The graph below illustrates the history of global stock markets by capitalization from 1900 to 2018. The graph uses the World Federation of Exchanges definitions and divides the world into three groups: the Americas which includes both North and South America, Europe/Africa/Middle East, and Asia and Oceania. It shows how each continent's share of global Stock market capitalization has changed over time. The Americas represented the majority of global market capitalization during the past 120 years, but the most obvious trend over time is the decline of Europe and the rise of Asia.

The World in 1900

In 1900, Europe dominated global stock markets. Europe represented about 68% of global stock market capitalization, the Americas around 30% and Asia only 2%. By 2018, Asia had become the second largest continent by capitalization. The Americas represented 44% of global stock market capitalization, Asia 34% and Europe 22%. Europe dominated global financial markets in 1900 and London was at the center of European finance. European countries were on a gold standard that linked all currencies to each other at fixed exchange rates and money flowed freely between European countries. Europe funded railroads, banks, utilities and other companies in Europe and the rest of the world. American railroads were traded on all the major stock exchanges in Europe. In 1900, there were very few stock markets anywhere in Asia, in part because many countries were European colonies. There were stock markets in Shanghai, Tokyo and Hong Kong, and limited trading in Australia, New Zealand and India; however, the value of Asian securities that were traded in London exceeded trading in Asia. Companies that operated in French Indochina, the Netherlands Indies, Malaysia and other European colonies listed in Europe, not on local exchanges. European capital markets had more resources available for investment than Asian capital markets. Until the 1970s, Asia represented a very small portion of global stock market capitalization. The majority of global stock market capitalization was located in North America. Between 1900 and 1970, the Americas grew in size while Europe shrank. The primary causes of this transformation were World War I, World War II and the nationalization of European industry.

The Decline of Europe

In 1914, Europe represented about 61% of global market capitalization and the Americas 37%. Capital flowed freely from one European country to another. Russia issued bonds payable in Russian Rubles, British Pounds, French Francs, German Marks, United States Dollars, Dutch Guilder and Austrian Crowns. It was truly a globalized world. But on August 1, 1914, all European and American stock markets closed. The flow of capital between countries stopped and stock markets in Berlin and St. Petersburg remained closed until 1917. The St. Petersburg stock market closed for the next 75 years when the Russian Revolution overthrew the Tsar. With Europe recovering from World War I, money flowed into the United States. By 1929, the United States represented 65% of global market capitalization, while Europe’s share had shrunk to 32%. However, the collapse of the American stock market after 1929 pushed the United States’ share of global market cap down to 40% by 1933, whence it recovered. Although there was some recovery in Europe the 1920s, the gold standard broke down in 1931 further reducing the globalization of global financial markets. Governments controlled industry during World War II, and after the war, France, Great Britain and other European countries nationalized their main industries while stock markets in Eastern Europe closed when the Communists seized power. By 1950, Europe’s share of global market capitalization had shrunk to only 18%.

Dominance of the Anglo-Saxon Four

As Europe’s share of global market cap shrank, the four Anglo-Saxon countries’ share rose.

These four include not only the United Kingdom and United States, but Canada and Australia. The United Kingdom played a smaller role in global finance after 1914 as it sold foreign securities listed in London to help pay for the war, but its global reach continued until the start of World War II in 1939. Neither the United States, Canada nor Australia suffered from the destruction of the world wars or the nationalization of its industries as occurred in Europe. By 1950, the three largest stock markets in the world were New York, London and Toronto/Montreal representing 75% of global market capitalization. By the late 1960s, Canada and the United States together represented 75% of global stock market capitalization. The Anglo-Saxon countries' domination of global stock markets continued until the 1970s as is illustrated in the figure below which shows the Anglo-Saxon Four's share of global market capitalization from 1900 to 2018. As can be seen, these four countries' share of global market cap fell dramatically in the 1970s and 1980s. In the 1970s, the OPEC Oil Crisis, stagflation, the collapse of Bretton Woods and other economic problems began shifting the balance of power away from America. The Asian Tigers began exporting goods to the rest of the world. By the 1980s, globalization was back and economic power shifted toward emerging markets and Asia.

GLOBAL
FINANCIAL DATA.

The Rise of Asia

The main factor holding back Asia from dominating global stock markets until the 1980s was Asia. Shanghai had a stock market until the 1940s when it was closed down after the triumph of Communism, and India's socialistic policies that preferred five-year plans over stock market-driven growth condemned its people to poverty for decades. Since 1970, Asia's share of global stock market capitalization has increased dramatically. Export-led growth in Japan, Korea, Taiwan, Hong Kong and Singapore allowed those countries' economies and stock markets to grow. Japan, Korea and Taiwan all went through stock market bubbles in the 1980s and in 1989, Japan's stock market was larger than the United States' and the largest company in the world was Nippon Telegraph and Telephone. NT&T's market cap in 1989 was greater than the entire German stock market. In 1989, Asia represented 45% of the world's stock market capitalization, Europe 22% and America 33%. However, in 1989, the stock market bubbles in Asia burst and Asia's share of global market cap plunged to 16% by 1998; however, since 2000, both India and China have significantly increased their share of global market capitalization as Japan, Taiwan, and Korea have recovered from the crash of their stock markets in the 1990s. Asia grew at the expense of the United States up until the 2008 financial crisis and at the expense of Europe since then.

The Asian Century?

Europe is no longer an engine of growth within the world economy and under Donald Trump, America's willingness to pursue open trade with the rest of the world is in question. Were it not for the growth in the size of the internet stocks that dominate America's stock market, Asia's share of the world's market cap would have grown even more during the past decade. How long before Asian stock markets become larger than America's? Hong Kong, Shanghai and Shenzhen continue to attract new IPOs. Meanwhile, India is growing at a dramatic pace. At the current rate of growth, Asia will probably be larger than America by 2030 and have over half of the global market capitalization by 2040, if not sooner. And the more Europeans and Americans fight among themselves over trade, the sooner this is likely to occur.