through discriminatory pricing, stretching receivables and/or prompt cash payment of payables. A bank can facilitate a merger, arrange loans from other banks, or, in the case of bankruptcy, absorb all losses itself to avoid protracted negotiations among claimants.

There are at least two points of interest in relation to the appeal of the financial distress argument.

- The efficiency of the market is side-stepped by the continued support of firms whose operations should be terminated. Investing resources in unprofitable enterprises without questioning whether those resources could be better applied elsewhere inevitably leads to certain inefficiencies.

- The ability of foreign firms to compete in Japan is reduced by the support of inefficient Japanese firms. If unprofitable *keiretsu* members are carried financially by other members, there is little chance that foreign firms will be able to enter Japanese markets, since it is the weak firms that should be most prone to (international) competition.

The final problem with cross shareholding is the resulting increase in stock market volatility. It might seem that, with such a large percentage of Japanese shares held for the long term, stock prices would be relatively stable. That is not the case. With only about 30% of outstanding shares traded, small buying or selling pressures can result in large price variations.[120]

### 6.2 Setting the Agenda

In setting the agenda for future trade policy initiatives with Japan, one must keep in mind that there are formal trade barriers caused by legal or regulatory differences in the treatment of foreign and domestic firms, and informal trade barriers caused, for example, by established and accepted business practices that favour dealing with local enterprises. This Paper has identified several formal trade barriers -- such as the development and application of new regulations or the approval process for introducing new products -- that hinder foreign financial institutions' and non-financial firms' abilities to compete in Japan. The primary focus of the Paper, however, has been on the established relationships between Japanese financial

[120] See R.W. Wright, *Japanese Finance in Transformation: Implications for Canada,* The Canada-Japan Trade Council, Ottawa, 1994, p. 13.