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Preface

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Preface

The Asian crises of 1997 dramatically altered the short-term attractiveness of Asian markets.[1] The almost unbridled optimism that rapid growth would continue in the region had made these markets a central focus for European, American, and other foreign firms. During the darkest moments of the crisis, however—with currencies plunging and contagion threatening—some foreign firms sought to exit the market and shift their regional strategic efforts. Yet in most cases the rapid descent of these economies was followed by equally speedy recovery. Opportunities to secure assets at bargain basement prices and pressures for liberalization of markets brought many firms rushing back to Asia.

This special issue of *Business and Politics* analyzes how European, American, and Japanese firms have attempted to succeed in Asian markets, both before and after the Asian crises. It is based on a series of three forthcoming edited books that examine market and nonmarket strategies in Asia.[2] As this special issue demonstrates, the most successful firms in Asia have pursued integrated market and nonmarket strategies that respond to and attempt to influence the political–economic–social environment.[3] Firms that have been able to leverage their capabilities to secure assistance from their home governments, and have developed strategic relationships with Asian governments and firms, have repeatedly emerged as winners. And firms that have ignored the nonmarket environment have done so at their own peril, generally losing out to both foreign and domestic competitors—even if they have a highly competitive market strategy.

The first article by Vinod K. Aggarwal, "Corporate Market and Nonmarket Strategies in Asia: A Conceptual Framework," presents an integrated theoretical approach that provides the basis for the empirical analyses in the subsequent case studies in this issue. The first part focuses on "positional analysis"—that is, how market forces, firm competencies, and the nonmarket environment influence the firm's choice of trade, investment, or some mix of these two, at the national, regional, or global level. The second part of the theoretical framework focuses on "strategic analysis," consisting of a firm's choice of market arena, a transaction cost analysis of organization forms for market penetration, and a

1. For comments, I would like to thank Cédric Dupont, Ed Fogarty, and John Ravenhill. For financial support for the Winning in Asia project, I am grateful to the Institute of European Studies at UC Berkeley and the Center for Global Partnership of the Japan Foundation.

2. *Winning in Asia, European Style: Market and Nonmarket Strategies for Success,* and *Winning in Asia, American Style: Market and Nonmarket Strategies for Success*, both 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 will be published by Palgrave (New York). The case studies include an examination of software, financial services, aircraft, autos, chemicals, telecommunications, and electronics.

3. See Baron (1999, 2000) for an excellent discussion of nonmarket strategies.

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distributive politics analysis of nonmarket issues. These factors combine to influence the firm's integrated strategic choice. Implementation of this choice based on "tactical analysis" is the topic of the third section, focusing on the market, organizational, and nonmarket tactics that firms must employ in pursuit of their chosen strategy.

The article by Trevor H. Nakagawa, "SAP: An Enterprising Software Company Competes in Asia" explores the performance of European software firms with a focus on the company SAP. He finds that European firms have been slow to enter Asian software markets, and in fact have been steadily losing market share to U.S. firms in their own domestic markets. Nakagawa shows that despite significant aid from their governments, fragmentation and specialization along national, environmental, and functional divisions have hindered European software firms. His analysis provides a detailed examination of a more successful firm, SAP, which specializes in the enterprise resource planning software area. In particular, he notes that politically useful international strategic alliances and carefully cultivated links with host governments helped SAP to implement its market strategy.

In "Dogfight over Asia: Airbus vs. Boeing" Wayne Sandholtz and William Love explore Airbus's efforts to counter the global success of Boeing. As the fastest growing market in the world and one with no indigenous competitors, Asia has been a key Airbus target. To succeed in penetrating Asian markets, Sandholtz and Love show how Airbus used a strategy that emphasized both market and nonmarket factors. From a market perspective, Airbus sought to develop customer goodwill by lending aircraft and pilots to Asian airlines and focusing on efficient, high-capacity, technologically advanced planes to deal with the limited supply of landing spots at airports in most Asian countries. From a nonmarket perspective, Airbus relied on "launch aid" from national governments, entered into subcontracting relationships with governments to encourage purchase by their flagship airlines, and pushed European governments to offer technical and developmental assistance to governments whose airlines chose Airbus.

Gregory Noble's "Congestion Ahead: Japanese Automakers in Southeast Asia" examines the strategy of Japanese automakers with a particular focus on Southeast Asia. He shows that from both market and nonmarket perspectives, automakers faced a dilemma: how should they respond to scale economy pressures for centralization versus political and market pressures for localization of production? While their initial push into Southeast Asia was marked by exports of fully assembled cars or complete knockdown kits, they responded to political and market pressures by beginning a process of localization in the region. They subsequently pursued a more intensive strategy of regional production in Southeast Asia, including the export of cars and parts from the region to other parts of the world. In achieving a dominant position in Southeast Asian markets, Japanese auto producers' investment and export efforts benefited from the Japanese government's aid and trade policies. The financial crisis in Asia, pressures from Southeast Asian governments for a greater share of the value-added, and the advent of new rivalry from American and South Korean firms have forced Japanese firms to reorganize their operations, develop new market strategies, and more aggressively pursue nonmarket strategies in an effort to maintain their dominant position.

In “The Right Chemistry? The U.S. Chemical Industry in Asia,” Kun-Chin Lin argues that American chemical firms have shifted from a short-term and opportunistic focus on Asian countries to a deeper and more sustained commitment to operations in the region. Moving beyond viewing Asia simply as a market for excess capacity, these firms have pursued integrated market, organizational, and nonmarket strategies to better compete in the region. At the level of market strategies, they have switched from commodities to specialty products with higher margins. From an organizational perspective, firms have developed specialized management structures for different business sectors and engaged in significant merger activity to focus on core businesses. They have also sought to develop a regional production network to meet variation in demand from different Asian markets. More recently, U.S. firms have also undertaken key strategic alliances—though European firms have been more successful than American ones in securing market access in countries such as China through targeted joint ventures and strategic alliances. These alliances have had an important nonmarket effect: they have helped European firms respond to political pressure from Asian governments wishing to aid domestic firms in their restructuring efforts. On the whole, with respect to nonmarket strategies, American firms have fallen behind European companies in actively differentiating among different Asian nonmarket environments.

What general lessons about market and nonmarket strategy in Asia might be gleaned from the analysis presented in this special issue and the project more generally? At the highest level of abstraction, a clear finding is that market strategies that might otherwise appear to be suboptimal from a narrow market-based analysis of short-term profitability or organizational efficiency are in fact part of a successful long-term integrated strategy. In aircraft, software, autos, chemicals, and the financial sector, among others, initially marginally profitable investments, strategic alliances, subsidiaries, and supplier networks have often proven to be the core of broadly successful strategies. These approaches have enabled firms to cope with or encourage favorable regulatory and political action on the part of host country officials.

Another general lesson that emerges is that successful firms have pursued a multi-pronged strategy with respect to their lobbying efforts, both in home and host countries. Such strategies include lobbying at different levels, including the international level (through the World Trade Organization or other institutions), at the regional level (through organizations such as the Association of Southeast Asian Nations, North American Free Trade Agreement, and the European Union), and of course at the national level with both host and home governments. But the most effective approaches have often been at the subnational level, both with respect to provinces or states, and even at the level of cities and other subregions. This finding is consistent with the well-known adage: “all politics is local.”

With respect to firm competencies, while companies clearly have significant room for maneuver, there is a strong path dependent aspect to both market and nonmarket strategies. In the case of software, for example, the existing competencies of SAP and its position vis-à-vis American and Japanese competitors led it into a particular market niche for its products and a nonmarket strategy of promoting training centers in Asia. In autos, the first mover advantages of the Japanese helped them establish a stronghold in Southeast Asia. At the same time, however, their efforts in building up production capacity in Thailand has given American firms an opportunity to benefit from the development of local skills and a components industry. Among European firms competing in China, Volkswagen's prior experiences in dealing with authoritarian governments in East Europe gave it a significant nonmarket edge in dealing with the Chinese government.[4]

Finally, alliances and joint ventures have been key elements in successful integration of market and nonmarket strategies. From a market perspective, alliances and coproduction efforts have been helpful in overcoming high startup costs and barriers to entry, and in increasing market responsiveness by developing local expertise. Such market and organizational strategies have also been critical in generating political support from local firms. This has increased foreign firms' leverage in securing allies to lobby host governments on issues such as local content requirements, price and other forms of regulation, and local standards consortia.

Although there are many other specific lessons that emerge from the analysis in this special issue and in the project volumes, these examples should give the reader a basic flavor of the benefits of understanding and analyzing the integration of market and nonmarket in Asia. Together with the analytical tools discussed in this issue and the rich case materials presented by the authors, I hope this work will be of benefit to both scholars and practitioners of business-government relations.

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4. See Biziouras and Crawford (2001) for analysis of the competition between VW and Peugeot in China.