

Nevertheless, and even though *keiretsu* are probably in decline, the long-standing tendency of Japanese firms to deal with familiar business contacts, including financial institutions, will continue to make it difficult for foreign firms to penetrate Japanese markets. Loyalty and long-term business relationships are highly valued in Japan, and will persist in overshadowing short-term price, or product quality, considerations. For foreign firms to be successful in Japan, they will require patience. They must display an interest in long-term inter-corporate relations that favour consistency over short-term profitability.

Foreign firms must adapt to the Japanese way in order to successfully compete in Japan, just as they would need to make adjustments in any foreign market. For example, a marginally better price available from a competitor should not induce a foreign firm operating in Japan to switch away from its current Japanese supplier. It appears that North American firms have already drawn some lessons from the Japanese system, and have begun, at least on a modest scale, to implement them in their domestic operations. In the drive to become internationally competitive, we expect that all firms will selectively adopt practices from the Japanese and North American styles of inter-corporate relations.

Summary of Recommendations

In conclusion, this Paper makes several specific recommendations aimed at increasing the transparency of inter-corporate relationships in Japan, and improving the access foreign financial institutions have to the Japanese markets:

- There is a need to press for a more effective, formal mechanism for ensuring that all financial sector regulations, formal and informal guidelines and other government directives are widely discussed and reviewed in advance of implementation, including by interested foreign investors in Japanese financial services markets, and are subsequently clearly written and made publicly available.
- A review should be conducted of the membership practices of private sector insurance and banking associations to ensure that there are no barriers to active participation by foreign insurance companies and banks established in Japan.
- A sunshine mechanism related to the activities of these associations and their relations with government regulators should be introduced, so that the membership lists of the associations are readily available publicly and there is fuller public disclosure of the inter-action between government and the