

## Corporate Strategies for Asia Pacific Companies in Dealing with Europe's Single-Integrated Market

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### ABSTRACT

*By the latter half of the 1980s, a number of Asia Pacific countries had succeeded through export strategies in penetrating the European market. While Japan was a net exporter to Europe throughout the 1980s, countries like Korea, Taiwan, Hong Kong, and to a lesser extent, Malaysia, Thailand and the Philippines were also net exporters to Europe. As we move through the decade of the 1990s, one of the major uncertainties facing Asia Pacific countries centers on the possibility that, along with the creation of the single market, Europe may erect barriers to trade which could discriminate against non-member countries. Given the potential detrimental impact of a future discriminatory trade policy of the European Union with respect to its outside trading partners, this paper examines the historical relationship and importance of the EU market to selected Asia Pacific countries over the 9-year period 1982 through 1990. In addition, the paper examines market entry strategies which may be useful for traditional Asia Pacific exporting companies given a potentially adverse European Union trade posture. Specifically, it is suggested that either a defensive export-substitution direct investment strategy or an offensive export-substitution direct investment strategy may be appropriate for many Asia Pacific companies.*

### ABSTRAK

*Pada akhir pertengahan 1980an, beberapa negara Asia Pasifik telah berjaya menembusi pasaran Eropah melalui strategi-strategi eksport mereka. Disamping Jepun sebagai negara pengekspot bersih, terdapat negara-negara seperti Korea, Taiwan, Hong Kong dan pada tahap yang agak rendah sedikit merangkumi negara-negara seperti Malaysia, Thailand, dan Filipina. Salah satu ketakpastian utama dalam memasuki dekad-dekad 1990an yang dihadapi oleh negara-negara Asia Pasifik berpusat kepada Eropah yang mungkin akan menubuhkan batasan perdagangan mereka, disamping penubuhan hanya satu pasaran, yang akan mendiskriminat negara-negara bukan ahli. Berdasarkan pada potensi kesan merugikan dari polisi perdagangan discriminatori ini terhadap rakan perdagangan luar Eropah, kertas kerja ini meneliti sejarah pertalian dan kepentingan pasaran Eropah kepada negara-negara terpilih Asia Pasifik dalam jangka masa 9 tahun dari 1982 hingga ke 1990. Kertas ini juga meneliti strategi-strategi memasuki pasaran yang*

*mungkin berguna untuk syarikat-syarikat tradisional Asia Pasifik dengan potensi wujudnya keburukan kedudukan perdagangan Persatuan Eropah. Khususnya, dicadangkan kesesuaian penggunaan sama ada menggunakan strategi eksport bertahan-gantian pelaburan langsung atau eksport serangan-gantian pelaburan langsung untuk kebanyakan syarikat Asia Pasifik.*

## INTRODUCTION

On June 14, 1985, the Commission of the European Communities submitted to the European Council its White Paper entitled "Completing the Internal Market." This report outlined a plan for the eventual formation of a single European market; a market where goods, services, capital, people and technology would be permitted to move freely across borders. A year later in 1986, when the twelve individual Common Market countries ratified the Single European Act, the forces were irreversibly put in place for the creation of a free internal market for Europe by the end of 1992.

Even after 1992, Europe continues to shape its single internal market. In this context, Europe's common external trade policy, which would define its trade posture and economic relations with non-member countries, is evolving. For non-member countries, a major unknown as this process unfolds is the extent to which the European Union's (EU) external trade policies will affect them commercially and financially.

While the European Commission is still in the process of defining its external trade policy relative to non-member countries, some early announcements from the European Commission are worth noting. In October 1988, the Commission in summarizing its discussions on the external dimension of the single European market wrote that "1992 will not be a fortress Europe but a partnership Europe" (The European communities commission 1988:1). However, the Commission also stated that its policy guidelines would be the internationally accepted trade policy principles contained in both the General Agreements on Tariffs and Trade (GATT) and in the Organization For Economic Cooperation and Development (OECD). The Commission, in apparent reference to GATT trade principles, noted that "the Community's aim is to strengthen the concept of mutual benefits and reciprocity " (The European communities commission 1988:2). While the Commission has publicly rejected a mirror-image definition of reciprocity, it has, unfortunately, in some areas, yet to provide non-member countries with its precise definition of the term.

In addition to the reciprocity issue, non-member states have for many years voiced concerns about EU local content standards and rules of origin requirements, both of which will determine whether or not non-member company products will be guaranteed free circulation across the twelve EU country borders. Another concern centers on the long-standing quantitative

restraints which EU member states have maintained against imports of selected foreign products, which by one count totaled over 1,000 by 1990 (Kenjiro Ishikawa 1990).

According to Henderson (1989), the Community's trade policy has traditionally involved widespread recourse to protectionism and discrimination over the last twenty years. In Henderson's view, EU trade policy "is now more protectionist than it was fifteen to twenty years ago" and "is not currently becoming less so" (Group of thirty 1989). Finally, some observers have suggested that in light of the questionable global competitiveness of many European industries, the Commission, under pressure from some of its less efficient member countries, may actually strengthen its protectionist tendency.

In summary, the concerns which have been expressed by non-member states focus on the possibility that, along with the evolution of the single European market, Europe might intensify barriers to commerce and investment which could discriminate against non-members. Given that the Community's external trade policy continues to evolve, it is no wonder the view of many non-member countries has ranged from concern to skepticism<sup>1</sup>. It is apparent that, within this environment, corporate strategies for non-member country companies will require close examination if non-member firms are to remain or become competitive in the single European market.

#### THE EU AND THE ASIA PACIFIC REGION: AN OVERALL ASSESSMENT

One way to assess the importance of the relationship of the EU to the economies of the Asia Pacific is to examine historical trade account data. Utilizing the International Monetary Fund's Direction Of Trade Statistics, EU related trade data were analyzed for the following twelve Asia Pacific countries: Australia, China, Hong Kong, Indonesia, Japan, Malaysia, New Zealand, Philippines, Singapore, South Korea, Taiwan and Thailand. Data examined covered the 9-year time period 1982 through 1990.

As shown in Table 1, during the period under examination, exports from the twelve Asia Pacific countries to the EU market<sup>2</sup> expanded rapidly, growing from \$40.7 billion in 1982 to \$121.5 billion by 1990. This represented an average annual growth rate in regional exports to the EU of about 24.9%. By comparison, Asia-Pacific regional exports to the rest of the world (i.e., to non-EU countries) increased about 12.4% per year during the same period.

Additionally, during the same 9-year period, the region's trade surplus with the EU expanded dramatically from \$8.6 billion in 1982 to \$21.8 billion in 1990. It is important to note that during the latter 1980s the Asia-Pacific region was able to expand its trade surplus with the EU at the same time its

TABLE 1. Asia Pacific Trade with The EU and The Rest of The World  
1982 Through 1990 (Millions of US dollars)

| Year | Asia Pacific Region Trade<br>with the EU |           |          | Asia Pacific Trade with<br>The Rest of the World |           |          | EC Trade<br>Balance<br>as<br>% of<br>World |
|------|--|-----------|----------|--|-----------|----------|--|
|      | Exports                                  | Imports   | Balance  | Exports  | Imports   | Balance  |  |
| 1990 | \$121,448                                | \$ 99,604 | \$21,844 | \$310,993  | \$278,659 | \$32,334 | 67.7%                                      |
| 1989 | 104,816                                  | 85,031    | 19,785   | 299,596  | 249,589   | 50,007   | 39.6                                       |
| 1988 | 100,097                                  | 75,516    | 24,581   | 284,830  | 218,693   | 66,137   | 37.2                                       |
| 1987 | 80,441                                   | 58,255    | 22,186   | 257,201  | 170,741   | 86,460   | 27.1                                       |
| 1986 | 62,117                                   | 47,587    | 14,530   | 229,528  | 147,660   | 81,868   | 17.8                                       |
| 1985 | 45,112                                   | 38,993    | 6,119    | 200,129  | 156,764   | 43,365   | 14.1                                       |
| 1984 | 44,911                                   | 36,310    | 8,601    | 198,282  | 163,869   | 34,413   | 25.0                                       |
| 1983 | 42,676                                   | 33,773    | 8,903    | 167,546  | 157,981   | 9,565    | 93.1                                       |
| 1982 | 40,649                                   | 32,037    | 8,612    | 155,922  | 163,056   | -7,134   | -  |

Averages:

| Year    | Exports  | Imports  | Balance  |
|---------|----------|----------|----------|
| 1986-90 | \$93,748 | \$73,193 | \$20,585 |
| 1982-85 | \$43,340 | \$35,278 | \$ 8,059 |

- Notes: 1. The rest of the world excludes the EU as well as intra-regional trade among the twelve Asia Pacific countries. Thus, it includes trade with other countries in Asia, Africa, North and South America and non-EU countries in Europe.
2. Regional economies are represented by: Australia, China, Hong Kong, Indonesia, Japan, Malaysia, New Zealand, Philippines, Singapore, South Korea, Taiwan and Thailand.

Source: Direction of Trade Statistics, Yearbooks 1991, 1990, and 1989.

trade surplus with the rest of the world was declining. By 1990, the region's trade surplus with the EU amounted to about two-thirds of its trade surplus with the rest of the world.

A closer inspection of the Asia-Pacific region's trade data with the EU reveals two distinct periods in regional performance. The first period, from 1982 through 1985, was one of relative stability both in Asia Pacific exports to the x and its trade balance with the Community. The second period, from 1986 through 1990, witnessed substantial expansion both in the region's exports and trade surplus with the EU. As shown in Table 1, exports which averaged \$43.3 billion during the first period, approximately doubled to \$93.8 billion during the latter period. As for the region's trade surplus with the EU, it grew from an average of \$8.1 billion over the 1982-85 period to

\$20.6 billion during the latter five years. It is also interesting to note that during this turning point in Asia Pacific trade with the EU, the Commission's White Paper was introduced and important discussions about EU external trade policy began.<sup>3</sup>

THE RELATIVE IMPORTANCE OF THE EU TO THE ASIA PACIFIC  
REGION AND TO SPECIFIC COUNTRIES

The relative importance of the EU market to Asia Pacific countries is noted in Table 2. As shown, by 1990, Asia Pacific exports to the twelve EU countries represented about 16.1% of the region's total (world) exports. A comparison of the 1982-85 and 1986-90 periods shows the run up in the relative importance of regional exports to the EU during the latter period, rising from an average of 12.1% of total trade to 15.1%.

TABLE 2. The Relative Importance of EU Trade to the Asia Pacific Region  
(EU trade as a percent of total trade)

| Year      | Exports | Imports |
|-----------|---------|---------|
| 1990      | 16.1%   | 14.1%   |
| 1989      | 15.1    | 13.5    |
| 1988      | 15.6    | 13.7    |
| 1987      | 15.0    | 13.5    |
| 1986      | 13.9    | 13.5    |
| 1985      | 11.5    | 11.3    |
| 1984      | 11.6    | 10.5    |
| 1983      | 12.7    | 10.6    |
| 1982      | 12.7    | 10.0    |
| Averages: |         |         |
| 1986-90   | 15.1%   | 13.7%   |
| 1982-85   | 12.1%   | 10.6%   |

*Notes:* Regional economies are represented by: Australia, China, Hong Kong, Indonesia, Japan, Malaysia, New Zealand, Philippines, Singapore, South Korea, Taiwan and Thailand.

*Source:* Direction of Trade Statistics, Yearbooks 1991, 1990, and 1989.

Impressive as this regional data may be, however, regional averages tend to mask the importance of the EU market to individual Asia Pacific economies. To explore this issue, the twelve Asia Pacific countries were analyzed separately. Table 3 reports on the average growth rate of exports into and imports from the EU for the twelve Asia Pacific countries. The acceleration in both regional exports and individual country exports to the EU during the

latter half of the 1980s is documented in Table 3. As can be seen, all Asia Pacific countries experienced increases in their annual growth rates of exports to the EU during the 1985-90 period. For some Asia Pacific countries, the latter period was one of substantial export growth. Taiwan, Hong Kong and Thailand, in particular, experienced EU export growth in excess of 50% per year.

TABLE 3. Annual Growth Rate of Asia Pacific Exports to the EU 1982 - 1990 (Millions of US dollars)

| Country     | 1982-85 | 1985-90 | 1982-1990 |
|-------------|---------|---------|-----------|
| Australia   | 1.31%   | 13.10%  | 9.00%     |
| China       | 1.77    | 42.40   | 28.57     |
| Hong Kong   | 0.00    | 55.27   | 34.65     |
| Indonesia   | 8.61    | 32.27   | 28.61     |
| Japan       | 5.57    | 31.16   | 24.81     |
| Malaysia    | 6.86    | 19.58   | 17.33     |
| New Zealand | -3.37   | 6.14    | 2.18      |
| Philippines | -2.70   | 24.92   | 11.49     |
| Singapore   | 6.81    | 42.92   | 34.86     |
| South Korea | 3.97    | 28.03   | 21.09     |
| Taiwan      | 4.94    | 58.33   | 43.70     |
| Thailand    | -5.63   | 50.29   | 24.01     |
| Region      | 3.66%   | 33.84%  | 24.85%    |

Source: Direction of Trade Statistics, Yearbooks 1991, 1990, and 1989.

Table 4 shows the relative importance of EU trade to each of the twelve Asia Pacific countries. The EU represented a substantial and growing portion of total foreign trade for some Asia Pacific countries. For example, during the 1986-90 period, 20.7% of Thailand's exports went to the EU. For New Zealand and the Philippines, EU exports, as a percent of total exports, amounted to 18.4% and 17.9% respectively. Table 3 also reveals substantial increases in the EU export market for some regional countries. For example, from 1982-85 to 1986-90 Indonesia's EU export market doubled from 5.0% to 10.5% of its total exports. For Japan, EU exports increased from 12.5% to 17.2% of total exports.

Finally, Table 5 documents the magnitude of EU exports and imports for individual Asia Pacific countries along with their trade balances. Taiwan, South Korea, and Hong Kong joined Japan as successful exporters to the EU during the latter 1980s. To a lesser extent, the Philippines, Malaysia and Thailand were also somewhat successful in penetrating the EU market.

TABLE 4. The Relative Importance of EU Trade to Individual Asia Pacific Countries 1982-1985 and 1986-1990 (EU trade as a percent of total trade)

| Country     | 1982-1985 |         | 1986-1990 |         |
|-------------|-----------|---------|-----------|---------|
|             | Exports   | Imports | Exports   | Imports |
| Australia   | 13.9%     | 21.7%   | 14.3%     | 23.1%   |
| China       | 9.6       | 13.8    | 10.3      | 15.5    |
| Hong Kong   | 14.8      | 11.6    | 15.8      | 10.3    |
| Indonesia   | 5.0       | 15.9    | 10.5      | 17.6    |
| Japan       | 12.5      | 6.8     | 17.2      | 13.1    |
| Malaysia    | 14.4      | 13.7    | 14.8      | 14.0    |
| New Zealand | 20.4      | 20.3    | 18.4      | 20.8    |
| Philippines | 15.0      | 10.9    | 17.9      | 11.3    |
| Singapore   | 10.0      | 10.7    | 13.2      | 12.3    |
| South Korea | 11.9      | 8.7     | 12.9      | 11.1    |
| Taiwan      | 9.6       | 9.6     | 14.1      | 12.5    |
| Thailand    | 21.2      | 13.0    | 20.7      | 14.9    |
| Region      | 12.1%     | 10.6%   | 15.3%     | 13.7%   |

Source: Direction of Trade Statistics, Yearbooks 1991, 1990, and 1989.

TABLE 5. Trade Data of Asia Pacific Countries with the EU 1982-85 and 1986-90 (Millions of US dollars)

| Country     | Average Annual     |                    | Average Annual    |                    | Average Annual           |                          |
|-------------|--------------------|--------------------|-------------------|--------------------|--------------------------|--------------------------|
|             | Exports<br>1982-85 | Imports<br>1982-90 | Export<br>1986-90 | Imports<br>1986-90 | Trade Balance<br>1982-85 | Trade Balance<br>1986-90 |
| Australia   | \$ 3,110           | \$ 4,912           | \$ 4,503          | \$ 7,601           | \$-1,802                 | \$-3,098                 |
| China       | 2,298              | 3,761              | 4,936             | 8,019              | -1,463                   | -3,083                   |
| Hong Kong   | 3,758              | 3,077              | 9,572             | 6,250              | 681                      | 3,322                    |
| Indonesia   | 1,041              | 2,285              | 2,087             | 2,704              | -1,244                   | -617                     |
| Japan       | 19,713             | 8,924              | 43,726            | 23,935             | 10,789                   | 19,791                   |
| Malaysia    | 2,086              | 1,785              | 3,177             | 2,578              | 301                      | 599                      |
| New Zealand | 1,131              | 1,178              | 1,477             | 1,620              | - 47                     | -143                     |
| Philippines | 746                | 759                | 1,196             | 1,016              | -13                      | 180                      |
| Singapore   | 2,232              | 2,967              | 4,949             | 5,216              | -735                     | -267                     |
| South Korea | 3,149              | 2,432              | 6,806             | 5,631              | -717                     | 1,175                    |
| Taiwan      | 2,605              | 1,947              | 8,072             | 5,406              | 658                      | 2,666                    |
| Thailand    | 1,472              | 1,253              | 3,282             | 3,018              | 219                      | 264                      |

Source: Direction of Trade Statistics, Yearbooks 1991, 1990 and 1989.

In summary, the information presented suggests that during the 1980s, and specifically after 1985, the Asia Pacific region as a whole, as well as individual countries within the region, has developed an important and expanding trade relationship with the EU market. This observation would appear to support the contention that the adoption of a protectionist external trade policy by the EU would prove extremely costly for the Asia Pacific region as well as for specific countries. This seems especially relevant for those Asia Pacific countries which over the last decade or so have successfully utilized export driven policies to promote internal industrialization or those countries which are considering the use of such a macro-strategy.

#### GLOBAL STRATEGIC MANAGEMENT

Corporate strategy involves the planning, designing and managing of organizations so as to accomplish a purpose or achieve a goal. Organizations may have a multiplicity of purposes or goals, both of a financial and non-financial nature. Financial goals include long-term profit maximization, earnings and sales growth, while non-financial goals involve corporate survival, defending pre-existing market share and penetrating new markets. According to Allio (1988), corporate strategy focuses on the way in which a firm allocates its resources so that it can best achieve its organizational goals.

Davidson (1982) defines global strategy as the process of defining, developing, and administering a strategy and structure for a worldwide business (William H. Davidson 1982). As a general rule, it would appear that formulating a global corporate strategy is likely to be more complicated than a domestic strategy. This would be due to the expanded environment in which global firms operate. A global corporate strategy needs to confront an expanded set of external and internal issues including country risk, foreign exchange exposure, dealings with and competition from state-owned enterprises, pressures from host governments, patent and trademark protection, the integration of foreign and domestic units, the staffing of overseas operations, control issues, differing legal environments, cross-cultural issues, and cross-border funds transfers, and resource allocation within the international family.

#### CORPORATE STRATEGY AND EUROPE'S SINGLE INTEGRATED MARKET

Given the premise stated earlier that Europe's evolving single integrated market may also result in external trade structure which will deny companies outside the region full access to the benefits of the integration effort, corporate strategies for non-resident firms can best be thought of in terms of defending pre-existing EU market share or penetrating new EU markets.

The idea behind either of these strategies is that regional economic integration in Europe coupled with an uncertain, but potentially adverse, evolving external trade environment, may encourage direct foreign investment



into the EU. For those firms which have built up existing market share in the EU and wish to defend their market share, a strategy of switching from exporting into the region to direct foreign investment in the region may be termed defensive export substituting investment. Additionally, for those companies contemplating the EU market for the first time and wishing to bypass an export strategy, an offensive export substituting policy may be appropriate. The distinction between a defensive and offensive export substitution strategy is that the former is intended to be defensive of pre-existing market share while the latter is undertaken in anticipation of future market share.

The assumption that non-resident corporations may adapt their organizational form to Europe's single integrated market is supported in the business strategy literature. Davidson argues that one key element in any firm's global strategy is the selection of an organizational structure. Day (1990) suggests that winning corporate strategies require successful adaptation to among other things impending threats. Within Day's context, defensive and offensive export substitution strategies can be viewed as a proactive response to the potential threats from Europe's single integrated market.<sup>4</sup>

#### JAPANESE EXPORTS TO THE EU

Throughout the period under examination, Japanese companies successfully penetrated into the EU market. As documented in Table 6, Japanese exports rose from \$18.1 billion in 1982 to over \$54 billion by 1990. This represented an average annual growth rate of Japanese exports to the EU of 24.8%. As with the region as a whole, Japanese exports to the EU accelerated in the latter half of the 1980s, when they grew at an annual rate of 31.2%. Japanese trade surplus with the EU also rose dramatically in the second half of the 1980s, practically doubling from an average trade balance of \$10.8 billion in 1982-85 to \$19.8 billion in 1986-90.

Given the performance of Japan with respect to the EU, it is not surprising that when one discusses Asia Pacific - EU trade with EU officials or EU businesses, Japanese trade is what generally dominates that discussion. Furthermore, when protectionism measures in relation to the Asia Pacific region are discussed, the enormous Japanese trade surplus with the EU is often cited as a supporting factor for such policies.

#### JAPANESE DIRECT INVESTMENT IN THE EU

Traditionally, Japanese companies utilized a trade-based (or export-based) strategy rather than an investment-based strategy with regard to the EU. This is illustrated in the fact that affiliates of Japanese companies account for less than 20% of the total sales of Japanese goods in Europe (thus, the remaining

TABLE 6. Japan's trade with the EU and the Rest of the World 1982 Through 1990 (Millions of US dollars)

| Year | Japan's Trade With The EU |          |          | Japan's Trade With The Rest of the World |           |          | EC Trade Balance as % of World |
|------|---------------------------|----------|----------|--|-----------|----------|--------------------------------|
|      | Exports                   | Imports  | Balance  | Exports                                  | Imports   | Balance  |                                |
| 1990 | \$54,046                  | \$35,338 | \$18,708 | \$140,305                                | \$123,347 | \$16,958 | 110.3%                         |
| 1989 | 47,986                    | 28,137   | 19,849   | 139,934                                  | 108,604   | 31,330   | 63.4                           |
| 1988 | 47,172                    | 24,163   | 23,009   | 137,741                                  | 97,365    | 40,376   | 57.0                           |
| 1987 | 38,305                    | 17,862   | 20,443   | 128,938                                  | 80,883    | 48,055   | 42.5                           |
| 1986 | 31,122                    | 14,173   | 16,949   | 125,441                                  | 73,133    | 52,308   | 22.5                           |
| 1985 | 21,128                    | 9,371    | 11,757   | 106,907                                  | 79,418    | 27,487   | 37.7                           |
| 1984 | 20,163                    | 9,800    | 10,363   | 102,290                                  | 84,180    | 18,110   | 60.1                           |
| 1983 | 19,457                    | 8,577    | 10,880   | 85,949                                   | 81,225    | 4,724    | 215.5                          |
| 1982 | 18,105                    | 7,946    | 10,159   | 82,726                                   | 84,780    | -2,054   | -                              |

Averages:

| Year    | Exports  | Imports  | Balance  |
|---------|----------|----------|----------|
| 1986-90 | \$43,726 | \$23,935 | \$19,794 |
| 1982-85 | \$19,713 | \$ 8,924 | \$10,789 |

*Notes:* The rest of the world excludes the EU as well as regional trade with the other eleven Asia Pacific countries. Thus, it includes trade with other countries in Asia, Africa, North and South America and non-EU countries in Europe.

*Source:* Direction of Trade Statistics, Yearbooks 1991, 1990, and 1989.

80% are made up of exports). However, in recent years, a growing number of Japanese companies have turned to a defensive export substituting investment strategy, in part, to defend pre-existing market share against the possibility of a discriminatory EU external trade policy.

Direct investment data for Japanese companies to the EU showed a dramatic increase in the late 1980s. According to JETRO, the Japan External Trade Organization (1992), during the 1988-1990 period, Japanese direct investment in the EU totalled \$26.6 billion dollars. During the 1982-84 period, this investment amounted to only \$2.0 billion. A comparison of the growth of Japanese direct investment in the EU with Japanese exports to the EU between the 1982-84 and 1988-90 periods confirms that Japanese direct investment in the EU has progressed more rapidly than trade. While Japanese exports to the EU market increased about 3-fold during these two periods, direct investment was up about 13-fold.

JAPANESE INVESTMENT IN THE EU:  
PRE- AND POST- DEC. 31, 1985

In 1985, the EU Commission's White Paper, "Completing the Internal Market," set in motion the Community's commitment for Europe's single market. In an attempt to examine whether this announcement had an impact on Japanese market entry strategy for the EU, Japanese direct investment in manufacturing facilities was examined for the periods before and after the release of the 1985 document.

TABLE 7. Japanese Manufacturing Facilities in the EU  
by Period of Establishment and by Country

| Country         | April 1972 -<br>Total | Jan 1, 1986 -<br>Dec 31, 1985 | Jan 1, 1986-<br>Jan 31, 1991 | Jan 31, 1991<br>As a Percent<br>of Total |
|-----------------|-----------------------|-------------------------------|------------------------------|--|
| U.K.            | 169                   | 62                            | 107                          | 63.3%                                    |
| Germany         | 105                   | 59                            | 46                           | 43.8                                     |
| France          | 100                   | 42                            | 58                           | 58.0                                     |
| Spain           | 59                    | 29                            | 30                           | 50.9                                     |
| Italy           | 41                    | 16                            | 25                           | 61.0                                     |
| Belgium         | 30                    | 17                            | 13                           | 43.3                                     |
| Netherlands     | 30                    | 19                            | 11                           | 35.7                                     |
| Ireland         | 23                    | 10                            | 13                           | 56.5                                     |
| Portugal        | 14                    | 7                             | 7                            | 50.0                                     |
| Denmark         | 4                     | 1                             | 3                            | 75.0                                     |
| Greece          | 3                     | 3                             | 0                            | 0.0                                      |
| Luxembourg      | 2                     | 0                             | 2                            | 100.0                                    |
| <b>Total EU</b> | <b>580</b>            | <b>265</b>                    | <b>315</b>                   | <b>54.2%</b>                             |

*Source:* Japan External Trade Organization (JETRO), 7th Survey of European Operations of Japanese Companies in the Manufacturing Sector (March 1991), pp. 124-177.

The data, reported in Table 7, suggest that Japanese direct investment, as measured by the number of manufacturing facilities established, increased in the EU in the post December 31, 1985 period. From the establishment of the first Japanese manufacturing company in the UK in April 1972, up through December 31, 1985, Japanese manufacturers had established only 265 operations in the EU. By comparison, during the 5 year period, from January 1, 1986 through January 31, 1991, 315 new manufacturing facilities were established. A country-by-country comparison also shows the pattern of Japanese manufacturing investment to be very uneven. For example, Japanese

operations increased substantially in the post-1985 period in the United Kingdom, and to a lesser extent in Italy and France. For other EU countries, Japanese manufacturing investment showed little if any increase in the post-1985 period. It appears, therefore, that to date the Japanese have viewed the United Kingdom as their most attractive site for direct investment entry into the single European market. As revealed in Table 7, the number of Japanese manufacturing operations established in the U.K. during the post-1985 period were 107, compared to only 62 in the 14-year period 1972 up to 1985.

### THE EU STRATEGY OF JAPANESE FIRMS

As suggested earlier, the evolving external trade policy of the EU can be seen as an important factor in moving non-resident companies away from an export strategy to either a defensive or offensive exporting substituting investment strategy. To test this position, the findings of a recent JETRO (1991) survey were reviewed to examine the important motives for Japanese companies seeking a physical manufacturing presence in the EU.

JETRO surveyed 323 Japanese manufacturing companies operating in the EU. As Table 8 reveals, the major reasons given for the establishment of a physical operation in the EU were part of the firm's overall globalization strategy (cited by 235 firms, or 72.8% of the total), to shift from exports to local production to meet increased demand (128 firms, 39.6%), concern about a rise in protectionism in the EU and/or to avoid discriminatory quantitative restrictions on Japanese imports (113 firms, 35.0%), to meet consumer needs (94 firms, 29.1%), and to benefit from the expansion of economic activity resulting from the single European market (75 firms, 23.2%).

As indicated in Table 8, about a third of the Japanese manufacturing companies surveyed cited protectionism or discriminatory restrictions on imports as reasons for establishing operations in the EU. For those firms identified as processing and assembly, nearly 60% responded that protectionism or discriminatory restrictions were important to their decision to establish an operations in the EU. These findings would lend some support to the notion that external trade policy surrounding Europe's single market has resulted in the adoption of either a defensive or offensive export substituting investment strategy for Japanese companies.<sup>5</sup>

### NON-JAPANESE ASIA PACIFIC COMPANIES IN THE EU

Data were also examined for other Asia Pacific manufacturing operations in the EU. Specifically, information was gathered on manufacturing operations in the United Kingdom by country headquarters and by period of establishment. According to Invest in Britain Bureau (1991, 1992) information, a total of 42 Asia Pacific companies from other than Japan could be identified as having.

TABLE 8. Motives for Japanese Manufacturing Companies Establishing Operations in the EU (323 Companies Surveyed)

| Motives   | Total EU<br>n = 323 | By Industrial Sector                  |                                   |                              |
|---|---------------------|---------------------------------------|-----------------------------------|------------------------------|
|   |                     | Processing<br>and Assembly<br>n = 137 | Parts and<br>Components<br>n = 73 | Raw<br>Materials*<br>n = 122 |
| Part of company's globalization strategy.   | 235<br>(72.8%)      | 101<br>(73.7%)                        | 58<br>(79.5%)                     | 85<br>(69.7%)                |
| To shift from exports to local production to meet increased demand.                               | 128<br>(39.6%)      | 70<br>(51.1%)                         | 28<br>(38.4%)                     | 34<br>(27.9)                 |
| Concern about a rise in protectionism and/or avoidance of discriminatory restrictions on imports. | 113<br>(35.0%)      | 82<br>(59.8%)                         | 28<br>(38.4%)                     | 17<br>(13.9%)                |
| To meet consumer needs.   | 94<br>(29.1%)       | 47<br>(34.3%)                         | 17<br>(23.3%)                     | 25<br>(20.5%)                |
| To benefit from the expansion of economic activity resulting from EU integration.                 | 75<br>(23.2%)       | 35<br>(25.6%)                         | 16<br>(21.9%)                     | 29<br>(23.8%)                |

*Notes:* Numbers in parenthesis are percentages of total numbers either for the EU or specific industrial sectors.

\* Raw materials includes the manufacturing and/or production industries of: foodstuffs, textiles, clothing, furniture, pulp and paper, chemicals, pharmaceuticals, rubber products, ceramics, stone and clay products, iron and steel, non-ferrous metals, and metal products.

*Source:* Japan External Trade Organization (JETRO), 7th Survey of European Operations of Japanese Companies in the Manufacturing Sector (March 1991), p. 17.

These manufacturing concerns represented companies from Australia, Hong Kong, Korea, Taiwan and New Zealand. As shown in Table 9, of the 42 Asia Pacific companies identified, 35 or 83.3% established their operations in the United Kingdom after December 31, 1985.

Data for these other Asia Pacific companies are similar to the findings for Japanese manufacturing companies in the EU, and in particular in the U.K.,

TABLE 9. Non -Japanese Asia Pacific Manufacturing Facilities in the EU by Period of Establishment and by Country

| Country*    | Total | Pre- Dec 31,<br>1985 | Post- Jan 1,<br>1986 | Post- Jan 1, 1986<br>As a % of Total |
|-------------|-------|----------------------|----------------------|--------------------------------------|
| Australia   | 15    | 1                    | 14                   | 93.3%                                |
| Hong Kong   | 12    | 5                    | 7                    | 58.3                                 |
| Korea       | 9     | 0                    | 9                    | 100.0                                |
| Taiwan      | 4     | 1                    | 3                    | 75.0                                 |
| New Zealand | 2     | 0                    | 2                    | 100.0                                |
| Total       | 42    | 7                    | 35                   | 83.3%                                |

*Notes:* Data for following countries includes the following periods: Australia through April 1992, Hong Kong through October 1991, Korea through July 1992, Taiwan through July 1992, and New Zealand through June 1991.

\* By country of headquarters.

*Source:* Various Invest in Britain Bureau publications.

in that the majority have located after the introduction of the 1985 EU document. These data also adds provide support for the contention that the single European market is shaping the foreign market entry strategy of other Asia Pacific manufacturers.

## SUMMARY AND CONCLUSIONS

In the latter half of the 1980s, a number of Asia Pacific countries succeeded in penetrating the European market through an export strategy. While Japan was a successful net exporter to Europe throughout the 1980s, countries like Korea, Taiwan, Hong Kong, and to a lesser extent, Malaysia, Thailand and the Philippines became net exporters (or increased their net export position) into the European market during the second half of the 1980s.

As we move through the decade of the 1990s, one of the major uncertainties facing Asia Pacific companies emanates from Europe's push for a single, integrated market. The possibility that, along with the creation of the single market, Europe may intensify barriers to trade which will discriminate against non-member countries should be worrying to the Asia Pacific region.

Specifically, the data examined in this paper suggest that concerns on the part of Japanese and other Asia Pacific companies regarding Europe's external trade structure may force firms away from an export strategy to the establishment of a physical presence in the EU itself. Depending on the extend of exports to the EU, these strategies were referred to in this paper as either a defensive or offensive export substitution strategy.

The evidence presented in this paper suggests that some Japanese companies, as well as other Asia Pacific companies, have already begun the process of establishing physical operations in the European Community. The data show an increase in the establishment of Asia Pacific manufacturing facilities since the release of the 1985 EU document on "Completing the Internal Market." In the case of Japanese operations their motives, in part, were determined by the EU's external trade policy.

The advice for Asia Pacific companies which have traditionally exported to the EU, those which are recent entrants into the market, or those considering the EU for the first time, is that they may wish to assess their market entry strategy, in view of the possibility of a European external trade posture which could prove detrimental to them. Given the assumption that profitability is one of the overriding considerations in strategic decisions, Asia Pacific companies wishing to protect, maintain and/or expand their profits in the EU, or those looking at the market for the first time, should carefully examine their entry strategies into Europe's single-integrated market.

#### NOTES

1. Some countries, like the United States, have expressed more than concern or skepticism. In its Omnibus Trade Act (August 1988), the United States warned that it might close its market to firms from countries which discriminate against imports from the United States. In 1989, Senator Lloyd Bentsen, Chairman of the Senate Finance Committee, indicated that the United States could consider mirror retaliatory action if the EU increased trade barriers against the United States as part of Europe 1992 (The Financial Times, April 8, 1989).
2. Throughout this paper, the and the EU market refer to the twelve countries that currently constitute the community. These twelve countries are: Belgium, Denmark, France, (West) Germany, Greece, Italy, Ireland, Luxembourg, the Netherlands, Portugal, Spain, and the United Kingdom.
3. The acceleration in Pacific Basin trade with the EU appears to have been, in part, exchange rate driven. For example, with respect to the geographic breakdown of Japanese exports, from 1985 through 1988, the U.S. share fell from 37.2% to 33.8% while the EU share rose from 12.0% to 17.7%. During the same period, while the yen appreciated 39% against the U.S. dollar, it rose only 8% against the ECU (European Currency Unit).
4. One of the early surveys which supported the organizational response of companies to threats of trade barriers was reported by Kelly and Philippatos (1982). According to their research, of 108 U.S. multinationals which physically located overseas in 1982, 27.6% cited as a major motivation for that decision the desire to surmount trade barriers.
5. A number of sources have documented the changing EU market entry strategies of Japanese companies. It has been suggested that Japanese companies have, in part, increased their level of direct investment in the EU as a means of dealing with possible protectionism and the growing trade friction arising from increasing Japanese exports into the EU (Kume 1989 1990; Nomura Research Institute 1989; Industrial Bank of Japan 1989; James 1989; Long Term Credit Bank of Japan 1990). The importance

of EU protectionism in the market entry decision of Korean companies has also been investigated (Young, McDermott and Dunlop 1991). As with Japanese firms, Korean organizations have also stepped up their direct investment in the EU in recent years.

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