

SYMPOSIUM ON BUILDING THE FINANCIAL SYSTEM OF THE 21ST CENTURY: AN AGENDA FOR JAPAN AND THE UNITED STATES

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Advancing Multilateralism to Restore the International Order

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1. Introduction

Good evening, everyone.

I am delighted to return to this symposium, where leading figures of Japan and the United States get together and candidly exchange views and wisdom. At the last symposium held in Washington D.C., I started my remarks with this message: “humanity is standing at the critical juncture of its history”. After one year, it seems like we are at the same crossroad. But the uncertainty around us is getting thicker like a dense fog. I also feel the ground we stand on is becoming much less stable due to massive tectonic shifts.

The illegal and unprovoked war of aggression by Russia against Ukraine continues with no end in sight, while many parts of the world are still suffering from the deep scars left by the pandemic. In the

meantime, the turmoil of the Middle East with complex causes, stretching back to as far as 2,600 years ago, violently erupted by Hamas' attack against Israel, which has evolved to a deadly conflict and humanitarian crisis. Geopolitical risks have intensified in places such as the Caucasus and the Sahel. Tensions are simmering around the Taiwan Strait.

Furthermore, the stable global climate that human being has been taking for granted for more than 10,000 years seems to be becoming a thing of the past, with record-breaking extreme weather events and natural disasters becoming commonplace. Looking at financial markets, volatility has been prohibitively high, and many market participants are being dismayed in the deep fog of uncertainty. Under such circumstances, ensuring price and currency market stability, fixing the widening income disparity, and enhancing people's welfare are becoming all the more difficult.

However, what I am concerned most is not necessarily those events themselves. My biggest concern at this point is the fact that the existing global order and its governance arrangements are melting down, meaning that we are losing a solid foundation to collectively address

global issues and foster global public goods. Therefore, the most critical task is to restore the international order and its governance arrangement through collaboration underpinned by the multilateralism.

This year, Japan has been squarely facing with this critical task as the chair of two important international fora: the G7 and ASEAN plus 3, namely Japan, Korea, and the People's Republic of China. We are also strengthening ties with countries of so called the “Global South” such as India who has chaired the G20 this year.

Today, I would like to share with you our major achievements and the remaining tasks, so that we can raise the momentum to pursue our collective journey to restore the international order with multilateralism.

2. Initiatives under Japan’s G7 Presidency

2.1. Tackling Immediate Challenges

First, let me start with immediate challenges, namely wars, humanitarian crises, and vulnerabilities of low- and middle- income countries.

2.1.1. Support for Ukraine

Among a variety of global issues, supporting Ukraine has been the top priority in the G7 finance track. Throughout our G7 presidency, we invited Ukrainian Finance Minister, Mr. Marchenko to all G7 Finance Ministers and Central Bank Governors Meetings. This shows our unwavering solidarity with Ukraine. In addition, I visited Kiev this August to hold the first Japan-Ukraine Finance Dialogue, and to see the devastation of the aggression firsthand.

The issue at stake here is not only for Ukraine to fight back against the Russian invasion, but also for the entire international community to safeguard the fundamental underpinning of the international order such as the rule of law, sovereignty and territorial integrity. Let me also stress that Ukraine is committing to ambitious reforms, in particular governance and anti-corruption. Those are the reasons why the G7 remains committed to supporting Ukraine's urgent financing needs with further contributions in 2024, including additional support from Japan. The continued strong financial support by the U.S., as per the supplementary budget request for 2024 by President Biden, is critical. I strongly hope the budget will be approved by the U.S. Congress.

2.1.2. Sanction against Russia

Japan has also implemented a series of economic sanctions against Russia in close cooperation with the United States and other G7 members. We are now working hard to enhance the effectiveness of our sanctions, especially by closing circumvention and evasion through third countries.

Also, we should continue our efforts to ensure that Russia pays for the long-term reconstruction of Ukraine. The damage caused by Russian vandalism is estimated to be at least \$411 billion as of March this year, and the damage continues to grow. It is just impossible and unjust if we ask our taxpayers to bear all the cost. Ensuring that the aggressor will ultimately pay such cost will also deter anyone from changing the status quo by force in the future. Therefore, we must explore all possible avenues, including utilizing immobilized Russian sovereign assets.

2.1.3. Conflict between Israel and Hamas

Concerning the ongoing conflict between Israel and Hamas, we are keeping a close eye on the situation with grave concern. As stated in the latest G7 Finance Ministers' statement on October 12, we unequivocally

condemn the terror attacks by Hamas. They must release all the hostages immediately. Japan also calls on all the parties to act to avoid further civilian casualties, based on international law. Since the immediate priority is to address the humanitarian crisis in the Gaza Strip, Japan will extend Emergency Grand Aid of \$75 million.

2.1.4. Supporting vulnerable countries

At the same time, we must recognize that negative spill-over effects of wars, conflicts, and pandemics are disproportionately felt by vulnerable countries including through commodity price hikes, and supply chain disruptions. If left unaddressed, disturbances such as civil unrest may break out in the affected countries, which will put a further strain on the international economy and the international order.

To stop such a vicious cycle, the G20 has been working hard at supporting low-income countries to deal with debt issues through the Common Framework. We welcome the recent finalization of the MOU on Zambia, although it took too much time. To further enhance the credibility of the Common Framework, we need to reach an agreement for other countries, such as Ghana and Ethiopia in a more swift and

predictable manner. Addressing debt vulnerabilities of middle-income countries is also an urgent task. On Sri Lanka, Japan has been leading the official creditor committee with France and India as a co-chair. As we confirmed in October at the margin of the IMF/World Bank Annual Meetings, significant progress has been made and we agreed to continue our close collaboration to get things done as expeditiously as possible.

To prevent future debt crises, Japan is also taking a lead in encouraging all creditors and debtors to enhance debt transparency.

2.2. Addressing Structural Challenges

As these stories show, we are fighting at the forefront of immediate global challenges to clear away the dense fog covering the international economy. However, we should also address the structural challenges to make the ground that we stand on more stable. Now, I would like to talk about concrete mechanisms that we are trying to develop to address four key structural challenges through a multi-lateral approach: (i) accelerating green transformation and enhancing supply-chain resilience, (ii) strengthening preparedness for pandemics and disasters, (iii) fostering global public goods through reforming MDBs, and (iv)

adapting our economy to new digital technology.

2.2.1. Accelerating green transformation and supply-chain enhancement

Let me begin with accelerating our green transformation. The global economy needs to produce much more clean energy products in a more stable and sustainable way. In this context, diversifying the supply chains of such products through a multi-lateral approach matters a lot, as these supply chains are currently concentrated in a small number of countries. Such efforts will also create new opportunities of local value addition for developing countries who are currently just mining and exporting critical minerals. To unlock such potential, Japan is taking the initiative of developing a brand-new multilateral mechanism called “Partnership for Resilient and Inclusive Supply-chain Enhancement”, in short RISE, in close cooperation with like-minded countries and the World Bank. We successfully launched RISE at the occasion of the IMF/World Bank Annual Meetings last month in Marrakesh, with total initial contributions of over \$50 million. We will implement RISE on the ground in developing countries and look forward to continuing cooperation with

the U.S.

2.2.2. Enhancing preparedness for pandemics and disasters

Grappling with pandemics and disasters also requires concrete multilateral mechanisms. The Pandemic Fund was launched at the G20 Joint Finance and Health Ministers meeting last year, and approved the first round of funding allocations in this July. Japan, with our \$70 million contribution, keeps supporting the fund.

However, the Pandemic Fund does not have a function of mobilizing financing for responding to huge and immediate financial demands in case of outbreaks. The G20 Joint Finance Health Task Force helped the Ministers shape a common understanding on the functional gaps in the existing financing mechanisms based on a mapping analysis. We will continue our multilateral efforts to strengthen the financing framework for pandemic response at the global level to address these gaps.

We also need a similar mechanism focusing on Asia. The Chiang Mai Initiative Multilateralization, or CMIM, a multilateral swap network, has played an important role in maintaining financial stability in this region. As the causes of crises have become more diverse, now is the time to

strengthen the CMIM to respond to natural disasters and pandemics. This year, as a co-chair of the ASEAN+3, Japan, together with Indonesia, is leading discussions towards creating a rapid financing facility. The facility will enable member countries to access financing in the event of exogenous shocks such as natural disasters and pandemics.

2.2.3. Role of MDBs to supply global public goods

Strengthening MDBs to better address structural cross-border issues, such as climate change and pandemics is another big issue. In fact, the G20 has made MDB evolution as one of its key agenda items to safeguard global public goods, and requested them to review their vision and mission, as well as operating and financial models.

To increase the lending capacity of MDBs, the efficient use of their existing capital is essential. Japan strongly supports their efforts in developing innovative financing tools including the Portfolio Guarantee Platform, and we have just announced our commitment to this instrument, which will contribute to boosting the IBRD's lending capacity by a few billion US dollars.

2.2.4. Digital economy: Crypto assets and Stablecoins

Let me move on the next issue: adapting our economy and society to rapid digitalization.

Indeed, digital technology is a powerful tool to grapple with difficult global challenges. So, let us foster innovation. However, let us also be mindful that it is a double-edged sword. Crypto-assets and stablecoins, for example, are rapidly evolving their markets, indicating these could be a risk to financial stability and integrity. The G20 Roadmap on Crypto Assets adopted last month is an important milestone for international efforts to address these risks. We are also tackling money laundering and terrorism financing risks associated with crypto-assets through global implementation of the FATF Standards.

3. Dialogue and cooperation with key stakeholders: the Global South, businesses, and academia

Ladies and Gentlemen, as the world faces compounded challenges, dialogue and cooperation with key stakeholders has become so important. Therefore, I have taken the lead in advancing collaboration with three group of key stakeholders, namely, (i) the Global South, (ii) the corporate

sector, and (iii) academia, within and beyond existing frameworks.

3.1. Cooperation and dialogue with the Global South

To strengthen our engagement with the Global South, Japan hosted an outreach session at the occasion of the G7 ministerial meeting in Niigata in May to discuss issues such as supply chain resilience and green transition. The invitees were Brazil, Comoros, India, Indonesia, Korea, and Singapore. Furthermore, at the margin of the IMF and the World Bank Annual Meetings in Marrakech in this October, we held the G7-Africa Ministerial Roundtable. Topics discussed at the roundtable included the role of public finance to leverage private investment as well as reforms to improve the business environment and attract greater private investment in African countries. Such opportunities sent a strong signal that the G7 believes that the Global South is an indispensable partner to address global challenges, and that we never lose sight of the difficulties the Global South is facing, even when we commit to support Ukraine.

In addition to those multilateral initiatives, this year, I have been expanding Japan's bilateral outreach to countries where I see significant

room to enhance our bilateral relationship, given their potential and geopolitical importance. Countries that I visited over the past few months include Mongolia, Kazakhstan, Kyrgyzstan, and Pacific Island countries : Tonga and Fiji. Throughout the dialogues, I found each country is a strong and reliable partner for reinforcing the international order underpinned by multilateralism. I also felt that Japan is regarded as a trustworthy partner by them in achieving sustainable and inclusive growth with structural reforms. I will continue to be a globetrotter to strengthen ties with the Global South both through multilateral and bilateral channels.

3.2. The Revision of the Principles of Corporate Governance

The corporate sector is also an essential player to make our economy more resilient and sustainable. In this context, I would like to draw your attention to the revision of the G20/OECD Principles of Corporate Governance, that I have devoted myself to as a chairperson of the OECD Corporate Governance Committee. Since first issued in 1999, the Principles have been serving as the single global standard in the area of corporate governance. I am so delighted to inform you that the revised

Principles were endorsed by G20 Leaders in this September.

The most challenging and noteworthy revision is to include a new chapter on “Sustainability and Resilience”. This gives a set of recommendations on key issues to support sound management of corporate sustainability, disclosure, board responsibilities, and the role of stakeholders. I am determined to continue to promote the global implementation of the revised Principles.

3.3. Encouraging contributions from academia

As humanity are facing unprecedented challenges, getting knowledge contributions from academia has also been top of my mind for many years. As the G7 presidency, in this March, we hosted an international symposium in Tokyo where we brought together the leading thinktanks and experts from around the globe. One of the hot topics was “economic policies in pursuit of welfare”. In fact, this is the agenda item that we set for the G7 this year with the following issues in mind. Today, free-of-charge digital services have expanded rapidly, but GDP does not fully capture such activities. Key values such as equality and sustainability are neither measurable by GDP. This implies we need

a new set of “measuring sticks” that supplement existing economic indicators, so that policymakers can take a wider set of values into account in designing economic policies. The rich discussion at the symposium fed into the dialogue among Finance Ministers, Central Bank Governors, and eminent experts such as Professor Joseph Stiglitz at Niigata in May. Those dialogues with academia will culminate in a note to be published by the end of this year that will present key elements in measuring welfare with multi-dimensional indicators and possible approaches to incorporate such indicators into our policy making processes.

4. Conclusion

Let me conclude my remarks by reiterating that we are at a turning point in human history, and we, Japan and the United States, must take the lead in restoring the international order by advancing multilateralism, as demonstrated at the APEC leaders and ministerial meetings held in San Francisco under the U.S. hosting.

Ladies and gentlemen, I also want to stress that representatives of governments, businesses, and academia of Japan and the U.S., who are

gathering here today are all essential partners to advance multilateralism to strengthen the international order. So, let us continue to work together for making our economy and society more resilient and sustainable, and passing a torch of hope to the next generation.

Let me stop here. Thank you very much for your attention.

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