

dark image. The lack of funds makes radical developments impossible. Hence the need for measures to turn Tokyo's fashion business into a dynamic industry of the future. The waterfront area should be developed as a fashion center capable of

helping Tokyo's small fashion companies to grow, developing human resources, responding to the trend toward internationalization, and enabling small fashion companies in the provinces to set up a bridgehead in the large Tokyo market. ■

Yuji Iida is an assistant section chief of the Information Systems Development Division at the Machinery and Information Industries Bureau, Ministry of International Trade and Industry.

Financial Hub

By Makoto Hara

The Japanese government once prided itself on maintaining the most stringent foreign exchange controls in the world. That was a long time ago, when Japan was still catching up. Now, however, with the country playing a major role in the world's money and capital markets, Tokyo is emerging rapidly as an international financial center.

The Tokyo money and capital market consists of several markets, including the money market, the stock market, the bond market and the foreign exchange markets, as well as the futures and options markets related to them.

The Tokyo market has expanded rapidly in recent years. It is on a par with the New York market in terms of stock and bond trading volume. It also ranks with New York in stock market capitalization. The futures market is relatively young, but in terms of volume it is already a world-class market. The foreign exchange market is also one of the largest in the world.

Surpassing others

Thus the Tokyo market has grown as large as New York and London. Perhaps it will surpass them before long. Its total size is estimated at about \$4.5 trillion. The major component markets are compared with other international financial centers in the table. The question is how far the Tokyo market is internationalized, particularly from the standpoint of nonresidents.

One of the most important preconditions for the development of an international financial center, like New York, is the global availability of the currency of the country in which the center is located. In the case of the Tokyo market, however, the international use of the yen is still relatively limited. In the area of current

transactions, for example, about 40% of the nation's export trade and 13% of the import trade is settled in yen. The yen occupies a modest position in the foreign exchange reserves of foreign governments. In 1985, the Japanese currency accounted for an average 7% of these reserves. This share has remained almost unchanged ever since.

The yen plays a limited role in international bond markets too. The share of yen-denominated bonds now hovers around 8 to 9%, although in the past it has reached a peak of 14%. The yen's share in international bank lending has shrunk, from between 15 and 18% to between 5 and 6%.

These figures show clearly that the yen still has a long way to go before it achieves the status of a world currency. It is true that the yen is internationally used as the Euroyen, notably in the London market, but that is outside the Tokyo market. The role of the yen as an international currency in the Tokyo market is still limited.

The internationality of a currency reflects the international trust in it. That is clear enough. But it is also clear that it cannot enjoy international acceptance without efficient market development. The slow internationalization of the yen is due largely to the fact that some segments of the Tokyo market are not yet fully developed, though the market itself has expanded rapidly in quantitative terms. A case in point is the money market, where certain technical problems have yet to be resolved.

As noted earlier, the yen is not widely used as the settlement currency in foreign trade, particularly in import trade. One reason for this is the inconvenience of yen trade financing. It is five years since the banker's acceptance (BA) market was established, but trading is extremely thin because of procedural difficulties.

A variety of short-term financial assets can now be held in yen, but there are few instruments as attractive as U.S. Treasury bills (TB), certificates of deposit (CD) and commercial paper (CP). So there are practically no ways for nonresidents to make profitable short-term investments in yen. About the only way for them to make good use of yen is to invest in long-term securities such as bonds and stocks.

It is encouraging, therefore, that the money markets are now being reformed to improve or remove these shortcomings. Interest rate deregulation, in particular, is making rapid progress. Also, moves to reduce or eliminate institutional barriers are expected to make headway. So I believe it is very likely that the yen will be used at least as widely as the deutsche mark.

Example to follow

The British pound has long ceased to be a key international currency, yet the London market continues to thrive as an international financial center. In the Eurodollar market, favorable treatment is given to international transactions. London sets an example for Tokyo.

The Tokyo offshore market, established in December 1986, is where nonresidents raise and manage funds. It is now larger than even the International Banking Facility in New York and the Hong Kong market. The offshore market is an international market as it should be—a market where transactions can be conducted both in yen and foreign currencies. Tokyo can set the pace for internationalization if it follows London by removing the barriers that separate domestic and international transactions.

A wave of globalization is sweeping the world's money and capital markets. What is happening is the homogeniza-

—Tokyo Market Compared with Other International Financial Centers—

Money market

(balance by type of financial asset) (\$ billion)

| | Tokyo | | | New York |
|-----------------------|-------|-------|-------|----------|
| | 1980 | 1986 | 1988 | 1986 |
| Call money/Bills | 43.3 | 141.0 | 262.9 | 265.8 |
| FB, TB | — | — | 23.4 | 441.7 |
| CD | 10.6 | 58.9 | 124.8 | 347.1 |
| CP | — | — | 72.5 | 325.9 |
| Gensaki (repurchases) | 19.8 | 27.4 | 57.7 | NA |
| BA | — | — | — | 65.0 |
| Total | 73.7 | 260.0 | 541.3 | 1,445.5 |
| Ratio to GNP (%) | 7.0 | 13.2 | 18.9 | 34.1 |

Yen's share in international transactions

(%)

| | | 1985 | 1988 |
|---------------------|---------------|---------------------|------|
| | | International bonds | Yen |
| | Dollar | 54.0 | 41.7 |
| | Deutsche mark | 8.5 | 10.2 |
| | Pound | 4.0 | 8.6 |
| | Swiss franc | 11.3 | 11.4 |
| External bank loans | Yen | 18.5 | 5.6 |
| | Dollar | 62.5 | 70.0 |
| | Deutsche mark | 2.1 | 2.2 |
| | Pound | 3.4 | 14.1 |
| | Swiss franc | 3.0 | 0.3 |

International use of the yen

| | 1985 | 1988 | Remarks |
|--|-------|---------|---------|
| Yen-denominated exports (%) | 38.9 | 34.1 | |
| Yen-denominated imports (%) | 3.0* | 13.6 | *1983 |
| Yen-denominated external loans (¥ billion) | 2,896 | 4,130** | **1987 |
| Yen-denominated syndicated loans (¥ billion) | 1,404 | 783 | |
| Share in foreign exchange reserves (%) | 7.5 | 7.0** | **1987 |

tion of markets around the globe. This means, for example, that U.S. bonds and stocks can be purchased in Tokyo on the same terms as in New York. It also means that transactions in deutsche marks and pounds, for instance, can be executed on the same conditions as in Frankfurt and London. To put it the other way around, the globalization of financial markets means that trading in each market is continued around the clock. In fact, the offshore and foreign exchange markets are already moving toward 24-hour trading. Tokyo, of course, is playing a key role in these moves.

Another important development is the so-called securitization of loans. This means that banks' loan claims, for instance, are converted into negotiable securities. With the securities market developing rapidly, capital is raised increasingly by issuing stocks, bonds and other securities, instead of borrowing directly from banks. Broad-based markets such as Tokyo have an important role to play in this.

Financial markets in many countries used to be conservative by nature and

more or less closed to foreign financial institutions. Japan was no exception. But times have changed. Tokyo is now host to more than 80 foreign banks, and 22 foreign securities companies are members of the Tokyo Stock Exchange. The business barriers between securities company and bank are beginning to disappear. The stage is being set for foreign securities firms to enter the banking business through stockholding companies.

In these circumstances, market demand for "hardware," not just for "software," is expected to increase. In fact, hardware in the Tokyo market has been improved markedly in parallel with the development of electronic technology.

The increasing foreign participation in the Tokyo market poses a major challenge to the domestic institutions that have long taken vested interests for granted. But Tokyo is not necessarily an easy market for the newcomers, who face intense competition from their domestic rivals.

An ambitious plan worked out by a group of bank managers envisages the construction of a new financial center in Tokyo's waterfront area toward the end of

Securities market (at the end of 1987)

(\$ billion)

| | Tokyo | New York | London | Frankfurt |
|-----------------------------|---------|----------|--------|-----------|
| Total market capitalization | | | | |
| Stocks | 2,726.4 | 2,132.2 | 685.2 | 192.1 |
| Bonds | 1,051.5 | 1,622.0 | 529.4 | NA |
| Turnover | | | | |
| Stocks | 1,757.5 | 1,888.7 | 316.8 | 125.8 |
| Bonds | 906.6 | 9.7 | 548.1 | 251.7 |

Shares of international bank lending by center

(%)

| | 1980 | Jan.-June 1989 |
|------------|------|----------------|
| Luxembourg | 6.7 | 4.2 |
| Paris | 10.8 | 6.7 |
| Frankfurt | 5.5 | 3.7 |
| London | 27.0 | 20.5 |
| Tokyo | 5.0 | 20.6 |
| New York | 13.4 | 10.0 |

Shares of futures trading by center (including various types of futures contract)

(%)

| | 1985 | 1988 |
|--------|------|------|
| London | 3.1 | 6.6 |
| U.S. | 94.1 | 80.7 |
| Europe | 1.8 | 6.1 |
| Tokyo | 0.1 | 3.9 |

Offshore market

(\$ billion)

| Tokyo | | New York | London | Hong Kong |
|-------|-----------|-----------|-----------|-----------|
| 1986 | June 1989 | June 1989 | June 1989 | June 1989 |
| 93.7 | 461.8 | 297.1 | 800.2 | 378.1 |

Foreign exchange market (average daily turnover)

(\$ billion)

| | Tokyo | New York | London |
|------------|-------|----------|--------|
| March 1986 | 48.0 | 58.5 | 90.0 |
| April 1989 | 115.2 | 128.9 | 187.0 |

Sources: Toshi Yoran; Togin Shuho

this century, when the Tokyo money and capital market will reach 10 times its present size and as many as 500,000 people will be engaging in financial business in the metropolis.

Under the scheme, to be jointly undertaken by the public and private sectors, all the necessary market functions would be concentrated in the new center with the participation of all leading financial institutions. Surrounded by residential districts and cultural facilities, the center will create comfortable and enjoyable living spaces as well as an efficient business environment, according to the planners.

Excesses in financial activities, particularly in speculative "money games," are not desirable. But the proposed financial center is expected to pave the way for Tokyo to become the world's financial center, where money will flow in and funds needed will always be available. ■

Makoto Hara is a professor at Bunkyo Women's College. He previously worked at the Bank of Tokyo for 30 years and specialized in international finance and banking.