

Integrated Stock / Commodity Exchange – Planned to Keep Tokyo as Asia's Financial Center –

The government's Council on Economic and Fiscal Policy has come up with a plan to set up an "integrated exchange" for a broad range of dealings in stocks and commodities such as precious metals and grain. The idea is to enhance the international competitiveness of the Tokyo market and develop financial business as Japan's key industry. However, there are many problems involved yet to be resolved due to conflicts of interests, despite discussions over the years. What will become of the plan, therefore, will prove to be a touchstone of the stance of Prime Minister Abe Shinzo's administration on market reform.

The government's move to undertake market reform has been prompted by a

sense of crisis – that Tokyo may lose its status as Asia's financial center as the Hong Kong, Shanghai and Singapore markets continue to grow fast. In 2006, the market capitalization of the Tokyo Stock Exchange was about a quarter of that of the New York Stock Exchange, according to the Financial Services Agency. It has increased 1.6-fold from the end of 1990, but during the same period, the combined market capitalization of 13 stock exchanges in the rest of Asia swelled 13-fold.

The integrated exchange plan represents a primary feature of the government's effort to better cope with such a situation. The aim is to put together various exchanges, such as for stocks, bonds, financial futures and commodi-

ties, under a holding company. The plan has the advantage of making it easier for investors to choose various items for investment. Nonetheless, the possibility cannot be excluded that the Tokyo Stock Exchange, which will form the core of the integrated exchange, will assume such tremendous proportions as to virtually absorb the Tokyo Commodity Exchange and the Tokyo Grain Exchange. That explains why there are opponents even within the government who make the point that trading in commodity futures represents not so much mere asset management as infrastructure for industry. Even more multilateral discussions are necessary to translate the idea of an integrated exchange into reality.

Land Prices Log 1st Rise in 16 Years – Bubble Worries in Central Tokyo –

Japan's nationwide residential land prices rose an average of 0.1% in the year to January 1, while commercial land prices rose 2.3%, according to the Ministry of Land, Infrastructure and Transport. Land prices for both residential and commercial areas rose for the first

time in 16 years since the bursting of the asset-price bubble in the early 1990s.

Remarkable were price surges in the three largest urban areas – Tokyo, Nagoya and Osaka. Reflecting the recovery in corporate earnings performance, there is a growing demand for office space, pushing up rents and subsequently property/land prices. Land prices at some Tokyo locations rose more than 40%, and many in the real estate industry expect the trend to continue. Still, there are also cases of land in popular areas being sold at inflated prices that can hardly be explained in terms of economic viability, and a sense of overheating of land values has emerged in some parts of central Tokyo.

In Tokyo's posh Ginza district, where foreign brand-name stores such as Chanel and Christian Dior line avenues, deals valued at some ¥100 million per 3.3 square meters continue to be made. Investment funds at home and abroad are buying high-quality buildings in central Tokyo at high prices and the flow of investment

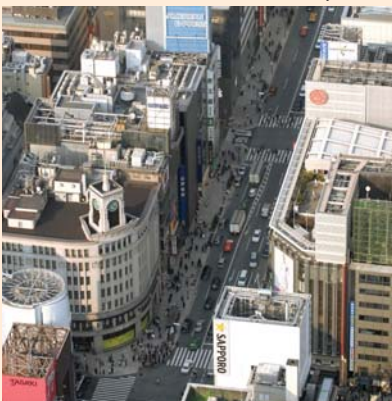
funds has spread from major cities to regional ones. In some cases, investment funds have purchased buildings at steep prices beyond the reach of local firms, driving up land prices.

"The way land prices have risen this time is different from at the time of the bubble economy," says a ministry official. A private economist says, "Investment funds are screening properties to find ones with high utility value and profitability. Land price surges are unlikely to spread nationwide, even if there are excessive movements in some cases."

Still, the Japanese economy suffered a serious setback due to the land bubble from the latter half of the 1980s to the early 1990s and the subsequent bursting of the asset-inflated bubble economy. Taking this lesson into account, it is important at this juncture to carefully monitor land price trends.

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A part of Tokyo's posh Ginza shopping district ranked at the top of land price lists: another asset-price bubble?