Internationalization of Japanese Companies

Recent Strategies towards China – A Theoretical Approach

INTRODUCTION

The People's Republic of China has gained increasing importance as a market and production base for the internationally active Japanese industry. At the same time Japanese companies represent one of the most important supports of China's economical and technological development. A look at the strategic management of internationally active Japanese manufacturers shows that investments currently being made in China are shaped by the current trends of globalization and intensified international competition.

In this paper, first the role of China as a new and important business operation base for Japanese companies is discussed. The analysis will focus on the question of why Japanese companies are attracted to China. Subsequently, basic trends in research on the main motives for Japanese international active companies towards China are summarized, with a particular focus on the apparel industry, adding some examples from other industrial fields.

This paper provides a new summarized framework based on and drawing from the theories of Porter (1980, 1985), Bartlett and Ghoshal (1989, 1995), and Sydow (1993) with the aim to deliver a solid basic for further analysis and discussions about the various forms of Japanese business strategies towards China. From the practical research standpoint of the strategic management the theories will be examined and applied to the research subject of Japanese business strategies. In theory, Japanese companies can use six basic business strategies for entering Chinese markets: the export strategy, the international strategy, the multidomestic strategy, the global strategy, the transnational strategy and the collective strategy. From this point forward, the paper will discuss the different strategies that Japanese firms theoretically can use when competing internationally, competing in the Chinese market, and the paper will consider the pros and cons of these strategies.

EMERGENCE OF CHINA AND THE OFFSHORE MOVEMENT

China has become in the last two decades a new and important business operation base for Japanese companies. China's 'open door' policy and its various reforms have gained momentum, and Japanese companies have begun forming joint ventures with state and local enterprises, and building wholly owned factories in various locations in China (Naughton 1997a, 1997b; Taylor 1996; Haak 2001a, p. 46; Li and Li 1999).

In any discussion of Japanese business strategies towards China, we will be aware of one basic question, which arises almost naturally. Why are Japanese companies attracted to China, despite differences in language and culture, political uncertainties, unsure legal system, and the inadequate development of transportation, communications and other infrastructure in most areas of the country?

As a general answer, we can say that ever growing globalization of production and markets provides the main impetus for internationally active Japanese manufacturing firms to go to China (Beechler and Bird 1999; Teranshi and Yamasaki 1995, Fieten 1997, Welge 1990). Firms want, for instance, to shift parts of their value chain (Porter 1980), and in most cases their production processes to various locations in China to take advantages of national differences and/or to establish new distribution channels and service stations to promote products, manufactured in China, Japan or elsewhere in South-East Asia.

This general answer, however, is not really satisfying. For a more detailed answer, we should closely examine the internationalization motives of Japanese companies in order to get a deeper understanding of their business strategies towards China.

Traditional motives for companies to internationalize can be classified as resource-seeking and market-seeking (Bartlett and Ghoshal 1995). We can understand resource-seeking as a behavior driven by the desire of the company either to access key supplies, - such as energy, minerals, and scarce natural resources, or to lower costs in factors of production such as labor. These motivations are dominant in industries in which competitive advantage (Porter 1985) is based on access to or control of key resources. This is the case, too, in industries in which competitive advantage is enhanced by driving down costs by the employment of a large pool of unskilled labor, often in the mass-manufacturing industries, like the apparel industry. Market-seeking behavior is a logical characteristic of companies in mass-manufacturing industries, which seek to exploit economies of scale and scope in production in order to generate a source of competitive advantage over other competitors, especially domestic competitors. According to the main motives, market-seeking and resource seeking, we should perhaps formulate the main question in other words: Why are Japanese companies attracted to China as a manufacturing base (resource seeking) and/or attracted to China as a huge and promising market place (market-seeking)?

One of the main motives is, of course, that China has a huge supply of inexpensive labor, which enables Japanese companies to cut their costs, especially their production costs (Konomoto 1997, pp.70-73, see also Ohmae 2001; Köllner 1997).

In the last decade Japan's economy has been facing various problems. The maturing economy has been slowing down since the early 1990s. Japan's domestic demand is weak, the yen is appreciating steadily, and import competition is growing. Traditional pricing systems in Japan are under strong pressure as imports become cheaper and numerous Japanese retailers switch to discounting strategies to stimulate the demand in Japan. The downward pressure on prices extends all the way from the retailers back to the manufacturers, making cost-cutting the single most important issue, and Japanese manufacturing companies are accelerating most of their offshore facilities particularly to China, in an effort to cut cost, especially in labor-intensive industries. Labor costs in China were in the early 1990s only one-twentieth of the cost of Japanese labor – (though of course differences existed depending on the particular industry and business areas) - which made China extremely attractive to Japanese companies struggling to reduce costs (Konomoto 1998, p. 39). During the 1980s, most Japanese companies setting up abroad tended to set up operations in south China.

China is not a homogeneous economy; commerce and purchasing power are concentrated mainly in the coastal regions, where most of the international companies have established themselves. The old areas of heavy industry are in the North, a modern centre for technology and services is developing in Shanghai in the East and since the formation of the first special economic areas, the southern regions are emulating the model of the former British crown colony Hong Kong, now a special administrative region of China, in their economic development.

In the 1990s, direct investment by Japanese companies has been concentrated in the Dalian area, in 'Greater Shanghai', and also in the area around Beijing. An outstanding factor for Japanese investment in China in the last years is the powerful allure of China's potential market growth. The income of the population is increasing, particularly where industry is concentrated and a new consumer class with a lot of purchasing power needs to be supplied with high quality consumer goods. During the first half of the 1990s, Japanese companies focused on the new Chinese market itself, and they tended to set up operations in east China in the area around Shanghai and Suzhou. Shanghai opened up to foreign business in 1984 and has been a priority area for government infrastructure investment (Toga 2001). Major Japanese construction machinery manufacturers, for example, have moved into the Chinese market. Komatsu Ltd., the largest Japanese producer of construction machinery established a wholly-owned subsidiary in Shanghai in February 2001 to oversee its Chinese operations, and Hitachi Construction Machinery Corp., the leading manufacturer of hydraulic shovels, is keeping full-capacity operations at its Chinese manufacturing subsidiary. These moves are apparently aimed at establishing a greater market presence in China where demand for construction equipment is expected to grow due to major construction projects in western regions. All these business plans have involved investing capital in mainland China on the one hand for the offshore production and on the other hand to penetrate the Chinese markets.

A good example that illustrates the motives of the movement to China and also the specific forms of Japanese business strategy, is provided by the apparel industry. The movement of Japanese apparel makers to China has proceeded in two waves – the first in the 1980s, and the second in the 1990s. The first offshore wave of the apparel industry to China in the 1980s was prompted by rapid growth in Japan's domestic apparel demand, the low labor costs in China, and difficulties in attracting labor in Japan (NRI 1995; Abo 1989). In an industry where labor costs represent most of the costs of goods sold, the cost benefits of moving labor-intensive operations from Japan to China are quite substantial. Some manufactures in this industry have been able to improve their gross margins in certain products by more than ten percentage points by shifting production to China.[1] Most of the offshore business operations that Japanese apparel makers set up at this time were concentrated in south China, near the earlier offshore locations of Japanese apparel makers established in the 1970s, in Taiwan and South Korea.

The second wave in the 1990s was much larger and qualitatively different. In the 1990s in Japan, apart form the continuing problems of attracting workers to the industry, the apparel industry was facing new challenges – in the from of increasingly price-conscious Japanese consumers, a rising level of apparel imports and international price competition, and new types of apparel retailers that emphasized discount pricing - a new business environment threatening the survival of the Japanese apparel industry. The Japanese apparel market was maturing, and China had become increasingly alluring to Japanese apparel companies. China's apparel market promised enormous growth potential, and mid-sized as well as large Japanese apparel firms developed sales channels in the Chinese market. Some Japanese mid-sized apparel makers overcame their size limitations in capitalization, human resources, distribution and marketing by forming joint ventures with local Chinese partners. Other Japanese companies formed joint ventures with foreign investors in order to strengthen their market position (Yoda 2001; Konomoto 1998). Beyond the apparel industry business cooperation in general, cooperative arrangements between companies have become increasingly popular for business organisation in China. Strategic alliances, joint ventures, cooperative projects, - all varieties of collective strategies as a special form of strategy towards China - have become an essential part of business strategy for Japanese and companies in today's Chinese markets, and in other industries besides the apparel industry (Haak 2000a, pp. 113-16; Haak 2001b).

Apparel manufacturing involves a number of different tasks, including product planning, material procurement, production, inspection, distribution and marketing. For the most part, Japanese companies in the 1980s and the early 1990s shifted only production operations – sewing and stitching – to China, as shifting these labor-intensive operations out of Japan generated the largest cost-savings. Some production operations remained in Japan simply because the techniques and materials were not available in China. During the 1990s, however, a new trend arose in the strategies of Japanese apparel makers in China (NRI 1995). Some apparel makers were beginning to perform procurement, inspection, distribution and marketing activities locally in China, while all their product planning was still being done in Japan. The technical capabilities of Japanese joint ventures in China in the textile field were still improving, and local sourcing of liner fabric is also increasing nowadays.

Many Japanese companies decided to expand their offshore capabilities by pursuing local marketing. In fact, most offshore operations by Japanese apparel makers are joint ventures with local partners, precisely because of the expectations of ultimately selling to the Chinese market. China's coastal region, in particular, has become an important apparel market, and is still gaining importance as a base for inspection and distribution operations in today's China.

IMPROVING A FIRMS PROFITABILITY – AND THE SUPREME ROLE OF BUSINESS STRATEGY

Why are Japanese companies proceeding in the way outlined in the previous section, one that many might say is decidedly risky, with direct investment into China? Basic theoretical understanding tells us that a company must manufacture a product that is valued by consumers in order to make profit. Thus we say that companies engage in the activity of value creation. Firms can increase their profits basically in two ways. First, by adding value to a product so that consumers are willing to pay more for the product, so called differentiation strategy. Second, by lowering the costs of value creation, the so called low-cost strategy (Porter 1980).

For example, a business company adds value to a product when it improves the product's quality, provides an additional service to the consumer, or customizes the product to consumer needs. The consumer is then willing to pay more (differentiation strategy). On the other hand firms lower the costs of value creation when they find ways to perform value creation activities more efficiently (low-cost strategy). The differentiation strategy and the low-cost strategy are the two basic strategies for improving a firm's profitability (Porter 1980).

For a theoretical approach to the complex subject of business strategies, to take account of Japanese strategies toward China, it is useful to think of the company as a value chain composed of a series of distinct value creation activities including production, marketing, materials management, research & development (R&D), human resources management, information systems, and the firm's infrastructure. We can categorize these value-creation activities as primary activities and support activities (Porter 1985).

The primary activities of a firm have to do with creating the product, marketing and delivering the product to the buyers, and providing them support and after-sales services. Efficient production can reduce the costs of creating value and can add value by increasing product quality, which facilitates premium pricing. Efficient marketing can also help the firm reduce its costs of creating value and add value by helping the firm customize its product to consumer needs and differentiate its products from competitor's products.

Business support activities provide the inputs that allow the primary activities of production and marketing. For example, the materials management function controls the transmission of the physical materials through the value chain, from procurement through production and into distribution. In addition, an effective materials management function can monitor the quality of inputs into the production process. This results in improved quality of the firm’s outputs, which adds value and thus facilitates premium pricing (Porter 1985). Both the primary and the support activities are important to improve a firms’ profitability: business strategy is the key. It is the most important consideration that the company and its employees have to bear in mind, in order to attain the fundamental objective of any business, to make profit.

A firm’s business strategy is defined as the actions that managers take to attain the objectives of the company (Porter 1986), that are actions to reducing costs of value creation (low-cost strategy) or to differentiating its product (differentiation strategy) (Porter 1980, 1985).

If we are following Porter’s theoretical understanding, expanding to international markets (in our case to China) allows companies (in our case Japanese companies) to increase their profitability in ways not available to purely domestic enterprises. Therefore Japanese firms are able to earn a greater return from their distinctive skills, or core competencies, and realize greater experience curve economies, which reduces the cost of value creation. Also Japanese companies can realize location economies by dispersing particular value creation activities to those locations in China where they can perform the value creation most efficiently, for example labor-intensive industries in western China with a huge supply of unskilled and inexpensive labor. The term 'core competence' refers to skills within the firm that competitors cannot easily match or imitate (Hamel and Prahalad 1989). These skills may exist in any of the firm's value creation activities, that is R&D, production, human resource management, marketing, general management, information system and technology, and so on. Such skills are typically embodied in products that other firms find difficult to match or imitate: it is difficult, for example, for Chinese companies to imitate products, production technology or the management know-how from Japanese companies operating in the Chinese market. Once again, according to the theoretical view of Porter (1985), the core competencies are the bedrock of a firm's competitive advantage. They enable a firm to reduce the costs of value creation and/or to create value in such a way that premium pricing is possible.

For example, Toyota Motor Corp. has a core competence in the manufacturing of cars, especially in the production technology and work organization. It is able to manufacture high quality, well-designed cars at a lower delivered cost. The skills that enable Toyota to do so seem to reside primarily in the firm's production, material and human resource management. For firms such as Toyota, global expansion in China is a way of further exploiting the value creation potential of their skills and product offerings by applying those skills and products in a larger market.

What does all this mean for an internationally operating Japanese company that is trying to be successful in China? In brief, it means, that the Japanese firm will benefit by shifting each value-creating activity it performs to the location in

China where economic, political, and cultural conditions, including relative factor costs, are most conducive to the performance of that particular activity. Therefore, locating a value-creation activity in an optimal location in China can either lower the cost of value creation and help the firm to achieve a low cost position – in the Chinese market, in Japan or elsewhere, or it can enable a firm to differentiate its products. In theory, a company that applies location economies by dispersing each of its value-creation activities to its optimal location should have a competitive advantage vis-à-vis a firm that bases all its value-creation activities at a single location (Hill 1997). In a world where competitive pressure is increasing, such a way of doing business may well become an imperative for survival for Japanese companies.

For a certain number of Japanese companies the optimal location to perform manufacturing operations in the field of consumer electronics, textile, and apparel is China, whereas in the most cases the optimal location for design operations and R&D is Japan (NRI 1995, Beechler and Stucker 1998). Japanese firms, especially in the textile, apparel and consumer electronic industry, have often configured their value chain accordingly. By doing so, the Japanese companies hope to be able to simultaneously lower their cost structure and differentiate their products. Such was the management behavior first for the Japanese and the United States markets, but in the last years it has been the case for the Chinese market (McMillan 1996). This seem likely to continue in the future.

STRATEGIC CHOICES FOR JAPANESE COMPANIES

In a theoretical view, Japanese companies have six main business strategies that they can use to enter the Chinese market and compete in the international environment, in the age of globalization. They are as follows: (1) the export strategy, (2) the international strategy, (3) the multidomestic strategy, (4) the global strategy, the (5) transnational strategy (Bartlett and Ghoshal 1989) and (6) the collective strategy (Sydow 1993). Each of these strategies has specific advantages and disadvantages for Japanese companies competing in China. The appropriateness of each strategy varies with the extent of pressure for cost reductions and local responsiveness (Hill 1997) in China.

(1) Most Japanese manufacturing firms began their global expansion to China as exporters (the export strategy). For Japanese companies in the early years of expansion to China, it had two distinct advantages. It avoided the cost of establishing manufacturing operations in China and exporting also helped Japanese firms to achieve experience curve effects. By manufacturing the product in a centralized location in Japan and exporting it into the Chinese market, the firm may realize substantial scale economies from its global sale volume (Abegglen and Stalk 1985).

On the other hand, exporting has a number of drawbacks. First, exporting from the Japanese company home base in Japan may not be appropriate if there are lower cost locations for manufacturing in China. Thus, particulary for firms pursuing global or transnational strategies, it may be preferable to manufacture in a location where the mix of the factor conditions is most favorable from a value-creation perspective. Many Japanese companies, especially electronic firms, moved some of their manufacturing to China, even shifted whole production lines, due to the availability of low-cost and well-trained labor. These companies export from the Chinese production (value creation location) to the rest of the world, and especially to Japan.

A second drawback for Japanese companies pursuing an export strategy to China is that high transport costs can make exporting uneconomical. An important point in the current business relationship between Japan and China, that has negative effects on the export business are the tariff barriers. This situation exists in a lot of business fields, for example it is beyond sense to export Japanese cars to China due to high tariff barriers. Only one per cent of Japan’s auto exports go to China.

A third drawback for Japanese firms in exporting arises when a firm delegates its local marketing activities to a local agent (Hill 1997). Such behavior is common for Japanese companies that are just beginning to export to China. Foreign agents, however, often carry the products of competing firms and so have divided loyalties. There are, however, ways to avoid this problem. One is to set up a wholly owned subsidiary in China to handle local marketing directly. This is the most common way used by Japanese companies to enter the Chinese market after their first year of exporting or operating as a joint venture.

(2) Apart from export strategy, international strategy is the most common business strategy, followed by Japanese companies doing business in China. Japanese firms that pursue an international strategy try to create value by transferring valuable skills, qualifications, products or production technology to the Chinese market where indigenous competitors lack these assests (Hill 1997, Dülfer 1991, Bartlett 1989, Harzing 1999, Chambell and Burton 1994).

Numerous Japanese firms have followed the international strategy and created value by transferring differentiated products developed in Japan to new markets in China. Accordingly these Japanese companies tend to centralize product development functions and the development of the production technology at the work floor level at Japan, mainly in the head office of R&D in Japan (McMillan 1996; Ôuchi 1979) However, most Japanese firms in China also tend to establish manufacturing and marketing functions locally such as product customization and localization of communication (Konomoto 2000).

Ultimately, in most international Japanese companies that follow an international strategy, the head office (in Japan) retains tight control over marketing and product strategy in China. One of the main characteristics of Japanese subsidiaries in China in the frame of international strategy is that the subsidiaries are rigidly managed by the parent company in Japan. The organisation in general is bureaucratic. The decision-making process for

Japanese offices in China is one-way and therefore the style of management is top-down rather than bottom-up. Japanese companies in China control their employees carefully and monitor everything they do (Konomoto 2000, p. 4; see also Kopp 1994, Harzing 1999).

In such a rigid atmosphere, employees cannot be expected to engage in active discussion or to volunteer opinions. The local personnel become concerned that the company has too many complicated rules and regulations that only make it more difficult for the employees to do their jobs (Kawashima and Konomoto 1999; Child 2000; Roth and Nigh 1992).

The international strategy makes sense for Japanese firms, with a valuable core competence that indigenous competitors in China lack, which faces relatively mild pressures for local responsiveness and cost reductions. In such circumstances an international strategy can be very profitable (Harzing 2000). However, when pressure for local responsiveness is strong, Japanese firms pursuing this strategy lose out to firms that place a greater emphasis on customizing the product offering and marketing strategy to the local Chinese market conditions.

(3) As far as concerns the multidomestic strategy, firms orientate towards achieving maximum local responsiveness (Bartlett and Goshal 1989, Sydow 1993). In contrast to Japanese firms pursuing an international strategy, which tend to transfer skills and products developed at home to China, Japanese companies pursuing a multidomestic strategy extensively customize both their

products and their marketing strategy to the different local conditions in China. Consistent with this strategy, they also have a tendency to establish a complete set of value-creation activities, – including production, marketing, and R&D in China.

When there is high pressure in various Chinese markets for local responsiveness and low pressure for cost reductions, a multidomestic strategy generally makes sense. The high cost structure associated with the duplication of production facilities, however, make this strategy inappropriate in industries where cost pressure is intense (Hill 1997). Currently there is no major evidence of Japanese companies choosing the multidomestic strategy. In fact, another weakness within this strategy has to be stated. The experiences of Western companies in China shows us that many multidomestic firms have developed into decentralized federations in which each subsidiary functions in a largely autonomous manner. As a result of this strategy, subsidiaries after a certain time begin to lack the ability to transfer their qualifications and products to other facilities in the Chinese market or to their other subsidiaries around the world.

(4) Japanese firms that follow a global strategy focus on increasing profitability by reaping the cost reductions that come from experience curve effects and location economies. These companies are pursuing a low-cost strategy (Dunning 1993, Elger and Smith 1994). The R&D activities, the production and marketing of firms pursuing a global strategy are concentrated in a few favorable locations. Global firms tend not to customize their product

offers and marketing strategy to local Chinese conditions because customization raises costs. Instead, companies that concentrate on the global strategy prefer to market a standardized product worldwide not only in China, so they can achieve the maximum benefits from the economies of scale that underlie the experience curve. Some companies tend to use their strong cost advantage to support aggressive pricing in the markets (Bartlett and Ghoshal 1989, Sydow 1993).

This strategy makes most sense for Japanese companies in those cases where there is strong pressure for cost reductions and where demand for local responsiveness is minimal. These conditions exist in various industrial goods for industries. Especially in the semiconductor industry, global standards have emerged that have created enormous demands for standardized global products. Accordingly, firms such as NEC Corp. all pursue a global strategy with strong production bases in Mainland China and also in Taiwan. These special conditions cannot be found in most consumer goods markets where demands for local responsiveness in China remains high. Rising production of information and telecommunication equipment such as cell phones has been driving up demand for semiconductors in China. Meanwhile, the Chinese government, which gives priority to chip- making as one of the key industrial sectors, lends support to foreign-owned manufactures that build new factories or upgrade existing ones.

NEC Corp., as Japan's largest semiconductor manufacturer, follows the global strategy. The company is planning to step up operations in China in response to growing demand there for its products. NEC will expand output capacity by 50 per cent at its chip-making joint venture with the Shanghai municipal government at a cost of JPY 35 billion (USD 301 million). NEC aims to increase the supply of system chips to local makers cellular phones and home appliances.

(5) The significance of the transnational strategy (Bartlett and Ghoshal 1989) is, that in the modern multinational enterprise, distinctive competencies do not just reside in the home country. Core competencies can be developed in any of the firm's worldwide operations. In this sense the flow of skills and products should also be from foreign subsidiary to home country, and from foreign subsidiary to foreign subsidiary, – a process Bartlett and Ghoshal refer to as 'global learning.' In the view of Bartlett and Ghoshal, the transnational strategy makes sense when a firm faces high pressures for cost reductions and high pressures for local responsiveness. Companies that pursue a transnational strategy are trying to simultaneously achieve low cost and differentiation advantages.

This strategy implies serious difficulties as pressures for local responsiveness and cost reduction put conflicting demands on a firm (Porter 1980). According to Porter it seems to be better to decide on one clear strategy, low-cost strategy or differentiation strategy to response to the pressure of the market.

The transnational strategy seems to have no empirical value in the case of Japanese companies in China. At this juncture it might be noted that Bartlett and Ghoshal may be overstating the case for transnational strategy, which they present as the only viable strategy in international markets. However, as has been illustrated by the case of the semiconductor industry pressures for local customization in China are minimal and competition is purely a cost game, it is not sensible to concentrate on a transnational strategy.

(6) Last but not least the collective strategy is highly important for most Japanese companies to enter the Chinese market. Collective strategies (Sydow 1993) are a traditional and yet modern organizational form used to enter a market or international markets. In practice they appear as strategic alliances, regional and global networks, joint ventures, value-adding partnerships, inter-firm networks and consortia (Haak 2001b; Hammes 1993). Collaboration between companies, joint development, production and marketing, exchange of components and technology are, as part of international cooperation and decentralised production to ensure a global presence, fundamental factors in strategic management for success (Buckley and Casson 1988). Faced with increasingly dynamic, competitive, complex environments, more and more organizations are being advised to concentrate on their core competencies. To implement such a strategic orientation, organizations prefer an intelligent ‘downscoping’ to straight-forward downsizing or demassing of their activities. For example, in some Japanese industries - such as automotive, electronics or

retailing - vertically and horizontally integrated organizations' business systems *(keiretsu)* are shifted to China. Especially small and medium sized firms engage in networking in order to gain the advantages of large size while keeping the flexibility of small size (Haak 2001b).

An empirical view of engagements of firms in the last decade shows that the most popular business form used to enter the Chinese market is the joint venture. This entails establishing a firm that is jointly owned by two or more otherwise independent firms. The most typical joint venture is the 50 to 50 per cent arrangement, in which there are two parties, each of which holds a 50 per cent ownership stake and contributes a team of managers to share operating control. Joint ventures have a number of advantages. First, a firm is able to benefit from a local partner’s knowledge of the host country’s competitive conditions, cultural, language, political system, and business system (Balling 1998). Second, when development cost and/or risks of opening a foreign market are high, a firm might gain by sharing these costs and/or risks with a local partner. Third, in China in special industries political considerations make joint ventures the only feasible entry mode (Hill 1997; Haak 2001b).

There are two major disadvantages with Japanese-Chinese joint ventures in China. First, just as with licensing, a firm that enters into a joint venture risks giving control of its technology to its partner. One option is to hold majority ownership in the joint venture. This allows the dominant partner to exercise greater control over its technology. A second disadvantage is that a joint venture does not give a firm tight control over subsidiaries, which stands in sharp contrast to traditional Japanese management overseas and at home.

However, a substantial amount of research has been devoted to a better understanding of the circumstances under which Japanese firms find it beneficial to cooperate with Chinese firms. It is a fact, that joint ventures, cooperative projects, in other words specific forms of collective strategies, have become an essential part of business strategy for Japanese companies in today's Chinese markets. Most research projects in the field of strategic management have focused on the cooperate strategies between one Japanese and one Chinese (local) firm.

Little is known about the collective strategies between two foreign firms in an overseas market, in a third market, especially the subject: 'Japanese Firm - Foreign Firm' business cooperation in China (Haak 2001b). Third market business cooperation as a specific type of the collective strategy, offers substantial economic advantages for entering the Chinese market: Investments and risks are shared, marketing, distribution and production knowledge from two or more foreign companies can be used, other resources like human resources and finance are also beneficial for market entry or for market penetration activities of a third country business cooperation. It seems that a third market cooperation can lower the costs and the risks more than any other market entry options. From another point of view there are also numerous problems associated with the third market business cooperation. For example, issues of management control, local and international sourcing and technology transfer. The performance of a third market business cooperation, in our case a Japanese company with a foreign company, such as German or a French firm, in China, depends mainly upon qualitative variables such as cooperate culture and structure, individual personality of the management, and the basic philosophy of two or more parent companies. The third market business cooperation as a special form of the basic collective strategy to enter the Chinese market is an outstanding field of research, which is of value to be pursued.

CONCLUSION

During the 1980s and in the early 1990s, most Japanese firms in the field of production adopted a strategy intended to lower their cost structure: shifting production from high cost location in Japan to a low cost location in China. Later, Japanese manufacturing companies in China adopted a strategy intended to differentiate basic products to enable them charging a premium price. These strategies involved strong investment of capital in China, both for offshore production and to penetrate the Chinese markets.

So we can classify the motives for Japanese companies to develop and implement business strategies towards China as ressource-seeking and market-seeking. These two basic motives of Japanese companies towards China stand behind the fundamental purpose of any business firm to make profit. We had a theoretical approach on the two basic business strategies to attain the main objective of any firm: reducing costs of value creation (low-cost strategy) or differentiating the products (differentiation strategy). In this paper I have reviewed the academic field of strategic management from a professional discipline perspective and discussed the pros and cons of six basic business strategies in order to give a summarised frame for ongoing analysis and discussion: the export strategy, the international strategy, the multidomestic strategy, the global strategy, transnational strategy and the collective strategy.

What kind of strategy is successful in the Chinese market? As my preceding discussion has demonstrated, there are advantages and disadvantages associated with the business strategies of Japanese companies towards China. The success of Japanese companies depends on deciding on the right strategy or the right strategy mix bearing in mind the particular circumstances of Chinese markets. Different factors influence the decision-making process of the strategic Japanese management, such as new competitors, strong suppliers, new technologies etc. (Porter 1980). Based on this theoretical understanding the main objective of the Japanese companies should be to strengthen their capability building that aims for better technology and quality. At the same time, the Japanese companies should develop their strategic management in order to make the most out of the long term capability building. Strategic ideas and concepts, in our case the six business strategies, will become more and more important to carry out cooperate reforms more strategically. However, the most important question for a successful business strategy of Japanese companies towards China is still if and how China's economy will continue to develop against the background of the difficulties in the political and social system.

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[1] There is also another example, which shows that China has not only attracted Japanese companies on the field of textile and other relative simple manufacturing products, especially mass-production for the export back to Japan or for the Chinese market itself. One of the biggest player in the world of entertainment and consumer electronics, Sony Computer Entertainment Inc., plans to contract production of the PlayStation2 game consoles to Chinese firms as soon as possible for the export to Japan. Sony aims to raise competitiveness through low-cost manufacturing in China as competition is certain to intensify with the entry of the U.S. software giant Microsoft Corp. into the game machine market.