Comments on
Local Currency Trade Settlement under the International Monetary System with the US Dollar as a Key Currency
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The Origin and the Logic of the Paper

A series study of Ogawa(2001): A regional monetary cooperation could prevent Asia from third part currency fluctuation into regional trade and economic shock.

- Lessons of impact of USD liquidity shortage on Euro: settlement currency dependency on USD and swap arrangement support.

- The inertia of the US dollar as a key currency, in fact, worked very well after the launch of the Euro.

- From exchange rate stabilization to liquidity stabilization is more important: something like the background of the establishing of the SDR in facing with the shortage of international settlement currency in 1960's

- The need of regional settlement currency along with USD like Euro and AMU.

Can Regional Monetary Cooperation Works?

- Economic integration, counterpart risk, policy spillover on financial market and its asymmetry impacts.

- Can regional monetary cooperation works: lessons from the Euro Zone sovereign debt crisis and asymmetry effect of unified monetary policy on member countries.

- SDR become symbolic, Euro in facing with challenge, how about the future of AMU that still on paper?

- A enlarged regional swap arrangement (based on Chiang Mai Initiatives) is needed and might be more feasible against of the background of the renewed swap arrangement among six central banks of industrial countries (Fed, ECB, BOE, BOC, SNB and BOJ) in 2013.

Determinants of International Currency

- Based on the framework of Portfolio Approach, equation 4 deliberated to incorporated with variables of inflation and interest rate, but exchange rate should appear in equations, at least to show how to estimate the real balance.

- According to Frankel (2011), main determinants of a local currency internationalization include:

  1) The size of the home economy, as measured by GDP or trade;

  2) The confidence in the value of the currency, measured by the long-term trend and variability in its exchange rate, long-term inflation rate, and its NIIP level;

  3) The development of its financial markets, particularly the depth, liquidity, dependability and openness.

- Open challenge: how to evaluated the effect of network externality and economic of scale?

Determinants of Currency Share in Reserve Holding
Pre-euro sample (1973-98) by Frankel

	Coefficient Estimate	Standard Error
Constant	-0.65	[0.15]
GDP ratio (y)	2.77	[0.64]
Inflation differential (π)	-2.64	[1.16]
Exchange rate variability (σ)	-0.98	[0.57]
FX turnover ratio (to)	0.45	[0.29]
N = 182	Adjusted R2 = 0.97	Estimated using OLS.

Notes: 1, Dependent variable is logit, i.e., log(share/(1-share)); 2, All variables are in decimal form. GDP is at market rates; 3, Figures in bold face are significant at the 10% level.

More Details

- $\dot{W}_t^P$, in equation 2 Should be expressed as net wealth flow of the year.

- Why the launch of the euro did not have impact on USD? Intraregional trade settlement already made by Deutsche Mark in pre-euro period? However, intraregional trade settlement in Asia are mainly made by USD and the estimate result might changed.

- More reasonable subsamples analysis and comparing the results in period of 1999Q1 to 2000Q4 and the period of 2007Q1 to 2008Q4, as well as the period of 2014Q1 to 2015Q4.

- To control the endogeneity between real balance of currency and real balance of bond since they are all determined by exchange rate and interest rate spread.

Invoicing, Settlement and Store of Value

- Denominating vs invoicing, billing vs settlement and store of value vs holding as reserve/liquidity.

- Interactions and interrelations among these functions.

- What should be the sequencing of function maturity when a local currency moving towards regionalization?

- Theoretical logic and modelling: structural framework.

- Internationalization/regionalization should primarily based on trade transactions.

- Equation 3 and equation 4 are based on financial transactions

Gulliver Type of IMS and Multi-currency System

- International monetary system is a international public good, however, why International Public Goods could be provided without a International Government?

- The conflict of Fed policy between domestic situation and its international spillover is the key of Gulliver type of international monetary system.

- The logic of collective action in multi-currency system, or a triple-currency system of the USA, Europe and Asia, is a rhetoric of science?

- Asymmetry policy coordination call for a consensus on asymmetry cooperation.