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## THE INTERNATIONALIZATION OF JAPANESE BANKING: THE FACTORS AFFECTING ITS RAPID GROWTH

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### Introduction

Since the 1970s economic conflicts between Japan and other countries have been discussed from a number of different perspectives. Recently attention has focused on the *modus operandi* of Japanese firms: the Japanese, it is said, are striving not so much for profits as for market share (smaller profits, greater sales); behaving as a unified group within and among firms; maintaining peculiar relationships with government; etc. While it requires further research to prove that these “Japanese” characteristics are actually the root of economic conflicts, we should consider how the Japanese economic system is different from that of other industrialized countries.

In the field of finance and banking, where internationalization and deregulations are the main reform slogans in the 1980s, we find similar phenomena such as Banzai- or Harakiri-loans, the Yūshi-keiretsu (business groups organized through bank finance), or systematic protections and regulations that may be compared to how ships operate within the protection offered by a convoy. How influential are these factors in international business, how do they affect its rapid growth? These questions are the starting point of this research. One problem is that the current state of affairs, including fundamental statistical data, is not easy to grasp, even though international banking is currently a popular theme of discussion. In addition, in order to point out peculiarly “Japanese” characteristics, we have to make international comparisons of financial systems and their historical developments; something which requires considerable investigation. As a result, the main purpose of this paper is simply to clarify the present situation as much as possible by referring to studies on “multinational banks” or the “internationalization of finance”.<sup>1)</sup> In chapter I, several estimates of the international assets owned by Japanese banks, and the changing patterns of each business are reviewed. In chapter II, factors influencing rapid growth in this field are further examined.

### I. Recent Developments

#### 1. The Extent and Scale of International Banking

##### i) Taxonomy

What kinds of business have been the driving forces in the case of Japanese

banks, is there any change in the pattern of developments? Let's begin with defining the sphere of international banking.

The conventional taxonomy of international finance in Japan is on a cross-border basis; "in-out" (foreign investment of domestic funds), "out-in" (fund raising overseas to be employed domestically), and "out-out" (both fund raising and employment overseas). This corresponds to the regulatory considerations of the balance of payments for the nation, but it does not wholly take into account the recent developments in banking, in particular those effects caused by the diversification of transaction currencies.

Generally speaking, we can identify three elements which distinguish domestic banking from international banking; 1) the nationality of the bank (the location of main offices, supervising authorities), 2) the location of the customers (borrowers, depositors), and 3) the transaction currency<sup>2)</sup> (See Table 1). Because this paper

**Table 1 Taxonomy of Banking**

		customers	
		residents	non-residents
currency	yen	A	C
	foreign currency	B	D

- A: domestic finance (euro-yen domestic finance)
- B: euro-domestic finance
- C: traditional foreign finance (euro-yen foreign finance)
- D: euro-foreign finance (host-country-banking)

*Source:* Goodman [1984], Sakakibara [1987] etc.

is concerned with those banks whose main offices are located in Japan and supervised by the MOF (Ministry of Finance) and the BOJ (Bank of Japan), there remain two elements, each having two possibilities. According to the traditional way of thinking, if the customers are non-residents, it is "international business". If the customers are residents, then it is termed "domestic". But recent reforms in the financial system have made such a grouping obsolete, particularly as domestic business has witnessed such dramatic changes.

Considering the case where the customers are Japanese-residents with yen as a transaction currency (Case A), this business had been confined to ordinary domestic grounds until 1984, when euro-yen transactions involving residents were largely liberalized. In the case of foreign currency transactions with residents (Case B), it is called euro-domestic banking and which has been remarkably stimulated by the amendment of the Forex Law at the end of 1980. Impact loans and foreign bond issues, and foreign currency-deposits as well are included in Case B. Although any transactions with non-residents belong to international banking, some comments seem to be necessary. Case C, non-resident transactions denominated in yen, usually

means traditional foreign finance, but euro-yen lending by foreign branches of Japanese banks also belongs in this case. Foreign business conducted in foreign currencies (Case D) is euro-banking, part of which belongs to host-country banking when the business is transacted in the customers' domestic currency.

The sphere of international business is therefore not only limited to Case C and D, but also covers euro-domestic banking, Case B and even part of Case A. The division of banking between domestic and international is thus complicated and each branch is interwoven with one another. This situation was created mainly by the institutional reforms in 1980 and 1984<sup>3)</sup>.

## ii) Estimates of foreign assets

Next, we want to know the scale and global share of the international business undertaken by Japanese banks. The basic data, such as the amount of foreign assets, are certainly collected by the MOF and the BOJ, but have not been systematically disclosed. However, there exist several different sources of information.

### a) BIS data

The BIS (Bank for International Settlements) announces annually the external (or cross-border) positions of reporting banks. These data are aggregated according to the location, but not nationality, of banks. For example, the external claims of

**Table 2 Gross External Assets of Banks**

year	Grand Total		Japan	Share of Grand Total	
	(a)	(b)		(a)	(b)
	US \$ billion				
1973	294		17	5.8%	
74	360		20	5.6	
75	442		20	4.5	
76	548		22	4.0	
77	690	767	22	3.2	2.9%
78	893	1,000	34	3.8	3.4
79	1,111	1,246	45	4.1	3.6
80	1,322	1,497	66	5.0	4.4
81	1,542	1,781	85	5.5	4.8
82	1,687	1,943	91	5.4	4.7
83	1,754	2,024	109	6.2	5.4
84		2,153	127		5.9
85		2,513	195		7.8

Source: Pecchioli [1983], BIS, *Annual Reports*

Note: a) excluding non-reporting banks in the off-shore centers  
b) including the banks mentioned above.

banks in Japan cover not only Japanese banks but also Japanese branches of foreign banks. On the other hand, claims of Japanese banks' branches overseas are distributed respectively to their host-countries. Defined as external claims, internal assets denominated in foreign currencies (euro-domestic finance) are excluded from these reports. In spite of these limitations, the data in Table 2 is useful in showing the growing share of the Japanese market in the global total. But these figures are far smaller than the actual weight of Japanese banks. Another estimates report that at the end of September 1985, the share of Japanese banks extended to more than a quarter of the total international assets booked by BIS-area banks<sup>4)</sup>. The greater part of this share is the assets of overseas branches.

#### b) International positions of city banks

The second source of information is the *Analysis of Financial Statements of All Banks* published semiannually by the Federation of Bankers Associations of Japan, where the growth rate of foreign currency denominated (later international division) positions as a whole is announced. Strangely enough, the actual amounts of the total positions themselves are excluded from the announcement, while the amounts of lending, deposits both on the assets side and the liabilities side are de-

Table 3 Estimate of International Assets (City Banks)

year	Growth Rate (1)	International Assets ¥100 million	US\$ (3) 100 million
1976		141,895	461
1977 I	Δ2.0		
1977 II	Δ3.4	134,329	436
1978 I	1.0		
1978 II	19.4	161,993	692
1979 I	19.0		
1979 II	28.6	247,904	1,203
1980 I	5.7		
1980 II	17.1	306,842 (2)	1,268
1981	40.5	450,361 (2)	2,145
1982	26.2	568,356	2,439
1983	10.7	629,170	2,655
1984	29.1	812,258	3,516
1985	Δ6.8	757,025	2,980

(1) Federation of Bankers Associations, *Analysis of Financial Statements of All Banks*,

(2) Fukuda [1982]

(3) converted by the year-end exchange rate

scribed. If we know the total positions in a given year, multiplying them by the published growth rates, will give us a time series estimate. Fortunately, for fiscal years 1980 and 1981, an officer of the MOF stated in the public the actual amount of foreign currency fund raising and employment<sup>5)</sup>. The figures for lending and deposits stated by him correspond to those described in the above *Analysis of Financial Statements*.

One might raise such a question if "foreign currency denominated positions" and "international division positions" could be separately identified. It is true that they are conceptionally different, but looking at the reports for both figures, we are able to treat them as equals<sup>6)</sup>. The series listed in Table 3 show therefore the scale of international banking carried out by Japanese city banks. Converted into U.S. dollars<sup>7)</sup> they are far greater than the external positions of Japanese banks given in Table 2, even though it is uncertain whether the estimates in Table 3 include both those assets held by foreign branches and "impact loans".

### c) Teranishi-estimates

The third set of estimates was acquired by collecting figures for different elements of international banking and then aggregating them. This method was under-

Table 4 External Assets of Forex Banks\*

year	U.S.\$ billion						Total
	long, medium-term lending		short-term assets			Securities <sup>6)</sup>	
	yen <sup>1)</sup>	other <sup>2)</sup>	in Japan yen <sup>3)</sup>	other <sup>4)</sup>	Overseas branches <sup>5)</sup>		
1973	—	7.3	0.4	9.6	n.a.	n.a.	n.a.
1974	0.06	8.6	0.9	12.1	n.a.	n.a.	n.a.
1975	0.2	8.7	1.0	11.9	n.a.	n.a.	n.a.
1976	0.3	8.2	1.2	13.0	25.0	0.8	48.5
1977	0.6	8.9	1.6	12.9	29.8	0.7	54.5
1978	3.8	18.1	1.9	19.5	45.1	1.6	90.0
1979	9.2	28.5	3.4	26.5	76.4	2.9	146.9
1980	8.7	32.4	4.6	40.5	103.7	3.7	193.6
1981	12.9	40.4	7.0	54.1	169.0	6.4	289.8
1982	14.8	52.3	7.9	53.2	220.3	9.9	358.4
1983	19.0	58.6	8.6	63.5	238.6	13.8	402.1
1984	28.1	66.3	13.0	64.6	300.0	26.9	498.9
1985	34.8	73.1	21.8	77.9	279.8	64.5	551.9
1986	57.4	94.8	63.6	131.1	392.4	105.6	844.9

Note: 1), 2) domestic and overseas offices, 5) of all banks, including euro-yen assets, 6) domestic and overseas offices of all banks.

\*at the end of 1986, 263 banks, 79 of which are foreign banks.

Source: Teranishi [1986], Appendix, supplemented by *Annual Report of IFB*, BOJ, *Annual Economic Statistics*.

taken by Teranishi [1986], the result of which is shown with supplements in Table 4. (1) and (3) in Table 4 correspond to case C in Table 1, (2) + (4) + (5) + (6) in Table 4 to case D in Table 1, respectively<sup>8)</sup>. The euro-domestic finance is represented by impact loans in Table 5.

Table 5 Outstanding Amounts of Impact Loans (US \$ 100 million)

year	Amounts 1)			Share of Japanese banks 2)		Amounts of Japanese banks 3)		
	Short-term	Long-Medium	Total	Short-term	Long-Medium	Short-term	Long-Medium	Total
1980	25.9	81.0	106.9					
1981	136.4	67.2	203.6	70.4%	49.8%	96.0	33.5	129.5
1982	188.8	85.5	274.3	47.6	51.6	89.9	44.1	134.0
1983	275.6	91.2	366.8	56.7	60.2	156.2	54.9	211.1
1984	380.1	85.6	465.7	60.3	76.7	229.2	65.7	294.9
1985	424.9	103.3	528.2	59.8	86.1	254.1	88.9	343.0
1986	995.7	197.9	1,193.6	71.7	91.2	713.9	180.4	894.3

Source: Annual Reports of IFB.

Note: 2) flow basis, 3) = 1) × 2) ÷ 100

We should note that most of the original data are summarized as referring to forex banks, which include Japanese branches of foreign banks and that these series may then be overestimated to that extent. However, these statistics have the advantage that they enable us to trace the relative importance of each business category.

Let us examine Table 6, which summarizes the data from Table 4 and 5. Among the four categories, from A to D, domestic finance in the narrow sense (A) has been the largest, though it declined to less than 60% in 1986. The remaining consists of international finance in the broad sense, the greater part of which is euro-foreign finance. The traditional foreign finance and the euro-domestic finance are relatively small, but have recently been growing remarkably<sup>9)</sup>.

The fact that euro-foreign finance has occupied the major part of international banking, was brought about by several factors. In particular, (i) as an international currency yen has disadvantages compared with foreign currencies, especially U.S. dollars, (ii) Japanese finance and capital markets lack flexibility in their institutional framework and transaction practices. Taking into account that the international use of yen depends on conditions in the Japanese financial system, for example the possibility of short-term fund investments, the second factor is more important than the first.

The growth rates in Table 6 show that euro-foreign finance grew more rapidly in the 1970s than in the 1980s, when financial deregulations are taking place on a large scale. Does this mean that reforms in the domestic financial system cause the growth of euro-foreign finance to slow down? Although possible, we note, however, that a declining growth rate is also found in the column for traditional foreign finance. This general deceleration of foreign finance through banks might then be influenced by other factors, such as the accumulated debts in the developing countries.

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**Table 6 Domestic and International Assets of Forex Banks (US \$ billion, %)**

		A) domestic finance	B) euro- domestic finance	C) trad. foreign finance	D) euro- foreign finance	Total A) ~ D)	international business B) ~ D)	euro finance B) + D)
Amounts	1976	340	—	2	47	388	49	47
	1980	600	11	13	180	804	204	191
	1986	1,243	119	121	724	2,207	964	843
Share	1976	87.6	—	0.5	12.1	100.0	12.6	12.1
	1980	79.6	1.4	1.6	22.3	100.0	25.3	23.7
	1986	56.3	5.4	5.5	32.8	100.0	43.7	38.2
Growth	1976 -1980	15.3	—	72.6	40.0	20.0	42.8	42.0
	1980 -1986	12.9	48.7	45.0	26.1	18.3	29.5	28.1
Rates	1976 -1986	13.8	—	50.7	31.5	19.0	34.7	33.5

Source: Teranishi [1986], Table 5 etc.

## 2. Changing Patterns of Business

### i) The functions of overseas branches

The comparison between euro-finance and traditional foreign finance leads to the question of how the network of overseas branches actually work. In general those branches perform double functions; euro-finance at the local level and fund raising for the sake of domestic offices. The accounts in Table 7 show the flow of funds as follows. "Cash and Deposits with others" on the assets side, are in spite of remarkable growth in the 1980s, still far smaller than "Deposits and CD" on the liabilities side, by about 50,300 billion yen. The balance of call funds shows net borrowing of about 4,100 billion yen. Aggregating this with "Borrowed Money", the scale of net funds for employment is as much as 60,400 billion yen, part of which flows back through the inter-office channel to Japan (a net balance of 17,900 billion yen at the end of 1986), while the rest is invested abroad in trade-related bills, securities and loans.

In accordance with the main characteristics of euro-finance, fund raising by overseas branches is, for the most part, in the interbank market. It is worth noting that Japanese interbank-business is lately the principal growth element in that market<sup>10)</sup>.

In the late 1970s, Fujita and Ishigaki [1982] report that more than half of the overseas fund raising by Japanese banks was concentrated in the European markets; particularly the London branches were playing the leading roles. The importance of business in London is today nearly the same, and not just confined to fund raising, but also in its employment generally on longer terms<sup>11)</sup>. At branches in New York and places other than London, the most preferred business used to be trade finance and loans to Japanese firms settled abroad. During the last decade, however, changes took place in the following ways: (i) the system of trade finance has been transformed, which influences the employment of funds raised abroad and brought back to Japan; and (ii) loans at overseas branches are no longer limited simply to Japanese firms.



Table 7 Principal Accounts of Overseas Branches

¥100 billion, year-end						
Assets						
year	Cash Deposits	Call Loans	Securities	Trade bills	Loans	Inter- office
1976	29.0	6.0	2.6	21.5	38.1	21.2
1977	39.1	9.8	2.3	21.0	42.7	13.2
1978	46.8	12.3	3.7	23.7	57.4	4.9
1979	80.2	15.8	6.1	30.7	88.7	13.4
1980	143.2	28.5	8.9	34.6	109.1	24.0
1981	212.4	37.1	13.4	38.4	146.1	23.6
1982	346.2	41.7	23.1	40.8	194.5	24.8
1983	383.3	44.4	32.7	45.0	213.9	30.6
1984	479.9	39.7	62.0	47.7	268.0	62.0
1985	498.4	36.6	90.6	45.9	282.1	96.8
1986	524.0	35.2	100.2	37.4	293.8	178.8

Liabilities					
year	Deposits CD	Borrowing etc.	Call Money	Acceptances Guarantees	Inter- office
1976	84.5	18.6	12.1	21.6	2.1
1977	94.9	19.0	11.7	22.7	1.5
1978	105.1	26.9	14.2	20.4	2.2
1979	180.1	31.3	19.5	31.4	0.4
1980	269.1	38.0	37.6	27.9	2.2
1981	368.4	47.3	50.9	35.4	2.9
1982	544.0	59.9	65.8	46.9	1.3
1983	620.2	64.1	64.1	48.5	1.8
1984	811.4	78.6	70.1	78.8	—
1985	892.7	75.0	80.1	139.9	0.6
1986	1,026.5	61.0	76.1	142.0	0.2

BOJ, *Annual Economic Statistics*, 1986

## ii) Trade finance

Since the middle of the 1970s, when Japanese exports were largely (about three quarters) settled on a sight basis, the ratio of yen denominated exports has been increasing, from less than 20% to nearly 40% in 1985. On the import side, in the 1980s the use of demand drafts has been preferred, and the share of "usance bill finance" has declined. Among the remaining "usance bill finance", the "BC usance" (bills bought at overseas branches of Japanese banks) is taking the place of the so-

called domestic loans (bills bought at domestic branches). However, the greater part of Japanese imports is financed not through usance bills, but in the form of local loans offered overseas<sup>12)</sup>.

Among the causes of these changes, the most important is the rising competitiveness of Japanese exporters, since settlements on a sight basis and denominated in yen imply that the interest costs and foreign exchange risks are shifted onto the foreign importers. On the other hand, it has caused the use of import bills to decline as domestic importers have, by way of impact loans, larger possibilities of borrowing foreign currency funds.

It is no wonder that the transformation of trade finance influences the foreign positions of forex banks. The increasing share of yen-denominated export finance is reflected in the currency composition of bills bought, while the growth of shippers' usance lowers the correlation between the total value of exports and the foreign positions of forex banks. The decline of "usance bill finance" on the import side, in particular domestic loans, reduces the amounts of import bills held at home. As is shown in Table 7, the positions of trade-related bills at overseas branches are relatively stagnant, which suggests also that loan finance is preferred to "BC usance". As the major part of trade finance is shifting away from usance bills towards impact loans or loans at the local level, the division between trade finance and other forms of financial transactions has become obscured. Currently the fund transfer from overseas is primarily a reflection of various fund demands at home.

### iii) Foreign loans

Foreign loans by Japanese banks used to be mainly offered to Japanese multinationals settled abroad for the sake of trade finance or working capitals. Compared with domestic loans, they were called "Genchi Gashi" (loans on the spot).

In the 1970s, in accordance with the development of the euro-credit market<sup>13)</sup>,

Table 8 The Outstanding Foreign Loans by Forex Banks (year-end, US \$ billion)

year	Total	Foreign currency	Yen	Short- term	Long- Medium	Home offices	Overseas branches	(Euro- yen)
1973	13.3	13.3	—	6.0	7.3			
1974	16.7	16.6	0.1	8.0	8.7			
1975	18.0	17.8	0.2	9.1	8.9			
1976	17.7	17.4	0.3	9.2	8.5	5.3	12.4	
1977	18.9	18.3	0.6	9.4	9.5	5.0	13.9	
1978	33.9	30.0	3.9	12.0	21.9	9.4	24.5	
1979	52.8	43.6	9.2	15.1	37.7	9.8	43.0	
1980	64.0	54.9	9.1	22.9	41.1	19.0	45.0	
1981	87.9	74.3	13.6	34.6	53.3	18.3	69.6	
1982	108.1	92.6	15.5	41.0	67.1	23.9	84.2	
1983	122.4	102.6	19.8	44.8	77.6	30.0	92.4	(0.08)
1984	152.0	123.0	29.0	57.6	94.4	36.0	116.0	(0.24)
1985	169.6	134.4	35.2	61.7	107.9	58.5	111.1	(0.60)
1986	226.3	169.1	57.2	74.1	152.2	67.5	158.8	(1.87)

Source: *Annual Reports of IFB*, Table 7 loans of overseas branches.

Japanese banks began to take part in medium and long-term syndicated lending. Table 8 shows the time-trend thereafter. That the amounts from 1974 until about 1977 were rather stagnant, is a reflection of the strict control by the MOF, because Japanese banks had great difficulties in raising foreign-currency funds after the first oil crisis. Since this control was relaxed in the middle of 1977, total lending has accelerated.

During this remarkable growth period, the share of yen denominated lending has increased. In particular, in the 1980s, yen-lending rose from about one-fifth of the total foreign currency lending in 1979 to one-third in 1986. This yen-lending is mainly offered in Japan, with a small amount of euro-yen lending by foreign branches from 1983 on. Dividing the amounts of the total foreign lending between the domestic offices and overseas branches, we can point out two facts; first, the far greater part has been offered by overseas branches, and second, nevertheless, the gap between them has been reduced. Since domestic offices generally offer yen-lending, their increasing share means a rise of traditional foreign loan business. However, foreign-currency lending by overseas branches still covered as much as 70% of the total by the end of 1986. According to Table 9, in the U.K., where the center of the euro-credit market is located, the share of Japanese banks has increased so rapidly since 1977, that by 1984, they ranked first among national groups.

**Table 9 International Lending\* by Banks in the UK,  
Percentage Share by Nationality Groups (year-end).**

year	UK	USA	Japan	Other foreign	Consortium
1977	23.1	34.2	11.4	25.6	5.7
1978	23.0	31.7	12.8	26.8	5.7
1979	23.0	29.0	16.2	26.7	5.1
1980	23.7	25.0	19.9	26.5	5.1
1981	23.6	22.3	22.8	27.4	3.9
1982	22.3	21.5	25.5	27.0	3.8
1983	21.8	20.9	25.2	30.0	3.2
1984	20.1	18.7	28.3	30.0	3.0

Note: \*foreign-currency lending to UK residents and non-residents, sterling lending to non-residents,

Source: BOE, *QB*. March 1982, 1985.

As for maturities, since 1978, medium- and long-term loans grew more rapidly than short-term ones. The former were more strictly controlled (new loans were in principle forbidden) by the MOF until 1977. Thereafter Japanese banks took the offensive in the syndicated loan market.

In 1980 and 1981, the historically high record of American interest rates and the political instability in Iran and Poland temporally decelerated total expansion. Since 1983, medium- and long-term foreign-currency lending has been mainly directed toward OECD countries (Table 10). Such differences in yen-lending are, however,

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not so apparent.

Last but not least, within the sphere of euro-finance directed toward developed countries, the role of host-country-banking is becoming important. In the USA, lending by Japanese banks is not confined to Japanese multinationals, but is extending to local firms. In California, for example, through the absorption of local banks, loans to American firms and consumers have increased<sup>14)</sup>.

**Table 10 Long- and Medium-term Foreign Lending (year-end, outstanding)**

Foreign-Currency (US \$ 100 million)					
	1983		1986		
	Amounts	share	Amounts	share	<u>1986</u> 1983
International Organizations	9	1.5%	14	1.5%	1.56
OECD Countries	229	39.1	422	44.5	1.84
East Europe	33	5.6	78	8.2	2.36
Latin America	218	37.2	282	29.7	1.29
Asia	73	12.5	118	12.4	1.62
Middle-near East	3	0.5	8	0.8	2.67
Africa	19	3.2	26	2.7	1.37
Others	1	0.2	1	0.1	1.00
Total	586	100.0	948	100.0	1.62

Yen (including euro-yen, ¥billion)					
	1983		1986		
	Amounts	share	Amounts	share	<u>1986</u> 1983
International Organizations	1,230	24.9	1,845	17.4	1.50
OECD Countries	1,311	26.5	4,026	37.9	3.07
East Europe	392	7.9	676	6.4	1.72
Latin America	494	10.0	1,586	14.9	3.21
Asia	625	12.6	1,931	18.2	3.08
Middle-near East	29	0.6	18	0.2	0.62
Africa	409	8.3	525	4.9	1.28
Others	1	—	13	0.1	13.00
Total	4,941	100.0	10,619	100.0	2.15

Source: *Annual Reports of IFB*.

#### iv) Securities Business

In the euro-market, where the main growth factor was syndicated loans until the outbreak of the debt problems, the securities business has, thereafter, been gaining ground. The same tendency is also not difficult to find in the case of Japanese banks.

However, since securities business by banks is strictly regulated in Japan, their participation in this business abroad is pursued by way of local securities-subidiaries in London, Switzerland etc. These subsidiaries mainly took part in foreign-bond issues by Japanese firms, under the condition imposed by "Sankyoku-Gōi" (consensus of the three MOF bureaux) that they should not be lead managers. The profitability gap between lead managers and co-managers is so great that these institutions have been striving for the lead-managers' seats in bond issues by foreign firms and public organizations. In 1986 the LTCB (Long-Term Credit Bank) International took 15th place, while the IBJ (Industrial Bank of Japan) International took 18th place in the ranking of Euro-bond lead managers<sup>15</sup>). It deserves attention that regulations by the domestic authority (MOF) had a impact on business extended to foreign customers.

The amount of portfolio investments by foreign branches is far smaller than that of loans (Table 7), because the securities business is carried out through the above-mentioned subsidiaries, but portfolio investments seem to be recently expanding through securities dealings both at home and abroad. As for foreign bond issues in Japan (Samurai- or Shōgun-bonds), Japanese banks play the role of guarantors.

#### v) Impact loans

Until 1980, only foreign banks were authorized to provide medium and long-term impact loans. Thereafter this regulation was relaxed to allow for participation by Japanese banks. Short-term loans were, on the other hand, since June 1979, open to both foreign and Japanese banks. Under the amended Forex Law, every type of impact loans is in principle "liberalized". In this way the business of impact loans is a newly established domain for Japanese banks. Nevertheless its growth is remarkable, particularly in the medium- and long-term loans formerly monopolized by foreign banks (Table 5). The borrowers extend from big firms and foreign traders to medium- and small-firms. They employ the funds thus acquired in trade finance, as working capital and in interest-arbitrage transactions.

The above surveys of recent changes in international banking suggest two elements which generally influence almost every branch of the business, namely (i) regulations (or liberalization) of financial transactions, and (ii) the relationships with customers, or more precisely, connections with Japanese firms.

Whether liberalization of financial transactions actually facilitates each international business, is not easy to answer, however. Generally speaking, deregulation of domestic financial system encourages the growth of traditional foreign finance; in fact, the share of yen-denominated trade finance and foreign loans has been rising. But, as the growth of euro-yen transactions and impact loans suggests, deregulation has also brought about those new types of euro-finance. As for the second element, connections with Japanese fund demand has been historically strong, but the developments during the last decade show that the business with non-Japanese, such as

syndicated loans and euro-bond issues, also witnessed remarkable results. We have to inquire further, as to precisely what kind of factors have enabled Japanese banks to succeed in international business, especially in business with non-Japanese; in short, what accounts for their competitiveness.

## II. A Reconsideration of the Factors Accounting for Growth

### 1. Regulations and Deregulations

As the history of American multinational banks shows, the coexistence of various kinds of regulations over domestic financial transactions on the one hand and liberal financial markets abroad on the other, tends to promote the internationalization of banking<sup>16</sup>). For Japanese banks, such a motivation as escaping from domestic regulations might be found in several cases, but it is probably not as important as for the Americans. The regulating power of domestic authorities is not confined within Japan, but extends out to the euro-markets. One example is the strict control of foreign lending by overseas branches after the first oil crisis and the consensus of the MOF three bureaux over foreign bond issues by Japanese residents. Freedom from authorities is thus limited even overseas. If domestic regulations have other stimulating effects on international banking, what kind of aspects are to be taken into account? Let us begin with reviewing the post-war system of Japanese financial regulations.

The regulations institutionalized during the reconstruction-period can be summarized as follows; (i) interest-rate regulations (Temporary Interest Rate Adjustment Law of 1947), (ii) functional specialization (the division between the securities business and banking set up by the Securities Transactions Law of 1948, and between short-term and long-term financing established by the Long-Term Banking Law of 1952), and (iii) control of international capital transactions (the Forex Law of 1949, and the Foreign Capital Transactions Law of 1950). These regulations were maintained during the high growth-period and constituted one of the peculiar institutional frameworks of that period. Later, at the beginning of the 1980s, regulation (iii) was in fact abolished, and (i) and (ii) are now on the way of being greatly relaxed<sup>17</sup>). Of the three types of regulations, (ii) is surely a factor to cause international business. Notwithstanding the consensus by the MOF three bureaux and the restrictions on the efforts of ordinary banks to raise long-term funds abroad, the regulatory control is not so rigid in the euro-market as in the domestic markets, which naturally makes potentially keen competition shift into the foreign markets. The remaining two factors, (i) and (iii), are closely interrelated, because in order to make interest rate regulation effective, domestic markets have to be separated from international influences. The "out-out" financing is in a sense a natural response from the banking side under this separation. Even in this sphere, however, Japanese banks are not wholly free from supervising "guidance" as described above.

In Japan the most prominent turning point was the amendment of the Forex Law (a switch from "embargo in principle" to "freedom in principle"). More precisely, the liberalization of international capital transfers, on the one hand, and the interest rate regulations on yen-denominated funds, on the other, both induce ex-

pansions of impact loans and foreign currency deposits. Foreign bond-issues by Japanese residents reflect the inflexibilities in the domestic primary market, such as the requirement of collateral, and limits on the amounts and maturities. Therefore, the coexistence of liberalized capital transfers and the remaining restrictions, official and unofficial, are factors to encourage international banking. In this sense, we find that the background is similar to the development of the euro-markets.

It is also true that deregulation by itself is an accelerating factor, such as the relaxation of foreign lending since 1977. The ultimate liberalization of foreign direct investment in 1972 facilitated indirectly "loans on the spot" through further multinationalization of Japanese firms.

The expansion of euro-finance, based on the restricted domestic market, might take the place of the relatively unfavorable domestic finance or the traditional foreign finance. Foreign-currency deposits, impact loans and foreign bond issues are all compensations for domestic finance in the narrow sense. The liberalization of euro-yen transactions since 1984 tends to expand the share of Japanese banks in the euro-market, on the one hand, and might hinder the growth of yen-denominated foreign finance in the domestic market, on the other hand. For example, liberated issues of euro-yen bonds surpassed that of yen-denominated foreign bonds (Samurai-bonds) which had been growing in a remarkable fashion<sup>18</sup>). However, in the case of foreign lending, which is far more important for Japanese banks, the traditional business by domestic offices has not been impaired, since the amounts of euro-yen lending are still very small. These different influences on bond-issues and lending are caused by differences in transaction costs between the domestic and euro-markets. Whether compensatory effects are actually brought about, depends therefore on many conditions.

Probably regulations have shifted the sphere of competition outwards and have promoted international business. Functional specialization and other forms of administrative "guidance" tend to restrict the possibilities of competition in domestic markets. Interest-rate regulations impose upper-limits on deposit rates, and lending rates are also regulated upwards. But the effective lending rates can be manipulated by banks as they change the proportion of the required "compensating balances" (Kōsoku Yokin). Under the functional separation which limited new entry, banks could thus maintain higher profit rates than firms in non-financial sectors during the high growth period<sup>19</sup>). With competition restricted internally, Japanese banks are apt to compete keenly for market shares abroad. With high profit rates guaranteed, they can afford to take the risk of "excessive competition" at the cost of lower profit rates overseas. This argument, which we could call the Protection-Excessive Competition Hypothesis, is logically not impossible.

In order to prove this hypothesis, however, sufficient data are not easy to find. The focus of attention is profit rates, not only of the total business, but of the domestic and international divisions respectively. Besides, if we want to make international comparisons, those profit rates data have to be extended to banks of other developed countries. This process is, according to the existing statistics, almost impossible. We discuss later the profit rates of Japanese banks (II-3). It is, however, worth referring to the fact that the gap between the profit rates of banks and non-financial firms was largest in the 1950s and 1960s. It shrank considerably smaller in

the 1970s and then reversed signs at the beginning of the 1980s<sup>20</sup>). This trend suggests that banks have had difficulties in maintaining relatively high profit rates especially in the 1970s and 1980s, when the banking business was undergoing rapid internationalization. International banking does not seem to be sustained by domestic high profits as a "safety valve".

## 2. The Relationships with Japanese firms

The earliest type of explanation concerning the multinationalization of banks is that banks establish their branches abroad in order to serve the international business of their domestic customers ("follow-the-leader")<sup>21</sup>). This argument, induced from the post-war developments of American banks, can be applied to the experiences of Japanese banks, in particular in the earlier stages of multinationalization.

"Overseas branches of Japanese financial institution tend to concentrate on the particular areas where Japanese firms are densely located, or in international finance markets where fund raising is not difficult. Consequently they compete with each other mainly for the financing of Japanese firms in those concentrated areas, often not paying enough attention to profitability<sup>22</sup>)." ."

This quotation implies that the establishment of overseas branches by Japanese banks follows the same pattern as American banks and that the competition among Japanese banks is apt to be not solely for the sake of profitability. At the beginning of internationalization, business with firms of the same nationality is usually very important. Overseas bank branches cannot easily compete with foreign banks for foreign customers; they lack both their own reputation and information concerning customers. This disadvantage is naturally far greater at the beginning of internationalization. But concerning the multinationalized domestic customers, the accumulated information on both the sides of the banks and of the firms, is large and business between them is carried out on the safe basis. If transactions are mostly limited to Japanese firms, the competition for this limited number of customers is naturally apt to be keen. But why do they not care about "profitability"? We shall try to answer this question later.

The above quoted report publishes also the results of an inquiry, asking what element is the most important in choosing between financial institutions abroad. When Japanese firms select any banks other than the specialized foreign exchange bank, the Bank of Tokyo, the most frequent answer is "the bank with the most transactions in Japan"<sup>23</sup>). This implies that the relationships developed through domestic finance play an important role even in international business, or at least to say, the firms are conscious of such relationships. It is however questionable, if so-called "main bank" relationships are in reality fixed and stable<sup>24</sup>). Particularly after the oil crises, when the non-financial sectors' demand for loans has declined, dependence on one particular financial institution seems to have become less important. Nevertheless, to change "main banks", in the case of larger city banks and the IBJ, is less frequent during the low growth period than before. This is understandable, since those banks can afford to offer many kinds of financial transactions including "financial services abroad"<sup>25</sup>).

One of the typical "financial services abroad" is foreign-bond issuance. It is quite characteristic that the "main banks" usually guarantee and that their subsidiaries



abroad underwrite, when Japanese firms issue foreign bonds<sup>26</sup>). While firms (in particular big firms) depend far less on domestic borrowing, relationships with banks have often been recently reestablished through overseas fund-raising. If the domestic “main banks” take part in the guarantee or underwriting, bond issuing costs would be, after all, reduced. Conversely the profits that those banks earn would be smaller<sup>27</sup>).

Under the circumstances that firms try to be less dependent on banks (“Ginkō-banare”), such an underselling is a natural response in order to reorganize internal relationships. Assuming that relationships organized through finance are a mutual security system, the low profit rates from internal business is compensated by “long-term and stable” connections which can be compared to a kind of insurance<sup>28</sup>). Low profitability is, however, neither confined to bond issue commissions, nor to business with Japanese firms, as is shown by foreigners’ complaints against the *modus operandi* of Japanese banks in general.

The reason, why the international business of Japanese banks has witnessed such remarkable growth, should not be attributed only to close relationships with Japanese firms. Therefore we have to examine several additional factors, not to mention low profitability.

### 3. Competitiveness and Profitability

Up to now we have not spoken of the possibility that the surplus on Japanese current accounts might cause an expansion of international banking. In view of the fact that the surplus on current accounts is a reflection of an excess in domestic saving (saving minus investments), such deposits at banks as are not employed internally, would be forced to flow outwards over the borders. If this causality exists, the growth of Japanese international banking is facilitated by the internal pressure of excess saving.

Does this kind of reasoning really hold good? First, looking at the Japanese capital accounts, we find that long-term capital flows in the opposite direction to short-term capital. In the 1980s, the net outflow of long-term capital has been increasing, while short-term capital transactions on private accounts (net foreign positions of forex banks) has been negatively growing since 1984. Second, of the long-term capital outflows, the greater part consists of trade finance and loans, and direct and portfolio investments. Japanese banks mainly undertake trade finance and loans on their own account, while recently accelerated portfolio investments are mainly promoted through life insurance companies. Third, the above mentioned two facts imply that banks have net foreign positions by “borrowing short and lending long” and that they do not passively act as agents of one-sided capital outflows<sup>29</sup>). Fourth, the international business of Japanese banks is not only composed of the “cross-boarder” transactions shown in the balance of payments statistics, the greater part is in the domain of the overseas branches, for the most part, “out-out” transactions. Thus the rapid growth of international banking should not be considered as an automatic result of the surplus on current accounts, rather, it is in fact facilitated by the active, independent efforts of banks to enlarge their business possibilities<sup>30</sup>).

Next, we shall consider the influence of currency denomination on competitiveness. As yen-denominated international finance develops, the business of Japanese

banks is surely promoted. Yen transactions, such as trade finance, have, for the most part, Japanese firms as either creditors or debtors, which naturally give Japanese banks an advantage. What kind of an advantage is there then in the case of euro-yen business with non-residents? Until the end of 1984 Japanese authorities regulated euro-yen bond issues by non-residents in such a way that the lead-managers should be Japanese securities companies<sup>31</sup>). Thereafter Japanese banks' subsidiaries abroad received equal access to this business as did their Japanese predecessors and other foreign financial institutions. In this sense at the present time, they have neither advantages nor disadvantages.

The reason why American banks have a comparative advantage in U.S. dollar business has been pointed out as follows. (i) They have far better access to domestic dollar funds. When the euro-dollar interest rate is higher than in the US markets, they have possibilities for raising cheaper funds at home. (ii) In case of financial turmoil or a liquidity crisis in the euro-dollar market, they have recourse to domestic funds, in a extreme case, they can depend on "the lender of last resort" function of the Federal Reserve Board<sup>32</sup>). Can we apply these explanations to Japanese banks?

Japanese banks have indeed easier access to domestic yen-funds, but this advantage has been largely reduced through liberalization and internationalization of the financial system, because foreign banks can either freely convert their own currency funds into yen or borrow in the euro-yen market. Besides, interest rates in Japanese domestic markets and euro-yen markets are easily equalized through arbitrage transactions. The gap in fund raising costs is, if any thing, quite small<sup>32</sup>). As for the second explanation, the access to yen-funds is not so important in the case of an international financial disturbance. The greater the difficulties are, the more preferred is the currency that is "strong in an emergency", i.e. the U.S. dollar. The above reasons do not hold good for Japanese banks. If Japanese banks perform better in euro-yen business, apart from euro-finance in general, the main reason is probably that this business is for the moment only a minor part of international finance distinct from the major areas of keen competition by foreign banks.

Whether Japanese banks receive any favorable treatment from the authorities in "in-out" and "out-in" transactions, is questionable. Dissatisfactions that foreign financial institutions are unfairly excluded from Japanese markets have been often expressed and this problem was one of the issues in the "US-Japan Yen/Dollar Committee"<sup>34</sup>). Indeed, because of a ban on trust banking and of regulations concerning yen-conversion, the business possibilities of foreign banks were limited until 1984. Since then these administrative restrictions have been to a great extent relaxed. There was also the opposite case that Japanese banks used to be of a disadvantage, as was true with the regulations concerning impact loans. Some of the disfavorable regulations toward foreign banks could have impeded their competitiveness in Japan, but this element does not seem to be of major importance. Japanese banks have better opportunities in domestic markets because the customers are, in most cases, Japanese residents.

So far we have examined several factors which might influence banking opportunities, such as the currency denomination, the location of markets, but nothing has more importance than the nationality of the customers. But as mentioned earlier, the growing part of business is with non-Japanese residents, mainly under-

taken in euro-markets. What is the basis of the competitiveness there? The possible answer would be low spreads, which have been a matter of much argument concerning Japanese international banking. No one could deny that in the 1970s this factor was one of the most prominent characteristics. However, for the past several years, according to some bankers, the profits acquired from international business have been highly appreciated in view of the general low profitability in domestic business. To our regret, the data on international business, especially its profitability, are quite unsatisfactory.

To the extent we can, we must compare profit rates in general, and not generated solely in the international division, of banks in major developed countries. In the period 1971–80, the return on equity of Japanese banks ranks between the North Americans (Canada and the USA) and the Europeans. Comparing just the largest five banks, the Japanese rate of return stands slightly lower than the Europeans (see Table 11). The next data for 1982 and 1985 (Table 12), consisting of a larger number of banks, show nearly the same result; that Japanese as well as Germans belong to the lowest rank. In spite of different periods and sample numbers, the profitability of Japanese banks seems to be on the whole low.

That the profit rate in general is low, does not always mean that international banking is pursued at the cost of low profitability. The profit share of international business for Japanese city banks is close to 20% (Table 13), still lower than in Europe, not to mention the United States<sup>35</sup>). From this profit share, we cannot exclude the possibility that extremely low domestic profits reduce the total profit rate, even though the international business is profitable enough. But this assumption is wrong. At the beginning of the 1980s, the interest rate spread (rate of return from the funds employed minus fund raising costs) was for domestic transactions slightly more than 2%, while overseas it was 0.5 ~ 0.4%, considerably lower<sup>36</sup>). This gap probably shows the difference between the more or less protected domestic markets and the freely competitive overseas markets. It must be added, however, that these spreads are not net of operating expenses (and taxes). If these costs are quite different, the gap in profit rates could be reduced or, in an extreme case, reversed. Unfortunately, we have no means to divide operating expenses between domestic and international divisions<sup>37</sup>).

If we estimate the time-trend of the profitability, we can examine some of the issues further. Profits from the international business of city banks are shown in Table 13-(1). Needless to say, these profits are on a gross basis, including operating expenses. Using the international assets of Table 3 as denominators, a time-series of profit rates is given in Table 13-(3).

Looking at these estimates, the declining tendency is apparent, except for a slight recovery in 1985. On the other hand, total profit rates (to total assets) are also declining, but staying at a higher level than the international ones. The gap between them reflects the contributions from domestic business. Why is the share of international profits increasing? The profit rate in international business being lower than the total profit rate (or that of domestic business), the growing share of international profits suggests that domestic assets have been shifted to the international division rather quickly. Figure 1 shows this relationship. As the proportion of less profitable international assets grows, the total profit rate is reduced. We have to keep in mind

Table 11 Rate of Returns on Equity (1971-1980)

Group	Number of Banks	Average	Standard Deviation
Canada	5	13.11%	1.57%
USA	{ 20	12.33	1.89
	{ 5	13.55	1.46
Europe	{ 17	9.87	2.34
	{ 5	10.43	2.47
Japan	{ 12	10.58	2.48
	{ 5	10.10	2.81

Source : Rugman, Kamath [1987], Table. 2-9.

Table 12 Rate of Returns of the Largest 500 Banks, National Averages

year	1982				1986			
	Number of banks	On Equity	On Assets	Leverage	Number of banks	On Equity	On Assets	Leverage
USA	141	12.67%	0.75%	17.80	129	11.51%	0.72%	17.25
Japan	53	6.79	0.21	37.32	71	7.70	0.22	37.63
Germany	40	6.00	0.19	35.37	42	6.70	0.26	31.41
Italy	23	6.87	0.42	22.42	35	11.88	0.74	21.81
UK	15	11.71	0.58	19.75	18	13.23	0.82	17.84
France	13	8.96	0.14	54.72	13	9.71	0.32	36.39
Switzerland	15	7.23	0.43	18.46	14	7.39	0.44	18.28

Source: *Euromoney*, June 1983, 1987.

Table 13 Gross Profit Rates of City Banks\*

year	Profits of International Business (1) ¥100 million	Share to Total Profits (2)	Profit Rates of International Business (3)	Total Profit Rates (4)	Profit Rates Gap (4) - (3)
1977	2,814	14.2%	2.09%	1.90%	△ 0.19
1978	2,848	13.4	1.76	1.86	0.10
1979	3,100	13.5	1.25	1.49	0.24
1980	3,345	14.3	1.09	1.51	0.42
1981	4,175	16.6	0.93	1.49	0.56
1982	5,307	18.2	0.93	1.46	0.53
1983	5,600	18.2	0.89	1.45	0.56
1984	6,324	20.4	0.78	1.36	0.58
1985	6,487	20.4	0.86	1.26	0.40
1986	7,327	19.4			

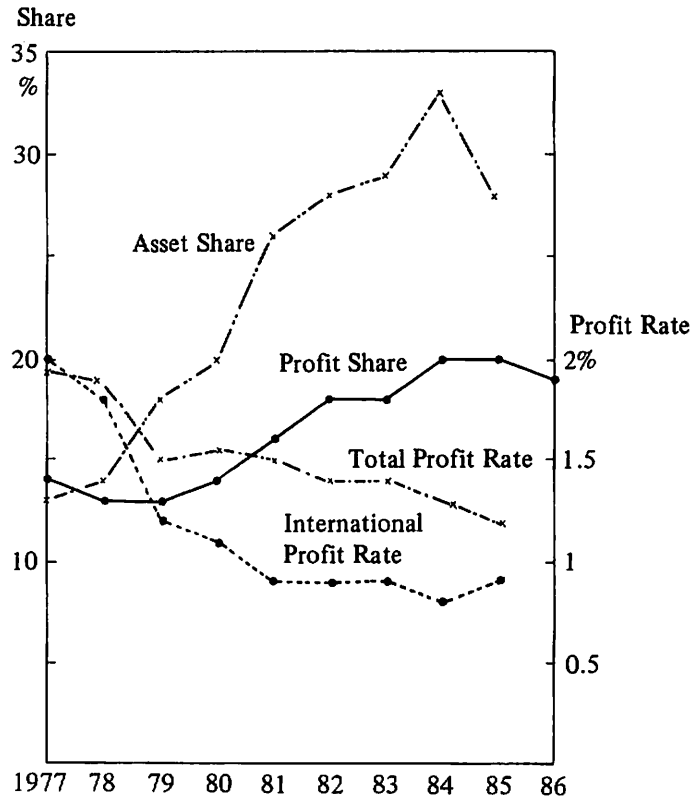
Note: \*including The Bank of Tokyo

(1), (2) *Kinyū Zaisei Jijō*, Comments on the Financial Statements of City Banks, each year.

(3) Profit Rates to Assets, (1) of this Table divided by (2) of Table 2.

(4) Gross Profits divided by Total Assets (Year Average). The original source is *The Analysis of Financial Statements*.

Figure 1. The Share of International Business, and Gross Profit Rates (City Banks)



Source: Asset share (year average) is calculated from *Analysis of Financial Statements* and Table 3.  
Other data are from Table 13.

that such a peculiar movement is found in the background of the rapid expansion of Japanese international banking. In 1985 the share of international assets declined, accompanied by a recovery of their profit rates. This might be a sign of changing business behavior. Unfortunately we are still lacking enough statistical data to indicate a new tendency.

The above reasoning on international profitability assumes that the statistical coverage of gross profits and assets are nearly the same. The data for profits are surely published, but there are still several questions on the method of estimating assets. We might say, nevertheless, that the gross profit rates are lower in international business than in the domestic sphere. The increasing proportion of international assets implies the preference for market shares rather than profitability, which has been surely the driving force of Japanese banks in the euro-markets.

## Conclusion

Reviewing the questions raised at the beginning of this paper, we summarize

the above considerations as follows.

1. Generally speaking, euro-finance by Japanese banks has been promoted by 1) the limitations of yen as an international currency and 2) inefficiency in Japanese finance- and capital markets. In the 1980s, when the liberalization and internationalization of the Japanese financial system is taking place, the growth of conventional foreign finance and euro-domestic finance is quite remarkable. These facts are, however, not peculiar to Japanese banks at all, and are commonly found in North American and European countries. One of the Japanese characteristics is the fact that the regulatory control (or guidance) by the authorities used to extend to such an extent, into euro-markets as well, that motivations to avoid administrative regulations are relatively weaker and that deregulations had greater impacts on international banking. On the other hand, the remaining regulations on domestic finance coexist with a liberal attitude toward international capital transactions, which is another factor facilitating international finance. The hypothesis that higher profits in the protected domestic market enable "excessive competition" abroad is, from the time trend, hard to support.

2. Japanese international banking has been from the very beginning of its development closely connected with the multinational activities of Japanese firms, which is common with American (and German) experiences. Because banks have better information on customers of the same nationality, the business with them is safer, and naturally more important at the initial stages. Even in recent years, banks with close domestic connections take part in foreign fund raising for the firms concerned. In this case, the profitability seems to be low. Nevertheless, low profitability is not confined to business with Japanese firms, but generally claimed to be characteristic in Japanese international business.

3. The last, and the greatest question is, what are the bases of Japanese competitiveness is? Apart from the connections with Japanese firms, there must have been an offensive strategy for market shares at the cost of profitability. This is indeed a stereotyped explanation. However, estimating the amounts of international assets and their profitability, we find such a tendency of shifting assets to less profitable international business. These results were based on gross profits estimates, including operating expenses. The comparison of net profit rates is, if possible, a matter for further examination.

#### Notes

- 1) See the following surveys; Gray and Gray [1981], Cho [1983] ch. 3, and Aliber [1984]. In Japan, Fujita et al [1982] is one of the pioneer works on this subject, while Sekishita, Tsuruta et al [1984] covers wider range from a Marxist point of view. In addition, the Korean Federation of Banks [1986], and Tachi and Rōyama [1987] give valuable information, particularly on the developments in the 1980s.
- 2) The following taxonomy is referred to by Pecchioli [1984] pp. 127-9, Goodman [1984], Teranishi [1987] pp. 176-7, and Sakakibara [1987] p. 65.

- 3) For the institutional changes, see Shiratori [1985], and various issues of MOF, *Annual Report of the International Finance Bureau*.
- 4) The Bank of England [BOE], *Quarterly Bulletin*, March 1986, p. 70.
- 5) Fukuda [1982], Fig. 2, Table 6.
- 6) In the *Analysis of Financial Statements*, the figure is stated as "foreign currency denominated positions" until the fiscal year 1983, thereafter as "international division positions". In the *Analysis* for 1984 the amount of deposits and loans in the "international division", and their growth rates from the last year are described. From this data we can estimate the figures for 1983. These estimates are exactly the same as those figures in the "foreign currency-denominated positions" announced in the *Analysis* for 1983.
- 7) The exchange rate for conversion is at the year-end basis from the BOJ, *Annual Report on Economic Statistics*.
- 8) Precisely speaking, the euro-yen transactions, included since 1983 in column of Table 4, belong to the case C or A of Table 1.
- 9) See Teranishi [1987] pp. 178-9.
- 10) BOE, *Quarterly Bulletin*, May 1987, pp. 234, 240.
- 11) Fujita and Ishigaki [1982], pp. 209-10, for the functions of overseas branches, and see also Irie [1982], and Mukai [1984]. Kinyū-Seido-Chōsakai [1984] states, "concerning the functions of overseas branches, transactions in the euro-market are so great that more than half of the overseas branches' assets is concentrated in London, where the acquired euro-funds are employed in syndicated loans etc., as well as transferred to other branches and back to Japan. Next to London, New York branches account for about a quarter of the assets abroad, more over the working profit per branch is greater in New York than in London" (p. 22).
- 12) For the current situation in trade finance, see the documents cited in Note 3), and also Okuda [1986-87], which reviews historical developments in detail. While the share of yen-denominated exports was as much as 40% in 1985, the yen-share on the import side was less than 1% in 1975, growing to about 9% by April 1986. Until 1982 "usance bill finance" covered about 80% of total imports, declining thereafter to less than 60% in 1986. The share of domestic loans in the total import usance used to be around 70% in the later 1970s, but declined to 42% in 1986. Okuda [1987] (3), *Annual Reports of IFB* various issues.
- 13) For a general survey of the euro-market. See Sekishita, Tsuruta et al [1984], ch. 6, 7, Kobayashi [1986] and Sakakibara [1987] etc.
- 14) Mukai [1984], pp. 135-7. According to Kinyū-Seido-Chōsakai [1984], "among the loans to private firms, those to non-Japanese have increased. Since the fund demand by Japanese firms [overseas] is rather weak, the most important task in expanding business is how to get foreign firms as customers. Under the circumstances, Japanese banks are striving for large-scale absorption of local banks and commercial credit companies." (p. 25).
- 15) Nihon-Keizai Shimbun (ed). [1987], p. 141ff.
- 16) Gray and Gray [1981], pp. 47-52.
- 17) For regulations and international business, see Kaizuka, Hata [1986], p. 178ff, Kaizuka and Shinohara [1987], p. 137ff.
- 18) Kaizuka, Shinohara [1987], pp. 157-8.
- 19) Horiuchi, Hamada [1984], pp. 15-6.
- 20) Horiuchi, Hamada [1984], *ibid* Table 6.
- 21) Aliber [1984], p. 664. The same tendency is also found in the case of German banks, Neumann [1986], pp. 70-1, 76.
- 22) Kinyū-Kenkyūkai [1979], p. 23. According to the interviews with city banks, the employment of short-term funds is almost limited to "financing to Japanese subsidiaries", and therefore "the inclination to excessive competition on lending rates" is easily found (*do*, p. 44).
- 23) Kinyū-Kenkyūkai, [1979], p. 257.



- 24) For skeptical view on the “main bank” conception, see, for example, Miwa [1986].
- 25) Horiuchi. Fukuda [1987], p. 10.
- 26) The Development Bank of Japan (Nippon Kaihatsu Ginkō), *Chōsa*, No. 100, Feb. 1987, p. 37. also the list of foreign bond issues, pp. 39-42.
- 27) In spite of no statistical data, several bankers affirmed this argument. The person in charge of international finance of one of the city banks told me that foreign bond issuance is a “Hara-kiri” business for his bank.
- 28) We can thus apply the idea of Nakatani [1983] to international banking. We should note, however, that according to the analysis of Uekusa [1982] pp. 283-4, banks charge higher lending rates to firms of the same finance groups, in particular to firms more dependent on them through borrowing and stock holdings. This suggests that the banks have an advantageous position, seemingly contrary to our reasoning, but not so illogical, because Uekusa’s analysis is based on data for 1961–1970, i.e. during the high growth period when financing was tight.
- 29) Teranishi [1987], pp. 172-6.
- 30) BOE, *QB* (March 1986. p. 67), reports that fund supplies from Japan to euro-finance markets have not grown as fast as her huge amount of current account surplus. On the other hand, international lending by Japanese banks is for the most part financed from the euro-interbank markets.
- 31) *Annual Report of IFB for 1987*, p. 108. For the managers’ list of euro-yen issues in 1987, see Nihonkeizai-Shimbun (ed.), [1987], p. 51, Table 13.
- 32) Goodman [1984], pp. 682-3.
- 33) For the equalization of euro-yen and Japanese domestic interest rates, see for example Frankel [1984], pp. 22-3. Aliber [1984] emphasizes that the differences in fund raising costs are at the basis of the different competitiveness in international banking. However, through the internationalization of finance, this factor is, if any thing, becoming less important.
- 34) Frankel [1984], pp. 45-7.
- 35) At the end of the 1970s, 10 major American banks gained nearly one-half of the total profits from international divisions, 3 major German commercial banks about one third, and 4 major British commercial banks also one-third. Kinyū-Kenkyūkai [1979], p. 258.
- 36) Fukuda [1982], Table 6. From this same material, Itō [1983] poses a question about the future of Japanese international banking.
- 37) While operating expenses of overseas branches surely belong to international business, those of the domestic offices are very difficult to divide between the international and domestic business, because these two are recently interrelated part of the same organization.

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