

# Policy Research Center Research Project Accomplishment Report

Date: 2017/2/2

	Name	Title	Affiliation
<b>Project Leader:</b>	CHEY Hyoung-kyu	Associate Professor	GRIPS

**Research Project Title:**

A study of the first users of a newly-emerging international currency

**Project duration:**

2016/4/1 ~ 2018/3/31 2年間

**Project Participants:**

	Name	Title	Affiliation
Leader	CHEY Hyoung-kyu	Associate Professor	GRIPS
Participant 1	KIM Geun-Young	Team Head	The Bank of Korea
Participant 2	LEE Dong Hyun	Senior Economist	The Bank of Korea

**Project aims and goals:**

The remarkable progress in internationalization of the Chinese renminbi (RMB) since the 2008 global financial crisis, along with mounting skepticism about the dollar, have given rise to a new wave in the study of currency internationalization and attracted a large number of political economists in addition to the economists who have traditionally dominated analysis of this topic. A majority of this new research places its analytic focus on the issue of whether the dollar will maintain its status as the dominant international currency, or if the RMB will instead replace it or substantially challenge its standing.

Despite the recent abundance of research on currency internationalization, most studies have however been largely silent on the key related issue of who the first users of a newly-emerging international currency are. The internationalization of any currency tends to proceed unevenly across countries, however. In the beginning stages the convenience of such a currency's use is in fact unlikely to be high, and its overall economic attractiveness will tend to trail that of the incumbent key international currency, which enjoys well-established transaction networks. It is thus in general costly to be the first to use a newly-internationalizing currency. Nonetheless, certain foreign actors do begin to use a newly-internationalizing currency earlier than others who take wait-and-see approaches. And the internationalization of that currency is thus initiated by these particular first users of it.

The issue of who are the first users of a newly-internationalizing currency is therefore a crucial one for the understanding of currency internationalization, addressing the dynamics of emergence of a new international monetary order. And our study analyzes this salient question from a variety of perspectives.

The analytic focus of our research on the users of international currencies leads it to employ a demand-side analysis, in contrast to the majority of currency internationalization studies which tend to adopt supply-side approaches concentrating on the economic and/or political conditions of the states issuing international currencies.

**Accomplishment of Project(in 400 words):**

As we planned, in the first year of our research we conducted a quantitative analysis that addressed the question of which countries had been the first users of the Chinese renminbi. Our dependent variable was the level of establishment of infrastructures supporting renminbi use, which was measured on a three-point scale. Our primary explanatory variable was a country's status as a global financial center, which was a categorical variable measured under a seven-point scale. Our other explanatory variables included economic integration-related variables, economic cooperation-related variables and political relations variables. Given that our dependent variable had more than two categories, and that the values in each category had meaningful sequential orders, we ran cross-country generalized ordered logistic regressions, which identified partial proportional odds models that fit the data.

Our primary finding is that a state hosting a major global financial center—a condition largely independent of influence from countries issuing international currencies—is likely to be more interested in enhancing its use of the renminbi. This finding implies that global financial institutions and the related inter-state rivalries among international currency users may play crucial roles in the shaping of a new international monetary order. Along with this primary finding, our study has also found a strong positive impact of a country's institutional economic cooperation with China, through a preferential trade agreement or a bilateral investment treaty, on its government's policy regarding use of the renminbi. Our analysis has in addition shown some support for a negative association between a country's security ties with the United States and its use of the Chinese currency. Meanwhile, and contrary to the prevailing anticipations in the literature, we have found as well that on the whole a country's market-driven economic integration with either China or the United States does not substantially affect its government's policy toward renminbi use.

These research findings have been presented in various International Relations and Economics conferences during AY2016, including the 2016 International Studies Association Asia-Pacific Conference, Hong Kong, the 2016 Japan Association of International Relations Annual Convention, the 2016 Asia Pacific Conference, the 2016 World Finance & Banking Symposium, the 2016 Korean Association of International Studies Annual Convention, and the 2017 Korean Economic Association Annual Conference.

Accomplishment:

[Please fill in the list of Accomplishment](#)

Other things to report:

## List of Accomplishment

(including forthcoming)

**Article**

Academic papers (including those published in general journals)

\*For collaboratively authored papers, please underline your name.

1	Author	6 in total	Publisher	The number of referred article	0	Start page	Finish page	Referee Report (yes=1)	0	DOI	0
		Title		Vol/No/ Page	Date of Publications				International joint authorship (yes=1)		Open Access (yes=1)
1	<u>Chev, Hyoung-kyu</u> , Geun-Young Kim and Dong Hyun Lee	Who Are the First Users of a Newly-emerging International Currency? A Demand-side Study of Currency Internationalization	2016 International Studies Association Asia-Pacific Conference, Hong Kong		2016/6/27	-					
2	<u>Chev, Hyoung-kyu</u> , Geun-Young Kim and Dong Hyun Lee	Who Are the First Users of a Newly-emerging International Currency? A Demand-side Study of Chinese Renminbi Internationalization	2016 Japan Association of International Relations Annual Convention		2016/10/14	-					
3	<u>Chev, Hyoung-kyu</u> , Geun-Young Kim and Dong Hyun Lee	Who Are the First Users of a Newly-emerging International Currency? A Demand-side Study of Chinese Renminbi Internationalization	2016 Asia Pacific Conference		2016/11/5	-					
4	<u>Chev, Hyoung-kyu</u> , Geun-Young Kim and Dong Hyun Lee	Who Are the First Users of a Newly-emerging International Currency? A Demand-side Study of Chinese Renminbi Internationalization	2016 World Finance & Banking Symposium		2016/12/15	-					
5	<u>Chev, Hyoung-kyu</u> , Geun-Young Kim and Dong Hyun Lee	Who Are the First Users of a Newly-emerging International Currency? A Demand-side Study of Chinese Renminbi Internationalization	2016 Korean Association of International Studies Annual Convention		2016/12/3	-					
6	<u>Chev, Hyoung-kyu</u> , Geun-Young Kim and Dong Hyun Lee	Who Are the First Users of a Newly-emerging International Currency? A Demand-side Study of Chinese Renminbi Internationalization	2017 Korean Economic Association Annual Conference		2017/2/10	-					
7						-					
8						-					

**Book**

\*For collaboratively edited or authored books, please underline your name.

\*If you are an author of a chapter in a book, please report in "Article" category.

1	Author	0 in total	Publisher	Date of Publications	Total pages
		Title			
1					
2					
3					
4					
5					
15					

**Verbal Report**

\*Please report peer-reviewed academic conference papers in "Article" category. Please report non-peer-reviewed academic conference papers "Verbal Report" category.

1	Name	2 in total	Name of the workshop	Report Date	Venue
		Title			
1	<u>Chev, Hyoung-kyu</u> , Geun-Young Kim and Dong Hyun Lee	Who Are the First Users of a Newly-emerging International Currency? A Demand-side Study of Currency Internationalization	RIETI Research Meeting "Exchange Rates and International Currency," Research Institute of Economy, Trade and Industry	2016/7/22	
2	<u>Chev, Hyoung-kyu</u> , Geun-Young Kim and Dong Hyun Lee	Who Are the First Users of a Newly-emerging International Currency? A Demand-side Study of Chinese Renminbi Internationalization	Seminar at the Bank of Korea	2016/9/27	
3					
4					
5					