

financing Japanese firms can receive from local banks; stimulating stock market activity via some type of trading incentives; and/or raising the level of shares foreign banks can hold in non-financial firms.

While such changes might increase the equity shares foreign firms hold in Japanese firms, and thus create (at least on paper) relationships between foreign and Japanese firms that resemble the inter-corporate links already in place in Japan, they will not alter *keiretsu* practices or the tendencies of Japanese firms to deal with familiar business contacts. Holding equity in Japanese firms is not sufficient. Cross shareholding formalizes relationships that already exist, it does not create them. The suggestion that foreign firms can "buy into" closer inter-corporate relations with Japanese firms is mistaken.¹²³ The Japanese way is not to buy shares and then develop close business ties; rather, close business ties are cemented by cross shareholdings. Pressing Japan either to allow foreign participation in inter-corporate relationships through equity ties or to dismantle existing relationships will not, in and of itself, result in an increase in the market share held by foreign firms. The key for foreign firms is to develop their own mutually beneficial long-term business relationships with Japanese firms (with or without equity ties). Only in this context might new mechanisms to cement relationships (by encouraging, for example, greater equity trading) likely have an impact on trade flows over the medium or long term.

Where Japan can, and should, be immediately pressed with respect to inter-corporate relations is in the area of business associations. It is essential that foreign firms are as well informed about Japanese market developments and industry strategies as their domestic counterparts. The immediate Japanese response to such pressure would likely be that the associations are already open to both domestic and foreign firms. While that is largely correct, this Paper reports that foreign insurance companies are not well represented in the insurance associations, and the associations' power and influence are considerable. In terms of commercial banks, with the widespread use of administrative guidance, regulators' views, as well as bankers' responses, might be more clearly communicated to, and discussed within, the banking associations.

¹²³ One might reasonably argue, however, that the case of foreign commercial banks is a special one in which they should acquire an equity stake in potential business customers as an indication of their commitment to the customers and the Japanese market. At the same time, the equity holdings would allow foreign banks to closely monitor their debtors just as Japanese banks have done. The problems are that shares might not be available, or only be available at a high price, and it would need to be determined whether the original equity investment would generate enough business for this approach to be profitable.