

that, while still formally governed by the legal system, have evolved based on generally accepted business practices.

The international response to the different ways in which Japanese firms operate and relate to each other has been led by the United States. The Structural Impediments Initiative talks in 1989-90 and the present Framework Talks are examples of the many bilateral government consultations that have taken place. At the same time, there has been pressure within the U.S. to review strict domestic limitations on ownership linkages between financial and non-financial firms so as to more closely resemble the Japanese system.¹ Clearly, there are roles for both trade policy and a mix of domestic policies. Neither can fully address the competitive implications of different corporate ownership structures and relations across countries. Only together can they bridge some of the differences, and foster an international exchange of the relative strengths of managing inter-corporate relations differently.

The remainder of this Paper is organized as follows. Section 2 provides the setting by outlining the corporate ownership structure in Japan and comparing it to the United States. In section 3, the legal structure presiding over corporate relations in Japan is examined. Section 4 considers the development of informal inter-corporate relations in Japan, focusing on *keiretsu*. The trade implications of *keiretsu* are also examined. Section 5 is an overview of the treatment of foreign financial institutions in Japan. The purpose is to determine whether foreign financial institutions share the capacities to develop close relations with non-financial firms. Trade implications for financial institutions are considered. Finally, section 6 contains conclusions, lessons from the Japanese experience and policy implications.

2. Corporate Ownership Structure in Japan

There are two distinct issues in the analysis of corporate ownership. First is the question of who owns whom. In the context of this Paper, inter-corporate shareholdings between financial and non-financial firms are of most interest. The second issue is the degree of ownership concentration. Again, this Paper will focus on whether there is a concentration of ownership within financial institutions.

¹ See, for example, U.S. Congress, Office of Technology Assessments, *Multinationals and the National Interest: Playing by Different Rules*, Washington, D.C., 1993, p. 135.