

THE GLOBAL CURRENCY SYSTEM CONTEMPORARY ISSUES

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Abstract

The article considers contemporary issues of the current global currency system and the necessity of its reformation caused by the incompatibility with the global economic system. It has been analyzed the most possible directions of its reformation and estimated its possible development. Also has been reviewed the increasing role of Chinese Yuan in the international currency market.

Keywords: *international currency system, multicurrency system, international currency, reserve currencies, IMF, SDR basket, US Dollar, Euro, Chinese Yuan*

JEL Codes: *F30*

1. Introduction

In the 1960s and 1970s, the well-known dilemma of Tiffin appeared in the Bretton Woods currency system. On the one hand, the emission of the reserve currency (in this case, the US dollar) should correspond to the gold reserves of the country and the excessive dollar emission that would not have been secured by gold might have led to a crisis of confidence in it, and on the other hand, under conditions of ever-increasing international economic transactions there was a need for currency servicing. As a result of this dilemma, in 1971, the process of the dollar exchange of gold was eventually stopped, which, in essence, led to the disintegration of the Bretton Woods currency system. A currency crisis began, which required about ten years for overcoming it (Markosyan, Nazaryan, Hakhverdyan, 2012, p. 249-250).

In 1972 the World Currency System Reform Committee was formed, which developed the basic principles of the new currency system: the gold standard was officially demounted, instead of the gold standard, the SDR

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standard (which, in fact, was hidden in the dollar's standard, as the dollar kept its dominant position in the SDR basket) was introduced, countries were given the opportunity to freely choose their currency rate regime, the IMF maintaining its former position, at the same time, further strengthened its role of the international currency regulator. These fundamental principles were fixed in 1978 at the summit in Jamaica, resulting in the formation of the fourth global currency system (Kireev, 2001, p. 31-32).

The Jamaican currency system, according to the established principles, was pretending to be more active, showing flexibility over the various instabilities of the global economy. However, it has been subject to frequent shocks since its inception, and it is no coincidence that the current issues of the reorganization of the current monetary system and the transformation of its fundamental principles have become extremely urgent.

It was particularly striking in 2008-2010 during the financial and economic crisis, as the development of currency systems is largely conditioned by the periodic development of the economy, which leads to structural changes in the global economy, conflicts of interests between countries, at the same time as the principles of the Jamaican monetary system have been elaborated since 1960s when globalization processes were new in the global economy, we can state that they cannot conform to the globalization of world economy, regionalization between countries (that in turn can lead to the formation of a regional monetary system, the best example of which is the European Monetary Union), the current realities of the redistribution of the global financial and economic centers, and therefore cannot guarantee currency stability. Under these circumstances, the formation of a new currency system or, at least, the functioning of the existing currency system becomes inevitable.

2. An analysis of the latest research and publications, which initiated the solution of this problem and which are basis for the author

The exploration of the global currency system and its main issues have been always within the interests of economists from different schools. After the formation of Jamaican currency system many economists started to speak about the above mentioned issues of this currency system. Also after the crisis in 2008-2010 many specialists started to speak about the necessity of reformation

of current currency system including the discussions on higher platforms (G8, G20). For the observation of above mentioned issues we have studied and analyzed literature sources of following authors: L. Krasavina - "International currency-credit and financial relations" (Krasavina, 2005), A.P. Kireev- "International Economics" (Kireev, 2001), A. Markosyan, G. Nazaryan, D. Hakhverdyan - "International Economic Relations" (Markosyan, Nazaryan, Hakhverdyan, 2012), R. Hasanshina - "The evolution of international currency system and the perspectives of its development" (Hasanshina, 2016), R. Mundell and others.

3. Formulation of the objectives of the article (statement of the task)

Within the framework of the research, it is aimed to find out the current problems of the functioning of the current monetary system, reveal its main principal discrepancies with the contemporary tendencies of the global economic system, to predict and evaluate the possible directions of its reformation.

4. Exposition of the main material of the research

The above mentioned issues, the current trends in global economic development predetermine the possible directions of reform of the current monetary system. Particularly, one of the most probable developments is the multi-currency system, claiming the SDR basket as the basis of it (Krasavina, 2010, p. 51).

The creation of a multi-currency system will enable us to:

1. Create a competitive environment between reserve currencies, which will significantly weaken the US dollar's monopoly position.
2. Promote the effectiveness of internal monetary and fiscal policies in countries with a reserve currency.
3. Promote global financial sustainability.

This direction of development implies preservation of the role of the dollar as a leading global currency, but at the same time the euro's leadership is fixed. In addition to these two currencies, the role of the Chinese Yuan in the global currency system is crucial, and it is no coincidence that from October 1, 2016 Yuan was included in the SDR basket, besides taking into consideration China's ever-increasing role in the global economy, we can say that Yuan day by day strengthens its positions and can claim to become one of the pillars of

the new currency system. Along with them, despite some decline, they continue to maintain their positions Pound sterling and Japanese Yen.

Table 1. Structure of SDR basket for 2005-2016

Currency	Share in SDR basket (%)		
	2005	2010	2016
US Dollar	44	41.9	41.73
Euro	34	37.4	30.93
Chin. Yuan	-	-	10.92
Japan. Yen	11	9.4	8.33
Pound sterling	11	11.3	8.09

Source: International Monetary Fund

Such changes in the functioning currency system are largely conditioned by current developments in the global economy, the redistribution of global economic and financial centers. In particular, the fall of the share of traditional centers (US, Western Europe, Japan) is now in favor of world trade-leaders, China and India. According to some forecasts the share of China and India can reach up to 33%, which, of course, will confirm a new reality in the world economic life, which cannot remain indifferent to the currency system (European strategy and policy analysis system, 2013, p. 61).

Such changes in the world economic leadership are explained not only by the intensification of China but also by the weakening of the US economy and the dollar as international currency. If in 2005 the share of the USA in the world GDP was 27.6%, in 2010 - 22.7%, and in 2017 - 24%, then for China this index has constantly increased 4.8%, 9.25% and 15.2% respectively. The same can be said about the position of countries in world trade. The share of the United States in the global imports has dropped from 16.3% to 13.5% in 2005-2017, while in the global export structure the same position in the United States in 2005-2017 has remained at about 8.8%. As for China, there are continuous growth rates. In 2005-2017, the share of China in the global import structure rose from 6.2% to 10.3% and in the export structure from 7.4% to 12.9%. As a result, China now is the world's leading trade partner in terms of gross commodity turnover as well as the main exporter. Sustainable economic

development, dynamic growth of export volumes is the most important preconditions for strengthening the position of Chinese Yuan in the global currency system.

Over the last decade, the role of the dollar as the international reserve currency has also dropped dramatically. At the beginning of the 21st century, about 72% of world official foreign exchange reserves fell to the dollar. By the end of 2008, this figure had dropped to 63.8%, and now it is 62.2%.

Theoretically, the international reserve currency should always maintain its stability, its emission must be carried out with simple rules for all, the supply should be flexible and able to react quickly to fluctuations in global demand and ultimately it should not serve the individual interests of this or that state.

In essence, the dollar does not provide any of these preconditions as there are a number of opposing issues facing it. If the US tries to secure the dollar as an international reserve currency by implementing a dollar emission, it may lose control over its internal inflation. At the same time, if the US tries to stimulate domestic demand, the unwanted amount of dollar may appear in the international currency market, which may lead to its devaluation. Consequently, the national currency of any country cannot effectively solve its internal economic problems and make the function of the international currency. That is the reason why especially recently it is much spoken about the need to introduce a single supranational currency as an international reserve. The need to introduce a new currency is also conditioned by the fact that it is more in line with the requirements of the global economy.

Still in post-crisis years, the Nobel Prize laureate R. Mundell mentioned that the global currency system was in a deep crisis and in order to get out he offered a single virtual currency based on the dollar, euro and yen, which would practically be exchanged easily with the currencies involved. The IMF could act as a single currency issuer and a global central bank. However, Mundell himself found that the emission of such currency is unlikely in the near future, and this scenario can only be realized as a result of the mutual consent of the leading countries, as a result of the common rules of the game (Mundell, 2013).

Currently, the most likely alternative to the US dollar as the international reserve currency is the SDR that can act as a supranational currency (Hasanshina, 2016, p. 59). Nevertheless, there are also a number of issues related to the release and distribution of the SDR, its use, and the methods for

determining the exchange rate. First of all, the SDR release is absolutely non-flexible and is not conditioned by actual demand. In the case of 85% of the votes of the member countries, the IMF Executive Board issues a pre-determined SDR batch. In addition, the distribution process is also not perfect. The distribution is made between member states in accordance with their share in the IMF capital. Thus, the 2/3 of the released SDR goes to the developed countries, including more than half to the G7 countries. The USA accounts for about 23% of the issued SDR as much as developing countries together (Krasavina, 2005, p. 80-81).

The SDR does not fulfill its predetermined goal: financing the deficit of balance of payments of the countries. Currently, especially with developing countries, the SDR is used to repay IMF loans, as a result of which they are returned to the IMF and redistributed to favorable developed countries.

The scope of use of the SDR is also very narrow. It is mainly used in transactions with IMF and central banks of Member States. In international trade, international currency transactions, it is practically not practiced, and its share in international reserves is negligible – 1.2% (Saprikina, 2014).

The SDR exchange rate is determined by the weight of the included currencies, which is largely dependent on the dollar (about 42%), and can be said to be the dollar standard under the SDR standard.

In view of all this, we can state that the SDR does not yet comply with the principles of the supranational currency and cannot act in that role. For that there is a need of reformation of the SDR or the creation of a principally new supranational currency.

Another direction of the functioning currency system can be the reformation of the IMF, the main supranational institution implementing the currency regulation. This is due to the fact that for more than 70 years of its existence, the IMF has not provided adequate international co-operation and the currency-financial regulation within its member states (Krasavina, 2010, p. 56)

The IMF reform should be aimed at correcting those shortcomings. First of all, it refers to the redistribution of quotas and votes for member states. Another important issue of strengthening the IMF's position is its scarcity of resources. There have been recent discussions over the IMF capital expansion (up to three times), especially during post-crisis years. However, it is clear that this process can be implemented mainly at the expense of the developed

countries (G7), which will further enhance their influence in the IMF. Therefore, the best way to achieve the desired outcome is to implement systematic reforms, taking into consideration the interests of the all Member-States, the trends and perspectives of the global economy and international currency-financial relations, which are aimed to achieve relatively stable global currency system.

5. Conclusions from this study and prospects for further research in this direction

Analyzing the current state of the global currency system and estimating the possible directions of its development, we consider it most likely to maintain the leading position of the dollar in the coming years and, above all, strengthening the position of the euro and especially the Chinese Yuan, which ultimately will lead to the formation of multicurrency system.

Despite the fact that the USA has a major deficit of balance of payments, huge amount of external debt, taking into account the prevailing position of the US dollar in the international currency market, official foreign exchange reserves may well prove that it will maintain its position in the near future. In addition, such a scenario is explained not by the higher development of the US economy, but with the absence of the other effective international currency at this moment.

The IMF leadership is mostly oriented toward the formation of multicurrency systems too. This is also explained by the involvement of the Chinese Yuan in the SDR basket. However, the formation of such a system (most probably on the basis of the dollar, euro and Yuan) will only be possible in the Asian region with a steady high rate of growth and with the internationalization of Chinese Yuan.

Currently, China is implementing Yuan's internationalization policy on "Trade Accounts + Offshore Markets". He aims to use his currency in foreign trade operations and it is not accidental that China is actively conducting negotiations with the countries of the region, including Russia, on mutual settlements with Yuan. However, the real results are still missing. An important step toward internationalization of the Chinese Yuan was the release of oil futures on the Shanghai Stock Exchange in March 2018 by Yuan. Meanwhile, oil quotations were executed exclusively in US dollar. Although the Yuan-based

futures still cannot be a substantial competitor to dollar futures as these are new tools and consequently of high risk, this is a real step towards using Yuan in international calculations.

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