Abstract: The current and instability-prone international monetary system has serious flaws. Reforming the current international monetary system aims at the ultimate goal of global management of global credit. Since it’s not feasible to establish a global central bank or create a new global currency at the current stage, the reform can be carried out through an evolutionary approach, focusing on promoting the establishment of a more balanced multiple currency reserve system, and enhancing the role of SDRs by expanding SDR issuance and improving its function as an international currency. It is promising for the renminbi to be a freely usable currency, and for it to be included in the SDR basket in the IMF’s 2015 review of SDR valuation.

Keywords: International monetary system, SDR, reserve currency diversification, renminbi

In the Asian financial turmoil of 1997, most people blamed the countries where the crisis broke out. However, people focused on not only the United States where the global financial crisis of 2008 broke out but also on flaws in the current international monetary system. The current system is a “non-system” established since the collapse of the Bretton Woods system. To be accurate, the current system is a global reserve system with the US dollar, the credit currency of a country, playing the role of the world’s main reserve currency. This paper analyzes the underlying cause of the instability of the current international monetary system, discusses the ultimate goal, the transition methods and the supplementary mechanism to reform the current system; this essay also focuses on obtaining the ideal goal of creating a new super-sovereign currency reserve system through an evolutionary approach of expanding and enhancing the role
of SDRs and improving the governance structure of the IMF. It also tries to make clear the short-term and medium-term goals. In addition, this essay analyses the prospects for the renminbi joining the SDR basket in the foreseeable future.

I. THE INSTABILITY OF THE INTERNATIONAL MONETARY SYSTEM
AND ITS UNDERLYING CAUSE

1. Frequent Financial Crises

The last 30 years witnessed more than 100 monetary or financial crises of various scales. Although the underlying cause of early crises may not lie in the international monetary system, the instability of the system intensified the crises to some extent, as in, the 1997 Asian financial crisis, and has become one of the major causes of the outbreak of the 2008 global financial crisis.

2. The Instability of the Value of Reserve Currency

The Jamaica system differs greatly from the Bretton Woods system in the fact that the former is a floating exchange rate regime. The Jamaica system emphasizes the floating exchange rates but lacks essential international coordination. Exchange rates are entirely decided by countries according to their needs, which frequently results in distortion and high levels of volatility in exchange rates. The introduction of a managed floating exchange rate facilitated the exchange rate intervention and the implementation of beggar-thy-neighbor exchange rate policies by the country issuing the international reserve currency.

3. The Worsening Balance-of-Payments’ Imbalances

Due to the instability of the international monetary system and the highly conditional IMF financial assistance, developing countries have to resort to large reserve accumulations to respond to the possible impact. The reserve accumulation for self-insurance generates deflationary bias and creates a negative impact on global full employment. As the issuing

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