

Preface

The 2007–2009 global financial crisis and its aftermath, including the sovereign debt and banking crisis in Europe, are key drivers of the current policy debate on the international monetary system. The global financial crisis began in the United States (US), which is the largest and most central economy in the world and home to the world's most sophisticated and developed financial system and the most dominant global reserve currency—the dollar. The financial crisis spread to the eurozone, where the sovereign debt crisis affected the health of the banking system, and the viability of the single currency, the euro, is in doubt. As with the Lehman Brothers' shock in September 2008, a further acceleration of the eurozone crisis may have significant negative spillover effects on many emerging economies, including those in Asia.

Therefore it is not surprising to see that the global financial crisis and the eurozone crisis have generated many important discussions regarding the function and effectiveness of the international monetary system. One area of debate surrounds the search for alternative international reserve currencies to supplement the role of the US dollar as the preeminence of the United States in the global economy is being gradually eroded. A second question relates to the management of monetary and currency policy in the presence of large and volatile capital flows, particularly in emerging economies. A third issue is the need for a global financial safety net and the role that regional financing arrangements can play in it. A fourth topic is the need for institutional support mechanisms, including fiscal policy coordination and bank supervision, regulation and supervision, to make a common, single currency system for the euro viable. A fifth important question is the value of soft currency cooperation at a regional level where economies are highly interdependent, as in the case of Asia.

The global financial crisis has cast doubt about the future role of the US dollar as the dominant reserve currency. Despite the fact that the crisis originated in the United States, the value of the dollar stayed stable and even appreciated in the short run because of the high global demand for dollar liquidity. However, fears have emerged that the large size of public debt in the United States—created as a result of fiscal stimulus, financial sector support, and bailouts of automobile and other

firms—could eventually bear on the country's ability to service public debt and that continued ultra-easy monetary policy by the US Federal Reserve could lead the US dollar to depreciate. Since mid-2013, concerns have arisen over the possible destabilizing impact on emerging economies of the tapering of quantitative easing by the US Federal Reserve.

In the longer run, the global economy appears to be heading towards a multipolar currency system, centered on the US dollar, the euro, and an Asian currency. For the euro to remain a viable global currency, the eurozone system must be supported by new institutional arrangements, including a strong fiscal policy coordination framework, a banking union, effective crisis management mechanisms, a well-funded European Stability Mechanism and the European Central Bank as the fully-fledged lender of last resort. In Asia, it is not clear whether a national currency, such as the yuan or the yen, or a basket of currencies, will emerge as the region's major anchor currency, but there is no doubt that the yuan will play an increasingly important role in the evolving international monetary system.

This volume brings together studies that address aspects of reform of the international monetary system noted above. The studies were originally prepared for the conference on reform of the international monetary system hosted in 2011 by the Asian Development Bank Institute (ADBI). Many of the studies have a specific focus on Asia, while others address such diverse areas as the implications of the eurozone crisis, reforms of the international monetary system, and cooperation of regional and global safety nets. Given that the period of monetary policy reversals amid sluggish growth in the major developed economies is likely to persist for some time, these conditions will tend to create large-scale capital flow volatility in Asian and other emerging economies. Therefore, the topics covered in the book are both urgent and timely.

The volume consists of nine chapters, including an overview chapter. The eight analytical chapters are organized into five parts. Part I provides an overview of issues related to the reform of the international monetary system. Part II is devoted to issues on managing capital flows in emerging economies, focusing on the trilemma of international finance. Part III discusses policy choices for Asian currency cooperation. Part IV examines issues related to regional financial cooperation and financial safety nets, including a discussion of policy in the eurozone. Finally, Part V covers linking of regional and global initiatives. The chapters, though initially prepared in 2011, have been subsequently updated for inclusion in the volume.

As coeditors, we are first and foremost grateful to the authors of the individual chapters for providing high quality analyses of policy issues related to reform of the international monetary system that are so relevant to the Asia and the Pacific region today. Our thanks are also due to many whose assistance has made the production of this volume possible. Asel Karamuratova assisted with the final preparation of the manuscripts. Ainslie Smith was chiefly responsible for the final editing. Last, but not least, able ADBI support staff, especially Noriko Mita, Motoko Shibata, and Yumiko Nagami, provided invaluable logistical support to the 2011 conference

where the chapters were initially presented. It is our sincere hope that this volume will contribute to the ongoing debate on reform of the international monetary system in the postcrisis environment and become part of our collective efforts to support sustainable growth in Asia.

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Reform of the International Monetary System

An Asian Perspective

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2014, XVII, 259 p. 54 illus., 42 illus. in color., Hardcover

ISBN: 978-4-431-55033-4