

# **Navigating Uncharted Waters and Beyond**

## ***Risks of Geopolitical Fragmentation and the Role of Tokyo as a Financial Center***

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**March 8, 2023**

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**Chairman of the Institute**  
**Daiwa Institute of Research Ltd.**

# World Economic Outlook (IMF, Jan.2023)

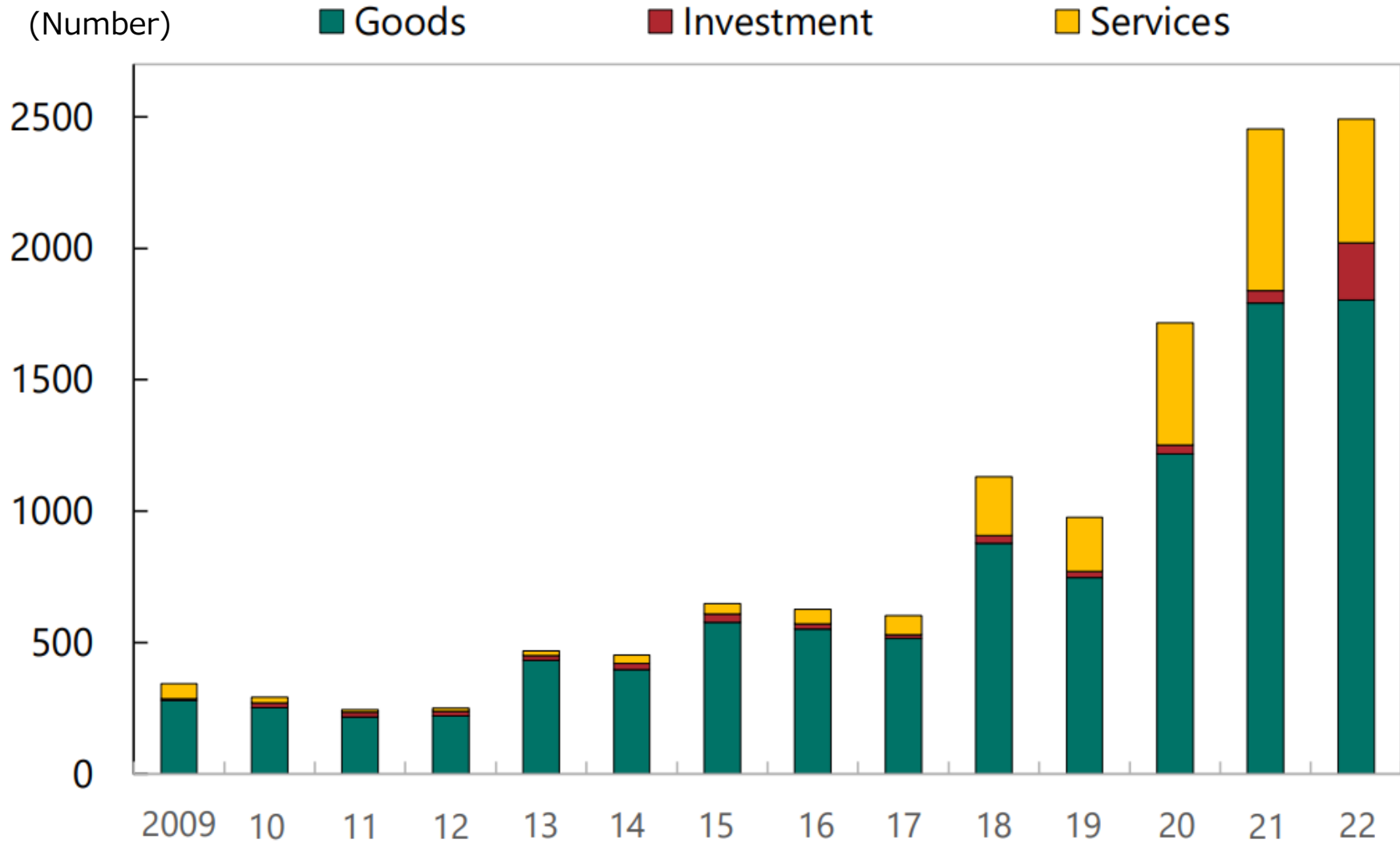
## Outlook for Real GDP Growth Rate (y/y)

(% , %pt)

	Performance	Projection		Revision	
		as of Jan. 2023		Oct 2022→Jan 2023	
		2022	2023	2024	2023
World Output	3.4	2.9	3.1	0.2	-0.1
<b>Advanced Economies</b>	<b>2.7</b>	<b>1.2</b>	<b>1.4</b>	<b>0.1</b>	<b>-0.2</b>
United States	2.0	1.4	1.0	0.4	-0.2
Euro Area	3.5	0.7	1.6	0.2	-0.2
Germany	1.9	0.1	1.4	0.4	-0.1
United Kingdom	4.1	-0.6	0.9	-0.9	0.3
Japan	1.4	1.8	0.9	0.2	-0.4
<b>Emerging Market and Developing Economies</b>	<b>3.9</b>	<b>4.0</b>	<b>4.2</b>	<b>0.3</b>	<b>-0.1</b>
Sub-Saharan Africa	3.8	3.8	4.1	0.1	0.0
Emerging and Developing Europe	0.7	1.5	2.6	0.9	0.1
Russia	-2.2	0.3	2.1	2.6	0.6
Emerging and Developing Asia	4.3	5.3	5.2	0.4	0.0
China	3.0	5.2	4.5	0.8	0.0
India	6.8	6.1	6.8	0.0	0.0
Middle East and Central Asia	5.3	3.2	3.7	-0.4	0.2
Latin America and the Caribbean	3.9	1.8	2.1	0.1	-0.3
Brazil	3.1	1.2	1.5	0.2	-0.4

Source: IMF "World Economic Outlook (January 2023)"; Compiled by DIR.

# Trade Restrictions Imposed

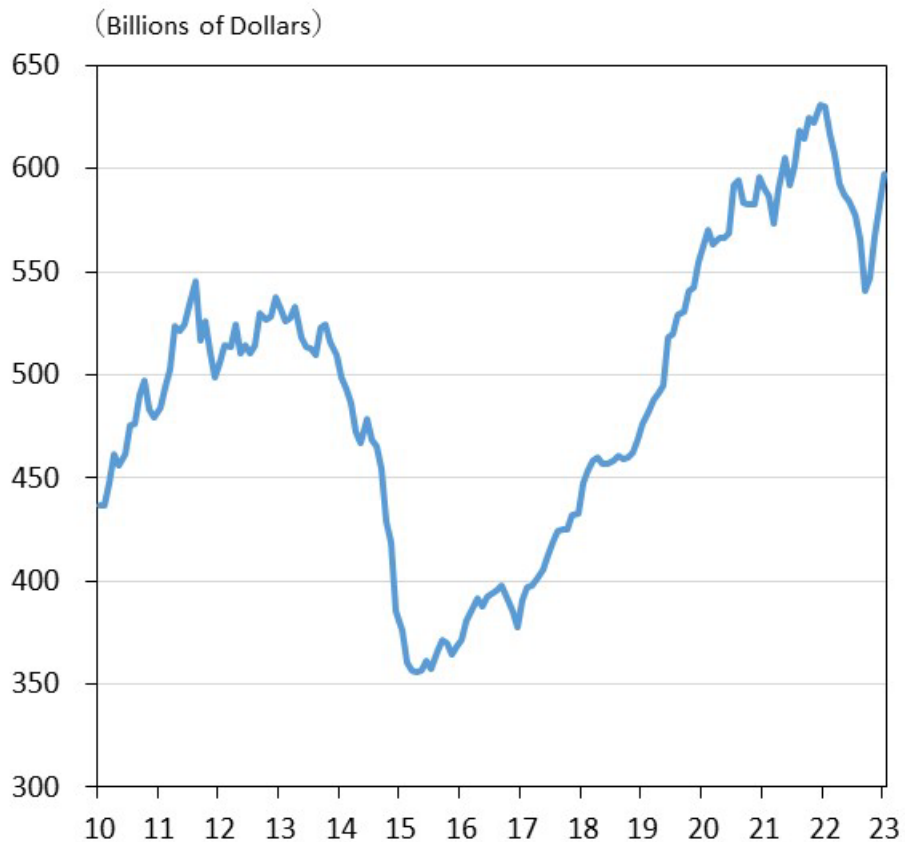


Original source: Global Trade Alert (2022), updated as of December 7, 2022

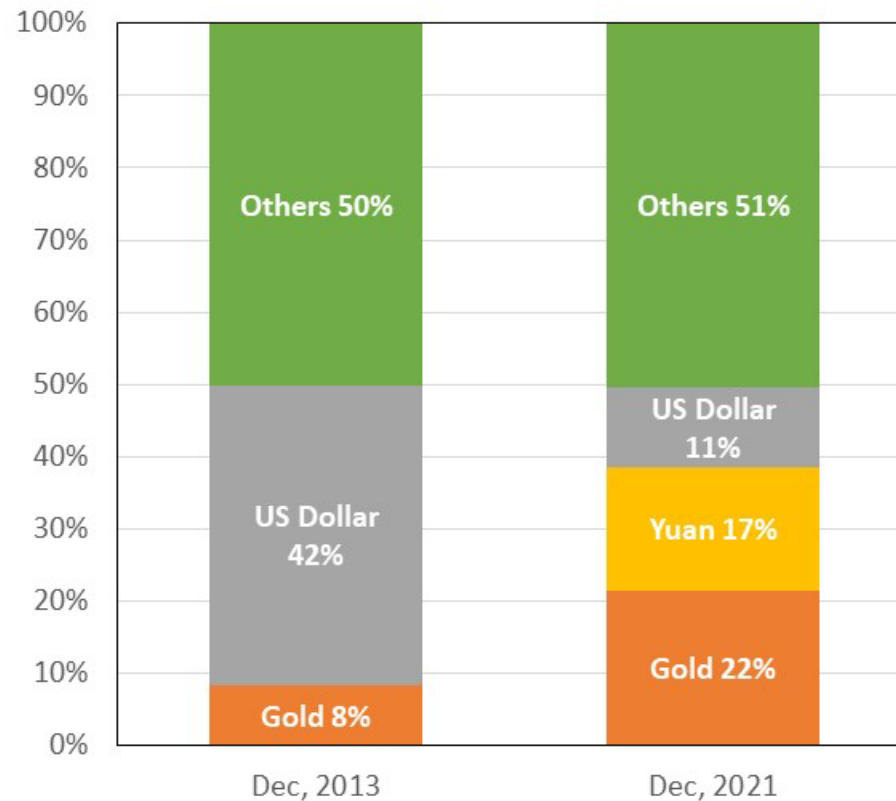
Source: IMF, 2023. "Goeconomic Fragmentation and the Future of Multilateralism"

# International Reserves of the Russian Federation

## Monthly values

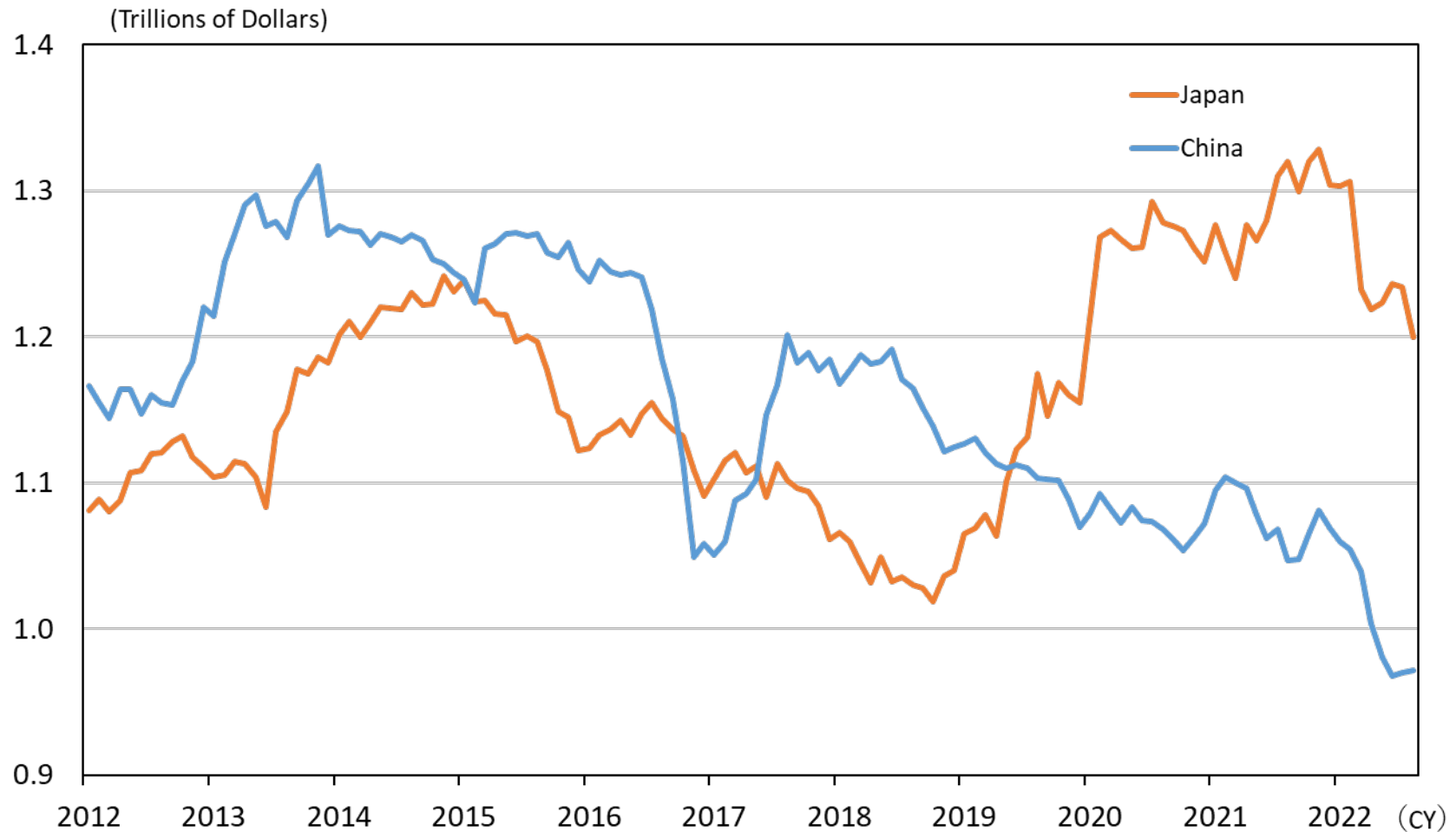


## Composition of International Reserves



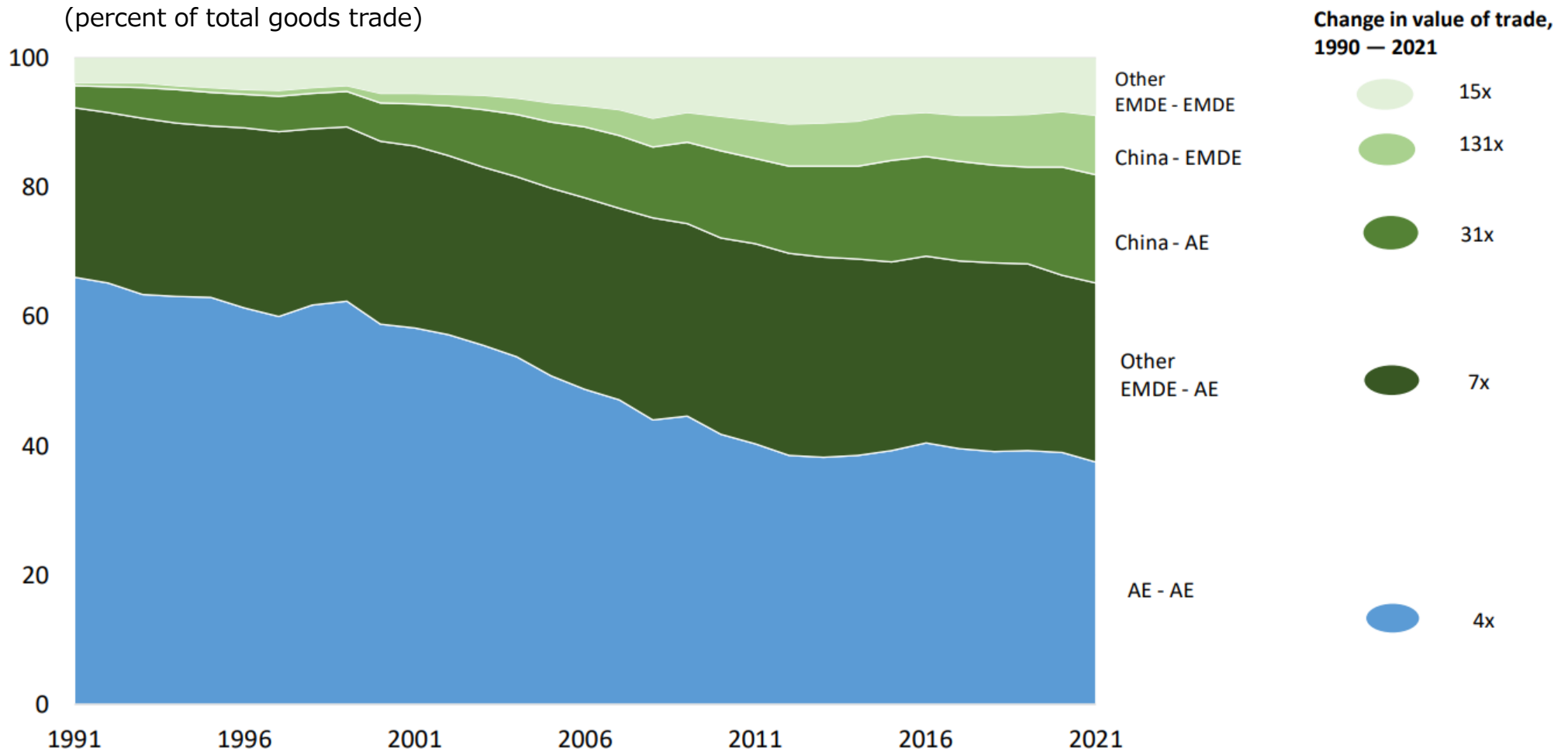
Source: Central Bank of Russia ; compiled by DIR.

# US Treasury Securities Held by Japan and China



Source: US Treasury; compiled by DIR.

# Bilateral Goods Trade by Development Status, 1990-2021



Original source: IMF Direction of Trade Statistics and IMF staff calculations  
 Source; IMF, 2023. "Goeconomic Fragmentation and the Future of Multilateralism"

# **Approach to Mitigate Risks of Fragmentation (Guardrails)**

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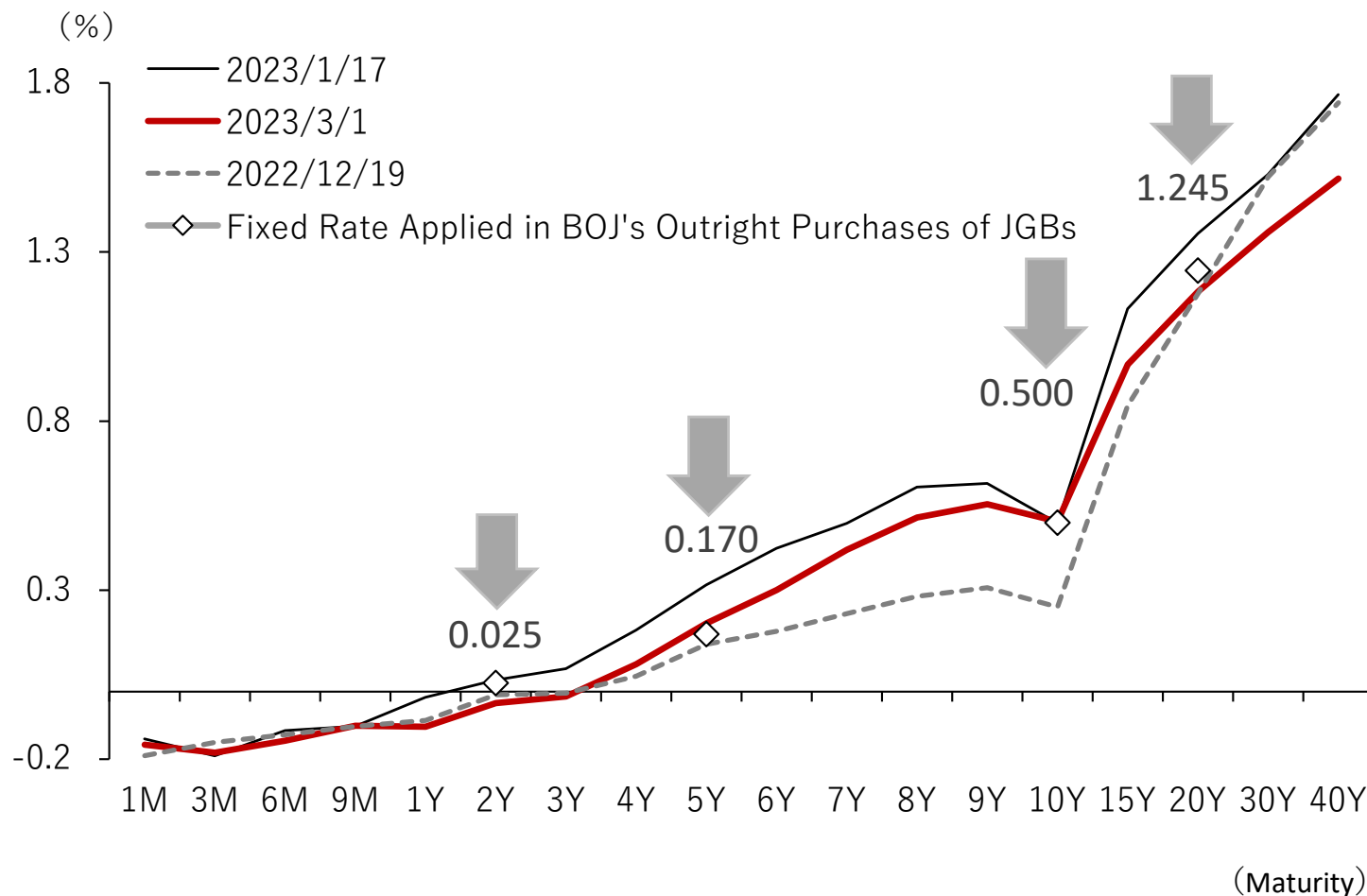
## **Multilateral consultations before sanction**

- **Prior notification of the policy intention**
- **An explanation of its rationale and objectives**
- **A discussion of potential cross-border spillovers and ways to address them**

## **Commonly agreed norms of conduct**

- **Agreements on “safe corridors” to ensure a minimum level of cross-border flows of critical goods, services, and finance**

# Shift in Yield Curve before and after MPM



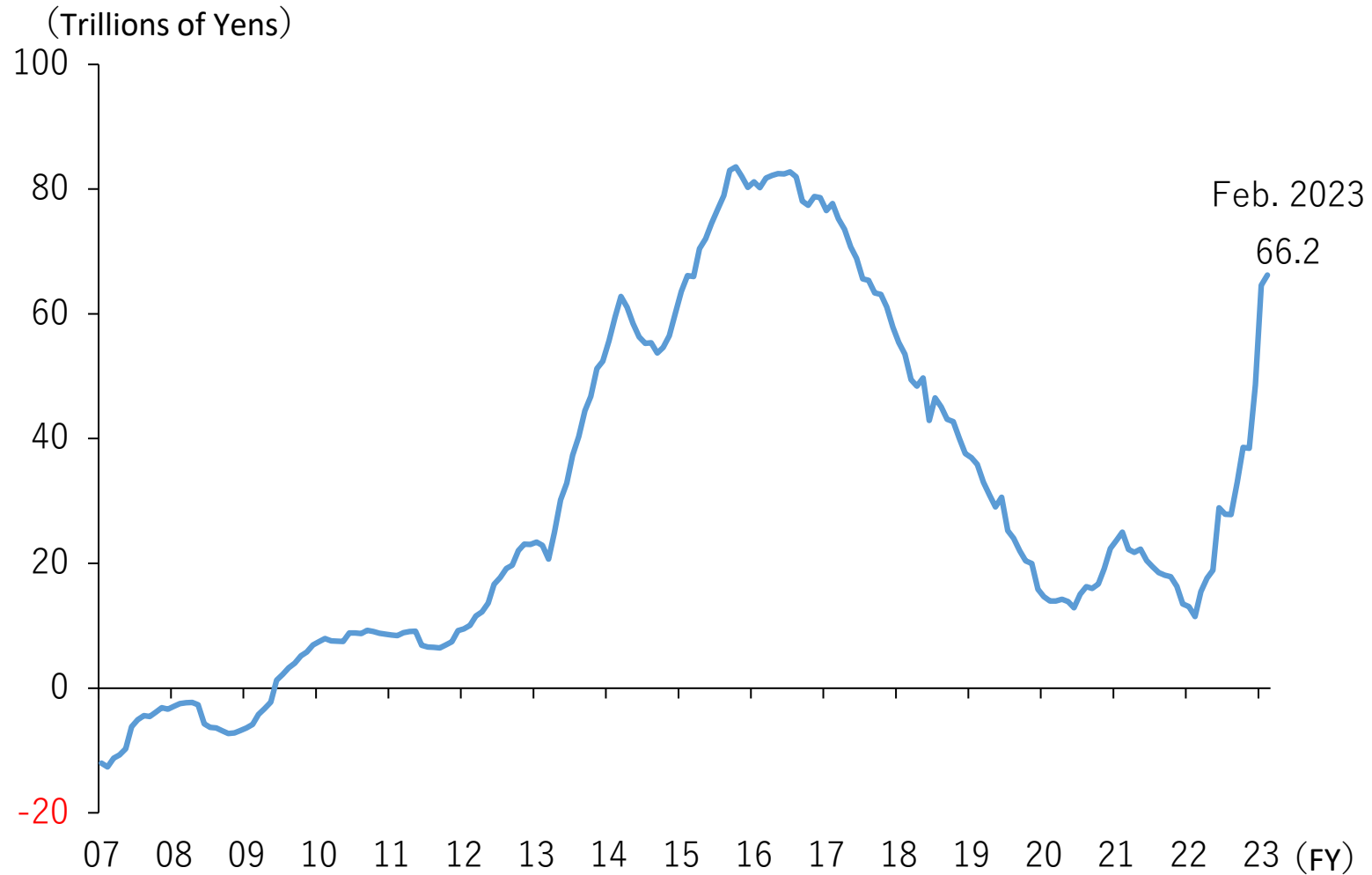
Note 1 ; The fixed rate applied in BOJ's outright purchases of JGBs as of the latest operation.

Note 2 ; The fixed rate as of December 20, 2022(the December MPM); 1-3Y : 0.02%, 3-5Y : 0.17%, 10-25Y : 1.245%.

Source: Bank of Japan; compiled by DIR.

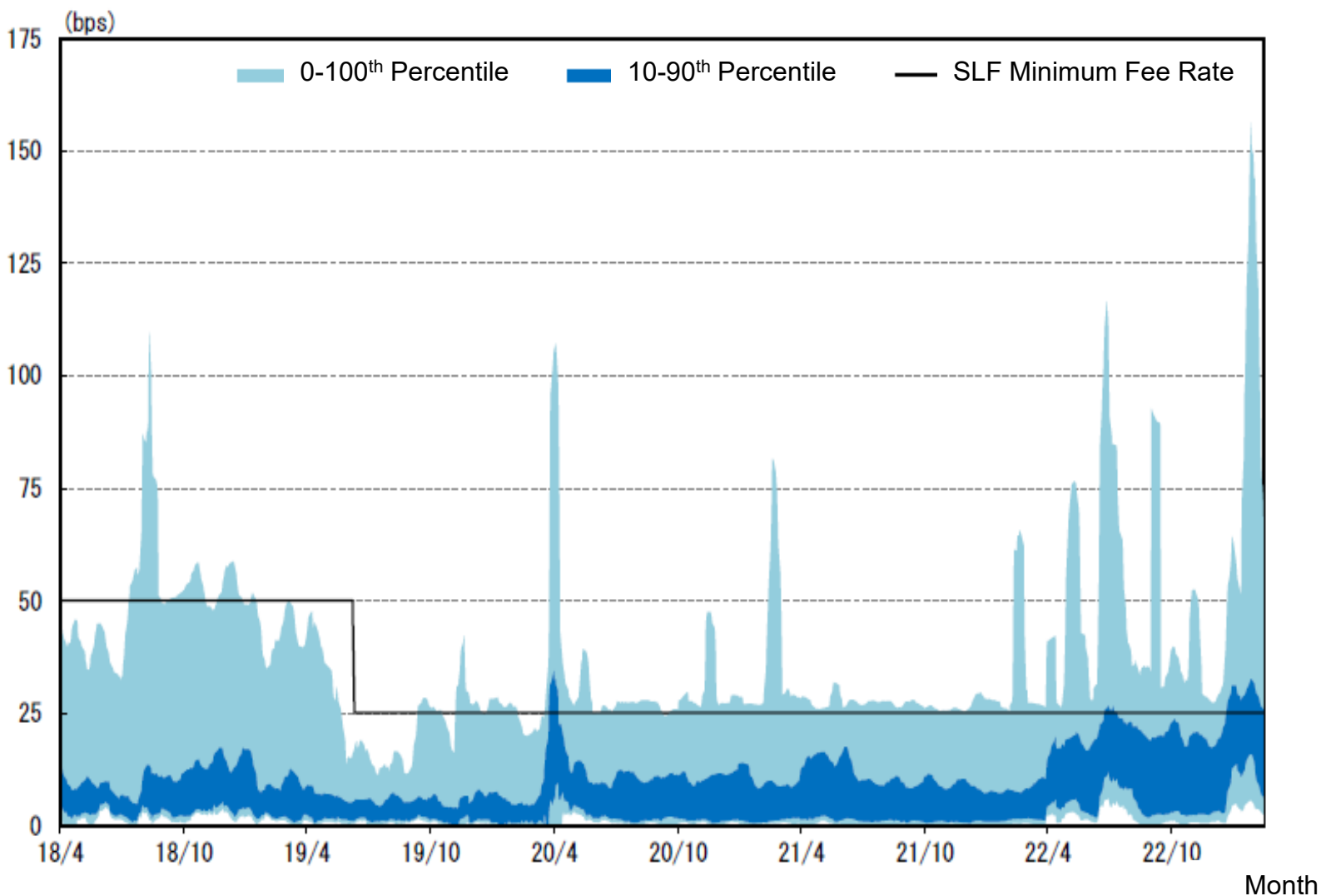


# Japanese Government Bonds Purchased by the Bank of Japan



Source: Bank of Japan; compiled by DIR.

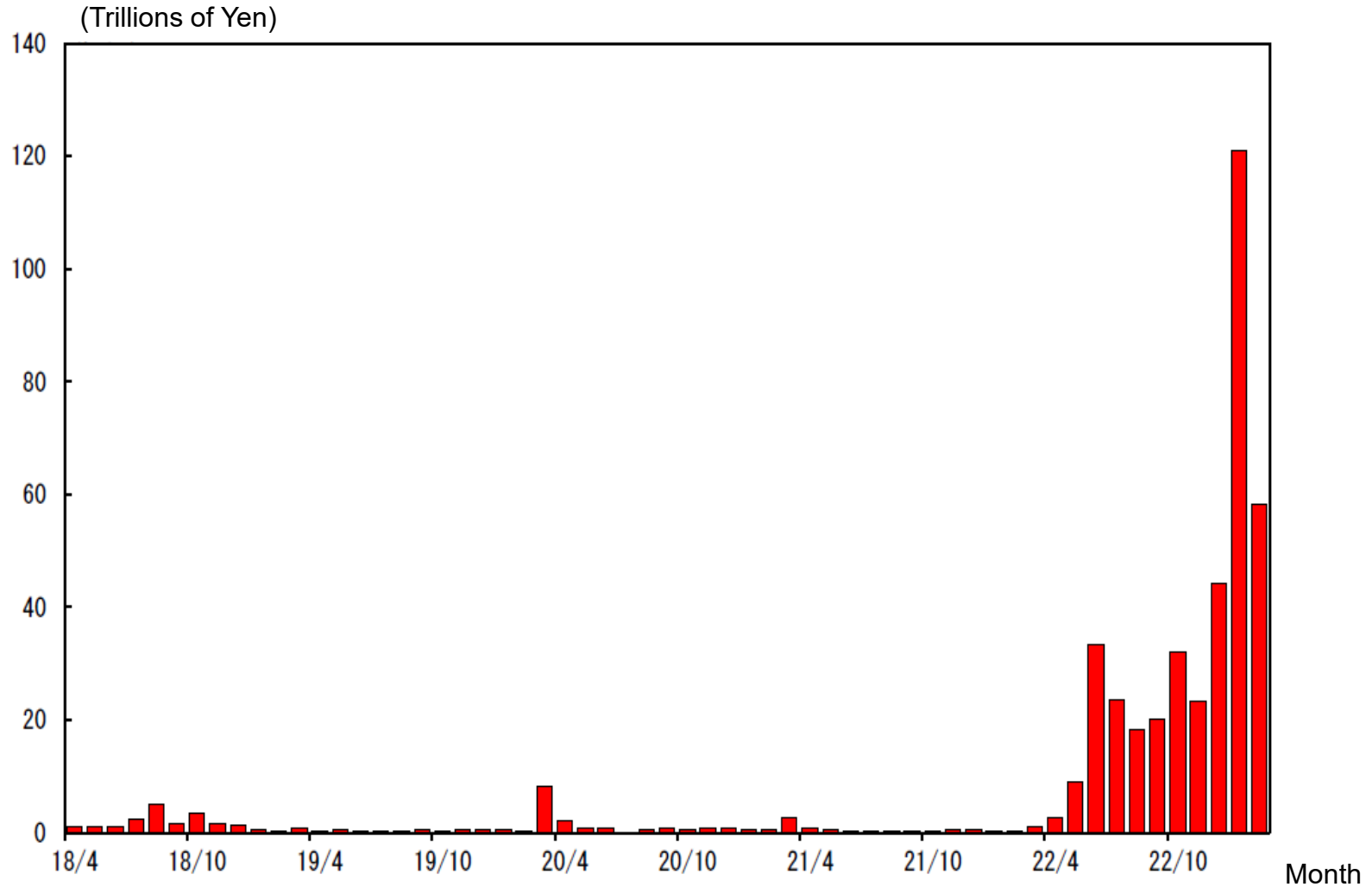
# GC-SC Spreads



Note: The values are calculated on all JGB repo traded through “JBOND system”. They are ten-day moving averages.  
Source: JBond Totan Securities, Bank of Japan, Japan Securities Dealers Association

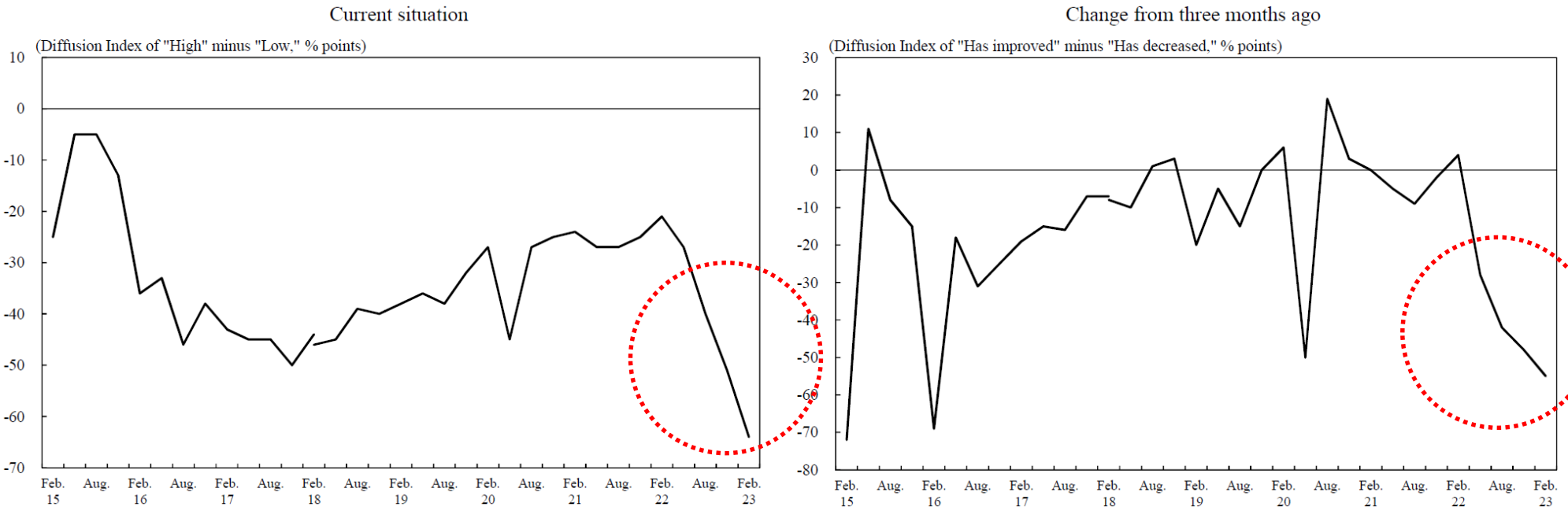
# Securities Lending Facilities

## Amounts of Bids Accepted



Source: Bank of Japan

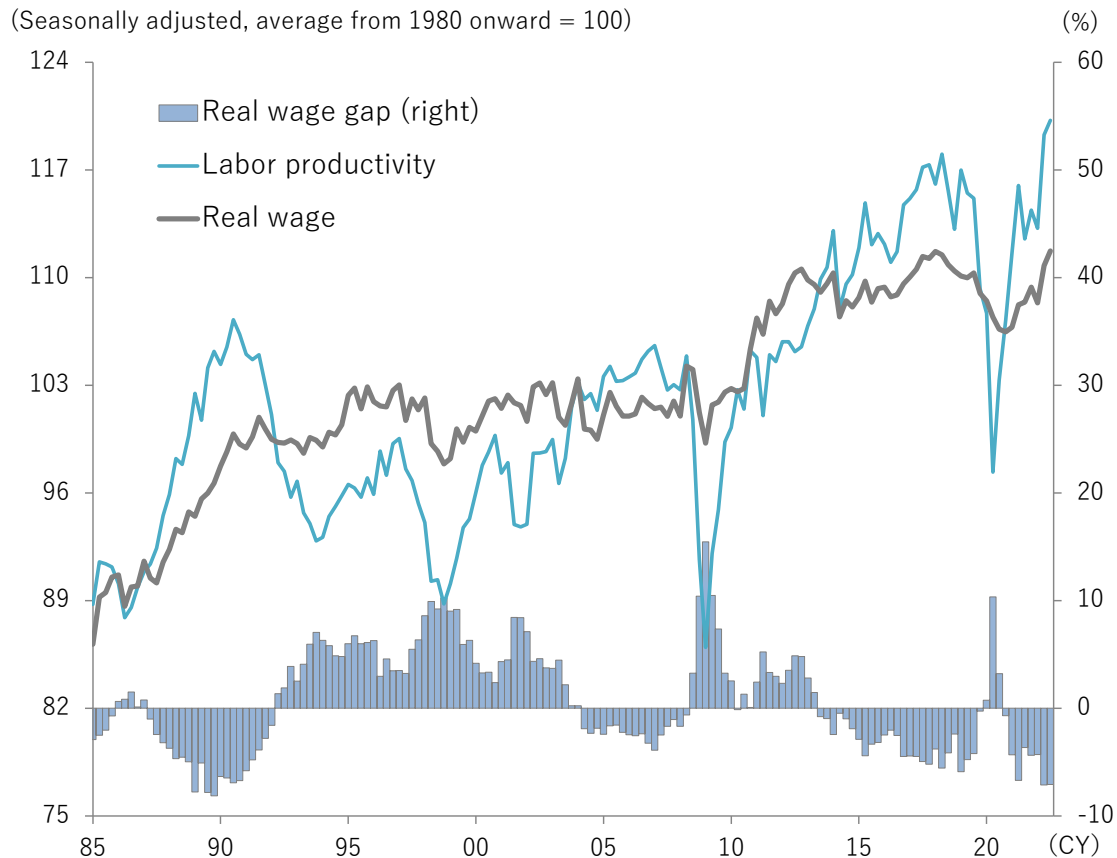
# Degree of Bond Market Functioning



Note: The survey from February 2018 onward includes responses from major insurance companies, asset management companies, etc., in addition to those from eligible institutions for the Bank's outright purchases and sales of JGBs. Regarding the figures for February 2018, the reference data, which are based on responses only from eligible institutions for the Bank's outright purchases and sales of JGBs, are also indicated. The survey is conducted in February, May, August, and November each year.

Source: Bank of Japan; compiled by DIR.

# Real Wage Gap



When the figures of Q1 2009 are defined as 100, ...

	Q3 2022
Labor Productivity	140
Real Wage	113

Note: 1 The real wage gap is defined as the deviation of real wages from labor productivity.

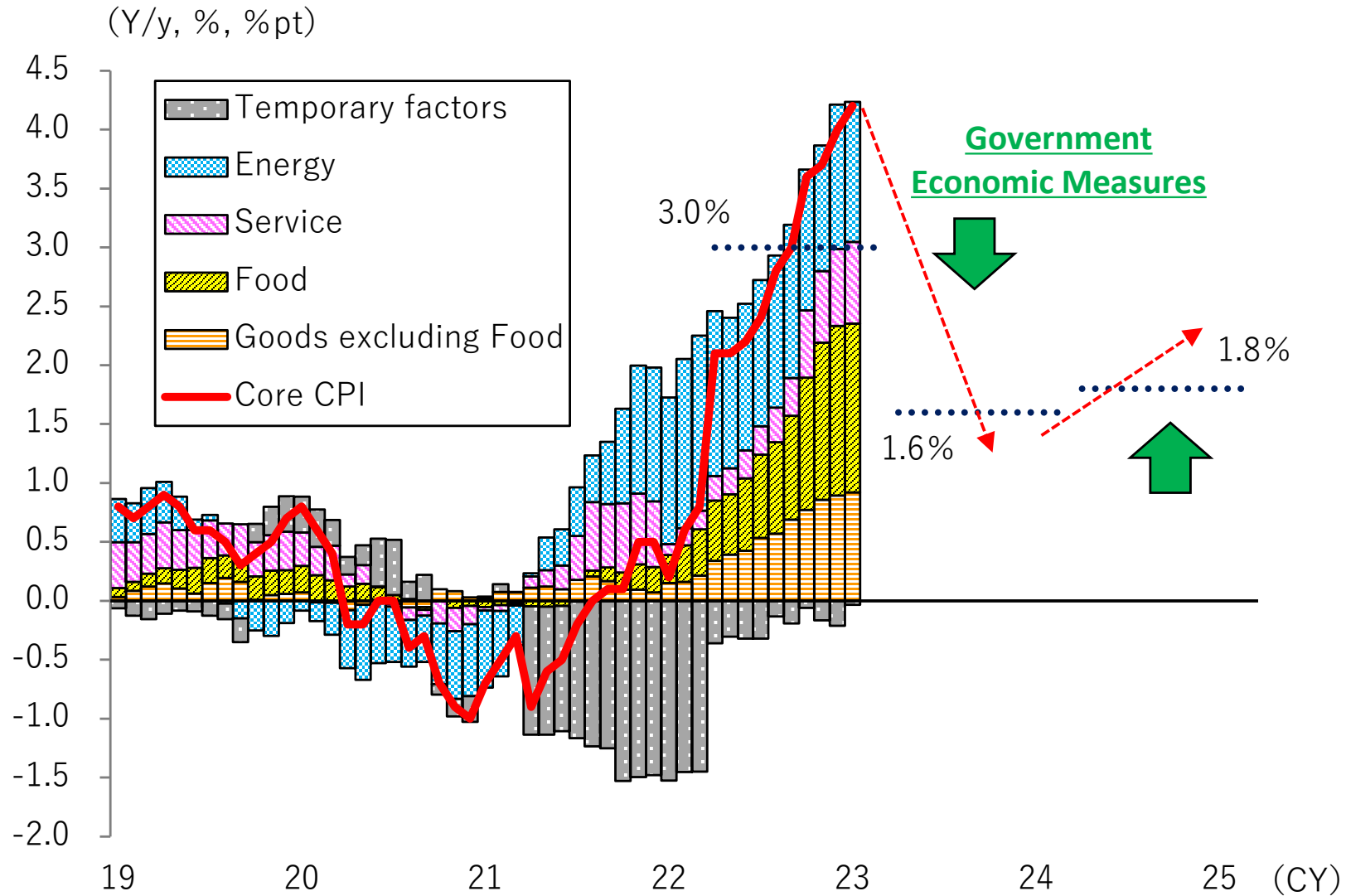
2 Real wage = personnel expenses / number of workers / GDP deflator

3 Labor productivity = (operating profits + personnel expenses + depreciation expenses) / number of workers / GDP deflator

4 Variables such as personnel expenses are based on the "Financial Statements Statistics of Corporations by Industry, Quarterly" and exclude "finance and insurance."

Source: Ministry of Finance, Cabinet office, Bank of Japan; compiled by DIR.

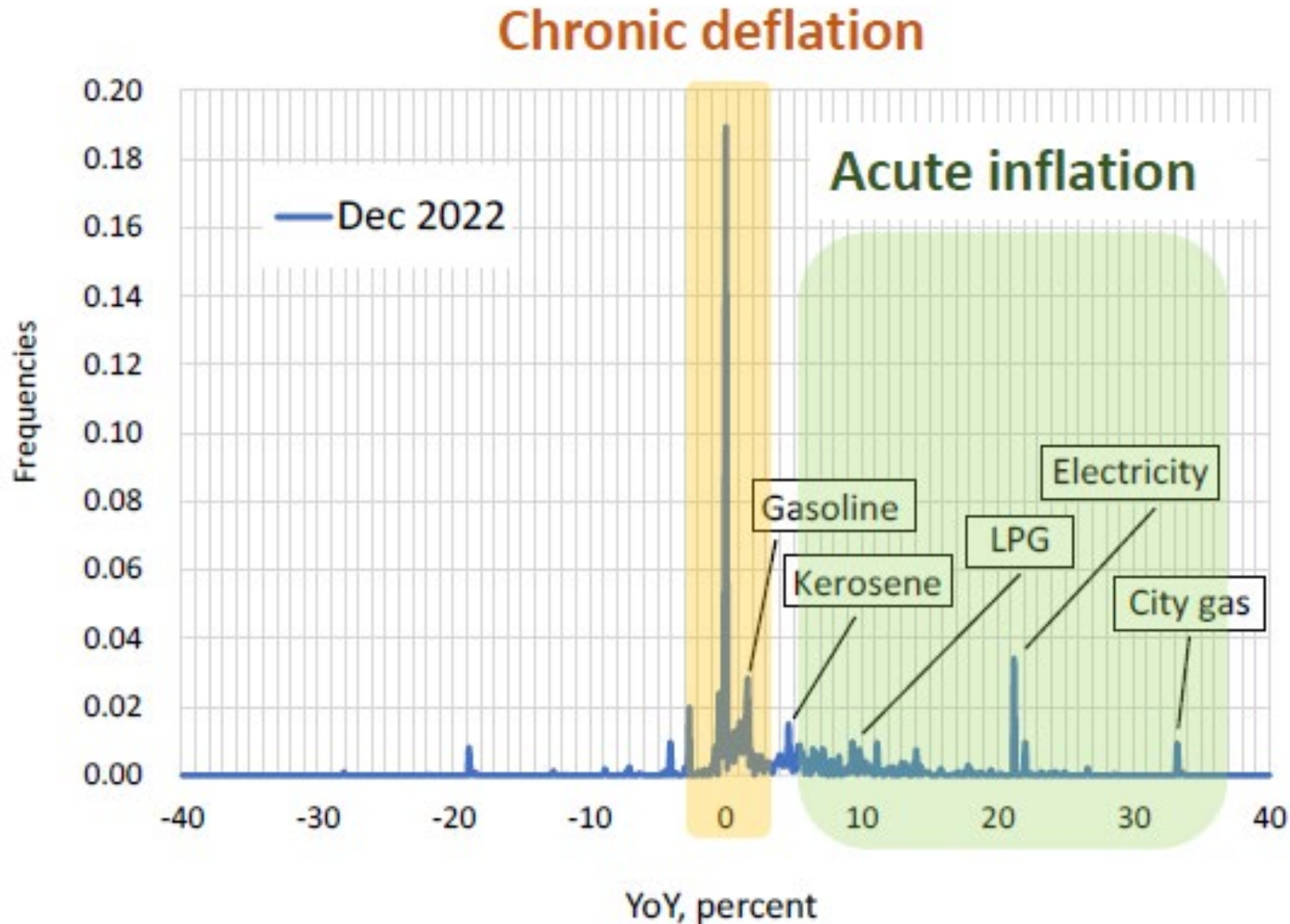
# Core CPI Factors and BOJ's Outlook



Note: Temporary factors include the effects of the increase in consumption tax, free education, travel support measures, and the decrease in mobile phone fees.

Source: Ministry of Internal Affairs and Communications, Bank of Japan

# Simultaneous Occurrence of Deflation and Inflation



Source: Tsutomu Watanabe, March 1 2023, "Can a Virtuous Cycle Between Wages and Prices be Achieved?"

# Vision and Mission of FinCity.Tokyo

## TMG Global Financial City: Tokyo Vision (as of November 2017)

Asia's  
Financial Hub

Financial  
Talent, Funds,  
Information,  
Technique

Asset  
Management  
&  
FinTech

Social  
Problem  
Solving

東京国際金融機構  
FinCity.Tokyo

Promotion

Policy shaping

Collaboration among  
relevant authorities

Attracting foreign  
talents and firms

Dissemination

Obtain  
feedback and  
suggestions

Attract to  
Tokyo/ Japan

- Policy makers
- National Government
- Tokyo Metropolitan Government
- Industry Associations

Policy recom-  
mendations

- Investors
- Financial Institutions
- Fintech firms
- Authorities
- Media

Source: FinCity.Tokyo

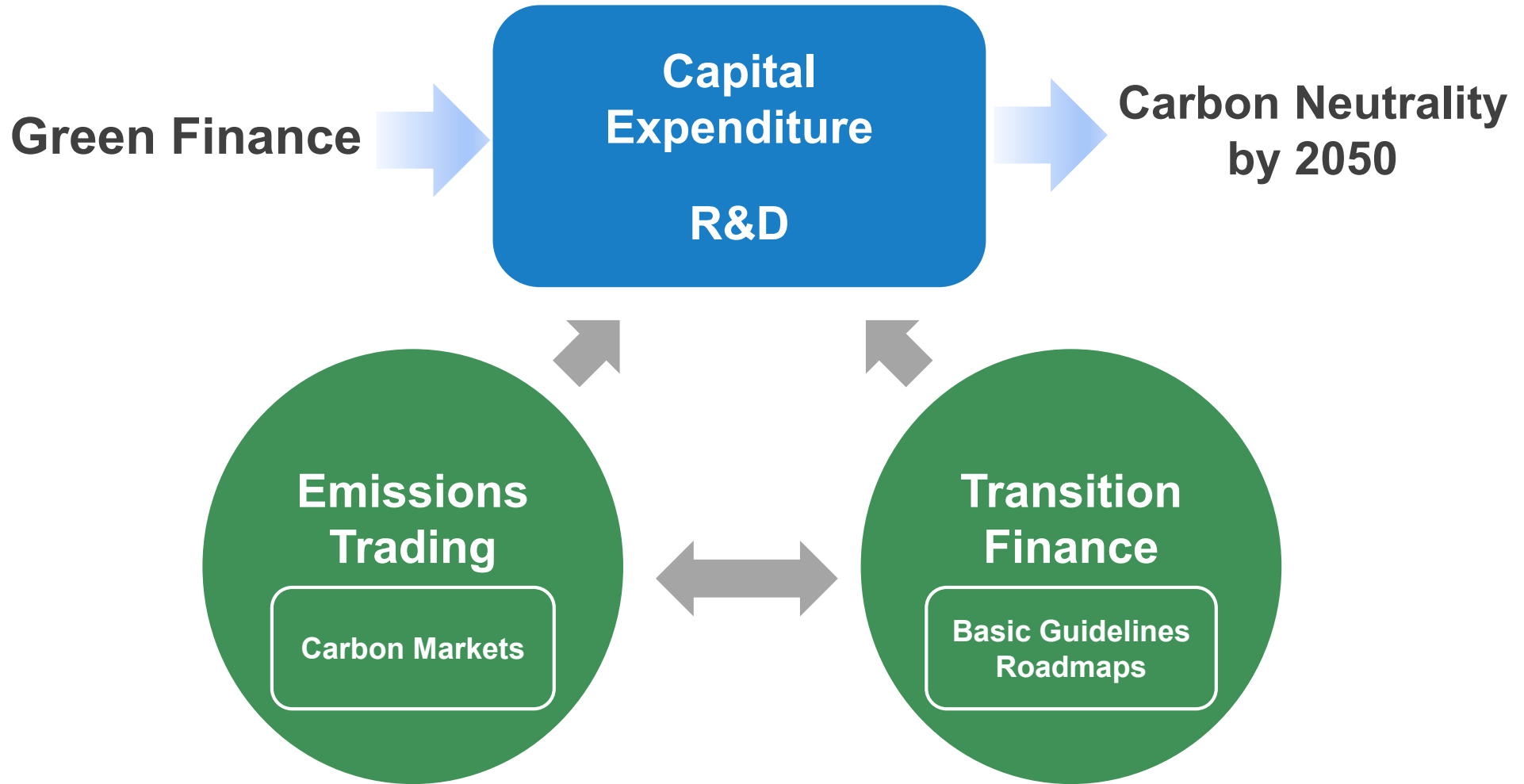


# FinCity.Tokyo Membership (As of February, 2023, 51 companies & associations)



Source: FinCity.Tokyo

# Green Finance Strategy toward Carbon Neutrality

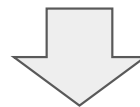


Source: DIR

# Climate Transition Finance Framework

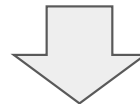
## Basic Guidelines on Climate Transition Finance (May 2021)

<b>Element 1 :</b>  <b>Fundraisers' climate transition strategy and governance</b>	<b>Element 2 :</b>  <b>Business model environmental materiality</b>	<b>Element 3 :</b>  <b>Climate transition strategy to be science-based including targets and pathways</b>	<b>Element 4 :</b>  <b>Implementation Transparency</b>
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A roadmap for decarbonization initiatives has been developed for each industrial sector

9 industrial sectors : Iron and steel, Chemicals, Power, Gas, Petroleum, Pulp and paper, Cement, Shipping, and Aviation



Referring to the roadmaps, companies are able to implement financing with transition bonds and loans This enables them to develop their own strategies and climate change measures.

## Transition Bonds Issued by Japanese Companies (As of the end of Feb. 2023)

15 issuers, 29 bonds, 441 billion yen of total bonds outstanding

Date of Issue	Issuer	Amount (billions of yen)	Term
2021/7	NYK Line	10 · 10	5 · 7
2022/2	JAL	10	5
2022/2	Tokyo Gas	10 · 10	7 · 10
2022/5	JERA	12 · 8	5 · 10
2022/5	Kyushu Electric Power	30 · 25	5 · 10
2022/5	Osaka Gas	10	10
2022/5	IHI	11 · 9	5 · 10
2022/6	JFE H	25 · 5	5 · 10
2022/6	ENEOS H	85 · 15	10 · 20

Date of Issue	Issuer	Amount (billions of yen)	Term
2022/7	Idemitsu Kosan	10 · 10	5 · 10
2022/8	Osaka Gas	27	10
2022/8	Daido Steel	10	5
2022/9	Mitsubishi Heavy Industries	10	5
2022/11	Toho Gas	10	10
2022/11	Hokuriku Electric Power	18.5 · 15.3 · 10.6	5.4 · 10 · 20
2022/12	Saibu gas	10 · 5	5 · 10
2022/12	Tokyo Gas	10.1 · 9.7	60 · 60

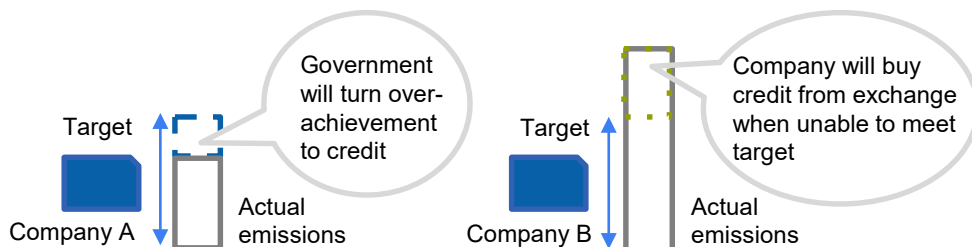
Source: Compiled by FinCity.Tokyo based on data extracted from the JPX ESG bond platform.

# Creation of carbon trading market

## Government (METI) plans

### “GX League” (Voluntary participation by companies)

1. Draw up 2030 targets/plans compatible with 2050 carbon neutrality, disclose them to capital market (pledge & review);
2. Execute plans (Government will review, publish their progress annually);
3. Trade emission allowance to achieve their targets



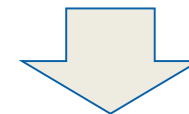
### “Carbon credit market” (Tokyo Stock Exchange)

Company-derived: Emission reduction credit by GX League participants  
Project-derived : J-credit (Energy conservation, forest preservation, etc.)  
JCM (emission reduction overseas)  
High-quality overseas voluntary credit (International standard credit)

- Move in step with international standardization of credit trade, to develop an international credit market
- The exchange will **publicize trading prices.** (To be a beacon of carbon pricing)
- Companies that are not GX League members can buy/sell project-derived credit

To secure effectiveness,

- Expand the scope of participating companies with the aim to cover overall supply chains
- Cap emission allowance
- Offer interoperable electronic exchange platforms



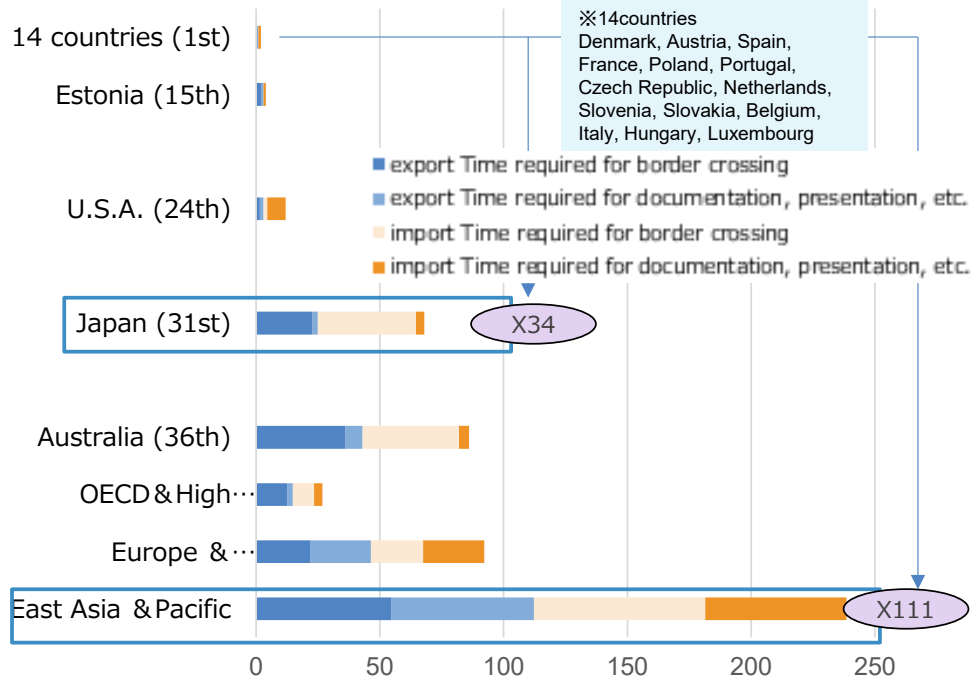
Become  
Asia's emissions trading hub

Source: Compiled by FinCity.Tokyo, “GX League Basic Concept”, Ministry of Economy, Trade and Industry, February 2022

# Japanese Digital Trading Platform TradeWaltz

## Time for trade transactions (in hours)<sup>1)</sup>

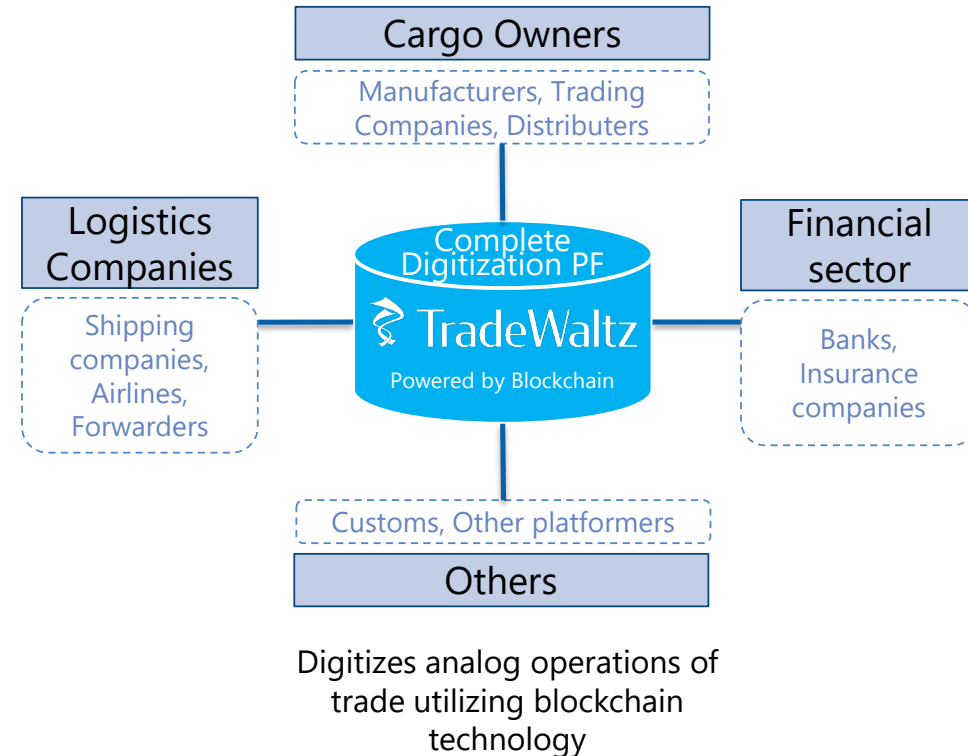
East Asia and the Pacific region and Japan, compared to other developed regions and countries. trade transactions take longer.



Ref : Trading across Borders (THE WORLD BANK Last accessed September 6, 2019.)

Source: TradeWaltz Inc.

## Trade DX startups undertaken by industry, government, and academia ALL JAPAN



# Japanese Digital Trading Platform TradeWaltz

	Major Participating Companies
Banks	MUFG Bank, Ltd.
	Sumitomo Mitsui Banking Corporation
	Mizuho Bank, Ltd.
Insurance Companies	Tokio Marine & Nichido Fire Insurance Co., Ltd.
	Sompo Japan Insurance Inc.
	Mitsui Sumitomo Insurance Company, Ltd.
Cargo Owners	Sumitomo Corporation
	Mitsubishi Corporation
	Sojitz Corporation
	Toyota Tsusho Corporation
	Marubeni Corporation
	Itochu Corporation
	Kanematsu Corporation
	Mitsui & Co., Ltd.
Carriers / Logistics Companies	Kawasaki Kisen Kaisha, Ltd.
	Nippon Express Co., Ltd.
	Nippon Yusen Kabushiki Kaisha
Secretariat	NTT DATA (Blockchain Expert)



Note: As of February 2023

Source: TradeWaltz Inc.