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JAPAN NEWS

Tokyo's Leader Charts His Own Growth Plan as Japan Struggles

Yoichi Masuzoe Envisions a Transformed City, Urges Prime Minister Abe to Follow His Lead

Tokyo Gov. Yoichi Masuzoe, speaking in a meeting room at government headquarters last week, wants to transform the Japanese capital into a global financial hub. *MIHO INADA/THE WALL STREET JOURNAL*

By **ELEANOR WARNOCK**

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TOKYO—The head of Tokyo has some advice for Japan's prime minister: Try harder.

“The government’s pro-growth policies aren’t enough,” said Tokyo Gov. Yoichi Masuzoe in an interview with The Wall Street Journal last week as Prime Minister Shinzo Abe struggled to defend those policies amid steep economic headwinds.

“The Tokyo Metropolitan Government is doing many things ahead of the national government, but if Mr. Abe imitates us, he’ll be fine, to say it jokingly,” he added with a smile.

Citing areas where he thinks Mr. Abe could take a page from his playbook, Mr. Masuzoe notes how the Tokyo Metropolitan Government has a higher percentage of women in management positions—something Mr. Abe has struggled with on the national level. Mr. Masuzoe also notes a broader commitment to attracting foreign investors and cultivating innovation projects, such as the Tokyo Met’s plans to build a new hub for pharmaceutical development funded with foreign capital.

The 65-year-old governor, who took office earlier this year, is attempting to turn the world’s largest city into an incubator for a smaller, more-focused version of Mr. Abe’s pro-growth policies. At the heart of the city’s effort is a financial offensive, with the goal of toppling Hong Kong and Singapore and reinstating Tokyo as Asia’s financial hub.

Mr. Masuzoe’s overhaul plans are the latest sign of how Japanese politicians, once little concerned with stocks and investment, have latched on to finance as a solution to Japan’s woes.

And just as similar efforts have hit hurdles at the national level, success is far from guaranteed for the Tokyo Metropolitan Government. City officials will have to coax trillions of yen out of savings accounts and dresser drawers to finance innovation and infrastructure projects, and bring back foreign investors who have left.

Despite having the biggest gross domestic product and population of any city in the world, and high rankings in quality-of-life surveys, Tokyo has never been able to take the top rankings as a financial center. Tokyo was No. 6 in Z/Yen Group’s 2014 Global Financial Centers Index, down from No. 5 in 2010 and has never broken the top four since the survey started in 2007.

There are a number of reasons why Tokyo has lost out to Hong Kong and Singapore, financial experts say. Japan’s equity market performance has been low as the economy stagnated; the Dow Jones Industrial Average has more than quadrupled over the past two decades, while the Nikkei Stock Average lost 12%.

Many financial firms have consolidated elsewhere in Asia to avoid high corporate taxes, cut costs during the global financial crisis and because they weren't making money. In 2009, HSBC moved investment and stock research divisions from Tokyo to Hong Kong to cut costs; Citibank has said this year it will sell its retail-banking operations in Japan.

But Mr. Masuzoe sees a key opportunity on the horizon to boost Tokyo's economic momentum: the 2020 Olympic Games. "You've got to provide business chances" to draw potential investors, he said. "We've got the chance of 2020 and if we let that chance go, it won't come again."

Even with the Games still several years away, Mr. Masuzoe says that the Olympics have already started to draw capital and attention to Tokyo.

The politician is fresh off a trip to Berlin and London where he visited the U.K. capital's financial center, to meet with finance industry heads and spoke at Chatham House.

'*I've got things that Mr. Abe doesn't have.* '

—Tokyo Gov. Yoichi Masuzoe

Meetings with bankers, fund managers and exchange officials in May and June eventually became the basis for 20 proposals from Mr. Masuzoe and his team to realize the "Tokyo Global Financial Center," released in July.

Paul Hunter, secretary general at the International Bankers Association of Japan in Tokyo, says that he testified in May's meeting and stressed that the Tokyo Metropolitan Government should focus on making Tokyo a convenient and comfortable place for expats to live and stressing to potential investors the amount of untapped capital in Japan rather than attempting to outpace New York and London. He added that financial regulations weren't a barrier in Japan.

"You have very deep domestic markets with a big savings base," he recalls telling government officials. "Does it matter you're No. 1 or No. 2 or No. 3? Probably not. You can still be a significant financial center on the back of that."

Before July, the Tokyo Metropolitan Government had never once compiled a comprehensive set of policy initiatives on financial issues. Tokyo Met employees had to face questions they had never considered before, such as why Japan's stock market had been weak for so many years and why foreign investment had dropped off.

Mr. Masuzoe's ideas for attracting more foreign investment include making public-private partnerships that foreign firms could participate in to start badly needed infrastructure projects in Tokyo, such as nursery schools and nursing homes. That way the city's residents could directly benefit from more foreign investment.

He also wants to put Tokyo residents' money to work. This month, the Tokyo Met government will put on sale AUD$50 million of five-year Australian-dollar denominated bonds for retail investors, offering 3.57% interest. It's the first ever foreign-denominated bond offering for retail investors from the Tokyo Met, which has a long history of foreign currency-denominated issues for institutional investors. A five-year Japanese government bond for retail investors offers 0.08%. The national government has never issued a foreign-denominated bond for retail investors.

Now that the nation's ¥130 trillion ($1.1 trillion) public pension is shifting into more equity, Mr. Masuzoe, who once oversaw the fund as welfare minister, says that the Tokyo Met government should be allowed under law to invest some of its reserves in stocks.

The Tokyo Metropolitan Government has about ¥2.8 trillion in public funds that have been earmarked for long-term projects. The current interpretation of the law allows those only to be invested in bank deposits and domestic bonds, but the funds' investment could be diversified. A special advisory group is discussing the issue.

Other parts of Tokyo Met's plan include making it easier for foreigners to live in Tokyo, providing more technologies and expertise to developing Asian economies and educating more finance professionals.

Yet bankers, fund managers and consultants say that Tokyo there is only so much Tokyo can do without help from the national government that oversees taxes, financial regulations and labor law.

"I think that what the Tokyo government can do alone is limited," said Nomura Research Institute's Sadakazu Osaki, who also serves on the committee discussing how Tokyo's reserve funds are invested. "I told the Tokyo government that the simplest thing they can do is introduce education about investing in schools, but you have to compete with so many other subjects."

He added bringing experts in fund management to Tokyo would also be key.

Mr. Masuzoe says Tokyo doesn't need Mr. Abe's help.

"I've got things that Mr. Abe doesn't have," like the Olympics, he said. "If we don't open our doors and internationalize, the Olympics won't succeed."

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