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Internationalization of Japanese Banking;  
Factors Affecting its Rapid Growth

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## Introduction

Since 1970s economic conflicts between Japan and foreign countries has been discussed in many ways. Recently the modus operandi of Japanese firms is one of the focuses of attention; Japanese are striving not so much for profits as for market share (smaller profits, greater sales), behaviour as a group within and among firms, 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 take care of such an argument that Japanese economic system is different from that of other industrialized countries.

In the field of finance and banking, where internationalization and deregulations are main slogans toward reforms in 1980s, we find similar phenomena like Banzai- or Harakiri-loans, Yūshi-keiretsu (business groups organized through bank finance), systematic protections and regulations compared to ships with a convoy fleet. How influential are these factors in the international business, how do they affect its rapid growth? These questions are the starting point of this research. However, the actual state of being, including fundamental statistical data, is not easy to grasp, although international banking is currently a popular theme of discussion. Besides, in order to point out "Japanese" characteristics, we have to compare internationally the financial systems and their historical developments, which requires further investigations. Therefore, the main purpose of this paper is to make clear the present situations as much as possible, referring to the studies on the "multinational banks" or "internationalization of finance".<sup>(1)</sup> In chapter I, the several estimates of international assets owned by Japanese banks, and changing patterns of each

business are reviewed. In chapter II, factors of rapid growth are further examined.

(1) See the following surveys ; Gray and Gray (1981), Cho [1983] ch.3, 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. Korean Federation of Banks(1986), Tachi and Rōyama (eds) (1987) give valuable informations, particularly on the developments in 1980s.

## I. Recent Developments

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

#### i) Taxonomy

What kind of business have been the driving forces in the case of Japanese banks, is there any changing pattern of developments? Let's begin with defining the sphere of international banking.

The conventional taxonomy of international finance in Japan is 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). In fact it corresponds to the regulatory considerations of the balance of payments, but does not wholly take into account of the recent developments in banking, in particular those effects caused by diversified transaction currencies.

Generally speaking, we can separate three elements which distinguish domestic banking from international one ; 1) the nationality of banks (the location of main offices, supervising authorities), 2) the location of customers (borrowers, depositors), 3) the transaction currency<sub>(1)</sub> (See Tab.1). So long as this paper is concerned with those banks whose main offices are located in Japan and supervised by MOF (Ministry of Finance) and BOJ (Bank of Japan), there remain two elements, each having two possibilities ; therefore four kinds of business branches. According to traditional way of thinking, if customers are non-residents, it is international business, if customers residents, then domestic one. But recent reforms in the financial system made such a grouping out of date, particularly domestic business has witnessed a dramatic change.

When customers are Japanese-residents with Yen as a transaction currency (Case A), this business is confined to ordinary domestic one until

1984, when euro-yen transactions with residents was largely liberalized. In case of foreign currency transactions with residents (Case B), it is called euro-domestic banking, which has been remarkably stimulated by the amendment of the Forex Law at the end of 1980. Impact loans and foreign bond issues are internationalization of domestic fund raising, on the other hand foreign currency-deposits are also included in the Case B. Although any transactions with non-residents belong to international banking, some comments seem to be necessary. In the case C, denominated in Yen, it usually means traditional foreign finance, while euro-Yen lending by foreign branches of Japanese banks consists part of this case. The foreign business in foreign currencies (Case D) is euro-banking, part of which belongs to host-country banking, where the business is transacted in 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 partly Case A. That the division of banking between domestic and international is thus complicated and that each branch is interwoven with one another, is caused mainly by the institutional reforms in 1980 and 1984.

#### ii) Estimates of foreign assets

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

#### a) BIS data

BIS (Bank for International Settlements) announces annually 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 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 to their host-countries respectively. Defined as external claims, internal assets denominated in foreign currencies (euro-domestic finance) are excluded from them. In spite of these limitations, Tab.2 shows the growth of Japanese share in the global total. But these figures are far smaller than the actual weight, since another estimates report that at the end of September 1985, the share of Japanese banks extends to more than a quarter of the total international assets booked by BIS-area banks. (2)

#### b) International positions of city banks

The second source of information is "Analysis of Financial Statements of all Banks" published semiannually by 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 total positions themselves are excluded from announcement, while the amounts of lending, deposits both on the assets side and the liabilities side are described. If we know the total positions in a certain year, multiplying them with the published growth rates, the time series estimate will be available. Fortunately, for fiscal years 1980 and 1981, an officer of MOF stated to the public the actual amount of foreign currency fund raising and employment. (3) The figures for lending and deposits stated by him are quite the same as 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 identified. It is true that these two are conceptionally different, but looking at both figures, we are allowed to treat them equally.<sup>(4)</sup> The series listed in Tab.3 show therefore the scale of international banking carried out by Japanese city banks. Converted into U.S. Dollars, they are far greater than external positions of Japanese banks in Tab.2, although it is uncertain whether these estimates in Tab.3 include those assets held by foreign branches and "impact loans".

### c) Teranishi-estimates

The third estimates can be acquired in such a way as collecting figures for each element of international banking and then aggregating them. This method is undertaken by Teranishi [1986], the result of which is shown with supplements in Tab.4. (1) and (2) in Tab.4 correspond to case C in Tab.1, (3) + (4) + (5) + (6) in Tab.4 to case D in Tab.1, respectively. The euro-domestic finance is represented by impact loans in Tab.5.

We should take care that most of the original data are summarized as forex banks, which include Japanese branches of foreign banks and that these series are overestimated to that extent. However, these statistics have greater advantage than disadvantage of overestimation, because they enable us to trace the relative importance of each business category.

Let's take a view of Tab. 6, which is summarized from Tab.4 and 5. Among the four categories, from A to D, the domestic finance in a narrow sense (A) has been the largest, while declined to less than 60% in 1986. The remaining over 40% consists of the international finance in a 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 been remarkably growing recently. (8)

The fact that the euro-foreign finance has occupied the major part of international banking, is brought about by several factors ; in particular (1) Yen has a disadvantage compared with foreign currencies, especially U.S.Dollars, (ii) Japanese finance and capital markets are lacking of enough flexibilities in their institutional frameworks and transaction practices. Taking into account that the internationally wide use of yen depends on the condition of the Japanese financial system, for example the possibility of short-term fund investment, the second factor is more important than the first.

The growth rates in Tab.6 show that the euro-foreign finance grew more rapidly in 1970s than in 1980s, when the financial deregulations are taking place in a large scale. Does it mean that reforms in domestic financial system cause growth of the euro-foreign finance to slow down? However, the declining growth rate is also found in the column of traditional foreign finance. The general deceleration of foreign finance through banks might be simply explained by the diminishing effect of the later stage, but also influenced by the accumulated debts in the developing countries.

## 2. Changing Patterns of business

### i) The functions of overseas branches

The comparison between the euro-finance and the traditional foreign finance leads to the question, how the network of overseas branches work. In general those branches perform double functions ; the euro-finance at the local level and fund raising for the sake of domestic offices. The accounts in Tab.7 show the flow of funds as follows. "Cash and Deposits with others" on the assets side are, in spite of remarkable growth in 1980s, still far



smaller than "Deposits and CD" on the liabilities side, thus leaving out 50,300 billion Yen. The balance of call funds shows net borrowing of ca.4,100 billion Yen. Aggregating them with "Borrowed Money", the scale of net fund for employment is as much as 60,400 billion Yen, part of which flows back through inter-office channel to Japan, showing net balance 17,900 billion Yen at the end of 1986, the rest is invested abroad in trade-related bills, securities and loans.

In accordance with the main characteristics of the euro-finance, fund raising by overseas branches is for the most part in the inter-bank market. It is worth noting that Japanese interbank-business is lately the principal growth element in that market. (9)

In the late 1970s, reports Fujita and Ishigaki [1982], more than half of overseas fund raising by Japanese banks is concentrated in the European markets, particularly the London branches were playing the leading roles. The importance of business in London is still today nearly the same, not confined to fund raising but also in its employment generally on longer terms. (10) At branches in New York and any other places than London, the most preferred business used to be the 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. (ii) loans at overseas branches are not limited to Japanese firms any more.

#### ii) Trade finance

Since the middle of 1970s, when Japanese exports were largely, around three quarters, settled at 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 1980s the use of demand drafts has been preferred, and the

share of usance finance has declined ; among the remaining usance 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 import is financed not through usance bills, but in the form of local loans overseas. (11)

Among causes of these changes, the most important is the rising competitiveness of Japanese exporters, since settlements at sight basis and Yen-denomination imply that interest costs and forex risks are shifted onto the foreign importers. On the other hand, it caused the use of import usance-finance decline that domestic importers have got, 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 make a lower correlation between the total value of exports and the foreign positions of forex banks. The decline of usance finance on the import side, in particular domestic loans, reduce the amounts of import bills held at home. As is shown in Tab.7, the positions of trade-related bills at overseas branches are relatively under stagnation, which suggests that also abroad loan finance is preferred to BC usance. As the major part the trade finance is shifting away from usance bills towards impact loans or loans at local level, the deviation between trade finance and other forms of financial transactions has got obscured, the fund transfer from overseas is currently 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 1970s, in accordance with the development of euro-credit market<sup>(12)</sup>, Japanese banks began to take part in the medium and long-term syndicated lending. Tab.8 shows the time-trend thereafter. That the amounts from 1974 until about 1977 are rather stagnant, is a reflection of the strict control by MOF, because Japanese banks had great difficulties to raise foreign-currency funds after the first oil crisis. Since this control relaxed from the middle of 1977, the total lending has been accelerated.

During this remarkable growth period, the share of Yen denomination has increased, in particular in the 1980s, from about one fifth of 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. Deviding the amounts between the domestic offices and overseas branches, we can point out several facts ; firstly, the far greater part is offered by overseas branches, secondly, the gap between them has been reduced. Since domestic offices generally offer Yen-lending, their increasing share means nothing but a rise of traditional foreign loan business. However, foreign-currency lending by overseas branches covers still as much as 70% at the end of 1986. According to Tab.9, in U.K, where the center of euro-credit market is located, the share of Japanese banks has increased so rapidly since 1977 that by 1984 they ranked first in national groups.

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 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 rate and the political instability in Iran and Poland temporally decelerated total expansion. It is worth noting that notwithstanding the Mexican accumulated debts, the amount of lending was not reduced in 1982, while the relative weight of loans to developing countries seem to get decreased. Since 1983, the medium- and long-term foreign-currency lending has been mainly directed toward OECD countries (Tab.10-A). Such differences in Yen-lending are not so clear.

Last but not least, within the sphere of euro-finance toward developed countries, the role of host-country-banking is becoming important. In USA lending by Japanese banks is not confined to Japanese multinationals, but extending to local firms. In California, for example, through the absorption of local banks, loans to American firms and consumers have increased. (13)

#### iv) Security Business

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

However, since security business by banks is strictly regulated in Japan, their participation in this business abroad is pursued by way of local security-subsidiaries 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 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 lead-managers' seats in bond issues by foreign firms and public organizations. In 1986 LTCB (Long-Term Credit Bank) International took the place of the 15th, IBJ (Industrial Bank of Japan) International the 18th in the ranking of Euro-bond lead managers. (14) It deserves attention that such a regulation by the domestic authority had an impact to extend business with foreign customers.

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

#### **v) impact loans**

Medium- and long-term impact loans are authorized only to foreign banks until 1980, when this regulation was relaxed for the sake of Japanese banks. Short-term loans are, on the other hand, allowed since June 1979 to both foreign and Japanese banks. Under the amended Forex Law, every type of impact loans is in principle liberated. In this way the business of impact loans is a newly established domain for Japanese banks. Nevertheless its growth is remarkable, particularly in medium- and long-term loans formerly monopolized by foreign banks (Tab.5). The borrowers extend from big firms, foreign traders to medium- and small-firms. They employ funds thus acquired in trade finance, working capitals and interest-arbitrage transactions.

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

Whether liberalization of financial transactions actually facilitates each international business, is not easy to answer, however. Generally speaking, deregulations of domestic financial system encourage the growth of traditional foreign finance ; in fact, the share of yen-denomination in trade finance and foreign loans has been rising. But, as the growth of euro-yen transactions and impact loans suggests, deregulations have 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, witnessed also remarkable results. We have to inquire further, what kind of factors enable Japanese banks to succeed in international business, especially in those business with non-Japanese ; in short, what their competitiveness is.

(1) The following taxonomy is referred to Pecchioli [1984] pp.127-9, Goodman [1984], Teranishi [1987] pp.176-7, Sakakibara [1987] p.65.

(2) For the institutional changes, see Shiratori [1985], various issues of MOF, Annual Report of the International Finance Bureau.

(3) Bank of England, Quarterly Bulletin, March 1986. p.70.

(4) Fukuda [1982], Fig.2, Tab.6.

(5) 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 amounts of deposits and loans in "international division", and their growth rates from the last year are described. From these 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.

(6) The exchange rate for conversion is at the year-end basis from BOJ, Annual Report on Economic Statistics.

(7) Precisely speaking, the euro-yen transactions, included since 1983 in the column 4) of Tab.4, belong to the case C or A of Tab.1.

(8) See Teranishi [1987] pp.178-9.

(9) BOE, Quarterly Bulletin, May 1987, pp.234, 240.

(10) Fujita and Ishigaki [1982], pp.209-10, for the functions of overseas branches, see also Irie [1982], Mukai [1984]. Kin̄yū-Seido-Chōsakai [1984] states, "concerning the functions of overseas branches, transactions in the euro-market are so great that more than half of overseas branches' assets is concentrated in London, where acquired euro-funds are employed in syndicated loans etc., also transferred to other branches and back to Japan. Next to London, New York branches account for about a quarter of the assets abroad, the working profit per a branch is greater in New York than in London"(p.22)

(11) For the current situations of trade finance, see the documents cited at Note (2), and also Okuda [1986-87], which reviews historical developments in detail. While the share of yen-denominated exports is as much as 40% in 1985, yen-share on the import side was less than 1% in 1975, but reached about 9% in April 1986. Until 1982 usance-finance covered 80% of the 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 42% in 1986. Okuda [1987](3), "Annual Reports of IFB" various issues.

(12) For the general survey of the euro-market, Sekishita, Tsuruta et al [1984], ch.6,7, Kobayashi [1986], Sakakibara [1987] etc.

(13) 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 of Japanese firms [overseas] is rather weak, the most important task of 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)

(14) Nihon-Keizai Shimbun (ed). [1987], p.141ff.



## II. Factors of Growth reconsidered

### 1. Regulations and Deregulations

As the history of American multinational banks shows, the coexistence of various kinds of regulations over the domestic financial transactions on the one hand and the liberal financial markets abroad on the other, tends to cause internationalization of banking.<sup>(1)</sup> As for Japanese banks, such a motivation as escaping from domestic regulations might be found in several cases, but probably not so important as Americans. The regulating power of authorities is not confined within Japan, but extends out to euro-markets, such as strict control of foreign lending by overseas branches after the first oil crisis and consensus of the MOF three bureaux over foreign bond issues by Japanese residents. The freedom from authorities is thus limited. If domestic regulations have any other stimulating effect toward international banking, what kind of aspect has to be taken into account? Let's begin with reviewing the post-war regulation system of Japanese finance.

The regulations institutionalized mainly during the reconstruction-period can be summarized as follows ; (i) interest-rate regulations (Temporary Interest Rate Adjustment Law of 1947), (ii) functional specialization (division between security business and banking by the Security Transactions Law of 1948, between short-term and long-term financing by the Long-Term Banking Law of 1952), (iii) control of international capital transactions (Forex Law of 1949, Foreign Capital Transactions Law of 1950). They were maintained during the high growth-period and constituted one of the peculiar institutional frameworks of that period ; but later, around the turn from 1970s to 80s, the regulation (iii) was in fact abolished, (i),(ii) are now on the way of being largely

relaxed. (2) Of the three types of regulations, (ii) is surely a factor to inspire international business. Notwithstanding the consensus by the MOF three bureaux and the restrictions for ordinary banks to raise long-term funds abroad, the regulatory control toward specialization is not so rigid in the euro-market as in the domestic markets, which naturally makes the potentially keen competition shift into the foreign markets. The remaining two, (i) and (iii), are closely interrelated, because in order to make interest rate regulation effective, domestic markets have to be separated from the 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 Forex Law (a switch from "embargo in principle" to "freedom in principle"). More precisely to say, liberalization of international capital transfers, on the one hand, and the interest rate regulation on yen-denominated funds, on the other, are both to induce expansions of impact loans and foreign currency deposits. Foreign bond-issues by Japanese residents are reflecting the inflexibilities in the domestic primary market, such as requirement of collateral, the limits as to amounts and maturities. Therefore, the coexistence of liberalized capital transfers and the remaining restrictions, official and unofficial, is the factor to inspire international banking. In this sense, we find the similar backgrounds as in the development of the euro-markets.

It is also true that deregulation by itself is an accelerating factor, such as 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 the domestic finance in a 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 suddenly surpassed that of yen-denominated foreign bonds (Samurai-bonds) which had been on the way of satisfactory growth<sup>(3)</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 domestic and euro-markets. Whether compensatory effects are actually resulted, depends therefore on many other conditions.

Possibly regulations might shift the sphere of competition outwards and promote international business. Functional specialization and other forms of administrative "guidance" tend to restrict the possibilities of competition in domestic markets. Indeed interest-rate regulations impose upper-limits on deposit rates, lending rates are also regulated upwards, but the effective lending rates can be manipulated by banks, changing the proportion of required "compensating balances" (Kōsoku Yokin). Banks could thus maintain higher profit rates than firms in non-financial sectors during the high growth period<sup>(4)</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 way of argument, if called Protection-Excessive Competition Hypothesis, is logical not impossible.

In order to prove this hypothesis, enough data are not easy to find. The focus of attention is profit rates, not only of the total business, but of domestic and international divisions respectively. Besides, if we want to compare internationally, 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-iii). It is, however, worth referring to the fact that the gap of profit rates between banks and non-financial firms is the largest in 1950s and 1960s, getting smaller in 1970s and then reversed at the beginning of 1980s<sup>(5)</sup>. This trend suggests that banks have had difficulties to maintain the relatively higher profit rates as the time comes down, especially in 1970s and 1980s, when the banking business is changing itself rapidly toward internationalization. International banking does not seem to be sustained by domestic high profits as a "safety valve".

## 2. Relationship 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>(6)</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 the international finance markets where fund raising is not

difficult. Consequently they compete with each other mainly for the finance to Japanese firms in those concentrated areas, often not paying enough attention to profitability." (7)

This quotation implies that establishments of overseas branches by Japanese banks follow the same pattern as Americans and that the competition among Japanese banks is apt to be not for the sake of profitability. At the beginning of internationalization those business with firms of the same nationality is usually very important. To compete with foreign banks for foreign customers, they are lacking of their own popularity and informations concerning customers, this disadvantage is naturally far greater at the beginning. As for the multinationalized domestic customers, the accumulated information of both sides, banks and firms, are numerous and the business between them is carried out on the safer basis. If transactions are almost limited to Japanese firms, the competition striving for limited number of customers is naturally apt to be keener. But why do they not take care of the "profitability"? We shall try to answer this question later.

The above document reports the results of an inquiry, asking what element is most important to choose financial institution abroad. When Japanese firms select any other banks than the specialized forex bank (Bank of Tokyo), the most frequent answer is "the bank with the most transactions in Japan" (8), which implies the relationship through domestic finance plays an important role even in international business, or at least to say, the firms are conscious of such relationships. It is indeed questionable if so called "main banks" - banks of the best connections - relationships are in reality fixed and stable (9). Particularly after the oil crises, when the non-financial sectors demand less loans, dependence on a certain financial institution seems to be less important. Nevertheless to change "main banks",

in the case of larger city banks and 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" (10).

One of the typical "financial services abroad" is foreign-bond issue business. It is quite characteristic that the "main banks" usually guarantee and their subsidiaries abroad underwrite when Japanese firms issue foreign bonds (11). While firms (in particular big firms) depend far less on domestic borrowing, relationships with banks are recently reestablished through overseas fund-raising. If domestic "main banks" take part in guarantee or underwriting, bond issue costs would be after all reduced, conversely profits those banks earn would be smaller (12).

Under the tendency of getting away from banks ("Ginkō-banare"), such an underselling is a natural response in order to reorganize the internal relationships. Assuming that relationships organized through finance be a mutual security system, the low profit rates from internal business is a compensation for "long-term and stable" transactions, compared to a kind of insurance (13). Low profitability is, however, neither confined to bond issue commissions, nor to business with Japanese firms, as is shown by the foreigners' complaints against the modus operandi of Japanese banks in general.

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

### 3. Competitiveness and Profitability

Up to here we do not speak of the possibility that the surplus on Japanese current accounts might cause to expand the international banking. In view of the fact that surplus on current accounts is a reflection of the domestic over-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 over-saving.

Does this kind of reasoning really hold good? Firstly, looking at the Japanese capital accounts, long-term capital flows in the opposite direction of short-term capital. In 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. Secondly, of the long-term capital outflows, the greater part consists in trade finance and loans, direct and portfolio investments. Japanese banks undertake mainly trade finance and loans on their own account, while recently accelerated portfolio investments are mainly promoted through life insurance companies. Thirdly, the above mentioned two facts imply that banks have net foreign positions of "borrowing short and lending long" and that they do not passively act as agents of one-sided capital outflows<sup>(14)</sup>. Fourthly, the international business of Japanese banks is not only composed of "cross-boarder" transactions shown in the balance of payments statistics, the greater part is in the domain of 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, that is in fact facilitated by active, independent efforts of banks to enlarge their business possibilities.

Next, we shall consider the influence of denominating currency on the competitiveness. As the yen denominated international finance grows up, the business of Japanese banks is surely promoted. The yen transactions, such as trade finance, have, for the most part, Japanese firms as either creditors or debtors, which give naturally 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 authority regulated euro-yen bond issues by non-residents in such a way that the lead-managers should be Japanese security companies<sup>(16)</sup>, and thereafter Japanese banks' subsidiaries abroad have got equal access to this business as their Japanese predecessors and other foreign financial institutions. In this sense they have neither advantages nor disadvantages.

The reason why American banks have comparative advantages in U.S. dollar business have 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 US markets, they have possibilities to raise cheaper funds at home. (ii) in case of financial turmoil or 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>(17)</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 financial system, because foreign banks can either convert freely their own currency funds into yen or borrow in the euro-yen market. Besides, interest rates in Japanese domestic market and euro-yen market are easily equalized through arbitrage transactions. The gap in fund raising costs is, if any at all, quite small<sup>(18)</sup>. As for the second



explanation, the access to yen-funds is not so important in case of international financial disturbance. The greater the difficulties are, the more preferred is the currency "strong in emergency", i.e. U.S. dollar. The above reasons do not hold good for Japanese banks. Nevertheless, if they keep better performance in euro-yen business, apart from euro-finance in general, the main reason is probably that this business is for the moment of only a minor part of international finance and away from keen competition of foreign major banks.

Whether Japanese banks receive any favourable treatment from 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>(19)</sup>. Indeed, because of a ban on trust banking and regulations of 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 an opposite case that Japanese banks used to be disfavoured, as is shown by impact loans. Some of the disfavourable regulations toward foreign banks could have impeded their competitiveness in Japan, but this element does not seem to be of the major importance. Japanese banks have better opportunities in domestic markets because the customers are, in most cases, Japanese residents.

So far, examined several factors which might influence banking opportunities, such as denominating currency, the location of markets, nothing can affect more than the nationality of customers. But as mentioned earlier, the growing part of business is with non-Japanese residents, mainly undertaken in the euro-markets. What is the basis of the competitiveness there? The possible answer would be low spreads, which have been a matter

of argument concerning Japanese international banking. No one could deny that in 1970s this factor was one of the most prominent characteristics, while for the past several years, according to some of the bankers, profits acquired from international business have been highly appreciated in view of the domestic low profitability. To our regret, the data of international business, especially its profitability are quite unsatisfactory.

First, we compare profit rates in general, not international division specified, of banks in major developed countries. In the period of 1971-80, the return on equity of Japanese banks ranks between North Americans (Canada and USA) and Europeans, comparing the larger five banks, Japanese rate of return stands slightly lower than Europeans (see Tab.11). The next data for 1982 and 1985 (Tab.12), consisting of 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 number of samples, profitability of Japanese banks seems to be on the whole low.

That the profit rate in general is low, does not always mean the international banking is pursued at the cost of low profitability. The profit share of international business is for Japanese city banks coming close to 20% (Tab.13), still lower than European, not to mention American, major banks.<sup>(20)</sup> From this profit share, we cannot exclude such a possibility that extremely low domestic profits reduce total profit rate, even though international business is profitable enough. But this assumption is wrong. At the beginning of 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 0.5 ~ 0.4%, considerably lower<sup>(21)</sup>. This gap probably shows differences between more or less protected domestic markets and the overseas markets of free competition. It must be added, however, that these spreads are not net of

operating expenses (and taxes). If these costs are largely different, the gap in profit rates could be reduced or, in an extreme case, reversed. Nevertheless, we have no means to divide operating expenses between domestic and international divisions<sup>(22)</sup>.

If we estimate the time-trend of the profitability, such an argument as the international profits are recently seriously considered, can be examined. Profits from international business of city banks are shown in Tab.13-(1). Needless to say, these profits are on the gross basis, including operating expenses. Using international assets of Tab.3 as denominators, the time-series of profit rates is given in Tab.13-(3).

Looking at these estimates, the declining tendency is apparent, except a slight recovery in 1985. On the other hand, the whole profit rates (to total assets) are indeed also declining, but staying at a higher level than international ones. The gap between them reflects contributions from domestic business. Why is the share of international profits increasing? The profit rate of international business being low than the whole profit rate (or that of domestic business), the growing share of international profits suggests that domestic assets have been shifted to international division far more quickly. Figure 1 shows this relationship quite evidently. As the proportion of less profitable international assets growing, the whole profit rate is reduced. We have to keep in mind that such a peculiar movement is found at the background of the rapid expansion of Japanese international banking. In 1985, however, the share of international assets declined, accompanied by recovery of their profit rates. This might be a sign of changing business behaviour. Unfortunately we are still lacking of enough statistical data to indicate a new tendency.

The above reasoning on the international profitability assumes the statistical coverage of gross profits and assets being nearly the same. The

data for profits are surely published, while there can be still several questions on the method of estimating assets. We might say, nevertheless, the gross profit rates are lower in international business than 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.

(1) Gray and Gray [1981], pp.47-52.

(2) For regulations and international business, Kaizuka, Hata [1986], p.178ff, Kaizuka, Shinohara [1987], p.137ff.

(3) Kaizuka, Shinohara [1987], p.157-8.

(4) Horiuchi, Hamada [1984], pp.15-6.

(5) Horiuchi, Hamada [1984], ibid Tab.6

(6) Aliber [1984], p.664. The same tendency is also found in the case of German banks, Neumann [1986], pp.70-1, 76.

(7) 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).

(8) Kinyū-Kenkyūkai, [1979], p.257.

(9) For the skeptical opinions on the "main bank" conception, see for example Miwa [1986].

(10) Horiuchi. Fukuda [1987], p.10.

(11) Development Bank of Japan (Nippon Kaihatsu Ginkō), "Chōsa", No.100, Feb.1987, p.37, also the list of foreign bond issues, pp.39-42.

(12) In spite of no statistical data, several bankers affirmed this argument. The person in charge of international finance of a city bank told me that foreign bond issue is a "Harakiri" business for his bank.

(13) We can thus apply the idea of Nakatani [1983] to international banking. 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 advantageous positions of banks, seemingly contrary to our reasoning, but not so illogical, because this analysis is based on the data of 1961-1970, i.e. during the high growth period.

(14) Teranishi [1987], pp.172-6.

(15) BOE. QB (March 1986. p.67), reports that fund supplies from Japan to euro-finance markets have not grown so much as her huge amount of current account surplus. On the other hand, the international lending by Japanese banks is for the most part financed from the euro-inter-bank markets.

(16) 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, Tab.13.

(17) Goodman [1984], pp.682-3.

(18) 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 of fund raising costs are at the basis of competitiveness in international banking. However, through the internationalization of finance, this factor is, if any at all, of less importance.

(19) Frankel [1984], pp.45-7.

(20) At the end of 1970s, 10 major American banks acquire nearly half of the total profits from international divisions, 3 major German commercial banks about one third, 4 major British commercial banks also one third. Kinyū-Kenkyūkai [1979], p.258.

(21) Fukuda [1982], Tab.6. From this same material, Itō [1983] poses a question about the future of Japanese international banking.

(22) While operating expenses of overseas branches surely belong to international business, those of domestic offices are very difficult to divide between international and domestic business, because these two are recently interdependent in the same organizations.

### 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 have been promoted by 1) the limitations of Yen as an international currency and 2) inefficiency of Japanese finance- and capital markets, while in 1980s, when liberalization and internationalization of Japanese financial system is taking place, the growth of the conventional foreign finance and euro-domestic finance is quite remarkable. These facts are, however, not peculiar to Japanese banks at all, commonly found in American and European countries. More or less Japanese characteristic 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, remaining regulations on domestic finance coexisted with liberal attitude toward international capital transactions, which is another factor to facilitate international finance. The hypothesis that higher profits in the protected domestic market enable "excessive competitions" abroad is, from the time trend, hard to support.

2. 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 informations on the customers of the same nationality, the business with them is safer, and naturally more important at the initial stages. Even of recent years, the banks with close domestic connections take part in the foreign fund raising of the firms concerned. In this case, the profitability seems to be low. Nevertheless, low profitability is not confined to the business with Japanese firms, but generally claimed to be characteristic in Japanese international business.

3. The last, and the greatest question is, what 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. Nevertheless, estimating the amounts of international assets and their profitability, we find such a tendency as shifting assets to less profitable international business. This estimate is based on the gross profits, including operating expenses. The comparison of net profit rates is, if possible, to be further examined.

(Dec. 28, 1987)

Tab.1 Taxonomy of banking

		customers	
		residents	non-residents
currency	yen	A	C
	fireign 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.



Tab.2 Gross external assets of banks

year	US \$ billion				
	Grand Total		Japan	Share to Grand Total	
	(a)	(b)		(a)	(b)
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	1000	34	3.8	3.4
79	1111	1246	45	4.1	3.6
80	1322	1497	66	5.0	4.4
81	1542	1781	85	5.5	4.8
82	1687	1943	91	5.4	4.7
83	1754	2024	109	6.2	5.4
84		2153	127		5.9
85		2513	195		7.8

Source: Pecchioli [1983], BIS, Annual Reports

Note: a)excluding non-reporting banks in the off-shore centers

b)including banks mentioned above.

Tab.3 Estimate of International Assets (City Banks)

year	Growth Rate(1)	International Assets ¥ 100 million	US\$(3) 100 million
1976		141895	461
1977	I Δ2.0	134329	436
	II Δ3.4		
1978	I 1.0	161993	692
	II 19.4		
1979	I 19.0	247904	1203
	II 28.6		
1980	I 5.7	306842(2)	1268
	II 17.1		
1981	40.5	450361(2)	2145
1982	26.2	568356	2439
1983	10.7	629170	2655
1984	29.1	812258	3516
1985	Δ6.8	757025	2980

(1) Federation of Bankers Associations, Annalysis of Financial Statemnts of All Banks,

(2) Fukuda [1982]

(3) converted by the year-end exchange rate

year	long, medium-term lending		short-term assets		assets overseas branches <sup>5)</sup>	Securities <sup>6)</sup>	Total
	yen <sup>1)</sup>	other <sup>2)</sup>	in Japan yen <sup>3)</sup>	other <sup>4)</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,

Tab.5 Outstanding Amounts of Impact Loans US \$ 100 million

year	Amounts <sub>1)</sub>			Share of Japanese banks <sub>2)</sub>		Amounts of Japanese banks <sub>3)</sub>		
	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	1193.6	71.7	91.2	713.9	180.4	894.3

Source: Annual Reports of IFB.

Note: 2) flow basis, 3) = 1)×2)÷100

Tab.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)	inter- national business B) ~ D)	euro finance B) + D)	
	1976	340	—	2	47	388	49	47
Amounts	1980	600	11	13	180	804	204	191
	1986	1243	119	121	724	2207	964	843
	1976	87.6	—	0.5	12.1	100.0	12.6	12.1
Share	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
Rates	1980 -1986	12.9	48.7	45.0	26.1	18.3	29.5	28.1
	1976 -1986	13.8	—	50.7	31.5	19.0	34.7	33.5

Source: Teranishi [1986], Tab.5 etc.,

Tab.7 Principal Accounts of overseas branches

¥100 billion, year-end

year	<u>Assets</u>					
	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

year	<u>Liabilities</u>				
	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	1026.5	61.0	76.1	142.0	0.2

BOJ. Annual Economic Statistics, 1986

Tab.8 The outstanding foreign loans by forex banks (year-end, US\$ billion)

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

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



Tab.9 International lending\* by banks in UK,  
percentage share of 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.

## Foreign-Currency (US\$ 100 million)

	1983		1986		$\frac{1986}{1983}$
	Amounts	share	Amounts	share	
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		$\frac{1986}{1983}$
	Amounts	share	Amounts	share	
International Organizations	1230	24.9	1845	17.4	1.50
OECD Countries	1311	26.5	4026	37.9	3.07
East Europe	392	7.9	676	6.4	1.72
Latin America	494	10.0	1586	14.9	3.21
Asia	625	12.6	1931	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	4941	100.0	10619	100.0	2.15

Tab.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], Tab.2-9.

Tab.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	.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
Switzer- land	15	7.23	0.43	18.46	14	7.39	0.44	18.28

Source : Euromoney, June 1983, 1987.

Tab.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	2814	14.2%	2.09%	1.90%	Δ0.19
1978	2848	13.4	1.76	1.86	0.10
1979	3100	13.5	1.25	1.49	0.24
1980	3345	14.3	1.09	1.51	0.42
1981	4175	16.6	0.93	1.49	0.56
1982	5307	18.2	0.93	1.46	0.53
1983	5600	18.2	0.89	1.45	0.56
1984	6324	20.4	0.78	1.36	0.58
1985	6487	20.4	0.86	1.26	0.40
1986	7327	19.4			

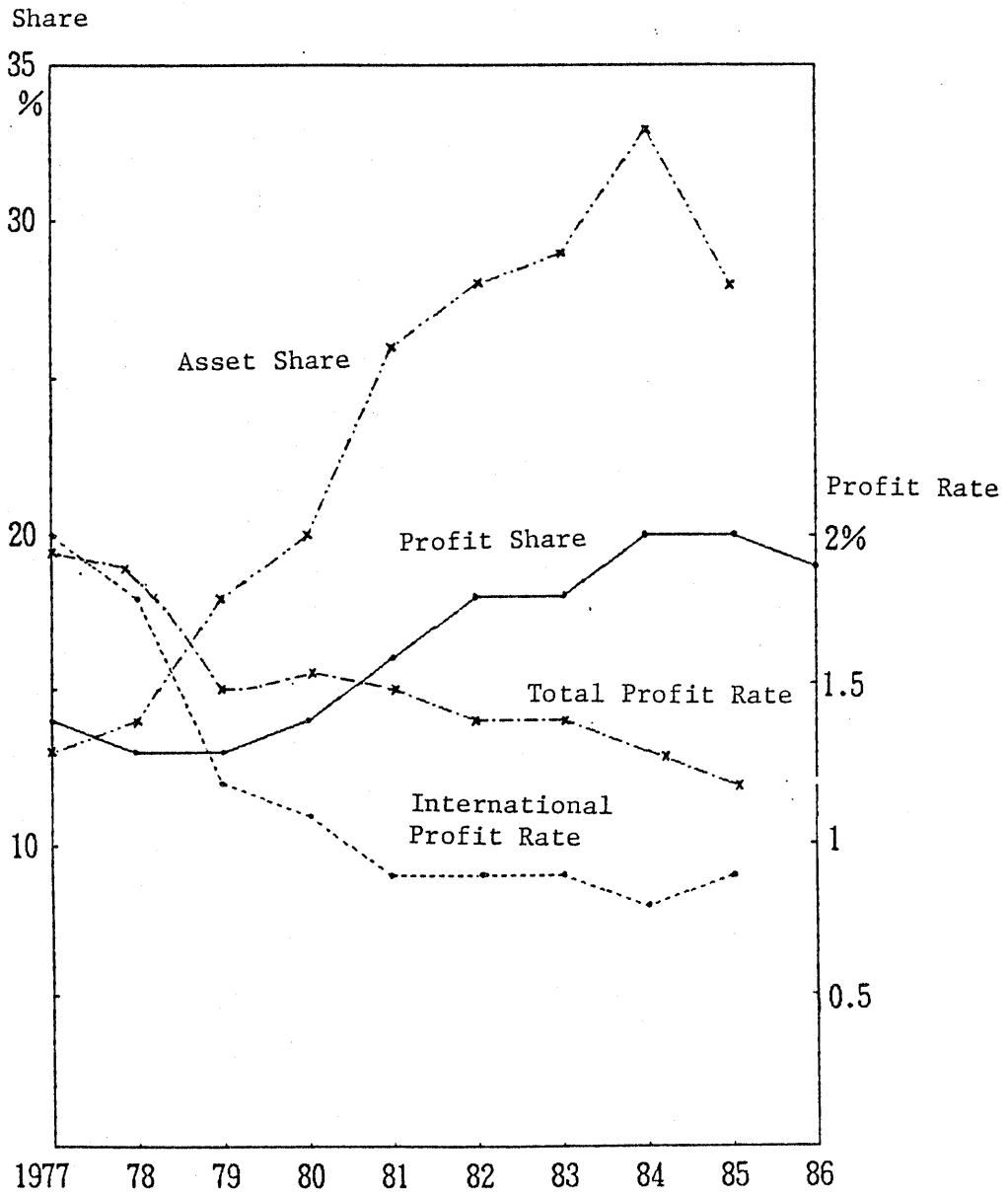
Note : \*including Bank of Tokyo

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

(3) Profit Rates to Assets, (1) of this Tab. divided by (2) of Tab.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 Tab. 3. Other Data are from Tab. 13.

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