

# The Changing Global Financial Order

## *Speech at the Asian Financial Forum 2026 in Seoul, South Korea*

21 May 2026

---

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

## Introduction

It is my pleasure and honor to address the distinguished audience at the Asian Financial Forum held here in Seoul today. Flying from Haneda to Gimpo Airport takes barely two hours, far shorter than traveling to many other global destinations as air routes are disrupted by geopolitical tensions. In a world where economic and financial linkages are becoming fragmented and policy predictability is eroding, proximity and reliability are taking renewed meaning. It is against this backdrop of a changing global economic and financial order that I would like to talk today about the forces reshaping the global landscape and the role that Japan and Korea as close partners can play in sustaining stability.

## 1. US Tariffs and War in the Middle East

### American Perspectives underlying Trump 2.0 Policies

The peace dividend that the world has enjoyed since the end of the Cold War started to fade as geopolitical tensions rose. This was compounded by the United States' departure from the traditional global order of its own creation. This shift is attributed to perspectives underlying Trump 2.0 policies. The table on **Page 4** outlines how they contrast with the conventional views held by the rest of the world.

From the Trump administration's perspective, its military supremacy provided the post-war world with the foundation for unprecedented peace and prosperity at the cost of lives of US servicemembers and taxpayers' money. While we are grateful for the sacrifices made, from a non-US perspective, the US was the biggest beneficiary of the free trade system. Reversion to fossil fuels based on the so-called "drill, baby, drill" principle overwhelmed the need to address climate change and sidelined policies for carbon neutrality, which we believe remains a priority policy agenda.

They also say excess demand for the key currency kept the USD overvalued and deprived American manufacturers of competitiveness, which resulted in cumulative trade deficits against trading partners. But we have envied the USD as the key currency having exorbitant privilege. Trump 2.0 policies intend to reverse the move in their favor by replacing the global economic order with a new one that they think better serves their national interest<sup>1</sup>.

---

<sup>1</sup> A Japanese scholar argues that the thoughts underlying Trump 2.0 may be better understood by reviewing the history of the Evangelicals and ways it influenced the policy making in the United States. See Kato, Yoshiyuki (2025).

## Changes in the Global Trade Flow

The chart on **Page 5** shows reciprocal tariff rates that the US tried to impose on major trading partners. Although the US Supreme Court denied the legitimacy of the reciprocal tariff, the rates will most likely remain in one way or another as a new legal basis will be put in place<sup>2</sup>. Japan and Korea were among the economies with relatively lower rates. Besides the reciprocal tariff, the US separately imposes sectoral tariffs on steel, aluminum, and automobiles. The sweeping tariff policy by the US is a clear departure from the multilateral free trade system with big impacts on global trade flows.

The graph on **Page 6** compares flows of trade in goods in 2016, 2024, and 2025. While exports from China to the US in 2024 increased by 35% from 2016, exports from China to Canada and Mexico as well as to ASEAN countries more than doubled during the corresponding period, a substantial portion of which must have made its way through to the US. The Trump tariff policy probably had an intention to cut off this channel. However, while exports from China to the US contracted by 20% in 2025 compared with 2024, exports to the US from ASEAN countries increased by 29%, almost offsetting the improvement in the US trade balance against China.

The chart on **Page 7** displays the trajectory of the US current account and component balances. The trade deficit in goods, shown in the yellow bars, has been in a widening trend since 2009 with no improvement in 2025, despite the introduction of tariffs in that year. Meanwhile, the surplus in the primary income balance in the dark blue bars, which includes investment income, has disappeared recently, reflecting net leakage of income to external investors. As a result, the current account deficit, shown in the solid dark line, has expanded to levels not seen before.

The deficit represents the shortage of US domestic savings, or the amount that must be financed by overseas investors. The deficit is likely to persist irrespective of tariff measures as long as the US savings shortage can be absorbed by foreign savings. Thus far, financing has not created difficulties because the USD as the key currency has an exorbitant privilege. Unlike other economies, the US does not need to have foreign exchange (FX) reserves in USD to provide for current account deficits.

## War in the Middle East

The challenge faced by the global economy is compounded by the outbreak of the war in the Middle East. The table on **Page 8** summarizes the results of three scenario analyses presented in the IMF's World Economic Outlook released last month. It suggests that a prolonged conflict accompanied by elevated energy prices could weaken global growth while pushing inflation higher. As financial markets have not fully priced in the most severe risk scenario, persistent energy price pressures could eventually de-anchor inflation expectations and drive inflation rates even higher.

This could push up long-term interest rates, which, as the graphs on **Page 9** show, are already 10–50 basis points higher than the pre-war period and unduly tighten financial conditions. The IMF warns that if geopolitical risks escalate beyond current levels, the world could enter its “largest energy crisis in modern times.”

---

<sup>2</sup> On February 20, 2026, the U.S. Supreme Court ruled that IEEPA does not authorize the President to impose tariffs. The Trump administration responded the same day by invoking Section 122 of the Trade Act of 1974, imposing a temporary 10% global tariff effective February 24 for up to 150 days. On May 7, 2026, the U.S. Court of International Trade struck down the Section 122 tariffs. Going forward, the Trump administration is expected to rely primarily on Section 301 and Section 232. However, statutory procedures under both Section 301 and Section 232 require formal investigations—within 12 months for Section 301 and within 270 days for Section 232—meaning these authorities cannot be invoked as rapidly as IEEPA or Section 122.

Lessons from past oil shocks have led Japan and Korea to implement various countermeasures, including improved energy efficiency and diversification of primary energy sources. Crude oil imports have declined since the oil shocks in the 1970s. Today, as the graph on **Page 10** shows, both countries maintain oil reserves equivalent to around 200 days of supply, which are relatively high by international comparison.

However, new vulnerabilities have emerged. Despite declining import volumes, Japan's dependence on oil from the Middle East has climbed to 96%, as the graph on **Page 11** shows. Moreover, many oil products are imported today from the region. For example, about 45% of Japan's naphtha supply comes from the Middle East. As long as Gulf energy infrastructure remains damaged and the Strait of Hormuz continues to be a choke point, fully resolving supply bottlenecks for crude oil and petroleum products, including downstream goods, will remain difficult.

The global economic order is changing against the backdrop of rising geopolitical tensions, a departure from the multilateral free trade system, and the energy supply shock. The flipside of this is the ongoing transformation of the global financial order.

## 2. Changes in the Global Financial Order

### USD Hegemony

After the collapse of the Bretton Woods system, major countries shifted to floating exchange rate regimes, and the international monetary system transitioned into a “non-system,” in the sense that it lost a formally defined key currency. Nevertheless, the US dollar has continued to maintain its position as the single most important key currency.

The strength of the US dollar has been supported by several factors, as outlined on **Page 13**. First, confidence in the United States as the guardian of international order, underpinned by overwhelming military power. For countries that share values such as the rule of law and a multilateral free trade system, US policies were regarded as predictable. Second, the sheer size of the US economy. Third, the existence of deep, large-scale financial markets offering safe and highly liquid assets, most notably US Treasury securities, supported by a stable financial system. Fourth, the presence of an independent central bank committed to preserving the value of the currency, or price stability. Fifth, strong “network externalities,” whereby widespread use of the dollar leaves no viable alternative.

Under these circumstances, while the United States has been the beneficiary of exorbitant privilege, it has also borne costs as the issuer of the key currency: (i) it must conduct sound fiscal and monetary policies while taking into account spillovers to the global economy; and (ii) in times of widespread global financial crisis, the Federal Reserve (Fed) must provide US dollar liquidity as the Lender of Last Resort.

### US Policies Defending the Dollar

The Trump administration has maintained a stance of preserving the dollar's dominance as the key currency, while showing reluctance to shoulder the associated costs. Beyond economic rationale, the administration also seems keen to preserve its ability to impose effective sanctions, such as cutting off access to the dollar, as was done against Russia. From this perspective, several strategic initiatives appear to have been put in place to sustain dollar hegemony.

## ***Dollar-Denominated Stablecoins***

Among the policies to defend the dollar, the introduction of dollar-denominated stablecoins appears highly strategic. As compiled in the table on **Page 14**, stablecoins are digital currencies issued by private-sector entities such as non-bank institutions outside the traditional banking system, backed by safe assets such as Treasury securities and leveraging blockchain technology. By contrast, retail central bank digital currencies (CBDCs) are issued by central banks as digital payment instruments that would substitute for cash. Several non-US central banks including the European Central Bank (ECB), the People’s Bank of China (PBOC), the Bank of Japan, and the Bank of Korea are developing CBDCs.

The chart on **Page 15** summarizes future paths of new private and central bank money. The US administration has taken a clear position of prohibiting CBDCs while promoting stablecoins that leverage private-sector innovation. A distinct feature of stablecoins is efficiency and usefulness particularly for cross-border payments. The strategic significance of dollar-denominated stablecoins lies not only in technological efficiency, but also in their potential to entrench the dollar’s role at the level of payment infrastructure. Control over such infrastructure can translate into lasting economic influence over a wider geographical area, including the Western Hemisphere.

At the same time, structural risks associated with stablecoins have become widely known, including vulnerabilities similar to those of money market funds, such as the risk of fire sales of backing assets during periods of concentrated redemption demands.

For these reasons, and also from the standpoint of “currency sovereignty,” the euro area has prioritized the development of CBDCs over stablecoins. The ECB seems to hold the view that the improved efficiency of private money can be attained by tokenization of existing traditional bank deposits. Japan’s position is somewhere in the middle. The Bank of Japan is proceeding with retail CBDCs research and development without committing itself to issuance at a designated date in the future. Meanwhile, the government legislated<sup>3</sup> for issuance of yen-denominated stablecoins.

Today the central bank community is increasingly focused on the wholesale CBDCs, which are central bank’s digitalized liability, the use of which is confined to interbank players in large volumes. Typically, blockchain technology is adopted to facilitate smooth, prompt, and economical payments with a view to improving efficiency in cross-border payments. As such, some central banks in Asia have incentives to jointly develop wholesale CBDCs with the clear purpose of facilitating trade and cross-border financial transactions<sup>4</sup>.

### ***Three Lines of Defense***

In addition to the USD stablecoin, the US authorities maintain the policy to preserve the value of the US dollar. In my view, they have three lines of defense to ensure it. The first is the termination of quantitative tightening (QT). The charts on **Page 16** show the trajectory of the Fed’s balance sheet. During the QT period highlighted in yellow, the asset size shown on the left side shrank mostly by reduction in Treasury securities holdings as they matured. This was met by a corresponding decline in reverse repurchase agreements and reserves on the liability side. The reserves represent aggregate amount of USD liquidity supplied to the money market. The termination of QT in December 2025 implies that ample liquidity is maintained in the US banking system and that it would preclude a recurrence of unintended market hiccups. After all, the Fed’s balance sheet remains 1.6 times larger than before the pandemic, and 7.4 times as large compared with the days before the Global Financial Crisis (GFC).

<sup>3</sup> Japan’s Financial Services Agency revised the legal framework necessary for issuing yen-denominated stablecoins under the Payment Services Act. The bill was approved by the Diet in June 2022 and enacted in June 2023.

<sup>4</sup> mBridge, primarily led by China is a typical project that would enable central banks participating in the group (Hong Kong Monetary Authority, Bank of Thailand, People’s Bank of China, Central Bank of the U.A.E., Saudi Central Bank) to directly exchange their wholesale CBDCs with each other.

The second is the Fed’s standing repo facilities. As shown on **Page 17**, there are two types of facilities. The one on the left is a facility called the SRF<sup>5</sup>, under which the NY Fed provides the primary dealers and eligible banks operating in New York with dollar liquidity against the US Treasury securities, agency debt, and agency MBS they hold as collateral. It is intended to prevent repo rates from spiking in times of market stress. The FIMA<sup>6</sup> shown on the right side, are for foreign official institutions. Under this arrangement, foreign central banks and monetary authorities that hold accounts at the NY Fed and possess US Treasury securities can receive dollar funding from the NY Fed against the securities they hold. In this way the FIMA repo facility prevents large scale fire sales of US Treasury securities.

The second line of defense has been activated from time to time recently. The chart on **Page 18** traces key US money market interest rates and the amounts of liquidity provided through the SRF. The shaded parts show the target range for the Federal Funds rate. One can see from the chart that the Federal Funds rate shown in the dotted line move stably in the center of the range. Meanwhile, the red line, which represents rates in the General Collateral Repo Market, in which wider market players like non-banks participate, has been more volatile occasionally overshooting the upper threshold of the target range. In those circumstances, as the dark bars in the chart indicate, the SRF injected liquidity to contain spikes in the repo rates.

“The Last Line of Defense” is the central banks’ USD swap lines. As outlined on **Page 19**. There are two types. The one shown on the left side is the swap arrangement among six central banks including the Fed that mutually provide their reserve currencies. First established shortly after the Lehman debacle in September 2008, it developed into the current form in October 2013, which is now a permanent standing facility with a full-allotment system and multilateral network of swap lines<sup>7</sup>. The other type shown on the right side is a range of bilateral swap lines between the Fed and a broader group of central banks. This arrangement was of a temporary nature with limits to the US dollar available. The last time this type of arrangement was activated was during the pandemic period to address acute dollar liquidity shortage.

Under the dollar swap contract, a central bank borrows US dollars from the NY Fed against its own domestic currency. The dollar thus obtained will then be channeled to the domestic financial market via open-market operations. In this way, the Fed functions as the global Lender of Last Resort, providing the US dollar, the key currency, to every corner of the globe on a continuous basis during crisis.

The chart on **Page 20** shows the amount of USD provided through the swap lines in the past. It was activated on a large scale during the Global Financial Crisis, the European Debt Crisis and the pandemic disruption. We can see that the ECB, shown in blue, was the largest beneficiary in the GFC, while the BOJ shown in green was the largest taker of US dollar liquidity during the pandemic crisis.

Taken together, these three lines of defense operate on different horizons: ample liquidity supports markets in normal times, standing repo facilities contain episodic stress, and swap lines serve as the ultimate backstop in systemic crises.

---

<sup>5</sup> Standing Repo Facility (SRF)

<sup>6</sup> Foreign and International Monetary Authorities (FIMA)

<sup>7</sup> The swap line of the six major central banks was first established on September 18, 2008 (JST). It was initially intended to be a temporary framework with limits on the available amount of USD assigned to each participating central bank. Subsequently, the limits were removed. In February 2010, the swap arrangement was suspended briefly but reactivated in May 2010 after the outbreak of the European Debt Crisis. Later, in November 2011, the swap arrangement was expanded to a multilateral framework that ensured access to the non-USD reserve currencies of the member central banks in times of market stress. In October 2013, the framework became a permanent facility.

## Challenges to USD Hegemony

### *Cracks in the Almighty Dollar*

The measures I have mentioned seem to underscore the intention of the US administration to maintain USD hegemony. There is no doubt that the USD remains the single most important key currency. But will its supremacy be sustained? I see cracks appearing in the almighty dollar because some of the five sources of USD supremacy outlined on **Page 21** are undergoing changes.

First, the United States has stepped away from its role as the guardian of the international order and policy predictability has consequently declined. Confidence in the US dollar has long rested on the premise that the US would uphold a stable, rules-based international order. The introduction of tariffs, however, was a clear departure from the traditional order based on multilateral free trade. As US trade policy has become more discretionary and less predictable, it is now harder for markets to foresee consistency in US economic policies. This erosion of predictability ultimately undermines confidence in the US dollar. Second, there is concern about the soundness of the US Treasury market. The rising levels of fiscal deficit and debt-to-GDP ratio<sup>8</sup> under Trump 2.0 with little prospect for improvement cast doubt on fiscal sustainability. And third, the administration's threat to the Fed's independence runs the risk of inflation getting out of control and ultimately losing macroeconomic stability.

In fact, there were instances in the recent past when we witnessed confidence in the USD being undermined. For example, shortly after the shockwave triggered by the April 2 "Liberation Day" in 2025, there was a brief period when the value of dollar assets across the board plunged, as if a "Minsky Moment" had arrived, breaking the usual correlations among US Treasury securities, equities, and the dollar exchange rate. During this period, Japan experienced a record high level of capital inflow totaling JPY 8.2 trillion. Similar anecdotes were heard in other global financial centers. While such episodes should not be overstated, they may nevertheless be indicative of a gradual reassessment by global investors of concentration risks associated with dollar-denominated assets.

Seen from a broader and longer perspective, there are changes taking place elsewhere. The chart on **Page 22** shows US Treasury holdings by country. You can see that China has steadily reduced its holdings since the mid-2010s as conflict with the US escalated. The UK has climbed to become the second overtaking China. Japan, meanwhile, remains by far the largest holder with an outstanding amount of USD 1.2 trillion.

The chart on the left side on **Page 22** shows that half of global FX transactions have a dollar leg. However, in the chart on the right, which shows composition of the world's FX reserves, we see a declining USD share since the mid-2010s and a rising share of gold<sup>9</sup> overtaking the share of euros.

Overall, as shown on the right-hand side of the graph on **Page 23**, the dollar index shown in the blue line, which represents the dollar's strength against other currencies, dropped by 10% since the inception of the Trump 2.0 policies in stark contrast with the rising price of gold shown in the yellow line. However, we see the dollar regain strength every time geopolitical tension rises, highlighting the safe haven nature of the US dollar.

<sup>8</sup> The US fiscal deficit expanded to 6% and the debt-to-GDP ratio rose to 123% in 2025. The Office of Management and Budget projects a deficit of USD 2.07 trillion in 2026, a 21% jump from USD 1.7 trillion in 2025.

<sup>9</sup> There are several reasons that explain stronger demand for gold. First, the safe haven nature of gold has kept its price in a rising trend since around the turn of the century. Second, the London Bullion Market is a liquid market where gold could be sold for cash. Moreover, mining and refinery companies usually buy protection (i.e., borrow gold) against gold price movements. Therefore, holders of gold can earn returns by lending it. The lease rates have risen in the recent years in tandem with interest rates. Finally, for some countries, possession of gold in physical form in their own jurisdictions may be relevant because it is immune to US sanctions or asset freezes unlike dollar-denominated financial assets.

## Challenges to USD Hegemony

Meanwhile, the race to challenge USD hegemony is under way, led by the euro, although it is still a distant second. China's yuan follows the euro. As shown in the graphs on **Page 24**, this is evident with the growing turnover and value of Chinese yuan usage in the CIPS (Cross-border Interbank Payment System), which is an efficient cross-border payment system run by the central bank. The rising trend implies that the yuan is increasingly used as a transaction currency for trade in those regions where China's economic presence is growing.

This reflects the Chinese government's policy to promote trade settlements in yuan, notably in its import of oil. The chart on **Page 25** shows the development of the Shanghai Crude Oil Futures Market where contracts are made in terms of yuan. While the market remains smaller than WTI<sup>10</sup>, rising trading volumes and open interest suggest a gradual improvement in liquidity and wider market participation and a growing scale of petro-yuan, more broadly.

In summary, the foregoing analysis suggests that, at the present juncture, there exists no currency capable of immediately replacing the role of the US dollar. Its preeminence is underpinned by strong network externalities, which inherently possess a degree of inertia. It is therefore unlikely that the dollar's supremacy will be overtaken in any abrupt or discontinuous manner.

At the same time, however, it should be recognized that there is a discernible trend whereby certain functions historically fulfilled exclusively by the dollar as the key currency are, at the margins, being supplemented or partially substituted by other currencies. It is perhaps against this backdrop that global investors and official reserve managers are diversifying their portfolios by reallocating a portion of investment assets away from US dollar-denominated instruments toward other reserve currencies as well as gold.

Such developments do not imply an imminent loss of dollar hegemony, but rather point to a slow, evolutionary adjustment in the global financial order. In this sense, the challenge to dollar dominance should be understood not as a singular event, but as a protracted process—one shaped by structural changes in the global economy, shifts in risk perceptions, and the evolving preferences of market participants and policymakers alike.

## 3. Common Challenges

### Growth Strategy

In what ways should Japan and Korea collaborate to navigate the changing global economic and financial order? Let me point out three common challenges that I think are relevant. First, both economies should prioritize structural reforms and policies to remove domestic distortions and thus to elevate potential growth rates. The charts on **Page 27** show decomposition of potential growth rates in Japan and Korea since the turn of the century. Japan's rates remained low due mostly to the shrinking labor force and sluggish capital input, while the declining trend in Korea's rates can be attributed to diminished contributions from labor input and total factor productivity.

The charts suggest both economies need to address labor force constraints while boosting productivity through capital formation and innovation. This means for Japan, that growth strategy, originally the third arrow of Abenomics, needs to be flown faster and higher by reinvigorating structural reforms aimed at improving labor mobility and productivity. For Korea, policy efforts to channel finance toward

<sup>10</sup> WTI's monthly trading volume reached 44 million lots in March 2026, compared with 7 million lots for Shanghai Crude Oil, roughly 16% of WTI's level.

innovation and productive investment appear relevant. While institutional contexts differ, the underlying challenge in both economies is remarkably similar.

## Transition Finance

Second, in addressing climate change, Japan and Korea can collaborate in transition finance in order to accelerate our journey to net-zero goals. The disruption of oil supply caused by the war in the Middle East underscored the importance of reducing dependence on fossil fuels sooner than later. The transition to green requires a huge amount of investment that must be financed by mobilizing private capital in transition finance markets. One example is the attempt to create a network of interoperable carbon credit markets in the Asia Pacific region, which is an ongoing initiative driven by the private sector under the leadership of APEC Business Advisory Council (ABAC).

The chart on **Page 28** illustrates what they envisage. It shows, as an example, a case in which an Indonesian electric power company reduced carbon emissions through the early retirement of a coal-fired power plant, replacing it with a cleaner energy source. To recover the huge cost for the new plant, a part of the reduced emissions can be sold as carbon credits to overseas markets like Japan and Korea. Demand for purchasing such carbon credits would be strong among hard-to-abate industries and firms in those economies such as Japan and Korea. In this way, the economies across the region can collectively become green quicker than otherwise. The initiative is advancing to next steps in technical areas<sup>11</sup>.

## Financial Safety Net

Third, reinforcing the financial safety net to address the liquidity crisis. As I have mentioned in my speech today, swap lines constitute an integral part of the global financial safety net. In this respect, as outlined on **Page 29**, both Japan and Korea are key contributors to the Chiang Mai Initiative Multilateralization (CMIM), which is a financial safety net based on a multilateral currency swap arrangement jointly established by the ASEAN+3 economies with the objective of providing short-term US dollar liquidity in times of financial stress.

In addition, Japan and Korea have a Bilateral Swap Arrangement (BSA), which was signed in December 2023 by the Bank of Japan on behalf of the Minister of Finance and the Bank of Korea. The two-way arrangement enables both authorities to swap their local currencies in exchange for US dollars from each other in times of need<sup>12</sup>. The CMIM and the BSA focus on dollar liquidity but given the slow but steady diversification away from US dollar in the shifting global financial order, it may be worthwhile to consider reinforcing the financial safety net by adding yen-won swap lines between the Bank of Japan and the Bank of Korea in the future.

## Concluding Remarks

In conclusion, the global economic and financial order is undergoing gradual but far-reaching change. Policy predictability has diminished, risks propagate faster, and the distance between economies is increasingly defined not only by geography, but by trust and institutional reliability. In such an environment, the closeness between Japan and Korea acquires a renewed significance that goes well

---

<sup>11</sup> In 2025, the APEC Business Advisory Council (ABAC) launched a Pathfinder Initiative to promote sound development of voluntary carbon credit markets in the Asia Pacific. It encourages participating economies to align their environmental and financial integrity standards, strengthening investor confidence, boosting demand, and improving cross-border interoperability. The initiative also aims to connect and aggregate registry information across participating economies to ensure transparency and prevent double counting.

<sup>12</sup> The BSA has a three-year term with the maximum size of USD 10 billion. The significance of the BSA was reiterated in a joint press release issued upon the 10th Japan-Korea Finance Dialogue held in Tokyo on 14 March 2026.

beyond physical proximity. Let me conclude by reiterating that through pragmatic collaboration, our two countries can together enhance resilience and predictability, thereby contributing constructively to the stability of the broader global economic and financial system. Thank you very much for your attention.

## Bibliography

APEC Business Advisory Council (2024), *2024 Report to APEC Finance Ministers: Regional Public-Private Partnership: APEC's Path to a Digital, Inclusive and Sustainable Future*, submitted to APEC Finance Ministers, Lima, Peru, October 21.

APEC Finance Ministers (2024), *Joint Ministerial Statement - 31st Finance Ministers' Meeting 2024*, Lima, Peru, October 21.

International Monetary Fund (IMF) (2026), *World Economic Outlook*, April 2026.

Kato, Yoshiyuki (2025), *Evangelicals: American Society Torn by Eschatology* [『福音派—終末論に引き裂かれるアメリカ社会』], Chuo Koron Shinsha. (Japanese only)

Kobayakawa, Shuji (2026), "The Emergence of New Private Money and the Role of Central Bank Money" [「新しい民間マネーの登場と中央銀行マネーの役割」], *The Review of Economics and Political Science*, Vol. 94, Nos. 3-4. (Japanese only)

Miyazaki, Masato (2024), *Strong Currency, Weak Currency* [『強い通貨、弱い通貨』], Hayakawa Shinsho. (Japanese only)

Nakaso, Hiroshi (2016), "Monetary Policy and Structural Reforms," speech at Japan Society NY [「金融政策と構造改革—ジャパン・ソサエティ NY 講演」], Bank of Japan, February 12, New York.

Nakaso, Hiroshi (2017), "Japan's Way toward Strong, Sustainable, and Balanced Growth: Assessment of the potential of the Japanese economy suggests the sun also rises", Speech at meeting hosted by the Japan Society and the City of London Corporation in London [「日本経済の底力と構造改革—ジャパン・ソサエティおよびシティ・オブ・ロンドン・コーポレーション共催講演」], Bank of Japan, October 5.

Nakaso, Hiroshi (2022), *The Last Line of Defense: Crises and the Bank of Japan* [『最後の防衛線—危機と日本銀行』], Nikkei BP / Nikkei Publishing. (Japanese only)

Nakaso, Hiroshi and Hashimoto, Masahiko (2023), "The Yen as an International Currency" [「国際通貨としての円」], *Financial Review*, No. 153, Ministry of Finance. (Japanese only)

Nakaso, Hiroshi (2025), "Germany and Japan 2.0: Addressing Common Challenges at a Global Inflection Point," speech at Deutsche Bundesbank, Frankfurt am Main.

Nakaso, Hiroshi (2025), "Navigating a Shifting Economic Landscape," speech at Daiwa Japan Economy Seminar in Frankfurt.

Ueda, Kenichi and Hattori, Takahiro (2024), *International Finance* [『国際金融』], Nippon Hyoron Sha. (Japanese only)

Note: English translations of Japanese titles are provided by the author unless official translations are available.

**Notice:** This report is not intended as a solicitation for investment. Content herein is based on reliable information available at the time the handout was prepared and may be amended or otherwise changed in the future without notice. We make no representations as to accuracy or completeness. Daiwa Securities Group is the parent of Daiwa Institute of Research and Daiwa Securities. Daiwa Institute of Research retains all rights related to the content of this handout, which may not be redistributed or otherwise transmitted without prior consent.

# The Changing Global Financial Order

May 21, 2026

**Hiroshi Nakaso**

Chairman of the Institute  
Daiwa Institute of Research Ltd.

This handout is not intended as a solicitation for investment. Content herein is based on reliable information available at the time the handout was prepared and may be amended or otherwise changed in the future without notice. We make no representations as to accuracy or completeness. Daiwa Securities Group is the parent of Daiwa Institute of Research and Daiwa Securities. Daiwa Institute of Research retains all rights related to the content of this handout, which may not be redistributed or otherwise transmitted without prior consent.

Daiwa Institute of Research

## Table of Contents

<b>1. US Tariffs and War in the Middle East</b>	<b>3</b>
Views Underlying Trump 2.0 Policies	4
Reciprocal Tariff Rates for Major Countries & Regions as of February 19, 2026	5
Changes in the Flow of China's Goods Exports (2016 / 2024 / 2025)	6
US Current Account and Component Balances	7
Growth and Inflation Scenarios (IMF April 2026 WEO Forecast)	8
Changes in Yield Curves Following the Outbreak of the War in the Middle East	9
Oil Stockpile Days in IEA Member Countries (Import-Based, as of December 2025)	10
Japan's Dependence on the Middle East for Crude Oil Imports	11
<b>2. Changes in the Global Financial Order</b>	<b>12</b>
Factors Behind US Dollar Dominance	13
Stablecoin and Retail CBDC	14
Emergence of New Forms of Money	15
Federal Reserve Balance Sheet	16
Fed's Repo Facilities	17
US Money Market Key Rates and the Fed's Repo Operations	18
Central Bank Currency Swap Lines	19
Amount of US Dollar Liquidity Supply through Central Bank Swap Lines	20
US Treasury Securities Holdings by Country	21
Share of USD Transactions, Composition of World Foreign Exchange Reserves	22
The US Dollar Index and London Gold Spot Price	23
Settlement via China's Cross-Border Interbank Payment System (CIPS)	24
Trading Volume and Open Interest of Shanghai Crude Oil Futures	25

## Table of Contents

<b>3. Common Challenges</b>	<b>26</b>
Decomposition of Potential Growth Rates of Japan and South Korea	27
Illustration of Generating Carbon Credits to Promote Decarbonization across Asia Pacific	28
Reinforcing the Region's Financial Safety Net	29
<b>Appendix</b>	<b>30</b>
5-Year & 5-Year Forward Inflation Expectations: US, Euro Area & Japan	31
WTI Crude Oil Futures Term Structure with IMF WEO Scenarios	32

## 1. US Tariffs and War in the Middle East

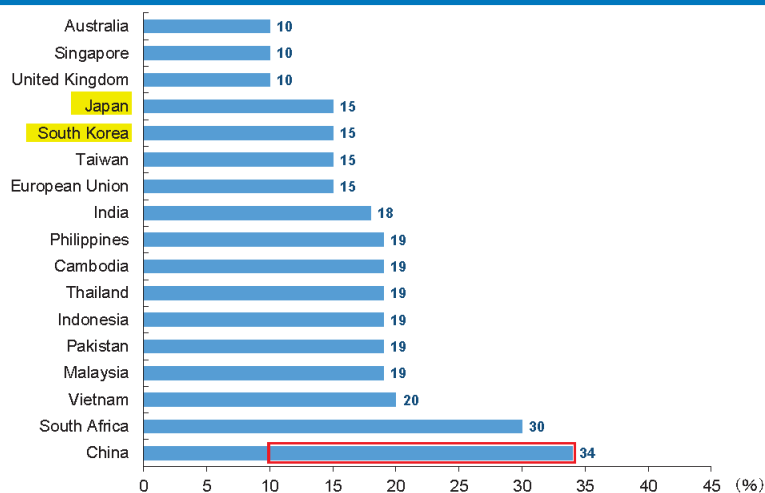
## Views Underlying Trump 2.0 Policies

Views of the Trump Administration	Conventional Thinking
<ul style="list-style-type: none"> <li>• Since the end of World War II, the United States has been providing the world with two public goods for 80 years: the “security umbrella” and the “US dollar as the key currency (Dollar dominance)”</li> <li>• However, these public goods have imposed a unilateral cost burden on the US               <ul style="list-style-type: none"> <li>✓ The “security umbrella” has been paid for by the lives of American youth and taxpayers’ money</li> <li>✓ “US dollar dominance” has caused a strong dollar, leading to the hollowing out of domestic core industries and the entrenchment of a trade deficit</li> </ul> </li> <li>• The US should get rid of the unfair costs it has been bearing, and prioritize the revival of domestic manufacturing as well as the restoration of the working class and local communities</li> <li>• The US should retreat from decarbonization commitments, prioritizing short-term energy security over long-term climate goals—epitomized by the slogan “drill, baby, drill”</li> </ul>	<ul style="list-style-type: none"> <li>• The US is the greatest beneficiary of the free trade system</li> <li>• US dollar, as the global key currency, enjoys “Exorbitant Privilege”</li> <li>✓ Alliances amplify US power and ensure traction, rather than draining resources</li> <li>✓ Dollar dominance is a net strategic, economic, and financial advantage</li> <li>• The US, as the Guardian of the global order, defends the multilateral free trade system—a framework it created and over which it continues to exercise significant influence</li> <li>• Climate leadership and decarbonization are global public goods that the US should continue to provide</li> <li>• Energy transition strengthens long-term competitiveness of the US economy</li> </ul>

Source: Various sources; compiled by DIR.

Daiwa Institute of Research Ltd. Copyright © 2026 Daiwa Institute of Research Ltd. All rights reserved.

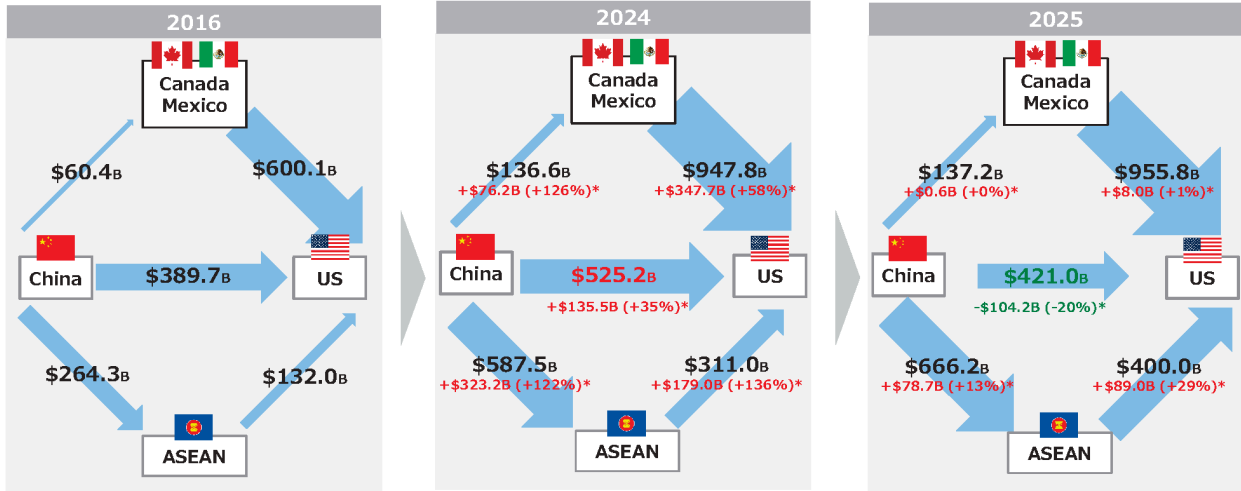
## Reciprocal Tariff Rates for Major Countries & Regions as of February 19, 2026



Note 1: The 34% tariff on imports from China had been suspended. A reduced tariff rate of 10% would remain in effect until November 10, 2026.  
 Note 2: Under an Executive Order issued on September 4, reciprocal tariff rates on Japanese imports had been revised as follows: For goods with Most-Favored-Nation (MFN) rates above 15%, the reciprocal tariff was set at 0%. For goods with MFN rates below 15%, the reciprocal tariff was calculated as 15% minus the applicable MFN rate.  
 Note 3: Reciprocal tariff rates on European Union (EU) imports followed the same structure as those applied to Japanese imports, as outlined in Note 2.  
 Note 4: Trans-shipped goods from third countries would be subject to a higher tariff rate of 40%.  
 Note 5: The White House issued the joint statement with India lowering India's reciprocal tariff rate to 18% on February 6, 2026.  
 Source: The White House; compiled by DIR.

Daiwa Institute of Research Ltd. Copyright © 2026 Daiwa Institute of Research Ltd. All rights reserved.

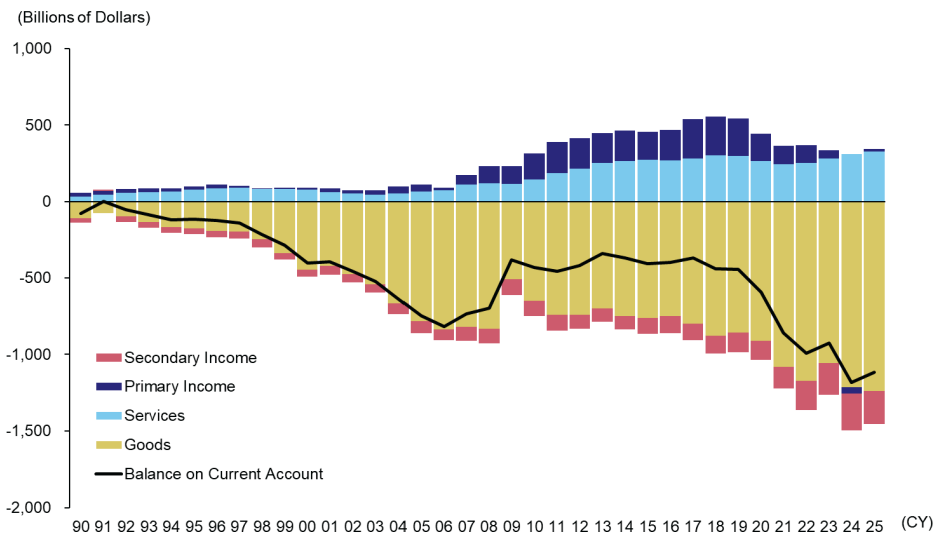
## Changes in the Flow of China's Goods Exports (2016 / 2024 / 2025)



Note: \* indicates the increase in export value and growth rate of goods from 2016 to 2024 in the middle chart, and from 2024 to 2025 in the right chart.  
Source: IMF; compiled by DIR.

Daiwa Institute of Research Ltd. Copyright © 2026 Daiwa Institute of Research Ltd. All rights reserved.

## US Current Account and Component Balances



Source: US Bureau of Economic Analysis, Haver Analytics; compiled by DIR.

Daiwa Institute of Research Ltd. Copyright © 2026 Daiwa Institute of Research Ltd. All rights reserved.

## Growth and Inflation Scenarios (IMF April 2026 WEO Forecast)

Scenario	Assumptions on Oil Price per Barrel	GDP (%)		Inflation (%)	
		2026	2027	2026	2027
January 2026 Forecast		3.3	3.2	3.8	3.4
Preconflict Forecast		3.4	3.2	3.9	3.5
Reference Forecast	\$82 in 2026 \$76 in 2027	3.1	3.2	4.4	3.7
Adverse Scenario	\$100 in 2026 \$75 in 2027	2.5	3.0	5.4	3.9
Severe Scenario	\$110 in 2026 \$125 in 2027	2.0	2.2	5.8	6.1

Note:

**Reference Forecast:** Assumes that the war will have limited duration, intensity, and scope, such that the disruptions will fade by mid-2026, consistent with commodity futures prices as of March 10.

**Adverse Scenario:** Envisions a longer and deeper conflict with larger and more persistent increases in energy prices.

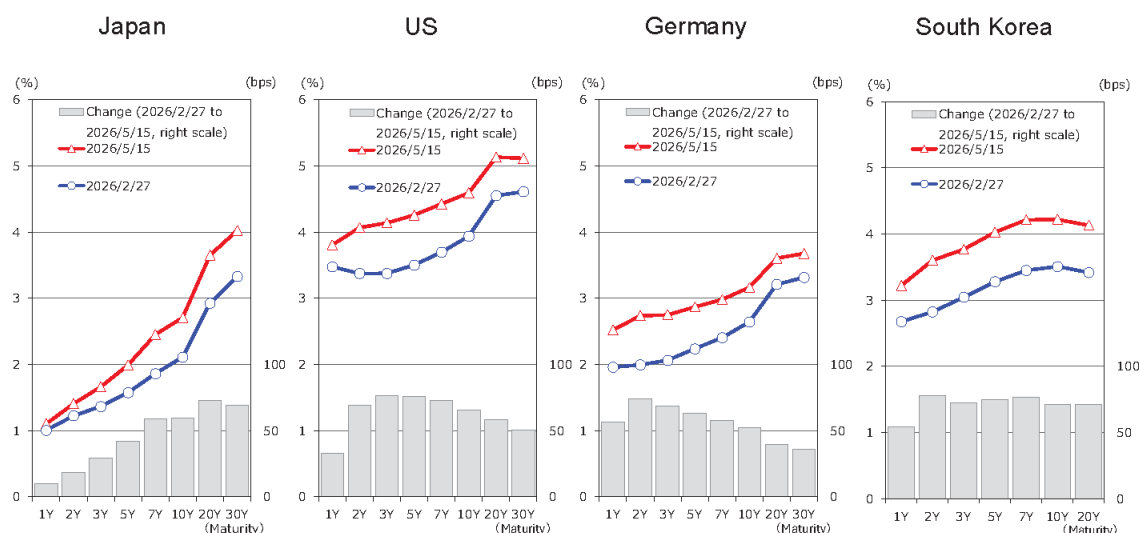
**Severe Scenario:** Assumes an extended and deepening conflict with damage to energy infrastructure so that the shock to commodity prices is more severe and persistent.

Source: IMF World Economic Outlook (WEO), April 2026; compiled by DIR.

Daiwa Institute of Research Ltd. Copyright © 2026 Daiwa Institute of Research Ltd. All rights reserved.

8

## Changes in Yield Curves Following the Outbreak of the War in the Middle East

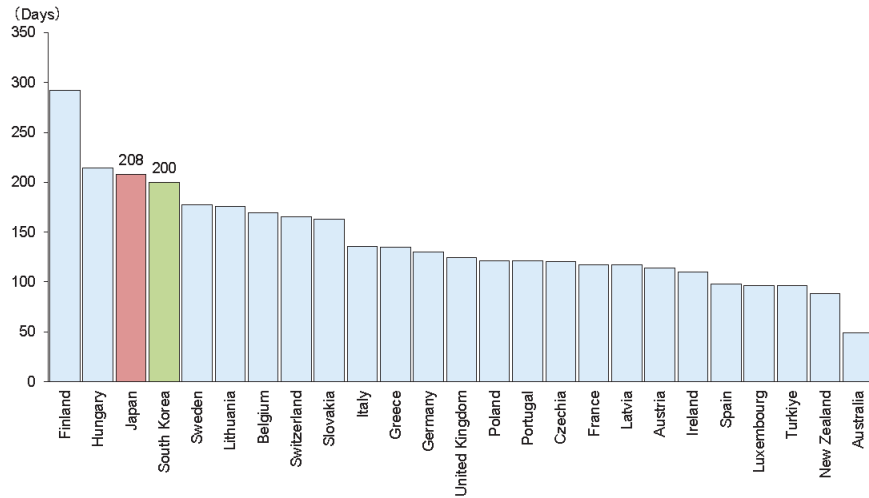


Source: Bloomberg; compiled by DIR.

Daiwa Institute of Research Ltd. Copyright © 2026 Daiwa Institute of Research Ltd. All rights reserved.

9

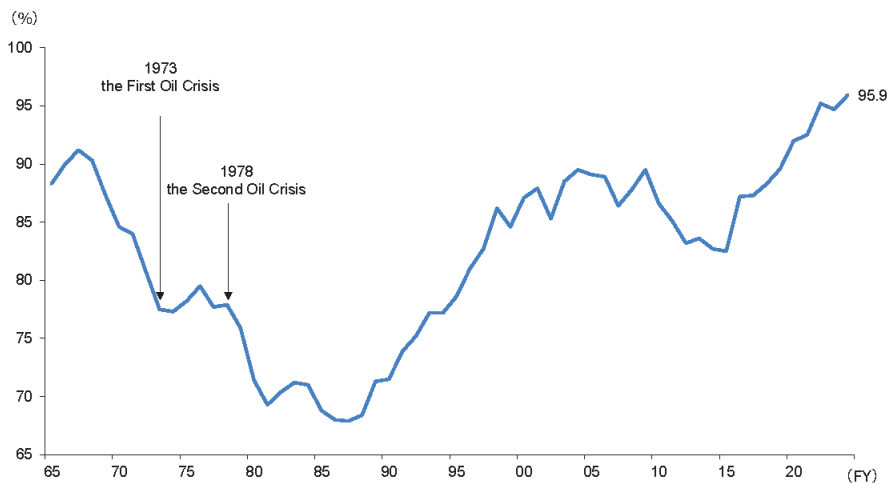
### Oil Stockpile Days in IEA Member Countries (Import-Based, as of December 2025)



Note: The comparison covers 25 of the 28 net oil-importing countries subject to stockholding obligations, excluding Denmark, Estonia, and Netherlands, for which stockpile days are calculated to be high due to domestic oil production and low net import volumes. Based on IEA standards, stockpile days are calculated using average daily net imports of oil and petroleum gases.  
 Source: IEA "Oil Stocks of IEA Countries"; compiled by DIR.

Daiwa Institute of Research Ltd. Copyright © 2026 Daiwa Institute of Research Ltd. All rights reserved.

### Japan's Dependence on the Middle East for Crude Oil Imports



Source: Agency for Natural Resources and Energy; compiled by DIR.

Daiwa Institute of Research Ltd. Copyright © 2026 Daiwa Institute of Research Ltd. All rights reserved.

## 2. Changes in the Global Financial Order

12

### Factors Behind US Dollar Dominance

- ① Confidence in the US as the guardian of international order  
→ underpinned by overwhelming military power
- ② Sheer economic size
- ③ Deep, large-scale financial markets offering safe and liquid assets
- ④ Central bank independence (price stability)
- ⑤ Network externalities (lack of viable alternatives)

## Stablecoin and Retail CBDC

	Stablecoin	Retail CBDC
<b>Issuer</b>	Private institutions <sup>(1)</sup>	Central banks
<b>Backing</b>	Backed by Treasury Bills and others <sup>(2)</sup>	Backed by the full faith and credit of the issuing central bank
<b>Usage Scope</b>	Free cross-border transactions available with no geographical limits	Mainly domestic
<b>Regulation</b>	Regulated by different governing entities in respective countries <sup>(3)</sup>	Controlled by central banks

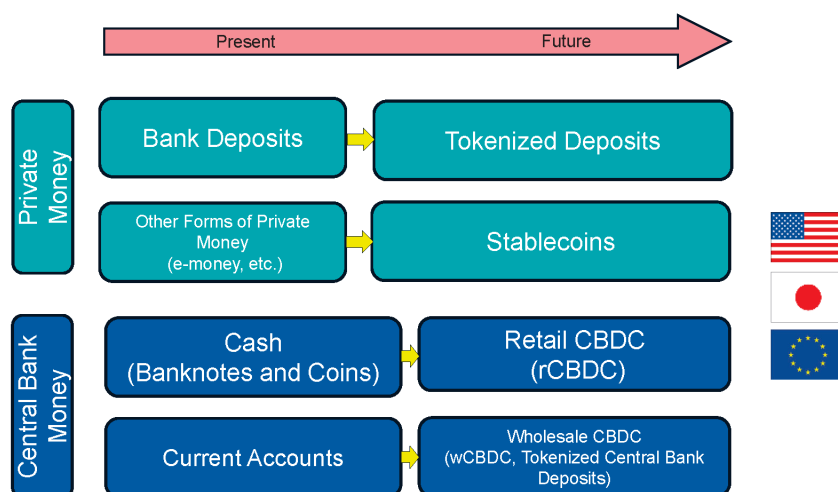
Note 1: Major issuers of dollar stablecoins include Tether, Ethena, and Circle.

Note 2: The GENIUS Act (US) mandates that stablecoin issuers maintain 100% reserve backing in highly liquid assets, such as short-term US Treasury securities. It also requires issuers to publish monthly, publicly accessible disclosures detailing the composition of these reserves. Comparable regulatory frameworks exist globally, including MiCA in the European Union and Japan's Payment Services Act.

Note 3: In the US, stablecoins are primarily regulated by the Office of the Comptroller of the Currency (OCC).

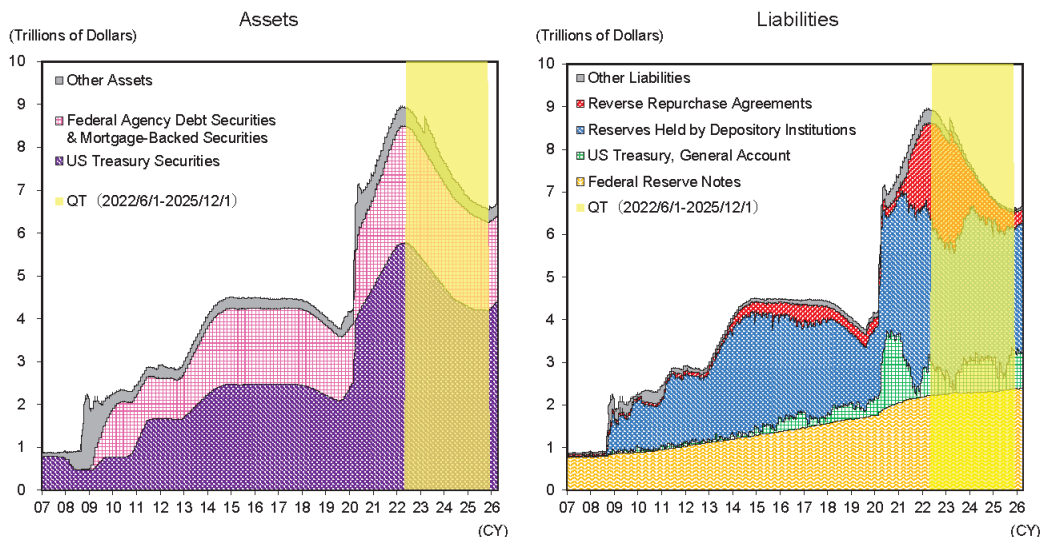
Source: Various sources; compiled by DIR.

## Emergence of New Forms of Money



Source: Shuji Kobayakawa, "New Private Money and the Future of Payment and Settlement Systems" (December 5, 2025); compiled by DIR.

## Federal Reserve Balance Sheet



Note: The yellow highlighted sections indicate the periods during which Quantitative Tightening (QT) was implemented.  
 Source: Federal Reserve Board; compiled by DIR.

Daiwa Institute of Research Ltd. Copyright © 2026 Daiwa Institute of Research Ltd. All rights reserved.

## Fed's Repo Facilities

### Standing Repo Facility (SRF) (for domestic financial institutions)

Introduced in July 2021.

A facility that provides overnight funding to eligible counterparties—primary dealers and banks—against collateral consisting of US Treasuries, agency debt, and agency MBS. If counterparties have demand, funding can be supplied passively, and rollovers (refinancing) are permitted for a certain period.

The SRF uses a fixed-rate format, with the interest rate set at 3.75% (as of April 30, 2026).

There are 69 eligible counterparties in total, including 26 primary dealers and 43 banks. From Japan, nine institutions participate: Mizuho Financial Group, Sumitomo Mitsui Financial Group, Mitsubishi UFJ Financial Group, Daiwa Securities, Nomura Securities, and Norinchukin Bank.

### FIMA Repo Facility (for foreign and international monetary authorities)

Introduced in March 2020 as part of crisis response measures and made permanent in July 2021.

A facility that provides overnight and one-week US dollar funding through repo transactions to foreign central banks and monetary authorities, using US Treasuries held as part of their foreign exchange reserves as collateral. Like the SRF, rollovers are permitted for a certain period.

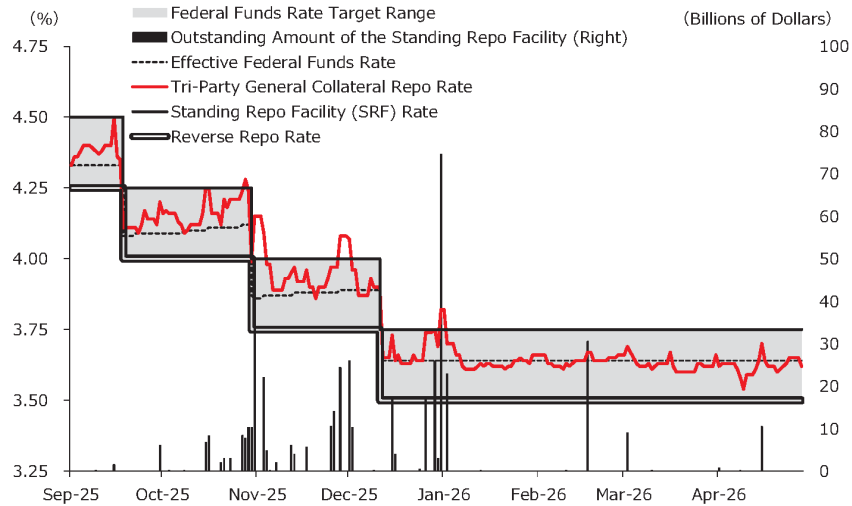
The offering rate for overnight operations is the SRF minimum bid rate (3.75% as of April 30, 2026). For one-week operations, the rate is the one-week Overnight Index Swap (OIS) rate plus 25 basis points.

Prior to its introduction, only a limited number of advanced-economy central banks with swap line arrangements with the Fed could receive US dollar funding. With the establishment of the FIMA Repo Facility, foreign central banks and monetary authorities that hold accounts at the Federal Reserve Bank of New York and possess US Treasuries can access US dollar funding (subject to FRB approval).

Source: Federal Reserve (Fed); compiled by DIR.

Daiwa Institute of Research Ltd. Copyright © 2026 Daiwa Institute of Research Ltd. All rights reserved.

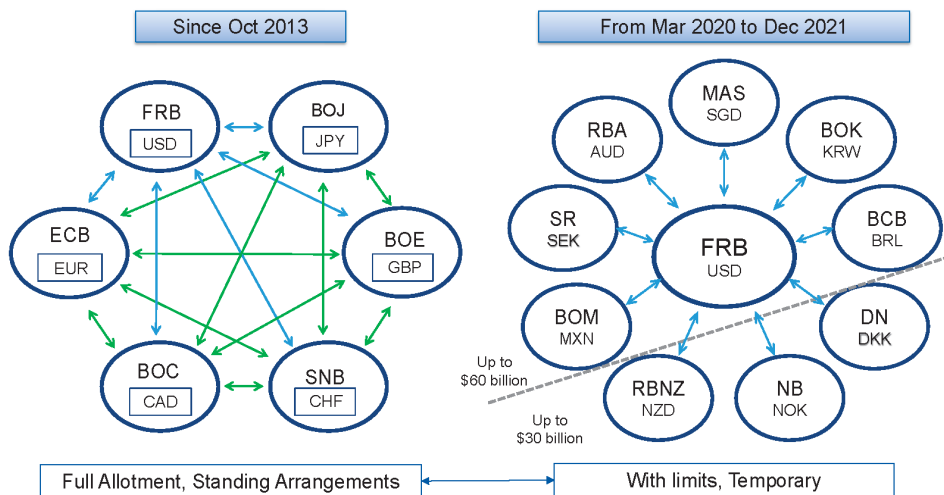
## US Money Market Key Rates and the Fed's Repo Operations



Source: Federal Reserve (Fed), Haver Analytics; compiled by DIR.

Daiwa Institute of Research Ltd. Copyright © 2026 Daiwa Institute of Research Ltd. All rights reserved.

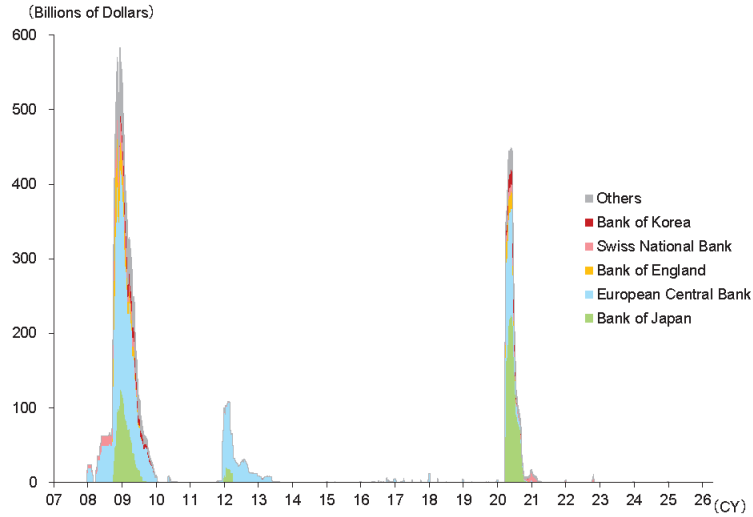
## Central Bank Currency Swap Lines



Note: FRB: Federal Reserve, BOJ: Bank of Japan, ECB: European Central Bank, BOE: Bank of England, BOC: Bank of Canada, SNB: Swiss National Bank, MAS: Monetary Authority of Singapore, RBA: Reserve Bank of Australia, BCB: Banco Central do Brasil, DN: Danmarks Nationalbank, BOK: Bank of Korea, NB: Norges Bank, RBNZ: Reserve Bank of New Zealand, SR: Sveriges Riksbank, BOM: Banco de Mexico.  
Source: Federal Reserve (Fed), Bank of Japan; compiled by DIR.

Daiwa Institute of Research Ltd. Copyright © 2026 Daiwa Institute of Research Ltd. All rights reserved.

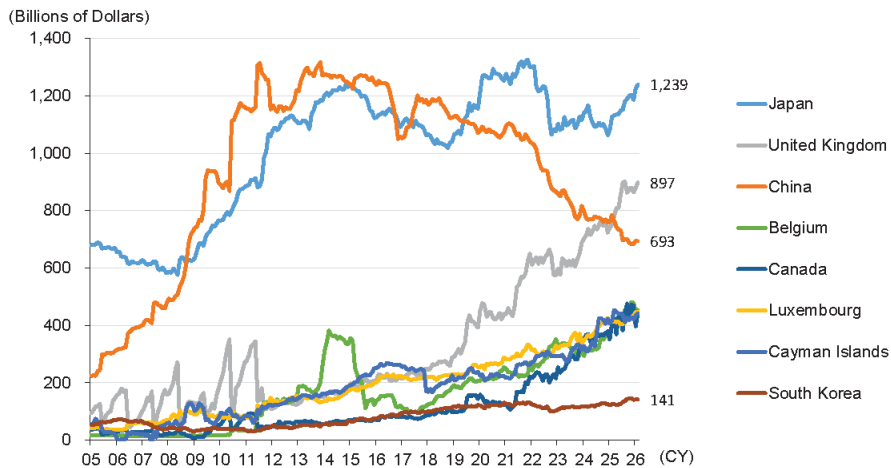
## Amount of US Dollar Liquidity Supply through Central Bank Swap Lines



Note: Latest data as of April 22, 2026.  
 Source: Federal Reserve Bank of New York; compiled by DIR.

Daiwa Institute of Research Ltd. Copyright © 2026 Daiwa Institute of Research Ltd. All rights reserved.

## US Treasury Securities Holdings by Country

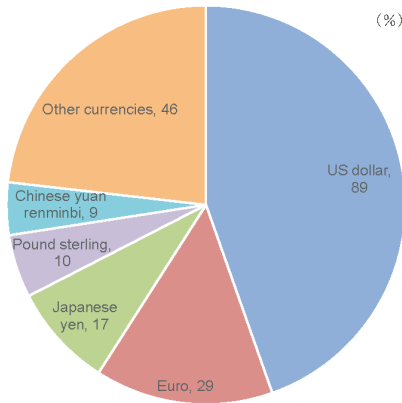


Note: The most recent value is at the end of February 2026.  
 Source: US Treasury, Haver Analytics; compiled by DIR.

Daiwa Institute of Research Ltd. Copyright © 2026 Daiwa Institute of Research Ltd. All rights reserved.

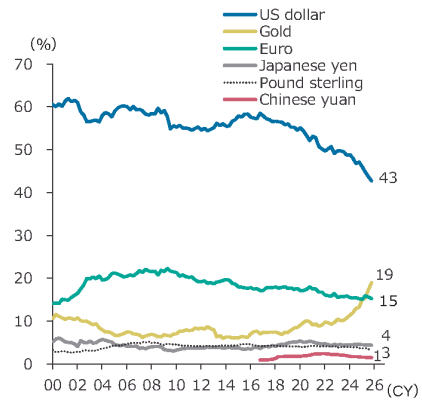
## Share of USD Transactions, Composition of World Foreign Exchange Reserves

Currency Distribution in Foreign Exchange Market Transactions (%)



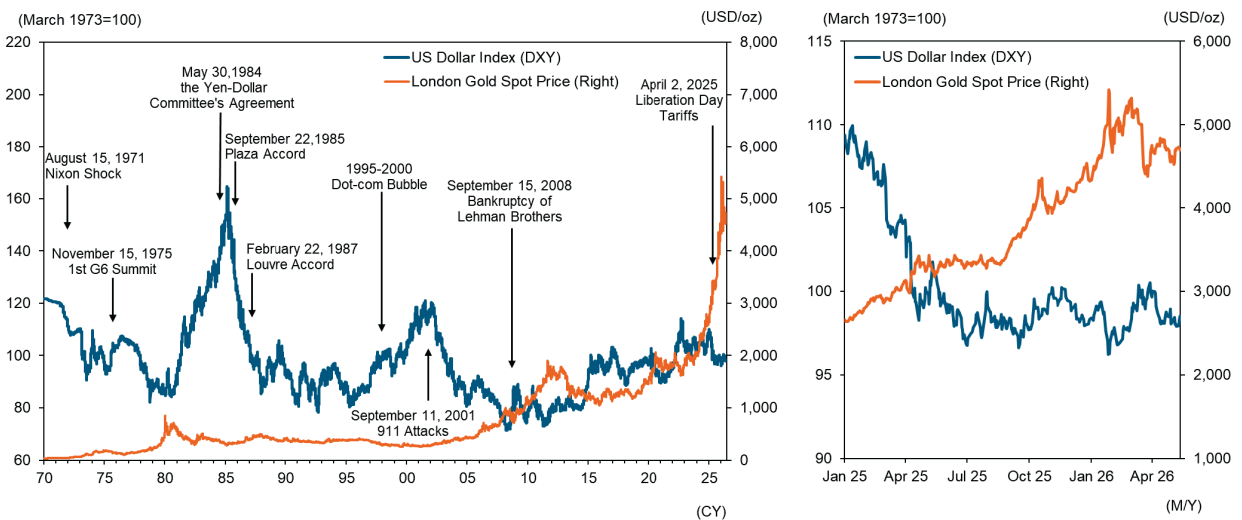
Note 1: "Net-net" basis. April 2025 daily averages.  
 Note 2: Since each transaction involves two currencies, the total share of each currency amounts to 200%.  
 Source: BIS; compiled by DIR.

Composition of World Foreign Exchange Reserves (%)



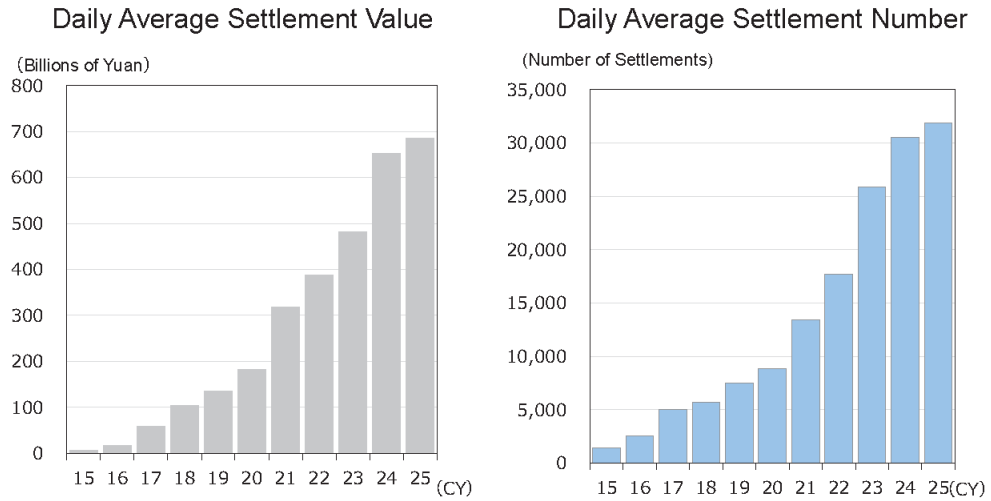
Note: The composition ratio changes due to fluctuations in exchange rates. The most recent value is Q4 2025.  
 Gold is evaluated at national valuation.  
 Source: IMF; compiled by DIR.

## The US Dollar Index and London Gold Spot Price



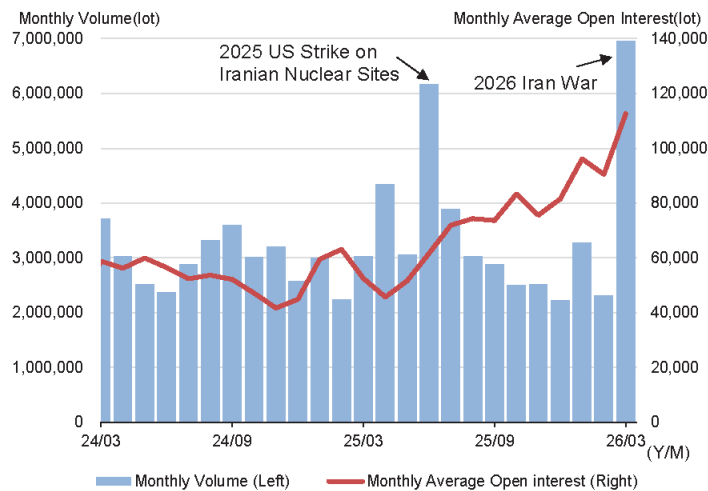
Source: Bloomberg; compiled by DIR.

## Settlement via China's Cross-Border Interbank Payment System (CIPS)



Note: The latest figures are from the People's Bank of China's 2025 Payment System Report.  
Source: People's Bank of China; compiled by DIR.

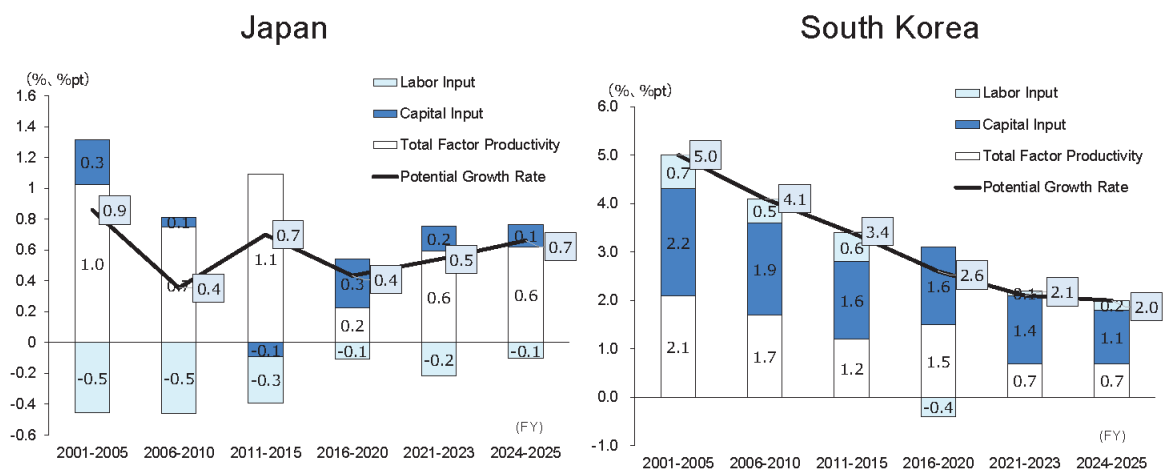
## Trading Volume and Open Interest of Shanghai Crude Oil Futures



Note: 1 lot equals 1,000 barrels. Monthly volume is calculated by summing daily volumes, while monthly average open interest is computed as the average of daily open interest over each month.  
Source: Shanghai International Energy Exchange; compiled by DIR.

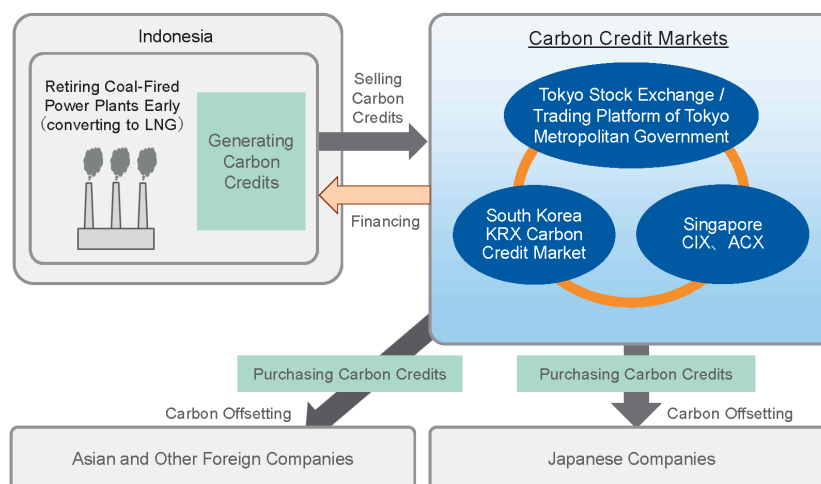
### 3. Common Challenges

#### Decomposition of Potential Growth Rates of Japan and South Korea



Note: Each average is calculated by averaging the values over the specified years.  
 Source: Bank of Japan, Bank of Korea; compiled by DIR.

## Illustration of Generating Carbon Credits to Promote Decarbonization across Asia Pacific



Source : Various sources; compiled by DIR.

Daiwa Institute of Research Ltd. Copyright © 2026 Daiwa Institute of Research Ltd. All rights reserved.

28

## Reinforcing the Region's Financial Safety Net

### • Chiang Mai Initiative Multilateralization (CMIM)

The CMIM provides financial support through currency swap transactions among CMIM participants in times of liquidity need.

Total size: USD 240 billion, Japan's contributions: USD 76.8 billion, South Korea's contributions: USD 38.4 billion

### • Bilateral Swap Arrangement (BSA)

The Bank of Japan, acting as agent for the Minister of Finance of Japan, and the Bank of Korea signed the third Bilateral Swap Arrangement (BSA) on December 1, 2023.

The BSA is a two-way arrangement that enables both authorities to swap their local currencies in exchange for US dollars from each other in times of need. The size of the arrangement is up to USD 10 billion.

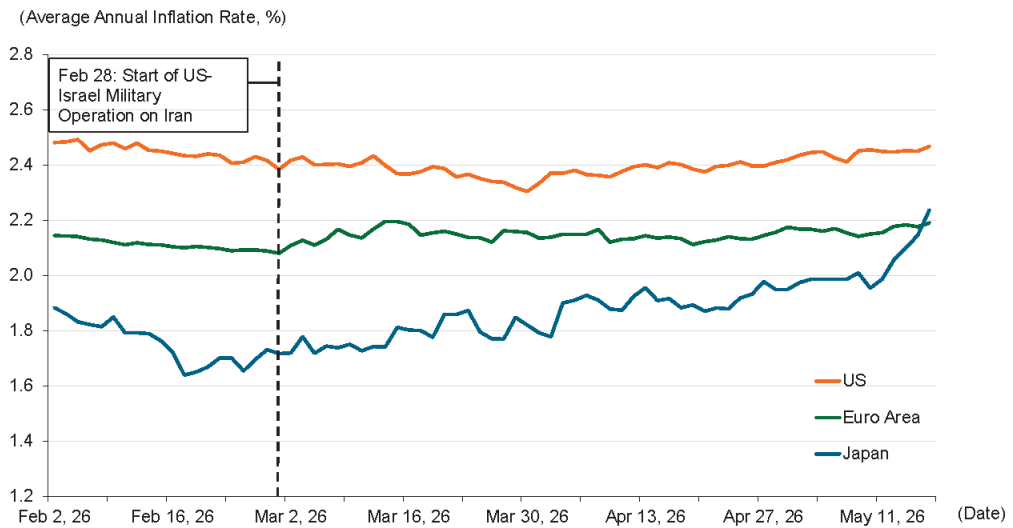
→ In the future, a bilateral Local Currency (Yen/Won) Swap agreement between the Bank of Japan and the Bank of Korea may be envisaged.

Daiwa Institute of Research Ltd. Copyright © 2026 Daiwa Institute of Research Ltd. All rights reserved.

29

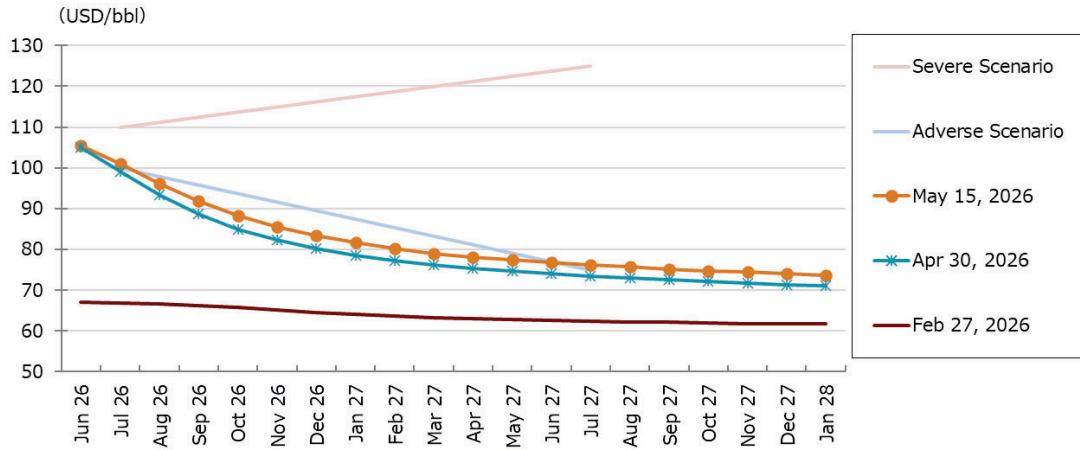
# Appendix

## 5-Year & 5-Year Forward Inflation Expectations: US, Euro Area & Japan



Note: US and Euro Area figures are based on inflation swap rates. Japan's figures are estimated from inflation-indexed government bonds.  
 Source: Bloomberg; compiled by DIR.

## WTI Crude Oil Futures Term Structure with IMF WEO Scenarios



Source: Bloomberg, IMF World Economic Outlook (April 2026); compiled by DIR.