

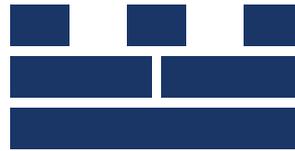
2020

*Japan-U.S. Symposium on Building  
the Financial System of the 21<sup>st</sup>  
Century*





## LEAD GLOBAL SPONSOR



CITADEL | Securities

---

## GLOBAL SPONSORS



GUGGENHEIM

---

## HOST SPONSORS

JPMORGAN  
CHASE & CO.

NOMURA



STATE STREET



## LEAD SPONSORS



MUFG Bank



## SPONSORS



Asian Century Quest



## SPONSORS

NAGASHIMA OHNO & TSUNEMATSU  
長島・大野・常松 法律事務所





# **Implications of the COVID-19 Crisis for International Business and Finance**



## Impacts of COVID-19

- Public health crisis
  - Japan: relatively low incidence, high societal cooperation
  - US: politicization, public mistrust of public health policies; however, good progress on treatment and vaccines
  - Endgame: with vaccines on the way, will pandemic end in 2021?
- Economic effects
  - Lockdowns extremely costly, require large-scale public funding
  - Japan well into recovery, US summer gains in question
- Enormous distributive effects
  - Winners: knowledge workers, big firms, tech, finance
  - Losers: service workers; small firms hospitality, transportation & retail
  - Could be particularly devastating for emerging economies



## Managing the Multiple Crises of COVID-19

- Liquidity crisis – the crisis that might have been
  - Post-GFC banking and market reforms worked
  - Effective central bank intervention in both US and Japan
- Insolvency crisis – the crisis that might arise
  - Key variable is how long the crisis will last
  - If we can return to “normal,” NPLs and defaults should be manageable
  - Vaccine progress offers optimism but “normal” may look very different, especially in sectors like transportation
- Structural crisis – the crisis in progress
  - While pandemic is accelerating digitalization and structural reform, they are disruptive for both labor and capital
  - Particular challenge of immobility of labor and capital in Japan



## Role of Public Sector

- Monetary and fiscal policy has backstopped economies
  - Monetary authorities have been very proactive and effective
  - Fiscal stimulus worked in both Japan and US
    - But fiscal support in US waning despite 3<sup>rd</sup> pandemic wave
  - Government support for lending
    - Japan: highly effective in supporting local economies
    - US: PPP successful, but Main Street Lending Program has disappointed
    - Lesson: full government guarantees needed for banks to lend to risky borrowers
- Fiscalization of monetary policy
  - Not just financing of deficits – Main Street relied on Fed risk-taking
- Growing gap between asset prices and real economy
  - Raises macroprudential and distributive concerns
- Challenges of withdrawing government and central bank support
  - When and with what effects on real economy?
  - Who will bear the risks – private sector, banks, governments, central banks?



## Financial System Impacts

- Banking system has been resilient due to post-crisis reforms, central bank liquidity injections
  - But is there fragility below the surface?
  - Banks have been taking on significant new risks – if pandemic effects are prolonged, NPLs will rise
- Japanese regional banks
  - Regional banks were already under pressure due to depopulation, economic decline
  - Preexisting concerns about rising risk in portfolios
  - Suga administration initiative to consolidate regional banks – this may be best opportunity to do so
  - Need for new business models – build on reputation and goodwill to market other financial services?
- Digitalization accelerating in financial sector
  - Major banks have been accelerating their efforts, but what is vision of new business models (especially in Japan)?
  - Growing threat from fintechs? Definitely in China, maybe US; but in Japan the big FIs still have reputation and size advantages
  - Central bank digital currencies
    - China is moving ahead quickly - could it threaten role of USD or raise possibility of RMB bloc
    - Or are Chinese efforts primarily a means of increasing control over information?
    - Is there a first mover advantage or is it more important to get design and legal framework right?
- ESG: many feel that post-COVID recovery should be a green recovery
  - Japan: considerable interest in ESG – asset management, Tokyo green bond, govt looking seriously at EU taxonomies; however, still voluntary for the time being
  - US: no federal action, but some at state level; increasingly popular among investors, but with no regulation/standardization



## **Economic Impacts of US-China Tensions**

- US-China tensions have increased markedly
  - On top of existing security and trade frictions, COVID has contributed to US resentment of China
  - US-China relations likely to remain tense under Biden, although some improvements possible
    - Tone is likely to be more diplomatic
    - Some renewed opportunities for cooperation – e.g., climate, health
- US-China competition in global governance
  - China has stepped into void in governance left by US in multilateral trade, health, environmental issues
  - Appetite for US reengagement in global and regional governance among China's neighbors
- Effects of US-China tensions
  - Japan and others in Asia don't want to choose between China & US
    - Calls for cooperative institutions and multilateral rules
  - Decoupling unlikely but supply chains may shift to favor resilience over efficiency