Corporate Distress and Restructuring of Banking and Corporate Sector in Japan

Naoyuki Yoshino, Keio University
Tatsuya Kanai, Vice-Director of Financial Research and Training Center
(FSA, Japanese Government)

This paper studies the Japanese Economic Distress since 1990 when the Asset price bubble burst. Japanese banks faced with NPLs and corporate sector accumulated debt hangover. The paper summarizes all the progress in bank restructuring, corporate restructuring. Financial Services Agency (FSA) is monitoring banks and decides bank closures and the Deposit Insurance Corporation (DIC) takes part in the closing process of banking sector. Industrial Revitalization Corporation of Japan was established in April 2003 so as to revitalize weak corporations. The paper examines the cases of Corporate revitalization process in Japan. At the same time, various mechanisms were introduced so as to supply funds to SME sectors in Japan. The paper will address the new scheme of Japanese SME finance.

<1> A brief review of Japanese FSA policies as an introduction

the tough economic and financial environment of Japan since the beginning of the 1990s, the center of policies of the Japanese Financial Services Agency, in a way, has been changing. Since April of 2001, "simultaneous revitalization industry and financial system has been most emphasized.

(a) Essential safety nets such as the Deposit Insurance System has been amended steadily since 1970s.
1971 Establishment of the Deposit Insurance
Method of assistance: only actual insurance payment after closure of the financial institution
1986 amendment to enable financial assistance without actual closure.
July 1991 the first case the Deposit
Dec. 1994 A new financial institution to take over failed financial institution created
June 1995 amendment blanket guarantee of all deposits until March 2001
Feb. 1998 The Resolution and Collection Bank
(b) The Ministry of Finance is conceived to have been preoccupied with troubled financial institutions before the transition to the Financial Services Agency, however, a basic supervisory principle used by the FSA was actually issued by the MOF April 1998 Introduction of the Prompt Corrective Action (i.e. early warning system)

(c) At the start of the new Financial Services Agency on June 22, 1998, the first emphasis was to create a new financial supervisory system.

Statement by the Commissioner at the start of the FSA
"Change its way of administration from ex-ante guidance to ex-poste surveillance;  
1. Establishment of fair and transparent financial supervision  
2. Strict and effective inspection and enhance monitoring  
3. Close cooperation with financial supervisors overseas  
4. Continuous improvement in its expertise and maintenance of high morale  
5. Program to strengthen staffs for inspection, surveillance, and supervision

(d) The Financial Services Agency in the first few years was devoted to dealing with bankrupt financial institutions and injecting capital to viable financial institutions.

November 1998 Temporary nationalization of Nippon Credit Bank  
March 1999 Capital injection of ¥7.1 trillion to city banks  
September 1999 Capital injection of ¥260 billion to regional banks

(d) In the Emergency Economic Measures issued on April 6, 2001, "simultaneous resolution of the non-performing loans of financial institutions and excess corporate debts" was placed as the central challenge.

April 2001 Emergency Economic Measures  
(Revitalization of financial system and industry)  
1. Removal of non-performing loans from the B/S  
2. Promotion of corporate restructuring  
3. Debt forgiveness  
4. Market for debts

(e) Finally, in the Program for Financial Revival issued on October 30 under Minister Takenaka, "New framework for corporate revival" became one of the three pillars together with Framework for a new financial system" and "Framework for the new financial administration."

October 30, 2002 Program for financial revival

(i) Corporate revival through "special support"  
a. Promoting removal of loans from balance sheets  
b. Utilization of self-assessments as reference information in judging fair value  
c. Credit guarantee system for DIP finance

(ii) Further utilization of the Resolution and Collection Corporation and corporate revival  
a. Strengthening corporate revival function
b. Enhancing the cooperation with corporate reconstruction funds
c. Developing a market for loans
d. Enhancement of the securitization function

(iii) Developing favorable environments for corporate revival
a. Developing favorable environment for supporting corporate revival
b. Responding to excess-supply problem
c. Developing guidelines on prompt business revival
d. Measures to deal with the stock price volatility risk
e. Expectation of further monetary easing

(iv) New framework for corporate and industrial revival

<2>. (A personal view) Role of existing of financing structure needs to be examined, although there is no doubt that the financing structure contributed to Japanese growth in the past.

(1) Financial structure
   Predominance of financing through banks
   Role of banks in corporate governance
   Complex co-financing structure of main, semi, and other banks
   Memories of Jusen problem in 1993
   Banks dealing with both retail and industry clients

(2) Collection of collaterals
   Real estate market relatively well-developed
   Emphasis on collection

(3) Elements specific to Japan
   Co-financing
   Industrial Revitalization Corporation of Japan, Resolution and Collection
Corporation
   Financing to small and medium sized industries
   Industrial revitalization and industry as a whole / industrial sector

<3>. Recent Economic Recess in Japan

It is often argued that Japan needs to implement aggressive structural reforms to achieve a sustainable and robust economic recovery. The line of argument typically begins by observing that Japan's absolute productivity is very low and stagnant and that many Japanese industries, such as domestic manufacturing and services (e.g., food processing, real estate, and distribution), are either tightly regulated or highly subsidized. Drastic deregulation and reduction of subsidies are usually recommended to stimulate these sectors. Alternatively, analysts advocate improving consumer and business confidence by reducing the budget deficit and strengthening the balance sheet of the private sector. These assertions and strategies appear to be plausible but they are often not supported by empirical data. Some case studies have been conducted at a microeconomic level (Sakakibara 2000), but few analyses have been framed in a macroeconomic context that
addresses the effectiveness of fiscal or monetary policies. Paul Krugman's macroeconomic analysis suggests that the Japanese economy is caught in a liquidity trap that renders monetary policy ineffective (Krugman 0000) [authors: please provide relevant reference to Krugman's work]. In this paper we present empirical evidence to argue that a major reason for the ineffectiveness of recent Japanese monetary policy is not the liquidity trap but the interest insensitivity of investment during a recession. In addition, we claim that the effectiveness of Japanese fiscal policy has dramatically declined as a result of politically motivated regional misallocation of public investment. One indication of this misallocation is that the public investment multiplier has decreased sharply from around 2.5 to about 1 percent in recent years (Yoshino, Kaji, and Kameda 1998).

Several factors account for why the Japanese economy has remained in recession for more than 10 years. Banks still dominate Japanese financial markets: they receive approximately 60 percent of total individual savings. Because of the continuous pressure from nonperforming loans (NPLs) on banks' balance sheets, bank lending has continued to decline significantly, despite a loose monetary policy. Although banks have traditionally been quite conservative, the degree of risk aversion by banks has apparently increased after the banking crisis, and this trend has pushed the LM curve to the left. Thus, although there has been some positive shift of the IS curve to the right as a result of an increase in public works, the decline in bank credit has continued to exert a downward pressure on private investment. Furthermore, many manufacturing industries have moved their production overseas (this includes relocation to other Asian countries), which has reduced Japanese domestic production. Finally, domestically oriented industries, such as the agricultural, construction, service, and banking sectors, are not competitive internationally.

The following remedies would be likely to lead to a recovery of the Japanese economy. (1) The construction of infrastructure should be focused much more on productive regions. (2) The usual ex ante overestimation by public officials of the usage of infrastructure, such as the number of passengers that will use an airport or the number of cars that will travel over a bridge or road, should be brought under control. The methods used for such estimations, as well as the government's response to the results of these estimations, should be disclosed to the public. (3) Politicians should abandon the Keynesian fiscal policy of the last 10 years, which has more than doubled the ratio of government debt to GDP in 10 years (from 60 percent in 1991 to 120 percent in 2001). A large proportion of government bonds are held by banks and the post office. Because banks do not want to increase their NPLs, they prefer to hold government bonds, which crowd out loans to the private sector. (4) Domestically oriented sectors such as construction, services, and banking must work hard to make themselves internationally competitive and should prepare themselves to conduct their business overseas if necessary. In short, they should pursue strategies similar to those adopted by the strong Japanese manufacturing industries during Japan's high growth period.
A brief history of the Japanese economy

The following four important reforms to the Japanese economy were undertaken right after World War II. They were implemented without causing social unrest and created the basis for the success of the Japanese economy after 1955.

(i). Land reform. The land of large-scale farmers was distributed to small farmers.
(ii). Education reform. Basic education was compulsory for all children.
(iii). Wage reform. A minimum wage rate for workers was set up.
(iv). Abolition of large conglomerates. (zaibatsu).

Table 1 displays some basic economic performance data for Japan from 1955 to 2000. The Japanese economy grew very rapidly from 1956 to 1970. The average real growth rate was about 10 percent [table 1, column (6)] until the Japanese economy was hit by the Nixon shock in 1971. The exchange rate had been pegged to the U.S. dollar until 1970 at 360 yen/dollar, and the Nixon shock forced the yen to appreciate against the U.S. dollar. The Japanese government and the central bank were concerned that the drop in Japan's exports resulting from the yen's appreciation would cause a contraction of the Japanese economy. Expansionary fiscal policy and a loose monetary policy were implemented, and the growth rate of the money supply went up 24 percent in 1971 and continued to be high until 1974 [table 1, column (4)].

The first oil crisis hit Japan in 1973, when the growth rate of the money supply was very high. The result was an unprecedented high inflation rate in 1973 and 1974 [table 1, columns (1) and (2)]. Both the wholesale price index (WPI) and the consumer price index (CPI) increased by approximately 20 percent in each year. At the same time, the contractionary supply-side effects of the sharp oil price increase caused real GDP to shrink half a percent in 1974. The growth rates of high-powered money and the money supply in 1974 were 27 percent and 23 percent, respectively, despite the high inflation rates, because the central bank sought to offset the fall in output [table 1, columns (3) and (4)]. After the first oil crisis, various measures were implemented to save energy, and expansionary fiscal policies were undertaken.

The second oil crisis hit Japan in 1979. However, as a result of the energy-saving investments by Japanese companies, the impact of the oil shock on the real economy was much less severe than that of the 1973-74 oil crisis. This time, monetary policy was not loosened aggressively to counteract the contractionary effects of the oil shock. The growth rate of the money supply was about 11.8 percent in both 1979 and 1980 compared with 11.4 percent in 1978. Although the Japanese yen appreciated continuously since 1971, Japanese exports continued to grow because of the success of the manufacturing industries in improving the quality of their products and cutting production costs. The Plaza Accord in September 1985 forced Japan to increase imports to reduce its balance of payments surplus. Loose monetary and fiscal policies were implemented. The discount rate fell to 2.5 percent in 1987 and 1988 [table 1, column (12)], and the growth
rate of high-powered money was between 10 and 11 percent in the 1988-90 period. The inflation rate remained low [table 1, columns (1) and (2)], mainly as a result of the large appreciation of the yen, which lowered the yen prices on non-oil imports and kept the yen price of oil imports relatively stable. However, the Nikkei 225 Stock Average [table 1, column (8)] went up to 34,967 yen (yearly average) in 1989, which was more than three times greater than the stock price in 1984 (11,060 yen). The land price index also went up more than three times between 1984 and 1990, from 32 to 103 [table 1, column (9)].

The period of high stock prices and high land prices in Japan was known as the "bubble economy." Because private banks used land as collateral, the higher land prices raised the collateral value, and loans were expanded to real estate firms, construction companies, and non-bank finance companies. When large corporations started to raise funds from the capital market and from overseas, long-term credit banks (including Nippon Credit Bank and the Long-Term Credit Bank) and trust banks lost many customers, and these banks responded by increasing loans to nontraditional customers such as real estate firms, construction companies and non-bank finance companies.

A tight monetary policy and credit regulation were introduced in 1989, raising the discount rate from 2.5 percent in 1988 to 6 percent in 1990. The amount of bank loans to real estate, construction, and non-bank finance companies was restricted. No measures were taken, however, to address the problem of overdue loans.

While it is widely recognized that Japan's rapid economic success was partly a result of the Japanese management system and corporate employment practices, it is less recognized that Japan's financial system was also a key factor. The principal features of the financial system were a high level of household saving; market segmentation by function, maturity, region, and source of funding; the predominance of indirect finance and the main bank system; and a wide range of government-guided mechanisms to allocate savings and investment. These government-guided mechanisms included the direct control of over 30 percent of savings deposits through the postal savings system, regulatory controls, non-market-determined interest rates [rates were determined by the Ministry of Finance (MOF)], branch licensing (by the MOF), administrative guidance (by various ministries), window guidance (by the Bank of Japan), and, until 1980, restrictions on capital inflows and outflows. The bursting of the bubble economy at the end of the 1980s has led even the most staunch supporters of the system to have doubts about its viability in today's global marketplace. Recent economic data support a skeptical view: for example, in 1999 and 2000 the unemployment rate went up to about 5 percent [column (12)], and the nominal growth rate became negative [column (5)].

<5> Reasons for Japan’s current stagnant economy

The sudden imposition of a tight monetary policy in 1990 pushed land and stock prices down about one-third from their peak level. The annual real growth rate of the economy was below 2 percent for most of the 1990s. The unemployment rate went up to almost 5 percent in 1999 and 2000 [table 1, column (12)] and is expected to rise much more. Paul Krugman argues that Japan is currently in a liquidity trap, a situation in which monetary policy is ineffective in lowering interest rates [authors: please provide Krugman citation].
However, our econometric investigation indicates that the problems of the Japanese economy stem from other sources. We will state our diagnosis here and then substantiate it in the sections that follow.

We begin by making two observations about private investment behavior in Japan. First, land price is an important determinant of private investment, especially from 1985 to 1998, because it serves as collateral for bank loans. This is why Yoshino, Kaji, and Kameda (1988, appendix table BB) find that the coefficient of land in the investment equation has a t-value of 3.24. Second, private investment in Japan will not increase when the interest rate is lowered. Yoshino, Kaji, and Kameda (1998, table BB) find that interest rate sensitivity for investment is now zero. Private investment displays this unconventional behavior because of uncertainty about the future and the excess capacity created in the late 1980s.

The post-1992 decline in land price has shifted the IS curve to the left, as shown in figure 1. In such circumstances, because monetary policy is ineffective, fiscal policy should be used to shift the IS curve back to the right so that the economy can recover. However, the dilemma is that despite the huge increase in government investment, the IS curve has not shifted enough to the right.

Public investment has produced low stimulative effects on GNP because it has been distributed ineffectively. The bulk of public investment has been increasingly concentrated in the countryside, and the facts are that the impact of public investment on rural areas is much smaller than the impact on urban areas, and public investment in the agricultural sector has been much less effective than public investment in the industrial and service sectors (more details are given in section 4). The result of this increasing rural and agricultural bias in the allocation of public investment is that the multiplier of public investment has declined sharply from about 2.5 to only about 1 in recent times (Yoshino, Kaji, and Kameda 1998). This means that such public investment only increases budget deficits; it cannot bring about a recovery of the Japanese economy.

Several other factors have contributed to the current stagnant economy:

(i). The level of consumption has decreased. The fall of the propensity to consume has been mainly a result of workers' concerns about possible layoffs. In addition, the fall of asset prices lowered consumption, including that of the corporate sector, because of the wealth effect.

(ii). There is a credit crunch because banks have been less willing to make investment loans for several reasons. Falling land prices have made private banks reluctant to grant loans because of the anticipated fall in the value of collateral. The prudential measures introduced in 1998 for tougher bank examination, as well as the higher capital requirements, forced banks to reduce the number of loans they made. The growing proportion of nonperforming loans in the banks' loan portfolios have caused the banks to
reduce their loans to build up their loss provisions. The failures of several large financial institutions have also reduced the availability of loans.

(iii). Capital flows have become more interest-rate sensitive. The lower interest rate in Japan has encouraged outflow of financial investment to the United States and other countries.

(iv). Effects of public investment in infrastructure on regional productivity

<Insert Figure 2 near here>

[authors: please elaborate on how the data for fig. 2 were obtained. Sources used? Define the time period? Should the y axis be labeled "marginal productivity"? Should we re-label the first, second, and third industries as agricultural sector, industrial sector, and service sector, respectively? Or OK as is?)]

Figure 2 (from Yoshino and Nakahigashi 1999) reports the marginal productivity of public investment in the agricultural, industrial, and service sectors in each region of Japan. The following conclusions can be drawn.

(i). For a given region, the marginal productivity of infrastructure investment in the agricultural sector is smaller than the marginal productivity of infrastructure investment in the industrial and service sectors. The marginal productivity includes both the direct production effects caused by the additional infrastructure investment, and the indirect production effects from the increases in private investment and private employment stimulated by the additional infrastructure investment.

(ii). For seven out of eleven regions, the service sector has the highest return to infrastructure investment.

(iii). The output effects of infrastructure investment in the industrial and service sectors are highest in the South Kanto region (where Tokyo is located), the Tokai region (between Tokyo and Osaka), and the Kinki region (where Osaka is located).

(iv). Regional variations in the marginal productivity of infrastructure investment in the service sector are relatively small. The reason may be that infrastructure investment in the populated areas in each region accelerates private investment and private employment in these areas.

These results suggest that infrastructure investment should be concentrated in the service and industrial sectors of the South Kanto region, the Tokai region, and the Kinki region. However, we see the opposite trend to this optimal allocation in Japan. The results of this misallocation are seen in the decline in the returns to public and private investment over time, as reported in table 2. The marginal productivity of public capital was high during the high growth period (1955-69) and increasingly low from 1970 onward. It is likely that the misallocation of public capital helped lower the rate of return to private capital as well, because public investments are not removing the infrastructure bottlenecks that are lowering the rate of return to private investment.
<6>. Government investments in various sectors and the impact on welfare

Table 3 reports regressions to explain government investment in agriculture, government investment in land conservation, government investment in industrial infrastructure, and changes in the standard of living. The explanatory variables in all cases are prefectural income per capita (Yp), the size of prefecture per capita (Sp), and the number of lower house representatives per capita (Rp). Dummy 1 is the dummy variable for Tokyo, and Dummy 2 is the dummy variable for Okinawa. Government investments in agriculture, land conservation, and industrial infrastructure are strongly correlated with the number of lower house representatives per capita in a given prefecture (i.e., more political power led to more public investment). On the other hand, the improvement of living standards has a negative correlation with political power in Japanese prefectures. Political power may seem to bring rents to a prefecture but it does not improve the average standard of living in the prefecture!

We think that the preceding unexpected finding that rent inflows do not improve general welfare is the result of the rents not going to the average rural resident. Our explanation is that most of the rents from the public investments channeled by the political process go to the rural construction companies and not to the rural residents. This explanation is consistent with a recent survey that reports construction industries in rural areas to be much less depressed than those in urban areas. This survey further supports our finding that Japanese public investment is not correlated with productivity.

<7>. Nonperforming loans and the Japanese financial sector

Table 4 lists the allocation of household financial assets in Japan, the United States, Germany, and France. Japanese households hold an unusually high proportion of their financial wealth in cash and bank deposits. In 1986, Japanese households held 63 percent of their wealth in this form compared with 26 percent for households in the United States, 55 percent in Germany, and 52 percent in France. This gap among these countries widened over time because Japanese households continued to hold almost the same proportion in cash and bank deposits (62 percent in 1997), while households in the other developed economies diversified out of this asset (16 percent in the United States, 40 percent in Germany, and 34 percent in France). The result is that Japanese households hold only a very small share of their financial wealth in securities, stocks, and mutual funds. The 1997 share of these assets was 12 percent for Japan, 52 percent for the United States, 40 percent for Germany, and 60 percent for France.
Why do Japanese households have such different asset preferences? Table 5 reports a survey of the factors that Japanese households consider important when choosing financial institutions. The overwhelmingly important consideration is location and convenience, which means that banks and post offices are favored because they are located near residences or workplaces. Furthermore, because the interest rates on small denomination time deposits and ordinary deposits were regulated until 1993 and 1994, respectively, most Japanese selected their banks for their convenient location rather than according to the interest rate they pay.

Table 6 reports regression results on the allocation of financial wealth between deposits in postal savings banks and deposits in private banks. The regressions confirm that convenience, as proxied by the ratio of the number of branches of both types of institutions, consistently has a t-value that exceeds 11. They also confirm that households are sensitive to differences in yields, especially the urban households in the 1990s.

Presently, despite the government’s guarantee of monetary deposits, the fragility of financial institutions has become an important concern. Three main factors have contributed to their fragility (Cargill, Hutchison, and Ito 2000).

(i). The monetary policy of the late 1980s. The switch of many large corporations from borrowing from the banks to raising funds from the capital market prompted the banks to greatly expand their loans to real estate firms, construction companies, and non-bank financial institutions.

(ii). Japanese banks were competing among themselves for market share rather than focusing on profitability, hence they did not pay much attention to the possibility of future losses.

(iii). Because bank managers strongly believed that land prices in Japan would never fall, they relied excessively on land as collateral when they made loans. When land prices fell by more than 50 percent in the large cities after 1989, many loans turned bad and caused many banks to fail, especially after 1995. Table 7 shows that two banks failed each year in 1992-94, with the number of failures increasing rapidly from 3 in 1995 to 30 in 1998. Although the number of bank failures was 20 in 1999 and 2000, the cost to taxpayers was higher in these years than in 1998: 4.7 trillion yen and 5.2 trillion yen, respectively, compared with 2.7 trillion yen in 1998.

The government should change the allocation of public investments to concentrate them in urban rather than rural regions. The distribution of public investment should be
determined on the basis of how much private investment and private consumption it would induce. Public investment should not be distributed as a form of unemployment compensation. Many people say that it is impossible to keep a tight fiscal policy and reignite the Japanese economy. However, what is needed in Japan is to keep the budget tight and to change the makeup and regional allocation of public investment.

These policies will require changes in the political regime or structure of vested interests. The revolt of the rural electorate (who have been the net recipients of political favors) against the long-time ruling party indicates that some dramatic changes are already taking place. Because of the extreme ineffectiveness of public investment in some rural areas, the chief beneficiaries of these rural public investments are construction and construction-related companies, not the average rural resident. In fact, as the regressions in table 3 show, the political strength of the rural areas has not translated into a positive force for improvements in the living standards of rural residents.

The following changes are required to reform the financial sector: (1) greater transparency of the banks’ operations and decision-making procedures; (2) improvement of supervision and bank examination by the Financial Services Authority (FSA) and the Bank of Japan; (3) stricter corporate governance of financial institutions and corporations; (4) enhancement of competition among financial institutions, for example, establishment of an easy entry and exit policy; (5) resolution of the NPLs; (6) changes in accounting standards, for example, standards pertaining to book value versus market value; (7) adoption of consolidated bookkeeping between holding companies and their affiliated financial institutions; and (8) improvement of financial risk management, such as credit risk, market risk, exchange rate risk, and liquidity risk, by financial institutions and corporations.

A full guarantee of bank deposits is mistakenly believed to be needed in Japan so that customers can make deposits without concerning themselves about the health of their financial institutions. However, the full guarantee of all deposits means that people can continue to make deposits in any kind of bank, including weak banks with low credit ratings. Banks that fail to assess credit risk responsibly tend to continue accumulating NPLs. Taxpayers' money will have to be continuously injected to liquidate these banks and to guarantee the return of all the depositors’ funds. Since all deposits are fully guaranteed in Japan, the taxpayers are paying the cost for the "imprudence" of the depositors. If depositors are motivated to recognize problem banks much earlier, then problem banks are closed at a much earlier stage, and less public money from taxpayers will be needed to fund the bank closures. The government should at most guarantee a specified minimum amount of deposits (up to 10 million yen), so that while depositors are assured they can use their accounts for day-to-day financial needs, they will also exercise more caution in which banks to deposit their funds.

The development of mutual funds and other financial products is needed in Japan to encourage the diversification of household portfolios. Because Japanese often select a bank or branch solely based on convenience, such financial products (e.g., deposit services, insurance, mutual funds, stocks, and bonds) should be sold by a wide range of
financial institutions, including post offices and agricultural cooperatives. These products do not guarantee their principal; therefore, it is important that each of these riskier financial vehicles be carefully explained to prospective buyers. Without full risk disclosure, financial deregulation will be politically unsustainable if unsuspecting customers feel deceived and dismayed by the losses caused by purchasing inherently risky financial products. Former Prime Minister Hashimoto Ryutaro initiated the "Big Bang" process of financial reform in 1997 to enhance competition among financial institutions in order to raise efficiency. This primary objective of the Japanese Big Bang should not be undermined by political backlash generated by inept management of the deregulation process.

Direct disposal of banks' NPLs has been advocated in the emergency economic measures recently announced by the Japanese government. However, it is not clear whether these measures are intended to enhance structural reforms of inefficient sectors and the financial system or to delay reforms again by rescuing ineffective sectors through write-offs. Japan urgently needs the reactivation of its stagnant industries, which account for 90 percent of Japanese employment, through increasing competition not only among the companies in these industries but also among financial institutions.

As the stronger manufacturing industries shifted their production overseas, Japanese output gradually declined. Domestically oriented companies in the agriculture, construction, service, and financial sectors have not been internationally competitive. The financial sector in Japan expanded its overseas operations in the 1980s by following the strong Japanese manufacturing industries. They supplied loans overseas to Japanese manufacturing industries, without providing credit services to the countries in which the Japanese firms were located. As NPLs increased in Japan, most of the Japanese financial institutions withdrew from their overseas operations. Construction industries have also relied on domestic public works and did not expand their businesses overseas. The domestically oriented construction, agriculture, and financial sectors must work hard to achieve international competitiveness and earn profits from overseas to contribute to the revitalization of the Japanese economy.

<9> Industrial Revitalization Corporation of Japan

Established in April 2003. Terminal date is March 2008. Corporate Purchase is for 2 years, namely 2003.4-2005.3, Sales of Corporations which will be revitalized, 2005.4-2008.3

References
Yoshino, Naoyuki, and Ryoko Wada. 1997. Allocation of Households' Savings in Japan by Use of Panel Data. Presented at the annual meeting of the Japan Financial Association, Sapporo, Japan. Also in Henkakuki No Kinyu Shijyo (Financial Market in Transition), Nihon Hyo-ron Sha [Authors: Is this the title of the book? Or publisher?], Chapter 1, edited by Katsumi Matsu-ura, Naoyuki Yoshino, and Yasuhiro Yonezawa. [Authors: Please provide name of publisher and place of publication as well as page numbers]