whether loosened *keiretsu* ties will result in Canadian banks being able to service "first-tier" as opposed to "second-tier" companies. To the extent that our banks are relegated to dealing with smaller and/or riskier firms, they face an implicit *keiretsu*-based trade barrier that effectively restricts their market access.

Despite the changes underway, it is likely that policy makers will still be strongly encouraged by some bankers to press for certain changes in Japan. At a conference on U.S.-Japan financial markets last year, William Rhodes, Vice Chairman, Citicorp-Citibank, spoke critically of the contrast in market shares held by U.S. banks in Japan and Japanese banks in the U.S.[108] Policy makers must be careful not to be too sympathetic to simple market share comparison arguments. Firms command different market shares in different countries for a multitude of reasons, only a limited number of which can, or should, be addressed by trade policy.[109]

With the move to loosen *keiretsu* being motivated by financial considerations, the relationships between other *keiretsu* members that are not based directly on financial interactions are likely to change more slowly. The tendency of *keiretsu* firms to purchase from, and sell to, other members will continue to affect foreign firms trying to enter the market.

Instead of financial service industries, the focus of trade policy with respect to *keiretsu* should be squarely and primarily on non-financial industries, although there is considerable debate on the best policy approach.[110] In the past, exchange rate

[108] Rhodes' remarks were captured in the conference summary, *Pressing Issues in U.S.- Japan Financial Markets*, Japan Society, New York, NY, October 21, 1993. He said that, as of March 1993, U.S. banks held less than 1% of Japanese banking assets, and Japanese banks held 12% of U.S. banking assets.

[109] In the banking industry, there can be indirect links between trade policy and market share, since the international expansion of domestic banks generally follows the pattern of outward foreign direct investment flows. It appears that Japanese banks in the U.S., however, have expanded their customer base beyond the affiliates of Japanese firms that are based in the U.S.. See R. Seth and A. Quijano, "Japanese Banks' Customers in the United States", in *Quarterly Review,* Vol. 16, No. 1, Federal Reserve Bank of New York, New York, NY, Spring 1991, pp. 79-82; and R. Seth and A. Quijano, *Growth in Japanese Lending and Direct Investment in the United States: Are They Related?* Federal Reserve Bank of New York Research Paper No. 9101, New York, NY, January 1991.

[110] While we suggest focusing trade policy with respect to *keiretsu* on non-financial industries, we recognize that financial institutions will probably also benefit from any changes that loosen inter-corporate ties in Japan. See, for example, the discussion above on Canadian banks' access to "first tier" versus "second tier" clients.