

**EMERGING MARKETS FORUM
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**CONCLUDING REMARKS OF SESSION III:
Global Financial Architecture and Financial
Markets in Emerging Markets**

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How to conclude constructively the fascinating discussion we had, not only this morning here, but also not long ago in Beijing, where unexpectedly I couldn't give the remarks I had promised on the needed reform of the international monetary system?

All what we have heard has convinced me that we are now at a very defining moment and that we shouldn't miss it. This means that we have to face squarely seven basic developments:

1. The world is now totally different from the one the "Founding Fathers" of the Bretton Woods institutions were facing 70 years ago.

2. Monetary issues are overwhelmed by huge and complex financial flows, at times of a very destabilizing nature.

3. An unescapable transition towards a less debt addicted world economy to be undertaken right away, as Andrew Cheng just suggested.

4. At the moment when tectonic geopolitical developments are moving the centre of gravity of the world from West to East, a tri-polar currencies system is also emerging, changing in depth the present structures of the international monetary system.

5. The modalities of cooperation between these three currencies (dollar, euro and RMB), and with the others will have to be defined with the view of correcting the present deficiencies of the system.

6. One of the most crucial issues will be to ensure that the liquidity of this new system remains in harmony with the needs of the global economy.

7. And these new fundamental issues couldn't be properly addressed and hopefully solved without the active contribution of a well-equipped, strong and legitimate World Monetary Fund to be established through a transformation of the present International Monetary Fund (IMF).

I have heard the hesitation of a number of you about such in-depth change of the IMF. Let me suggest the following remarks on this issue:

➤ The IMF being, according to its Articles of Agreement, "the machinery for consultation and collaboration on international monetary problems... to promote international monetary cooperation", it is crystal-clear that not only it could, but it must initiate, at the appropriate time, the needed dialogue and negotiation to adapt itself to the new features of the monetary environment, as a global institution could provide to the community of central banks an essential contribution:

- To monitor global liquidity and its adequacy to the economic developments,
 - To identify risks at the earliest possible stage,
 - To provide individual countries with the required support and to organize the needed response at the global level.
- This transformation could usefully be conducted in parallel with efforts of the interested countries to organize or to strengthen their regional monetary integration.
- This transformation should aim to provide the world monetary system with the support only a global institution could provide without attempting to substitute in any way to initiatives which could be undertaken at a regional or national level. In other words, subsidiarity should be a basic principle of its action.

WHAT COULD BE THE BASIC BUILDING BLOCKS OF THIS TRANSFORMATION OF THE IMF?

I would insist on two:

1. The set of suggestions provided by the outstanding paper of Jack Boorman, both on the surveillance and governance of the IMF and on the reform of the G20.
2. The reform suggested by this paper to give a new life to the SDR. I have taken note with particular interest of the points made by the paper of Mr. Montek Ahluwalia: “The best contribution that the SDR can make to stabilize the system is if the Fund Board could be empowered to create new SDRs in its favour to provide exceptional financing in the midst of a crisis that should arise”.

It is clear that efforts of the world community to fulfil its undertaking “of promoting better international surveillance of international liquidity and making the SDR the principal reserve asset in the international monetary system, could be decisive to contribute to stabilize the system.

No doubt this transformation will take some time, but these measures will be an essential part of the work to maximising the chances of sustainable development for the next decades. These reforms in the monetary field could, to my judgment, lead to the transformation of the

SDR into a full-fledged currency. This would make easier the task of the central institution of the system to multilaterally regulate the world liquidity. The world community will then have established the foundations of a true supranational central bank, so realizing the old dream of John Maynard Keynes...

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There are of course long term perspectives our reflexions around 2050 should take into consideration, and preferably with no further delays.

As far as the near future is concerned, the Emerging Countries Forum could invite operational reflexions on the needed steps for the adoption of these reforms. In view of their ambitions, it is certainly time also to open the perspectives of a new Bretton Woods Conference. Such an event would be the appropriate framework to adopt the needed changes of the Articles of Agreement of the IMF and to undertake the needed reforms of its sisters-institutions. To maximize the chances of its success, it would be appropriate to start as soon as possible to work on a set of immediate changes, with the view of limiting the agenda of the Bretton Woods Conference II:

- To adopt the decisions on the issues still to be resolved to finalize the adaptation of the IMF to the present circumstances and make unquestionable its legitimacy,
- To define its missions and its monetary instruments as a global regulator of liquidities,
- To take stock of and, if needed, to finalize decisions concerning the new mandate of its sisters-institutions.

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