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THE CHANGING ROLE OF THE JAPANESE MARKET
AND ITS IMPACT ON GLOBAL STRATEGY

HIROTAKA TAKEUCHI

Introduction

Japan evokes controversy within the business community. Its supporters marvel at its carefully planned industrial policy, its close business-government ties, its disciplined labor force, its efficient production system, its effective quality control program, its technological advances, its managerial patience, and its negotiating skills. Its critics, however, point to its unfair trade practices, its carefully protected domestic market, its so-called “Japan Inc.” phenomenon, its free-rider status in defense, its unfairly manipulated exchange rates, its dumping practices, its labor force of willing captives (less freedom, less income, less voice, less interest on savings, and generally lower standards of personal comfort), its inability to innovate, its insular management practices, and its shrewd but unyielding negotiating style.

Some influential business leaders have been quite vocal in giving out warning signals to Japan. Lee Iacocca, chairman of Chrysler Corporation, says the following:

Let’s tell Japan to knock off the unfair practices or we’ll be forced to retaliate—not only to stop their currency and trade manipulation, but to protect our industrial base and the American way of doing business. . . . If Japan cheats in the marketplace, we don’t have to stand by. We can demand reciprocity.

Emotions aside, the world business community can no longer ignore Japan. Companies that consider themselves global leaders cannot afford to brush it aside.

Gone are the days when Japanese companies can be viewed simply as an exporter. In many countries, they are taking strong initiatives to become an insider. For example:

○Honda Motor Co. built its first U.S. auto plant in Marysville, Ohio, in 1982, for $250 million. It recently spent another $250 million or so to double the plant capacity to 300,000 cars a year.

○NEC Corp. opened a microchip factory in Scotland’s so-called “Silicon Glen” in 1982.

○Makino Milling, one of Japan’s major manufacturers of numerically controlled lathes and machining centers, has recently taken a 25.1% ownership of Heidenreich & Harbeck, a German machine tool company headquartered in Hamburg.

As Japan becomes more of an insider, it should be viewed as an important member of

“triad power,” which is comprised of Japan, the U.S., and the European Community (EC). Companies in the U.S. and the EC must learn how to live with Japan. More importantly, they need to become an insider as well and make better use of what Japan has to offer to the outside world.

Some multinational companies are already making serious inroads into Japan. In the last year or two, the following has taken place:

- Du Pont started making heat- and pressure-resistant plastic parts for such things as jet engines in a plant 60 miles away from Tokyo.
- Fairchild Semiconductor started making semiconductors in a plant outside Nagasaki.
- Monsanto has decided to pour as much as $100 million to build a silicon wafer plant somewhere in Japan.
- IBM sent some 220 people from the U.S. to Japan as part of a massive reorganization of its Far East operations. The reorganization created the IBM Asia/Pacific Group in Tokyo to oversee operations in 17 Far East nations.

Objectives

The major objective of this paper is to analyze the changing role of the Japanese market to companies pursuing a global strategy. We highlight five realities about the Japanese market:

1. It’s the second largest market in the free world.
2. It’s the lead market for certain industries.
3. It’s the base for entry to other countries in Asia.
4. It’s where much of the new technology will originate.
5. It’s fertile ground to formulate international coalitions.

The impetus for these changes came about as more and more multinationals began to realize the importance of having to compete globally. Another objective of this paper, therefore, is to clarify what we mean by global strategy and what significance it has in today’s competitive environment.

Global Strategy

Given today’s competitive environment, there has been a steady push within leading companies to achieve greater worldwide coordination. Companies that have once been characterized as “multinational,” with a host of semi-independent operations scattered throughout the world, now prefer to think of themselves as “global.” These companies compete in global industries for shares of a global market. We discuss the evolution of globalization—at the market and within the industry—in this section.

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Globalization of Markets

In the past, many companies achieved international success by following some clichés: think small, be locally responsive, and consider the differences among nations. Under this view, it was considered a natural course of events for international companies to highlight national differences in culture, tastes, preferences, standards, or institutional set-up. It was also natural for them to treat each national market as a separate entity, and to develop tailor-made programs for each country.

To be sure, there are ample hard-to-forget examples to warn international companies on the importance of understanding differences across countries. For example:

- Campbell’s canned soups did not catch on in soup-loving Brazil. A post mortem study showed that most Brazilian housewives felt they were not fulfilling their role adequately if they served soup that they could not call their own. Brazilian housewives, however, had no problem using dehydrated competitive brands (such as Knorr and Maggi) which they could use as a soup starter but still add their own ingredients and flair.

- Tandy Corp. geared its first Christmas promotions in Holland to December 25, following the custom in the U.S. Much to its dismay, the company discovered that the Dutch exchanged holiday gifts on St. Nicholas Day, celebrated on December 6. Tandy also overlooked a Belgian law requiring a government tax stamp on window signs when it opened its first Radio Shack store in Europe. It also violated a German sales law by giving away flashlights to promote the opening of its stores there.

- Johnson & Johnson’s baby powder did not sell well in Japan until its original package was changed to a flat box with a powder puff. Japanese mothers feared that powder would fly around their small homes and enter their kitchens when sprinkled from the plastic bottle. Powder puffs allowed them to apply powder sparingly.

Ignoring these differences, of course, could sometimes be suicidal to companies operating in the international arena. But concentrating solely on differences across countries could lead to a very cost inefficient way of doing business on a worldwide basis. Cost efficiency would be maximized if international companies could find or create a common need or desire throughout the world for a standardized product that could be sold the same way from country to country. They could benefit from economies of scale in sourcing, logistics, production, and marketing, as well as from the transfer of managerial knowhow. As Theodore Levitt points out:

By translating these benefits into reduced world prices, they can descimate competitors that still live in the disabling grip of old assumptions about how the world works.4

A general drift is underway today toward the homogenization of tastes, desires, or modes of doing business around the world. Customers around the world are demanding the most advanced things—i.e., goods and services of the best quality and reliability at the

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lowest price—that the world makes and sells. According to Levitt:

Commercially, nothing confirms this as much as the success of McDonald’s from the Champs Elysees to the Ginza, of Coca-Cola in Bahrain and Pepsi-Cola in Moscow, and of rock music, Greek salad, Hollywood movies, Revlon cosmetics, Sony televisions, and Levi jeans everywhere. “High-touch” products are as ubiquitous as high-tech.5

Or as Gluck puts it:

Siemens and ITT telephones can be found somewhere in almost every country in the world. . . . Just about every gas turbine sold in the world has some General Electric technology or component in it, and which country doesn’t need a few? How many airlines could survive if they didn’t consider buying Boeing or McDonnell Douglas equipment?6

The increasing commonality across countries means that a company has a greater chance of winning the competitive race by developing products that will be universally used on a global basis. Companies like Canon, Honda, Brother, Casio, Sony, Seiko, and Matsushita develop products with the world market in mind. They concentrate on forcing costs and prices down and pushing quality and reliability up, while at the same time maintaining reasonable concern for suitability.

Globalization of Industries7

Most industries are international in the sense that their products are sold in a number of countries. Yet, the pattern of international competition varies markedly from country to country. At one end of the continuum are “multidomestic” industries, where competition in each country (or a small group of countries) is essentially independent of competition in other countries. At the other end of the continuum are “global” industries, in which a company’s competitive position in one country is strongly influenced by its competitive position in other countries.

Some international industries—such as bicycles, metal fabrication, and retailing—have remained predominantly multidomestic over the years. Other industries—such as automobiles, wholesale banking, computers, and telecommunications—are currently in a state of transition. Still others—such as television, cameras, watches, motorcycles, turbine engines, chemical, and aircraft—have already evolved into a global state.

One should be mindful of the fact that it has taken decades for most of the global industries listed above to reach their current state. In contrast, many of the new industries—such as fiber optics, high-technology plastics, fine ceramics, robotics, semiconductors, and satellite networks—seem to be born global. If this phenomenon continues, we can expect the number of global industries to grow rapidly.

5 Ibid., p. 93.
To exaggerate a little, we can say that each of these industries has become global for a different reason. Satellite networks, for example, became global because of the massive R&D investments required to stay ahead and the need to amortize these investments over many markets. Consumer electronics became global because producers discovered that they could drive themselves further and faster down the learning curve if they went after the fastgrowing overseas markets.

But while the reasons may have been different, the managerial implications of globalization have been quite similar across industries. Companies competing in global industries have had to adjust their international strategies in very fundamental ways.

In multidomestic industries, international competition is much the same as domestic competition, with the added complexities of doing business abroad. In such an industry, a company can and should manage its worldwide activities as a portfolio of subsidiaries or operations in each country in which it competes. Even though a one-time transfer of intangible assets (such as product design, brand name, or marketing knowhow) may be possible, a company’s success in a multidomestic industry is determined by its activities in each particular country. It modifies and adapts these intangibles to the needs of the specific country over time. Its basic unit of strategy formulation is the country. Thus, it pursues a “country-centered” strategy.

Global industries, in contrast, raise far more complex considerations in international strategy. While a company still conducts business in a variety of countries, its activities in different countries are interdependent. Given this interdependence, managing its worldwide activities as a portfolio of subsidiaries would not be to its best interest. Instead, it should attempt to integrate its worldwide activities on an ongoing basis. Its strategy should be formulated with the entire globe in mind. Thus, it pursues a “global” strategy.

A global company must not only transfer intangibles mentioned above, but also integrate its sourcing, product development, production, and marketing on a worldwide basis. It plays a sort of “chess game” that pits its worldwide system of doing business against its competitors. It must contend with minor local competitors as well as its key global competitors, who may not be necessarily strong in all markets. Depending on what competition does, it must be prepared to make unconventional moves, such as overdesigning or underpricing its products in some markets or setting up production facilities in remote but strategically important locations.

The managerial task is even more complicated by the fact that some of the activities must necessarily occur in each country in which it operates. Some aspects of personal selling, distribution, and service fall into this category. Hence, a company pursuing a global strategy must integrate its activities worldwide by achieving the right amount of geographic centralization and world coordination of activities. But, at the same time, it has to maintain responsiveness to local country needs.

Realities of the Japanese Market

As we mentioned earlier, companies pursuing a global strategy cannot afford to ignore Japan. It is already a strong contender in the transitional industries—such as automobiles, computers, and telecommunications—and a leader in some newer global industries—such
as fine ceramics, robotics, and semiconductors. Its income level and life styles are becoming increasingly similar to the U.S. and the EC. As such, it is a major driving force in the movement toward the globalization of industries and markets.

The emergence of Japan's industrial power is recognized worldwide. What is not yet recognized is the emergence of the so-called triad power and the combined impact of Japan, the U.S., and the EC to worldwide competition. Some statistics may clarify this point. The combined GNP of Japan and the U.S. accounts for some 30% of the free world's total. Add the GNPs of the four key countries of the EC—the United Kingdom, West Germany, France, and Italy—and the figure rises to 45%. Include all the countries in the Organization for Economic Cooperation and Development (OECD) and the total reaches 54% of the global GNP.8

In addition to the converging of consumer needs and desires, these countries face similar environmental forces. Among others, they include the following: a maturing economy, an aging population, rising social costs, escalating labor costs, emerging technological developments, increasing R&D investments, unstabilizing exchange rates, and mounting competition from newly industrialized countries (NICs). The time is now ripe for the U.S. and the EC to turn to Japan for some answers.

We hope that this section of the paper will serve as a primer for companies trying to make entry into Japan. The reader hopefully will gain some new insights into the changing role of the Japanese market in global competition. We identify and discuss five realities about the Japanese market below.

1. Market Size and Potential

Measured in terms of GNP, Japan is the second largest single country marketplace in the free world. It is a little less than half the size of the United States, nearly double that of West Germany, and equal to the combined GNP of the United Kingdom and France.

Demographically, Japan is a homogeneous market where 2.6% of the world's population lives squeezed together on a mere 0.3% of the planet's landmass. Its market base of over 120 million people, who are one of the most highly educated in the world, belong to the same race and speak the same language.

By any measure, the size of the Japanese market deserves attention. According to the chairman of Wella Japan, a subsidiary of the German manufacturer, "The Japanese market is so big that even for rather low market-share targets, a substantial effort is worthwhile. For most items, about a 3% market share in Japan would, for example, equal 40% of the Swiss market, if expressed in absolute figures."9

The apparent potential of the Japanese market appears promising as well. According to one publication:

Japanese consumers now enjoy an unprecedented level of material wealth. In the 1980s, they will lead a more easy-going lifestyle, live in more comfortable and luxurious homes, make better use of their free time, and show more individualism in their de-

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8 Kenichi Ohmae, op. cit.
decisions and actions.  

What is welcome news to foreign-affiliated companies (FACs), according to a recent survey, is the finding that Japanese consumers do not have a strong "Buy Japanese" attitude. Asked for their preference between imported goods and domestic goods, 26.4% of those surveyed expressed a preference for goods made locally, 2.3% for imported goods, 66.3% said no distinction was made on whether the product was imported or made locally, and 5.0% didn't know.  The percentage of the respondents who did not make any distinction between imported and domestic goods was higher (reaching over 80%) among the younger consumers.

"Attitudes are fine, but what about actual results," a skeptic may probe. To be sure, an imbalance still exists here. In terms of per capita imports of manufactured goods, the flow from Japan to the U.S. in 1981 was $171.50, compared to $97.30 for the reverse. The flow of goods between Japan and the EC was more or less balanced (see Fig. 1 below), but at a substantially lower level compared to the flow between the U.S. and the EC.

Several interpretations are possible from these statistics. A skeptic may argue that the low level of relative flow from the U.S. to Japan ($97.30 versus $171.50) and the low level of absolute flow from the EC to Japan ($62.10) are a result of the closed door policy of the Japanese government. But the findings of two recent studies run counter to this argument. PA International Management Consultants, based in Tokyo, undertook a survey of European companies operating in Japan on behalf of the EC Commission and reported the following conclusion:

The company representatives feel that there is really almost nothing the Japanese government can do to open the Japanese market. They view the resolution of this problem and achieving success in Japan as tasks which have been levied upon their own companies.

Another study undertaken jointly by McKinsey & Company, a U.S.-based management consulting company, and the U.S.-Japan Trade Study Group, an organization of repre-

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12 Ibid., p. 2.

13 As reported in "Selling to Japan: From A to Z," MIPRO, 1984, p. 4.
sentatives from the American and Japanese business and government communities, reached
a similar conclusion about the trade imbalance between Japan and the U.S.:

Study findings indicate that Japan, although a difficult and fiercely competitive market,
is less controlled than popularly believed and, in fact, is no more closed or controlled
from a legal standpoint that some Western markets. . . . Evidence suggests that among
the greatest hurdles U.S. firms face in Japan is the gap between headquarters’ expecta-
tions and the marketplace realities.14

Another possible interpretation, thus, is to attribute the low levels of per capita imports of
manufactured goods into Japan squarely on the FACs. These studies suggest their failure
or inability to tap the full potential of the Japanese market.

2. Lead Market

Japan serves as the lead market for certain products that may eventually find their way
to worldwide markets. From diapers to robots, the Japanese market is where one finds
the most sophisticated users. It is also a lead market in the sense that it is where the latest
and boldest features or models first appear, as in the case of consumer electronics and fine
ceramics. In addition, it is where an avant-garde movement originates, as in the case of
fashion.

Let’s start with diapers. Procter & Gamble, for example, test marketed its new paper
diaper in Japan since it felt that Japanese mothers were the hardest-to-please customers
in the world. If the new Pampers were to pass the scrutiny of the quality-conscious Japanese
mothers, the company argued, it will be sure to be accepted by parents throughout the world.
The thought of test marketing a more absorbent Pampers arose in the first place since a
little-known Japanese company began eroding its share in the Japanese market with a pre-

What about consumer electronics, in which Japan is said to have conquered markets
around the world with such products as video recorders, audio equipment, color TVs, and
others? But for Japanese companies—like Sony, Matsushita, Sharp, Pioneer, Hitachi,
or JVC—competition begins at home. Anyone who is not convinced of this should pay
a quick visit to Akihabara, a booming bazaar that spills over 20 blocks in central Tokyo.
There, one can find in one store “205 varieties of stereo headphones, 100 different color
television sets and 75 kinds of record turntables.”15 To survive and prosper in this fiercely
competitive market, 580 or so manufacturers that make up the Japanese consumer elec-
tronics industry must continuously turn out products with innovative features, outstanding
quality, and exceptionally low prices.

In fashion, Japanese designers such as Issey Miyake, Rei Kawakubo, and Yohji Yamamoto,
who are considered “revolutionaries,” are fast becoming the leading designers in the
world. They are considered as “insurgents, whose aim is to modify, sometimes even
change, the shape and form of clothing itself.”16 Buyers from Bloomingdale’s, Neiman-
Marcus, and other leading retailers around the world visit the Japanese market to stay in

16 Ibid., p. 72.
touch with this new movement that blends fashion with art and craft.

3. Base Market for Asia and the Pacific Basin

The Japanese market serves as a solid base for companies in the U.S. and the EC to tap the growth potential of the Asian and Pacific Basin markets. More and more companies are establishing their regional headquarters in Tokyo to conduct business in China, South Korea, Taiwan, Singapore, Indonesia, Australia, New Zealand, and others.

IBM, for example, created a new central organization in the region (the Asia/Pacific Group mentioned earlier), which the company sees as its most important growth market in the world. Its Tokyo-based regional headquarters oversees the operations of 17 countries, including Japan and China. Japan is still a challenge for IBM, which lost the No. 1 market position to Fujitsu in 1979. China warrants increased attention because of its sheer size and its recent reawakening from decades of technological slumber.

Setting up a headquarters office in Tokyo can be expensive, especially for a company with no prior presence there. According to a 1981 estimate by the American Embassy in Tokyo, the initial cost to establish a large office (7,100 sq. feet) runs about $1 to $1.5 million the first year. This estimate includes rent advances and deposits, refurbishments, furniture, and administrative assistance, but does not include management salaries or expenses. This level of upfront investment, however, is "peanuts" compared to the large potential profit impact of the region.

The potential of the Chinese market alone can justify the move. Its one billion people appear to be on the verge of a spending spree. With a 66% rise in average income over the last five years, Chinese families aspire to own color TVs, refrigerators, washing machines, cameras, motorcycles, and eventually cars, video recorders, and computers. By the year 2000, China's leaders aim to quadruple the nation's output to $1 trillion—roughly the size of the Japanese economy today.

The enormous potential of NICs in the Pacific Basin is also beginning to be recognized. A recent report of the President's Commission on Industrial Competitiveness in the U.S. observed the following:

Japan and the newly industrializing nations of the Pacific Rim—including Taiwan, South Korea, Singapore, Hong Kong, and Malaysia—now represent our major competitive arena. The United States now does more trade with these Pacific Rim countries that with all of Europe combined. If our trade in this arena continues to grow at its current rates, by 1995 America's trade with the Pacific Rim will be double the size of our European trade.17

4. Source of Emerging Technologies

Japan is trying to shed its image as imitator and become recognized as an innovator. To do so, Japanese companies, universities, and government are starting to pour money into basic research.

Some companies that have been derided as a “freeloader” or a “copycat” in the past are becoming serious about research. Hitachi, for example, just opened a basic research laboratory where it will study, among other things, the use of biological materials as substitutes for silicon and gallium arsenide in semiconductor chips. Matsushita also plans to open a research laboratory this fall where it will investigate such an emerging technology as supermicroelectronics, which involves shrinking the distance between elements on a semiconductor chip to less than a micron.

Japanese universities, which turn out almost as many engineers a year as in the U.S., are beginning to join the bandwagon for R&D. A consortium of Japanese universities recently announced plans to build the world’s largest optical telescope in Hawaii to study the origin of stars. According to Fortune, “What the Japanese learn in building the huge reflector . . . will most likely be of use to Japan’s optics industry.”

The Japanese government has become a patron of basic research as well. It has built the 70,000-acre Tsukuba Science City 37 miles northeast of Tokyo at an estimated cost of $5 billion. It will eventually house 50 government and private research laboratories devoted to high-energy physics (using a 12 billion electron volt accelerator), the life sciences, and space, among others.

The government is also the sponsor of the Fifth Generation research, which is an attempt to simulate human intelligence using ultra-high speed computers. The targets for the 1990s, for example, include the following: (a) a speech-activated typewriter, with a vocabulary of 10,000 words and the capacity to handle the voice patterns of hundreds of human speakers, (b) an automatic translating machine, with a vocabulary of 100,000 words that can translate Japanese text into other major languages with 90% accuracy, and (c) an optical scanner that can distinguish among 100,000 pictures.

The showcase for these emerging technologies was Expo ’85, a science fair which took place at Tsukuba. More than 700 Japanese companies opened their doors to the world and displayed their most advanced equipment. The message to the world seemed clear: “Come and see for yourself what we can offer now.”

5. Fertile Market for Coalition Formation

Japan has become a fertile ground for globally oriented companies to search for partners interested in forming international coalitions. On a personal note, in a year and a half since my return to Japan, I have been approached by two companies from overseas—one from the U.S. in the semiconductor industry and the other from Europe in the telecommunications industry—to help them find a suitable Japanese coalition partner. The two Japanese companies that I contacted agreed to meet with them and discuss the possibility of negotiating a joint venture.

International coalitions are not new, of course, but the position of the Japanese partner has changed dramatically in the last two decades. In the 1960s, when U.S. and European companies had an absolute lead in technology and management knowhow, it was not unusual for Japanese partners to accept terms and conditions that, in hindsight, were not

19 The term international coalition is used here to denote formal and long-term alliances between companies from different countries that fall short of mergers. They include joint ventures, licensing agreements, supply agreements, marketing agreements, and other agreements.
terribly favorable to them. The balance of power was lopsided, with Japanese companies positioned as a child being led by the helping hands of the parent. Today, Japanese companies have a lot to bring to the negotiating table. The balance of power has become more even and the relationship more like between brothers or sisters.

The incidence of Japanese participation in joint ventures has increased dramatically in recent years. According to the U.S. Department of Commerce, in 1983, more than half (51% to be exact) of the joint ventures formed in the U.S. between American and foreign partners was with Japanese companies. In 1982, joint ventures between these two countries accounted for only 21% of the total.

Many of the coalitions involving a Japanese partner are concentrated in certain key industries—such as computers, semiconductors, aerospace, robotics, steel, and automobiles. They include the following:

- Fujitsu has an OEM agreement with Britain's ICL and a marketing agreement with Siemens AG in Germany. NEC has a joint venture arrangement with Honeywell Information Systems and a technical tie-up with Britain's Bull.

- Hitachi, one of the largest chipmakers in Japan, has a "technical cooperation" agreement to loan Hewlett-Packard its 64K RAM technology. Control Data Corp. has its logic and memory testers supplied through a tie-up with Takeda Riken.

- Boeing Co. has a partnership with a consortium of Japanese manufacturers—Mitsubishi Heavy Industries, Kawasaki Heavy Industries, and Fuji Heavy Industries—to build a new generation of smaller, more fuel-efficient commercial aircrafts. The same consortium built the main body of the Boeing 767.

- Fanuc and General Motors formed GMFanuc Robotics Corp., a 50-50 joint venture, to sell Fanuc robots in North and South America and to GM plants worldwide. Two smaller firms in the robotics industry recently signed a similar seven-year agreement under which Daikin Industries of Osaka will manufacture American Robot Corp.'s state-of-the-art robot for sale in Japan and other parts of Asia.

- Nippon Kokan and National Intergroup Inc. formed a 50-50 joint venture company, National Steel Corp., to tap the potential in such U.S. markets as the automobile industry. On a much smaller scale, Nisshin Steel Co. has embarked on a joint venture with Wheeling-Pittsburgh Steel Corp., in which the two companies plan to build a steel plant in the Ohio Valley.

- General Motors and Toyota, the world's No. 1 and No. 2 auto makers, formed a 50-50 joint venture called New United Motor Mfg. Inc. to manufacture subcompact cars in Freemont, Calif. Both Nissan/Volkswagen and Honda/British Leyland have a product development agreement as well as a marketing agreement. Ford and Chrysler have tie-ups with Mazda and Mitsubishi Motors, respectively.

Although the motives for forming these coalitions are varied—acquisition of technology, search for economies of scale, need for market access, or response to host country pressure—the consequences seem similar. Since coalition formation is taking place most actively in industries that have already become (or are in the process of becoming) global, it will have a strong imprint on the shape of worldwide competition in the future. And since co-
alition formation involves a high degree of collaboration between geographically distant partners on a wide variety of activities (e.g., technology development or exchange, product development, manufacturing, marketing, and service) it will have a profound impact on the coming shape of global strategy.

From what we can gather, it is becoming increasingly difficult for a company to stay competitive in today's world singlehandedly. Even IBM is starting to form coalitions. In Japan, it has a supply agreement with Oki Electric, an agreement to exchange computer patents with Nippon Telegraph & Telephone, and a joint venture with Mitsubishi Corporation and Cosmo-80 to enter the value-added network business. Its best-selling Personal Computer is made from Intel processors which originate from Hitachi, a TDK power supply, and an Epson printer—all from Japan. Given today's competitive environment, even a company as mighty as IBM is turning to the Japanese market for partners.

**Conclusion**

A foreign-affiliated company can leap into the Japanese market in a number of ways. It can (a) export into Japan, (b) hook up with a Japanese partner in a joint venture, (c) acquire a Japanese company, as in the case of Merck which bought a majority of shares of Banyu, a pharmaceutical company best known for antibiotics and cardiovascular drugs, or (d) buy or lease a piece of land and start from scratch, which was the option that Du Pont, Fairchild Semiconductor, and Monsanto undertook, as we mentioned at the start of this paper.

The door to the Japanese market is beginning to open—slowly but surely. The attitude of the Japanese government toward foreign investment has gone from resistance to enthusiasm in the last 20 years. In 1964, when the yen became a convertible currency, the government slammed the door to foreign investment in order to protect its rapidly growing industrial base. Over the years, many of the rules began to be relaxed. In 1980, the last major hurdle that made it difficult for a FAC to manufacture in Japan disappeared. Prior to that time, any FAC who wanted to buy a Japanese company or build its own had to obtain government approval. Today, a FAC simply has to notify the Bank of Japan.

Today's "welcome stranger" attitude is best reflected at the Ministry of International Trade and Industry (MITI), once a zealous protector of Japanese business from outsiders. MITI is giving FACS cheerful advice on how to succeed in Japan. A foreign businessman looking for a factory site in Japan, for example, simply has to visit MITI's Tokyo office and have a computer search conducted on where best to locate. As *Fortune* points out:

> As long as MITI was an obstruction, a lot of companies could put off a decision on whether to make a major effort in Japan. Now that MITI has made it clear it won't stand in the way, those companies will have to climb out to the end of the diving board and decide whether they have what it takes for the plunge.20

The plunge is worth taking. The market is both deep and wide. For companies pursuing a global strategy, it's a must. Those who take the plunge will reap substantive

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benefits in the long run. Those who balk will fall by the wayside in the global competitive arena.

Hitotsubashi University