BASC News

Berkeley Asia-Pacific Economic Cooperation Study Center
University of California, Berkeley

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In This Issue

BASC Interview

Hewlett-Packard's Director of International Public Affairs Stresses the Importance of Regional And Global Trade Institutions

Hewlett-Packard Company (HP) is a global player in computing and imaging technology, with revenues approaching $50 billion from sales in approximately 125 countries world wide. HP's major products include computers, printers and imaging products, and its services include computing, IT and e-commerce related services. While the majority of HP's employment is in the United States, nearly 60% of HP's revenue comes from sales outside the United States. Mr. James F. Whittaker is the Director of International Public Affairs.

BASC: What role does the Asia-Pacific play in HP's vision of globalization?
Whittaker: Asia-Pacific plays a key role in HP's vision of globalization. While smaller in revenue than the other two major regions of the Americas and Europe/Africa, Asia has been the fastest growing region. With major economies such as China, Japan, Korea and India, and other countries with great stakes in their own rapid modernization and industrialization, the demand for HP's products and services in this area is significant.
BASC: HP has recently launched a domestic media campaign to recreate its corporate image. Has HP taken similar steps in Asian markets?
Whittaker: Yes, our media campaign was not confined to the U.S. Actually, the "Rule of the Garage" commercial was set out with a global backdrop. For example, the original garage was recreated and placed in Beijing. We are very sensitive about presenting and ensuring a consistent global brand and image.
BASC: What role do you think international organizations should play in the "new" economy"? Particularly in the context of the recent protests and stalled WTO Millennium Round, what can cutting-edge technology companies such as HP reasonably expect from the WTO and the international trading regimes?
Whittaker: International organizations should continue to play a role in the new economy, and their role and actions may become even more critical as the world economy becomes more integrated. The WTO Ministerial Meeting in Seattle late last year did not succeed for any number of reasons, including insufficient preparatory consensus-building, a very aggres-

Continued on page 4

Director's Notes

WELCOME TO A SPECIAL ISSUE OF ***BASC NEWS***. This exciting issue has been expanded in length to present our update on an ongoing research project, "Japanese, American, and European Firms' Market and Nonmarket Strategies in Asia: Responses and Strategies to Alter the Organization of the Global Political Economy." This project is organized by BASC and funded by The Japan Foundation Center for Global Partnership and supported in part by existing governmental and institutional funding to BASC.

We have organized a conference series where an interdisciplinary group of scholars from both sides of the Pacific contributed original research papers on corporate strategies in Asia. Our ***BASC Worldview*** provides succinct summaries of their provocative findings and issues arising from the debates and exchanges during the conferences.

With the infamous scenes of demonstrators clashing with the Seattle police at the last WTO ministerial still fresh in our minds, we have devoted two sections of this newsletter to analyzing the significance of this collapse of momentum in initiating the Millennium Round of global trade negotiation. In our ***BASC Interview***, the Director of International Public Relations of Hewlett-Packard, Mr. James F. Whittaker, discusses HP's changing expectations of in light of difficulties in the WTO and argues for continuing activism in regional trade institutions. Our ***APEC Update*** explores that possibility that mounting political costs of WTO could redirect attention and efforts back to regional institutions, not unlike in the aftermath of the Uruguay Round.

For ***BASC Analysis***, Julie Gilson contributes an insightful analysis of the intensifying dialogue and economic relations between Europe and Asia-Pacific through the forum of Asia-Europe Meeting (ASEM). She suggests that while ASEM offers a useful new framework within which representatives can confront and discuss solutions to problems across a range of issues, its postponed institutional development may indeed undermine its potential.

Finally, Volume 1 Issue 3 of *Business and Politics*, a BASC-sponsored journal devoted to examining the intersection of corporate strategy and public policy, was published last winter. It focused on themes of domestic policy and economic organizational adjustments to globalization. We welcome inquiries on submissions for future issues.

—Vinod K. Aggarwal

BASC Projects

Trevor Nakagawa

The final quarter of 1999 resulted in the successful conclusion of the first year of the BASC-directed study on Japanese and American corporate strategies in Asia, funded in main by The Japan Foundation Center for Global Partnership. While the "Asia Beckons America" conference was held in October 1999, the "Developing Asia Beckons Japan" conference took place in December 1999. Drawing from the interdisciplinary expertise of panels of prominent American, Japanese, and Australian academics and consultants, our conferences produced lively and interesting discussions regarding firm responses to both market and political variations in the "new economy" and the post-Asian financial crisis.

In addition to providing a comparative theoretical framework, our project evaluates strategically chosen case studies within the context of crucial macroeconomic trends (see *BASC WorldView* for more details). By the time of this publication, all working papers should be available online for easy downloading and reviewing. We welcome everyone interested to submit comments and questions on the drafts either directly to us or to the authors. Along with our companion volume, *Asia Beckons Europe*, these research projects promise to offer compelling empirical research for future comparative studies to be undertaken by BASC affiliated scholars as well. In fact, we have recently obtained additional funding to organize three follow-up conferences and produce edited volumes on the findings of these three projects.

BASC research on APEC's role in the 21^{st} century has recently been presented in Germany, Sweden, Hawaii, Italy and throughout California. Our collaboration with organizations such as the Calfornia Council on International Trade and the market research firm Frost & Sullivan has continued to help us widely disseminate our research findings to the business community.

BASC further hopes to launch a project that comparatively analyzes the historical evolution of regionalism in the Asia-Pacific and the EU. We are currently applying for funding for this project and hope to hold the first conference before the end of the year. Anyone interested in this project should feel free to contact us for information regarding participation, conferences, working papers and email bulletins.

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BASC Analysis

To be or not to be? Europe meets Asia through the ASEM Meeting

By Julie Gilson

According to *The Economist*, 'Asia' met 'Europe' in Bangkok in March 1996. But who actually met whom, why and with what consequences? The cause for this laudatory appraisal was the inaugural summit of the Asia-Europe Meeting (ASEM), which brought together for two days representatives of the 15 member states of the European Union (EU) and the president of the European Commission on the 'European' side, and members of the Association of Southeast Asian Nations (ASEAN), South Korea, Japan and China to represent 'Asia'.

ASEM originated from a proposal by Singaporean Prime Minister Goh Chok Tong in 1994. Advocated in particular by Singapore and many of its ASEAN neighbours, early formulations within the ASEM were driven in the main by Southeast Asian nations. It was, nevertheless, clear from the start that Japan, China and South Korea would constitute an integral part of the Asian contingent, since their participation would distinguish the arrangement from those (especially the EU-ASEAN dialogue) already in place.

Different countries greeted the ASEM proposal with initial reluctance and even suspicion. Japan's own position demonstrated the impact of national foreign policy concerns upon ASEM's launch. Japanese wariness of the project during its early stages derived especially from concern as to possible American reactions to the new framework. But having secured the acquiescence of its Security Treaty partner, the Japanese government, too, began to use its presence in this new forum to propose new joint activities.

Despite individual reticence, there were several reasons for this new channel of mutual interest. First, this forum offered ASEAN the opportunity to play a central role in a new international framework: Thailand hosted the first summit and accommodates the ASEM environment agency; Singapore houses Asia-Europe Foundation (ASEF); and Malaysia was the recipient of the first major regional project. Second, ASEM enables Asian members to cooperate alongside China, whose participation is seen to be crucial for regional and inter-regional economic relations and security. Third, also in terms of security, ASEM offers an additional channel for the discussion of problems on the Korean peninsula, and can thereby contribute to their financial and political resolution. Fourth, ASEM provides the EU an opportunity to articulate in concrete terms its 1994 Statement "Towards a New Asia Strategy," which emphasized that the member states 'assign considerable weight to undertaking collective steps' vis-à-vis third countries in fields other than trade. Fifth, the growing presence of APEC, the proliferation of other forums, and numerous references to the 'three-pillared' economic international structure of the post-cold war era, were also instrumental in precipitating closer Asia-Europe bonds. Finally, ASEM facilitates a shared interest by Europeans and Asians in retaining a predicable and stable U.S. presence in the Asian region.

The summit aimed to facilitate dialogue between the leaders of the participating countries and, however heavily the Bangkok meeting was criticized for being somewhat superficial, it did at least gather these leaders around one table for the first time. Perhaps unsurprisingly, participants at Bangkok were keen to emphasize that two of the most important regions of the world, Europe and Asia, are going to work together, determined to strengthen their co-operation and create confidence and reciprocal understanding.

While the main issues centered on trade, participants also recognized the need to cooperate over security issues, as well as science and technology, environmental protection, anti-terrorist measures and the combating of the illegal trafficking of drugs. The first summit launched a host of smaller engagements under the 'ASEM' umbrella to consider these various subjects. In between biannual summits, other 'ASEM' meetings were to include: the ASEM Foreign Ministers' meeting, which first met in Singapore in February 1997 and which deals with political and security dialogue; and the annual ASEM Business Forum, which deals with private sector cooperation in areas as specific as infrastructure, capital goods, consumer goods, financial services, and small and medium-sized enterprises (SMEs). In addition, areas such as cultural affairs have been addressed within the ASEM framework and leaders at ASEM 1 agreed to set up the Asia-Europe Foundation in Singapore for academic and cultural links; while an Asia-Europe University Programme was to be established in Kuala Lumpur. Despite their different subject matters and participants, these disparate encounters became interconnected within the overall ASEM framework.

The second ASEM summit took place in London in April 1998, and was dominated by concerns over the ongoing Asian currency crisis. As a result, discussion at ASEM 2 became mired in the details of how to remedy the problems presented by these crisis. Hence, on this second occasion it was not the potential success so much as the potential failure of Asia which dominated leaders' concerns. Moreover, the crisis had demonstrated to the Asian contingent of ASEM that the EU was not evidently interested in Asian affairs. One Japanese Foreign Ministry official, in a tone representative of the general Asian reaction, complained that Europe had offered only a 'lame response' to the crisis. This criticism prompted European representatives to use the second ASEM summit to reiterate their financial and diplomatic commitment to Asia.

This assessment suggests that ASEM offers a useful new framework within which representatives from Asia and Europe are able to confront and discuss solutions to problems across a range of contemporary issues. However, the very nature of the meeting raises several issues which may indeed undermine its potential.

First, ASEM is based upon the idea that Asia and Europe should meet to discuss regional preferences in a mutally interdependent way. This placement of

Continued on page 5

James Whittaker Interview

(continued from page 1)

sive agenda and a last-minute negotiating model that appears to need some changes. The "unfinished business agenda" talks have begun on services and agriculture, and we are hopeful that broader negotiations will be rekindled later this year or early next.

At stake in the pending agenda, which is of central concern to HP, is ensuring a duty-free cyberspace and enhanced services agreements to expand the benefits of e-commerce more quickly. We would also like to see a general agreement by the WTO to adopt a posture of transparency and forbearance with respect to domestic regulations that might restrict the growth of e-commerce. Finally, we would like to see conclusion of talks to expand the Information Technology Agreement (ITA) to cover additional IT products, and substantial progress toward a WTO-wide agreement to eliminate unnecessary and duplicative product testing and certification requirements for IT products such as PCs and printers.

BASC: How has the ITA affected HP? What does HP expect to get out of the further expansion of ITA liberalization?

Whittaker: The ITA will have eliminated all import duties on IT products for about 96% of world trade in IT products. Although not as comprehensive as we would have liked, the ITA represents significant progress to ensure that liberalization continues apace. In its bilateral deal with the United States to join the WTO, China agreed to adopt the ITA and eliminate its own high (9-15% in most cases) duties on IT products by 2005. The ITA has meant reduction of import costs of hundreds of millions of dollars per year, enabling lower costs to our customers, whether they be individuals or small businesses. One of the reasons that nearly 50 countries stepped up to this 1997 accord was that they all recognized that lowering the costs and speeding introduction of new products and technologies help economies become more competitive in a positive sum way for all participants. For HP, this means more opportunities to provide productivity-enhancing products and services.

But the ITA has been more important than simply the reductions in tariffs. It has provided a platform for many countries to exchange views regarding the benefits of increased trade in IT products. The ITA created a forum where issues of customs classification could be aired and in some cases resolved. For example, how should a country classify a new multifunctional product containing 5-6 functions? Is it a telecomm equipment, a computer, a fax, a scanner? Outcomes on these questions can have significant duty and cost impacts. The ITA also provided for its signatory countries to address "non-tariff measures" that might arise in the context of IT products trade. Some of those "NTMs" we are encouraging to be addressed are product safety and EMI emission certification requirements, which today must be repeated many times over, country by country, even though all these countries have the same standards. Such a situation slows the introduction of new technologies in many countries and raises the cost of those products to customers in those countries. All of this with really no value added by these duplicate test/certification processes. We are hopeful that the ITA signatory countries will recognize this and act to eliminate such barriers.

> ***"[T]he ITA has been more important than simply the reductions in tariffs. It has provided a platform for countries to exhange views regarding the benefits of increased trade in IT products."***
> — *J.Whittaker*

BASC: APEC has recently been utilized as an effective forum to promote multilateral cooperation. In particular, it helps to establish open dialogues about issues involving international trade and investment. For example, the ABAC (APEC Business Advisory Committee) has agreed to push recommendations in the WTO to prevent the imposition of new customs duties on electronic transactions over the Internet. Do you think that the role of regional organizations such as APEC should be expanded?

Whittaker: I think that the roles of regional organizations or processes, such as APEC, ASEAN and the FTAA should be expanded in the context of the broader goal of integrated trading regimes. In line with the APEC mandate of facilitating multilateral cooperation, regional free trade agreements should follow this successful model. APEC played a catalyst role in kick-starting final negotiations of the ITA, and advancing the Accelerated Trade Liberalization tariff-cutting measures that were on the WTO table at Seattle. It has also helped advance other trade facilitation agreements and discussion/cooperation on such issues as e-commerce policies. While some people prefer the traditional give-and-take of binding negotiation, the APEC "voluntary" approach and processes have made significant contributions toward enhanced international trade. Not only has APEC helped us reach a consensus agenda at an earlier stage, it facilitates the relationship building network that is crucial among all parties involved in creating a cooperative international regime.

BASC: Does HP favor Chinese accession into the WTO? What has been HP's experience in China?

Whittaker: HP's experience in China has been a good one. We were the first high tech joint venture approved by China in 1985, and our businesses have grown to over $1 billion in sales in that short period. We have three manufacturing operations, numerous sales offices and nearly 2,000 employees doing business in the "HP Way." HP fully supports China's entry into the WTO, and will be active in Washington D.C. in lobbying the Congress to provide China with "Permanent Normal Trade Relations" (PNTR) status as stipulated by the WTO rules. For HP and the high technology industry more generally, China's WTO accession agreement is a very good one, containing full commitments in many areas for China to open its domestic markets to foreign competition. Having China in the WTO system and American firms fully engaged in the Chinese market is much better than denying China PNTR and American firms the benefit of WTO rules, since China would be permitted to discriminate against American products and services. Denying China PNTR status, and thereby isolating the U.S. from China and other countries would also not advance other American interests in China, such as human rights and religious freedom.

APEC Update

WTO Political Debacle Creates Opportunities for APEC?

By Brandon Aiken Yu

Last November's failure of the WTO Summit in Seattle served as a reminder of the continuing discord among its 135 members. Undoubtedly, Seattle was an embarrassing setback for the WTO, as hopes for setting up a new round of comprehensive negotiations for trade liberalization were dashed. But it was arguably the mass demonstrations outside that posed an more serious challenge.

The spectacle of over 50,000 activists protesting in front of the Washington State Convention and Trade Center underscored the increasingly prohibitive political cost of the WTO's highly publicized ministerial meetings. The coalition of domestic environmental, labor, and various anti-globalization groups – veterans of earlier mobilization campaigns to oppose multilateral investment agreements and other trade issues, exploited this high-profile opportunity to reverse the business and political momentum for further liberalization.

In contrast, APEC's eleventh annual Ministerial Meeting in Auckland, New Zealand convened peacefully on September 10th – 12th. The more limited issue scope of APEC reduces sources of conflict, while its informal and consensus-building atmosphere promote a stable environment to pursue trade liberalization negotiations. In the absence of civil society intervention, APEC members discussed the critical importance of unfettered E-commerce, agreed on plans to push for the reduction of agricultural export subsidies, and voiced a commitment to support a new round of multilateral trade negotiations. The overriding theme was appropriately: globalization in the 21st century.

How does the pre-millennial breakdown of the WTO talks affect APEC's role in liberalizing trade? One might predict that difficulties in the multilateral arena will stimulate activities in the regional or bilateral arena. Recently, Singapore's Prime Minister Goh Chok Tong proposed a bilateral free trade agreement with Japan. Japan remains wary, viewing bilateral arrangements at best as supplementary to a multilateral trading system based on APEC rules. Whether this sentiment continues in the face of future WTO inefficacy remains to be seen. Contingent upon the future of the WTO, APEC may emerge as a potent and necessary alternative forum for open-style regional trade negotiations. Conversely, the function of APEC in U.S.-China relations may diminish dramatically if China is admitted into the WTO.

Perhaps the most controversial proposition for a 21st century APEC is a more concerted move toward focusing on regional political and security issues. The violence and resolution of East Timor was a hot topic during the Auckland Summit. As the trends of globalization continue, international politics and trade will become more inextricably entwined. If member countries are earnest in their vision of APEC as a pivotal regional institution, then the inclusion of political and security issues may be warranted, despite the original intention of its members to focus only on economic issues.

Officially, APEC has actively resisted all suggestions of such a radical refocusing, yet one would be hard pressed to envision newly appointed Executive Director of the APEC Secretariat for 2000, Ambassador Serbini Ali of Brunei Darussalam, serving his term free from regional political turmoil. Brunei Darussalam will host the APEC Economic Leaders' Meeting in the city of Bandar Seri Begawan on November 15-16. The first meeting of Senior Officials and main committees will be held on February 12-20.

To be or not to be,

(continued from page 3)

one clear region against an equal partner raises a number of issues. In particular, it suggests that the nature of each region is non-problematic when, in fact, it is clear that the institutional structure of the EU is quite distinct from the loose coalition of interests within Asia. This positioning is also exclusionary, in that benefits accruing to member states will not be shared with countries such as India, Pakistan, Turkey and Russia. The number of requests for new membership testifies to this concern. In addition, problems within Asia – such as Indonesia's difficulties regarding East Timor, Malaysia's unilateral capital controls and Japan's internal chaos, compelled Asian leaders to prioritize domestic and regional concerns.

Second, subsequent to ASEM 2 the EU has became increasingly inward-looking following the poor performance of the newly launched European currency (the euro) in January 1999, defense issues regarding Kosovo and continuing interests in questions of EU enlargement and institutional developments. This, as shown by Asian reactions at ASEM 2, did nothing to convince the Asian contingent of its espoused commitment to their region.

Third, the report of the so-called 'Vision Group' of wisemen set up after ASEM 2 demonstrates how much more ASEM could actually do. They have noted that obstacles to further inter-regional cooperation include a lack of attention to human rights and different opinions regarding the opening of markets. Proposing the goal of a free market by 2025, they also stress the need to focus more assertively on social betterment, the role of non-governmental organizations, transport and communications, the role of women and the redressing of social imbalances.

Finally, as the Vision Group also noted, a lack of institutional coherence could also dilute ASEM's efficacy and potential. For example, at the present, resistance to a 'lean' secretariat prevents the efficient collation of materials relating to and information concerning ASEM-related activities. While the goals of ASEM are on the surface commendable and practical, these ongoing problems are likely to undermine attempts to obtain effective results from the third ASEM meeting in Seoul in October 2000. Asia may have met Europe through ASEM, but it remains to be seen if they can become more than brief acquaintances.

Julie Gilson is Lecturer in Japanese Studies at the University of Birmingham, UK. She is also Deputy Director of the Asia Center at the same university. She recently authored "Japan's Role in the Asia-Europe Meeting," in *Asia Survey*, Sept.-Oct. 1999 and is finishing up a book on EU-Asia relations.

Research Project Update: "Asia Beckons the World" European, American, and Japanese Firms' Market and Nonmarket Strategies in Asia

Summaries prepared and compiled by Trevor Nakagawa with BASC Staff assistance

Overview

The objective of this ambitious two-year, three-volume project was to provide an analytical framework for understanding corporate strategies in the changing global marketplace. In particular, our unique contribution to the literature is in focusing on the reality that firms' must develop an integrated strategy in dealing with the dual challenges of the market and nonmarket environments. Our original research focus was to examine why European firms lagged behind their American and Japanese counterparts in taking advantage of dynamic East Asian growth. With the outbreak of the Asian currency crises, our agenda expanded to examine how strategies changed over time. Because of the interest our project generated, we were able to expand the successful Asia Beckons Europe volume through a comparative focus on American and Japanese corporate strategies. Accordingly, we have recently launched two additional research conferences that examine Japanese and American firms' market and nonmarket strategies in Asia. We felt that this would not only fill the void of the paucity of data on nonmarket strategies, but contribute to a new dialogue on the importance of integrated strategies.

To this end, BASC Director Vinod Aggarwal formulated a novel theoretical approach that synthesizes the insights of scholars such as David Barron, Richard D'Aveni, Oliver Williamson and Michael Porter. This theoretical framework was designed to help all participating scholars better analyze corporate responses to changing threats and opportunities from both the marketplace and the regulatory regime. By utilizing a common analytic framework, we are able to produce a replicable and falsifiable three volume set of strategically important sectors across several national actors. Our research conferences are designed to engage academic, corporate and policy communities alike in an interdisciplinary exchange based on theoretically-informed sectoral case studies.

We are happy to report the past three research conferences that were recently held at UC Berkeley's Institute of International Studies exceeded our expectations. We thank the **Center for German and European Studies**, the **United States Information Agency** and especially, the **The Japan Foundation Center for Global Partnership** for funding these three research projects.

Asia Beckons Europe

The launch of this project on October 3, 1997 generated a critical discussion which resulted in a more focused research agenda for the papers. By the time of the second conference on March 5, 1999, we had polished papers that resulted in the Asia Beckons Europe volume. The following is a synopsis of the overall theoretical framework and summaries of each chapter in the book.

Despite the recent currency crises, most of the Asia-Pacific economies are still among the most attractive markets in the world. Although Japanese and American firms' have invested heavily in the past decade to take advantage of these rapidly growing markets, their European counterparts have not fared as well. With post-Asian recovery, phenomenal Chinese growth rates and widespread economic liberalization, will European firms be able to take advantage of future potential prosperity? In order to shed light on this broad theme, this research project focused on understanding the strategies employed by European firms by answering two questions that the literature has generally overlooked: Do firms' market and nonmarket strategies vary more by industrial sector or by national origin? And how do different governments react to the push and pull from firms of different national stripes?

An Integrated Approach to Corporate Strategic Analysis

In order to address these questions, Principal Investigator Vinod Aggarwal chose Asia as the focus for four reasons. First, East Asian countries have experienced both extremely high growth rates and severe recession, providing an excellent laboratory for analyzing shifting strategies. Second, many Asian firms are now major global competitors. Third, many Asian firms have close ties to governments. Fourth, the Asia-Pacific has long been the object of a great deal of literature that examines the effects of industrial policy on economic growth, contrary to the conventional neoclassical wisdom. In short, Aggarwal argues that Asia is the ideal place to examine the corporate strategies of advanced industrialized countries from a comparative perspective, particularly since a great deal is already known about the nonmarket factors at work in these economies.

To facilitate comparative analysis and clear presentation, Aggarwal asked the collaborators to focus on three core analytic elements. First, the "positional analysis" examines how market forces, firm competencies and the nonmarket environment influence the choice of trade, investment, or some mix at the national, regional or global level. Second, the "strategic analysis" consists of transaction cost analysis of organizational forms combined with a distributive political analysis of nonmarket issues. Third, the 'tactical analysis" considers the market, organizational, and nonmarket tactics that firms must pursue to succeed with their chosen strategy. Each participating scholar applied this framework to their sectoral case studies.

European FDI in Asia

Shujiro Urata (Waseda University) provided recent aggregate statistics on aggregate trade, FDI and other strategic alliances in Asia. His paper illustrates the relatively small share of European investment in all categories in Asia relative to the U.S. and Japan. For example, while the total stock of East Asian FDI expanded 13 times during 1980 to 1994, the amount of European FDI increased only sixfold. Urata's findings show that over 60% of European FDI goes to the ASEAN-4, with over half of that total ending up in Indonesia. He also identifies the six major regional impediments as: Asian regulatory regimes, structural characteristics of the economy, transaction costs, government support, investment strategies, and preoccupation with regional integration--an issue examined in more detail by John Ravenhill's paper.

Nonmarket Strategies in Asia: The Regional Level

John Ravenhill's (Australia National University) paper provides an overview of the nonmarket environment in Asia. In particular, his chapter provides a brief summary of the recent history and of the institutions of the three major regional groupings in which a number of East Asian countries participate: the Association of East Asian Nations, the Asia-Pacific Economic Cooperation grouping, and the Asia-Europe meeting. He emphasizes the relative newness and weak institutional nature of East Asian regional institutions given their external orientation and their corresponding support for the multilateral regime. On the other hand, Ravenhill also demonstrates how ASEAN, APEC or ASEM have helped to promote EU FDI, trade and other forms of investment in Asia. In stressing the relevance of such programs as ASEM's Investment Promotion Action Plan and a Trade Facilitation Action Plan, Ravenhill argues that these forums provide useful exchange of information, the enhancement of transparency, voluntary compliance with contract provisions, monitoring of government behavior and vehicles for putting pressure on recalcitrants. In emphasizing the long term nature of effective participant behavior, Ravenhill's analysis dovetails nicely with Urata's conclusion that those firms that establish an early and persistent presence in Asian countries enjoy a considerable advantage over their competitors.

Nonmarket Strategies at the EU Level

As a complement to Ravenhill's emphasis on the external nonmarket environment, Cedric Dupont (Geneva Graduate Institute of International Studies) focused on the internal domestic lobbying environment within the EU that helps to provide incentives for EU firms to take advantage of East Asian dynamism. Since both the scope and depth of the EU legal framework has greatly increased since 1991, Dupont argues that firms lobby on the EU level with poor efficiency. Because business access to European channels has been ambiguous and complex, there are no straightforward guides in the literature to understanding how to lobby effectively in the EU context. To remedy these weaknesses in the literature, Dupont devises a decision map for firms engaged in lobbying activities at the EU level. The decision map assigns a choice of target, route to the target and organizational form to 24 different situations. After presenting his framework, Dupont then focuses on EU firms' experiences in the sectors that the case studies in this volume emphasize, namely automobiles, information technology, finance (insurance), and aerospace industries. In general, he finds that the Directorate General for External Economic Relations and the Commisioner for External Relations have taken a more proactive stance in tune with the needs of European exporters in an increasingly interdependent global economy. In addition to tax breaks and subsidies, R&D capital is more readily available. Dupont findings suggest that large firms are better off pursuing participation in industry umbrella associations and directly through the Council while small firms should seek out indirect routes to the Council through federated Europlatforms.

Automobile

The remaining chapters focused on particular sectors. The automobile industry has relatively fewer players and products in Asia. In particular, only a few European producers have been able to make inroads into Asian markets. As a result, the paper by Beverly Crawford (Center for German and European Studies, UC Berkeley) and Nick Biziouras (UC Berkeley) focused on the experience of two European firms in a single potent market, China. Although the industry has been marked by the strong arm of the government, which injected $12 billion into production in the past decade, China is expected to become the fastest growing market in consumer demand and production capabilities. To isolate factors that determine success or failure in China, the authors focus on the cases of Peugeot and VW. Both entered the market around the same time, worked closely with Chinese officials, committed to using China as the production base for the rapidly growing Southeast Asian market, and benefited from home country support as well as a history of close business-government collaboration. Their research argues that Peugeot's failure and eventual sale of production facilities can be attributed to inadequate customization of product for local needs and an inability to develop a strong distribution network. Peugeot also failed to cooperate with local authorities, a factor that VW had already demonstrated to be of crucial importance. By contrast, VW was successful because of their strong distribution network, which increased their brand loyalty and awareness, assisted by the fact that they were the first major foreign auto firm to establish operations in China. Unlike Peugeot, VW made extensive use of local management talent and local components suppliers, benefiting greatly from 50% local control, joint venture requirements.

Software

Unlike autos, the software market has an unstable mix of players and products. BASC Project Director Trevor Nakagawa finds that not only have European firms been slow to enter Asian software markets, they have been steadily losing market shares to U.S. firms in their own domestic markets. Reflecting on European "disintegration," Nakagawa observes how latecomer European software firm disadvantages include fragmentation and specialization along national, environmental, and functional divisions. As a result, it is no surprise to find that numerous, small customized solution providers for specific industries were hardly effective export products to Asia. However, recognizing the strategic importance of this industry, various ambitious European wide commitments to support software through active government promotion policies have been undertaken. Although the contribution of these EU efforts is difficult to gauge, it is clear that the few European software firms that are global players have focused on leveraging their existing customer base through the creation of globally packaged solutions. This was precisely the path that the leading European software company (SAP) took to dominate a growing software niche. Most European software firms exited the market through a renewed focus on services, a booming industry that has exceeded growth levels of even packaged products. The few that have survived did so by making heavy R&D commitments in specialized niche markets combined with developing extensive sales and marketing networks. Thus, SAP became the world leader in ERP software, Micro Focus became a global provider of COBOL development tools, and Synon pioneered the development of CASE tools.

Air Transport

The paper by Wayne Sandholtz (UC Irvine) and William Love (UC

Continued on page 8

Irvine) examined the experience of the only commercial aircraft producer in Europe—Airbus—in Asia. As the fastest growing market in the world and facing no domestic competitors, Asian markets definitely beckon Airbus. Unlike pressures to "buy American" or "buy Europe" in their respective mature markets, Asian markets offer a neutral competitive arena. According to them, Airbus was successful for five factors. First, Airbus took measures to please the local Asian airlines, such as lending aircrafts and pilots. Second, it identified a market opening for higher-capacity, wide-body airplanes with two engines, which take advantage of the limited supply of landing spots at airports in most Asian countries. Third, Airbus relied on "launch aid" from national governments to end the long dispute over subsidies, and led to a bilateral agreement on a rule that limited government subsidies to 30% of the costs of development. Fourth, it had extensive consultations with local subcontractors for parts suppliers and Asian airline service providers to signal its long-term commitment to the host economies. Finally, Airbus committed to offer a full line of commercial offerings to serve both the short and long hauls as well as the low and high capacity markets. In short, the authors demonstrate how an integrated, long-term strategy accounting for all three strategic levels enabled David to take on Goliath.

Finance

The final paper by Klaus Wallner (Stockholm School of Economics) examined European insurance carriers in Asia. The primary target for foreign firms in Asia is the compatriot firms with business interests in the foreign country. In general, there is no significant local customer base and the participation of transnational companies in direct local intermediation is rare. While foreign banks in Asia are mainly engaged in inter-bank loans and financing of international trade, insurance companies serve the foreign investors from their home country. Wallner decided to focus on one sectoral study in one country—the Japanese casualty insurance market—since the general patterns in Asia fit the specifics of this case. Not only is this market characterized by foreign insurance companies serving foreign entities, it also illustrates the coexistence of low formal entry restrictions and high informal barriers. Wallner finds that European insurance companies successfully entered the market when they were able to offer a high degree of flexibility in pricing and product choice. Competing on the basis of innovative product design alone is not sufficient in strongly regulated markets. As a result, rather than lobby forthright for market opening measures from their home country, firms found it effective to first establish market share in a new product niche that was established after their old one was overrun by local competitors. After a certain threshold of market strength was gained, competition could be phased-in later. Ultimately, Wallner argues that skill in navigating informal barriers is the single most important skill to penetrating the Japanese market.

Asia Beckons America

The second phase of BASC's comprehensive three-volume examination of corporate strategies was launched at a research conference on October 1, 1999. Entitled "Asia Beckons America," this conference was the first of two research conferences to focus on American firm experiences in developing Asia. The second is scheduled to be held at Berkeley in September 2000.

Utilizing the same integrated strategy framework from our Asia Beckons Europe volume, we analyzed American corporate strategies in a number of sectors from several countries in developing Asia. With continuing economic growth in the United States, American firms to have found Asia to be a natural focus of their expansionary strategies. But how has the Asian crises affected both the short- and long-term time horizons for American firms in the region? Because the currency crises became such a major concern prior to the conference, the authors were specifically asked to address this contemporary factor within the overall context of the theoretical focus. We would like to thank the Japan Foundation Center for Global Partnership for making this research project possible.

U.S. FDI in Asia

Shujiro Urata (Waseda University) provided an overview of U.S. foreign direct investment and trade in Asia. At the outset, he noted that despite both the onset of and recovery from the Asian crises, U.S. FDI in Asia remained relatively stable through mid-1999. In fact, keeping pace with aggregate totals, the position of U.S. FDI abroad on a historical-cost basis has continued to increase despite drops in capital outflows and incomes. Although dwarfed by Europe's 48-50% share of total U.S. outflows of FDI, Asia retained a steady 12-13% throughout the 1990s. While Japan (approx. 4-5%) remains U.S. investors' favorite destination in Asia , Hong Kong and Singapore have grown steadily to almost half of the Japanese total. The fastest growing area for U.S. FDI is China, but it still remains only 0.6% of the total amount in 1998. On a sectoral basis, the Singaporean electronics sector enjoys a disproportionately large U.S. presence at 13.36% (1998) of the total foreign U.S. electronics position, while Japan has a similar 11.58% (1998) in industrial machinery and equipment. Overall, a strong U.S. aggregate position in Asia can be found in manufacturing, finance, petroleum, wholesale trade and electronics (in descending order). These are the sectors that make up the case studies of this volume.

Accounting

The first case study we looked at is an area of U.S. global dominance—finance. In particular, Fukunari Kimura (Keio University) focused on the so-called "Accounting Big Bang" in Japan being driven by the global impact of the American model of accounting. In step with the globalization of economic activities, there are strong pressures (particularly from the leading-edge U.S. accounting firms) for the international convergence of accounting practices. Because of the historically large presence of cross-national activities between U.S. and Japanese multinationals—and the high degree of advanced institutionalization required to implement such accounting solutions—Kimura chose to analyze U.S. accounting firms' strategies in Japan. He began his analysis with a review of the stringent Japanese CPA law, which makes it prohibitively difficult for foreign firms to legally conduct auditing activities in Japan. However, as U.S. accounting firms came to establish their dominant positions throughout the world, strategic alliances with Japanese firms became the primary strategy to greatly expand their operations. Although this helped domestic Japanese firms obtain credibility, the recent financial crisis revealed the existence of massive nonperforming loans and a lenient financial management system. With Japanese firms still struggling with sluggish domestic economic growth, the U.S. accounting system began to have success in its push for significant policy reform. In particular, major changes in accounting practices, the introduction of consolidated financial statements and relaxation of law regarding the formation of pure stock-holding companies are making Japan a much more market-friendly environment for U.S. firms. Although there are no reports yet of massive direct penetration of U.S. accounting firms into Japan, Kimura's chapter emphasized individual firm anecdotal activity that illustrates how both the market and nonmarket environment have become increasingly favorable to U.S. accounting firms.

Telecommunications

In contrast to Kimura's sectoral focus, Takahiro Yamada (Tokyo Institute of Technology) analyzed the experiences of the largest American telecommunications carrier, AT&T, in Japan. Though telecoms are booming throughout Asia, a Japan focus makes sense for two reasons. First, with the largest economy and the most advanced infrastructure in the region, Japan's telecommunications structure dwarfs any other in Asia. Second, all major U.S. MNCs are based in Japan.

As the first major U.S. player in Japan, AT&T is the ideal case study. AT&T pioneered U.S. telecoms firms' marketing strategies in Japan, offering numerous options in efficiency and price and utilizing cheaper capital (leased lines) to outperform the competition on quality and price. AT&T also used technological "leapfrogging" to prevent other firms from catching up, employing a unified network instead of an alliance with other dominant foreign firms to avoid "patch-work" services and packet losses while still providing high-quality, low-cost technical service to multinational corporations.

Meanwhile, the WTO agreement put pressure on the Japanese government to produce significant institutional changes at the national level. While dominant Japanese telecommunication firms such as NTT or KDD were providing excellent local service, their long distance and Internet capabilities were surpassed by foreign firms. To alleviate the problem, the government relaxed many of its previous restrictions regarding global telecommunications competition, intending to stimulate competition in the Japanese market. Foreign firms such as AT&T benefited from the change and undermined the dominance of local firms by providing superior customer service.

Yamada's analysis suggests that telecoms firms need to focus not on single geographical levels but rather strategic thrusts in several domains. To be specific, efforts in both market and non-market sectors and coordination between global and local strategies are imperative. Furthermore, the reason why foreign firms such as AT&T are superceding local Japanese firms is not because of their ability to predict future trends, but their drive to tap into the market before anybody else. The right combination of price and quality is needed, and AT&T met market demand with quick innovation and superior infrastructure.

The next two papers take a much more macro-oriented, sectoral approach to their respective examinations of the electronics and internet industries. Unlike the telecommunications market, where there are few global players, the electronics and burgeoning internet markets are characterized by a multiplicity of players at various levels. Accordingly, their broad sectoral focus provides interesting research results.

Internet Development in Asia

Michael Gerlach (Haas Business School) focused on the development of the internet in the Asian region. With most Asian governments considering internet growth a top policy priority, nonmarket factors are particularly important for firms' strategies. In particular, information privacy and access, security, taxation, intellectual property and pornography are fundamentally important to the development of the industry. The key question for American internet companies in the region is balancing nonmarket and market risks against the probability of future revenue streams, being careful to build upon already existing capabilities and local talent.

With infrastructure in huge markets such as China continue to be fragmented and underdeveloped, Japan remains the regional hub—and thus the focus of Gerlach's analysis.try in Asia. His main findings are: (1) ISPs are likely to be domestically owned due to their close links to the telecoms industry and tight government control; (2) software is dominated by foreign—especially American—producers; and (3) the "contents"-oriented part of internet business provides a mixed picture, with U.S. english-language and technical capabilities balanced by local advantages of Japanese firms. Gerlach's preliminary conclusions reinforce the idea that the market environment of internet business is shaped by features of the nonmarket environment and by other industries that feed into internet business.

Electronics

The second broad sectoral study focuses on the experiences of U.S. electronics firms in Asia. John Ravenhill's (ANU) study illustrates how firms in this sector were among the first to heed Asia's siren call. The initial attraction was the opportunity to enter local markets and the availability of cheap labor for export-oriented manufacturing. In the subsequent stage, the region's attraction grew apace with the burgeoning expertise of subsidiaries and sales opportunities. Ravenhill's account emphasizes how a virtuous cycle evolved through which the production networks of U.S. firms contributed to the development of local capabilities while exploitation of these capabilities in turn reduced production costs and added to the profitability of U.S. firms.

However, because of the national security concerns of this diverse industrial sector—especially with regard to processing and telecommunications technologies—government regulations on both the host and home side present significant strategic concerns. To cope with these nonmarket concerns, U.S. firms have been able to successfully pursue a collective strategy through industry association and government involvement to produce stronger, mutually advantageous ties with local firms. U.S. firms hoping to take advantage of the role of Asia in a global production chain have been successful in the region due to their ability to engage in a complex array of alliances and tie-ups with local firms. The downside of the open access network strategy of U.S. firms in Asia, which balances risk and flexibility, is that preventing free-riding from local competitors (such as Japan) has made their competitive advantage potentially transitory.

Automobiles

Beverly Crawford (CGES, UC Berkeley) and Nick Biziouras (UC Berkeley) analyzed the experiences of American automobile manufacturers in Asia. Although the financial crisis of 1997-98 had a significant short-term negative impact on these markets (e.g., overcapapcity), the region has maintained its potential in a rapidly consolidating and fiercely competitive sector.

American automobile manufacturers entered these markets long after their European and Japanese competitors, but have caught up rapidly by using a combination of market and non-market strategies. First, American firms have proven to more persistent and aggressive in their attempts to gain market shares in these countries than their European competitors. Second, American firms have been better capitalized than their Japanese competitors, especially after the Japanese stock market bubble burst, utilizing this comparative adavantage to penetrate Asian markets through acquisitions (GM in Isuzu and Ford competing for Daewoo). Third, American firms have implemented coherent and broad-based market strategies, using superior consumer

Continued on page 10

financing techniques to increase their sales and brand recognition within national markets. Fourth, they have increasingly customized their vehicles to the conditions of the local markets. Long gone are the days when American cars signified big and bulky sedans that were highly impractical in urban Asian centers. Finally, American firms have integrated their market and non-market strategies more coherently than their competitors, supporting efforts of mulitlateral institutions to promote economic liberalization by reducing trade barriers and making these markets into level playing fields.

There has long been variation among the Big Three in their experiences in Asian markets. Ford has always been at the forefront of the globalization process, establishing itself in most of the Asian markets before either GM of Chrysler. General Motors made up for lost ground though a concerted strategy of local acquisitions and increased localized production. Chrysler has trailed both Ford's long-established presence and GM's more recent success, a weakness that has been compounded by its merger with Daimler-Benz. Yet, overall American automobile manufacturers, in the context of Asian markets, have demonstrated that being a latecomer does not preclude one from becoming a local player.

Chemicals

Kun-Chin Lin (UC Berkeley) traced the evolution of corporate strategies of U.S. chemical firms in Asia in the past decade. In the late 1980s, these multinational firms first sought out the Asian market as an expansion outlet as Western markets stagnated. However, the U.S. chemical industry failed to generate a penetration strategy into Asia that could withstand the intrinsic and disruptive cyclical nature of the industry. In the aftermath of the Asian economic crisis, these firms renewed their commitment to the Asian markets through a reinvention of their core competencies. American firms have come to recognize that conditions in the Asian markets can strongly affect the global chemical industry cycle, putting to rest the initial expectation of American chemical giants that the Asia-Pacific market would function as a safety-valve in absorbing their surplus production in times of slack demands at home.

Through case studies of Dow, DuPont, Eastman and Monsanto, Lin finds that these U.S. firms have finally developed an Asia market strategy centered around the three interrelated components of narrowing core competencies, ending price- and supply-driven capacity expansion, and experimenting with intrafirm diversity of management structures for different operations. Furthermore, the U.S. chemical industry has effectively combined domestic and multilateral nonmarket strategies in response to criticism on environmental grounds: at home, it has managed to reduce public criticisms through self-regulation initiated by a peak industry association, while on the level of multilateral trade agenda-setting, the International Council of Chemical Associations has adopted the American self-regulatory approach for its members.

Developing Asia Beckons Japan

The third phase of BASC's comprehensive three-volume examination of corporate strategies was launched at a research conference on December 17, 1999. Entitled "Developing Asia Beckons Japan," this conference was the first of two research conferences to focus on Japanese firm experiences in developing Asia. The second is scheduled to be held at Waseda University in July 2000.

Utilizing the same integrated strategy framework developed by Professor Vinod Aggarwal, we analyzed Japanese corporate strategies in a number of sectors from several countries in developing Asia. In order to attain a balanced perspective, we brought together scholars from prominent Japanese and Australian universities, researchers from the World Bank and a strategic analyst from SAP Japan, one of the biggest European software companies in the world. We would like to thank the Japan Foundation Center for Global Partnership for making this research project possible.

Japanese FDI in Asia

Shujiro Urata's (Waseda University) paper provides an overview of the Japanese foreign direct investment and its patterns, problems and strategies in the pre- and post- Asian crisis periods. An appreciating yen sustained high levels of FDI in pre-crisis Asia, where a favorable export environment, rapid growth, and increasing liberalization of the FDI regulations made for a propitious climate for foreign investment. Although the level of Japanese FDI in the region declined after the onset of the financial shocks, there were cases where FDI increased after the crisis in the form of mergers and acquisitions, transactions that were made possible by Japanese parent firms' desire to help their Asian affiliates and by deregulation in many recipient countries. Urata states that factors complicating the investment climate identified by the Japanese firms include the restrictive regulations on transport machinery, shortage of skilled labor, underdeveloped infrastructure and insufficient supporting industries.

He adds that the Asian crisis also affected firms' business strategies. Many firms have divided the production process into sub-processes and located these sub-processes in production efficient economies. Some have established R&D facilities to invent new products and production process that are suited to the local demand. Others have switched from local market oriented to export oriented sales, and increased local procurement of parts and investment goods to lower the production costs as a result of weakened local currencies.

In conclusion, Urata indicates that Japanese FDI in Asia will increase in the future due to the bright prospects of Asian economies. However, the increase will not be significant because another fortuitous combination of strong yen and bubble economy is unlikely and Japanese firms have grown more cautious of the profitability of their affiliates in light of the upcoming accounting reforms.

Banking

Masahiro Kawai (World Bank),Yuzuru Ozeki (Global 21) and Hiroshi Tokumaru (Bank of Japan) examine Japanese banking operations in East Asian economies, the impact of the Asian crisis, and the future prospects of these banks in the regional economy. Japanese banks were on an expansionary path in East Asia in the 1990s as a result of phenomenal growth of FDI in the region. The authors analyze a trend of diversifying from wholesales banking through regional offices to direct lending, prompted by financial and capital liberalization in the region. The advent of the financial crisis in 1997 rendered a great number of Japanese loans non-performing, and Asia became the least profitable international portfolio for Japanese banks. This phenomenon, coupled with Japan's domestic banking problems, triggered the reduction of international operations and the withdrawal of credits by Japanese banks from East Asian economies.

In addition, the authors indicate that the firm-client relationship in Japanese domestic market also greatly influenced the banks' decisions on reducing credits to non-Japanese affiliated borrowers. Given that Japanese banks are the main creditors to East Asia, the role for these banks in the corporate debt restructuring in the crisis countries is important. The authors suggest that guarantee schemes such as exchange rate guarantee, Japanese yen debt conversion, and deregulation of FDI are necessary to support ongoing negotiations.

In sum, the reduction of international operations is a part of restructuring of the financially weakened Japanese banks. Japanese banks still consider Asia to be a promising investment environment, and some internationally active banks are expected to redirect their operations to East Asia once regional economic stability is restored.

Automobiles

Gregory Noble's (ANU) discussion of the Japanese automobile industry in Asia illustrates the pride of place this high profile sector has enjoyed in Japan's remarkable drive to industrial prominence. Since the 1970s, exports from Japan and local assembly of knocked-down kits from Japan have accounted for 70-95% of all auto sales in the major ASEAN countries. Accordingly, local auto parts industries are composed largely of firms with direct foreign investment from Japan—notably in Thailand, Malaysia, Indonesia and the Philippines. Primarily due to continued ASEAN government pressures to produce either nationally or regionally, Japanese corporate strategies evolved from an export efficiency focus in the 1970s to limited programs of localization in the late 1980s to a more serious effort at regionalization by the mid-1990s.

In the early rounds, Japanese assemblers and parts producers, buoyed by cooperation from Japanese industry associations and government agencies, were successful at building institutional capacities in Southeast Asia through a carefully calibrated strategy of increasing local content in line with the gradual expansion of demand. But by the late 1990s, these strategies faced three new challenges: (1) competition from Korean low-cost producers; (2) renewed Western competition in the middle price range; and (3) the Asian crisis. Because Korean producers were hard hit by the Asian crisis, Japanese auto producers have largely focused on fending off the Western challengers which seem to be free-riding off of Japanese-initiated institutions. In particular, Noble argues, Japanese auto firms should find ways to use Taiwan's increasingly sophisticated production base for parts to expand in mainland China. They must also prepare to defend their own home market share as Japan becomes an ever more expensive production location. Because keiretsu reorganization and shrinking the permanent employment labor force remain daunting tasks, Western incursions through strengthening relations with domestic partners such as Mazda, Nissan, Suzuki and Isuzu are likely to cut into domestic market shares in the near future. Accordingly, Noble concludes that Japanese dominance in the Southeast Asian markets is unlikely to last.

Telecommunications

Professor Okamoto (Nagoya University) argues that although Japanese firms have lagged behind their American and European counterparts in investing in the telecoms markets in developing Asian economies, they have taken the first exploratory steps in the past two years and can be expected to show deepening commitments. She observes that Asian countries have followed the global trend in opening their telecoms markets through deregulatory reforms and investment policies favoring private capital from abroad. Notably, the recent pre-WTO accession agreement between the United States and China will certainly attract the attention of multinational telecom companies. That the Japanese telecom firms have been slow in establishing their regional presence is due less to their competitiveness vis-à-vis American and European firms, and more to retarding domestic structural incentives. Specifically, the slow process of regulatory changes in the Japanese telecom industry has perpetuated the segmentation between the provision of domestic and international services, making it difficult for a resourceful telecoms giant such as NTT to think globally. NTT was restricted by law from providing international services until 1997, but since then has created a long-distance and international service subsidiary to pursue regional opportunities.

Software

Trevor Nakagawa's (UC Berkeley) chapter analyzes the experience of Japanese software firms in developing Asia, focusing on both macroeconomic trends and a qualatative case study. Although North American and European software markets dwarf those of East Asia, software market growth in the region continues to be impressive, reaching consistent annual growth rates of 30% in some countries. Because many East Asian countries consider this industry crucial to their long-term prosperity, they have made long-term commitments in education and infrastructure, while taking active roles in promoting foreign technology transfer and trade. While their U.S. competitors have collaborated with their hosts to capture the majority of the software market throughout Asia, Japanese firms have been slow to capitalize in these rapidly maturing markets. In fact, outside of the gaming and embedded software businesses, Japanese software firms have been a striking failure. Because the famed Japanese industrial policy has targeted software at an early stage, it is especially notable to find the software industry to be a global laggard in many respects.

Early on, Japanese core strengths were in developing high quality, customized software solutions coupled with proprietary mainframe platforms. Software was considered an input into the production process with little concern for user-friendly interfaces and generic users. As a result, the industry structure reflected divisions tied to their hardware parents rather than the U.S entrepreneurial, start-up model. Because they focused on specific users' needs, they were not prepared for the rapid PC proliferation in Asia which led to the dominance of standardized, off-the-shelf, traded software for Windows. However, because many Asian governments often play active roles in implementing software solutions for entire industries, some Japanese software companies have been able to effectively compete in the evolving software markets in Asia.

As one of the few success stories in the lucrative packaged software market, Nakagawa chose to focus on Fujitsu. His preliminary results indicate that a key element to Fujitsu's success has been its ability to participate in the complex global value chain that defines the nature of the software business. Because of the close connections between hardware, IC, chip technologies, telecommunications equipment and a whole host of other related inventions, software development is likely to remain a complex task involving sophisticated localization and customization skills. Accordingly, as a conglomerate with expertise in a variety of disciplines, Fujitsu, NEC and Hitachi are likely to find multiple niche opportunities through a complex partnering strategy with foreign and local Asian host firms alike.

Petrochemicals

Tametsugu Taketomi identifies past and present corporate strategies implemented by Japanese petrochemical corporations and the obstacles that may strongly affect their progress. After the Plaza Agreement in 1986, Japanese chemical companies focused attention on expanding their business into other areas of the world, starting with Asia. The collapse of Japan's stockmarket in 1990 made it imperative for firms to become globally competitive, and in particular for them to focus on foreign investment. The program for "domestic

Continued on page 12

internationalization," or a strategy for both global competition and domestic restructuring, continued until the Asian economic crisis occurred in 1997, revealing to Japanese investors that their main banks could not be trusted for financial support and that the financial environment for investment had changed. Currently, Japanese corporations are facing cash-generatation issues to recover lost investments, and to invest further in the future.

In addition, redundant domestic businesses are no longer deemed acceptable. Companies are opting to focus on core businesses to complete globally. Still, Japanese chemical companies earn meager profits. Since competition has gone global, they are restructuring their companies and selecting core businesses to increase financial performance.

Moreover, it is quite possible that restructuring the chemical industries will assist the progress of Japanese financial institutions. Taketomi gives an example of the merger between Sumitomo bank and Sakura bank, which enabled the Mitsui and Sumitomo Chemical merger. Mergers such as these will assist the formation of globally competitive companies. To conclude, Taketomi summarizes the solutions that Japanese companies are currently looking into: (1) alliance or M&A with other players in the region; (2) governmental support through political cooperation between ASEAN, or among Japan, China and Korea; and (3) support from Japanese banks rebounding from the financial crisis.

Electronics

Shujiro Urata's research on Japanese electronics firms in Asia examines the changes in the electronics industry in Japan and the regional strategies of electronics firms in Asia. The electronics industry in Japan has been undergoing fundamental restructuring, with trends such as a shift from consumer to industrial electronics in production, rapid expansion of overseas production, and decline (expansion) of consumer electronics exports (imports). Growth in overseas production has been most significant in basic, unsophisticated products such as tape recorders and color televisions. The overseas production ratios (overseas production / total production) have increased substantially, from 40% in 1984 to 90% in 1998 for color TVs and VCRs, and 2% to 55% in the same period for car and home stereos. Expansion in Asia, coupled with increasing FDI in the region, suggest a considerable decline in consumer electronics exports from Japan.

Japanese electronics firms' FDI in Asia from 1960s to late 1990s expanded the number of Japanese affiliates in Asia, from 149 in 1978 to 873 in 1998. Notably, during this period the Japanese affiliates in NIEs dropped considerably, from 117 to 14, while affiliates in China went from nil to 169. Japanese electronics firms in Asia have undertaken strategies such as product differentiation and division of labor to ensure their competitiveness in the international market. They produce high quality products in Japan, and standardized products in the rest of Asia, employing the abundant labor in China and Southeast Asia for the assembly procedure of production process. Urata suggests new issues, such as further division of labor, transfer of technology and construction of a regional procurement system.

Conclusion

Principal Investigator Vinod K. Aggarwal and Principal Collaborator Shujiro Urata feel confident that the case studies from the three Asia Beckons conferences illustrate that firms that accounted for nonmarket factors in conjunction with their market strategies have been most successful in acquiring market shares. The value of PI Aggarwal's theoretical framework applied across these studies is confirmed by the creativity in the empirical analysis of individual authors, as well as the thematic and analytical commonalities that permits the conference participants to exchange their views constructively. The BASC Staff will make available working papers on our website, and prepare the edited volumes to be published by the end of the year.

From Stephen Rudman, Director of External Relations

BASC Leadership Associates

On behalf of BASC, I would like to welcome our current BASC Leadership Associates and invite all those interested to become part of this group. Leadership Associates are active participants in the full range of BASC activities and support BASC through contributions. Leadership Associates take part in:

BASC Annual Conference

The Annual Conference offers Asia-Pacific leaders from government, business, and the professions the opportunity to exchange ideas and information. BASC staff and invited guests will brief participants on the latest developments in APEC and its member economies and on current academic research of interest to both private and public sector decisionmakers.

Associates Briefings

Leadership Associates also have an opportunity for more frequent meetings in smaller groups with BASC staff. These more focused gatherings enable BASC staff to brief Leadership Associates on specific topics of interest.

To join Leadership Associates please contact Stephen Rudman or Vinod Aggarwal at 510-643-1071 or email BASC at basc@globetrotter.berkeley.edu.