

IBJ, Fuji, and DKB to Join Forces — Foreign Acquisitions by Japanese Banks Will Now Be Possible

By Sakamoto Sakae

In late August, the Industrial Bank of Japan, Fuji Bank, and Dai-Ichi Kangyo Bank announced an agreement to consolidate the three banks' operations in the fall of 2000 on an equal basis under a holding company, and in the spring of 2002 reorganize themselves as "legally separated subsidiaries for customer segments and functions." As the *de facto* merger of the three major banks will create a financial institution with the largest assets in the world it was reported with great enthusiasm by the Japanese media, and it was also welcomed by the stock market.

Just one-and-a-half years have passed since the establishment of holding companies by Japanese corporations was permitted, and the unification of the three banks is *de facto* the first effective use of the holding company framework for a large scale consolidation. As both Japanese and foreign experts have continued to say that "Japanese banks lack international competitiveness" in the last few years, the heads of the three banks apparently have nationalistic feelings about the consolidation.

The Nikkei (Nihon Keizai Shimbun) reported the Industrial Bank of Japan President, Nishimura Masao, as saying at a press conference, "Unfortunately Japanese banks lack the ability to negotiate with foreign banks on an equal footing. If they tie-up with foreign banks, what ultimately happens is that they have their customer base taken from them or are acquired by their partner. By becoming stronger through the consolidation of our three banks, we ourselves hope to have the capability to acquire foreign banks in the future."

Fuji Bank's President, Yamamoto Yoshiro, said, "The further

strengthening of the territory controlled by foreign banks is against the national interest. There is a need for us to create a bank to represent Japan. The national interest should be to benefit the Japanese economy."

Making Full Use of Holding Companies

The purpose of mentioning the national interest is probably to emphasize the importance of the consolidation of the banks in order to have it highly evaluated by both domestic and overseas markets. It also seems to imply their hope that the consolidation will be a chance for Japanese financial institutions, that had been dominant 10-odd years ago, to rebel against the world.

After WWII, Japan's military groupings and "zaibatsu" (industrial conglomerates) — the pillar of support for Japan's war effort — were dismantled by the war's victors, the U.S., Britain and their allies. Owing to the Korean War, and the Cold War after it, the revival of Japan's military was allowed, as the Self-Defense Force, but that of holding companies was not permitted until the end of 1997, as they had performed the essential functions of the zaibatsu. The "victors of WWII" might have taken into consideration that disallowing holding companies in Japan would be an advantage for them, since they were a source of efficiency for the European and American corporate systems.

Some years ago, when the Japan Federation of Economic Organizations (Keidanren) was studying the revival of holding companies, I discussed the possibility of their revival with a business executive who had previously been a senior bureaucrat. In his opinion, "revival would be difficult because the U.S. would be

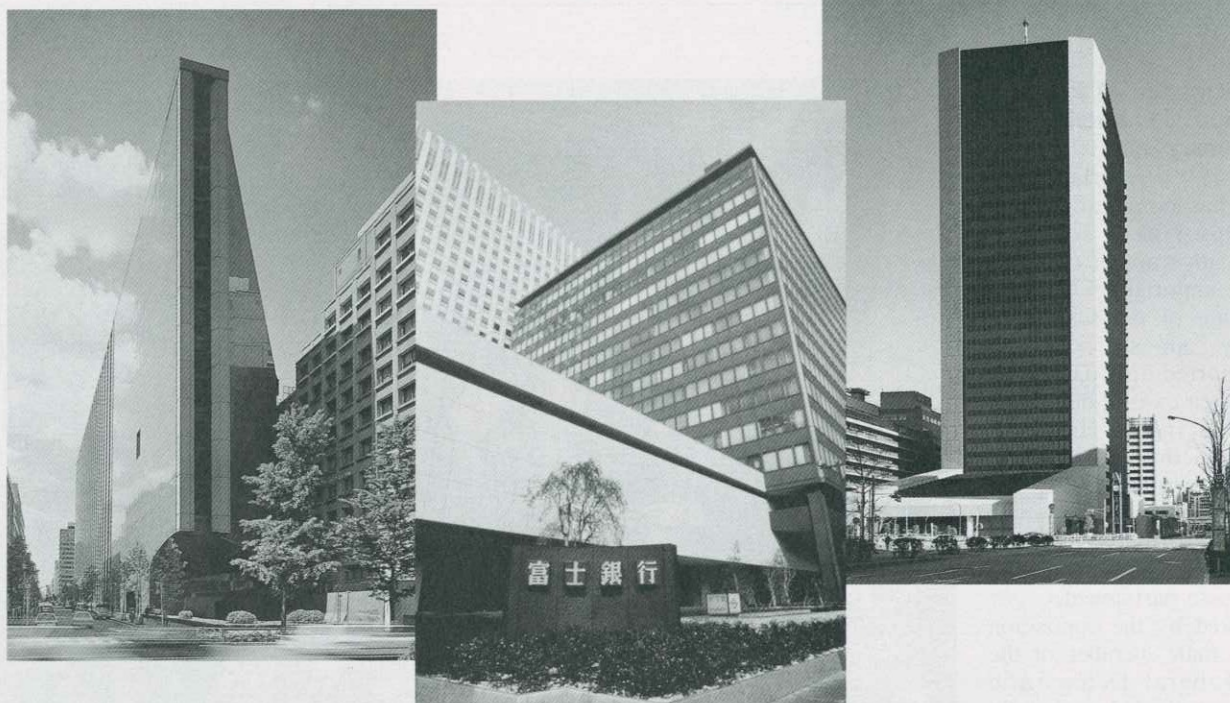
against it." He added, "the 'post-war' of our corporate system will not come to an end so easily."

Contrary to expectation, holding companies were revived relatively easily thanks to the active support of Keidanren's efforts by MITI and the National Diet. The "victors of WWII" felt that the debilitation of Japanese corporations and banks due to the collapse of the economic bubble might bring crisis to the global economy. So the ban on holding companies was lifted to bring Japanese corporations in line with global standards as it was thought that this would help to solve their problems.

As mentioned earlier, the unification of the Industrial Bank of Japan, Fuji Bank, and Dai-Ichi Kangyo Bank will be the first full use of the holding company framework in a *de facto* consolidation. If the ban on holding companies had not been lifted, the idea of such an alliance between these three very traditional banks and their reorganization into legally separated subsidiaries specializing in retail banking, wholesale banking, and investment banking, along with massive restructuring, would probably not have been conceived. In the near future, as life insurance companies (most are currently mutual companies) will also convert to joint stock companies, the value placed on holding companies will steadily increase.

"Post-war" of Currency Diplomacy Now Over

At the beginning of July, by coincidence, there was a change in the star players of the U.S. and Japanese currency authorities at the same time. In the U.S., Treasury Secretary Robert Rubin resigned and Deputy Treasury Secretary Lawrence



The consolidation of three major banks has been announced — The Industrial Bank of Japan, Ltd., The Fuji Bank, Ltd. and The Dai-Ichi Kangyo Bank, Ltd. (in order from the left)

Summers took over as Secretary while in Japan, Sakakibara Eisuke resigned from his post as Vice-Finance Minister for International Affairs and was succeeded by International Finance Bureau chief, Kuroda Haruhiko.

Sakakibara is well known for his nationalistic statements and has been called “the mold-breaking bureaucrat” or “unique bureaucrat.” In his four years as Director General of the International Finance Bureau and Vice-Finance Minister for International Affairs, he has manipulated currency markets in a rather bold manner.

When the dollar was in the ¥80 range, he intervened by selling yen which forced the rate back to ¥100 and when the dollar was at the ¥140 level, bought yen to bring the rate to

¥110, and just before his retirement, bought in excess of \$20 billion to bring down the yen. Although we could say that this was a timely means of achieving policy objectives (for instance, this summer’s attempted encouragement of a weaker yen was to ensure that Japan’s economy stayed on track as it is now showing signs of recovery), but such an aggressive stance is unique. He would even win George Soros to his side (the way of selling and buying currencies), if he sees it worthwhile to ensure his market intervention. Such extraordinary strategy certainly transcends that of a normal bureaucrat.

In his book, Sakakibara adopts a critical tone in referring to the increasingly global and virtual nature of financial business in our present

age, calling it the “information industry” and saying that the adoption of an American-style financial system as a global standard is “capitalistic fundamentalism.” This criticism of the U.S.-centered financial system and the Asian Financial Initiative (“Miyazawa Initiative”) he has proposed may have irritated the U.S. but his nationalistic statements have a lot of support in Japan. We could say that the “post-war” era of currency diplomacy has now come to an end.

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