

Executive Summary

Inter-corporate relationships between financial institutions and non-financial firms are much closer in Japan than in North America. This Paper identifies the special relationships that exist between financial institutions and non-financial firms in the Japanese market, determines whether those relationships are limited to Japanese participants and considers their effects on trade as well as the appropriate response of trade policy.

The main findings of the Paper can be summarized as follows:

- Inter-corporate relationships in Japan are based on locally accepted business practices, and are not explicitly designed to exclude or discriminate against foreign firms.
- Nonetheless, there are a number of effective barriers to international trade, or at least circumstances that make entering the Japanese market more difficult than other foreign markets, that are a direct or indirect result of close inter-corporate ties in Japan.
- There is a role for trade policy in pressing for change in Japan. It is essential that close inter-corporate as well as government-industry relationships are open to all firms, foreign and domestic.
- Trade policy initiatives alone will not increase foreign participation in the Japanese market. The onus remains largely on foreign firms to adapt to Japanese practices and develop the type of long-term business relationships that are so highly valued in Japan.

As an example of the relatively close inter-corporate ties, about 20% of outstanding equity in Japan is held by commercial banks, compared to less than 1% of total U.S. equity held by U.S. banks. Close inter-corporate linkages are not restricted to commercial banks, however; two-thirds of total Japanese equity is held by corporations. In the U.S., corporations hold only 38% of all equity.

Although Japan's Anti-Monopoly Law allows a given financial institution to hold only 5% of the shares of other firms (10% in the case of insurance companies), the inter-corporate linkages that have evolved since the Second World War resemble the family-centred *zaibatsu* that existed prior to and during the war. Occupation leaders attempted to dismantle the *zaibatsu*, citing them as dangerous concentrations of economic and other powers. While the family-based corporate circles quickly