



REFORM OF THE INTERNATIONAL FINANCIAL SYSTEM

Management

Xinyu Liu*

Department Of Economic Management, North China Electric Power University(Baoding). *Corresponding Author

ABSTRACT

From the perspective of economic ecology and measured by the international monetary system, this paper interprets the international financial pattern as a steady state formed by the competition and mutual game between different countries with their own financial strength and resources. After analyzing the subjects, contradictions and steady-state characteristics of the current international financial pattern, the paper firstly sorts out the historical evolution of the formation of the international financial pattern, and summarizes successively the transfer process of the dominant position of international finance among the UK, Japan and the US. It also points out that China's efforts to promote the internationalization of RMB, lead the establishment of the Asian Infrastructure Investment Bank and the BRICS Development Bank have brought new impacts on the international financial pattern. These measures will not only cause the reconstruction of the international financial market, but also bring new challenges to China in many aspects. Looking forward to the future, China should continue to participate in the reform process of international financial mechanism, implement the dual track strategy of financial reform and financial innovation, so as to push the reform of international financial mechanism to a new level.

KEYWORDS

International financial reform, Global financial governance, China's Financial Internationalization

Since 2020, major changes have taken place in the global financial situation. At the macro level, the World Bank and the United Nations released the Global Economic Prospects and the World Economic Situation and Prospects Report 2020 in January, which issued serious warnings about international financial risks. They pointed out that while the global economic growth has fallen to the lowest level since the 2008 financial crisis, Over-expansionary monetary policies, high debt pressures and negative interest rate policies have pushed the risk of global financial fragility to its highest level since the 2008 financial crisis. At the micro level, the Australian wildfire at the end of 2019, the COVID-19 outbreak in January 2020, the US stock market blackout in March and the expansion and price reduction of Saudi crude oil quickly evolved into new financial black swan events, and the butterfly effect caused by these events brought new crises and risks to the global financial governance. At present, these global crises call for a rapid response by the international financial mechanism in the provision of emergency public goods. At the same time, the long-accumulated structural contradictions between emerging countries and major Western countries on the reform of international financial institutions have also posed a severe challenge to the advancement of global financial governance.

Against this background, it has become an important concern of the international community to promote the reform of the international financial mechanism to cope with various risks and financial governance tasks faced by the global financial system. As a rising power and an important stakeholder in global financial governance, China has in recent years played an increasingly important role in participating in and promoting the reform of the international financial mechanism and the creation of new mechanisms, and exerted more and more important influence on the future reform of the international financial mechanism and its development direction.

1. Contradiction and steady-state analysis of international financial pattern

From the perspective of economic ecology, the international financial pattern can be understood as a steady state in the international financial market, in which different countries compete and game with each other by virtue of their own financial strength and resources. This steady state is reflected in the international financial market into the specific currency circulation rules and systems, including international standard currency, currency exchange rates and their changes, international balance of payments adjustment methods, etc. In other words, the international monetary system is a very important aspect reflecting the international financial landscape. The core of the current international monetary system is still the dollar, not only because of the legacy of the Bretton Woods system, but also because of the growing economic and financial power of the United States. According to the official statistics of IMF, the United States is still the most dominant reserve currency in the world. As of the fourth quarter of 2014, the dollar accounted for 62.9% of the world's reserve currency. After the

formation of Jamaica's monetary system, the global financial system has been in turmoil, especially after the global financial crisis in 2008 and the European debt crisis in recent years. We can see the fragility of the international monetary system dominated by developed countries. The continuous onset of financial crises has highlighted the many disadvantages of the financial order in countries dominated by the US dollar. The emergence of the crisis has led to the divergence of the economies of various countries. The difference in the speed of recovery has promoted the evolution of the global economic and financial pattern, which is bound to have a profound impact on the future financial pattern. Nowadays, the international financial pattern has changed quietly, and a multi-polar counterbalance pattern among the United States, the European Union, Japan and the BRICS countries (China, India, Russia, Brazil and South Africa) has been initially formed around the world. In the future, the stable international monetary system and financial pattern will show the following characteristics:

- (1) Increasingly diversified currencies in international circulation
In addition to the US dollar, the share of euro, pound sterling, yen, RMB and some emerging market currencies in international settlement, international investment, foreign exchange reserves and asset pricing markets will gradually reach equilibrium, thus fundamentally changing the trend of the US dollar as an international reserve currency. As the centre of the global economy shifts eastwards, the vulnerability of the developed West will become more apparent.
- (2) The exchange rate floating mechanism will be more stable
Since the Jamaican system came into operation, various countries have implemented different types of exchange rate systems according to their own situations, but in any case, the US dollar is still the object of reference for the fluctuation of the currency value of most countries. In the future, due to the weakening status of the US dollar and the balance of currency forces among countries, exchange rate fluctuations will be more stable, thus reducing the vicious devaluation and other manipulative behaviors of some countries in order to promote export trade.
- (3) Regional economic and monetary integration has been expanded and regional financial cooperation strengthened
The existing international financial institutions, such as the IMF and the World Bank, and economic integration, such as the European Monetary Union, have achieved a great deal. As global capital moves more freely across borders, international monetary cooperation will achieve more.

2. The international financial landscape has evolved over time

Throughout history, the ups and downs of the country, the vicissitudes of the international financial pattern changes. Finance and economics are like twins. Finance is incubated in the soil of economy, and the rapid development of finance is the catalyst of social and economic development.

(1) Britain replaces the Netherlands to occupy the leading position in international finance.

Before World War I, Europe occupied the center of international finance for a long time by virtue of its unique economic strength at that time. Europe's geographical advantages and maritime civilization have greatly promoted the development of import and export trade, and the financial industry with banks as the main body has emerged at the historic moment. Britain, in particular, is a shining point in the picture of European economic development. The Bank of England was established during the Nine Years' War between England and France in 1688 and 1697. The Bank of England was set up mainly to raise money for military expenditure in time of war. After the war, the Bank of England helped establish the gold standard and ensured the stability of the British financial system. In the 19th century, sterling had become the main international currency that could be exchanged with gold, settlement and storage of international trade and investment. Britain had dominated the international financial market and controlled the changes of global finance. London also became the international financial center at this time.

(2) The two world wars brought development opportunities to the United States.

From 1914 to 1970, the two world wars brought devastating damage to the European economy, but gave the United States economic development brought the opportunity to take off. It was not only European countries that were defeated in World War I, but also their economies. The United States, which did not act as a battlefield, accumulated a lot of wealth. The center of gravity of the international financial pattern was transferred to the United States with the transfer of European capital, and the international financial center was also transferred from London to New York.

(3) The rise of Japan after the war

Japan had been working to recover its economy after the war, and it thrived while the United States was in crisis. In the mid-1970s, especially after the 1980s, with the enhancement of Japan's economic strength and internationalization, the Japanese yen appreciated sharply. As a result, Japanese financial institutions aggressively expanded overseas markets, and the status of the Japanese yen also improved.

(4) China's rise after the financial crisis

With the increasing diversification of the international financial market and the international monetary system, especially the outbreak of the global financial crisis in 2008, the international financial pattern has undergone profound adjustment. The economic strength of emerging market countries represented by China is gradually increasing. The GDP of emerging market countries accounts for more than that of developed economies in the global economy, and the growth rate is also remarkable. Their financial institutions are also increasingly active in the international financial market, and the center of financial activities and pattern has gradually shifted from the west to the east.

3. Progress in China's participation in the reform of the international financial system

International financial mechanism is a general term for international organizations, cooperation forums, informal mechanisms and financial companies in the field of international finance, as well as a series of principles, rules and ways of conduct. Participation in international financial mechanisms is an important channel for China to safeguard national financial interests, carry out financial cooperation and improve financial governance capacity. The historical process of the changes of China's participation in international financial mechanism, is the interaction relationship between China and the international financial system evolution process, during which China has experienced four important identity transformations, that is, from the international financial system outside of the free to into the international financial mechanism of participants, to international financial mechanism of the reformers and the international financial system's change leader.

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