



# **G20 Initiatives and the Role of the IMF**

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# G20 Initiatives

- **Declaration by the Leaders of the G20**

(November 15, 2008)

1. Root Causes of the Current Crisis
2. Actions Taken and to Be Taken
3. Common Principles for Reform of Financial Markets
4. Tasking of Ministers and Experts
5. Commitment to an Open Global Economy



# Common Principles for Reform of Financial Markets

- Strengthening **Transparency and Accountability**
- Enhancing **Sound Regulation**
- Promoting **Integrity** in Financial Markets
- Reinforcing **International Cooperation**
- Reforming **International Financial Institutions**



# What is the New Approach?

- **Free market** economy or **regulated** economy?
  - Reforms will be successful only “if grounded in a commitment to **free market principles**, including the rule of law, respect for private property, open trade and investment, competitive markets, and efficient, effectively regulated financial systems”.
- Nevertheless, there are areas where **regulations and supervision are insufficient or lacking**.
- More fundamentally, market participants are becoming increasingly **global in its operations**, while regulations and supervision are **limited by the national boundaries**.
  - Need for strengthening cooperation and coordination.



## Will the G20 Replace G7/8?

- The G7 can no longer play a dominant role; other major players are also becoming important.
- At the same time, “**formal**” governance structures (such as the UN, IMF, World Bank) will remain.
- The G20 can not be the formal governance structure.
- “**Informal**” governance structures need to be flexible (G20, G8/7, G4?, G2s).
- Opportunities and responsibilities **must be shared**.



# Global Governance in a Broader Context

- G20 Initiative is not a panacea.
- The current global governance structure is **fragmented and specialized** without an overview.
- A new Bretton Woods?
- The role to be played by **the United States** should not be underestimated.
  - The U.S. can not solve the problems alone; and the problems we face can not be solved without the U.S.



## Why is an IMF Reform Needed?

- Has the IMF become irrelevant?
- Why was the IMF not able to prevent the global financial crisis?
- Was the IMF behind the curve?
- What is the role to be played by the IMF?
- Can the IMF prevent a “reversal of globalization”?



## Five Areas of IMF Reform

- How to ***prevent crises***.
- How to strengthen its role in ***financial sector issues***.
- How to provide ***effective assistance*** in a timely manner.
- How to ensure ***sufficient amount of resources***.
- How to ensure ***legitimacy and effectiveness***.



## (1) How to Prevent Crises

- Should be able to **identify vulnerabilities** and anticipate **potential stresses**.
- Need to **strengthen surveillance** and enhance its **effectiveness**.
  - Persuasion through dialogue and peer pressure.
- Requires **strong political will** on the part of members.
- Can the IMF prevent “de-globalization” and “financial mercantilism”?



## (2) How to Strengthen Its Role in Financial Sector Issues

- Efforts already made:
  - Integration of macro and financial sector issues.
  - Financial Sector Assessment Program (FSAP)
- Need further improvements in:
  - Developing expertise in financial sector issues.
  - Changing the culture.
- Need to coordinate with the Financial Stability Forum (FSF), the BIS and other standard setting bodies.
  - Developing an early warning system.
  - Involves global governance issues.



## (3) How to Provide Effective Assistance in a Timely Manner

- Criticisms against IMF lending
  - Too time consuming, too small amount, too much conditionality, phased disbursement.
- The new short-term liquidity facility
  - Quick, 500 percent of quota, only ex ante conditionality, outright purchase.
- How to strike an **appropriate balance** between being attractive to potential borrowers and safeguarding IMF resources.
- Desirable to have **intellectual inputs** from Asian members.



## (4) How to Ensure Sufficient Amount of Resources

- The IMF had sufficient amount of resources (**\$200 billion**).
- But, about  $\frac{1}{4}$  of this amount (**\$44 billion**) was already committed for four countries (Ukraine, Hungary, Iceland and Pakistan) in November.
- Additional resources (over **\$56 billion**) can be drawn through borrowing arrangements with members (GAB and NAB).
- Nevertheless, there is a need to increase IMF's lendable resources, as contingency.
  - An SDR allocation;
  - A substantial increase in the IMF quota;
  - Market borrowing; or
  - Bilateral contributions, such as the Japanese proposal (**\$100 billion**).
- **Constructive contributions** from Asian members are called for.



## (5) How to Ensure Legitimacy and Effectiveness

- The **governance structure** of the IMF needs to adequately reflect the changing economic weights in the world economy.
- **Quota increase** is an opportunity to provide greater voice and representation for dynamic member countries whose economic weights have increased.
- An important milestone **agreed in April 2008.**
  - But, calls to set aside/cancel this agreement are being made.
  - Need for an early ratification of the agreed reform.
- **A commitment at the political level** is needed for further realignment.
- Dynamic members need to **shoulder more burden** in bringing about financial and economic stability on a global basis.



## What is the Role to be Played by Asian Members?

- Maintain steady economic growth through sound economic policies.
- Strengthen regional cooperation/coordination.
- Play proactive and constructive roles in the global governance process.
- In an Asian Monetary Fund (AMF) a viable option?