

6. Conclusions and Policy Implications

The tight relationships between financial institutions and non-financial firms in Japan are in keeping with the country's history of close inter-corporate linkages, formerly known as *zaibatsu*. The lack of domestic financial market development following World War II, along with certain government initiatives, solidified the relationships by fostering a corporate dependence on domestic financial institutions for capital.

There are generally two possible responses to a situation in which domestic firms interact with a foreign economy and encounter difficulties competing or capturing significant market share due to structural economic differences or differences in economic values or practices. Domestic firms can copy some of the practices of foreign firms, hoping to duplicate their success, or foreign firms can be pressed to adopt domestic practices. In both cases, there are potential policy implications.

6.1 *Keiretsu*

Presently, *keiretsu* relationships are a concern to virtually all foreign firms trying to participate in Japanese markets, except suppliers of certain primary commodities. The sectors of the economy that *keiretsu* have dominated, and continue to dominate, such as manufacturing, roughly coincide with those that encompass tradeable goods. Yet, as discussed earlier, *keiretsu* can also affect foreign firms in other sectors, including financial services.

6.1.1 Financial Versus Non-financial Industries

If, as certain evidence indicates, the role of *keiretsu* is slowly declining, the implications for foreign firms, and foreign trade policy makers, are changing. Since commercial banks are at the heart of horizontal *keiretsu*, and financial relationships seem to be the new weak link, the most immediate opportunities for foreign firms could be in financial services. Japanese firms are looking for cheaper financing alternatives and less corporate direction from creditors.

Given the changes that have already taken place, trade policy makers concerned about the effects of *keiretsu* should not be focused on "opening" the Japanese market further through formal financial sector regulatory reform for commercial banking. There are no regulations restricting the entry of foreign firms, no foreign firms have shown an interest in establishing a large-scale branching network, and the financial ties that bind *keiretsu* are loosening themselves. It remains to be seen, however,