

Japanese companies' operations in China and the significance of the Japan-Taiwan alliance

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Abstract—This report analyzes the status of the Japan-Taiwan alliance that can be considered a new form of international division of labor and shows the significance and issues.

Keywords- *Japan-Taiwan alliance; consumer market; production base*

I. INTRODUCTION

In the 21st century, China's rapid economic growth is proceeding rather than sinking even after the confusion and stagnation in the world economy caused by the Lehman Shock to support the world economy not only as the factory of the world but also as the market of the world. While not all advanced countries are on a recovery track, the economic growth rates of many East Asian countries are steadily being recovered, driven by exports to China. With the second largest GDP worldwide, China is expected to overtake the United States and become the world's largest economic superpower by 2030. For multinational companies in advanced countries, their position in the Chinese economy is vitally important. Though Japanese companies have made direct investments in China utilizing their geographical advantage, their lack of knowledge about the historical background between Japan and China and local situations sometimes restricts their activities. Surprisingly, American, European, and Korean companies have gained advantages over them, and Japanese companies are said to be unable to win a place in the Chinese market. On the other hand, since the inauguration of the Ma administration, Taiwan has been rapidly deepening its economic relationship with China and strengthening its presence. Then, Japanese companies are now adopting a new strategy of low-cost mass production in mainland China through a Japan-Taiwan alliance utilizing Taiwan's economic and industrial system as an effective measure. Production and sales of products to be sold in emerging markets and China's domestic market through the close partnership between Japan and Taiwan are expanding across East Asia as a new form of international division of labor and cooperation in Asia in the 21st century. With the spread of FTAs, this will lead to the establishment of an economic infrastructure involving the East Asian economic community. This report analyzes the status of the Japan-Taiwan alliance that can be considered a new form of international division of labor and shows the significance and issues.

II. TAIWANESE ECONOMY VIEWED FROM THE STANDPOINT OF JAPANESE ECONOMY – WHY A JAPAN-TAIWAN ALLIANCE?

Taiwan is Japan's fifth largest trade partner (4.4%) after China (20.6%), the United States (11.9%), Korea (6.3%), and Australia (4.4%) in 2011.

Looking at the status of Japan's imports and exports to Taiwan by item, the major export items are electrical equipment (23.8%), general machinery (19.9%), and metals and metal products (10.8%). On the other hand, electrical equipment accounts for the largest portion of Japan's import items at 39.9%, followed by general machinery (8.7%) and chemicals (8.5%).

The number of local subsidiaries of Japanese companies in Taiwan in 2009 was the sixth largest at 884 (4.0%) after Chinese companies (5097 subsidiaries: 23.3%), American companies (3221 subsidiaries: 14.7%), Thai companies (1670 subsidiaries: 7.5%), Hong Kong companies (1122 subsidiaries: 5.1%), and Singaporean companies (1008 subsidiaries: 4.6%). The number is larger than that of other Asian countries' companies, such as Malaysian companies (765 subsidiaries: 3.5%), Korean companies (708 subsidiaries: 3.2%), and Indonesian companies (658 subsidiaries: 3.0%), which means the position of Japanese companies in Taiwan is not so bad^[1].

Then, what kind of companies have advanced into Taiwan? Wholesalers and retailers account for the largest portion at 1,791 companies, followed by hotels and restaurants (510 companies), electronics manufacturers (444 companies), metal products makers (425 companies), and professional, scientific, and technological service companies (423 companies) (on an approval basis)^[2].

This shows that the major businesses of Japanese companies that have advanced into Taiwan include not only manufacturing but also various lines, such as the distribution and service business, which means Japanese companies consider Taiwan a consumer market and a base of investment in China rather than just a production base. Furthermore, Taiwan is an important trade and investment partner for Japan (Japanese companies). In addition, the giant market of China lies behind Taiwan. This makes Taiwan geopolitically unique and different from other Asian countries.

The first benefit of investments in China utilizing Taiwan is that Japanese companies can utilize the production bases and sales networks Taiwanese companies have established in China.

The second benefit is that Japanese companies can acquire high-quality products and components at low cost by procuring IT products and other products from Taiwanese companies on an OEM/ODM basis to improve their competitiveness through cost reductions. And at the same time, reductions in capital investments will have a positive impact on the concentration of business resources. The third benefit is that Japanese companies can utilize the relationship with the government, business connections, and human resources that Taiwanese companies have developed in China and put Taiwanese companies in charge of negotiations with the Chinese government and labor management. The fourth benefit is that Japanese companies can make up for their lack of understanding about the Chinese market and business practices in China by utilizing the human resources of Taiwanese companies in doing business in China. The fifth benefit is that Japanese companies can plan business expansion in China or other Asian countries after developing businesses in Taiwan as a test market and acquiring management know-how and then actually expand the businesses that were successful in Taiwan^[3].

Though Japanese companies have had a hard time with the issues mentioned above, they can solve them all at once by cooperating with and utilizing Taiwanese companies. Utilization of Taiwanese companies means more to Japanese companies than just business cooperation and can serve as a new business model when they enter other overseas markets in the future.

In addition, the advantage of investment in China utilizing Taiwan over entry into China by Japanese companies on their own is that they can survive in the Chinese market at a higher rate. Looking at the survival rate of the Chinese subsidiaries of Japan-Taiwan joint ventures and that of the Chinese subsidiaries of Japanese companies, the former was 78.0% until 1999, higher than the latter (68.4%) by 10 points. Furthermore, the survival rate of the Chinese subsidiaries of the Japan-Taiwan joint ventures until 2005 was high at 88.2% and that of the Chinese subsidiaries of Japanese companies was 79.8%. In short, the survival rate of the Chinese subsidiaries of the Japan-Taiwan joint ventures is higher than that of the Chinese subsidiaries of Japanese companies by 10 points. Thus, it can be said that Japanese companies are more likely to be successful in the Chinese market when utilizing Taiwanese companies than when entering the Chinese market on their own.

Where does the advantage of investment in Taiwan lie for overseas companies including Japanese companies? According to InvesTaiwan Service Center, Taiwan surpasses other Asian countries in the following nine points: 1) central location in the Asia-Pacific logistics system, 2) opportunities for overseas companies to expand their businesses in China through Taiwanese companies, 3) concentration of industrial clusters, 4) abundance of high-quality human resources, 5) high innovation capability, 6) well-developed infrastructure, 7) sound legal framework, 8) abundance of capital funds, 9) comprehensive intellectual property protection.

Thus, it can be said that Japanese companies can offset the risk by entering the Chinese market in cooperation with

Taiwanese companies as their partners rather than entering the market on their own.

III. THE TAIWAN-JAPAN INDUSTRY BRIDGING INITIATIVE AS A SPECIFIC FORM OF JAPAN-TAIWAN ALLIANCE

The Taiwan-Japan Industry Bridging Initiative (台日産業合作搭橋方案 in Taiwanese, hereinafter called the “Initiative”) that was announced and approved by the Executive Yuan in December 2011 is designed to further improve Taiwan’s comparative advantage and actively attract overseas companies, especially Japanese companies.

Lying behind the launch of the Initiative are 1) the difficulties faced by Japanese industry, such as the strengthening of the yen and struggling SMEs; 2) the growing need for establishment of a stable supply chain for Japanese companies; 3) the signing of Economic Cooperation Framework Agreement (ECFA) (and strengthening of Taiwan’s advantage as Japanese companies’ partner in their Chinese operations); 4) risk reduction in Japanese companies’ investment in Taiwan due to the establishment of the Taiwan-Japan Investment Arrangement; and 5) the complementary relationship between Japanese and Taiwanese industries.

By 2016, the Initiative aims to 1) deliver 500 successful industrial collaborations by integrating the advantages of Japanese and Taiwanese industries, 2) deliver 10 successful brand collaborations by promoting collaboration between Japanese and Taiwanese brands, 3) attract purchase orders of NTD 3 trillion in total from Japanese companies in five years, 4) double the amount of capital invested into Taiwan by Japanese companies to NTD 30 billion from the current annual average of NTD 15 billion, and 5) increase Taiwan’s export value by NTD 50 billion in five years.

Furthermore, it plans to 1) enhance the leading positions of Japan and Taiwan and bring higher added value in the existing industries by utilizing the advantage of mutual complement in industrial structures and 2) integrate global innovations and develop application models by promoting the integration and exchanges of resources in the Asia-Pacific region by 2020.

The Initiative introduces three collaboration models. The first one is called the connection strengthening model in which Taiwanese companies aim to further strengthen their connections with large Japanese companies that are closely related to Taiwan and expand the collaboration with those companies and their affiliates and partners. The second one is called the entire industry model in which Japan-Taiwan collaboration in designated industries is promoted. Though green energy, precision machinery, and digital content are now cited as designated industries, the Taiwanese government will select them after confirming the current situation and needs of Japanese industries. The third one is called the local collaboration model in which the collaboration between Taiwanese industries and local Japanese industrial clusters and tourist areas is promoted. In this model, the collaboration in post-quake reconstruction projects in Japan is also referenced. The Taiwanese government plans to select candidates for

collaboration after studying the Japanese industrial clusters and negotiating with Japan.

The Initiative mentioned above is a policy exclusively aimed at Japanese companies, industries, and areas and characterized by the fact that its main target is SMEs with an emphasis on joint cultivation of overseas markets, including the Chinese market and emerging markets, not on the attraction of investments in Taiwan. Especially for Japanese SMEs, which have little experience in overseas business and limited management resources, it is not easy to develop a plan for overseas businesses in which they can utilize their advantages and find partners suitable for such a plan. For this reason, the Initiative provides a matching platform for collaboration among industries by focusing on SMEs and will be a powerful option for Japanese SMEs aiming at overseas business. The Initiative provides such a platform based on the principle of the win-win relationship, effectiveness, and flexibility and speed. The establishment of such a cooperative relationship through active involvement not only of Taiwanese companies but also of Japanese companies holds the key to its success^[4].

On the other hand, in April 2009, the Executive Yuan launched action plans for six emerging industries, biotechnology, tourism, green energy, medicine and health care, high-end agriculture, and culture and creation, combining Taiwan's current advantages, such as human resources and the information and telecommunications industry and the international trend in order to set the direction of Taiwan's future industries. Given the current situation where the electronics industry is valued in Taiwan's industrial structure, these action plans are designed to promote multilateral development of industries.

The biotechnology action plan is designed to 1) strengthen the industrialized R&D capacity in the industry supply chain, 2) establish a biotech investment fund, 3) promote an integrated system of cultivation and aquaculture, and 4) establish the Food and Drug Administration.

The tourism action plan aims to promote establish attractive tourism areas that can appeal to the international community by utilizing their advantages and promote high-quality information services. The plan also aims to foster great competitiveness, reform the management structure of the tourism industry, and develop the human resources in international tourism to meet industry needs. Moreover, an administrative institution will be established to stimulate the existing tourist market, develop emerging markets, and establish the evaluation standards for safety and quality reviews on transactions in the tourism industry.

In the green energy action plan, the Executive Yuan sets renewable energy, electric vehicles, solar power, solar cells, and LED illumination as key industries to be developed and aims to invest at least approx. 20 billion NTD (equivalent to approx. 60 billion yen) in technology R&D in five years and attract investment of over 200 billion NTD from the private sector. The economic effect is estimated to hit 1,158 billion NTD (equivalent to approx. 3,474 billion yen) in 2015, and it is expected that 110,000 job opportunities will be created.

The medicine and health care action plan aims to provide core technologies; promote the existing medical service system; support health-promotion programs, long-term care and nursing, intelligent medical services, international medicine, and the biopharmaceutical industry; establish Taiwan's medical service brand; and develop the related industries.

The high-end agriculture action plan aims to develop new technologies, such as careful gene selection and highly efficient, safe biotech plants. The plan also promotes new agricultural management models, such as cooperate agriculture, connections with tourism and cultural innovations, and sophisticated resort agriculture. In addition, the plan will promote healthy, exceptional, vigorous, and sophisticated agriculture by cultivating and developing new markets, including food consumption by the elderly, agricultural resorts, traditional feasts, and souvenirs.

Targeting the markets in Chinese-speaking countries, the culture and creation action plan aims to strengthen the improvement of the environment by enhancement of the effect of the clustering of creative industries, expansion and development of domestic and overseas consumer markets, relaxation of regulations, investments, development of important human resources, and the promotion of the six key industries of television, film, popular music, digital contents, design, and crafts^[5].

These are six emerging industries designated by the Taiwanese government. These industries overlap with those Japan is working on as part of its development strategy. Thus, Japan should also focus on and develop these emerging industries with enough room for cooperation with Taiwanese companies.

IV. STATUS OF JAPAN-TAIWAN ALLIANCE – RESULTS OF THE INTERVIEW

The author visited Taiwan and China and studied the status of the Japan-Taiwan-China alliance as part of the research conducted in the project of the Graduate School of Economics, Nihon University, titled "Entry into China by Japanese Multinational Companies and the Significance of Japan-Taiwan-China Alliance" (chief researcher: Osamu Tsunoda, professor at Nihon University College of Economics). Some results of the study and the status of progress of the Japan-Taiwan alliance are described below.

Company A is a consulting company established in Taipei in August 2011. Its main business activities are advisory services, agency services, and the restaurant business. The feature of its businesses is that it provides cross-industrial solutions by developing business models specific to the Japan-Taiwan alliance and utilizing its broad network with administrative institutions and business corporations. Specifically, Company A provides total support for their client companies by helping them develop strategies at the stage of project planning, providing them with local information, and supporting them in the selection of partners and the conclusion of partnership agreements.

The reason Company A offers business models with a focus on service industries is because the Taiwanese government

established the Industrial Technology Research Institute in 1973 to lead R&D in cutting-edge industries, such as information and communications, atomic photoelectric, nanotechnology, green environment, and biotechnology, and then the Commerce Development Research Institute, an organization supporting the internationalization of the service industries, such as medicine, fashion, distribution, restaurants, and the Japan-Taiwan alliance, was established in 2007.

As can be seen from the above, collaboration with Taiwanese companies is an important option for Japanese companies attempting to enter China.

V. CONCLUSIONS

As discussed above, the Japan-Taiwan alliance can be an important corporate strategy to be utilized by Japanese companies when further promoting their entry into China. There are four reasons: 1) Taiwanese companies are able to boldly enter the Chinese market that Japanese companies have difficulties entering, 2) their familiarity with Chinese companies and market allows Japanese companies to enter the Chinese market easily, 3) collaboration with Taiwanese companies enables Japanese companies to offset the risk, and 4) Taiwanese companies can utilize the Economic Cooperation Framework Agreement (ECFA) signed by China and Taiwan in June 2010 (put into effect in September 2010). The ECFA forms an economic partnership agreement. Thus, Japanese companies are able to receive preferential treatment when making investments in China through Taiwanese companies.

For these reasons, collaboration with Taiwanese companies will be an important option for Japanese companies aiming to enter the Chinese market.

On the other hand, what are the problems of the Japan-Taiwan alliance? Japanese companies are required to accelerate the speed of managerial decision making to keep up with Taiwanese companies. Because there are many family-owned companies among Taiwanese companies and managers have substantial authority, they are able to make quick decisions. On the other hand, Japanese companies are slow to make decisions and often ask their headquarters in Japan to make the final decision rather than local subsidiaries. Japanese companies are required to transfer authority to their subsidiaries in China and develop a system to make quick decisions.

Secondly, it is important for local managers to be aware of their responsibilities. Managers of Taiwanese companies have a strong sense of responsibility as Taiwanese companies, many of which are family-owned companies, and set the pay standards that match their responsibilities and authority. On the

other hand, in many Japanese companies, there is no proportionate relationship among responsibility, authority, and pay. So, most of the executives of Japanese companies who were sent to China are said to lack aggressiveness and a sense of responsibility. Though this problem cannot be solved easily because it is closely related to the organizational structures of Japanese companies, they should consider establishing a system only applicable to their operations in China in response to their alliance with Taiwanese companies.

Furthermore, they need to understand Taiwanese companies' management style and how they capture markets in China. In the Chinese market, there are things Japanese companies cannot understand, such as business practices different from those in Japan and sales promotion techniques. Taiwanese companies deeply understand such things and can deal with them, which enables them to be successful in China. Japanese companies need to understand the business style of Taiwanese companies if it's not possible to imitate them.

These problems are generally faced by large Japanese companies. As most of the Japanese SMEs are family owned and similar to Taiwanese companies in terms of organizational structure and management style, it is considered easier for them to understand the business style of Taiwanese companies. As mentioned above, this is one of the reasons why SMEs can play a major role in the Japan-Taiwan alliance^[6].

At any rate, there are many issues to be solved in order to make the Japan-Taiwan alliance a success. However, if Japanese companies aim to successfully enter overseas markets, especially the Chinese market, collaboration with Taiwanese companies will become a stronger option worth considering.

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