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<u>Chapter 9</u>

Lessons from Japanese Firms' Strategies in Asia

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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 Japanese firms to win in Asia.[2] An economic overview of the performance of Japanese firms, both with respect to trade and investment, sets the stage for specific sector analyses. The case studies in this book—including the banking, auto, telecommunication, chemical, 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 Japanese firm strategies with American 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, in Japan, 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 Japanese firms have operated, concentrating on the economic characteristics of the Asian market and the relative performance of Japanese firms. Section III provides a positional analysis for the six industrial sectors covered in this volume. Section IV reviews the theoretical and empirical aspects of the strategies and tactics pursued by Japanese 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 Japanese trade and investment patterns in developing Asia. With respect to investment, Urata documents the importance of foreign direct investment (FDI) to both the recovery and development of Asian economies. Japanese firms in particular have occupied a prominent position in among investors in Asia. Geographical proximity, expansion of local sales, promising returns on investment, and a cheap, well-disciplined labor force have encouraged Japanese firms to invest in this region.

Before the 1997 Asian financial crisis, Japanese FDI to Asia—fueled by the appreciation of the yen and liberalization efforts of East Asian governments—rose steadily. China's position relative to other Asian FDI recipients was relatively weak, with four members of ASEAN or (Association of Southeast Asian Nations), Thailand, Malaysia, Indonesia, and the Philippines (referred to here as ASEAN4), collectively receiving a much larger portion of Japan's FDI. The

1997 crisis had both an encouraging as well as a discouraging effect on FDI in Asia. On the positive side, devaluation of the Asian currencies increased the attractiveness of these countries as FDI hosts. Moreover, coupled with collapse in local stock prices, sharp currency devaluation allowed foreign firms to invest in extant Asian firms at bargain prices. On the negative side, the significant decline in local economic activities, combined with heightened uncertainty in the macroeconomic performance of many Asian countries, tended to discourage Japanese investment into Asia. The effect on Japanese FDI levels during and after the crisis, however, was not uniform across countries: investment in Hong Kong, Taiwan, Indonesia, the Philippines and China decreased sharply, while in South Korea and Malaysia it *increased* significantly.

The impact of the crisis on firms' sales has varied with location and sector. The ASEAN4 group was less affected by the crisis than the NIE4 (Newly Industrializing Economies) group, which consists of South Korea, Hong Kong, Taiwan, and Singapore. Meanwhile, the transport machinery and metal products sectors suffered most seriously. In general, firms in sectors with high export-sales ratios performed than firms in sectors with lower ones. Faced with depressed demand and currency depreciation, firms failed to shift their sales from the domestic to the export market as expected. Instead, Asian firms held export-sales ratios at a relatively constant level during and after the crisis.

With respect to likely Japanese FDI, a recent survey from the Export-Import Bank of Japan shows a negative trend. This reduction in FDI can be attributed to the current Asian recession as well as uncertainty in exchange rates for Asian currencies. A recent Japan External Trade Organization (JETRO) survey, however, presents a more encouraging picture of Japanese FDI in Asia. It shows a strong Japanese trend to expand operations in the ASEAN4, Vietnam,

Singapore, South Korea, and China. Although the results of the two surveys are mixed, both do predict a recovery to precrisis level at least within ten years.

Asian affiliates of Japanese firms have pursued similar strategies in the wake of the financial crisis. First, firms have developed plans to increase their export orientation, both with respect to their sales and local procurement of parts and components. Second, these firms have engaged in substantial intra-firm, inter-process division of labor. Finally, Asian firms have aimed to reduce the cost of production and to improve the quality of their products while diversifying product lines.

Urata demonstrates that FDI and trade strategies can be complementary rather than simply substitutes for one another. Throughout the last decade, Japanese exports to Asia have been more significant than FDI in the region. This is primarily because geographical proximity is more important for exports than it is for investment. This phenomenon is also accounted for by restrictions on FDI in host Asian countries as well a heightened risk for investing in developing countries as compared to simply exporting products there. Urata concludes his analysis by noting that despite grim speculation about dwindling FDI in Asia, increases can be expected if host economies make efforts to provide a suitable environment for investment.

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.

Banking

In their examination of Japanese banks, Masahiro Kawai, Yuzuru Ozeki, and Hiroshi Tokumaru focus on the context of lending in East Asia. From the perspective of market dynamics, they argue that the tremendous success of Japanese banks in East Asian markets in the 1980s and 1990s was driven by a buoyant stock market, abundant liquidity, and low interest rates. In addition, a key factor in their expansion was the banks' support of the activities of Japanese firms in East Asia, which themselves were driven to invest by the strong yen. This combination of factors enabled Japanese banks to secure a dominant market position in Asia and elsewhere in the 1980s, with the world's ten largest banks in assets being Japanese. In the early 1990s, collapsing asset and property markets in Japan damaged their capital base and the quality of their portfolio, subsequently leading to an equally dramatic reversal in their fortunes.

The Japanese nonmarket environment was marked by relatively weak regulation of lending. The deregulation of capital markets, changes in interest rate controls, and removal of restrictions on non-bank lending led to much stiffer competition among Japanese firms. These changes were paralleled in part by financial liberalization (not necessarily simultaneously) in several Asian countries—including, to varying degrees, South Korea, Thailand, Indonesia, Malaysia, and the Philippines—leading to strong competition to lend in these countries. Other nonmarket changes proved to be of great significance, particularly the change in the Bank for International Settlements (BIS) Basel capital adequacy ratios in 1992. International Monetary Fund (IMF) and World Trade Organization (WTO)-driven financial service liberalization, especially after the crisis, also has had a significant effect on competition in Asia.

With respect to their core focus, Japanese banks successfully used the protected domestic market to engage in traditional deposit taking and lending activities, which they then expanded in East Asian markets as they followed Japanese firms into the region. While the primary focus of Japanese banks at the peak of their regional activity in the mid-1990s was on Japanese-affiliated firms, they also engaged in local lending in selected countries, driven in large part by nonmarket changes in the host countries. With the Asian crisis, however, Japanese banks were forced to retrench and shift their focus back to the Japanese domestic market.

Chemicals

Tametsugu Taketomi shows how Japanese chemical companies have operated in an industry marked by a high degree of government intervention. Until the Japanese financial bubble burst in the early 1990s, Japanese companies had focused primarily on their domestic market. This domestic focus was driven by the advantages provided by high barriers to entry (a result of government regulations in the Japanese market discussed below). In sharp contrast to their Japanese counterparts, U.S. and European firms, which did not receive such benefits and undertook dramatic restructuring in the 1990s, were highly competitive and made inroads into Asian markets. In addition to this growing rivalry among existing producers, new entry by South Korean, Taiwanese, and other suppliers—in a market already faced with significant oversupply—created stiff competition among firms for market share. Japanese firms shifted away from their domestic focus with the appreciation of the Japanese yen against the U.S. dollar in the mid-1990s, leading them to follow in the footsteps of other Japanese multinationals by relocating to Southeast Asia. In terms of the bargaining power of buyers, the intensification of competition and subsequent consolidation among the chemical industry's major industrial

customers—the automotive industry—also has put pressure on Japanese chemical companies. Specifically, as auto firms have pursued global sourcing, they have demanded discounts in exchange for their large purchases. With respect to substitutes, in the chemical industry's consumer users market of packaging, Japanese chemical producers faced local producers who could displace much of their demand in Asian countries, and thus began to lose market share.

With respect to the nonmarket environment, the Japanese chemical industry has been marked by significant intervention, including government-sponsored cartels and mergers, subsidies, and trade restraints. The industry was actively cartelized through the Ministry of Trade and Industry's (MITI) actions in the 1980s. This cartel, however, proved unstable over time, as the industry faced the need to compete globally, and firms began to engage in mergers in the 1990s. The Japanese chemicals market also was protected by high tariffs, which are being progressively reduced as a result of the Uruguay Round agreement. For example, a tariff of about 20 percent in the early 1990s for polyethylene is to be reduced to 6.5 percent by 2004.

In terms of positioning, Japanese firms have traditionally been much smaller than European and American competitors. This holds for life-science product companies, high value-added chemical firms, and petrochemical firms. Many of the chemical companies, however, have been organized into *keiretsu* relationships, with exclusive supplier-buyer relationships and financial support from *keiretsu* banks in the group. These arrangements have begun to erode, however, as a result of financial problems for Japanese banks in these groups, the need to compete in multiple Asian markets, and the advent of Internet-based purchasing of chemicals. In response, chemical companies are once again undergoing merger activity, leading to the creation of much larger global players.

Autos

Gregory Noble's chapter provides a systematic positional analysis of the Japanese auto industry with a focus on its activities in Southeast Asia. At the broadest level, as Japan's largest manufacturer and exporter, the automotive industry has been critical to Japanese economic growth. With respect to market forces in the Southeast Asian auto industry, Noble argues that substitutes have been of relatively minor importance, because mass-transit systems in the region have been late to develop and are limited in scale. The bargaining power of buyers has been limited, as demand tends to be dispersed rather than concentrated. By contrast, suppliers have increased their bargaining power, although Japanese auto assemblers still face little bargaining pressure from their suppliers of parts and materials and local suppliers have generally been in an even weaker position. Instead, the major challenge comes from the growing power of major international suppliers such as Delphi, Visteon, and TRW of the United States and Robert Bosch of Germany. More generally, two major considerations continue to affect the position of Japanese firms. First, Japanese auto firms continue to compete intensively against each other in Southeast Asian countries, giving those countries significant leverage in their negotiations. Second, foreign auto assemblers now pose a looming threat, with South Korean manufacturers competing at the low end and Western automakers competing at the higher end.

The nonmarket environment in autos is particularly complex, with a host of political issues at both the regional and national levels that affect firm strategies. At the regional level, in view of the many backward and forward linkages in the auto industry, governments in Southeast Asia have attempted to work together to boost regional content through a variety of organizational mechanisms. These accords call for various types of tariff reductions, credit toward fulfillment of local content requirements to parts and components produced in other

ASEAN countries, and other regional cooperation efforts. After the Asian crisis, the ASEAN Industrial Cooperation Agreement has reduced local content requirements. This shifting political environment has posed a challenge to all auto producers in Southeast Asia, but to this point Japanese firms have been most successful at dealing with the intricacies of these arrangements. At the national level, auto firms face many different types of problems, necessitating a multi-domestic strategy tailored to individual markets. For example, in Indonesia, cronyism, ethnic tensions, and efforts to favor local producers have led to protests by foreign auto manufacturers in the WTO. Malaysia, for its part, has been active in promoting a local auto industry in cooperation with chosen foreign allies. In Thailand, by contrast, the government has attracted investment because of its political and policy stability and growth in demand, making it an attractive production location (and one where the Japanese have achieved a dominant position). In response to the financial crisis, Thailand has further encouraged investment and American firms have been quick to respond to enter and benefit from the supplier network that has been developed by the Japanese over the years.

From an organizational standpoint, auto firms face several competing pressures. With significant economies of scale, shrinking product cycles, and pressures to adapt to environmental, safety, and quality concerns, the outcome has been the development of a few large, complex, and global companies. At the same time, pressures to disperse production come from geographical constraints and government policies to increase local content and production. In Southeast Asia, the ability of Japanese firms to create organizational structures (*keiretsu*) to cope with these demands and meet the needs of different market and nonmarket environments has given them a competitive edge. Together with approaches such as “lean production” and an ability to link production to orders and to create slight variations on a product theme to satisfy

various market niches, companies such as Toyota have reduced inventories and organized the workflow efficiently by creating a "just-in-time" production process. The result has been a dominant Japanese position in Southeast Asia based on high-quality small cars and pickups that are priced attractively and produced relatively economically. This outcome has been qualified, however, by the pressure on *keiretsu* networks to improve their flexibility, the moves away from keiretsu organizations by some firms, and the demonstrated ability of Western firms to free ride on the supplier base Japanese firms have developed in Southeast Asia.

Telecommunications

Yumiko Okamoto's chapter provides an integrated analysis of the market and nonmarket factors that have affected the position and organizational dynamics of the Japanese telecom industry. With respect to market forces, she argues that the advent of new technologies, which led to the creation of cellular communications and the proliferation of Internet-based operations, dramatically changed the competitive market dynamics in this industry. Together with the booming demand from the entry of multinational corporations (MNCs) in the region, the result has been that the Asia-Pacific is the fastest-growing telecom region in the world, marked by intense rivalry. U.S. and European global mega-carriers, which are considerably more dynamic because of early privatization and deregulation in their home countries, have achieved early entry and significant presence in this market and Japanese firms are only now beginning to catch up.

The most significant force affecting the market position of telecom companies has been critical changes in the nonmarket environment such as privatization, the removal of barriers to entry, and deregulation with respect to foreign ownership. The international telecom market underwent a dramatic change in the 1980s and 1990s as a result of shifting government policies

that led to the breakup of AT&T and the privatization of NTT in Japan and British Telecom in the United Kingdom. In East Asia, privatization began as early as 1987 and accelerated across East Asia in the late 1990s. More recently, countries throughout East Asia are increasing their openness to foreign investment. The latter changes have been driven in part by the WTO Global Agreement on Basic Telecommunications, which was negotiated in the mid-1990s and took effect in 1998.

With respect to firm position and organization, Japanese telecom firms NTT and KDD suffered through much of the 1990s under state regulation of their operations and range of products. Significant deregulation in 1998 and 1999 and concurrent corporate restructuring allowed these firms to integrate various service and product divisions—especially domestic and international divisions previously divided by law—and thereby to offer more comprehensive and competitive packages of domestic and international service (including global IP-based and data communications networks). Deregulation also significantly increased foreign investment in Japanese Telecom; together, British Telecom and AT&T own 30 percent of the conglomerate's shares. Since these reforms, Japanese firms have competed more effectively in Asian markets. Even as they compete internationally, however, NTT, KDD, and DDI have sought to improve their services and operations at home due to increased competition in the Japanese market from foreign competitors. Still, the intercorporate and state-business ties that Japanese telecom firms enjoy with Japanese MNCs and other actors in local East Asian markets have helped them to establish successful subsidiaries and local alliances quickly, reducing the dominance of U.S. and European carriers.

Software

Trevor Nakagawa's chapter on Japanese software analyzes the position of the Japanese software industry in East Asia and provides a case study of Fujitsu, arguably Japan's most successful software company today. Although developing Asia has historically been no more than a peripheral part of the overall strategy of most software companies, it is an increasingly fundamental target market for many of the biggest players. With continuing economic growth, growing middle classes, well-educated workforces, stable political systems, and expanding technological bases, East Asian countries have seen impressive growth in demand for software throughout the past decade. Because the software industry is characterized by network externalities and high fixed costs, first-mover advantages are particularly strong. Accordingly, U.S. firms remain dominant through their alliances with hardware firms with respect to preinstalled software and package deals. Unable to compete in the rapidly growing PC consumer market and with the Windows operating system in particular, larger Japanese firms such as Fujitsu, NEC, and Hitachi decided to focus on the enterprise software market to leverage their expertise of the Japanese corporate environment. With the rapid evolution of increasingly powerful PCs, servers, and workstations, substitutes have not been feasible to maintain as local suppliers found themselves with declining market share relative to their U.S. competitors at home and within Asia. Even with their entrenched corporate position in proprietary mainframe and other hardware systems, cheaper and more powerful hardware and software systems that utilize internet connectivity became in increasingly heavy demand. Accordingly, Nakagawa's analysis illustrates how Japanese software firms had little choice but to conform to U.S. global standards. While smaller firms opted to become value-added resellers to localize foreign products, larger suppliers such as Fujitsu chose to collaborate with their potential competitors to provide total

enterprise solutions. With the relative infancy of the Internet in developing Asia, firms compete vigorously for market share to establish a foothold for the coming Internet battles.

The nonmarket environment for Asian software is complex, but generally receptive on both regional and national levels to aggressive firm strategies. Because many Asian countries consider the software industry critical to economic prosperity, governments have made long-term commitments to IT-related education and infrastructure while taking active roles in the promotion of the software industry through fostering government procurement and use, liberalizing trade, and opening up to foreign investment. As enormous IT infrastructure plans are realized throughout the region in the coming decade, internet demand for both B2B (business-to-business) and B2C (business-to-consumer) e-commerce is likely to offer further opportunities for regional growth. Accordingly, foreign firms are also enticed by advanced infrastructure provisions in "software parks" that offer them close proximity to other leading firms, as well as R&D credits and other incentives. Furthermore, protection of intellectual property rights is not as relevant for complex enterprise software as it is for simpler applications; and finally, governments have made gestures toward controlling rampant piracy rates that are reflective of the generally friendly FDI environment. In summary, despite varying national contexts, there are many similarities in the nonmarket contexts in which Japanese software firms operate.

From an organizational and firm position standpoint, Japanese enterprise software companies have had to experiment with many horizontal forms to deal with a wide array of competing pressures. While industry-leading U.S. firms collaborated with their hosts to capture the majority of the early emerging software market throughout developing Asia, their Japanese counterparts were initially slow to capitalize on regional advantages in these rapidly maturing computer hardware and software markets. By following the leader and the dictates of the global

market both at home and within developing Asia, however, many Japanese firms were able to take advantage of the rapid adoption of the powerful (and low-cost) PC, client-server architecture, and the Internet in a relatively short period of time. Since 1990, those Japanese companies that were able to take advantage of these new developments by phasing out their old commitments to proprietary mainframes designs have positioned themselves well to compete in this new global "open" market era. To keep up with rapid developments in both hardware and software abroad, Japanese firms saw little choice but to enter partnerships with leading software vendors and systems integration consultants from leading global companies and local labor pools. Through complex strategic alliances with numerous partners, they could offer more comprehensive enterprise solutions to firms in a timelier manner. Such thin organizational strategies have allowed major Japanese software producers to adapt to the changing global dynamics of the industry. Thus, even though they have gotten a relatively late start, large enterprise software producers such as Fujitsu have become major players both globally and regionally by embracing the Internet and by learning to collaborate with leading complementary technology partners (often from the United States).

Consumer Electronics

Hidetaka Yoshimatsu's chapter analyzes the position of the Japanese electronics industry in developing Asia. First, on the supply side, he notes that while electronics producers come in a variety of sizes, the major Japanese electronics firms are vertically integrated, comprehensive producers that engage in a variety of sub sector businesses. Major firms also supply key core electronic parts such as semiconductors and crystal devices to other firms. Second, with respect to the power of buyers, while large electronics producers manufacture their parts in-house, assemblers

have nourished close relationships with subcontracting parts suppliers. By fostering the creation of supplier associations, the major assemblers and smaller parts suppliers have cooperated to improve quality and reduce costs. Third, relatively low barriers to entry have allowed products and manufacturing methods developed by one firm to be quickly imitated by competing firms, resulting in a market with firms making similar products and competing to mass-produce to capture greater market share. Firms also have sought to cope with increasing wage costs and land shortages in Japan by expanding operations into North America, Europe, and Southeast Asia in the late 1980s. Fourth, particularly in the 1990s, new entrants, especially South Korean firms, have challenged the dominant position of Japanese firms in the Asian electronics market. Fifth, substitutes have posed a challenge to firms in this market in two ways. Technological innovation in the late 1990s created a pronounced spike in demand for information technology (IT) and a concurrent reduction in the importance of consumer electronic goods. Meanwhile, electronics manufacturing services firms have become major players in the electronics industry as they branched out from original equipment manufacturer (OEM) production.

Several nonmarket factors have also had a significant impact on trends in the electronics industry. East Asian import-substitution policies and high tariffs on imported products initially prevented Japanese firms from establishing a pronounced presence in the region through exports. As a consequence, Japanese firms began to engage in local production. By the later 1960s and early 1970s, this environment began to change as Taiwan, Malaysia, and the Philippines began to encourage a greater foreign presence in their electronics market and shifted to export-oriented policies. Another significant change in the nonmarket environment came with the ASEAN countries' commitments to market integration and liberalization in the 1990s. From an institutional context, the ASEAN Free Trade Area (AFTA) and ASEAN Industrial Cooperation

(AICO) programs, the latter of which provided preferential tariffs to regional firms, have encouraged resource pooling, industrial complementation, and other industrial cooperation activities among ASEAN firms.

From the perspective of firm positioning and organization, Japanese multinational electronics firms have established a solid presence in Northeast Asia since the 1960s and in Southeast Asia since the mid-1980s, particularly after the Plaza Accord of 1985. The Japanese production networks in electronics have been characterized by their exclusive nature with low levels of localization in terms of procurement, technology transfer, R&D, and management. This orientation stemmed from various factors including language barriers and the replication of unique Japanese business practices. However, the Japan-centered production system has revealed several shortcomings since the mid-1990s. First, reliance on parent firms in Japan for R&D impeded the development of locally oriented, price-competitive products and the reduction of lead-time for development. Second, the closed production system has impeded Japanese electronics firms' utilization of expertise and technological capability in the emerging Asian supply base. Finally, the devaluation of local currencies after the Asian financial crisis increased the import price of intermediate goods from Japan.

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.

Banking

In the wake of the Asian crisis, Kawai, Ozeki, and Tokumaru note that Japanese banks have dramatically shifted their strategies. While they were heavily engaged in and targeted foreign Asian markets in the 1980s, the Japanese slowdown combined with the Asian crisis to encourage Japanese banks to return to their home market. Several large banks ceased foreign operations altogether, while others began to reduce their foreign involvement by closing branches and cutting personnel,

all with an eye to improving their financial position. With respect to foreign market positioning, banks have shifted to servicing the operations of Japanese firms and their affiliates. As competition has increased as a result of deregulation activities, Japanese banks have also been forced to seek new sources of revenue. To meet this objective, banks are now increasingly focused on investment banking, cash management services, and various types of e-businesses.

At the level of nonmarket strategies, following the Asian crisis, Japanese banks have aggressively pushed for intervention, both by international financial institutions and by governments. Their objective has been to secure some type of financial commitment on the part of these actors to guarantee debt servicing—including such ideas as exchange rate guarantees and yen-based loan conversions—but in the end these nonmarket strategic efforts failed to yield results. Rather than helping banks, international financial institutions and governments aided debtor countries, but without an overall scheme to guarantee debt repayment. Japanese banks also rejected calls by debtor countries for debt forgiveness, but as Kawai, Ozeki, and Tokumaru show, the market value of debt has declined dramatically, thus leaving banks with a de facto outcome that they sought to prevent.

Organizationally, to implement their market and nonmarket strategies, banks also have been actively engaging in alliances or mergers to achieve economies of scale, reduce operational costs, and strengthen their position in various market niches. The result of this tremendous burst of merger activity has been to create four major financial groups. These policies have been undertaken under the guidance of the Banking Sector Revitalization Commission and the Financial Supervisory Agency.

Chemicals

As Tametsugu Taketomi notes, the Japanese chemical industry has been forced to take dramatic action to shore up its position. Previous market strategies that relied on the protected domestic market quickly became unviable as liberalization allowed foreign competitors to enter the Japanese market. Japanese firms responded to this increased competition by undertaking foreign investment in growing Asian markets and beginning a process of restructuring that would only accelerate in the latter part of the 1990s. With respect to foreign investment, the appreciation of the yen, particularly after 1995, combined with dynamic Asia markets, led to a boom in investment by Japanese firms through the establishment of subsidiaries. This strategy became less viable after the Asian crisis.

In the nonmarket realm, although the government no longer provides the same degree of protection to the domestic market through tariffs and cartel management as in the 1980s, it still continues to work closely with the industry. The most dramatic development has been the recent significant change in the organizational structure of the industry. In 1998, for example, MITI introduced the "Kombinat Renaissance" plan to restructure ethylene complexes. Two oil companies—Mitsubishi-Nippon Oil and Japan Energy—and two petrochemical companies—Mitsubishi Chemical and Asahi Kasei—agreed in 2000 to integrate their facilities.

The organizational structure of the industry has thus been going through a dramatic transformation, both because of management and MITI-led initiatives. For example, the merger of Mitsubishi Kasei and Mitsubishi Petrochemical in 1994 into Mitsubishi Chemical created one of the top ten chemical companies in the world; in 1997, Mitsui Toatsu and Mitsui Petrochemical were merged into Mitsui Chemical. Changes in management structure also are underway. Companies have sought to develop regional headquarters for their activities in Europe and North

America, and have responded to changes in Japanese accounting methods by creating holding companies and independent boards of directors. Leading companies such as Mitsubishi Chemical have also created a more systematic division structure, giving core segments within the company greater management autonomy. By introducing new measures for profitability, this new approach has also encouraged the shift of resources to newer business areas.

Autos

Noble shows how Japanese automakers pursued a variety of market strategies to cope with the Asian financial crisis. Foremost among these was cost-cutting, but different auto firms chose different approaches to this end. While Toyota and Honda continued to implement standard cost cutting measures, Nissan, Mitsubishi, and Mazda began to slash their product offerings, the number of plants, and turned to global sourcing in an effort to reduced costs. In addition to such efforts, firms made new investments in research and development. For example, Honda pursued new propulsion technologies and improvements in engines, while Toyota made major investments in safety, emission, and fuel efficiency technology. Other firms such as Nissan have focused on their core competencies and shed interests in mobile telecommunications, aerospace, and other non-core activities. Finally, Mitsubishi has attempted to gain competitive advantage in a narrow segment, direct injection engines.

To complement its market strategies, Japanese auto firms have been under increasing pressure since the Asian crisis to lobby governments more aggressively in Southeast Asia. In the past, their primary focus had been on ties to regulatory agencies, but as Western auto manufacturers have made both a strong market and nonmarket push, these Japanese firms have been forced to move toward a more direct approach. For its part, the Japanese government has

used aid, trade, and investment-promotion policies to create a favorable climate for its firms. These efforts include the promotion of regional, national and local institutions that the government believes will be conducive to its firms, such as the Asian Development Bank and the Asia Pacific Economic Cooperation (APEC) forum. It also encompasses more technically oriented associations in the auto sector and the creation of the ASEAN Automotive Federation. Financial support from the Japanese government after the Asian crisis also has indirectly helped affiliates of Japanese auto firms. Furthermore, the government has not been averse to standing aside when national governments have taken trade actions that might contravene the WTO but that would benefit Japanese firms, as in the recent case of Thai auto tariffs. More narrowly, the government has worked with firms on discussion of bilateral agreements that may prove beneficial.

With respect to organizational strategies, the crisis in Asia and problems in Japan have forced automakers to choose whether to pursue independence, dependence, or alliance. Although firms such as Toyota and Honda have maintained their independence in view of their stronger financial position, Mazda, Nissan, and Mitsubishi initially sold large stakes to foreign automakers, but after the crisis, effectively ceded control to their foreign partners. Other smaller firms such as Isuzu, Suzuki, and Subaru have sold significant equity to General Motors. With respect to their *keiretsu* networks, while Toyota and Honda have strengthened their ties to parts suppliers, Nissan and Mitsubishi have moved toward greater global sourcing and loosening ties with existing suppliers. These choices have, of course, been affected by ownership and alliance patterns. Independent Toyota, for example, lent tremendous financial support to its affiliates, while Mitsubishi and Nissan have largely frozen operations in Southeast Asia. Meanwhile, Mazda has restructured under Ford's leadership but also invested in a joint venture in Thailand.

Telecommunications

As Okamoto notes, although Japanese telecom firms remain committed to maintaining their domestic market dominance, NTT and KDD have rapidly expanded operations in other East Asian markets, especially through the formation of local subsidiaries. This has required tremendous investment in R&D and training. In terms of positioning, their market focus has shifted away from the provision of basic telecommunications services toward meeting the complex needs of medium and large-sized businesses, and MNCs in particular. NTTcom (NTT's international division) and KDD have developed partnerships and alliances with foreign firms, both local Asian firms and international data and communications specialists like Verio Inc. and Cisco Systems, to offer more value-added services. These services include the development of seamless global connections services through data communications and IP-based networks in Asia and international connections through subsidiaries. NTTcom and NTTdocomo have expanded simultaneously into North American and European markets, along with the East Asian market, with the long-term goal of being global instead of regional players. Their first primary targeted customers are MNCs, especially Japanese corporate customers abroad.

With respect to nonmarket strategies and tactics, the Japanese government has faced steady international pressure for deregulation of its telecom industry. NTT has agreed to changes in its operations, but in exchange has pushed the government to reduce restrictions on its operations. With their massive investments in R&D, NTTcom and NTTdocomo also have courted the favor of the governments of developing East Asian countries such as Malaysia by cooperating with local training and infrastructural development programs. These firms also enjoy an international advantage over their foreign competition in servicing long-standing Japanese

MNC partners and in exploiting Japanese networks in regional markets. To create barriers to entry and increase return on R&D, NTT—and Japanese firms more generally—have actively participated in the International Telecommunication Union's (ITU) standardization efforts.

Organizationally, NTT in particular has embraced Internet technology to make all of its operations and services IP-based and network friendly. Instead of forming global mega-alliances, NTTcom and NTTdocomo prefer case-by-case alliances or subsidiaries either for more effective operations and delivery in local Asian markets, or to tap into specialized expertise (as with Cisco Systems and Verio Inc.). These firms prefer flexibility and the pursuit of specific ends over broader leverage, and have thus far shunned the global mega-alliances that U.S. and European telecom companies have pursued.

Software

As a latecomer to the industry, Japanese software firms have focused on a market strategy of disrupting the status quo through the creation of a series of temporary advantages. They have strategically placed niche products or lobbied the government to block the entrance of superior foreign products. As Nakagawa's analysis illustrates, Fujitsu has been successful primarily because it has effectively implemented an integrated strategy at multiple platform levels to leverage unique software solutions to an increasingly global market. While all major Japanese enterprise software providers generally adopted an open standards approach, they varied on their commitment to the Internet in the initial stage of booming PC demand in the early 1990s. But all shared attention to R&D and technological developments abroad. Establishing a presence among leading suppliers in various complementary technologies was a linchpin of this strategy. By adopting an "Everything on the Internet" business strategy, Fujitsu sought to leverage its other core businesses by focusing on

becoming a leading software solution provider for multiple platforms and networks as well as a leading Internet service provider and user. With software and services carrying the load of growth to profitability, Fujitsu's global Internet strategy has resulted in overseas sales that account for over half of its total revenues since 1999. With more advanced IT infrastructures emerging, declining computing and software costs mean that Asia will continue to play a key role in this continuing growth.

To complement these market strategies, Fujitsu sought to establish closer ties with local or national government authorities to promote their large-scale enterprise solutions throughout the economy and amongst the governments themselves. While seeking cooperation with local host governments to set up local training centers and seminars, they worked with commerce agencies to promote their use among industrial clients as well. Simultaneously, they also promoted software and Internet use in cooperation with local vendors and leading foreign suppliers through exhibitions, trade fairs, and local business associations. Furthermore, they took advantage of a wide array of favorable trade, tax, and R&D policies to use Asian countries as both an export base to third-party markets and as localization centers.

With the rapid diffusion of both cheaper workstations and PCs, opportunities have emerged for creative software solutions in a broad range of highly specialized applications. Since no single supplier could offer a total enterprise solution, Fujitsu opted to take a broad alliance strategy to cooperate, rather than directly compete with leading-edge firms. While other Japanese firms sought to create stand-alone in-house solutions, Fujitsu openly created horizontal alliances to sell its products and services. As a result, numerous groups of firms, including hardware producers, independent software vendors, services firms, consulting companies and resellers were put together on a project-to-project basis. Fujitsu's success has led other leading

Japanese firms to follow suit in a move toward greater global sourcing and loosening ties with existing suppliers. Fujitsu's home organizational strategy was affected as well, as it consolidated its six more functionally divided software divisions into three independent ones with more focused market niches.

Consumer Electronics

Hidetaka Yoshimatsu shows how the East Asian import-substitution policies of the 1960s caused Japanese electronics firms to focus on a strategy of local production, rather than exports. The sharp appreciation of the yen after 1985 quickly forced Japanese firms to accelerate overseas operations. They also began to face increasing competition and were forced to compete on price with local companies in Asia. Even in high-value goods such as DVDs and digital TVs, Japanese firms face sharp price competition and have been forced to reduce costs by sourcing locally. Still, compared to their American counterparts, Japanese firms have been relatively slower to respond in terms of undertaking local sourcing and other cost-cutting measures. Japanese firms also remain reluctant to shift from their position as comprehensive producers. In semiconductors, for example while American, South Korean, and Taiwanese firms have focused on particular product niches, Japanese firms continued their focus on the full range of design and production, and only began to outsource in the late 1990s. The rise of electronic manufacturing services companies in the 1990s also has forced Japanese firms to increasingly reposition themselves away from their core competency in manufacturing and toward design, product development, and marketing.

From a nonmarket perspective, some Japanese electronics firms have sought to utilize the AICO as a means of enhancing their competitiveness in Asia. The Matsushita group, for

example, became one of the first applicants to the AICO scheme, but it faced great difficulty in obtaining an approval. In order to appease local opposition, Matsushita held public hearings and persuaded local producers only after proposing to foster local parts suppliers and to rectify trade imbalances within the Matsushita group. Japanese electronics firms also have sought to strengthen institutional networks with other Asian electronics industries. Their industrial associations began the Business Dialogue in 1997 as a liaison meeting, and the Japanese government has encouraged such a move. Japanese firms also have sought to utilize these networks to aggregate the interests of electronics industries in Asia. Previously, the Japanese government and firms provided assistance and cooperation on a country or company basis. However, this kind of commitment became less effective in promoting the regional integration and helping the region-wide restructuring of Japanese firms. Accordingly, the new commitment aims to upgrade the overall industrial bases in the ASEAN region through the formation of the *gyokai* system and the coordination of the interests of the region-wide industries.

From an organizational perspective, Japanese firms responded to East Asian import substitution policies by undertaking joint ventures with local firms. This strategy allowed them to cope with local Asian government regulations on foreign ownership and secure sales channels. After the liberalization of East Asian markets in the 1980s and 1990s, Japanese firms established manufacturing plants in East Asia that were designed to take advantage of the new export-oriented policies and began to export their products to third-party markets. Japanese ownership in these plants rose to nearly 100 percent in most cases, as East Asian governments began to nurture foreign ownership to encourage growth. At the same time, intercorporate rivalry intensified and induced the reorganization of production networks of Japanese electronics firms. Their push into the North American and European markets was also driven in part by nonmarket

changes. In particular, Japanese firms responded to pressures for trade restraints in such products as VCRs and televisions by engaging in local investment. In the mid-1990s, as local companies in Asia emerged as major rivals in consumer electronic manufactures, heightened price competition led Japanese firms to pursue more efficient procurement strategies and to transfer more management positions and R&D to East Asian branches. They also have increased procurement from East Asian firms and concluded strategic alliances. For example, imports of integrated circuits, data-processing devices, memory devices, and input/output devices from other Asian firms increased dramatically between 1994 and 1999.

V. Strategic Lessons

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 the role of governments in production, trade, and foreign direct investment. As we have seen, firms respond to each by undertaking market, nonmarket, and organizational strategies. Figures 9.1 and 9.2 combine these two categories of problems and three types of responses to categorize strategies that seem effective.

Responding to Market Challenges

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

FIGURE 9.1 HERE

Rivalry Among Firms. Product and technological innovation have been key responses to growing competition in Asia. New types of services are now being offered by banks; auto makers have developed new technologies for engines, fuel emission, and safety; telecom firms are adding value-added services; software firms such as Fujitsu have sought to provide solutions for multiple platforms; and consumer electronics firms have created new, higher value-added goods such as DVDs and digital TVs. Cost cutting also has been an important strategy, with Japanese banks extracting themselves from developing Asia after the financial crisis, auto firms pursuing a variety of methods including reducing their offerings and plants, chemical companies significantly restructuring, and consumer electronics firms engaging in local sourcing and other measures.

Nonmarket strategies to respond to rivalry have focused on involving the Japanese government in a variety of aid policies to enhance firms' competitive positions. Related tactics have included unsuccessful calls by banks for government aid for Japanese affiliates and earlier cartel promotion efforts in the chemical industry. From an organizational standpoint, to improve their competitive abilities firms have actively undertaken mergers and alliances. Japanese banks continue to be involved in significant consolidation, auto firms have sold equity stakes and strengthened ties to parts suppliers, and telecom firms are engaging in selected strategic

alliances. Chemical companies have also been merging and rationalizing their management structure, while software firms have developed horizontal alliances and consumer electronics firms are engaging in local alliances.

Changing Barriers to Entry. In many sectors, the protected Japanese market has served to keep out non-Japanese firms, although deregulation is now lowering these barriers to entry. For example, in the aftermath of deregulation in the banking, telecom, and chemical sectors, affected firms have sought to cope with new competition in their home markets by seeking new outlets for trade and investment in developing Asia. At the same time, Japanese firms have faced significant regulatory and cost barriers in their own efforts to enter developing Asian markets. In some cases, as in the banking and telecom sectors, ready-made clients in the form of multinational Japanese firms have allowed them to overcome the difficulties in setting up lending operations.

The most significant response to changing barriers to entry has been in the realm of nonmarket and organizational strategies. As pressure has grown on Japan to deregulate its telecom industry, NTT has successfully bargained with the Japanese government to give it freer reign in the Japanese market. At the same time, it has engaged in massive investments in R&D and cooperated with programs to develop infrastructure in developing Asia, thus currying favor with governments and creating barriers to entry for prospective competitors. Most significantly, by actively participating in ITU standardization efforts, Japanese telecom firms have sought to create barriers to entry. In the chemicals sector, the promotion of cartels by the government clearly served to create barriers to foreign firms. As pressure to remove protection in the Japanese market has increased, chemical firms have been able to substitute government

promotion of cartels with government encouraged restructuring and mergers, creating large, powerful firms that pose a challenge to new entrants. Similar structural impediments have been created by the creation of *keiretsu* networks of suppliers in the auto sector. Partnerships with local and international firms, as in the telecom industry, have often helped to ease entry.

Power of Buyers. Japanese firms have benefited from their relationships to closely linked buyers in several different sectors. Fore example, Japanese banks' ties to multinational Japanese firms in their home market have carried over to the East Asia markets as these multinationals have invested in these countries. This has allowed Japanese banks to benefit from their preexisting relationships with "buyers" (borrowers). After the onset of the Asian crisis, Japanese banks were able to retreat into their relatively protected relationship with existing Japanese customers in their home market. Similarly, telecom firms also have sought to service Japanese MNCs operating in foreign markets, and have successfully used their preexisting links to find ready customers.

From a nonmarket perspective, Japanese banks have attempted to influence their relationship with borrowers by calling on the Japanese government and international financial institutions to create repayment guarantees. In software, Fujitsu has developed ties to local governments who can serve both as buyers and as promoters of their software solutions. From a nonmarket and organizational standpoint, government-led restructuring of the oil and petrochemical sector has led to greater vertical integration, both on the buyer and supplier side. Similarly, in software Fujitsu has reorganized to emphasize the provision of a full range of services, up and down the value chain.

Power of Sellers. Developing and maintaining close ties to sellers has been a key strategy for Japanese firms. Still, growing competition is changing this close relationship in several sectors. In autos, East Asian production networks that build on Japanese *keiretsu* relationships has ensured that Japanese firms have a steady and reliable source of supply as they enter new markets. In the wake of the Asian crisis, however, strategies toward suppliers have diverged. Toyota, for example, has provided financial assistance to its affiliated suppliers in an effort to ensure a reliable source of supply. Others, such as Nissan and Mitsubishi, have sought to increase their competitiveness by moving toward global sourcing. But while this organizational strategy has reduced costs, it has also pitted Japanese firms against considerably more powerful suppliers such as Delphi, Visteon, and TRW in the United States and Robert Bosch in Germany, rather than on their relatively compliant *keiretsu* network of suppliers. Similarly, software firms have moved to greater global sourcing, which has reduced costs at the expense of their close ties to existing suppliers. In the consumer electronics area, sharply increased local competition in developing Asian markets has led Japanese firms to source locally.

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 production, trade, and direct foreign investment.

FIGURE 9.2 HERE

Production. Asian markets have been marked by extensive government intervention. More recently, the move toward significant liberalization in East Asian markets also has created new challenges for firms, and they have pursued a variety of strategies to respond. From a market

perspective, both banks and telecom firms have faced an increasingly deregulated market. Banks have responded to regulatory liberalization by promoting new services and focusing on Internet-related businesses. NTT, a key Japanese telecom firm, developed a nonmarket strategy of actively lobbying the Japanese government to allow it to enter new markets and remove restrictions on its activities to cope with deregulation. For their part, auto firms have actively moved from seeking ties to regulatory agencies to direct lobbying as well. From an organizational standpoint, firms have responded to deregulation in two ways: by undertaking restructuring under MITI guidance in the case of chemicals; and by forming new industry associations to promote their interests in the case of electronics and autos.

Intervention in Trade. Historically, many Asian countries have imposed a variety of trade restraints, both formal and informal, in a number of sectors. Firms often are not able to export directly to these countries, or even secure needed parts. A common market and organizational strategy has been for firms to enter these markets through the use of local suppliers and distributors and the development of strategic alliances. In addition, firms have jumped trade barriers by investing directly in protected markets through joint ventures or wholly owned plants. From a nonmarket perspective, firms have worked with existing trade agreements or sought the negotiation of new ones that might be favorable to their activities. Japanese software firms were active in the negotiation of the Informational Technology Agreement (ITA), an agreement that liberalized information technology products. And Japanese auto firms have been particularly active in pressing for bilateral agreements, working through APEC to promote their industry, and lobbying the Japanese government on WTO issues. In the latter case, the Japanese government favored its firms by *not* pushing for enforcement of WTO violations in Thailand.

Foreign Direct Investment Policies. Many countries have imposed local content requirements on firms, forcing them to source locally for a portion of their production. Japanese electronics firms, for example have engaged in joint ventures in response to import substitution policies in developing Asia. This strategy of investment also allowed them to use low-cost labor in these countries to set up plants that would supply third-country markets. When these countries then subsequently liberalized, including changes in regulations on foreign ownership, Japanese electronics firms moved to 100 percent ownership.

From a nonmarket perspective, firms also can lobby governments or engage in other tactics to enhance their position. For example, Matsushita held public hearings to decrease opposition in connection with the AICO program of brand complementation that grants tariff and local content preference. More generally, the Japanese government has been responsive to auto firms' interests by engaging in favorable aid and investment policies with Southeast Asian countries as well as working with ASEAN governments on investment and industrial development issues. With respect to organizational strategies, local parts sourcing and joint ventures have addressed restrictive investment policies. Associations of various kinds, such as the ASEAN10 Consumer Electronics Expert Group that links Japanese and Southeast Asian firms, have also been used to address investment and industrial policy issues. These associations also have been active in aiding region-wide corporate restructuring efforts.

Future Avenues for Research

This book has provided a framework for examining how firms can succeed in Asian markets. Positional analysis has highlighted the diversity of different sectoral environments, and a focus

on strategic responses to market and nonmarket challenges has provided insight into winning strategies for Asia. The broad set of sectors covered by the case studies unveils a spectrum of experiences from which we can draw in generalizing about optimal market, nonmarket, and organizational strategies.

What types of research and further investigation will allow us to better understand the development of firm strategies for Asian markets? First, while the case studies promote comparative analysis, the focus of this book has been the experiences of Japanese firms. Together with an understanding of the strategies employed by European and American firms in penetrating Asian markets, this work should help us to advance our understanding of the role played by different home governments as well as the unique characteristics of firms of different nationalities.

Second, firm strategies may change over time in response to the evolving market environments (especially as a result of the Asian crisis) and to bilateral, regional, and international arrangements. Will progressive liberalization in Asia as a response to the recent financial crises and pressures from international financial institutions, create a significantly different regional environment? These questions have been important to our analysis, because we have been able to examine firm strategies before and after the Asian crises.

Although firms will have to continue to anticipate changes in Asian markets, I hope that the analytical framework presented in this book, together with knowledge of how firms have attempted to compete in Asia in the past, will give firms the foundation for creating a winning edge. For scholars, the complexity of business-government interaction in Asia should ensure that this topic will remain a growth industry for years to come.

[1] For comments, I would like to thank Ed Fogarty and Shujiro Urata.

[2.] *Winning in Asia, European Style: Market and Nonmarket Strategies for Success, Winning in Asia, American Style: Market and Nonmarket Strategies for Success*, both edited by Vinod K. Aggarwal. 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 the positional analysis indicates, the importance of substitutes has been relatively minor in these sectors, and thus we do not include it for purposes of strategic analysis.

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