dollar by the International Monetary Fund’s Special Drawing Rights (SDR).

Zhou Xiaochuan (2009) demonstrated an ideal goal to reform the international monetary system, which was to create a long-term stable international reserve currency independence of the sovereign to avoid the inherent flaws of the sovereign credit currency serving as a reserve currency. Chen Shaofeng (2009) thought of that the government should step up its effort in the internationalization of RMB to promote the reform the international monetary system. Zheng Xinli (2009) suggested that monetary system should be tripartite confrontation to ensure the international finance stable. The international reserve currency should be supervised more tightly. Steady progress should be made in the reform of the international financial system. Yu Yongding (2009) pointed out that the main defects of the existing international monetary system are instability, inequality and innate tendency of deflation, and the three processes should be advanced side by side. They include the reform of international monetary system, the internationalization of RMB, and the regional monetary cooperation. Li Yang (2009) believed that the target of the reform of the international monetary system is to establishing a multi-currency reserve system, where the exchange rate mechanism is of the greatest importance.

III. EXISTING PROBLEMS OF INTERNATIONAL MONETARY AND FINANCIAL SYSTEM

After World War II, the U.S. dollar has grown into the most important settlement and reserve currency. It accounted for 70 percent of global trade settlement and more than 60 percent of foreign exchange reserve in the world. The Federal Reserve has factually been the global central banks. The United States enjoyed seigniorage revenue throughout the world. By printing many dollars and issuing vast amounts bonds, the United States imports cheap goods. The emerging economics got the falling "currency symbol". Emerging economics purchased U.S. bonds with high foreign exchange income to support the U.S. recurrent deficit and consumption. The U.S. economy was maintained by the reflux of capital. By the end of 2007, the U.S. net debt owing to other countries had reached 2.525358 trillion US dollars, equivalent to about 18.3
percent of US GDP. In response of the large deficit of current account, the United States reduced the external debt and stimulated exports by means of dollar depreciation. Meanwhile, the excess money supply and global inflation occurred, resulting in over capitalization and excess liquidity. [2] The above analysis reveals that the institutional defects of the existing monetary system are the root causes of the major financial crises since the 70’s of last century.

At the end of 2009, the global foreign exchange reserves were dominated by the U.S. dollar, accounting for 64.03%, followed by euro, accounting for 26.51%. English pound and Japanese yen accounted for 4.48% and 4.27%, respectively, as shown in Fig.1.

![Figure 1. Composition of reserve currency in the world](image1)

The U.S. possessed 16.77% of the voting rights and 17.09% of the shares in IMF. EU voting rights and shares accounted for 31.98% and 32.38%, respectively. According to the agreement of IMF, 85% votes are needed to make many important decisions such as the adjustment of share, the allocation of SDR, and the amendments of statute. That is, the United States is entitled to exercise a veto with only one vote. The percents of voting rights and shares for “BRIC” are 9.62% and 9.76%, respectively. China accounts for 3.66% and 3.72%, respectively.

IV. ACCELERATE TO CONSTRUCT THE DIVERSIFIED INTERNATIONAL MONETARY AND FINANCIAL SYSTEM

A. Declining status of U.S. dollar

With the economic development of the European Union, Japan, China and other economies, the superiority of the United States in the world economy, international trade and finance is reducing. The dominant status of the US dollar is challenged for lack of the strong economic foundation. The weighting of Euro in the international settlement has exceeded dollar since 2003 as shown in Fig.2. The foreign trade volume of America has decreased significantly since 2004, while that of China had notably increased. The US assets in foreign exchange reserves of the central bank around the world have decreased to 64.03% by the end of 2009, as shown in Fig. 1.

After financial crisis, the dominance of the United States banking was weakening, while the banking of emerging markets was strengthening. We had seen a 29 percent increase in brand value of American banking; less than a 31 percent increase in Asia, a 67 percent increase in Europe, 78 percent in Middle East and 84 percent in South America among the top 500 finance corporations in 2009.

![Figure 2. Currency composition of international settlement in 42 countries form 1999 to 2004](image2)

B. Euro becoming the chief competitors of U.S. dollars

Euro challenged the status of dollar in international reserve currency and became largest potential competitor to the U.S. dollar. The weighting of Euro in reserves was on the rise, as shown in Fig. 1. Statistics of IMF showed that U.S. dollars in the global foreign exchange reserves dropped from 71% in 1999 to 63.9% at the end of 2007, in the meantime, the euro over the same period rose from 17.9% to 26.5%. Since the euro was put into circulation, the nominal exchange rate of euro against the U.S. dollar appreciated by nearly 70 percent. The share of Euro in international transactions had accounted for about one-fifth.[3]

In the last decade, the development of the euro witnessed that the regional currency played important role in the progress of international monetary system. By far, the euro can’t catch up with the U.S. dollar.[4] However, if the EU could seize the strategic opportunities provided by the financial crisis, accelerate the economic integration, and promote internal coordination, the Euro is expected to play more important role in the future global economy.[5]

C. Rapid development of Asian economy with China at the core

![Figure 3. Growth rates of GDP in the world, Asia and China](image3)

Nowadays, the GDP and the foreign exchange reserves of the Asian have increased to one third and 42 percent in the world, respectively. Asian factors should therefore be stressed in reconstructing the monetary system as shown in Fig.3. Realistically, China took the lead in economic, cultural, diplomatic and military in Asia. Mundell pointed out that the RMB's regional convertibility is becoming increasingly important. [6] Refusing to devalue the RMB, China won the trust of many Asian countries in the Asian financial crisis of
1997. The most likely choose is the construction of “Asian RMB” in constructing regional currencies. “Asian RMB”, as main body of construction of the Asian regional monetary system, participated in the reconstruction of the international financial structure. [7]

Asian countries were faced with many problems, such as declining values of foreign exchange reserves denominated in dollars, the loss of international settlement caused by non-normal fluctuations in the dollar’s value, and the periodic significant financial crisis caused by inherent defect of dollar standard system. The solution method is based on constructing the “diversified international monetary financial system”.

V. ASSUMPTION FOR THE RECONSTRUCTED INTERNATIONAL MONETARY SYSTEM

The financial crisis affected the international status of U.S. dollar, but the international monetary system centering on U.S. dollars would persist over a long period of time. [8] It is expected the international monetary system would be "a domination and multi-dimension" pattern over the next 30 years. Subsequently, the international monetary system will continue to convert diversification. This process would last thirty years. With the economic status rising of large developing countries such as China and the formation of "Dollar Zone", "Euro Zone", "RMB Zone", the dollar, Euro and Yuan will become the main international currency. Thus diversified international currency will be truly formed.

The relative size of the global economy was: China counted among the top three. Accounting based on current exchange rate, China surpassed Germany and became the world's third largest economy. According to PPP, China had already become the world's second largest economy. The share of economies according to PPP was: the United States is about 20.9%, China 11.4%, Japan 6.4%, and Germany 4.2% in 2008. More importantly, the Chinese economy is still expected to grow at an average annual rate of 8 percent by the year 2015.

The relative size of quantum of world trade was: According to data published by WTO, the United States accounted for 11% of quantum of world trade, ranking first. Germany accounted for 8.4%, ranking second. The Chinese share is 8.0%, ranking third in the world in 2008.

The U.S. dollar still holds an absolute advantage in the international reserves. In recent years many countries desire to reduce U.S. dollar reserves. But in view of maintaining system stability, avoiding sharp shrinkage of reserve assets and actual investment and payment, the governments didn’t distinctly adjusted dollar-denominated assets. The justification process will be very gradually. It will take a long time for RMB to gain the considerable share in the international reserve and catch up with Dollar and Euro. It is necessary to cultivate external demand and establish credibility. The RMB had fulfilled the zero official reserve currency breakthrough since Philippine central bank recognized RMB as official reserve currency in 2005. China signed a series of currency swap agreement in 2009. Some countries announced that RMB borrowed from China had been their foreign exchange reserves. RMB will eventually become an international reserve currency and replace part of US dollar reserves in some countries.

At the end of 2009, the currency percentage of international bonds was shown as follow: U.S. dollar accounted for 34.18%, Euro 47.84%, Japanese yen 3.31%, and British pound 8.79%. Fig.4 shows that European dollar has exceeded American dollars since 2003.

Accounting to the share and voting right in IMF in 2008, China ranked number six. With the reform of international monetary system, China's share and the words power in IMF would be further increased. Mundell proposed RMB had become one of the most important universal money. Even if RMB is not freely convertible, it should also join the SDR in 2010. In addition, ASEAN currency should be attached to RMB in the future. RMB accounts for 10% in "intor". Once RMB becomes one of SDR basket currencies, it would mean RMB seize the commanding elevation of developing the most important international currency.

VI. CONCLUSION

According to the principle of comprehensiveness, equilibrium, evolution and effectiveness, Washington Summit drew a conclusion that the international monetary system should be reformed and improved to meet the demands of the current international economic situation. This is also the appeal of the international community, playing an important role in stabilizing the finance and economy in the world. In response
to the appeals of multiple benefiting subjects, the diversified international monetary and financial system is surely the best candidate for the international monetary system in the future. The 2008 global financial crisis made it consensus to reform the international monetary system with U.S. dollars at the core, which provided a historic opportunity for RMB to realize regionalization and internationalization. This paper studies on the status quo and the problems of the existing international monetary and financial system, draws a conclusion that the pattern of future is like the three legs of a tripod of the United States, Europe and Asia.

REFERENCES


