# Panel discussion of the BoK/BIS seminar on currency internationalisation

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Currency internationalisation has been one of my favourite topics of research since the mid-1980s, when I was working in the Monetary and Economic Department at the BIS. Particularly interesting to me has been the topic Hans Genberg discusses in his paper presented to this seminar; the reserve currency or the vehicle currency in the international monetary system or, simply put, the international currency. However, in this regard, Hans and other speakers at this seminar have failed to refer to what I consider to be the best paper ever written about this subject, entitled "The evolution of reserve currency diversification", *BIS Economic Papers*, no 18, by me. Besides this paper, there are other well written papers on this issue. Today, I would like to mention two of them: "Still the lingua franca", published by Jeffrey Frankel in *Foreign Affairs* in 1995, and "The dollar yesterday, today, and tomorrow", a George W Stocking memorial lecture given by Charles Kindleberger in 1985. I would like to organise my exposé along the lines of the arguments in those two papers.

The four key advantages for a country with an internationalised currency are: (i) the convenience for the nationals of the currency; (ii) the business opportunities for banks and other financial institutions; (iii) seigniorage; and (iv) political power and prestige. Peter Kenen and a few other participants in this seminar have made similar remarks to, but somewhat different from, this list of advantages. For each point, there are a number of issues that must be discussed in detail, including those identified by Hans several minutes ago.

Yesterday, Atchana Waiquamdee cast doubt on all these advantages for emerging economies, by examining the costs associated with currency internationalisation. In addition to the costs she pointed out, I would like to add a few more: (i) the direct expense necessary for offering a reliable means of payment, eg expenses for banknote counterfeit deterrence capabilities; (ii) the infrastructure to support a wide and deep financial market, eg good payment/settlement systems, bank supervision and law enforcement capabilities; and (iii) the political and economic independence of the monetary authorities from both domestic and international pressures, as discussed by Peter Kenen and Yung Chul Park yesterday.

All this is related to the factors that are necessary to support the international currency. Jeffrey Frankel pointed out four fundamental factors in his paper: (i) the economic size of the country; (ii) developed financial markets; (iii) confidence in the value of the currency; and (iv) inertia. In his nice analogy with the international use of the English language, he said: "Nobody would claim that English is particularly well suited to be the world's lingua franca by virtue of its intrinsic beauty, simplicity, or utility. […] One chooses to use a lingua franca, as one chooses a currency, in the belief that it is the one others are most likely to use." Charles Kindleberger addressed the same issue a decade earlier, when he said: "Worldwide use of the dollar is equivalent of worldwide use of English, or perhaps American. […] The case for the continued functioning of the dollar is the need for a widely-used world currency and the failure of a challenge to appear."

Nonetheless, Kindleberger also said that the long-term outlook for the US dollar remained negative because of small savings and a large federal budget deficit, which, in his view, reflected "basic political unwillingness to tax to meet expenditures that the public insists on".

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This aspect of the US economy looms large once again. I am speaking of sound, effective financial markets on Wall Street as well as confidence in the currency being tested. Now that the international turmoil covers both US and UK financial markets and, though to a lesser extent, continental European markets, international financial intermediation will take a very different form from the one we have seen over the past decade.

With respect to the international roles of a currency, let me remind you of our role as central bankers. We are responsible for guarding the integrity of money. As long as the integrity of money is maintained, or even enhanced, the money has a natural appeal to its holders, both actual and potential, domestic and international. If the soundness of the system becomes questionable, and the payment/settlement functions become uncertain, however, the integrity of the currency will be damaged. If the functions as a unit of account and store of value become unstable, the integrity will also be lost, as will the appeal of the currency as an international currency. In this regard, we are currently experiencing highly uncertain conditions because of the financial turmoil as well as the rapidly growing budget deficit in the United States. If this situation continues in the long term, we would do well to consider alternative strategies to preserve the integrity of money.

This involves additional implications for the Asia-Pacific region. Six years ago, EMEAP began its innovative ABF (Asian Bond Fund) project, with the collaboration of the BIS. It was launched with a view to playing a catalytic role in promoting a financial intermediation to link the ample savings with the rich investment opportunities in the Asia-Pacific region. Under the current circumstances, where the international financial scene is unsettled, we may have to explore further how to follow up this process.

Thank you.