

Comment on

Challenges for Capital Market Development in Asia

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**FRC/AFPAC-FSA Symposium on "Financial Activity of Households
and SME Financing in the Regional Economy"**

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Summary of presentation: Three issues raised

- **1. Global Financial Regulatory Reform**
 - Brief exposition on post-crisis **framework for global financial regulation**
- **2. Challenges for Development of Capital Markets in Asia**
 - 1. Need to **develop capital markets in Asian countries***
 - 2. Need to increase **accessibility to financial services****
- **3. The FSA's Technical Assistance Activities in Asia (What FSA (Japan) can do for Asian regulators)**

My comment

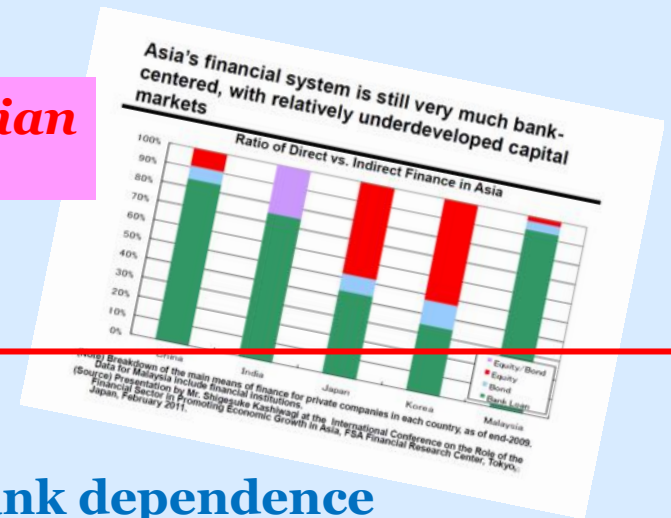


In the presentation

- **Need to develop capital markets in Asian countries**

One of the reasons:

Bank-centered financial system



Comment (1): Some more perspectives for bank dependence

- Markets to **replace** banks?
 - **Bank-dependence** has some well-founded reason
 - Opaqueness of borrowers (informational asymmetry)
 - Japan (“main bank system”) as good example? (until 1980s)
 - Only **transparent borrowers** can benefit from the market
- **Optimal mix** of banks and markets is the issue
- Key **factors** limiting the voluntary development?
 - Institutional (legal, political), or economic?

In the presentation

- **Need to develop capital markets in Asian countries**

One of the reasons:

Bank-centered financial system



Comment (2): Another important source of finance, **trade credit**

- **Trade credit** ubiquitously used **all over the world**
 - **Corporate financing (/total asset) in Japan (Flow-of-funds Mar. 2012):**
 - **Shares and other equities: 36.0%**
 - **Loans: 31.5%**
 - **Trade credits and foreign trade credits: 16.4%**
 - **Securities other than shares : 6.3%**

• **Increased efficiency of trade credit** matters much (esp. for opaque firms)

→ **Cooperation** with Asian regulators in this respect (beyond just Asian

Payment Network) is **beneficial** for as well as Japan?

e.g.) Highly efficient **interfirm payment system** has launched in Japan:

Densai net (for **electronically recorded monetary claims**)

Thank you