

## Comments of the Government of Japan

### Review Session on Chapter VI of the Monterrey Consensus

“Addressing systemic issues: enhancing the coherence of the international monetary, financial, and trading systems in support of development”

General Assembly

12 March 2008

As stated in the Monterrey Consensus, there is an urgent need to enhance the coherence, governance and consistency of international monetary, financial and trading systems in order to complement national efforts for development and poverty eradication. We also recognize that the coordination of macroeconomic policies among leading industrial countries and multilateral financial institutions, in particular the IMF, is critical to greater international financial stability.

#### 1. The world economy and the role of Japan

The statement of G-7 Finance Ministers and Central Bank Governors issued in Tokyo on 9 February candidly admits that the world is facing a more challenging and uncertain environment than it did last October, but it also states that fundamentals of the global economy as a whole remain solid. More importantly, the ministers and governors declare that they are deeply engaged in working together to strengthen financial stability, limit the impact of the financial turmoil and address the factors that contributed to it.

As the second largest economy in the world, Japan has always been ready to shoulder its responsibilities, and it will continue to be ready to do so in the future. Although the Japanese economy stalled for some time, we have been engaged in decisive action, pushing through reforms aimed at invigorating the private sector. Japan’s major financial institutions once again stand on solid financial ground and thus can provide a steady flow of capital. Policymakers around the world may well learn lessons from Japan’s painful experiences after the bursting of its “bubble economy” of the early 1990s: a swift response is imperative, and potential credit crunches should be prevented.

It goes without saying that all countries share responsibility for promoting the prosperity and sustainability of the world economy. This is especially true in light of the new reality, which includes the growing power of emerging economies and increasing flows of private capital. While we recognize that the world economy can benefit from openness to investment by sovereign wealth funds, we see merit in identifying best practices for both investors and recipients. Reducing global imbalances is fundamentally a multilateral challenge, and resolving them in a manner compatible with sustained robust global growth is also a shared responsibility.

## 2. The role and reform of the IMF

The role of the IMF as a central player in the international effort to supply liquidity at times of financial crisis remains indispensable. Equally important is the role the Fund plays in preventing financial crises. In that effort, effective surveillance is clearly the first step that must be taken.

In order to enhance the legitimacy and effectiveness of the IMF, it is important to better align quotas of member countries with their relative position in the world economy. An outcome of the second round of reforms should be a further increase in the voting share of emerging market and developing economies as a whole.

## 3. Regional framework

Regional financial arrangements can complement the international financial system, make individual economies more resilient, and play a role as a mechanism in any effort to prevent financial crises. Under the Chiang Mai Initiative, the Bilateral Swap Arrangement network set up by the eight East and South-East Asian countries has increased to US\$84 billion.

This initiative is expected to address short-term liquidity difficulties in the region and to supplement the existing international financial arrangements. In order to avoid the double mismatch of maturity and currency that exacerbated the East Asian financial crisis and recycle high savings into economic growth, comprehensive studies are being conducted under the Asian Bond Markets Initiative on the value of taking steps such as promoting the securitization of loan credits and receivables and exploring new debt instruments for infrastructure financing.