

## AKINARI HORII

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**John LIPSKY**

Akinari, please.

**Akinari HORII**

Okay, thank you. The international monetary system has been one of my most favourite topics of discussion since the 1980s when I was an economist at the BIS. Actually, I published an economic paper entitled, *Reserve Currency Diversification* in 1986, and things have hardly changed over decades.

Therefore, let me explain, and some of the statistics have already been mentioned by John and partly Jeff. I hope you can read the table; it may be too small for you. That table is taken out from the Central Bank survey conducted by 53 central banks and aggregated by the BIS every three years, and as John said a few minutes ago, daily turnover of global Forex market amounted to USD6.6 trillion. The BIS shows its currency distribution by percentage, whose total being 200% rather than 100% because, you know, exchange takes a pair.

On that basis, because the table is so small, let me pick up some statistics. As John said, the Dollar captures 88% in the 2019 survey, this year's survey. The Dollar's proportion remained virtually unchanged at 90 or a little less, since the BIS began its survey in 1989. The first on the right column says 88 or 89.

The second and third currencies actively traded on the Forex market are the Euro and the Japanese Yen, towards the left. In 1989 there was no Euro of course. I combined Deutschmark, French Francs and other EMS currencies to come up with a number of hypothetical Euro in 1989, 33%. While the Euro actually captured 32% in 2019. A big change by only one percentage point!

The Yen had a share of 27% in 1989, the peak of the bubble economy of Japan, which dropped to 17% by 2007. That is not shown in that table, but the Japanese Yen's number has since fluctuated around 20%.

In short, the currency market hardly changed, as I said, as far as distribution of major currencies is concerned. Now, let us look at the emerging markets economies' currencies. In 2001, the RMB ranked 35 on the currency league table, with a negligible percentage share, but moved up to eight, with 4.3% share in 2019. A big increase.

Other emerging economies also increased percentage shares as illustrated on the graph on the right-bottom panel, big increases, but the numbers are small. Therefore, despite these salient increases, however, the presence of emerging market currencies is still pretty small in contrast to the size of their GDP and international trade of goods and services.

Now, let us discuss the qualifications of the international currency, Jeff Frankel, Peter Kenen and all other economic experts pointed out several conditions. Number one, economic size, number two, developed financial markets, number three, confidence in the value of the currency, number four, inertia.

First of all, economic size. Economic size does not immediately entail a wide international use of the currency. The US Dollar for example, it was in the late 19<sup>th</sup> Century that the US economy overtook the UK economy, and so did the German economy, but both the US Dollar and the Reichsmark failed to impress the market. At that time, the Pound Sterling continued to be the international currency.

Jeff pointed out that US politics mattered in that regard because of a US isolation policy. It may be true. He has a point, but I think demand-side elements also matter. In my opinion, market confidence matters a lot for an actively-used international currency. It is not only confidence in the value of the currency, but confidence in its integrity that matters.



The integrity of a currency is maintained only when it functions properly as a means of exchange, unit of account and store of value.

To be a little more specific, the monetary authorities have to create and maintain a system so as to ensure a reliable means of payment and wide, deep financial markets, supported by many down-to-earth elements, for example, banknote counterfeit deterrence capabilities, legal stability and transparency of rules and regulations as well as law enforcement capability over financial fraud and wrongdoing, and last but not least, the political and economic independence of the Central Bank from both domestic and international pressures.

Now let me turn to potential competitors of the US Dollar. First, the RMB. It is so obvious to me that there is a long, long way for the Chinese currency to go before it gains confidence in the market, on all the accounts I discussed. In my opinion, it is highly unlikely that the RMB becomes a vehicle currency in the market this century.

What about the Euro? Of course the Euro has a natural appeal, and in fact it is the second international currency. However, in order for the Euro to play a bigger role, its financial markets need to become much wider and deeper. German Bunds market, French Trésor market are the most actively traded markets in Euros at the moment, but their sizes are small, and liquidity is thin in comparison with the US Treasury market and JGBs market.

I think governments within the EU could begin to appeal to the market by issuing common Euro bonds. They do not have to create a big project of consolidation of individual countries' budgets. I think they could begin by issuing a Euro-denominated bond collectively, covering a small part of the EU common causes, like common defense, refugee assistance, or space programme, whatever, before encompassing a wide area of the budget.

I have actually argued this point for a long, long time with my colleagues in the Central Banking circles, but to our regret, little progress has been made.

What about the SDR and others? Suffice it to quote Charles Kindleberger who I remember referred to the SDR as the artificial language, Esperanto, in finance. Gold, he compared with Latin, and the US Dollar with English. Then, I thought that analogy was pithy and I continue to do so after three decades. I am afraid I have spent most of the allotted time, but last words for maybe 30 seconds.

I would like to discuss what Jeff Frieden discussed a few minutes ago. It is not Mr Trump. Several years ago the US government, under President Obama, tried to use its clout over the global financial system as economic sanction against Russia and Iran. It was reported then that the US might even try to limit Russian banks' access to Swift, the global message transfer system. Even before Mr Trump became POTUS, the Chinese began to worry about the possibility of its application to China and tried to modernise RMB payment and settlement systems, widening the scope for international use of the RMB.

In recent years, Chinese concerns have become greater. For example, Yu Yongding, my friend and former member of the PBOC, monetary committee, wrote an article in a Japanese magazine, in July this year, saying that the US might deprive Chinese banks of their access to Swift, or CHIPS in New York. Therefore, he said China should internationalize the RMB. Let me stop here.

**John LIPSKY**

Thank you.