Market Competition Before and After Bank Merger Wave in East Asia:
A Comparative Study of Korea and Japan

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A Mega-bank merger wave hit many countries following a series of domestic financial deregulations in the 1990s. Bank mergers were also resorted to by countries with large number of bankrupcies or potential bankrupcies. Although for many countries, the increasing market concentration was driven by the original purpose of the banking deregulation, i.e., to provide better financial services to customers that the past regulated industry could not provide.

It is believed that bank mergers contributed to the improvement in the financial stability and cost efficiency of the banking industry. Hence, many bank regulators attributed the successful recovery of the past financial system to the bank merger policy. Yet, for the customers at large, the acceleration of bank mergers have, in fact, lowered the quality of financial service. This study aims to show that the degree of competition remains high even after the merger wave as originally targeted by financial deregulation in Korea and Japan.

Our empirical analyses imply that in both Korean and Japanese metropolitan areas, banking market concentration dramatically progressed when mega-banks were merged, and market competitiveness has remained high as originally targeted by the financial liberalization policy. However, market competitiveness has remained low in the Japanese local cities, regardless of bank mergers. It can be concluded from this study that historically fostered inter-regional industrial structures far affect customers behavior more than market concentration does.