Opening remarks

Sung-il Lee[1]

Ladies and gentlemen

I am pleased to sincerely welcome the distinguished senior central bank officials and academics gathered here today, from around the world, to take part in this week's BoK/BIS seminar on currency internationalisation.

Let me also take this opportunity to express my deep gratitude to Mr Eli Remolona, Chief of the BIS Representative Office for Asia and the Pacific, who planned this seminar and has given us his unstinting advice and cooperation. I would also like to give special thanks to our renowned Professor Emeritus Peter Kenen of Princeton University, whose very valuable ideas we will be able to share a few minutes from now through teleconferencing.

It is a fact that there has been a wide range of discussions concerning currency internationalisation for a long time. A clear presentation has not yet been made, however, on the economic effects of currency internationalisation, or on a desirable method for promoting it, taking into account the particular characteristics of individual countries.

In the current situation, in which a financial crisis in advanced economies is spreading rapidly and with very great force to emerging economies as a result of financial globalisation, I believe that there must be some differences from the past, both in terms of the benefits of currency internationalisation and its limitations.

Therefore, I think it is highly meaningful that we are all gathered here now to discuss a variety of issues concerning currency internationalisation and the experiences of major countries in this regard.

The benefits of currency internationalisation can be listed as the following: the generation of seigniorage; the lowering of economic agents' exchange rate risk; the cutting of exchange costs in external transactions; and the reduced necessity for holding external reserves.

In light of all these perceived benefits of currency internationalisation, we may infer that the negative impact of the current international crisis on emerging market economies would be substantially reduced if internationalisation of their individual currencies could be advanced.

In Korea, for example, the difficulties arising from currency mismatches would be considerably less if the Korean won were internationalised and could be used in part for settlement of our external transactions.

Having said this, I should point out the existence of several practical difficulties for emerging market economies hoping to internationalise their currencies.

There must be adequate international demand for the currency in question if the country wishes to pursue its internationalisation. For the generation of such demand, however, it is first necessary to secure credibility of the currency's exchange value.

This, in turn, requires the achievement of sustained macroeconomic stability, the development of financial and foreign exchange markets and the upgrading of financial regulations and supervision. It is, however, no easy matter for emerging market economies to fulfil all these requirements.

[1] Senior Deputy Governor, the Bank of Korea.

Furthermore, if currency internationalisation is driven forward hastily, in a situation in which the international credibility of the particular currency concerned is not yet high, there may be frequent episodes of financial unrest due to inflows and outflows of short-term speculative capital.

Putting all of this together, I believe it is desirable for the internationalisation of emerging market currencies to be pursued from a medium- and long-term perspective. The path to follow involves expanding the international use of the currency in question after having first ensured the strength of the country's financial and economic fundamentals.

Looking at the route of propagation of the current financial crisis, we find that emerging market countries, and likewise the majority of advanced countries, were not immune from the shocks generated by the US subprime mortgage meltdown.

In today's globalised financial world, a panic arising in any one country is rapidly spread worldwide, which suggests that the financial stability effect of currency internationalisation has inevitably been constrained.

It follows that, to overcome the present global financial crisis and avoid its future recurrence, a variety of things are essential. Apart from the efforts of individual countries themselves for currency internationalisation and so forth, we also need to further strengthen currency and financial cooperation among nations.

For Korea, our currency swap agreements with the US Federal Reserve, the People's Bank of China and the Bank of Japan are assessed as having contributed greatly to foreign exchange market stability here. This, in turn, has served to spur heightened recognition of the importance of currency cooperation among countries.

In the future, Korea will seek to strengthen international policy coordination through its participation in the IMF, the BIS, the G20 and other international forums. At the same time, we plan to strive energetically for development of a framework for regional currency and financial cooperation in Asia and the Pacific, including the Chiang Mai Initiative.

We will, I believe, in the course of this seminar, hear presentations of many constructive and creative ideas concerning currency internationalisation. I anticipate that the discussions here this week will be of great help to us as we seek to overcome the shock of the global financial crisis on the countries of the Asia-Pacific region.

Drawing to the end of my remarks, I should like to once again voice my deep thanks to all those of you who have set aside your precious time at this critical period to take part in this week's seminar. And although your time in Korea will, I know, be short, I want to wish you all a very interesting and enjoyable stay.

Thank you.