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International Policy Coordination and RMB Internationalisation: Theory and Historical Experience*

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Abstract

Based on theoretical logics derived from the literature and the historical experience, we take a deep look at the relationship between international policy coordination and RMB internationalisation. International policy coordination and RMB internationalisation are complements. On the one hand, an effective policy coordination mechanism needs the support of an efficient international monetary system, thus calling for diversification of international vehicle currencies. RMB, supported by solid economic fundamentals, can be a good candidate as one of the international vehicle currencies in the diversified international monetary system. On the other hand, due to the existence of policy spillover effects, an appropriate coordination mechanism improves policy effectiveness in China, which promotes RMB internationalisation by enhancing China's economic and financial strength.

Keywords: Policy coordination; RMB internationalisation; Spillover effect

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1. Introduction

As China's economic power rises over time, its currency has become more and more important in international transactions. Figure 1 shows the trend of the RMB Internationalisation Index (RII). The RII is a composite index which summarises RMB's relative importance in trade and financial transactions, as well as its role as an international reserve currency.[1] A higher RII suggests higher importance of RMB in international transactions and reserve system. The RII was steadily increasing between 2013 and 2015. The financial market disturbance in 2015 stopped the increasing trend. However, 2017 saw a recovery of the RII.

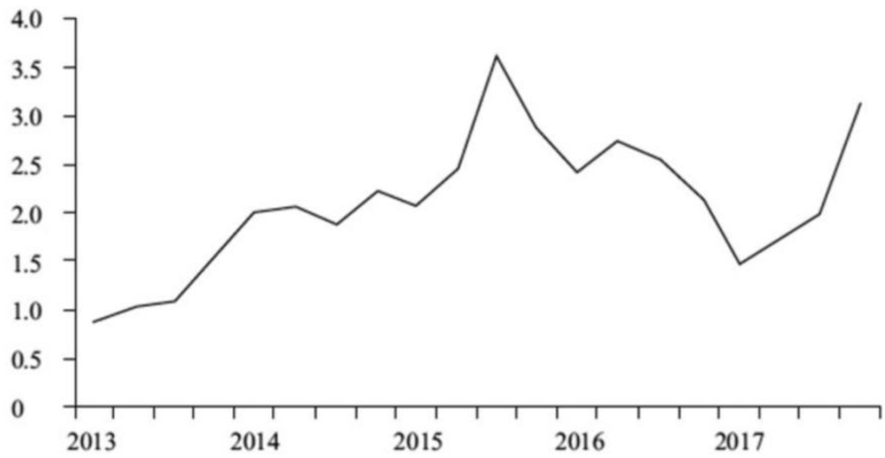

Figure 1. RMB Internationalisation Index (RII)

International policy coordination has become a major concern among policy makers, especially after the American Great Recession in 1930s, with a focus on the worldwide joint implementation of fiscal stimulus measures in the early studies, and on harmonised financial market regulations recently. Governments have coordinated and cooperated on economic policies for the sake of global prosperity.

Currently, studies about currency internationalisation can mainly be classified into four directions. The first research direction focusses on the definition, measurement, and conditions of currency internationalisation (Frankel 2012). Other scholars like Cohen (2012) and Kenen (2011)

[1] For more details on the construction of the RII, please refer to Renmin University of China's *2018 Annual Report of RMB Internationalization*. Tu Yonghong and Wang Fang, 2018, Press of Renmin University of China

analyse the benefits and costs of RMB internationalisation, revealing that the benefits of currency internationalisation include lowering transaction costs, increasing macroeconomic flexibility, and expanding political influences; while the costs include appreciating exchange rate, lowering monetary policy autonomy, and increasing systematic risks. There is also a series of studies based on empirical models testing the determinants of currency internationalisation (Ito, McCauley, and Chan 2015; Batten and Szilagyi 2016). And the last direction is using currency competition theory to analyse currency internationalisation. Wang (2014) regards currency competition as oligarchic competition, analysing maximum welfare in the process of currency internationalisation.

The study of international policy coordination began with Cooper's (1968) 'international interdependence theory'. Buiter and Marston (1985) define international macroeconomic policy coordination as a process of mutual adjustment of economic policies among countries in the process of global economic integration. Several crises in the 1970s-1990s boost research in international policy coordination. Hamada (1976), Obstfeld and Rogoff (1995) use representative consumers and manufacturers to construct a theoretical model explaining policy coordination. Fatás and Mohov (2003), Darvas, Rose and Szapáry, (2005), Beneš et al. (2014) use empirical models to analyse the benefits of policy coordination. Eichengreen (2013) indicates that international policy coordination is better than currency wars.

However, few scholars study the relations between currency internationalisation and international policy coordination. Giving more attention to the mutual relationship between international policy coordination and currency internationalisation is crucial. Our research fills the gap and adds to this important literature. Does international policy coordination affect the pattern of the international monetary system, or does the internationalisation of RMB change the pattern of international policy coordination? In our paper, we try to answer these questions based on theoretical logics and the historical experience.

We discuss in depth why the international policy coordination and RMB internationalisation have a complementary relationship. That is to say, a well-crafted policy coordination mechanism contributes to the process of RMB internationalisation, which makes a positive impact on the effectiveness of international policy coordination in return.

The paper is organised as follows. First, it derives the theoretical relationship between international policy coordination and RMB Internationalisation from the literature. In the next section, it goes on to explore the historical experience on policy coordination and currency internationalisation. The final section concludes.

2. Theoretical logics

The coordination of international economic policies and the internationalisation of the RMB are mutually reinforcing. On the one hand, RMB internationalisation will help establish a better international monetary system, thereby improving the efficiency of international policy coordination. On the other hand, international policy coordination can promote the internationalisation of the RMB, as it supplies appropriate economic and financial supports for currency internationalisation. Figure 2 describes the relationship between policy coordination and RMB internationalisation. We begin the theoretical analysis with a general demonstration of the complementary relationship between international economic policy coordination and RMB internationalisation. Then, we survey the literature on the determinants of currency internationalisation and the international transmission of economic policies. On the basis of a huge literature, we draw conclusions on the relationship between international policy coordination and RMB internationalisation.

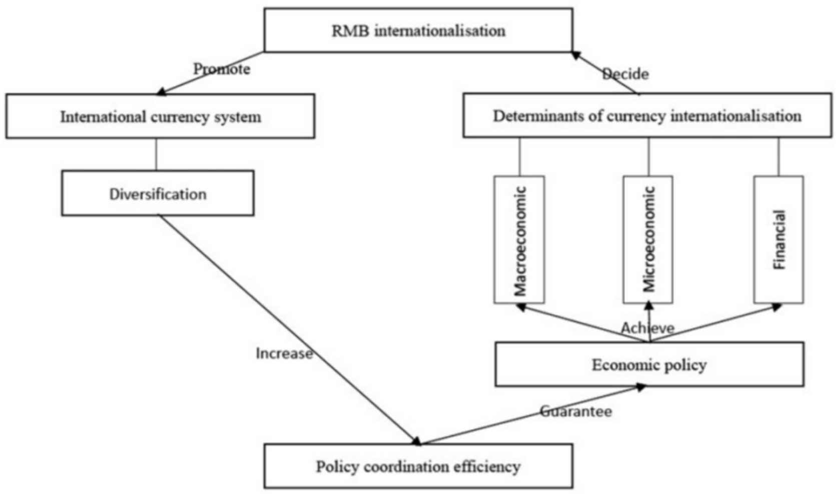

Figure 2. Relationship between RMB internationalisation and policy coordination

2.1 RMB internationalisation benefits international policy coordination

The efficiency of international policy coordination is greatly affected by the effectiveness of the international monetary system. However, the current monetary system needs reform. In the current international monetary system, the US dollar is the dominant international reserve currency (with a share of more than 60%). However, this monetary system may distort global resource allocation, and cause instability problems (Weng 2016). First, when considering monetary or fiscal policy, the US pays attention to its domestic economic situations and seldom takes into account international conditions. The spillover effect of the US policy exacerbates the volatility of the international market (Tian 2015). When the financial crisis broke out in 2008, the US issued a great amount of money, leaving other economies to suffer from a more serious financial crisis (Zhuang and Xu 2011). Second, the lack of necessary international constraints may essentially encourage the reserve currency countries to abuse currency issuance, leading to uncontrolled international liquidity, disordered supply and unstable global economy (Xiong and Huang 2010). Third, it is challenged by the 'Triffin Dilemma'.[2] An international currency faces the contradiction between maintaining currency stability and providing adequate international clearance ability. When the currency fails to guarantee the growth of international liquidity or its users lose confidence, the international monetary system collapses (Triffin 1960). Fourth, global systemic risks are highly concentrated since the global asset allocation is dominated by one single currency. The effects of US economic or policy changes will spread to the world and intensify the instability of the global financial market. Therefore, the current international monetary system needs to make adjustments so as to achieve effective policy coordination.

There are two possible directions of international monetary system reform. One is to create a super-sovereign currency, while the other is to build a diversified reserve currency system. The greatest advantage of a super-sovereign currency is that the issuance can be carried out according to the objective requirement of global economic development, avoiding the conflict between issuing countries' interests and global interests. But the super-sovereign currency scheme is so idealistic that it lacks political feasibility as well as economic rationality (Pan 2013). Therefore, building a diversified reserve currency system is more realistic. Theoretically, under a diversified international currency system, competition among international currencies will lay some restrictions on the currency issuing countries. The diversification of reserve currencies can provide more trading and

2 The 'Triffin Dilemma' was proposed by the American economist Robert Triffin in 1960.

reserve currencies, benefit the development of the world economy, and adapt to the multi-polarisation trend of the global economic development (Eichengreen and Flandreau 2009). Besides, it can solve the ‘Triffin Dilemma’ by the collective supply of reserve assets. Empirical evidence shows that the euro’s participation in the international monetary system restricts the expansionary supply of the US dollar (Song 2004). In the short term, the currencies of Australia, Canada, Norway, and Sweden can supplement the current international monetary system, but these economies are quite limited in creating international liquidity to meet market needs, compared with the US, Europe, and Japan in terms of GDP. Therefore, it is more likely to achieve a stable financial architecture by integrating emerging economies into a more diverse global liquidity supply system (Taylor 2013).

The RMB is a suitable candidate when considering diverse reserve currencies. Since the reform and opening up, China has maintained a high economic growth rate, leading to a large output scale and huge foreign exchange reserves. The internationalisation of the RMB can enrich international reserve assets, enhance the supply capacity of reserve currencies, and improve risk diversification. Empirical studies also show that although RMB internationalisation will increase the impact of trade shocks on the net position of foreign assets, it will greatly reduce the response of exchange rate to the asymmetric trade shock and weaken the distortionary effects caused by pegged exchange rate at the same time (Bénassy-Quéré and Forouheshfar 2015). Overall, RMB internationalisation contributes to the improvement of the international monetary system.

2.2 International policy coordination guarantees RMB internationalisation

On the other hand, international policy coordination is a powerful support for RMB internationalisation. The international vehicle currency status is determined by a few important factors, which are influenced by economic policies of many countries. So the mutual coordination of economic policies affects the international currency system by influencing the dynamic changes of these driving factors in different countries.

The driving factors of currency internationalisation can be classified into three categories: macroeconomic factors, microeconomic factors, and financial factors. From a macroeconomic view, the main factors include economic scale and stability. The size of an economy is important for supporting the internationalisation of its currency. Countries that have a large share of global output, international trade, and financial participation show natural advantages in currency internationalisation (Chinn and Frankel 2007). The relative market size is an important consideration for companies to choose invoicing currencies. When foreign producers sell goods to large countries, they tend to choose destination currency to reduce the price volatility of their products relative to the dominant market. And the research on the US dollar and the euro also shows that the relative economic size is an important factor in determining the invoicing currency in international trade (Goldberg and Tille 2005). As a means of storing value, international currency should maintain stability. When choosing a reserve currency, companies are more inclined to choose the currency of a country with a stable economy to minimise the negative impact of exchange rate fluctuations (Baron 1976; Giovannini 1988). Using a two-country DSGE model, Devereux, Engel, and Storgaard (2007) show that the exporter will choose the least volatile currency in response to monetary policy shocks.

From a microeconomic perspective, industrial characteristics, product similarity, and substitutability are the most important considerations for enterprises when choosing the invoicing currency. In general, exporters will minimise the price volatility of their products relative to competitors' products, so that they experience least output volatility, which is called the 'coalescing effect'. The coalescing effect can explain the dominance situation of the dollar. Because foreign exporters face competitions with American companies, their products traded with the US are mainly denominated in the US dollar. And since exporters need to align their product prices with those of their competitors, products traded with other countries will still be denominated in the US dollar. The coalescing effect is closely related to industrial characteristics (Goldberg and Tille 2005).

In terms of financial factors, financial development and financial depth, as well as financial market liquidity, financing costs, and transaction costs, are among the top factors in realizing the currency internationalisation. International currency should not only serve as a settlement currency in trade but also play an important role in capital flows and financial transactions (Tu and Wu 2017). The best manifestation of the degree of internationalisation of a currency is to have a large share and top rank in international financial transactions, as the scale of financial transactions outweighs trade. In the context of global economic integration, a developed and open financial market can reduce participation costs, improve the capital supply mechanism, increase the efficiency of capital allocation, and smooth economic fluctuations. The depth and breadth of financial markets are highly correlated with the international level of a country's currency (Mckinnon and Kenen 2002; Gao and

Yu 2010). Eichengreen and Flandreau (2012) find that financial depth was the key to the growth of dollar-denominated trade credit in the 1920s. Chitu, Eichengreen, and Mehl (2014) also argue that it was the most important reason for the rise of the US dollar share in the global bond market in 1918-1932. Financial development and financial integration were crucial to the international status of the euro (Papaioannou and Portes 2008; Portes and Rey 1998).

All of these driving factors of currency internationalisation, namely the economic scale, stability, the optimisation of industrial structure, and the deepening of financial development, require the support of corresponding policies. Effective macroeconomic policies can promote economic growth, optimise economic structure, and strengthen national strength in the long run. At the same time, they can also smooth economic fluctuations, and promote sustainable development, thus laying a solid foundation for currency internationalisation. So the formulation and implementation of these policies serve as important ways to achieve currency internationalisation. However, a country's economic policies will not only affect its own country but also have a profound impact on other economies in the context of economic globalisation. Different countries' economic policies may have negative spillover effects on the other countries. Deciding economic policies by considering only their own economic development goals is likely to trigger conflicts. Strengthening policy cooperation and coordination with other countries can, to a certain extent, ease the problems and uncertainties caused by isolated actions, thus paving the way for the internationalisation of a country's currency.

2.3 The mechanism of policy spillovers

In this part, we analyse the spillover mechanism of economic policies. The existence of spillover effects makes it necessary for countries to rely on policy coordination to meet the requirements of currency internationalisation.

2.3.1 Monetary policy

In an open economy, monetary policy affects other economies through the channels of direct interest rate, international capital flow, money supply, and international trade.

The first is the direct interest rate channel. An expansionary monetary policy will lower a country's interest rate, and the capital flows to high return area which directly leads to a decline in foreign interest rates and an increase in output. Second, international capital flows are highly sensitive to interest rates and exchange rate fluctuations. Generally speaking, a country's expansionary monetary policy with a lower interest rate will change the returns of capital investment, and cause the market to expect appreciation of other currencies, resulting in capital outflows. Thirdly, according to Mundell's trilemma, an open country can only choose two among independent monetary policy, free capital flow, and a fixed exchange rate. Facing a big country's domestic monetary policy shocks, if a country's monetary authority maintains restrictions on the exchange rate,its central bank's monetary policy must be adjusted accordingly. Specifically, under an expansionary monetary policy, interest rate falls and capital flows out. The pressure of appreciation of its currency forces the monetary authority to increase foreign exchange holdings and money supply, further stimulating its aggregate demand and output. Last, there is also an international trade channel. Trade is the main channel for the economies to interact with each other. In an open economy, a country's monetary policy will directly affect the spillover effects of international trade on other countries through exchange rates, domestic aggregate demand, and relative price levels.

In summary, there are significant spillover effects of the monetary policy. Under certain conditions, the net spillover effect may be negative, which means that the monetary policy of the international currency issuers may have a negative impact on other countries.

2.3.2 Fiscal policy

With global economic integration, fiscal policy shocks can also affect the economic development of other countries through various channels. The research finds that increasing government spending in the US leads to an increase in the US output and a decrease in Canadian output (Arin and Koray 2009). An analysis of China's 2009-2010 fiscal stimulus policy shows that China's fiscal expansion has effectively stimulated domestic demand, but has limited positive spillover effects on other countries in the world (Cova, Pisani, and Rebucci 2016). The research on OECD countries shows that fiscal policy spillover effect is significant and has a greater impact on output during a recession. Frenkel and Razin (1987) argue that the increase in budget deficits and temporary government spending has increased the value of domestic wealth and consumption and reduced the value of foreign wealth and consumption. Baxter (1995) finds that after the permanent increase in domestic government procurement, foreign output increased first but declined over time.

It is critical to understand the spillover effects and transmission paths of fiscal policy. Similar to monetary policy, international fiscal policy transmission also has four channels: direct interest rate, international capital flow, money supply, and international trade.

A country's fiscal policy changes will affect other countries by changing domestic and foreign interest rates, which is the direct interest rate channel. For example, when the income tax increases, residents will increase their current consumption levels and reduce their savings as the short-term household income suffers more than the long-term household income, which will raise interest rates (Arin and Koray 2009). And when a country adjusts its fiscal policy to increase government spending, its interest rate rises, and international capital flows in to seek for a higher return. The money supply channel is that fiscal policy pushes up domestic interest rates, stimulates the appreciation of the local currency and the depreciation of a foreign currency. Under the fixed exchange rate system, foreign countries will change their money supply. There is also an international trade channel. A country's fiscal policy will directly affect international trade via exchange rates, domestic aggregate demand, and relative price levels.

2.3.3 Macro-prudential policy

The macro-prudential policy is crucial for a country to maintain economic and financial stability and prevent systemic risks. A country's macro-prudential policy will have a systemic impact on domestic money supply, economic growth, and financial stability. For instance, the counter-cyclical capital requirement, differentiated reserve requirements under the Macro-Prudential Assessment System (MPA), credit window guidance, and mortgage rate restrictions in the real estate sector, all affect money supply and influence economic and financial stability. The impact of macro-prudential policies also influences other countries through the channels of international capital flow, money supply, international trade and the financial system stability.

The international capital flow channel: macro-prudential policies include limiting international capital flows or increasing the cost of financial transactions. It may drive international hot money to other countries, which will have a negative impact on the financial stability of other countries.

The money supply channel: after a country's macro-prudential policy directly raises the domestic interest rate level, international capital inflows will promote the appreciation of the local currency and its following spillover effects are similar to that of monetary and fiscal policies.

The international trade channel: the implementation of macro-prudential policies may limit economic growth, leading to a decline in household income levels. The decline in aggregate demand will lead to a decline in foreign import demand, thus reducing foreign exports and output.

The financial system stability channel: in the context of economic globalisation and financial integration, a country's systemic risk will be transmitted through international capital flows and international financial markets. A macro-prudential policy strengthens financial supervision to prevent systemic financial risks and improve the stability of the financial system, which can greatly reduce the possibility of financial crisis and transnational transmission.

2.3.4 Structural transformation policy

After the recent financial crisis, most countries in the world are faced with the task of economic restructuring. It is an inevitable requirement for sustainable development. The economic restructuring reform requires the collective support of various economic policies, including trade policy, industrial policy, fiscal and monetary policy, as well as macro-prudential policy. Structural monetary policy and fiscal policy can also guide and accelerate the transformation of industrial structure. For example, China's green finance and technology finance policies are designed to promote the sustainable development of the economy and provide sustainable momentum for high-quality economic growth by stimulating innovation. Macro-prudential policies reduce speculation and enhance financial services to the real economy, better serving the structural transformation.

In the absence of coordination, the structural transformation policies of all countries are based on domestic goals. These policies will affect other countries in the world through channels such as international trade and capital flows. The negative spillover effects of policies can lead to unexpected deviations in the effects of national policies, which in turn can slow or even undermine the process of economic transformation in these countries.

Brander and Spencer (1985) use the Cournot model[3] to examine the competition between domestic companies' exports and foreign companies' exports in third-country markets and find that government export subsidies may cause domestic companies to enjoy higher output share, forcing foreign companies to reduce output. And the profit is transferred to domestic enterprises. Since the

[3] The Cournot model is a model proposed by the French economist Cournot in 1838, which assumes only two oligopolists. This model is the earliest version of the Nash Equilibrium application.

extra profits of domestic enterprises exceed the cost of the government, these export subsidies increase the national welfare of the country as a whole, but the economies of the competing countries are damaged.

This analysis shows that in the process of optimising their industrial structure and enhancing their international competitiveness through trade and industrial policies, countries may conflict with other countries. In the absence of coordination, there may be cases of vicious competition such as trade wars, subsidies, and exchange rate wars, whose final result will greatly reduce the policy effects of all countries.

3. Historical experience

In this section, we focus on the historical development of the international currency system and the corresponding international policy coordination mechanism. The changing process of the international currency and policy coordination can be a great example for RMB internationalisation. This process began with the establishment of the gold standard in the United Kingdom, followed by the dominance of the US dollar and the issuance of the euro, as well as the internationalisation of the Japanese yen. Along with changes in international currency, the international coordination mechanism has also transformed from political coordination led by major powers to multi-dimensional coordination led by international organisations. Since 1965, the status of a currency can be manifested via the currency composition of a country's official exchange reserves. Figure 3 presents the trend.

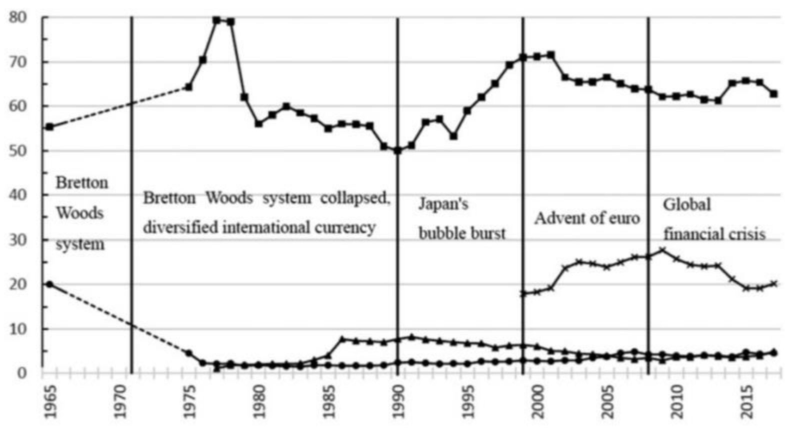

Figure 3. Trend of currency composition of official foreign exchange reserves

Initially, the British pound was the centre currency during the years of the gold standard. In that period, international coordination was controlled by the military powers in the absence of international coordinating organisations. After World War II, the US played a leading role in the world economy, international politics as well as military affairs. Therefore, it became the centre of international coordination through its dominance in international institutions and the currency system. The yen and the euro also sought international coordination when emerging. The Japanese yen attempted to make a breakthrough among the G7 countries. Due to the ineffective policy coordination, however, the internationalisation of the Japanese yen ultimately failed. The euro has gradually improved its international status through the process of EU integration, but always faced internal coordination problems. The historical experience of pound, dollar, yen and euro shows that currency internationalisation needs to go along with international policy coordination, and the coordination ought to be matched with the economic level and social environment at that time.

3.1 The rise and fall of the British pound

In 1816, the United Kingdom launched the currency reform and established the gold standard system. It was agreed that the gold of 22 carats per troy ounce should be worth 46 pounds, 14 shillings and 6 pence. During the gold standard period, the British pound was the centre of the international monetary system. In 1899-1913, 40% of the worldwide official foreign exchange reserves were British pound assets, surpassing the total of those in the French franc and the Deutsche mark. There are two main reasons why the British pound can become the most important international currency under the gold standard system. First, the economic policy of the United Kingdom promoted its economic development and it had a proper policy coordination mechanism to ensure policy effectiveness. The United Kingdom imported cheap agricultural products and raw materials from developing countries using British pound as the valuation and settlement currency, which greatly facilitated its internationalisation. Second, the British economic power and maritime hegemony also laid a solid foundation for the dominance of its currency. The strong domestic productivity and blooming foreign trade boosted the economy. And the United Kingdom had a huge international trade volume, which guaranteed people's confidence in its currency.

However, the gold standard system had a natural deflation characteristics. Domestically, the British pound-centred gold standard system weakened the competitiveness of British export products, and deteriorated unemployment. It also led to the outflow of gold, raised interest rates and caused the domestic economy to slump. Externally, the British credit fell sharply, which in turn intensified the instability of the monetary system.

What characterised the international policy coordination under the gold standard was that war constituted a barrier to international policy cooperation, and the interests of major powers played an important role. Under the gold standard, the most successful international cooperation was the 1867 international financial conference in Paris. In that conference, many countries reached a basic consensus on a unified international monetary system, but France didn't deliver a clear position, and that is why they didn't reach a final consensus. Under the gold standard, major powers dominated the international monetary order; only an international system that satisfied the interests of major powers can be realised. However, due to political and trade disputes between the powers, the frequent occurrence of wars made it impossible for all parties to negotiate at the table with peace in mind.

In addition, the coordination under the gold standard system was only temporary. As the international joint efforts to restore the gold standard after the First World War, a series of conferences were held, including the 1922 Geneva Conference, the 1922 Genoa Conference, and the 1924 Long Island Conference. However, none of these conference resulted in a lasting agreement. The world's first international financial institution, the Bank for International Settlements, was established after the First World War, which was the embryonic form of modern international policy coordination. On the one hand, it was established to meet the growing needs for central bank cooperation in order to establish a stable post-war international monetary system; on the other hand, it was expected to find a new way to resolve the war debts borrowed by the European Allies from the US during the war and the payment of German war reparations after the war.

3.2 The establishment of the US dollar vehicle status

As early as 1873, the industrial output of the US already surpassed the UK, making it the world's No. One country. In the First World War, the US provided financing and war materials for the Allies, which enabled it to become the most advanced industrialised country in the world. The improvement of the US economic strength laid a solid foundation for the US dollar's hegemonic position on the international stage. In 1923, the US possessed about 44% of the world's gold reserves. The large-scale accumulation of capital made the US dollar the most stable currency in the world at that time. After the collapse of the gold standard system, three currency zones emerged: the US dollar zone, the British pound zone and the franc zone, led by the US, the UK, and France, respectively. The monetary system was in chaos. Against this background, the US, UK, and France respectively issued a statement on 25 September 1936 and entered into the Tripartite Monetary Stability Agreement, which formed the basis for the subsequent implementation of the Bretton Woods system. Soon after that, the Second World War broke out and caused serious damage to European countries. Being far away from the European continent, the US economy did not suffer from the war but instead earned much money through arms trade. The economic power gap between the US and European countries was further widened.

After 1941, the US and the UK both proposed their own plans for the construction of a post-war international monetary order: the White Plan[4] and Keynes Plan.[5] On 1 July 1944, 44 governments held the United Nations Monetary and Financial Conference in Bretton Woods of the US. This conference passed the International Monetary Fund Agreement and the International Bank for Reconstruction and Development Agreement primarily based on the White Plan, which constituted the Bretton Woods Agreement. The Bretton Woods Agreement stipulated that the US dollar should be linked to gold while other countries' currencies be pegged to the US dollar. The formation of the Bretton Woods system shows that international coordination of the major countries was led by the US. This double-pegged international monetary arrangement makes the US dollar the basis for the valuation of other currencies, not only in reality but also in the international law, thus establishing the hegemony of the US dollar in the global monetary system.

The Bretton Woods system had its inherent defect, i.e. the 'Triffin Dilemma'. In order to maintain the fixed official price of the US dollar and gold and the fixed exchange rate system

[4] The WhitePlan was proposed by the US, declaring that an international stabilisation fund and a revival development bank should be built for post-war reconstruction. This program also refused to provide international liquidity in a loose way.

[5] The Keynesian Plan was proposed by the UK, suggesting the establishment of an international clearing alliance after the war, and the use of the 'bancor' as the currency unit in the international clearing alliance. The 'bancor' should be valuated based on gold, while other currencies be valuated based on the 'bancor'.

between the US dollar and other currencies, the US needed to maintain a current account surplus or balance. But the expansive demand for the US dollar requires the US current account to maintain a deficit to export the US dollar to other countries around the world.

In August 1971, the Bretton Woods system collapsed and the US dollar ceased its fixed price with gold. However, rather than losing the international status due to the lack of endorsement of gold, the importance of the US dollar rose slightly in the international monetary system. In 1977, the proportion of the US dollar in international foreign exchange reserves reached a record high of 79.2%. The US dollar's dominance in the international monetary system at this time was explained by its military capabilities and the oil dollar agreement.

Under the US-led monetary system, some multilateral coordinating bodies such as the International Monetary Fund and the World Bank emerged. According to the International Monetary Fund Agreement and the International Bank for Reconstruction and Development Agreement adopted at the Bretton Woods Conference, the two financial institutions were established in Washington on 27 December 1945. The International Monetary Fund in the Bretton Woods system had three main functions: (1) maintain the adjustable pegged exchange rate system; (2) supervise the balance of payments and provide financial supports; (3) assist in multilateral trade among member states and eliminate exchange rate controls and current account payment restrictions. As to the World Bank, the US used its privileges in the World Bank to enhance its political influence. On the other hand, it also used the World Bank to assist other countries in economic development, with a view to building an open world market that was more conducive to the US.

After the collapse of the Bretton Woods system, the international monetary and financial system fell into chaos, and the international policy coordination mechanism was transformed to be under the leadership of the G7. In 1976, the International Monetary Fund organised the Interim Committee for the International Monetary System and reached the Jamaica Agreement, which gradually gave rise to the international coordination pattern under the G7. This international coordination mechanism played a key role in stabilising the world economic situation, as evidenced by the 1978 Bonn Conference, the Plaza Agreement in 1985 and the Louvre Accord in 1987. During this period, the international coordination underwent a change from being led by a single power, the US, to a mechanism led by the G7, resulting in an international political structure of one superpower and several major powers.

The G7 is a super-national,super-organisationaland super-regional coordination mechanism. The members must have enough economic strength and influence in order to ensure the effectiveness of the coordination. The G7 member countries have strong economic strength to the extent that the results of the coordination can make an impact not only on the seven countries but also on the whole world. As developing countries have become an important force in international politics, global governance calls for the participation of developing countries. In December 1999, the G7 invited the finance ministers and central bank governors of emerging economies to hold their first informal meeting in Berlin, marking the establishment of the G20. The G20 has played a significant role in many areas.

3.3 The internationalization of the Japanese yen

After the Second World War, Japan as a defeated country saw its economy severely weakened. The Japanese government adopted a strategy that took economic growth as paramount and international trade as the foundation. Since 1955, Japan had experienced 20 years of rapid economic development. In 1968, Japan's GDP jumped to the second place in the world. In the process of economic development, Japan had been actively seeking opportunities to make its voice heard in the world political arena. In August 1952, Japan joined the International Monetary Fund and the World Bank. In 1955, it participated in the General Agreement on Tariffs and Trade and the Organisation for Economic Cooperation and Development (OECD). In the 1970s, while Japan's economy already assumed great importance in the world, its financial system remained backward, hindering the further economic and trade development.

After the collapse of the Bretton Woods system, the Japanese yen began to float freely. In 1979, Japan abolished its restrictions on non-residents in joining foreign exchange markets and restrictions on domestic enterprises in obtaining foreign exchange loans. In 1980, it revised the Measures for the Administration of Foreign Exchanges and Foreign Trade, declaring that Japan opened up the financial market, and then actively expanded the overseas banking business. All of these measures greatly promoted the internationalisation of the yen. The share of yen's total foreign exchange reserves rose from 0.1% in 1973 to 7.6% in 1985.

During the internationalisation process of the yen, Japan kept coordinating with the US. The continuous growing trade deficit between the US and Japan had led to a wave of trade protectionism in the US, which urged financial liberalisation in Japan and the yen appreciation. The US was eager to depreciate the dollar because of the continuous dollar appreciation and increasing economic pressure. In order to coordinate the actions between the two countries, the US and Japan held summit talks and established the US-Japan Committee in November 1983. Also, on 22 September 1985, the G5 finance ministers and central bank governors reached a decision to jointly intervene in the foreign exchange market to solve the huge US trade deficit problem, which was known as the Plaza Agreement. The depreciation of the dollar and the appreciation of the yen were sizable. The yen rose by 20% in the following three months, reaching a peak of 120 yen per dollar. As the rapid appreciation of the yen severely hit the Japanese economy, Japan was forced to implement an expansionary monetary policy.

The international policy coordination of Japan in the entire period of the mid-to-late 1980s suffered from a mismatch. More specifically, Japan's international political status mismatched with its economic status. The lack of voice in the international political arena costed Japan a lot when dealing with problems. It was difficult to reach a reasonable internationally coordinated outcome for Japan at the right time.

3.4 The creation and prosperity of the euro

On 25 March 1957, six Western European countries, i.e. Belgium, France, Italy, Luxembourg, the Netherlands and Germany, signed the Roman Treaty, which was a major move to European integration. This treaty not only mentioned the establishment of a common market and the formation of a tariff union, but also discussed the coordination of economic, industrial and trade policies. The participant countries hoped to gradually realise European integration through the establishment of a single market. On 8 April 1965, six countries signed the Brussels Treaty and decided to merge the institutions of European Coal and Steel Community[6], European Economic Community and European Atomic Energy Community[7] into the European Community. On 22 June 1972, the

[6] European Coal and Steel Community was established in April 18, 1951 by France, Belgium, Federal Republic of Germany, Italy, Luxembourg and the Netherlands with the signature of the Paris Treaty.

[7] European Economic Community and European Atomic Energy Community was established in March 25, 1957 by France, Belgium, Federal Republic of Germany, Italy, Luxembourg and the Netherlands with the signature of the Rome Treaty.

European Community expanded for the first time to include the UK, Ireland, and Denmark. In 1992, the European Community officially changed its name to the European Union, marking that Europe began to develop towards a community of economic, political, diplomatic and security affairs.

The euro was launched in 1999. The European search for monetary cooperation began after Second World War. In 1979, eight member states of the European Community (France, Germany, Italy, Belgium, Denmark, Ireland, Luxembourg, and the Netherlands) decided to establish the European monetary system. Under this system, the exchange rates of national currencies fluctuated against the US dollar while remained fixed against other countries. Under this system, the European Monetary Fund managed the foreign exchange reserves paid by participating countries, intervened in the money market, and issued a new currency. This new currency, the European Currency Unit, acted as the European Special Drawing Rights. Since the establishment of the European monetary system in 1979, Germany had always occupied the largest share of the European Currency Unit, which established Mark's central role in the European monetary system.

After the birth of the euro, the proportion of euro in the global foreign exchange reserves rose from 18% in 1999 to 27% in 2008. With the participation of Estonia in the Eurozone on 1 January 2011, the number of the Eurozone members increased to 17. However, due to the Greek sovereign debt crisis, the eurozone has to face the biggest threat since its inception.

There are multi-dimensional policy coordination and cooperation in the European region. In terms of monetary policy coordination, the European Central Bank system has gradually established since 1997, consisting of the European Central Bank and the Central Banks of the member states of the Eurozone. A unified monetary policy is implemented by the European Central Bank. As the institution that issues and directly manages the euro, the European Central Bank plays an unquestionable role. It is not subject to any government agencies in formulating monetary policy, so it can freely choose a monetary policy to guarantee the long-term economic development of the eurozone countries.

Different from the unified monetary policy, fiscal policies among EU countries are relatively decentralised. The Maastricht Treaty, signed in 1992, lays three requirements for the finance of the member states, including fiscal discipline, independence, and coordination mechanism. The 1997 Stability and Growth Pact requires countries to assume the obligations of the medium-term fiscal balance and regulate the early warning mechanisms and punishment mechanisms for fiscal budget deficits. If the member states' economic output falls by 0.75-2% or the budget deficit is greater than 3% of the GDP, it is considered a serious economic recession. If the member states do not take any timely remedial measures, a disciplinary mechanism will be initiated.

The biggest problem in the EU policy coordination lies in the contradiction between unified monetary policy coordination and relatively decentralised fiscal policies. The unified monetary policy ensures the management of liquidity free from considering the restrictions of one single country's goal but leaves problems in fiscal policy. Countries in the EU can not use monetary policy to balance fiscal policy.

4. Conclusion

Based on the above analysis of the theoretical logics and historical experience of policy coordination during the process of international monetary system transition, we can arrive at the following conclusions:

First, since the policy coordination and currency internationalisation have a complementary relationship, it is necessary to improve macroeconomic policy coordination in the process of currency internationalisation. The US, Britain, and Europe all pursued policy coordination, which finally stabilised the international economic and financial situation and maintained a stable monetary system. Only through global macroeconomic policy coordination, can we ensure the effectiveness of macroeconomic policies, weaken the negative externalities, and achieve global optimality.

Second, the content of international economic policy coordination is not static. It changes with the international monetary system. Due to the change in the world economic structure and monetary status, the initial coordination mechanism may not be able to achieve desirable results, thus necessitates the establishment of a new coordination mechanism. The historical experience shows the point. The policy coordination during the gold standard period was mainly based on direct economic assistance. And the dollar-centred Bretton Woods system used the International Monetary Fund and the World Bank to regulate the new international economic and financial order. As the Bretton Woods system collapsed, the international coordination system could no longer be dominated by the US, as a result a coordination mechanism centring around the G7 was established. The key issue of coordination in the Japanese yen internationalisation is the exchange rate with the

US dollar. The coordination among eurozone countries focusses on the contradiction between centralised monetary policy and relatively decentralised fiscal policy.

Third, monetary policy, fiscal policy, and regulatory policy all have spillovers. If not coordinated probably, the spillover effect will weaken the effectiveness of these policies. Therefore, it is necessary to obtain a multi-level coordination mechanism. The multi-level coordination mechanism means that all policies should be taken into account and the consultation, supervision, and the disciplinary mechanism need to be combined together.

Based on the above conclusions, we propose the following policy recommendations to promote RMB internationalisation and realise a better international policy coordination mechanism：

First of all, China should pay attention to the improvement of policy coordination mechanism. Monetary policies, fiscal policies, and other economic policies all have strong externalities. And spillover effects require international coordination so as to maintain policy effectiveness.

In addition, it is a wise choice to build a diversified international platform. Under the economic globalisation and regional economic integration, the degree of interdependence between countries has increased remarkably, and the spillover effects have become more apparent. Therefore, the coordination institutions should be expanded to include more developing countries. As mentioned earlier, RMB internationalisation is conducive to improving the existing international monetary structure and building a diversified coordination platform.

Finally, it is a good chance to take the Belt and Road Initiative as an opportunity to accelerate economic coordination and RMB internationalisation. When China issues RMB-denominated Silk Road Bonds for the Belt and Road infrastructures, it becomes more convenient to obtain and use RMB. The Belt and Road Initiative is also an important platform for China to participate in international policy coordination. In the implementation of the Belt and Road Initiative, China can strengthen cooperation with third-party international institutions such as the World Bank, the Asian Development Bank, the African Development Bank, and the European Bank for Reconstruction and Development. With such cooperation, countries will be able to improve existing coordination mechanisms based on the problems they face in the real world.

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