Building a Financial Hub in the post-COVID World

A message from the co-host

Shigeharu Suzuki
Chairman and Chief Executive Officer
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It is my great pleasure that the Japan Securities Dealers Association could co-host this event alongside the *Financial Times*.

In this webinar, our speakers discussed the evolution of leading financial centres and how Japan will fare in the competitive landscape post-COVID-19. The Japanese market already demonstrates notable strengths: the largest group of listed companies in Asia, more than $18 trillion dollars of financial assets held by Japanese individuals, and a safe, high-quality living environment. And the market is evolving—with sustainable finance initiatives, as well as strategic reforms to attract overseas financial businesses, being accelerated. This webinar served as a valuable space to rediscover this potential of Japan as a financial centre.

On February 9th, the *Financial Times* teamed up with the Japan Securities Dealers Association to co-host an hour-long webinar on the theme of "Shaping Global Financial Centres for 2021 and Beyond." The panel discussed what makes a leading financial and business centre and what Japan in particular can do to increase its appeal in a post-pandemic future.

Ryozo Himino
Commissioner, Financial Services Agency, Japan

Michael Mainelli
Executive Chairman
Z/Yen Group

Derek Young
President Japan
Fidelity International

What makes a leading global financial centre? The traditional thinking was that any major financial centre required a large economy behind it. New York, London and, of course, Tokyo all meet that criterion. Japan is the world's third wealthiest country after the US and China, the world's third largest pension market after the US and the UK, while household savers have 18 trillion dollars of financial assets. Size does matter.

Stability is another strength associated with Japanese markets by the global financial community, whether that means political stability, reliable infrastructure, safe streets or the absence of a yawning wealth gap in society.

While these old criteria for gauging competitiveness still remain valid, Ryozo Himino, the commissioner of the Japanese Financial Services Agency (JFSA) argued that the key selling point of the Japanese market is now something quite different: dynamism and reform. To drive his point home, Himino pointed out that in the eight years since former Prime Minister Abe launched his Abenomics policy programme in December 2012, the Nikkei has more than tripled, outperforming the S&P 500, the DAX, the SSE Composite and FTSE100 in local currency terms, and coming second only to the S&P 500 in dollar terms.

Himino attributed this outperformance to continuous, cumulative reforms on the part of both the Japanese government and corporate. People have an anachronistic view of a country as still mired in the lost decades of the 1990s and 2000s. "Things are changing," Himino said. "The Japanese market is attractive and getting more so. There are a lot more reforms in the pipeline."

Himino himself embodied that change by attending the webinar in his shirtsleeves. Indeed, the stolid Japanese "salaryman" culture is one of the things he is hoping to disrupt, with the JFSA and Tokyo Stock Exchange planning to require listed companies to publish plans to enhance middle-management diversity, by developing a better balance of women and more mid-career hires. "The cosy community of male lifetime employees is changing too," Himino said.

> "The key selling point of the Japanese market now is reforms and dynamism."
>
> Ryozo Himino

Better Business Environment

Tokyo ranked in fourth position—behind New York, London and, just by a whisker, Shanghai—in the 2021 edition of *The Global Financial Centres Index*, a report comparing the competitiveness of the world's leading financial centres published by London-based think-tank Z/Yen. Of the five areas of competitiveness that Z/Yen surveys, there was one very specific area in which the Japanese capital was a laggard.

"If I had to pick one area for Tokyo to focus on, it would be the general business environment, particularly for international firms with non-nationals, visas and work permits. The core rule for any global financial centre is to treat all comers fairly," said Michael Mainelli, Z/Yen Group's Executive Chairman.

The JFSA has been busy soliciting feedback from financial-sector expatriates, taking the attitude that the more complaints it gets, the more improvements it can make to the business environment. It is currently working hard to this end with a focus on three areas: regulation, immigration and tax.

In January 2021 the JFSA opened an office that provides a concierge-style service to newcomer asset managers, offering them registration, reporting, and supervision, all in English. Additional services—such as handy lists of English-speaking lawyers, tax auditors and other professionals—will be added soon.

On the immigration side, meanwhile, visa procedures are being eased to enable foreign professionals to switch from a temporary visa to a permanent professional one without having to return to their home country to apply, as was formerly the case.

The tax arrangements are being addressed to clarify that carried interest is taxed at a flat rate of 20 per cent, rather than a progressive rate, and a bill has been sent to the Diet to exempt expatriates' overseas assets from Japan's notoriously high inheritance tax.

"It's critical to create an environment that gives people the opportunity to come in and takes the friction out of the system," said Derek Young, president of Fidelity International, Japan, which manages more than $50 billion of Japanese money. The need for a friction-free environment is particularly true for asset management, because many of the players are small and can find a foreign environment intimidating, Mainelli pointed out. Particularly in light of the high pool of savings in the country, this is an area of great opportunity.

> "As you're watching what the government is doing, you can tell this is a lane-changing event."
>
> Derek Young

The Covid Factor

Fidelity International, whose Japan operations Young heads, is the oldest-established foreign asset manager in Japan, having arrived in 1969. Young welcomed the rapid transformation that is taking place in the financial services industry while pointing out the role the current pandemic is playing in further catalysing that change.

Over the course of 2020, various old-fashioned but deep-rooted business practices have finally started to fall by the wayside. Fast and efficient digital signatures replacing the carved wooden seal, or *hanko*, with which official documents used to have to be stamped, is just one example.

"With COVID-19, Japan has had to accelerate change in its thinking," Young said. "You have to operate at a different level in today's world. You have to be dynamic. You have to use technology. You have to use telecommuting. Japan may not have fully embraced these changes previously, but with COVID-19 it was time. It's the combination of these new work practices coupled with government reforms and underpinned by the country's huge wealth that together constitute what Young called "a lane-changing event" and make him optimistic about Japan's direction of travel.

Asian Gateway

One thing that has certainly changed over the last few decades is the competitive environment for Japanese financial markets. In the 2021 Global Financial Centres Index, six of the top 10 financial centres are in Asia. Does that mean that any gains Tokyo makes have to be clawed back at the price of some other regional financial centre?

No, argued Z/Yen's Mainelli, because finance is a not a zero-sum game. Since the mid-1990s, when there was a surge in the number of small, yet effective financial centres like Zurich, Singapore and Dubai, there have been more than 100 financial centres arranged in clusters around the world that simultaneously compete and cooperate.

Japan, in other words, could serve as a gateway to a whole set of Asian financial clusters—and Asia is out and away the best region in which to be located. "Growth in Asia is spectacular," Young said. "It's not one country competing against another country on the basis of a static market. It's real growth that's taking place. There is plenty of opportunity for multiple places to be prominent gateways into Asia. Japan is very well positioned to take advantage of organic growth in Asia. I think its prominence will continue to escalate."

Mainelli, who sees another three or four decades of growth for Asia down the road, cited Chinese bonds and emissions trading as areas of potentially enormous growth for the region as a whole, with investment management as a big opportunity for Tokyo in particular.

> "Japan can be seen as treating all comers equally. That will allow it to become a springboard for Asia."
>
> Michael Mainelli

Genuinely International

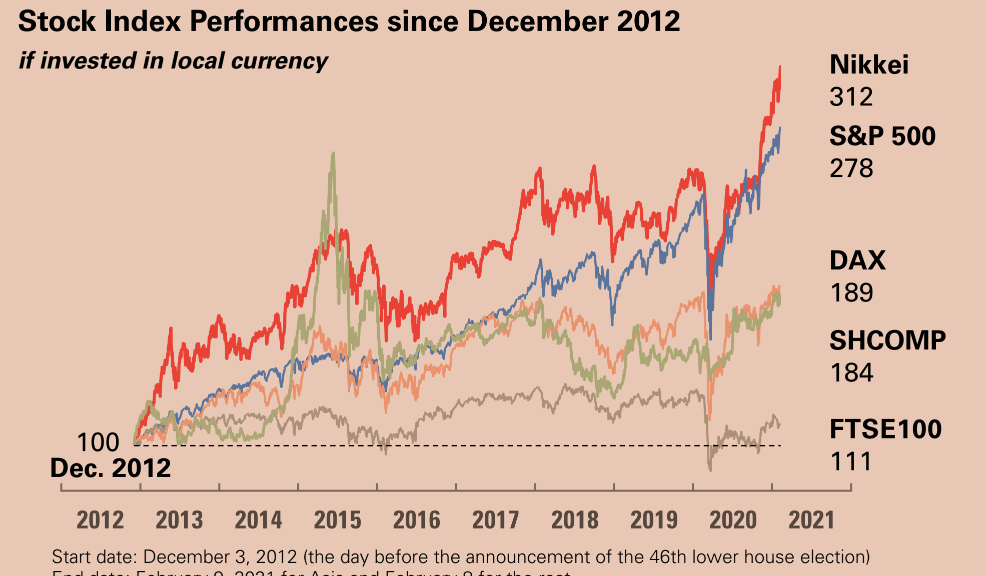
Japan's geographical properties as an island on the edge of Asia could also prove an advantage. Many successful financial centres are on the edge of the areas they serve, such as London or Zurich in Europe, Mainelli pointed out. "People don't like to trust completely in wherever they're investing; they like to hold back a little bit, if they have a choice," he said. "Japan has an opportunity to be seen to be treating all comers equally and that's going to allow it to become a springboard for Asia." He sees Tokyo potentially serving as a deal-making hub for international investors, who fly in, do a deal with or without a domestic component, and fly out, drawn by the country's location and reputation for stability.

Himino made a similarly upbeat case for Japan's future. There was a time when a single financial centre covering a single time zone was seen as the efficient solution. Now, however, with risks of all kind—whether related to geopolitics, pandemic, climate or cyberattacks—on the rise, people will inevitably attach greater weight to resilience in the post-pandemic future. As financial institutions seek to diversify the location of their operations, Japan is eager to present itself as a good option.

The country is already navigating the difficulties of our increasingly complex world in a smart way. Take Brexit as an example. The UK-Japan Economic Partnership Agreement, which was signed by the two countries in October 2020, has only served to reinforce the already close coordination between Japanese and UK financial authorities. As for the pressure to go green, Prime Minister Suga's announcement late last year that Japan will target carbon neutrality by 2050, has propelled sustainable technology and green finance even further up on the government's agenda.

Young pointed out that the challenge now is to get people outside Japan to have faith. "If you're sitting in the US or in Europe, it's hard to really appreciate the rate of change. You have to come here to see it yourself," he said. "The really important thing to communicate is the transformation that's happening. We're going to have more opportunities to look for growth in Japan, going forward. I think we are going to get a business environment here that's going to be quite different."

Stock Index Performances since December 2012
if invested in local currency



Start date: December 3, 2012 (the day before the announcement of the 46th lower house election)
End date: February 9, 2021 for Asia and February 8 for the rest.
(Source) Bloomberg, created by JFSA