

Comments on Prof Ogawa's

“Local currency trade settlement under the international monetary system with the US Dollar as a key currency”

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Summary of the story

- The key lessons from European experience is to escape from the over-dependence on the USD in East Asia, otherwise, we could face even more severe USD liquidity shortage as happened in EU.
- However, there is a strong inertia of USD as a key currency under the current international monetary system (medium of exchange & store of value) that difficult to shift.
- A practical solution would be a regional key currency used as a trade settlement currency within the region.
- List conditions for regional trade settlement currency (survey analysis and augments).

1. Comments on key lessons from European experience.

- USD liquidity shortage is beyond the control of ECB and IMF during the global financial crisis.
- EU had to rely on a currency swap arrangement with the FRB as a lender of last resort to supply USD liquidity.
- However, it is **not** clear 1) how much USD is used as a settlement currency within EU and with non-EU, and 2) how the USD shortage at interbank markets is related to the trade settlement currency selection.
- Is it an unique phenomena of over-dependence on the USD in East Asia?
- A typo in the 4th line of p5? USD instead of Euro?

2. Comments on the inertia of the USD as a key currency.

- Results from Ogawa and Kawasaki (2001).
- The weight of real balance of USD does not change significantly.
- They compare the estimated weight before and after the introduction of Euro.
- The **split of sample** seems to be ad hoc, as the author suggests that it takes time for changes to happen. Any changes over the course of last decade?

3. Comments on invoicing currency choice.

- Results from Ito, Koibuchi, Sato, and Shimizu (2013)
- The use of JYP is second to importing country currency.
- The choice of invoicing currency of Japanese exports to Asian economies depends on the size of firms.
- **Other factors** may matter (e.g., contract size, market share, price elasticity of demand, Friberg, 1998, Goldberg & Tille, 2008).
- May need **equilibrium model** (Bacchetta & Wincoop, 2002)? Small economies as well as two-country model?

4. Remarks in general

- The European experience suggests that acting as a regional key currency is not a solution to the USD shortage during crisis.
- Swap arrangements between the FRB and other major economies seem to work well during crisis. Which one is the better choice for Japan? developing JYP as a regional key currency vs. sticking to USD swap arrangement.
- Will the USD still be a global key currency given the rising of several regional key currencies?
- Can we have a scientific definition for regional key currency?

Thank you!