

During an official visit to Japan last week, Mr. Lamy visited also the Japan Institute of International Affairs (JIIA), on its 50th anniversary since its establishment by the former Prime Minister Shigeru Yoshida in 1959. Mr. Lamy gave a talk in regards to the economic crisis at the Hotel Okura, Tokyo. As a current Visiting Fellow, I had the privilege of attending the event.

"The leading Think Tank in international relations, JIIA has dedicated itself to researching medium and long term issues of international political and security affairs and has played an important role in promoting communication and understanding between Japan and its partners", he said during his opening remarks and congratulated JIIA on its high standards of achievement.

The challenges facing the [world](#) have changed tremendously since Prime Minister Shegeru Yosida established JIIA. In his speech, Lamy commended on his premiership during the post [World War II](#), stating his devotion to rebuilding Japan, which had lost its industrial infrastructure and which desperately needed new economic growth. This finally became reality, after more than 30 years of spectacular growth during which Japan has now become the second largest [world](#) economy. Although it suffered during the mid-90s in the recession, it gradually recovered from it.

Japan is one of the leading nations in the field of scientific research. This ranges from the field of information technology, to machinery and biomedical. He said it's close to 700,000 researches share the third largest research budget in the [world](#) . The visualization of entering the next century is seen in a distinct feeling in Japan from areas such as Yokohama and Kansai airport in Osaka.

He pointed out at the policy reports and papers produced by JIIA, the challenges the [world](#) faces today and much as those in the post [World War II](#) period were of a [global](#) nature.

"Whether it is climate change, energy, security or nuclear proliferation, all of them require some sort of international cooperation to be effectively addressed"
, commented Lamy.

The current economic crisis is a stark reminder of its [global](#) reach. According to published estimates, [world](#) trade will contract by 3 per cent in 2009, and this in Lamy's view was a very conservative figure. He argued that trade is dropping faster than growth which is a reflection of the de-leveraging of trade which had exponentially increased as a result of production, supply chain management and technology. As trade increases as a multiple of growth, it will decrease as a multiple of recession. We also see foreign direct investment also falling. A report by UNCTAD reveals that

[global](#) FDI inflow is likely to have fallen by more than 20 per cent in 2008 and it will likely decline further in 2009. Japan's economy has witnessed, in the last three months a 3 per cent fall in its GDP. This is equivalent to a 13 per cent annual fall, a deep drop since 1974. Other countries pointed out were Korea and China.

In reality, the economic ties of economies are intertwined in such a manner that the decline in demand in one region will mean a sharp decrease in trade and thus in economic activity and growth in the other. In response to this, Lamy said that governments of many major economies have taken action and have passed stimulus packages aimed at fostering a recovery of their economies and through that, of the [global](#) crisis.

He further went on to say that, it was encouraging to see that the messages coming out from the recent G7 finance ministers meeting in Rome or that of the European leaders this weekend, recognize the importance of these stimulus packages being designed and implemented in a coordinated manner. In Lamy's views, policy makers will be concerned about how long and deep the downturn will be and he believed the task ahead would be a twofold.

Lamy's views in the short term are to restore confidence in the financial system so that it can "*lubricate*"

the

"*wheels*"

of economy again. This in essence means tackling bad debts and restoring credit. It is urgent, and in his sense, as long as the view is that cleaning up the financial system remains to be done, there will be no turning point in the present crisis, argued Lamy.

Lamy goes on to point out further, as this happens, it must also mean giving the relevant multilateral organizations the resources needed to help countries confront the crisis today. Regional Development Banks must be re-capitalized concluded Lamy. The financial resources

of the IMF need to be expanded so as to address the crisis. The Vulnerability Fund proposed by the [World](#) Bank is a means of countries to join in order to assist poorer nations.

He stresses on this and has discussed the issues with the current Japanese leadership. Japan is eager to lead on these fronts as resources have been evidently lent to the IMF and it will further carry this message to the upcoming G20 leader's summit.

In a longer term, the goal should be to establish a comprehensive regulatory framework for the financial activity; one that provides a stable, transparent and accountable system; one that reduces risks without crippling the vital economic activity. Above all, he mentions, one, which restores citizens' faith in an open [world](#) economy, working for growth and employment.

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