The Main Issues of the International Monetary System

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Abstract

Purpose *– The purpose of this paper is to identify and express the currency challenges of the international monetary system and how to increase the efficiency of the system in the international financial markets.*
Design/methodology/approach *– Considering the dominant role of the US Dollar and European Euro in the international monetary system, most countries store these currencies as their foreign exchange reserve that has affected their exchange and monetary policies.*
Findings *– The results showed that the conflict of economic interests increased between large economies because the international monetary system does not have a significant mechanism to prevent the exchange rate's manipulations and trade imbalance in the global economy. The currencies of the world's superior economies, which can form the international currency basket along with the US Dollar are European Euro and Chinese Yuan. Gradually reducing US Dollar share in the international monetary system is necessary because the global economy's role of China increase rapidly.*
Research limitations/implications *– The free-floating exchange rate system provides countries with the possibility of adopting their fiscal and monetary decisions with no pressure by the exchange market and proportionate with economic changes and indices inside the country. It eventually reduces the convergence of the economic goals.*
Social implications *– Particularly regarding the fact, that countries' adherence to different economic goals, it will increase the problems of current account imbalances in the global economy.*
Originality value *– The increase of the International Monetary Fund's supervisory role in the world's exchange market. The foreign exchange policy must not only supply the interests of the national economy but also does not violate the economic interests of other countries.*

Categorization: B27, E50, F31, F40

Keywords: Dollar Bloc, Euro-Zone, Chinese Yuan, Exchange Rate

1. Introduction

In the international financial markets, it is mostly difficult to discern how much selecting a currency can support or hinder the formation of future capital (assets and debts balance). Because it effected the value of export and import and the implementation of exchange policies. In other words, in offshore financial markets, correctly selecting the currency is the necessary condition for success in obtaining economic interests. Investigating the international monetary system is important since the economies of the developed and developing countries and the emerging markets affected differently by this monetary system. Developed countries enjoy a desirable level of wealth and well-being in the international monetary system due to their reliable currencies.
However, developing countries and emerging markets adjust their monetary and exchange policies in accordance with reliable global currencies in addition to storing reserve currencies.

This article is organized in five sections. The second section discusses the historical changes of the international monetary system. The third section deals with the international monetary system's subjects where the importance of US dollar, European Euro and Chinese Yuan considered for the global economy.
The fourth section presents the currency challenges of the foreign exchange market. The fifth section includes the conclusion and suggestions as well as the future research opportunities.

2. Review of the literature

2.1 The US Dollar (1800-2019)

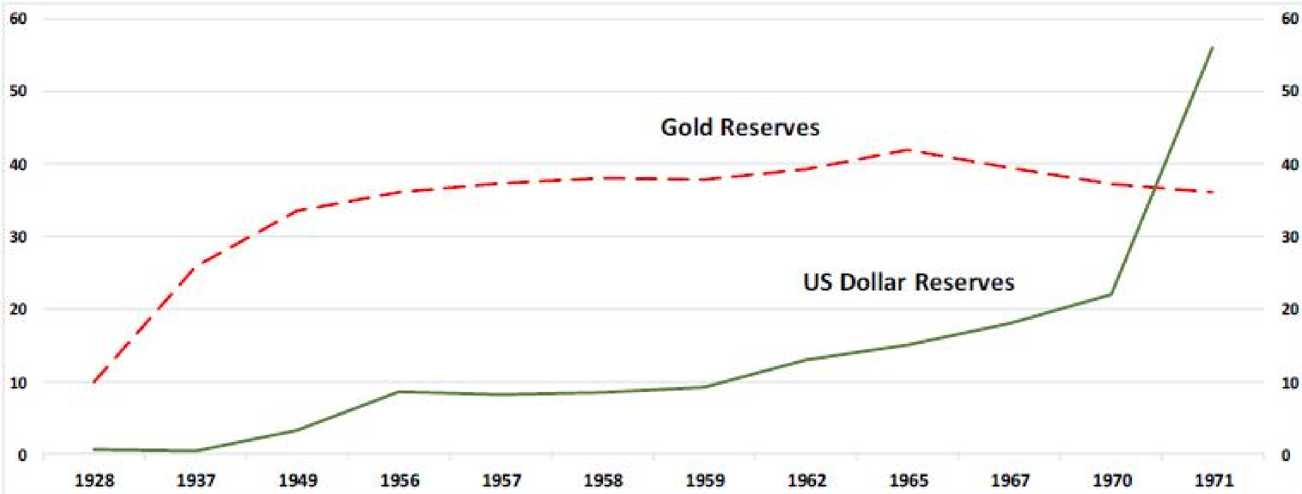
At the end of the eighteen centuries (1791), two different schools of thought of the banking and monetary system were formed in the United States. One group which was close to Thomas Jefferson believed that the banking and monetary system of the United States had to be rendered to all states in order for each state to transfer the right to print banknotes to a state bank. Since the United States' constitution had not explicitly transferred the power to the congress based on which the federal government could render the right to print banknotes to a central bank. Another group, close to Alexander Hamilton, followed the viewpoint that the federal state not only had to render the right to print banknotes to a central bank, but also this was necessary for the stabilization of the central government's power. Hamilton's viewpoint could change the situations to its benefit. The US central bank ratified a new prism in 1913 in order to confront with the financial and monetary problems. According to this constitution, the 12 state central banks made up the US Central Bank, the Federal Reserve System and Washington selected as its administration place.

In relation to the international monetary system, John Maynard Keynes believes, the global economy required a concordant system of "international settlement and a global currency to increase monetary, exchange, and economic collaboration of the countries to remove trade deficit or surplus" (Muchlinski, 2005). In order to prevent the occurrence of exchange fluctuations, countries' exchange policies had to be adjusted and followed based on a stable regimen. As Harry Dexter White believes, the new monetary system had to follow and realize these goals (Bordo, 1993):

- Economic and monetary collaborations to stabilize international financial markets;
- Determining the parity relation between US dollar and gold (1 Ounce Gold = 35 US-Dollar); Starting to play a significant role by the US dollar in the international monetary system
- The US government's readiness and commitment to sell and purchase dollar based on an agreed price; and
- Convertibility to facilitate global trade.

In 1944, the United States succeeded in approving White's proposal in the form of the Bretton-Woods agreement. The most important achievements of the Bretton-Woods monetary system for the global community are three issues, which can state as below. First, the member countries could stabilize prices at the national economic level following the US' monetary, exchange policies and exchange rate stabilization, and therefore, provide the situation to increase their economic growth and production potentials. Second, unlike gold standard's, the US could provide the required liquidity for the global economy and consequently, play a very significant role in the economic growth of the industrial and developing countries. The international trade expanded under Bretton-Woods monetary system; as a result, it provided the required conditions to increase countries' economic stabilization. During this period, countries' reserve currency growth proportion to dollar was more than gold reserve growth such that the global demand for US dollar permanently increased (diagram 1). Third, countries started to collaborate in making monetary and exchange policies concordant based on common economic goals.

Diagram 1: Comparison of gold reserves growth and US dollar (1928-1971) (billion US dollar)



Source: Federal Reserve Bank of ST. Louis

Regarding these scores, the Bretton-Woods monetary system failed due to structural weaknesses. The US government could satisfy the global need to liquidity by issuing more dollars and prevent the occurrence of a global economic recession, compared to the gold standard. However, too much issuance of US dollar increased the US balance of payments deficit. This is important since the United States was the only country that could compensate the balance of payments deficit with its currency. In fact, the US did not have to implement common economic policies forcefully according to the agreements in the International Monetary Fund. The trust in maintaining US dollar value reduced in the world's financial markets, because the high amount of dollar reserves of the Bretton-Woods member countries. The Bretton-Woods monetary system collapsed in 1973 and the United States' efforts in its modification and revival in the 1990's failed.

2.2 European Euro (1990-2019)

The first step to resolve the deep animosity and establish peace and friendship between large European countries was taken by the treaty of coal and steel union known as “Montanunion” in 1952 (Schumann-Plan). After signing the Rome contract in March 1957, the European Exchange Rate Mechanism Treaty in April 1972, the convergence between the European Union countries expanded in all fields and they benefited from their good relations. The European Common currency has been economically and politically beneficial for the Europeans:
European Economic Convergence

The European countries have been able to turn several domestic markets into a significant European Domestic Market and perform aiming to reinforce the common currency. The results of the research conducted by Alington et al, 2005 show that determining the value and pricing products and services in the European common market have become concordant due to the existence of euro such that in most economic sections, prices are stable and clear. Not only has this matter relatively stabilized the production costs in European countries in terms of the inflation rate, salary rate, energy prices, and bank interest rate, but also it has ended in the possibility of economic activities by intensifying competitive markets to take the most out of their production resources and factors. Removing custom tariffs, removing trade limits, and making trade rules similar have all played a positive and effective role in increasing private section investments and merging economic systems in the European Union; it has increased the exporting power of Europe to other places in comparison with the period before the emergence of euro. According to the statistics of 2018, the total products and services export ratio to the gross domestic product is 45.80% in the Euro-Zone, 19.50% in China, 17.80% in Japan and 12.10% in the United States (The World Bank and Trading Economics). Replacing national currencies with euro has caused in the consideration of only one rate, i.e. euro value for all member countries in the Euro group. Based on the European Central Bank's computations, the common currency has removed the risk of currency conversion at euro level and annually helps increase the European countries' gross domestic product for billions of euros (European Central Bank, 2007).

European Political Convergence

The national interests of the European Union member countries increased when the Europe acts with one face and one voice in the world. In order to do such a convergence, euro's political reinforcement must be understood such that not only the European countries continually attempt to adopt a common foreign policy but also, they state and follow their political demands in line with the European Constitution. Moving towards the United States of Europe is the only desirable choice to solve economic, political, and social problems of this continent. To this aim, although the European constitution is a positive step towards political coherence of the European Union, it cannot eradicate the problems of this continent. Based on the new constitution, the European Union led and guided by a common president and the secretary of the states at an international level in order to present a clear and unit policy of Europe. Since the common president and secretary of the states of the European Union lack administrative authority and actually follow the decisions adopted by the member countries' leaders, it is expected that they cannot close the positions of the European countries and keep them in one side. The Euro-Zone countries have concentrated monetary and exchange policies while financial and economic policies are still controlled by the member governments and are administered in a non-concentrated manner. If any conflict occurs between non-concentrated financial and economic policies on one hand and concentrated exchange and monetary policies on the other hand, as was shown by the euro crisis in 2011, the maintenance of the monetary stability and financial discipline in the euro zone will be difficult.

The lack of financial discipline, for instance as the unmethodical increase of budget deficit not only will cut the related countries' financial credit (Greece, Portugal) but also it can result in the reduction of public trust in the European emerging and common currency. Stabilizing and developing policies proportionate with Maastricht contract follow the goal that all members of the Euro-Zone should prevent the formation of any gap in the Euro group by coordinating and directing their financial and economic policies. Considering that economic conditions and situations of the Euro-Zone countries are different from each other and this difference can see especially in terms of structures of export income, economic growth ratio, dependence level on the first materials, producing factors' efficiency and social welfare level. Euro group countries must always adopt national interests to the total interests in their economic and financial policies to be able to adopt the required, and not necessarily the desired, decision.

3. The Main Issues of the International Monetary System

In global markets, the competition between different currencies is intensified to see which one succeeds in well performing the monetary duties for the public sector and the private sector. In fact, global money is the one, which is not only used in domestic markets, but also the demand for its purchase and keeping is more than the national borders of the issuing country (Chinn and Frankel, 2007). Other economists evaluate the global role of a currency considering its use in international transactions (Kenen, 2007). Alternatively, based on the importance of a currency in the international capital market (McCauley, 1997).

3.1 The Importance of the US Dollar for the Global Economy

The Importance of US Dollar for world’s economy is due to economic activities of Dollar and benefiting from privilege of standard foreign currency at international monetary system.

Economic Field of US Dollar (Dollar Block)

The economic field of the US Dollar “Dollar block” consists of countries using from US Dollar in their reserve and intervention currency, foreign exchange turnover and global payment currency and consequently, they are applicant for US Dollar in global markets.

Table 1: The Scope of the US dollar in the global economy (2018)

	Economic Zone	Economic Zone of the US Dollar (Dollar Bloc)
1	North and South America	The United States, Canada, Mexico, Brazil, Argentina, Chile, Bolivia, Peru, etc.
2	Asia	China, India, Russia, Japan, South Korea, Turkey, Iran, Saudi Arabia, Egypt, Malaysia, etc.
3	Pacific	Australia, New Zealand, New Guinea, etc.
4	Africa	South Africa, Angola, Djibouti, Eritrea, Malawi, etc.

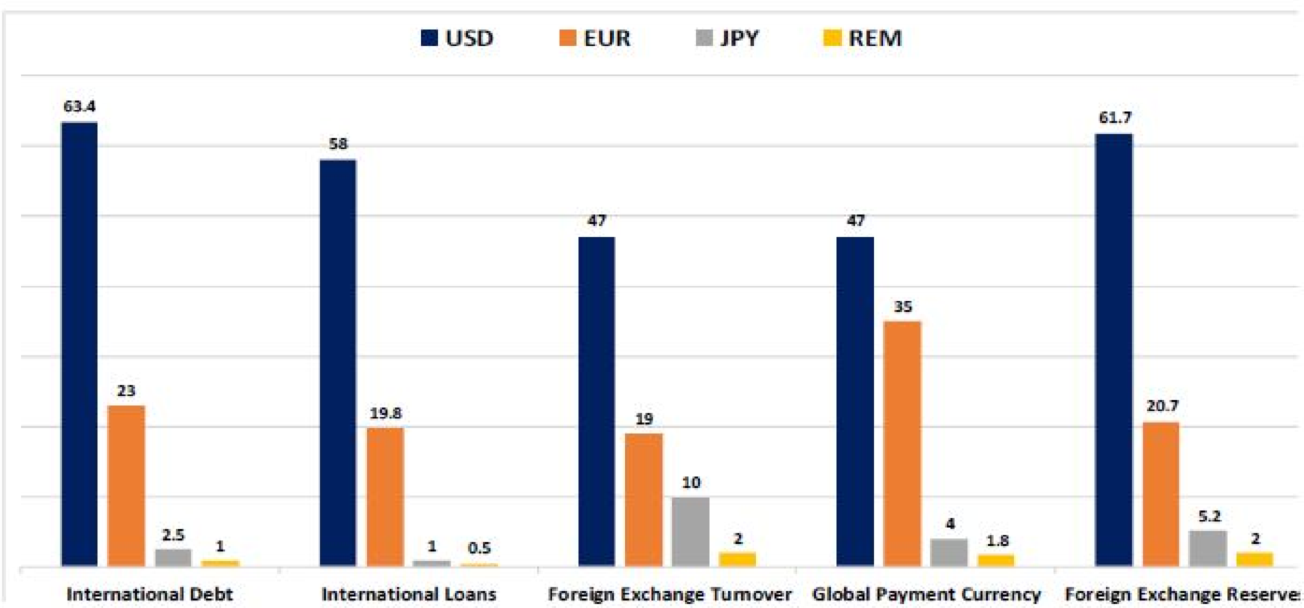
(Source: European Central Bank 2019 and McCauley/Chan, 2014)

According to table 1, US Dollar bloc is a broad economic field that consists of important countries including China, India, Russia and newly established markets; that nearly holds 60% domestic gross production of world (European Central Bank, 2019). Generally, US Dollar is maintained as “Foreign currency reserve” with economic goals and each country that maintains the value of its currency against US Dollar in fixed rate, that country follows monetary and foreign currency stability policy; in which, level of production and employment opportunities is increased at domestic economy and creates suitable opportunity for attracting foreign investment. Whereas, stability of rate of foreign currency and balancing current balance sheet of country is performed based on foreign currency reserves, the foreign currency transactions are less influenced by fluctuation of value of US Dollar. Comparing statistics of the years 2000 to 2018 shows that foreign currency based on US Dollar are increasing in the field of international economy. Meanwhile, the foreign currency reserve of countries in the year 2000 was 1080 Billion Dollars and this number was increased up to 6618 Billion Dollars in the year 2018 (European Central Bank, 2019), i.e. 62% reserves of world is kept based on currency of US Dollar (diagram 2).

Status of the US Dollar at the International Monetary System

The recent statistics of the European Central Bank shows that US Dollar has five main priorities in the field of international monetary system in comparison to other foreign currencies.

Diagram 2: USD, EUR, JPY, and REM in the International Monetary System (2018)



Source: European Central Bank, 2019
(Data as at the fourth quarter of 2018 or latest available; Per Cent of Total)

The importance of the US dollar for the global economy is because not only the US economy is large and stable, but also since, it plays a key role in the international bond market. The international bond market is the one where economic activist such as the private and public sectors attempt to buy and sell bonds in a currency other than their own countries'. In these transactions, one party is the lender and the other is the borrower. It is clear that the borrower can choose between assets and debts in US Dollar, European Euro, English Pound and Japanese Yen. The US dollar is the most favorite currency that demanded by economic activists in the global bond market. Regarding the total value of the international bond market that estimated about 15.322 trillion dollars at the end of 2018. The US dollar share has been 63.4% (9.7 trillion dollar) and the share of the European Euro and Japanese Yen estimated 22.8% (3.48 trillion dollar) and 2.5% (0.376 trillion dollar), respectively (European Central Bank, 2019). The question is among the world's valid currency, why has the US dollar allocated the most share of the international bond market to itself.

Properties of US Dollar at the International Monetary System:

• From a viewpoint of level of production, USA has the largest economy of the world. The value of world output in the year 2018 is 84740 Billion Dollars; in which, USA by having 20494 Billion Dollars (24.20%) Euro-Zone by having 13670 Billion (16.13%) and China by having 13608 Billion Dollars (16%) have the highest ratio respectively (IMF, 2019). High level of output in economy of USA has led to increasing absorption of goods and services to this country and causing broad market for imported goods (total import of USA in 2018 was 3100 Billion Dollars, the Observatory of Economic Complexity). Most of the world's countries, especially emerging market economies, have regard the US markets as most important place for obtaining export income and prefer to use from US Dollar currency in trading and foreign currency transactions.

• Monetary market of USA from viewpoint of the size and depth of domestic financial markets, are very valid, advanced and have high level of stability and are turned into “safe haven” for the assets and debits (European Central Bank, 2019). Moreover, degree of liquidity of US Dollar in comparison to other foreign currencies is 100% and is regarded as standard foreign currency at international commerce. These properties have led that economic activists and persons holding financial assets, to benefit from US Dollar in arbitrage operation of foreign currency.

Nevertheless, whereas Europe is determined to continue its goal and being turned into a large important political and economic center all through the world, the better status of the US Dollar at the international commercial and monetary markets may not continue with the same previous procedure; consequently, Euro may have higher share in global demand.

3.2 The Importance of the European Euro for the Global Economy

Euro's importance and value are observable in the economic and political power of the member countries. Based on the statistics of 2018, out of 13670 Billion US dollars of the gross domestic product of the members of the Euro-Zone, about 11187 billion dollars is related to countries of Germany (3997 billion), France (2777), Italy (2074), Spain (1426) and Nederland (913), (Trading Economics). Therefore, the 5 mentioned countries allocated about 82% of the total gross domestic product in the Euro-Zone to themselves while the Euro group consists of 19 countries. The European common money has been made up of several financial markets of the member countries, a united, expanded, and coherent financial market. The common currency intensifies the economic competition among Euro group's countries and each country attempts to be a suitable and useful location for attracting manufacturing factors. The Europe's money market has been affected by two important factors: the unit monetary policy of the European Central Bank and Euro's parity rate against other currencies. The monetary policy of the Europe's central bank has resulted in the creation of similar conditions in the Europe's Money Market. Such that not only the merging trend of the European countries' money markets in the common money market has been intensified, but also the volume of domestic and foreign bank transactions has been increased due to the reduction of limitations. The stabilization of the euro parity rate against other currencies has increased the confidence coefficient of economic activists in performing trade and financial transactions. Europe's capital market has also been influenced by euro. The private sector's bond market and the public sector's bond market are two factors that had an important role in the growth of the Europe's capital market. The growth of the governmental bond market results from the fact that economic changes in Europe have increased public costs and made governments demand more financial resources to be able to follow their economic programs.

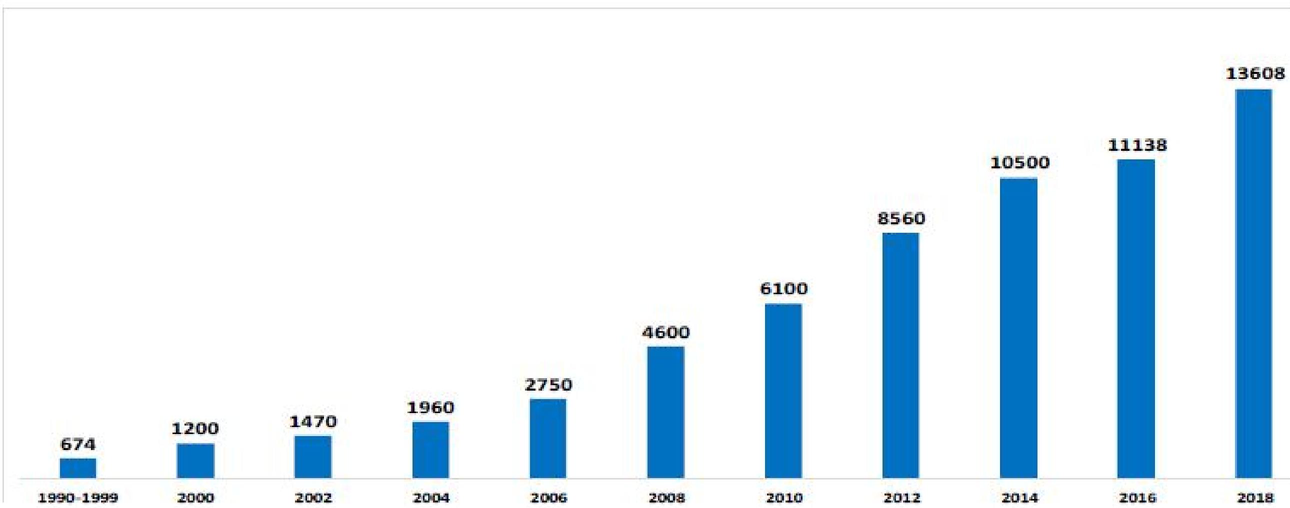
Furthermore, the European Union's expansion towards Eastern Europe has created more commitments for powerful countries of the European Union such that these countries have to spend more for the coherence and union of Europe.

3.3 The Importance of the Chinese Yuan for the Global Economy

Yuan of China is important for world's economy; since, not only it increases the economic and politic measures of China but also, there is increasing process for using Yuan in international monetary transactions.
- Increasing Economic and Political Measure of China at International Society

It has been three decades, that domestic gross production has continuous growth (diagram 3) and has improved the economy of China as third world's largest economy after USA and Euro Area. In fact, China at international commerce is regarded as country playing key role and especially, in compliance with increasing commercial transactions of this country with emerging market economies and developing countries (IMF, 2016a), the status for supply and demand of Yuan of China at international monetary transactions may be improved.

Diagram 3: Growth of domestic gross production of China (1999-2018) (Billion US Dollars)



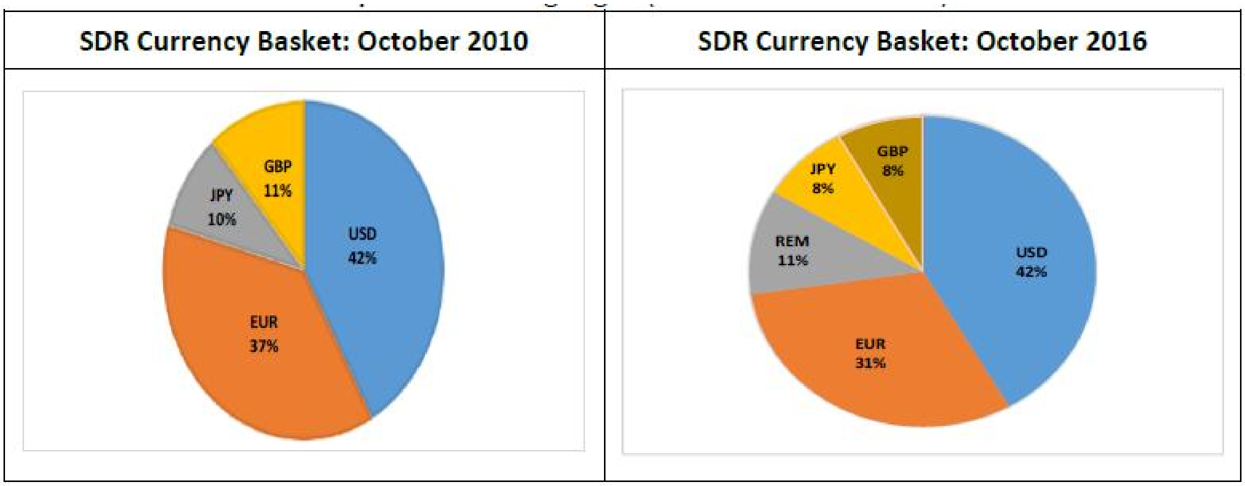
(The World Bank)

From an international viewpoint, China is the most important country member at Shanghai strategic treaty and BRIGS group (Brazilian, Russia, India, China and South Africa) by having unique economic, political and military potentials. Cooperation of this country in other countries may lead to establishing economic and political balance between western and eastern countries and also China plays key role on stability of global economy.

- Using Yuan of China at Foreign Currency Transactions

Using Yuan of China in the international monetary transaction reserve may improve the status of Yuan of China at international monetary system and Special Drawing Right (SDR) based on world's most valid currencies that revised each five years. The criterion for selecting valid currency is level of using such currency at international financial and monetary transactions and diagram 4 shows that US Dollar (42%) Euro (31%) and Yuan of China (11%) have the highest share of currencies at Special Drawing Right.

Diagram 4: Structure of foreign currency reserve at international monetary fund for Special Drawing Right (Oct 2010 & Oct 2016)

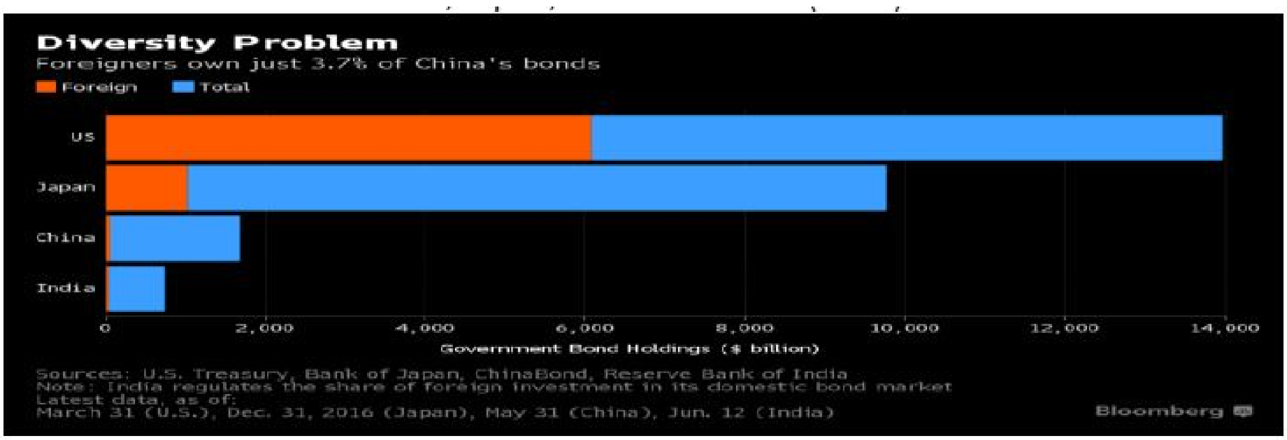


Source: International Monetary Fund, 2016c

The Success of the China's Yuan among the international financial markets is dependent to demand of private sector and governmental sector to this money as "currency reserve". There are two factors that are able to promote the international status of the China's Yuan as currency reserve including. Firstly, the growth of bonds market in China; secondly, increasing

demand of central bank for buying and maintaining Yuan.End of 2018, the total value of bond outstanding of China is equivalent to 13 USD trillions and from viewpoint of size; China regarded as third largest international bond market after USA (41 trillion Dollars), Euro-Zone (19.88 trillion dollars) and Japan (12.26 trillion Dollars). In fact, in the bond market, most of the governments are loan receiver, the share of general government securities in the domestic bond market (Q4, 2017), USA (45%), Japan (72%), China (35%), see Bank for International Settlements, 2018. Governments through publishing bonds not only supply their required financial resources, but also prepare suitable opportunities for attracting foreign capital. According to share of the central government of China (35%) in bond market, the foreigners purchase only 3.7% of the China's bonds; meanwhile, the foreigners keep 43% of bonds of the central government of USA (diagram 5).

Diagram 5: Partnership of foreigners for buying governmental bonds in the USA, Japan, China and India (2017)



Growth and attractiveness of the China's bond market depends on size of impediments, limitations for input and output of capital from financial markets and attracting trust of foreign investors to stability of financial markets of this country.

Although China due to growth of national income and benefits obtained from commerce, has creditor status at international economy; the single political party system, low level of economic freedom and the misuse of the exchange rate have prevented from advancement of financial markets of this country and the process of turning China into “safe haven” for the foreign investors goes with very slow rate.

4. The Currency Challenges of the Foreign Exchange Market

The international exchange and monetary competition are possible under the free-floating exchange rate system. The free-floating exchange rate system provides countries with the possibility of adopting their financial and monetary decisions with no pressure by the exchange market and proportionate with economic changes and indices inside the country. Although independence in the monetary and financial policies increases these countries' power of the economic maneuvering to stabilize internal and external balances, it eventually reduces these countries' convergence in formulating macro-economic policies with other countries. Particularly regarding the fact, that countries' adherence to different economic goals will increase the problems of current account balances in the global economy. The USA and Chinese commercial war demonstrate the problems of the foreign exchange market.

4.1 China’s Exchange Rate Policy

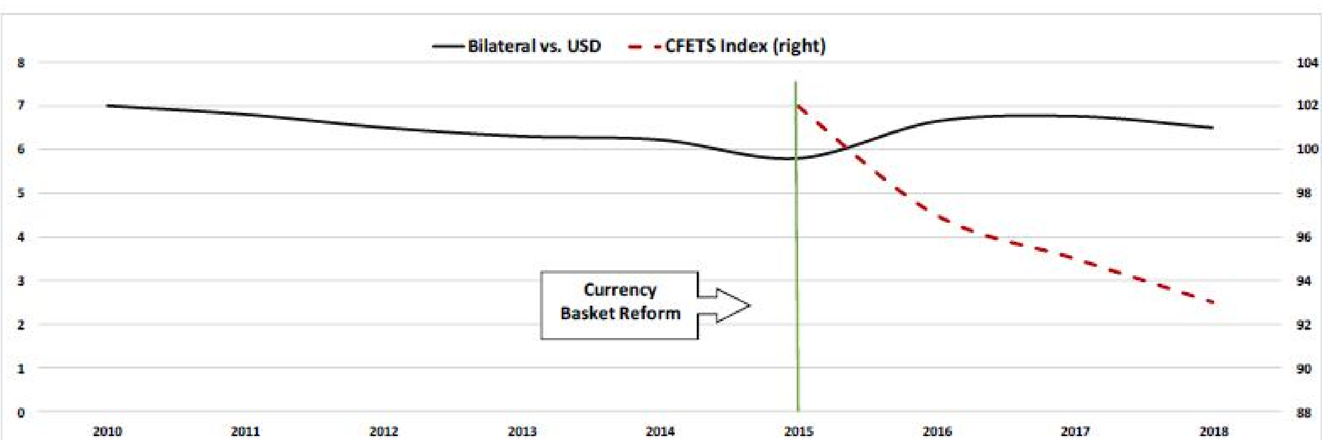
China's foreign exchange policy between 1981 and 1993 was implemented in a bi-rate currency system. Chinese exporting companies were obliged to sell a part of their foreign exchange revenues to the Central Bank at the "official rate" and the other in the exchange market at the "current rate" (Hua, 2011). The difference between the official rate and the market rate led the Chinese Central Bank to moderate the value of Yuan for the US dollar several times. The bi-rate currency system is set aside in January 1994 and the Yuan exchange rate (RMB) to the U.S. dollar was the reference rate (China devalued its currency, from 5.82 RMB to the US Dollar to 8.28. This exchange rate fixed until 2005). During the decade (2005-2014), the value of the Yuan was determined according to the hard currencies of major trading partners in the form of a trading band (The trading band was from +/- 0.3% to +/- 0.5% on 21 May 2007, and then to +/- 1% on 16 April 2012. The last change to +/- 2% was on 17 March 2014. Bloomberg). The reform of China's foreign exchange policy in 2015 enabled the Yuan to be defined in terms of the China Foreign Exchange Trade System (CFETS) and includes 24 countries, tab. 2 (China Foreign Exchange Trade System (CFETS) reflects the RMB exchange rates against currencies of main trade partner). The new Yuan Basket (CFETS-Index) should help the central bank to reduce the RMB dependence to the US dollar and that the RMB's value is determined according to the market's supply and demand in accordance with the China's macroeconomic developments (fundamentals). Most of the country’s major trading partners are economies that operate in the framework of a free-floating or floating currency system. As a result, the flexibility of the RMB value against other currencies had to be increased, resulting in a modification of the RMB exchange rate (In 2018, the RMB depreciated by around 5% against the USD, and by 2.33% against the Euro, but remained stable against the Japanese Yen. In the first 11 months of 2017, the RMB appreciated 5.08% against the USD, and depreciated by 6.8% against the Euro, but remained stable against the Japanese Yen). But, the daily fluctuation of the RMB exchange rate against the US dollar is unusually low and represents the intervention of the central bank in the Chinese foreign exchange market (diagram 6).

Tab. 2: Yuan Basket from Jan. 01, 2017 (includes 24 Currencies)

	Country	Currency	Exchange Rate Regime	Index Weighting (%)	Trade Weighting (%) (Oct. 2015-Oct. 2018)
01)	USA	USD	Free Floating	22.40	14.8
02)	Euro-Zone	EUR	Free Floating	16.34	14.7
03)	Japan	JPY	Free Floating	11.53	7.5
04)	South Korea	KRW	Floating	10.77	9.5
05)	Australia	AUD	Free Floating	4.40	3.0
06)	Hong Kong	HKD	Currency board	4.28	8.2
07)	Malaysia	MYR	Managed Arrangement	3.75	2.4
08)	Thailand	THB	Free Floating	3.33	2.0
09)	Singapore	SGD	Stabilized Arrangement	3.21	2.0
10)	England	GBP	Free Floating	3.16	2.0
11)	New Zealand	NZD	Floating	2.91	0.3
12)	Russia	RUB	Free Floating	2.63	1.9
13)	Canada	CAD	Free Floating	2.53	1.3
14)	Saudi Arabian	SAR	Conventional peg	1.99	1.0
15)	Switzerland	CHF	Floating	1.51	1.1
			Total	94.74%	71.70%

Authors' Calculations
Source: McCauley and Shu, 2018 and World's Top Exports, 2019

Diagram 6: Exchange Rate of RMB (2010-2018)



Source: China National Interbank Funding Center and Bloomberg

Studies carried out between (2004-2017) confirms the low value of the RMB's nominal exchange rate against the US dollar (table 3). If the nominal exchange rate does not express the real value of the money, the change in the real exchange rate is inevitable. China's gross domestic product per capita will exceed $ 960 in 2000 to 8830 US dollars in 2017 (World Bank). It reflects the increasing trend of the real exchange rate in the Chinese economy (The real effective exchange rate appreciated in 2008 (12%), 2009 (6%) and from February 2012 to February 2016 (18%). Cline, William R. and Williamson, John, 2016). Achieving the macroeconomic goals has led authorities to use the exchange rate policy as a means of raising national income (saving surplus) and developing Chinese exports.

Table (3): Estimates of RMB undervaluation (2004-2017)

Study	**Year**	**Fundamental Effective Exchange Rate**	**Real Effective Exchange Rate**	**Bilateral US Dollar Exchange Rate**
Congressional Research Service	2018	x	x	8.2%
Cline, William R.	2017	X	-1.7%	4.9%
Cline, William R.	2016	0 %	-0.8%	8 %
Cline, William R.	2012	15 %	18 %	X
Bergsten, Fred C.	2010	X	25 %	40 %
Coudert & Couharde	2005	15 – 20 %	23 – 30 %	44 – 54 %
Wang	2004	15 – 20 %	27 %	36 %

Source: Cline and William, 2017 and Congressional Research Service 2019

4.2 The Conflict of Economic Interests

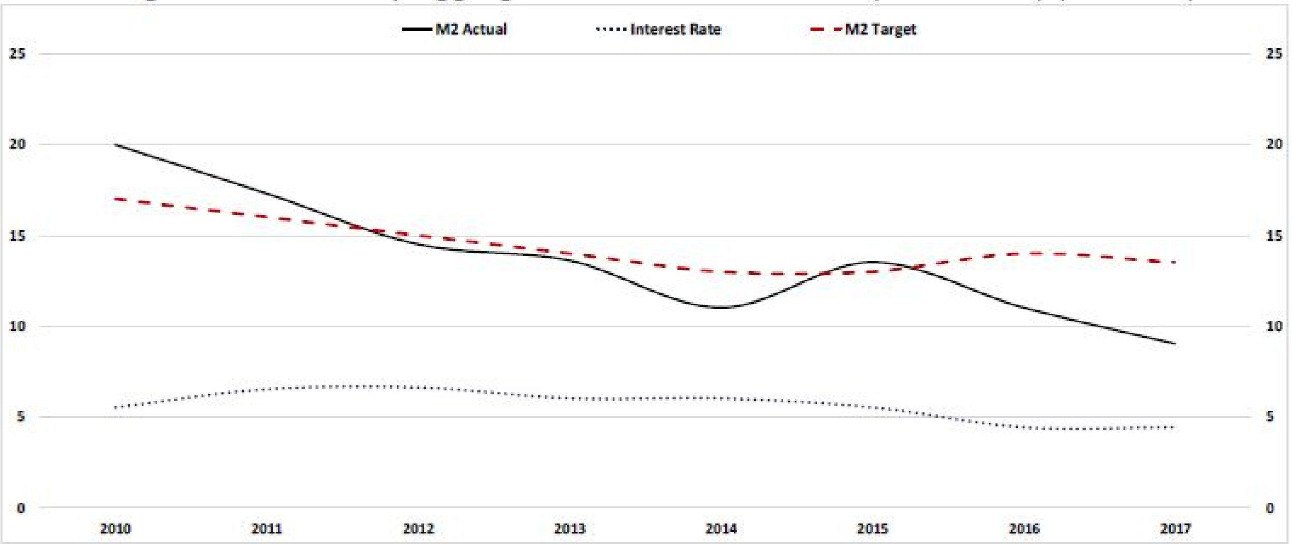
The Trade Facilitation and Trade Enforcement Act of the United State (the 2015 Act) has highlighted three components for detecting the misuse of foreign exchange countries (US Department of the Treasury Office of International Affairs, 2018):

• A significant bilateral trade surplus with the United States is one that is at least $20 billion.
• A material current account surplus is one that is at least 3 percent of gross domestic product.
• Permanent, and one-sided intervention in the exchange market in order to maintain the nominal exchange rate.

According to the IMF statistics, China's current account surplus in the period (2010-2017) is estimated at $ 1.6 trillion ($ 1645 Billion) and the American current account deficit in the same period is at $ 3.3 trillion ($ 3307 Billion) (IMF, 2018). Due to the limited flexibility of the exchange rate, the current account surplus of China makes the increase of demand for the RMB because there is a surplus of the dollar supply in the exchange market to demand. The balance between supply and demand would imply that the Central Bank of China purchase the dollar surplus of the private sector, enterprise and banking system. To buy and obtain foreign exchange from the private sector, the Central Bank of China must sell a certain amount of domestic currency, a policy that is always accompanied by increasing the supply of money and the growth of liquidity. To prevent an increase in inflation rates it is necessary that the Central Bank of China absorb the surplus of money circulating through the Sterilized intervention operations (Sterilized intervention operations involve domestic asset transactions that restore the monetary base to its original size). Since the sterilization operations costs and its consequences are unclear, the incompatibility of monetary policy will increase with foreign exchange policy and face the problem of achieving monetary goals of the central bank (diagram 7).

The cheap currency policy and the Central Bank's intervention in the exchange market has had a negative effect on the China's terms of trade. The low nominal value of the RMB has led to a rise in the cost of importing goods and services to the Chinese economy. On the other hand, the rise of the real exchange rate led to an increase in the average wage of the labour, thus increasing the prices of domestic production in China (the average increase of Product Price Index (PPI), 6% for 2017 and 4% for 2018, Trading Economics, 2018).

Diagram 7: Monetary Aggregate M2 Growth in China (2010-2017) (Per cent)



Source: McMahon et all, 2018 and Trading Economics

5. Conclusion and Suggestions

The Bretton-Woods monetary system failed in 1973 due to its structural weaknesses and then, the floating exchange rate system replaced the fixed exchange rate regiemes. Regarding exchange and monetary competition between large economies, three currencies play a dominant role in the international monetary system and in the global economy; US Dollar, European Euro and Chinese Yuan. The importance of the US dollar for the global economy is not only that the USA has the world's largest economy, but also US Dollar bloc is a broad economic field that nearly holds 60% domestic gross production of the world (dollar standard). Furthermore, financial market of USA from viewpoint of the size and depth are very big, valid, advanced and have high level of stability and are turned into "safe haven" for the assets and debits.

The second valid currency in the global economy is the European Euro. Euro's importance and value are observable in the economic and political power of the member countries. The common money has been made up of several financial markets of the member countries, a united, expanded, and coherent financial market. The private sector's bond market and the public sector's bond market are two factors that had an important role in the growth of the Europe's capital market. Euro-Zone regarded as secound largest international bond market after USA. The export potential of the Euro-Zone is the highest worldwide (45.73% of GDP) and support the international demand of the Euro.

Yuan of China is the third important currency in the world's economy; since, not only it increases the economic and politic measures of China; but also, there is increasing process for using Yuan in the international monetary transactions. Using Yuan of China at the Special Drawing Right may improve the status of Yuan at the international monetary system. Moreover, the export potential of the China is high (19.75% of GDP). This economic benefit increases the domestic production and investment position of China.

Considering the significant growth of trade and exchange transaction volume in the global economy, international monetary system faced by currency challenges. The main challenge is the conflict of economic interests. A huge part of the United States' trade balance deficit is against China. China's central bank tends to manage RMB value against US dollar because by such a policy, it can expand national income (saving surplus) and exporting goods to the United States and keep the trade surplus with this country at a desirable level. The international monetary system does not have a significant mechanism that play a constructive role to prevent the currency war between the large economic powers. This system should be modified in line with the balance level increase in the global trade. The international monetary system must have the following characteristics:

- The world's new monetary system is defined based on a basket of currencies where the US dollar share is gradually reduced per the increase of gold and other world's superior currencies' share, two superior economies. The currencies of the world's superior economies, which can form the international currency basket along with the US dollar are European Euro and Chinese Yuan. Gradually reducing US dollar share in the international monetary system is necessary because the global economy's role of China increase rapidly.

- The increase of the International Monetary Fund's supervisory role in the world’s exchange market. For the improving trade balance level in the global economy it is necessary to prevent the misuse of the exchange rate. The foreign exchange policy must not only supply the interests of the national economy but also does not violate the economic interests of other countries.

For further researches, it suggested studying the stability of US dollar demand in the international financial market. According to the growth of the emerging markets and multi-lateralization of the global economy, the use of US dollar as a currency benchmark is a relevant topic. The Trust in the US economy and the value of the US dollar ensures the stability of the international monetary system. The conflict between the dual and multiple roles of US dollar in the international monetary system could disrupt the stability of the US dollar value.

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