

## **Cash-Rich Japan Makes a Move**

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The move by Japan's Mitsubishi group to acquire a stake in troubled Wall Street giant Morgan Stanley is part of a bid by Japanese banks to return to the world stage.

When the Japanese asset bubble burst in the early 1990s, Japanese banks retreated to their own shores to lick their wounds. But the caution fed by that trauma meant they were hurt less by the U.S. subprime credit crisis than many U.S. and global lenders because they were less exposed.

As a result, they are flush with cash at the very time that U.S. financial institutions are desperate for investment.

The planned investment by Mitsubishi UFJ Financial Group, or MUFG, in Morgan Stanley is the boldest move so far to take advantage of that opportunity.

MUFG said Monday it will spend up to \$8.4-billion (U.S.) to acquire between 10 per cent and 20 per cent of Morgan Stanley, one of just two U.S. investment banks left standing by the Wall Street meltdown. With deposits of \$1.1-trillion, MUFG is Japan's largest bank, one of three "mega-banks" left over from a shakeout in the banking industry.

On the same day, Japan's largest stock-broking firm, Nomura Holdings Inc., agreed to pay \$225-million for the Asian remnants of Lehman Brothers, the collapsed U.S. investment house.

"It's not every year you can get 20 per cent of one of the biggest names on Wall Street," said Kenneth Curtis, former vice-chairman of Goldman Sachs Asia, from Hong Kong.

"Japanese banks, who largely withdrew from international activities, have rebuilt their balance sheets and capital base and are taking advantage of this crisis to reposition themselves as part of the international marketplace."

Japanese banks have faded from international prominence since the days, 20 years ago, when seven of the top banks in the world hailed from Japan and Japanese were buying up everything from Columbia Pictures to the Rockefeller Center.

Now they're trying to come back. The move on Morgan Stanley is only the latest in a campaign by Japanese financial firms that goes back about a year and half. In the past few months alone, Tokio Marine Holdings, Japan's biggest property insurer, has acquired the international insurer Kiln Group and the U.S. insurer Philadelphia Consolidated Holding Corp. MUFG has put up \$3-billion to take control of the California bank UnionBanCal Corp.; and Mizuho Financial Group Inc., Japan's second-largest bank by assets, announced plans to invest \$1.2-billion in Merrill Lynch and \$120-million in Evercore Partners, a U.S. mergers adviser.

Japanese banks are also taking an increasing part in big international deals, such as Belgian-Brazilian brewer InBev SA's bid for Anheuser-Busch Cos. Inc., and Tata Motors of India's bid for Jaguar and Land Rover.

More is almost certain to come. With savings-obsessed Japanese holding more than \$15-trillion in household assets, Japan has a huge pool of capital that could, in theory, help bail out a credit-starved Western world.

"There is clearly an opportunity for Japan to become a liquidity provider to the world," Ray Ferguson, regional chief executive for Southeast Asia for Standard Chartered Bank, wrote in Singapore's Straits Times on Friday. "The Japanese are reinventing the world's second-largest economy as a financial powerhouse."

But others doubt whether Japanese banks have the skill or the flare to become big global players. "Japanese banks have really been risk-averse," said Mitchell Bernard, a consultant on Asian business who teaches at York University's Schulich School of Business. "They're very timid and tentative."

When Britain's Barclays Bank PLC was seeking new funds, Mizuho managed to put up \$975-million of the \$8.7-billion being sought by the bank, little more than a finger in the wind of the big-money world.

Looked at this way, the global ambitions of Japanese banks are not a sign of Japan's long-awaited resurgence as an economic power, but rather a sign of its continuing weakness.

Japanese banks are seeking to expand abroad because conditions at home are so poor. After suffering through the "lost decade" of the 1990s, then recovering in the earlier part of this decade, Japan is in economic straits again. The economy contracted in the second quarter of the year.

Interest rates are close to zero, regulators have slapped a cap on the rates banks can charge and almost half of publicly traded firms have no debt at all – conditions that create barren ground for lenders.

**Source: Scoop**