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Essay

Building Institutions in Longer-Term for Better Macroeconomic Management under Globalization

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The world economic structure has drastically changed in the midst of globalization. By 2025, global economic growth will have been predominantly generated in emerging economies (World Bank, 2011), while developed countries face challenges of their weaker growth. The more the economies become integrated and multi-polarized, the more stability of global macro-economy and financial system become important. Under these conditions, institution building in longer-term for better macroeconomic management should be strengthened as a significant role of the IMF both in developing and developed countries.

Improving institutional quality is important for developing countries, in particular, to manage their economy strategically for growth of the country. Traditionally, the IMF has provided lending with policy conditionalities to a country in financial difficulties. With the advice and technical assistance by the IMF, developing countries have changed their policy stance (trade, fiscal and monetary policies, etc.) for tackling the balance of payment problems. However, it does not necessarily mean that the county becomes capable of making good policy by her concern. In fact, the

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constraint of a low level of institutional quality still remains. Improving institutional quality takes a long time (Williamson, 2000) until when the country become self-reliant, while policy stances can be changed and improved in a shorter period by external pressure. The nature of institutional effects should be differentiated from the nature of policy stance (Hirano, 2012), when providing technical assistance. In consideration of these effects, the IMF should put more focus on supporting institution building as well as human capacity building of financial management in longer-term in developing countries.

The target of the IMF should not be limited to the developing countries, but extend to developed countries, by providing support for institution building in different fields. For instance, a key role of the IMF could be institution building of youth in advanced economies, considering youth as the vital force of reviving economy in future. Fiscal deficit and economic stagnation, including high unemployment rate among the youth, have become serious issues, and major structural changes are needed for developed countries to survive in this globalized world. In case of Japan, she is no longer a trade-surplus country, and the surplus in the income balance has to be increased in order to sustain the current level of income. To circular flow of income, companies and people in Japan have to be more engaged with the work in developing countries whose market economy is growing. Youth should enhance coping skills and prepare themselves to be exposed in this globalized world rather than simply complaining the unfavorable economic situation of their home countries. The IMF can play an important role to increase the awareness of youth about the global economy and structural changes with its expertise and past experiences in surveillance of macro-economic situation. Long-term investment on human capital, including youth education, could bring about positive effects on economic management and situation.

Strengthening institutions of developing and developed countries could be a significant role for the IMF for better macro-economic management. Furthermore, institution building could contribute to crisis prevention, which the IMF has reinforced over the past decades.

Main References

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