The international system of economic governance is at a turning point. After 70 years, the Bretton Woods institutions – the International Monetary Fund and the World Bank –appear creaky, with their very legitimacy being questioned in many quarters. If they are to remain relevant, real changes must be made.

The IMF, in particular, is facing challenges on all sides. In the United States, Congress is stalling not only on international issues like trade, but also on the implementation of reforms that would expand the role of emerging economies in the IMF. For its part, Europe has drawn the organization into its debt crisis, with Greece having already missed a payment on its IMF loans (though the Fund is not calling it a default). And, in Asia, the IMF still carries a stigma, because of its flawed response to the region's financial crisis in the late 1990s.

How can the IMF reprise its role as a guardian of international financial stability? One solution could be to adjust its international reserve asset, the Special Drawing Rights (SDR), by adding the Chinese renminbi to the basket of currencies that determines its value.

The SDR was created in 1969 to help protect the world against the dangers of a liquidity shortage. At first, its value was equal to that of the US dollar, which was defined in terms of a specific weight of gold. But when US President Richard Nixon ended the dollar's international convertibility to gold in 1971, much of the world moved to a floating exchange-rate system in which the value of any given currency can fluctuate wildly.

In order to stabilize the SDR's value, policymakers decided in 1974 to base it on the currencies of the 16 countries that represented at least 1% of global trade. But, given that many of those currencies were not widely traded, the large currency basket proved ineffective. The SDR became a poor option for storing value, with a lower yield than other reserve assets.

In 1981, the SDR basket was revised to include only the currencies of the biggest global economic actors: France, Germany, Japan, the United Kingdom, and the United States. The new composition was simple enough to be understood easily by investors and stable enough to withstand swings in exchange rates. The basket was streamlined further when the euro replaced the French franc and the Deutsche mark.

Yet, since the world has not faced a real liquidity shortage since 1971, the SDR's use as a global reserve asset has remained limited. Before the recent global financial crisis, the SDR accounted for only 0.5% of international reserves. Even after substantial allocations in 2009 – intended to supplement IMF members' foreign-exchange reserves and strengthen their capacity to weather the crisis – its share peaked at a mere 3.7%. In short, the SDR is used less as a reserve asset than as the IMF's own unit of account.

Nonetheless, the SDR can be of real value, serving as a stable reference unit at a time of increasing exchange-rate volatility. Since January, when Switzerland responded to the euro's depreciation against the dollar by abandoning its peg to the European currency, the country's economy has experienced a downturn. This highlights the value of a stable unit to which smaller economies can peg their currencies, especially at a time of increasing exchange-rate volatility.

Of course, if the SDR is to assume this role, it must be used more widely. Most importantly, it should be traded privately and used as a basis for private credit. Under these circumstances, however, the SDR basket would need to be more comprehensive, including the currencies of large emerging economies, beginning with China.

Contrary to what some opponents say, the Chinese renminbi meets the requirements of joining the SDR basket. For starters, it is now a truly global currency. One-quarter of China's massive international trade (the country is the world's second-largest exporter, accounting for one-eighth of global exports) is invoiced in renminbi.

Furthermore, the renminbi now meets the requirement – which it did not in 2010, when China first tried to have its currency added to the SDR basket – of being "freely usable." Since the introduction of a series of domestic reforms aimed at increasing the renminbi's use in international payments, the currency has become the fifth most used for that purpose, accounting for over 2% of such transactions. That may not seem like a large share, but it is less than one percentage point below that of the Japanese yen.

The one sticking point that remains is that the renminbi is not freely convertible, with China's government having yet to eliminate capital controls. But, in recent years, the IMF has revised its stance on capital controls, acknowledging their usefulness under certain circumstances. And major central banks have lately been moving toward so-called "macro-prudential" regulation, which amounts to a mild form of capital controls.

This year, the US dollar has appreciated against almost every currency, with one notable exception: the renminbi. This is evidence that China is steadily, if slowly, moving toward a market-dictated exchange rate – precisely the kind of evidence that could spur investors to advocate for a global asset.

The logic behind the SDR's creation was sound: The world needed an international reserve asset that mirrored global trade. But the plan's execution has been flawed. The original SDR basket was too broad, just as the current version is too narrow. And the focus on officially held assets ignored the SDR's potential value in private markets. These flaws should now be corrected.

If the IMF is to remain relevant at a time of rapid economic transformation, it must adapt. By adding the Chinese renminbi – and perhaps other emerging-market currencies – to the SDR basket, it would demonstrate its willingness and ability to do just that.