constraints faced by domestic banks. Even though there is no regulatory discrimination against foreign banks, there are still a few practical difficulties.

One of the main problems foreign banks face with the Japanese regulatory environment is its lack of transparency. The use of administrative guidance as opposed to relying solely on clearly established, well written banking laws leaves foreign banks at a distinct disadvantage. As the U.S. Treasury points out: "...foreign firms...are both less familiar with the unique Japanese environment and more used to dealing with a clear set of written regulations."[104] The "unique Japanese environment" refers to how widespread both the use and acceptance of administrative guidance is as a regulatory tool. Its ad hoc nature implies that potentially unpredictable changes in regulations or their interpretation can occur at any time.

Another problem foreign banks face is a lack of equal access to Bank of Japan credit facilities.[105] Although this was to have been resolved with an announced increase in the Bank's lending quotas to foreign banks in 1990, there are still complaints that the system favours domestic banks. Equal access to Bank of Japan credit is important since its loans are made at the discount rate, which is below the market rate.

The extent to which the 1995 reform bill will remove some of the regulatory obstacles that foreign insurance companies face remains unclear. So far, the cartel-like structure of the market has made it very difficult for foreign firms to gain market share in Japan.

- Local Customs

Banks and insurance companies face the same problem in Japan that other foreign enterprises do. Close inter-corporate links, especially between *keiretsu* firms, make it difficult to develop client bases, particularly with large, internationally active Japanese firms.[106]

---

[104] U.S. Department of Treasury, *op. cit.*, p. 221.

[105] See B.W. Semkow, *op. cit.*, p. 359; and U.S. Department of Treasury, *op. cit.*, p. 219.

[106] For an example of how one foreign bank provided new product information to a Japanese firm which then explained the product to its *keiretsu* bank and dismissed the foreign bank, see S. Haruo, "Japanese Capitalism: The Irony of Success", in *Japan Echo,* Vol. XIX, No. 2, Japan Echo Incorporated, Tokyo, Summer 1992, p. 20.