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Preface

Financial globalization is one of the most striking features of the changes that are taking place in international financial markets. Financial globalization can refer to many things, but I would like to emphasize five elements. The first one concerns the formation of the global network of branch banking that developed since the 1960s. The large United States banks first established overseas branches and the major European and Japanese banks soon followed.

The second element involves the development in the 1970s of a global information network and payments system. The acronyms for these institutions are well known to anyone in financial circles: CHIPS for making Eurodollar payments, established in 1970; the ECU payment system formed in 1982; and SWIFT, started in 1977, which provides interbank telecommunications. Through these systems the financial establishments in the industrial nations have become surely and tightly linked together to form one global network.

The third element is the emergence of a global trading system supported by satellites and computer technology that provides access to virtually any market from virtually any trading desk. The major world-wide financial institutions are especially active participants; passing funds from London to New York to Tokyo within a twenty-four hour trading day. Commodity markets, which had for many years linked together markets in diverse countries, have extended their scope to foreign exchange, government securities, and financial futures.

The fourth element refers to the way in which financial markets in different countries develop similar characteristics. This *homogenization* promises more open and more competitive markets. In these markets, arbitrage actions by individual investors shift resources to the most productive sectors. Efficiently operating markets will expand, inefficient ones will shrink.

The final element is the growing international cooperation in financial policy. Monetary authorities from the different OECD nations, for example, have been able to meet at the Bank of International Settlements to discuss and agree on various aspects of the supervision and regulation of international financial activities. In another forum, the G-7 meetings have provided a means for developing a framework for increased cooperation in economic and financial policy.

Using this analytical framework, in 1985 a project was organized at Hosei University's Institute of Comparative Economic Studies, to cast some light on the subject of financial globalization. More than 30 scholars and researchers attached to various academic and financial institutions participated in this project. Although financial globalization consists of the above five elements, our project focused primarily on the fourth one, the homogenization of financial markets in the United States, Japan, and in Western Europe.

As one of the results of our (two-year) study, two volumes entitled *Financial Globalization* were published in a Japanese language edition in March of 1988. As another result we offer the first six papers in this volume of the *Journal of International Economic Studies*. A principal theme, common to all these papers, is "the response of Japanese markets to the challenges of financial globalization." We hope that the following six articles will provide the reader with new perspectives on this important topic.

Project Leader, Study on Financial Globalization

Masayoshi TSURUMI