

Accounting & Finance PhD Research Topic

Political and economic uncertainty, foreign reserves accumulation and cross-market volatility spillovers

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Abstract

The accumulation of foreign exchange reserves in Asian economies, led by China and Japan, has continued on an unprecedented scale for the past several decades, which is on general perception too large to be justified by precautionary motives. The US dollar has been the dominant international reserve currency with its outsized role in global trade invoicing, international debt, and cross-border borrowing and lending. Yet with rise of nontraditional reserve currencies and internationalization of Chinese RMB, US dollar hegemony has been declining since the end of the 1990s. This research project aims to empirically and systematically investigate what factors determine the currency composition of central bank reserve portfolios, and drive the foreign exchange reserve hoarding in these Asian countries, and how exogenous shocks (political & economic uncertainty) affect their reserve hoarding behavior and the cross-market & cross-border volatility spillovers in the context of the regional financial market integration and Chinese RMB internationalization.

Further Details

The research project is expected to develop a theoretical framework in a multi-country and multi-market settings by incorporating both exogenous and regional shocks and some unique institutional features in the concerned region suitable for modelling the particular effects of political and economic uncertainty on the accumulation behavior of foreign exchange reserves and the currency composition of central bank reserve portfolios. It can be an empirical study limited to a particular country or a country pair, and can also apply to the East Asian region. Advanced econometric techniques are essential to conduct this research.

The following indicative research questions arise from the outline above and form the initial basis of this MBR/ PhD research project.

1. Are high foreign exchange reserve balances essential and/or desirable for economic growth?
2. What factors drive the foreign exchange reserve hoarding and the reserve currency composition? How do exchange rate fluctuations and changes in the relative values of different government securities affect the currency composition of central bank reserve portfolios?
3. How do the rise of nontraditional reserve currencies and internationalization of Chinese RMB affect the US dollar hegemony in the global market?
4. What are the regional and global impacts of such reserves hoarding on the cross-market & cross-border volatility spillovers given the financial market integration?

The following articles help provide a backdrop of the literature pertaining to this field.

References

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2. Gopinath, G. & Stein, J. (2021). Banking, Trade, and the Making of a Dominant Currency. *Quarterly Journal of Economics* 136, 783–830
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7. Jiang, X.D., Shi, Y.L. & Zhang, Z.Y. (2021). Does US Partisan Conflict Affect China's Foreign Exchange Reserves? *International Review of Economics & Finance*, 75, 21–33.
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Desired skills: Qualitative research, Quantitative research

Project Area: Accounting and Finance

Project level: PhD or MbR