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# JAPAN, IMPORTANT FINANCIAL GROWTH POLE OF THE PLANET

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**Abstract** *No other country on earth has no evolved in the past half-century as Japan. Physically and morally defeated in World War II, Japan has shown the world what mean an economy and a banking system that is based on ancestral traditions and customs. The beginning of notable affirmation of the Asian continent, economic and financial, was made by Japan in the second half of the last century and now continued in present by China. Even if Japan gave with honor the second place among world economies and finances continue to play an important role in the geopolitics of planet. The paper tries to certify the axiom: Japan, important financial growth pole of the planet.*

**Keywords**
The global financial crisis, business culture, mega financial growth pole, financial system, TOKAIDO

## 1. Introduction

*The Great Megalopolis Japanese.* None urban agglomeration of the Earth - which has obviously, a base on an economy and financial system highly stable - was not, more evident in the last 50 years as Japanese agglomeration known as TOKAIDO.

The First place among the large urban areas of the planet is occupied by the Japanese megalopolis, which spans 70,000 square kilometers on the main island of the archipelago Japan - Honshu, with its main urban cores (in alphabetical order): Kobe, Kyoto, Osaka, Tokyo and Yokohama (about 60 million citizens).

Place II is occupied by an urban agglomeration, located on the Atlantic coast of the US - BOSWAS, which on area almost double than the TOKAIDO square kilometers; make connecting the Americans growth poles: Baltimore, Boston, New York, Philadelphia and Washington (about 50 million citizens).

Place the third of a sui generis ranking of the large agglomerations urban on the Earth belong to the Brazilian megalopolis, bordered by the cities located throughout the Atlantic coast Belo Horizonte, Rio de Janeiro and Sao Paolo (about 40 million citizens).

## 2. Historical examples confirming the axiom

Strength unparalleled of the Japanese financial system, based on the second - as the scale of GDP - economy of the planet, is illustrated by the following examples, which were spent the first part of 2009. Thus, in mid-February 2009, the International Monetary Fund (IMF) lent 100 billion dollars from Japan, to be sure that it can continue to provide loans urgently for the states which need funding. This is the largest loan, which was given ever in history. The agreement was signed by former Japanese Finance Minister, Shoichi Nakagawa and former director of the IMF, Dominique Strauss-Kahn

Despite economic hardships, which was going through, as if to affirm the unique importance in the financial world of the planet, Japan has offered in early March 2009, a loan of 5 billion dollars to developing countries, in order that these country to elaborate the water systems which will work properly, the solar systems and other green energy infrastructure. Through the Japan International Cooperation Bank, authorities in Tokyo gave the money in 2010-2011, for a large project, coordinated by developing countries by the private sector. The Japanese government has provided the funds for projects to generate electricity and solar energy systems and projects of modernization, rehabilitation and expansion of water distribution networks and sewerage systems. The Japanese plan also provided for the introduction of new public transport network, based on clean energy to help reduce carbon dioxide emissions. It is also noted that developing countries has made initially appeal to European and American financial institutions to fund public projects, but the loan Institutions was avoided the lend action with the installation of financial crisis. Japanese loan of 5 billion dollar was provided through the Japan International Cooperation Bank.

### 3. The evolution of capital markets

In the late 80s of last century, Japan was one of the leading exporters of capital in the world. There were large securities firms; so-called mobile value houses "Big Four" (situated on that time, among the six largest such firms in the world): Nomura, Daiwa, Nikko and Yamaichi. "Big Four" played a key role in international financial transactions and were members of the New York Stock Exchange. Nomura was the largest securities firm; with its net capital inflows of over US dollar 10 billion in 1986, then went investment banks Merrill Lynch, Shearson Lehman and Salomon Brothers taken together. In 1986, then Nomura became the first Japanese company, a member of the London Stock Exchange. In Tokyo there are eight stock exchanges. The first, Tokyo Stock Exchange was the largest in the world at the end of last century, after the combined market value of shares big traded here, while the Osaka Stock Exchange ranked third, after the Tokyo and New York. In 1988, the eight stock exchanges accounted for 83 percent of the Japanese capital; from these 1,848 companies publicly listed at the end of 1986, about 80 percent were listed on the Tokyo. The two developments, in the late 80s of last century have contributed to the rapid expansion of Tokyo stock exchange. The first was a change of financing operations. The second, the development came from extending the types of securities traded: stocks, bonds, investments, trust, rights and another title of values. The phenomenon of appreciation of the yen, took place after 1985, determined on many Japanese companies to make major portfolio investment in other countries. The Government of Japan believes that FDI in outside will accelerate the industrial reorganization of the economy through export substitution effect and increasing imports from companies Japanese affiliates from outside. The government encouraged Japanese firms to invest outside, giving credit and insurance. Investments in developing countries are regarded as a way of promoting economic development of these countries. In addition, investments in developed countries are encouraged as a means of ensuring full access to foreign markets and reduce protectionist tendencies in areas where Japanese exports heavily penetrated local markets. There are no restrictions on portfolio investment in Japan, but there are some practical limitations, which decrease the attractiveness of the Japanese market in this area. One of these limitations is given by the small volume of shares available in the market for foreign investors, caused by Japanese corporate practice of cross-holding of shares or the existence of informal restrictions that obstruct the participation of foreign shareholders to managerial act. Local and foreign investors have free access to a wide range of credit instruments, which can be purchased at very low interest bank market, the lowest interest rate in the world! In general, foreign companies in Japan have difficulties in obtaining funds. Short-term loans are obtained by most foreign companies, Japanese commercial banks or branches of foreign banks operating in Japan. Medium-term loans may be obtained from banks conducting operations lasting funding, for example from Japan Bank for International Cooperation, which provides loans both foreign companies and local ones or bank trusts and life insurance companies . Long-term loans granted by the Development Bank of Japan, but it is difficult for foreign companies to obtain such financing. From this point of view, large foreign firms tend to use foreign sources of funding for long-term credit needs. The financial crisis has most unexpected effects. For years, Japanese cars have invaded the United States until the last decades of the last century when the turn of banks to emerge as the savior of Wall Street. Japanese Bankers know what a financial crisis. They went through it in the 90s of last century, and in 2008-2013 and, as Americans, have escaped the bad debts of state aid. In 2010, in the midst of global financial crisis, Mitsubishi UFJ Financial Group bought almost 20 percent of Morgan Stanley, while Nomura Holdings Brokerage Company has been active portfolio of Lehman Brothers in Asia and Europe. Investors welcomed these moves in the market. Analysts explained offensive Japanese American capital market by market stagnation local Japanese. Integration of accumulated capital was difficult because of differences in organizational culture of Western banks and the "Land of the Rising Sun". The Japanese are conservative, while Americans have a dynamic business culture and profit oriented. In the past 20 years, American and European investment banks have raised significant profits due to financial instruments 'exotic' and derived products with increased risk. The Japanese have avoided a risky investment, drawing / and much criticism. The result was that Japanese financial institutions have lost very little money in the US subprime crisis started in the fall of 2008, thanks to an ultra-conservative strategy for action on the capital markets of the world. A paper about "bubble economy" ("bubble gum economy") and how it has evolved was written by Christopher Wood, a journalist who has seen Japan for over two decades. The more powerful institution in Japan is, in his opinion, the Ministry of Finance (MOF). Wood argues that "feudal power" of the MOF has inhibited the development of true financial markets in Japan. The commercial success of the Japanese economy led the Japanese banks at the enormous wealth. Stock agency in Japan was beneficiaries of the economic bubble. The profits of the four great - Nomura, Daiwa, Nikko (Mitsubishi) and Yamaichi - but fell by 60 percent in 1990, with "breaking" bubble during the economic crisis of the time. In the period 2008-2013, after the fall of international stock exchanges and securities, after the fall of land and housing prices, the biggest Japanese bank losses and decreases related to the rate of return. Even excluding the cost of provision for irrecoverable loans, the rate of return was only about 5 percent. Official data showed as doubtful debts amounting to 76,000 billion yen (632 billion), is provisioned for half of them, but the unofficial figure was 100,000 billion yen. If in 1989 Moody's rated maximum of "AAA" for six Japanese banks currently considering government support, one bank has received the rating "A" and 11 Japanese banks have received the minimum, "E", which means that the bank could not survive without support. In 10 years (1999-2009), the shares of large Japanese banks fell to ¼ of its value. Monetary Authority of Japan, FSA (Financial Supervisory Authority) has allocated 7.450 billion yen for recapitalization of banks, i.e. ½ of their equity. However Nippon Credit Bank and Long-Term Credit Bank were nationalized, and a third, Hokkaido Takushoku, was closed.

## 4. Financial System Stability

Before the offensive, the bad loan, as always, Japan found a Nippon solution, called Financial System Stability. It refers to a state of confidence in the financial system, which has functions working properly and meets both for companies and for individuals. To contribute to the stability of the financial system, banks shall carry out monitoring and acting as lender of last resort, providing liquidity in the system, as needed. Maintaining proper management of financial institutions is an important condition to ensure the stability of the financial system. Financial institutions serve as a system of payment and settlement system for the transfer of funds and securities. In addition, they serve as a financial intermediary to allocate funds and to take risks to individuals and companies by offering loans for the purchase of securities or funds they receive as deposits. Each bank or companies securities, evaluating the state of commercial operations, the risk management, capital adequacy and profitability of financial institutions that have accounts with the Bank of Japan (BoJ). If the financial system stability could be jeopardized, BoJ act as lender of last resort to maintain orderly financial system. Lender of last resort function, refers to the provision of liquidity by the central bank loans and other means to prevent the materialization of systemic risk, the risk that an event - such as a financial institution disbursed large sums wrong - cause payment disorders. In order to achieve liquidity position, extend loans BoJ collateral in accordance with Article 38 of the law establishing it, such loans are provided as "special loans". Financial institutions must constantly review the financial and regulatory practices obsolete because they can obstruct the brokerage business. In this context, the BoJ encourages financial institutions in their efforts to improve risk management and business operations. Financial institutions must constantly review the financial and regulatory practices obsolete because they can obstruct the brokerage business. In this context, the BoJ encourages financial institutions in their efforts to improve risk management and business operations. Financial System Stability also provides that the Bank of Japan to work closely with foreign central banks and international organizations to prevent possible outbreak or spread of international financial crisis. BoJ monitor various risks and participate in the development of international standards and guidelines that serve this purpose. Specifically, the BoJ participate in the discussions of the Committee on Banking Supervision Basel (Basel Committee) to improve the efficiency of banking supervision and bank solidity.

## 5. Conclusions

In June 2005, Japan's international reserves - worth about 843 billion dollars - were still among the highest in the world, containing: 701 billion dollars in foreign securities; 123 billion dollars, deposits in central banks of other countries, the International Bank for Payments, Japanese commercial banks and other banking units abroad; dollar 10 billion in gold; over 8 billion dollars in reserves of IMF. The reason for Japan's economy and finances do not "explode" despite great and huge public debt accumulated bad loans by banks is that the Japanese have huge amounts in savings. These are estimated at 10 trillion (thousand) dollar, about how the two major debts - public and non-performing loans - summed, which is 30 percent of the total savings they hold industrialized countries. In other words, Japan has huge debts while its inhabitants massive saving. Japanese banking sector is about to solve the difficulties of bad loans, a problem that has stifle the growth of Japan in recent decades. Japanese banks have made important progress in the correction of non-performing loans, these loans drastically reducing domestic with foreign loans, as shown in the paper.

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