

# *insight*

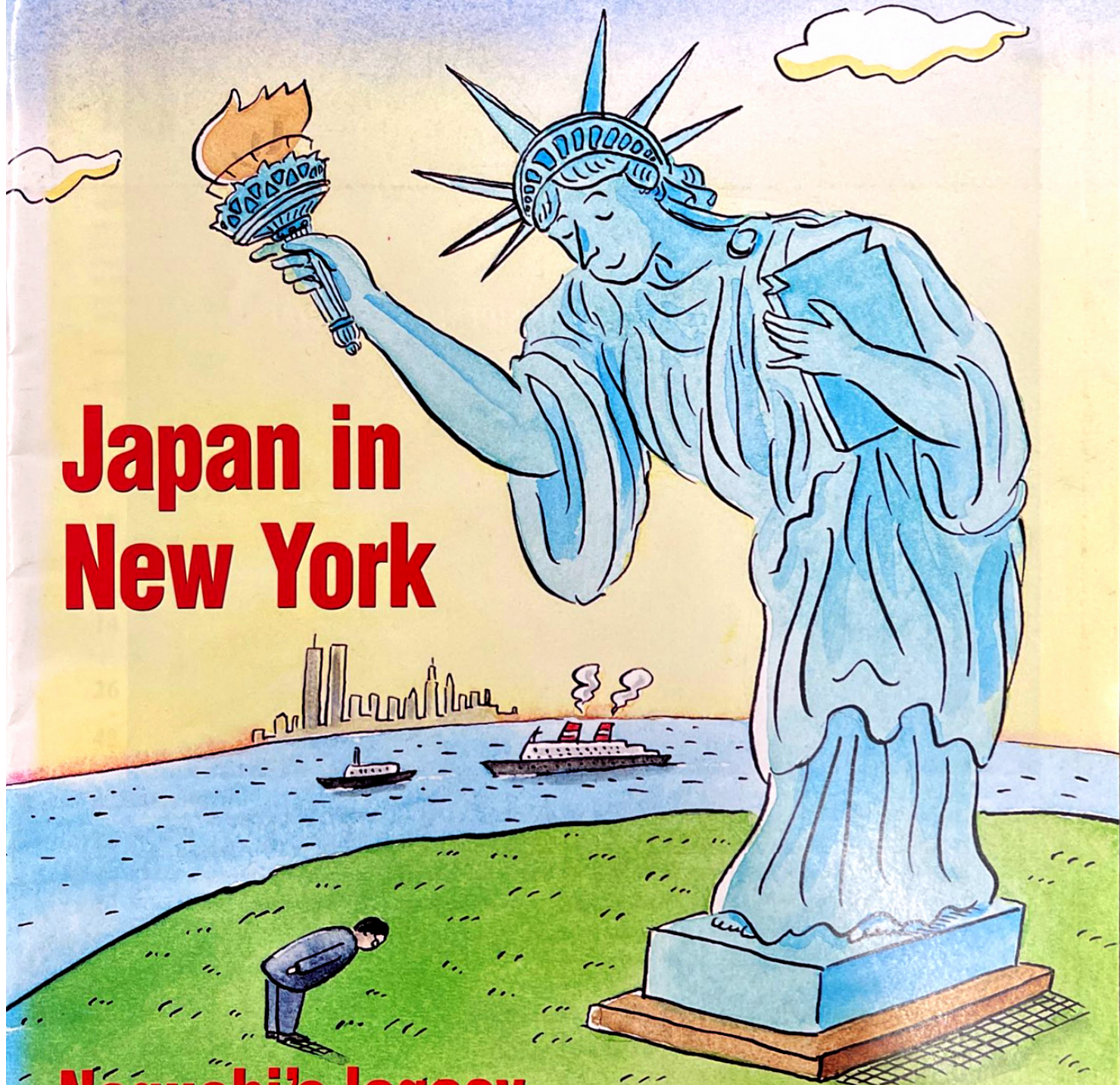
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# JAPAN



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## Japan in New York



## Noguchi's legacy Japan-US Alliance - how secure?



# Going global remains the key

GERARD LYONS

**G**lobalisation is one of the buzz words of the nineties. It seems rare to read an economics article without the term being mentioned. It refers to the increased international competition that is forcing firms to adopt global strategies or domestic firms to be aware of global competition. It is usually referred to in the manufacturing sector where low cost competition is reinforcing competitive pressures. But it is not just applicable to manufacturing, it is affecting all areas of business, particularly in the industrialised countries. The world of finance has certainly not escaped its clutches.

We truly live in a global capital market. Money moves quickly and effortlessly from one financial centre to another. All the world's major financial markets are inter-linked, where trouble or success in one can spill quickly to another. And it is affecting the way that banks and financial organisations behave. For some banks and stockbrokers there is a need to specialise on their domestic market, but for those with greater aspirations there is the world stage.

A recent article in the US press talked of the "Americanisation of world finance", not globalisation, as American banks and stockbrokers become important the world over. But what of the Japanese?

Japan is the world's biggest saver. It is the biggest exporter of capital. What the Japanese do with their money is of vital importance to the world economy.

Japan's savers and fund managers have tended to be cautious. Along with the yen's tendency to appreciate, this encouraged them to keep much of their money at home. That is now changing slowly. The last fiscal year saw a record outflow of individual savings from Japan. More change is inevitable, as Japan's financial sector changes and deregulates, much in the same way the rest of the economy is changing.

**THIS CHANGE WILL AFFECT ALL FIRMS** involved in finance, not least the banks. Japan's banks have consistently been amongst the biggest in the world. League tables always used to show the biggest banks were Japanese. Such tables were always based on size of assets, deposits or capital. Rarely were they based on profits, where Japan's banks lagged their international competitors.

Yet a sea change is under way and I am reminded of a Japanese newspaper headline at the start of the decade saying that Japanese firms are to focus on profits. Strange as it may have seemed, many of the big Japanese household names in the manufacturing and consumer electronics sector had relied on market share, not profits. Then, with the Japanese economy bubble bursting and competition intensifying they had to change to survive. They had to make profits.

A similar headline could now be applied to Japanese banks. There is greater competition in the financial sector in Japan and abroad and this is the latest phase in an evolution which has already seen Japan's banks establish a major presence in international markets.

In 1960 the number of overseas branches of Japanese banks was 27. This crept to 52 in 1970 and rose steadily to 135 in 1980. The 1980s then saw the biggest surge, particularly in the mid to late 1980s. A stronger yen, the internationalisation of the yen and a growing global economic presence saw the number of branches rise to 315 by 1990. In 1995 this number had reached 295 and, adding in representative offices and local companies, the overseas presence of Japanese banks was 1,118 operations.

**AMERICA IS STILL THE MAIN OVERSEAS LOCATION**, just as it is for Japanese foreign direct investment. In mid-1995 one in three of banks' overseas branches were there and this was three times as many as Hong Kong, which was the second-ranked location, and way ahead of Britain in third place. For Japan's securities companies the profile of global expansion has been much the same. Yet it is not New York, but London and Hong Kong which lead in terms of concentration of overseas operations.

The nineties have been difficult. Problems in Japan have seen bad loans rise and margins being squeezed. The international community imposed penalising capital adequacy ratios limiting the banks' competitiveness, while the collapse in the real estate market in Europe hit many banks severely. They were forced to reappraise their operations.

The latest league table of the world's biggest banks in the *Banker* show that heavy losses at Japanese banks as they write off bad loans has seen Japanese banks displaced by banks from elsewhere. HSBC Holdings was the world's largest bank last year, with capital of \$21.4 billion, followed by Credit Agricole, UBS and Citicorp. Dai-ichi Kangyo, one of the few Japanese banks to record strong profits last year, ranked fifth with a capital base of \$19.2 billion. In next year's table, however, Bank of Tokyo-Mitsubishi will be on top, as their merger has created the world's largest bank with \$27.8 billion of capital and \$703 billion of assets.

Further rationalisation is inevitable within Japan's financial sector. Just as Bank of Tokyo and Mitsubishi merged others could follow. It has often been the case that mergers have seen a bigger bank swallow up a smaller one. A similar development in the US would trigger cost cutting and rationalisation but not in Japan, where change takes time.

Now Japan's banks will seek change in order to boost their own competitive position in an aggressive international capital market. The focus will continue to be on profits and on restructuring.

Banks will expand globally. This will not be merely to service Japanese manufacturing companies. It will be to become global universal banks in their own right. Globalisation will remain the buzz word in the rest of the decade – for the banks at least.

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