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The Japanese capital Market: enhancements and future prospects

Setting the scene

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The Background

- Third largest global economy in the world.
- The only truly developed major market in Asia.
 - ◆ per capita income 8 times the size of China.
 - ◆ well placed to do business with new and expanding markets in the region. (Japan important source of capital to Asia)
 - ◆ No current account, capital account, exchange rate controls unlike some other Asian countries.
- A sound legal and business environment.

Japanese business environment

- Major globally recognised companies e.g. car manufacturing, electronics, heavy industry, renewables, transport, trading companies.
- 62 Fortune 500 companies are Japanese.
- Japanese companies are cash rich.
- Japanese companies are active in the M&A market (e.g. recent acquisitions in beverages and telecoms etc.).
- Japan has the third highest global R&D spend.
- Financial regulatory environment

Important considerations

- Significant role played by Japan Bank for International Cooperation (JBIC)
- Potential of free trade agreements (e.g. TPP and EU & Japan).

It's big ...

- Large pension funds JPY326trn (\$3.3trn, Sept 2013, BOJ) e.g. Government Pension Investment Fund with \$1.4trn which is the world's largest public pension fund.
- Japan has the largest accumulation of personal wealth in the world – amounting to JPY1,600trn (\$16.3trn, Sept 2013, BOJ).
- Government bond market (JPY814trn, March 2013, MOF).
- Size of stock market (Market capitalization \$4.5trn, Jan 2014, TSE)

There are challenges:

- Ageing population
- Government debt levels
- Low growth environment
- Energy
- Overcoming structural impediments

Three arrows: do they have the momentum?



- Monetary Easing
- Fiscal Stimulus
- Structural reform

Why are foreign banks and securities companies in Japan?

- 55 IBA banks and securities companies in Japan from 22 countries
- Strengths are in risk management, advisory work, products, and access to global networks
- They want to take advantage of the depth of markets/funds
- Various business models and activities including
 - ◆ Trade financing
 - ◆ Derivatives and structured products
 - ◆ Trading JGBs and equities
 - ◆ Fund raising by international bond issuers
 - ◆ Equity investment by foreign asset managers
 - ◆ Private banking
 - ◆ Advisory business (e.g. on M&A activity)

To be considered a major global financial institutions need to have a presence in Japan



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