Chapter 9

Lessons from American Firms' Strategies in Asia

VINOD K. AGGARWAL[1]

I. Introduction

The regional Asian currency crises of 1997-1998 complicated but failed to diminish foreign firms' ardor for the region. Asia includes many of the world's fastest growing markets, and promises to be a dynamic and fiercely competitive arena for decades to come. Both before and after the crises, firms have attempted to devise trade and investment strategies that would give them a competitive advantage over their rivals.

The purpose of this volume and its two companion volumes has been to present a novel framework to understand the market, nonmarket, and organizational strategies that have enabled many American firms to succeed in Asia.[2] An economic overview of the performance of American firms, both with respect to trade and investment, sets the stage for specific sector analyses. The case studies in this book—including the accounting, chemical, automobile, telecommunication, software, and electronics industries—allow us to compare and contrast how firms in these sectors have attempted to enhance their competitive positions. In many cases, the authors have provided valuable comparisons of American firm strategies with Japanese or European firms, thus providing insight into the impact of national origin on competitive performance. These sectoral analyses also show how firms have attempted to build effective relations with governments in the region and with regional institutions. In doing so, our objective has been to identify the most successful strategies for meeting the unique challenges of Asian markets.

This chapter is organized as follows. Section II begins with a focus on the context within which American firms have operated, concentrating on the economic characteristics of the Asian market and the relative performance of American firms. Section III provides a positional analysis for the six sectors covered in this volume. Section IV reviews the theoretical and empirical aspects of the strategies and tactics pursued by American firms in Asia. The fifth section concludes with a discussion of lessons that emerge from the book's analysis and offers directions for future research.

II. The Overall Economic Context: Competing In Asia

What is the nature of the strategic challenges and opportunities in Asia? In Chapter 2, Shujiro Urata examines American trade and investment patterns in developing Asia. U.S. exports to developing East Asia increased more or less steadily from the early 1990s to 1997, when they reached a peak at $124 billion, before declining to $102 billion in 1998. The decline in U.S. exports to developing East Asia in 1998 was clearly attributable to the currency crisis, which resulted in negative economic growth in many economies. As a result of the speedy recovery from the crisis, U.S. exports to developing East Asia began to increase again in 1999 and continued to increase in 2000. The four NIEs (HK, Taiwan, Singapore, and South Korea) and China were the most important export markets. Urata finds that U.S. exports to developing Asia are more concentrated in manufactures when compared to those to other parts of the world, especially in office machines and telecom equipment, reflecting their use of Asia as an assembling base for office machines and telecommunication equipment.

With respect to FDI, developing East Asia attracted 8.5 percent of U.S. outward FDI stock in 1998. For the U.S., developing East Asia has not been as important as an FDI host than

as a destination for exports (the share of developing East Asia for total U.S. exports was much larger at 15.0 percent in 1998). By contrast, Europe, Latin America, and Canada attracted large portions of U.S. outward FDI. Urata argues that this difference is driven by three factors. First, the relatively low income of the population in East Asia has discouraged U.S. firms from undertaking FDI with an objective of selling in the host market. Second, a relatively unfavorable FDI environment due to restrictive FDI policies and underdeveloped infrastructure deterred U.S. firms. Third, a lack of familiarity with the East Asian economies because of limited historic and cultural ties with East Asia increased uncertainty and risks of FDI in East Asia.

More recently, developing East Asia has become increasingly attractive for FDI because of high returns. When compared with U.S. FDI in other parts of the world, U.S. FDI in developing East Asia performed more favorably. One unit of U.S. FDI stock earns greater income in developing East Asia than in other parts of the world. Although returns vary among different economies and sectors, the high income-generating feature of U.S. FDI in developing East Asia may also be attributable to limited competition in the protected host market.

In looking to the future, Urata argues that China's accession to the WTO will continue to increase its attractiveness as a host to U.S. FDI because China must abide by WTO rules, making its trade and FDI regimes more stable and transparent. Among various sectors, FDI in services such as telecommunications and distribution is expected to expand because China has committed to opening up these markets to foreign firms. On a more pessimistic note, he argues that the move to create transregional trade arrangements such as the Free Trade Area of America (FTAA) covering both North and South America is likely to increase U.S. FDI in South America at the cost of developing East Asia. Second, he notes that although developing East Asian economies recovered from the crisis rather smoothly, in view of the severity of the problems they faced,

structural reforms in financial and corporate sectors, which have been delayed for political reasons, remain to be carried out. Without such measures, FDI from not only the U.S. but also from other sources will not be attracted to developing East Asia.

III. Positional Analysis

Before firms can formulate a successful strategy, they must consider not only the broader economic context discussed in Section II but also the contours of the specific markets in which they operate, the nonmarket factors that affect their business, and their specific core competencies. With respect to each of these three elements, firms must take into account the nature of their activities at the national, regional, or global levels. On this latter score, I suggest in Chapter 1 that firms must make decisions about locating their trade or investment operations at the national, regional, and/or global level and also decide on the target market for sales.

Review of the Theory

To examine the opportunities and threats firms face at these three levels, I suggest in Chapter 1 that a good approach to the examination of the nature of markets is Michael Porter's "five forces model."[3] Using this model, the case studies consider the barriers to entry presented by firm rivalry, the potential of new competitors entering the market, threats presented by possible market substitutes, the bargaining power of suppliers, and the bargaining power of buyers. With respect to nonmarket analysis, I build on David Baron's recent work that provides insight into the nonmarket environment of firms.[4] Baron argues that firms must be attentive to possible threats and opportunities arising from the nonmarket environment. Specifically, they must understand the issues involved, the interests of major groups, the institutional setting for policy

resolution, and the information available to actors. Finally, in terms of firm positioning, considerable debate continues over how one might best examine a firm's capabilities. While this question is somewhat less central to the interests of this volume, Gary Hamel and C. K. Prahalad's focus on "core competencies," which entail both tangible and nontangible capabilities, provides a useful entrée into understanding the abilities of firms.[5] In sum, because these three sets of factors interact, firms attempting to succeed in Asia must analyze systematically their market structure, nonmarket environment, and core competencies in formulating and implementing strategy. The case studies provide an insightful positional analysis of several key sectors.

Accounting

Fukunari Kimura provides a positional analysis of Anglo-American accountancy firms, focusing on the context of their efforts to succeed in the Japanese market. Accountancy services have several peculiar market characteristics that have strongly influenced their development in Japan. First, accountancy services have developed in the country-specific environment of corporate governance. Thus it has a path-dependent nature, often interlocked with existing economic institutions, leading to high barriers to entry in the Japanese market and making it nearly impossible for firms to enter the market, except through business alliances. Second, due to the provision of accounting practices on an individual or small group basis, accounting firms' corporate culture is highly individualistic. Third, the operation of accountancy firms has strong economies of scale in globalization era. Accountancy firms are expected to provide a wide range of services requested by globalizing client firms. Fourth, globalization of firms' activities has made international convergence of accounting practices more attractive. Fifth, because the

accounting system is a significant part of basic economic institutions, the international convergence of accounting systems may trigger substantial institutional reforms in countries that lag behind such as Japan.

With respect to the nonmarket environment, the Japanese government is central in developing the Japanese accounting framework. The Ministry of Finance directly provides qualifying exams for certified public accountants (CPAs) and the CPA Law authorizes the qualification of Japanese CPAs. Thus direct intervention by the governmental sector is greater in Japan than in other countries such as the U.S. Another important aspect of the nonmarket environment in Japan is that the accounting legal structure is highly complicated. The Japanese business accounting system has a “triangle” structure with three lines of accounting systems based on the Securities Exchange Law, the Commercial Law, and the Corporation Tax Law. The complexity of the Japanese accounting system derives from the initially distinct practices that have been codified in these three laws. The heavy involvement of the governmental sector as well as the complicated and impenetrable legal system has effectively deterred massive entry of foreign accounting firms or foreign accountants. In response to various foreign CPA qualification laws that have been introduced in Japan since 1948, especially the 1977 publicized statement by the Japanese Institute of Certified Public Accountants (JICPA) stating that foreign accountancy firms are not legally qualified as auditing firms under the CPA Law, foreign accountancy firms in Japan have made auditing activities independent of other services. Since then, foreign accountants have tried to enter the Japanese market indirectly by establishing partnerships with Japanese auditing firms. In 1983, the Aoyama Audit Corporation, allied with Price Waterhouse, was the first approved foreign auditing firm.

Organizationally, with four large auditing firms dominate the market, the Anglo-American Big Five have had little choice but to be satisfied with indirect access in the form of business alliances with them. In the world market, a merger boom occurred in the industry in the latter half of the 1980s, and KPMG (1987), Ernst and Young International (1989), and Deloitte Touche Tohmatsu (1990) were created. The merger of Price Waterhouse and Coopers & Lybrand in 1998 set the stage for the current "Big Five." Regarded as the most advanced and sophisticated accounting system in the world, notwithstanding the current crisis, Anglo-American accountancy firms have been able to successfully dominate the global network of alliances through technological expertise and network externalities. Due to the individualistic nature of their profession, the Big Five have business alliances or "member" firms in foreign countries and provide a franchise for them to use their brand names. Japan's "Big Four" firms have established their alliance relationship or membership with the world giants.

Chemicals

Kun-Chin Lin's positional analysis of the U.S. chemical industry in Asia focuses on the following structural characteristics that have shaped the industry's overall strategic orientation: a highly oligopolistic structure, forward linkages, backward linkages, and interpenetration of national markets. The concentration of the chemical industry is related to the capital-intensive, continuous-production process, and the extensive R&D requirements of global competition. The social, financial, and intellectual infrastructure for the industry constitutes a high entry barrier that are overcome only by firms that have an external capital reserve or that have state support. Forward linkages in the chemical industry generate direct and indirect links with sectors such as health and agriculture, making the industry's performance highly dependent on the general

economic climate. With respect to backward linkages, the petrochemical sector has created new international markets for technology and chemical feedstock, which has intensified competition in the chemical sector. The interpenetration of national markets is seen in the high internationalization of the chemical industry in terms of trade and production. The U.S. chemical industry is the largest recipient of foreign investment among manufacturing industries and as U.S. producers deepen their presence in Asia, market and firm interpenetration will be reproduced.

The structural characteristics of the nonmarket environment are influenced by the reciprocal interaction of the U.S. chemical industry's oligopolistic structure with the role of the state. The oligopolistic structure limits the fragmentation of interests and collective action problems, leading to a relatively coherent and hierarchical association system with fewer first-order and territorially specific associations than other manufacturing sectors. The capital-intensive character causes the relationship between the industry and the government to be the principal source of domestic cleavage and contention. The alternative of a more cooperative and industry-coordinating role for chemical business associations has been explored and thus in 1988 the U.S. chemical industry established a peak industry organization, the Chemical Manufacturers Association (CMA). This organization adopted the "Responsible Care" program—a sector-wide code of conduct that is required of all CMA members, which provided a third party verification of ethical work codes and issued environmental, health and safety reports. The nonmarket environment in several Asian countries has improved significantly for foreign investors. Under President Kim Dae Jung, South Korea has implemented International Monetary Fund (IMF)-recommended market opening and industry restructuring reforms, as well as liberalized its investment regime. Similarly, China has restructured its foreign investment environment—in

preparation for its WTO accession and to boost the competitiveness of its many backward chemical and petrochemical sectors. This has been done through the lowering of tariff and nontariff barriers in the petrochemical sector, and in the conferring of trading, distribution, and marketing rights to foreign companies.

In regards to firm position, the chemical industry is America's largest exporter, and exports to Asia represent approximately one-third of total U.S. chemical exports. While American firms first entered Asia on a large scale seeking markets to absorb surplus production, circumstances—including the Asian financial crisis—have forced them to realize that conditions in Asian markets can strongly affect the global chemical industry cycle and thus corporate strategies should be specifically formulated regionally and for individual Asian markets. U.S. companies now fill the niche for higher quality products that Asian suppliers cannot yet provide, but which consumers are increasingly demanding.

Autos

In their positional analysis, Beverly Crawford and Nick Bizouras note that the Asian market has been characterized by its high growth potential for both sales and production, especially in China. Japanese firms had first-mover advantages, and local Asian producers also had successes. The only country where the U.S. had significant penetration was Taiwan, where Ford had 26% of the market in 1996. China was the only market not conquered by Japanese firms and this led U.S. automakers to regard China as the last market frontier.

During the 1990s, the problem of global overcapacity led to a change from cross-national competition to cross-national consolidation. Lower profit margins led to many mergers in the late 1990s. Increasing trade liberalization allowed producers to realize cross-national economies of

scale in production and to procure parts from worldwide sources. Large manufacturers have also begun subcontracting production of subassemblies (brakes, steering, etc.) in Asia, reflecting the shift to the lean production and modular production models of the mid-1990s.

Based on Porter's five forces model, Crawford and Bizouras analyze the market challenges for American firms entering the Asian market. Firms nurtured local suppliers, increasing suppliers' dependence and decreasing their bargaining power. Growing demand meant comparatively less bargaining power for consumers. Underdeveloped public transit reduced the threat of substitutes. U.S. firms did not face significant threats from new entrants. The intensity of competition among rivals was complicated by transnational consolidation. American firms relied on their strengths in finance and marketing to increase sales, and their limited exposure during the Asian crisis allowed them to strike when their Japanese and Korean competitors were weakest. Thus, U.S. firms increased their position and investment in Asia.

Despite these changes in the market environment, foreign firms continue to face significant challenges in the nonmarket environment: the automobile sector remains one of the most politicized in Asia, and Crawford and Bizouras focus their analysis on institutional structures that formulate interventionist policies. These include: taxation (including import tariffs, excise duties, sales and consumption taxes and commodity duties), import restrictions, local content requirements (including the promotion of national champions), and non-tariff barriers (technical standards such as environmental and fuel economy ones, licensing regulations, certification and distribution procedures).

Crawford and Bizouras then consider these regulations and restrictions by country. The Chinese government published its first industrial policy for the automobile sector (cars, buses, trucks, motorcycles, engines, parts) in 1994, outlining its policies toward foreign participation in

its market. Guiding parameters for this policy were: self-sufficiency, export capacity, high-tech production (through the import of foreign technology), and Chinese control over decision making. Indeed, the policy aims are to develop the Chinese automotive industry in order to meet 90% of domestic demand by 2000 and to become an internationally competitive, export oriented, large scale industry by 2010. Cars in China are subject to high rates of taxation, and designation of automobiles as one of the "five pillars" of development has led to consistent support for import restrictions. Even with China's entry within the World Trade Organization tariffs will only be reduced to 25% in 2005 and auto parts tariffs will fall to an average of 10%, thus allowing the domestic automobile manufacturers to prolong their adjustment to external competition. Local content requirements are also significant and import licenses are difficult to obtain.

Japan did not have the high taxes or industry policies of China, but the many nontariff barriers resulted in a virtual lock-out of foreign firms. There were few points for American firms to enter supply and sales networks, and costly product standards and service certifications were imposed. The situation was similar in Korea, which also had higher tariffs and taxes. However, by 1999, many of these restrictions were relaxed in both countries.

Indonesia and Malaysia actively supported a national car project that utilized all available intervention tactics. In Indonesia the most important form of aggressive state intervention occurred with the 1996 National Car Policy that gave significant subsidies and benefits to domestic manufacturers that achieved "Pioneer" status. The demise of the Suharto regime during the Asian crisis also led to the demise of the policy and to greater liberalization. In contrast, Malaysia remains deeply wedded to its "national champion" strategy, even after the Asian crisis, leading to an increase in market share for its producers.

The Philippines, Thailand, and Taiwan shared two important nonmarket characteristics: 1) A complex import duty, tariff and taxation structure for most of the 1990s, which stressed the importance of local content development; and 2) A burgeoning commitment to sectoral liberalization, despite legacies of protectionism. Hence, they stood in the middle between the aggressively interventionist states of China, Malaysia and Indonesia and the more non-tariff-barrier oriented states of Korea and Japan. However, WTO membership for Taiwan and ASEAN-AFTA agreements elsewhere have led to pressure to remove restrictions.

Telecommunications

The Japanese telecommunications market is the largest in Asia, with revenues four times as large as the second largest market, China. Japan is also an important telecommunications hub in the region, with a large volume of international traffic, a large portion of which is between Japan and the U.S. The Japanese telecom market presents the special challenge of providing telecom services to the many MNCs whose Asian operations are headquartered in Japan. Several patterns are discernable in the Japanese market. First, the largest segment in the Japanese market is facility-based services such as fixed-line and mobile telephony, called Type I services. Second, the fastest growing product among Type I services is mobile telephony. The size of the market for fixed-line telephony, whether domestic or international, although still the largest within the Type I category, remains stable or on the verge of decline. Among the fixed-line services, ISDN (integrated services digital network), which provides access to the Internet, is the only promising service. In long-distance services, NTT's market share, although still the largest, has been gradually declining in the face of fierce competition from so-called new common carriers (NCCs) such as DDI and Japan Telecom (JT). In 1997, the NCCs' combined share finally

reached 40 percent of the market. By the same token, KDD's monopolistic hold on international telephony has also been seriously eroded. The combined share in outgoing telephone traffic of international NCCs, which include IDC and JT, came close to 40 percent in 1997. These data suggest an increasingly competitive market.

In regards to the nonmarket environment for would-be foreign telecom providers, one can focus on how open and accessible the market is, and the fairness of competition in the market. Related to the first issue are questions regarding the intensity of competition, regulatory control over market entry, and foreign equity limits. The second issue concerns questions of anti-competitive behavior such as cross-subsidization practices by the dominant carrier, and restricted access to its local network facilities. In the 1980s, a major shift in government telecommunications policy towards liberalization led to calls by Keidanren (Federation of Economic Organizations) for liberalization in the provision of both long-distance and value-added network services (VANs) and for NTT's privatization and breakup. The changes were were written into Japan's "first telecommunications reform" in the Telecommunications Business Law (TBL) and the NTT Company Law by the end of 1984. The TBL divided telecommunications carriers into two categories, Type I carriers which provide services using their own communication facilities and Type II carriers which do not own network facilities themselves. The MPT (Ministry of Post and Telecommunications) was authorized to license new entrants but used the "supply and demand balancing clause" to keep out foreign entrants. The MPT has enforced entry barriers to new lines of business for Type I carriers, keeping the long-distance and local markets distinct. The MPT also retained the right to approve pricing set by Type I carriers. Bureaucratic control over the entry of Type II carriers was not eliminated. There is also a one-third limitation on foreign ownership of Type I carriers, and since 1992, foreign

ownership of NTT and KDD is limited to 20 percent. Issues of cross-subsidization and access to local lines were not addressed in this reform; it was not until 1997 that the MPT required NTT to publish access charges for its facilities.

With respect to firm positions, AT&T was profoundly challenged by the 1984 decision that broke its hold over long-distance services, opening it to intense competition. The 1996 Telecommunications Act also unleashed the Regional Bell Operating Companies in the long-distance market. As a result of these challenges, AT&T acquired TCI and partnered with TimeWarner to diversify its product offerings to include one-stop shopping for local, long-distance, cellular, video, and Internet services. Partnerships between MCI and British Telecom and Sprint/Deutsche Telecom and France Telecom for control over the transatlantic multinational market further challenged AT&T's position.

Software

Trevor Nakagawa examines U.S. software firms in Asia. As PCs have become simultaneously more efficient and less expensive, PC-based computing has rapidly spread throughout Asia, specifically in Japan, Singapore, Taiwan, Hong Kong, and other large economies. While all of Asia demonstrates extraordinarily high growth rates for computer-related goods or activities, the Japanese software market is the largest in the region by a factor of more than ten, as well as the only one supported by a sophisticated IT infrastructure and large-scale multi-national companies. As a result, Japan is currently the primary country being targeted by US companies. At a minimum, the Japanese PC market is estimated to grow by 14.8 percent from 1999 to 2000 and continue until 2003 at the slower rate of 13 percent annually. This is because Japanese corporate demand for PCs and their peripherals grew at rates of over 15 percent annually between 1995

and 2000 and is expected to become even stronger, causing the Japanese PC market to increase its share of the world market to 10 percent. This increased demand for PCs translates to increased demand for the accompanying software, leading to an extraordinary growth rate of thirty percent for the Japanese software industry for the past six years. In addition, the adoption of E-enablement software should become much more widespread and expand both B2B and B2C transactions. The expectation is that B2B E-commerce, whose market value was $20 million larger than that of B2C in 1998, should expand eight-fold by 2003 while B2C grows by fifty-fold as there is increased Japanese language content on the Internet, reduced ISP and telecommunication rates, improved security functions, and a continued decrease in prices and increase in power of PCs. This is reflected by the penetration rate of the Internet into households, which almost doubled from the year before.

Although similar trends in PC packaged software trade growth can be seen throughout Asian countries, the B2B enterprise software sector remains an area of only uneven, incremental growth in specific sectors. Since the enterprise software niche involves the use of a sophisticated IT infrastructure by MNCs with complex multi-country operations, it is no wonder that only the most advanced developed economies in the region are targeted for exports. However, as Asian countries continue to build up and roll out their IT capabilities, we are likely to see sector growth for enterprise software in specific large sectors that can take advantage of the high costs and complexity of B2B software. But under present conditions, the PC market and associated client-server architecture has allowed businesses of smaller scale and scope throughout Asia to take advantage of computing technologies suitable to their environment. Thus, the primary functions of software companies' operations throughout Asia outside of Japan remain product localization, marketing, distribution, and training.

Because of the high status of U.S. software producers, the nonmarket environment for U.S. companies in Japan (and all Asian countries) is highly favorable. As a major trading partner with the U.S. and an active participant in international, regional, and bilateral trade arrangements, Japan's trade policies towards computer and software have favored U.S. software vendors. Since embracing the Internet and globalization, the Japanese government has generally promoted FDI and other trade-facilitating efforts in this sector. This facilitation of economic globalization, both in general and in the software industry, has been supported by the newly-reorganized missions of Japanese government agencies like the Ministry of Economy, Trade, and Industry (METI, formerly known as MITI) and their efforts to offer a more streamlined bureaucratic process and relatively low levels of regulation. The government has also been encouraging the creation of various international strategic alliances involving Japanese hardware, related IT companies, and software producers, especially from the U.S. This is complemented by the turnaround strategy since the early 1990s of promoting the use of U.S. hardware and software products. Since Japanese software companies were unable to produce innovative products and maintain international market share, many big U.S. software companies who localize products for specific industries, like IBM, Oracle, and Microsoft, were instead patronized. In addition, the efforts of the Japanese government to meet demands for increased computer security, especially as E-commerce expands, has also increased the demand for U.S.-origin software, especially high-level encryption software and products.

As a result, U.S. companies have dominated the Japanese market in both the enterprise solutions and mass-market packaged software. Five of the most successful companies in the latter category were quick to establish a visible presence with strong local partners in the Japanese market. U.S. software companies will remain dominant as the market for packaged

software continues to grow. In fact, the packaged software sector now holds a 40 percent share of the whole Japanese market as a result of its spectacular growth—it averaged over 20 percent in the past decade. In the process, U.S. producers like Microsoft, Lotus, Oracle, Novell, and Informix should continue to become household names. At the same time, the continuing decline of the mainframe computer, which is the strength of Japanese software producers, the rapid adoption of the PC that began in 1995, and the evolution of E-commerce in the region, have opened up many opportunities for producers of software that has been localized for the newly installed client-server architecture. Coupled with the favorable nonmarket environment, Nakagawa argues that U.S. firms will continue to take advantage of this opening, given that they already possess two crucial core competencies: (1) high quality software designed for the sophisticated needs of the MNC; and (2) the skilled programmers most familiar with the new systems and cutting edge markets in the U.S. to get a head start on localizing their numerous packaged products for the Japanese market.

Consumer Electronics

John Ravenhill describes how the electronics sector is different in that Asia has beckoned principally as a production base for extra-regional markets, especially for shipment back to the United States, rather than as a market for final products. In the market environment, the U.S. electronics industry faced spiraling labor costs in the 1960s due to competition from Japan and its lower wages, which threatened the continued viability of domestic manufacture. Fairchild was the first U.S. company to relocate its labor-intensive assembly operations to Asia—to Hong Kong, in 1961 and then to Southeast Asia in the 1970's. U.S. companies were attracted by low-cost labor, and by the relatively well-educated and English-speaking labor force of Southeast

Asia as well. The governments of these countries also produced incentives to encourage export-oriented manufacturing. National Semiconductor was the first major US electronics firm to relocate its labor-intensive assembly operations to Malaysia in 1971, and other companies followed suit--with the majority of these operations established within one region, the Bayan Lepas Free Trade Zone in Penang. Within a few years, these relocations turned Malaysia into a center of expertise for semiconductor assembly, (and made a substantial contribution to the local economy: by 1981, electronics accounted for more than one third of Malaysia's manufactured exports). Other segments of the US electronics industry, such as the hard disk drive industry followed this example and increasingly relocated their manufacturing facilities to Southeast Asia in the early 1980's. Regional agglomerations developed, in which US investments fostered the growth of manufacturing expertise, which concentrated in various parts of the region and made a significant contribution to the establishment of a regional division of labor in electronics products. But by the mid 1980's, U.S. companies were pressured from Japanese competitors who threatened to repeat across all segments of the industry their success in routing U.S. companies from many consumer electronics markets. The success of Japanese companies was due to their creative designs in consumer electronics, the low labor costs they faced in comparison with companies producing in the United States and Western Europe, the undervalued yen, and to the economies of scale derived from long production runs. But these scale economies had their origins in nonmarket factors: the closure of the domestic market to foreign products and investors, and government support for exporting activities.

U.S. firms faced varied nonmarket environments in Asia, which depended upon whether Asian governments were attempting to foster locally owned firms as competitors and/or as complementary producers to U.S. firms. In Southeast Asia, governments generally did not

attempt to promote national champions in the electronics industry, and U.S. companies located there were able to use these countries as bases for export-oriented manufacturing. They were mostly unhindered and often welcomed by the Asian governments. However, in Northeast Asia, governments were intent on building up local firms and utilized the full inventory of industrial policy instruments.

In the early 1980s, as Japanese firms dramatically increased their share of the global market for semiconductors, American producers feared that the centrality of semiconductors in electronics products would cause the whole architecture of supply in the electronics industry to be taken over by Japanese companies. U.S. companies responded to the Japanese competitive threat in three principal ways. Two were market strategies: automation of production in their Asian subsidiaries, and opening the production networks to take advantage of growing concentrations of local expertise. The third nonmarket strategy consisted of the U.S. government lobbying to pressure its Japanese counterpart to open up Japanese markets to U.S. electronics products, to enforce intellectual property rights, to end its discriminatory government procurement practices and choice of standards that discriminated against U.S. suppliers, to open government-funded research and development consortia to non-Japanese participants, and to ensure that Japanese companies did not dump chips on world markets. In choosing to relocate some of their production facilities to Asia, U.S. electronics firms strove to maximize their competitive advantage through lowering costs and increasing the flexibility of inputs while maintaining the quality of their products.

From an organizational standpoint, U.S. electronics firms were attracted to Southeast Asian countries because they were able to establish wholly-owned American subsidiaries in Southeast Asia. The strategies of U.S. companies towards the organization of production

networks increasingly diverged as local competencies in various segments of electronics industry improved. In some segments, as in hard disk drives for example, U.S. companies typically produced all major components in-house. In other segments, outsourcing became far more common. Costs of establishing production facilities such as foundries in Taiwan and Singapore came to affect the decision to outsource production.

IV. Strategic and Tactical Analysis

The positional analysis of markets, firm competencies, and the nonmarket environment in different geographical contexts, provides the context for firms to undertake strategies and implement them in the Asian market. Because strategic and tactical analyses are deeply interrelated and frequently overlap in the case studies, we can examine these two aspects together in discussing our findings.

Review of the Theory

Strategic analysis refers to how firms respond to and attempt to manipulate market forces. Efforts to develop market strategies have been analyzed from many perspectives. Particularly helpful is the work of Richard D'Aveni, who argues that firms compete in four different *arenas*: cost and quality, timing and know-how, strongholds, and deep pockets.[6] In the cost and quality arena, firms begin with a homogenous product and compete for market share through price differentiation. As price wars escalate, they must shift their focus to quality and service to gain market share. Timing and know-how refer to the ability of firms to seize control of the market, based on such classic concepts as first-mover advantages (or disadvantages) and the innovative character of their products. Strongholds are crucial because they may provide firms with the

ability to exclude competitors from particular regional, industrial, or product segments. But in a dynamically changing market, such barriers are likely to erode quickly and firms must seek new strongholds. Finally, the deep pockets arena focuses on the ability of some firms to utilize superior financial resources to discourage weaker competitors.

At the level of nonmarket strategy, firms must engage in calculations about their possible supporters and opponents on issues of critical importance for success. These include questions about the demand side (what benefits will different actors receive if they are successful in securing their objectives on a particular issue?) and on the supply side (who will be able to generate political action?).

Organizational strategy considers how firms restructure to compete in light of their positional analysis and choice of market and nonmarket strategy. While this is not a central focus of the volume, key issues include how to organize to compete in trade and investment, based on transaction cost considerations. For example, with respect to investment, should firms attempt to create wholly owned subsidiaries or would a minority owned operation suffice? Market forces and strategies will clearly affect this decision. Might a minority owned operation use the home firm's technology to become a competitor down the line? Often, however, a more critical question concerns the nonmarket environment in which firms are operating, including political hazards.

Turning to tactics, firms must assess their abilities to execute market and nonmarket strategies and to build competencies in this area as needed. Market tactics refer to firms' decisions regarding R&D, production, and marketing as they strive to compete in various market arenas. Nonmarket tactics concern policies that might be pursued to advance both market and nonmarket strategies. These include lobbying, grassroots activity, coalition building, testimony,

political entrepreneurship, electoral support, communication and public advocacy, and judicial strategies.[7] Finally, organizational tactics involve the internal restructuring of their management and organizational structure.

We next turn to an examination of how these market, nonmarket, and organizational strategies, along with tactics to implement these strategies have played out in various industries.

Accounting

Market strategies of Anglo-American accountancy firms for the Japanese market are similar to their global strategies. Market conditions such as a solid and sophisticated institutional arrangement of the Japanese accounting business, a protective environment of Japanese CPAs, and the separation of consulting services from legal audit services have deterred Anglo-American firms from penetrating into core audit services. However, the underdevelopment of the Japanese market of accountancy services in comparison with the size of the Japanese economy suggests that there is high potential for market development once the institutional framework for the accounting industry is drastically reformed. As a result of the Asian financial crisis and the long-lasting Japanese recession, the world giants seized the opportunity to strengthen control over their foreign alliances as well as expand their consultancy operation abroad.

For further ingression, Anglo-American firms need to work more heavily with nonmarket strategies. International policy discipline such as the WTO rule does not provide a complete and effective package to enforce market access and domestic deregulation in the services industry. Nonmarket strategies of the Big Five are conducted through two channels. The first channel uses an approach from the inside, where the Big Five penetrates indirectly into the market through

their alliances with the Japanese Big Four. The Big Five and the Japanese Big Four play a complex game in which the Japanese benefit from the alliance arrangement and are forced to be positive of Japanese accounting system reforms. The Big Five try to enter the Japanese market by encouraging reforms.

In the second channel that gives pressure from the outside, the Big Five have advocated international convergence of the accounting system, which will lead to a more favorable environment for competitive Anglo-American accounting firms. The Big Five support the effort to formulate international accounting standards, led by the International Accounting Standards Committee (IASC).

The nonmarket strategies of the Big Five have gradually borne fruit with the wave of globalization. The Japanese recession in the 1990s gradually eroded the self-confidence of the Japanese economic system, which forced the Japanese to take a positive stance on accounting system reforms. The world giants have successfully motivated the Japanese to head for the Accounting Big Bang, which will trigger a revolutionary change in people's perception on professionalism in accountancy services. And although the CPA qualification system of the Japanese market of accountancy services is the last and the toughest barrier for foreigners to ingress into, the critical review of the CPA qualification system as well as the deregulation of auditing activities will also create a significant impact on possible channels for American accountants to enter into the Japanese market.

With respect to organizational strategies, forming alliances continues to be the most conventional method of traversing into the Japanese market. We are not yet able to witness direct entries by the Big Five in Japan because even with a large market, a number of existing regulations on audit operations such as legally bounded fees and fixed audit duration deprive

them of market incentives for direct penetration. Also, with a highly individualistic style of business in accountancy services, the Big Five are solely interested in direct penetration of professional personnel, rather than coming into Japan in the form of FDI.

However, once the IAS is fully established, the environment for foreign firms in Japan may drastically change. Once Japanese accounting standards become largely common to international standards, some of the market restrictions will lose their justification. The Japanese are now fairly optimistic of a drastic reform of the accounting system in the direction of international convergence. Although key barriers to entry such as the commercial presence requirements and professional qualification are still intact, the series of reforms will gradually loosen the logical basis for those impediments. Although the institutional barriers may look like a fortress at the moment, the market integration of accountancy services may be realized much earlier than we expect.

Chemicals

As markets in advanced industrialized countries matured, the pressure for restructuring in the chemicals sector mounted in the late 1970s and 1980s, resulting in a regional market strategy: (1) moving production closer to emerging markets in Asia; (2) reversing the long-term trend toward diversification by narrowing portfolios; and (3) choosing between competencies in either production volume and cost efficiency (commodities) or in product quality and customer satisfaction (specialties). As U.S. firms reached for size through global expansion, Asia became an immediate focal point and American and European chemical firms stepped up their investment in Asia in the early 1990s.

Post-Asian financial crisis market strategies are aimed towards refocusing the core competence of U.S. chemical firms and restructuring their production networks in Asia to avoid direct competition with local Asian producers and to weather global price fluctuations. Since the Asian financial crisis, leading U.S. chemical firms have sought to reduce their exposure to mature commodity chemical products and to enter the production of higher-margin specialty chemicals and pharmaceuticals. Dupont has cut spending in half on nylon operations in Asia, effectively discontinuing its initial high-volume growth and low-profitability strategy that became unsustainable with the rise of Asian suppliers. Following suit, Eastman retreated from its flagship businesses for photographic and agricultural chemicals. Monsanto deliberately sharpened its core competencies by completely reorganizing its operations around life sciences and building a niche in biotechnology and specialty chemicals. Dow has established a regional production network to cope with the wide variations among Asian markets in consumption patterns, cost factors and distribution of European and Asian competitors. Eastman's Japanese operations serve as a foothold for the regional market and research center for its Asian operations. Although the effects of the Asian financial crisis were deemed to be over by early 2000, eagerness for investment in capacity expansion has moderated. As a result, only in China and Singapore, where governments have invested time and resources in the chemical sector, does one find unabated capacity growth. Future investment will adhere closely to U.S. and European firms' strategy for regionalization of production networks -- new basic petrochemical projects will be based in Southeast Asia and China, while Japan, South Korea, and Taiwan focus on specialty production.

Nonmarket corporate strategies in the host country fall under two categories: bargaining with the host state for policy breaks, and coordinating industry-wide actions through multilateral

and sectoral associations. Implementation of sectoral self-regulation in Asia is an example of the U.S. chemical industry's usage of nonmarket strategies. Since there is little to no industry association presence in Asia, there has been a desire to create a pan-Asian association of chemical firms — which is done through the implementation of "Responsible Care" in Asia. U.S. firms, who already follow Responsible Care codes and supply the technology and design of the plant, represent some of the strongest advocates of promoting the program. Countries such as South Korea and China with a large and fragmented population of chemical producers and absence of an authoritative peak association resist the program because the burden of adjustment falls upon them and the higher organization costs. When sectoral cooperation in self-regulation falters, U.S. chemical manufacturers in Asia use unilateral implementation. The willingness of individual U.S. firms to establish an industrial code of conduct demonstrates their dedication to the nonmarket strategy of self-governance in addressing the safety and environmental externalities of their Asian operations.

Shifting market strategies are supported by three common types of organizational strategies-- internal restructuring, mergers and acquisitions, and strategic alliances--the first two being closely related to the global business and production cycles while the latter is strongly motivated by policy liberalization in individual nations. These organizational responses are seen in the 1998-2000 wave of mergers and acquisitions and CEO changes that followed the Asian financial crisis. U.S. chemical firms use strategic alliances as a flexible and risk-reducing vehicle for establishing an initial platform for a long-term commitment to a host Asian market. Dow Chemicals serves as an example of this-- with its alliances with China's newly consolidated state-owned petrochemical enterprises and of Dow Chemical Japan's local alliances in specialty chemical area. Similarly, DuPont has also pursued acquisitions and strategic alliances with local

producers that compete effectively in commodity mass markets. In the past, DuPont manufactured Lycra in Asia for export to Western markets, but has formed various joint ventures to step up production for local markets.

Autos

How can American auto firms penetrate Asian markets markets using both market and nonmarket strategies? Crawford and Bizouras argue that the penetration of these markets can be accomplished through the use of bilateral and multilateral negotiations as well as with the use of financial resources, which were becoming increasingly scarce in the aftermath of Asian financial crisis. In the cases of Korea and Japan, bilateral market access negotiations, as well as superior financial resources, proved to be effective in opening markets that were almost hermetically sealed. In the cases of Malaysia and Indonesia, regional multilateral settings proved to be of some help in addressing nonmarket issues. However, in the cases of the Philippines, Thailand, and Taiwan regional and global organizations such as ASEAN and the WTO proved to be significantly effective in accelerating sectoral liberalization in the host country.

Market strategies recognized that competition between American, Japanese, Korean, and European automobile manufacturers in the Asian markets was part of an overall struggle within the global automobile industry for market expansion with internal rationalization. Competing in Asia was an attempt to build effective scale by playing the regional platform game, i.e., sharing numerous components across models and different regional markets in order to achieve economies of scale and reduce complexity and manufacturing costs. American firms began catching up to Japanese firms in productivity and learned from their models of just-in-time

production. The Asian crisis allowed U.S. firms to make important acquisitions to strengthen their positions. Strengths in marketing and finance made it easier for consumers to buy their cars.

For nonmarket strategies, American automakers used their superior expertise in lobbying at the national, regional and international level in order to gain market access (with the exceptions of Japan, Korea, and China). Large manufacturers such as GM and Ford achieved this goal by utilizing regional organizations such as APEC and ASEAN and by pursuing their traditional lobbying strategies at the national level. Executives from GM and Ford and U.S. Commerce department dominated the fourth APEC Automotive Dialogue meeting in April 2002. American firms were instrumental in bringing the Indonesian national car policy to the WTO for dispute settlement.

For organizational strategies, after American firms first established their trade positions in the Asian markets, they followed their European counterparts' organizational strategies, and formed joint ventures with host state trading firms. The benefits from these arrangements lay in the increased informational advantages in both the market and nonmarket environment of the host states. However, American firms increased their equity participation in these joint ventures once they began production in these countries. This allowed them to overcome the Japanese firms' historical advantage and was key to their recent success in Asia.

Telecommunications

Market strategies needed to address the global telecom needs of multinational corporations in the most efficient manner. AT&T's initial answer to this challenge was, like its rival companies, to form a strategic alliance with other telecom firms. Unlike the other mega-carriers, however, AT&T's focus was the Asia-Pacific region. In May 1993, AT&T formed a loosely coupled

alliance named the ‘‘WorldPartners Association” with Japan’s KDD, and Singapore Telecom. The alliance was aimed at developing and marketing a common set of ‘‘seamless’‘ services such as managed voice, private network and frame-relay services. Then, in 1994, AT&T globalized this alliance by agreeing to enter into a joint venture with Unisource, another Europe-based telecom consortium, which was formed as a counterweight to BT, DT, and FT. However, AT&T’s distinct focus remained on the Asia-Pacific market, possibly because of the growing economies there, manageable regulatory barriers, and its rivals’ focus on the Atlantic. Forming a strategic alliance with major carriers from Asia, therefore, looked like a win-win strategy for AT&T. In July 1998, however, AT&T suddenly announced that it would leave the WorldPartners Association to set up a joint venture with BT instead, where the two could build a truly unified global network rather than associate with a patchwork of different networks. AT&T still had to access the Japanese market; it first used its subsidiary, AT&T JENS (Japan Enhanced Network System), which was originally established in the mid-1980s with a view to offering value-added services in an anticipated Japanese VAN market. Its activities initially stayed strictly within the domain of data communication services, since the government had not approved providing voice services over leased lines using TCP-IP protocols. But, as soon as MPT lifted this restriction in August 1997, AT&T JENS became the first company to offer international telephone services as part of its Internet services. Subsequently, when the ban on the interconnection of leased lines to NTT’s local switches was lifted in December of that year, AT&T JENS also began offering these services to residential users. Thus, AT&T took advantage of a market niche created by the regulation and leapfrogged its competitors by developing the technological capability to provide voice services over the Internet.

AT&T's nonmarket strategy regarding the issue of market access (e.g., foreign equity limits on facility-based carriers was to support the pro-market position taken by USTR (United States Trade Representative) in the WTO Negotiation on Basic Telecommunications Services that began in May 1994. Among these carriers, the most active proponent of market liberalization was without question AT&T. In fact, AT&T became directly involved in this international political process as a formal member of the U.S. delegation. AT&T used both the multilateral channel provided by the WTO, and the U.S.-Japan bilateral channel as a means to pressure Japan into changing its regulatory policy concerning foreign equity limits. Why did the Japanese government change its mind about foreign equity limits? There were essentially two reasons for this policy change. First, it was meant as a bargaining chip to be used in the WTO negotiation. Japan hoped to facilitate an agreement by offering a major concession in equity limits to allow foreign access. Second, and more importantly, it reflected the government's new preference concerning domestic competition. The Japanese business community also favored increased competition in Type I services that would lower costs. On numerous occasions during the course of the WTO negotiation, the USTR deferred its decision regarding the sufficiency of liberalization to the representatives from AT&T. After the WTO negotiations ended, the USTR shifted to bilateral channels to pressure Japan into lifting limits on foreign equity in NTT and KDD. Following the WTO accords, in June 1997 the MPT was no longer allowed to keep out entrants, foreign equity limits on Type I carriers other than NTT and KDD were removed, and ministry approval of pricing was no longer required. Type I carriers were required to provide network access upon request, and Type II carriers were no longer barred from owning facilities. To the extent that AT&T played a role in influencing the outcome of this liberalized international regime, its nonmarket strategy has worked.

Given the nonmarket situation, AT&T's organizational strategy in Japan was to acquire a minority stake in Japan Telecom. First, AT&T opted for equity participation in one of the local facility-based carriers rather than building its own local network facilities. Second, it decided to hold a minority stake in the local partner, because that was sufficient for the purpose of satisfying its corporate customers. Third, it was forced to give up its minority stake in the local partner when a competitor also bought into the firm, although it continued its business partnership with JT through JENS and its strategic global alliance. While AT&T's minimalist organizational strategy is understandable if its goal was simply to minimize the cost of satisfying its corporate customers, in the long run, its "in-country" investment strategy failed, because a minority equity holding did not give AT&T sufficient control over the company, losing the chance to establish a stable foothold in the market.

Software

Up to the early 1990s, U.S. software makers for both the B2B segment and B2C segment faced a variety of market and nonmarket challenges in Japan. In the B2B segment, they faced stiff domestic competition with deep pockets and traditional strongholds. In addition, the keiretsu market structure and strong domestic business associations cemented the network externalities advantages (related to user familiarity with proprietary software) that they already enjoyed. Until PC market penetration began to rapidly increase by the early 1990s, the only U.S. competitors that had a presence in the Japanese market were those who produced enterprise software. However, because the computing power of PC rose in tune with rapidly dropping prices, the PC-based client-server architecture (along with growing Internet use) began to become a viable alternative to the mainframe dominant systems of Japanese computer producers.

Finally, the leading-edge U.S. software makers were able to exploit their comparative advantage as producers of the most innovative B2B and B2C packaged software.

Because companies were the primary purchasers of software, they became the first target for U.S. producers. Market access in Japan depends most on issues such as the degree of localization required, the availability of specialists such as bilingual engineers, and the degree to which sales depend on customer education. In addition, breaking through strong corporate loyalty ties meant that partnering with Japanese hardware producers and other related peripheral industries formed a key part of their market entry strategy. With strong reputation effects, U.S. software products focused on finding an appropriate hardware producer to offer a total system solution to each client as Japanese companies made the shift to new computing environments. Given the strong path-dependent nature of platform choice, Japanese clients needed the certainty of having their software choice be made in conjunction with a familiar Japanese name like Hitachi, NEC or Fujitsu. This was particularly so in the case of expensive enterprise software, which is extremely complex, requiring installation of multiple databases with highly sensitive data and the extensive training of personnel.

Prior to the early 1990s, the primary reason that U.S. “off the shelf” packaged software products tended to fail in Japan is their lack of adaptation to local needs. But once Japanese hardware makers adopted the PC standard, the floodgates were open to the use of software that could transfer data through use of the client-server architecture and the Internet. Now, the cultural differences that required adaptation in language, packaging, service, scale, and specific function became crucial and were surmountable through the skilled use of strategic alliances. It is for this reason that many of the larger U.S. software companies (notably Microsoft, Oracle, and IBM) in Japan that have steadily expanded their operations from joint ventures to regional

operational hubs. Successful U.S. companies in Japan know that in the case of software, Japanese-language screens, prompts, excellent after-sales service, etc. are a *sine qua non* for sales in Japan. Such localization means that the software will cost considerably more (20 to 50 percent more than a similar product in the U.S.) than what U.S. consumers would pay. Japanese users, especially large corporations have demonstrated the will to pay more for the best available products from the best companies. Thus, the most successful U.S. companies in Japan have established key strategic alliances with major complementary players while maintaining a high-profile physical presence over the course of many years. A visible presence at all of the major consulting and trade shows, events, and missions which attract Japanese PC manufacturers, Internet service providers, software integrators, financial institutions, etc. is a prerequisite to successful market entry and expansion.

Oracle's integrated market/nonmarket global strategy closely mirrors the ideal of the industry. Scale your product to its maximum advantage by targeting the biggest clients around the world in the largest-scale industries. Then, as market maturity sets in, attack the small- and medium-sized segments simultaneously in multiple industrial segments in multiple markets. Its strong presence in Japan during the early stages of client-server computing in heterogeneous environments made Oracle ideally suited to become the biggest software company in Asia for several years running. But closely related nonmarket issues are equally important. In cooperation with the U.S. government, U.S. software producers have lobbied to see that Japan has, in its policy statements and its regulatory actions to date, endorsed an open, private sector-led, and minimally regulated environment for the Internet and electronic commerce.

As the number of Internet users in Japan rises, U.S. software associations such as the BSA have been lobbying so that the U.S. government will work with Japan to ensure robust

growth in this critical sector, specifically by targeting the high cost of accessing the Internet in Japan as well as ensuring that the government will not tolerate software piracy. Japan has also been working on specific policy areas, including the introduction of a new "e-commerce" bill in the spring of 2000 to give electronic authentication legal status equivalent to that of traditional handwritten signatures and personal seals.

Given the speed with which the current PC market continues to move with respect to the demand for internet-related applications and the creation of sophisticated, packaged enterprise software products, even U.S. companies with long-term experience in Japan have an incentive to search for strategic partners in all segments of the IT value chain. As heterogeneous environments connected through a client-server Internet architecture have offered the possibility of exchanging data and conducting transactions on multiple platforms, the level of sophistication required to grab market share in the lucrative B2B enterprise applications markets is high. Even Microsoft recently made this shift to attack these large market opportunities generated by the Internet only five years ago. In fact, even since the recent "dotcom bust," virtually all major software publishers think of themselves to some degree as being a "global internet company." It is in this context that one can understand U.S. firm strategy towards Japan and other Asian countries. With the acceptance of converging standards in a host of converging technologies, including telecommunications, broadband, mainframes, PCs, workstations, PDAs, mobile phones, etc., the packaged software product (i.e. the 'killer' application) remains one of the most sought after revenue streams in the entire IT business. However, being able to offer a scalable solution to the broadest number of industry players in the face of stiff competition among a host of potentially complementary and competitive strategic partners remains a delicate balance with shared profit margins that rely on economies of scale and scope to survive. The experience of

U.S. software firms in Japan illustrates the need for a long term, integrated market-nonmarket strategy to survive the next iteration of this fiercely competitive and evolving sector.

Consumer Electronics

Ravenhill explains how Asia has played a central role in the resurgence of the U.S. electronics industry through a variety of market strategies. Asia has become a critically important location for U.S. subsidiaries and has played a key role in providing manufacturing facilities for U.S. companies. Moreover, the growth of local competencies in Asian economies has enabled U.S. companies to diversify their sources of supply, and to escape dependence on Japanese competitors. The openness of U.S. production networks from their initial establishment provided the industry with a foundation on which companies could then build so as to exploit growing local capabilities. In Taiwan and Korea, the memory chip industries in Korea and Taiwan had their origins in government laboratories that made initial technological breakthroughs. As the expertise of Taiwanese firms became well known, U.S. companies invested locally to take advantage of the competence of domestic firms. The different trajectories of U.S. and Japanese networks was a matter of divergent corporate structures and cultures. The vertical integration of Japanese companies and the close ties between assemblers and suppliers that served companies in the evolution of a competitive electronics industry proved to be a drawback in an environment where products and capabilities alike were rapidly evolving. Unlike those established by Japanese firms, U.S. firms took advantage of the growing capabilities within the subsidiaries, relied heavily on subcontracting arrangements as local firms increased their ownership of production process, and increasingly adopted network forms of organization. Outsourcing allowed for U.S. companies to lower the cost of inputs and enabled the companies to conserve

scarce resources – management, research, and capital and to concentrate them in a niche where the firms' competitive advantage could be maximized. The characteristics of the U.S. firms allowed for them to capitalize on the advantages that Asia offered, while Japanese companies failed to imitate them for a substantial period. U.S. firms were relatively young, medium sized companies that were not part of vertically integrated conglomerates. They lacked the "deep pockets" of their Japanese competitors, faced extreme cost pressures, feared losing out to Japanese competitors that benefited from lower wages, from proven efficiencies in production and from the cheap yen. Once these pioneer investors in Asia had successfully established themselves, and began to generate the positive externalities that flowed from agglomeration, other U.S. companies were quick to follow. Thus, the success of the market strategy pursued by the U.S. firms depended in part on Japanese companies being slow to emulate the U.S. approach.

A collective nonmarket strategy, pursued through the Semiconductor Industry Association, formed in 1977, eventually brought the success, courtesy of winning the backing of the U.S. government, that the application of "voice" by individual U.S. companies within Japan had singularly failed to deliver. The Semiconductor Trade Arrangement of 1986 contributed to changing the business culture within Japan so that relationships with foreign firms—long-term supply arrangements or joint research projects—were increasingly seen as advantageous. Once the culture had changed, commercial considerations came to the fore and reinforced the new collaborative arrangements. The STA was reinforcing commercial considerations that were becoming ascendant for Japanese consumers of semiconductors. Japanese companies increasingly sought alliances with U.S. companies, motivated by several mutually supporting factors. They were keen to tap the expertise of their U.S. rivals; the increasing costs of research and development in the industry favored a strategy of cost sharing; and alliances offered a

market strategy for attempting to overcome negative political opinion about Japanese companies. The STA also had the unintended consequence, through the floor price mechanisms of the first Arrangement, of providing windfall profits for Korean and Taiwanese DRAM producers, thereby enabling them to gain a firm foothold in the industry. In turn, their presence reinforced the openness of the supply networks.

V. Strategic Lessons

U.S. firms attempting to penetrate Asian markets, either through trade or foreign direct investment, have faced significant market and nonmarket obstacles. In the sectors that we have examined, firms responded by using a variety of market, nonmarket, and organizational strategies. In many cases, similar strategies were applied successfully in various sectors; in others, their effectiveness has been limited by specific sector characteristics. In this section, I discuss general lessons from the case studies and suggest directions for future research.

To get a sense of the types of generic strategies that appear to be successful in Asia, I consider both market and nonmarket challenges faced by firms. We can categorize market challenges based on four of Porter's five forces that we examined for our focus on positional analysis.[8] For nonmarket challenges, I consider how U.S. firms have utilized lobbying and creative institution-building to liberalize Asian economic policies and business practices. Organizational strategies are a response to constraints and opportunities afforded by both market and nonmarket conditions. In general, successful U.S. firms have harmonized their strategies across all three areas: market, nonmarket, and organizational. Figures 9.1 and 9.2 combine these two categories of problems and three types of responses to categorize strategies that have proved effective.

Responding to Market Challenges

Figure 9.1 reviews the market, nonmarket, and organizational strategies that have proven successful in responding to market conditions.

FIGURE 9.1 HERE

Rivalry Among Firms. Product, service, and technological innovation have been key responses to growing competition in Asia. In the cost and quality arena, U.S. firms in Asia have focused on niche products in which they have a comparative advantage vis-à-vis their competitors. For example, U.S. chemical firms have chosen to focus on higher-margin, specialty products rather than lower-margin, high-volume commodity products. U.S. auto firms have realized the necessity of modifying their product offerings to better satisfy the needs of Asian consumers and have also adopted the just-in-time inventory and lean manufacturing practices of their Japanese competitors in order to reduce costs. Multinational U.S. accounting and telecommunications firms offer the advantages of providing one-stop professional and communications services for corporations in Asia. The software industry has also moved to localize their products to fit language and cultural requirements. U.S. firms have also located manufacturing facilities closer to emerging markets in Asia, and have tried to narrow product portfolios, further reducing costs.

Nonmarket strategies in response to firm rivalry have focused on developing relationships with host country governments and appealing to multilateral organizations where there is perceived discriminatory market behavior such as “dumping” or unfair business practices. In some cases, U.S. firms have been successful in directly lobbying host governments

for favorable policy breaks. Developing country governments, eager for technology and information transfer opportunities, have often had favorable policies towards U.S. firms in high-tech fields such as software. Governments eager for jobs and growth have also been quite welcoming in their policies to encourage U.S. foreign direct investment in labor-intensive manufacturing and assembly. Since U.S. firms have not usually enjoyed the kinds of direct government benefits provided to European and Japanese firms, they have instead chosen to focus on expanding their opportunities for competition by dismantling protectionist policies that protect host-state firms.

Organizational strategies have included internal restructuring and refocusing on core competencies, as well as strategic mergers. In the case of the U.S. chemical industry, firms such as Monsanto focused on their core strength of biotechnology products. U.S. firms have also invested in establishing production and distribution networks at the local, regional, and even global levels in order to cope with fluctuations in supply costs and consumption patterns.

Changing Barriers to Entry. The U.S. has not traditionally enjoyed market strongholds in Asia; instead, these were the province of their Asian competitors. As a relative latecomer, U.S. firms faced significant market barriers to entry, but U.S. firms enjoyed the luxury of "deep pockets" as the U.S. stock market took off in the 1990s, boosting corporate asset valuations and financial bargaining resources. During this period, a stagnating Japanese economy and an Asian financial crisis that put a stranglehold on many Asian firms provided an opportunity for U.S. firms to increase investment and establish a firm foothold in Asian markets. These deep financial resources allowed U.S. firms to engage in strategic mergers and acquisitions, use their advanced

technology to establish efficient manufacturing operations, and to lobby for favorable government policies.

Japanese and Korean automakers enjoyed substantial market shares in Asia and U.S. firms were only able to crack these strongholds due to the onset of the Asian financial crisis. Japanese competitors had a similarly powerful position in the electronics sector. In a highly path-dependent, country-specific industry such as accountancy services, U.S. accounting firms could only tangentially enter the Japanese market. Telecommunications has largely been a nationalized industry until recent deregulation provided an opportunity for private foreign firms. The one sector in which the U.S. enjoyed a strong position earlier on was in the software industry. The success that U.S. firms have had in cracking the strongholds of Japanese firms reminds us that in a dynamically changing market, all firms are similarly looking for opportunities to compete. The emphasis that some Asian countries has placed on developing domestic industries only further adds to the difficulties of U.S. firms that seek to build and maintain strongholds against entry.

Power of Buyers. One of the keys to gaining market share in Asia for U.S. auto firms was to leverage their superior marketing and financing capabilities to increase the attractiveness of American products and to provide consumers with additional buying power on credit. A market response has been to establish a physical presence and personal contacts in the host country. On the nonmarket side, U.S. firms have also tried to link to government buyers, bid for government contracts, and supply products for government procurement. The power of buyers is relatively balanced, given that American firms must also compete with domestic and other foreign firms, although in cases where U.S. firms provide highly-specialized, high-end products, buyers have

fewer viable alternatives. This is especially true in the case of client-server software, where U.S. firms have strong first-mover and network advantages.

Power of Sellers. American firms have increasingly relied upon global sourcing in order to maintain flexibility in procurement. However, sourcing may be restricted by local content restrictions that may increase the power of host country sellers. U.S. firms have utilized nonmarket strategies to lobby against these restrictions, and used organizational strategies of working with local firms to make the most of the situation. U.S. firms do not have the benefits of the *keiretsu* arrangement available to Japanese firms, but they have also had to establish their own suppliers in some host countries where none previously existed. By cultivating local suppliers, U.S. firms have also increased the strength of the relationship.

Responding to Nonmarket Challenges

Figure 9.2 reviews the market, nonmarket, and organizational strategies that have proven successful in responding to the nonmarket environment in the regulation of products and services, trade intervention, and direct foreign investment.

FIGURE 9.2 HERE

Regulation in Products and Services. Asian markets have been marked by extensive government intervention. By creating new services in response to deregulation, and working around existing constraints, U.S. firms were able to develop a competitive edge. This market approach has been complemented by a nonmarket strategy of supporting the development of international standards

for products and services or establishing their own industry associations and corresponding standards. Country-specific standards and regulations are costly to adapt to and create nontariff barriers to entry: in the auto industry, for example, satisfying the myriad standards requirements in Korea and Japan would be prohibitively expensive. Similarly, the highly country-specific accountant qualifying system in Japan makes it virtually impossible for a foreign-educated CPA to attain professional certification in Japan. Encouraging the adoption of international standards is an effective market strategy as well, by allowing for economies of scale in production for multiple countries and minimizing nontariff barriers that firms face. In the chemical industry, organizational strategies have included establishing a peak industry association and standards for self-regulation to build accountability and trust with the public.

Trade Intervention. Market and organizational responses to protectionist trade policies have largely relied upon entering joint ventures with host country firms and entering into strategic alliances. U.S. firms are highly active in nonmarket responses to trade intervention, relying upon their experience and sophistication in lobbying the U.S. government, foreign governments, and international forums to liberalize economic policies. This has meant lobbying the home government to represent industry interests in bilateral and multinational forums such as APEC, ASEAN, and the WTO, and even directly participating in these negotiations. The case of AT&T is one of the strongest examples of this type of nonmarket strategy, as AT&T lobbied the U.S. government to take on Japanese telecommunications policy in the forum of the WTO, and then played a direct advisory role in recommending alternative policies. U.S. auto firms have also been very active in lobbying domestic, regional, and multilateral forums to reform protective

policies in Asia. Bilateral market access negotiations are also an important strategy, especially in the case of autos.

Foreign Direct Investment Policies. Where market and nonmarket barriers prevent profitable direct access to Asian markets, U.S. market and organizational strategies have commonly taken the form of strategic alliances and mergers with their counterparts in Asia. Due to the complex and country-specific nature of accounting in Japan, U.S. firms had to settle for alliances with Japanese accounting firms and providing professional personnel. Chinese regulations have restricted the activities of U.S. firms, who must enter into joint venture agreements with Chinese firms. Equity limits in other countries have similarly limited the organizational options for U.S. firms.

The decision of whether to engage in direct market entry, mergers and acquisitions, or strategic alliances is heavily conditioned upon both market and nonmarket factors that determine potential profits and risks. Aside from hard restrictions on U.S. firm entry, conditions such as political stability and the competitive environment also weigh into calculations of investment and exposure. In some cases, these moves are driven primarily by market considerations: for example, global overcapacity in the auto industry has led to cross-national consolidation rather than cross-national competition and the demands of multinational corporations for global services has led to cross-regional mergers of accounting and telecommunications firms. Strategic alliances can be a flexible arrangement and a method to reduce risk. The vagaries of markets and politics make these calculations extremely difficult: although AT&T adopted a conservative organizational strategy in Japanese telecommunications in choosing a minority equity stake, this strategy backfired when the Japanese partner was acquired by a competitor.

Future Avenues for Research

Faced with Japanese, European, and local competitors in Asia, American firms have had to adapt and have used a mixture of strategic responses. The positional analysis of firms in different industries has highlighted the diversity of sectoral environments. We have also considered how firm must respond to market and nonmarket challenges through market, nonmarket, and organizational strategies. As the cases studies have shown, these approaches have varied by industry and by the national origin of firms.

To better understand the development of optimal firm strategies in Asian markets, we must compare the experiences of American firms with their counterparts. By systematically contrasting the diverse set of approaches, this book together with its counterpart volumes *Winning in Asia, European Style* and *Winning in Asia*, *American Style*, provides us with both a theoretical and empirical account of the role played by different home governments as well as the unique characteristics of firms of different nationalities. We must also recognize that firm strategies may change over time in response to the evolving market environment, especially as a result of the Asian crisis, and the current downturn in the U.S. and Europe. Moreover, as countries negotiate new bilateral, regional, and international arrangements, the market and nonmarket challenges for firms will become increasingly complex. Because the time period of our analysis spans some of these key changes, we have been able to examine firm strategies before and after the Asian crises and in the context of new trading accords.

Asia's rapidly changing economic and political environment has created a growing challenge for American firms. I hope that the analytical framework presented in this book,

together with knowledge of how firms have successfully competed in Asia in the past, will give firms the foundation for creating a winning edge.

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[1] For comments and research help on this chapter, I am deeply indebted to Elaine Kwei.

[2.] *Winning in Asia, European Style: Market and Nonmarket Strategies for Success,* edited by Vinod K. Aggarwal and *Winning in Asia, Japanese Style: Market and Nonmarket Strategies for Success*, edited by Vinod K. Aggarwal and Shujiro Urata. All three books are published by Palgrave (New York).

3. Porter (1980).

4. Baron (1999, 2000).

5. Hamel and Prahalad (1994).

6. D'Aveni (1994).

7. See Baron (1999, 2000) for discussion of these nonmarket tactics.

[8.] As indicated in the positional analysis, substitutes have been relatively unimportant in these cases.