Asian Business Expansion—The Securities Industry

By Sakamoto Sakae

The time difference between the major capital markets in Asia and Tokyo is no more than two hours: Tokyo and Seoul are in the same time zone, Taipei, Hong Kong, Singapore, and Manila are one hour behind, and Bangkok two hours. Every morning exchange dealers in Tokyo review not only the previous day's movements on the New York market, but also the day's Sydney market quotations. Sydney, one hour ahead of Tokyo, is the first market to open for trading in the world.

From the standpoint of time and distance, Japan is very well situated with regard to Asian capital markets. Real-time data of the Hang Seng Index (Hong Kong's stock average) can be checked on electronic terminals in Tokyo offices. Moreover, it only takes four hours to fly from Tokyo to Hong Kong. This means that, just as Central and South America are in the United States' "backyard," the Asia-Pacific region is Japan's "front yard."

In spite of this, Japan's securities industry is concerned that it is losing in Asian market competition to European and U.S. strength. U.K. and other European brokerages have always been strong in Asia, and the U.S. has recently made brisk moves. The Clinton administration's emphasis on hosting the Asia-Pacific Economic Cooperation (APEC) finance ministers' meeting can be seen as an attempt to create a business environment for U.S. financial and securities firms. However, Japanese forces are not just idly standing by; their counteroffensive will probably gain steam from here on.

Shanghai named designated market

The Ministry of Finance recently named China's Shanghai Stock Exchange a "designated foreign securities market." Until now Class B stocks (Chinese firms' stocks that foreign investors are also permitted to buy and sell) listed on the Shanghai exchange were limited to professional institutional investors, but this move will now allow individual Japanese investors to purchase B stocks through securities companies in Tokyo. This measure appears technical at first glance, but is actually part of the Japanese securities industry's catch-up strategy aimed at the U.S.

Last year when China's Shanghai Petrochemical listed its stock on the Hong Kong market (commonly known as H stock, or the shares of a Chinese firm listed on the Hong Kong exchange), it was also listed on the New York Stock Exchange in the form of American depository receipts (ADR). Upon learning this news, people in Japan's securities industry felt that the U.S. had beaten them to the punch in China.

The Finance Ministry's appointment of the Shanghai exchange as a designated exchange was a preliminary step in encouraging Chinese companies to list their stocks on the Tokyo stock market in the near future and can be said to indicate an interest on the part of Japan to actively support Chinese firms' procurement of capital. Securities industry sources indicate that the Ministry of Finance will eventually name the Shenzhen exchange (another Chinese exchange that lists B stocks) as a designated stock market in an effort to cultivate an environment for business in China.

There are other points of view regarding the MOF action. A director at one of the leading securities companies explains, "The four top securities firms (Nomura, Daiwa, Nikko, and Yamaichi) all currently have representative offices in Taiwan and the Taiwanese authorities have indicated that it will be okay to upgrade these offices to branches. Once this is accomplished it will indicate Japan's stronger commitment to Taiwan. Naming Shanghai as a designated market was an effort to prevent any complaints from Beijing regarding upgrading the Taipei offices to branches, an attempt to maintain a balance."

If this opinion is correct it would indicate that the MOF's casual administrative measure was not merely for the Chinese market, but a "grand tactic" aimed at the Taiwan market as well, that is a unified strategy for Beijing and Taipei by the Japanese government and securities industry.

Hong Kong on par with New York and London

In the interest of protecting ordinary investors, the Finance Ministry has named 35 markets in 26 countries (except the previously mentioned Shanghai exchange) designated markets in recognition of their stability. In Asia this includes Hong Kong, Kuala Lumpur, Singapore, Manila, Makati (the Philippines), Thailand and Jakarta. The governments of both South Korea and Taiwan still have foreign currency restrictions in place and Seoul and Taipei have not yet become designated markets. However, both are moving toward relaxation of restrictions on foreign investors and additional designation by the Finance Ministry is undoubtedly only a matter of time.

An official at a leading securities firm says, "With its focus on individual Taiwanese investors the Taiwan securities exchange is a highly speculative market. It makes me wonder how successful individual Japanese investors might be. However, there is strong demand for capital in Taiwan and we have high expectations for underwriting business related to foreign bonds issued by Taiwanese companies. From the standpoint of profits it is still too early to upgrade representative offices to branches, but strategically thinking it would be an investment for the future."

In the wake of the four majors there is talk that Sanyo, New Japan, and Wako, or what might be referred to as second-tier securities firms, are also planning to set up representative offices in Taiwan. Their aims are the same as the major securities houses. Further, only Daiwa Securities has currently established a branch in Seoul, but other top firms will probably move into the market this year. Naturally, their numbers should be equal, based on the reciprocity principle (one South Korean firm, Coryo Securities Corp., now has a branch in Tokyo).

What will happen in other Asian markets? One leading securities firm, whose New York (300 employees, including local staff) and London (350, including local employees) organizations eclipse its Hong Kong operation (120 staff, including local hires), says that it plans to make Hong Kong its Asian center, putting it on par with New York and London. The company also plans to strengthen its Singapore organization (which is slightly smaller than its Hong Kong operation), positioning it as its Southeast Asian center while at the same time using it as a "reserve base" in the event there is a loss of "a degree of freedom" in Hong Kong after 1997 when Hong Kong returns to China.

Photo: Kyodo News Service

Asian markets are attractive to investors. (Shanghai, PRC)

A February report on conditions in Asian securities markets released by the Conference for Securities Associations gives the following account of the history of moves by Japanese securities houses into Asia and their current situation:

"Japanese securities companies moved into Asian regions in the 1970s to gather data and promote brokerage business for Japanese stocks. Subsequently they began asking the central government and other organizations to issue 'samurai' bonds (yen-denominated foreign bonds issued by public institutions). They succeeded at the same time in their efforts with capital from overseas Chinese and steadily became more aggressive in sales of Japanese stocks and bonds.

"Business has recently slumped for Japanese stocks (purchased by Asian investors) and the emphasis shows signs of shifting to sales and purchases of Asian stocks (primarily purchases by Japanese investors). Around 1990 (when the 'bubble' led to skyrocketing stock prices in Japan), Japanese stocks generated the major part of profits at Japanese securities companies' subsidiaries in Asia, but the ratio has recently fallen to around 10% to 20%. On the other hand, the earnings contribution ratio from Asian stocks has risen from about 10% to 30% to 40%.

"Although profit percentages at the Asian divisions of the major securities houses have recently increased rapidly, it still has been at lower levels, at about 10% to 15% in 1992 and 1993. (However) many securities companies have recently made efforts to enhance their organizations by taking on more analysts (to analyze a country's economy and industry) and sales staff.

"Backed up by sales strength they have also begun to put more weight on underwriting business (for bond issues) in Asian regions. The massive establishment of Asian investment trusts (for investment in Asian stocks) in Japan also lead us to believe that the influence of Japanese securities companies in Asia will rapidly increase in the future."

New 'Greater East Asia Co-Prosperity Sphere'

An official at a leading securities company adds, "There is a perception that Asian markets are not foreign markets, but an extension of the domestic market, like the wartime 'Greater East Asia Co-Prosperity Sphere,' although the expression may be inappropriate." The securities business is divided into three sectors—futures transactions, merchant banking involving underwriting and such, and stockbroking—and expectations are high for the business of selling Asian stocks to Japanese investors, because the Japanese public has begun to turn its eyes toward Asia. JJTI

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