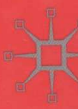


Winning in Asia, EUROPEAN STYLE

Market and
Nonmarket
Strategies
for Success



EDITED BY
VINOD K. AGGARWAL

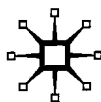


Winning In Asia, European Style

Market and Nonmarket Strategies for Success

Edited by Vinod K. Aggarwal

palgrave



WINNING IN ASIA, EUROPEAN STYLE

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Preface

The Asian crises of 1997 dramatically altered the short-term attractiveness of Asian markets. The almost unbridled optimism that rapid growth would continue in the region had made these markets a central focus for European, American, and other foreign firms for many years. During the darkest moments of the crisis, however—with currencies plunging in several countries and fear of contagion growing—many foreign firms were quick to exit the market and shifted their regional strategic efforts. Yet the rapid descent of these economies was followed by an equally rapid recovery in most countries in the region. Together with opportunities to secure assets at bargain basement prices and pressures for liberalization of markets, many firms once again rushed to Asian markets.

This book analyzes how European firms have attempted to win in Asian markets, both before and after the Asian crises. A central focus of this volume is the formulation and implementation of market and non-market strategies. Market strategies have been the topic of many works. Yet as the case studies in the book readily demonstrate, the most successful firms have won in Asia by integrating market strategies with non-market strategies that help firms to respond to and benefit from shifts in the political-economic-social environment. Firms that have been able to leverage their capabilities to secure assistance from the European Union and European governments and who have developed strategic relationships with Asian governments and firms, have repeatedly emerged as winners. By examining integrated market and nonmarket strategy, both from an analytical and empirical perspective, I hope that this book will enhance our understanding of firm strategies in Asia that will be of benefit to both analysts and practitioners.

This project began as a grant application submitted to the Institute of European Studies of the University of California, just a few months before the onset of the Asian crises. I am greatly indebted to the Institute's

director, Gerald Feldman, and its deputy director, Beverly Crawford, for their willingness to bet on the merits of this project before the dramatic changes in Asia made this a particularly salient issue. The staff of the Center, particularly Gia White, facilitated the smooth management of the project. The Institute's generosity encouraged the broad participation of an international group of scholars and helped us turn an idea into a book.

At two Berkeley workshops where earlier drafts of the chapters were presented, Nicolas Jabko, Chung Lee, Seungjoo Lee, Kun-Chin Lin, Greg Linden, David Moon, Elliot Posner, and Nick Ziegler served ably as discussants and stimulated valuable revisions of the papers. The contributions of other readers are acknowledged by the authors of each of the chapters.

I am especially indebted to the staff of the Berkeley APEC Study Center (BASC). At BASC, Trevor Nakagawa, Kun-Chin Lin, Zachary Zwald, Ralph Espach, Ed Fogarty, and Chris Tucker have provided valuable research assistance, comments, and helped in organizing the Berkeley workshops. In particular, Trevor Nakagawa played a key role from beginning to end in the evolution of this project. A number of undergraduates also helped in preparing the manuscript and in editing papers. For their help, I am particularly grateful to Lily Bradley, Mary Eddy, Faisal Ghorri, Justin Kolbeck and Mytoan Nguyen who currently work at BASC as part of the Berkeley Undergraduate Research Apprenticeship program. Other undergraduates who have worked on one facet or another of this project include Moonhawk Kim, Catherine Oliver, Grace Wang, Brandon Yu, Brandon Loew, Niklas Ponnert, Mike Hunzeker, Rishi Chandra, and Deanna Wu.

Karen Wolny of Palgrave (formerly St. Martin's Press Scholarly and Reference Division) has been a strong supporter of my work on Asia, having published an earlier co-edited book, *Asia Pacific Crossroads*. I was so pleased by her editorial guidance and the quality of the press, that I only sought out Palgrave when I was looking for an outlet for this work. Gabriella Pearce, who works with Karen, has been of immense help in managing the publication process.

On a personal note, I would like to thank my family for their support. My parents, Om and Saroj Aggarwal, have taken on many tasks that would otherwise have distracted me from my academic work. Sonia, my ten-year old daughter, has been of great help as a research assistant and paper flow manager. As she becomes a budding writer in her own right, I am pleased to have someone to commiserate with as we both endlessly edit our respective writings. I have been especially fortunate to have the encouragement of my wife, Nibha Aggarwal, who has been exceptionally busy

devising her own corporate strategy as founder of a new company, SkyFlow. I hope that this book on strategy will soon be relevant to her as SkyFlow expands to capture Asian markets.

Vinod K. Aggarwal
Berkeley, California
July 2001

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List of Acronyms

4GL	fourth generation languages
ABAC	APEC Business Advisory Council
ACEA	Association of European Automobile Constructors
AFTA	ASEAN Free Trade Area
AI	Airbus Industrie
AIA	ASEAN Investment Area
AIC	ASEAN Industrial Complementation
AIG	American International Group
AIJV	ASEAN Industrial Joint Venture Agreement
ANA	All Nippon Airways
APEC	Asia-Pacific Economic Cooperation
APPE	Association of Petrochemicals Producers
ASEAN	Association of South East Asian Nations
ASEAN-CCI	ASEAN Chambers of Commerce and Industry
ASEM	Asia-Europe Meeting
B2B	business-to-business
BAe	British Aerospace
BBC	Brand-to-Brand Complementation
BC-Net	Business Cooperation Network
BIS	Bank of International Settlements
BRE	Bureau de Rapprochement des Entreprises
BRITE	Basic Research in Industrial Technologies for Europe
CAAC	Civil Aviation Authority of China
CASA	Construcciones Aeronáuticas
CASC	China Aviation Supply Corporation
CASE	Computer-Aided Software Engineering
CCITT	Comité Consultatif International Téléphonique et Télégraphique
CCMC	Community of European Community Automobiles Makers

CCP	Chinese Communist Party
CEPIC	European Chemical Industry Council
CEPT	Common External Preferential Tariff
CER	Closer Economic Relations (Australia and New Zealand)
CITIC	China International Trust and Investment Corporation
COBOL	Common Business-Oriented Language
COREPER	Committee of Permanent Representatives
DASA	Daimler Chrysler Aerospace
DGI	Directorate-General for External Economic Relations
DGIA	Subdivision of DGI
DGIB	Subdivision of DGI
DGIII	Directorate-General for Internal Market and Industrial Affairs
DGXII	Directorate-General for Science, Research and Development
DGXIII	Directorate-General for Telecommunications, Information Technology, and Industries
DGXV	Directorate-General Financial Institutions and Company Law
DGXVII	Directorate-General Energy
DGXXIII	Directorate-General for Enterprise Policy, Distributive Trades, Tourism, and Cooperatives
DM	Deutsche marks
EC	European Community
ECB	European Central Bank
ECIP	European Community Investment Partners
ECIS	European Community for Interoperable Systems
ECOSOC	Economic and Social Committee
ECJ	European Court of Justice
ECTEL	European Conference of Associations of Telecommunications
EEC	European Economic Community
EIB	European Investment Bank
EMU	European Monetary Union
ERP	enterprise resource planning
ERT	European Round Table of Industrialists

ESPRIT	European Strategic Program for Research and Development in Information Technology
ESSI	European Systems and Software Initiative
ETOPS	Extended Twin Overwater Operations
EU	European Union
EUROBIT	European Association of Manufacturers of Business Machines and Information Industry
EUROPACABLE	European Associations of Manufacturers of Insulated Wires and Cables
FAA	Federal Aviation Administration
FDI	foreign direct investment
Ffr	French francs
G-5	Group of Five industrial countries
GATT	General Agreement on Tariffs and Trade
GDI	gasoline direct injection
GDP	gross domestic product
GIE	Groupement d'Intérêt Économique
GM	General Motors
GUI	graphical user interface
IATA	International Air Transport Association
IBC	Integrated Broadband Communications system
IMF	International Monetary Fund
IPAP	Investment Promotion Action Plan
IPN	international production networks
ISV	independent software vendor
IT	information technology
ITA	International Technology Agreements
ITU	International Telecommunication Union
JAL	Japan Airlines
KAL	Korean Airlines
LDP	Liberal Democratic Party (Japan)
MAS	Malaysia Airline Systems
MERCOSUR	Mercado del Sur
MBB	Messerschmitt-Boelkow-Blohm
MD	McDonnell Douglas
MFA	Multi-Fiber Arrangement
MNC	multinational corporation
MoF	Ministry of Finance
MOU	memorandum of understanding

NAFTA	North American Free Trade Agreement
NIC	newly industrialized country
NIE	newly industrialized economy
ODA	Official Development Assistance
ODM	original design manufacturer
OECD	Organization for Economic Cooperation and Development
OEMs	Original Equipment Manufacturers
PTA	preferential trading arrangements
R&D	research and development
R&TD	Research and Technological Development policy
RACE	Research and Development in Advanced Communications in Europe
SAGE	Software Action Group for Europe
SAP	Systems, Applications, Products
SEA	Single European Act
SEM	Single European Market
SIA	Singapore Airlines
SMEs	small and medium-sized enterprises
SPECS	Specification and Programming Environment for Communication Software
SWOT	Strengths, Weaknesses, Opportunities, and Threat
TDA	Toa Domestic Airlines
TEU	Treaty of the European Union (Maastricht Treaty)
TFAP	Trade Facilitation Action Plan
TRIMs	Trade-Related Investment Measures
UNCTAD	United Nations Conference on Trade and Development
UNICE	Union of Industrial and Employers' Confederation
VW	Volkswagen
WIPO	World Intellectual Property Organization
WTO	World Trade Organization
XII	Directorate-General for Science, Research, and Development

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Part One

Theoretical Framework

Chapter 1

Analyzing European Firms' Market and Nonmarket Strategies in Asia

Vinod K. Aggarwal¹

I. Introduction

Despite recent currency crises, most of the Asia-Pacific economies continue to be among the most attractive markets in the world and now appear to be recovering rapidly. The previous track record of the newly industrializing countries, phenomenal Chinese growth rates, and widespread economic liberalization testify to this recovery. But the ups and downs of the Asian market have forced Japanese, American, and European firms to rethink their strategies. Some firms have responded by increasing investments in the region, hoping to benefit from a quick economic recovery and the sale of distressed assets that will leave them well positioned to profit from renewed growth in the region. Other firms are concerned that their excessive reliance on exports to Asia has made them highly vulnerable. As a result, they have sought to diversify their marketing effort and have attempted to position themselves in newly emerging markets in Latin America, Eastern Europe, and elsewhere. The key focus of this book is to analyze the strategic interplay between governments and firms in Asia. By systematically examining the nature of European investment and trade strategies in Asian markets in a variety of sectors, and by comparing European firms with American and Japanese firms (in two companion volumes), we hope to understand the factors that affect competitive success.

An important element of understanding firm strategies in Asia is the nature of nonmarket strategies.² Although firms must pursue market strategies to position themselves in a changing global economy, they also interact with governments to secure policies favorable to them. Firms are interested in securing access to closed or restricted markets for exports and investment, are concerned about regulations on their subsidiaries, and are wary of changing taxation policy, among other issues. In attempting to influence policy outcomes, they often work with both their home and host governments to implement policy changes. And at the same time, home and host governments have objectives of their own vis-à-vis both their own and foreign firms. In addition to understanding the strategies employed by European firms, we hope to shed light on two key questions: Do firms' market and "nonmarket" strategies vary more by industrial sector or by national origin? And how do different governments react to the push and pull from firms of different national stripes?

Our focus on Asia is driven by four key factors. First, East Asian countries provide examples of both extremely high growth rates and markets in severe recession, accompanied by International Monetary Fund (IMF) and U.S. pressures for liberalization. As the region recovers from the 1997–98 financial crisis, East Asia provides an excellent laboratory to analyze shifting firm strategies in times of good and bad fortune. Second, many Asian firms pose a significant competitive challenge to foreign firms. Not only do they often have dominant positions in their home markets, but they have been successful in entering European and American markets. Third, many Asian firms have close ties to governments. Indeed, the nature of government-business relations is particularly intricate in the Asian context. Most of the newly industrializing countries (NICs), both the so-called first and second tier, have actively used industrial policy measures in an effort to bolster their firms. Restrictions on investments, technology transfer, export performance requirements, preferential financing, and a host of other instruments have been commonplace in most of these countries. Fourth, the Asia-Pacific has been one of the most interesting arenas in the world to understand the interplay of different forms of governance in terms of regionalism, sectoralism, and globalism. This combination is nicely illustrated by the evolution of the recent Information Technology Agreement (ITA). Although this agreement to liberalize trade in a host of information technology products was initially vetted in the Quad group of countries, it was promoted actively on a sectoral basis in the regional grouping known as Asia-Pacific Economic Cooperation (APEC). It was then globalized in 1996 at the Singapore World Trade Organization (WTO) ministerial meeting and has been accepted by most countries in the world.