THE GLOBAL CITY

31.10.93

NEW YORK, LONDON, TOKYO

Saskia Sassen

PRINCETON UNIVERSITY PRESS PRINCETON, NEW JERSEY

TABLE 7.8
Foreign Investment Share in Private Sector Pension Assets by Country, 1980-1990 (percent)

	1980	*1985*	*1990*
United States	1	3	8
Japan	1	8	20
United Kingdom	9	18	25
West Germany	2	3	6
France	1	2	4
Canada	7	8	10
Netherlands	4	9	15
Switzerland	4	4	8
Belgium	25	30	35
Australia	0	5	12

Source: "Investment Management Survey," *The Economist,* Nov. 8, 1986.

the extent to which New York was and remains in a commanding position. In 1981 Tokyo-based companies had 107 branches of various types in New York, ninety-three in São Paulo, and fifty-two in Seoul (Miyakawa 1983). An analysis of overseas companies of Japanese manufacturing firms shows that in 1975 Korea, Hong Kong, Taiwan, and Singapore accounted for almost a quarter of all such companies, while North America accounted for 6.4%; by 1987, the U.S. share had grown to almost 21%, and the actual number of companies had increased from 20 to 181, of which 160 were in the United States. Europe's total started at a higher level, accounting for 12% of all such companies in 1975 but went just to 13.7% in 1987, with England and West Germany accounting for the largest single concentrations. A parallel trend has emerged with Japanese subsidiaries in finance and insurance. By 1987 the United States had the single largest concentration of such companies, followed by England and Hong Kong.

Leading Currencies in International Transactions

There are advantages in being the key international currency. First, the country does not need to earn foreign exchange to pay for imports. Hence the balance of trade matters less and domestic economic policy can more easily accommodate a negative balance of trade. Secondly, the country is less sensitive to exchange fluctuations because trade and capital transactions are largely denominated in the country's currency. Finally, the country's role as a leading financial international center is facilitated, although this role also varies according to whether there is a high

TABLE 7.9
Private Sector Pension Assets Invested Abroad by Country, 1980-1990 (millions of U.S. dollars)

	1980	*1985*	*1990 (forecast)*
United States	3,300	27,000	129,300
United Kingdom	9,700	34,400	84,200
Japan	400	7,600	47,200
Netherlands	1,500	5,400	15,900
Canada	2,000	4,100	9,000
Switzerland	1,300	1,700	6,900
West Germany	500	1,000	3,500
Ireland	300	700	1,400
Australia	0	500	3,700
Belgium	275	500	1,100
France	75	200	600
Rest of world	–	1,500	6,400
Total	19,350	84,600	309,200

Source: InterSec Research Corporation, *Foreign Investment of Private Sector Pension Funds 1980-1990,* Stamford, Conn. 1988.

or low level of internationalization in the capital markets. But there are also costs associated with this status of primary currency. Providing the rest of the world with liquidity often entails running a deficit on the current account or long-term capital account. Yet this deficit cannot exceed certain thresholds because this would undermine the role of key currency, a threat not only to the country itself but also to the global economic system. The need to maintain stability and balance in the exchange rate system also means that monetary policy is not free from the constraints associated with trying to keep such stability. Finally, being the key currency in a period of high internationalization in the financial markets means that large holdings can be amassed by foreign entities and hence make domestic monetary control somewhat less effective.

The costs associated with being the key currency require a country to have a strong economy and a strong place in world trade as well as world finance at a time of internationalization of the capital markets. The dollar today is still the key currency, even though other currencies, notably the yen, the German mark, and the Swiss franc, are gaining share. But the U.S. economy is increasingly incapable of maintaining a strong economy given the high budget and trade deficits. The rapid devaluation of the dollar since 1985 is testimony to that. The United States is thus also less capable in the current period of gaining the benefits associated with having the key currency.

As a currency, the U.S. dollar still plays the major role in the international financial system. But this role has declined. By 1984, the dollar's share was down to 65%, the German mark's share was up to 12%, and the yen's share was up to 5%. In 1985, 61% of the total issues of international bonds were still denominated in U.S. dollars. Even though the dismantling of the Bretton Woods agreement made possible the implementation of a multireserve currency system to replace the dollar standard system, the dollar is still the key international currency. The expectation that other currencies, such as the German mark, would be used more widely in world trade and finance has only partly been met. Now it is expected that the yen will play a much larger role.

There is, clearly, a growing imbalance between the role of the dollar in the international financial markets and the place of the U.S. economy in world trade. Against this imbalance, Japan, with its increasingly strong position in world trade and growing participation in the international financial market, emerges as a key second currency. However, Japan's economy, while very strong and growing, is highly sensitive to global forces, such as a decline in foreign demand for its products or an increase in the price of oil. Japan's economy is also highly sensitive to changes in the foreign demand for its products, foreign exchange rates, and financial markets. Its leading trading partner, the United States, has also become its leading investment recipient. From 1975 to 1986, the U.S. share of Japanese exports increased from 20% to 36%, and the U.S. share of Japan's foreign investment increased from 28% to 45%. Most Japanese portfolio investments are in dollar-denominated instruments.

The use of the yen in the international marketplace has increased as a result of deregulation in Japan and the implementation of the Euroyen market. Japan's large current account surplus, the magnitude of available funds in Japan through domestic savings and private sector earnings, and the low value of the yen until recently are all factors that have helped increase the use of the yen in the international capital market. In 1985, about $7 billion worth of issues in yen were made by non-Japanese corporations in Japan; Japanese banks extended $14 billion of credit in yen to foreign borrowers; and there were $8 billion worth of Euroyen bond issues. In only five years, the yen has gone from a very minor role to being the second or third key currency in the world capital market.

In the area of current transactions, the yen's role is still very minor compared with that of the U.S. dollar and the German mark. In 1985, only 36% of Japanese exports and 7% of imports were invoiced in yen. The distribution and use of yen are quite uneven. They are much higher in trading with China or Southeast Asia and in trade of machinery, where

Japan has a very strong competitive situation, and rather low in trading with Europeans. One factor that has contributed to this low proportion of yen invoicing in Japan's international trade is that the European Community accounts for a significant share of Japan's international trade. Finally, many of Japan's imports are primary commodities, such as oil, foodstuffs, and industrial materials, which have traditionally been traded in dollars.

These conditions suggest a distinction between the internationalization of the yen in world trade and in world financial markets. In world trade, the yen has encountered a number of structural problems that are quite different from those of the international financial market. The deregulation of financial markets and the greater internationalization of this market have facilitated the growing use of yen in the international financial market. On the other hand, the heavy share of commodities in Japan's international trade and the prevalance of the dollar in the commodities trade have not allowed for an equally pronounced internationalization of the yen.

The internationalization of the yen can be furthered by the provision of additional financial instruments that allow non-Japanese to invest in yen assets. Today, the degree of nonresident participation in Japanese short-term financial markets is significantly lower than in the United States. The 1986 opening of the Japanese market for a new type of short-term government note, the continuing deregulation of interest rates in certificates of deposit, and the opening of the Tokyo offshore market are all developments that should raise the participation of nonresident foreigners in the Japanese capital market by facilitating their access to liquid yen assets.

It is clear that a stable economic situation in Japan, economic policies that further certain forms of growth, a highly valued yen, and large surpluses in the current accounts are all necessary conditions. But by themselves they would not have resulted in the internationalization of the yen. There were explicit measures that needed to be implemented, and the Japanese government has been doing so. Deregulation in this sense is crucial to the internationalization of the yen and its greater participation in the international financial market.

The International Property Market

The rapid growth in the number of financial firms, services firms, and high-income workers concentrated in major cities has contributed to rapid growth of a high-price real estate market. The concentration of major firms and markets in New York, London, and Tokyo in particular has raised the importance of locating in these cities and has been a key factor in the development of massive construction projects. The active participation of foreign firms as investors and as buyers and users of real estate in these three cities has contributed to the formation of an international property market.

One distinct aspect of this process has been that the price of land in the 1980s in central New York and London appeared to be increasingly unrelated to the conditions of the overall national economy. Furthermore, the bidding for space was confined to specific locations, and did not necessarily spread to all available space in these cities. High, often foreign, bidders were clearly willing to pay an extremely high premium for a central location and had no interest whatsoever in a less central location. This led to a process of "rehabilitation" of what had been considered marginal areas and their reconstruction into "central" areas: the western side of midtown Manhattan and the old docks in London were made into prime office land. Only a few years earlier, these areas had been defined as undesirable, derelict, unworkable parts of these cities. The proposals for massive reconstruction of Times Square and its environs were central to this rehabilitation for corporate office uses. And so was using a stunning array of internationally known architects to make once "derelict" areas into glittering offices. The concentration of high-income workers, including employees of foreign firms, also brought about an expansion in the demand for space and a parallel rehabilitation of developed urban land for new residential uses. This was a process with a multiplicity of minor locations throughout these cities and several radical transformations of whole neighborhoods: the old warehouse district in Manhattan, which became fashionable as Soho, is probably the most accomplished of these transformations, with its concentration of famous and/or wealthy residents, luxury shops, and art galleries, with enough not-so-famous and even poor artists to ensure its "bohemian" aura.

While there were strong spread effects throughout the office and housing markets in these cities, there also were, perhaps less noted, discontinuities. The prices commanded by central locations and by the "right address" for offices or residences were extremely high. And while there was an overall increase throughout the metropolitan regions of these cities, there was considerable disparity between central locations and the rest. The notion of a gradual decline with distance from the center is inadequate to describe the land price gradient. The highest disparity was between central locations and the rest. There were and remain locations at the heart of each city close to the center that have been devalued, a long-term process that began with suburbanization in the interwar period in London and in the postwar period in Tokyo and New York. We return to this in greater detail in Chapter Nine. There was, then, considerable

discontinuity in the functioning of the land market. This would also help explain the coexistence of abandoned empty spaces with extreme density, particularly in New York.

The central areas of these cities have become part of an international property market; and conversely, these central areas account for much of the international property market that has developed since the late 1970s. The entry of institutional investors into the financial markets has been a significant fact in the expansion of this market. Institutional investors have sought to internationalize their holdings generally. Corporations that operate internationally have reconcentrated and expanded their holdings in leading centers, part of a broader pattern of reconcentration.

But it would seem that other conditions had to come together for an international property market to come about. It is the existence of a multiplicity of other markets, and particularly leading markets, that raises the value of land in the leading financial centers. It is the highly international character of these markets and of the bidders that differentiates this property market and differentiates these cities from other major cities with desirable building stock. They become the arena for major architectural projects, with architects from various countries building in all three cities, further enhancing the value and difference of these cities. Seen from this perspective, the acquisition of a major share of Rockefeller Center by Japanese investors is less surprising. The emergence of Japanese firms as the major investors in New York City real estate at the end of the 1980s is a continuation of this trend and one that confirms the fact that Japan is now the largest net exporter of investment capital in the international market, as the United States was in the postwar era.

The highest returns are to be found in the leading international centers. While much attention has gone into the acquisition of New York real estate by Japanese investors, firms from many countries have bought up property in all three cities. They have emerged as transnational places where major architects from the world over will be found building one or more major buildings. New types of transactions have further strengthened and developed this market, notably new types of institutional investment, such as property unit trusts, new forms of finance, such as property leasing, and the emergence of a growing secondary mortgage market handled by investment banks and brokers that trade mortgages (Daly 1987; Feagin 1988). Buildings become commodities, which can be bought, sold, and resold as commodities, in a market that is autonomous from broader conditions in a national economy. The case of Tokyo is somewhat different and remains so notwithstanding new legislation, because of acute concentration in ownership, state regulation, and the common practice of intracorporate property deals.

The traditional strong cyclical trends in the real estate industry were sharply accentuated by the financial speculation in the 1980s, especially in major cities. The English firm Richard Ellis reported that in the mid-1980s, when these financial centers were experiencing sharp expansion, net rents in centrally located offices of prime quality reached £33 per square meter in London's City, £38.75 in midtown Manhattan, £27.17 in downtown Manhattan, and £37.10 in central Tokyo (Ellis 1985). After 1985 prices rose further, with Tokyo's prices jumping to unheard-of heights, notably U.S. $210,000 a square yard in late 1989 for top commercial space (see Appendix D for detailed information on 1985, when the steep rise began, to 1987). In New York and London, on the other hand, real estate prices and activity declined and something akin to a crisis was declared by industry analysts in 1989.

The major construction projects of the 1980s in these three cities are vast, represent massive investments, and involve a multiplicity of top-level financial, engineering, architectural, and other professional firms. New York's Battery Park City, built on a 92-acre landfill in lower Manhattan, should provide 6 million square feet of commercial space and 14,000 residential units. Part of the complex is the World Financial Center, designed by Cesar Pelli. The Times Square redevelopment project, estimated at $2.5 billion, covers a 13-acre area and will include the construction of four massive office towers, with construction scheduled to begin in 1990, after a decade of litigation because of strong opposition by community groups. Like Battery Park City, the Times Square development will implant a luxury complex in an area of the city that was until recently regarded as fairly unattractive.

In London, two of the largest urban redevelopment projects are under way. Canary Wharf is a 71-acre site on the historic Isle of Dogs, within the London docklands. The project, proposed by one of the leading architectural firms in the world, the U.S.-based Skidmore, Owings and Merrill, in collaboration with I. M. Pei, is a vast luxury complex of offices and residences with highly designed public spaces and parks, and about 10 million square feet of commercial space, primarily to meet the needs of London's financial sector. The second major project in London is the redevelopment of the old railroad yards at King's Cross. This is at this point the largest inner city redevelopment project in the whole of England and Europe. It involves a 125-acre site and will cost over £2.5 billion. Another leading architect, Norman Foster, is the main designer. The site is located on unused railway land on the northern fringes of London's West End.

In Tokyo there are about forty major projects either under way or being designed. Perhaps the best known is the Tokyo Teleport City, expected to provide residences for 60,000 people and offices for 110,000. Another project, the Makuhari Messe, to be built on 438 hectares of land reclaimed from Tokyo Bay, is expected to provide housing for 26,000 people. The largest project is the New Tokyo Plan 2025, covering an area of 30,000 hectares and involving a massive land reclamation scheme. As proposed by Kisho Kurakawa, a leading Japanese architect, it would accommodate an estimated 6 million residents. The latest developments propose using underground spaces to create vast complexes of offices and residences. Among other projects are the Sumida River Okawabata Renaissance redevelopment of an old warehouse district along Tokyo's main river. It is being transformed into luxury offices and apartment complexes; the massive nearby dockyard will similarly be redeveloped. (For a more detailed description of these projects and their implications see Shibata 1988.)[7]

Conclusion

There is a growing concentration of foreign service and financial firms in New York, London, and Tokyo handling business on behalf of both host country firms and co-national firms operating in the host country. In this sense we can think of New York, London, and increasingly Tokyo as transnational centers for financial and service activity. While the governments involved are important participants in the approval and legitimacy of these arrangements, it is also the case that the lifting of restrictions on

[7] There has been a savage struggle within central Tokyo to accumulate enough small parcels to make possible the building of tall towers and large complexes. Companies have resorted to using the yakusa (or Japanese organized crime). A new character has emerged, the "jiageya" (land price raising specialist), who puts pressure on small-parcel owners to sell their lots and has been found to use criminal tactics if all else fails. According to *Forbes* magazine (December 14, 1987), large real estate companies were estimated to have spent about 10 billion yen in 1987 for the services of such gangsters. From 1974 to 1983, the supply of office space did not increase much. But building of many office towers had begun, so in 1984, in a single year, almost 100 hectares of office space were added in the central wards. By 1986, office space in these three wards together with Shinjuku, Bunkyo, and Taito had increased sharply. From 1981 to 1986, the floor space of office buildings increased by 321 hectares in the three central wards. There were particularly strong concentrations in Marunouchi, long the business district and the main location of banks, in Kasumigaseki, the main location for government offices, and in Shinjuku, the secondary urban center and the location for the new offices of the metropolitan government. Terasaka et al. (1988: 169) have pointed out that the growing use of advanced office machines has raised the space requirements per worker. In 1975 the per capita effective floor space in an office was 11.3 square meters; by 1985 it was up to 13.5 square meters. This, together with the rapid increase in demand due to business expansion, reduced the room availability in office buildings from 2.1% in 1975 to 0.4% in 1984, with continuing declines since then. Office rental prices have risen immensely.

direct foreign investment in the United States and increasingly in Japan and the deregulation of the financial markets have created a whole arena of economic activity where governments participate only minimally, and in this sense we can think of these cities as containing transnational economic spaces for the operation of both domestic and foreign firms.

New York, London, and Tokyo have become the key locations for a variety of other transnational activities. Illustrative of these are the formation of an international property market and the growing transnationalization of corporate ownership and control. In the 1980s these have assumed characteristics that point to a distinct form of the internationalization of economic activity, one beyond customary types of direct foreign investment and acquisition. This is partly because of the scale of acquisitions and investments and partly because of their concentration in central locations and in leading corporations. The acquisition of a large share of Rockefeller Center and of the American Express Company by Japanese investors are outcomes that represent a discontinuity with the nature and magnitude of earlier acquisitions.

One might raise the question as to whether these acquisitions are not akin to U.S. investments and acquisitions in Latin America in the 1950s and 1960s. But I would argue that the latter differ from what we are examining here because they took place in a context of marked political inequality, where the United States was clearly dominant and the U.S. government was a central element in economic transactions. The transnationalization of ownership and acquisitions, which is particularly evident in the United States, is a rather different process, one where the states involved are increasingly not participating and where the question of the nationality of capital assumes new meanings—as for example, when Japanese auto makers put twin plants in northern Mexico to make cheap auto parts for their plants in the United States, where those exported to Europe are also produced. In an earlier book (Sassen 1988) I posited that the United States has emerged as a sort of international zone for manufacturing and that New York in particular has become an international zone for the financial transactions and legal transactions that are part of these arrangements.

The massive expansion of international financial transactions, the integration of stock markets into a global network, and the growth of international markets for producer services have become part of the economic base of many major cities. But New York, London, and Tokyo concentrate a disproportionate share of these transactions and markets. They contain the largest concentrations of leading producer services firms, the top twenty-four securities houses in the world, sixty-three of the top one hundred banks in the world, 84% of global capitalization, and the largest

concentrations of a variety of commodity and currency markets. The magnitude and composition of this concentration of transactions and markets in New York, London, and Tokyo is to a large extent an occurrence of the 1980s. And it is also, to some extent, built on debt and speculation, which raises a question about the durability of this form of growth.