



Kenji Nakada

Kenji Nakada is an undergraduate student majoring in economics at the University of Tokyo. He has also studied at the London School of Economics as a General Course student from 2010-2011, under scholarship from the Rotary Foundation. Among other subjects, he has a keen interest in international macroeconomics and monetary policy. He has interned with Citigroup, the Economist and the Bank of Japan, and will join McKinsey & Company in 2013. He originally hails from Shizuoka, Japan and has also lived in Hong Kong.

Essay

“A Perspective on the Global Economy and the Role of the IMF”

In this essay, I argue that the IMF can contribute more effectively to the global economy as a platform for international dialogue if some improvements are achieved. I first point out several changes in the economic environment brought by globalization. Next, I adduce a recent example of an international monetary problem in which the IMF could have played an important role, and then propose some points of improvement to ensure its vigorous contribution.

Globalization brings about strong connections between economies, in which three “D”s - dependence, diversity and dispute - prevail. In a globalized world, economies are interdependent, and communities diversified. Dependence and diversity often entail the other “D”, dispute. As it became apparent in the wake of the current financial crisis, there are countless numbers of economic disputes around the world; disputes about currency regime, cross-border capital flow, bank regulation, or current-account imbalances. The new generation has to work together to settle these disputes, and I believe a key to solution is the fourth “D”, dialogue. International dialogues shall improve mutual understandings among countries, which is a basis for financial stability.

A recent dispute in which the IMF could have played an important role is about monetary policy. In response to the ongoing crisis, industrialized countries adopt aggressive monetary policies to underpin growth. Some emerging countries claim that the overflow of money resulting from those policies is harmful to them because it induces inflation. In my opinion, monetary authorities of industrialized countries should take this complaint more seriously, since, in a globalized world, setbacks to emerging economies badly affect their economies via export channels. The IMF could have initiated international policy coordination in G-20 meetings, for instance, to make monetary policies more effective in industrialized economies and at the same time less harmful to emerging economies.

The IMF is eligible for this role because it has two advantages over other international financial institutions. The first is its outstanding research capability backed by the Article IV consultations. Based on its own research, the IMF can provide consistent interpretation of economic situations, and thus set a benchmark for dialogue among countries. The second advantage is the funds it has. The IMF can motivate cooperative policies by providing financial contributions, and is the only existing institution that can afford such incentives packages. Albeit these advantages, the IMF has to change. The research capability should be enhanced to tackle increasingly sophisticated problems. Furthermore, it is critically important for the IMF to be regarded as truly fair and neutral so that its researches and proposals are fully trusted. If these improvements are made, I believe the IMF can function better to stabilize the financial system.

The further globalization progresses, the more important the role of the IMF to facilitate international dialogues becomes. Through this role, the IMF can encourage cooperation among shareholders of the global monetary system and, by doing so, it can help economies to benefit from globalization while avoiding downsides. This, I believe, leads to financial stability and a healthier world economy.