

# Banking Networks and Financial Market Integration: A Case of Japan during the Late 19th Century

April 2017

Masato Shizume

Waseda University

## Abstract

In this paper, I test the effectiveness of banking networks in integrating the national financial market. I focus on networks operated by private banks and the central bank in Japan during the late 19th century, when its financial system was in the process of modernization. After the enforced opening of the treaty ports in the 1850s and the Meiji Restoration in 1868, the new government moved to establish modern monetary and financial systems with some trial and error. In the course of events, the government introduced a multiple issuing bank system based on the US model. The private sector quickly responded to the government's initiative by formulating a mesh-like banking network. The government then changed its policy by establishing the Bank of Japan (BOJ) in a bid to supplant the existing private networks with a central banking system of a European style. As a result, two types of networks co-existed during the early days of the BOJ. This paper shed new lights on the process of the integration, especially during the early stages, comparing the effectiveness of 1) networks operated exclusively by private banks and 2) the network operated by the central bank and its correspondent partners.

Key words: banking network, central bank, financial market integration, modern Japan