Speech by Rintaro Tamaki, Vice Minister of Finance for International Affairs, Ministry of Finance, Japan

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My speech touches upon two issues; international safety net and the role of the IMF.

First of all, I would like to congratulate the Bank Indonesia, the Investment Coordinating Board of Indonesia and the IMF on hosting this event. It is not only a timely one but also a consequential one, reflecting significant changes in both of the hosts during the last decade.

The first change is in the Indonesian economy. When I was in charge of Indonesian assistance in Tokyo from 2000 to 2002, Indonesian economy was totally depressed and it was struggling with implementing many reforms under the IMF program, which was really difficult process to anyone, both Indonesians and donors. While discussing with the Fund staff, I learned a phrase "muddle through". Indonesia was, and we were, muddling through, day by day, week by week. The current economic situation of this country is, of course, beyond compare. I do not need to spell out marvelous economic growth of this country at all.

We also see significant changes in the IMF side. To name a few, quota reforms with more representation of emerging economies, conditionality reform, expanded resource base and new facilities to address the global crisis.

With these changes in both sides, it is most welcome to see this joint undertaking by Indonesia and the IMF. Appreciation should be given to efforts made by both of you. I really hope Asian countries to further collaboration and dialogue with the IMF.

It is no doubt that coping with the large scale capital flow is an imminent challenge that many emerging economies are facing. The Japanese Finance Ministry hosted a workshop of ASEAN+3 countries in January to share the experiences of members and discuss about possible policy framework to deal with this situation. The workshop was a regional one but with the participation from outside of the region, Australia, Brazil and India. The IMF and the ADB also made valuable input. I see some of the participants be here today.

The workshop did not aim to arrive at any conclusions, but many stressed the importance of the "policy mix" approach, that is, macro-policy measures and CFMs could be employed in an integrated way and CFMs should not be regarded as stand alone policy measures.

It was also emphasized that policy response need to be tailored to the country specific situation, including the historical experiences and public conception in the past crisis and their influence over economic policies.

The participants were also very mindful of the cost of CFMs and of difficulty of preventing those measures from becoming permanent ones.

Though the focuses of today's conference are the prospects for capital flows and policy options to harness the opportunities and manage the risks, as Professor Frankel told us this morning, the current boom will not last forever and we need to beware exogenous conditions. I am not at all a sensationalist, but even the best mix of good macro-economic policies and appropriate CFMs cannot be panacea for the future stability. We need to be conscious of having a kind of international safety net, for open emerging economies, which are susceptible to the changes in capital flows in a regional or global scale. It should be designed to fit with the current global economic situation and be applicable only to countries implementing good policies.

Asia has regional financial mechanism of Chaing-Mai since 2000, as a safety net arrangement, in principle, to supplement the IMF credit, broadly based upon our shared experience in 1997/98 crisis.

Since the crisis arose in 2008/09, however, IMF has developed new policies and instruments with enhanced financial resources to respond to the new challenges posed by the crisis.

What are the lessons drawn from the global crisis?

Are there any new elements to be incorporated into the existing regional

financial cooperation mechanism?
We are required to respond to these questions.

In my tentative observation, four new elements are to be considered. Early, swift, large and collaborative. The possible mechanism may need to come at an earlier stage to prevent the crisis from happening, namely it should have a kind of precautionary function. The mechanism should be placed swiftly to prevent contagion. The resources mobilized need to be larger than once we expected. Mexico, only 20 per cent bigger economy than Indonesia, has established $72 billion credit line with the IMF. Finally further enhanced collaboration between regional and global mechanism is strongly requested.

I believe that the region should launch the discussion about how to meet those challenges in order to address possible future crisis in more efficient and effective way. We should prepare a new umbrella on a fine day before dark clouds approach.

In the second half of my speech, let me touch upon the role of the IMF in the management of capital flows.

Japan has been advocating thorough review of the purposes and missions of the IMF prescribed in its Articles of Agreement. The IMF was established as an institution to address balance of payment problems more than six decades ago, and the Articles of Agreement still put predominant weights on the side of current account. In my view, this raises questions towards its appropriateness to today's international monetary system in two aspects.

First, the IMF would need to specify financial stability in its mandate more clearly under the Articles of Agreement. One of the lessons from the recent crisis is that the stability of the financial system is an essential element for macroeconomic stability. We witnessed that dysfunctional financial systems can have immediate and extremely negative impacts on the global economy through international financial markets. By adding financial stability in its mandate, the IMF could further improve its surveillance function.

Second, it might be time to revitalize our discussion on the role and responsibilities of the IMF over international capital flows, in other words, on the side of capital account. I used the word of "revitalize", since the member countries of the IMF made similar efforts in the late 1990s. I was the Director of the division in charge of the IMF in 1997-98, and followed these discussions. Let me explain how it went.

Right before the outbreak of Asian financial crisis, the IMF started extensive discussion on possible amendment of the Articles of Agreement in respect of international capital flows. The Interim Committee of the IMF in April 1997 agreed that "the Fund's Articles should be amended to make the promotion of capital account liberalization a specific purpose of the Fund and to give the Fund appropriate jurisdiction over capital movements", and "asked the Executive Board to continue its work in this area with a view to making specific recommendations on key elements of an amendment." The Executive Board responded to this request by starting its deliberation on texts for the possible amendments. At the time of the Interim Committee in April 1998, it reached the provisional agreement on the Article one, which defines the purpose of the IMF.

Nonetheless, the Executive Board could not reach consensus on how to specify responsibilities of members and jurisdiction of the IMF on international capital flows, including the amendment of the Section three, Article six, which specifically allows members to regulate international capital movements. Eruption of the Asian financial crisis and the criticism toward the IMF on its response shadowed these discussion, as many member countries became cautious about a liberalization-centric approach, advocated by the IMF at that time, and shifted their focus towards considering appropriate sequencing of capital account liberalization as well as sharing various countries' experiences of capital account regulation. In this way, the discussion of the amendment lost its momentum.

After more than ten years, the role of the IMF regarding cross-border capital flows has come back as an agenda, as evidenced by today's conference. During this period, the IMF has implemented various reforms in its governance, surveillance, and lending facilities. With this in mind, I believe that we should not shy away from deliberation of possible amendment of the Articles of Agreement so that the IMF could be fully equipped with mandate more suitable for today's international momentary system.

I am closing my speech to thank again Indonesia and the IMF for organizing this event.
Thank you.

As Je-Yoon of Korea talked last night about his honeymoon, allow me to spend a minute for my own story.
I got married nearly 30 years ago, in 1982, when I was working as a head of tax office in Hokkaido. It was a kind of training for MoF officials to give office management skill, and I directed the office with 75 staff addressing many troubles inside and outside the office. It was not easy task for 28 years old guy.
I decided to get married and hoped to go to Paris of France for honeymoon,

because my wife and I met in Paris. Then I asked my boss in the National Tax Administration to give me two week off to go to Paris, but he said no. I explained to him Paris is a special place to us but he insisted that Paris is too far and two weeks are too long. I was indignant at such a blunt no, but as an obedient fellow I instantly switched my idea to go to a south island, Bali, nearer destination. I asked my boss, “then what about Bali for one week off?” My boss was so confused with the new idea and said with angry “Mr. Tamaki, I said NO to go to Paris. You do not follow my indication?” It was because “Paris” and “Bali” sound similarly in Japanese and Bali was not well-known 30 years ago.

My boss reluctantly gave me permission to go to Bali for one week and we had a wonderful memory in this beautiful island.

Eventually my boss proved to be right not let us go to Paris for honeymoon for two weeks. A few months after the marriage and honeymoon in Bali, I was recruited by the OECD, Paris-based organization and we spend three-year honeymoon in Paris.