

JAPANESE CORPORATE RESPONSES TO EC MARKET UNIFICATION*

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I. *Introduction*

Faced with a dramatically appreciating yen and harsh trade friction since late 1985, Japanese corporations have been actively involved in efforts to fully optimize the potential of their management capabilities and in restructuring their organizations. These efforts have been manifested in three areas: (1) rationalization of the company's main domestic business field—comprising efforts directed toward increased productivity through rationalization and labor-saving, increases in the high added value of existing products, development of new products and cultivation of the domestic market, etc.; (2) diversification of business, starting new enterprises and cultivation of interbusiness fields, etc.; and, (3) internationalization—comprising advances into overseas markets, forming of international partnerships and overseas procurement of products and parts, etc.

Among these restructuring activities, I would like to focus upon the area of internationalization and its relationship to the theme of this paper.

Riding the tide of the strong yen-generated prosperity which began in November 1986, Japanese corporations have been vigorously engaged in facility investments, primarily for research and development. At the same time, they have been strengthening their financial structures and actively moving forward with international partnerships and into international markets.

Concurrent with the yen-based prosperity in Japan, the time is approaching for market unification in the European Community. In anticipation of EC market unification, both European companies within the region and American companies from outside have been rapidly restructuring businesses and industries—embarking on joint development projects, mergers and acquisitions, joint enterprises and a wide range of partnerships. Japanese corporations, which have been proceeding with internationalization as one phase of their restructuring activities, are currently faced with the compelling problem of responding to the impending EC market unification. In this paper I would like to discuss the responses of Japanese corporations to EC market unification.

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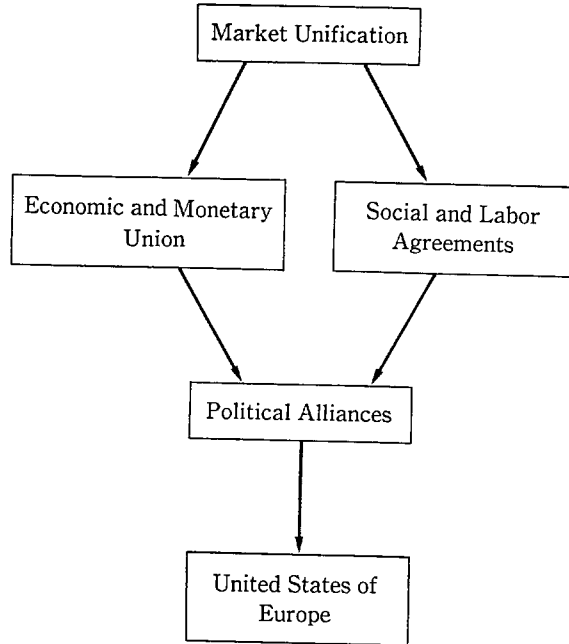
II. *EC Unity and European Unity*

A historical experiment is currently underway which is aimed toward the realization of greater European unity and ultimately to the creation of a new Europe. This is not the first time, however, that the subject of European unity has aroused significant interest. The first opportunity for unity came in the 1920's when Europeans, who had been at the center and in control of world politics and economics up to that time, became aware that they were in danger of losing their position. The response to this substantial, external threat was a plan which called for the unification of European nations into one enormous market and a consequent increase in productivity. This conception later became the base for a series of unification policies which are set to begin with the unification of the EC market in 1992.

EC unity, as is well known, encompasses economic, social and political unity. (1) The first stage toward achieving economic unity involves realization of market unity. Accordingly, 282 physical, technical and financial barriers will be eliminated by the end of 1992 in an attempt to guarantee free movement of products, people, services and capital, and to create a single (joint) market with no national borders. (2) The second stage of economic unity entails the establishment of economic and monetary union. Plans are now being made for the transition from individual national currencies to a single unified European currency. This entails the linking of all EC currencies in a single European Monetary System, the establishment of a central European bank and the implementation of common EC financial policies. (3) Social unity involves the institution of social and labor agreements. In this respect, plans are being advanced for the implementation of common EC social and labor policies which would help to achieve freedom of movement for laborers, improve labor conditions, the right of laborers to form associations and conduct group negotiations, laborers' rights to participate in management, and sexual equality. (4) Political unity implies the establishment of political alliances. Accordingly, Europe is proceeding with a revision of the European Community's framework, strengthening its functions and preparing for a unification of numerous diplomatic policies and security guarantees.

The relationship between the elements of market unity, economic and monetary union, social and labor agreements and political alliances is illustrated in Fig. 1. The initial plan for EC unity begins with the realization of market unity, which is targeted for the end of 1992. This conception then calls for the gradual realization of economic and monetary union, social and labor agreements, political alliances and finally for the establishment of the United States of Europe after 1993. In partial opposition to this plan lays the strong opinion, typified by the disputes between Thatcher and Delors, that EC unity should imply economic unity only. This opinion holds that unity should be restricted solely to the economic sphere, and that it is not desirable to delve into the matter of political unity. The EC has consequently been putting all its efforts toward achieving the immediate goal of economic unity. Then, in the fall of 1989, a wave of reform swept across Eastern Europe and the Soviet Union which has shaken the existing socialist systems to their very roots. In turn, the EC is currently witnessing a rapid rise in support for the opinion that market, economic and monetary unity, planned for completion by January 1993, should be accom-

FIG. 1. EC UNIFICATION



panied by steps toward the achievement of political unity. This trend is being further accelerated by the powerful momentum accompanying the unification of East and West Germany.

The sweeping reforms in Eastern Europe and the Soviet Union have provided an important opportunity for an expansion in the sphere of EC unity. Plans for EC unity have been developed up to this point with the objective of unity within the EC region only. Of course, the EC and the European Free Trade Association (EFTA) have been working since 1984 on the creation of European Economic Spheres (EES), where market obstacles between the two associations would be abolished. Currently, however, plans for even further expansion of EC economics have swelled into conceptions of a greater European unity which would encompass Northern and Eastern Europe and the Soviet Union. Three conceptions are now being advanced for greater European unity.

(1) EC Commission Chairman Delors' Conception of a Federated Europe

This conception envisages three stages, or three concentric spheres of development, centered upon the EC. In the first stage the EC would achieve market unity. In the second stage the EC would establish EES with the EFTA. In the third stage the EC would enter into economic and trade cooperation agreements with the Eastern European nations and the Soviet Union. Finally, the EC would enter into semi-alliances with the nations of Eastern Europe, with the exception of East Germany.

(2) French President Mitterand's Conception of a Federated Europe

This conception is made up of two stages. The first stage involves realization of EC

market unity. In the second stage the Eastern European nations would reunite as a national federation and create an organization for the guarantee of everlasting trade, peace and security.

(3) Soviet President Gorbachev's Conception of a Common European Home

In this conception Europe would bid farewell to the cold war and usher in a new era suitable for the creation of a new community based upon dialogue, cooperation, mutual trust and interdependence. All of Europe would join together with the objective of maintaining security and peace through arms reductions and the creation of a new political order for coexistence.

The reforms occurring in Eastern Europe and the Soviet Union and the rapid progress of East and West German unification led to the formation of new strategies for EC unification at the EC summit meeting held on April 28, 1990. These strategies involve simultaneous development of market unity, economic and monetary unity, and political unity. This can be viewed as a major turning point, and with it the probability has increased that greater European unity will proceed in accordance with EC chairman Delors' conception of three concentric stages. This plainly implies, moreover, that unification is expected to proceed with the EC at the core. However, the achievement of greater European unity in the real sense of the term requires, in addition to advances made under EC leadership, the formation of a new framework for guarantees of peace and security in Europe where significant headway is being made in East-West harmony. This is apparently the objective of both Mitterand's concept of a "Federated Europe" and Gorbachev's concept of a "Common European Home." How this is to be achieved is not yet clear, but plans are already being made for implementing the ideas developed at the Conference on Security and Cooperation in Europe (CSCE) and for a reorganization of NATO. The author believes that the creation of a new European order lies in the direction suggested by the CSCE.

III. *Japanese Corporate Responses to EC Market Unification*

As previously indicated, reforms in Eastern Europe and the Soviet Union and the rapid progress of East-West German unification have proved to be major turning points. These developments have led to the creation of new strategies calling for simultaneous achievement of EC market unity, economic and monetary unity, and political unity by the end of 1992. The question of Japanese corporate responses to these new strategies will be an important issue in the future. However, without attempting to cover this entire problem, the author would like to focus upon market unification, which stands at the forefront of EC unity, and consider Japanese corporate responses to the impending unification of the European market. This analysis is based upon the following four surveys.

1) Toyo Keizai Shinposha Survey

This survey was an investigation of trends in Japanese overseas affiliated firms around the globe. According to the results of this survey, there were a total of 11,484 Japanese affiliated firms abroad as of July 1, 1989, when the survey was conducted. A breakdown by regions reveals that 85% of the total was concentrated in three major regions—4,299 in Asia, 3,286 in North America and 2,173 in Europe. Broken down by nations this amounts to 2,995 firms in the US, followed by 751 in Hong Kong, 686 in Taiwan, 658 in Singapore,

TABLE 1. ENTRY INTO THE EC BY JAPANESE AFFILIATED FIRMS
(Broken down chronologically and nationally)

	Total	Prior to 1970	1971 ~75	1976 ~80	1981	1982	1983	1984	1985	1986	1987	After 1988	Un- known
European Total	2,173	162	293	294	89	92	75	102	138	150	199	443	136
EC Total	1,955	150	270	259	72	81	68	88	122	135	183	403	124
Denmark	20		6	1	2	1		1			3	2	4 ¹
England	620	28	67	68	20	26	20	32	50	52	74	147	36
Ireland	27	1	3	3	2					1	1	10	6
Holland	228	6	38	22	7	13	6	9	16	15	29	59	8
Belgium	105	16	22	21	12	2	5		3	3	2	13	6
Luxembourg	60	7	13	4	2	2	1	4	9	6	8	4	
France	225	18	33	32	2	6	10	8	18	17	20	49	12
West Germany	440	60	61	78	18	22	20	23	18	26	23	67	24
Portugal	21	3	3	1	1	1	1				3	4	4
Spain	91	3	10	12	1	4	2	5	3	8	10	23	10
Italy	109	8	11	14	5	3	2	5	5	7	10	25	14
Greece	9		3	3		1	1	1					

Source: Toyo Keizai Shinposha: A General Survey of Overseas Japanese Affiliates in 1990, Tokyo, January 1990.

639 in Thailand, 620 in England and 440 in West Germany. Since January 1988, moreover, 2,188 new firms have been established abroad with 640 of these in the US, 223 in Thailand and 147 in England.

Let us return to our consideration of the European Community. A chronological breakdown of Japanese corporate entry into the EC by nation (Table 1) reveals that Japanese affiliates established in the EC nations account for 90% of the total Japanese entries into Europe, and that this tendency has been particularly strong since 1984. Japanese advances into EC nations have been concentrated in England, West Germany, Holland and France, with these four nations accounting for 77.4% of the EC total. In addition to these four countries, Japanese firms have also been making particularly significant inroads since 1988 into Ireland, Belgium, Spain and Italy.

Secondly, the number of Japanese affiliates established in the EC, broken down by nation and industry (Table 2), reveals that three industries—commercial, manufacturing and financial/banking industries—account for 77.6% of the total. Affiliates in the commercial industry are mainly involved in the sale of electrical equipment, machinery, precision equipment, and chemical products, etc. In the manufacturing industry, firms involved in the manufacture of electrical equipment, machinery and chemicals account for 60.4% of the total. Japanese affiliates in the commercial and manufacturing industries are concentrated in West Germany, England and France, while firms in the financial/banking industry are chiefly found in England and Holland; Japanese affiliated firms in the securities and investment industry are concentrated in England and Luxembourg, and those in the service industry are concentrated in England. A closer analysis of desired location for Japanese affiliates in the manufacturing industry reveals that food manufacturers show a preference for France, textile and clothing manufacturers for Italy and France, chemical manufacturers for West Germany, England and France, petroleum and coal manufacturers

TABLE 2. ENTRY INTO THE EC BY JAPANESE AFFILIATED FIRMS
(Broken down by industry and nation)

Industry	Country												
	Total	Denmark	England	Ireland	Holland	Belgium	Luxembourg	France	West Germany	Portugal	Spain	Italy	Greece
All Industries	1,955	20	620	27	228	105	60	225	440	21	91	109	9
Agriculture, Forestry and Fishing	5		1					3	1				
Mining	2		2										
Construction	33		12	1	4	1		3	4	2	5	1	
Manufacturing	389	2	119	12	25	19	1	62	79	6	34	27	3
Food Products	10		2					6	1		1		
Textile and Clothing	27		5	2				7		2	1	10	
Lumber and Furniture													
Pulp and Paper													
Publishing and Printing	3		2						1				
Chemicals	56		9	1	11	3		9	10	1	6	5	1
Petroleum and Coal	11		8					1	2				
Rubber and Leather	6		2			1		1	2				
Ceramics and related materials	11		1	1	1	4			3			1	
Steel	3		1								1		1
Non-Ferrous Metals	3		2					1					
Metallic Products	5		2	1				1			1		
Machinery	59		14		5	3		11	17		4	5	
Electrical Equipment	120	1	44	6	4	6	1	17	28		10	3	
Transport Equipment	4							1			3		
Automobiles and Parts	22		11		1				2	2	6		
Precision Equipment	25		9	1	1	1		2	10			1	
Others	24	1	7		2	1		5	3	1	1	2	1
Commercial	928	14	224	6	79	58	2	120	296	9	44	70	6
Finance and Banking	201		81	1	69	9	12	4	18	1	1	5	
Securities and Investment	143		77		9	3	44	8	1			1	
Insurance	15		15										
Real Estate	14		5		3	1		2	1		1	1	
Transport, Storage and Communications	63		24		12	5		6	14		1	1	
Service	103	2	43	1	11	7		13	17	1	5	3	
Stock Possessions, Others	50	1	17		16	2	1	4	9				
Unknown	9	1		6						2			

Source: Toyo Keizai Shinposha: A General Survey of Overseas Japanese Affiliates in 1990, Tokyo, January 1990.

TABLE 3. INVESTMENT OBJECTIVES OF JAPANESE AFFILIATED FIRMS (by nation)

Country Investment Objective	Denmark	England	Ireland	Holland	Belgium	Luxembourg	France	West Germany	Portugal	Spain	Italy	Greece
Securement of raw materials and resources		6		2	1		2	2		2	1	
Plentiful resources facilitate local production		1		1			2	1			1	
Utilization of labor reserves and cost reductions		5	2	1	1		1	2	1	5		1
Advantageous protectionist policies of the local government		20	5	9	5		4	6	4	10	3	2
Expansion of sales routes in the target country and to other countries	13	251	6	86	59	3	88	263	6	42	44	5
Collection of information	1	105		38	22	6	36	97	1	5	13	
Difficulty in exporting due to commercial friction		16	1	3	2		7	14		3	2	
Royalties		22	2	3	3	17	3	4		1	2	

Source: Toyo Keizai Shinposha: A General Survey of Overseas Japanese Affiliates in 1990, Tokyo, January 1990.

for England, machinery, electrical equipment and precision equipment manufacturers for West Germany and England, transport equipment manufacturers for Spain, and automobile and automobile parts manufacturers for England and Spain.

Thirdly, when questioned about their investment objectives (Table 3), Japanese affiliated firms responded that their primary goals were "expansion of sales routes in the target country and to other countries," and the "collection of information." These two objectives were the principle motivations behind investments in England, Holland, Belgium, France, West Germany and Italy. In making investments in Ireland, Portugal and Spain, however, emphasis was given to "expansion of sales routes in the target country and to other countries" and to the "advantageous protectionist policies of the local government." In Luxembourg emphasis was placed upon "royalties" when making investments.

2) Japan External Trade Organization Survey

This survey investigated business conditions of Japanese affiliated firms in Europe from September 1989 through January 1990. The survey was aimed at 529 Japanese affiliates in the manufacturing industry in 18 EC/EFTA nations, and responses were obtained from 270 companies for a response rate of 51%. According to the results of this survey, there were 529 Japanese affiliated firms in EC/EFTA nations as of January 1990. Of this total, 501, or 94.7%, were located in the EC while 28 were located in the EFTA. A breakdown by nation reveals that the greatest number, 132, were in England, followed by 95 in France, 89 in West Germany and 55 in Spain. There were a total of 127 new affiliates established since January 1988, with 43 of these in England, 17 in France, 16 in West Germany and 13 in Spain.

Let us focus again on conditions in the EC. The total number of Japanese affiliates

Table 4. ENTRY INTO THE EC BY JAPANESE AFFILIATED FIRMS
(Broken down by industry and nation)

Industry \ Country													
	Total	Denmark	England	Ireland	Holland	Belgium	Luxembourg	France	West Germany	Portugal	Spain	Italy	Greece
Food products	21		3		1			15	1		1		
Textile	8		3	1	1					1	1		
Clothing and Textile Products	7							3	2			2	
Furniture and Furnishings	4							2	1		1		
Pulp and Paper	3		1						1	1			
Chemicals	75	1	11	4	10	6		11	9	3	11	8	1
Pharmaceuticals	14			2		1		3	4		3	1	
Rubber Products	16		1		2	1		4	4	1	3		
Ceramics and related Materials	13		2	1	1	4		2	2		1		
Steel	4				1	1				1			1
Non-Ferrous Metals	14		5	1				5		1	2		
Metallic Products	16		7					2	2	1	3	1	
General Machinery	65		16		6	1	1	14	16		8	3	
Electronic and Electrical Equipment	86		25	6	3	2		18	19		7	6	
Electronic and Electrical Parts	53	1	20	5	2	3	1	4	14		2	1	
Transport Machinery	14		4			1		2		1	5	1	
Transport Machinery Parts	23		14		2			1	1	1	2	2	
Precision Machinery	18		4	1	2	1		3	7				
Others	47	1	16	1	3	4		6	6	1	5	3	1
Total	501	3	132	22	34	25	2	95	89	13	55	28	3

Source: Japan External Trade Organization: Sixth Survey of Management Conditions in Affiliated Manufacturing Firms in Europe, Tokyo, March 1990.

in the EC broken down by industry and nation (Table 4) reveals that 63.1% of the total number of firms in the manufacturing industry are involved in the following four areas: the manufacture of electronic and electrical equipment and related parts; chemicals; general machinery; and transport machinery and related parts. The manufacture of food products is concentrated in France, chemicals in England, France, Spain, Holland and West Germany, metal products in England, general machinery in England, West Germany and France, electronic, electrical and related parts in England and West Germany, transport machinery and related parts in England, and precision machinery in West Germany.

Secondly, a look at the motivations behind Japanese entry into the EC (see Table 5) reveals a wide spectrum of objectives, the primary ones being: "One phase of globalization strategies," "Transition from export to local production," and "Responding to consumer needs." Since 1987, however, an increasing number of firms cite as their motivations: "Apprehension of protectionism following EC market unification," "Favorable investment

TABLE 5. MOTIVATIONS FOR ENTRY OF JAPANESE AFFILIATED FIRMS

Transition from export to local production.	97
Lowering of production costs.	34
To avoid import volume restrictions against Japan.	48
Securing of inexpensive raw materials.	7
To avoid risk of fluctuating exchange rates.	29
One phase of globalization strategies.	179
Apprehension of protectionism following the EC market unification.	45
To enjoy the economic expansion resulting from the EC market unification.	37
Entry of the parent company into Europe.	11
Favorable investment measures, including tax measures, etc.	44
Responding to consumer needs.	91
To avoid anti-dumping regulations.	31
To avoid anti-dumping regulations applied to parts and components.	20
Utilization of European designs.	10
To conduct R&D in Europe.	16
Supplying materials and parts to Japanese affiliated manufacturers in Europe.	45
Obtaining European production bases through acquisition of US companies.	4
Others.	25

Note: This includes entry into the EFTA.

Source: Japan External Trade Organization: Sixth Survey of Management Conditions in Affiliated Manufacturing Firms in Europe, Tokyo, March 1990.

incentives, including tax incentives, etc.," and "Supplying of materials and parts to Japanese affiliated manufacturers in Europe."

Thirdly, the determining reasons behind the choice of countries for establishing affiliates (see Table 6) were dominated by: "Good geographic conditions for distribution," "The ability to hire English speaking managers," "The existence of a viable infrastructure," and "The comparative quality of the local workers when compared with other nations." Specifically, the reasons for choosing England were: "The ability to hire English speaking managers," "Good geographic conditions for distribution," and "The existence of a viable infrastructure"; for West Germany they were: "The existence of a viable infrastructure," "The large scale of the domestic market," and "The existence of a transportation network"; for Holland and Belgium they were: "Good geographic conditions for distribution," and "The ability to hire English speaking managers"; for France the primary reason was: "Good geographic conditions for distribution"; and for Spain and Portugal the primary reason was: "The low labor costs."

Fourthly, when questioned about the anticipated effects of EC market unity on Japanese affiliates (Table 7), the responses were divided between the favorable effects: "Expansion of business opportunities," "Changes in distribution patterns," "Simplification of customs procedures," and "Unification of safety, health and environmental standards"; and the unfavorable effects: "Reciprocity," "Protectionism," "Increased strength of EC firms," "Intensification of competition with European and American firms," and "Intensification of competition with Japanese firms." At present, the effect on Japanese firms is small when compared with these anticipated effects, but the "expansion of business opportunities" in the EC which is expected to accompany "changes in distribution patterns," has already begun to bring with it an "intensification of competition with European and American firms."

TABLE 6. DETERMINING THE REASONS BEHIND THE CHOICE OF EC COUNTRY IN WHICH TO ESTABLISH AN AFFILIATE

Reason	Country												
	Total	England	West Germany	Holland	France	Belgium	Luxembourg	Ireland	Spain	Italy	Denmark	Portugal	Greece
The existence of a viable infrastructure.	74	31	20	4	6	5		2	3	1	1		
The large scale of the domestic market.	62	19	20	1	7				8	3		1	
Good geographic conditions for distribution.	104	34	17	15	10	9	1	3	8	1	1	1	2
The existence of related industries, such as parts industries.	44	16	12	5	3	1			6	1			
The existence of a transportation network.	57	20	19	5	4	4			4				
The ability to hire English speaking managers.	78	40	3	13	1	7		10		2		1	1
The presence of numerous Japanese affiliated manufacturers in the current operation region.	19	13	2	1	2							1	
The comparative quality of local workers when compared with other nations.	74	27	17	5	5	5		5	7			1	
The low labor costs.	55	20	1		2	3		7	12	3		6	1
The existence of a pro-Japanese atmosphere.	45	13	5	3	1	4		7	7			3	1
Few problems with children's education.	14	2	9			1			1	1			
The ease with which raw materials can be obtained.	22	2	2	3	4	2		2	4	2		1	
Others.	82	14	14	10	17	2		4	9	3		2	2

Source: Japan External Trade Organization: Sixth Survey of Management Conditions in Affiliated Manufacturing Firms in Europe, Tokyo, March 1990.

TABLE 7. ANTICIPATED EFFECTS OF EC MARKET UNITY ON JAPANESE AFFILIATED FIRMS

Cause	Anticipate Some Effect	Already Being Affected
Protectionism	61	4
Reciprocity	108	2
Expansion of business opportunities.	116	15
Increased strength of EC firms.	100	7
Intensification of competition with European and American firms.	88	29
Intensification of competition with Japanese firms.	58	11
Simplification of administrative procedures.	53	1
Abolition of trade barriers.	39	6
Shutting out of Japanese firms from the European market.	11	1
New participation in public procurement and public enterprises.	2	
Changes in distribution patterns.	115	18
Unification of safety, health and environmental standards.	82	10
Abolition of import volume quotas on Japanese exports.	2	
Loss of tax benefits due to a unification of tax systems.	9	1
Simplification of customs procedures.	117	8
Introduction of an EC standards mark.	25	2
Others.	10	3

Source: Japan External Trade Organization: Sixth Survey of Management Conditions in Affiliated Manufacturing Firms in Europe, Tokyo, March 1990.

TABLE 8. RESPONSES OF JAPANESE AFFILIATED FIRMS TO EC MARKET UNITY

Establishment of companies with comprehensive jurisdiction over the entire European region.	99
Establishment of design centers and R&D bases.	78
Increased business activities in Europe through the increasing of local content and assignment of local personnel.	128
Elevation of the company's production share within Europe through strengthening of production capabilities and the establishment of production bases in new countries.	68
Cultivation of parts companies and requests for entry into Europe by Japanese affiliated parts manufacturers.	31
Production and technical partnerships with European firms and acquisition of European firms.	42
Expansion of the numbers of dispatched and resident representatives.	63
Transfer of production bases to countries with more favorable labor costs and tax systems.	9
Production of products conformed to the EC standards mark.	16
Others.	15

Source: Japan External Trade Organization: Sixth Survey of Management Conditions in Affiliated Manufacturing Firms in Europe, Tokyo, March 1990.

Fifthly, a look at the responses of Japanese affiliated firms to EC market unity (Table 8) reveals that they are pursuing policies of "increased business activities in Europe through the raising of local content and assignment of local personnel." Together with this, they are proceeding with business localization policies through "the establishment of companies with comprehensive jurisdiction over the entire European region," for centralized control of production, sales, capital procurement, technical development and "expanding the number of dispatched workers and resident representatives." Similarly, they are proceeding with localization of research and development activities through "the establishment of design

centers and R&D bases" for design and product development that is suited to local needs. Through this spectrum of activities Japanese affiliates are attempting to "elevate their production share within Europe."

Let us, then, make a closer inspection of the conditions surrounding localization of production, management, research and development. First of all, there is a high rate of local autonomy among Japanese affiliates. An extremely large number of these local affiliates (213 of the total 234 companies) have been empowered with the authority necessary to conduct normal business by their parent companies (hiring of staff, alterations to the work system, determination of wages, hiring of managers, procurement of raw materials, etc.). However, only a very few Japanese affiliates have been empowered with the authority to execute the appointment and dismissal of directors, changes in the levels of capitalization, the distribution of profits, or the determination of investments or financing. The rate of local content is on the rise, particularly in processing and assembly fields such as electronics, electrical and precision machinery (from 43.6% to 56.5%), due to quality improvements among local parts manufacturers and the inroads made into Europe by non-European manufacturers. The number of Japanese affiliated firms possessing local subcontractors has also been increasing (111 of 213 companies). However, there is a high rate of discontent among these firms over the time required for deliveries, quality and price. (Of the 75 companies expressing discontent, 59 complaints were delivery-related, 55 quality-related and 46 were cost-related.)

The hiring of local personnel is increasing throughout the manufacturing industry (168 of 240 companies). In spite of this, however, there is little increase being seen in participation by local personnel in management, with a 27.6% appointment rate of local personnel to directorships at each company. Steady progress is being witnessed in the establishment of, or plans for, companies to exercise general control over the entire European region (99 out of 223 companies). Gradual progress is also being made in the training of representatives for dispatch to, or residence in, Europe who must possess suitable ability, business knowledge and experience, linguistic ability, good health and adaptability (63 of 223 companies). Moreover, design centers and R&D bases have been established in 73 locations. Only a few firms have adopted a policy of "complete centralization at the head office" of fundamental research, product development and design activities (41 of 227 companies). A greater number of firms have determined to "partially entrust design responsibilities to local offices," and to "establish international design centers and R&D bases" (93 of 227 companies in both categories). This is due to the need to "adapt locally produced products to local needs," "grasp local trends quickly and respond to increased technical competition," and to "hire foreign researchers and expand the breadth of concepts and ideas in research and development."

3) Federation of Economic Organizations Survey

The Federation of Economic Organizations, comprised of 925 leading Japanese companies (187 in the financial industry) conducted this survey to investigate the interest in, and responses to, EC market unity among its members. The survey, which was conducted in September 1989, was aimed at all of the Federation's members and responses were obtained from 451 companies, for a response rate of 48.8%.

The member companies displayed a high level of interest in EC market unity (Table 9), with 78.9% of them engaged in information gathering activities due to a "strong" or

TABLE 9. INTEREST IN EC MARKET UNITY

Possess a general interest and are gathering public information.	204
Possess a strong interest and are gathering information privately.	152
No interest.	95

Source: Federation of Economic Organizations: Questionnaire Survey Concerning EC Market Unification, Tokyo, October 1989.

TABLE 10. EXPECTED EFFECTS OF EC MARKET UNITY UPON THE RESPONDING COMPANIES

We won't directly enjoy the benefits of the unification but will be positively affected by an upswing in the EC economy.	145
Competition with EC firms will intensify.	104
The EC will assume a wary and discriminatory attitude towards Japanese firms, making it more difficult to conduct business.	90
Unification will lead to an expansion in business opportunities.	76
Competition with Japanese affiliated firms in the local region will intensify.	71
The EC will not allow Japanese firms to enjoy the benefits of unification and accordingly business will become more difficult.	70
There will be almost no effect at all.	28
Competition with American firms in the local region will intensify.	26

Source: Federation of Economic Organizations: Questionnaire Survey Concerning EC Market Unification, Tokyo, October 1989.

"general" interest. Looking more closely at the specific areas of interest, on the issue of physical obstacles, strong interest was expressed in the simplification of customs procedures and the abolition of existing import restrictions. In the area of technical obstacles, interest was expressed in unification and certification of industrial and safety standards, the liberalization of capital movements, the standardization of corporate tax laws, and financial and securities regulation. Interest was also expressed, with respect to financial obstacles, in reducing the differences between the various national added value tax systems. With respect to common EC policies, great interest was expressed by companies not involved in the financial industry for the adoption of common automobile policies and social and labor agreements; and by companies in the financial industry in the plan for a second bank initiative and common policies for securities and insurance businesses.

Secondly, when questioned about the projected effects of EC market unity upon their own companies (Table 10), the respondents demonstrated a slight tendency toward negative outlooks. The number of companies forecasting that "business will get tougher," "business will become more difficult," or "competition with EC firms will intensify," was slightly greater than those anticipating that "it will lead to some positive effects" or that "there will be a resultant expansion in business opportunities."

Thirdly, with respect to their responses to EC market unity (Table 11), although a few firms asserted that "the first stage of response has been completed," the majority are "currently searching for appropriate future responses," or are "in the process of formulating responses, but they are as yet incomplete." Discussions of concrete response policies (Table 12) included expansion and establishment of local bases, joint ventures with local firms, mergers with, and acquisition of, local firms, technical and marketing partnerships with

TABLE 11. RESPONSES TO EC MARKET UNITY

Currently searching for appropriate future responses.	168
In the process of formulating responses, but they are as yet incomplete.	129
The first stage of response has been completed.	26
<i>Source:</i> Federation of Economic Organizations: Questionnaire Survey Concerning EC Market Unification, Tokyo, October 1989.	

TABLE 12. CONCRETE RESPONSE POLICIES

Expansion of local bases.	106
Establishment of new local bases.	62
Joint ventures with local firms.	54
Establishment of a company with centralized control of the European region.	44
M&A's with/of local firms.	38
Entering into technical partnerships with local firms.	30
Creation of local R&D structures.	26
Entering into marketing partnerships with local firms.	26
Establishment of headquarters within the company's head office to deal with EC conditions.	22
Expansion of bases in America and other regions within the range of the unified market.	20
Establishment of headquarters in a local office to deal with EC conditions.	20
Entering into new contracts with local lawyers and consultants.	17
Establishment of bases in the EFTA countries.	13
Must engage in industrial lobbying activities.	4
<i>Source:</i> Federation of Economic Organizations: Questionnaire Survey Concerning EC Market Unification, Tokyo, October 1989.	

TABLE 13. LOCAL R&D ACTIVITY

Possess no R&D facilities.	54
Possess facilities adequate only for the performance of limited technical applications.	24
Possess facilities adequate only for the performance of product tests.	22
Possess facilities adequate only for the development of designs.	9
Possess facilities adequate only for the development of fundamental concepts.	6
<i>Source:</i> Federation of Economic Organizations: Questionnaire Survey Concerning EC Market Unification, Tokyo, October 1989.	

local firms, establishment of companies for centralized control of the European region, creation of local R&D facilities and establishment within the company's head office or a local headquarters to deal with EC conditions. Frequent mention was made of the need to establish or expand local bases. However, the objectives of the planned expansion or establishment of bases varied from company to company, with some taking into account the entire EC market region, some including the EFTA and Eastern European markets in addition to the EC market, and some focusing solely on those countries where their company's bases are located. Furthermore, a number of companies showed anxiety concerning the expansion or establishment of bases with respect to the difficulty of securing personnel, the difficulty of obtaining local parts, the language problem, local content demands and management style ("Japanese management practices are difficult to understand").

Fourthly, an investigation of local R&D activity (Table 13) reveals that only a few firms possess local R&D facilities. Moreover, these facilities are not extensive and are

suitable only for "the performance of limited technical applications," "the performance of product tests," "the development of designs," or "the development of fundamental concepts."

Fifthly, when questioned about the forecasted effects of EC market unity on the European economy (Table 14), an overwhelming majority of firms anticipate that "the European economy will grow and experience significant and positive trends in the areas of unemployment and inflation," or that "European firms will further restructure and this will lead to a recovery among European industries." Then again, a large number of firms believe that "technical transfers from Japan to Europe will increase."

4) Nihon Keizai Shinbun Survey

This survey investigated the strategies of leading Japanese firms with respect to the EC market unification. The survey, which was conducted in October and November of 1989, was aimed at the top 300 companies in export sales and responses were obtained from 131 companies, for a response rate of 43.7%.

Firstly, regarding the question of potential changes in the European market due to EC market unity (Table 15), 66.1% of the responding firms expressed a concern that: "It will vary from country to country, but in general the situation will become difficult for Japan." Only a few firms expressed a positive outlook: "It will be very profitable for Japan." Next, on the question of whether Europe will be revitalized by the EC market unity (Table 16),

TABLE 14. ANTICIPATED EFFECTS OF UNITY ON THE EUROPEAN ECONOMY

The European economy will grow and experience significant and positive trends in the areas of unemployment and inflation.	183
European industries will increase restructure and this will lead to a recovery among European industries.	172
Technical transfers from Japan to Europe will increase.	125
There will be no significant changes in the European economy or industries.	45
U.S. and Japanese firms will primarily reap the profits of unification and European industries will grow less dominant.	7

Source: Federation of Economic Organizations: Questionnaire Survey Concerning EC Market Unification, Tokyo, October 1989.

TABLE 15. POTENTIAL CHANGES IN THE EUROPEAN MARKET DUE TO EC MARKET UNITY

It will vary from country to country but in general the situation will become difficult for Japan.	66.1%
Can't say either way.	12.1
It will vary from country to country but in general it will be very profitable for Japan.	11.3
Others.	10.5

Source: Nihon Keizai Shinbun, December 17, 1989.

TABLE 16. REVITALIZATION OF EUROPE THROUGH EC MARKET UNITY

Can't say either way.	43.5%
A strong Europe will be realized that will rival the US and Japan.	37.9
The realization of a strong Europe is probably impossible.	18.6

Source: Nihon Keizai Shinbun, December 17, 1989.

a large number of companies responded that they "can't say either way," followed by an almost equal number which stated that "a strong Europe will be realized that will rival the US and Japan." Additionally, a smaller number of companies responded that "the realization of a strong Europe is probably impossible." Thirdly, in response to the question of how European economic zones will change with EC market unity (Table 17), the majority of firms responded either that "competition between companies and nations will intensify," or "there will be an increase in M&A's and an increased trend toward oligopolies in each industry."

Fourthly, a look at the responses to the question of the effect of Japanese firms's entry into the European industrial world (Table 18) reveals that the greatest number of companies believe that "a realignment will occur with those firms with strong local power bases surviving and coming to the fore." A smaller portion of the respondents asserted that "the opposition of local companies will intensify friction." Roughly half of the companies have begun local production, with 41.7% of the firms responding that they possess local production facilities and 9.6% responding that they "don't now, but are planning to establish them." With respect to their European plants, 71.2% of the companies defined the plants' role as "supplier to the European region," while 18.6% are aiming for "exports to the US, in addition to supplying the European region." On the question of the most suitable country in Europe for production investments (Table 19), England headed the list, followed by West Germany, Spain and France. The companies also responded that the deciding factors

TABLE 17. CHANGES IN ECONOMIC ZONES DUE TO EC MARKET UNITY

Competition between companies and nations will intensify.	47.6%
There will be an increase in M&A's and an increased trend toward oligopolies in each industry.	41.1
Others.	11.3

Source: Nihon Keizai Shinbun, December 17, 1989.

TABLE 18. EFFECTS OF ENTRY BY JAPANESE FIRMS INTO THE EUROPEAN INDUSTRIAL WORLD

A realignment will occur in which those firms with strong local power bases will prosper.	41.9%
Japanese firms have a duty to assist local firms.	35.5
The opposition of local companies will intensify friction.	12.1
Others.	10.5

Source: Nihon Keizai Shinbun, December 17, 1989.

TABLE 19. MOST SUITABLE COUNTRY IN EUROPE FOR PRODUCTION INVESTMENTS

England	31.5%
West Germany	22.6
Spain	10.5
France	7.3
Holland	7.3
Italy	3.2
Ireland	2.4
Others	15.2

Source: Nihon Keizai Shinbun, December 17, 1989.

TABLE 20. DETERMINING FACTORS FOR NEW INVESTMENTS

Quality of labor	39.5%
Language	31.5
Local incentive policies	30.6

Source: Nihon Keizai Shinbun, December 17, 1989.

TABLE 21. LOCALIZATION EFFORTS

Concentration on business	60.0%
Aimed toward improving the company's image	20.9
Unnecessary	7.8
Others	11.1

Source: Nihon Keizai Shinbun, December 17, 1989.

TABLE 22. TRANSFER OF RESEARCH AND DEVELOPMENT ACTIVITIES

Don't know.	51.3%
In the process of transferring these activities.	13.9
Moving those activities which can be transferred.	17.4
Have no intention of making such transfers.	17.4

Source: Nihon Keizai Shinbun, December 17, 1989.

TABLE 23. GOALS FOR LOCAL CONTENT RATES

80% or greater	33.9%
70-80%	10.2
60-70%	20.3
Less than 60%	10.2
No response	25.4

Source: Nihon Keizai Shinbun, December 19, 1989.

TABLE 24. APPOINTMENT OF LOCAL PERSONS TO TOP POSITIONS
IN OVERSEAS CORPORATIONS

Would like to lay the way for such appointments in the future.	39.1%
Have appointed a local person to a top position.	28.7
Others.	32.2

Source: Nihon Keizai Shinbun, December 21, 1989.

for new investments were "the quality of labor," "language" and "local incentive policies" (Table 20).

Fifthly, when asked about their localization efforts (Table 21), a majority of companies responded that they were "concentrating on business," and a few that their efforts were "aimed toward improving the company's image." Looking more closely at the substance of localization efforts we see that only a small number of companies, when asked about the transfer of their research and development activities (Table 22), were "in the process of transferring," or "moving those activities which can be transferred." In response to the question of their goal for local content (Table 23), a majority of companies responded that

TABLE 25. EXISTENCE OF AN EUROPEAN HEADQUARTERS

Have established an European headquarters.	14.8%
Have not established an European headquarters but are in the process of making plans for one.	9.6
Have made plans but don't know when they will be realized.	29.6
Have no such plans.	46.0

Source: Nihon Keizai Shinbun, December 27, 1989.

they were aiming for a local content rate in excess of 60% or, if possible, in excess of 80%. With respect to the question of whether they would appoint a local person to the top position in a local corporation (Table 24), well over half of the companies responded that they "have appointed a local person to a top position," or that they "would like to prepare the way for such an appointment in the future." Finally, when questioned about the possibility of establishing an European headquarters (Table 25), a large majority responded that they "have no such plans" or that they "have made plans, but don't know when they will be realized." Only a small minority responded that they "have established an European headquarters" or that they "have not established an European headquarters, but are in the process of making plans for one."

IV. Conclusion

We have looked at four surveys concerning the entry of Japanese corporations into the EC, and the corporate responses to the impending EC market unification. Let us now focus on companies in the manufacturing industry by looking at the results of surveys conducted by the Toyo Keizai Shinposha and the Japan External Trade Organization. We can summarize the results in the following manner:

- (1) There is a broad range of motivations for establishing operations in the EC, with the primary ones being: "It represents one phase of our globalization strategies," "It is a transition from export to local production," it is a "Response to consumer needs," it is an "expansion of sales routes in the target country and to other countries," and "It is necessary for the collection of information." Since 1987, however, an increasing number of firms cite as their motivation: "Apprehension of protectionism following EC market unification," "Favorable investment measures including taxes, etc.," and "Supplying materials and parts to Japanese affiliated manufacturers in Europe."
- (2) Broken down by nation, the greatest number of Japanese firms have entered England, West Germany and France. A breakdown by industry reveals that the leaders are electrical equipment, machinery and chemical manufacturers, and that they are concentrated in England, West Germany and France.
- (3) The primary reasons determining the choice of a country in which to establish an affiliate were: "Good geographic conditions for distribution," "The ability to hire English speaking managers," "The existence of a viable infrastructure," and "The quality of the local work force when compared with other nations."
- (4) Measures for responding to EC market unification included discussions of localization of production, management, and research and development through the establishment of companies for centralized control of the European region, the appointment of local person-

nel, increases in the rates of local content and the establishment of design centers and R&D bases. These companies are also currently in the process of proceeding with localization policies.

Next, we can summarize the surveys by the Federation of Economic Organizations and the Nihon Keizai Shinbun in the following manner:

- (1) There is a high level of interest in EC market unification, and companies are actively involved in information gathering activities. There was a particularly strong interest shown, with respect to the unification program, in the simplification of customs procedures, unification and certification of industrial and safety standards, and liberalization of capital movements. Great interest was also shown, with respect to common EC policies, in the development of common automobile policies and plans for a second bank initiative.
- (2) The outlook for EC market unity was that "the European economy will grow and experience significant and positive trends in the areas of unemployment and inflation," but that "competition between companies and nations will intensify," "there will be an increased trend toward oligopolies in each industry," "the unification of the market will lead to a recovery among European industries" and "a strong Europe will be realized that will rival the US and Japan."
- (3) The companies are predicting that: "In general the situation will become difficult for Japan." The projected effect of Japanese corporate entry into the European industrial world is: "A realignment will occur with firms with strong local power bases surviving and coming to the fore." Japanese corporations show a preference in their production investments for England, West Germany, Spain and France. These firms have placed emphasis on "supply to the European region," and are in the process of increasing their local production facilities.
- (4) Measures for responding to the EC market unification included discussions on "concentrating on business," with localization of production, management, research and development through expansion and establishment of local bases, joint ventures with local firms, technical and marketing partnerships with local firms, creation of local R&D structures, establishment of companies for centralized control of the European region (a European headquarters), the appointment of local persons to top positions in overseas corporations and increases in the rate of local content. The companies are gradually proceeding with these localization policies.

The author would like to conclude by discussing some of his own opinions based upon the summaries given above.

Japanese corporations are forecasting that after the unification of the EC market it will become more difficult to initiate plans for exports to Europe and further entry into the EC region. They believe that it would be desirable, if possible, to secure production bases inside the EC region prior to EC market unification. There are essentially two methods for entry into the EC. The first method involves the formation of a partnership—through the providing of technical expertise or through a joint undertaking—with a local corporation inside the EC region. As a result of this partnership a local production base is developed. The second method entails the establishment, from the outset, of a local production base through direct investments or acquisitions. In either case, companies planning future entry into the EC region, like the companies that are already established there, must promote policies for localization of production (become an insider) through

increases in the rate of local content and by creating new added value. Beyond this, moreover, they must promote localization in management through the appointments of local personnel, by allowing local personnel to participate in management and by making significant grants of discretionary powers to the overseas company. Localization policies are highly desirable not only with respect to production bases, but also in technical transfers and in the establishment of research and development bases equipped with sophisticated technical capabilities.

A wide variety of demands are being made from the EC side with respect to the measures being taken by Japanese corporations. Ardent appeals are being made to Japan to (1) ease trade regulations and eliminate trade barriers; (2) open up the Japanese market; (3) stop destructive export drives in the world market; and (4) stop viewing Europe solely as a potential market. Whether the Japanese government and Japanese corporations bother to heed these appeals remains another question.

The European Community is anxious for the entry into the EC region of Japanese corporations capable of contributing to the prosperity of the European market. Contributions to the local region through the creation of jobs, technical transfers, and profit reinvestment are becoming essential conditions for companies planning to enter the EC. This will be possible only when Japanese corporations effect a transformation from "a business pattern of concentration upon a single market or product to one of international cooperation. Here, indeed, lies the path for future coexistence between Japanese and European corporations.

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