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Statement by the Hon. **MASARU HAYAMI**,  
Alternate Governor of the Fund and the Bank for **JAPAN**,  
at the Joint Annual Discussion



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**I. Introduction**

Mr. Chairman and members of the Board of Governors.

I am very pleased to have this opportunity today to address the IMF-World Bank Annual Meetings as Alternate Governor for Japan.

Before moving on to the main part of my address, I would like to offer a warm welcome to Mr. Köhler, who is attending the Annual Meetings for the first time since taking on the important role of Managing Director of the IMF. Japan fully supports Mr. Köhler's vigorous efforts to reform the IMF, and we hope that he will continue to show leadership in tackling important challenges, such as IMF reform, in close cooperation with the member countries.

**II. The World Economy**

Mr. Chairman, we are very pleased to note that the world economy is continuing its strong growth and moving into a new century of prosperity. Robust growth in the United States has been leading the world economy, supported by expansion in Europe and Japan's nascent recovery. The IMF has revised upward its world economic growth forecast by 0.5 percent to a ten-year high of 4.7 percent. New fields, such as information technology, have emerged which are expected to accelerate new growth and to trigger explosive economic development.

Unfortunately, the recent volatile movement in crude oil prices may have an undesirable effect on the growth of the world economy. I believe the stabilization of oil prices is an indispensable condition for the continued growth of the world economy. In light of rising world demand, we call for appropriate increases in supplies and other necessary measures to promote long-term price stability, as this is in the mutual interest of oil producing and consuming countries.

In order to avoid abrupt macroeconomic adjustment while maintaining the conditions for the current favorable world economy, we think that the continued implementation of appropriate macroeconomic policies in each country, as well as efforts to promote the kinds of structural reforms that can bring about the growth and development of new fields, will be essential.

The Japanese economy continues to improve gradually, thanks to various policy measures. There have been some encouraging signs of recovery in the corporate sector. Reflecting these developments, the IMF has revised the Japanese growth forecast upward to 1.4 percent from 0.9 percent, the figure predicted in the spring. The supportive macroeconomic policy will be continued to put the economy on a self-sustaining recovery track led by private demand, which is expected to take over the current role played by public demand. As for fiscal policy, the Prime Minister has instructed the government to formulate a package of economic measures. Accordingly, the cabinet will submit a supplementary budget to the current session of the Diet. On the monetary policy front, we intend to continue the current accommodative policy stance.

The Asian economies received a severe blow during the currency and financial crises, with many recording significant negative growth rates in 1998. In 1999, however, almost all of these countries achieved positive growth rates. Their recovery has been remarkable, even though the speed of recovery has varied somewhat from country to country.

The Bretton Woods system was established about fifty-five years ago. Since then, the rapid development and economic success of the Asian economies have dramatically changed the relative weight of various regions in the world economy. For example, the Asian economies' share of total world GDP accounted for only about 10 percent in the early 1950s but has now reached about 25 percent, according to IMF statistics.

### **III. Toward the Prevention of International Financial Crises and the Enhancement of Policies and Measures Against Crises**

#### *Strengthening the international financial architecture*

With the changing international financial environment and the increased importance of the role of private capital markets in meeting the funding needs of developing countries and emerging market economies, it is vital for us to continue to review the role and functioning of the international financial institutions (IFIs). To cope with these changes, the IMF will have to maintain, or even strengthen, its function as a kind of international lender of last resort in crises caused by temporary shortages of liquidity. It is also important for the IMF to continue to perform its traditional cooperative function of supporting the structural reform efforts of members with balance of payments difficulties but who are not facing a crisis.

Substantial progress has been made recently in strengthening the international financial architecture, including reform of the IMF. Under the leadership of Mr. Köhler, major issues, including reform of the IMF, have been intensively discussed. The Interim Committee was replaced this spring by the new, permanent International Monetary and Financial Committee. As the current chair of the G-7, Japan issued a report on Strengthening the International Financial Architecture at the Kyushu-Okinawa Summit Meeting and has been making a substantial contribution to the efforts of the entire

international community toward architecture reform. While I appreciate the efforts made so far, I would like to emphasize the need to intensify our efforts.

First, strengthening IMF surveillance is crucial in crisis prevention. Surveillance should focus on the following four core areas: macroeconomic policy, capital flows, structural issues related to macroeconomic stability, and exchange rate regimes.

Second, in promoting the implementation of internationally agreed standards and codes, it is essential that the IMF, in close cooperation with the other international institutions and fora, take a leading role in the coordination of standards assessment in broad areas.

Third, the streamlining and rationalization of the IMF's facilities are necessary in order to improve the functioning of the IMF. We welcome the recent developments in the review of facilities, such as the elimination of unused facilities and the enhanced effectiveness of the Contingent Credit Line.

Fourth, discussion continues on private sector involvement (PSI) in crisis prevention and resolution. I hope that any agreement that will be reached on a PSI framework will be sufficiently flexible to be workable in future crises.

Finally, efforts to promote increased accountability and transparency of the IMF should be encouraged. In this context, I welcome the enhanced disclosure of IMF documents in recent years, and I would like to call for further efforts toward enhancing the IMF's transparency.

#### *Support to the IMF in providing technical assistance*

To prevent financial crises and secure the stability of the international monetary and financial systems, we should strengthen the frameworks in developing countries that will enable them to conduct sound macroeconomic and financial supervising policies. For this purpose, it is essential that developing countries show strong ownership in implementing those policies, and, of course, they need to have the ability to formulate policies with high standards and a well-organized implementation framework. To this end, we intend to further upgrade our support to the IMF in providing technical assistance to developing countries.

#### *A review of quotas, voting power, and Board representation*

In considering the issue of enhancing the IMF's transparency and improving its governance and accountability, we cannot avoid a review of the allocation of quota shares and voting powers, as well as representation on the Executive Board, to more appropriately reflect the realities of the international economy. In light of the fact that emerging market economies, including those in Asia, have increased their importance in the global economy, their present quota shares, voting shares, and Board representation are significantly limited. An immediate review and correction are called for.

I welcome the ongoing effort in the IMF to review the quota formulas so that they better reflect changes in the world economy. However, changing the formulas is not sufficient. We need to reconsider the convention in past general quota increases that gave more weight to the component that is distributed according to the existing quota than to the component that is based on the quota formulas. This convention has seriously slowed the adjustment necessary to bring quota shares in line with economic realities. With regard to voting power, the 250 basic votes allocated to each member have not been changed since the original Articles of Agreement came into effect in 1945. As a result of a number of increases in quotas, the ratio of basic votes to quota-based votes has decreased significantly. In light of this situation, I think it is worth considering raising the number of basic votes in order to increase the voting power of countries with small quota shares.

I believe we must also review the current situation in which one region is overrepresented on the Executive Board. I believe the time has come to reconsider the regional distribution of the elective Executive Directors, giving due consideration to interregional balance to better reflect economic realities.

I believe an immediate review of quota allocation, voting power, and Board representation to reflect the changes in the relative importance of member countries' economies is urgently needed to further enhance the IMF's effectiveness and governance, to increase the transparency of its activities and decision-making procedures, and to strengthen the cooperative relationship among member countries.

### *Regional cooperation*

In addition to these global efforts to promote reform of the IMF, in order to prevent another currency crisis and to stabilize the international currency and financial systems, it will be essential to strengthen intraregional cooperation. In East Asia, a region of growing importance in the world economy where the nations are becoming even more interdependent, we need to promote regional cooperation aggressively in order to supplement and enhance the role of the IMF, recognizing the common advantages that these nations can gain from international trade and investment and the common concern they share about the risk of contagion should a crisis erupt within the region.

In view of the importance of regional cooperation in East Asia, with the aim of establishing a regional financing arrangement to supplement the existing international facilities, we have agreed to strengthen the cooperative frameworks among the monetary authorities in the region through the "Chaing Mai Initiative." This initiative involves expanding the ASEAN Swap Arrangement and constructing a network of bilateral swap and repo arrangements among the ASEAN countries, China, Japan, and the Republic of Korea (ASEAN + 3). This is an extremely meaningful step toward stabilization of the currency and financial markets in the region.

Based on this agreement to strengthen the cooperative frameworks within the region, specific discussions are currently under way between the countries involved concerning

the basic items needed for the conclusion of bilateral cooperative financial agreements. Japan plans to take an active role in ensuring that these bilateral agreements are concluded as soon as possible.

In order to guarantee financial stability in the East Asian region, we should also move forward with closer cooperation on monitoring capital flows, developing a regional surveillance mechanism through the ASEAN + 3 framework, and researching other appropriate financial support mechanisms for the region's financial stability.

#### **IV. Issues in Development**

##### *Fight against poverty*

Turning to development issues, we find that, during this century, the world has made remarkable strides toward reducing poverty and raising the quality of life. Amid a dramatic increase in the world's population, great leaps in science and technology and the spread of basic medical care have led to increases in food production and a marked decline in infant mortality. As a result, life expectancy is 20 years longer on average than in 1960. In addition, the importance of access to education, irrespective of family status or wealth, is now widely recognized as being vital for the equitable growth and development of society. Just since 1980, net primary school enrollment has increased by 13 percent. As a result, 90 percent of children throughout the world are now able to receive basic instruction in reading and writing.

Despite this remarkable progress, the fact remains that 1.2 billion of the world's 6 billion people live on less than one dollar a day, and 2.8 billion live on less than two dollars a day. In spite of vigorous efforts to promote the spread of protective inoculations and basic medical care, the tragedy of infant mortality is played out again and again. In fact, six of every 100 children do not see their first birthday. Mankind has made unprecedented progress in this century, and it glories in its prosperity; but we cannot forget the very serious problems of poverty lurking in the background. Poverty is one of the biggest challenges we must take on in the coming century.

Japan is mindful of the urgency of this task. This year, Japan contributed ¥10 billion to both the World Bank and the Asian Development Bank, and expanded its support in close coordination with these multilateral development banks. Japan is considering continuing this support next year.

##### *Reform of the World Bank*

Over the past half century, the World Bank with its outstanding expertise has taken a leading role in tackling development issues. Aiming at economically, socially, and environmentally sustainable growth, it has taken the lead in efforts to reduce worldwide poverty, adopting the approach of focusing on structural and institutional problems,

social policies, and ownership of developing countries. In our struggle for reducing poverty, the World Bank has been one of the most valuable institutions that humanity has developed in this century. As we move into the twenty-first century, we anticipate that the World Bank will play a major role in reducing world poverty even more effectively and efficiently.

In order to meet these anticipations and increase its effectiveness in reducing poverty, the World Bank must first enhance its efforts at supporting structural and institutional reform in recipient countries and improving social sector operations. We need to recognize the importance of the policies adopted in developing countries and the structural and social issues that underpin these policies, so that developing countries may secure sustainable development as well as achieve a fair and stable society. Needless to say, there is no disagreement on the importance of growth in development. Taking the Asian experience as an example, we can see that the Asian economic development has been assisted largely by the World Bank and Japanese strategy, which put the highest priority on growth. Thus, it is crucial to pay due attention to the importance of growth while pursuing a comprehensive approach focusing on structural and institutional problems aimed at poverty reduction.

Second, unless developing countries—which have the primary responsibility for reducing their poverty—commit themselves to formulating and implementing programs for poverty reduction, we cannot expect to see much progress. We hope that the World Bank will provide the best possible support for developing countries' own efforts to reduce poverty. We also urge the World Bank to extend assistance for capacity building in a variety of fields, so that developing countries themselves can identify the factors that hinder their efforts to reduce poverty and solve problems effectively.

Third, it is important for us to place greater emphasis on good governance in developing countries. Good governance will not only support the effectiveness of development aid but will also enable growth to be sustainable. We believe that strengthening support for countries with good performance in a variety of areas, including governance, will increase the effectiveness of the World Bank's overall operations.

Fourth, we urge the World Bank to improve its accountability and transparency. The World Bank's holistic approach has led to an expansion in the range of stakeholders, and effective collaboration with these stakeholders will be necessary to enhance the World Bank's operational effectiveness. Dialogue and cooperation with these stakeholders will surely contribute to upgrading the quality of the World Bank's activities.

In addition to these efforts, the World Bank must enhance the efficiency of its operations.

The increasing magnitude of private capital flows into developing countries requires the World Bank to enhance selectivity of its operations so as not to supplant these private capital flows. In particular, investment operations in the private sector should have a clearer focus on development impact.



It will also be important for the World Bank to promote cooperation with regional development banks and other aid agencies. In pursuing better cooperation, it must fully take into account the expertise and comparative advantage of other organizations. For example, the Asian Development Bank has contributed greatly to development in the Asia-Pacific region by carrying out effective and efficient operations with deeper insight and wider expertise in the region.

#### *HIPC Initiative and Poverty Reduction Strategies*

As we move into the next century, another significant challenge will be the speedy and effective implementation of the enhanced HIPC Initiative—a debt relief initiative for heavily indebted poor countries (HIPCs) that are carrying unsustainable levels of debt. Since the endorsement of this Initiative at last year's Annual Meetings, ten countries so far have reached their decision points under the enhanced framework. However, in order to expeditiously secure the link between debt relief and poverty reduction in as many HIPCs as possible, the international community still must take further steps toward speedy and effective implementation of the Initiative. The World Bank and the IMF should make full use of the Joint Implementation Committee established this May, and redouble their efforts to this end. Japan as the largest bilateral donor among creditor countries has committed to extend 100 percent debt reduction of non-ODA claims and 100 percent debt reduction of ODA claims. Moreover, in order to ensure speedy implementation of the Initiative by supporting the debt reduction efforts of multilateral development banks, Japan has pledged up to \$200 million to the HIPC Trust Fund, part of which has already been disbursed. It is crucial for countries that have already pledged to contribute to the HIPC Trust Fund to make their contributions in a timely manner to enable smooth implementation of the Initiative. In addition, HIPCs themselves need to tackle more actively their economic reforms and expeditiously develop their poverty reduction strategies. We should note that military conflict hampers effective poverty reduction in some HIPCs.

Poverty reduction strategies based on the ownership of developing countries are a powerful means of alleviating poverty. What must remain foremost in our minds during the formulation process is to ensure the participation of all parties concerned, including civil society, local communities, and bilateral donors. Without this, developing countries cannot claim that they have successfully ensured their ownership, nor will they be able to reap the full benefit of international aid. In response to the needs of developing countries, Japan stands ready to support the formulation of poverty reduction strategies, with a particular focus on participatory process.

#### *Development and information technology*

It is the revolutionary progress of information technology that contributes greatly to the current growth in the world economy and drives us to move into the new century of prosperity. While information technology offers “digital opportunities” in every area of the economy, there is a concern that it also gives rise to the problem of “digital divide,”

both within and among nations. The “digital divide” problem becomes so imperative that urgent efforts are required in response to the rapid technological advances and their growing spread beyond national boundaries.

To address this problem, Japan announced just prior to the Kyushu-Okinawa G-7 Summit a comprehensive co-operation package based on official financial assistance. Japan urges the World Bank, the Asian Development Bank, and other multilateral development banks to help bridge the digital divide. We expect that the multilateral development banks will provide effective support in information technology by making use of their expertise and their experiences in global and regional programs. Japan is willing to support these efforts.

## **V. Conclusion**

As we stand at the threshold of the twenty-first century, the international community in all its wisdom strongly expects reform of the IMF and the World Bank. Reforming the existing rules and structures will inevitably be painful but cannot be avoided if we are to cope effectively with the rapidly changing new realities. Only by bravely tackling the necessary reforms will we be able to look forward to bright prospects in the twenty-first century.

Thank you.