

〔研究ノート〕

THE GLOBALIZATION OF JAPANESE FIRMS IN THE MIDST OF MEGA-COMPETITION

IMPLICATIONS FOR THE BUSINESS
STRATEGIES IN THE FAR EASTERN REGION

YOSHITOMO IZAWA

1. The Outline of Industrial Situation in Global Market

In conferences held in Russia and Korea in the last decade, main topics discussed by members of KRA were the possibility of success in the Russian economic reform and the way of obtaining economic and industrial support from countries of the Asia-Pacific region on the principle of economic symbiosis, synonymous with **growing together**. However, the situation is certainly and drastically changing in both Russia and countries of the region.

On my initial stages of participating in conferences in Russian Far East, I was shocked to see the actuality of the social and economic confusion in new Russia. Food problem was then particularly in the most serious situation although in reality it arose not from the insufficiency of domestic food production but the inefficiency in the distribution of food and the lack of infrastructure for food processing, packing, preservation and transportation. It is certain that the situation is steadily improving year by year and the economic position of Russia in the international market economy system is also gaining higher evaluation from outside the country.

It was reported that TOYOTA has decided to invest in Russia to construct its new plant since it was convinced of the Russian economic stability and growth. In this point, however, business activities of Korean firms were continuously very active and did not hesitate in investing in new Russia since the early stage of Russian economic reformation. In my initial trips to Russia I was actually impressed very much by the positive posture of Korean enterprises while Japanese firms were all quite inactive in the country mainly because domestically industries were at that time

suffering from the chronic collapse of bubble economy. Additionally, Japanese firms were under the impression that Russia lagged far behind the normal system and infrastructure of the global industrial society.

This paper deals with how Japanese firms are changing their attitudes toward globalization and whether the Japanese industrial trial & error is applicable to regional countries. Globalization might be explained concretely and symbolically by such economic phenomena as ① European economy was united into EU, ② BRICs (Brazil, Russia, India and China) are making their own presence felt in the new global economy with the common background of population, vast land and deposits of abundant natural resources, ③ Technological innovation or comeback USA achieved with complete success in information technology and employment problem etc., ④ High economic growth of East-Asia and radically attained industrial position as the world production center and market with huge consumption.

2. Conflicts of Japanese Firms with Globalization at Home and Abroad

As is often pointed out, not only Japan but also the Asian NIEs and China have established modern industrial culture rapidly but steadfastly, and transferred their technology, capital, marketing know-how, etc., to everywhere in the global market, developed or underdeveloped. The reason why these Asian countries could catch up with the high level of economic development might be safely attributable to the leadership of governments in each country. However, it will be by all means necessary to add industrialists as another influential leader of constructing economic fundamentals in those countries. Under the initiative of governments and private sectors, countries of the region smoothly absorbed and diffused technology, capital and the rest through internalizing process and attained present high growth and development.

Above-mentioned industrial culture can be replaced by the concept of management resources (E. T. Penrose, J. Fayerweather) and the success of industrialization in Asian countries largely depends on the ability to absorb these resources and diffuse them properly. Asian NIEs is now called rising dragon and seen as the most successful model of achievement in industrialization by developing countries in other regions of the world. Not only these East Asian states but also some ASEAN countries such as Thailand, Singapore and Malaysia are also considered as models motivating the high pitch of economic development in adjacent countries such as Indonesia and the

Philippines. Opening their markets and industries to the inflow of capital, technology and other managerial resources from abroad, they are all enjoying high growth rate of economy. Needless to say, China with gigantic potential, has begun to make its presence felt in the global market. The mutual dependence of the countries of Far-Eastern Region as well as EU and NAFTA is gaining in importance.

For companies of not only developed countries but also nations of East Asia, setting up new manufacturing bases in the form of subsidiaries abroad is now an unavoidable necessity both from cost reduction strategy and sourcing strategy. The off-shore production ratio of total Japanese manufacturing is around 17% while USA is already sharing 26% and Germany 20%, suggesting that Japan should still increase the ratio by investing outside the country. In addition to these strategies, the market expansion effect of host countries is steadily and with higher rate than expected coming true. The Japan's trade balance with Asia, the USA and EU is recently quite different from that of a decade ago.

In the industrializing process of Asia, contrastingly, Japan suffered from a chronic low growth rate of economy and accordingly, despite the second largest GDP in the world, compared with the emerging nations in Asia, Japanese industries could not emulate the dynamism of regional countries.

The reasons for that might possibly be traced back to the conceptual comparison of production factors and managerial resources. First of all, Japanese industries have already lost its competitive advantages of **land** and **labor** which are comparatively the world's most expensive. **Capital** might be considered completely advantageous to Japan due to the historically low interest rate of Japanese financial market. Nevertheless, judging from premises for financing of today, it is not necessarily true since financing is generally determined not by the location of firms but the probable success or failure of business projects. Thus, nowadays macro factors do not necessarily favor Japanese enterprises in international competition.

If managerial resources are added to the above factors, even Japanese technology as a source of competitive advantage is not always superior to that of Asian countries in certain fields and even in advanced technologies. The technological leadership of Japan is fading these years and emerging that Asian countries have got to hold several advantageous factors of self-support and autonomy. For instance, as has been reported by Business Week in 1996, 6,000 brain drainers educated in the USA returned back to Taiwan in 1995. Taiwan's two industrial research zones are substan-

tially supported by these inflow of brains with abundant experiences of research or business management.

Thus, countries of the region can share even advanced technologies and management mainly by dint of leadership of government (J. H. Dunning) and entrepreneurship of businessmen. Together with comparatively low production costs, they have been able to speedily increase their production capacity and become world price leaders in a short period. As these economic growth and development in emerging Asian countries continue far more rapidly and dynamically than estimated, Japan and its industries will be in delicate positions.

The investment by Japanese corporations were mostly oriented toward horizontal integration with partners in host countries. This specialization is, as a principle, considered more effective to the equilibrium of investment between investing parties and the host-side. This type of feature seems to have led Japanese companies toward leveling-off the competitiveness among the firms and Asian counterparts. However, it seems to be now, doubtful whether horizontal integration is still the best pattern of advancement into foreign sites for Japanese firms so long as we look at the change of needs and speed of economic development on the part of the countries to be invested. The investing sides are also unable to have advantage as investors if they do not advance together with affiliates and subcontractors. Local production cannot do without such affiliated integrations.

3. The Adaptability to the Age of Globalization

Japanese industries will without doubt have to step into the age of globalization. While the basic concept of internationalization is from the idea of **Nation State** and stage of **Ethnocentrism** (H. V. Perlmutter) firmly rooted in motherland or head-office, globalization is based ideologically on the concept of global unification, identification or fusion and the acceptance of these concepts. The latter means economic activities and corporate behavior of globalizing countries should adjust and conform themselves to the international criteria or standards. In the coming future the global standards demand the change of business practices, Japanese firms will be faced with the difficulty of adapting themselves to the change. At the time of such crises as the strong yen, oil shock and liberalization of rice import, all of Japanese economic entities tackled with these difficulties and obtained fruitful results backed with the international high evaluation. Should we consider times have changed?

Japanese firms are now burdened down with first of all high personnel expenses, followed secondly by the high cost of land and costly infrastructure, materials and transportation in this order. For the part of industrial recovery of Japan, this high cost structure will have to be adjusted by mainly relying on the choice of three directions: restructuring by through improvement of corporate financial conditions, technological breakthrough and expanding overseas production.

In order for Japanese firms to globalize, they will have to depend basically on the world trade system represented by WTO in which liberalization, non-discrimination and multilateralism are provided as basic principles of international trade.

Thus, Japan can not take sides with any regionalism because it should rely solely on non-discriminative free trade. Asia of today is not at the Western or developed country's beck and call and has no need to follow the operation of world economy led by the hegemony of those developed countries.

Fortunately, Asia displays a well-balanced mature attitude. Compared with such world big regional organizations as NAFTA and the EU, the open-minded Asia looks strikingly refreshing and seems to suggest a brilliant future of free trade partly from the premise of a world market trend and from the historical standpoint of each country.

4. Looking for the Behavioral Model of International Coexistence in the Midst of Competition and Cooperation

As we clearly remember, the so-called Asia Financial Crisis broke out in Bangkok, Thailand in July, 1997 and in no time spread over to all regional countries. This hit the regional countries and enterprises and led to the severe situation of capital shortage, decrease of export and a consequent severe slump in business results. One of the reasons for those was undoubtedly in the extreme decline in export to Russia mainly due to the devaluation of the ruble. Some Japanese manufacturers operating in Asian Region were damaged so seriously as to be compelled to about 70% cutback in operations. At the time, considerable number of Japanese financial institutions and distributors had withdrawn from the said regional countries.

But, what is worthy of note is that many Japanese manufacturers held out steadfastly despite severe market and manufacturing conditions. TOYOTA, as an example, having 120 affiliates and subcontractors in Thailand and its neighboring areas, did not make any request on these firms for

the cut of their personnel. Instead, meeting capital shortage of these subsidiaries, TOYOTA went out of its way to help them raise funds by prepaying the price for delivered parts or semi-finished products delivered. Taking advantage of much free time under low rate of operation, TOYOTA enhanced its training and education for handling techniques and technical improvement of robot welding or laser-cutting machinery for employees from almost all affiliates. TOYOTA's posture toward long-range strategy planning and short-period pragmatic behavior was highly valued in local communities and in reality, contributed largely to the survival and reconstruction of the regional economy.

5. Strategy of Alliance and Investment in R&D for Competitive Advantages

Business management is not something like the performance of idealism. Truly, it is just like the struggle for existence imposed on business entities in the form of competition and cooperation. However, it is also true that enterprises as economic entities which emphasize rationality amongst others are anxious to be free from any restraint and can act as change agents to activate local mono-cultured communities on the global scale.

Any nation and enterprise can not survive and grow without cooperation or fusion with the global society. Japan in particular has no alternatives except entirely assimilating into globalization or internationalization. As well known, we have three entry modes of international production. They are traditional trade, licensing of technology and foreign direct investment. All of them are important in today's and the future global society. Although we felt somewhat relieved by the report that TOYOTA has decided to invest in Sankt-Peterburg for the construction of automobile factory and not a few trading firms are also negotiating along the trade-activation of various raw materials, the total figure of trade between Japan and Russia is less than 1% is still shocking fact to us. I remember we have heard the similar percentage of the trade at the first time of our KRF meeting in Russia.

Being loaded with old customs, history and social relations, Japan is not able to escape from the restrictions of the global society. Despite much confusion of the times, we will have to adapt ourselves to newly emerging global standards. Even in industrial society, everything is and will be conducted on the principle of industrial democracy and its rules.

In the midst of globalization, industrial activities can not be entirely free from the severe com-

petition with or among world-wide rivals. This requirement will impose two policies on Japanese enterprises.

As stated above, the first one is to strengthen the competitiveness by investing much fund in research and development. As an illustration, one of the Japanese excellent companies from all benchmarks of business performances might be CANON. Emphasizing the importance of manufacturing, marketing and financing, the company places the equal weight on research and development. The past ranking of US registered patents always positioned CANON above top five. In addition to this type of official outsider's evaluation, the company organized a long-range technology forecasting committee with a invited chairperson from outside the company. The top management would continue to check which direction the company should choose for the sustainable future. Influenced by this CANON's immovable policy toward well balanced management of technology, marketing and financing, there are not a few Japanese enterprises trying to follow such excellent companies as CANON as their model of management postures.

The rest of choice is to promote foreign direct investment on global scale as well as to invite more domestic investment by foreign firms. I am convinced that there are much possibilities for Japanese firms to invest in Russia. What is to be carefully considered is that too diplomatic negotiation or complicated procedures would not be willingly accepted by them toward smooth achievement of mutual economic development program. Needless to say, how Japanese sides are doing along with this type of evaluation should be severely checked by themselves.

6. How Japanese Firms are Moving toward the Investment in Russia

As mentioned above, one of the Japanese excellent companies, TOYOTA held the groundbreaking ceremony in Sankt-Peterburg in July 14th, 2005. This symbolically implicates that the investment into Russia by Japanese enterprises is steadily expanding. Until recently since the end of 1990s, Japan concentrated its investment targets solely on Mainland China.

New plant will start to produce annually 20,000 cars in 2007 and raise it to two hundred thousand as early as possible with the idea of exporting products to European Area. The start of local production by TOYOTA will accelerate the advance of its affiliates into Russia.

NOTES

The author intended to attend an international academic meeting (below-mentioned) to be held in Vladivostok on the end of July. This paper was prepared for presentation at the meeting by him. Because of the sudden cancellation due to the bad health condition, he wanted to release his prepared paper in another form. This was realized as a part of kenkyu-noto (Study Memo) in the Journal of KSU Academy of Management.

KRA is an abbreviation for Korea-Russian Far East Academic Exchange Association. This Academy was established 10 years ago under the leadership of Dr. Kim from Korea in collaboration with a Russian scholar, Dr. V. Shishmakov. Scholars from Japan, the USA and China joined it since then. Although KRA is not so big, it is exactly one of the most steady type of international academic study group. So unremitting exchange of their study on the globalization of the regional countries will last further more in the future.