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*Building Resilient and Sustainable Global Economy
through Multilateral Cooperation*

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1. Introduction

We are standing at a critical juncture in human history. The world continues to face multiple shock waves such as the lingering effects of the COVID-19 pandemic and Russia's war against Ukraine. Decades-high inflation brought an end to a decade-long low interest rate environment, which unveiled underlying risks and vulnerabilities associated with a loosened discipline in financial markets as in the recent cases of banking sector turmoil. At the same time, the human race finds themselves on tectonic instabilities driven by accelerated climate change, transformative digitalization, and intensified geopolitical tension. These multiple challenges are now altogether testing the existing international order that we have built together since the end of the World War II.

Against this backdrop, what kind of choices should we make to set the right course for the global economy and human society to be resilient and sustainable for the next decade and beyond?

Today, I attempt to answer this question from two different points of view. The first is about the roles of the international fora such as the G7 and the G20. I will elaborate this point by illustrating five key global challenges that these fora are tackling, namely (i) Russia's war against Ukraine, (ii) debt issues in low- and middle-income countries, (iii) global health, (iv) climate change, and (v) digitalization. The second is about how we can set in motion transformative actions by businesspersons, policymakers, and experts in international organizations, together with the efforts in international fora in addressing these global challenges.

2. Roles of the G7 and the G20

Let me start with the roles of the G7 and the G20 in addressing the first and foremost challenge, Russia's invasion against Ukraine. I admit that the existing multilateral system, such as the UN Security Council, has failed to provide effective solutions,

where the very country leading the unjustified, unprovoked, and illegal war now holds the council presidency. Is that a joke? However, G20 Leaders, led by the strong leadership of the Indonesian Presidency, declared in November last year in its communique, “today’s era must not be of war” and “most members strongly condemned the war in Ukraine” as a cause of immense human suffering and the many difficulties that the international community is facing.

The G7 has also been firmly united to continue its decisive actions against Russia and stand with Ukraine. In February this year, at the one-year mark of the war, G7 Leaders chaired by Prime Minister Kishida agreed on additional sanction measures in a variety of areas. On the day before the Leaders’ summit, G7 Finance Ministers strengthened their commitment to providing budget and economic support to Ukraine for this year, amounting to 39 billion US dollars. This includes Japan’s new commitment of 5.5 billion US dollars, and we just obtained the approval from the Parliament last week to enable Japan’s support. These continued efforts from the G7 and international partners led to the approval of the IMF-supported program of 15.6 billion US dollars. We need to continue such collective efforts to further increase Russia’s costs of its war and stay united with Ukraine to counter the attack on our fundamental values.

At the same time, we recognize that vulnerable countries have been disproportionately affected by Russia’s war of aggression and associated global challenges, together with tighter financial conditions, unstable commodity prices, and fragile market sentiments.

Against this backdrop, supporting vulnerable low- and middle-income countries to deal with debt issues is an imminent task we need to tackle through a multilateral approach.

The G20 has been playing and can play a significant role in this area as it includes emerging non-Paris Club creditors. The G20 implemented the Debt Service Suspension Initiative, DSSI, to alleviate liquidity pressures of low-income countries, LICs, when COVID-19 hit their economies. The G20 also established the Common Framework to address debt issues of LICs. We need to swiftly implement it. The key issue is how to elicit constructive and responsible behavior from non-Paris Club creditors.

In this regard, it is noteworthy that the G20 unanimously agreed at its February meeting this year to step-up the implementation of the Common Framework in a predictable, timely, orderly and coordinated manner. We can more effectively engage with non-Paris Club creditors by using this authorized common message as leverage.

Addressing debt vulnerabilities in middle-income countries, notably Sri Lanka, is also an imminent task. Our work on Sri Lanka has been making concrete progress,

including the recent approval of the IMF program. Now, we are moving on to the phase of coordinated debt restructuring. Japan has been closely working with other creditors, including France, the Paris-Club chair, and India, the G20 chair, and we will have a historic event on Thursday on Sri Lanka together with France, India, and Sri Lanka. Japan is ready to lead the creditor committee with these two countries once it is formed to continue to help Sri Lanka. We will advance our efforts to ensure that all creditors will implement comparable debt restructuring.

Enhancing debt transparency also matters a lot to prevent debt crises. Japan is leading the Data Sharing Exercise, together with like-minded countries, to share our lending data with the World Bank to improve data accuracy. All official bilateral creditors, including emerging non-Paris Club creditors, should do the same.

Let me now turn to the third challenge: strengthening global health.

The COVID-19 pandemic starkly shows that enhancing global health is a global public good. Safeguarding our society against the next pandemic requires us to make continued multilateral efforts towards better pandemic prevention, preparedness and response, or PPR. The end of the COVID-19 pandemic should not lead to the end of our collective actions.

The G20 has made steady progress in this field. Indonesia held a G20 Joint Finance and Health Ministers' meeting last year, after Japan held the first one in Osaka in 2019. On the margins of this joint meeting last year, the G20 officially launched a new Financial Intermediary Fund for Pandemic PPR (the "Pandemic Fund") to address critical pandemic PPR gaps by catalyzing complementary investments.

While the Pandemic Fund has successfully been launched, its main focus is on the PP parts while the financing for pandemic "Response" remains unaddressed. We need to develop a new dedicated surge financing mechanism to deploy rapidly scalable financing for a pandemic response once triggered. Also, strengthening and institutionalizing coordination between Finance and Health Ministries is still on the way. Japan continues to work on these issues including through the G7 under the Japanese presidency.

The fourth challenge is climate change.

We are in a severe race against the clock, as warned by the latest UN Intergovernmental Panel on Climate Change (IPCC) report. There must be strengthened multilateral actions and drastic policy changes by each country. For instance, accelerating our clean energy transition is a matter of clear priority. To ensure a smooth and stable transition, however, we need to address current vulnerabilities in the key phases of supply chains of clean energy products — that is, excessive

concentration in a handful of countries and companies. For instance, over 80% of global production of silica-based solar PV is from just one country.

Addressing such vulnerabilities will also create a new source of value creation for developing countries toward sustainable development. In fact, not a few low- and middle-income countries have shown their willingness to play bigger roles in global supply chains of clean energy products. The G7 under the Japanese Presidency is now exploring a mutually beneficial partnership with the G7 and other interested countries in collaboration with MDBs for building resilient global supply chains and promoting local value addition by developing countries.

Let me now discuss the fifth challenge: how to adapt our economy and society to rapid digitalization. Fast-moving digital technologies provide tremendous benefits in many areas, including cheaper and faster cross-border payments available to the larger public. But the new technologies have their own set of challenges, such as data privacy, cyber security, widening inequality caused by digital divide, spread of fake news and social and political divide, and unstable and less transparent financial markets, to name a few. In this regard, the issue is to maximize the potential of digital technologies while addressing such challenges through multilateral collaboration.

For instance, the collapse of FTX was a serious wake-up call on the needs of proper and consistent regulation across borders. Finalizing FSB's work to develop high-level recommendations on crypto-asset activities and markets, and on global stablecoin arrangements is important, and effective implementation of these recommendations will also be crucial.

Also, we have to address risks from the development of Central Bank Digital Currencies (CBDCs) by ensuring factors such as appropriate transparency and sound governance. As a priority for this year, the G7 is considering how best we can help developing countries introduce their CBDCs consistent with appropriate standards, including the "G7 Public Policy Principles for Retail CBDCs".

3. Roles of Businesspersons, Policymakers, and International Organizations

Now, all of the challenges that I discussed so far press for drastic changes in thoughts and actions of businesspersons, policymakers, and experts in international organizations. The question is how we build a proper incentive mechanism to facilitate such transformation.

Let me start with the private sector. The private sector is clearly a strong driving force to address complex global challenges. However, if their prime motivation remains in short-term profit maximization only, they will go against the global

endeavor to develop a resilient and sustainable economy, and end up failing their own business. They need a guiding principle for enabling their business model to adapt to the complex and uncertain business environment and to contribute to solving global issues. In this regard, let me draw your attention to the ongoing review of the G20/OECD Principles of Corporate Governance. The Principles have been serving as the single global standard in the area of corporate governance, endorsed by G20 leaders and used by the World Bank Group and the FSB. Now, the Principles are under a review process. The most challenging and noteworthy proposal in the draft revision is to include a new dedicated chapter of “Sustainability and Resilience”. The new chapter stresses that corporate governance frameworks should support sound management of sustainability risks in order to support investors’ financial and investment decisions. In addition, the new chapter clarifies corporations’ long-term sustainability is important to various stakeholders. Besides, amid the sustained growth of institutional investors’ assets under management, the role of institutional investors as shareholders is particularly important in holding company boards and management accountable, including through their stewardship activities. Another important challenge is how we can address the increased complexity of company groups across different jurisdictions that can lead to opaque transactions among group members to the detriment of minority shareholders’ interests. As the Chair of the OECD Corporate Governance Committee, I am determined to move this initiative forward, seeking Leaders’ endorsement at the G20 summit in New Delhi this year.

The next focus is on policymakers, including myself, who are struggling with and responsible for better policy design and implementation. The key question here is “how we should measure economic wellbeing and practically use the measurements in our policymaking processes?”

GDP has long been a core indicator of a country’s economic performance, but its limitations have been well known since its creation. For instance, GDP does not capture all economic activities such as unpaid housework and misses important aspects of economies including environmental sustainability, income and wealth distributions, and improved efficiency due to IT services that are often free of charge.

These limitations recently have become more acute as our society and economy have undergone a dynamic transformation, such as rapid digitalization, climate change, and rising inequality. Focusing narrowly on numerical growth without paying sufficient attention to these issues causes dissatisfaction and disillusion among the general public towards the value of a market-based economy in a democratic society. And now, poverty and authoritarianism prevail, unfortunately. Thus, it is high time for policy makers to start a serious discussion on what kind of measuring sticks we should

have to improve the quality of our economic policy. This is why Japan as the G7 President is taking up this issue as a priority and is facing squarely with it throughout its G7 presidency and beyond.

The last focus is about the evolution of international organizations, specifically the MDBs. They have been playing core and significant roles in development finance to help developing countries reduce poverty and meet the Sustainable Development Goals. However, MDBs, especially the World Bank Group also have to be evolved to play larger roles in addressing transboundary issues such as global health and climate change. The G20 and the World Bank's management have been discussing the World Bank's mission, operational approach, and financial capacity. We continue to support this endeavor, while stressing the needs of safeguarding MDBs' long-term financial sustainability, robust credit ratings and preferred creditor status, as these are the indispensable foundations to continue to fulfil their roles with concessional lending.

4. Closing

Let me conclude my remarks by revisiting the question I raised at the beginning – what kind of choices we should make to set the right course for the global economy and human society to be resilient and sustainable for the next decade and beyond. All the efforts that I described today highlights the importance of our joint actions underpinned by well-crafted and concrete mechanisms. However, what matters more to bolster our joint actions under such uncertain and rapidly changing world is our volition to preserve the fundamental values that human society has developed through centuries of painful history.

With this in mind, Japan is determined to advance multilateral efforts through building coalitions with as many countries as possible at all levels — individual, business, government and beyond — and play the bridging role between the G7 and the G20 through collaboration with India as we hold the Presidency of the G7 and ASEAN plus 3 this year. I am very confident and looking forward to working with everyone here, throughout the journey of building a resilient and sustainable global economy.

Thank you very much indeed for your attention.