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Tokyo's booms and busts: Placing Japan in the global financial network

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Abstract

Tokyo is conspicuous for its now decades-long absence in the headlines of global financial news. In this article, we revisit the evolution of Tokyo as an international financial centre through the lens of Global Financial Networks (GFN). Drawing on insights from high-level interviews, we present a chronology of Japan's financial history between 1980 and 2020. This reveals a pattern wherein financial sector reforms and financial centre initiatives are repeatedly interrupted by crises. The GFN framework helps to demonstrate how structure and agency intertwine at the global, national, and local scales to shape this reform-boosterism-crisis cycle. Nationally and locally, we find that despite repeated attempts by coalitions of actors to elevate the status of Tokyo, engrained cultural and political economic conditions have hindered its development into a truly global financial centre. Globally, these conditions have been structured and amplified by Japan's historical position as a rule-taker in the governance of international finance. These factors have conspired to situate Japan on the periphery of the GFN, a position aggravated by the rising financial power of China.

Keywords

Financial centres, global financial networks, Japan, Tokyo

Introduction

Interest in the financial geographies of Asia continues to grow. While most of the research has been empirically focused on Singapore, Hong Kong and China, much less attention has been

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paid to the turbulent experience of Japan and Tokyo. Amidst the expansion of the Japanese economy in the 1980s, Tokyo's position as an international financial centre grew rapidly. Japan became the world's largest creditor, it had the most capitalised stock market, and Tokyo was hosting many of the biggest international banks (Dolan and Worden, 1994). It was expected that Japan would overtake the US as the world's largest economy, with Tokyo becoming a global financial centre comparable with New York and London (Tett, 2004). However, this proved to be an illusion, with much of the financial expansion and economic growth underpinned by a real estate bubble which burst in 1991. As real estate values deteriorated, the stock market collapsed and banks struggled with non-performing loans, a period of decline and deflation ensued which became known as the 'lost decade'.

As a response to repeated crises and persistent economic stagnation, successive governments implemented structural reforms with the aim of mobilizing the financial sector to reinvigorate the Japanese economy (Kushida & Shimizu, 2013). Reflecting the wider neoliberalization of Japan, reforms included Hashimoto's financial big bang in 1996 and the "Abenomics" period following Shinzō Abe's electoral success in 2012 (Hattori, 2020: 296). Related to these structural reforms, though rather ignored by foreign media and research, has been financial centre boosterism. Recent initiatives developed by the national and Tokyo Metropolitan Government (TMG), including Japan International Asset Management (JIAM) and FinCity.Tokyo, have attempted to create a more open business environment, develop asset management and FinTech, attract foreign investment and establish Tokyo as Asia's leading financial centre (Shirai, 2017).

Despite success in some of these areas, Tokyo has underperformed as a financial centre relative to its economic standing. As the world's largest city and the capital of the world's third largest economy, expectations around Tokyo's financial centre performance have consistently overshadowed its reality. Tokyo is ranked ninth in the latest Global Financial Centres Index, its lowest position in over a decade (Z/YEN, 2022), and hosts only four foreign companies on the Tokyo Stock Exchange as of 2021, compared to 125 in 1990 (Centre for Strategic and International Studies, 2021).

While this could be seen as virtuous, as it may suggest a more balanced economy less reliant on finance, the relative financial underperformance of Tokyo is politically significant and provides an opportunity to explore the relationships between economic and financial success. The rise and fall of the Japanese economy has been well-researched (Shiller et al., 2016; Tett, 2004), but far less attention has been devoted to understanding the position of Tokyo as a financial centre. A gap therefore persists in terms of identifying and explaining the diverse and complex web of political economic, institutional and historical factors that have shaped the development of Tokyo's financial capabilities.

The global financial networks (GFN) framework can be used to explain the booms and busts of Japanese finance and the relative position of Tokyo as a financial centre. The GFN maps the interlinking structures of financial centres, offshore jurisdictions, financial and business services, and world governments. Implementing the GFN into our analysis adds novelty by providing a relational and holistic framework which allows us to capture the multiscalar actions, actors and institutions involved in Tokyo's development. By adopting a qualitative approach we tap into the voices of the people that constitute the GFN and show that financial centre change is mediated by the interpretations of these actors.

Specifically, we apply the GFN to investigate how structure and agency intertwine at the global, national, and local scales to shape the development of Tokyo as a financial centre. Globally, we explain how historical moments have shaped Japan's shallow integration into the GFN, with changing regulatory and institutional frameworks reproducing this position over time. Nationally and locally, we highlight intersecting political economic, institutional and cultural conditions present throughout the Japanese variegation of capitalism that inhibit Tokyo's growth and reach in global finance. Compounded by repeated economic crises, these local conditions have cultivated a risk-averse investment culture and inward-looking focus at odds with the processes of financialization and global financial integration. Despite state-led rounds of structural reform, and waves of financial centre boosterism, the local has combined with the global to situate Japan on the periphery of the GFN. These findings allow us to make empirical and conceptual contributions. Empirically, we present novel insights into the financial history and geography of Japan and Tokyo. Conceptually, we demonstrate the value of applying the GFN in accounting for financial centre change.

The remainder of this article is structured as follows. Section 2 provides a critical review of literature on the GFN and the geographical relationships between agency and structure in financial centre development. Section 3 outlines the research design and methodology. Section 4 provides a periodization of Japan's financial history from the 1980s. Section 5 analyzes national and local forces, including the political economic and cultural characteristics of the Japanese variegation of capitalism, which have impacted the development of Tokyo as a financial centre. Section 6 explains how the latter has been shaped by the global structures of finance. In the conclusion we summarise how agency and structure intertwine across global, national and local scales to shape the history and geography of finance in Japan.

Global financial networks

The GFN framework identifies the interlocking structures and relational characteristics of financial systems, markets and institutions (Coe et al., 2014: 763). Reflecting both the relational turn and growth of network-centric analyzes in economic geography, the GFN framework is focused on exploring the relationships and spatial interconnectedness of four key components: financial centres, offshore jurisdictions, financial and business services, and world governments.

Financial centres are cities that host concentrations of financial firms and institutions, which exist as key nodes of financial decision-making power in the GFN (Cassis, 2018). Offshore jurisdictions (OJs) are specialized territories that provide legal flexibility to the owners of financial firms and assets located elsewhere. Financial and Business Services (FABS) are firms operating in the finance, insurance and real estate sectors, as well as other areas including law, accounting and business consultancy. As some of the most globalised firms in the world, FABS connect financial centres with OJs and the rest of the world through cross-border flows of money, knowledge and labour (Wójcik, 2018b). Finally, world governments (WGs) refer to both national and supranational actors that design and govern the formal institutional structures of global finance, including governments of economic and political superpowers, leading central banks and other state authorities.

These four building blocks interrelate to make up the GFN. Drawing from a financial ecology lens, the GFN consists of "smaller constitutive ecologies" comprised of these four types of actors and places (Lai, 2018). Based on this understanding, the position, power and global influence of a financial centre depends on the depth of its integration with the wider network (Pan et al., 2020). Importantly, change is slow and power is notoriously sticky (Cassis, 2018). Highlighted by the continued dominance of New York and London, even following the 2008 financial crisis, the distinction between rule-makers and rule-takers is evident in the GFN and persists over time (Wójcik, 2013). Whereas rule-makers are the powerful world governments involved in shaping the GFN, rule-takers, a position we attribute to Japan, are

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countries that have not led decisions regarding the design and implementation of the formal institutions of the global financial architecture (Haberly and Wójcik, 2022).

Irrespective of the role of national governments, financial centres are simultaneously local and global. Whereas cross-border financial transactions highlight their "international character," financial centres are "hybrid constellations" situated within national regulatory systems and built upon a mixture of local and global connections (Lavery et al., 2019: 1513). By not conceptualizing financial activities at an exclusive geographical scale, the GFN helps capture this localization of finance, wherein the core logics of financialized capitalism are shaped and mediated by place-based political economic, institutional and cultural conditions (Coe et al., 2014).

The local and global connections of the GFN as an actor-network are underpinned by social relationships, and their analysis requires a sensitivity to interdependent forms of agency and structure. Töpfer (2018: 251) argues that existing approaches to the GFN are hampered by a market-driven perspective that overplays firm agency and structural neoliberalism at the expense of the state and non-firm actors. As part of analysing the integration of China into the GFN, Töpfer calls for the reconceptualization of the state as a primary actor in mediating the expansion of financial networks across countries (ibid). Based on this critique, we can conceptualize financial centres as being established and reproduced through structure and agency. Applying these insights to our case means acknowledging the intertwining forms of agency and structure attributed to global finance and Japanese capitalism.

When we speak of the global structure of finance we refer to the transnational regulatory, legal and other institutional frameworks designed and implemented by powerful world governments (Coe et al., 2014). From global institutional structures, including the Bretton Woods system and the Basel Accords, to wider legal, accounting and credit rating standards, a mixture of formal and informal frameworks shape and govern the global financial system. By Japanese capitalism we mean the national, regional and local variegations of capitalist structures present throughout Japan (Peck and Theodore, 2007). Shaped by patient capital, dense regulatory networks, an active state presence and stakeholder modes of corporate governance, Japan is often described as a coordinated market economy, a type of "Rhenish capitalism" (Dore, 2000: 220). While Japanese capitalism undoubtedly plays a causal role in shaping and mediating processes of international financial integration, it is an oversimplification to view it as the determining factor. This is partly because Japanese capitalism itself is uneven, contested and susceptible to change (Kushida & Shimizu, 2013). Far from homogenous, Japan has retained some elements of its traditional "state-centred developmental" system while also implementing neoliberal policies (Fujita, 2003: 249-50).

While the GFN provides a theoretically nuanced structure-agency framework for our case study, there are alternative ways of theorizing financial centre change. Traditionally, geographical approaches have been based on exploring the complex interplay between centripetal and centrifugal forces (Gehrig, 2000). Centripetal forces accelerate spatial concentration and propel the growth of financial centres through cumulative causation, as FABS benefit from agglomeration economies, proximity to clients, labour market thickness and tacit knowledge. Centrifugal forces accelerate spatial fragmentation and broadly emerge because of information asymmetries and diseconomies of scale and agglomeration (McCann, 2001). Theoretical frameworks have built on these forces to explain financial centre change with New Economic Geography (NEG) models suggesting an inverted 'U' shaped pattern of financial centre development, wherein convergence is gradually replaced by spatial dispersion. Meanwhile, Comparative Political Economy (CPE) approaches emphasize the role of national institutional architectures in the uneven development of financial centres (Grote, 2008).

While these approaches have developed valuable insights, they are driven by "an overarching logic of financial centre agglomeration" that fail to contextualise processes of financial centre change as part of the wider structures, geographies and histories of finance (Haberly et al., 2019: 169). Building on Lai (2018), we can address this deficiency by conceptualizing the GFN as being comprised of interlinking financial ecologies made up of actors and places from the four building blocks. Applying the GFN in this way and treating Tokyo as a smaller financial ecology amongst many, means that our analysis remains in-depth but not isolated, as it allows us to situate transformations within the "interlocking structures and interdependent nature of financial systems and institutions" (Coe et al., 2014: 763). The GFN is therefore the most suitable framework for the aims of this article as it provides a conceptual map of finance that is multiscalar, allowing us to disentangle agentic interactions across global, national and local scales (Wójcik, 2018a), and evolutionary, with a focus on history, inertia and the stickiness of power, allowing us to contextualize Tokyo's development as part of the long-term yet changing structures of global finance (Haberly and Wójcik, 2022).

Analyzing Japan and Tokyo through the lens of the GFN allows us to address several conceptual and empirical gaps. Empirically, there is a significant gap in research on the economic and financial geography of Japan. While Japan was fashionable in the social sciences throughout the 1970s and 1980s, academic interest in the country has waned following the 1991 crash, with more focus being devoted to Singapore, Hong Kong and Chinese financial centres (Lai, 2012). Conceptually, we hope to advance the GFN framework by adopting a qualitative focus to explore financial centre change. So far, an underexplored element of the GFN is the formation and reproduction of power relations, which exist across and between the four building blocks (Lai, 2018). Given that these power relations cannot be easily quantified, explaining their role in financial centre change requires an understanding of the people and places that constitute them. This means tapping in to the historical and geographical imaginaries of the people enacting financial centre change while also placing greater emphasis on the political, social and cultural connections upon which finance operates. Outlined in the following section, our qualitative approach allows us to disentangle these relations, infuse structure and agency into our explanations, and show how Tokyo's development as a financial centre is shaped by its position within the wider constellation of power in the GFN (Töpfer, 2018).

Researching Tokyo's position in the global financial network

Our analysis draws from data generated through 18 semi-structured interviews with individuals from Japan's key financial organizations, including senior figures in domestic and foreign financial firms, academics, regulators, officials from local government, and representatives of trade associations (see Appendix). Access constraints meant that a purposive sampling strategy was used based on approaching individuals most relevant to the development of Tokyo as a financial centre. Applying a snowballing strategy was necessary, considering the particular culture of elites in Japan (Clausen, 2004) where access via 'gatekeepers' is essential. Interviews were conducted in October-November 2012 and September 2016. All interviews were voice recorded, transcribed and analyzed through an iterative process of external and internal coding.

The structure of our interview schedule mirrors the structure of our analysis sections. Interview questions were broken down into three broad categories. First, we asked respondents about the financial histories of Japan and Tokyo, focusing on growth in the 1980s, the crash in 1991, and the lost decades. Second, and shifting focus to financial centre

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boosterism, we asked respondents to appraise the effectiveness of national and local initiatives aimed at elevating Tokyo's status as an international financial centre. Third, we asked respondents to consider the wider global context and reflect on external factors supporting or inhibiting the relative success of these initiatives with particular focus on the four building blocks of the GFN (Haberly and Wójcik, 2022). These three categories formed the basis of our analysis.

Interview insights are supported by the analysis of secondary sources, such as policy reports and government documents. We also took part in online events organized by FinCity.Tokyo in January-April 2021. We drew from quantitative data to produce Figure 1, which shows the long-term trajectory of the Japanese economy. Beyond that we focus on the qualitative analysis of political economic, institutional and historical factors. This is intentional because while the vast majority of GFN research draws from quantitative data, we decided to develop a qualitative research design to show that the processes of financial centre change are mediated by the interpretations of the actors working within them. This is not to suggest that a quantitative approach would have been unfeasible. Analysing the relative position of Tokyo through financial centre indices, financial flows, and firm networks would have generated valuable findings but we wanted to situate the development of Tokyo as part of a wider historical and geographical contexts.

While qualitative approaches can never provide a complete overview of any subject matter, our approach does provide a focused lens on key actors most important to financial centre change in Tokyo. For what we miss in terms of capturing the relational networks of financial flows in and out of Tokyo, we make up for by gaining deep insight into the collective perspectives, memories and outlooks of these key actors. While these qualitative insights are highly valued, we adopt a reflexive approach to our interview data (Alvesson, 2003). This means acknowledging that interview respondents are not neutral sources of objective truth and that their perspectives are shaped by their interests, positionality and knowledge of the Japanese context (Qu and Dumay, 2011). FABS and financial centres are not homogenous categories, and considering the emphasis placed on specialization in global finance, actors working in different sub-sectoral and spatial settings will inevitably hold conflicted and even competing outlooks on given subjects. For example, Japanese and foreign FABS firms operating in Tokyo often have competing outlooks, with domestic firms more risk averse following the 1991 crash.

This contrast encourages us to consider our own positionality. As foreign financial geographers we have not lived through the lost decade or experienced financial difficulties as a result of the crash. Acknowledging this, forced us to ensure that we interviewed a diverse range of actors, representing both domestic and foreign firms, to capture the full spectrum of voices. As academics not working in the financial industry we could remain sensitive to the different types of challenges faced by these actors and their conflicting expectations for what Tokyo could be as a financial centre.

Periodizing Japan's financial history

Dividing history into epochs is the job of historians rather than geographers. Researching the economic history and geography of Japan, however, we realised that we need to present our own periodization focused on Japan's recent financial history. It starts in 1980 when Japan entered a decade of rapid economic growth and reached the peak of its global economic and financial influence. Divided into three eras, it provides a chronology of key events and reveals a pattern wherein financial sector reforms and financial centre initiatives are repeatedly

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interrupted by crises. This exposition of reform-boosterism-crisis cycles, accompanied by a compilation of data on major financial development trends in Figure 1, serves as the first original empirical contribution of the paper, precisely delineating the financial history and geography of Japan as part of the GFN that has yet to be done.

The rising sun, 1980-91

After spluttering in the early 1970s, Japan's rapid post-WWII economic growth was revived in the late 1970s and continued in the early 1980s. The long-established successful manufacturing and export-led growth model was now supported by financial expansion, domestic and international, which increased GDP, grew the stock market and strengthened the yen (Choi et al., 2009). Supported by the introduction of yen-denominated samurai bonds, and ballooning credit, asset values in Japan rose quicky, with banks and other financial firms encouraged to expand activities overseas. At its peak in 1991, the total value of Japanese land stood at just under $20 trillion, which was more than five times greater than the total land value of the US and represented over 20% of global wealth, as exemplified by the land under Tokyo's Imperial Palace (smaller than a square mile) being equal in value to all the land in the State of California (Stone and Ziemba, 1993: 149). Driven by the combined strength of the currency and the economy, Japan became the world's largest creditor and Tokyo grew its global influence as a financial centre (Choi et al., 2009). Japanese banks followed Japanese firms around the world, providing credit and establishing an international presence (Tett, 2004). Tokyo became the undisputed leading financial centre in Asia, supported by the regional context at the time, with little competition from Asian centres other than Hong Kong.

However, Japanese growth came to a drastic halt by the end of the 1980s, as the financial system was crippled by a sharp rise in non-performing loans (McKay, 2014). Growth had been underpinned by a credit and real estate bubble which burst in 1991 and would leave deep scars on the Japanese economy and society. Impacts were immediate and harsh. Japanese stock market capitalization fell from $4 trillion in 1989 to $2 trillion in 1992, from 139% to 58% of GDP (Stone and Ziemba, 1993: 149). The Nikkei Index reached 38,915 in December 1989 but fell by over 60% to 14,309 by August 1992 (Shiller et al., 2016). These were the signs that the Japanese economic miracle was over, and Tokyo's narrow window of opportunity to develop into a truly global financial centre was firmly shut.

The lost decades, 1992-2008

Following the real estate crash, Japan entered a period of deflation and economic stagnation (Hattori, 2020). To rejuvenate the economy, the ruling Liberal Democratic Party (LDP) and Prime Minister Ryutaro Hashimoto implemented a financial 'Big Bang' in November 1996. This reform was meant to revitalise Japan's financial markets and fix problems related to poor transparency and risk management contributing to the crash. Key measures included the liberalization of cross-border transactions to support the internationalization of the yen, the promotion of asset management through the introduction of over-the-counter (OTC) sales, and the removal of boundaries between banks, insurance and securities companies (Shirai, 2017). Under the slogan of "Free, Fair and Global" these measures captured a change in sectoral focus away from credit-fuelled real estate towards stock markets and asset management.

While the Big Bang reflected a dramatic shift in financial policy, it did not provide immediate relief from the scars of the past. Japanese banks continued to struggle with non-

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performing loans by the start of the Asian financial crisis in 1997. Although progress had been made, toxic debts of Japanese banks were estimated to be close to $500 billion by the turn of the century (Port et al., 2012: 2). This marked the end of a disastrous decade for Japanese finance and the status of Tokyo as a financial centre, with Tokyo's share of headquarters for the world's highest performing 300 banks falling by 30% between 1990 and 2000. Crushing hopes that the new millennium would be a fresh start for Japan, the lost decade stretched into the 2000s, with the Nikkei index falling to 9,421 by 2002, the lowest level since 1983, and unemployment reaching 5% by 2001, the highest level since 1953 (Port et al., 2012).

To address the protracted economic crisis, financial reforms continued into the 2000s. The Program for Financial Revival was launched in 2002, tackling non-performing loans through reforming bank governance and supporting the disposal of bad debts (Port et al., 2012). The introduction of the Financial Instruments and Exchange Law followed in 2006, promoting new financial products, deregulating business environments and improving hard and soft infrastructure (Choi et al., 2009). Finally, the Asian Gateway Initiative was launched in 2007, which called for deeper financial integration between Asian countries through establishing an Asian bond market, improving cross-border financial transactions and promoting Tokyo as an open and accessible regional financial centre. This initiative was soon interrupted by the global financial crisis in 2008. Although Japan was far from the epicentre of the crisis, in 2008 its GDP shrunk at an annualized rate of 12% and stock market capitalization fell from $4.3 to $3.1 trillion (Sheard, 2009). Yet again, new waves of reform and financial centre boosterism were met with crisis.

The three arrows, 2009-20

The legacy of the 1980s real estate bubble, combined with continued regulation and risk-aversion, left Japanese financial firms less exposed to subprime mortgages and other high-risk financial instruments which exploded in 2008. While the balance sheets of Japanese banks were finally cleaned from the legacy of the real estate crash and non-performing loans (Port et al., 2012), Japan still struggled with deflation and sluggish economic growth. Under new Prime Minister Shinzo Abe, the Liberal Democratic Party embarked on a project to mobilise huge household savings to catalyze economic growth and reverse deflation (Shirai, 2017). A suite of policy measures was implemented, which became known as 'Abenomics'.

Abenomics is based on the 'three arrows' of monetary easing, fiscal policies and structural reforms. For monetary easing, the government set a 2% inflation target, supported by the Bank of Japan increasing its monetary base through the purchase of Japanese Government Bonds (JGBs). For fiscal policies, new spending programmes were introduced in 2013 to stimulate growth, along with a new government slogan, "from savings to investments", which aimed to inject personal savings into the economy (Takeno and Hiromto, 2021). For structural reforms, by far the most complicated of the three arrows, the government introduced various forms of legislation to enhance the competitiveness of Japanese industries. These included the Stewardship and Corporate Governance codes, which encouraged a closer alignment between corporations and capital markets, as well as improved transparency and efficiency in corporate decision-making.

More recently, and encouraged by Abenomics, coalitions of actors have emerged in Tokyo to enhance the city's position as a global financial centre. Initiatives include, The Panel for Vitalizing Financial and Capital Markets, established in 2013. Consisting of representatives from the Japan Exchange Group, the Japan Investment Advisers Association, the Mitsui Group, the Mitsubishi Corporation and Tokyo and Keio Universities, the panel supports the mid- to long-term development of Japanese financial markets through recommendations to government. In 2016 the Consortium for Japan International Asset Management Center Promotion (JIAM) was launched. In collaboration with the national and Tokyo Metropolitan Government, JIAM aims at developing asset management in Tokyo through supporting asset managers, attracting foreign firms and promoting the integration of technology through the JIAM FinTech Square. 2019 saw the launch of FinCity.Tokyo, an organization consisting of representatives from FABS firms, which aims to establish Tokyo as a world-class global financial centre. Providing a range of guidance and consultation services, FinCity.Tokyo is also committed to developing asset management and FinTech. The focus on asset management is due to the high amount of personal savings in the country, an example being the largest pension fund in the world (Government Pension Investment Fund), which the government hoped to channel into corporate investments (Takeno and Hiromoto, 2021). The focus on FinTech was due to the pre-existing strengths of the Japanese economy in relation to technology. While these initiatives have the potential to create a more open, diverse and attractive financial ecosystem, the Covid-19 pandemic has created a new set of economic, social and political challenges.

The pandemic sparked the first contraction in Japan's economy since the global financial crisis, with GDP shrinking by 4.8% in 2020 (Kageyama, 2021). Captured by Figure 1, this marked the end of turbulent four decades for Japanese finance. Crucially, the rhythm of reform-boosterism-crash is consistent across our periodization. Structural reforms change, financial centre boosterism evolves and no crisis is the same, but the cycle continues. While this raises many questions, in the following sections we focus on the global, national and local forces that have prevented Tokyo from ever becoming a truly global financial centre.

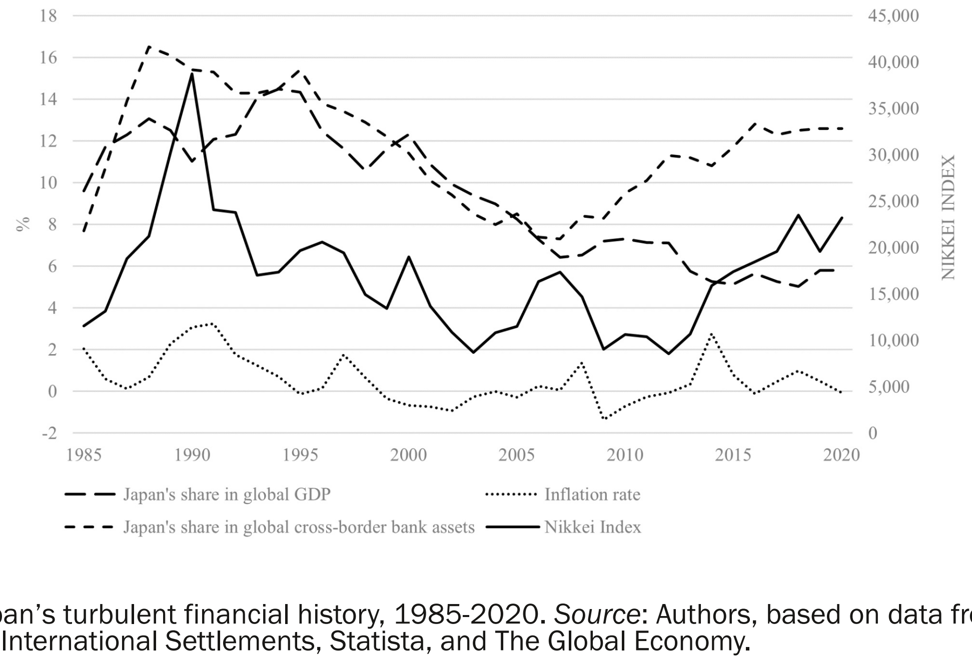

Figure 1. Japan's turbulent financial history, 1985-2020. *Source*: Authors, based on data from Bank for International Settlements, Statista, and The Global Economy.

National and local factors

To explain the recent evolution of Tokyo as a financial centre, we start with national and local manifestations of agency and structure, by focusing on the historical development of Japanese institutions as well as the FABS building block of the GFN in Japan.

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Since the start of the Meiji restoration in 1868, Japanese leaders have tried to modify their socio-economic models in line with the West. In the late nineteenth century this involved moving financial institutions from Kyoto to Tokyo, establishing the capital city as its leading financial centre (Fohlin, 2016: 149). While the restoration spurred economic growth, loss in the Second World War reversed much of the earlier progress and left Japan playing catch up once more. This legacy, amplified by the collective shame of the war, played a significant part in the 1980s credit and real estate bubble. Thorsten (2004) explains that during this time the Japanese government attempted to convert the shame of the war into economic energy, with economic growth promoted as a key national objective. Supported by the state and viewed to be in the national interest, Japanese banks were encouraged to provide unsustainable amounts of credit to domestic firms in order to enhance the international reputation of Japan and support its export-led model of economic growth (Tett, 2004). Banks and financial institutions were also instrumental in making this dream come true (Lu, 2008).

There was no securitization, credit default swaps or collateralized debt obligations in this crisis, just domestic banks lending too much money to companies which were perceived to be restoring Japanese pride through domestic and international expansion. Not isolated to the Japanese economic miracle, this catch-up pattern is consistent across all three eras of our periodization. In 1986, Japan was catching up with US financial market liberalization, and in 2007 with the financial deregulation and reregulation characteristic of the US and EU. At present, Japan continues to play catchup with the rise of FinTech and asset management prevalent in the US, Europe and also more recently, China.

This history created the political economic, institutional and cultural conditions that continue to prevent Japan's deeper integration into the GFN. While not suggesting that Japanese capitalism is homogenous, its largely coordinated market institutions have mediated processes of financialization and neoliberalization, rendering them less pronounced when compared with countries, such as the US, UK and other liberal market economies (Tsukamoto, 2012; Dore, 2000; Hattori, 2020). More specifically, the Japanese financial system has been traditionally guarded from these processes through tight regulations, strict segmentation and forced isolation from other countries. These intentional actions push against the development of domestic or the attraction of international FABS firms. Considering that FABS firms are the master weavers of GFNs, their relative absence undermines Tokyo's position as a financial centre (Haberly and Wójcik, 2022). Formal and informal Japanese institutions related to labour, corporate governance and household behaviour can explain this historical trajectory.

The development of FABS firms in Tokyo has been obstructed by strict labour laws. While regulatory changes have taken place since the 1990s, Japanese labour laws have traditionally been built around the guiding principles of permanent and lifetime employment, restricted mobility between firms, and "seniority-based wages" (Higgins, 204: 103). They have supported a culture of internal promotion and long-term planning horizons as well as blocked forms of equity-based compensation, such as stock options (Jackson and Moerke, 2005: 352). These conditions conflict with the short-term, high-risk and dynamic nature of elite FABS employment, where employees regularly move between firms that drive innovation (Haberly and Wójcik, 2022). The rigidity of this approach to employment has rendered Tokyo's labour markets poorly suited to international financial firms, particularly investment banks like the leading FABS firms. While some of our interview partners argued that labour laws must be preserved to protect employees, others, including this strategist from a foreign investment bank, stressed that they present a serious obstacle to developing globally competitive FABS firms.

> The biggest regulation hurdle that I think Japan has to overcome, and I'm just saying this purely as a manager of a business, is labour regulation. I need labour regulation to change, I need to have flexibility to remove underperformers off the platform. (IP_16)

This is a contentious perspective, shared mainly with foreign interviewees. While dense labour regulations are by no means a bad thing considering the wider economy, the Japanese approach to corporate governance has limited the development of FABS firms in Tokyo. Unlike the US and UK, corporate governance in Japan is built on stable and long-term relationships between diverse stakeholders and coordination between labour and management in decision-making (Jackson and Moerke, 2005: 352). As described by the head of a trade association, these conditions subjugate the roles of shareholders, institutional investors and financial intermediaries, creating priorities that conflict with financialized business models.

> So, traditionally Japanese firms, frankly I don't think their management knew what ROE stood for. They have a mindset which in many ways might not be a bad thing, they weren't fixated by shareholder return. There were other people in the chain they thought were equally important. (IP_07)

This statement suggests that the history of Japanese corporate governance and relations has placed local firms out of sync with financialized expectations. The legacy of the 'Keiretsu' system is relevant here. Historically, most leading Japanese firms would belong to a Keiretsu, a group of firms which formed a strategic alliance via cross-shareholdings and mutual decision-making. These groups can be traced back to Japan's merchant families and their 'Zaibatsu' groups, such as Mitsui and Mitsubishi, which the US abolished after the Second World War over concerns around monopolization and corruption (Fohlin, 2016: 149). Importantly, each Keiretsu had their own bank offering credit and other financial services (Higgins, 2004: 99). While the Keiretsu system provided networked support to Japanese firms during the growth period of the 1980s, it created an inward-looking corporate environment that prevented economic specialization, built barriers between firms inside and outside of Japan, stifled innovation and compounded the subjugation of finance to manufacturing (Higgins, 2004). Containing banks into these narrowly defined roles not only placed limits on the breadth, depth and sophistication of Japanese financial markets but also prevented the emergence of supporting services integral to the wider ecosystems of financial centres, such as legal, accounting and IT functions.

While Abenomics introduced a new corporate governance code to address these issues, this history of isolating Japanese financial markets from foreign companies has damaged Tokyo's soft infrastructure as a financial centre. The majority of our interview partners compared Tokyo with Hong Kong and Singapore, suggesting that Tokyo was struggling in comparison with the other two cities due to fewer English and bilingual speakers, inflexibility around legal and financial documents written in Japanese, and less personal support for migrant workers (e.g., with regard to housing or international schools).

Cultural conditions present at the household level, particularly in the final two eras of our periodization, have also inhibited the development of FABS firms and the financial sector more broadly. Scarred by the real estate crash, deflation and economic stagnation, Japanese investors are highly risk-averse, preferring to keep hold of cash and invest in low-risk options, such as JGBs (Shirai, 2017). The appetite for risk has never recovered since the real estate crash, and this has consistently clashed with waves of financial centre boosterism since the 1980s. Many of our interview partners stressed that a deflationary environment, weak equity culture and a propensity to avoid risk have undermined the development of financial services and economic growth more broadly. As the director of a financial centre development initiative explains, financial actors have interpreted these conditions as the reason for weaker FABS capabilities:

> So, we have a very serious social issue. As you know an ageing population, non-performing quasi-government pension funds and growing debt. On the other hand, we have a huge household asset, largely sitting in a bank deposit account even in no interest, right? So, mathematically it doesn't work obviously and we find that the root cause of this situation is weak capabilities of investment management in Japan. (IP_08)

Despite these regulatory and cultural traditions, history is not deterministic. As highlighted in the final era of our periodization, coalitions of private actors continue to address these challenges and promote Tokyo as a global financial centre. Perhaps the best example of FABS firms leading and directly participating in financial centre boosterism is FinCity.Tokyo.[1] Led by Chairman Hiroshi Nakaso and Executive Director Keiichi Aritomo, FinCity.Tokyo aims to globalise Tokyo's financial sector through greater specialization in asset management and FinTech, with Board members comprised of representatives from domestic and foreign FABS firms. This highlights the role of private actors trying to reverse decades worth of decision-making that have left Tokyo behind the curve of global finance. FinCity.Tokyo, along with JIAM and the Panel for Vitalizing Financial and Capital Markets, provide Tokyo's answer to recent global shifts in finance, as reflected in the changing sectoral focus moving from real estate in the 1980s to stock markets, asset management and FinTech, more recently. This glocalization of finance is being shaped by private actors shifting the narrative of financial centre boosterism in Tokyo by replacing an orientation towards international expansion and integration during the 1980s and 1990s with a new focus on creating an open, accessible and diverse financial ecosystem.

Considering the topography of Tokyo's financial sector, these recent initiatives are part of an emerging strategy to revitalise the Kabutochō neighbourhood and re-establish a notable financial district in Tokyo. Kabutochō was the birthplace of Japan's first national bank in 1871 and the Tokyo Stock Exchange in 1878, which attracted stockbrokers and dealers over many decades until the 1991 crash when many financial firms moved away from Kabutochō. As identified in Figure 2, Tokyo's financial sector is quite geographically dispersed. This patchiness, shaped by volatile land and real estate values in the 1980s and 1990s, may be contributing to a lack of cohesion among FABS and lower benefits of localization.

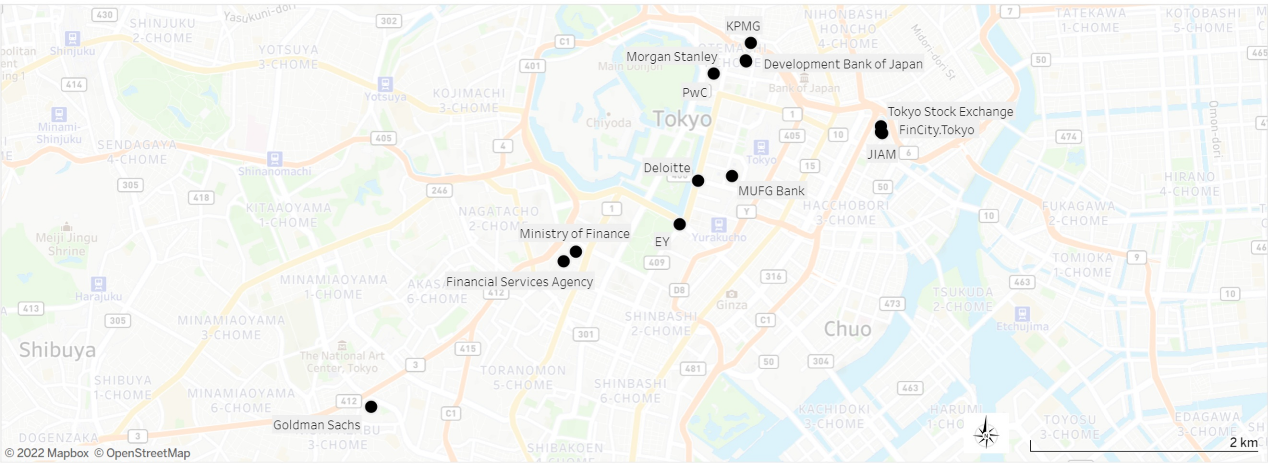

Figure 2. Location of selected organisations in Tokyo's financial topography, 2021. *Source*: Authors.

While these initiatives have been successful in some ways, actors at the local level are confronted with engrained political economic and cultural conditions that prevent Tokyo's closer integration with the GFN. Understanding these conflicting structures and agencies exposes the difficulties faced by actors trying to develop Tokyo as a global financial centre. Many of our interview partners, as illustrated by an analyst working for a foreign hedge fund, believed that financial centre change will take time, an interpretation preferring long-term solutions over quick fixes.

> It's going to take a long time before Japan has a class of investment professionals who are bicultural and bilingual, and who aspire to develop careers in the financial services industry. You can't just wave a magic wand and make that happen. (IP_15)

Global factors

The rhythm of Japan's financial history can also be explained by global manifestations of structure and agency, in particular the world governments, offshore jurisdictions and financial centre building blocks of the GFN. When combined with local manifestations, it becomes clear why Tokyo has failed to become a truly global financial centre.

The GFN has been shaped by powerful world governments that design the institutional frameworks governing public and private actors operating in the financial sector (Haberly and Wójcik, 2022). Importantly, there is an exclusive and uneven geography to the governments involved in determining these rules of global finance. Historically, Japan has always been a rule-taker rather than a rule-maker, and this status was central to the build-up and fallout of the 1991 asset crash in the first era of our periodization. First, the Plaza Accord was introduced by the G5 in 1985 with the aim of altering exchange rates to depreciate the US dollar and correct trade imbalances between countries. While Japan agreed to this framework, it unintendedly appreciated the value of the Yen, which encouraged aggressive lending and laid the foundations for the bubble. Second, while the Japanese economic miracle was in full flight, 1988 saw the introduction of the Basel I Framework that set out minimum capital requirements for international banks. Again, while Japan agreed to this framework as a member of the G10, it badly affected Japanese banks by exposing their high levels of lending. It sent shockwaves throughout the sector and sparked the flames that would engulf the Japanese economy. Third, and more generally, the dominance of the US dollar as the world's reserve currency frustrated the Japanese government's attempts to internationalise the Yen, subsequently undermining the global influence of Tokyo as a financial centre (McKay, 2014).

Ultimately, Japan's position as a rule-taker and its lack of autonomy in terms of leading and directing these regulations shaped the timing, nature and scale of the asset crash in 1991. While the following perspective, expressed by a lead strategist of a foreign investment bank, was not universally shared amongst our interview partners, there was a widely held belief that Tokyo's success depends upon cultivating closer ties with the US. This highlights a tension between domestic and internationally focused FABS firms operating in Tokyo.

> Every time Japan has actually done well in the economy is when they've been more closely aligned with the US right? (IP_16)

Throughout the three periods, Tokyo's position as a financial centre has been weakened by its lack of ownership and control of offshore jurisdictions. Above and beyond providing regulatory arbitrage, offshore jurisdictions exist as extensions of financial centres, acting as

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unrestricted spaces for financial innovation and providing greater levels of freedom and flexibility to the owners of financial assets (Haberly and Wójcik, 2022). In contrast to the UK, US and France, the dismantling of the Japanese Empire in 1945 meant that Japan had no dependent overseas territories to transform into offshore financial spaces. The structure of its political institutions also prevented any attempts to establish a domestic offshore space. For example, Japan does not have a Delaware, not least due to the lack of a federal structure. In a desperate move, Japan allowed its banks to create offshore entities on their own computers in Tokyo, but this never developed anywhere near the offshore archipelago controlled by the US or the UK out of New York and London. This has undermined the competitiveness of Tokyo as a financial centre, a position which has been weakened in the last decade by the growth of Hong Kong and Singapore as mid-shore financial centres and an extension of the New York-London axis in Asia. Offshore capabilities were yet another topic based on which the majority of our interview partners compared Tokyo with Hong Kong and Singapore.

> Those two city states, I call both of them city states, effectively have something and can do things that a capital of a major country cannot do […] you're going to locate it where it's the cheapest to do business, corporate tax is much lower there, income tax is much lower there, it's much more English because of historical reasons. (IP_07)

The contemporary relationships between Tokyo, Hong Kong and Singapore can be understood through the financial centres building block of the GFN. While Tokyo faced very little competition from other Asian financial centres in the 1980s, recent growth in Hong Kong and Singapore, as well as Mainland Chinese centres of Beijing, Shanghai and Shenzhen, has eroded Tokyo's regional and global influence (Lai, 2012). Due to their smaller size, neoliberal reforms and historical connections, Hong Kong and Singapore are more institutionally aligned with the West and provide a much higher level of regulatory freedom and flexibility. Many of our interview partners expressed that there are more regulatory barriers to running a financial firm in Tokyo compared to Singapore and Hong Kong, and that those barriers are difficult to remove.

Importantly, financial centres grow through deeper connectivity and complementarity with one another as cross-border flows of capital and talent unlock growth and fuel innovation (Wojcik, 2013). However, the scars of Tokyo's past, particularly the impacts of the asset crash, have amplified the domestic orientation of its financial firms. As described by the director of a foreign asset management company, this particular history has shaped the specialization and market orientation of FABS firms in Tokyo.

> From '86 onwards it started to get less international. Because of the rise in the domestic stock market, it gave power within organizations to the most domestic, least cosmopolitan people within those companies. (IP_13)

While this is an oversimplification of a complex evolution, it does suggest a degree of cumulative causation between a more inward focused economy and domestically oriented FABS specialization. The Japanese economic miracle elevated the significance of Tokyo as a financial centre in the 1980s but it never truly globalised or became part of the core of the GFN. The fact that Japan remains the world's largest creditor could be mistaken for it playing a leading role in the GFN (Kyodo, 2021). Growth in the ownership of external assets is reflective of the size of the Japanese economy, and to some extent challenges the conception of its domestic focus but does not reflect the concentration of key FABS firms, financial functions and decision-making power in the GFN. An international financial centre can be about importing and exporting financial products and services, but a quintessential feature is that they provide a platform for firms to serve wider markets (Wójcik et al., 2019). This is where Tokyo struggles. The majority of our interview partners claimed that foreign banks operating in Tokyo are there to serve Japanese customers and not the rest of Asia. This is supported by data on the structure of investment banking fees, with platform activity being minimal in Japan and much smaller than that of Hong Kong, Singapore and even Sydney (Wójcik et al., 2019: 694).

Combining our analysis of all four building blocks, we can think about Japan's relative position in the GFN throughout our entire periodization. Figure 3 not only highlights Tokyo's key deficiencies for each building block but also reveals their interdependencies. Acknowledging the relational dynamics of the GFN, it is important here to recognize how deficiencies in one area often create problems in another. Tokyo's multi-dimensional weaknesses have therefore established a circulatory impasse. When contextualised as part of this bigger picture, targeted responses to specific challenges seem unlikely to create any meaningful change in terms of integrating Tokyo into the GFN.

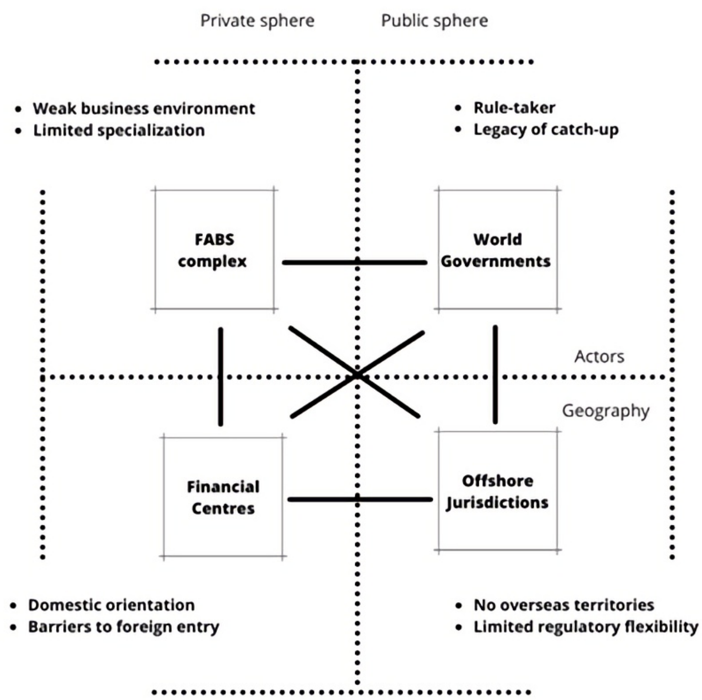

Figure 3. Key factors affecting the position of Japan in global financial networks. *Source*: Authors, adapted from Haberly and Wójcik (2022).

Importantly, the rapidly shifting geopolitical context, particularly the rise of China, may only deepen Tokyo's weaknesses as an international financial centre. Increasing connectivity between Singapore, Hong Kong and China is reconfiguring the financial centre landscape in Asia (Lai, 2012). Far from Tokyo jostling for the top spot in Asia, these rapidly changing conditions are making it difficult for Tokyo to even have a seat at the table, as expressed by an advisor to a Japanese development agency.

> So the Japanese people are feeling that we are under threat as a hegemony in Asia [...] we are now coming to the bottom but it's slowly, not all very sudden [...] like the frogs in the water, being boiled slowly. (IP_06)

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The majority of our interview partners expressed a belief that China's strengthening economic and geopolitical influence will increase its financial decision-making power and absorb capital, resources and talent from Tokyo. While this might look like history repeating itself, with Japan becoming a rule-taker under a more China-oriented landscape of global finance, we must remember that power is sticky in the GFN (Haberly and Wójcik, 2022). As evidenced by the uneven success of Chinese Renminbi internationalization (Hall, 2018), there is no guarantee that Chinese financial centres will come to dominate the GFN. Perceived future outcomes have however shaped financial centre boosterism in Tokyo.

Conclusion

In this article we applied the GFN framework to investigate the history of Japanese finance and Tokyo's booms and busts as a financial centre. Considering global, national and local manifestations of agency and structure, our analysis identifies a rhythm of reform-boosterism-crash to Japanese finance that explains Tokyo's long-term inability to become a truly global financial centre. While the lack of Tokyo's status as a global financial centre can be seen as a virtuous feature of Japanese capitalism (Fujita, 2003), infusing agency into our analysis reveals that this was not for the lack of trying. Repeated attempts to elevate the status of Tokyo as a financial centre by coalitions of public and private actors were inhibited by the engrained cultural and political economic conditions of Japanese capitalism, alongside the wider structures and agencies of the GFN. As Tokyo's history continues to resurface in new ways, this cycle looks set to continue.

As discussed in the introduction, a simple explanation for Tokyo's position as an international financial centre can be found in the decline of the Japanese economy and its long-term domesticity. Our analysis shows that this explanation is wrong in both theory and practice. The Japanese economy has not always been domestically oriented and throughout periods of global expansion Tokyo still struggled to develop its international financial functions. Our analysis also showed that the size of a national economy does not determine the size and strength of its leading financial centre. Tokyo, not even Japan, has a higher GDP than Singapore and Hong Kong combined (World Bank, 2021), yet these two cities attract more foreign capital and perform better in financial centre indices. The application of the GFN has therefore been instrumental in helping us move away from sweeping explanations that are overtly structuralist and exclude agency.

Given the complementarity of the four building blocks of the GFN, it should be no surprise that Tokyo could have never become a truly global financial centre. While the Japanese economic miracle elevated the significance of Tokyo and provided its financial institutions with momentary confidence and resources to expand internationally, it could never integrate Tokyo and its actors into the core of the GFN. The shallow roots of Japan and Tokyo in the GFN have been maintained by the legacy of catchup and the dependent position of a rule-taker in financial governance, its historically weak environment for the development of FABS firms, no overseas territories for offshore jurisdictions, and a lack of comparative advantage against other regional financial centres. These global, national and local manifestations of agency and structure have rendered Tokyo incapable of enhancing its position as a global financial centre. Despite concerted efforts by local actors, shadows of the past linger over Tokyo and continue to cast new challenges, creating a bleak outlook for Japanese financial power amidst the rising power of China.

This article provides two key contributions to financial geography. First, our periodization of Japan's financial history provides an empirical contribution that demonstrates the importance of integrating history explicitly and directly into geographical approaches to financial centre development (see also Christophers, 2014). Acknowledging the intertwining historical and geographical processes underpinning Tokyo's booms and busts allowed us to identify and discuss factors behind these developments. Second, our analysis highlights the value of the GFN framework for explaining the evolution of financial centres. The building blocks of the GFN allowed us to develop more nuanced and historically contextualised explanations and advance a relational understanding of financial centres. We demonstrate how infusing agency and structure into the GFN approach has the potential to enrich our understanding of the complex social, political and economic processes underpinning the emerging geographies of finance.

While these contributions advance our understanding of financial centre development, key questions remain unanswered. Future research must apply the GFN in new ways to delve deeper into where, when and why financial centres emerge and evolve in the ways they do. As the GFN remains a prototype that requires further innovation and elaboration (Haberly et al., 2019), we call for more qualitative research into its structures, histories and geographies. This will not only help with our understanding of specific cases, it will also reveal the relational characteristics of global finance and where financial decision-making power will reside as we emerge from the global pandemic.

Acknowledgments

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Notes

1. FinCity.Tokyo is a membership-based organization consisting of 16 voting members, 20 associate members, 8 emerging corporate members, and 1 academic member. Voting members include FABS firms, such as Mizhuo Bank, MUFG Bank, and Morgan Stanley, alongside public actors such as the Tokyo Metropolitan Government and the Development Bank of Japan. Associate non-voting members are comprised mainly of FABS firms, including PWC, EY, and KPMG. Voting members carry out FinCity.Tokyo activities while associate members cooperate. Emerging corporate members are start-ups with no more than 100 employees and the only academic member is the Tokyo Metropolitan University.

Appendix

Interview partner (IP) reference numers given in the text correspond to the following:

IP_01: Academic specialising in Japanese finance

IP_02: Academic and director of a Japanese bank

IP_03: Representative of a Japanese financial think tank

IP_04: Director of a Japanese financial regulator

IP_05: Representative of Tokyo metropolitan government

IP_06: Advisor to a Japanese development agency

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IP_07: Representative of a Japanese securities company
IP_08: Director of a financial centre development initiative
IP_09: Director of a Japanese bank
IP_10: Representative of a Japanese securities company
IP_11: Representative of a Japanese securities company
IP_12: Director of a Japanese asset management company
IP_13: Director of a Japanese asset management company
IP_14: Director of a foreign bank
IP_15: Analyst at a foreign hedge fund
IP_16: Lead strategist of a foreign investment bank
IP_17: Representative of a foreign investment bank
IP_18: Representative of a foreign investment bank

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