Chapter 2
A Short Review on the International Monetary System

2.1 The History of International Monetary System

2.1.1 Definitions of International Monetary System

There is no clear definition on the international monetary system (IMS). As defined by Eichengreen (2008), the international monetary system is

> …the glue that binds national economies together. Its role is to lend order and stability to foreign exchange markets, to encourage the elimination of balance-of-payments problems, and to provide access to international credits in the event of disruptive shocks.

Regarding to the relationship between the international monetary system and international financial system, Truman (2010) outlined

> the international monetary system is the set of rules, conventions, and institutions that govern and condition official actions and policies affecting the international economy and financial system: exchange rate regimes, intervention policies, the size and composition of reserve holdings, mechanisms of official financial support, etc. The international monetary system exists within the international financial system, which today is dominated by private, not publicactors and their balance sheets.

Dooley, Folkerts-Landau and Garber (2003) refer the international monetary system of today is

> …composed of a core issuing the dominant international currency, and a periphery. The periphery is committed to export-led growth based on the maintenance of an undervalued exchange rate.

To sum up, the international monetary systems can be portrayed as: sets of rules and supporting institutions that facilitate international trade cross border investment and generally the reallocation of capital between nation states. It provides means of payment acceptable between buyers and sellers of different nationality, including deferred payment. To operate successfully, the system need to inspire confidence, to provide sufficient liquidity for fluctuating levels of trade and to provide means by

J. Wang, *The Past and Future of International Monetary System*,
SpringerBriefs in Economics, DOI 10.1007/978-981-10-0164-2_2

which global imbalances can be corrected. The systems can grow organically as the collective result of numerous individual agreements between international economic actors spread over several decades.

2.1.2 History of International Monetary System

Over the past 200 years, the international monetary system (IMS) has gone through many changes. From 1815 to 1873, IMS was operating by Bimetallism, which was followed by International Gold Standard till the outbreak of the First World War. From 1915 to 1999, IMS adopted Dollar–Gold Standard, Gold Exchange Standard, Dollar–Gold Standard, Dollar Standard, and Flexible Exchange Rates.

There were informal regimes existed before mid-1940s. The pound sterling was the premier international currency of the gold standard period. Historians estimate, for example that 60–90 % of the world's trade was invoiced in sterling in the 19th century (Broz 1997; Hale 1999). In 1899, the share of pound in known foreign exchange holdings of official institutions was more than twice the total of the next nearest competitors, the franc and the mark, and much greater than the dollar (Lindert 1969).

In the past, gold had been long and widely adopted as a world monetary standard especially in the era rested on the conversion of paper notes into preset quantities of gold. According to the classical definition, money has the responsibilities to be an intermediary of exchange (or international measurement of value), an instrument of savings, and a tool of domestic payments. Gold standard ensured the stability during most of commercial economy and the early stage of capitalism; however, it was confronted with embarrassment after unprecedented economic prosperity and waves of globalizations.

The nature that helps it get the acknowledgement as a perfect standard, in turn, prevents it from long being. The limit quantity of gold was no longer suitable for the world's further prosperity. Therefore, another "ever-lasting" international standard, the paper money, was introduced firstly in modern time by Britain then followed the US dollar after the crash of the pound sterling. This new kind of standard was created in order to avoid the shortage of gold and was guaranteed by, at that time, the strongest economic and political sovereignty behind it. Take the US dollar for example, despite times of "dollar shortage", this national currency standard served the world economy for decades however finally make a concession to its national interests of depreciation and freely floating. After that, the dollar-led international system goes on working till now that labelled with a volatile exchange rate regime.

The first single architectural vision of IMS is the Bretton Woods System in 1944. The Bretton Woods System was signed and became the first international institution to govern monetary relations among independent nation-states. It is a system established by negotiated rules for commercial and financial relations among the world's major economies. The chief features of the Bretton Woods system were an obligation for each country to adopt a monetary policy that maintained the exchange rate by tying its currency to the U.S. dollar and the ability of IMF to bridge temporary imbalances of payments. Under the Bretton Woods, nations agreed to the regime of fixed but adjustable exchange rates where the currencies were pegged against the dollar, with the dollar itself convertible into gold at a fixed price. The IMF and the World Bank (then called the International Bank for Reconstruction and Development) was established. These organizations became operational in 1945 after a sufficient number of countries had ratified the agreement.

In August 1971, the United States unilaterally terminated convertibility of the U.S. dollar to gold. This brought the Bretton Woods system to an end, and the dollar become fiat currency (Wlatz 1969; Calleo and Rowland 1973).This action created the situation in which the USD became a reserve currency used by many states. At the same time, many fixed currencies (such as GBP, for example), also became free floating. In the floating exchange rate regime, dollar as reserve currency has become the world's *fiatmoney*. As Savona and Viviani (2005) argued, the US should agree—at least in principle–on the necessity of a cooperative policy on exchange rates, to obtain a monetary standard governed by some rules. The absence of an international monetary standard created through an agreement transfers the burden of the adjustment from the US to the other countries or, worse yet, assigns the government of the exchange rates exclusively to the market.

By the introduction of the euro in 1990s, the convergence criteria for membership in the European Monetary Union, the merits and defects of the euro as an international rival to the dollar, and to the characteristics that have made past international currencies great as well. It goes on to consider the institutional gap in the world system arising from the absence of an official world currency and the threat to stability that arises in transition periods when the euro is phased in. It is expected that the introduction of the euro involve diversification from the dollar that will require multilateral attention to the dollar-euro exchange rate (Mundell 1998).

However, the financial crisis in eurozone since 2008 trigged one problem in the case of euro: that each eurozone country has a separate market for its government bonds, the most stable assets serving as benchmarks. Market depth and liquidity are thus lacking compared to the dollar (Eichengreen 2009).

Consequently, there are more voices calling for reformation, starting from a re-establishment of a stable and accountable international standard. In this background, the SDRs, or "paper gold", which was firstly issued by the IMF in 1970, is highlighted among others. According to the methods of its establishment, the SDRs was designed to be a solution for the "Triffin Dilemma" at that time, that is to say, in order to supplement the shortage of gold as an international standard in a fixed exchange regime as well as to provide the sufficient international liquidity to support the world economic growth. However, short after that, forced by the domestic political and economic pressures, the U.S unilaterally announced to give up the convertibility of the dollar to gold at a fixed price. This default was followed by general adoption of floating exchange regime and finally the collapse of the "Bretton Wood System". Given lack of rational arrangements and policy consensus among nations, the SDRs had taken marginal effects for a long time.

Apart from the application of a new international standard, a fundamental problem that rested in the current system and triggered the economic crisis calls for much more consideration, courage as well as wisdom of the international community. The diversification of the system is indispensable to keep accord with economic changes. It is the intrinsic requirement to enhance the stability of the system and to break away from monopoly monetary power. This is a great opportunity for CNY to internationalization.

The pace of internationalization of CNY has picked up in recent years with new currency swap agreements, clearing banks and CNY investment quotas being agreed in several financial centres.

Till 2012, the People's Bank of China (PBoC) has signed currency swap agreements with 18 central banks, valued at over 1.6 trillion (most recently with the Reserve Bank of Australia for an CNY200 billion three-year swap agreement). In 2011, about 10 % of China's total cross-border trade was settled in CNY compared to only 2 % in 2010. In 2013, the PBoC has set up currency swap agreements with the European Central Bank at CNY350 billion follows similar agreements with the UK, Australia and Brazil. In 2014, Russia set up a currency swap facility with the PBoC, the Chinese central bank. In the same year, a similar agreement was sign between the Swiss National Bank and PBoC up to a limit of CNY150 billion.[1] In same year, Sri Lanka government had signed CNY10 billion currency swap agreement with China. These efforts seem to help build a stable global market for trading the CNY. As a reserve foreign currency, in 2014, Australia has announced its intention of holding 5 %of reserves in CNY bonds, while Nigeria's central bank keeps at least 10 % of foreign exchange holdings in CNY.

In the trade clearing system, according to Deutsche Bank, in 2013, 17 % of China's trade was settled in CNY. Data from SWIFT,[2] the international currency clearing system, CNY is the fifth most used currency in the world for payments while investors are fast adding it to their trade. More than 2 % of world payments were conducted in CNY in December 2014. The CNY now sits the fifth behind the USD, euro, GBP and yen in terms of transactions.

In Recent years, foreign governments start to issue CNY denominated bonds. In October 2014, the UK has issued 2 billion government bonds denominated in CNY, the first time for the western country. Obviously, by issuing debt in CNY the UK is making a statement about its belief in the Chinese currency's future in the international monetary system. The UK Treasury Chancellor George Osborne explained, "…in order to increasing exports to fast-growing economies like China, it is indeed necessary …to make sure, the CNY is used and traded here."[3] Also, the Canadian province of British Columbia has issued public bonds in late 2013. The Sri Lanka government is seriously examining proposal to issue a first CNY bond.

[1]"Grand global ambitions for renminbi sow domestic risks", *Financial Times*, 16th October, 2014.

[2]"Renminbi enters top five currencies for payments", *Financial Times*, 28th January 2015.

[3]Quoted from "UK takes first orders for debt renminbi bond", *Financial Times*, 15th October 2014.

2.1.3 Structure and Characteristics of International Monetary System

The international monetary system, a cooperative arrangement between sovereign nations, is composed of five main elements:

- a set of rules for setting exchange rates;
- a lender or lenders of last resort;
- instruments for providing liquidity and reserves (such as swap facilities among central banks and the special drawing right, an international reserve asset created by the IMF);
- provisions for surveillance;
- a reserve currency or currencies.

In practice, the core components of an international monetary system should contain the following three aspects:

- an international reserve standard played as an anchor in the system;
- arrangements such as an agreed foreign exchange regime to help adjust each participant's international balance of payment, and
- global collaboration mechanism.

The three aspects are crucial for defining and evaluating an international monetary system. When it comes to understand the past and the current international monetary system so as to find out the right approach for the future one, it is quite sensible for this book to focus on those three components.

As Salvatore (2011) point out, the main characteristics of the current IMS is, that there is a wide variety of exchange rate arrangements, nation is free to choose exchange rate regime, pegging or floating. Unlike previous systems—the pre-war gold standard and the Bretton Woods dollar standard, today's arrangement is characterised by the pronounced tendency of countries to tailor their exchange-rate regime to their own needs. Most importantly, countries decide whether to float or peg their currency, and to what currency or mix of currencies they should peg. They also choose what combination of currencies and gold to use as reserves. Because central banks want to hold reserves in currencies that are widely used in transactions, markets largely determine which currencies are used as reserves (Beattie 2011).

A minority of countries—68 of the 188 countries classified by the IMF—have chosen to float their currency. However, this group includes nearly all of the advanced economies and several of the large developing countries, such as Brazil, Mexico, India, and South Africa; together, the group accounts for almost 80 % of world GDP and 76 % of world trade. Thus, in terms of economic weight, today's exchange-rate system is overwhelmingly a floating system. About 120 countries choose to peg their currencies (or heavily manage them, according to the IMF classification). China stands out in this group. However, as Savona (2002, 2007) insisted, that based on the dual use (domestic and international) of the US dollar and the uncontrolled expansion of derivative markets, the free foreign exchange regime is dangerous to financial stability.

The international monetary system suffers from fundamental flaws, the Triffin dilemma and exclusion of emerging market. The Triffin Dilemma is referred where national or regional currencies to manage international liquidity. In other words, the inherent conflicts that arise when a national currency also serves as an international reserve currency and the system is unduly exposed to the vagaries of the so-called key reserve currency countries. In 1960, Robert Triffin (1960) noticed that holding dollars was more valuable than gold because constant U.S balance of payments deficits helped to keep the system liquid and fuel economic growth. What would later come to be known as Triffin's Dilemma was predicted when Triffin noted that if the U.S. failed to keep running deficits the system would lose its liquidity, not be able to keep up with the world's economic growth, and, thus, bring the system to a halt. But incurring such payment deficits also meant that, over time, the deficits would erode confidence in the dollar as the reserve currency created instability.

In order to solve the Triffin Dilemma, the alternative was handed out: paper gold. The existing gold stock could be "stretched" by issuing claims to purchasing power valued in terms of gold. As long as countries were willing to accept this "paper gold" at its face value, it would be used as reserves and exchanged at par with gold without changing its price. It would introduce a fiat component in the world money. Thus was born the Special Drawing Rights (SDRs), as the paper gold was called, and one unit was defined as the equivalent of one "1944" US dollar, i.e., 1/35th of an ounce of gold. Agreement on the SDRs was made at the 1967 Rio de Janeiro annual meeting of the IMF, and it was ratified, as the First Amendment to the Articles of Agreement of the IMF, in the following year. Each country would receive an "allocation," based on its quota in the Fund, and would be obliged to accept SDRs up to three times its allocation. After the Rio agreement there were great expectations not only that the SDRs would provide the needed supplement to the gold reserves but become the embryo of a genuine global currency.

By sketching the recently years'crisis and the development of world economy, the current IMS suffers from another fundamental flaw, saying the exclusion of emerging markets currencies. It implies that emerging markets, despite their increasing economic weight, remain mere bystanders of, rather than stakeholders in, the system and may therefore be less willing to align their policies with the stability of the system. Both aspects tilt the system inherently towards instability and external imbalances.

Clearly, problems in the international monetary system—persistent global imbalances, large and volatile capital flows, exchange rate gyrations disconnected from fundamentals, insufficient supply of safe global assets—are complex and call for an array of remedies—global policy collaboration and stronger surveillance, enhanced systemic financial safety net, financial deepening in emerging markets and more generally development of new reserve assets. The issue is whether there is a helpful role to play by reforming the IMS amid these solutions.

2.2 Proposals on Reforming the IMS Studies

The common wisdom is that an international agreement on a framework for financial sector reform should be arrived at. Maintaining central bank credibility as well as fiscal and regulatory credibility is essential to restore confidence to the IMS.

However, it is still not clear how to reform mechanism can impose adjustment on overcome the global imbalance. Furthermore, it is still quite arguable in which way to the IMS or smooth it to stabilize the global economy. The main arguments can be categorized into four strands:

2.2.1 Maintaining the Status Quo of Dollar-Led International Monetary System

Scholars (Subacchi and Driffill 2010; Meissner 2010; Dadush and Eidelman 2011) argued, although there are a lot weaknesses in the current international system, however, the dominant status of dollar is unreplaceable due to the reforming proposals (e.g. adding more weights for SDRs) of being far from satisfaction as well as the great political divergence remained between main states. They pointed out that the most important thing for the international monetary system is that the U.S and the Eurozone return to a sustainable and fiscally-sound growth path. Over a certain period of time, this will allow international interest rates to return to normal levels, alleviate fears of carry trades and hot-money inflows in emerging markets, and restore confidence in the main reserve currencies—precisely the changes needed to ensure that the international monetary system function smoothly.

Nakao (2010) argued, neither euro and yen, nor could CNY and SDRs become the global reserve currency or denominated currency. After all, the direction of reforming the IMS should be the stabilization of the current system by strengthening US dollar as anchor currency.

2.2.2 Constructing CNY-Included Multi-Polar International Monetary System

There are numerous works to promote the multi-polar international monetary system. Peng (2010) argued, that any monopoly international reserve monetary arrangement inherits intrinsic instability, the soaring of reserve pushes reverse mechanism to reform the international monetary system. All of the twin of deficit in U.S, low interest rate of dollar and expansion of dollar liquidity are inherited from the system dominated by dollar. They are balance measures by U.S, Unfortunately, it is knife-edged balance. This further develops Triffin dilemma. Meanwhile, the diversification of global economy challenges the existed international monetary system.

Mundell's work show the probability of improving the system advocated the practices of diversifying international money, among which the most representative one should be the Regional Monetary Cooperation based on the theory of Optimal Currency Area (OCA). The OCA theory stemmed from a debate about the relative merits between fixed exchange rate system and floating exchange rate system in 1960s. By that time, represented by Friedman (Friedman 1953), a group of economists believed that floating exchange rate system was the only effective measure to handling with the external shocks under the condition of rigid prices. On the other hand, Mundell (1961) diametrically pointed out that in the case of total and extensive application of the floating exchange rate, currency's function as monetary parity had no longer existed. The price anchor in global trade would also disappear so as to significantly increase the transaction cost in global trade and capital flow. On the basis of that and other academic contributions, Mundell proposed the OCA theory to illustrate the possibility of establishing an optimal currency area under a series of criteria and implementing a single currency as well as a fixed exchange rate system to protect the members from external shocks. His criteria were then supplemented by McKinnon (1969) and Kene (1969). The integration of the European Union had partly confirmed the theory in spite of a number of setbacks from practice. More importantly, the creation of the Euro and its subsequent performance in international monetary system had introduced another blueprint to fulfil the stability of the international monetary system. In the light of the road map of the Euro, an international monetary union would be established among several crucial international money such as the dollar, the Euro and the yen. These major international moneys would together play the role as international reserve currencies to avoid the excessive use of the dollar. Certainly, with the rise of the economic influence of China, the CNY has attracted more and more attention. In this respect, many economists are optimistic about the future role of the CNY in the diversified international currency system (Bergsten 2009; Eichengreen 2010; Jayakumar and Weiss 2011; Farhi, Gourinchas and Rey 2011).

Regarding to the internationalization of CNY, Bénassy-Quér and Pisani-Ferry (2011) argued, though the CNY is not yet convertible, the international monetary regime has already started to move towards a 'multipolar' system, with the dollar, the euro and the CNY as its key likely pillars. This shift corresponds to the long-term evolution of the balance of economic weight in the world economy. Such an evolution may mitigate some of the flaws of the present (non-) system, such as the rigidity of key exchange rates, the asymmetry of balance of-payments adjustments or what remains of the Triffin dilemma. However it may exacerbate other problems, such as short-run exchange rate volatility or the scope for 'currency wars', while leaving key questions unresolved, such as the response to capital flows global liquidity provision. Hence, in itself, a multipolar regime can be both the best and the worst of all regimes.

The basic advantage of a multi-polar reserve world is the concerns on transmission cost for replacing dollar as reserve currency (Krugman 1984). The second reason is, of course, that it provides space for diversification. As one stated, "if the dollar, the euro, and the CNY all have their problems, the very fact that there are doubts about all three is a reason to think that there will be a place for each of them" (Eichengreen 2010).

However,scholars (e.g. Stiglitz 2010) also argued that there are problems with a Multiple Currency Reserve System. They reckoned that a system based on multiple, competing reserve currencies would not resolve the difficulties associated with the current system. Under the multi-polar IMS,

> it would come at the cost of adding an additional element of instability: the exchange rate volatility among currencies used as reserve assets. If central banks and private agents were to respond to exchange rate fluctuations by changing the composition of their international assets, this would feed into exchange rate instability. Under these conditions, the response to the introduction of a multiple currency reserve system might be calls for a return to a fixed exchange rate arrangement." (Ibid., p. 165)

There have also been proposals to again give a greater role to gold (Zolick 2009). However, such a return to what Keynes called a 'barbarous relic' would be a non-starter. In particular, it would be inconsistent with the 'embedded liberalism' of earlier post-war arrangements—that the commitment to free markets is tempered by a broader commitment to social welfare and full employment (Eichengreen and Franke 1996).

2.2.3 Improving the Value and Allocation of SDRs

The SDRs might help serve respectively the following objectives: reducing the extent and costs of international reserve accumulation; augmenting the supply of safe global assets and facilitating diversification; and reducing the impact of exchange rate volatility among major currencies. Moghadam (2011) argued, expanding the SDRs basket to major emerging market currencies presents trade-offs, but could further support these objectives.

The SDRs has the features and potential to act as a super-sovereign reserve currency. Moreover, an increase in SDRs allocation would help the Fund address its resources problem and the difficulties in the voice and representation reform. Therefore, efforts should be made to push forward a SDRs allocation. Zhou Xiaochuan (2009) suggested, the desirable goal of reforming the international monetary system is to create an international reserve currency, saying SDRs. For the way of utilizing SDRs is disconnected from individual nations and is able to remain stable in the long run, thus removing the inherent deficiencies caused by using credit-based national currencies. Williamson (2009) also agreed that the most efficient way to improve the IMS is to enlarge the scale and functionality of SDRs.

Pisani-Ferry, Yu and Bénassy-Quéré (2011) argued that the most workable short-term deliverables seem to be (i) guidelines on and surveillance of capital controls; (ii) a new regime for deciding on SDRs allocations that would facilitate more frequent use of this instrument; and (iii) the inclusion of the CNY in the SDRs basket. These reforms would be a partial move, preparing the ground for further international monetary standard.

In order to manage the instabilities of a multicurrency system, a substitution account for allocating SDRs should be created in the IMF, to allow central banks to change their reserve composition without affecting markets (Kenen 2011).

To overcome problems of the current international monetary system, Ocampo (2014) proposed two reform routes: transforming it into a fully-fledged multicurrency reserve system or placing at the centre the only truly global reserve asset, the special drawing rights (SDRs). Mixing the two routes may be the only way forward. Under a mixed system, SDRs would become the source of financing for International Monetary Fund lending, but national/regional currencies would continue to be used as international means of payment and stores of value.

Contrary to above opinions, Farhi, Gourinchas and Rey (2011) argued, "their (SDRs) use -which can be justified under certain limited conditions—would not, in itself, cure the structural inefficiencies of the international monetary system.

2.2.4 *Constructing a Supranational International Monetary System*

It is not new to construct a supranational international monetary system. As the Keynes' proposal mentioned for creating an International Clearing Union or a similar solution offer, or to create a new international institution, a Global Reserve Bank (Stiglitz 2006; Chap. 9).

There are number of scholars suggested to introduce a global currency. Mundell called the major international money in current international monetary system, the Three Islands of Stability (G3) (Mundell 1995). He proposed that a new international monetary system would be finally established with a single supranational currency and a returned fixed exchange rate system. To achieve this goal, G3 should first reduce exchange rate volatility among them, and then gradually set their exchange rate system from a floating arrangement to a fixed one. Furthermore, Mundell (2011) reckoned that a similar to the introduction of euro, a dollar-euro as an anchor currency should be introduced. The exchange rate between dollar and euro remain fixed, other currencies can peg to the dollar-euro system.

Winkler (2010) argued the introduction of a super currency to manage the global liquidity as well as to manage the fluctuation of exchange rate. Gochoco-Bautista (2010) admitted to a super currency is a radical but effective way to deal with the cyclical capital flows and systematic risk in international monetary system.

In sum, the use of a dominant country-issued reserve currency such as the U.S dollar as an international reserve currency heightens the so-called Triffin dilemma. Theworld's demand for international reserve assets increases with international income and trade. The reserve-issuing country must continue to run balance of payments deficits to meet the growing demand, while surplus countries accumulate reserves, seemingly indefinitely (Bergsten 2009). The outstanding external debt of the reserve-issuing country would rise without limit, causing at some point investors to lose confidence in the value of reserve assets. There is no ready mechanism forcing surplus countries or the reserve-issuer to make an adjustment to fix the unsustainable systemic imbalance.

Reform of the international monetary system is under discussion after three decades of apathy. Tectonic shifts in the balance of international power have made reform more urgent. However, in the short term, there is little chance of a grand redesign of the international monetary system.

2.3 Research Question

By the end of the first decade of 21st century, a seemly sudden onset of constant defaults in housing industry in the US soon escalated into a banking turmoil. This contagion was quickly spread around the world through so-called financial innovations and finally drew most of the world into serious financial crisis and economic recession. The terrible crisis had pushed both the dollar and its backed system on the edge: the market confidence had been further weakened by the US' rounds of Quantitative Easing policy (QEs) and the "dollar glut" that flooded to every corner of the world had threaten the credibility of this de facto international standard. More importantly, this crisis had exposed structural problems of the current system and its frangibility.

Whereas it is argued that the huge imbalance continuously developed because of the different propensity to liquidity among major economies, which means too much credit on one side while savings glut on the other side. Monetary policies that oriented by domestic interest and the freedom to choose different exchange rate regime jointly make the current situation of global imbalance happened. Recent criticism about the manipulation of the exchange rate of CNY and the excessive use of Quantitative Easing of the dollar reflect this kind of opinions.

It is not surprised that in the era of post-Bretton Wood, especially most recently, neither the most sophisticated US dollar, nor the once powerful challenger the euro, and nor the seemly promising renminbi shows proper policy reactions to solve either their domestic monetary problems or international ones. On one hand, the traditional international liquidities, represented by the dollar and the euro, are suffering confidence crisis; while on the other hand, the renminbi is too premature to be an alternative one. As a consequence questions on the issue of international monetary standard arise.

In practice, the core components of an international monetary system should contain, among other things, the following three aspects: an international reserve standard played as an anchor in the system, some arrangements such as an agreed foreign exchange regime to help adjust each participant's international balance of payment, and accordingly global collaboration mechanism, like the practice from

G7/8 to G20. All the three aspects are crucial for defining and evaluating an international monetary system. When it comes to understand the past and the current international monetary system so as to find out the right approach for the future one, it is quite sensible for this book to focus on those three components.

This can be formulated as the following the model:

International Standards + Exchange Rate Regime + Coordinated Mechanism = IMS

However, the three elements are all worth carefully researching, thus cannot be all comprehensively included in one single book. Therefore, this book prepares to focus on one of them: International Standards.

The logical behind the research question is that, every crisis of International Monetary System is ultimately a crisis of the International Standards. From the Gold Standard, the Gold-exchange Standard, to the era of Paper Standard, it is acknowledged that the currency in the centre of IMS represents the nature of the system. Similarly, the current international monetary system crisis reflects the result of some internal flaws of the current international standard. This book tries to explore the future of international monetary system through the basic logic: how do the intrinsic flaws of the current international standards constrain their functions on prompting the IMS in a more sustainable and balanced way?

As the **Research Question**, this book is focused on [**different experiences of the current international standards, thus trying to understand what a sound international standard should be which is suitable for the future International Monetary System**].

2.3.1 Analytical Framework

Based on the model above, the research question can be further streamlined down into:

Q1 what are the performances of core currencies of current international monetary system?

Q2 comparing with all the forms of major currencies, what is a feasible way to establish a sound international monetary standard for the future international monetary system?

In this chapter and, Chaps. 3 and 4, I will focus on the current major moneys, the U.S. dollar, the euro and the CNY. As different experiences being a de facto international standard (or potentially), all the three could be grouped into: Sovereignty currency, Regional monetary integration and a Rising reserve currency. The chapters will first introduce the different monetary systems of the three, their monetary authorities and their performances on money supply. In the end of every chapter, the book tries to demonstrate the dilemma or the predicament they faced.

In the following Chapter of the book, it will put forward the performance of the existent standard of international monetary system, the SDRs. Equally, it will first introduce the characteristics of its monetary system and its trial for acting as a supranational international standard. Moreover in this section, the book tries to experiment the inclusion of China CNY to the current SDRs system, to see the potential changes the system would have, thus proposing the SDRs' new reform.

In the final section of the book, it intends to emphasize the background of the Bretton Woods system, so as to introducing the unsolved problems today for future research.

The analytical research is mainly based on comparing the performance of major international standards in the current international monetary system. Their political/policy reactions and economic philosophies behind them are not only, to some extent, the reasonable response to the current international monetary system, but also fundamental factors for deciding the forth coming changes or reforms of a future international monetary system.

2.3.2 Significance of the Work

The significance of the book is: firstly, from a perspective of international monetary system to analyse the different monetary systems of major international standards. Secondly, by comparing the major international standards, the book tries to understand how the preference in the domestic monetary policy influence the performances of major currencies as intentional standard. Thirdly, it tries to illustrate the appearance of CNY and its potential rising path. Ultimately, the purpose of studying on the book is to give rise to the question on how to put forward the feasible way to arrange a sound international monetary standard for the future international monetary system.

http://www.springer.com/978-981-10-0163-5

The Past and Future of International Monetary System
With the Performances of the US Dollar, the Euro and
the CNY
Wang, J.
2016, XI, 91 p. 17 illus., Softcover
ISBN: 978-981-10-0163-5