

imply anything very revolutionary about the international competitiveness of Japanese firms.

That is not to suggest, however, that the relationships between financial institutions and non-financial firms have no impact on international trade. The underlying bias that favours dealing with (or owning, or being owned by) familiar (or related, in the *keiretsu* sense) business contacts, including financial institutions, can effectively exclude foreign firms. Although this bias is likely found, at least to some degree, in all countries, attention focuses on Japan because of the extent of the close-knit relationships, and the value placed on them by the domestic business community.

It has been pointed out that the influence of *keiretsu* relationships is probably in decline. If that is in fact the case, it is likely to be a long, slow process whereby some Japanese firms only reluctantly turn to international markets and suppliers. As such, any positive effects that the decline of *keiretsu* might have on trade, particularly in industries such as traditional manufacturing which have been dominated by *keiretsu*, will be small, but slowly growing.

5. The Treatment of Foreign Financial Institutions in Japan

Given that there are special relationships between financial institutions and non-financial firms in Japan, it is important to determine whether those relationships are restricted, tacitly or otherwise, to include only domestic financial institutions. In determining whether the relationships are restricted, one must look at the treatment of foreign financial institutions in Japan. To the extent that foreign financial institutions are treated differently, there might be a role for trade policy in identifying and reducing or eliminating any barriers that prevent them from fully participating as equal entities in the Japanese financial system.

The financial reform process in Japan dates back to the 1970s. In response to developments in both the Japanese and international markets, interest rate regulations covering deposits have been slowly eliminated, the allowed business activities of financial institutions have been broadened and a number of other regulations have either evolved or disappeared.⁷⁷

⁷⁷ The reform process is termed "financial liberalization" in Japan and "deregulation" in the U.S.. For a discussion of Japanese financial liberalization, see Y. Suzuki, "Financial Restructuring: The Japanese Experience", in *Restructuring the Financial System*, A Symposium Sponsored by the Federal Reserve Bank of Kansas City, Jackson Hole, Wyoming, August 20-22, 1987, pp. 105-14; and J.R. Brown, "Japanese Banking Reform and the Occupation Legacy: Decompartmentalization, Deregulation,