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Abstract

This paper investigates whether the recent increase in financial interdependence between Japan and East Asia has served to facilitate the international use of the yen in the East Asian region, by investigating not only the changing patterns of capital flows between Japan and the East Asian region but also the currency denomination of these flows. Japan's balance of payments with the East Asian region are also examined to clarify whether Japan has played a role of financial intermediary in terms of the yen to the region. We reveal that the use of the yen in financial transactions is in fact far smaller than the casual observation, and discuss what impedes the yen-denominated transactions in the East Asian region. We emphasize that the further use of the yen in trade transactions is particularly important for the yen internationalization in the region, by analogy with the internationalization of the Deutsche Mark.

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1. INTRODUCTION

This paper investigates whether the recent increase in financial interdependence between Japan and East Asia has served to facilitate the international use of the yen in the East Asian region. It is widely known that Japan has increased trade and investment in the East Asian economies from the mid-1980s and capital flows between Japan and these economies expanded substantially. There have been numerous articles on financial integration in the East Asian region focusing on such increasing capital flows.¹ However, it is still unclear whether or not the increase in Japan's financial influence has facilitated the use of the yen for financial transactions in East Asia. Interestingly, surprisingly few studies have so far been made at this question, whereas much more attention has been given to the internationalization of the yen over the last few decades.

To tackle this question, we investigate not only the changing patterns of capital flows between Japan and the East Asian region but also the currency denomination of these flows relying on the available data and relevant statistics.² Japan's balance of payments with the East Asian region are also examined to clarify whether Japan has played a role of financial intermediary in terms of the yen to the region. This approach will reveal that the use of the yen in financial transactions is in fact far smaller than the casual observation. Finally we will discuss what impedes the further use of the yen for financial transactions in the East Asian region.

¹ Among others, de Brouwer (1999), Phylaktis (1997, 1999), Chinn and Frankel (1994), and Glick and Hutchison (1990). Financial market integration is typically regarded as one of the conditions of an optimum currency area (OCA). Whereas the research on a yen currency bloc by applying the theory of OCA is important, it is beyond the scope of this paper. For this line of works, see Frankel (1993), Ito (1994) and Taguchi (1994).

² For a good review of changing patterns of capital flows in the Asian-Pacific region, see Kohsaka (1996). See also Okuda (1996), Chapter 6.

2. LITERATURE SURVEY

Over the past few decades, a considerable number of studies have been made on the financial integration in the Asian-Pacific region. Chinn and Frankel (1994), for example, have examined the co-movements of interest rates in Asia to clarify whether Japan has gained more financial influence in Asia than the United States. Phylaktis (1997) has analyzed the co-movements of interest rates more rigorously by using the cointegration technique. These works have shown that the East Asian economies have increased the degree of financial market integration with Japan from the 1980s, whereas the United States has played a more dominant role in the region than Japan. To put in another way, the existing literature implies that although Japan has not overtaken the United States in dominating the regional financial markets, the financial influence of the former has increased steadily.

It must be noted, however, that although the above line of works is evidently important in evaluating the Japan's financial influence in East Asia, it is not necessarily clear whether or not the increase in Japan's financial influence has to do with the financial aspects of the yen internationalization.

More relevant approach is to examine the role of the Japan's financial intermediary by investigating currency denomination of capital flows between Japan and East Asia. For example, it is widely recognized that Japan emerged as the world's largest creditor in the 1980s.³ Black (1990) have argued that Japan's external position is analogous to that of the United States in the postwar period as well as the United Kingdom in the nineteenth and early twentieth centuries as a world banker. By critically inquiring into the Black's argument, Tavlas and Ozeki (1992) have examined the extent

³ See, for example, Kawai (1992) and Nakao (1991).

to which Japan's position as an exporter of long-term capital (on a net basis) has served to facilitate the international use of the yen.

Tavlas and Ozeki have emphasized the distinction between nations that serve as international financial intermediaries and those that function as world bankers. Specifically, a country is regarded as a world banker only if its international financial intermediation enhances the supply of world liquidity denominated in its own currency; otherwise, the country acts just as an international financial intermediary. Based on this distinction, they have concluded that Japan's financial intermediation was not conducted predominantly in terms of the yen, though Japan channeled funds to the rest of the world in terms of the foreign currency. Japanese long-term capital outflows in the 1980s were concentrated in securities and a large portion of these capital outflows were denominated in U.S. dollars (Tavlas and Ozeki, 1992). In this sense, Japan has not acted as a world banker: Japan's financial intermediation provided funds denominated in not the yen but other currencies to the rest of the world, which was not conducive to the international use of the yen.

Their conclusion brings us to the question as to whether it is true even for Japan's capital flows to the East Asian economies. Tavlas and Ozeki have also stated that while the processes underlying the emergence of sterling and the U.S. dollar as international currencies appear to be less significant for the yen, an exception is the Japan's role of international financial intermediary with respect to the Asian developing economies (Tavlas and Ozeki, 1992, p.30). More specifically, they suggest the possibility that Japan will play a role of international financial intermediary in terms of the yen in the East Asian region. It is worthwhile to check the validity of this argument by examining the currency denomination of capital flows between Japan and the East Asian economies.

In the next section, we examine the changing patterns of capital flows between Japan and the East Asian region. We also examine the relationship between Japan's capital flows and the internationalization of the yen, by making a close investigation of currency denomination of these capital flows. It must be noted that a major obstacle to this analysis is that the data on currency denomination of financial transactions in East Asia is very limited. Relying on the available data and using relevant statistics, we attempt to reveal to what extent the yen-denominated financial transactions have grown in East Asia.

3 CAPITAL FLOWS BETWEEN JAPAN AND THE EAST ASIAN FINANCIAL CENTERS

3.1 BIS Reporting Banks' Claims on the East Asian Economies

Let us first discuss the role of the yen in East Asian financial transactions. A good starting point is to observe the Bank for International Settlements (BIS) data (Table 1), though somewhat old, which shows the changes in not only the composition of BIS reporting banks' claims on the East Asian economies but also that of currency denomination from the end-1983 to the end-1991. BIS (1992) has pointed out two major changes during the period: (i) an increase in the share booked in Asia (including Japan, Hong Kong and Singapore) and (ii) an expansion in the relative importance of outstanding positions denominated in the yen.

We first notice that the share of Asia by location increased in all economies except Indonesia and the Philippines, indicating that BIS reporting banks located in Asia increased the claims on the East Asian economies. More noteworthy is that the share of the yen by currency (i.e., the share of the yen-denominated claims in the total BIS

reporting banks' claims) also rose in all economies, especially Hong Kong and Singapore. In Hong Kong, the share of Asia by location increased from 38.2 percent in the end-1983 to 79.8 percent in the end-1991 and the share of the yen rose sharply from 4.6 percent to 56.9 percent during the same period. We also observe a similar increase in the share of both Asia and the yen in Singapore: the share of Asia rose from 43.6 percent to 63.2 percent and the share of the yen from 2.9 percent to 50.3 percent during that period. The share of the yen in both Hong Kong and Singapore in the end-1991 is far larger than the corresponding share in other East Asian economies (12-27 percent). Does this imply the significant increase in the role of the yen in the East Asian economies, especially Hong Kong and Singapore?

We must note, however, that this casual observation does not necessarily reveal the role of the yen in the East Asian economies for two reasons. First, the figures of outstanding claims may be overestimated due to the appreciation of the yen against the U.S. dollar during the period. According to the BIS, about 80 percent of the expansion in the yen claims on Korea from the end-1983 to the end-1991 can be explained by the exchange rate effects resulting from the yen appreciation against the U.S. dollar.⁴

Second, the actual increase in the yen cannot be fully captured by the BIS data (Table 1), because the currency composition data includes the positions of banks in industrial reporting countries only and loans to the East Asian economies booked out of Hong Kong and Singapore are excluded from the data. In other words, Table 1 does not indicate whether Hong Kong and Singapore increased yen-denominated loans to other East Asian economies. BIS has stated, however, "a considerable share of new loans to East Asian countries booked out of Hong Kong and Singapore ... has probably been

⁴ BIS (1992), p.23. According to BOJ (1999a), the yen appreciated substantially from the end-1983 (233.0 yen/U.S. dollar) to the end 1991 (125.25 yen/U.S. dollar).

denominated in yen” (BIS, 1992, p.24). To check the validity of the BIS’s presumption, we must investigate currency denomination of the bank loans to the East Asian economies via Hong Kong and Singapore as well as Japan’s capital flows to the two financial centers.

3.2 Capital Flows between Japan and Hong Kong

As reported in Table 1, the amount outstanding of banks’ claims by the Asian BIS reporting financial centers increased substantially in Hong Kong and Singapore. This increase is also confirmed in Table 2 that shows that Hong Kong financial institutions expanded liabilities and claims dramatically with respect to the Asia and Pacific region from 1986, 80 percent or more of which were accounted for by Japan.⁵ Following the opening of the Japan Offshore Market (JOM) in December 1986, banks in Hong Kong and Singapore became heavily involved in two-way transactions with Japan.⁶

Table 3 shows that the JOM grew rapidly after its establishment, though the amount outstanding of total assets and liabilities has decreased considerably from 1995. The data on assets and liabilities of the JOM indicate the following three features. First, as for types of currency, the yen-denominated position outweighs the foreign currency’s counterpart from 1991 in total assets and the former is somewhat smaller than the latter in the total liabilities over the period except 1995 and 1999. Second, regarding types of transactions, inter-bank transactions (deposits/call loans and deposits/call money) and inter-office transactions account for a significant portion of total assets and liabilities.

⁵ An investigation of capital flows between Singapore and Japan is not conducted in this paper, since the Singapore statistics do not report the regional breakdown of external assets and liabilities of Asian Currency Units (Singapore Department of Statistics, various issues).

⁶ See, for example, Osugi (1990) and Takeda and Turner (1992). We will discuss more on this later.

Third, the JOM supplies a large amount of the yen almost unilaterally through inter-office accounts.

Such a rapid growth of assets and liabilities is related to the regulatory restrictions in the JOM.⁷ First, nonresidents as well as offshore accounts of resident banks are eligible counter-parties in the market, and flows of funds from offshore to onshore accounts are restricted: funds were in principle not allowed to be channeled from offshore to onshore accounts.⁸ Second, banks' domestic lending (yen-lending by domestic offices) was regulated by the informal guidelines, the "window guidance" policy of the Bank of Japan (BOJ). This BOJ policy was neither applied to Euro-yen loans to residents by foreign branches of Japanese banks nor to foreign currency loans by domestic offices. Therefore, to circumvent such financial regulations in the domestic market, Japanese banks remit funds raised in the JOM to their foreign branches in the Asian financial centers (Hong Kong and Singapore) through offshore inter-office accounts and then re-borrow these funds. In other words, Japanese banks use their foreign branches in Hong Kong and Singapore as "relay stations" for "round-tripped" transactions to avoid domestic regulations, which contributes to a remarkable increase in cross-border transactions between Japan and Asian offshore centers.⁹

The next question is whether or not Hong Kong financial institutions use the yen-denominated funds for their external loans to other East Asian economies after procuring the yen funds from Japan. Table 4 shows the external claims of Hong Kong financial institutions on non-bank customers. We can easily observe that Hong Kong financial institutions expanded the external assets to non-bank customers substantially from 1987

⁷ For further details, see Osugi (1990), Tavlas and Ozeki (1992) and MOF (1999).

⁸ In April 1, 1989, the restrictions on upper limits of shifting funds from onshore to offshore accounts were abolished, which may lead to larger amounts of yen-denominated (total) assets than those of liabilities. The restrictions on shifting funds from offshore to onshore accounts were also relaxed at the same time (MOF, 1999).

⁹ See Osugi (1990), Takeda and Turner (1992) and BIS (1999).

and a 70 percent or more of total external claims were directed to Japan from 1990, which is consistent with the expansion of the round-tripped transactions mentioned above.

The Hong Kong data does not report the currency composition of external loans by Hong Kong financial institutions. However, we can infer from other data that a large portion of the Hong Kong external loans to Japanese non-bank customers is denominated in the yen. According to Table 5 that presents the data on Euro-yen loans by overseas branches of Japanese foreign exchange banks, Euro-yen loans to residents (so-called, Euro-yen impact loans) expanded significantly from 1986, particularly from 1989, when medium/long-term Euro-yen loans to residents were liberalized. Figure 1 also shows close co-movements between Hong Kong external assets to non-bank customers in Japan and Euro-yen loans to residents by Japanese overseas branches, which is another supporting evidence of the round-tripped transactions between Japan and Hong Kong.¹⁰

We must also note that Hong Kong external claims on non-bank customers in the East Asian economies have grown very moderately and its amount outstanding is substantially small compared to claims on Japan (Table 4), which implies that the yen-denominated loans via Hong Kong to the East Asian economies are very small. Such a low level of yen-loans to the East Asian economies can be confirmed by the substantial decrease in amount outstanding of Euro-yen loans to non-residents from 1989, though the latter slightly increased from 1996 (Table 5).

Recently, Hong Kong inter-bank liabilities and external claims on non-bank customers have shrunk substantially, a decline by 61.9 percent in inter-bank liabilities and by 70.5 percent in external claims on non-bank sectors from the end-1995 to the end-2000, respectively (calculated from Tables 2 and 4). Although the transfer of sovereignty

¹⁰ In Figure 1, yen-denominated Hong Kong external loans are calculated using the year-end yen/U.S. dollar exchange rate (BOJ, 1999a), given that 1U.S. dollar = 7.8 Hong Kong dollar.

in July 1997 and the Asian currency crisis may partly affect the decline of the international banking business of Hong Kong, it is Japan that has mainly contributed to this contraction: Japan accounted for 83.5 percent and 95.8 percent of decrease in inter-bank liabilities and external claims on non-bank sectors, respectively during that period (calculated from Tables 2 and 4). The significant decline of offshore yen loans to Japan via Hong Kong reflects not only the weakness of loan demand of Japanese non-bank sectors but also the drive by Japanese banks to improve their capital ratios (BIS, 1999).

In short, the rise (from the mid-1980s to the early 1990s) and fall (from the mid-1990s) of the Japan's position in Asian offshore centers (Hong Kong and Singapore) can be explained by the round-tripped operations of Japanese banks. In other words, the increase in capital flows between Japan and Asian financial centers just reflects the extension of the domestic financial intermediation of the Japanese banking systems.¹¹ Hong Kong, and probably Singapore, plays a role of relay stations for inter-bank transactions of Japanese banks with their overseas branches, and yen-loans to the East Asian economies have not been facilitated via Hong Kong and Singapore.

¹¹ After the window guidance was abolished in June 1991, Japanese banks would have little reasons to continue Euro-yen impact loans via foreign branches instead of loans by domestic offices. However, according to Table 5, Euro-yen loans to residents increased somewhat in 1992-93 and significantly in 1995-96. It is difficult to explain such increase in Euro-yen loans, and further investigation should be necessary. One possible explanation is presented by Institute of Foreign Exchange and Trade Research (1995, p.87) that states that since interest rates of Euro-yen impact loans tended to change more quickly in response to changes in official discount rate than domestic lending rates, demand for (short term) Euro-yen impact loans to residents increased when the official discount rate declined in 1995 and round-tripped transactions with Hong Kong were actively conducted. See also Figure 1. Hong Kong external claims on Japanese non-bank customers increased sharply in terms of the yen in 1995. Rigorous consideration of this statement will of course be required.

4. JAPAN'S BALANCE OF PAYMENTS VIS-À-VIS THE EAST ASIAN REGION

As discussed in the previous section, the round-tripped operations of Japanese banks via the Asian financial centers can be interpreted as just an expansion of the domestic financial intermediation of the Japanese banking systems. Such unique capital flows can also be observed in the Japan's balance of payments data as well.¹²

Table 6 shows the Japan's current and long-term capital account with respect to Southeast Asia from 1987 to 1995.¹³ The first thing to note is that Japan ran a large amount of current account surplus to the Southeast Asian economies. Second and more interesting to note is that Japan was a net importer of long-term capital from 1990 to 1992: US\$12-39 billion of net inflows in the total long-term capital account in each year. This contrasts markedly with the balance of payments pattern of the past key-currency countries, the United Kingdom and the United States, which had played a role of international financial intermediary in terms of their own currency as an exporter of long-term capital. Such a large amount of Japan's long-term capital inflows during the period is mainly due to a considerable increase in loan liabilities, which reflects the increase in medium-term Euro-yen loans to residents by overseas branches of Japanese banks, as discussed in the previous section. Panels B and C of Table 6 also show that this large inflow of loan liabilities came from the Asian NIEs, which is an additional evidence for the offshore loans to Japanese non-bank customers via Hong Kong and Singapore. From 1993, Japan's net long-term capital account turned into deficit again, which corresponds to the contraction of long-term Euro-yen loans to residents from 1993 (Table 5).

¹² In this section, we focus mainly on the long-term capital account because the regional breakdown of the short-term capital account is not available from the BOJ (various issues).

¹³ Southeast Asia consists of 21 countries (or economies) including the Asian NIEs, ASEAN4 and China.

Let us next focus on the asset side of Japan's long-term capital account, which indicates that there were certain amounts of capital outflows to Southeast Asia over the period. First, direct investment is one of the main sources of Japan's capital outflows to the Southeast Asian economies. Japan expanded direct investments in these economies from the mid-1980s, which promoted trade between two regions and the active operations of Japanese manufacturing affiliates in the region. The implication of this increase in direct investment for the use of the yen is closely related to the trade aspects of the yen internationalization and will be discussed more in the next section.

Second, loan assets are the other main source of capital flows to the Southeast Asian economies. Japan registered US\$3.7-5.8 billion of loan assets from 1987 to 1995 except for 1992, a large portion of which is mainly directed to other Asian economies (Table 6). The loan assets can be divided into the two main categories: one is ODA loans (yen loans or "en shakkan" in Japanese)¹⁴ and the other is medium/long-term external bank loans such as syndicated loans.

The Asian economies are main recipients of ODA loans: in the 1996 fiscal year, 76.6 percent of total Japan's ODA loans are directed to the Asian economies.¹⁵ Data on currency composition of external debts (public or publicly guaranteed debts) in the selected Asian economies (Table 7) indicates that yen-denominated debts increased substantially in the 1980s, and the yen-denominated debts accounted for the largest share in the total external debts in 1992 (Iwami, 1995, Table 5-13). This high share of yen-

¹⁴ Japan's ODA is composed of three categories, bilateral donations, contributions to international organizations and yen loans. The loan category of Japan's long-term capital account covers yen loans only.

¹⁵ Ministry of Foreign Affairs (1998), Chart 68. See also ICSEAD (2001).

denominated debts may reflect the fact that these countries are main recipients of Japan's ODA.¹⁶

Table 8 shows the regional breakdown of Japan's medium/long-term external bank loans. First, Japan expanded foreign currency denominated loans to Asia steadily from 1985 to 1997 except for 1996. Second, yen-denominated loans to Asia declined considerably from the peak of US\$2,576 billion in 1989 to US\$1,304 billion in 1996, though it slightly increased in 1997. Therefore, we can state that Japan's medium/long-term external bank loans did not contribute to the use of the yen in the Asian economies during the 1990s.

Outflows of securities assets are relatively small compared to direct investments and loans. In the context of the yen internationalization, we are interested in to what extent the East Asian economies procure yen funds by issuing yen-denominated bonds. Security assets in Table 6 covers net acquisition of foreign securities (whether yen-denominated or not) by Japanese residents only. Therefore, a relatively small amount of security assets may suggest that the East Asian economies did not procure a large amount of funds through yen-denominated foreign bond issues.

Relying on other sources, let us investigate the issues of yen-denominated bonds (both Euro-yen bonds and yen-denominated foreign bonds). As for the global issue of yen-denominated international bonds, Table 9 shows that while yen-denominated bond issues were negligible in the early 1980s, the issues increased substantially from the mid-1980s and reached 14.8 percent of total international bond issues in 1987. The share of

¹⁶ Ito (1994) also refers to this point. After the Asian currency crisis, Japan's official financial assistance (such as ODA loans and provision of yen funds through financial assistance under the New Miyazawa Initiative) gained more attention concerning the role of providing yen funds to the Asian economies that suffered from the financial turbulence. Such provision of yen funds is likely to facilitate the role of the yen in the region.

international yen bond increased again to 18.3 percent in 1994, but thereafter declined to 5.5 percent in 1997.

Table 10, though somewhat old, shows the currency composition of the international bond issues by the East Asian economies. First, for Euro-bonds, they issued a large amount of the U.S. dollar denominated bonds and yen-denominated bond issues were quite small. On the other hand, yen-denominated bond issues were relatively large in the case of foreign bond issues. We must note that from 1993 the weight of Euro-bond issues increased dramatically compared to foreign bond issues, and the U.S. dollar denominated bonds accounted for 90 percent or more of the total Euro-bond issues. Even in the total issues of international bonds (the sum of Euro and foreign bonds), the U.S. dollar accounted for 74-82 percent of the total bond issues and the share of yen-denominated bonds was under 20 percent from 1993. Therefore, we can conclude that a large portion of international bond issues by the East Asian economies are accounted for by the U.S. dollar.

We must also note that, despite a large amount of U.S. dollar denominated bond issues, the issues of yen-denominated foreign bonds do play a certain role of providing yen funds to the East Asian economies. Table 9 shows, however, that the share of yen-denominated bonds in the global international bond issues declined substantially in 1997, which might reflect that some East Asian economies had difficulty in procuring funds through international bonds after the Asian currency crisis. This in turn implies that the share of the yen-denominated bond issues is likely to increase to some extent again when the economies recover from severe economic difficulties.

The above observation reveals that there were steady provisions of Japan's long-term capital to Southeast Asia through direct investment and loans. It must be emphasized, however, that the absolute amount of asset outflows of total long-term

capital was far smaller than that of current account surplus (Table 6), which implies that even if we leave the long-term Euro-yen loans to residents out of consideration, we cannot say that Japan has fully played a role of financial intermediary in terms of the yen to the East Asian region.

Turning now to the recent data on Japan's balance of payments. The BOJ began to publish the new version of the balance of payments statistics that differs considerably from the pre-1995 version statistics, and the long-term capital account is not separately reported in the data on Japan's regional balance of payments. Table 11 (Panel A) shows that Japan recently registered a large amount of net capital outflows (net capital and financial account) to Asia from 1996 to 1998, but again recorded net capital inflows in 1999 and 2000. How do we interpret this fluctuation of capital flows from the viewpoint of international financial intermediary?

The net capital and financial account from 1996 also reflects movements of the other investment category. As shown in Table 11 (Panel B), Japan registered a large amount of loan assets to Asia in 1997, which contributed mainly to the net capital and financial account deficit. The reason is that Japanese banks remitted a large amount of yen funds to their foreign branches that suffered from a difficulty in procuring foreign currencies owing to the so-called "Japan premium," and the latter converted yen funds remitted by the former into the foreign currencies through derivative transactions (e.g., foreign exchange swap) with foreign banks.¹⁷ In 1998, while registering a certain amount of asset inflows in debt securities and loans, Japan recorded far larger liabilities outflows in these categories. Such capital outflows were mainly due to a large

¹⁷ BOJ (1999b). Chart 5 of the BOJ paper indicates that banks located in Japan registered over U.S.\$80 billion of capital outflows in the fourth quarter of 1997, which was by far the largest in absolute amounts in the 1995-98 period. About a half of these outflows were denominated in the yen and more than one third were directed to offshore centers (including Hong Kong and Singapore).

repayment of residents for Euro-yen impact loans. BIS (1999) has pointed out that the “weakness of loan demand in Japan and the drive by Japanese banks to improve their capital ratios led to a decline in the amount of offshore yen loans to corporations in Japan.” For example, in the loan category vis-à-vis Hong Kong, Japan registered a substantial amount of asset inflows on one hand and a large volume of liabilities outflows on the other hand, which is consistent with a sharp contraction of offshore loans to Japan’s domestic residents via Hong Kong. Japan’s capital and financial flows with East Asia in recent years mainly reflect the other investment category and do not show any evidence for the increase in the role of the yen in the East Asian region.

In summary, despite an increase in capital flows between Japan and the East Asian region from the mid-1980s, Japan has not expanded the yen-denominated loans to the region. Rather, Japan expanded the round-tripped transactions with the Hong Kong and Singapore financial centers to circumvent the domestic financial regulations. Recent increase in capital flows to the East Asian economies results from the weak demand for loans by Japanese residents as well as the remittance of yen funds to foreign branches suffering from the Japan premium. It is hard to say that Japan has played a role of financial intermediary to the East Asian economies in terms of the yen.

5. FACTORS IN IMPEDING THE INTERNATIONALIZATION OF THE YEN

As we have discussed so far, it is hard to say that Japan has played a role of international financial intermediary in terms of the yen to the East Asian economies. Yen-denominated financial transactions are in fact far smaller in the East Asian region than the casual observation. Such limited use of the yen in East Asian financial transactions is typically attributed to (i) the exchange rate policy of the East Asian

economies and (ii) the dominant role of the U.S. dollar in the East Asian foreign exchange rate market.

De facto U.S. Dollar Pegged Exchange Rate System. Most East Asian economies had adopted the managed floating system at least up to the financial crisis, but in fact attempted to stabilize the exchange rate vis-à-vis the U.S. dollar.¹⁸ To the extent that their currencies are effectively pegged to the U.S. dollar, the East Asian economies can avoid exchange rate risks by conducting U.S. dollar denominated transaction. It must be noted that after the crisis some economies started to adopt a more flexible exchange rate system, indicating they are exposed more to exchange rate risks when conducting U.S. dollar denominated transactions. However, recent studies reveal that these economies have restored the linkage of their currencies with the U.S. dollar.¹⁹

The Vehicle Role of the U.S. Dollar in Foreign Exchange Markets. Table 12 (Panel A) compares currency compositions of foreign exchange trading in the 10 largest markets in April 1998. We notice that the U.S. dollar accounts for by far the largest share: the share of the U.S. dollar was over 80 percent in all countries except Netherlands and more than 90 percent in Asian economies (Japan, Singapore and Hong Kong), Australia, and the United States. Table 12 (Panel B) presents currency compositions of foreign exchange trading in Asian major markets. First, the U.S. dollar share was over 90 percent from 1992 to 1998 in all markets. Second, the share of the yen was almost the same as that of the Deutsche Mark, though the former was slightly larger than the latter in Singapore and Hong Kong markets in 1998. It is hard to say that the yen plays a far greater role in foreign exchange trading in these markets than the Deutsche Mark.

¹⁸ See, for example, Frankel and Wei (1994) and Esaka (1999).

¹⁹ See Ogawa (2001).

The U.S. dollar accounts for a dominant share in foreign exchange trading in world markets, especially in Asian-Pacific markets, which indicates that the U.S. dollar plays a greater role in mediating exchanges of various currencies derived from international trade and capital transactions. This mediating role, i.e., the so-called “vehicle currency” role, of the U.S. dollar is based on low transaction costs due to the economies of scale.²⁰ Since the volume of U.S. dollar transactions are substantially large, and hence, the transaction costs of the U.S. dollar is very low, it is more advantageous to convert one currency into another through the U.S. dollar than to exchange two currencies directly. To put it another way, the larger the transaction volume of the U.S. dollar, the smaller its transaction costs would be, and this relationship develops like a virtuous circle. Since international trade and capital transactions are typically related closely to foreign exchange trading, the dominant position of the U.S. dollar as an international currency is hard to be eroded. In contrast, there is no evidence that the yen plays a role of a vehicle currency, even in Asia-Pacific markets.

The Yen as a Trade Invoicing Currency. Both the nominal anchor role and the vehicle role of the U.S. dollar are clearly important factor in promoting the U.S. dollar denominated transactions. However, the role of trade invoicing currency is particularly important in considering the further use of the yen in the East Asian region. It is widely recognized that the U.S. dollar is generally used in external trade of the East Asian economies and also that the yen-invoiced transactions are relatively large only in their trade with Japan.²¹ The limited use of the yen in East Asian trade contrasts markedly with the case of Deutsche Mark.

²⁰ For the role of the vehicle currency, see, for example, Krugman (1984) and Tavlas (1992).

²¹ See Sato (1999) for further details.

Table 13 reports the 1989 data on currency invoicing of Germany's exports and imports by region as well as the corresponding data for Japan as of 1989 and March 1998. We must note that 80 percent of Germany's exports to the EU countries were invoiced in Deutsche Mark in 1989, while the U.S. dollar invoiced ratio was still higher than the yen-invoiced ratio in Japan's exports to Southeast Asia in March 1998. More noteworthy is that 60 percent of Germany's imports from the EU countries were invoiced in Deutsche Mark, which contrasts sharply with the low level of Japan's yen-invoiced imports from Southeast Asia. This difference in currency invoicing patterns is particularly important in considering the internationalization of the currency. It is typically agreed that the Deutsche Mark actually played the key currency role in the European countries, and also that the key role of the Deutsche Mark rested on the European economy being independent of the U.S. dollar as well as the United States.²² It must be emphasized here that, in contrast to the case of the Deutsche Mark, the use of the yen is very small in Japan's exports to and imports from Southeast Asia.

The relatively low level of yen-invoiced exports to Southeast Asia has to do with the pricing strategy of Japanese exporting firms. The literature on the PTM behavior of German exporters shows the high pass-through rate in exports to the United States, reflecting the Germany's export competitiveness against the United States.²³ This implies that it is necessary for Japanese exporters to improve their export competitiveness for the further use of the yen in East Asia. However, as Sato (1999, 2001) shows, recent increase in Japan's trade with East Asia has been promoted by the electronics industry, especially the semiconductor and IC industry that has a strong tendency to invoice its

²² See, for example, Iwami (1995, Chapter 5), Tavlas (1991), and Kamikawa (1992).

²³ Iwami (1995, p.121) has pointed out that the high share of Deutsche Mark invoiced trade is based mainly on the competitiveness of Germany's machinery exports. See also Tavlas (1991, pp.20-26). For the studies on the PTM behavior of German exporters, see Knetter (1993) and Gagnon and Knetter (1995).

exports in U.S. dollars even when its export destination is East Asia. In addition, the electronics industry accounts for the largest share in East Asian external exports and imports, and the East Asian electronics exports are directed mainly to the United States.²⁴ Given the large dependence on the U.S. markets, it is hard to expect the yen to be used more widely in the East Asian region. For the further internationalization of the yen, it seems to be crucial that Japan expands its imports from the East Asian countries and becomes more important export market for them than the United States.

6. CONCLUDING REMARKS

For the past few decades, the yen internationalization has attracted a great deal of attention, and yen-denominated transactions increased considerably in the 1980s. Such increase in the use of the yen went hand in hand with the deregulation of the financial markets, growth of Japanese economic size, active investment and trade of Japanese firms, and so on. In the 1990s, however, the use of the yen has not increased, or rather decreased, even though the economic interdependence between Japan and East Asia has deepened significantly. This slowdown of the internationalization is generally attributed to the Japan's prolonged recession after the burst of the bubble economy. Specifically, Japan has suffered from prolonged recession and the government debts increased very rapidly, which appears to be eroding the confidence in the soundness of the Japan's economic policy. In addition, Japanese financial institutions have had a difficulty in disposing of huge amounts of non-performing loans (NPLs), and the delay in clearing off NPLs will continue to prevent the international operations (such as investing and lending

²⁴ See WTO (various years). From the mid-1990s, around one third of electronics exports of the Asian NIEs are directed to the United States, although the corresponding share of Japan is far smaller.

activities in East Asia) of the Japanese financial institutions. Furthermore, the delay in financial liberalization process is also typically pointed out as a factor in impeding the internationalization of the yen: the Japan's financial liberalization process lags far behind the United States and United Kingdom, and there still remain visible or invisible regulations on domestic financial and capital markets.

Although most East Asian currencies had in effect been pegged to the U.S. dollar, some East Asian economies started to adopt a more flexible exchange rate system after the Asian currency crisis. In addition, Japan was expected to respond actively to the funding needs of Asian economies suffering from economic difficulties caused by the financial turmoil, and a certain amount of financial assistance were in practice implemented under the New Miyazawa Initiative. This kind of financial assistance scheme is expected to play a more important role in providing yen funds to the East Asian region than ever, which may be conducive to the use of the yen in the region. Furthermore, Japanese government of late re-started the further liberalization of domestic and foreign capital transactions. These ongoing changes in both domestic and international environments are likely to create the prerequisite condition for the international use of the yen. But, the fundamental question is whether or not these changing environments are enough for the further yen internationalization in the East Asian region.

Generally speaking, it is clearly important to push forward the liberalization processes of financial and capital markets for the further use of the yen. However, yen-denominated financial flows in East Asia are in fact quite small. While capital flows between Japan and the East Asian economies increased substantially from the late 1980s, it is due to the expansion of offshore loans by Japanese banks to residents via Hong Kong and Singapore. Yen-denominated loans to the East Asian economies via Hong Kong

cannot be observed, which implies that yen-denominated financial transactions are quite small in the East Asian region. Japan's yen-denominated medium and long-term capital flows to the region are in fact very limited except for Japan's ODA loans and FDI. Furthermore, the financial convenience of U.S. dollar denominated transactions seems hard to decline owing to its vehicle role in foreign exchange trading and derivative markets, and it is likely to continue even after the completion of financial liberalization processes in Japan. Given the dominance of the U.S. dollar in financial transactions, it is even more crucial to build a trade and investment linkage between Japan and East Asia.

A good example is the case of the internationalization of the Deutsche Mark. The Deutsche Mark became a regional key currency in EU, based on the regional trade dependence being independent of the United States. This case contrasts markedly with the internationalization of the yen in East Asia: the East Asian economies depend heavily on the United States as their export markets, and their export dependence on Japan is in fact far smaller despite the recent increase in trade and investment between Japan and the East Asian economies. Furthermore, Japanese electronics exporters have a tendency to invoice their exports in U.S. dollars even when their export destination is the East Asian economies.

To the extent that the U.S. economy has a strong influence in the East Asian region, the dominance of the U.S. dollar is unlikely to be eroded. Such inertia will work particularly for the financial transactions owing to the vehicle role in foreign exchange markets. For the further internationalization of the yen, Japan should expand yen-invoiced trade with East Asia and become far more important market for East Asian exports to build more autonomous trade-investment linkages in the region.

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Table 1 BIS Reporting Banks' Claims on the East Asian Economies

	China	Indonesia	Malaysia	Philippines	Korea	Taiwan	Thailand	Hong Kong	Singapore
End-1983 (Billion US \$)*	3.0	13.7	11.4	13.7	29.3	6.9	6.9	56.4	52.9
By location (Share, %)**									
North America	10.9	7.8	10.1	20.0	37.6	31.9	19.9	24.4	16.8
Europe	26.1	29.8	26.5	23.3	17.3	14.0	17.1	37.4	39.6
Asia	63.0	62.4	63.4	56.7	45.1	54.1	63.0	38.2	43.6
By currency (Share, %)**#									
U.S. dollar	44.9	50.4	62.8	79.3	86.1	83.5	71.3	81.2	83.8
Yen	23.5	10.8	14.8	10.0	5.7	3.7	19.7	4.6	2.9
Other	31.6	38.8	22.4	10.7	8.2	12.8	9.0	14.2	13.3
By type (Share, %)**									
Banks	73.9	9.9	50.8	68.6	66.3	56.5	61.3	85.0	95.7
Non-banks	26.1	90.1	49.2	31.4	31.4	43.5	38.7	15.0	4.3
End-1991 (Billion US \$)*	37.0 (+34.0)	34.2 (+20.5)	9.1 (-2.3)	8.7 (-5.0)	39.1 (+9.8)	17.5 (+10.6)	22.7 (+15.8)	401.2 (+344.8)	209.2 (+156.3)
By location (Share, %; Billion US \$ in parenthesis)**									
North America	2.3 (+0.6)	20.5 (+5.9)	5.5 (-0.7)	28.3 (-0.2)	16.4 (-4.6)	12.4 (0.0)	8.7 (+0.6)	5.4 (+7.9)	6.2 (+4.1)
Europe	19.2 (+6.3)	18.6 (+2.3)	25.2 (-0.7)	29.6 (-0.6)	26.9 (+5.4)	13.6 (+1.4)	14.3 (+2.0)	14.8 (+38.3)	30.6 (+43.1)
Asia	78.5 (+27.1)	60.9 (+12.3)	69.3 (-0.9)	42.1 (-4.1)	56.7 (+9.0)	74.0 (+9.3)	77.0 (+13.2)	79.8 (+298.7)	63.2 (+109.1)
By currency (Share, %)**#									
U.S. dollar	42.1	41.1	35.2	67.3	71.4	81.8	61.2	36.1	36.0
Yen	24.2	21.2	27.0	16.3	12.9	12.3	21.9	56.9	50.3
Other	33.7	37.7	37.8	16.4	15.7	5.9	16.9	7.0	13.7
By type (Share, %)**									
Banks	68.8	30.6	57.2	56.8	74.6	93.1	59.9	96.0	98.4
Non-banks	31.2	69.4	42.8	43.2	25.4	6.9	40.1	4.0	1.6

Notes: 1) North America includes Caribbean offshore centers. Asia includes offshore centers in the Middle and Far East.

2) Numbers in parenthesis are amounts of increase or decrease from the end of 1983 to the end of 1991 (billions of U.S. dollars).

3) * denotes amounts outstanding (billions of U.S. dollars). ** denotes a percentage of total claims (%).

denotes positions of banks in industrial reporting countries only.

Source: Calculated from BIS, *International Banking and Financial Market Developments*, August 1992, pp.22-24.

Table 2 External Liabilities and Claims of Hong Kong Financial Institutions: Interbank Transactions

(HK\$ billion)

		1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Asia and Pacific	Liabilities	321	521	1,205	1,527	1,790	2,377	2,583	2,582	2,627	3,167	3,296	2,865	2,853	2,044	1,631	1,162
	Claims	311	608	1,249	1,521	1,683	2,049	1,904	1,757	1,626	2,118	2,046	1,742	1,807	1,630	1,493	1,442
China	Liabilities	18	19	40	34	32	62	61	77	88	126	106	163	159	133	129	174
	Claims	9	11	28	43	33	48	75	81	101	129	172	222	262	196	157	147
Japan	Liabilities	84	258	927	1,243	1,482	2,014	2,214	2,191	2,209	2,686	2,785	2,303	2,267	1,538	1,195	669
	Claims	98	354	968	1,215	1,357	1,653	1,475	1,304	1,141	1,483	1,286	910	957	787	782	705
Singapore	Liabilities	156	187	178	183	208	213	208	231	250	256	271	263	274	219	167	161
	Claims	109	138	135	146	166	210	171	168	164	210	242	233	255	357	287	329
North America	Liabilities	56	72	75	85	95	101	89	88	91	93	101	118	123	95	70	64
	Claims	55	68	77	83	86	99	107	117	100	108	147	112	109	98	130	151
Caribbean	Liabilities	33	54	61	64	54	71	76	53	47	47	49	67	92	66	56	56
	Claims	50	74	81	75	95	93	115	114	118	84	84	79	60	44	73	75
Western Europe	Liabilities	203	288	386	349	361	466	455	441	470	615	616	641	633	372	273	256
	Claims	184	241	246	242	235	262	252	245	146	301	314	303	348	498	694	845
Others	Liabilities	24	28	30	29	39	29	31	24	25	20	30	33	26	29	18	22
	Claims	13	15	18	18	20	14	21	20	118	16	15	11	13	22	19	22
World Total	Liabilities	637	962	1,756	2,054	2,340	3,045	3,234	3,188	3,260	3,941	4,092	3,724	3,727	2,607	2,049	1,558
	Claims	611	1,005	1,671	1,939	2,118	2,517	2,398	2,252	2,107	2,626	2,605	2,246	2,337	2,292	2,409	2,535

Notes:

- 1) End of year figures.
- 2) Hong Kong financial institutions include licensed banks, restricted licensed banks and deposit-taking companies.
- 3) China excludes figures for Taiwan.

Sources:

Hong Kong, Census and Statistics Department, *Hong Kong Monthly Digest of Statistics*, various issues.
 Hong Kong Monetary Authority, *Monthly Statistical Bulletin*, various issues.

Table 3 Assets and Liabilities of Japan Offshore Market (JOM)

(Billion U.S. dollars)

		<i>Assets</i>						<i>Liabilities</i>						
		Total Balance		Denominated in Foreign Currency		Denominated in yen		Total Balance		Denominated in Foreign Currency		Denominated in yen		
			To Non-residents		To Non-residents		To Non-residents		To Non-residents		To Non-residents		To Non-residents	
Deposits/ Call Loans	1986	17.6	12.6	12.1	8.3	5.5	4.3	Deposits/ Call Money	19.0	14.2	15.8	12.1	3.3	2.1
	1987	110.1	56.7	44.4	30.6	55.8	26.1		155.3	111.8	96.3	82.5	59.0	29.3
	1988	180.2	95.7	76.9	53.0	103.3	42.7		300.2	214.7	187.9	163.8	112.3	50.9
	1989	284.8	126.8	106.5	59.6	178.2	67.2		439.9	282.2	254.0	207.2	185.9	74.9
	1990	255.8	124.2	115.1	63.9	140.7	60.3		443.8	311.5	287.1	235.6	156.7	75.9
	1991	286.3	125.8	69.1	41.2	217.2	84.6		410.6	250.5	228.7	201.0	181.9	49.5
	1992	300.1	146.4	70.5	41.5	229.7	104.9		366.1	212.8	213.1	184.2	153.1	28.6
	1993	348.5	177.0	79.4	43.7	269.1	133.4		367.5	195.6	200.2	163.8	167.3	31.8
	1994	393.9	215.0	93.7	52.7	300.2	162.3		382.1	203.4	212.4	171.3	169.8	32.1
	1995	412.3	199.9	75.9	46.3	336.4	153.6		427.1	214.1	173.0	143.2	254.2	70.8
	1996	289.3	138.3	69.8	38.4	219.6	99.8		375.5	223.5	195.9	164.5	179.6	59.0
	1997	257.2	135.2	80.4	43.6	176.9	91.6		305.5	183.4	169.7	133.1	135.8	50.2
	1998	147.5	66.8	42.9	22.5	104.6	44.3		182.4	101.9	85.6	65.6	96.8	36.3
1999	132.7	73.4	40.7	28.1	92.1	45.3	105.6	47.1	43.8	31.2	61.7	15.9		
2000	181.3	120.7	74.1	51.0	107.2	69.7	129.7	69.3	74.8	51.6	54.9	17.7		
Loans	1986	5.1	5.1	2.5	2.5	2.6	2.6	Borrowed Money	0.3	0.3	0.1	0.1	0.2	0.2
	1987	9.4	9.4	3.9	3.9	5.5	5.5		1.1	1.0	0.7	0.7	0.4	0.3
	1988	11.6	11.6	4.6	4.6	7.0	7.0		1.3	1.3	0.7	0.7	0.6	0.6
	1989	14.6	14.6	4.5	4.5	10.2	10.2		1.2	1.2	0.3	0.3	0.9	0.9
	1990	14.9	14.9	5.0	5.0	9.9	9.9		5.2	5.1	4.6	4.6	0.6	0.6
	1991	17.1	17.1	6.0	5.9	11.1	11.1		9.3	9.3	8.5	8.5	0.8	0.8
	1992	17.6	17.5	8.3	8.3	9.2	9.2		14.2	14.1	13.4	13.4	0.8	0.8
	1993	22.1	22.1	13.5	13.5	8.6	8.6		15.9	15.8	14.5	14.4	1.4	1.4
	1994	19.2	19.2	12.6	12.5	6.7	6.7		18.8	18.6	16.3	16.2	2.5	2.4
	1995	19.8	19.7	12.0	12.0	7.7	7.7		21.1	20.8	12.4	12.4	8.6	8.4
	1996	18.0	18.0	11.1	11.1	6.9	6.9		24.7	24.7	11.3	11.2	13.4	13.4
	1997	16.2	16.2	10.7	10.6	5.6	5.6		25.4	25.3	9.0	8.9	16.4	16.4
	1998	15.6	15.5	10.5	10.4	5.1	5.1		34.4	34.1	11.6	11.3	22.8	22.8
1999	13.0	12.9	7.8	7.8	5.1	5.1	48.6	48.4	12.6	12.5	36.0	36.0		
2000	10.6	10.6	6.3	6.3	4.3	4.3	55.2	55.2	15.1	15.1	40.1	40.1		

Table 3 (Continued) Assets and Liabilities of Japan Offshore Market (JOM)

(Billion U.S. dollars)

		<i>Assets</i>						<i>Liabilities</i>							
		Total Balance		Denominated in Foreign Currency		Denominated in yen		Total Balance		Denominated in Foreign Currency		Denominated in yen			
			To Non-residents		To Non-residents		To Non-residents		To Non-residents		To Non-residents		To Non-residents		
Inter-Office Accounts	1986	71.0	71.0	58.6	58.6	12.4	12.4	Inter-Office Accounts	73.5	73.5	57.5	57.5	16.0	16.0	
	1987	133.8	133.8	94.0	94.0	39.7	39.7	Inter-Office Accounts	86.0	86.0	53.5	53.5	32.5	32.5	
	1988	222.4	222.4	142.3	142.3	80.1	80.1	Inter-Office Accounts	111.0	111.0	51.6	51.6	59.4	59.4	
	1989	308.2	308.2	182.4	182.4	125.8	125.8	Inter-Office Accounts	100.0	100.0	46.0	46.0	54.0	54.0	
	1990	334.3	334.3	211.4	211.4	122.8	122.8	Inter-Office Accounts	87.3	87.3	41.9	41.9	45.4	45.4	
	1991	330.4	330.4	182.6	182.6	147.8	147.8	Inter-Office Accounts	98.0	98.0	38.5	38.5	59.5	59.5	
	1992	307.1	307.1	152.6	152.6	154.4	154.4	Inter-Office Accounts	79.7	79.7	36.9	36.9	42.8	42.8	
	1993	291.1	291.1	120.8	120.8	170.3	170.3	Inter-Office Accounts	63.4	63.4	32.0	32.0	31.3	31.3	
	1994	313.1	313.1	119.6	119.6	193.5	193.5	Inter-Office Accounts	65.0	65.0	33.0	33.0	31.9	31.9	
	1995	496.5	496.5	150.2	150.2	346.4	346.4	Inter-Office Accounts	83.2	83.2	42.6	42.6	40.5	40.5	
	1996	470.8	470.8	146.0	146.0	324.8	324.8	Inter-Office Accounts	73.9	73.9	48.0	48.0	25.9	25.9	
	1997	536.2	536.2	186.7	186.7	349.4	349.4	Inter-Office Accounts	82.3	82.3	51.7	51.7	30.6	30.6	
	1998	481.4	481.4	216.6	216.6	264.8	264.8	Inter-Office Accounts	47.9	47.9	36.9	36.9	11.0	11.0	
1999	307.8	307.8	127.4	127.4	180.4	180.4	Inter-Office Accounts	61.2	61.2	49.7	49.7	11.5	11.5		
2000	258.8	258.8	107.5	107.5	151.3	151.3	Inter-Office Accounts	104.3	104.3	91.1	91.1	13.3	13.3		
Total Assets	1986	93.7	88.8	73.3	69.5	20.4	19.2	Total Liabilities	92.8	88.0	73.3	69.7	19.5	18.3	
	1987	253.3	199.8	142.3	128.5	101.0	71.3		Total Liabilities	242.4	198.8	150.5	136.7	91.9	62.1
	1988	414.2	329.7	223.7	199.9	190.4	129.8		Total Liabilities	412.5	327.0	240.2	216.1	172.3	110.9
	1989	607.6	449.6	293.3	246.5	314.2	203.2		Total Liabilities	541.0	383.4	300.4	253.6	240.7	129.8
	1990	605.0	473.4	331.6	280.3	273.4	193.0		Total Liabilities	536.2	403.9	333.6	282.1	202.7	121.8
	1991	633.8	473.3	257.7	229.7	376.2	243.6		Total Liabilities	517.9	357.8	275.7	248.0	242.2	109.8
	1992	624.7	471.0	231.4	202.4	393.3	268.6		Total Liabilities	460.0	306.6	263.4	234.5	196.7	72.2
	1993	661.6	490.2	213.7	178.0	448.0	312.2		Total Liabilities	446.8	274.7	246.7	210.2	200.0	64.5
	1994	726.2	547.3	225.9	184.9	500.4	362.4		Total Liabilities	465.8	287.0	261.7	220.6	204.1	66.4
	1995	928.7	716.2	238.1	208.5	690.6	507.7		Total Liabilities	531.4	318.0	228.1	198.3	303.3	119.8
	1996	778.2	627.1	226.9	195.5	551.3	431.6		Total Liabilities	474.2	322.1	255.3	223.7	218.9	98.3
	1997	809.6	687.5	277.7	241.0	531.9	446.6		Total Liabilities	413.2	290.9	230.3	193.7	182.9	97.3
	1998	646.3	565.5	271.7	251.2	374.6	314.3		Total Liabilities	264.7	184.0	134.1	113.9	130.5	70.1
1999	454.6	395.3	177.0	164.4	277.6	230.9	Total Liabilities	215.4	156.7	106.1	93.3	109.3	63.4		
2000	454.1	393.5	191.0	167.8	263.2	225.7	Total Liabilities	289.3	228.8	181.0	157.8	108.3	71.0		

Notes: 1) End of period data except for 1987 which is the end of January 1988 data.

2) Total assets of the 1998-2000 data include the amount of securities which is not shown in the table since it is negligible.

Sources:

Gaikoku Kawase Boeki Kenkyukai [Institute of Foreign Exchange and Trade Research], *Kokusai Kin-yu [International Finance Journal]*, various issues; Ministry of Finance (MOF) website (<http://www.mof.go.jp/1c007.htm>).

Table 4 External Claims on Non-Bank Customers: Hong Kong Financial Institutions

(HK\$ billion)

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Asia and Pacific	89.2	104.5	274.7	340.9	519.5	927.0	1,288.4	1,426.1	1,600.0	1,758.5	2,101.8	2,020.0	1,812.2	1,124.1	836.9	444.7
China	5.3	10.4	20.9	36.9	46.0	48.5	45.6	53.1	53.6	59.7	62.6	67.3	66.9	47.3	36.1	28.0
Taiwan	6.1	2.9	5.2	5.2	4.5	4.0	3.7	4.3	5.0	5.4	7.8	8.5	6.4	5.9	8.2	7.9
Indonesia	12.3	13.1	12.9	11.6	13.6	15.0	15.9	16.1	16.3	16.5	18.8	22.6	24.2	15.7	10.0	7.4
Japan	4.1	14.0	164.6	205.8	363.9	758.4	1,105.0	1,232.3	1,407.0	1,563.4	1,869.0	1,766.2	1,544.6	933.5	691.3	304.6
Malaysia	4.4	6.1	5.3	6.0	5.7	5.4	5.2	5.3	5.7	4.2	7.1	9.1	9.4	5.8	3.4	5.6
Philippines	7.7	7.0	8.1	7.5	7.2	5.3	3.3	3.4	3.2	3.6	5.3	8.6	15.4	13.9	12.9	12.2
Singapore	2.3	1.8	1.2	2.1	2.3	4.1	2.9	2.6	3.0	3.2	3.1	4.6	9.1	6.3	4.7	5.5
Korea	19.1	18.0	18.5	16.2	20.9	19.6	21.8	24.4	23.9	30.5	38.4	50.0	56.6	31.7	20.8	21.6
Thailand	9.8	8.6	11.6	12.8	14.4	18.5	31.9	35.5	29.7	30.3	37.5	42.0	31.4	17.8	11.9	8.4
North America	3.6	5.1	10.6	17.1	20.8	26.5	46.0	47.5	58.0	85.1	78.2	68.3	67.5	69.4	72.3	87.7
Caribbean	20.0	22.5	24.8	21.4	21.0	25.4	28.8	33.7	36.7	44.7	52.2	60.8	75.9	63.3	47.3	55.6
Western Europe	13.8	17.4	27.0	33.9	43.0	49.2	61.2	58.4	60.5	56.0	62.5	64.8	73.2	64.9	58.7	64.5
Others	21.3	20.5	21.5	22.3	19.2	22.3	26.3	25.5	23.1	23.3	22.2	21.5	20.2	18.7	23.4	31.6
World Total	147.9	170.0	358.6	435.6	623.5	1,050.4	1,450.7	1,591.2	1,778.3	1,967.7	2,316.9	2,235.3	2,049.1	1,340.4	1,038.6	684.1

Notes:

- 1) End of year figures.
- 2) Hong Kong financial institutions include licensed banks, restricted licensed banks and deposit-taking companies.
- 3) China excludes figures for Taiwan.

Sources:

Hong Kong, Census and Statistics Department, *Hong Kong Monthly Digest of Statistics*, various issues.
 Hong Kong Monetary Authority, *Monthly Statistical Bulletin*, various issues.

Table 5 Euro-Yen Loans by Overseas Branches of Japanese Foreign Exchange Banks

(Billion yen)

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997
To Non-Residents	1,399	2,385	3,253	3,321	3,946	3,121	2,835	2,583	2,309	2,309	2,225	2,323	2,434
Short-term	1,122	1,567	1,759	1,425	1,819	1,533	1,392	1,422	1,361	1,205	1,090	1,062	1,122
Long-term	277	818	1,494	1,896	2,126	1,588	1,433	1,161	948	1,104	1,135	1,261	1,312
To Residents	133	1,072	5,180	7,488	13,238	22,864	25,814	27,047	27,586	27,173	34,580	36,398	33,629
Short-term	133	1,072	5,180	7,488	10,955	15,123	12,976	12,322	12,432	13,204	20,898	23,369	21,041
Long-term					2,283	7,741	12,838	14,725	15,154	13,969	13,682	13,029	12,588

Sources: Ministry of Finance (Japan), *Annual Report of International Finance Bureau*, various years.
Ministry of Finance (Japan), *Annual Report of International Finance*, 1997 and 1999 issues.

Table 6 Japan's Current and Long-Term Capital Account by Region (Millions of U.S. dollar)

<i>A. Southeast Asia</i>																
	Current Balance	Long-Term Capital (LTC)														
		Total	Assets		Liabilities		Direct Investments		Trade Credits		Loans		Securities		Others	
					Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
1987	15,693	11,486	5,958	5,528	2,234	415	1,023	-	4,133	38	49	5,975	663	6		
1988	17,357	13,409	8,136	5,273	3,201	15	768	-	5,671	13	394	5,192	426	53		
1989	11,892	4,108	11,744	7,636	5,691	91	428	1	5,181	11,462	442	3,904	858	12		
1990	14,225	22,552	11,038	33,590	5,329	72	1,476	-	5,847	34,039	245	230	1,583	291		
1991	28,813	38,819	9,198	48,017	2,996	13	1,421	-	5,587	36,072	905	11,916	1,131	16		
1992	39,576	12,181	4,367	16,548	2,535	124	1,520	4	2,001	14,344	765	2,049	586	35		
1993	54,595	986	4,763	3,777	2,344	248	2,142	11	4,017	3,821	14	318	530	37		
1994	64,324	13,303	10,315	2,988	5,235	135	1,081	-	4,163	10,797	1,562	7,564	436	110		
1995	70,805	12,174	13,195	1,021	7,743	270	655	6	3,686	1,456	1,372	2,187	1,049	27		
<i>B. Asian NIEs</i>																
1987	18,006	9,352	1,716	7,636	1,671	349	373	-	267	37	255	8,017	406	5		
1988	20,218	7,997	2,851	5,182	2,071	33	307	-	347	13	159	5,196	249	6		
1989	17,151	2,520	4,417	6,937	3,427	88	70	1	33	11,462	266	4,621	621	9		
1990	20,831	27,724	5,145	32,869	2,640	83	590	-	2,365	34,039	47	1,267	683	14		
1991	33,721	44,714	2,668	47,382	1,000	9	593	-	1,406	36,069	571	11,287	284	17		
1992	41,643	13,518	1,156	12,362	617	124	978	4	887	14,340	231	2,132	139	34		
1993	51,049	3,651	1,277	2,374	293	242	1,309	-	59	3,810	100	1,715	302	37		
1994	60,868	6,544	2,460	4,084	1,614	130	619	-	887	10,795	505	6,540	73	41		
1995	63,861	1,403	2,594	1,191	1,657	294	483	-	30	1,394	1,081	2,268	369	24		
<i>C. Others</i>																
1987	2,313	2,134	4,242	2,108	563	66	650	-	3,866	1	206	2,042	257	1		
1988	2,861	5,412	5,285	91	1,130	48	1,075	-	5,324	-	235	4	177	47		
1989	5,259	6,628	7,327	699	2,264	3	498	-	5,148	-	176	717	237	3		
1990	6,606	5,172	5,893	721	2,689	11	886	-	3,482	-	292	1,037	2,266	305		
1991	4,908	5,895	6,530	635	1,996	4	828	-	4,181	3	334	629	847	1		
1992	2,067	1,337	5,523	4,186	1,918	-	542	-	2,888	4	534	4,181	725	1		
1993	3,546	4,637	6,040	1,403	2,051	6	833	11	4,076	11	86	1,397	832	0		
1994	3,456	6,759	7,855	1,096	3,621	5	462	-	3,276	2	1,057	1,024	363	69		
1995	6,944	10,771	10,601	170	6,086	24	172	6	3,716	62	291	81	680	3		

Notes: 1) Negative figures () shows outflow of capital (an increase in Assets or a decrease in Liabilities). " - " denotes no figures or not available.

2) Southeast Asia is the sum of Asian NIEs and Others and consists of 21 countries (or areas).

Source: Bank of Japan, *Balance of Payments Monthly*, various issues.

Table 7 Currency Composition of External Debt: Selected Asian countries

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
<i>Indonesia</i>										
Total (Billion US\$)	15.0	15.9	18.5	21.6	22.3	26.8	32.9	41.4	41.3	40.9
Japanese Yen (Share, %)	20.0	19.3	21.0	23.3	25.0	31.7	33.9	39.4	39.3	35.2
U.S. Dollar (Share, %)	43.5	44.4	43.1	42.3	41.4	30.7	26.0	19.2	18.5	19.5
<i>Korea</i>										
Total (Billion US\$)	15.9	18.4	20.2	22.2	23.8	28.3	29.4	24.5	21.3	17.4
Japanese Yen (Share, %)	16.6	14.1	12.3	12.5	12.8	16.7	22.0	27.2	29.5	26.6
U.S. Dollar (Share, %)	53.5	60.2	63.7	64.4	66.0	60.3	49.4	33.8	32.4	35.1
<i>Malaysia</i>										
Total (Billion US\$)	4.0	5.7	8.2	11.9	13.2	14.7	16.6	18.0	16.1	14.5
Japanese Yen (Share, %)	19.0	16.9	13.3	14.2	21.2	26.4	30.4	35.7	37.1	36.6
U.S. Dollar (Share, %)	38.0	51.5	62.3	65.8	61.5	50.6	45.0	36.3	35.6	34.2
<i>Philippines</i>										
Total (Billion US\$)	6.4	7.5	8.8	10.5	11.2	13.8	19.3	23.5	23.5	23.0
Japanese Yen (Share, %)	22.0	20.6	19.2	20.0	20.0	24.9	25.5	65.2	40.5	32.6
U.S. Dollar (Share, %)	51.6	51.1	53.9	51.2	52.7	47.8	48.1	42.4	34.7	36.9
<i>Thailand</i>										
Total (Billion US\$)	3.9	5.0	6.0	6.9	7.2	9.8	11.5	14.0	13.4	12.4
Japanese Yen (Share, %)	25.5	23.2	24.0	27.3	29.2	36.1	39.9	43.1	43.5	40.9
U.S. Dollar (Share, %)	39.7	40.5	38.0	32.5	29.9	25.5	20.6	17.8	20.8	23.6
<i>Total of Five Countries</i>										
Total (Billion US\$)	45.2	52.4	61.7	73.0	77.8	93.5	109.7	121.5	115.6	108.1
Japanese Yen (Share, %)	19.5	17.8	17.2	18.5	20.3	25.8	29.3	36.0	37.9	35.7
U.S. Dollar (Share, %)	47.3	51.3	53.4	53.2	52.9	44.7	38.5	29.0	27.0	28.1

Note: Public and publicly guaranteed debt, which includes both official and private debt, fixed-rate as well as variable-rate debt

Source: Adapted from Tavlas and Ozeki (1992, Table 24).

Table 8 Japan's External Bank Loans: Medium/Long-term

A. Loans in foreign currencies (US\$100million)

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997
International Organization	9	14	16	16	14	13	14	11	11	3	1	1	1
OECD	297	422	711	1,093	1,471	1,922	2,000	1,982	1,734	1,668	1,791	1,778	1,560
East Europe	50	78	99	111	115	77	69	64	50	26	22	7	12
Latin America	253	282	276	274	266	214	215	238	218	160	171	189	231
Asia	94	118	135	186	253	328	386	399	423	547	626	623	659
Mid/Near East	5	8	8	8	10	11	21	28	27	24	22	16	25
Africa	21	26	27	30	30	29	29	31	31	31	34	41	39
Others	1	1	2	2	5	5	7	9	9	6	5	5	7
Total	731	948	1,274	1,720	2,165	2,599	2,741	2,762	2,498	2,465	2,672	2,660	2,534

B. Loans in yen (Billion yen)

International Organization	1,861	1,845	2,093	2,226	2,302	2,307	2,208	2,119	1,974	1,758	1,657	1,467	1,264
OECD	3,227	4,026	5,367	5,805	7,253	8,016	7,672	6,698	6,220	6,722	6,928	6,888	6,157
East Europe	575	676	677	667	676	482	481	407	315	143	93	46	16
Latin America	1,226	1,586	2,010	2,306	2,351	1,460	1,362	1,280	1,035	1,134	949	1,167	1,371
Asia	1,449	1,931	2,326	2,493	2,576	2,393	2,321	1,922	1,733	1,657	1,511	1,304	1,375
Mid/Near East	21	18	21	20	25	20	21	14	25	23	22	18	19
Africa	478	525	491	503	432	384	340	315	269	254	249	217	205
Others	6	13	15	18	41	28	34	31	33	47	22	21	18
Total	8,842	10,619	13,000	14,038	15,657	15,090	14,439	12,786	11,604	11,738	11,431	11,128	10,424

Note: Year-end figures. Loans in yen include euro-yen loans.

Sources: MOF, *Annual Report of the International Finance Bureau* and *Annual Report of International Finance*, various issues.

Table 9 Currency Composition of International Bond Issues

	1980	1981	1982	1983	1984	1985	1986	1987	1988
Total (US\$ Billion)	38.0	48.0	75.5	77.2	109.5	163.2	227.1	180.8	227.2
U.S. Dollar	16.0	29.0	48.3	43.9	69.6	101.1	124.9	65.5	84.6
Deutsche Mark	8.4	2.6	5.4	6.7	6.7	11.2	17.1	15.0	23.7
Yen	1.5	2.7	3.9	4.1	6.1	12.9	23.7	26.7	22.6
Sterling	1.0	0.5	2.0	3.0	5.6	6.7	11.0	15.0	24.0
French Franc	0.9	0.5	-	-	-	1.1	3.5	1.8	2.3
Total (Share, %)	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
U.S. Dollar	42.2	60.4	63.9	57.0	63.6	62.0	55.0	36.2	37.2
Deutsche Mark	22.1	5.4	7.1	8.6	6.2	6.9	7.5	8.3	10.4
Yen	4.1	5.7	5.2	5.3	5.5	7.9	10.4	14.8	9.9
Sterling	2.6	1.1	2.6	3.9	5.1	4.1	4.8	8.3	10.6
French Franc	2.3	1.1	0.0	0.0	0.0	0.6	1.5	1.0	1.0

	1989	1990	1991	1992	1993	1994	1995	1996	1997
Total (US\$ Billion)	255.7	229.9	308.7	333.7	481.0	428.6	467.3	708.8	831.6
U.S. Dollar	126.9	79.9	96.0	126.4	183.1	164.4	176.8	309.2	407.2
Deutsche Mark	16.4	18.3	20.5	33.8	54.7	31.6	72.7	100.1	130.2
Yen	23.8	30.7	41.2	41.1	59.6	78.5	82.5	76.7	45.8
Sterling	19.7	21.2	25.9	23.3	42.7	30.4	21.6	51.8	68.6
French Franc	4.5	9.4	17.0	24.3	39.9	27.4	12.7	46.1	49.8
Total (Share, %)	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
U.S. Dollar	49.6	34.8	31.1	37.9	38.1	38.4	37.8	43.6	49.0
Deutsche Mark	6.4	8.0	6.6	10.1	11.4	7.4	15.6	14.1	15.7
Yen	9.3	13.4	13.3	12.3	12.4	18.3	17.7	10.8	5.5
Sterling	7.7	9.2	8.4	7.0	8.9	7.1	4.6	7.3	8.2
French Franc	1.8	4.1	5.5	7.3	8.3	6.4	2.7	6.5	6.0

Source: OECD, *Financial Market Trends*, various issues.

Table 10 International Bond Issues by the East Asian Economies

Millions of US Dollars

	1987	1988	1989	1990	1991	1992	1993	1994
Euro Bonds	1,577.0	1,377.6	820.0	2,031.1	2,575.4	2,342.1	13,569.9	18,106.0
Yen	230.5	510.0	0.0	0.0	216.8	391.8	879.0	1,214.7
U.S. Dollar	1,058.0	350.0	820.0	1,770.0	2,270.7	1,826.0	12,575.5	16,243.5
Foreign Bonds	664.1	711.2	892.8	749.2	1,609.9	3,370.6	6,418.1	7,031.9
Yen	581.6	504.9	661.1	249.2	926.5	821.3	2,051.1	3,491.8
U.S. Dollar	0.0	0.0	200.0	500.0	450.0	2,170.0	3,820.0	2,300.0
Total	2,241.1	2,088.8	1,712.8	2,780.3	4,185.3	5,712.7	19,988.0	25,137.9
Yen	812.1	1,014.9	661.1	249.2	1,143.3	1,213.1	2,930.1	4,706.5
U.S. Dollar	1,058.0	350.0	1,020.0	2,270.0	2,720.7	3,996.0	16,395.5	18,543.5

Share, %

	1987	1988	1989	1990	1991	1992	1993	1994
Euro Bonds (%)	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Yen (%)	14.6	37.0	0.0	0.0	8.4	16.7	6.5	6.7
U.S. Dollar (%)	67.1	25.4	100.0	87.1	88.2	78.0	92.7	89.7
Foreign Bonds (%)	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Yen (%)	87.6	71.0	74.0	33.3	57.6	24.4	32.0	49.7
U.S. Dollar (%)	0.0	0.0	22.4	66.7	28.0	64.4	59.5	32.7
Total (%)	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Yen (%)	36.2	48.6	38.6	9.0	27.3	21.2	14.7	18.7
U.S. Dollar (%)	47.2	16.8	59.6	81.6	65.0	69.9	82.0	73.8

Source: OECD, Financial Statistics Monthly, various issues.

Table 11 Japan's Regional Balance of Payments

A. Summary Table (100 million yen)

Region	Year	Current Account				Capital and Financial Account						
			Goods & Services	Income	Current Transfers		Financial Account			Capital Account		
							Direct Investment	Portfolio Investment	Other Investment		Capital Transfers	
Asia	1996	60,661	53,068	10,468	2,874	12,903	11,992	10,116	1,651	3,527	911	917
	1997	71,473	62,569	13,729	4,825	77,208	76,434	14,996	9,270	70,708	775	822
	1998	38,829	34,728	7,760	3,659	108,720	107,561	9,784	31,879	65,898	1,159	1,174
	1999	28,756	30,882	1,299	3,426	54,972	56,190	1,279	22,473	34,996	1,218	1,220
	2000	38,019	40,337	885	3,203	11,095	12,519	1,278	11,720	2,077	1,424	1,410
Hong Kong	1996	24,052	22,228	1,829	5	13,683	13,618	766	9,597	4,787	65	58
	1997	31,526	28,793	2,828	95	30,301	30,257	1,716	17,410	45,951	44	42
	1998	26,007	24,659	1,819	471	64,612	64,658	745	21,847	42,065	45	34
	1999	19,924	20,800	396	480	37,530	37,598	758	24,985	11,855	67	68
	2000	24,276	26,176	1,211	240	7,515	7,552	746	9,890	3,048	37	27
Singapore	1996	13,678	13,430	276	28	4,046	4,173	1,259	5,161	272	127	129
	1997	17,176	16,254	846	76	7,632	7,633	2,741	9,689	14,581	1	4
	1998	7,793	11,125	3,354	23	17,775	17,761	875	831	16,055	14	23
	1999	7,205	10,300	3,127	32	27,969	28,111	685	5,026	23,770	142	142
	2000	9,159	13,462	4,259	43	4,224	4,055	1,719	626	6,399	170	170
Others	1996	22,931	17,410	8,363	2,841	30,632	29,783	8,091	13,107	8,586	849	846
	1997	22,771	17,522	10,055	4,806	39,275	38,544	10,539	17,829	10,176	732	776
	1998	5,029	1,056	9,295	3,211	26,333	25,142	8,164	9,201	7,778	1,190	1,185
	1999	1,627	218	4,822	2,978	10,527	9,519	1,352	7,538	629	1,009	1,010
	2000	4,584	699	6,355	2,920	7,804	9,022	3,743	1,204	11,524	1,217	1,213

Table 11(Continued) Japan's Regional Balance of Payments

B Financial Account: Assets and Liabilities (100 million yen)

		Financial Account																	
		Direct Investment				Portfolio Investment				Other Investment									
Region	Year	Assets		Liabilities		Assets		Liabilities		Equity Securities		Debt Securities		Other Investment		Loans		Trade Credits	
		Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Asia	1995	79,863	74,218	7,995	303	2,155	1,960	0	3,418	2,155	5,372	69,713	75,875	79,242	80,931	1,033	406		
	1996	21,166	9,174	10,599	483	7,704	9,354	2,196	6,458	9,900	2,896	2,863	664	7,865	1,153	702	399		
	1997	79,709	3,275	15,867	871	1,596	7,674	5,346	3,749	3,750	11,423	65,438	5,270	54,486	7,488	829	330		
	1998	42,241	149,803	10,289	505	3,794	35,672	2,349	2,731	1,444	32,942	48,737	114,635	52,287	116,555	730	2,941		
	1999	106,451	50,261	2,234	955	1,960	24,433	1,965	17,272	6	7,160	110,645	75,648	107,233	74,124	106	408		
	2000	13,723	1,204	2,342	1,063	159	11,879	2,099	5,109	1,940	6,770	16,223	14,146	13,618	9,350	283	254		
Hong Kong	1995	43,670	73,510	312	204	718	16,842	0	2,860	718	13,987	42,640	56,464	50,041	61,068	150	64		
	1996	1,650	11,967	1,196	430	2,942	12,539	2,174	6,260	5,116	6,278	5,788	1,001	13,041	1,121	200	157		
	1997	30,560	303	2,130	414	2,543	19,953	2,103	2,785	4,645	22,738	25,887	20,064	19,518	20,773	107	435		
	1998	63,373	128,031	1,043	298	521	21,327	1,352	2,127	1,873	19,200	64,937	107,002	67,310	109,589	228	67		
	1999	56,459	18,861	180	577	2,691	27,675	288	16,588	2,402	11,087	58,969	47,114	57,766	45,787	218	65		
	2000	22,183	14,632	133	613	1,206	11,096	1,800	5,252	594	5,844	23,257	26,341	19,332	23,592	133	26		
Singapore	1995	15,555	19,289	632	4	312	1,362	0	473	312	1,836	14,611	20,674	16,381	21,190	470	32		
	1996	2,450	6,624	1,227	32	214	5,375	367	58	581	5,317	1,009	1,281	1,162	1,106	17	75		
	1997	35,950	28,318	3,098	357	389	9,300	839	917	450	10,217	33,241	18,660	31,370	17,605	200	43		
	1998	5,922	11,838	996	120	1,775	2,605	541	606	1,234	1,999	6,702	9,353	7,312	9,166	62	2,122		
	1999	49,554	21,443	757	73	1,041	6,067	1,076	124	35	6,191	51,352	27,582	50,531	27,353	392	202		
	2000	13,956	9,901	1,630	89	889	1,515	147	167	742	1,682	14,697	8,297	13,181	9,922	388	150		
Others	1995	20,638	18,581	7,051	95	1,125	17,440	0	85	1,125	17,523	12,462	1,263	12,820	1,327	713	310		
	1996	20,366	9,417	8,176	21	4,548	8,560	345	140	4,203	8,699	7,642	944	6,338	1,138	519	167		
	1997	13,199	25,346	10,639	100	3,750	21,579	2,404	47	1,345	21,532	6,310	3,866	3,598	4,320	736	148		
	1998	15,210	9,934	8,250	87	2,540	11,740	456	2	2,083	11,743	9,498	1,720	7,711	2,200	1,020	886		
	1999	438	9,957	1,657	305	1,772	9,309	601	808	2,373	10,118	324	952	1,064	984	68	141		
	2000	5,496	3,527	4,105	361	1,936	732	152	24	2,088	756	7,663	3,898	7,467	4,320	804	130		

Note: Negative figures () in "Capital and Financial Account, (excluding Capital Transfers)" show outflow of capital (an increase in Assets or a decrease in Liabilities).

Source: Bank of Japan, *Balance of Payments Monthly*, various issues.

**Table 12 Currency Compositions of Foreign Exchange Market Activity
in April 1992, April 1995, and April 1998: Average Daily Turnover
(%; Billions of U.S. Dollars in Parentheses)**

A. International Comparison: Top 10 Economies in April 1998

	Currency Share (%):						Total	
	U.S. Dollar	Deutsche Mark	Japanese Yen	Pound Sterling	Local Currency	Others	Share,%	(Billion US\$)
United Kingdom	87.6	32.3	14.3	18.0	-	47.8	200.0	(1,274.6)
United States	90.0	34.7	24.5	10.2	-	40.6	200.0	(701.7)
Japan	91.8	12.1	83.5	3.6	-	9.0	200.0	(297.2)
Singapore	94.8	20.2	23.3	5.8	12.7	43.3	200.0	(278.0)
Germany	85.7	65.9	8.2	7.8	-	32.4	200.0	(188.6)
Switzerland	83.1	34.8	13.7	7.7	38.7	22.1	200.0	(163.4)
Hong Kong	93.0	22.8	27.1	10.6	23.8	22.8	200.0	(157.1)
France	81.8	34.0	7.0	6.2	45.4	25.6	200.0	(143.8)
Australia	94.6	16.3	17.7	6.1	50.7	14.5	200.0	(93.2)
Netherlands	75.3	37.8	5.2	7.4	45.4	28.9	200.0	(82.1)
Total*	87.9	30.4	20.5	10.7	15.3	35.2	200.0	(3,963.2)

B. Asian Financial Markets: April 1992, April 1995 and April 1998

Market:	Year:	Currency Share (%):						Total	
		U.S. Dollar	Deutsche Mark	Japanese Yen	Pound Sterling	Local Currency	Others	Share,%	(Billion US\$)
Japan	1992	92.4	18.6	73.9	5.6	-	9.5	200.0	(252.2)
	1995	93.7	15.9	81.1	2.2	-	7.0	200.0	(322.6)
	1998	91.8	12.1	83.5	3.6	-	9.0	200.0	(297.2)
Singapore	1992	90.4	36.6	31.5	14.7	3.2	23.6	200.0	(151.7)
	1995	90.9	31.9	27.9	7.6	5.6	36.1	200.0	(210.8)
	1998	94.8	20.2	23.3	5.8	12.7	43.4	200.0	(278.0)
Hong Kong	1992	90.2	32.4	28.0	13.5	14.5	21.4	200.0	(121.8)
	1995	93.3	28.5	31.1	7.9	17.0	22.2	200.0	(180.4)
	1998	93.0	22.8	27.1	10.6	23.8	22.8	200.0	(157.1)

Notes:

1. Data for April 1992, April 1995, and April 1998 are based on reported foreign exchange market turnover by country and currency net of local inter-dealer double-counting.
2. Because two currencies are involved in each transaction, the sum of transactions in individual currencies comes to twice the reported turnover. Therefore, the total currency composition adds up to 200 percent, and total amounts in parentheses also equal twice total transactions.
3. 10 largest countries are chosen in terms of total amount of transactions in Part A (International Comparison). Total* denotes the sum of 43 economies.

Sources:

BIS, *Central Bank Survey of Foreign Exchange Market Activity in April 1992*, Basle, March 1993.
 BIS, *Central Bank Survey of Foreign Exchange and Derivative Market Activity 1995*, Basle, May 1996.
 BIS, *Central Bank Survey of Foreign Exchange and Derivative Market Activity 1998*, Basle, May 1999.

**Table 13 Comparison of Currency Invoicing by Region:
Japan and Germany (%)**

A. Currency Invoicing for Exports:

<i>Country</i>	<i>Exports to:</i>	<i>Currency Invoicing in:</i>		
		US dollar	Yen	D-Mark
Germany (1989)	United States	37.0	n.a.	62.0
	W. Europe	2.0	n.a.	80.0
	Others	12.0	n.a.	82.0
Japan (1989)	United States	83.5	16.4	n.a.
	Southeast Asia	53.6	43.5	n.a.
Japan (M1998)	United States	84.1	15.7	n.a.
	Southeast Asia	48.7	48.4	n.a.

B. Currency Invoicing for Imports:

<i>Country</i>	<i>Imports from:</i>	<i>Currency Invoicing in</i>		
		US dollar	Yen	D-Mark
Germany (1989)	United States	67.0	n.a.	14.0
	W. Europe	11.0	n.a.	60.0
	Others	37.0	n.a.	46.0
Japan (1989)	United States	89.5	10.2	0.1
	Southeast Asia	79.0	19.5	0.1
Japan (M1998)	United States	83.0	16.9	0.0
	Southeast Asia	71.6	26.7	0.2

Notes: M denotes March. "W. Europe" denotes Western Europe.

Sources:

MITI, *Yushutsu Kakunin Tokei [Export Confirmation Statistics]*, various issues.

MITI, *Yushutsu Kessai Tsukadate Doko Chosa [Export Settlement Currency Invoicing]*, various issues.

MITI, *Yunyu Hokoku Tokei [Import Report Statistics]*, various issues.

MITI, *Yunyu Kessai Tsukadate Doko Chosa [Import Settlement Currency Invoicing]*, various issues.
Deutsche Bundesbank (1991).

Figure 1
HK External Loans to Japanese Non-Bank Customers and Euro-Yen Impact Loans (Year-end Yen/Dollar Rate)
(Sources: Tables 4 and 5.)

