4.3 Trade Implications for Foreign Firms

Despite the recent changes that appear to have weakened traditional *keiretsu* links, they still exist and must be considered when analyzing the ability of foreign firms to compete in Japanese markets. The relationships that *keiretsu* foster are long-term alliances that foreign firms must deal with when conducting business in Japan, or competing with Japanese firms in third countries. Such long-term thinking and planning is often quite different from what foreign firms are used to, and has a number of competitive implications.

- Probably the most widespread complaint against Japan is that the long-term, well established relationships that exist between domestic firms leave little opportunity for foreign firms to penetrate the market.[71] Supplying a similar product at a lower price, or a better quality product at a similar price, will not ensure market access in an environment where steady, familiar business relationships are so highly valued.

- "*One of the tenets of the theory of the international flow of capital is that if an entrepreneur cannot sell his merchandise in a particular country, then he can purchase a company there. However, in the case of Japan not only is it difficult to sell foreign merchandise, it is impossible to buy out a corporation.*"[72] With 60% to 80% of keiretsu company shares never traded, it is unrealistic for foreign firms to consider "buying into" the Japanese intra-corporate network as a means of circumventing its exclusionary practices.

- The ability of Japanese firms to focus more on long term stability and less on quarterly or annual profit figures is a luxury most North American firms do not have.[73] Patient capital, in the form of long-term bank debt and cross shareholding, allows Japanese firms to make decisions that will (presumably) be profitable in the long term, even if it means lower profits in the short term. While there are clearly some advantages to being able to invest for the long term, one must be careful not to overstate them. To consider access to patient

[71] See, for example, O. Hiroshi, "Corporate Capitalism: Cracks in the System", in *Japan Quarterly*, Vol. XXXIX, No. 1, Asahi Shimbun Publishing, Tokyo, January-March 1992, p. 58.

[72] O. Hiroshi, *op. cit.*, p. 58.

[73] Indeed, many Japanese firms might no longer have that luxury either. After four years of declining profits, many Japanese companies will need to restructure, cut costs and emphasize profits over market share to ensure survival. See R.W. Wright, *op. cit.*, p. 26.