

1. Introduction

There are fundamental differences in the North American and Japanese relationships between financial institutions and non-financial firms. Generally speaking, the relationships are much closer in Japan. There is much more interaction between financial institutions and the firms to which they lend, and there are stronger ownership linkages in both directions. Close Japanese inter-corporate linkages are not limited to relations between financial and non-financial firms. In Japan, companies tend to have shared interests with several firms, only some of which are engaged in related business activities.

A number of fundamental questions emerge with respect to inter-corporate relationships in Japan, particularly as they affect Japanese participation in foreign markets and foreign firms' participation in Japanese markets.

- What defines the special relationships between Japanese financial institutions and non-financial firms?
- Are the relationships strictly limited to Japanese financial institutions, or can foreign institutions develop similar relationships in Japan with Japanese firms?
- Do the relationships (between both financial and non-financial firms, and two or more non-financial firms) confer specific benefits to Japanese firms that enhance their international competitiveness? If so, what should be the appropriate responses of foreign firms and governments? Should Japanese business practices be copied, or should foreign government representatives press for change in Japan?

The questions surrounding Japanese inter-corporate linkages centre on the differences between accepted business practices in Japan and North America. It is critical to bear in mind, however, that "different" does not necessarily mean "unfair" in an international trading sense. Markets can work differently in different countries, and corporate cultures and practices that are not internationally transferable or shared can result in the effective exclusion of foreign firms. But this is not necessarily a question of "fairness".

An analysis of the relationships between firms in Japan, including financial institutions, must consider their formal governance as well as their informal development. The formal governance of inter-corporate relations is within the domain of the legal system. Informally developed relations include ownership and other ties